Colgate-Palmolive's director of promotions holds meetings to help managers see how to match promotion techniques to marketing objectives.

Personal selling—flexibility is its strength

Personal selling involves direct spoken communication between sellers and potential customers. Face-to-face selling provides immediate feedback—which helps salespeople to adapt. Although some personal selling is included in most marketing mixes, it can be very expensive. So it's often desirable to combine personal selling with mass selling and sales promotion.

Mass selling involves advertising and publicity

Mass selling is communicating with large numbers of potential customers at the same time. It's less flexible than personal selling, but when the target market is large and scattered, mass selling can be less expensive.

Advertising is the main form of mass selling. **Advertising** is any *paid* form of nonpersonal presentation of ideas, goods, or services by an identified sponsor. It includes the use of traditional media like magazines, newspapers, radio and TV, signs, and direct mail as well as new media such as the Internet. While advertising must be paid for, another form of mass selling—publicity—is "free."

Publicity avoids media costs

Publicity is any *unpaid* form of nonpersonal presentation of ideas, goods, or services. Of course, publicity people are paid. But they try to attract attention to the firm and its offerings *without having to pay media costs*. For example, movie studios try to get celebrities on TV talk shows because this generates a lot of interest and sells tickets to new movies without the studio paying for TV time.

Exhibit 14-1
Basic Promotion Methods and Strategy Planning

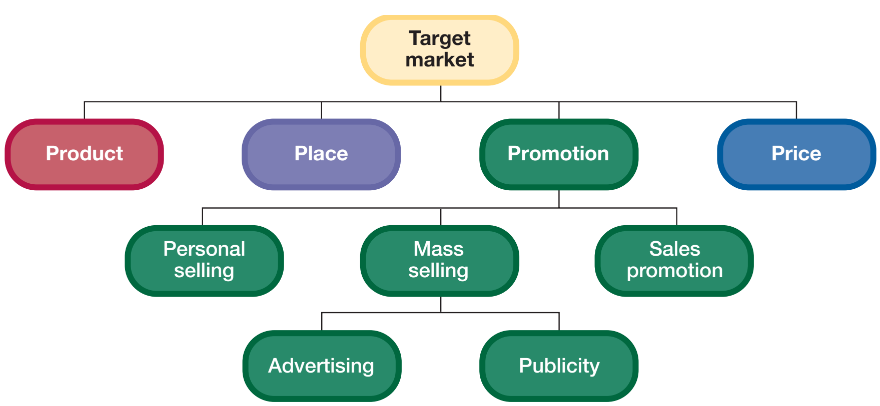


Exhibit 14-2
Example of Sales Promotion Activities

Aimed at final consumers or users	Aimed at middlemen	Aimed at company's own sales force
Contests	Price deals	Contests
Coupons	Promotion allowances	Bonuses
Aisle displays	Sales contests	Meetings
Samples	Calendars	Portfolios
Trade shows	Gifts	Displays
Point-of-purchase materials	Trade shows	Sales aids
Banners and streamers	Meetings	Training materials
Frequent buyer programs	Catalogs	
Sponsored events	Merchandising aids	

Publicity generated by Scholastic, Inc., the distributor of *Harry Potter and the Goblet of Fire*, is a classic example. Scholastic knew that there was already interest in the book; each previous book in the Potter series had increased sales. But Scholastic got a bigger bang, and worldwide media coverage, by notifying bookstores and the media that no store could sell the book before July 8. Deliveries were scheduled to make that stick. And Scholastic kept the title, cover, and plot shrouded in secrecy. As word of the secrecy spread, national media picked up on the story and devoted a huge amount of attention to it. For example, Harry was on the cover of *Newsweek* and a feature article explained all of the reasons why it was going to be one of the fastest-selling books in history. With publicity like that, even people who had never heard of the series wanted to find out what they were missing.[2]

If a firm has a really new message, publicity may be more effective than advertising. Trade magazines, for example, may carry articles featuring the newsworthy products of regular advertisers—in part because they *are* regular advertisers. The firm's publicity people write the basic copy and then try to convince magazine editors to print it. Each year, magazines print photos and stories about new cars—and often the source of the information is the auto producers. A consumer might not pay any attention to an ad but might carefully read a long magazine story with the same information.

Some companies prepare videotapes designed to get free publicity for their products on TV news shows. For example, after learning that Seattle Mariner Jay Buhner loves Cheerios, a General Mills marketing manager had 162 boxes of the cereal stuffed into his spring-training locker. Then he made a videotape of Buhner's surprise on opening his locker. When the videotape was offered to TV stations, it was shown on news programs in 12 major markets around the country. It cost little to produce the video, but it would have cost hundreds of thousands of dollars to get as much attention with advertising on the evening news.[3]

Sales promotion tries to spark immediate interest

Sales promotion refers to promotion activities—other than advertising, publicity, and personal selling—that stimulate interest, trial, or purchase by final customers or others in the channel. Sales promotion may be aimed at consumers, at middlemen, or at a firm's own employees. Examples are listed in Exhibit 14-2. Relative to other promotion methods, sales promotion can usually be implemented quickly and get results sooner. In fact, most sales promotion efforts are designed to produce immediate results.

Less is spent on advertising than personal selling or sales promotion

Many people think that promotion money gets spent primarily on advertising—because advertising is all around them. The many ads you see on the Web, in magazines and newspapers, and on TV are impressive—and costly. But all the special sales promotions—coupons, sweepstakes, trade shows, sporting events sponsored by firms, and the like—add up to even more money. Similarly, salesclerks complete most retail sales. And behind the scenes, much personal selling goes on in the channels and in other business markets. In total, firms spend less money on advertising than on personal selling or sales promotion.

We'll talk about individual promotion methods in more detail in the next two chapters. First, however, you need to understand the role of the whole promotion blend—personal selling, mass selling, and sales promotion combined—so you can see how promotion fits into the rest of the marketing mix.

Someone Must Plan, Integrate, and Manage the Promotion Blend

Each promotion method has its own strengths and weaknesses. Each method also involves its own distinct activities and requires different types of expertise. As a result, it's usually the responsibility of specialists—such as sales managers, advertising managers, and promotion managers—to develop and implement the detailed plans for the various parts of the overall promotion blend.

Sales managers manage salespeople

Sales managers are concerned with managing personal selling. Often the sales manager is responsible for building good distribution channels and implementing Place policies. In smaller companies, the sales manager may also act as the marketing manager and be responsible for advertising and sales promotion.

Advertising managers work with ads and agencies

Advertising managers manage their company's mass-selling effort—in television, newspapers, magazines, and other media. Their job is choosing the right media and developing the ads. Advertising departments within their own firms may help in these efforts—or they may use outside advertising agencies. The advertising manager may handle publicity too. Or it may be handled by an outside agency or by whoever handles **public relations**—communication with noncustomers, including labor, public interest groups, stockholders, and the government.

Sales promotion managers need many talents

Sales promotion managers manage their company's sales promotion effort. In some companies, a sales promotion manager has independent status and reports directly to the marketing manager. If a firm's sales promotion spending is substantial,

Sales promotions such as the price-off coupon from Soft Scrub in the U.S. and the free product samples and coupons from Ajax in Greece prompt consumers to try a product—and a consumer who is satisfied with the trial is likely to become a regular customer.

Stanley Works depends on a blend of integrated marketing communications, including sales presentations and product demonstration tours, trade ads focused on retailers, ads targeted at end-users, and a website that provides information on the whole line.

it probably *should* have a specific sales promotion manager. Sometimes, however, the sales or advertising departments handle sales promotion efforts—or sales promotion is left as a responsibility of individual brand managers. Regardless of who the manager is, sales promotion activities vary so much that many firms use both inside and outside specialists.

Marketing manager talks to all, blends all

Although many specialists may be involved in planning for and implementing specific promotion methods, determining the blend of promotion methods is a strategy decision—and it is the responsibility of the marketing manager.

The various promotion specialists tend to focus on what they know best and their own areas of responsibility. A creative web page designer or advertising copywriter in New York may have no idea what a salesperson does during a call on a wholesale distributor. In addition, because of differences in outlook and experience, the advertising, sales, and sales promotion managers often have trouble working with each other as partners. Too often they just view other promotion methods as using up budget money they want.

The marketing manager must weigh the pros and cons of the various promotion methods, then devise an effective promotion blend—fitting in the various departments and personalities and coordinating their efforts. Then the advertising, sales, and sales promotion managers should develop the details consistent with what the marketing manager wants to accomplish.

Send a consistent and complete message with integrated marketing communications

Effective blending of all of the firm's promotion efforts should produce **integrated marketing communications**—the intentional coordination of every communication from a firm to a target customer to convey a consistent and complete message.

The PT Cruiser case at the start of this chapter is a good example of integrated marketing communications. Different promotion methods handle different parts of the job. Yet the methods are coordinated so that the sum is greater than the parts. The separate messages are complementary, but also consistent.

Internet

Internet Exercise Sony produces a very wide variety of products. Does the information available on its website (www.sony.com) appear to be part of an integrated marketing communications effort? Explain your thinking.

It seems obvious that a firm's different communications to a target market should be consistent. However, when a number of different people are working on different promotion elements, they are likely to see the same big picture only if a marketing manager ensures that it happens. Getting consistency is harder when different firms in the distribution channel handle different aspects of the promotion effort. Different channel members may have conflicting objectives—especially if they don't have a common focus on the customer at the end of the channel.

To get effective coordination, everyone involved with the promotion effort must clearly understand the plan for the overall marketing strategy. They all need to understand how each promotion method will contribute to achieve specific promotion objectives.[4]

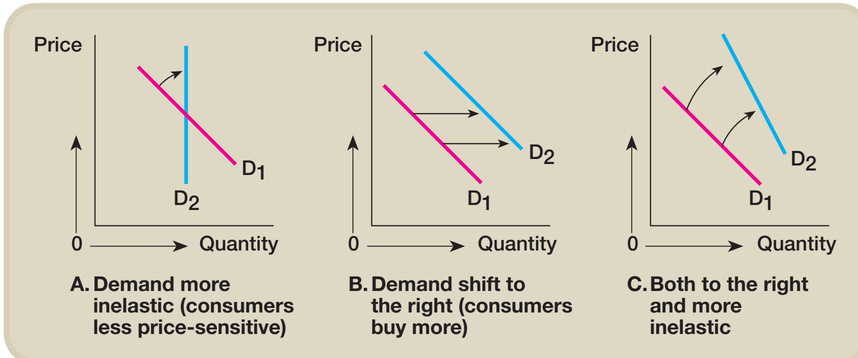
Which Methods to Use Depends on Promotion Objectives

Overall objective is to affect behavior

The different promotion methods are all different forms of communication. But good marketing managers aren't interested in just communicating. They want communication that encourages customers to choose a *specific* product. They know that if they have a better offering, informed customers are more likely to buy. Therefore, they're interested in (1) reinforcing present attitudes or relationships that might lead to favorable behavior or (2) actually changing the attitudes and behavior of the firm's target market.

In terms of demand curves, promotion may help the firm make its present demand curve more inelastic, or shift the demand curve to the right, or both. These possibilities are shown in Exhibit 14-3. The buyer behavior model introduced in Chapter 6 showed the many influences on buying behavior. You saw there that affecting buyer behavior is a tough job—but that is exactly the objective of Promotion.

Exhibit 14-3
Promotion Seeks to Shift the Demand Curve



Informing, persuading, and reminding are basic promotion objectives

A firm's promotion objectives must be clearly defined—because the right promotion blend depends on what the firm wants to accomplish. It's helpful to think of three basic promotion objectives: *informing, persuading,* and *reminding* target customers about the company and its marketing mix. All try to affect buyer behavior by providing more information.

Even more useful is a more specific set of promotion objectives that states *exactly who* you want to inform, persuade, or remind, and *why.* This is unique to each company's strategy—and specific objectives vary by promotion method. We'll talk about more specific promotion objectives in the next two chapters. Here we'll limit ourselves to the three basic promotion objectives and how you can reach them.

Informing is educating

Potential customers must know something about a product if they are to buy at all. A firm with a really new product may not have to do anything but inform consumers about it and show that it meets consumer needs better than other products.

Persuading usually becomes necessary

When competitors offer similar products, the firm must not only inform customers that its product is available but also persuade them to buy it. A *persuading* objective means the firm will try to develop a favorable set of attitudes so customers will buy, and keep buying, its product. A persuading objective often focuses on reasons why one brand is better than competing brands. To convince consumers to buy Tylenol rather than some other firm's brand, Johnson & Johnson's ads position Tylenol as the safe and effective pain relief medicine that is typically used by hospitals.

Reminding may be enough, sometimes

If target customers already have positive attitudes about a firm's marketing mix—or a good relationship with a firm—a *reminding* objective might be suitable. This objective can be extremely important in some cases. Even though customers have been attracted and sold once, they are still targets for competitors' appeals. Reminding them of their past satisfaction may keep them from shifting to a competitor. Campbell realizes that most people know about its soup—so much of its advertising is intended to remind.

Promotion objectives relate to adoption process

In Chapter 6, we looked at consumer buying as a problem-solving process in which buyers go through six steps—awareness, interest, evaluation, trial, decision, and confirmation—on the way to adopting (or rejecting) an idea or product. Now

This trade ad for Kellogg's new Snack 'Ums informs potential channel members that the new product is available and that market testing gives evidence that it will be profitable for the retailer. With its ad Beech-Nut wants to persuade parents that its natural baby food is superior to other products.

we see that the three basic promotion objectives relate to these six steps. See Exhibit 14-4. *Informing* and *persuading* may be needed to affect the potential customer's knowledge and attitudes about a product and then bring about its adoption. Later promotion can simply *remind* the customer about that favorable experience and confirm the adoption decision.

The AIDA model is a practical approach

The basic promotion objectives and adoption process fit very neatly with another action-oriented model—called AIDA—that we will use in this and the next two chapters to guide some of our discussion.

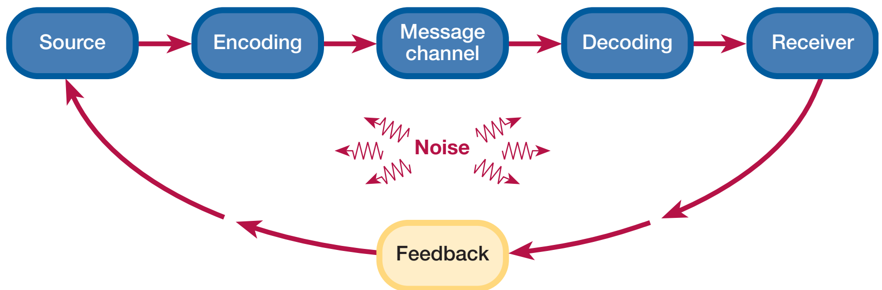
The **AIDA model** consists of four promotion jobs: (1) to get *Attention*, (2) to hold *Interest*, (3) to arouse *Desire*, and (4) to obtain *Action*. (As a memory aid, note that the first letters of the four key words spell AIDA, the well-known opera.)

Exhibit 14-4 shows the relationship of the adoption process to the AIDA jobs. Getting attention is necessary to make consumers aware of the company's offering. Holding interest gives the communication a chance to build the consumer's interest in the product. Arousing desire affects the evaluation process—perhaps building preference. And obtaining action includes gaining trial, which may lead to a purchase decision. Continuing promotion is needed to confirm the decision and encourage an ongoing relationship and additional purchases.

Exhibit 14-4
Relation of Promotion Objectives, Adoption Process, and AIDA Model

Promotion Objectives	Adoption Process (Chapter 6)	AIDA Model
Informing	Awareness	Attention
	Interest	Interest
	Evaluation	
Persuading	Trial	Desire
	Decision	
Reminding	Confirmation	Action

Exhibit 14-5
The Traditional Communication Process



Promotion Requires Effective Communication

Communication can break down

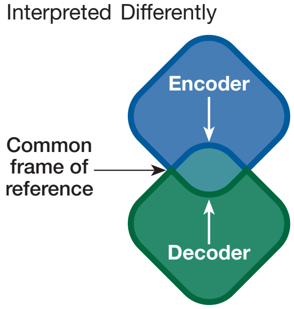
Promotion is wasted if it doesn't achieve its objectives. And that happens when it doesn't communicate effectively. There are many reasons why a promotion message can be misunderstood or not heard at all. To understand this, it's useful to think about a whole **communication process**—which means a source trying to reach a receiver with a message. Exhibit 14-5 shows the elements of the communication process. Here we see that a **source**—the sender of a message—is trying to deliver a message to a **receiver**—a potential customer. Research shows that customers evaluate not only the message but also the source of the message in terms of trustworthiness and credibility. For example, American Dental Association (ADA) studies show that Listerine mouthwash helps reduce plaque buildup on teeth. Listerine mentions the ADA endorsement in its promotion to help make the promotion message credible.

A major advantage of personal selling is that the source—the seller—can get immediate feedback from the receiver. It's easier to judge how the message is being received and to change it if necessary. Mass sellers usually must depend on marketing research or total sales figures for feedback—and that can take too long. As we'll discuss later in this chapter, this has prompted many marketers to include toll-free telephone numbers and website addresses as ways of building direct-response feedback from consumers into their mass-selling efforts.

The **noise**—shown in Exhibit 14-5—is any distraction that reduces the effectiveness of the communication process. Conversations and snack-getting during TV ads are noise. The clutter of competing ads on the Internet is noise. Advertisers planning messages must recognize that many possible distractions—noise—can interfere with communications.

Encoding and decoding depend on a common frame of reference

Exhibit 14-6
This Same Message May Be Interpreted Differently



The basic difficulty in the communication process occurs during encoding and decoding. **Encoding** is the source deciding what it wants to say and translating it into words or symbols that will have the same meaning to the receiver. **Decoding** is the receiver translating the message. This process can be very tricky. The meanings of various words and symbols may differ depending on the attitudes and experiences of the two groups. People need a common frame of reference to communicate effectively. See Exhibit 14-6. Maidenform encountered this problem with its promotion aimed at working women. The company ran a series of ads depicting women stockbrokers and doctors wearing Maidenform lingerie. The men in the ads were fully dressed. Maidenform was trying to show women in positions of authority, but some women felt the ad presented them as sex objects. In this case, the promotion people who encoded the message didn't understand the attitudes of the target market and how they would decode the message.[5]

Message channel is important too

The communication process is complicated even more because the receiver knows the message is not only coming from a source but also through some **message channel**—the carrier of the message. A source can use many message channels to deliver a message. The salesperson does it in person with voice and action. Advertising must do it with magazines, newspapers, radio, and TV, or with media such as e-mail or Internet websites. A particular message channel may enhance or detract from a message. A TV ad, for example, can *show* that Dawn dishwashing detergent "takes the grease away"; the same claim might not be very convincing—or might be resented—if it arrived in a consumer's e-mail. On the other hand, a receiver may attach value to a product if the message comes in a well-respected newspaper or magazine. Some consumers buy products advertised in *Good Housekeeping* magazine, for example, because they have faith in its seal, which carries a two-year limited warranty to replace a product (or refund the purchase price) if the product is defective.[6]

The same message may be interpreted differently

Different audiences may see the same message in different ways or interpret the same words differently. Such differences are common in international marketing when cultural differences or translation are problems. In Taiwan, the translation of the Pepsi slogan "Come alive with the Pepsi Generation" came out as "Pepsi will bring your ancestors back from the dead." When Frank Perdue said, "It takes a tough man to make a tender chicken," Spanish speakers heard "It takes a sexually stimulated man to make a chicken affectionate." Worse, a campaign for Schweppes Tonic Water in Italy translated the name into Schweppes Toilet Water. Many firms run into problems like this.[7]

Problems occur even when there is no translation. For example, a new children's cough syrup was advertised as extra strength. The advertising people thought they were assuring parents that the product worked well. But Moms and Dads avoided the product because they feared that it might be too strong for their children.

Ethical issues in marketing communications

Promotion is one of the most often criticized areas of marketing, and many of the criticisms focus on whether communications are honest and fair. Marketers must sometimes make ethical judgments in considering these charges and in planning their promotion.

Video publicity releases provide an interesting example. When a TV news program broadcasts a video publicity release, consumers don't know it was prepared to

Good Housekeeping is taking advantage of consumer confidence in its seal and has developed a new program for website certification.

achieve marketing objectives; they think the news staff is the source. That may make the message more credible, but is it fair? Many say yes—as long as the publicity information is truthful. But gray areas still remain. Consider, for example, a SmithKline Beecham video about a prescription heart attack drug. An estimated 27 million consumers saw the video on various TV news programs. The video included a laundry list of possible side effects and other warnings, just as is required for normal drug advertising. But there's never any guarantee that the warnings won't be edited out by local TV stations.

Critics raise similar concerns about the use of celebrities in advertisements. A person who plays the role of an honest and trustworthy person on a popular TV series may be a credible message source in an ad, but is using such a person misleading to consumers? Some critics believe it is. Others argue that consumers recognize advertising when they see it and know celebrities are paid for their endorsements.

The most common criticisms of promotion relate to promotional messages that make exaggerated claims. What does it mean for an ad or a salesperson to claim that a product is the "best available"? Is that the personal opinion of people in the firm, or should every statement—even very general ones—be backed up by objective proof? What type of proof should be required? Some promotional messages do misrepresent the benefits of a product. However, most marketing managers want to develop ongoing relationships with, and repeat purchases from, their customers. They realize that customers won't come back if the marketing mix doesn't deliver what the promotion promises. Further, consumers are becoming more skeptical about all the claims they hear and see. As a result, most marketing managers work to make promotion claims specific and believable.[8]

Integrated Direct-Response Promotion Is Very Targeted

The challenge of developing promotions that reach *specific* target customers has prompted many firms to turn to direct marketing—direct communication between a seller and an individual customer using a promotion method other than face-to-face personal selling. Most direct marketing communications are designed to prompt immediate feedback—a direct response—by customers. That's why this type of communication is often called *direct-response promotion*.

Early efforts in the direct-response area focused on direct-mail advertising. A carefully selected mailing list—perhaps from the firm's customer relationship management (CRM) database—allowed advertisers to reach a specific target audience with specific interests. And direct-mail advertising proved to be very effective when the objective was to get a direct response from the customer.

Now it's more than direct-mail advertising

Achieving a measurable, direct response from specific target customers is still the heart of direct promotion. But the promotion medium is evolving to include not just mail but telephone, print, e-mail, a website, broadcast, and even interactive video. The customer's response may be a purchase (or donation), a question, or a request for more information. At a website, the response may be a simple mouse-click to link to more information, a click to put an item in a virtual shopping cart, or a click to purchase.

Often the customer responds by calling a toll-free telephone number or, in the case of business markets, by sending a fax or an e-mail. A knowledgeable salesperson talks with the customer on the phone and follows up. That might involve filling an order and having it shipped to the customer or putting an interested prospect in touch with a salesperson who makes a personal visit. There are, however, many

FTD's website encourages a direct response from consumers, starting with a personalized calendar where the customer can enter dates for important flower-giving occasions. Similarly, Campbell's Soup encourages consumers to sign up to receive free recipes that are e-mailed each week.

variations on this approach. For example, some firms route incoming information-request calls to a computerized answering system. The caller indicates what information is required by pushing a few buttons on the telephone keypad. Then the computer instantly sends requested information to the caller's fax machine.

Direct-response promotion is often an important component of integrated marketing communications programs and is closely tied to other elements of the marketing mix. However, what distinguishes this general approach is that the marketer targets more of its promotion effort at specific individuals who respond directly.[9]

A promotion campaign that marketing managers developed for Ryder Systems' move-it-yourself rental trucks illustrates these ideas. Ryder's marketing strategy focused on quality trucks and service rather than bargain-basement prices. Ryder's objective was to increase truck rentals and sales of supplies while maintaining its premium prices. Most other rental firms were competing with lower prices—hoping for gains in market share to offset a market that was shrinking because of a weak economy.

To reach the target market—consumers who were considering a move—Ryder placed 60-second ads on popular TV shows whose audience demographics matched Ryder's target market. The ads touted Ryder quality and also offered consumers a free home-moving guide and planning kit. All the consumer had to do to get the promotional brochure was call a toll-free telephone number. The brochure provided useful information about moving—including details on how Ryder's comfortable trucks and helpful services could make the move easier. It also included a discount coupon for Ryder supplies—like furniture pads and locks—that consumers could redeem at any Ryder dealer. Equally important, the computerized mailing list (database) of people who called for the brochure served as a targeted list of prospects for Ryder's telemarketing salespeople. When one of them identified a good prospect, the final personal selling job was turned over to a local Ryder dealer. The dealer's personal attention helped to resolve consumer questions and get rental contracts. Further, because the whole promotion effort was consistent in differentiating Ryder's quality services, the dealers were able to charge a higher price than competitors.[10]

Target customer directly with a database

As the Ryder case suggests, direct-response promotion usually relies on a customer (or prospect) database to target specific individuals. The computerized database includes customers' names and addresses (or telephone numbers) as well as past purchases and other segmenting characteristics. Greenpeace and the Cousteau Society send mail advertisements to people interested in environmental issues. They ask for donations or other types of support. Individuals (or segments) who respond to direct promotion are the target for additional promotion. For example, a customer who buys lingerie from a catalog or a website once is a good candidate for a follow up. The follow up might extend to other types of clothing.

BMW and other car companies found that videotapes are a good way to provide consumers with a lot of information about a new model. However, it's too expensive to send tapes to everyone. To target the mailing, BMW first sends likely car buyers (high-income consumers who own a BMW or competing brand) personalized direct-mail ads that offer a free videotape. Interested consumers send back a return card. Then BMW sends the advertising tape and updates its database so a dealer will know to call the consumer.

Direct-response methods raise ethical concerns

Direct-response promotion and customer relationship management database targeting have become an important part of many marketing mixes—and more and more customers find it very convenient. But not everyone is enthusiastic. Some critics argue that thousands of acres of trees are consumed each week—just to make the paper for direct response "junk mail" that consumers don't want. Most e-mail users also get uninvited messages—"spam." Other critics worry about privacy issues related to how a direct-response database might be used, especially if it includes detailed information about a consumer's purchases. Similarly, many consumers don't like getting direct promotion telephone solicitations at any time, but especially in the evening and at meal times when they seem to be particularly frequent. Most states have passed laws prohibiting automatic calling systems that use prerecorded messages rather than a live salesperson. There is also growing concern by computer users about receiving e-mail they don't want. Worse, some firms have been criticized for creating websites that secretly install programs on customers' computers. Then, unknown to the user, the program gathers information about other websites the user visits and sends it back to the firm over the Internet. Most firms that use direct-response promotion are very sensitive to these concerns and take steps to address them.[11]

The Customer May Initiate the Communication Process

Traditional thinking about promotion—and for that matter about the communication process—has usually been based on the idea that it's the seller ("source") who initiates the communication. Of course, for decades consumers have been looking in the Yellow Pages for information or asking retail salespeople for help. Similarly, it's not news that organizational buyers contact potential vendors to ask questions or request bids.

Even so, marketers often think of the buyer as a more or less passive message receiver in the communication process—at least until the marketer has done something to stimulate attention, interest, and desire. That's one reason that targeting is so important—so that the promotion effort and expense isn't wasted on someone who isn't at all interested. Moreover, the need for a blend of promotion methods is built on the idea that at any given moment you can get a customer's attention and interest for only a few seconds—or a few minutes if you're really lucky. Even with highly targeted direct-response promotion, the marketer typically has taken the first step with promotion to get the interaction started.

New electronic media enable interactive communication

However, this is changing. In the information age, it is much easier for customers to search for information on their own. In fact, buyers can access a great deal of information and place an order without the seller having been directly involved at all. The new interactive information technologies enabling this change take many different forms, but some of the most important are websites, e-mail list-servers, caller-controlled fax-on-demand, computerized telephone voice-messaging systems, video kiosks in malls, CD-ROM and DVD disks on personal computers, and WebTV.

New variations on these interactive technologies are being developed all of the time. For example, in England, where interactive cable TV systems have been operating for a decade, consumers have access to a system called Teletext. With Teletext, they can use their standard TV remote control unit to search through thousands of on-screen pages of information—ranging from the schedule for flights from London's airports and the current weather to advertising for automobiles and specials at the local supermarket. The benefits of Teletext are very similar to the benefits of the World Wide Web on the Internet, but it uses a standard TV. Similar systems will become more available in other countries as government regulations change and as cable companies upgrade their equipment.

Internet

Internet Exercise Visit the Campbell's Soup website (www.campbellsoup.com). Does the website make it easy for you to get information? Does it make you want to spend more time and get more information? Explain your answer.

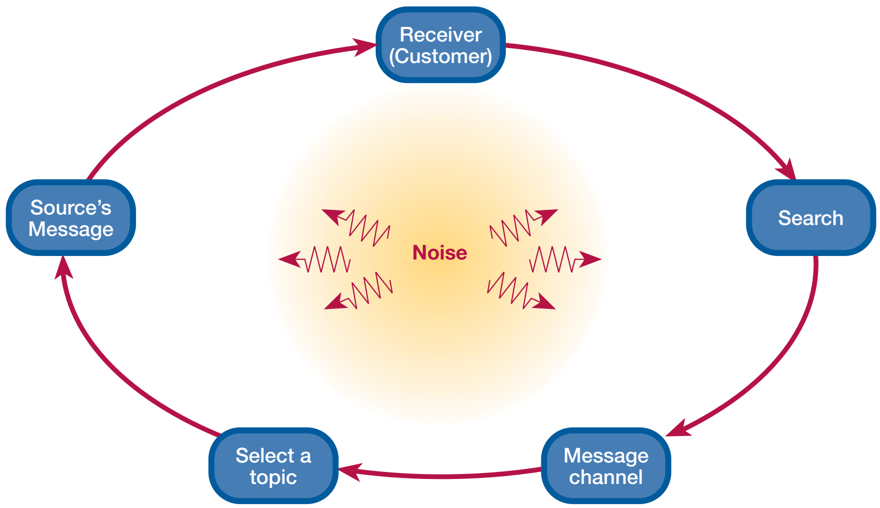
Work is underway to develop broadcast systems in which icons will appear onscreen as consumers watch a program or movie. For example, an icon might appear on a jacket worn by a talk show guest. A consumer who is interested in the product will be able to press a button on a remote control to get more information about the product or where to buy it—or even to place an order. The same concept is already implemented on DVDs for some movies. When this type of system is available via cable (or with streaming video over the Internet), it will provide a powerful new tool for marketers and, over time, reshape the way many marketing communications are handled.

This type of customer-initiated information search and/or communication represents a change that will become prevalent for more types of purchases in the future, so we should think about it in more detail. Let's start by contrasting the simple model of customer ("receiver") initiated interactive communication shown in Exhibit 14-7. At first it doesn't seem very different from the traditional communication model we considered earlier (Exhibit 14-5). However, the differences are significant.

Consumer initiates communication with a search process

In the model in Exhibit 14-7, a customer initiates the communication process with a decision to search for information in a particular message channel. The most far-reaching message channel to search is the Internet. The message channel is still the carrier of the message, as was the case before, but "searchable" message channels

Exhibit 14-7
A Model of Customer-Initiated Interactive Communication



usually feature an archive of existing messages on a number of topics. There may be many available topics—even millions.

In the next step, the consumer selects one specific topic on which to receive a message. Selecting a topic might be done in one of a variety of ways, depending on the message channel. The most typical approaches involve using a mouse, remote control device, or keypad to highlight a selection from an initial list (like a table of contents or index). Of course, other approaches are common. For example, many dial-up telephone systems are using voice-recognition systems. Or, in the case of the Internet, you might enter a word or phrase and have the computer search for a list of topics that include it.

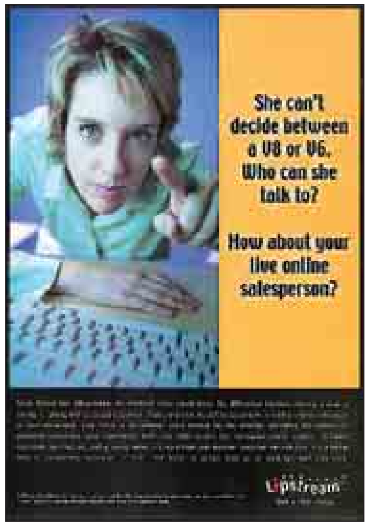
Consumer decides how much information to get

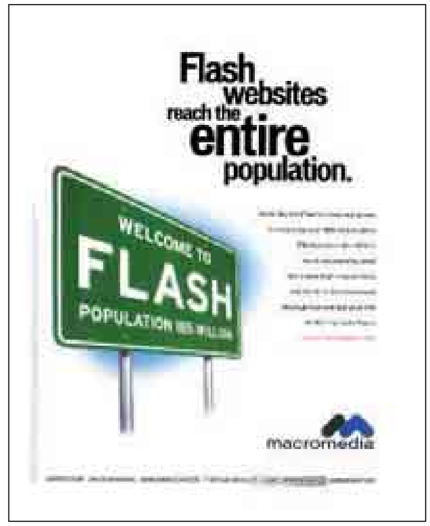
Once a specific topic is selected, the message for that topic is displayed. Typically, the message is brief. But it may include a simple way to get more detailed information, select another related topic, return to the original selection process, or quit the search. Thus, after each message the consumer can decide whether to search further (say, to get more detail on an initial topic or to broaden the search to other topics). This interactive approach makes it easy for the consumer to conveniently get as much or little information as desired and to spend as much time searching as seems worthwhile. However, noise may still be a problem. For example, a consumer who wants information about a specific product may waste a lot of time and still not find what is needed—because it is not available on the message channel or it is too hard to find. So some firms offer consumers a website choice that establishes communication with a real person at a 24-hour-a-day service center. Some of these systems use instant messaging so that the consumer and a customer service person can chat online. With other systems, like AT&T's "Interactive Answers" approach, a person at the calling center telephones the customer and provides the precise product information or help needed. Other firms are using variations of this approach, including live teleconferencing over the Internet. Many personal computers now come equipped with everything needed for this type of Internet teleconferencing.

Action—including purchase—may be immediate

Even without a voice link to a live salesperson, the action required to make a purchase by interactive media is usually very fast and easy—because one of the topics available for the customer to select is "how to buy." At many Internet sites, for example, a consumer can click on a selected item to place it in a virtual shopping cart, charge it to a credit card, and arrange for shipping by a service like UPS.

Lipstream and Macromedia offer products that help marketing managers take advantage of the interactive and multimedia potential of website communications.





Custom communications will be more personalized

As you can see, the traditional principles of communication that we discussed earlier in the chapter are still important in customer-initiated interactive communication. At the same time, the interactive approach allows the marketer to customize communication to the needs and responses of the consumer. As new approaches develop in this arena, we are seeing more promotion targeted at single-person "segments."

Electronic media also allows many types of information—pictures, graphs, words, video, and sounds—to be used. As a result, a key advantage of the new electronic media is that all of the different promotional materials that a firm develops can be available in one place. This allows managers with different specialties to see how their materials work with the rest of the promotion blend—so there is even more incentive to develop integrated communications.[12]

How Typical Promotion Plans Are Blended and Integrated

There is no one right blend

There is no one *right* promotion blend for all situations. Each one must be developed as part of a marketing mix and should be designed to achieve the firm's promotion objectives in each marketing strategy. So let's take a closer look at typical promotion blends in different situations.

Get a push in the channel with promotion to middlemen

When a channel of distribution involves middlemen, their cooperation can be crucial to the success of the overall marketing strategy. **Pushing** (a product through a channel) means using normal promotion effort—personal selling, advertising, and sales promotion—to help sell the whole marketing mix to possible channel members. This approach emphasizes the importance of building a channel and securing the wholehearted cooperation of channel members to push the product down the channel to the final user.

Producers usually take on much of the responsibility for the pushing effort in the channel. However, most wholesalers also handle at least some of the promotion to retailers or other wholesalers further down the channel. Similarly, retailers often handle promotion in their local markets. The overall promotion effort is most likely to be effective when all of the individual messages are carefully integrated—that is, coordinated, consistent, and complete.

Nesquik's ad is targeted at parents and kids and designed to stimulate demand and help pull Nesquik's popular chocolate additive for milk through the channel of distribution. Dome's trade ad message is targeted at retailers and designed to persuade them to give the Handeze therapeutic support glove an extra promotional push.

Promotion to middlemen emphasizes personal selling

Salespeople handle most of the important communication with middlemen. Middlemen don't want empty promises. They want to know what they can expect in return for their cooperation and help. A salesperson can answer questions about what promotion will be directed toward the final consumer, each channel member's part in marketing the product, and important details on pricing, markups, promotion assistance, and allowances.

A salesperson can help the firm determine when it should adjust its marketing mix from one middleman to another. In highly competitive urban areas, for example, mixes may emphasize price.

When a number of suppliers offer similar products and compete for attention and shelf space, the wholesaler or retailer usually pays attention to the one with the best profit potential. In these situations, the sales rep must convince the middleman that demand for the product exists and that making a profit will be easy. A firm can make the sales rep's job easier by targeting special sales promotions at middlemen too.

Sales promotions targeted at middlemen usually focus on short-term arrangements that will improve the middleman's profits. For example, a soft-drink bottler might offer a convenience store a free case of drinks with each two cases it buys. The free case improves the store's profit margin on the whole purchase. Other types of sales promotions—such as contests that offer vacation trips for high-volume middlemen—are also common.

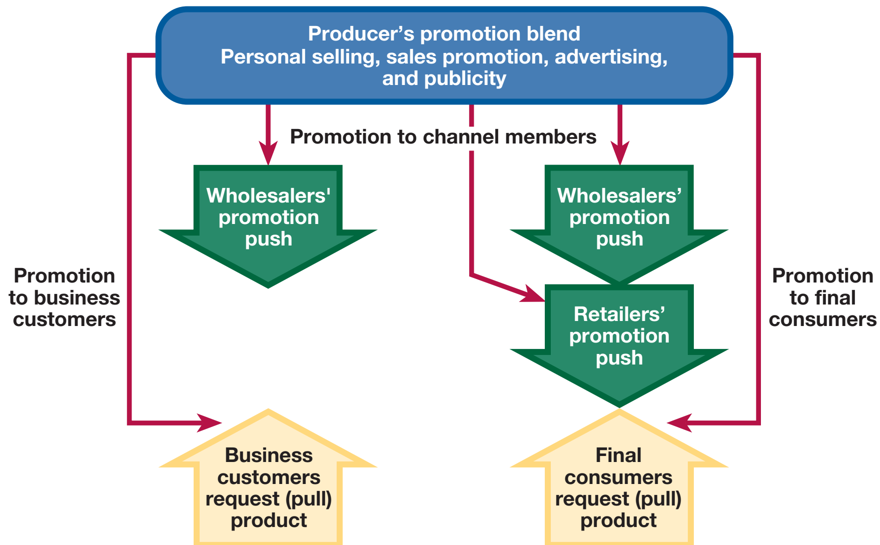
Firms run ads in trade magazines to recruit new middlemen or to inform channel members about a new offering. Trade ads usually encourage middlemen to contact the supplier for more information, and then a salesperson takes over.

Push within a firm—with promotion to employees

Some firms emphasize promotion to their own employees—especially salespeople or others in contact with customers. This type of *internal marketing* effort is basically a variation on the pushing approach. One objective of an annual sales meeting is to inform reps about important elements of the marketing strategy—so they'll work together as a team to implement it. Some firms use promotion to motivate employees to work harder at specific jobs—such as providing customer service or achieving higher sales. For example, many firms use sales contests and award free trips to big sellers.

Some companies design ads to communicate to employees and boost the employees' image. This is typical in services where the quality of the employees' efforts is a big part of the product. Some ads, for example, use the theme "we like to see you

Exhibit 14-8
Promotion May Encourage Pushing in the Channel, Pulling by Customers, or Both



smile." The ads communicate to customers, but also remind employees that the service they provide is crucial to customer satisfaction.

Pulling policy—customer demand pulls the product through the channel

Regardless of what promotion a firm uses to get help from channel members or employees in pushing a product, most producers focus a significant amount of promotion on customers at the end of the channel. This helps to stimulate demand and pull the product through the channel of distribution. **Pulling** means getting customers to ask middlemen for the product.

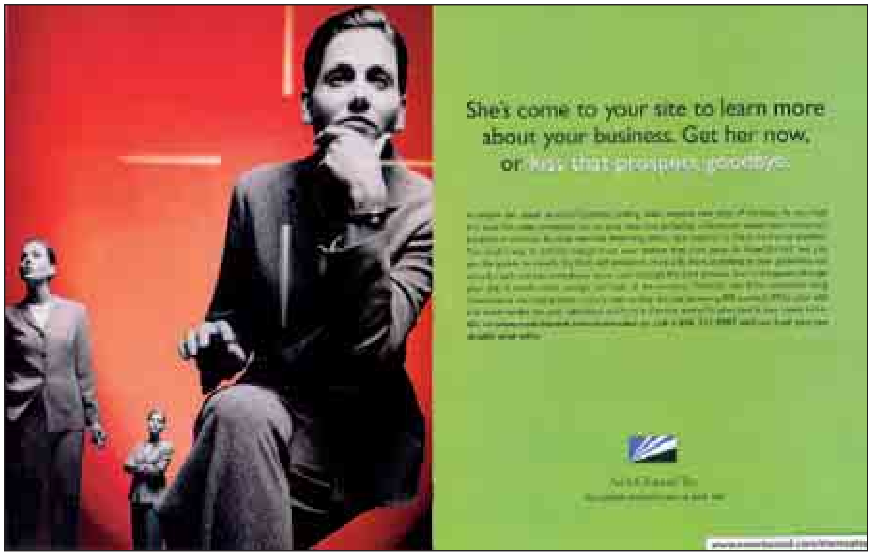
Pulling and pushing are usually used in combination. See Exhibit 14-8. However, if middlemen won't work with a producer—perhaps because they're already carrying a competing brand—a producer may try to use a pulling approach by itself. This involves highly aggressive and expensive promotion to final consumers or users—perhaps using coupons or samples—temporarily bypassing middlemen. If the promotion works, the middlemen are forced to carry the product to satisfy customer requests. However, this approach is risky. An expensive promotion effort is wasted if customers lose interest before reluctant middlemen make the product available. At minimum, middlemen should be told about the planned pulling effort—so they can be ready if the promotion succeeds.

Who handles promotion to final customers at the end of the channel varies in different channel systems—depending on the mix of pushing and pulling. Further, the promotion blend typically varies depending on whether customers are final consumers or business users.[13]

Promotion to final consumers

The large number of consumers almost forces producers of consumer products and retailers to emphasize advertising and sales promotion. Sales promotion—such as coupons, contests, or free samples—builds consumer interest and short-term sales of a product. Effective mass selling may build enough brand familiarity so that little personal selling is needed—as in self-service and discount operations.[14]

Some retailers—specialty shops in particular—rely heavily on well-informed salespeople. Technical products (like camcorders or computers) and personal services (like health care and estate planning) may also require personal selling. Direct selling firms like Amway also rely on personal selling. But aggressive personal selling to final consumers usually is found in expensive channel systems, such as those for fashionable clothing, furniture, consumer electronics, and automobiles.



NewChannel wants to help firms identify the best prospects who visit the firm's website so that a salesperson can then immediately reach out and move them through the sales process.

Promotion to business customers

Producers and wholesalers who target business customers often emphasize personal selling. This is practical because these customers are much less numerous than final consumers and their purchases are typically larger.

Moreover, business customers may have technical questions or need adjustments in the marketing mix. An extremely technical business product may require a heavy emphasis on personal selling—using technically trained salespeople. This is the only sure way to make the product understood and get feedback on how customers use it. The technical sales rep meets with engineers, production managers, purchasing agents, and top managers and can adjust the sales message to the needs of these various influences.

Sales reps can be more flexible in adjusting their companies' appeals to suit each customer—and personal contact is usually required to close a sale. A salesperson is also able to call back later to follow up with additional information, resolve any problems, and nurture the relationship with the customer.

While personal selling dominates in business markets, mass selling is necessary too. A typical sales call on a business customer costs about $200.[15] That's because salespeople spend less than half their time actually selling. The rest is consumed by such tasks as traveling, paperwork, sales meetings, and strictly service calls. So it's seldom practical for salespeople to carry the whole promotion load.

Ads in trade magazines or at a B2B e-commerce website, for instance, can inform potential customers that a product is available. Most trade ads give a toll-free telephone number, fax number, or website address to stimulate direct inquiries. Domestic and international trade shows also help identify prospects. Even so, most sellers who target business customers spend only a small percentage of their promotion budget on mass selling and sales promotion.

Each market segment may need a unique blend

Knowing what type of promotion is typically emphasized with different targets is useful in planning the promotion blend. But each unique market segment may need a separate marketing mix and a different promotion blend. Some mass-selling specialists miss this point. They think mainly in terms of mass marketing rather than target marketing. Aiming at large markets is desirable in some situations, but promotion aimed at everyone can end up hitting no one. In developing the promotion blend, you should be careful not to slip into a shotgun approach when what you really need is a rifle approach—with a more careful aim.

Adoption Processes Can Guide Promotion Planning

The AIDA and adoption processes look at individuals. This emphasis on individuals helps us understand how promotion affects the way that people behave. But it's also useful to look at markets as a whole. Different segments of customers within a market may behave differently—with some taking the lead in trying new products and, in turn, influencing others.

Promotion must vary for different adopter groups

Research on how markets accept new ideas has led to the adoption curve model. The **adoption curve** shows when different groups accept ideas. It shows the need to change the promotion effort as time passes. It also emphasizes the relations among groups and shows that individuals in some groups act as leaders in accepting a new idea.

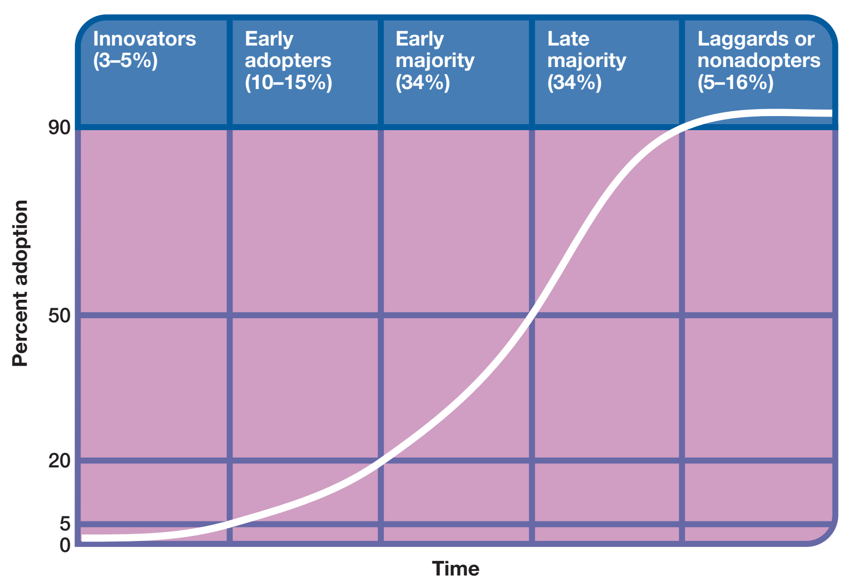
Exhibit 14-9 shows the adoption curve for a typical successful product. Some of the important characteristics of each of these customer groups are discussed below. Which one are you?

Innovators don't mind taking some risks

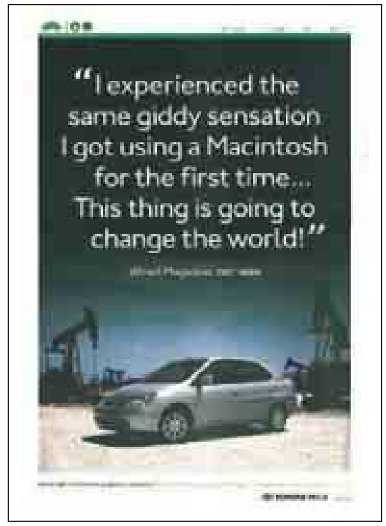
The **innovators** are the first to adopt. They are eager to try a new idea and willing to take risks. Innovators tend to be young and well educated. They are likely to be mobile and have many contacts outside their local social group and community. Business firms in the innovator group are often aggressive small companies with an entrepreneurial view and willingness to take the risk of doing something new and different. However, large firms, especially specialized ones, may be in the innovator group.

An important characteristic of innovators is that they rely on impersonal and scientific information sources, or other innovators, rather than salespeople. They often search for information. For example, they might do a search on the Internet, read articles in technical publications, or look for informative ads in special-interest magazines.

Exhibit 14-9
The Adoption Curve



Compaq is not targeting people who are Internet innovators but rather members of the late majority group who just want a hassle-free way to use e-mail as part of their everyday life. On the other hand, Toyota's Prius ad targets innovators and early adopters.



Early adopters are often opinion leaders

Early adopters are well respected by their peers and often are opinion leaders. They tend to be younger, more mobile, and more creative than later adopters. But unlike innovators, they have fewer contacts outside their own social group or community. Business firms in this category also tend to be specialized.

Of all the groups, this one tends to have the greatest contact with salespeople. Mass media are important information sources too. Marketers should be very concerned with attracting and selling the early adopter group. Their acceptance is really important in reaching the next group because the early majority look to the early adopters for guidance. The early adopters can help the promotion effort by spreading *word-of-mouth* information and advice among other consumers.

Opinion leaders help spread the word

Marketers know the importance of personal conversations and recommendations by opinion leaders. If early groups reject the product, it may never get off the ground. For example, some moviegoers are the first to see new movies. If they think a movie is dull, they quickly tell their friends not to waste their time and money. Consumers are even more likely to talk about a negative experience than a positive experience.

But if opinion leaders accept a product, what they say about it can be very important. Such word-of-mouth publicity may do the real selling job—long before the customer ever walks into the retail store. That's why some companies try to target promotion to encourage opinion leadership and word-of-mouth publicity.

The Internet is also providing companies, even small ones, with a low-cost way to encourage word of mouth. An interesting web page can attract attention—and customers can easily e-mail a copy to a friend. For example, a retail shop called Hot Hot Hot, which carries a very wide variety of hot sauces for food, established a website. Very quickly, largely because of word of mouth, 1,500 people were visiting the website each day.[16]

Early majority group is deliberate

The **early majority** avoid risk and wait to consider a new idea after many early adopters have tried it—and liked it. Average-sized business firms that are less specialized often fit in this category. If successful companies in their industry adopt the new idea, they will too.

Do You Hear That Buzz, and Where Is It Coming From?

Computer viruses can spread like wildfire. Some marketers are trying to get attention for their products by promoting the same kind of "viral" spread of word-of-mouth promotion from a small set of opinion leaders to other consumers. For example, BMW commissioned famous movie directors to create a series of short (about 5 minutes each) action films that show BMWs in high-performance chase action. The films are available for online viewing at www.bmwfilms.com. It would be impossible to show all of the dangerous stunts in TV ads. But car enthusiasts who hear about the site love the action and tell their friends to go check it out. It's all a well-planned effort to create more buzz about BMW as the ultimate driving machine.

Lee Dungarees used a complicated viral marketing campaign to try to build a cooler image among youthful males. Lee's agency e-mailed 200,000 computer game fans a trio of grainy video clips. The videos were supposedly intended to draw people to websites about three quirky characters. But the clips were so bad that they were funny. That was intentional. Many guys who received them forwarded them to friends. Little did they know that the odd characters in the videos would later be featured in an online computer game created by Lee. Gamers who figured out the connection with the videos passed the word and the popularity of the game spread across the Web. But to win at the game guys had to enter a secret code, which could only be found on Lee's jeans labels and required a visit to a store.

It's clear why a marketer might want target consumers to hear the buzz about a product from their coolest friends—and not just dismiss it as some commercial pitch. But often the intent is to mislead consumers about where the buzz starts. Some say that makes it unethical; others say that the marketer is only planting a few seeds and that it really is consumers who spread the word. Of course, this can backfire. Sony, for instance, got bad publicity for fabricating favorable movie reviews and portraying them as coming from movie critics.[17]

www.mhhe.com/fourps

The early majority have a great deal of contact with mass media, salespeople, and early adopter opinion leaders. Members usually aren't opinion leaders themselves.

Late majority is cautious

The **late majority** are cautious about new ideas. Often they are older than the early majority group and more set in their ways. So they are less likely to follow opinion leaders and early adopters. In fact, strong social pressure from their own peer group may be needed before they adopt a new product. Business firms in this group tend to be conservative, smaller-sized firms with little specialization.

The late majority make little use of marketing sources of information—mass media and salespeople. They tend to be oriented more toward other late adopters rather than outside sources they don't trust.

Laggards or nonadopters hang on to tradition

Laggards or **nonadopters** prefer to do things the way they've been done in the past and are very suspicious of new ideas. They tend to be older and less well educated. The smallest businesses with the least specialization often fit this category. They cling to the status quo and think it's the safe way.

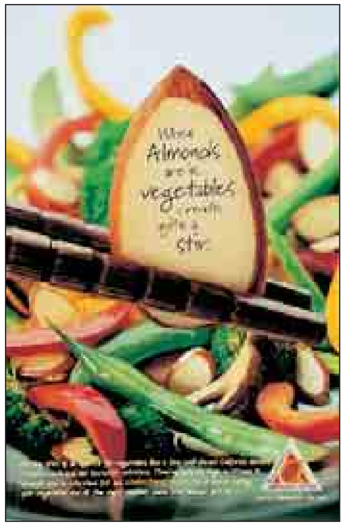
The main source of information for laggards is other laggards. This certainly is bad news for marketers who are trying to reach a whole market quickly or who want to use only one promotion method. In fact, it may not pay to bother with this group.[18]

Promotion Blends Vary over the Life Cycle

Stage of product in its life cycle

A new product concept seldom becomes a spectacular success overnight. The adoption curve helps explain why. Further, the adoption curve helps explain why a new product goes through the product life-cycle stages described in Chapter 10—market introduction, market growth, market maturity, and sales decline. During these stages, promotion blends may have to change to achieve different promotion objectives.

These ads are not for individual brands but rather were placed as a cooperative effort by almond growers in California and apple producers in France to help build primary demand for their respective products.



Market introduction stage—"this new idea is good"

During market introduction, the basic promotion objective is informing. If the product is a really new idea, the promotion must build **primary demand**—demand for the general product idea—not just for the company's own brand. Video phone service and electric cars are good examples of product concepts where primary demand is just beginning to grow. There may be few potential innovators during the introduction stage, and personal selling can help find them. Firms also need salespeople to find good channel members and persuade them to carry the new product. Sales promotion may be targeted at salespeople or channel members to get them interested in selling the new product. And sales promotion may also encourage customers to try it.

Market growth stage—"our brand is best"

In the market growth stage, more competitors enter the market, and promotion emphasis shifts from building primary demand to stimulating **selective demand**—demand for a company's own brand. The main job is to persuade customers to buy, and keep buying, the company's product.

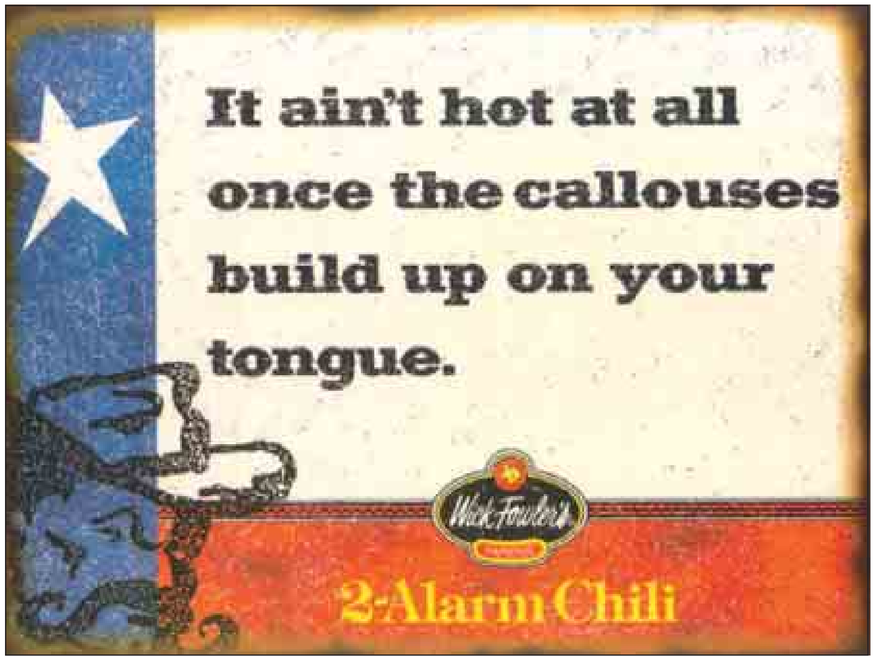
Now that more potential customers are trying and adopting the product, mass selling may become more economical. But salespeople and personal selling must still work in the channels—expanding the number of outlets and cementing relationships with current channel members.

Market maturity stage—"our brand is better, really"

In the market maturity stage, even more competitors have entered the market. Promotion becomes more persuasive. At this stage, mass selling and sales promotion may dominate the promotion blends of consumer products firms. Business products may require more aggressive personal selling—perhaps supplemented by more advertising. The total dollars allocated to promotion may rise as competition increases.

If a firm already has high sales—relative to competitors—it may have a real advantage in promotion at this stage. If, for example, Nabisco has twice the sales for a certain type of cookie as Keebler, its smaller competitor, and they both spend the same *percentage* of total sales on promotion, Nabisco will be spending twice as much and will probably communicate to more people. Nabisco may get even more than twice as much promotion because of economies of scale.

Firms that have strong brands can use reminder-type advertising at this stage. Similarly, many firms turn to various types of frequent-buyer promotions or newsletters targeted at current customers to strengthen the relationship and keep customers loyal. This may be less costly and more effective than efforts to win customers away from competitors.



This ad uses humor to highlight what's distinctive about 2-Alarm Chili—to stimulate selective demand in a very competitive market.

Sales decline stage—"let's tell those who still want our product"

During the sales decline stage, the total amount spent on promotion usually decreases as firms try to cut costs to remain profitable. Since some people may still want the product, firms need more targeted promotion to reach these customers.

On the other hand, some firms may increase promotion to try to slow the cycle—at least temporarily. Crayola had almost all of the market for children's crayons, but sales were slowly declining as new kinds of markers came along. Crayola increased ad spending to urge parents to buy their kids a "fresh box."

Nature of competition requires different promotion

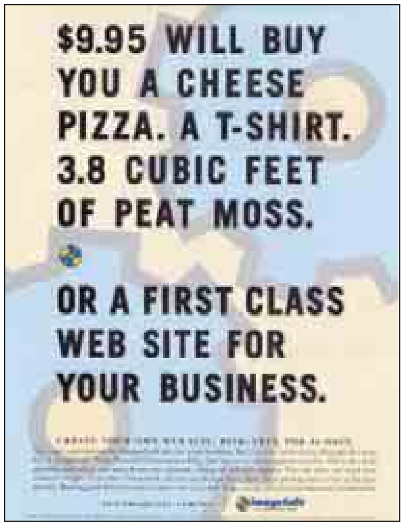
Firms in monopolistic competition may favor mass selling because they have differentiated their marketing mixes and have something to talk about. As a market tends toward pure competition, or oligopoly, it is difficult to predict what will happen. Competitors in some markets try to outpromote each other. The only way for a competitor to stay in this kind of market is to match rivals' promotion efforts—unless the whole marketing mix can be improved in some other way. We see a lot of such competitive advertising in our daily newspapers and in cents-off coupons at grocery store checkout counters.

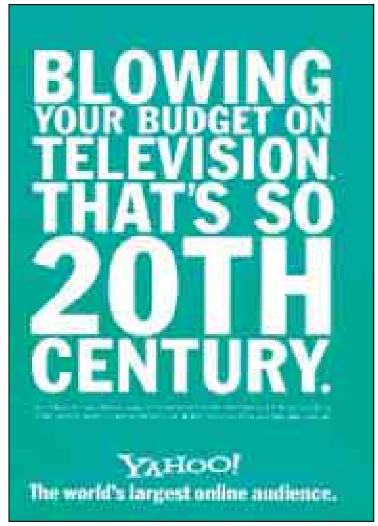
In markets that are drifting toward pure competition, some companies resort to price-cutting. This *may* temporarily increase the number of units sold, but it may also reduce total revenue and the amount available for promotion *per unit*. And competitive retaliation, perhaps in the form of short-term sales promotions, may reduce the temporary sales gains and drag price levels down faster. As cash flowing into the business declines, spending may have to be cut back.[19]

Setting the Promotion Budget

Size of budget affects promotion efficiency and blend

There are some economies of scale in promotion. An ad on national TV might cost less *per person* reached than an ad on local TV. Similarly, citywide radio, TV, and newspapers may be cheaper than neighborhood newspapers or direct personal





Many marketing managers now view promotion on the Internet as a "must buy" in a promotion budget.

contact. But the *total cost* for some mass media may force small firms, or those with small promotion budgets, to use promotion alternatives that are more expensive per contact. For example, a small retailer might want to use local television but find that there is only enough money for a web page, an ad in the Yellow Pages, and an occasional newspaper ad.

Smaller producers and firms that offer relatively undifferentiated consumer products emphasize personal selling first and rely mainly on sales promotion for the balance. The objective is to build good channel relations and encourage channel members to recommend and push the product. Note that here we are referring to percentages in the promotion blend, not the level of expenditures. Setting the overall level of promotion spending and how much to spend on each type of promotion is an important but difficult decision.

Budgeting for promotion—50 percent, 30 percent, or 10 percent is better than nothing

The most common method of budgeting for promotion expenditures is to compute a percentage of either past sales or sales expected in the future. The virtue of this method is its simplicity. A similar percentage can be used automatically each year—eliminating the need to keep evaluating the kind and amount of promotion effort needed and its probable cost. However, when a company's top managers have this attitude, they often get what they deserve—something less than the best results.

Find the task, budget for it

Just because budgeting a certain percentage of past or forecast sales is common doesn't mean that it's smart. This mechanical approach leads to expanding marketing expenditures when business is good and cutting back when business is poor. It may be desirable to increase marketing expenditures when business is good. But when business is poor, this approach may just make the problem worse—if weak promotion is the reason for declining sales. The most sensible approach may be to be *more,* not less, aggressive!

Other methods of budgeting for marketing expenditures are:

1. Match expenditures with competitors.
2. Set the budget as a certain number of cents or dollars per sales unit (by case, by thousand, or by ton) using the past year or estimated year ahead as a base.
3. Base the budget on any uncommitted revenue, perhaps including budgeted profits. Companies with limited resources may use this approach. Or a firm may be willing to sacrifice some or all of its current profits for future sales—that is, it looks at promotion spending as an *investment* in future growth.

4. Base the budget on the job to be done. For example, the spending level might be based on the number of new customers desired and the percentage of current customers that the firm must retain to leverage investments in already established relationships. This is called the **task method**—basing the budget on the job to be done.

Task method can lead to budgeting without agony

In the light of our continuing focus on planning marketing strategies to reach objectives, the most sensible approach to budgeting promotion expenditures is the task method. In fact, this approach makes sense for *any* marketing expenditure, but here we'll focus on promotion.

A practical approach is to determine which promotion objectives are most important and which promotion methods are most economical and effective for the communication tasks relevant to each objective. There's never enough money to do all of the promotion that you might want to do. However, this approach helps you to set priorities so that the money you spend produces specific results.

The amount budgeted using the task method can be stated as a percentage of sales. But you should see that calculating the right amount is more involved than picking up a past percentage. It requires careful review of the specific promotion (and marketing) tasks to be accomplished and how each task fits with others to achieve the overall objectives. The costs of these tasks are then totaled—to determine how much should be budgeted for promotion (just as money is allocated for other marketing activities required by the strategy). In other words, the firm can assemble its total promotion budget directly from detailed plans rather than by simply relying on historical patterns or ratios.

This method also helps to eliminate budget fights between different promotion areas. Such conflicts may occur if managers and specialists responsible for different promotion methods see themselves as pitted against each other for limited budget dollars. Instead, the task method of budgeting encourages everyone to focus on the overall strategy and what promotion objectives need to be achieved. The specialists may still make their own suggestions about how to perform tasks. But then the budget allocations are based on the most effective ways of getting things done, not on what the firm did last year, what some competitor does, or even on internal politics. With this approach, different promotion specialists are also more likely to recognize that they must all work together to achieve truly integrated marketing communications.[20]

Conclusion

Promotion is an important part of any marketing mix. Most consumers and intermediate customers can choose from among many products. To be successful, a producer must not only offer a good product at a reasonable price but also inform potential customers about the product and where they can buy it. Further, producers must tell wholesalers and retailers in the channel about their product and their marketing mix. These middlemen, in turn, must use promotion to reach their customers.

The promotion blend should fit logically into the strategy being developed to satisfy a particular target market. Strategy planning needs to state *what* should be communicated to them and *how*. The overall promotion objective is to affect buying behavior, but the basic promotion objectives are informing, persuading, and reminding.

Three basic promotion methods can be used to reach these objectives. Behavioral science findings can help firms combine various promotion methods for effective communication. In particular, what we know about the communication process and how individuals and groups adopt new products is important in planning promotion blends.

An action-oriented framework called AIDA can help marketing managers plan promotion blends. But the marketing manager has the final responsibility for combining the promotion methods into one integrated promotion blend for each marketing mix.

In this chapter, we considered some basic concepts that apply to all areas of promotion. In the next two chapters, we'll discuss personal selling, advertising, and sales promotion in more detail.

Questions and Problems

1. Briefly explain the nature of the three basic promotion methods available to a marketing manager. What are the main strengths and limitations of each?
2. In your own words, discuss the integrated marketing communications concept. Explain what its emphasis on "consistent" and "complete" messages implies with respect to promotion blends.
3. Relate the three basic promotion objectives to the four jobs (AIDA) of promotion using a specific example.
4. Discuss the communication process in relation to a producer's promotion of an accessory product—say, a new electronic security system businesses use to limit access to areas where they store confidential records.
5. If a company wants its promotion to appeal to a new group of target customers in a foreign country, how can it protect against its communications being misinterpreted?
6. Promotion has been the target of considerable criticism. What specific types of promotion are probably the object of this criticism? Give a specific example that illustrates your thinking.
7. With direct-response promotion, customers provide feedback to marketing communications. How can a marketing manager use this feedback to improve the effectiveness of the overall promotion blend?
8. How can a promotion manager target a message to a certain target market with electronic media (like the Internet) when the customer initiates the communication? Give an example.
9. What promotion blend would be most appropriate for producers of the following established products? Assume average- to large-sized firms in each case and support your answer.
   a. Chocolate candy bar.
   b. Car batteries.
   c. Panty hose.
   d. Castings for truck engines.
   e. A special computer used by manufacturers for control of production equipment.
   f. Inexpensive plastic rainhats.
   g. A digital tape recorder that has achieved specialty-product status.
10. A small company has developed an innovative new spray-on glass cleaner that prevents the buildup of electrostatic dust on computer screens and TVs. Give examples of some low-cost ways the firm might effectively promote its product. Be certain to consider both push and pull approaches.
11. Would promotion be successful in expanding the general demand for: *(a)* almonds, *(b)* air travel, *(c)* golf clubs, *(d)* walking shoes, *(e)* high-octane unleaded gasoline, *(f)* single-serving, frozen gourmet dinners, and *(g)* bricks? Explain why or why not in each case.
12. Explain how an understanding of the adoption process would help you develop a promotion blend for digital tape recorders, a new consumer electronics product that produces high-quality recordings. Explain why you might change the promotion blend during the course of the adoption process.
13. Explain how opinion leaders affect a firm's promotion planning.
14. Discuss how the adoption curve should be used to plan the promotion blend(s) for a new automobile accessory—an electronic radar system that alerts a driver if he or she is about to change lanes into the path of a car that is passing through a blind spot in the driver's mirrors.
15. If a marketing manager uses the task method to budget for marketing promotions, are competitors' promotion spending levels ignored? Explain your thinking and give an example that supports your point of view.
16. Discuss the potential conflict among the various promotion managers. How could this be reduced?

Suggested Cases

18. State Bank
19. myWedding.com

Computer-Aided Problem

14. **Selecting a Communications Channel**

Helen Troy, owner of three Sound Haus stereo equipment stores, is deciding what message channel (advertising medium) to use to promote her newest store. Her current promotion blend includes direct-mail ads that are effective for reaching her current customers. She also has knowledgeable salespeople who work well with consumers once they're in the store. However, a key objective in opening a new store is to attract new customers. Her best prospects are professionals in the 25–44 age range with incomes over $38,000 a year. But only some of the people in this group are audiophiles who want the top-of-the-line brands she carries. Troy has decided to use local advertising to reach new customers.

Troy narrowed her choice to two advertising media: an FM radio station and a biweekly magazine that focuses on entertainment in her city. Many of the magazine's readers are out-of-town visitors interested in concerts, plays, and restaurants. They usually buy stereo equipment at home. But the magazine's audience research shows that many local professionals do subscribe to the magazine. Troy doesn't think that the objective can be achieved with a single ad. However, she believes that ads in six issues will generate good local awareness with her target market. In addition, the magazine's color format will let her present the prestige image she wants to convey in an ad. She thinks that will help convert aware prospects to buyers. Specialists at a local advertising agency will prepare a high-impact ad for $2,000, and then Troy will pay for the magazine space.

The FM radio station targets an audience similar to Troy's own target market. She knows repeated ads will be needed to be sure that most of her target audience is exposed to her ads. Troy thinks it will take daily ads for several months to create adequate awareness among her target market. The FM station will provide an announcer and prepare a tape of Troy's ad for a one-time fee of $200. All she has to do is tell the station what the message content for the ad should say.

Both the radio station and the magazine gave Troy reports summarizing recent audience research. She decides that comparing the two media in a spreadsheet will help her make a better decision.

a. *Based on the data displayed on the initial spreadsheet, which message channel (advertising medium) would you recommend to Troy? Why?*
b. *The agency that offered to prepare Troy's magazine ad will prepare a fully produced radio ad—including a musical jingle—for $2,500. The agency claims that its musical ad will have much more impact than the ad the radio station will create. The agency says its ad should produce the same results as the station ad with 20 percent fewer insertions. If the agency claim is correct, would it be wise for Troy to pay the agency to produce the ad?*
c. *The agency will not guarantee that its custom-produced radio ad will reach Troy's objective—making 80 percent of the prospects aware of the new store. Troy wants to see how lower levels of awareness—between 50 percent and 70 percent—would affect the advertising cost per buyer and the cost per aware prospect. Use the feature analysis to vary the percent of prospects who become aware. Prepare a table showing the effect on the two kinds of costs. What are the implications of your analysis?*

For additional questions related to this problem, see Exercise 14-3 in the *Learning Aid for Use with Basic Marketing*, 14th edition.

When You Finish This Chapter, You Should

1. Understand the importance and nature of personal selling.

2. Know the three basic sales tasks and what the various kinds of salespeople can be expected to do.

3. Know how sales technology affects the way sales are performed.

4. Know what the sales manager must do—including selecting, training, and organizing salespeople—to carry out the personal selling job.

5. Understand how the right compensation plan can help motivate and control salespeople.

6. Understand when and where to use the three types of sales presentations.

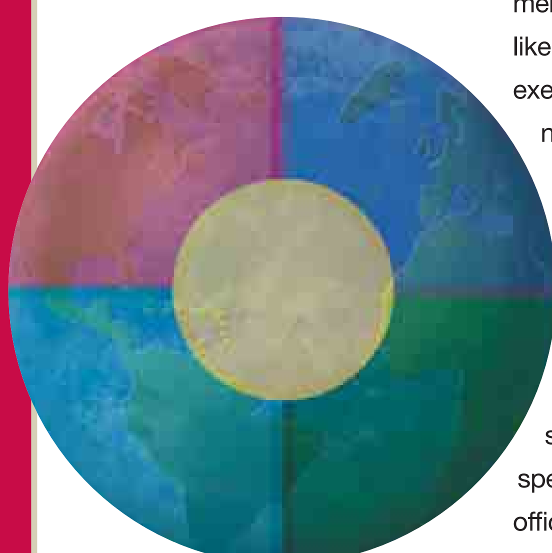
7. Understand the important new terms (shown in red).

Chapter Fifteen

Personal Selling

Cisco Systems, Inc., has enjoyed enormous growth by "empowering the Internet generation." In other words, what Cisco does is sell the backroom gear and systems that large and small businesses, government agencies, schools, and other organizations need to support their computer networks, websites, and e-commerce applications. Eighty percent of the traffic over the Internet runs on Cisco equipment.

Cisco takes care of customers with cutting-edge e-commerce technology at its website (www.cisco.com) whenever it can. Distributors also handle some needs. But Cisco's own salespeople handle the job of getting and keeping major accounts. Cisco's sales force is as central to its success as its technology. Decisions to invest millions of dollars in information technology involve top management. Cisco's sales professionals, like Sue Bostrom, work with these executives to learn about their needs and then sell business solutions rather than "gear." Of course, a firm's IT specialists may also get in the act—and they want to know about technical details ("Will Cisco's router work with our systems security software?"). Technical specialists from Cisco's local sales office might handle some of these

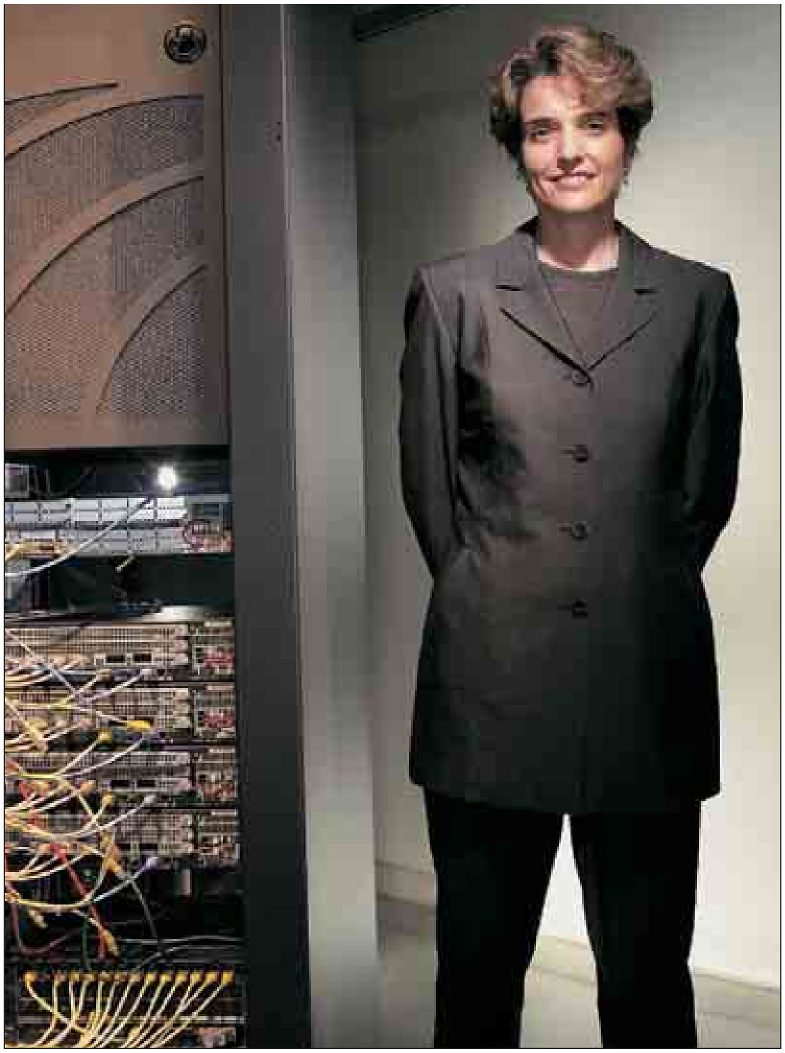


price

place

promotion

produc



concerns as part of the sales team effort. And when the sales rep identifies a prospect that has the potential to become one of Cisco's "premier partners," Cisco's top brass may help cement a close relationship. Cisco faces tough competition, so even with all this help Cisco salespeople need real skill to get the order and close a deal. And to keep the relationship going, top-notch sales support is needed whenever a customer has a problem that can't be quickly handled online.

To be certain that these challenging jobs are done well, Cisco's sales managers recruit talented people using a wide variety of methods. For example, the Hot Jobs@Cisco section of its website collects job applicant profiles on an ongoing basis. When a position opens up, qualified candidates are notified. After the best people are selected, Cisco provides the sales training to make them even better. New people may need training to build professional problem-solving and sales presentation skills as well as technical knowledge. Even experienced sales reps need ongoing training. For example, Cisco gives its salespeople training in everything from the firm's policies on expenses to the latest developments in technology—with approaches ranging from traditional instructor-led workshops to cutting-edge e-learning opportunities.

Cisco's salespeople have an array of different skills and experience. And Cisco has customers and sales offices all over the world. So Cisco must carefully match each salesperson to particular territories, industries, customers, and product lines. And to be sure that each salesperson is highly motivated, Cisco's sales managers must make certain that sales compensation arrangements and benefits reward salespeople for producing needed results.[1]

place price promotion product

The Importance and Role of Personal Selling

Salespeople are communicators who build relationships

Promotion is communicating with potential customers. As the Cisco case suggests, personal selling is often the best way to do it. Almost every company can benefit from personal selling. While face-to-face with prospects, salespeople can get more attention than an advertisement or a display. They can adjust what they say or do to take into consideration culture and other behavioral influences on the customer. They can ask questions to find out about a customer's specific interests. They can figure out ways to solve customer problems. If, and when, the prospect is ready to buy, the salesperson is there to ask for the order. And afterward, the salesperson is there to be certain that the customer is satisfied and that the relationship between the customer and firm continues to be mutually beneficial.

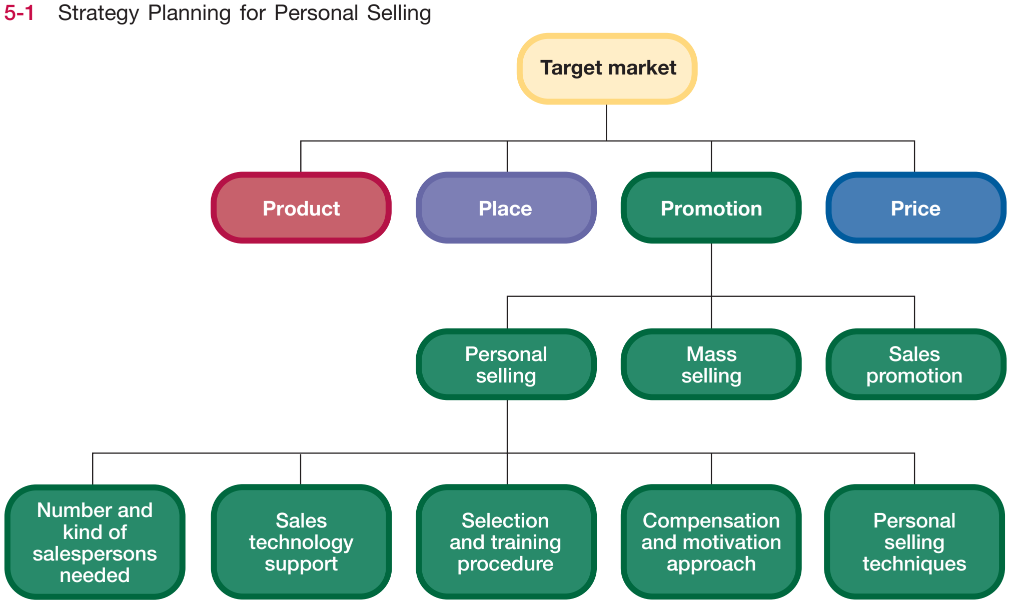
Personal selling requires strategy decisions

Marketing managers must decide how much, and what kind of, personal selling effort each marketing mix needs. Specifically, as part of their strategy planning, they must decide (1) how many salespeople they need, (2) what kind of salespeople they need, (3) what kind of sales technology support they need, (4) what kind of sales presentation to use, (5) how to select and train salespeople, and (6) how to supervise and motivate them. The sales manager provides input into these strategy decisions. Once made, it's the sales manager's job to implement the personal selling part of a marketing strategy.

In this chapter, we'll discuss the importance and nature of personal selling so you'll understand the strategy decisions sales and marketing managers face. These strategy decisions are shown in Exhibit 15-1.

We'll also discuss a number of frameworks and how-to approaches that guide these strategy decisions. Because these approaches apply equally to domestic and international markets, we won't emphasize that distinction in this chapter. This does not mean, however, that personal selling techniques don't vary from one country to another. To the contrary, in dealing with *any* customer, the salesperson must be very sensitive to cultural influences and other factors that might affect communication. For example, a Japanese customer and an Arab customer might respond differently to subtle aspects of

Exhibit 15-1 Strategy Planning for Personal Selling



a salesperson's behavior. The Arab customer might expect to be very close to a salesperson, perhaps only two feet away, while they talk. The Japanese customer might consider that distance rude. Similarly, what topics of discussion are considered sensitive, how messages are interpreted, and which negotiating styles are used vary from one country to another. A salesperson must know how to communicate effectively with each customer—wherever and whoever that customer is—but those details are beyond the strategy planning focus of this text.[2]

Personal selling is important

We've already seen that personal selling is important in some promotion blends and absolutely essential in others. You would better appreciate the importance of personal selling if you regularly had to meet payrolls and somehow, almost miraculously, your salespeople kept coming in with orders just in time to keep the business profitable.

Personal selling is often a company's largest single operating expense. This is another reason why it is important to understand the decisions in this area. Bad sales management decisions are costly in both lost sales and in actual out-of-pocket expenses.

Every economy needs and uses many salespeople. In the United States, one person out of every ten in the total labor force is involved in sales work. By comparison, that's about 20 times more people than are employed in advertising. Any activity that employs so many people and is so important to the economy deserves study. Looking at what salespeople do is a good way to start.

Helping to buy is good selling

Good salespeople don't just try to *sell* the customer. Rather, they try to *help the customer buy*—by understanding the customer's needs and presenting the advantages and disadvantages of their products. Such helpfulness results in satisfied customers and long-term relationships. And strong relationships often form the basis for a competitive advantage, especially for firms that target business markets.

You may think of personal selling in terms of an old-time stereotype of a salesperson: a bag of wind with no more to offer than a funny story, a big expense account, and an engaging grin. But that isn't true any more. Old-time salespeople are being replaced by real professionals—problem solvers—who have something definite to contribute to their employers *and* their customers.

Salespeople represent the whole company—and customers too

Increasingly, the salesperson is seen as a representative of the whole company—responsible for explaining its total effort to target customers rather than just pushing products. The salesperson may provide information about products, explain and interpret company policies, and even negotiate prices or diagnose technical problems when a product doesn't work well.

The sales rep is often the only link between the firm and its customers—especially if customers are far away. When a number of people from the firm are involved with the customer organization—which is increasingly common as more suppliers and customers form closer relationships—it is usually the sales rep who coordinates the relationship for his or her firm. See Exhibit 7-6.

As this suggests, salespeople also represent their *customers* back inside their own firms. Recall that feedback is an essential part of both the communication process *and* the basic management process of planning, implementing, and control. For example, the sales rep is the likely one to explain to the production manager why a customer is unhappy with product performance or quality—or to the e-commerce specialist how better order status information available on the website could help the customer save money.

Good salespeople try to help the customer solve problems and meet needs—and often that requires both careful listening to really understand the customer and then effective service after the sale.

As evidence of these changing responsibilities, some companies give their salespeople such titles as field manager, sales consultant, market specialist, account representative, or sales engineer.

Sales force aids in market information function as well

The sales force can aid in the marketing information function too. The sales rep may be the first to hear about a new competitor or a competitor's new product or strategy. And, as the following example shows, sales reps who are well attuned to customers' needs can be a key source of ideas for new products.

Ballard Medical Products competes with international giants in the hospital supply business. A key factor in Ballard's success is that its salespeople have a lot of say in what products the company produces and how they are designed. Ballard salespeople are trained as information specialists who seek and report on customer feedback. At each hospital, they work closely with the doctor and nurse specialists who use Ballard products. And when one of them says "we need a product that would solve this problem," the Ballard sales rep is right there to follow up with questions and invite suggestions. The rep quickly relays the customer's needs back to Ballard's new product group.[3]

Salespeople can be strategy planners too

Some salespeople are expected to be marketing managers in their own territories. And some become marketing managers by default because top management hasn't provided detailed strategy guidelines. Either way, salespeople may take the initiative to fill the gap. The salesperson may have choices about (1) what target customers to aim at, (2) which particular products to emphasize, (3) which middlemen to call on or to work with the hardest, (4) how to use promotion money, and (5) how to adjust prices.

A salesperson who can put together profitable strategies and implement them well can rise very rapidly. The opportunity is there for those prepared and willing to work.

Even a starting job may offer great opportunities. Some beginning salespeople—especially those working for producers or wholesalers—are responsible for larger sales volumes than many small companies. This is a serious responsibility—and the person must be prepared for it.

Further, sales jobs are often viewed as entry-level positions and used to evaluate candidates for promotion. Success in this job can lead to rapid promotion to higher-level sales and marketing jobs and more money and security.[4]

What Kinds of Personal Selling Are Needed?

If a firm has too few salespeople, or the wrong kind, some important personal selling tasks may not be completed. And having too many salespeople, or the wrong kind, wastes money. A sales manager needs to find a good balance—the right number and the right kind of salespeople. This balance may change over time with other changes in strategy or the market environment; that's why many firms have been restructuring their sales forces.

One of the difficulties of determining the right number and kind of salespeople is that every sales job is different. While an engineer or accountant can look forward to fairly specific duties, the salesperson's job changes constantly. However, there are three basic types of sales tasks. This gives us a starting point for understanding what selling tasks need to be done and how many people are needed to do them.

Personal selling is divided into three tasks

The three **basic sales tasks** are order-getting, order-taking, and supporting. For convenience, we'll describe salespeople by these terms—referring to their primary task—*although one person may do all three tasks in some situations*.

As the names imply, order getters and order takers obtain orders for their company. Every marketing mix must have someone or some way to obtain orders. In contrast, supporting salespeople are not directly interested in orders. Their function is to help the order-oriented salespeople.

Order Getters Develop New Business Relationships

Order getters are concerned with establishing relationships with new customers and developing new business. **Order-getting** means seeking possible buyers with a well-organized sales presentation designed to sell a good, service, or idea.

Order getters must know what they're talking about, not just be personal contacts. Order-getting salespeople work for producers, wholesalers, and retailers. They normally are well paid—many earn more than $80,000 a year.

Producers' order getters—find new opportunities

Producers of all kinds of products, especially business products, have a great need for order getters. They use order getters to locate new prospects, open new accounts, see new opportunities, and help establish and build channel relationships.

Top-level customers are more interested in ways to save or make more money than in technical details. Good order getters cater to this interest. They help the customer identify ways to solve problems; then they sell concepts and ideas, not just physical products. The goods and services they supply are merely the means of achieving the customer's end.

For example, Circadian, Inc., sells high-tech medical equipment. Changes in Medicare rules mean that doctors can no longer routinely order expensive tests in hospitals because the costs can't be recovered easily. But the doctors *can* be paid for tests done in their offices—if they have the right equipment. When Circadian order getters call on doctors, they show how the firm's testing equipment can improve patient care and office profits. Reps can often get a $20,000 order on the spot because they can show that the equipment will pay for itself in the first year. The doctors don't care about technical details as long as the machines are accurate and easy to use.[5]

If competitors offer nearly the same product, the order getter's crucial selling job is to establish the relationship and get the company's name on the approved suppliers list. Keeping it there requires constant attention to the customer's needs, and

Consumers who are interested in shopping products often want help from a well-informed salesperson.

doing whatever is necessary to maintain a mutually beneficial relationship between the supplier and customer firms.

Order getters for professional services—and other products where service is a crucial element of the marketing mix—face a special challenge. The customer usually can't inspect a service before deciding to buy. The order getter's communication and relationship with the customer may be the only basis on which to evaluate the quality of the supplier.

An order getter in business markets needs the know-how to help solve customers' problems. Often the order getter needs to understand a customer's whole business as well as technical details about the product and its applications. This is especially important for salespeople whose customers are producers. To have technically competent order getters, firms often give special training to business-trained college graduates. Such salespeople can then work intelligently with their specialist customers. In fact, they may be more expert in their narrow specialty than anyone they encounter—so they provide a unique service. For example, a salesperson for automated manufacturing equipment must understand everything about a prospect's production process as well as the technical details of converting to computer-controlled equipment.

Wholesalers' order getters—almost hand it to the customer

Progressive merchant wholesaler sales reps should be consultants and store advisors rather than just order takers. Such order getters become retailers' partners in the job of moving goods from the wholesale warehouse through the retail store to consumers. These order getters almost become a part of the retailer's staff—helping to solve consumers' problems, train employees, conduct demonstrations, and plan advertising, special promotions, and other retailing activities.

Agent middlemen often are order getters—particularly the more aggressive manufacturers' agents and brokers. They face the same tasks as producers' order getters. But, unfortunately for them, once the order-getting is done and the customers become established and loyal, producers may try to eliminate the agents and save money with their own order takers.

Retail order getters influence consumer behavior

Convincing consumers about the value of products they haven't seriously considered takes a high level of personal selling ability. Order getters for unsought products must help customers see how a new product can satisfy needs now being filled by something else. Without order getters, many of the products we now rely on—ranging from mutual funds to air conditioners—might have died in the market introduction stage. The order getter helps bring products out of the introduction stage into the market growth stage.

Order getters are also helpful for selling *heterogeneous* shopping products. Consumers shop for many of these items on the basis of price and quality. They welcome useful information.

Producers sometimes aid in the personal selling effort by providing innovative displays that communicate not only the features but also the benefits of their products. To help salespeople explain the benefits of its new Profile washer and dryer, GE places this interactive display in dealers' stores.

Order Takers Nurture Relationships to Keep the Business Coming

Order takers sell to the regular or established customers, complete most sales transactions, and maintain relationships with their customers. After a customer becomes interested in a firm's products through an order getter or supporting salesperson or through advertising or sales promotion, an order taker usually answers any final questions and completes the sale. **Order-taking** is the routine completion of sales made regularly to the target customers. The routine completion of sales usually requires ongoing follow-up with the customer, to make certain that the customer is totally satisfied and to be certain that the relationship will continue in the future.

Sometimes sales managers or customers use the term *order taker* as a put-down when referring to salespeople who don't take any initiative. While a particular salesperson may perform poorly enough to justify criticism, it's a mistake to downgrade the function of order-taking. Order-taking is extremely important. Many firms lose sales just because no one ever asks for the order and closes the sale. Moreover, the order taker's job is not just limited to placing orders. Even in e-commerce, where customers place routine orders with computerized order systems and EDI, order takers do a variety of important jobs that are essential to the business relationship.

Producers' order takers—train, explain, and collaborate

Once industrial, wholesale, or retail accounts are established, regular follow-up is necessary. Order takers work on improving the whole relationship with the customer, not just on completing a single sale. Even if computers handle routine reorders, someone has to explain details, make adjustments, handle complaints, explain or negotiate new prices and terms, place sales promotion materials, and keep customers informed of new developments. Someone may have to train customers' employees to use machines or products. In sales to middlemen, someone may have to train wholesalers' or retailers' salespeople. All these activities are part of the order taker's job. And a failure in meeting a customer's expectations on any of these activities might jeopardize the relationship and future sales.

Good retail order takers can play an important role in building good relations with customers.

Producers' order takers often have a regular route with many calls. To handle these calls well, they must have energy, persistence, enthusiasm, and a friendly personality that wears well over time. They sometimes have to take the heat when something goes wrong with some other element of the marketing mix.

Firms sometimes use order-taking jobs to train potential order getters and managers. Such jobs give them an opportunity to meet key customers and to better understand their needs. And frequently, they run into some order-getting opportunities.

Order takers who are alert to order-getting opportunities can make the big difference in generating new sales. Bank of America recognizes the opportunities. At most banks, tellers are basically order takers and service providers. When a customer comes in to make a deposit or cash a check, the teller provides the needed service and that's it. In contrast, Bank of America encourages its tellers to help get new business. Its tellers are trained to ask customers if they have ever considered investing in one of the bank's certificates of deposit or if they would like to learn more about a home equity loan. They give the interested customers sales literature about various financial services and ask if the customer would like to speak with a customer service representative.[6]

Wholesalers' order takers—not getting orders but keeping them

While producers' order takers usually handle relatively few items—and sometimes even a single item—wholesalers' order takers may sell 125,000 items or more. They have so many items that they can't possibly give aggressive sales effort to many—except perhaps newer or more profitable items. There are just too many items to single any out for special attention.

The wholesale order taker's main job is to maintain close contact with customers, perhaps once a week, and fill any needs that develop. Sometimes such order takers almost become part of the organization of the producer or retailer customers they serve. Some retailers leave it to the salesperson to decide how all of the brands in a product category, including those of competing producers, should be promoted. Obviously, this relationship of trust cannot be abused. The order taker normally checks to be sure the company fills the order promptly and accurately. The order taker also handles any adjustments or complaints and generally acts as a liaison between the company and its customers.

Retail order takers—often they are poor salesclerks

Order-taking may be almost mechanical at the retail level—for example, at the supermarket checkout counter. Even so, retail order takers play a vital role in a retailer's marketing mix. Customers expect prompt and friendly service. They will find a new place to shop, or to do their banking or have their car serviced, rather than deal with a salesclerk who is rude or acts annoyed by having to complete a sale.

Some retail clerks are poor order takers because they aren't paid much—often only the minimum wage. But they may be paid little because they do little. In any case, order-taking at the retail level appears to be declining in quality. And there will probably be far fewer such jobs in the future as more marketers make adjustments in their mixes and turn to self-service selling. Checkout counters now have automated electronic scanning equipment that reads price codes directly from packages. Some supermarkets use systems where customers do their own scanning and then pay with a credit card.

Supporting Sales Force Informs and Promotes in the Channel

Supporting salespeople help the order-oriented salespeople—but they don't try to get orders themselves. Their activities are aimed at enhancing the relationship with the customer and getting sales in the long run. For the short run, however, they are ambassadors of goodwill who may provide specialized services and information. Almost all supporting salespeople work for producers or middlemen who do this supporting work for producers. There are two types of supporting salespeople: missionary salespeople and technical specialists.

Missionary salespeople can increase sales

Missionary salespeople are supporting salespeople who work for producers—calling on their middlemen and their customers. They try to develop goodwill and stimulate demand, help the middlemen train their salespeople, and often take orders for delivery by the middlemen. Missionary salespeople are sometimes called *merchandisers* or *detailers*.

Producers who rely on merchant wholesalers or e-commerce to obtain widespread distribution often use missionary salespeople. The sales rep can give a promotion boost to a product that otherwise wouldn't get much attention because it's just one of many. A missionary salesperson for Vicks' cold remedy products, for example, might visit druggists during the cold season and encourage them to use a special end-of-aisle display for Vicks' cough syrup—and then help set it up. The wholesaler that supplies the drugstore would benefit from any increased sales, but might not take the time to urge use of the special display.

An imaginative missionary salesperson can double or triple sales. Naturally, this doesn't go unnoticed. Missionary sales jobs are often a route to order-oriented jobs. In fact, this position is often used as a training ground for new salespeople. Recent college grads are often recruited for these positions.

Technical specialists are experts who know product applications

Technical specialists are supporting salespeople who provide technical assistance to order-oriented salespeople. Technical specialists usually are science or engineering graduates with the know-how to understand the customer's applications and explain the advantages of the company's product. They are usually more skilled in showing the technical details of their product than in trying to persuade customers to buy

The Clorox sales team responsible for the launch of liquid bleach in the Brazilian market drew on people from R&D, marketing, and sales.

it. Before the specialist's visit, an order getter probably has stimulated interest. The technical specialist provides the details. The order getter usually completes the sale—but only after the customer's technical people give their approval.

Three tasks may have to be blended

We have described three sales tasks—order-getting, order-taking, and supporting. However, a particular salesperson might be given two, or all three, of these tasks. Ten percent of a particular job may be order-getting, 80 percent order-taking, and the additional 10 percent supporting. Another company might have many different people handling the different sales tasks. This can lead to **team selling**—when different sales reps work together on a specific account. Sometimes one or more of the sales reps on a team may not be from the sales department at all. If improving the relationship with the customer calls for technical support from the quality control manager, then that person becomes a part of the team, at least temporarily.

Producers of high-ticket items often use team selling. AT&T uses team selling to sell office communications systems for a whole business. Different specialists handle different parts of the job—but the whole team coordinates its efforts to achieve the desired result.[7]

Strategy planners need to specify what types of selling tasks the sales force will handle. Once the tasks are specified, the sales manager needs to assign responsibility for individual sales jobs so that the tasks are completed and the personal selling objectives achieved.

The Right Structure Helps Assign Responsibility

A sales manager must organize the sales force so that all the necessary tasks are done well. A large organization might have different salespeople specializing by different selling tasks *and* by the target markets they serve.

Different target markets need different selling tasks

Sales managers often divide sales force responsibilities based on the type of customer involved. For example, Bigelow—a company that makes quality carpet for homes and office buildings—divided its sales force into two groups of specialists. Some Bigelow salespeople call only on architects to help them choose the best type

To do a better job obtaining and developing major retail accounts in Latin America, Colgate has increased its use of sales teams and holds training seminars that focus on how to help retailers improve profits and customer satisfaction.

of carpet for new office buildings. These reps know all the technical details, such as how well a certain carpet fiber will wear or its effectiveness in reducing noise from office equipment. Often no selling is involved because the architect only suggests specifications and doesn't actually buy the carpet.

Other Bigelow salespeople call on retail carpet stores. These reps encourage the store manager to keep a variety of Bigelow carpets in stock. They also introduce new products, help train the store's salespeople, and try to solve any problems that occur.

Big accounts get special treatment

Very large customers often require special selling effort—and relationships with them are treated differently. Moen, a maker of plumbing fixtures, has a regular sales force to call on building material wholesalers and an elite **major accounts sales force** that sells directly to large accounts—like Lowe's or other major retail chains that carry plumbing fixtures.

You can see why this sort of special attention is justified when you consider Procter & Gamble's relationship with Wal-Mart. Although P&G is an international powerhouse, its total sales in every country except the U.S. and Germany add up to less than its sales to Wal-Mart. That's why the P&G sales team that calls on Wal-Mart lives in Bentonville, Arkansas, where Wal-Mart is based.[8]

Some salespeople specialize in telephone selling

Some firms have a group of salespeople who specialize in **telemarketing**—using the telephone to "call" on customers or prospects. A phone call has many of the benefits of a personal visit—including the ability to modify the message as feedback is received. The big advantage of telemarketing is that it saves time and money. Telemarketing is especially useful when customers are small or in hard-to-reach places. Many firms are finding that a telemarketing sales force can build profitable relationships with customers it might otherwise have to ignore altogether. Telemarketing is also important when many prospects have to be contacted to reach one actually interested in buying. In these situations, telemarketing may be the only economical approach. On the other hand, many people object to the growing number of uninvited solicitations.

Telemarketing is rapidly growing in popularity. Large and small firms alike find that it allows them to provide support needed in e-commerce situations. It can also extend their personal selling efforts to new target markets or increase the frequency of contact with current customers. Convenient toll-free telephone lines make it fast and easy for customers to place orders or get assistance.[9]

Sales tasks are done in sales territories

Often companies organize selling tasks on the basis of a **sales territory**—a geographic area that is the responsibility of one salesperson or several working together. A territory might be a region of a country, a state, or part of a city—depending on the market potential. An airplane manufacturer like Boeing might consider a whole country as *part* of a sales territory for one salesperson.

Carefully set territories can reduce travel time and the cost of sales calls. Assigning territories can also help reduce confusion about who has responsibility for a set of selling tasks. Consider the case of the Hyatt Hotel chain. Until recently, each hotel had its own salespeople to get bookings for big conferences and business meetings. That meant that professional associations and other prospects who had responsibility for selecting meeting locations might be called on by sales reps from 20 or 30 different Hyatt hotels in different parts of the world. Now, the Hyatt central office divides up responsibility for working with specific accounts; one rep calls on an account and then tries to sell space in the Hyatt facility that best meets the customer's needs.

Sometimes simple geographic division isn't easy. A company may have different products that require very different knowledge or selling skills—even if products sell in the same territory or to the same customer. For example, Du Pont makes special films for hospital X-ray departments as well as chemicals used in laboratory blood tests.

Size of sales force depends on workload

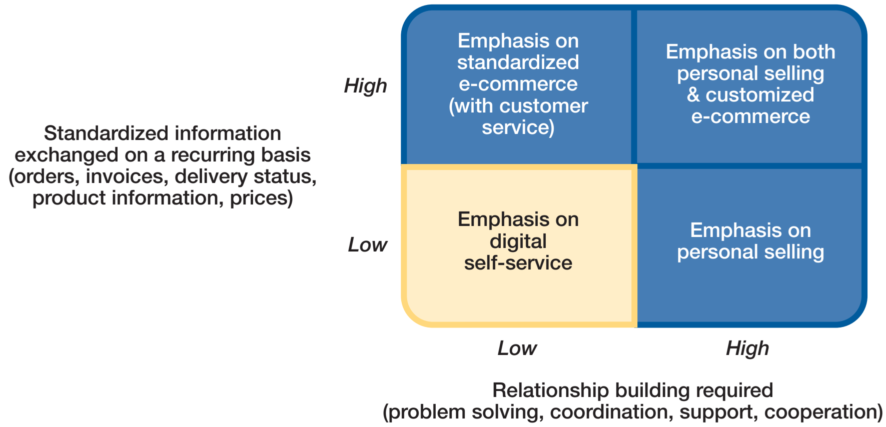
Once the important selling tasks are specified and the responsibilities divided, the sales manager must decide how many salespeople are needed. The first step is estimating how much work can be done by one person in some time period. Then the sales manager can make an educated guess about how many people are required in total, as the following example shows.

For many years, the Parker Jewelry Company was very successful selling its silver jewelry to department and jewelry stores in the southwestern region of the United States. But top managers wanted to expand into the big urban markets in the northeastern states. They realized that most of the work for the first few years would require order getters. They felt that a salesperson would need to call on each account at least once a month to get a share of this competitive business. They estimated that a salesperson could make only five calls a day on prospective buyers and still allow time for travel, waiting, and follow-up on orders that came in. This meant that a sales rep who made calls 20 days a month could handle about 100 stores (5 a day $\times$ 20 days).

The managers used a personal computer and a CD-ROM database that included all of the telephone Yellow Pages listings for the country. Then they simply divided the total number of stores by 100 to estimate the number of salespeople needed. This also helped them set up territories—by defining areas that included about 100 stores for each salesperson. Obviously, managers might want to fine tune this estimate for differences in territories—such as travel time. But the basic approach can be adapted to many different situations.[10]

When a company is starting a new sales force, managers are concerned about its size. But many established firms ignore this problem. Some managers forget that over time the right number of salespeople may change—as selling tasks change. Then when a problem becomes obvious, they try to change everything in a hurry—a big mistake. Consideration of what type of salespeople and how many should be ongoing. If the sales force needs to be reduced, it doesn't make sense to let a lot of people go all at once—especially when that could be avoided with some planning.

Exhibit 15-2 Examples of Possible Personal Selling Emphasis in Some Different Business-Market Selling Situations



E-commerce sometimes substitutes for personal selling

Marketing and sales managers in many firms are finding that some tasks that have traditionally been handled by a salesperson can now be handled effectively and at lower cost by information technology and e-commerce systems. For example, in business markets the nature of the selling situation that the firm faces may influence which approach makes the most sense and how many salespeople are really needed. See Exhibit 15-2.

A salesperson is likely to be required in important selling situations where there is a significant need to create and build relationships. Here the salesperson focuses on tasks like creative problem solving, persuading, coordinating among different people who do different jobs, and finding ways to support the customer. On the other hand, information technology is very effective and cost efficient in handling needs related to the recurring exchange of standardized information. For example, in discussing organizational buying (Chapter 7) and logistics (Chapter 12) we discussed how sellers use e-commerce to exchange information about inventory, orders, and delivery status. Similarly, basic information about the details of product specifications and prices can be organized at a website. Of course, even for these tasks there needs to be some way to provide good customer service when needs arise. A complex relationship that also involves standardized information might involve a mix of both approaches; using technology for standard information frees the sales rep to spend time on value-added communication.

When relationship building by a sales rep is not required and there is not a recurring need for routine information, a firm may be able to meet customer needs best by providing digital self-service. This is basically the role of ATMs for banks—to service customers who don't want to wait until a teller is available. Similarly, Amazon's virtual shopping carts play this role. But digital self-service can be more sophisticated. Some firms provide "intelligent agents" at their websites. An intelligent agent is a computer program that helps customers solve their own problems. At the CompUSA website, a customer who wants to buy a laptop can respond to a series of structured questions about how the laptop will be used, and the intelligent agent recommends which features are most important and what brands have those features. Similarly, a wholesaler's website might provide an agent to help retailers forecast demand for a new product based on information about their local market areas.

The total amount of personal selling effort justified in any of these situations may depend on other factors, including how important the customer is. Further, we've focused on technology that substitutes for personal contact by a salesperson. But marketing managers also need to make decisions about providing sales technology support to help salespeople communicate more effectively.

Information Technology Provides Tools to Do the Job

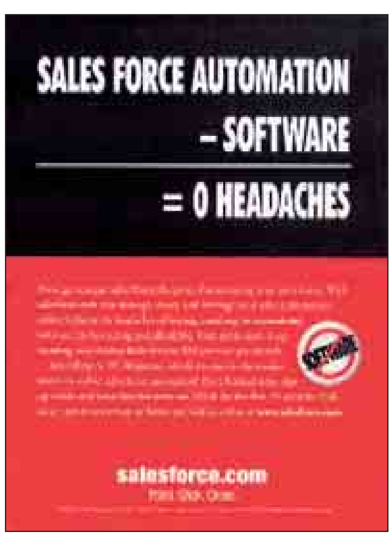
Changes in how sales tasks are handled

How sales tasks and responsibilities are planned and handled is changing in many companies because of the new sales technology tools that are available. It is usually the sales manager's job—perhaps with help from specialists in technology—to decide what types of tools are needed and how they will be used.

To get a clearer sense of what is involved, consider a day in the life of a typical major accounts sales representative for a large consumer packaged goods firm. Over a hasty breakfast, she reviews the day's events on her laptop's organizer, logs onto the company network, and sorts through the dozen e-mail messages she finds there. One is from a buyer for a supermarket chain. He's worried that his store's sales in the paper towel category are off 10 percent and wants to know if the rep can help. Working from her home PC, the rep dials into an online database and downloads sales trend data for the chain and its competitors. A spreadsheet analysis of the data suggests that the chain is losing sales in the paper towel category to new competition from warehouse clubs. Next, the rep places a conference call with a brand manager and a company sales promotion specialist to seek their advice. She then prepares a written recommendation that the buyer include and frequently promote larger size packages of both her company's and competitors' brands in the chain's merchandise mix. She also prepares a PowerPoint presentation, complete with a proposed shelf-space plan, that she will deliver to the buyer on her laptop PC at a later meeting. Before leaving home, the rep e-mails an advance copy of the report to the buyer and prints a color copy for her manager.

New software and hardware provide a competitive advantage

This example uses a consumer packaged goods setting, but the basic idea applies in all types of sales settings, especially in business markets. Many of today's sales reps rely on an array of software and hardware that was hardly imaginable even a decade



New information technologies are making the modern sales force more efficient and giving salespeople communication tools that are creating totally new ways to meet the needs of their customers while achieving the objectives of their jobs.

Salespeople Work Smarter—With Their Fingertips

Laptop computers help more salespeople work smarter, not just harder. Salespeople use computers in many different ways.

Without a laptop, it was impossible for a wholesaler's salespeople to master Cincinnati Milacron's product line. Now a computer asks a series of questions and then helps the salesperson figure out which of 65,000 grinding wheels and hundreds of cutting fluids to sell to each metal shop. After adding this system, Milacron doubled its market share—without adding any new salespeople.

Laptops help keep salespeople for London Fog clothing up-to-date when they're on the road calling on accounts. Early each morning before leaving the hotel, the sales reps call into the company's central computer. It downloads to their laptops all the latest information about product availability, prices, customers' accounts, and the like. Later in the day, when a customer has a question about product delivery, the sales rep can answer it instantly—without scheduling another appointment or even calling the home office.

Salespeople for Metropolitan Life Insurance company use laptops to help customers analyze the financial implications of different investments. For example, when the manager of a pension fund wanted to see what would happen if she switched money from one investment to another, the salesperson used spreadsheet software on the laptop to do the analysis—on the spot. The customer was convinced, and the sales rep closed a $633,000 sale.

Herman Miller, the office equipment company, provides dealers who sell its furniture with software that allows their sales reps to do a better job in a variety of tasks ranging from competitor analysis to preparation of realistic three-dimensional graphics that show an arrangement of furniture in a customer's office space. The competitor database provides very useful information about the limitations of office furniture available from many other firms. For instance, a sales rep learned that a prospect was leaning toward buying a competitor's office cubicles. She got back on track when the database revealed that the cubicles had no electrical outlets.

Results like these explain why the number of companies equipping salespeople with laptops is growing so rapidly. New laptops that feature built-in DVD drives (to handle massive amounts of information, including full-motion video for demonstrations and presentations), wireless Internet access, and the power to handle e-commerce applications are attracting even more attention.[11]

www.mhhe.com/fourps

ago. The information-technology explosion has put new software for spreadsheet analysis, electronic presentations, time management, sales forecasting, customer contact, and shelf-space management at the salesperson's fingertips. Still new but already commonplace hardware includes everything from wireless phones, fax machines, laptop computers, and pagers to personalized videoconferencing systems. In many situations these technologies are dramatically changing the ability of sales reps to meet the needs of their customers while achieving the objectives of their jobs.

However, the availability of these technologies does not change the basic nature of the sales tasks that need to be accomplished. What they do change is the way, and how well, the job is done. Yet this is not simply a matter of implementation that is best left to individual sales reps. A key reason is that many of these tools may be necessary just to compete effectively. If competitors have the tools and they can do a better job of meeting customers' needs and providing service, a sales manager may have no choice. For example, if a customer expects a sales rep to access data on past sales and provide an updated sales forecast for the next three months, a sales organization that does not have this capability will be at a real disadvantage in getting or keeping that customer's business.

Moreover, many sales technologies must be in place for the whole sales organization in order for the system to work properly. For example, it doesn't do as much good for a salesperson to be able to use a laptop computer to dial into the company if the data the rep needs is not available online and up-to-date in a format that makes it easy for the rep to analyze.

On the other hand, these tools have associated costs. There is an obvious expense of buying the technology. But there is also the time cost of keeping everyone up-to-date on how to use it. Often that is not a simple matter. Some salespeople who have done the sales job well for a long time "the old-fashioned way" resent being told that they have to change what they are doing—even if it's what customers expect. And the flip side of that is that some customers don't want to deal with anything electronic. They don't want e-mail, spreadsheets, or faxes. They want personal attention. And to them personal attention means a voice and face that they recognize. In some cases that means that the technology is a tool in the background. It is not seen or felt but its positive impact can be observed. Of course, if a firm expects salespeople to be able to use these technologies that requirement needs to be included in selecting and training people for the job.[12]

Sound Selection and Training to Build a Sales Force

Selecting good salespeople takes judgment, plus

It is important to hire *good, well-qualified* salespeople. But the selection in many companies is a hit-or-miss affair—done without serious thought about exactly what kind of person the firm needs. Managers may hire friends and relations, or whoever is available, because they feel that the only qualifications for sales jobs are a friendly personality and nice appearance. This approach leads to poor sales and costly sales force turnover.

Progressive companies are more careful. They constantly update a list of possible job candidates. They invite applications at the company's website. They schedule candidates for multiple interviews with various executives, do thorough background checks, and even use psychological tests. Unfortunately, such techniques can't guarantee success. But a systematic approach based on several different inputs results in a better sales force.

One problem in selecting salespeople is that two different sales jobs with identical titles may involve very different selling tasks and require different skills. A carefully prepared job description helps avoid this problem.

Job descriptions should be in writing and specific

A **job description** is a written statement of what a salesperson is expected to do. It might list 10 to 20 specific tasks—as well as routine prospecting and sales report writing. Each company must write its own job specifications. And it should provide clear guidelines about what selling tasks the job involves. This is critical to determine the kind of salespeople who should be selected—and later it provides a basis for seeing how they should be trained, how well they are performing, and how they should be paid.

Good salespeople are trained, not born

The idea that good salespeople are born may have some truth—but it isn't the whole story. A salesperson needs to be taught about the company and its products, about giving effective sales presentations, and about building strong relationships with the firm's customers. Salespeople often need training to use the information technology that's relevant for their jobs. But this isn't always done. Many salespeople fail, or do a poor job, because they haven't had good training. Firms often hire new salespeople and immediately send them out on the road, or the retail selling floor, with no grounding in the basic selling steps and no information about the product or the customer. They just get a price list and a pat on the back. This isn't enough!

All salespeople need some training

It's up to sales and marketing management to be sure that salespeople know what they're supposed to do and how to do it. Hewlett-Packard Co. recently faced this problem. For years the company was organized into divisions based on different product lines—printers, networks servers, and the like. However, sales reps who specialized in the products of one division often couldn't compete well against firms that could offer customers total solutions to computing problems. When a new top executive came in and reorganized the company, all sales reps needed a clear view

La-Z-Boy operates a sales training institute to help furniture retailers train their salespeople. VCampus provides efficient online learning and training in a variety of fields, including sales.

of what their new responsibilities would be, how they would be organized, and what they should say to their customers about the benefits of the reorganization.[13]

In other situations, salespeople may have some relevant selling experience or computer skills but need to know more about the firm's customers and their needs. Even a firm's own sales veterans may get set in their ways and profit greatly by, and often welcome the chance for, additional training.

The kind of initial sales training should be modified based on the experience and skills of the group involved. But the company's sales training program should cover at least the following areas: (1) company policies and practices, (2) product information, (3) building relationships with customer firms, and (4) professional selling skills.

Selling skills can be learned

Many companies spend the bulk of their training time on product information and company policy. They neglect training in selling techniques because they think selling is something anyone can do. More progressive companies know that training in selling skills can pay off. Estée Lauder, for example, has selling skills for the "beauty advisors" who sell its cosmetics down to a fine art—and its training manual and seminars cover every detail. Its advisors who take the training seriously immediately double their sales.[14] Training can help salespeople learn how to be more effective in cold calls on new prospects, in listening carefully to identify a customer's real objections, and in closing the sale. Training can also help a salesperson better analyze why present customers buy from the company, why former customers now buy from competitors, and why some prospects remain only prospects. Later in this chapter, we'll talk about some key ideas in this area—especially those related to different kinds of sales presentations.

Internet

Internet Exercise The Motivating Tape Company sells various sales training videos. Go to the firm's website (www.achievement.com) and then scroll down and select *Sales Training Videos.* Review the list of sales training videos offered. If a sales manager were going to rely on some of these tapes for training people just moving into a sales career, what key areas of sales training would he have to cover by some other approach?

Training on selling techniques often starts in the classroom with lectures, case studies, and videotaped trial presentations and demonstrations. But a complete training program adds on-the-job observation of effective salespeople and coaching from sales supervisors. Many companies also use weekly sales meetings or work sessions, annual conventions, and regular e-mail messages and newsletters, as well as ongoing training sessions, to keep salespeople up-to-date.[15]

Compensating and Motivating Salespeople

To recruit and keep good salespeople, a firm has to develop an attractive compensation plan designed to motivate. Ideally, sales reps should be paid in such a way that what they want to do—for personal interest and gain—is in the company's interest too. Most companies focus on financial motivation—but public recognition, sales contests, and simple personal recognition for a job well done can be highly effective in encouraging greater sales effort.[16] Our main emphasis here, however, will be on financial motivation.[17]

Two basic decisions must be made in developing a compensation plan: (1) the level of compensation and (2) the method of payment.

Compensation varies with job and needed skills

To attract good salespeople, a company must pay at least the going market wage for different kinds of salespeople. To be sure it can afford a specific type of salesperson, the company should estimate—when the job description is written—how valuable such a salesperson will be. A good order getter may be worth $50,000 to $100,000 to one company but only $15,000 to $25,000 to another—just because the second firm doesn't have enough to sell! In such a case, the second company should rethink its job specifications, or completely change its promotion plans, because the going rate for order getters is much higher than $15,000 a year.

If a job requires extensive travel, aggressive pioneering, or contacts with difficult customers, the pay may have to be higher. But the salesperson's compensation level should compare, at least roughly, with the pay scale of the rest of the firm. Normally, salespeople earn more than the office or production force but less than top management.

Payment methods vary

Once a firm decides on the general level of compensation, it has to set the method of payment. There are three basic methods of payment: (1) *straight salary,* (2) *straight commission,* or (3) a *combination plan.* Straight salary normally supplies the most security for the salesperson—and straight commission the most incentive. These two represent extremes. Most companies want to offer their salespeople some balance between incentive and security, so the most popular method of payment is a combination plan that includes some salary and some commission. Bonuses, profit sharing, pensions, stock plans, insurance, and other fringe benefits may be included too. Still, some blend of salary and commission provides the basis for most combination plans.

What determines the choice of the pay plan? Four standards should be applied: control, incentive, flexibility, and simplicity.

Salary gives control—if there is close supervision

The proportion of a salesperson's compensation paid as salary affects how much *control* the sales manager has. It also affects how much supervision is required. A salesperson on straight salary earns the same amount regardless of how he or she spends time. So the salaried salesperson is expected to do what the sales manager asks—whether it is order-taking, supporting sales activities, solving customer problems, or completing sales call reports. However, the sales manager maintains control *only* by close supervision. As a result, straight salary or a large salary element in the compensation plan increases the amount of sales supervision needed.

If such personal supervision would be difficult, a firm may get better control with a compensation plan that includes some commission, or even a straight commission plan with built-in direction. For example, if a company wants its salespeople to devote more time to developing new accounts, it can pay higher commissions for first orders from a new customer. However, a salesperson on a straight commission tends to be his or her own boss. The sales manager is less likely to get help on sales activities that won't increase the salesperson's earnings.

Incentives can be direct or indirect

An *incentive* plan can range anywhere from an indirect incentive (a modest sharing of company profits) to a very direct incentive—where a salesperson's income is strictly commission on sales. The incentive should be large only if there is a direct relationship between the salesperson's effort and results. The relationship is less direct if a number of people are involved in the sale—engineers, top management, or supporting salespeople. In this case, each one's contribution is less obvious—and greater emphasis on salary may make more sense.

When a company wants to expand sales rapidly, it usually offers strong incentives to order-getting salespeople. Strong incentives may also be sensible when the company's objectives are shifting or varied. In this way, the salesperson's activities and efforts can be directed and shifted as needed. One trucking company, for example, has a sales incentive plan that pays higher commissions on business needed to balance freight movements—depending on how heavily traffic has been moving in one direction or another.

An incentive compensation plan can help motivate salespeople, but you have to be certain that the incentives are really aligned with the firm's objectives. For example, some critics believe that IBM's sales commission plan resulted in IBM salespeople pushing customers to buy computers they didn't need; the sales reps got the sale and income, but then customers who were dissatisfied with what they'd purchased broke off their relationship with IBM and turned to other suppliers. Now IBM is trying to more carefully align its incentive plan with a customer orientation. For example, most IBM sales reps receive incentive pay that is in part based on customer satisfaction ratings they earn from their customers and in part based on the profitability of the sales they get. Finding the right balance between these two criteria isn't easy. But many other firms use variations of this approach—because incentives that just focus on short-term or first-time sales may not be what is best to motivate sales reps to develop long-term, need-satisfying relationships with their customers.

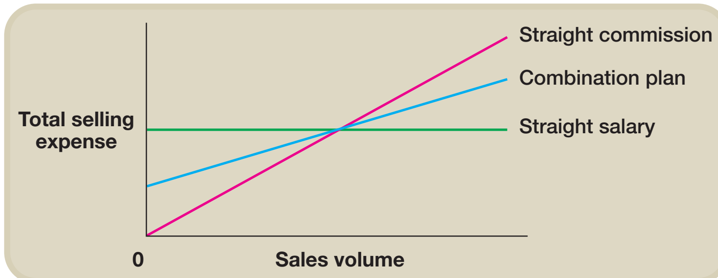
Flexibility is desirable

Flexibility is probably the most difficult aspect to achieve. One major reason that combination plans have become more popular is that they offer a way to meet varying situations. We'll consider four major kinds of flexibility.

Flexibility in selling costs is especially important for most small companies. With limited working capital and uncertain markets, small companies like straight commission, or combination plans with a large commission element. When sales drop off, costs do too. Such flexibility is similar to using manufacturers' agents who get paid only if they deliver sales. This advantage often dominates in selecting a sales compensation method. Exhibit 15-3 shows the general relation between personal selling expense and sales volume for each of the basic compensation alternatives.

Sales potential usually differs from one sales territory to another, so it is desirable for a compensation plan to offer *flexibility among territories*. Unless the pay plan allows for territory differences, the salesperson in a growing territory might have rapidly increasing earnings—while the sales rep in a poor area will have little to show for the same amount of work. Such a situation isn't fair—and it can lead to high turnover and much dissatisfaction. A sales manager can take such differences

Exhibit 15-3
Relation between Personal Selling Expenses and Sales Volume—for Three Basic Personal Selling Compensation Alternatives



into consideration when setting a salesperson's **sales quota**—the specific sales or profit objective a salesperson is expected to achieve.

Flexibility among people is important because most companies' salespeople vary in their stage of professional development. Trainees and new salespeople usually require a special pay plan with emphasis on salary. This provides at least some stability of earnings.

Flexibility among products is desirable because most companies sell several different products with different profit potentials. Unless firms recognize this fact, the salespeople may push the products that sell best—ignoring overall company profit. A flexible commission system can more easily adjust to changing profit potentials.

Simplicity shows the link between effort and income

A final consideration is the need for *simplicity*. Complicated plans are hard for salespeople to understand. Salespeople become dissatisfied if they can't see a direct relationship between their effort and their income.

Simplicity is best achieved with straight salary. But in practice, it's usually better to sacrifice some simplicity to gain some incentive, flexibility, and control. The best combination of these factors depends on the job description and the company's objectives.

One way to increase flexibility and still make it faster and easier for a sales rep to see the relationship between effort and compensation is to provide that information online. For example, Oracle, a company that sells database systems, has developed sales compensation software so its own sales reps can check a website at any point and see how they are doing. As new sales results come in, the report at the website is updated. Sales managers can also make changes quickly—for example, by putting a higher commission on a product or more weight on customer satisfaction scores. The system works so well that Oracle has decided to offer it to customers—and now over 150 firms use it. Some firms develop their own systems, or just give their sales reps a spreadsheet so that they can keep their own information up-to-date.[18]

Sales managers must plan, implement, and control

There are no easy answers to the compensation problem. It is up to the sales manager, together with the marketing manager, to develop a good compensation plan. The sales manager's efforts must be coordinated with the whole marketing mix because personal selling objectives can be accomplished only if enough money is allocated for this job. Further, managers must regularly evaluate each salesperson's performance and be certain that all the needed tasks are being done well. The compensation plan may have to be changed if the pay and work are out of line. And by evaluating performance, firms can also identify areas that need more attention—by the salesperson or management.[19] In Chapter 19, we'll talk more about controlling marketing activities.

Personal Selling Techniques—Prospecting and Presenting

When we discussed the need for sales training programs, we stressed the importance of training in selling techniques. Now let's discuss these ideas in more detail so you understand the basic steps each salesperson should follow—including prospecting and selecting target customers, planning sales presentations, making sales presentations, and following up after the sale. Exhibit 15-4 shows the steps we'll consider. You can see that the salesperson is just carrying out a planned communication process—as we discussed in Chapter 14.[20]

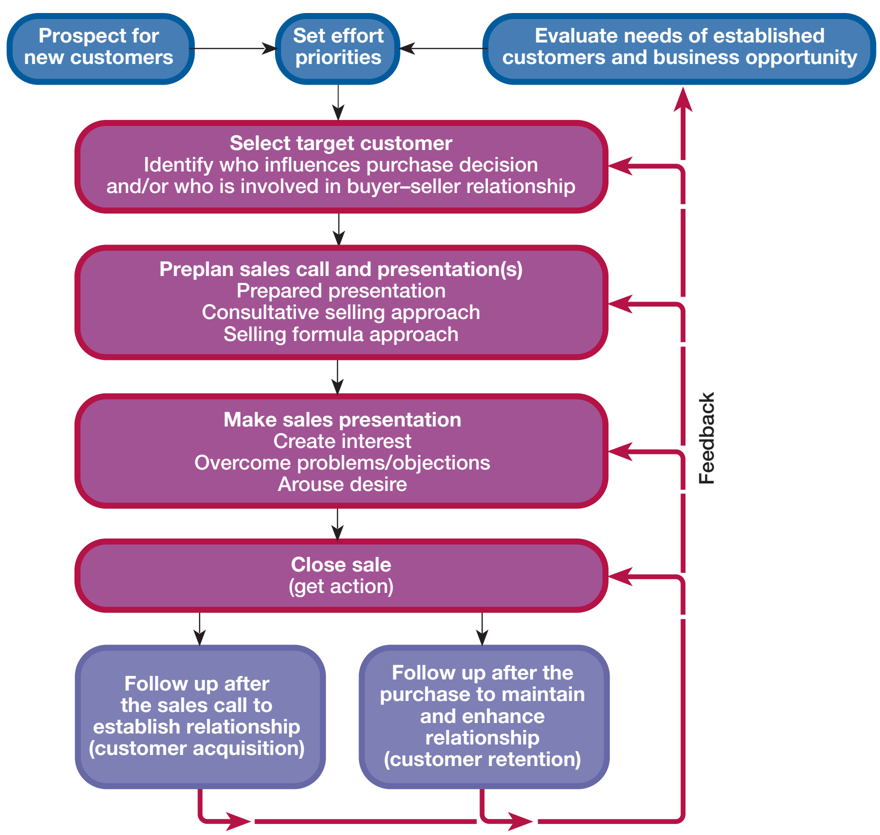
Prospecting—narrowing down to the right target

Narrowing the personal selling effort down to the right target requires constant, detailed analysis of markets and much prospecting. Basically, **prospecting** involves following all the leads in the target market to identify potential customers.

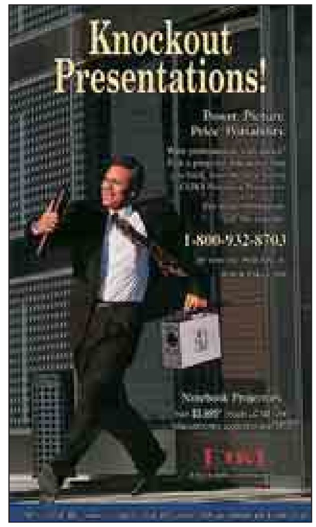
Finding live prospects who will help make the buying decision isn't as easy as it sounds. In business markets, for example, the salesperson may need to do some hard detective work to find the real purchase decision makers. Multiple buying influence is common, and companies regularly rearrange their organization structures and buying responsibilities.

Most salespeople use the telephone for much of their detective work. A phone call often saves the wasted expense of personal visits to prospects who are not

Exhibit 15-4
Key Steps in the Personal Selling Process



Sales managers are always looking for ways to make their salespeople more efficient and more effective.



interested—or it can provide much useful information for planning a follow-up sales visit. Some hot prospects can even be sold on the phone.

Some companies provide prospect lists to make this part of the selling job easier. Inquiries that come in at the firm's website, for example, can be passed along to a sales rep for follow up. A more indirect approach may be required. For example, one insurance company checks the local newspaper for marriage announcements—then a salesperson calls to see if the new couple is interested in finding out more about life insurance.

All customers are not equal

While prospecting focuses on identifying new customers, established customers require attention too. It's often time-consuming and expensive to establish a relationship with a customer, so once established it makes sense to keep the relationship healthy. That requires the rep to routinely review active accounts, rethink customers' needs, and reevaluate each customer's long-term business potential. Some small accounts may have the potential to become big accounts, and some accounts that previously required a lot of costly attention may no longer warrant it. So a sales rep may need to set priorities both for new prospects and existing customers.

Internet

Internet Exercise Interact Commerce Corporation sells various software products, including ACT! personal management software that is used by many salespeople to organize information about their customers, sales calls, and tasks they need to do. Visit the ACT! website (www.act.com) for information about this product. Give a few specific examples of ways that a salesperson could use ACT! to build better relationships with customers.

How long to spend with whom?

Once a set of possible prospects, and customers who need attention, have been identified, the salesperson must decide how much time to spend with each one. A sales rep must qualify prospects and existing accounts—to see if they deserve more effort. The salesperson usually makes these decisions by weighing the potential sales volume as well as the likelihood of a sale. This requires judgment. But well-organized salespeople usually develop some system because they have too many demands on their time. They can't wine and dine all of them.[21]

Many firms provide their reps with specially developed computer programs to help with this process. Most of them use some grading scheme. A sales rep might estimate how much each prospect is likely to purchase and the probability of getting and keeping the business given the competition. The computer then combines this information and grades each prospect. Attractive accounts may be labeled A—and the salesperson may plan to call on them weekly until the sale is made, the relationship is in good shape, or the customer is moved into a lower category. B customers might offer somewhat lower potential and be called on monthly. C accounts might be called on only once a year—unless they happen to contact the salesperson. And D accounts might be transferred to a telemarketing group or even ignored—unless the customer takes the initiative.[22]

Three kinds of sales presentations may be useful

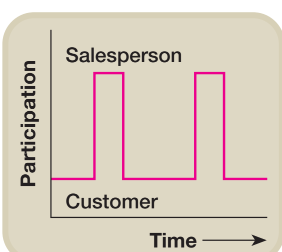
Once the salesperson selects a target customer, it's necessary to plan for the sales call. This precall planning usually involves preparing a **sales presentation**—a salesperson's effort to make a sale or address a customer's problem. But someone has to plan what kind of sales presentation to make. This is a strategy decision. The kind of presentation should be set before the sales rep goes calling. And in situations where the customer comes to the salesperson—in a retail store, for instance—planners have to make sure that prospects are brought together with salespeople.

A marketing manager can choose two basically different approaches to making sales presentations: the prepared approach or the consultative selling approach. Another approach—the selling formula approach—is a combination of the two. Each of these has its place.

The prepared sales presentation

The **prepared sales presentation** approach uses a memorized presentation that is not adapted to each individual customer. A prepared (canned) presentation builds on the stimulus-response ideas discussed in Chapter 6. This model says that a customer faced with a particular stimulus will give the desired response—in this case, a yes answer to the salesperson's prepared statement, which includes a **close,** the salesperson's request for an order.

Exhibit 15-5
Prepared Approach to Sales



If one trial close doesn't work, the sales rep tries another prepared presentation and attempts another closing. This can go on for some time—until the salesperson runs out of material or the customer either buys or decides to leave. Exhibit 15-5 shows the relative participation of the salesperson and customer in the prepared approach. Note that the salesperson does most of the talking.

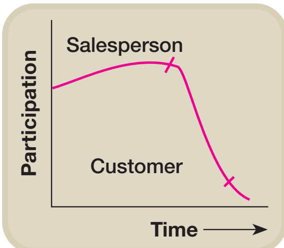
In modern selling, firms commonly use the canned approach when the prospective sale is low in value and only a short presentation is practical. It's also sensible when salespeople aren't very skilled. The company can control what they say and in what order. For example, Novartis uses missionary salespeople to tell doctors about new drugs when they're introduced. Doctors are busy, so they only give the rep a minute or two. That's just enough time to give a short, prepared pitch and leave some samples. To get the most out of the presentation, Novartis refines it based on feedback from doctors whom it pays to participate in focus groups.[23]

But a canned approach has a weakness. It treats all potential customers alike. It may work for some and not for others—and the salespeople probably won't know why or learn from experience. A prepared approach may be suitable for simple order-taking—but it is no longer considered good selling for complicated situations.

Consultative selling—builds on the marketing concept

The **consultative selling approach** involves developing a good understanding of the individual customer's needs before trying to close the sale. This name is used because the salesperson is almost acting as a consultant to help identify and solve the customer's problem. With this approach, the sales rep makes some general benefit statements to get the customer's attention and interest. Then the salesperson asks questions and *listens carefully* to understand the customer's needs. Once they agree on needs, the seller tries to show the customer how the product fills those needs and to close the sale. This is a problem-solving approach—in which the customer and salesperson work together to satisfy the customer's needs. That's why it's sometimes called the need-satisfaction approach. Exhibit 15-6 shows the participation of the customer and the salesperson during such a sales presentation.

Exhibit 15-6
Consultative Selling Approach to Sales Presentation



The consultative selling approach is most useful if there are many subtle differences among the customers in one target market. In the extreme, each customer may be thought of as a separate target market—with the salesperson trying to adapt to each one's needs and attitudes. This kind of selling takes more skill and time. The salesperson must be able to analyze what motivates a particular customer and show how the company's offering would help the customer satisfy those needs. The sales rep may even conclude that the customer's problem is really better solved with someone else's product. That might result in one lost sale, but it also is likely to build real trust and more sales opportunities over the life of the relationship with the customer. As you might expect, this is the kind of selling that is typical in business markets when a salesperson already has established a close relationship with a customer.

Selling formula approach—some of both

The **selling formula approach** starts with a prepared presentation outline—much like the prepared approach—and leads the customer through some logical steps to a final close. The prepared steps are logical because we assume that we know something about the target customer's needs and attitudes.

Exhibit 15-7
Selling-Formula Approach to Sales Presentation

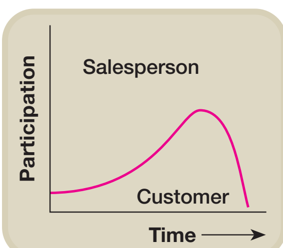


Exhibit 15-7 shows the selling formula approach. The salesperson does most of the talking at the beginning of the presentation—to communicate key points early. This part of the presentation may even have been prepared as part of the marketing strategy. As the sales presentation moves along, however, the salesperson brings the customer into the discussion to help clarify just what needs this customer has. The salesperson's job is to discover the needs of a particular customer to know how to proceed. Once it is clear what kind of customer this is, the salesperson comes back to show how the product satisfies this specific customer's needs and to close the sale.

This approach can be useful for both order-getting and order-taking situations—where potential customers are similar and firms must use relatively untrained salespeople. Some office equipment and computer producers use this approach. They know the kinds of situations their salespeople meet and roughly what they want them to say. Using this approach speeds training and makes the sales force productive sooner.

AIDA helps plan sales presentations

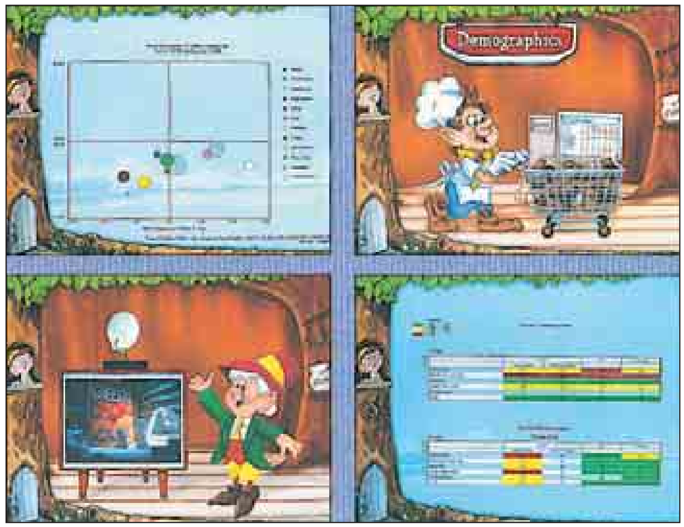
AIDA—Attention, Interest, Desire, Action: Most sales presentations follow this AIDA sequence. The how-to-do-it might even be set as part of the marketing strategy. The time a sales rep spends on each of the steps might vary depending on the situation and the selling approach being used. But it is still necessary to begin a presentation by getting the prospect's *attention* and, hopefully, to move the customer to *action* through a close.[24]

Each sales manager and salesperson needs to think about this sequence in deciding what sales approach to use and in evaluating a possible presentation. Does the presentation get the prospect's attention quickly? Will the presentation be interesting? Will the benefits be clear so that the prospect is moved to buy the product? Does the presentation consider likely objections and anticipate problems so the sales rep can act to close the sale when the time is right? These may seem like simple things. But too frequently they aren't done at all—and a sale is lost.

Ethical issues may arise

As in every other area of marketing communications, ethical issues arise in the personal selling area. The most basic issue, plain and simple, is whether a salesperson's presentation is honest and truthful. But addressing that issue is a no-brainer. No company is served well by a salesperson who lies or manipulates customers to get their business.

On the other hand, most sales reps sooner or later face a sales situation in which they must make more difficult ethical decisions about how to balance



Keebler salespeople use an interactive tool called Instant Data Evaluation Access ("IDEA") Wizard on their laptop computers. It provides research data related to the marketing of cookies and crackers on topics such as shelf space management and consumer purchase patterns. The sales rep can use the Wizard to support a consultative selling approach in working to develop closer relationships with retailers.

company interests, customer interests, and personal interests. Conflicts are less likely to arise if the firm's marketing mix really meets the needs of its target market. Similarly, they are less likely to arise when the firm sees the value of developing a longer-term relationship with the customer. Then the salesperson is arranging a happy marriage. By contrast, ethical conflicts are more likely when the sales rep's personal outcomes (such as commission income) or the selling firm's profits hinge on making sales to customers whose needs are only partially met by the firm's offering. But how close must the fit be between the firm's products and the customer's needs before it is appropriate for the salesperson to push for a sale?

Ideally, companies can avoid the whole problem by supporting their salespeople with a marketing mix that really offers target customers unique benefits. However, marketing managers and salespeople alike should recognize that the ideal may not exist in every sales call. Top executives, marketing managers, and sales managers set the tone for the ethical climate in which a salesperson operates. If they set impossible goals or project a "do-what-you-need-to-do" attitude, a desperate salesperson may yield to the pressure of the moment. When a firm clearly advocates ethical selling behavior and makes it clear that manipulative selling techniques are not acceptable, the salesperson is not left trying to swim "against the flow."[25]

Conclusion

In this chapter, we discussed the importance and nature of personal selling. Selling is much more than just getting rid of the product. In fact, a salesperson who is not given strategy guidelines may have to become the strategy planner for the market he or she serves. Ideally, however, the sales manager and marketing manager work together to set some strategy guidelines: the kind and number of salespersons needed, what sales technology support will be provided, the kind of sales presentation desired, and selection, training, and motivation approaches.

We discussed the three basic sales tasks: (1) order-getting, (2) order-taking, and (3) supporting. Most sales jobs combine at least two of these three tasks. Once a firm specifies the important tasks, it can decide on the structure of its sales organization and the number of salespeople it needs. The nature of the job and the level and method of compensation also depend on the blend of these tasks. Firms should develop a job description for each sales job. This, in turn, provides guidelines for selecting, training, and compensating salespeople.

Once the marketing manager agrees to the basic plan and sets the budget, the sales manager must implement the plan—including directing and controlling the sales force. This includes assigning sales territories and controlling performance. You can see that the sales manager has more to do than jet around the country sipping martinis and entertaining customers. A sales manager is deeply involved with the basic management tasks of planning and control—as well as ongoing implementation of the personal selling effort.

We also reviewed some basic selling techniques and identified three kinds of sales presentations. Each has its place—but the consultative selling approach seems best for higher-level sales jobs. In these kinds of jobs, personal selling is achieving a new, professional status because of the competence and level of personal responsibility required of the salesperson. The day of the old-time glad-hander is passing in favor of the specialist who is creative, industrious, persuasive, knowledgeable, highly trained, and therefore able to help the buyer. This type of salesperson always has been, and probably always will be, in short supply. And the demand for high-level salespeople is growing.

Questions and Problems

1. What strategy decisions are needed in the personal selling area? Why should the marketing manager make these strategy decisions?
2. What kind of salesperson (or what blend of the basic sales tasks) is required to sell the following products? If there are several selling jobs in the channel for each product, indicate the kinds of salespeople required. Specify any assumptions necessary to give definite answers.
   a. Laundry detergent.
   b. Costume jewelry.
   c. Office furniture.
   d. Men's underwear.
   e. Mattresses.
   f. Corn.
   g. Life insurance.
3. Distinguish among the jobs of producers', wholesalers', and retailers' order-getting salespeople. If one order getter is needed, must all the salespeople in a channel be order getters? Illustrate.
4. Discuss the role of the manufacturers' agent in a marketing manager's promotion plans. What kind of salesperson is a manufacturers' agent? What type of compensation plan is used for a manufacturers' agent?
5. Discuss the future of the specialty shop if producers place greater emphasis on mass selling because of the inadequacy of retail order-taking.
6. Compare and contrast missionary salespeople and technical specialists.
7. How would a straight commission plan provide flexibility in the sale of a line of women's clothing products that continually vary in profitability?
8. Explain how a compensation plan could be developed to provide incentives for experienced salespeople and yet make some provision for trainees who have not yet learned the job.
9. Cite an actual local example of each of the three kinds of sales presentations discussed in the chapter. Explain for each situation whether a different type of presentation would have been better.
10. Are the benefits and limitations of a canned presentation any different if it is supported with a slide show or videotape than if it is just a person talking? Why or why not?
11. Describe a consultative selling sales presentation that you experienced recently. How could it have been improved by fuller use of the AIDA framework?
12. How would our economy operate if personal salespeople were outlawed? Could the economy work? If so, how? If not, what is the minimum personal selling effort necessary? Could this minimum personal selling effort be controlled by law?

Suggested Cases

21. Chemical International, Inc.
22. Cable Designs, Inc.
23. Furniture to Go, Inc.
28. PCT, Inc.

Computer-Aided Problem

15. **Sales Compensation**

Franco Welles, sales manager for Nanek, Inc., is trying to decide whether to pay a sales rep for a new territory with straight commission or a combination plan. He wants to evaluate possible plans—to compare the compensation costs and profitability of each. Welles knows that sales reps in similar jobs at other firms make about $36,000 a year.

The sales rep will sell two products. Welles is planning a higher commission for Product B—because he wants it to get extra effort. From experience with similar products, he has some rough estimates of expected sales volume under the different plans and various ideas about commission rates. The details are found in the spreadsheet. The program computes compensation and how much the sales rep will contribute to profit. "Profit contribution" is equal to the total revenue generated by the sales rep minus sales compensation costs and the costs of producing the units.

a. *For the initial values shown in the spreadsheet, which plan—commission or combination—would give the rep the highest compensation, and which plan would give the greatest profit contribution to Nanek, Inc.?*

b. *Welles thinks a sales rep might be motivated to work harder and sell 1,100 units of Product B if the commission rate (under the commission plan) were increased to 10 percent. If Welles is right (and everything else stays the same), would the higher commission rate be a good deal for Nanek? Explain your thinking.*

c. *A sales rep interested in the job is worried about making payments on her new car. She asks if Welles would consider paying her with a combination plan but with more guaranteed income (an $18,000 base salary) in return for taking a 3 percent commission on Products B and A. If this arrangement results in the same unit sales as Welles originally estimated for the combination plan, would Nanek, Inc., be better off or worse off under this arrangement?*

d. *Do you think the rep's proposal will meet Welles' goals for Product B? Explain your thinking.*

For additional questions related to this problem, see Exercise 15-3 in the *Learning Aid for Use with Basic Marketing*, 14th edition.

When You Finish This Chapter, You Should

1. Understand why a marketing manager sets specific objectives to guide the advertising effort.

2. Understand when the various kinds of advertising are needed.

3. Understand how to choose the “best” medium.

4. Understand the main ways that advertising on the Internet differs from advertising in other media.

5. Understand how to plan the “best” message—that is, the copy thrust.

6. Understand what advertising agencies do and how they are paid.

7. Understand how to advertise legally.

8. Understand the importance and nature of sales promotion.

9. Know the advantages and limitations of different types of sales promotion.

10. Understand the important new terms (shown in red).

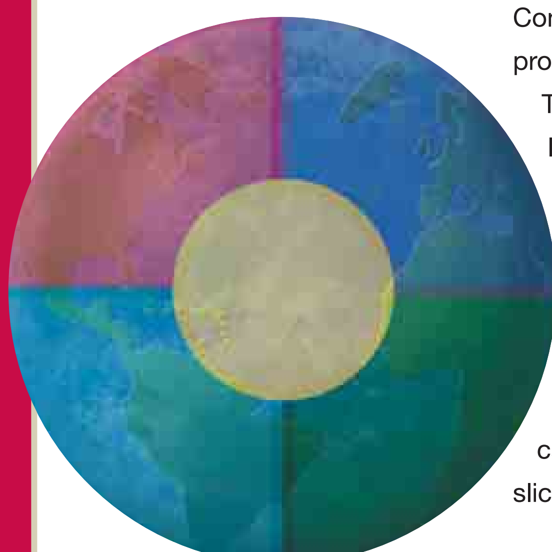
Chapter Sixteen

Advertising and Sales Promotion

Over the years, Frito-Lay brands—like Doritos, Fritos, and Lay’s—had captured half of all snack sales. However, low-priced dealer brands were stealing market share. Worse, the bulging growth from snacks was tapering off. Aging consumers were cutting back on fat, and snacks, in their diet. So Rebecca Johnson, product manager for Lay’s Potato Chips, had to figure out how to fend off the price cutters and attract new snackers.

The main weapon in her battle was a line of low-fat products that were in product development. Baked Lay’s, a low-fat potato crisp, had great potential. They had only about 15 percent of the fat in regular Lay’s Potato Chips and fewer calories. They had also fared well in consumer taste tests. Consumers simply wouldn’t compromise on good taste.

There were still some challenges. The retail price of Baked Lay’s would be about one-third more than regular chips. That was the difference in the cost to produce them. Further, because of FTC rules, Baked Lay’s could not be called potato “chips.” Chips are slices from potatoes, but Baked



price
place
produc
promotion

Lay's were cut from a thin sheet of dough made from potato flakes. No one knew if people would pay a higher price for a crisp; it was a new unsought product.

Baked Lay's went into national distribution in the late fall, but initial sales were only one-third of the forecast. Trade promotion and personal selling had helped get Baked Lay's on store shelves, but without TV ads to give a reason to buy, the packages were collecting dust. By contrast, regular Lay's were selling well even though there had been little advertising since the "bet you can't eat just one" campaign over a year earlier. Yet it usually does take more ad weight to introduce a new product—even one with a famous name—than to support an existing one. And Johnson knew that it would take effective advertising to win back the support of Frito-Lay salespeople and to interest consumers in baked crisps.

Johnson had worked with BBDO—Lay's long-time ad agency—to set specific objectives for the campaign and to create an attention-getting ad that would interest women with a low-fat pitch, but not turn off men—who are the biggest snackers. The launch of the campaign was on New Year's Day with an ad that showed a trio of supermodels doing unlikely things like chowing down on the crisps. The tagline "Now you can eat like one of the guys and still look like one of the girls" gave consumers permission to indulge their cravings without the guilt. That copy thrust hit the right chord with women, and it didn't turn off men. It was also consistent with the "better for you" positioning of Frito-Lay's whole low-fat line. A heavy flight of ads ran on targeted media throughout the spring.

Research on the effectiveness of the ads showed strong results, but the ads didn't carry the whole load in

www.mhhe.com/fourps

generating interest and trial. For example, the trio of supermodels also appeared on a crisp-covered float that Frito-Lay sponsored for the nationally televised New Year's Rose Parade. And to encourage trial, a million samples were sent to households for Super Bowl Sunday. Those were followed during the next two weekends with ads and coupons in newspaper free-standing inserts.

Two weeks into the campaign, sales started to surge and supply ran short. Consumers were even asking friends to keep an eye out for them. Some cynical critics said that the shortages were just another advertising gimmick contrived for the publicity. But the firm simply couldn't keep up with demand—even with all four factories working full tilt 24 hours a day.

There's no doubt that clever ads and timely sales promotion spurred consumer interest in Baked Lay's. But in the end, what kept customers coming back, even at a premium price, was the superior value of a product that really met their needs.[1]

Advertising, Sales Promotion, and Marketing Strategy Decisions

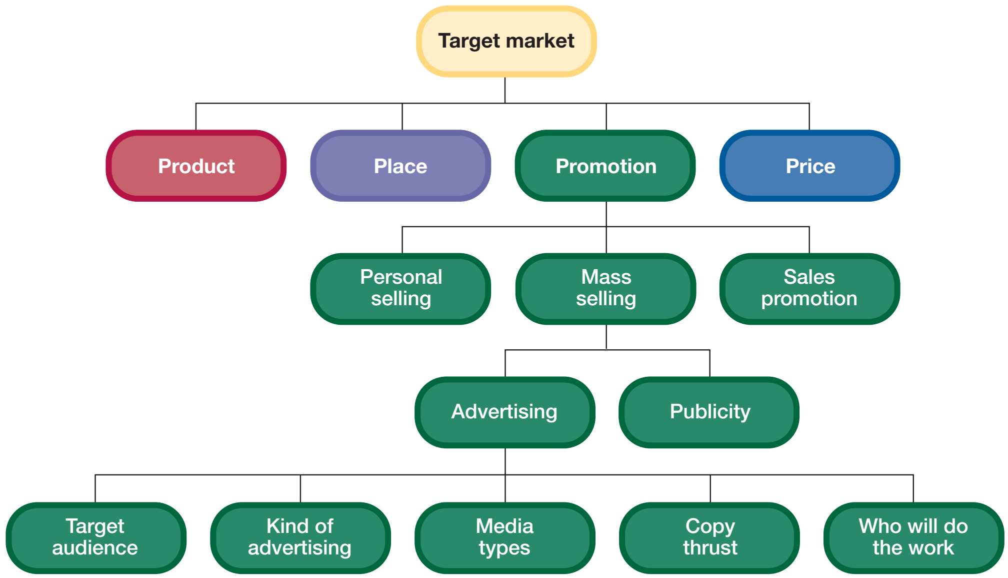
Experts point to the Baked Lay's mass-selling effort—the carefully planned advertising and sales promotion—as an example of excellent promotion that leverages a great strategy. Indeed, mass selling is often a critical element in the success or failure of a strategy. It can be an inexpensive way—on a per-contact or per-sale basis—to inform, persuade, and activate customers. It can reach a large number of people very quickly and produce a combination of long- and short-term results. It often plays a central role in efforts to position a firm's marketing mix as the one that meets customers' needs and builds brand equity. It can help motivate channel members or a firm's own employees, as well as final customers. The strengths and limits of advertising and sales promotion are different, but you can see why most promotion blends include them as well as personal selling and publicity.

Unfortunately, the results that marketers *actually achieve* with mass selling are very uneven. It's often said that half of the money spent on these activities is wasted—but that too few managers know which half. Mass selling can be exciting and involving or it can be downright obnoxious. Sometimes it's based on careful analysis and research, yet much of it is created on the fly based on someone's crazy idea. The right creative idea may produce results beyond a manager's dreams, but the wrong one can be a colossal waste of money. It can stir deep emotions or go unnoticed. Some managers come up with mass-selling blends that are really innovative, but more often than not imitators will just copy the same idea and turn it into an overused fad.

It's important to realize from the outset that many managers do a poor job in this arena. One way to avoid that is to reject the idea that just copying how lots of other firms handle these important strategy decisions is "good enough." There's no sense in following bad practices down the road to death-wish marketing. Instead, it makes sense to understand the important strategy decisions involved in each of these areas and how to make these decisions carefully.

As the Lay's case illustrates, marketing managers and the advertising agencies that work with them have important advertising decisions to make, including (1) who their target audience is, (2) what kind of advertising to use, (3) how to reach customers (via which types of media), (4) what to say to them (the copy thrust), and (5) who will do the work—the firm's own advertising department or outside

Exhibit 16-1 Strategy Planning for Advertising



agencies. See Exhibit 16-1. We'll talk about these decisions in this chapter. We'll also consider how to measure advertising effectiveness, and legal limits on advertising, in an increasingly competitive environment.

After we discuss advertising, we'll go into more detail on sales promotion. We'll discuss the great variety of sales promotion approaches, how they typically vary for different target markets, and their basic benefits and limitations.

International dimensions are important

The basic strategy planning decisions for advertising and sales promotion are the same regardless of where in the world the target market is located. However, keep in mind that the look and feel of advertising and sales promotion vary a lot in different countries, in part because choices available to a marketing manager within each of the decision areas may vary dramatically from one country to another.

The target audience for advertising may be illiterate—making print ads useless. Commercial television may not be available. If it is, government rules or censors may place severe limits on the type of advertising permitted or when ads can be shown. Radio broadcasts in a market area may not be in the target market's language. Access to interactive media like the Internet may be nonexistent. Cultural, social, and behavioral influences may limit what type of ad messages can be communicated. Ad agencies who already know a nation's unique advertising environment may be unwilling to cooperate.

International dimensions may also have a significant impact on sales promotion alternatives. For example, in countries with a large number of very small retailers some types of trade promotion are difficult, or even impossible, to manage. A typical Japanese grocery retailer with only 250 square feet of space, for example, doesn't have room for *any* special end-of-aisle displays. Consumer promotions may be affected too. Polish consumers, for example, are skeptical about product samples; they don't have a lot of experience with sampling and they figure that if it's free something's amiss. In some developing nations samples can't be distributed through the mail—because they're routinely stolen from mailboxes before they ever get to the target customer. Similarly, coupons won't work unless consumers can redeem them, and in some regions there are no facilitators to help with that effort. Similarly, some countries ban consumer sweepstakes—because they see it as a form of gambling.


Traditional media choices are more limited in some international markets, so marketers must be creative to communicate their messages. In North Africa and the Middle East, Coke uses hot-air balloons. The 12-stories-tall Ariel shirt was mounted on a building in China.

Throughout this chapter we'll consider a number of these international promotion issues, but we'll focus on the array of choices available in the U.S. and other advanced, market-directed economies.[2]

Total spending is big—and growing internationally

As an economy grows, advertising becomes more important—because more consumers have income and advertising can get results. But good advertising results cost money. And spending on advertising is significant. In 1946, U.S. advertising spending was slightly more than $3 billion. By 1986, it was $102 billion—and by 2001 $250 billion.

During the last decade, the rate of advertising spending in many parts of the world has increased even more rapidly than in the United States. However, total advertising spending in other countries is much lower than in the U.S. Although exact figures aren't available for all nations, advertising in the U.S. accounts for roughly half of worldwide ad spending. Europe accounts for 23 percent, and Asia about 22 percent. For most countries in other regions, advertising spending has traditionally been quite low.[3]

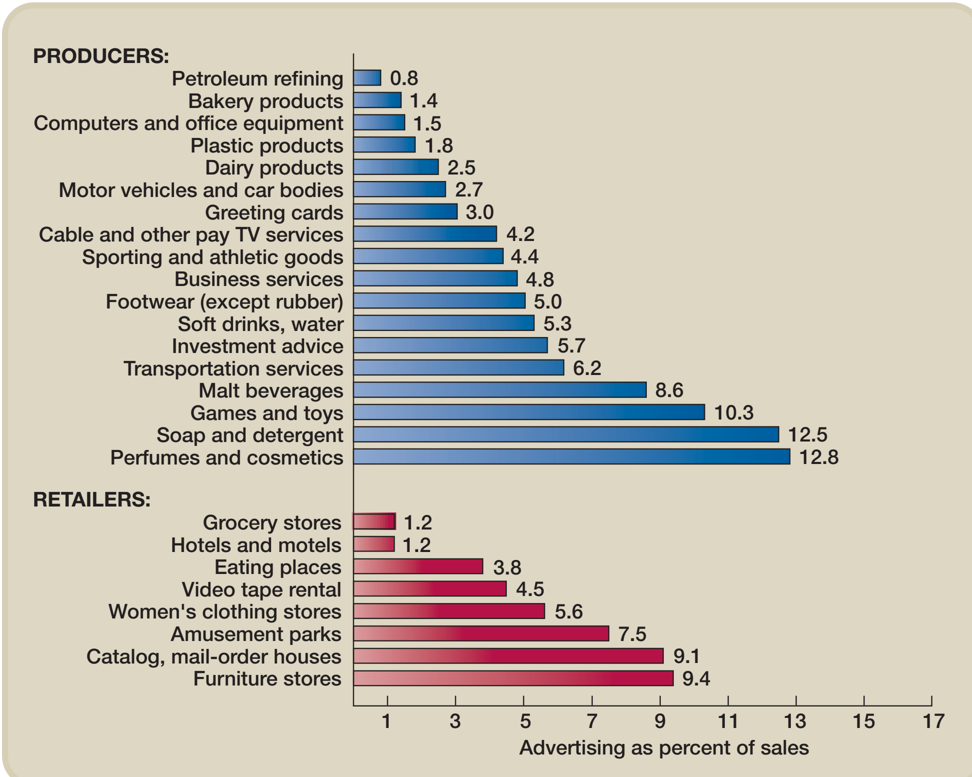
Most advertisers aren't really spending that much

While total spending on advertising seems high, especially in the United States, it represents a small portion of what people pay for the goods and services they buy. U.S. corporations spend an average of only about 2.5 percent of their sales dollar on advertising. Worldwide, the percentage is even smaller.

Exhibit 16-2 shows, however, that advertising spending as a percent of sales dollars varies significantly across product categories. Producers of consumer products generally spend a larger percent than firms that produce business products. For example, U.S. malt beverage companies spend 8.6 percent, and companies that make perfume and cosmetics spend a whopping 12.8 percent. At the other extreme, companies that sell plastics to manufacturers spend only about 1.8 percent on advertising. Some business products companies—those that depend on e-commerce or personal selling—may spend less than 1⁄10 of 1 percent.

In general, the percent is smaller for retailers and wholesalers than for producers. Large chains like Kmart and JCPenney spend about 3 percent, but many retailers and wholesalers spend 1 percent or less. Individual firms may spend more or less than others in the industry—depending on the role of advertising in their promotion blend and marketing mix.

Exhibit 16-2 Advertising Spending as Percent of Sales for Illustrative Product Categories



Of course, percentages don't tell the whole story. Nissan, which spends less than 1 percent of sales on advertising, is among the top 50 advertisers worldwide. The really big spenders are very important to the advertising industry because they account for a large share of total advertising spending. For example, in the United States, the top 100 advertisers (many of which are based in other countries) typically account for about 30 percent of all advertising spending. Worldwide, the top 50 global advertisers spend about $50 billion a year. The three top global spenders are all consumer packaged goods producers: Unilever, Procter & Gamble, and Nestlé.[4]

Advertising spending is very important in certain markets—especially final consumer markets. Nevertheless, in total, advertising costs much less than personal selling and sales promotion.

Advertising doesn't employ that many people

While total advertising expenditures are large, the advertising industry itself employs relatively few people. The major expense is for media time and space. In the United States, the largest share of this—24 percent—goes for television (including cable). Newspapers take about 20 percent of the total and direct mail about 18 percent. The shares for radio (8 percent), the Yellow Pages (5 percent), magazines (5 percent), and the Internet (2 percent) are much smaller. However, spending for advertising on the Internet is growing very fast.[5]

Many students hope for a glamorous job in advertising, but there are fewer jobs in advertising than you might think. Even in the United States, with the highest advertising spending of any nation, only about 500,000 people work directly in the advertising industry. Advertising agencies employ only about half of all these people. The rest are people who help create or sell advertising or advertising media (advertising people in radio and television stations, newspapers, and magazines) and those working for retailers, wholesalers, and producers.[6]

Advertising Objectives Are a Strategy Decision

Advertising objectives must be specific

Every ad and every advertising campaign should have clearly defined objectives. These should grow out of the firm's overall marketing strategy and the promotion jobs assigned to advertising. It isn't enough for the marketing manager to say "Promote the product." The marketing manager must decide exactly what advertising should do.

Advertising objectives should be more specific than personal selling objectives. One of the advantages of personal selling is that salespeople can shift their presentations to meet customers' needs. Each ad, however, is a specific communication. It must be effective not just for one customer but for thousands, or millions, of them.

The marketing manager sets the overall direction

The marketing manager might give the advertising manager one or more of the following specific objectives, along with the budget to accomplish them:

1. Help position the firm's brand or marketing mix by informing and persuading target customers or middlemen about its benefits.
2. Help introduce new products to specific target markets.
3. Help obtain desirable outlets and tell customers where they can buy a product.
4. Provide ongoing contact with target customers—even when a salesperson isn't available.
5. Prepare the way for salespeople by presenting the company's name and the merits of its products.
6. Get immediate buying action.
7. Help to maintain relationships with satisfied customers, confirm their purchase decisions, and encourage more purchases.

If you want half the market, say so!

The objectives listed above highlight that a balancing act may be required. The first objective is quite broad and relates to the basic decisions about how the marketing manager wants to differentiate and position the whole marketing mix. That should guide decisions about what other specific objectives are most important. In fact, some of the objectives listed are not as specific as they could be. If a marketing manager really wants specific results, they should be clearly stated. A general objective is "To help expand market share." This could be rephrased more specifically: "To increase shelf space in our cooperating retail outlets by 25 percent during the next three months." As more specific objectives are set—say, for each ad—it's still important that they are all consistent with the overall objectives.

Objectives guide implementation too

The specific objectives obviously affect implementation. Advertising that might be right for encouraging consumers to switch from a competing brand might be all wrong for appealing to established customers with whom a firm already has a good relationship. Similarly, an ad that appeals to opinion leaders might not be what's needed to get repeat customers back into a retail store. As Exhibit 16-3 shows, the type of advertising that achieves objectives for one stage of the adoption process may be off target for another. For example, most advertising for cameras in the United States, Germany, and Japan focuses on foolproof pictures or state-of-the-art design because most consumers in these countries already own *some* camera. In Africa, where only about 20 percent of the population owns a camera, ads must sell the whole concept of picture-taking.

Perreault−McCarthy: Basic Marketing: A Global−Managerial Approach, 14/e | 16. Advertising and Sales Promotion | Text | © The McGraw−Hill Companies, 2002

Exhibit 16-3 Examples of Different Types of Advertising over Adoption Process Stages

Objectives Determine the Kinds of Advertising Needed

The advertising objectives largely determine which of two basic types of advertising to use—product or institutional.

Product advertising tries to sell a product. It may be aimed at final users or channel members.

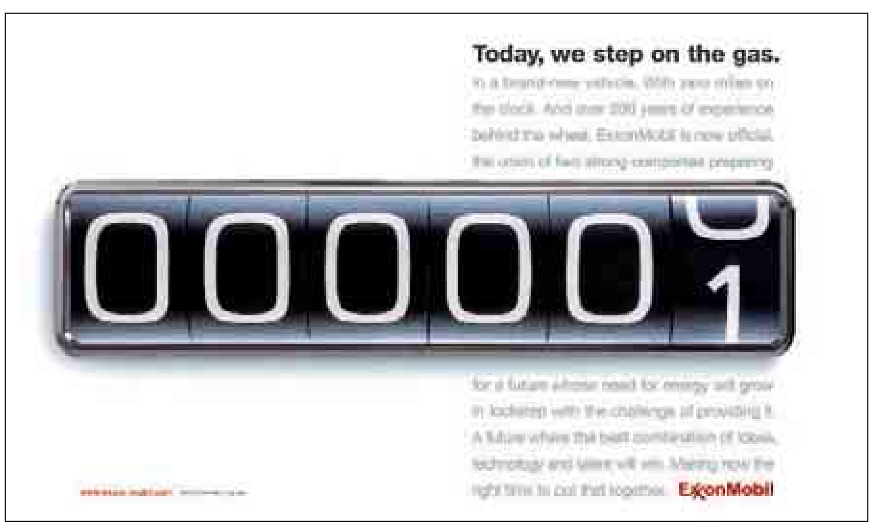
Institutional advertising tries to promote an organization's image, reputation, or ideas rather than a specific product. Its basic objective is to develop goodwill or improve an organization's relations with various groups—not only customers but also current and prospective channel members, suppliers, shareholders, employees, and the general public. The British government, one of the top 50 advertisers in the world, uses institutional advertising to promote England as a place to do business.

Product advertising—know us, like us, remember us

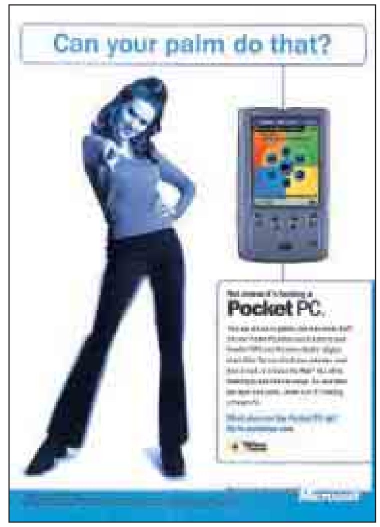
Product advertising falls into three categories: pioneering, competitive, and reminder advertising.

Pioneering advertising—builds primary demand

Pioneering advertising tries to develop primary demand for a product category rather than demand for a specific brand. Pioneering advertising is usually done in the early stages of the product life cycle; it informs potential customers about the new product and helps turn them into adopters. When Merrell Dow Pharmaceutical



The objective of ExxonMobil's attention-getting institutional ad, which ran on billboards in over 100 countries, was to inform customers about the merger of the two oil giants and to highlight the strengths of the new combined company as it addresses the energy needs of the future.



Comparative ads make direct comparisons with other brands using actual product names. For example, the Baby Orajel ad touts its fast relief compared to Children's Tylenol. The Microsoft ad highlights the features of the Pocket PC compared to its rival, Palm.

introduced a prescription drug to help smokers break the habit, it did pioneering advertising to inform both doctors and smokers about its breakthrough. The ad didn't even mention the name of the drug. Instead it informed smokers who wanted to quit that doctors could now help them overcome their nicotine dependence. Later, as other firms put similar drugs on the market, Merrell Dow turned to competitive advertising.

Competitive advertising—emphasizes selective demand

Competitive advertising tries to develop selective demand for a specific brand. A firm is forced into competitive advertising as the product life cycle moves along—to hold its own against competitors.

Competitive advertising may be either direct or indirect. The **direct type** aims for immediate buying action. The **indirect type** points out product advantages to affect future buying decisions.

Most of Delta Airlines' advertising is of the competitive variety. Much of it tries for immediate sales—so the ads are the direct type with prices, timetables, and phone numbers to call for reservations. Some of its ads are the indirect type. They focus on the quality of service and number of cities served—and they suggest you mention Delta's name the next time you talk to your travel agent.

Comparative advertising is even rougher. **Comparative advertising** means making specific brand comparisons—using actual product names. A recent comparative ad for a Kia Optima implied that a Toyota Camry with the same features was a great car but not as good a value as the Optima, which costs $5,000 less.

Many countries forbid comparative advertising, but that situation is changing. For example, Japan banned comparative advertising until about 15 years ago, when the restrictions were relaxed. Japan's move followed an earlier change in the United States. The Federal Trade Commission decided to encourage comparative ads, after banning them for years—because it thought they would increase competition and provide consumers with more useful information.

In the United States, superiority claims are supposed to be supported by research evidence—but the guidelines aren't clear. In one widely publicized case, a drug company sponsored university research on the effectiveness of its drug, but when the results looked bad it did everything possible to keep the findings secret. When P&G's Dryel did not fare well in independent test comparisons with stain removal by professional dry cleaners, P&G changed its ad claims. However, some firms just keep running tests until they get the results they want. Others talk about minor differences that don't reflect a

Buster Brown is a well-known brand with a hundred-year history, but at back-to-school, shoe-buying time it ran print and outdoor ads to remind parents of their positive feelings about Buster Brown shoes. Ads featured a toll-free number to call or website address so consumers could learn the location of the closest retailer.

product's overall benefits. Some comparative ads leave consumers confused or even angry if the product they're using is criticized. Comparative ads can also backfire by calling attention to competing products that consumers had not previously considered.[7]

Reminder advertising—reinforces a favorable relationship

Reminder advertising tries to keep the product's name before the public. It may be useful when the product has achieved brand preference or insistence—perhaps in the market maturity or sales decline stages. It is used primarily to reinforce previous promotion. Here the advertiser may use soft-sell ads that just mention or show the name—as a reminder. Sunkist, for example, often relies on reminder ads because most consumers already know the brand name and, after years of promotion, associate it with high product quality.

Institutional advertising—remember our name

Institutional advertising usually focuses on the name and prestige of an organization or industry. It may seek to inform, persuade, or remind.

Large companies with several divisions sometimes use a persuading kind of institutional advertising to link the divisions in customers' minds. Many Japanese firms, like Hitachi, emphasize institutional advertising, in part because they often use the company name as a brand name.

Companies sometimes rely on institutional advertising to present the company in a favorable light—perhaps to overcome image problems. Oil giant BP, for example, ran ads in a bid to be seen as more pro-environmental. However, in this case, they just drew more criticism.[8]

Some organizations use institutional advertising to advocate a specific cause or idea. Insurance companies and organizations like Mothers Against Drunk Driving, for example, use these advocacy ads to encourage people not to drink and drive.[9]

Coordinating Advertising Efforts with Cooperative Relationships

Vertical cooperation—advertising allowances, cooperative advertising

Sometimes a producer knows that a promotion job or advertising job should be done but finds that it can be done more effectively or more economically by someone further along in the channel. Alternatively, a large retail chain like Best Buy may approach a manufacturer like Panasonic with a catalog or ad program and tell them how much it will cost to participate. In either case, the producer may offer **advertising allowances**—price reductions to firms further along in the channel to encourage them to advertise or otherwise promote the firm's products locally.

Cooperative advertising involves middlemen and producers sharing in the cost of ads. This helps wholesalers and retailers compete in their local markets. It also helps the producer get more promotion for the advertising dollar because media usually give local advertisers lower rates than national or international firms. In addition, a retailer or wholesaler who is paying a share of the cost is more likely to follow through.

Integrated communications from cooperative relationships

Coordination and integration of ad messages in the channel is another reason for cooperative advertising. One big, well-planned, integrated advertising effort is often better than many different, perhaps inconsistent, local efforts. Many franchise operations like the idea of communicating with one voice. KFC, for example, encourages its franchises to use a common advertising program. Before, many developed their own local ads—with themes like "Eight clucks for four bucks"—that didn't fit with the company's overall marketing strategy.

Producers often get this coordination, and reduce local middlemen costs, by providing a master of an ad on a videotape, cassette tape, website, or printed sheets. The middlemen add their identification before turning the ad over to local media.

However, allowances and support materials alone don't ensure cooperation. When channel members don't agree with the advertising strategy, it can be a serious source of conflict. For example, Benetton, the Italian sportswear company, wanted its "United Colors" ad campaign to be controversial. Many of its franchisees disagreed and stopped paying their franchise fees. A marketing manager should consider the likely reaction of other channel members before implementing any advertising program.[10]

Ethical concerns may arise

Ethical issues sometimes arise concerning advertising allowance programs. For example, a retailer may run one producer's ad to draw customers to the store but then sell them another brand. Is this unethical? Some producers think it is. A different view is that retailers are obligated to the producer to run the ad but obligated to consumers to sell them what they want, no matter whose brand it may be. A producer can often avoid the problem with a strategy decision—by setting the allowance amount as a percent of the retailer's *actual purchases*. That way, a retailer who doesn't produce sales doesn't get the allowance.

Sometimes a retailer takes advertising allowance money but doesn't run the ads at all. Some producers close their eyes to this problem because they don't know what to do about intense competition from other suppliers for the retailer's attention. But there are also legal and ethical problems with that response. Basically, the allowance may have become a disguised price concession that results in price discrimination, which is illegal in the United States. Some firms pull back from cooperative advertising to avoid these problems. Smart producers insist on proof that the advertising was really done.[11]

Choosing the "Best" Medium—How to Deliver the Message

What is the best advertising medium? There is no simple answer to this question. Effectiveness depends on how well the medium fits with the rest of a marketing strategy—that is, it depends on (1) your promotion objectives, (2) what target markets you want to reach, (3) the funds available for advertising, and (4) the nature of the media—including who they *reach*, with what *frequency*, with what *impact*, and at what *cost*.

Does Advertising That's Everywhere Get Us Anywhere?

It's everywhere. You get to the beach, look down, and huge versions of the Skippy peanut butter logo are embossed in the sand. You roll your eyes in dismay and catch a view of a plane pulling MCI's 100-foot-long banner with Mr. T demanding "Call home, fool." You go in the bathroom to change into your swimsuit, but the walls are adorned with posters for Good Humor ice cream bars. Forget that. Maybe you should just eat your picnic lunch. Oops, the whole back of the bench you're going to sit on is an ad for a check-cashing service—and just for good measure the banana you pull out of your lunch bag has a sticker advertising Florida oranges. So you jump in your car to escape the onslaught. But when you stop to pump gas a miniature video screen by the credit card slot urges you to get a Visa debit card from a local bank (first in English and then in Spanish). The billboards you ignore along the way seem pretty civilized compared to the towering trucks whose trailers are rolling billboards. Back at the ranch, at last, you know you can watch the Grammy Awards show in peace because you taped it on your VCR—so you can zap past the ads. But no, you can't see the celebrities arrive without staring at virtual logos digitally superimposed on the entry canopy and sidewalk by the front door. So there's no alternative but to pull the plug on the VCR and check for e-mail from your sweetie. Wrong move. A pop-up ad for a video cam covers half of the screen—and why can't you make it go away? You can drag it to the side, but then there's so much spam in your mailbox that you've run out of disk space.

There are certainly many cases where promotion benefits both the consumer and the firm, and after all it is revenues from advertising that cover the cost of lots of great stuff consumers get for free. Yet sometimes you can't help but wish that you were not the target that somebody else is aiming at![12]

Exhibit 16-4 shows some pros and cons of major kinds of media and some examples of costs. However, some of the advantages noted in this table may not apply in all markets. In less-developed nations, for example, newspapers may *not* be timely. Placing an ad may require a long lead time if only a limited number of pages are available for ads. Direct mail may not be a flexible choice in a country with a weak postal system or high rate of illiteracy. Internet ads might be worthless if few target customers have access to the Internet. Similarly, TV audiences are often less selective and targeted, but a special-interest cable TV show may reach a very specific audience.[13]

Specifc promotion objectives

Before you can choose the best medium, you have to decide on your promotion objectives. If the objective is to increase interest and that requires demonstrating product benefits, TV may be the best alternative. If the objective is to inform—telling a long story with precise detail—and if pictures are needed, then Internet advertising might be right. Alternatively, with a broad target market, print media like magazines and newspapers may be better. For example, Jockey switched its advertising to magazines from television when it decided to show the variety of colors, patterns, and styles of its men's briefs. Jockey felt that it was too hard to show this in a 30-second TV spot. Further, Jockey felt that there were problems with modeling men's underwear on television. However, Jockey might have stayed with TV if it had been targeting consumers in France or Brazil—where nudity in TV ads is common.[14]

Match your market with the media

To guarantee good media selection, the advertiser first must *clearly* specify its target market—a necessary step for all marketing strategy planning. Then the advertiser can choose media that are heard, read, or seen by those target customers.

The media available in a country may limit the choices. In less-developed nations, for example, radio is often the only way to reach a broad-based market of poor consumers who can't read or afford television.

In most cases, however, the major problem is to select media that effectively reach the target audience. Most of the major media use marketing research to develop profiles of the people who buy their publications or live in their broadcasting area. Generally, media research focuses on demographic characteristics rather than the segmenting dimensions specific to the planning needs of *each* different advertiser. The problem is even worse in some countries because available media

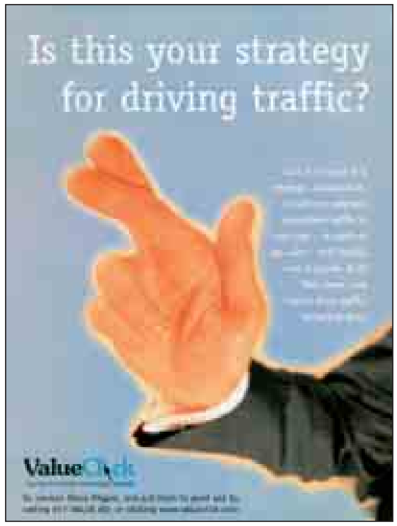
Exhibit 16-4 Relative Size and Costs, and Advantages and Disadvantages, of Major Kinds of Media

Kinds of Media	Sales Volume, 2000 ($ billions)	Typical Costs, 2000	Advantages	Disadvantages
Television and Cable	$59.2	$4,500 for a 30-second spot, prime time, Phoenix	Demonstrations, good attention, wide reach	Expensive in total, "clutter," less-selective audience
Newspaper	49.0	$42,570 for one-page (black/white) weekday, *Arizona Republic*	Flexible, timely, local market	May be expensive, short life, no "pass-along"
Direct mail	44.6	$215 per 1,000 for listing of 114,000 Human Resource executives by industry or employee size	Selected audience, flexible, can personalize	Relatively expensive per contact, "junk mail"—hard to retain attention
Radio	19.3	$350–$400 for one-minute drive time, Phoenix	Wide reach, segmented audience, inexpensive	Weak attention, many different rates, short exposure
Yellow Pages	13.2	$2,760 a year for a ⅛-page display ad in a directory for a city with .5 million population	Reaches local customers seeking purchase information	Many other competitors listed in same place, hard to differentiate
Magazine	12.4	$192,000 for one-page, 4-color in *Time* (national)	Very targeted, good detail, good "pass-along"	Inflexible, long lead times
Outdoor	5.2	$5,000 (painted) for prime billboard, 30- to 60-day showings, Phoenix	Flexible, repeat exposure, inexpensive	"Mass market," very short exposure
Internet	4.3	Banner ads average $34 for every 1,000 ad impressions on the site	Ads link to more detailed website, some "pay for results"	Hard to compare costs with other media

don't provide any information—or they provide audience profiles that make the media seem more attractive than it is.

Another problem is that the audience for media that *do* reach your target market may also include people who are *not* in the target group. But *you pay for the whole audience the media delivers*—including those who aren't potential customers. For example, Delta Faucet, a faucet manufacturer that wanted its ads to reach plumbers, placed ads on ESPN's Saturday college football telecasts. Research showed that many plumbers watched the ESPN games. Yet plumbers are only a very small portion of the total college football audience—and the size of the total audience determined the cost of the advertising time.[15]

The cost of reaching the real target market goes up fastest when the irrelevant audience is very large. For example, the last episode of the wildly popular "Seinfeld" sitcom drew about 75 million viewers and NBC charged $1.5 million or more for a 30-second ad slot. It may have been worth that for Visa to reach such a large, mainly adult, audience; it serves a diverse group of customers.[16] On the other hand, tiny Gardenburger, Inc., used borrowed money to buy an ad slot in a shoot-for-the-moon effort to turn the audience on to its veggie patties. This was on the "creative theory" that the Gardenburger target market was primarily females age 25 to 54,



Internet advertising and ads delivered by e-mail make it possible for advertisers to be very targeted in getting the right message to the right audience.

that "Seinfeld" was like the Super Bowl for women, and that Gardenburger was just the ticket for their needs. Yet only about 8 percent of consumers have ever tasted a veggie burger. A 30-second ad, even a memorable one, isn't likely to change a basic mind-set for most people. So in betting the farm on its "Seinfeld" ad, Gardenburger had to pay to reach a very large group of women, and men, who were not at all interested in what the company had to offer. Gardenburger is an extreme case, but research suggests that many of the firms that sponsor ads on such big-audience shows would get more for their money if they placed ads on shows that reached more-targeted audiences.[17]

Because it's hard to pick the best media, media analysts often focus on comparing quantitative measures—such as cost per thousand of audience size or circulation. This may seem to be an objective approach, but advertisers preoccupied with keeping these costs down may ignore the relevant segmenting dimensions and slip into mass marketing.

Some media help zero in on specific target markets

Today the major media direct more attention to reaching smaller, more defined target markets. The most obvious evidence of this is in the growth of spending on direct-mail advertising to consumers in databases. However, other media—even traditional ones—are becoming more targeted as well.

TV is a good example. Cable TV channels—like MTV, Cable News Network (CNN), Nickelodeon, and ESPN—are taking advertisers away from the networks because they target specific audiences. ESPN, for example, has an audience heavily weighted toward affluent, male viewers. British Sky Broadcasting does a good job of reaching homemakers with young children. Moreover, being specialized doesn't necessarily mean that the target market is small. MTV appeals most strongly to affluent, young viewers, but its programming is seen in over 300 million homes worldwide—more than any other programmer.

Infomercials—long commercials that are broadcast with a TV show format—give a glimpse of how targeted cable TV will become when more consumers have access to hundreds, or perhaps even thousands, of TV channels. With many channels competing for attention, most will succeed only if they offer programs and commercials that are very specific to the interests and needs of smaller, more homogeneous target markets.

Radio has also become a more specialized medium. Some stations cater to particular ethnic and racial groups—such as Hispanics, African Americans, or French

Advertising space on a race car reaches racing fans and often benefits from extended TV coverage. But the cost for primary sponsors can be millions of dollars.

Canadians. Others aim at specific target markets with rock, country, or classical music. Religious programs and talk-radio cater to people with specific attitudes and interests. Now that radio stations can get their programming to a larger number of consumers over the Internet and via satellite broadcast systems, expect even more targeting.

Many magazines serve only special-interest groups—such as fishermen, soap opera fans, new parents, professional groups, and personal computer users. In fact, the most profitable magazines seem to be the ones aimed at clearly defined markets. Many specialty magazines also have international editions that help marketers reach consumers with similar interests in different parts of the world. *PC Magazine,* for example, offers European and Japanese editions.

There are trade magazines in many fields—such as chemical engineering, furniture retailing, electrical wholesaling, farming, and the aerospace market. *Standard Rate and Data* provides a guide to the thousands of magazines now available in the United States. Similar guides exist in most other countries.

Many of the national print media offer specialized editions. *Time* magazine, for example, offers not only several regional and metropolitan editions but also special editions for college students, educators, doctors, and business managers. Magazines like *Newsweek,* France's *Paris Match International,* and Germany's *Wirtschaftwoche* provide international editions.

Specialized media are small—but gaining

The advertising media listed in Exhibit 16-4 are attracting the vast majority of advertising media budgets. But advertising specialists always look for cost-effective new media that will help advertisers reach their target markets. For example, one company successfully sells space for signs on bike racks that it places in front of 7-Eleven stores. In Eastern Europe, where major media are still limited, companies like Campbell's pay to put ads on bus shelters. Hotels and auto rental companies buy space on advertising boards placed in the restrooms on airplanes. A new generation of ATMs—including ones placed in stores and shopping centers—is capable of showing video ads while customers are waiting to get their money. Some gas station pumps have similar displays.[18]

The Internet is proving to be an even more important, and fast-growing, medium that has the potential to be highly targeted. Because it involves different opportunities and challenges, we will discuss it separately. First, however, we should briefly discuss how the advertising budget that is available affects the choice of media.

"Must buys" may use up available funds

Selecting which media to use is still pretty much an art. The media buyer may start with a budgeted amount and try to buy the best blend to reach the target audience.

Some media are obvious "must buys"—like *the* local newspaper for a retailer in a small or medium-sized town. Most firms serving local markets view a Yellow Pages listing as a must buy. Website advertising is increasingly being seen as a must buy. It may be the only medium for firms trying to reach business buyers in overseas markets. Must buy ads may even use up the available funds.

For many firms, even national advertisers, the high cost of television may eliminate it from the media blend. The average cost just to produce a national TV ad is now about $250,000—and a big impact ad can easily cost twice that. In the United States, a 30-second commercial on a popular prime-time show like "Friends" is well over $500,000. The price goes up rapidly for "big event" shows that attract the largest audiences. Thirty seconds of advertising on the 2001 Super Bowl cost sponsors about $2.3 million.[19]

Advertising on the Internet: New Opportunities and New Challenges

Internet ads take many forms

Advertising on the Internet is growing rapidly as more mainstream advertisers join the quest for a more efficient way to reach target customers with promotion. The advertising messages take many forms, ranging from displays that basically look like traditional print ads to button and banner ads. An Internet *banner ad* is a headline that appears on a web page. Its purpose is to attract the interest of people in the advertiser's target market and encourage them to visit the advertiser's website for more information. A button is usually much smaller—perhaps just showing the advertiser's name or symbol.

Internet ads seek a direct response—a click

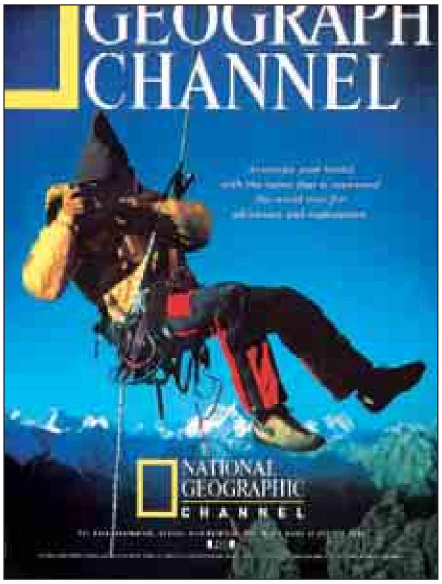
Whatever specific form an ad takes, it is usually "linked" to the advertiser's website. When a viewer responds to an ad by clicking on it with a mouse, more detailed information appears. The information may include pictures, videos, sound, text, a product database, order entry procedures, and much more.

Content on a website can be very different from traditional advertising. The advertiser can put up a great deal more information and allow viewers to self-direct to those pages that interest them the most. The website can also provide links to other outside sources of information. Or it can invite the viewer to e-mail or start a chat session for more detailed information on a particular topic. It can offer a sign-up for a weekly newsletter. The viewer may not buy right away and may not "bookmark" the website to come back later. But if the viewer subscribes to the e-mail newsletter, all is not lost. The advertiser will have another chance to make a sale.

We talked about this sort of interactive communication in detail in Chapter 14. Now let's take a look at how Internet ads reach a target audience in the first place.

Some websites generate more exposure

Some advertisers are primarily interested in placing ads on websites that will give their ads a lot of exposure—almost without regard to the content of the website or who visits it. Although there are millions of websites on the Internet, a small subset



Advertising managers are always looking for cost-effective new media that will help them reach their specific target markets.

accounts for a large percent of the potential audience. For example, many people see the Netscape, Microsoft, or Yahoo website every time they use the Internet. Often that's because the software ("browser") they use to view Internet information starts at these websites. Some people refer to such websites as *portals* because they act like doorways to the Internet.

A few portal websites are becoming for the Internet what the networks once were for television: *the* place where an advertiser is willing to pay high rates because they are uniquely able to reach a very large, broad market. For example, Dell might want its computer ads on the AOL or Yahoo home page so they will be viewed by the large number of computer user visitors. But what makes sense for Dell in that situation might not make sense for a different firm with a different target market and marketing mix. As with traditional media, getting lots of exposure for an Internet ad doesn't help if viewers are not in the firm's target market. At most websites, rates are set based on number of exposures, and you pay for an exposure regardless of who it is. Some advertisers don't see this and have just transferred their old, untargeted shotgun approach to this new medium. That's especially wasteful on the Internet!

Some websites are better for reaching target customers

Bristol-Myers Squibb's experiment with Web advertising is typical of what many other firms are trying to do—place ads on websites that attract the desired target market. In the middle of income tax season, Bristol-Myers Squibb ran ads on financial websites extolling Excedrin as "the tax headache medicine." The ads offered a free sample of Excedrin. Within a month, more than 30,000 people clicked on the ad and typed their names into the firm's customer database. The cost of obtaining those names was half that of traditional methods. Now the firm can follow up the Excedrin samples with other database-directed promotions, either by e-mail or other methods.

Context advertising links ad to content being viewed

The Excedrin ads were quite targeted, but targeting on the Internet can be even more precise. For example, ads for Fragrance Counter (a cosmetics retailer) pop up when an Internet user does a search on a term such as *perfume* or *Estée Lauder*. This approach is called *context advertising*—monitoring the content a net surfer is viewing and then serving up related ads. For example, if a consumer visits a website with information about cars, an ad for Amazon.com might appear and note that it carries books on buying a car. If the consumer clicks on the Amazon ad, a list of relevant books appears on screen and more detailed information on each title is a click away.

Another variation on the context theme allows noncompeting firms that have a similar target market to post ads on each other's website. When Maytag introduced its Neptune high-efficiency washing machine, the Neptune website had a link to P&G's website for Tide HE, a new detergent designed for use in washers like the Neptune.

Pointcasting determines which customers see an ad

Another approach that offers more precise targeting is pointcasting. Pointcasting means displaying an ad *only* to an individual who meets certain qualifications. For instance, it might be a person who has previously expressed direct interest in the topic of the advertising. A pointcasting ad is usually included with other information that the customer wants and that a pointcasting service provides for free. An example shows how this works. A woman who is interested in financial planning might sign up with Time-Warner's Road Runner service and request that it routinely send her newly published articles on independent retirement accounts. When the service sends her that information over the Internet, it might include an ad from a mutual fund company. The pointcasting service matches ads to customer interests. Many advertisers like this concept but worry that pointcasting may overwhelm the recipient with too much clutter.

Sending ads directly to the target customer via e-mail is a simpler approach. A limitation of e-mail is that a person's e-mail software may reformat messages in different ways. That is changing with increased use of e-mail in HTML format. However, a different problem will continue: Most people resent being "spammed" with a lot of unsolicited e-mail.

Internet

Internet Exercise ValueClick is a firm that provides services for firms that want to advertise on the Internet and also for website publishers that host Internet advertising. Go to its website (www.valueclick.com) and read about its service. Briefly describe the main benefits it provides for advertisers and the main benefits it provides for publishers.

Some viewers get benefits if they agree to look at ads

Some websites offer people a benefit—like free e-mail or a chance to enter a contest—if they provide information about themselves and agree to view ads selected to match their interests. A look at Juno, a firm that offers a free e-mail service, shows how this works. When people sign up for e-mail accounts, they also provide detailed information for a database. The information might include demographics as well as interests, what products they use, where they shop, and where they live. Then when a person checks for e-mail messages, ads are displayed. Each ad is selected specifically for that person based on characteristics in the database. For example, a cosmetics firm might specify that its ads be shown only to females who are 16 or older and who routinely wear nail polish.

At some websites, ads are free if they don't get results

While the number of firms interested in putting ads on websites has grown, the number of websites that are chasing their ad dollars has grown at an even faster pace. Many websites charge advertisers a fee based on how frequently or how long an ad is shown. But there are still basic problems in getting good measures of how many people are exposed to an ad or pay any attention if they are exposed. One symptom of this is that many firms have sprung up to rate website traffic, but their ratings often don't agree.

This problem and competition for advertisers have pressed many websites to take a more novel approach. They display an ad for free and charge a fee only if the ad gets results. For example, the fee the advertiser pays is sometimes based on "click-through"—the number of people who actually click on the ad and link to the advertiser's website. Some websites set fees based on actual sales that result from the clickthrough. This is efficient for advertisers, and variations on this approach are becoming more common. This is a big shift from traditional media. Firms have to pay for their TV and print ads whether they work or not. A lot more firms will put ads on websites if there is a direct relationship between costs and results. Moreover, websites will then have more incentive to attract the type of viewers that some specific set of advertisers want to reach.

Internet advertising is still feeling its way

Innovations like these make it clear that Internet advertising holds great promise. On the other hand, most Internet advertising does not yet provide the precise laser-beam targeting that would be ideal. In fact, a lot of banner ads seem outright ineffective, and popups can be obnoxious. Yet, as with other innovations, refinements to Internet advertising will take time. No one can yet be certain what it will be when it grows up, but it *is* growing.[20]

Planning the "Best" Message—What to Communicate

Specifying the copy thrust

Once you decide *how* the messages will reach the target audience, you have to decide on the **copy thrust**—what the words and illustrations should communicate.

Carrying out the copy thrust is the job of advertising specialists. But the advertising manager and the marketing manager need to understand the process to be sure that the job is done well.

Let AIDA help guide message planning

Basically, the overall marketing strategy should determine *what* the message should say. Then management judgment—perhaps aided by marketing research—can help decide how to encode this content so it will be decoded as intended.

As a guide to message planning, we can use the AIDA concept: getting Attention, holding Interest, arousing Desire, and obtaining Action.

The right copy thrust helps an ad clearly communicate to its target market.

Billboards are good for getting attention with a simple copy thrust.

Getting attention

Getting attention is an ad's first job. If an ad doesn't get attention, it doesn't matter how many people see or hear it. Many readers leaf through magazines and newspapers without paying attention to any of the ads. Many listeners or viewers do chores or get snacks during radio and TV commercials. When watching a program on videotape or TiVo, they may zap past the commercial with a flick of the fast-forward button. On the Internet, they may click on the next website before the ad message finishes loading onto the screen.

Many attention-getting devices are available. A large headline, computer animations, newsy or shocking statements, attractive models, babies, animals, special effects—anything different or eye-catching—may do the trick. However, the attention-getting device can't detract from, and hopefully should lead to, the next step, holding interest.

Holding interest

Holding interest is more difficult. A humorous ad, an unusual video effect, or a clever photo may get your attention—but once you've seen it, then what? If there is no relation between what got your attention and the marketing mix, you'll move on. To hold interest, the tone and language of the ad must fit with the experiences and attitudes of the target customers and their reference groups. As a result, many advertisers develop ads that relate to specific emotions. They hope that the good feeling about the ad will stick—even if its details are forgotten.

To hold interest, informative ads need to speak the target customer's language. Persuasive ads must provide evidence that convinces the customer. For example, TV ads often demonstrate a product's benefits.

Layouts for print ads should look right to the customer. Print illustrations and copy should be arranged to encourage the eye to move smoothly through the ad—perhaps from a headline that starts in the upper left-hand corner to the illustration or body copy in the middle and finally to the lower right corner where the ad's "signature" usually gives the company or brand name, toll-free number, and website address. If all of the elements of the ad work together as a whole, they will help to hold interest and build recall.[21]

Arousing desire

Arousing desire to buy a particular product is one of an ad's most difficult jobs. The ad must convince customers that the product can meet their needs. Testimonials may

Ads that feature a unique selling proposition help consumers focus on what is different and better about a firm's marketing mix. LU wants health-conscious European consumers to know that its cookie has as much vitamin B1 as an apricot.

persuade a consumer that other people with similar needs like the product. Product comparisons may highlight the advantages of a particular brand.

Although products may satisfy certain emotional needs, many consumers find it necessary to justify their purchases on some logical basis. Snickers candy bar ads helped ease the guilt of calorie-conscious snackers by assuring them that "Snickers satisfies you when you need an afternoon energy break."

An ad should usually focus on a *unique selling proposition* that aims at an important unsatisfied need. This can help differentiate the firm's marketing mix and position its brand as offering superior value to the target market. For example, Altoids' ads use humor to highlight the "curiously strong" flavor of its mints. Too many advertisers ignore the idea of a unique selling proposition. Rather than using an integrated blend of communications to tell the whole story, they cram too much into each ad—and then none of it has any impact.

Obtaining action

Getting action is the final requirement—and not an easy one. From communication research, we now know that prospective customers must be led beyond considering how the product *might* fit into their lives—to actually trying it or letting the company's sales rep demonstrate it.

Direct-response ads and interactive media can sometimes help promote action by encouraging interested consumers to do *something* that is less risky or demanding than actually making a purchase. For example, an ad that includes a toll-free telephone number might prompt some consumers who are not yet ready to buy to at least call for more information. Then follow-up brochures or a telephone salesperson can provide additional information and attempt to prompt another action—perhaps a visit to a store or a "satisfaction guaranteed" trial period. This approach seeks to get action one step at a time, where the first action suggested provides a "foot in the door" for subsequent communication efforts.

Whether or not some direct-response approach is used, to communicate more effectively ads might emphasize strongly felt customer needs. Careful research on attitudes in the target market may help uncover such strongly felt *unsatisfied* needs. Appealing to important needs can get more action and also provide the kind of information buyers need to confirm their decisions. Some customers seem to read more advertising *after* a purchase than before. The ad may reassure them about the correctness of their decision.

Can global messages work?

Many international consumer products firms try to use one global advertising message all around the world. Of course, they translate the message or make other minor adjustments—but the focus is one global copy thrust. Some do it to cut the cost of developing different ads for each country. Others feel their customers' basic needs are the same, even in different countries. Some just do it because it's fashionable to "go global."

This approach works for some firms. Coca-Cola and IBM, for example, feel that the needs their products serve are very similar for customers around the world. They focus on the similarities among customers who make up their target market rather than the differences. However, most firms who use this approach experience terrible results. They may save money by developing fewer ads, but they lose sales because they don't develop advertising messages, and whole marketing mixes, aimed at specific target markets. They just try to appeal to a global "mass market."

Combining smaller market segments into a single, large target market makes sense if the different segments can be served with a single marketing mix. But when that is not the case, the marketing manager should treat them as different target markets and develop different marketing mixes for each target.[22]

Advertising Agencies Often Do the Work

An advertising manager manages a company's advertising effort. Many advertising managers—especially those working for large retailers—have their own advertising departments that plan specific advertising campaigns and carry out the details. Others turn over much of the advertising work to specialists—the advertising agencies.

Ad agencies are specialists

Advertising agencies are specialists in planning and handling mass-selling details for advertisers. Agencies play a useful role—because they are independent of the advertiser and have an outside viewpoint. They bring experience to an individual client's problems because they work for many other clients. As specialists they can often do the job more economically than a company's own department. And if an agency isn't doing a good job, the client can select another. However, ending a relationship with an agency is a serious decision. Too many marketing managers just use their advertising agency as a scapegoat. Whenever anything goes wrong, they blame the agency.

Some full-service agencies handle any activities related to advertising, publicity, or sales promotion. They may even handle overall marketing strategy planning as well as marketing research, product and package development, and sales promotion. Other agencies are more specialized. For example, in recent years there has been rapid growth of firms that specialize in developing websites and Internet banners ads. Similarly, creative specialists just handle the artistic elements of advertising but leave media scheduling and buying, research, and related services to other specialists or full-service agencies.

The biggest agencies handle much of the advertising

The vast majority of advertising agencies are small—with 10 or fewer employees. But the largest agencies account for most of the billings. Over the past decade many of the big agencies merged—creating mega-agencies with worldwide networks.

Exhibit 16-5 Top Eight Advertising Agency Supergroups and Examples of Products They Advertise

Organization	Headquarters	Worldwide Gross Income, 2000 ($ millions)	Products
WPP Group	London	$7,971.0	American Express, AT&T, Campbell's, Ford, IBM
Omnicom Group.	New York	6,986.2	Anheuser-Busch, DaimlerChrysler, McDonald's, PepsiCo, Visa
Interpublic Group of Cos.	New York	6,595.9	Coca-Cola, GM, Johnson & Johnson, Microsoft, UPS
Dentsu	Tokyo	3,089.0	Honda, Japan Air Lines, Kao, Matsushita, Toyota
Havas Advertising	Paris	2,757.3	Intel, Philips, PSA Peugeot-Citroen, Volkswagen, Worldcom
Publicis Groupe	Paris	2,479.1	BMW, British Airways, L'Oreal, Renault, Siemens
Bcom3 Group	Chicago	2,215.9	Canon, Delta, Hallmark, Heinz, Suzuki
Grey Advertising	New York	1,863.2	British American Tobacco, GlaxoSmithKline, Mars, Procter & Gamble, 3M

Exhibit 16-5 shows a list of eight of the largest agency networks and examples of some of the products they advertise. Although their headquarters are located in different nations, they have offices worldwide. The move toward international marketing is a key reason behind the mergers.

Before the mergers, marketers in one country often had difficulty finding a capable, full-service agency in the country where they wanted to advertise. The mega-agency can offer varied services—wherever in the world a marketing manager needs them. This may be especially important for managers in large corporations—like Toyota, Renault, Unilever, NEC, Philips, Procter & Gamble, Nestlé, and PepsiCo—that advertise worldwide.[23]

In spite of the growth of these very large agencies, smaller agencies will continue to play an important role. The really big agencies are less interested in smaller accounts. Smaller agencies will continue to appeal to customers who want more personal attention and a close relationship that is more attuned to their marketing needs.

Are they paid too much?

Traditionally, U.S. advertising agencies have been paid a commission of about 15 percent on media and production costs. This arrangement evolved because media usually have two prices: one for national advertisers and a lower rate for local advertisers, such as local retailers. The advertising agency gets a 15 percent commission on national rates but not on local rates. This makes it worthwhile for producers and national middlemen to use agencies. National advertisers have to pay the full media rate anyway, so it makes sense to let the agency experts do the work and earn their commission. Local retailers—allowed the lower media rate—seldom use agencies.

Now, however, many firms—especially big producers of consumer packaged goods—resist the idea of paying agencies the same way regardless of the work performed or *the results achieved*. The commission approach also makes it hard for agencies to be completely objective about inexpensive media or promotion campaigns that use little space or time. Agencies don't always like a commission arrangement, either. Some try to charge additional fees when advertisers spend relatively little on media or need extra services—like preparation of materials to support a website or the personal selling effort. About half of all advertisers now pay agencies some sort of labor-based fee.

Some firms pay the agency based on results

A number of advertisers now grade the work done by their agencies—and the agencies' pay depends on the grade. General Foods was the first to do this. It lowered its basic commission to about 13 percent. However, it paid the agency a bonus of about 3 percent on campaigns that earned an A rating. If the agency only earned a B, it lost the bonus. If it earned a C, it had to improve fast or GF removed the account.

Variations on this approach are becoming common. For example, Carnation directly links its agency's compensation with how well its ads score in market research tests. Gillette uses a sliding scale, and the percentage of compensation declines with increased advertising volume. And some agencies develop their own plans in which they guarantee to achieve the results expected or give the advertiser a partial refund. This approach forces the advertiser and agency to agree on very specific objectives for their ads and what they expect to achieve. It also reduces the likelihood of the creative people in an agency focusing on ads that will win artistic approval in their industry rather than ads that do what the firm needs done.[24]

Ethical conflicts may arise

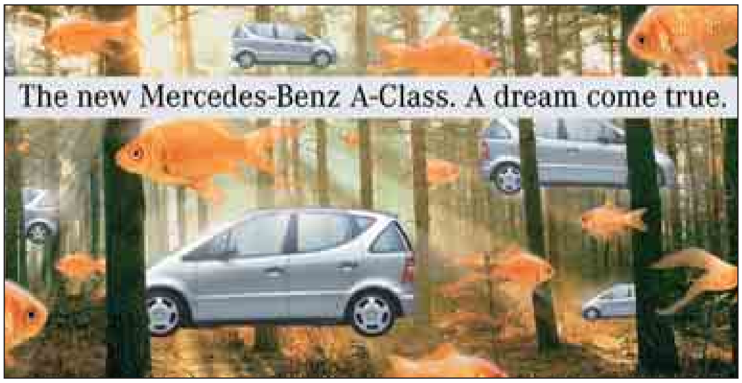
Ad agencies usually work closely with their clients, and they often have access to confidential information. This can create ethical conflicts if an agency is working with two or more competing clients. Most agencies are very sensitive to the potential problems and work hard to keep people and information from competing accounts completely separated. But many advertisers don't think that's enough—and they don't want to risk a problem. They refuse to work with an agency that handles any competing accounts, even when they're handled in different offices. For example, a top executive for the Budweiser brand ended a 79-year relationship with an agency when one of the agency's subsidiaries accepted an assignment to buy media space for a competing brand of beer.

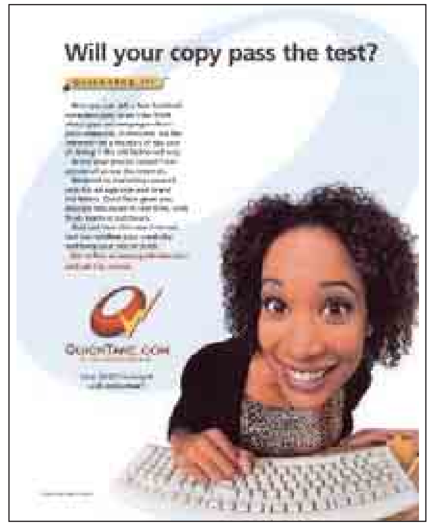
This potential conflict of interest in handling competing products is a problem for some of the international mega-agencies. The worst case was years ago when the mergers had just started. Saatchi & Saatchi gained over $300 million in billings through its mergers but then quickly lost $462 million in billings when old clients departed because Saatchi's new clients included competitors.[25]

Measuring Advertising Effectiveness Is Not Easy

Success depends on the total marketing mix

It would be convenient if we could measure the results of advertising by looking at sales. Certainly some breakthrough ads do have a very direct effect on a company's sales—and the advertising literature is filled with success stories that "prove" advertising increases sales. Similarly, market research firms like Information Resources can sometimes compare sales levels before and after, or during, the period of an ad campaign. Yet we usually can't measure advertising success just by looking at sales. The total marketing mix—not just promotion generally or advertising specifically—is responsible for the sales result. And sales results are also affected by what competitors do and by other changes in the external marketing environment. Only with direct-response advertising can a company make a direct link between advertising and sales results. Then, if an ad doesn't produce immediate results, it's considered a failure.





Mercedes used the ad (above) to help introduce its new model and attract younger customers in Latin America. A bad economy dampened sales, but the ad did pull the target market into showrooms. This increased names in the dealers' customer database, used to target other promotions, by 50 percent. Firms like QuickTake.com do research to help advertisers determine if a creative ad is also effective. More and more research is being done online.

Research and testing can improve the odds

Ideally, advertisers should pretest advertising before it runs rather than relying solely on their own guesses about how good an ad will be. The judgment of creative people or advertising experts may not help much. They often judge only on the basis of originality or cleverness of the copy and illustrations.

Many progressive advertisers now demand laboratory or market tests to evaluate an ad's effectiveness. For example, American Express used focus group interviews to get reactions to a series of possible TV ads. The agency prepared picture boards presenting different approaches—as well as specific copy. One idea that seemed to be effective became the basis for an ad that was tested again before being launched on TV.[26]

Split runs on cable TV systems in test markets are an important approach for testing ads in a normal viewing environment. Scanner sales data from retailers in those test markets can provide an estimate of how an ad is likely to affect sales. This approach will become even more powerful in the future as more cable systems and telephone companies add new interactive technology that allows viewers to provide immediate feedback to an ad as it appears on the TV.

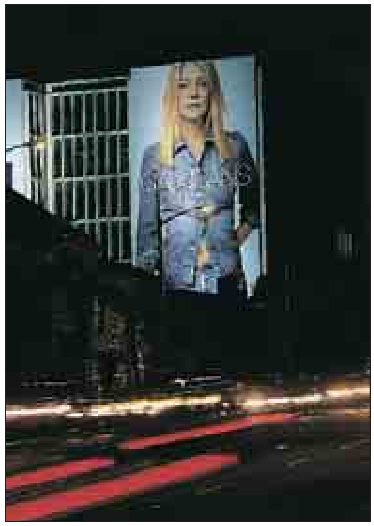
Hindsight may lead to foresight

After ads run, researchers may try to measure how much consumers recall about specific products or ads. Inquiries from customers may be used to measure the effectiveness of particular ads. The response to radio or television commercials or magazine readership can be estimated using various survey methods to check the size and composition of audiences (the Nielsen and Starch reports are examples). Similarly, most Internet advertisers use software that keeps track of how many "hits" on the firm's website come from ads placed at other websites.[27]

How to Avoid Unfair Advertising

Government agencies may say what is fair

In most countries, the government takes an active role in deciding what kinds of advertising are allowable, fair, and appropriate. For example, France and Japan limit the use of cartoon characters in advertising to children, and Canada bans *any* advertising targeted directly at children. Greece and Sweden have had similar



There are specialized advertising agencies that help advertisers with unique media—ranging from posters that cover a whole building to advertising messages pressed into the sand on public beaches.

policies and want the rest of the European Union to adopt them. In Switzerland, an advertiser cannot use an actor to represent a consumer. New Zealand and Switzerland limit political ads on TV. In the United States, print ads must be identified so they aren't confused with editorial matter; in other countries ads and editorial copy can be intermixed. Most countries limit the number and length of commercials on broadcast media. Until recently, an Italian TV ad could be shown only 10 times a year.

What is seen as positioning in one country may be viewed as unfair or deceptive in another. For example, when Pepsi was advertising its cola as "the choice of the new generation" in most countries, Japan's Fair Trade Committee didn't allow it—because in Japan Pepsi was not "the choice." Similarly, Hungary's Economic Competition Council fined Unilever $25,000 for running an ad that claimed that its OMO detergent removed stains better than ordinary detergent. The Council said the ad was unfair because Hungarian consumers would interpret the phrase "ordinary detergent" as a reference to a locally produced detergent.[28]

Differences in rules mean that a marketing manager may face very specific limits in different countries, and local experts may be required to ensure that a firm doesn't waste money developing advertising programs that will never be shown or which consumers will think are deceptive.

FTC controls unfair practices in the United States

In the United States, the Federal Trade Commission (FTC) has the power to control unfair or deceptive business practices—including deceptive advertising. The FTC has been policing deceptive advertising for many years. And it may be getting results now that advertising agencies as well as advertisers must share equal responsibility for false, misleading, or unfair ads.

This is a serious matter. If the FTC decides that a particular practice is unfair or deceptive, it has the power to require affirmative disclosures—such as the health warnings on cigarettes—or **corrective advertising**—ads to correct deceptive advertising. Years ago the FTC forced Listerine to spend millions of dollars on advertising to "correct" earlier ads that claimed the mouthwash helped prevent colds. Advertisers still remember that lesson. The possibility of large financial penalties and/or the need to pay for corrective ads has caused more agencies and advertisers to stay well within the law. That may explain why Microsoft quickly settled when the FTC charged the firm with deceptive advertising concerning WebTV.[29]

When the FTC found fewer outright deceptive ads in national campaigns, the agency moved more aggressively against what it felt to be other "unfair" practices. Some in the FTC felt it was unfair to target advertising at children. And there were questions about whether food and drug advertising should be controlled to protect vulnerable groups, such as the aged, poor, or less-educated.

Not everyone agreed with this thrust, however. Congress specifically limits FTC rule-making to advertising that is *deceptive* rather than *unfair.* Note, however, that while the FTC is prohibited from using unfairness in a rule affecting a whole industry, unfairness can still be used against an individual company. For example, if RJR had not yielded to public and government pressure to drop its Joe Camel cigarette campaign, it might have faced charges that the comic character was part of an unfair effort to appeal to underage teens.[30]

What is unfair or deceptive is changing

What constitutes unfair and deceptive advertising is a difficult question and one marketing managers will have to wrestle with for years. Sometimes the law provides guidelines, but in most cases the marketing manager must make personal judgments as well. The social and political environment is changing worldwide. Practices considered acceptable some years ago are now questioned or considered deceptive. Saying or even implying that your product is best may be viewed as deceptive. And a 1988 revision of the Lanham Act protects firms whose brand names are unfairly tarnished in comparative ads.

Supporting ad claims is a fuzzy area

Companies get no clear guidelines about how much research support they need to back up their ad claims. Unfortunately, there are many ways to lie with statistics, and unethical and/or desperate advertisers of me-too products try many of them. It only takes one such competitor in an industry to cause major shifts in market share and affect the nature of competition in that market. As an old cliché says: One bad apple can spoil a whole barrel.[31]

It's really not hard to figure out how to avoid criticisms of being unfair and deceptive. A little puffing is acceptable—and probably always will be. But firms need to put a stop to the typical production-oriented approach of trying to use advertising to differentiate me-too products that are not different and don't offer customers better value.

Sales Promotion: Do Something Different to Stimulate Change

The nature of sales promotion

Sales promotion refers to those promotion activities—other than advertising, publicity, and personal selling—that stimulate interest, trial, or purchase by final customers or others in the channel. Exhibit 14-2 shows examples of typical sales promotions targeted at final customers, channel members, or a firm's own employees.

Sales promotion is generally used to complement the other promotion methods. While advertising campaigns and sales force strategy decisions tend to have longer-term effects, a particular sales promotion activity usually lasts for only a limited time period. But sales promotion can often be implemented quickly and get sales results sooner than advertising. Further, sales promotion objectives usually focus on prompting some short-term action. For a middleman, such an action might be a decision to stock a product, provide a special display space, or give the product special emphasis in selling efforts to final customers. For a consumer, the desired action might be to try a new product, switch from another brand, buy more of a product, or perhaps buy earlier than would otherwise be the case. The desired action by an employee might be a special effort to satisfy customers or more emphasis on selling a certain product.

Sony's interactive kiosk provides special in-store sales promotion support for memory sticks used by portable electronic devices like the new MS Walkman.

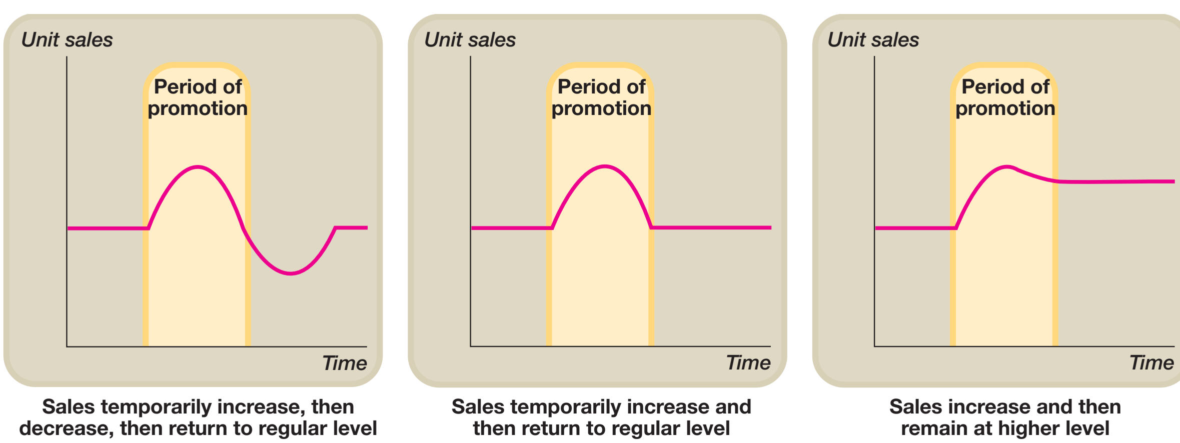
Sales promotion objectives and situation should influence decision

There are many different types of sales promotion, but what type is appropriate depends on the situation and objectives. For example, Exhibit 16-6 shows some possible ways that a short-term promotion might affect sales. The sales pattern in the graph on the left might occur if Hellmann's issues coupons to help clear its excess mayonnaise inventory. Some consumers might buy earlier to take advantage of the coupon, but unless they use extra mayonnaise their next purchase will be delayed. In the center graph, kids might convince parents to eat more Big Macs while McDonald's has a Star Wars promotion, but when it ends things go back to normal. The graph on the right shows a Burger King marketer's dream come true: free samples of a new style of french fries quickly pull in new customers who like what they try and keep coming back after the promotion ends. This is also the kind of long-term result that is the aim of effective advertising.

Sales promotion spending has grown in mature markets

Sales promotion involves so many different types of activities that it is difficult to estimate accurately how much is spent in total. There is general consensus, however, that the total spending on sales promotion exceeds spending on advertising. Companies

Exhibit 16-6 Some Possible Effects of a Sales Promotion on Sales



that sell frequently purchased consumer products—especially staples such as food products, health and beauty aids, and household cleaning products—shifted their promotion blends to put more emphasis on sales promotion during the 1990s.[32]

One basic reason for increased use of sales promotion by many consumer products firms is that they are generally competing in mature markets. There's only so much soap, cereal, and deodorant that consumers want to buy—regardless of how many different brands there are vying for their attention and dollars. There's also only so much shelf space that retailers will allocate to a particular product category.

The competitive situation is intensified by the growth of large, powerful retail chains. They have put more emphasis on their own dealer brands and also demanded more sales promotion support for the manufacturer brands they do carry.

Perhaps in part because of this competition, many consumers have become more price sensitive. Many sales promotions, like coupons, have the effect of lowering the prices consumers pay. So sales promotion has been used as a tool to overcome consumer price resistance.

Changes in technology have also made sales promotion more efficient. For example, with scanners at retail checkout counters, it's possible to instantly pinpoint a customer who is the target for a particular coupon. If a customer buys a bottle of Kraft salad dressing, Kraft can have the retailer's computerized cash register print out a coupon, on the spot, to encourage the customer to buy Kraft again the next time. Alternatively, a competitor might target that customer with a coupon to encourage brand switching.

The growth of sales promotion has also been fostered by the availability of more consultants, ad agencies, and specialists who help plan and implement sales promotion programs. Of course, the most basic reason for the growth of spending on sales promotion is that it can be very effective if it is done properly. But there are problems in the sales promotion area.

Problems in Managing Sales Promotion

Does sales promotion erode brand loyalty?

Some experts think that marketing managers—especially those who deal with consumer packaged goods—put too much emphasis on sales promotions. They argue that the effect of most sales promotion is temporary and that money spent on advertising and personal selling helps the firm more over the long term. Their view is that most sales promotions don't help develop close relationships with consumers and instead erode brand loyalty.

There is heavy use of sales promotion in mature markets where competition for customers and attention from middlemen is fierce. Moreover, if the total market is not growing, sales promotions may just encourage "deal-prone" customers (and middlemen) to switch back and forth among brands. Here, all the expense of the sales promotions and the swapping around of customers simply contributes to lower profits for everyone. It also increases the prices that consumers pay because it increases selling costs—and ultimately it is consumers who pay for those selling costs.

However, once a marketing manager is in this situation there may be little choice other than to continue. At the mature stage of the product life cycle, frequent sales promotions may be needed just to offset the effects of competitors' promotions. One escape from this competitive rat race is for the marketing manager to seek new opportunities—with a strategy that doesn't rely solely on short-term sales promotions for competitive advantage.

There are alternatives

Procter & Gamble is a company that changed its strategy, and promotion blend, to decrease its reliance on sales promotion targeted at middlemen. It is offering middlemen lower prices on many of its products and supporting those products with more advertising and promotion to final consumers. P&G believes that this approach builds its brand equity, serves consumers better, and leads to smoother-running relationships in its channels. Not all retailers are happy with P&G's changes. However, given concerns about the impact of trade promotion on brand loyalty, the number of producers who follow P&G's lead is likely to grow.

Firms are also experimenting with other approaches. For example, some reimburse middlemen for promotion effort in proportion to their sales to final consumers. This supports middlemen who actually increase sales to final consumers—which can be quite different from just giving sales promotion dollars to middlemen who simply make the product available. Making the product available is a means to an end; but if making it available without producing sales is all that is accomplished, the sales promotion doesn't make sense.[33]

Sales promotion is hard to manage

Another problem in the sales promotion area is that it is easy to make big, costly mistakes. Because sales promotion includes a wide variety of activities—each of which may be custom-designed and used only once—it's difficult for the typical company to develop skill in this area. Mistakes caused by lack of experience can be very costly too. One promotion sponsored jointly by Polaroid and Trans World Airlines (TWA) proved to be a disaster. The promotion offered a coupon worth 25 percent off the price of any TWA ticket with the purchase of a $20 Polaroid camera. The companies intended to appeal to vacationers who take pictures when they travel. Instead, travel agents bought up many of the cameras. For the price of the $20 camera, they made an extra 25 percent on every TWA ticket they sold. And big companies bought thousands of the cameras to save on travel expenses. This is not an isolated example. Such problems are common.[34]

Not a sideline for amateurs

Sales promotion mistakes are likely to be worse when a company has no sales promotion manager. If the personal selling or advertising managers are responsible for sales promotion, they often treat it as a "stepchild." They allocate money to sales promotion if there is any "left over" or if a crisis develops. Many companies, even some large ones, don't have a separate budget for sales promotion or even know what it costs in total.

Making sales promotion work is a learned skill, not a sideline for amateurs. That's why specialists in sales promotion have developed—both inside larger firms and as outside consultants. Some of these people are real experts and are willing to take over the whole sales promotion job. But it's the marketing manager's responsibility to set sales promotion objectives and policies that will fit in with the rest of each marketing strategy.[35]

Earlier we noted that sales promotion can be aimed at final consumers or users, channel members, and company employees. Let's look at some of the sales promotion tools used for these different targets and what objectives they are expected to accomplish.

Different Types of Sales Promotion for Different Targets

Sales promotion for final consumers or users

Much of the sales promotion aimed at final consumers or users tries to increase demand, perhaps temporarily, or speed up the time of purchase. Such promotion might involve developing materials to be displayed in retailers' stores—including banners, sample packages, calendars, and various point-of-purchase materials. The sales promotion people also might develop special displays for supermarkets. They might be responsible for sweepstakes contests as well as for coupons designed to get

Trade shows are a very important element in the promotion blend for many marketers who target business customers. Computer-generated checkout coupons allow a producer to target final consumers who have purchased a competing brand, or alternatively to encourage a customer to buy the same brand again in the future.

customers to buy a product by a certain date. Each year, about 300 billion coupons are distributed—and consumers redeem enough of them to save, in total, nearly $4 billion. Coupon distribution has dropped off some in recent years but still averages over 3,000 coupons per household in America![36]

Internet

Internet Exercise Catalina Marketing Corporation is a supplier of in-store, at-home, and online consumer promotions. Go to the Catalina website (www.catalinamktg.com) and select the shopping cart icon for in-store. Then review information about its Retail programs. Briefly describe, in your own words, how the Direct Mail program works, and describe a situation in which a manufacturer might find it useful.

All of these sales promotion efforts are aimed at specific objectives. For example, if customers already have a favorite brand, it may be hard to get them to try anything new. Or it may take a while for them to become accustomed to a different product. A free trial-sized bottle of mouthwash might be just what it takes to get cautious consumers to try, and like, the new product. Such samples might be distributed house to house, by mail, at stores, or attached to other products sold by the firm. In this type of situation, sales of the product might start to pick up as soon as customers try the product and find out that they like it. And sales will continue at the higher level after the promotion is over if satisfied customers make repeat purchases. Thus, the cost of the sales promotion in this situation might be viewed as a long-term investment.

When a product is already established, consumer sales promotion usually focuses on stimulating sales in the short term. For example, after a price-off coupon for a soft drink is distributed, sales might temporarily pick up as customers take advantage of buying at a lower price. They may even consume more of the soft drink than would have otherwise been the case. However, once the coupon period is over, sales would return to the original level or they might even decline for a while. This is what happens if customers use a coupon to stock up on a product at the low price. Then it takes them longer than usual to buy the product again.

When the objective of the promotion is focused primarily on producing a short-term increase in sales, it's sensible for the marketing manager to evaluate the cost of the promotion relative to the extra sales expected. If the increase in sales won't at least cover the cost of the promotion, it probably doesn't make sense to do it. Otherwise, the firm is "buying sales" at the cost of reduced profit.

Sales promotion directed at industrial customers might use the same kinds of ideas. In addition, the sales promotion people might set up and staff trade show exhibits. Here, attractive models are often used to encourage buyers to look at a firm's product—especially when it is displayed near other similar products in a circuslike atmosphere. Trade shows are a cost-effective way to reach target customers and generate a list of "live" prospects for sales rep follow-up. However, many firms handle these leads badly. A recent study says that 85 percent of the leads never get followed up by anybody.

Some sellers give promotion items—pen sets, watches, or clothing (perhaps with the firm's brand name on them)—to remind business customers of their products. This is common, but it can be a problem. Some companies do not allow buyers to take any gifts. They don't want the buyer's judgment to be influenced by who gives the best promotional items![37]

Sales promotion for middlemen

Sales promotion aimed at middlemen—sometimes called *trade promotion*—emphasizes price-related matters. The objective may be to encourage middlemen to stock new items, buy in larger quantity, buy early, or stress a product in their own promotion efforts.

The tools used here include price and/or merchandise allowances, promotion allowances, and perhaps sales contests to encourage retailers or wholesalers to sell specific items or the company's whole line. Offering to send contest winners to Hawaii, for example, may increase sales.

About half of the sales promotion spending targeted at middlemen has the effect of reducing the price that they pay for merchandise from a supplier. Thus, it makes sense to think about trade promotions in the context of other price-related matters. So we'll go into more detail on different types of trade discounts and allowances in the next chapter.[38]

Sales promotion for own employees

Sales promotion aimed at the company's own sales force might try to encourage providing better service, getting new customers, selling a new product, or selling the company's whole line. Depending on the objectives, the tools might be contests, bonuses on sales or number of new accounts, and holding sales meetings at fancy resorts to raise everyone's spirits.

Ongoing sales promotion work might also be aimed at the sales force—to help sales management. Sales promotion might be responsible for preparing sales portfolios, videotapes on new products, displays, and other sales aids, as well as sales training material.

Service-oriented firms, such as hotels or restaurants, now use sales promotions targeted at their employees. Some, for example, give a monthly cash prize for the employee who provides the "best service." And the employee's picture is displayed to give recognition.[39]

Conclusion

Theoretically, it may seem simple to develop an advertising campaign. Just pick the medium and develop a message. But it's not that easy. Effectiveness depends on using the "best" available medium and the "best" message considering (1) promotion objectives, (2) the target markets, and (3) the funds available for advertising.

Specific advertising objectives determine what kind of advertising to use—product or institutional. If product advertising is needed, then the particular type must be decided—pioneering, competitive (direct or indirect), or reminder. And advertising allowances and cooperative advertising may be helpful.

Many technical details are involved in mass selling, and specialists—advertising agencies—handle some of these jobs. But specific objectives must be set for them, or their advertising may have little direction and be almost impossible to evaluate.

Effective advertising should affect sales. But the whole marketing mix affects sales—and the results of advertising usually can't be measured by sales changes alone. By contrast, sales promotion tends to be more action-oriented.

Sales promotion spending is big and growing. This approach is especially important in prompting action—by customers, middlemen, or salespeople. There are many different types of sales promotion, and it is a problem area in many firms because it is difficult for a firm to develop expertise with all of the possibilities.

Advertising and sales promotion are often important parts of a promotion blend—but in most blends personal selling also plays an important role. Further, promotion is only a part of the total marketing mix a marketing manager must develop to satisfy target customers. So to broaden your understanding of the four Ps and how they fit together, in the next two chapters we'll go into more detail on the role of Price in strategy decisions.

Questions and Problems

1. Identify the strategy decisions a marketing manager must make in the advertising area.
2. Discuss the relation of advertising objectives to marketing strategy planning and the kinds of advertising actually needed. Illustrate.
3. List several media that might be effective for reaching consumers in a developing nation with low per capita income and a high level of illiteracy. Briefly discuss the limitations and advantages of each medium you suggest.
4. Give three examples where advertising to middlemen might be necessary. What are the objective(s) of such advertising?
5. What does it mean to say that "money is invested in advertising"? Is all advertising an investment? Illustrate.
6. Find advertisements to final consumers that illustrate the following types of advertising: *(a)* institutional, *(b)* pioneering, *(c)* competitive, and *(d)* reminder. What objective(s) does each of these ads have? List the needs each ad appeals to.
7. Describe the type of media that might be most suitable for promoting: *(a)* tomato soup, *(b)* greeting cards, *(c)* a business component material, and *(d)* playground equipment. Specify any assumptions necessary to obtain a definite answer.
8. Briefly discuss some of the pros and cons an advertising manager for a producer of sports equipment might want to think about in deciding whether to advertise on the Internet.
9. Discuss the use of testimonials in advertising. Which of the four AIDA steps might testimonials accomplish? Are they suitable for all types of products? If not, for which types are they most suitable?
10. Find a magazine ad that you think does a particularly good job of communicating to the target audience. Would the ad communicate well to an audience in another country? Explain your thinking.
11. Johnson & Johnson sells its baby shampoo in many different countries. Do you think baby shampoo would be a good product for Johnson & Johnson to advertise with a single global message? Explain your thinking.
12. Discuss the future of smaller advertising agencies now that many of the largest are merging to form mega-agencies.
13. Does advertising cost too much? How can this be measured?
14. How would your local newspaper be affected if local supermarkets switched their weekly advertising and instead used a service that delivered weekly, freestanding ads directly to each home?
15. Is it unfair to advertise to children? Is it unfair to advertise to less-educated or less-experienced people of any age? Is it unfair to advertise for "unnecessary" products? Is it unfair to criticize a competitor's product in an ad?
16. Explain why P&G and other consumer packaged goods firms are trying to cut back on some types of sales promotion like coupons for consumers and short-term trade promotions such as "buy a case and get a case free."
17. Discuss some ways that a firm can link its sales promotion activities to its advertising and personal selling efforts—so that all of its promotion efforts result in an integrated effort.
18. Indicate the type of sales promotion that a producer might use in each of the following situations and briefly explain your reasons:
    a. A firm has developed an improved razor blade and obtained distribution, but customers are not motivated to buy it.
    b. A competitor is about to do a test market for a new brand and wants to track sales in test market areas to fine tune its marketing mix.

c. A big grocery chain won't stock a firm's new popcorn-based snack product because it doesn't think there will be much consumer demand.

19. Why wouldn't a producer of toothpaste just lower the price of its product rather than offer consumers a price-off coupon?

20. If sales promotion spending continues to grow—often at the expense of media advertising—how do you think this might affect the rates charged by mass media for advertising time or space? How do you think it might affect advertising agencies?

Suggested Cases

18. State Bank

20. Outdoor World, Inc.

Computer-Aided Problem

16. **Sales Promotion**

As a community service, disc jockeys from radio station WMKT formed a basketball team to help raise money for local nonprofit organizations. The host organization finds or fields a competing team and charges $5 admission to the game. Money from ticket sales goes to the nonprofit organization.

Ticket sales were disappointing at recent games—averaging only about 300 people per game. When WMKT's marketing manager, Bruce Miller, heard about the problem, he suggested using sales promotion to improve ticket sales. The PTA for the local high school—the sponsor for the next game—is interested in the idea but is concerned that its budget doesn't include any promotion money. Miller tries to help them by reviewing his idea in more detail.

Specifically, he proposes that the PTA give a free T-shirt (printed with the school name and date of the game) to the first 500 ticket buyers. He thinks the T-shirt giveaway will create a lot of interest. In fact, he says he is almost certain the promotion would help the PTA sell 600 tickets—double the usual number. He speculates that the PTA might even have a sellout of all 900 seats in the school gym. Further, he notes that the T-shirts will more than pay for themselves if the PTA sells 600 tickets.

A local firm that specializes in sales promotion items agrees to supply the shirts and do the printing for $2.40 a shirt if the PTA places an order for at least 400 shirts. The PTA thinks the idea is interesting but wants to look at it more closely to see what will happen if the promotion doesn't increase ticket sales. To help the PTA evaluate the alternatives, Miller sets up a spreadsheet with the relevant information.

a. *Based on the data from the initial spreadsheet, does the T-shirt promotion look like a good idea? Explain your thinking.*
b. *The PTA treasurer worries about the up-front cost of printing the T-shirts and wants to know where they would stand if they ordered the T-shirts and still sold only 300 tickets. He suggests it might be safer to order the minimum number of T-shirts (400). Evaluate his suggestion.*
c. *The president of the PTA thinks the T-shirt promotion will increase sales but wonders if it wouldn't be better just to lower the price. She suggests $2.60 a ticket, which she arrives at by subtracting the $2.40 T-shirt cost from the usual $5.00 ticket price. How many tickets would the PTA have to sell at the lower price to match the money it would make if it used the T-shirt promotion and actually sold 600 tickets? (Hint: Change the selling price in the spreadsheet and then vary the quantity using the analysis feature.)*

For additional questions related to this problem, see Exercise 16-3 in the *Learning Aid for Use with Basic Marketing*, 14th edition.

Chapter Seventeen

Pricing Objectives and Policies

When You Finish This Chapter, You Should

1. Understand how pricing objectives should guide strategy planning for pricing decisions.

2. Understand choices the marketing manager must make about price flexibility.

3. Know what a marketing manager should consider when setting the price level for a product in the early stages of the product life cycle.

4. Understand the many possible variations of a price structure, including discounts, allowances, and who pays transportation costs.

5. Understand the value pricing concept and its role in obtaining a competitive advantage and offering target customers superior value.

6. Understand the legality of price level and price flexibility policies.

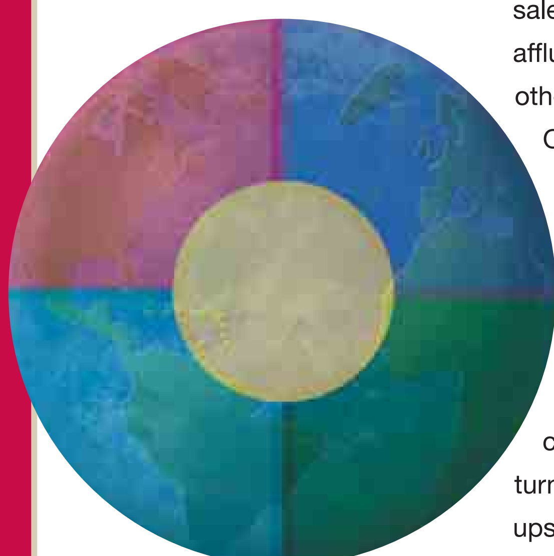
7. Understand the important new terms (shown in red).

For years, the Chevy Suburban utility vehicle was a low-price, no-frills, work truck targeted at commercial users. Then changes in the marketing environment presented a new opportunity. To turn the opportunity into profits, marketing managers planned a new strategy for the Suburban—and new price policies were a crucial aspect of the strategy.

In the early 1990s, luxury car sales to the high-income, baby-boomer crowd were growing fast. BMW, Lexus, and Mercedes sedans seemed to be the ultimate yuppie status symbol and the leaders in customer satisfaction. Yet sales of luxury sedans slowed as affluent consumers looked for other ways to meet their needs.

One clear sign of this shift was the growth in demand for fancy utility vehicles like the Jeep Grand Cherokee.

As consumer preferences changed, marketing managers for the Chevy Suburban changed their strategy. They turned the Suburban into an upscale utility vehicle targeted at



price

place

promotion

produc

families for hauling special cargo—like kids, toys, and pets. And this target market wanted to do its hauling in style. So marketing managers for the Suburban added many luxury features and options—like leather interiors and power everything. They also significantly raised the suggested list price; a fully equipped Suburban cost about $40,000. In 1996, Suburbans could command that price because no other model was as big, plush, and powerful. If a consumer really wanted jumbo-sized luxury, Suburban was the only choice.

Even at its steep price, demand for the Suburban was so hot that supply couldn't keep up. Yet GM managers didn't want to build a new factory. They realized that other firms were scrambling to develop competing models that would cut into Suburban's sales and lofty prices. If a new factory turned into excess capacity and high overhead costs, it would be hard to cut Suburban prices and still make a profit. That risk didn't seem worth it when the profit on each Suburban was about $8,000—much higher than for most cars.

Dealers couldn't get all the Suburbans they could sell, so many sold the ones they could get at a premium of $1,000 or more above the suggested list price. This jacking up of prices irritated buyers—and many switched to Ford Explorers or other vehicles. Yet GM's marketing managers couldn't *make* dealers charge the suggested list price—and it's not legal to charge uncooperative dealers a higher price for the Suburbans that they buy.

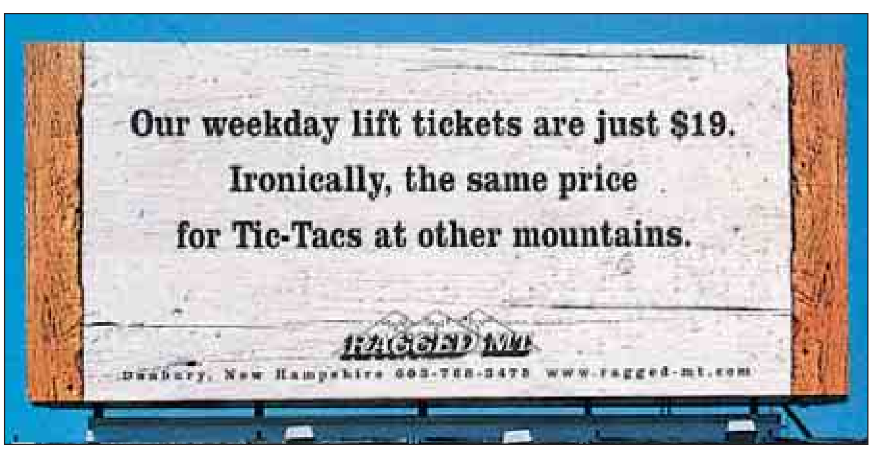
In 1997, two new jumbo luxury haulers—the Lincoln Navigator and the Ford Expedition—hit the market. They were instant successes. They attracted a lot of the people who had walked away when Suburban dealers tried to extract an unreasonable price. Other customers just liked the smoother ride. It also didn't hurt that gasoline prices were at a 25-year low. That pulled new consumers into the market who earlier had thought that the high operating cost of a gas guzzler made it a bad value, no matter how useful it might be.

By 2001, more competitors had come on the scene. Toyota redesigned its Land Cruiser for more interior space and luxury in 1998 and then hit even harder with a new Sequoia model. The exchange rate of the Japanese yen against the dollar gave Toyota a price advantage as the economy was shifting into lower gear. And Mercedes introduced its ML320 luxury sport-ute. It is smaller than the Suburban, but many consumers think that its styling, safety features, and low price make it a better value. Suburban sales were even cannibalized by other brands in the GM product line—including Cadillac's Escalade, which gave GM an offering at the next price line up from Suburban.

The economy, high gas prices, and competition cooled the demand for Suburbans. A special website (www.chevrolet.com/suburban) promotion offered Suburban buyers in the West (where the economic and competitive situation was the worst) financing at a 1.9 percent annual interest rate. However, some buyers from other regions saw the website and complained to dealers that the low financing rate wasn't available to them. In the end, to move inventory, many of these dealers just took a price cut or threw in free options.[1]

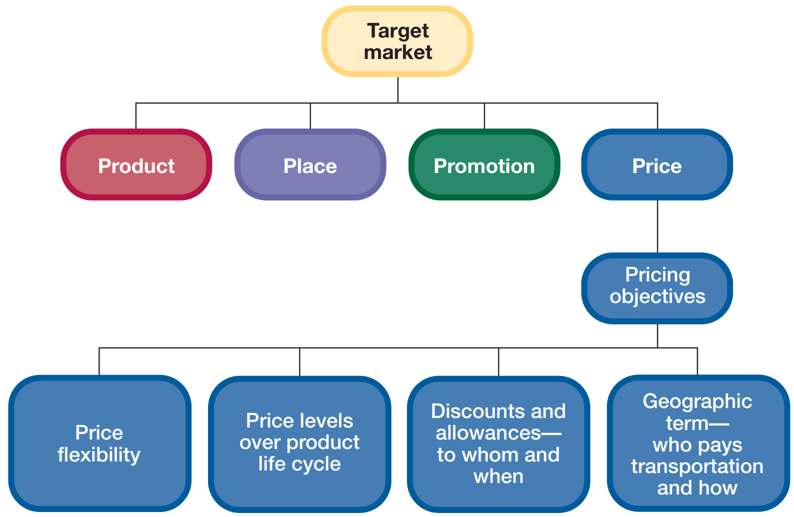
Price Has Many Strategy Dimensions

Price is one of the four major variables a marketing manager controls. Price-level decisions are especially important because they affect both the number of sales a firm makes and how much money it earns. From a customer's perspective, Price is what must be given up to get the benefits offered by the rest of a firm's marketing mix, so it plays a direct role in shaping customer value.



Ragged Mountain wants its customers to know that its price is a good value compared to what they get at other ski resorts.

Exhibit 17-1
Strategy Planning for Price



Guided by the company's objectives, marketing managers must develop a set of pricing objectives and policies. They must spell out what price situations the firm will face and how it will handle them. These policies should explain (1) how flexible prices will be, (2) at what level they will be set over the product life cycle, (3) to whom and when discounts and allowances will be given, and (4) how transportation costs will be handled. See Exhibit 17-1. These Price-related strategy decision areas are the focus of this chapter. After we've looked at specific decision areas, we will discuss how they combine to impact customer value as well as laws that are relevant. In the next chapter, we will discuss how specific prices are set—consistent with the firm's pricing objectives and policies and its whole marketing strategy.

It's not easy to define price in real-life situations because prices reflect many dimensions. People who don't realize this can make big mistakes.

Suppose you've been saving to buy a new car and you see in an ad that the base price for the new-year model has dropped to $16,494—5 percent lower than the previous year. At first this might seem like a real bargain. However, your view of this deal might change if you found out you also had to pay a $400 transportation charge and an extra $480 for an extended service warranty. The price might look even less attractive if you discovered the options you wanted—a CD player, side airbags, and a moonroof—cost $1,200 more than the previous year. The sales tax on all of this might come as an unpleasant surprise too. Further, how would you feel if you bought the car anyway and then learned that a friend who just bought the exact same model got a much lower price from the dealer by using a broker he found on the Internet?[2]

The price equation: price equals something of value

This example emphasizes that when a seller quotes a price, it is related to *some* assortment of goods and services. So **Price** is the amount of money that is charged for "something" of value. Of course, price may be called different things in different settings. Colleges charge tuition. Landlords collect rent. Motels post a room rate. Country clubs get dues. Banks ask for interest when they loan money. Airlines have fares. Doctors, lawyers, and Internet providers set fees. Employees want a wage. People may call it different things, but *almost every business transaction in our modern economy involves an exchange of money—the Price—for something.*

The something can be a physical product in various stages of completion, with or without supporting services, with or without quality guarantees, and so

Exhibit 17-2
Price as Seen by Consumers or Users

Price	Equals	Something of Value
List Price Less: *Discounts* Quantity Seasonal Cash Temporary sales Less: *Allowances* Trade-ins Damaged goods Less: *Rebate and coupon value* Plus: *Taxes*	equals	*Product* Physical good Service Assurance of quality Repair facilities Packaging Credit Warranty *Place of delivery or when available*

on. Or it could be a pure service—dry cleaning, a lawyer's advice, or insurance on your car.

The nature and extent of this something determines the amount of money exchanged. Some customers pay list price. Others obtain large discounts or allowances because something is *not* provided. Exhibit 17-2 summarizes some possible variations for consumers or users, and Exhibit 17-3 does the same for channel members. These variations are discussed more fully below, and then we'll consider the customer value concept more fully—in terms of competitive advantage. But here it should be clear that Price has many dimensions. How each of these dimensions is handled affects customer value. If a customer sees greater value in spending money in some other way, no exchange will occur.

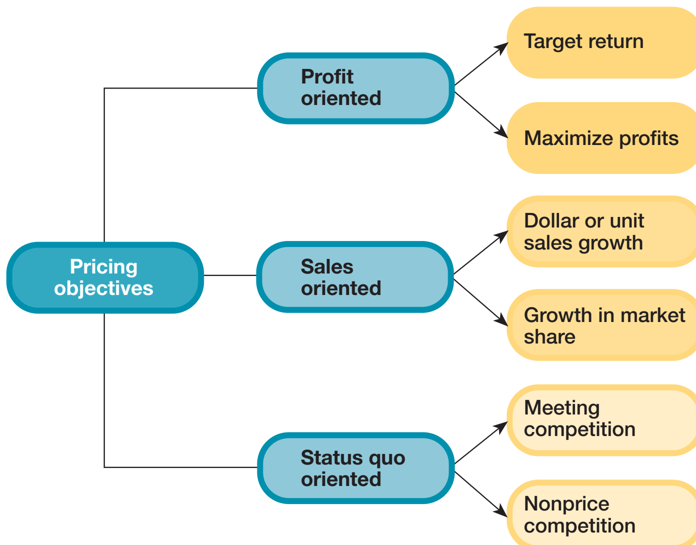
Objectives Should Guide Strategy Planning for Price

Pricing objectives should flow from, and fit in with, company-level and marketing objectives. Pricing objectives should be *explicitly stated* because they have a direct effect on pricing policies as well as the methods used to set prices. Exhibit 17-4 shows the various types of pricing objectives we'll discuss.

Exhibit 17-3
Price as Seen by Channel Members

Price	Equals	Something of Value
List Price Less: *Discounts* Quantity Seasonal Cash Trade or functional Temporary "deals" Less: *Allowances* Damaged goods Advertising Push money Stocking Plus: *Taxes and tariffs*	equals	*Product* Branded—well known Guaranteed Warranted Service—repair facilities Convenient packaging for handling *Place* Availability—when and where *Price* Price-level guarantee Sufficient margin to allow chance for profit *Promotion* Promotion aimed at customers

Exhibit 17-4
Possible Pricing Objectives



Profit-Oriented Objectives

Target returns provide specific guidelines

A **target return objective** sets a specific level of profit as an objective. Often this amount is stated as a percentage of sales or of capital investment. A large manufacturer like Motorola might aim for a 15 percent return on investment. The target for Safeway and other grocery chains might be a 1 percent return on sales.

A target return objective has administrative advantages in a large company. Performance can be compared against the target. Some companies eliminate divisions, or drop products, that aren't yielding the target rate of return. For example, General Electric sold its small appliance division to Black & Decker because it felt it could earn higher returns in other product-markets.

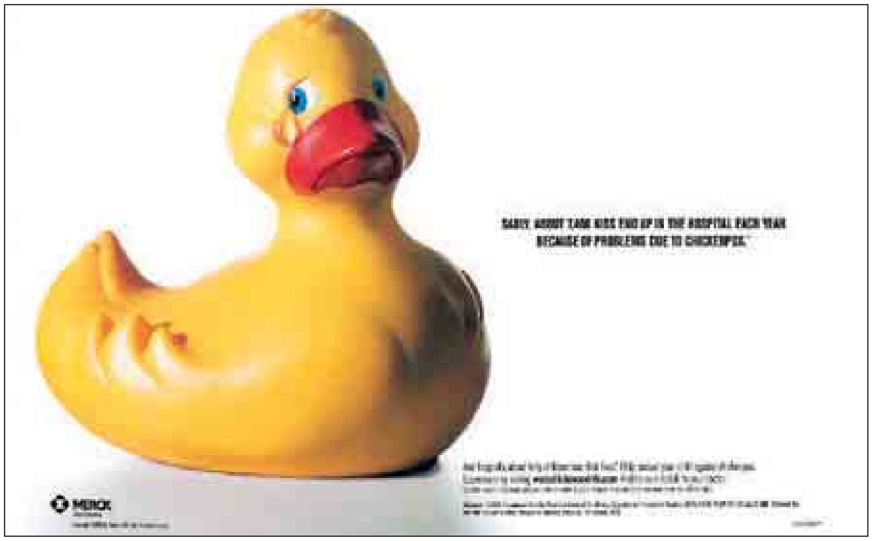
Some just want satisfactory profits

Some managers aim for only satisfactory returns. They just want returns that ensure the firm's survival and convince stockholders they're doing a good job. Similarly, some small family-run businesses aim for a profit that will provide a comfortable lifestyle.[3]

Many private and public nonprofit organizations set a price level that will just recover costs. In other words, their target return figure is zero. For example, a government agency may charge motorists a toll for using a bridge but then drop the toll when the cost of the bridge is paid.

Companies that are leaders in their industries—like Lockheed Martin (aerospace) and Blue Cross and Blue Shield (health insurance)—sometimes pursue only satisfactory long-run targets. They are well aware that their activities are in public view. The public and government officials expect them to follow policies that are in the public interest when they play the role of price leader or wage setter. Too large a return might invite government action. Similarly, firms that provide critical public services—including many utility and insurance companies, transportation firms, and defense contractors—face public or government agencies that review and approve prices.[4]

This kind of situation can lead to decisions that are not in the public interest. For example, some critics argue that some power companies that serve California were not motivated to keep costs low or expand capacity. After deregulation, there



Some politicians want to control the prices of drugs, but that may not be in the public interest if it reduces the incentive for firms to make the big investment required to develop innovative new medicines that people need. That, in turn, would reduce consumer choices.

were big shortages, and even price gouging by some firms, because it takes a long time to add new power systems.

Profit maximization can be socially responsible

A **profit maximization objective** seeks to get as much profit as possible. It might be stated as a desire to earn a rapid return on investment—or, more bluntly, to charge all the traffic will bear.

Some people believe that anyone seeking a profit maximization objective will charge high prices—prices that are not in the public interest. However, pricing to achieve profit maximization doesn't always lead to high prices. Low prices may expand the size of the market and result in greater sales and profits. For example, when prices of VCRs were very high, only innovators and wealthy people bought them. When producers lowered prices, nearly everyone bought one.

If a firm is earning a very large profit, other firms will try to copy or improve on what the company offers. Frequently, this leads to lower prices. IBM sold its original personal computer for about $4,500 in 1981. As Compaq, Dell, and other competitors started to copy IBM, it added more power and features and cut prices. By 2001, customers could buy a personal computer with more than 50 times the power, speed, and data storage for about $600, and prices continue to drop.[5]

We saw this process at work in Chapter 10—in the rise and fall of profits during the product life cycle. Contrary to the popular myth, a profit maximization objective is often socially desirable.

Sales-Oriented Objectives

A **sales-oriented objective** seeks some level of unit sales, dollar sales, or share of market—*without referring to profit.*

Sales growth doesn't necessarily mean big profits

Some managers are more concerned about sales growth than profits. They think sales growth always leads to more profits. This kind of thinking causes problems when a firm's costs are growing faster than sales—or when managers don't keep track of their costs. Recently, many major corporations have had declining profits in spite of growth in sales. At the extreme, many dot-coms kept lowering prices to

PeoplePC uses a young spokesman in its TV ad to explain that the PeoplePC price—at an affordable $.82 a day—includes not only a computer but also unlimited Internet access, in-home service, and shopping discounts.

increase market share but never earned any profits. Pets.com had growing sales until it burned through investors' money and went bankrupt. Generally, however, business managers now pay more attention to profits, not just sales.[6]

Managers of some nonprofit organizations set prices to increase market share—precisely because they are *not* trying to earn a profit. For example, many cities set low fares to fill up their buses. Buses cost the same to run empty or full, and there's more benefit when they're full even if the total revenue is no greater.

Market share objectives are popular

Many firms seek to gain a specified share (percent) of a market. If a company has a large market share, it may have better economies of scale than its competitors. In addition, it's usually easier to measure a firm's market share than to determine if profits are being maximized.

A company with a longer-run view may decide that increasing market share is a sensible objective when the overall market is growing. The hope is that larger future volume will justify sacrificing some profit in the short run. In the early days of the Internet, Netscape took this approach with its browser software. And companies as diverse as 3M, Coca-Cola, and IBM look at opportunities in Eastern Europe this way.

Of course, objectives aimed at increasing market share have the same limitations as straight sales growth objectives. A larger market share, if gained at too low a price, may lead to profitless "success." As simple as this point is, it's missed by many executives. It's a too-common symptom of death-wish marketing.

Status Quo Pricing Objectives

Don't-rock-the-boat objectives

Managers satisfied with their current market share and profits sometimes adopt **status quo objectives**—don't-rock-the-*pricing*-boat objectives. Managers may say that they want to stabilize prices, or meet competition, or even avoid competition. This don't-rock-the-boat thinking is most common when the total market is not

Marketing managers for Hydra Pools consciously set prices so that consumers receive a good value at a price that will yield attractive profits for both the producer and the retailer.

growing. Maintaining stable prices may discourage price competition and avoid the need for hard decisions.

Or stress nonprice competition instead

A status quo pricing objective may be part of an aggressive overall marketing strategy focusing on **nonprice competition**—aggressive action on one or more of the Ps other than Price. Fast-food chains like McDonald's, Wendy's, and Burger King experienced very profitable growth by sticking to nonprice competition for many years. However, when Taco Bell and others started to take away customers with price-cutting, the other chains also turned to price competition.[7]

Most Firms Set Specific Pricing Policies—To Reach Objectives

Administered prices help achieve objectives

Price policies usually lead to **administered prices**—consciously set prices. In other words, instead of letting daily market forces (or auctions) decide their prices, most firms set their own prices. They may hold prices steady for long periods of time or change them more frequently if that's what's required to meet objectives.

If a firm doesn't sell directly to final customers, it usually wants to administer both the price it receives from middlemen and the price final customers pay. After all, the price final customers pay will ultimately affect the quantity it sells.

Yet it is often difficult to administer prices throughout the channel. Other channel members may also wish to administer prices to achieve their own objectives. This is what happened to Alcoa, one of the largest aluminum producers. To reduce its excess inventory, Alcoa offered its wholesalers a 30 percent discount off its normal price. Alcoa expected the wholesalers to pass most of the discount along to their customers to stimulate sales throughout the channel. Instead, wholesalers bought *their* aluminum at the lower price but passed on only a small discount to customers. As a result, the quantity Alcoa sold didn't increase much, and it still had excess inventories, while the wholesalers made more profit on the aluminum they did sell.[8]

Some firms don't even try to administer prices. They just meet competition—or worse, mark up their costs with little thought to demand. They act as if they have no choice in selecting a price policy.

Remember that Price has many dimensions. Managers usually *do* have many choices. They *should* administer their prices. And they should do it carefully because, ultimately, customers must be willing to pay these prices before a whole marketing mix succeeds. In the rest of this chapter, we'll talk about policies a marketing manager must set to do an effective job of administering Price.[9]

Price Flexibility Policies

One of the first decisions a marketing manager has to make is about price flexibility. Should the firm use a one-price or a flexible-price policy?

One-price policy—the same price for everyone

A **one-price policy** means offering the same price to all customers who purchase products under essentially the same conditions and in the same quantities. The majority of U.S. firms use a one-price policy—mainly for administrative convenience and to maintain goodwill among customers.

A one-price policy makes pricing easier. But a marketing manager must be careful to avoid a rigid one-price policy. This can amount to broadcasting a price that competitors can undercut—especially if the price is somewhat high. One reason for the growth of mass-merchandisers is that conventional retailers rigidly applied traditional margins and stuck to them.

Flexible-price policy—different prices for different customers

A **flexible-price policy** means offering the same product and quantities to different customers at different prices. When computers are used to implement flexible pricing, the decisions focus more on what type of customer will get a price break.

Pricing databases make flexible pricing easier

Various forms of flexible pricing are more common now that most prices are maintained in a computer database. Frequent changes are easier. You see this when grocery chains give frequent-shopper club members reduced prices on weekly specials. They simply change the database in the central office. The checkout scanner reads the code on the package, then the computer looks up the club price or the regular price depending on whether a club card has been scanned.

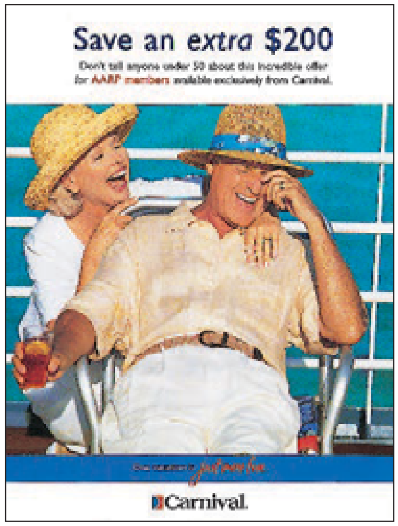
Another twist on this is more recent. Some marketing managers have set up relationships with Internet companies whose ads invite customers to "set your own price." For example, Priceline operates a website at www.priceline.com. Visitors to the website specify the desired schedule for an airline flight and what price they're willing to pay. Priceline electronically forwards the information to airlines and if one accepts the offer the consumer is notified. Priceline has a similar service for new cars and other products such as home mortgages, hotel rooms, rental cars, and long-distance rates.

It may appear that these marketing managers have given up on administering prices. Just the opposite is true. They are carefully administering a flexible price. Most airlines, for example, set a very high list price. Not many people pay it. Travelers who plan ahead or who accept nonpeak flights get a discount. Business travelers who want high-demand flights on short notice pay the higher prices. However, it doesn't make sense to stick to a high price and fly the plane half empty. So the airline continuously adjusts the price on the basis of how many seats are left to fill. If seats are still empty at the last minute, the website offers a rock-bottom fare. Other firms, especially service businesses, use this approach when they have excess capacity.[10]

Salespeople can adjust prices to the situation

Flexible pricing is most common in the channels, in direct sales of business products, and at retail for expensive items and homogeneous shopping products. Retail shopkeepers in less-developed economies typically use flexible pricing. These

To reach its objectives, Carnival uses flexible pricing—including discounts for retired people. By contrast, *Professional Carwashing & Detailing,* a trade magazine, wants advertisers to know that it charges everyone the same price for ad space.



situations usually involve personal selling, not mass selling. The advantage of flexible pricing is that the salesperson can make price adjustments—considering prices charged by competitors, the relationship with the customer, and the customer's bargaining ability. Flexible-price policies often specify a *range* in which the actual price charged must fall.[11]

Most auto dealers use flexible pricing. The producer suggests a list price, but the dealers bargain for what they can get. Their salespeople negotiate prices every day. Inexperienced consumers, reluctant to bargain, often pay hundreds of dollars more than the dealer is willing to accept. By contrast, however, Saturn dealers have earned high customer-satisfaction ratings by offering haggle-weary consumers a one-price policy. CarMax has adopted the same approach with used vehicles.

Flexible pricing does have disadvantages. A customer who finds that others paid lower prices for the same marketing mix will be unhappy. This can cause real conflict in channels. For example, the Winn-Dixie supermarket chain stopped carrying products of some suppliers who refused to give Winn-Dixie the same prices available to chains in other regions of the country. Similarly, companies that post different prices for different segments on a website that all can see often get complaints.[12]

If buyers learn that negotiating can be in their interest, the time needed for bargaining will increase. This can increase selling costs and reduce profits.

Too much price-cutting erodes profits

Some sales reps let price-cutting become a habit. This reduces the role of price as a competitive tool and leads to a lower price level. It can also have a major effect on profit. A small price cut may not seem like much; but keep in mind that all of the revenue that is lost would go to profit. If salespeople for a producer that usually earns profits equal to 15 percent of its sales cut prices by an average of about 5 percent, profits would drop by a third!

Price-Level Policies—Over the Product Life Cycle

When marketing managers administer prices, as most do, they must consciously set a price-level policy. As they enter the market, they have to set introductory prices that may have long-run effects. They must consider where the product life cycle is and how fast it's moving. And they must decide if their prices should be above, below, or somewhere in between relative to the market.

Let's look for a moment at a new product in the market introduction stage of its product life cycle. There are few (or no) direct substitute marketing mixes. So the price-level decision should focus first on the nature of market demand. A high price may lead to higher profit from each sale but also to fewer units sold. A lower price might appeal to more potential customers. With this in mind, should the firm set a high or low price?

Skimming pricing—feeling out demand at a high price

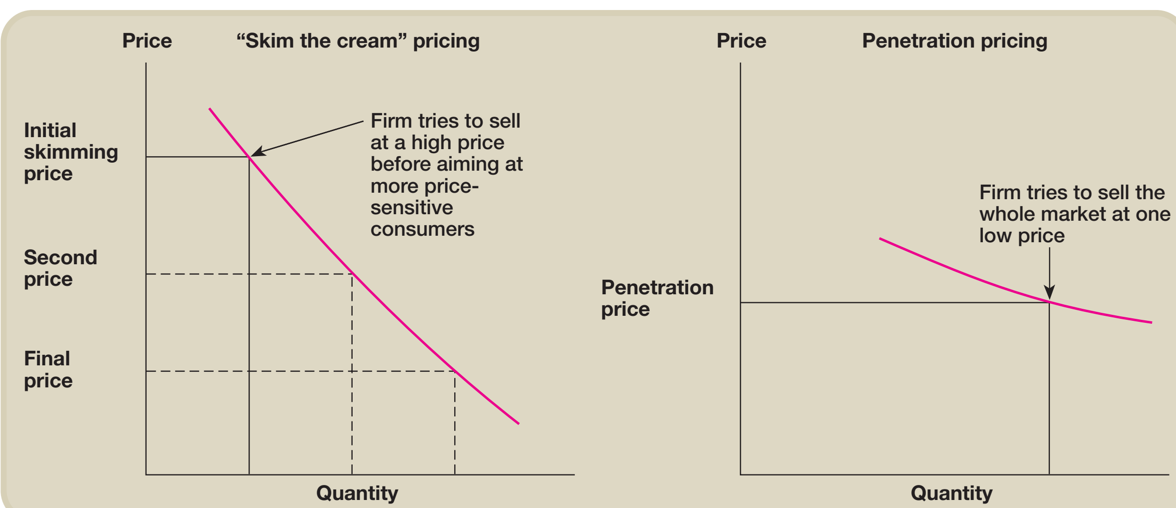
A **skimming price policy** tries to sell the top (skim the cream) of a market—the top of the demand curve—at a high price before aiming at more price-sensitive customers. A skimming policy is more attractive if demand is quite inelastic—at least at the upper price ranges.

Skimming may maximize profits in the market introduction stage for an innovation, especially if there is little competition. Competitor analysis may help clarify whether barriers will prevent or discourage competitors from entering.

Skimming has critics

Some critics argue that firms should not try to maximize profits by using a skimming policy on new products that have important social consequences. A patent-protected, life-saving drug or a genetic technique that increases crop yields, for example, is likely to have an inelastic demand curve. Yet many of those who need the product may not have the money to buy it. This is a serious concern. However, it's also a serious problem if firms don't have any incentive to take the risks required to develop breakthroughs in the first place.[13]

Exhibit 17-5 Alternative Introductory Pricing Policies



Price moves down the demand curve

A skimming policy usually involves a slow reduction in price over time. See Exhibit 17-5. Note that as price is reduced, new target markets are probably being sought. So as the price level steps down the demand curve, new Place, Product, and Promotion policies may be needed too.

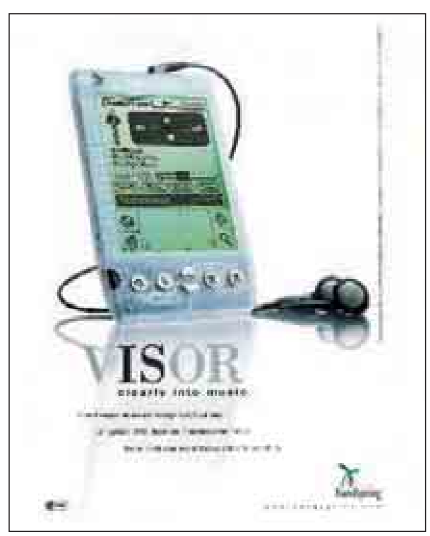
When McCaw Cellular Communications—the firm that pioneered cellular phone service and was later bought out by AT&T—first came on the market, it set a high price. A wireless minute cost about a $1 (with average monthly bills of about $100). Customers also had to pay about $675 for a phone. McCaw used dealers to sell the premium-priced packages mainly to companies who gave them to their on-the-go executives and salespeople. The dealers could explain the value of the system and get orders. For many of these customers no good substitute was available. As other cellular providers came on the market, McCaw bought large quantities of phones from Motorola at low cost and packaged them with a service contract at a high discount. As the market grew, economies of scale kicked in. McCaw did more advertising and started to sell cellular services through a variety of retail outlets, including mass-merchandisers. These changes cut costs and helped reach the growing number of families who were in the market for cell phone services. Prices on phones had come down enough so that the dealer-retailers gave away the phone with a one-year service contract. Now the competition for cellular services is even more intense. So AT&T has continued to cut prices and is offering a variety of new services, ranging from Internet messaging and call forwarding to unlimited calls on weekends. By 2000, a wireless minute was down to about 15 cents and monthly plans were about $40. Now AT&T is relying more heavily on television advertising that encourages customers to call in and sign up or subscribe at its website.

Skimming is also useful when you don't know very much about the shape of the demand curve. It's sometimes safer to start with a high price that customers can refuse and then reduce it if necessary.[14]

Penetration pricing—get volume at a low price

A **penetration pricing policy** tries to sell the whole market at one low price. Such an approach might be wise when the elite market—those willing to pay a high price—is small. This is the case when the whole demand curve is fairly elastic. See Exhibit 17-5. A penetration policy is even more attractive if selling larger quantities results in lower costs because of economies of scale. Penetration pricing may be wise if the firm expects strong competition very soon after introduction.

Marketing managers used penetration pricing and sold a million units of the innovative PalmPilot within 20 months of its introduction. Now, Palm's reputation for good value and a large base of satisfied customers help defend against formidable new rivals, like Sony and Handspring, who are introducing new features.



Marketers often use introductory price dealing—in the form of temporary price cuts or introductory coupons—to speed new products into a market.

When the first version of the PalmPilot was introduced, competitors were close behind. In addition, Apple had failed when it tried to introduce the Newton personal information manager at a skimming price of $1,000. Most customers just didn't think it was worth it. So the focus for Palm was on a combination of features and price that would be a good value and help penetrate the market quickly. The initial price of about $250 resulted in sales of a million units in 24 months. Once Palm had a large base of users it worked at keeping them. For example, current owners could get $75 for trading in their old units on a new model, or they could upgrade for $129.[15]

Palm certainly faces competition in this market now, but its initial price probably kept some firms from jumping into the fray. That's why a low penetration price is sometimes called a stay-out price. It discourages competitors from entering the market.

Introductory price dealing—temporary price cuts

Low prices do attract customers. Therefore, marketers often use **introductory price dealing**—temporary price cuts—to speed new products into a market. Introductory price dealing may be used to get customers to try a new product concept as part of the pioneering effort or to attract customers to a new brand entry later in the life cycle. However, don't confuse these *temporary* price cuts with low penetration prices. The plan here is to raise prices as soon as the introductory offer is over. By then, hopefully, target customers will have tried the product and decided it was worth buying again at the regular price.

Established competitors often choose not to meet introductory price dealing—as long as the introductory period is not too long or too successful. However, some competitors quickly match introductory price deals with their own short-term sale prices; they want to discourage their established customers from shopping around.

Different price-level policies through the channel

When a product is sold to channel members instead of final consumers, the price should be set so that the channel members can cover costs and make a profit. To achieve its objectives, a manufacturer may set different price-level policies for different levels in the channel. For example, a producer of a slightly better product might set a price level that is low relative to competitors when selling to retailers, while suggesting an above-the-market retail price. This encourages retailers to carry the product, and to emphasize it in their marketing mix, because it yields higher profits.

Exhibit 17-6 Exchange Rates for Various Currencies against the U.S. Dollar over Time

	Number of Units of Base Currency per U.S. Dollar*							
Base Currency	1987	1989	1991	1993	1995	1997	1999	2001
British pound	0.61	0.62	0.57	0.67	0.67	0.61	0.62	0.70
Thai bhat	25.76	25.72	25.53	25.33	24.92	31.07	37.40	45.65
Japanese yen	144.60	138.07	134.59	111.08	94.11	121.09	117.86	124.58
Australian dollar	1.43	1.26	1.32	1.47	1.35	1.34	1.55	1.96
Canadian dollar	1.33	1.18	1.15	1.29	1.37	1.38	1.49	1.56
German mark	1.80	1.88	1.66	1.65	1.43	1.73		
Euro							1.07	1.13

*Units shown are the average for each year 1987–1997. For 1999 and 2001, units shown are for April 16, 1999 and April 16, 2001.

The price of money may affect the price level

We've been talking about the price level of a firm's product. But a nation's money also has a price level—what it is worth in some other currency. For example, on April 16, 2001, one U.S. dollar was worth 0.70 British pounds. In other words, the exchange rate for the British pound against the U.S. dollar was 0.70. Exhibit 17-6 lists exchange rates for money from several countries over a number of years. From this exhibit you can see that exchange rates change over time—and sometimes the changes are significant. For example, during 1995, a U.S. dollar was worth, on average, 24.92 Thai bhat; in April 2001 it was worth 45.65 Thai bhat. That exchange rate moved up rapidly starting in 1997 because of economic problems that hit Thailand and the rest of Asia.

Exchange rate changes can have a significant effect on international trade. From a manager's viewpoint, they also affect whether or not a price level has the expected result. As the following example shows, this can be an important factor even for a small firm that sells only in its own local market.

In 1995 the marketing manager for EControl, Inc.—a small firm that produces electronic controllers for producers of satellite TV receiving dishes—set a meeting-competition wholesale price of about $100 for a carton of the controllers. The profit margin on the controllers at that price was about $10 per carton. The wholesalers who distribute the controllers also carried a product by a British firm. Its wholesale price was also $100, which means that the British firm got about 67 British pounds ($100 × 0.67 pounds per dollar) per carton. Prices were stable for some time. However, when the exchange rate for the pound against the dollar fell from 0.67 to 0.61, the British producer got 6 fewer pounds for each $100 carton of controllers (67 pounds − 61 pounds = 6 pounds).

Because EControl's marketing manager was only selling controllers in the domestic market, she didn't pay any attention to the drop in the exchange rate at first. However, she did pay attention when the British producer decided to raise its wholesale price to $110 a carton. At the $110 price, the British firm got about 67.1 pounds per carton ($110 × 0.61 pounds per dollar)—about the same as it was getting before the exchange rate change. EControl's market share and sales increased substantially—at the British competitor's expense—because EControl's price was $10 lower than its British competitor. EControl's marketing manager concluded that it would probably take a while for the British firm to lower its price, even if the exchange rate went up again. So she decided that she could safely raise her price level by 5 percent—up to $105—and still have a solid price advantage over the British supplier. At a price of $105 per carton, EControl's profit per carton jumped from $10 to $15, a 50 percent increase in profit.

The idea behind Beenz.com was to create a globally acceptable currency—an alternative to money from different countries—that could be used by online merchants to influence and reward online consumer behavior. However, there is an implied exchange rate for beenz just as there is with money.

Things turned out well for EControl even though the manager initially ignored exchange rates. Note, however, that during the 1999–2001 period the exchange rate for the British pound against the U.S. dollar *increased.* So in the 1999–2001 period EControl's situation might have been reversed![16]

Internet

Internet Exercise Xenon Laboratories has set up a website with a system that uses current exchange rates to convert one country's currency to another. Go to the website (www.ausmall.com.au), scroll down and click on *International Currency Converter.* How much is $100 U.S. worth now in Thai bhats, British pounds, and German marks? How do those numbers compare with April 2001 (see Exhibit 17-6)?

Most Price Structures Are Built around List Prices

Prices start with a list price

Most price structures are built around a base price schedule or price list. **Basic list prices** are the prices final customers or users are normally asked to pay for products. In this book, unless noted otherwise, list price refers to basic list price.

In the next chapter, we discuss how firms set these list prices. For now, however, we'll consider variations from list price and why they are made.

Discount Policies—Reductions from List Prices

Discounts are reductions from list price given by a seller to buyers who either give up some marketing function or provide the function themselves. Discounts can be useful in marketing strategy planning. In the following discussion, think about what function the buyers are giving up, or providing, when they get each of these discounts.

Quantity discounts encourage volume buying

Quantity discounts are discounts offered to encourage customers to buy in larger amounts. This lets a seller get more of a buyer's business, or shifts some of the storing function to the buyer, or reduces shipping and selling costs—or all of these. Such discounts are of two kinds: cumulative and noncumulative.

Vietnamese Smugglers Set Prices to Brush off Competition

P&G and Unilever were among the first multinational firms to spend millions to set up factories in Vietnam. Now the factories are mostly idle. It's not because the Vietnamese aren't buying their brands. Rather, they're buying the same products at lower prices from low-cost smugglers. For example, smugglers get crates of Tide detergent and Close-Up toothpaste produced in a P&G factory in Thailand. Then they pile them high on bicycles and plod across the jungle and Cambodia's border to where Vietnamese consumers wait.

There is an explanation for this unusual and unauthorized channel of distribution. The Thai bhat was weakened by the Asian economic crisis. By contrast, the crisis didn't have much effect on the Vietnamese dong because the Communist government doesn't allow it to be converted into foreign currency. As a result, the same goods produced in Vietnam now cost about 35 percent more. The smugglers exploit this difference. After their "mark up" to cover transportation and profit, a tube of Close-Up smuggled from the P&G factory in Thailand sells for about 11,000 Vietnamese dong (67 cents), while a tube from the Vietnamese factory sells for about 14,000 dong. In Vietnam, where annual per capita income is only about $370, the cheaper tube has an edge. Moreover, some Vietnamese consumers are so weary of second-rate, Communist-made goods that they assume that anything made in Thailand is better. So at the market in Ho Chi Minh City, Thai soap is priced higher and still sells faster.

Smuggling is affecting everything from lipstick to toilets. It's still 30 percent of sales for some products, even though the Vietnamese border patrols have effectively shut down all the dirt paths through the jungle to Cambodia. Many firms have been discounting prices to match the smugglers' prices. Those discounts probably weren't in the marketing plan![17]

Cumulative quantity discounts apply to purchases over a given period—such as a year—and the discount usually increases as the amount purchased increases. Cumulative discounts are intended to encourage *repeat* buying by a single customer by reducing the customer's cost for additional purchases. This is a way to develop closer, ongoing relationships with customers. For example, a Lowe's lumberyard might give a cumulative quantity discount to a building contractor who is not able to buy all of the needed materials at once. Lowe's wants to reward the contractor's patronage and discourage shopping around. The discount is small relative to the cost of constantly trying to attract new customers.

A cumulative quantity discount is often attractive to business customers who don't want to run up their inventory costs. They are rewarded for buying large quantities, even though individual orders may be smaller.

Noncumulative quantity discounts apply only to individual orders. Such discounts encourage larger orders but do not tie a buyer to the seller after that one purchase. Lowe's lumberyard may resell insulation products made by several competing producers. Owens-Corning might try to encourage Lowe's to stock larger quantities of its pink insulation by offering a noncumulative quantity discount.

While quantity discounts are usually given as price cuts, sometimes they are given as free or bonus products. Airline frequent flier programs use this approach.

Quantity discounts can be a very useful tool for the marketing manager. Some customers are eager to get them. But marketing managers must use quantity discounts carefully. In business markets, they must offer such discounts to all customers on equal terms—to avoid price discrimination.

Noncumulative discounts sometimes produce unexpected results. If the discount is too big, wholesalers or retailers may buy more than they can possibly sell to their own customers—to get the low price. Then they sell the excess at a low price to whoever will buy it—as long as the buyer doesn't compete in the same market area. These gray-market channels often take customers away from regular channel members, perhaps with a retail price even lower than what most channel members pay. To avoid these problems, a marketing manager must consider the effect of discounts on the whole strategy—not just the effect on sales to a given middleman.

Seasonal discounts—buy sooner

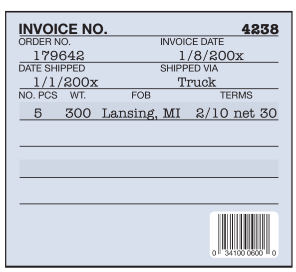
Seasonal discounts are discounts offered to encourage buyers to buy earlier than present demand requires. If used by a manufacturer, this discount tends to shift the storing function further along in the channel. It also tends to even out sales over

Cargill uses a seasonal discount to encourage its customers to stock products earlier than present demand requires. China's Coolbid.com used a quantity discount to launch its shopping site; the greater the number of people who applied to buy a product, the more the price was discounted.

the year. For example, Kyota offers wholesalers a lower price on its garden tillers if they buy in the fall—when sales are slow. The wholesalers can then offer a seasonal discount to retailers—who may try to sell the tillers during a special fall sale.

Service firms that face irregular demand or capacity constraints often use seasonal discounts. For example, MCI offers a discount for night-time calls when the load of business calls is low. Some tourist attractions, like ski resorts, offer lower weekday rates when attendance would otherwise be down.

Payment terms and cash discounts set payment dates


INVOICE NO. 4238

ORDER NO.		INVOICE DATE	
179642		1/8/200x	
DATE SHIPPED		SHIPPED VIA	
1/1/200x		Truck	
NO. PCS	WT.	FOB	TERMS
5	300	Lansing, MI	2/10 net 30

Most sales to businesses are made on credit. The seller sends a bill (invoice) by mail or electronically, and the buyer's accounting department processes it for payment. Some firms depend on their suppliers for temporary working capital (credit). Therefore, it is very important for both sides to clearly state the terms of payment—including the availability of cash discounts—and to understand the commonly used payment terms.

Net means that payment for the face value of the invoice is due immediately. These terms are sometimes changed to net 10 or net 30—which means payment is due within 10 or 30 days of the date on the invoice.

Cash discounts are reductions in price to encourage buyers to pay their bills quickly. The terms for a cash discount usually modify the net terms.

2/10, net 30 means the buyer can take a 2 percent discount off the face value of the invoice if the invoice is paid within 10 days. Otherwise, the full face value is due within 30 days. And it usually is stated or understood that an interest charge will be added after the 30-day free-credit period.

Why cash discounts are given and should be evaluated

Smart buyers carefully evaluate cash discounts. A discount of 2/10, net 30 may not look like much at first. But the buyer earns a 2 percent discount for paying the invoice just 20 days sooner than it should be paid anyway. By not taking the discount, the company in effect is borrowing at an annual rate of 36 percent. That is, assuming a 360-day year and dividing by 20 days, there are 18 periods during which the company could earn 2 percent—and 18 times 2 equals 36 percent a year.

Consumers say "charge it"

Credit sales are also important to retailers. Some stores have their own credit systems. But most retailers use credit card services, such as Visa or MasterCard. The

Many stores guarantee that they have the lowest price and promise a refund if a customer finds an item lower somewhere else. Sun Television and Appliances woos customers to its stores with automatic refunds. Sun hires an outside firm to do daily price checks. When a customer is due a refund, it is sent automatically.

retailers pay a percent of the revenue from each credit sale for this service—from 1 to 7 percent depending on the card company and the store's sales volume. For this reason, some retailers offer discounts to consumers who pay cash.

Many consumers like the convenience of credit card buying. But some critics argue that the cards make it too easy for consumers to buy things they really can't afford. Further, because of high interest charges, credit card buying can increase the total costs to consumers.

Trade discounts often are set by tradition

A **trade (functional) discount** is a list price reduction given to channel members for the job they are going to do.

A manufacturer, for example, might allow retailers a 30 percent trade discount from the suggested retail list price to cover the cost of the retailing function and their profit. Similarly, the manufacturer might allow wholesalers a *chain* discount of 30 percent and 10 percent off the suggested retail price. In this case, the wholesalers would be expected to pass the 30 percent discount on to retailers.[18]

Special sales reduce list prices—temporarily

A **sale price** is a temporary discount from the list price. Sale price discounts encourage immediate buying. In other words, to get the sale price, customers give up the convenience of buying when they want to buy and instead buy when the seller wants to sell.

Special sales provide a marketing manager with a quick way to respond to changing market conditions—without changing the basic marketing strategy. For example, a retailer might use a sale to help clear extra inventory or to meet a competing store's price. Or a producer might offer a middleman a special deal—in addition to the normal trade discount—that makes it more profitable for the middleman to push the product. Retailers often pass some of the savings along to consumers.

In recent years, sale prices and deals have become much more common. At first it may seem that consumers benefit from all this. But prices that change constantly may confuse customers and erode brand loyalty.

To avoid these problems, some firms that sell consumer convenience products offer **everyday low pricing**—setting a low list price rather than relying on a high list price that frequently changes with various discounts or allowances. Many grocery stores use this approach. And some producers, including P&G, use it.

Sale prices should be used carefully, consistent with well-thought-out pricing objectives and policies. A marketing manager who constantly uses temporary sales to adjust the price level probably has not done a good job setting the normal price.[19]

Allowance Policies—Off List Prices

Allowances, like discounts, are given to final consumers, customers, or channel members for doing something or accepting less of something.

Advertising allowances—something for something

Advertising allowances are price reductions given to firms in the channel to encourage them to advertise or otherwise promote the supplier's products locally. For example, General Electric gave an allowance (1.5 percent of sales) to its wholesalers of housewares and radios. They, in turn, were expected to spend the allowance on local advertising.

Stocking allowances—get attention and shelf space

Stocking allowances—sometimes called slotting allowances—are given to a middleman to get shelf space for a product. For example, a producer might offer a retailer cash or free merchandise to stock a new item. Stocking allowances are used mainly to get supermarket chains to handle new products. Supermarkets don't have enough slots on their shelves to handle all of the available new products. They're more willing to give space to a new product if the supplier will offset their handling costs—like making space in the warehouse, adding information on computer systems, and redesigning store shelves, for example.

Some retailers get allowances that cover more than handling costs. The Shoprite Stores chain in New York City got an $86,000 allowance to stock $172,000 worth of Old Capital Microwave Popcorn. When the popcorn didn't sell well, Shoprite quickly took it off its shelves. With a big stocking allowance, the middleman makes extra profit—even if a new product fails and the producer loses money.

Are stocking allowances ethical?

There is controversy about stocking allowances. Critics say that retailer demands for big stocking allowances slow new product introductions and make it hard for small producers to compete. Some producers feel that retailers' demands are unethical—just a different form of extortion. Retailers, on the other hand, point out that the fees protect them from producers that simply want to push more and more me-too products onto their shelves. Perhaps the best way for a producer to cope with the problem is to develop new products that really do offer consumers superior value. Then it benefits everyone in the channel, including retailers, to get the products to the target market.[20]

PMs—push for cash

Push money (or prize money) allowances—sometimes called PMs or spiffs—are given to retailers by manufacturers or wholesalers to pass on to the retailers' salesclerks for aggressively selling certain items. PM allowances are used for new items, slower-moving items, or higher-margin items. They are often used for pushing furniture, clothing, consumer electronics, and cosmetics. A salesclerk, for example, might earn an additional $5 for each new model Pansonic DVD player sold.

Bring in the old, ring up the new—with trade-ins

A **trade-in allowance** is a price reduction given for used products when similar new products are bought. Trade-ins give the marketing manager an easy way to lower the effective price without reducing list price. Proper handling of trade-ins is important when selling durable products.

Some Customers Get Something Extra

Clipping coupons—more for less

Many producers and retailers offer discounts (or free items) through coupons distributed in packages, mailings, print ads, or at the store. By presenting a coupon to a retailer, the consumer is given a discount off list price. This is especially common in the consumer packaged goods business—but the use of price-off coupons is growing in other lines of business too.

Retailers are willing to redeem producers' coupons because it increases their sales—and they usually are paid for the trouble of handling the coupon. For example, a retailer who redeems a 50 cents off coupon might be repaid 75 cents. In effect, the coupon increases the functional discount and makes it more attractive to sell the couponed product.

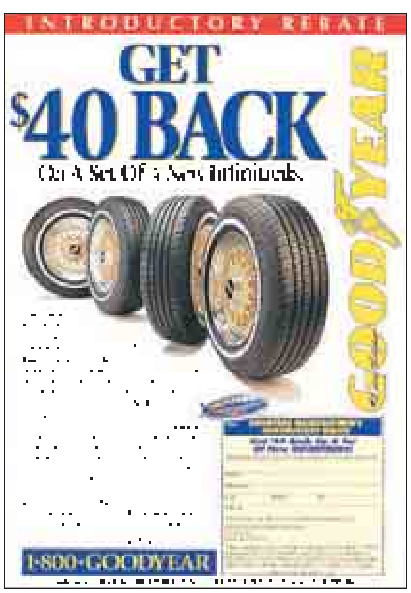
Couponing is so common that firms have been set up to help repay retailers for redeeming manufacturers' coupons. The total dollar amounts involved are so large that crime has become a big problem. Some dishonest retailers have gone to jail for collecting on coupons they redeemed without requiring customers to buy the products.

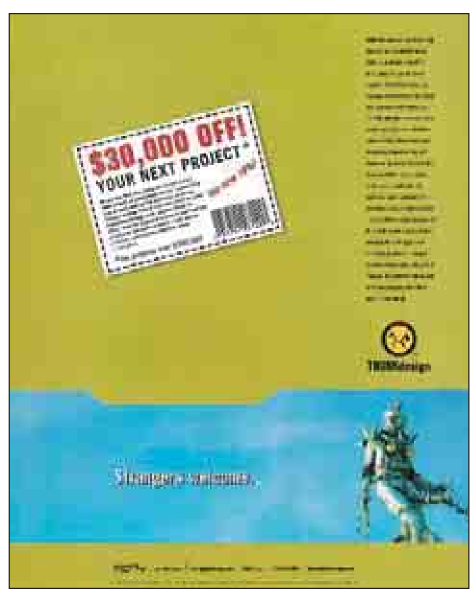
Internet

Internet Exercise Catalina, a firm that specializes in targeted sales promotions, set up an online system called "ValuPage." Consumers can print out a sheet with a list of discounts that sponsoring supermarkets redeem with "web bucks"—which the consumer can then use for any future purchase at the store. Go to the website (www.supermarkets.com), type in your *Zip Code* only, and press *Enter* to review the system. Do you think this system will be more or less susceptible to fraud than regular coupons? Explain your thinking.

Cash rebates when you buy

Some producers offer **rebates**—refunds paid to consumers after a purchase. Sometimes the rebate may be very large. Some automakers offer rebates of $500 to $2,500 to promote sales of slow-moving models. Rebates are used on lower-priced items too—ranging from Duracell batteries to Paul Masson wines.





Rebates give the producer a way to be certain that final consumers—not others in the channel—actually get the price reduction. Coupons are typically used for consumer products, but marketers for ThunkDesign offered a coupon for a $30,000 discount to prompt business customers to action.

Rebates give the producer a way to be certain that final consumers actually get the price reduction. If the rebate amount were just taken off the price charged middlemen, they might not pass the savings along to consumers. In addition, many consumers buy because the price looks lower with the rebate—but then they don't request the refund.[21]

List Price May Depend on Geographic Pricing Policies

Retail list prices sometimes include free delivery. Or free delivery may be offered to some customers as an aid to closing the sale. But deciding who pays the freight charge is more important on sales to business customers than to final consumers because more money is involved. Usually purchase orders specify place, time, method of delivery, freight costs, insurance, handling, and other charges. There are many possible variations for an imaginative marketing manager, and some specialized terms have developed.

F.O.B. pricing is easy

A commonly used transportation term is **F.O.B.**—which means free on board some vehicle at some place. Typically, F.O.B. pricing names the place—often the location of the seller's factory or warehouse—as in F.O.B. Taiwan or F.O.B. mill. This means that the seller pays the cost of loading the products onto some vehicle, then title to the products passes to the buyer. The buyer pays the freight and takes responsibility for damage in transit.

If a firm wants to pay the freight for the convenience of customers, it can use F.O.B. delivered or F.O.B. buyer's factory. In this case, title does not pass until the products are delivered. If the seller wants title to pass immediately but is willing to prepay freight (and then include it in the invoice), F.O.B. seller's factory-freight prepaid can be used.

F.O.B. shipping point pricing simplifies the seller's pricing—but it may narrow the market. Since the delivered cost varies depending on the buyer's location, a customer located farther from the seller must pay more and might buy from closer suppliers.

Zone pricing smooths delivered prices

Zone pricing means making an average freight charge to all buyers within specific geographic areas. The seller pays the actual freight charges and bills each customer for an average charge. For example, a company in Canada might divide the United States into seven zones, then bill all customers in the same zone the same amount for freight even though actual shipping costs might vary.

Zone pricing reduces the wide variation in delivered prices that results from an F.O.B. shipping point pricing policy. It also simplifies transportation charges.

Uniform delivered pricing—one price to all

Uniform delivered pricing means making an average freight charge to all buyers. It is a kind of zone pricing—an entire country may be considered as one zone—that includes the average cost of delivery in the price. Uniform delivered pricing is most often used when (1) transportation costs are relatively low and (2) the seller wishes to sell in all geographic areas at one price—perhaps a nationally advertised price.

Freight-absorption pricing—competing on equal grounds in another territory

When all firms in an industry use F.O.B. shipping point pricing, a firm usually competes well near its shipping point but not farther away. As sales reps look for business farther away, delivered prices rise and the firm finds itself priced out of the market.

This problem can be reduced with **freight-absorption pricing**—which means absorbing freight cost so that a firm's delivered price meets the nearest competitor's. This amounts to cutting list price to appeal to new market segments. Some firms look at international markets this way; they just figure that any profit from export sales is a bonus.

Autobytel's car prices include free delivery, which may help it to compete with dealers who are located close to the customer.

Pricing Policies Combine to Impact Customer Value

Look at Price from the customer's viewpoint

We've discussed the details of pricing policies separately so far to emphasize that a manager should make *intentional* decisions in each of the areas of pricing policy. Overlooking any of them can be serious because ultimately they all combine to impact customer value and whether or not the firm has a competitive advantage.

Ever since Chapter 2, we've emphasized that customer value is based on the benefits that a customer sees in a firm's marketing mix and all of the costs. This value is relative to competitors' ways of meeting a need. Ideally, a target customer will be impressed that the specific strategy decisions that a marketing manager makes with respect to Product, Place, and Promotion offer a benefit. Perhaps if the decisions are not on target a customer will view them as a cost. For example, a consumer might view a producer's decision to use exclusive distribution as a negative if a product is harder to find, or if its "exclusive" image is a turn-off to friends. Even so, from the customer's view, Price is usually the main contributor to the cost part of the value equation.

That means that when we talk about Price we are really talking about the whole set of price policies that define the real price level. Second, it's important to keep firmly in mind that superior value isn't just based on having a lower price than some competitor but rather on the whole marketing mix.

Value pricing leads to superior customer value

Smart marketers look for the combination of Price decisions that result in value pricing. **Value pricing** means setting a fair price level for a marketing mix that really gives the target market superior customer value.

Value pricing doesn't necessarily mean cheap if cheap means bare-bones or low-grade. It doesn't mean high prestige either if the prestige is not accompanied

Marketers for Luvs diapers want consumers to know that Luvs' value price, compared to the pricey brands, is equivalent to getting 275 diapers a year for free.

by the right quality goods and services. Rather, the focus is on the customer's requirements and how the whole marketing mix meets those needs.

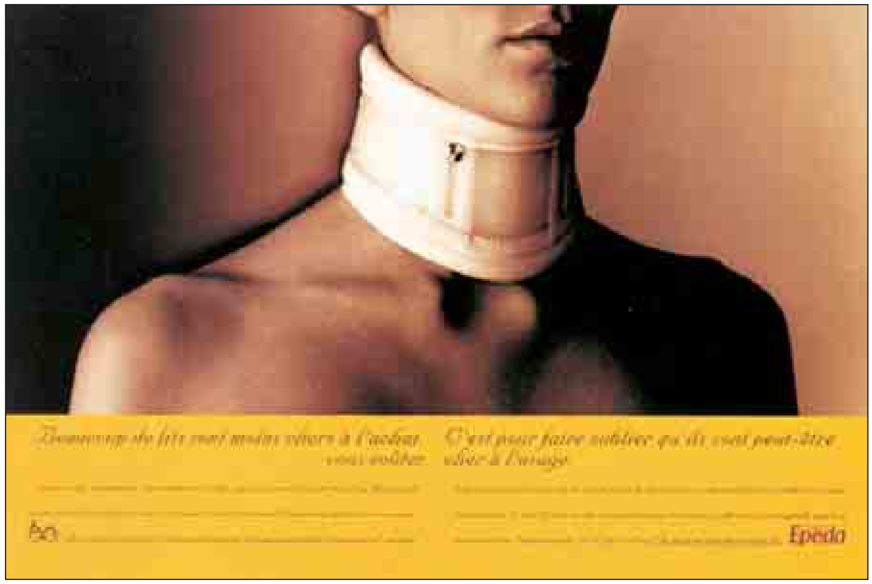
Toyota is a good example of a firm that has been effective with value pricing. It has different marketing mixes for different target markets. But from the low-price Echo to the $30,000 Avalon, the Japanese automaker consistently offers better quality and lower prices than its competitors. Among discount retailers, Wal-Mart is a value pricing leader. Its motto, "the low price on the brands you trust," says it all. In the product-market for hosiery, Sara Lee is a value pricer; its L'eggs are priced lower than many dealer brands, but it still offers customers the selection, fit, and wear they want.

These companies deliver on their promises. They try to give the consumer pleasant surprises—like an unexpected service—because it increases value and builds customer loyalty. They return the price if the customer isn't completely satisfied. They avoid unrealistic price levels—prices that are high only because consumers already know the brand name. They build relationships so customers will come back time and again.

There are Price choices in most markets

Some marketing managers miss the advantages of value pricing. They think that in mature markets there is no alternative but to set a price level that is the same as or lower than competitors. They've heard economists say that in perfect competition the market sets the price and that it's foolish to offer products above or below the market price. The economists are right about perfect competition—when everything but price is really the same and pricing needs to be on a tit-for-tat basis. But most firms *don't* operate in perfect competition.

Most operate in monopolistic competition, where products and whole marketing mixes are not exactly the same. This means that there are pricing options. At one extreme, some firms are clearly above the market—they may even brag about it. Tiffany's is well known as one of the most expensive jewelry stores in the world. Other firms emphasize below-the-market prices in their marketing mixes. Prices offered by discounters and mass-merchandisers, such as Wal-Mart and Tesco, illustrate this approach. They may even promote their pricing policy with catchy slogans like "guaranteed lowest prices" or "we'll beat any advertised price."



Epeda sells high-quality mattresses. It wants customers to know that its higher price is worth it. This ad says, "Lots of mattresses are cheap to buy. The reason is to make you forget how much sleeping on them is going to cost you."

Value pricers define the target market and the competition

Do these various strategies promote prices that are above or below the market—or are they really different prices for different target markets or different marketing mixes? In making price decisions and using value pricing, it is important to clearly define the *relevant target market* and *competitors* when making price comparisons.

Consider Wal-Mart prices again from this view. Wal-Mart may have lower camera prices than conventional camera retailers, but it offers less help in the store, less selection, and it won't take old cameras in trade. Wal-Mart may be appealing to budget-oriented shoppers who compare prices *and* value among different mass-merchandisers. But a specialty camera store may be trying to appeal to different customers and not even be a direct competitor! Thus, it may be better to think of Wal-Mart's price as part of a different marketing mix for a different target market—not as a below-the-market price.

A camera producer with this point of view might develop different strategies for the Wal-Mart channel and the specialty store channel. In particular, the producer might offer the specialty store one or more models that are not available to Wal-Mart—to ensure that customers don't view the two stores as direct competitors with price the only difference.

Further, the specialty store needs to communicate clearly to its target market *how* it offers superior value. Wal-Mart is certainly going to communicate that it offers a discount from some list price. If that's all customers hear, it's no wonder that they just focus on price. The specialty retailer has to be certain that consumers understand that price is not the only thing of value that is different. This same logic applies to comparisons between Internet sellers and brick-and-mortar competitors. Each may have advantages or disadvantages that relate to value.

Meeting competitors' prices may be necessary

In a mature market there is downward pressure on both prices and profit margins. Moreover, differentiating the value a firm offers may not be easy when competitors can quickly copy new ideas. Extending our camera example, if our speciality store is in a city with a number of similar stores with the same product, there may not be a way to convince consumers that one beats all of the others. In such circumstances there may be no real pricing choice other than to "meet the competition." With profit margins already thin, they would quickly disappear or turn into losses at a lower price. And a higher price would simply prompt competitors to promote their price advantage.[22]

Similarly, a B2B supplier may have a better marketing mix than competitors; but if buyers have decided to use a procurement hub and reverse auction as the only way to buy, the supplier may not have any choice but to decide what the lowest price is that it will bid to get the business. Winning the bid at a profit-losing price doesn't help.

Even though competition can be intense, too many marketers give up too easily. They often can find a way to differentiate, even if it's something that competitors dismiss as less important. Research showed that many McDonald's customers actually prefer the burgers at Burger King. But they judge the bathrooms at McDonald's to be cleaner and assume that the kitchen is cleaner and that the food is safer and of higher quality. That and more tasty fries are more important than Burger King's prices and burgers. However, that's why Burger King came up with new fries. It's not yet clear if they have the bathroom part figured out.[23]

Similarly, there may be little choice about Price in oligopoly situations. Pricing at the market—that is, meeting competition—may be the only sensible policy. To raise prices might lead to a large loss in sales—unless competitors adopt the higher price too. And cutting prices would probably lead to similar reductions by competitors—downward along an inelastic industry demand curve. This can only lead to a decrease in total revenue for the industry and probably for each firm. The major airlines faced these problems recently.

To avoid these problems, each oligopolist may choose a status quo pricing objective and set its price at the competitive level. Some critics call this pricing behavior conscious parallel action, implying it is unethical and the same as intentional conspiracy among firms. As a practical matter, however, that criticism seems overly harsh. It obviously isn't sensible for firms to ignore their competitors.

Value pricing fits with market-oriented strategy planning

There are times when the marketing manager's hands are tied and there is little that can be done to differentiate the marketing mix. However, most marketing managers do have choices—many choices. They can vary strategy decisions with respect to all of the marketing mix variables, not just Price, to offer target customers superior value. And when a marketer's hands are really tied, it's time to look for new opportunities that offer more promise.

So when you stop to think about it, value pricing is simply the best pricing approach for the type of market-oriented strategy planning we've been discussing throughout this whole text. To build profits and customer satisfaction, the whole marketing mix—including the price level—must meet target customers' needs and offer superior value.

Legality of Pricing Policies

This chapter discusses the many pricing decisions that must be made. However, as was suggested in Chapter 4, some pricing decisions are limited by government legislation.

The first step to understanding pricing legislation is to know the thinking of legislators and the courts. To get a better idea of the "why" of legislation, we'll focus on U.S. legislation here, but many other countries have similar pricing laws.[24]

Minimum prices are sometimes controlled

Unfair trade practice acts put a lower limit on prices, especially at the wholesale and retail levels. They have been passed in more than half the states in the United States. Selling below cost in these states is illegal. Wholesalers and retailers are usually required to take a certain minimum percentage markup over their merchandise-plus-transportation costs.

Local media in China claim that both Fuji from Japan and Kodak from the U.S. are dumping their products in China, even though China's Lucky brand of film and paper has a price that is 50 percent lower.

The practical effect of these laws is to protect certain limited-line food retailers—such as dairy stores—from the kind of "ruinous" competition supermarkets might offer if they sold milk as a leader, offering it below cost for a long time.

The United States and most other countries control the minimum price of imported products with antidumping laws. **Dumping** is pricing a product sold in a foreign market below the cost of producing it or at a price lower than in its domestic market. These laws are usually designed to protect the country's domestic producers and jobs from foreign competitors, but there is much debate about how well they work.[25]

Even very high prices may be OK

Generally speaking, firms can charge high prices—even outrageously high prices—as long as they don't conspire with their competitors to fix prices, discriminate against some of their customers, or lie.

Of course, there are exceptions. Firms in regulated businesses may need to seek approval for their prices. For example, in the United States, most states regulate automobile insurance rates. Some countries impose more general price controls—to reduce inflation or try to control markets. However, most countries have followed the move toward a market-directed economy. That doesn't mean, however, that there aren't important regulations in the pricing area.

You can't lie about prices

Phony list prices are prices customers are shown to suggest that the price has been discounted from list. Some customers seem more interested in the supposed discount than in the actual price. Most businesses, trade associations, and government agencies consider the use of phony list prices unethical. In the United States, the FTC tries to stop such pricing—using the **Wheeler Lea Amendment,** which bans "unfair or deceptive acts in commerce."[26]

In recent years some electronics retailers, like Best Buy, have been criticized on these grounds. They'd advertise a $300 discount on a computer when the customer signed up for an Internet service provider, but it might not be clear to the consumer that a three-year commitment—costing over $700—was required.

Price fixing is illegal—you can go to jail

Difficulties with pricing—and violations of pricing legislation—usually occur when competing marketing mixes are quite similar. When the success of an entire marketing strategy depends on price, there is pressure (and temptation) to make agreements with competitors (conspire). And **price fixing**—competitors getting together to raise, lower, or stabilize prices—is common and relatively easy. *But it is also completely illegal in the United States*. It is considered "conspiracy" under the Sherman Act and the Federal Trade Commission Act. To discourage price fixing, both companies and individual managers are held responsible. Some executives have already gone to jail!

Price-fixing laws in the United States focus on protecting customers who purchase directly from a supplier. For example, a wholesaler could bring action against a producer-supplier for fixing prices. However, retailers or consumers who bought the producer's products from the wholesaler could not bring action. In contrast, many state laws allow "indirect customers" in the channel to sue the price fixer. A 1989 Supreme Court ruling cleared the way for more states to pass this type of law. The expected result will be even tougher penalties for price fixing.[27]

Different countries have different rules concerning price fixing, and this has created problems in international trade. Japan, for example, allows price fixing under certain conditions—especially if it strengthens the position of Japanese producers in world markets.

U.S. antimonopoly laws ban price discrimination unless . . .

Price level and price flexibility policies can lead to price discrimination. The **Robinson-Patman Act** (of 1936) makes illegal any **price discrimination**—selling the same products to different buyers at different prices—*if it injures competition*. The law does permit some price differences—but they must be based on (1) cost differences or (2) the need to meet competition. Both buyers and sellers are considered guilty if they know they're entering into discriminatory agreements. This is a serious matter—price discrimination suits are common.

What does "like grade and quality" mean?

The Robinson-Patman Act allows a marketing manager to charge different prices for similar products if they are *not* of "like grade and quality." The FTC says that if the physical characteristics of a product are similar, then they are of like grade and quality. A landmark U.S. Supreme Court ruling against the Borden Company upheld the FTC's view that a well-known label *alone* does not make a product different from one with an unknown label. The company agreed that the canned milk it sold at different prices under different labels was basically the same.

But the FTC's victory in the Borden case was not complete. The U.S. Court of Appeals found no evidence of injury to competition and further noted that there could be no injury unless Borden's price differential exceeded the "recognized consumer appeal of the Borden label." How to measure "consumer appeal" was not spelled out and may lead to additional suits. For now, however, producers who want to sell several brands—or dealer brands at lower prices than their main brand—probably should offer physical differences, and differences that are really useful.[28]

Can cost analysis justify price differences?

The Robinson-Patman Act allows price differences if there are cost differences—say, for larger quantity shipments or because middlemen take over some of the physical distribution functions. But justifying cost differences is a difficult job. And the justification must be developed *before* different prices are set. The seller can't wait until a competitor, disgruntled customer, or the FTC brings a charge. At that point, it's too late.[29]

Can you legally meet price cuts?

Under the Robinson-Patman Act, meeting a competitor's price is permitted as a defense in price discrimination cases. A major objective of antimonopoly laws is to protect competition, not competitors. And "meeting competition in good faith" still seems to be legal.

Special promotion allowances might not be allowed

Some firms violate the Robinson-Patman Act by providing push money, advertising allowances, and other promotion aids to some customers and not others. The act prohibits such special allowances—*unless they are made available to all customers on "proportionately equal" terms*.

The need for such a rule is clear—once you try to control price discrimination. Allowances for promotion aid could be granted to retailers or wholesalers without expecting that any promotion actually be done. This plainly is price discrimination in disguise.[30]

How to avoid discriminating

Because price discrimination laws are complicated and penalties for violations heavy, many business managers deemphasize price as a marketing variable. They follow the safest course by offering few or no quantity discounts and the same cost-based prices to *all* customers. This is *too* conservative a reaction. But when firms consider price differences, they may need a lawyer involved in the discussion!

Conclusion

The Price variable offers an alert marketing manager many possibilities for varying marketing mixes. What pricing policies should be used depends on the pricing objectives. We looked at profit-oriented, sales-oriented, and status quo-oriented objectives.

A marketing manager must set policies about price flexibility, price levels over the product life cycle, who will pay the freight, and who will get discounts and allowances. While doing this, the manager should be aware of legislation that affects pricing policies.

In most cases, a marketing manager must set prices—that is, administer prices. Starting with a list price, a variety of discounts and allowances may be offered to adjust for the something of value being offered in the marketing mix.

Throughout this chapter, we talk about what may be included or excluded in the something of value and what objectives a firm might set to guide its pricing policies. We discuss how pricing policies combine to impact customer value. Price setting itself is not discussed. It will be covered in the next chapter—where we show ways to carry out the various pricing objectives and policies.

Questions and Problems

1. Identify the strategy decisions a marketing manager must make in the Price area. Illustrate your answer for a local retailer.
2. How should the acceptance of a profit-oriented, a sales-oriented, or a status quo-oriented pricing objective affect the development of a company's marketing strategy? Illustrate for each.
3. Distinguish between one-price and flexible-price policies. Which is most appropriate for a hardware store? Why?
4. What pricing objective(s) is a skimming pricing policy most likely implementing? Is the same true for a penetration pricing policy? Which policy is probably most appropriate for each of the following products: *(a)* a new type of home lawn-sprinkling system, *(b)* a skin patch drug to help smokers quit, *(c)* a DVD of a best-selling movie, and *(d)* a new children's toy?
5. How would differences in exchange rates between different countries affect a firm's decisions concerning the use of flexible-price policies in different foreign markets?
6. Are seasonal discounts appropriate in agricultural businesses (which are certainly seasonal)?
7. What are the effective annual interest rates for the following cash discount terms: *(a)* 1/10, net 20; *(b)* 1/5, net 10; and *(c)* net 25?
8. Do stocking allowances increase or reduce conflict in a channel of distribution? Explain your thinking.
9. Why would a manufacturer offer a rebate instead of lowering the suggested list price?
10. How can a marketing manager change a firm's F.O.B. terms to make an otherwise competitive marketing mix more attractive?
11. What type of geographic pricing policy is most appropriate for the following products (specify any assumptions necessary to obtain a definite answer): *(a)* a chemical by-product, *(b)* nationally advertised candy bars, *(c)* rebuilt auto parts, and *(d)* tricycles?

12. How would a ban on freight absorption (that is, requiring F.O.B. factory pricing) affect a producer with substantial economies of scale in production?
13. Give an example of a marketing mix that has a high price level but that you see as a good value. Briefly explain what makes it a good value.
14. Think about a business from which you regularly make purchases even though there are competing firms with similar prices. Explain what the firm offers that improves value and keeps you coming back.
15. Cite two examples of continuously selling above the market price. Describe the situations.
16. Explain the types of competitive situations that might lead to a meeting-competition pricing policy.
17. Would consumers be better off if all nations dropped their antidumping laws? Explain your thinking.
18. How would our marketing system change if manufacturers were required to set fixed prices on *all* products sold at retail and *all* retailers were required to use these prices? Would a manufacturer's marketing mix be easier to develop? What kind of an operation would retailing be in this situation? Would consumers receive more or less service?
19. Is price discrimination involved if a large oil company sells gasoline to taxicab associations for resale to individual taxicab operators for 2½ cents a gallon less than the price charged to retail service stations? What happens if the cab associations resell gasoline not only to taxicab operators but to the general public as well?

Suggested Cases

13. Paper Supplies Corporation

25. PlastiForm Mfg., Inc.

Computer-Aided Problem

17. **Cash Discounts**

Joe Tulkin owns Tulkin Wholesale Co. He sells paper, tape, file folders, and other office supplies to about 120 retailers in nearby cities. His average retailer customer spends about $900 a month. When Tulkin started business in 1991, competing wholesalers were giving retailers invoice terms of 3/10, net 30. Tulkin never gave the issue much thought—he just used the same invoice terms when he billed customers. At that time, about half of his customers took the discount. Recently, he noticed a change in the way his customers were paying their bills. Checking his records, he found that 90 percent of the retailers were taking the cash discount. With so many retailers taking the cash discount, it seems to have become a price reduction. In addition, Tulkin learned that other wholesalers were changing their invoice terms.

Tulkin decides he should rethink his invoice terms. He knows he could change the percent rate on the cash discount, the number of days the discount is offered, or the number of days before the face amount is due. Changing any of these, or any combination, will change the interest rate at which a buyer is, in effect, borrowing money if he does not take the discount. Tulkin decides that it will be easier to evaluate the effect of different invoice terms if he sets up a spreadsheet to let him change the terms and quickly see the effective interest rate for each change.

a. *With 90 percent of Tulkin's customers now taking the discount, what is the total monthly cash discount amount?*
b. *If Tulkin changes his invoice terms to 1/5, net 20, what interest rate is each buyer paying by not taking the cash discount? With these terms, would fewer buyers be likely to take the discount? Why?*
c. *Tulkin thinks 10 customers will switch to other wholesalers if he changes his invoice terms to 2/10, net 30, while 60 percent of the remaining customers will take the discount. What interest rate does a buyer pay by not taking this cash discount? For this situation, what will the total gross sales (total invoice) amount be? The total cash discount? The total net sales receipts after the total cash discount? Compare Tulkin's current situation with what will happen if he changes his invoice terms to 2/10, net 30.*

For additional questions related to this problem, see Exercise 17-3 in the *Learning Aid for Use with Basic Marketing*, 14th edition.

When You Finish This Chapter, You Should

1. Understand how most wholesalers and retailers set their prices—using markups.

2. Understand why turnover is so important in pricing.

3. Understand the advantages and disadvantages of average-cost pricing.

4. Know how to use break-even analysis to evaluate possible prices.

5. Understand the advantages of marginal analysis and how to use it for price setting.

6. Understand the various factors that influence customer price sensitivity.

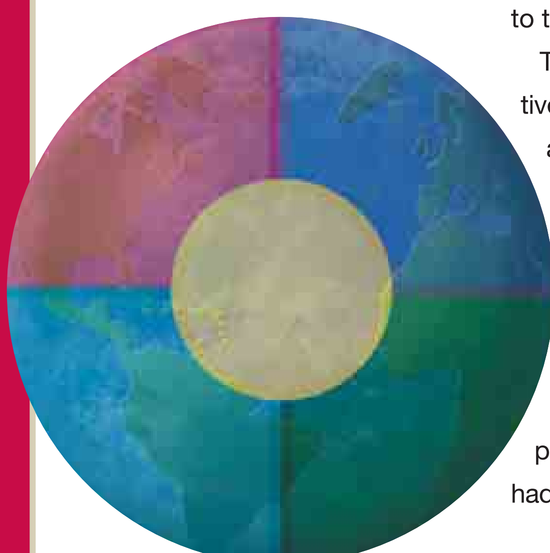
7. Know the many ways that price setters use demand estimates in their pricing.

8. Understand the important new terms (shown in red).

Chapter Eighteen

Price Setting in the Business World

In the spring of 2001, Kmart's prices on products like toothpaste, light bulbs, laundry soap, and beauty products were 10 to 15 percent higher than at Wal-Mart. Shoppers buy these items frequently and know what they pay. To provide equal value, marketing managers for Kmart decided that they needed to cut prices on 4,000 products. And to highlight their price cutting they revived Kmart's hourly Blue Light Specials, a surprise sale on an item that usually lasts about 15 minutes. It didn't take long for Wal-Mart to announce that it would be putting even more emphasis on price rollbacks. By taking a longer-term look at how Wal-Mart has grown so fast in the past, you'll get a pretty good idea how this wrestling match is going to turn out.



To put the big picture in perspective, Wal-Mart's current sales are about five times Kmart's. By the year 2005, Wal-Mart sales should exceed $330 billion—double what they were in 1999 and 13 times what they were in 1990. Back then, Wal-Mart earned about twice as much profit as Kmart even though they had about the same sales revenue.

price

place

promotion

produc

What explains the big difference in growth and profits when the two chains are in many ways similar? Part of the answer is that Wal-Mart has more sales volume in each store. Wal-Mart's sales revenue per square foot is more than twice that at Kmart. Wal-Mart's lower prices on similar products increases demand in its stores. But it also reduces its fixed operating costs as a percentage of sales. That means it can add a smaller markup, still cover its operating expenses, and make a larger profit. And as lower prices pull in more and more customers, its percent of overhead costs to sales continues to drop—from about 20.2 percent in 1980 to about 16 percent now.

In the past few years, Wal-Mart has also improved profits by cutting unnecessary inventory by over $2 billion, thereby saving $150 million in carrying cost and reducing markdowns. Wal-Mart also has lower costs for the goods it sells. Its buyers are tough in negotiating the best prices from suppliers—to be able to offer Wal-Mart customers the brands they want at low prices. But Wal-Mart also works closely with producers to reduce costs in the channel. For example, Wal-Mart was one of the first major retailers to insist that all orders be placed by computer; that helps to reduce stock-outs on store shelves and lost sales at the checkout counter. Wal-Mart also works with vendors to create private-label brands, such as Sam's Choice Cola. Its low price—about 15 percent below what consumers expect to pay for well-known colas—doesn't leave a big profit margin. Yet when customers come in to buy it they also pick up other, more profitable, products.

Even with its lower costs, Wal-Mart isn't content to take the convenient route to price setting by just adding a standard percentage markup on different items. The company was one of the first retailers to give managers in every department in every store frequent, detailed information about what is selling and what isn't. They drop items that are collecting dust and roll back prices on the ones with the fastest turnover and highest margins. That not only increases stockturn but also puts the effort behind products with the most potential. For example, every department manager in every Wal-Mart store has a list of special VPIs (volume producing items). They give VPIs special attention and display space—to get a bigger sales and profit boost. For instance, Wal-Mart's analysis of checkout-scanner sales data revealed that parents often pick up more than one kid's video at a time. So now they are certain that special displays feature several videos and that the rest of the selection is close by.

Wal-Mart was the first major retailer to move to online selling (www.walmart.com). Its online sales still account for only a small percent of its total sales, so there's lots of room to grow there too. Further, Wal-Mart is aggressively taking its low-price approach to other countries—ranging from Mexico to China.

To return to where we started, Kmart is now copying many of Wal-Mart's innovations. However, Wal-Mart has such advantages on sales volume, unit costs, and margins that it will be difficult for Kmart to win in any price war—unless Wal-Mart somehow stumbles because of its enormous size.[1]

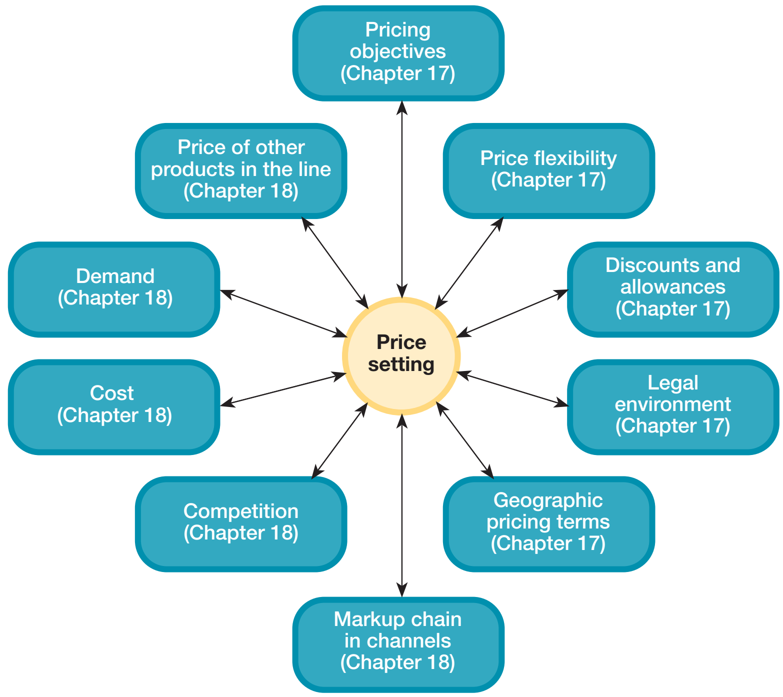
Price Setting Is a Key Strategy Decision

In the last chapter, we discussed the idea that pricing objectives and policies should guide pricing decisions. We accepted the idea of a list price and went on to discuss variations from list and how they combine to impact customer value. Now we'll see how the basic list price is set in the first place—based on information about costs, demand, and profit margins. See Exhibit 18-1.

Many firms set a price by just adding a standard markup to the average cost of the products they sell. But this is changing. More managers are realizing that they should set prices by evaluating the effect of a price decision not only on profit margin for a given item but also on demand and therefore on sales volume, costs, and total profit. In Wal-Mart's very competitive markets, this approach often leads to low prices that increase profits *and* at the same time reduce customers' costs. For other firms in different market situations, careful price setting leads to a premium price for a marketing mix that offers customers unique benefits and value. But these firms commonly focus on setting prices that earn attractive profits—as part of an overall marketing strategy that satisfies customers' needs.

There are many ways to set list prices. But for simplicity they can be reduced to two basic approaches: *cost-oriented* and *demand-oriented* price setting. We will discuss cost-oriented approaches first because they are most common. Also, understanding the problems of relying only on a cost-oriented approach shows why a marketing manager must also consider demand to make good Price decisions. Let's begin by looking at how most retailers and wholesalers set cost-oriented prices.

Exhibit 18-1
Key Factors That Influence Price Setting



Some Firms Just Use Markups

Markups guide pricing by middlemen

Some firms, including most retailers and wholesalers, set prices by using a **markup**—a dollar amount added to the cost of products to get the selling price. For example, suppose that a CVS drugstore buys a bottle of Pert Plus shampoo for $2. To make a profit, the drugstore obviously must sell the shampoo for more than $2. If it adds $1 to cover operating expenses and provide a profit, we say that the store is marking up the item $1.

Markups, however, usually are stated as percentages rather than dollar amounts. And this is where confusion sometimes arises. Is a markup of $1 on a cost of $2 a markup of 50 percent? Or should the markup be figured as a percentage of the selling price—$3.00—and therefore be 33⅓ percent? A clear definition is necessary.

Markup percent is based on selling price—a convenient rule

Unless otherwise stated, **markup (percent)** means percentage of selling price that is added to the cost to get the selling price. So the $1 markup on the $3.00 selling price is a markup of 33⅓ percent. Markups are related to selling price for convenience.

There's nothing wrong with the idea of markup on cost. However, to avoid confusion, it's important to state clearly which markup percent you're using.

Managers often want to change a markup on cost to one based on selling price, or vice versa. The calculations used to do this are simple. (See the section on markup conversion in Appendix B on marketing arithmetic. The appendixes follow Chapter 22.)[2]

Many use a standard markup percent

Many middlemen select a standard markup percent and then apply it to all their products. This makes pricing easier. When you think of the large number of items the average retailer and wholesaler carry—and the small sales volume of any one

Specialized products that rely on selective distribution and sell in smaller volume usually offer retailers higher markups, in part to offset the retailer's higher carrying costs and marketing expenses.

item—this approach may make sense. Spending the time to find the best price to charge on every item in stock (day to day or week to week) might not pay.

Moreover, different companies in the same line of business often use the same markup percent. There is a reason for this: Their operating expenses are usually similar. So a standard markup is acceptable as long as it's large enough to cover the firm's operating expenses and provide a reasonable profit.

Markups are related to gross margins

How does a manager decide on a standard markup in the first place? A standard markup is often set close to the firm's *gross margin*. Managers regularly see gross margins on their operating (profit and loss) statements. The gross margin is the amount left—after subtracting the cost of sales (cost of goods sold) from net sales—to cover the expenses of selling products and operating the business. (See Appendix B on marketing arithmetic if you are unfamiliar with these ideas.) Our CVS manager knows that there won't be any profit if the gross margin is not large enough. For this reason, CVS might accept a markup percent on Pert Plus shampoo that is close to the store's usual gross margin percent.

Smart producers pay attention to the gross margins and standard markups of middlemen in their channel. They usually allow trade (functional) discounts similar to the standard markups these middlemen expect.

Markup chain may be used in channel pricing

Different firms in a channel often use different markups. A **markup chain**—the sequence of markups firms use at different levels in a channel—determines the price structure in the whole channel. The markup is figured on the *selling price* at each level of the channel.

For example, Black & Decker's selling price for an electric drill becomes the cost the Ace Hardware wholesaler pays. The wholesaler's selling price becomes the hardware retailer's cost. And this cost plus a retail markup becomes the retail selling price. Each markup should cover the costs of running the business and leave a profit.

Exhibit 18-2 Example of a Markup Chain and Channel Pricing

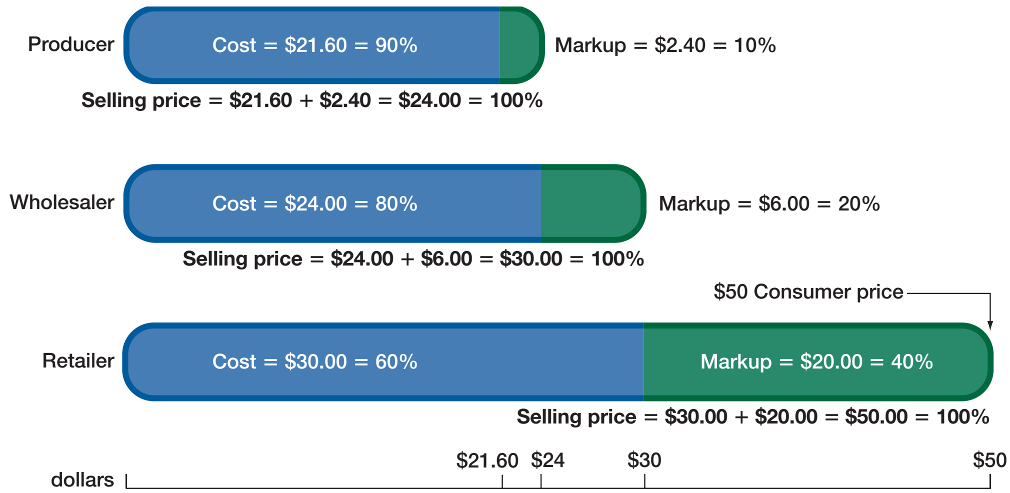


Exhibit 18-2 illustrates the markup chain for an electric drill at each level of the channel system. The production (factory) cost of the drill is $21.60. In this case, the producer takes a 10 percent markup and sells the product for $24. The markup is 10 percent of $24 or $2.40. The producer's selling price now becomes the wholesaler's cost—$24. If the wholesaler is used to taking a 20 percent markup on selling price, the markup is $6—and the wholesaler's selling price becomes $30. The $30 now becomes the cost for the hardware retailer. And a retailer who is used to a 40 percent markup adds $20, and the retail selling price becomes $50.

High markups don't always mean big profits

Some people, including many conventional retailers, think high markups mean big profits. Often this isn't true. A high markup may result in a price that's too high—a price at which few customers will buy. You can't earn much if you don't sell much, no matter how high your markup. But many retailers and wholesalers seem more concerned with the size of their markup on a single item than with their total profit. And their high markups may lead to low profits or even losses.

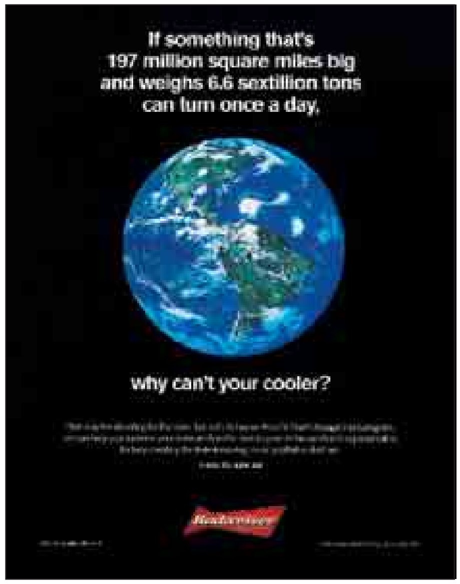
Lower markups can speed turnover and the stockturn rate

Some retailers and wholesalers, however, try to speed turnover to increase profit—even if this means reducing their markups. They realize that a business runs up costs over time. If they can sell a much greater amount in the same time period, they may be able to take a lower markup and still earn higher profits at the end of the period.

An important idea here is the **stockturn rate**—the number of times the average inventory is sold in a year. Various methods of figuring stockturn rates can be used (see the section "Computing the Stockturn Rate" in Appendix B). A low stockturn rate may be bad for profits.

At the very least, a low stockturn increases inventory carrying cost and ties up working capital. If a firm with a stockturn of 1 (once per year) sells products that cost it $100,000, it has that much tied up in inventory all the time. But a stockturn of 5 requires only $20,000 worth of inventory ($100,000 cost ÷ 5 turnovers a year). If annual inventory carrying cost is about 20 percent of the inventory value, that reduces costs by $16,000 a year. That's a big difference on $100,000 in sales!

Whether a stockturn rate is high or low depends on the industry and the product involved. A NAPA auto parts wholesaler may expect an annual rate of 1—while a Safeway supermarket might expect 20 to 30 stockturns for soaps and detergents and 70 to 80 stockturns for fresh fruits and vegetables.



This trade ad, targeted at retailers, emphasizes faster stockturn which, together with markups, impacts the retailer's profitability.

Mass-merchandisers run in fast company

Although some middlemen use the same standard markup percent on all their products, this policy ignores the importance of fast turnover. Mass-merchandisers know this. They put low markups on fast-selling items and higher markups on items that sell less frequently. For example, Wal-Mart may put a small markup on fast-selling health and beauty aids (like toothpaste or shampoo) but higher markups on appliances and clothing. Similarly, supermarket operators put low markups on fast-selling items like milk, eggs, and detergents. The markup on these items may be less than half the average markup for all grocery items, but this doesn't mean they're unprofitable. The store earns the small profit per unit more often.

Where does the markup chain start?

Some markups eventually become standard in a trade. Most channel members tend to follow a similar process—adding a certain percentage to the previous price. But who sets price in the first place? The firm that brands a product is usually the one that sets its basic list price. It may be a large retailer, a large wholesaler, or most often, the producer.

Some producers just start with a cost per unit figure and add a markup—perhaps a standard markup—to obtain their selling price. Or they may use some rule-of-thumb formula such as:

$$\text{Selling price} = \text{Average production cost per unit} \times 3$$

A producer who uses this approach might develop rules and markups related to its own costs and objectives. Yet even the first step—selecting the appropriate cost per unit to build on—isn't easy. Let's discuss several approaches to see how cost-oriented price setting really works.

Average-Cost Pricing Is Common and Can Be Dangerous

Average-cost pricing means adding a reasonable markup to the average cost of a product. A manager usually finds the average cost per unit by studying past records. Dividing the total cost for the last year by all the units produced and sold

Exhibit 18-3 Results of Average-Cost Pricing

A. Calculation of Planned Profit if 40,000 Items Are Sold		B. Calculation of Actual Profit if Only 20,000 Items Are Sold	
Calculation of Costs:		**Calculation of Costs:**	
Fixed overhead expenses	$30,000	Fixed overhead expenses	$30,000
Labor and materials ($.80 a unit)	32,000	Labor and materials ($.80 a unit)	16,000
Total costs	$62,000	Total costs	$46,000
"Planned" profit	18,000		
Total costs and planned profit	$80,000		
Calculation of Profit (or Loss):		**Calculation of Profit (or Loss):**	
Actual unit sales × price ($2.00*)	$80,000	Actual unit sales × price ($2.00*)	$40,000
Minus: total costs	62,000	Minus: total costs	46,000
Profit (loss)	$18,000	Profit (loss)	($6,000)
Result:		**Result:**	
Planned profit of $18,000 is earned if 40,000 items are sold at $2.00 each.		Planned profit of $18,000 is not earned. Instead, $6,000 loss results if 20,000 items are sold at $2.00 each.	

*Calculation of "reasonable" price: $\frac{\text{Expected total costs and planned profit}}{\text{Planned number of items to be sold}} = \frac{\$80,000}{40,000} = \$2.00$

in that period gives an estimate of the average cost per unit for the next year. If the cost was $32,000 for all labor and materials and $30,000 for fixed overhead expenses—such as selling expenses, rent, and manager salaries—then the total cost is $62,000. If the company produced 40,000 items in that time period, the average cost is $62,000 divided by 40,000 units, or $1.55 per unit. To get the price, the producer decides how much profit per unit to add to the average cost per unit. If the company considers 45 cents a reasonable profit for each unit, it sets the new price at $2.00. Exhibit 18-3A shows that this approach produces the desired profit—if the company sells 40,000 units.

It does not make allowances for cost variations as output changes

It's always a useful input to pricing decisions to understand how costs operate at different levels of output. Further, average-cost pricing is simple. But it can also be dangerous. It's easy to lose money with average-cost pricing. To see why, let's follow this example further.

First, remember that the average cost of $2.00 per unit was based on output of 40,000 units. But if the firm is only able to produce and sell 20,000 units in the next year, it may be in trouble. Twenty thousand units sold at $2.00 each ($1.55 cost plus 45 cents for expected profit) yield a total revenue of only $40,000. The overhead is still fixed at $30,000, and the variable material and labor cost drops by half to $16,000—for a total cost of $46,000. This means a loss of $6,000, or 30 cents a unit. The method that was supposed to allow a profit of 45 cents a unit actually causes a loss of 30 cents a unit! See Exhibit 18-3B.

The basic problem with the average-cost approach is that it doesn't consider cost variations at different levels of output. In a typical situation, costs are high with low output, and then economies of scale set in—the average cost per unit drops as the quantity produced increases. This is why mass production and mass distribution often make sense. It's also why it's important to develop a better understanding of the different types of costs a marketing manager should consider when setting a price.

Are Women Consumers Being Taken to the Cleaners?

Women have complained for years that they pay more than men for clothes alterations, dry cleaning, shirt laundering, haircuts, shoes, and a host of other products. For example, a laundry might charge $2.25 to launder a woman's white cotton shirt and charge only $1.25 for an identical shirt delivered by a man.

A survey by a state agency in California found that of 25 randomly chosen dry cleaners, 64 percent charged more to launder women's cotton shirts than men's; 28 percent charged more to dry clean women's suits. And 40 percent of 25 hair salons surveyed charged more for basic women's haircuts. Soon after the survey, California passed a law banning such gender-based differences in prices—and New York and Massachusetts followed suit. An informal study by KRON-TV confirmed that pricing differences continued to be common in California. Publicity about the $1,000 fine for violations may change that. On the other hand, there's nothing in any law to say that Mennen antiperspirant for men, priced at $2.89 for 2.25 ounces, can't be a better deal than Mennen's Lady Speed Stick, which is $2.69 for one-third fewer ounces. Such differences are common with health and beauty aids.

Some consumers feel that such differences in pricing are unethical. Critics argue that firms are discriminating against women by arbitrarily charging them higher prices. Not everyone shares this view. A spokesperson for an association of launderers and cleaners says that "the automated equipment we use fits a certain range of standardized shirts. A lot of women's blouses have different kinds of trim . . . and lots of braid work, and it all has to be hand-finished. If it involves hand-finishing, we charge more." Some cleaners charge more for doing women's blouses because the average cost is higher than the average cost for men's shirts. Some just charge more because women buy anyway.

There are no federal laws to regulate the prices that dry cleaners, hair salons, or tailors charge. Still, most experts argue that such laws, including the state rules, are unnecessary. After all, customers who don't like a particular cleaner's rates are free to visit a competitor who may charge less.

Many firms face the problem of how to set prices when the average costs are different to serve different customers. For example, poor, inner-city consumers often pay higher prices for food. But inner-city retailers also face higher average costs for facilities, shoplifting, and insurance. Some firms don't like to charge different consumers different prices, but they also don't want to charge everyone a higher average price—to cover the expense of serving high-cost customers.[3]

Marketing Manager Must Consider Various Kinds of Costs

Average-cost pricing may lead to losses because there are a variety of costs—and each changes in a *different* way as output changes. Any pricing method that uses cost must consider these changes. To understand why, we need to define six types of costs.

There are three kinds of total cost

1. **Total fixed cost** is the sum of those costs that are fixed in total—no matter how much is produced. Among these fixed costs are rent, depreciation, managers' salaries, property taxes, and insurance. Such costs stay the same even if production stops temporarily.
2. **Total variable cost,** on the other hand, is the sum of those changing expenses that are closely related to output—expenses for parts, wages, packaging materials, outgoing freight, and sales commissions.

At zero output, total variable cost is zero. As output increases, so do variable costs. If Levi's doubles its output of jeans in a year, its total cost for denim cloth also (roughly) doubles.

3. **Total cost** is the sum of total fixed and total variable costs. Changes in total cost depend on variations in total variable cost—since total fixed cost stays the same.

There are three kinds of average cost

The pricing manager usually is more interested in cost per unit than total cost because prices are usually quoted per unit.

1. **Average cost** (per unit) is obtained by dividing total cost by the related quantity (that is, the total quantity that causes the total cost).

Average fixed costs are lower when a larger quantity is produced.

2. **Average fixed cost** (per unit) is obtained by dividing total fixed cost by the related quantity.
3. **Average variable cost** (per unit) is obtained by dividing total variable cost by the related quantity.

An example shows cost relations

A good way to get a feel for these different types of costs is to extend our average-cost pricing example (Exhibit 18-3A). Exhibit 18-4 shows the six types of cost and how they vary at different levels of output. The line for 40,000 units is highlighted because that was the expected level of sales in our average-cost pricing example. For simplicity, we assume that average variable cost is the same for each unit. Notice, however, that total variable cost increases when quantity increases.

Exhibit 18-4 Cost Structure of a Firm

Quantity (Q)	Total Fixed Costs (TFC)	Average Fixed Costs (AFC)	Average Variable Costs (AVC)	Total Variable Costs (TVC)	Total Cost (TC)	Average Cost (AC)
0	$30,000	—	—	—	$ 30,000	—
10,000	30,000	$3.00	$0.80	$ 8,000	38,000	$3.80
20,000	30,000	1.50	0.80	16,000	46,000	2.30
30,000	30,000	1.00	0.80	24,000	54,000	1.80
40,000	30,000	0.75	0.80	32,000	62,000	1.55
50,000	30,000	0.60	0.80	40,000	70,000	1.40
60,000	30,000	0.50	0.80	48,000	78,000	1.30
70,000	30,000	0.43	0.80	56,000	86,000	1.23
80,000	30,000	0.38	0.80	64,000	94,000	1.18
90,000	30,000	0.33	0.80	72,000	102,000	1.13
100,000	30,000	0.30	0.80	80,000	110,000	1.10

110,000 (TC)
−80,000 (TVC)
30,000 (TFC)

(Q) 100,000 ⟌ 30,000 (TFC) = 0.30 (AFC)

0.80 (AVC)

100,000 (Q)
×0.80 (AVC)
80,000 (TVC)

30,000 (TFC)
+80,000 (TVC)
110,000 (TC)

(Q) 100,000 ⟌ 110,000 (TC) = 1.10 (AC)

Exhibit 18-5
Typical Shape of Cost (per unit) Curves When Average Variable Cost per Unit Is Constant

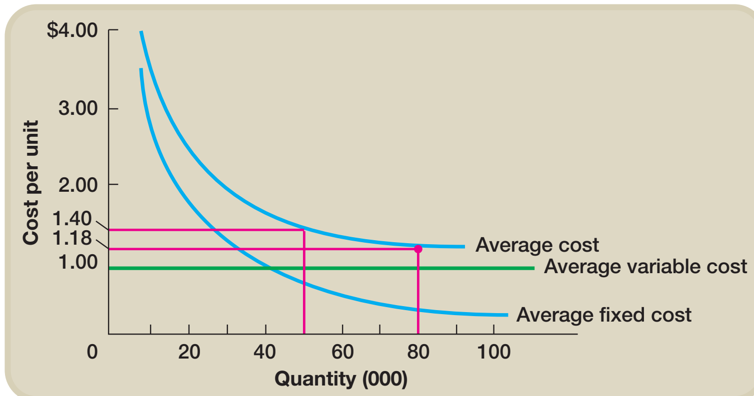


Exhibit 18-5 shows the three average cost curves from Exhibit 18-4. Notice that average fixed cost goes down steadily as the quantity increases. Although the average variable cost remains the same, average cost decreases continually too. This is because average fixed cost is decreasing. With these relations in mind, let's reconsider the problem with average-cost pricing.

Ignoring demand is the major weakness of average-cost pricing

Average-cost pricing works well if the firm actually sells the quantity it used to set the average-cost price. Losses may result, however, if actual sales are much lower than expected. On the other hand, if sales are much higher than expected, then profits may be very good. But this will only happen by luck—because the firm's demand is much larger than expected.

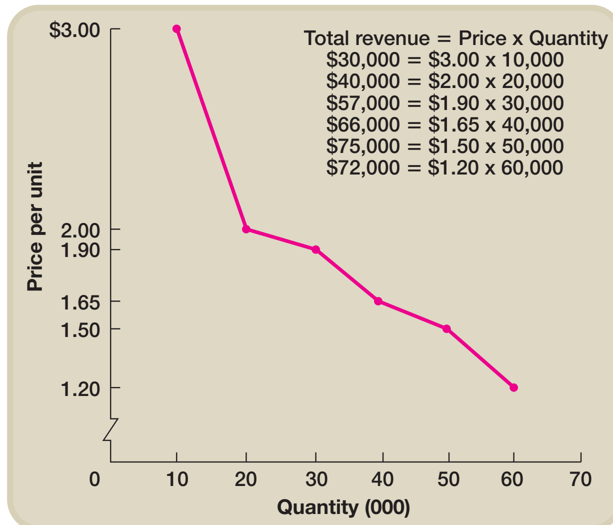
To use average-cost pricing, a marketing manager must make *some* estimate of the quantity to be sold in the coming period. Without a quantity estimate, it isn't possible to compute average cost. But unless this quantity is related to price—that is, unless the firm's demand curve is considered—the marketing manager may set a price that doesn't even cover a firm's total cost! You saw this happen in Exhibit 18-3B, when the firm's price of $2.00 resulted in demand for only 20,000 units and a loss of $6,000.

The demand curve is still important even if management doesn't take time to think about it. For example, Exhibit 18-6 shows the demand curve for the firm we're discussing. This demand curve shows *why* the firm lost money when it tried to use average-cost pricing. At the $2.00 price, quantity demanded is only 20,000. With this demand curve and the costs in Exhibit 18-4, the firm will incur a loss whether management sets the price at a high $3 or a low $1.20. At $3, the firm will sell only 10,000 units for a total revenue of $30,000. But total cost will be $38,000—for a loss of $8,000. At the $1.20 price, it will sell 60,000 units—at a loss of $6,000. However, the curve suggests that at a price of $1.65 consumers will demand about 40,000 units, producing a profit of about $4,000.

In short, average-cost pricing is simple in theory but often fails in practice. In stable situations, prices set by this method may yield profits but not necessarily *maximum* profits. And note that such cost-based prices may be higher than a price that would be more profitable for the firm, as shown in Exhibit 18-6. When demand conditions are changing, average-cost pricing is even more risky.

Exhibit 18-7 summarizes the relationships discussed above. Cost-oriented pricing requires an estimate of the total number of units to be sold. That estimate determines the *average* fixed cost per unit and thus the average total cost. Then the firm adds the desired profit per unit to the average total cost to get the cost-oriented selling price. How customers react to that price determines the actual quantity the firm will be able to sell. But that quantity may not be the quantity used to compute the

Exhibit 18-6
Evaluation of Various Prices along a Firm's Demand Curve

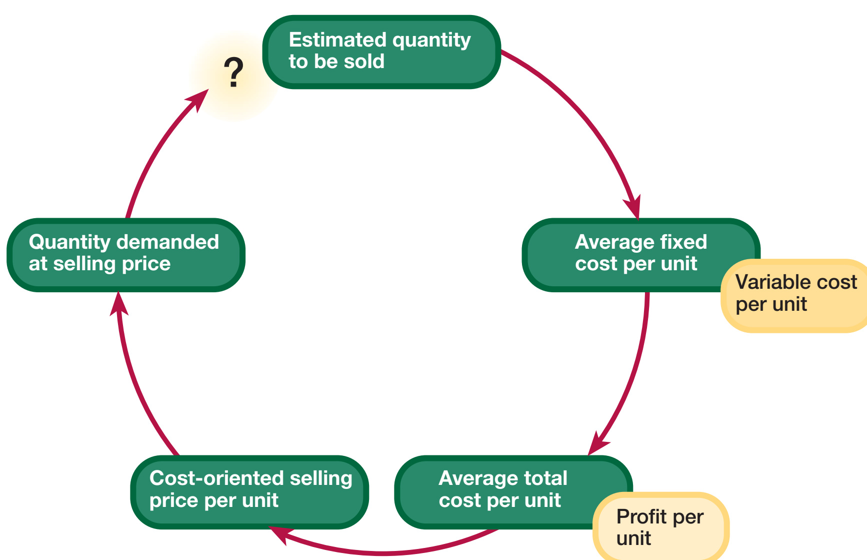


average cost! Further, the quantity the firm actually sells (times price) determines total revenue (and total profit or loss). A decision made in one area affects each of the others, directly or indirectly. Average-cost pricing does not consider these effects.[4] A manager who forgets this can make serious pricing mistakes.

Experience curve pricing is even riskier

Some aggressive firms use a variation of average-cost pricing called experience curve pricing. **Experience curve pricing** is average-cost pricing using an estimate of *future* average costs. This approach is based on the observation that over time—as an industry gains experience in certain kinds of production—managers learn new ways to reduce costs. In some industries, costs decrease about 15 to 20 percent each time cumulative production volume (experience) doubles. So a firm might set average-cost prices based on where it expects costs to be when products are sold in the future—not where costs actually are when the strategy is set. This approach is

Exhibit 18-7
Summary of Relationships among Quantity, Cost, and Price Using Cost-Oriented Pricing



more common in rapidly growing markets because cumulative production volume (experience) grows faster.

If costs drop as expected, this approach works. But it has the same risks as regular average-cost pricing. The price setter has to estimate what quantity will be sold to be able to read the right price from the experience-based average-cost curve.[5]

Don't ignore competitors' costs

Another danger of average-cost pricing is that it ignores competitors' costs and prices. Just as the price of a firm's own product influences demand, the price of available substitutes may impact demand. We saw this operate in our Wal-Mart case at the start of this chapter. By finding ways to cut costs, Wal-Mart was able to offer prices lower than competitors and still make an attractive profit.

Some Firms Add a Target Return to Cost

Target return pricing scores sometimes

Target return pricing—adding a target return to the cost of a product—has become popular in recent years. With this approach, the price setter seeks to earn (1) a percentage return (say, 10 percent per year) on the investment or (2) a specific total dollar return.

This method is a variation of the average-cost method since the desired target return is added into total cost. As a simple example, if a company had $180,000 invested and wanted to make a 10 percent return on investment, it would add $18,000 to its annual total costs in setting prices.

This approach has the same weakness as other average-cost pricing methods. If the quantity actually sold is less than the quantity used to set the price, then the company doesn't earn its target return—even though the target return seems to be part of the price structure. In fact, we already saw this in Exhibit 18-3. Remember that we added $18,000 as an expected profit, or target return. But the return was much lower when the expected quantity was not sold. (It could be higher too—but only if the quantity sold is much larger than expected.) Target return pricing clearly does not guarantee that a firm will hit the target.

Hitting the target in the long run

Managers in some larger firms who want to achieve a long-run target return objective use another cost-oriented pricing approach—**long-run target return pricing**—adding a long-run average target return to the cost of a product. Instead of estimating the quantity they expect to produce in any one year, they assume that during several years' time their plants will produce at, say, 80 percent of capacity. They use this quantity when setting their prices.

Companies that take this longer-run view assume that there will be recession years when sales drop below 80 percent of capacity. For example, Owens-Corning Fiberglas sells insulation. In years when there is little construction, output is low, and the firm does not earn the target return. But the company also has good years when it sells more insulation and exceeds the target return. Over the long run, Owens-Corning managers expect to achieve the target return. And sometimes they're right—depending on how accurately they estimate demand!

Break-Even Analysis Can Evaluate Possible Prices

Some price setters use break-even analysis in their pricing. **Break-even analysis** evaluates whether the firm will be able to break even—that is, cover all its costs—with a particular price. This is important because a firm must cover all costs in the long run or there is not much point being in business. This method focuses on the **break-even point (BEP)**—the quantity where the firm's total cost will just equal its total revenue.

Break-even charts help find the BEP

To help understand how break-even analysis works, look at Exhibit 18-8, an example of the typical break-even chart. *The chart is based on a particular selling price*—in this case $1.20 a unit. The chart has lines that show total costs (total variable plus total fixed costs) and total revenues at different levels of production. The break-even point on the chart is at 75,000 units—where the total cost and total revenue lines intersect. At that production level, total cost and total revenue are the same—$90,000.

The difference between the total revenue and total cost at a given quantity is the profit—or loss! The chart shows that below the break-even point, total cost is higher than total revenue and the firm incurs a loss. The firm would make a profit above the break-even point. However, the firm would only reach the break-even point, or get beyond it into the profit area, *if* it could sell at least 75,000 units at the $1.20 price.

Break-even analysis can be very helpful if used properly, so let's look at this approach more closely.

How to compute a break-even point

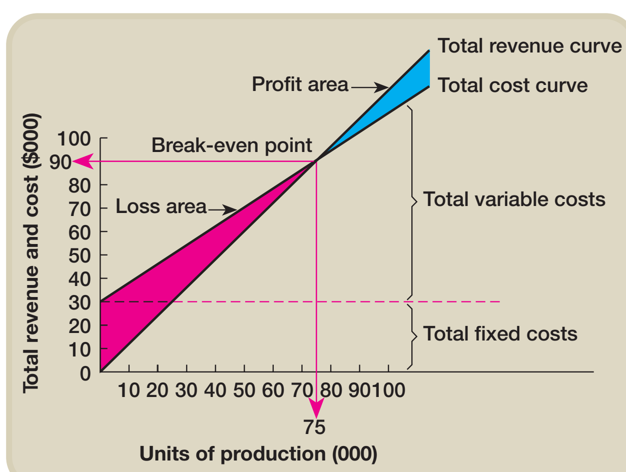
A break-even chart is an easy-to-understand visual aid, but it's also useful to be able to compute the break-even point.

The BEP, in units, can be found by dividing total fixed costs (TFC) by the **fixed-cost (FC) contribution per unit**—the assumed selling price per unit minus the variable cost per unit. This can be stated as a simple formula:

$$\text{BEP (in units)} = \frac{\text{Total fixed cost}}{\text{Fixed cost contribution per unit}}$$

This formula makes sense when we think about it. To break even, we must cover total fixed costs. Therefore, we must figure the contribution each unit will make to covering the total fixed costs (after paying for the variable costs to produce the

Exhibit 18-8
Break-Even Chart for a Particular Situation



The money that a firm spends on marketing and other expenses must be at least covered by a firm's price if it is to make a profit. That's why Gillette enjoys big economies of scale by selling the same razors in every market.

item). When we divide this per-unit contribution into the total fixed costs that must be covered, we have the BEP (in units).

To illustrate the formula, let's use the cost and price information in Exhibit 18-8. The price per unit is \$1.20. The average variable cost per unit is 80 cents. So the FC contribution per unit is 40 cents (\$1.20 − 80 cents). The total fixed cost is \$30,000 (see Exhibit 18-8). Substituting in the formula:

$$\text{BEP} = \frac{\$30{,}000}{.40} = 75{,}000 \text{ units}$$

From this you can see that if this firm sells 75,000 units, it will exactly cover all its fixed and variable costs. If it sells even one more unit, it will begin to show a profit—in this case, 40 cents per unit. Note that once the fixed costs are covered, the part of revenue formerly going to cover fixed costs is now *all profit*.

BEP can be stated in dollars too

The BEP can also be figured in dollars. The easiest way is to compute the BEP in units and then multiply by the assumed per-unit price. If you multiply the selling price (\$1.20) by the BEP in units (75,000) you get \$90,000—the BEP in dollars.

Each possible price has its own break-even point

Often it's useful to compute the break-even point for each of several possible prices and then compare the BEP for each price to likely demand at that price. The marketing manager can quickly reject some price possibilities when the expected quantity demanded at a given price is way below the break-even point for that price.

A target profit can be included

So far in our discussion of BEP we've focused on the quantity at which total revenue equals total cost—where profit is zero. We can also vary this approach to see what quantity is required to earn a certain level of profit. The analysis is the same as described above for the break-even point in units, but the amount of target profit is added to the total fixed cost. Then when we divide the total fixed cost plus profit figure by the contribution from each unit, we get the quantity that will earn the target profit.

Break-even analysis shows the effect of cutting costs

Break-even analysis makes it clear why managers must constantly look for effective new ways to get jobs done at lower costs. For example, if a manager can reduce the firm's total fixed costs—perhaps by using computer systems to cut out excess inventory carrying costs—the break-even point will be lower and profits will start to build sooner. Similarly, if the variable cost to produce and sell an item can be reduced, the fixed-cost contribution per unit increases; that too lowers the break-even point and profit accumulates faster for each product sold beyond the break-even point.

Break-even analysis is helpful—but not a pricing solution

Break-even analysis is helpful for evaluating alternatives. It is also popular because it's easy to use. Yet break-even analysis is too often misunderstood. Beyond the BEP, profits seem to be growing continually. And the graph—with its straight-line total revenue curve—makes it seem that any quantity can be sold at the assumed price. But this usually isn't true. It is the same as assuming a perfectly horizontal demand curve at that price. In fact, most managers face down-sloping demand situations. And their total revenue curves do *not* keep going up.

The firm and costs we discussed in the average-cost pricing example earlier in this chapter illustrate this point. You can confirm from Exhibit 18-4 that the total fixed cost ($30,000) and average variable cost (80 cents) for that firm are the same ones shown in the break-even chart (Exhibit 18-8). So this break-even chart is the one we would draw for that firm assuming a price of $1.20 a unit. But the demand curve for that case showed that the firm could only sell 60,000 units at a price of $1.20. So that firm would never reach the 75,000 unit break-even point at a $1.20 price. It would only sell 60,000 units, and it would lose $6,000! A firm with a different demand curve—say, one where the firm could sell 80,000 units at a price of $1.20—would in fact break even at 75,000 units.

Break-even analysis is a useful tool for analyzing costs and evaluating what might happen to profits in different market environments. But it is a cost-oriented approach and suffers the same limitation as other cost-oriented approaches. Specifically, it does not consider the effect of price on the quantity that consumers will want—that is, the demand curve.

So to really zero in on the most profitable price, marketers are better off estimating the demand curve itself and then using marginal analysis, which we'll discuss next.[6]

Marginal Analysis Considers Both Costs and Demand

Marginal analysis helps find the right price

The best pricing tool marketers have for looking at costs and revenue (demand) at the same time is marginal analysis. **Marginal analysis** focuses on the changes in total revenue and total cost from selling one more unit to find the most profitable price and quantity. Marginal analysis shows how profit changes at different prices. Thus, it can help to find the price that *maximizes* profit. You can also see the effect of other price levels. Even if you adjust to pursue objectives other than profit maximization, you know how much profit you're giving up!

Marginal analysis when demand curves slope down

To explain how marginal analysis works, we'll use an example based on a firm with the specific cost and demand numbers in Exhibit 18-9. This example uses simple numbers to ensure that the explanations are easy to follow. However, the approach we cover is the same one that managers use. A manager who works with large numbers might use spreadsheet software to do the calculations and create a table like the one shown in Exhibit 18-9. However, as you'll see in the example, only basic adding, subtracting, multiplying, and dividing are required.

Our example and discussion focus on a firm that operates in a market where there is monopolistic competition. As we noted in Chapter 17, in this situation the marketing manager does have a pricing decision to make, and the firm can carve out a market niche for itself with the price and marketing mix it offers.[7]

Exhibit 18-9 Revenue, Cost, and Profit at Different Prices for a Firm

(1) Quantity (Q)	(2) Price (P)	(3) Total Revenue (TR)	(4) Total Variable Cost (TVC)	(5) Total Cost (TC)	(6) Profit (TR − TC)	(7) Marginal Revenue (MR)	(8) Marginal Cost (MC)	(9) Marginal Profit (MR − MC)
0	$150	$ 0	$ 0	$200	$ − 200			
1	140	140	96	296	− 156	$140	$96	$ + 44
2	130	260	116	316	− 56	120	20	+100
3	117	351	131	331	+ 20	91	15	+ 76
4	105	420	144	344	+ 76	69	13	+ 56
5	92	460	155	355	+ 105	40	11	+ 29
6	79	474	168	368	+ 106	14	13	+ 1
7	66	462	183	383	+ 79	−12	15	− 27
8	53	424	223	423	+ 1	−38	40	− 78
9	42	378	307	507	− 129	−46	84	−130
10	31	310	510	710	− 400	−68	203	−271

Demand estimates involve "if-then" thinking

A marketing manager often doesn't know the exact shape of the demand curve. A practical way to start, though, is to think about a price that appears to be extremely high and one that is too low. Then for prices at a number of points along the range between these two extremes, the manager can make an estimate of what quantity it might be possible to sell. The first two columns of Exhibit 18-9 show the price and quantity-demanded combinations for our example firm. Multiplying them together gives the firm's total revenue at each specific price.

Plotting price and quantity gives a picture of the firm's demand curve. Thus, it's useful to think of a demand curve as an if-then curve—*if* a price is selected, *then* what is the related quantity that will be sold? Before the marketing manager sets the actual price, all these *if-then* combinations can be evaluated for profitability using marginal analysis.

Marginal revenue can be negative

This firm faces a demand curve that slopes down. That means that the marketer can expect to increase sales volume by lowering the price. Yet selling a larger quantity at a lower price may or may not increase total revenue. Similarly, profits may go up or down. Therefore, it's important to evaluate the likely effect of alternative prices on total revenue (and profit). The way to do this is to look at marginal revenue.

Marginal revenue is the change in total revenue that results from the sale of one more unit of a product. At a price of $105, the firm in this example can sell four units for a total revenue of $420. By cutting the price to $92, it can sell five units for total revenue of $460. Thus the marginal revenue for the fifth unit is $460 − $420, or $40. Considering only revenue, it would be desirable to sell this extra unit. But will revenue continue to rise if the firm sells more units at lower prices? Exhibit 18-9 shows that marginal revenue is negative at price levels lower than $79. In other words, total revenue goes down. Obviously, this is not good for the firm! Note in the table that total revenue obtained is positive across the range of price cuts, but the marginal revenue—the extra revenue gained—may be positive or negative.

The marginal cost of just one more can be important

We've already shown that different kinds of costs behave differently at different quantities. Exhibit 18-9 shows the total cost increasing as quantity increases. Remember that total cost is the sum of fixed cost (in this example, $200) and total variable cost. The fixed cost does not change over the entire range of output. However, total variable costs increase continually as more and more units are produced. So it's the increases in variable cost that explain the increase in total cost. (Technical note: Dividing total variable cost by output equals average variable cost. We do not show average variable cost in this table because it is not central to the discussion that follows. However, we should note that in this example average variable cost decreases for a while and then increases again. This pattern is found in many firms after economies of scale run out—say, because a firm must pay overtime to be able to sell a higher quantity.)

There is another kind of cost that is vital to marginal analysis. **Marginal cost** is the change in total cost that results from producing one more unit. In Exhibit 18-9, you can see that it costs $355 to produce five units of a product but only $344 to produce four units. Thus the marginal cost for the fifth unit is $11. In other words, marginal cost is the additional cost of producing one more *specific unit*. By contrast, average cost is the average for *all units*.

Profit is largest when marginal revenue = marginal cost

The marginal cost column in Exhibit 18-9 shows what each extra unit costs. This suggests the *minimum* extra revenue we would like to get for that additional unit. Usually, however, we're not interested in just covering costs, we're shooting for a profit.

In fact, to maximize profit, a manager generally wants to lower the price and sell more units as long as the marginal revenue from selling them is at least equal to the marginal cost of the extra units. From this we get the following **rule for maximizing profit:** The highest profit is earned at the price where marginal cost is just less than or equal to marginal revenue.*

You can see this rule operating in Exhibit 18-9. As the price is cut from $140 down to $79, the quantity sold increases to six units and the profit increases to its maximum level, $106. At that point, marginal revenue and marginal cost are about equal. However, beyond that point further price cuts result in lower profits, even though a larger quantity is sold. Note, for example, that at a price of $53, which would be required to sell eight units, the profit almost disappears. Below that price there would be losses.

Total profit is at a maximum at the point where marginal revenue (MR) equals marginal cost (MC). However, **marginal profit**—the extra profit on the last unit—is near zero. But that is exactly why the most profitable price is the one where related quantity sold results in marginal cost and marginal revenue that are equal. Marginal analysis shows that when the firm is looking for the best price to charge, it should lower the price—to increase the quantity it will sell—as long as the last unit it sells will yield *extra* profit.

Profit maximization with total revenue and total cost curves

You can see the effect of all of these relationships clearly in Exhibit 18-10. It graphs the total revenue, total cost, and total profit relationships for the numbers we've been working with in Exhibit 18-9. The highest point on the total profit curve is at a quantity of six units. This is also the quantity where we find the greatest vertical distance between the total revenue curve and the total cost curve. Exhibit 18-9 shows that it is the $79 price that results in selling six units, so $79 is the price that leads to the highest profit.

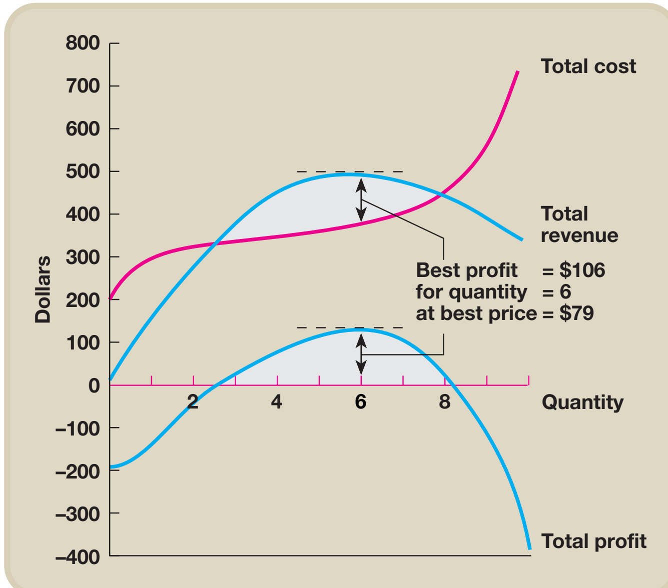
A price lower than $79 would result in a higher sales volume. But you can see that the total profit curve declines beyond a quantity of 6 units. So a profit-maximizing marketing manager would not be interested in setting a lower price.

A profit range is reassuring

In Exhibit 18-10, note that there are two different points where total revenue equals total cost. These two break-even points show there is a *range of profit* around the price that produces maximum profit. The highest profit is for a price of $79, but this firm's strategy would be profitable all the way from a price of $53 to $117.

*This rule applies in the typical situations where the curves are shaped similarly to those discussed here. As a technical matter, however, we should add the following to the rule for maximizing profit: The marginal cost must be increasing, or decreasing, at a lesser rate than marginal revenue.

Exhibit 18-10
Graphic Determination of the Price Giving the Greatest Total Profit for a Firm



The implication of this is important. Marginal analysis seeks to identify the best price, the price that maximizes profits. This is perhaps an ideal rather than what is usually achieved in practice. After all, few managers know the exact shape of the demand curve. However, the range of profit around the ideal price means that the price and quantity estimates don't have to be exact to be useful. They still help us get close to the ideal price even if we don't hit it exactly.

How to lose less, if you must

In a weak market, demand may fall off and there may be no way to operate at a profit. If this is a permanent situation—as might occur in the decline stage of the product life cycle—there may be no choice other than to go out of business or do something totally different. However, if it appears that the situation is temporary, it may be best to sell at a low price, even if it's not profitable.

Why would you sell at a price that is unprofitable? Marginal analysis provides the answer. Most fixed costs will continue even if the firm doesn't sell anything. So if the firm can charge a price that at least recovers the marginal cost of the last unit (or more generally, the variable cost of the units being considered), the extra income would help pay the fixed costs and reduce the firm's losses.

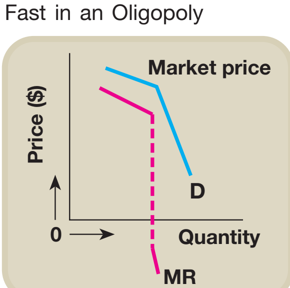
Marginal analysis applies in oligopoly too

In Chapter 17 we noted that marketing managers who compete in oligopoly situations often just set a price that meets what competitors charge. Marginal analysis also helps to explain why they do this.

Exhibit 18-11 shows a demand curve and marginal revenue curve typical of what a marketing manager in an oligopoly situation faces. The demand curve is kinked, and the current market price is at the kink. The dashed part of the marginal revenue line in Exhibit 18-11 shows that marginal revenue drops sharply at the kinked point.

Even if costs change somewhat, the marginal revenue curve drops so fast that the marginal cost curve is still likely to cross the marginal revenue curve (that is, marginal cost will be equal to marginal revenue) someplace along the drop in the marginal revenue curve. In other words, marginal costs and marginal revenue will continue to be equal to each other at a price and quantity combination that is close to where the kink occurs already. So even though the change in costs seems to be a reason for changing the price, prices are relatively "sticky" at the kinked point. Setting the price at the level of the kink maximizes profit.

Exhibit 18-11
Marginal Revenue Drops Fast in an Oligopoly



A price leader usually sets the price

Most managers who compete in oligopoly markets (or markets headed toward oligopoly) are aware of the economics of their situation, at least intuitively. As a result, a **price leader** usually sets a price for all to follow—perhaps to maximize profits or to get a certain target return on investment. Without any collusion, other members of the industry follow. The price leader is usually the firm with the lowest costs. That may give it more flexibility than competitors. This price may be maintained for a long time.

Sometimes, however, a price leader tries to lower the price, and a competitor lowers it even further. This can lead to price wars. You sometimes see this in competition between major airlines. But price wars usually pass quickly because they are unprofitable for each firm and the whole industry.

A rough demand estimate is better than none

In this section we've shown that marginal analysis is a flexible and useful tool for marketing managers. Some managers don't take advantage of it because they think they can't determine the exact shape of the demand curve. But that view misses the point of marginal analysis.

Marginal analysis encourages managers to think very carefully about what they *do know* about costs and demand. Only rarely is either type of information exact. So in practical applications the focus of marginal analysis is not on finding the precise price that will maximize profit. Rather, the focus is on getting an estimate of how profit might vary across a *range of relevant prices*. Further, a number of practical demand-oriented approaches can help a marketing manager do a better job of understanding the likely shape of the demand curve for a target market. We'll discuss these approaches next.

Demand-Oriented Approaches for Setting Prices

Evaluating the customer's price sensitivity

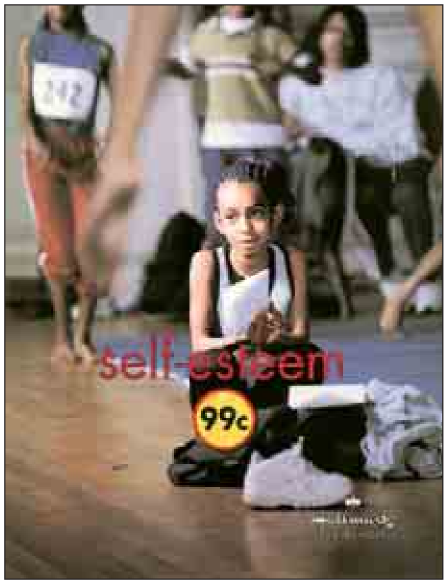
A manager who knows what influences target customers' price sensitivity can do a better job estimating the demand curve that the firm faces. Marketing researchers have identified a number of factors that influence price sensitivity across many different market situations.

The first is the most basic. When customers have *substitute ways* of meeting a need, they are likely to be more price sensitive. A cook who wants a cappuccino maker to be able to serve something distinctive to guests at a dinner party may be willing to pay a high price. However, if different machines are available and our cook sees them as pretty similar, price sensitivity will be greater. It's important not to ignore dissimilar alternatives if the customer sees them as substitutes. If a machine for espresso were much less expensive than one for cappuccino, our cook might decide that an espresso machine would meet her needs just as well.

The impact of substitutes on price sensitivity is greatest when it is easy for customers to *compare prices*. For example, unit prices make it easier for our cook to compare the prices of espresso and cappuccino grinds on the grocery store shelf. Many people believe that the ease of comparing prices on the Internet will increase price sensitivity and ultimately bring down prices. If nothing else, it may make sellers more aware of competing prices.

People tend to be less price sensitive when someone else pays the bill or *shares the cost*. Perhaps this is just human nature. Insurance companies think that consumers would reject high medical fees if they were paying all of their own bills. And executives might plan longer in advance to get better discounts on airline flights if their companies weren't footing the bills.

Customers tend to be more price sensitive the greater the *total expenditure*. Sometimes a big expenditure can be broken into smaller pieces. Mercedes knows this. When its ads focused on the cost of a monthly lease rather than the total price of the car, more consumers got interested in biting the bullet.



Hallmark's ad prompts consumers to think of the reference price for a greeting card in terms of the value it creates for the person who receives the card.

Customers are less price sensitive the greater the *significance of the end benefit* of the purchase. Computer makers will pay more to get Intel processors if they believe that having an "Intel inside" sells more machines. Positioning efforts often focus on emotional benefits of a purchase to increase the significance of a benefit. Ads for L'Oreal hair color, for example, show closeups of beautiful hair while popular endorsers like Portia deRossi tell women to buy it "because you're worth it." A consumer who cares about the price of a bottle of hair color might still have no question that she's worth the difference in price.

Customers are sometimes less price sensitive if they already have a *sunk investment* that is related to the purchase. This is especially relevant with business customers. For example, once managers of a firm have invested to train employees to use Microsoft Excel, they are less likely to resist the high price of a new version of that software.

Value in use pricing considers what a customer will save by buying a product. Axilok's ad reminds its business customers that its wheel bearing nut system can cut labor costs by 50 percent. Similarly, Emerson Electric invites prospective customers to use computer models available on the PlantWeb Internet site to calculate project savings for their plants.

These factors apply in many different purchase situations, so it makes sense for a marketing manager to consider each of them in refining estimates of how customers might respond at different prices.[8]

Value in use pricing—how much will the customer save?

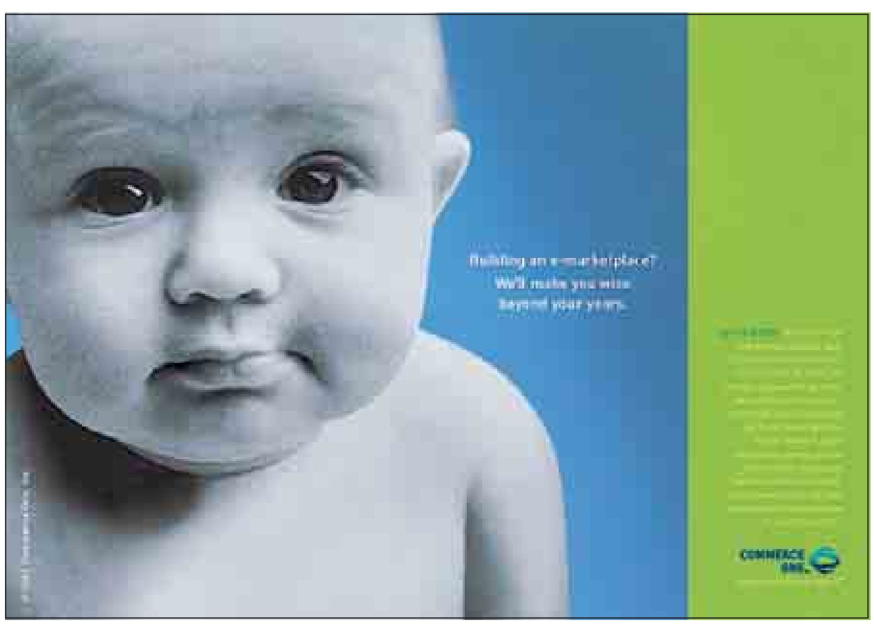
Organizational buyers think about how a purchase will affect their total costs. Many marketers who aim at business markets keep this in mind when estimating demand and setting prices. They use **value in use pricing**—which means setting prices that will capture some of what customers will save by substituting the firm's product for the one currently being used.

For example, a producer of computer-controlled machines used to assemble cars knows that the machine doesn't just replace a standard machine. It also reduces labor costs, quality control costs, and—after the car is sold—costs of warranty repairs. The potential savings (value in use) might be different for different customers—because they have different operations and costs. However, the marketer can estimate what each auto producer will save by using the machine—and then set a price that makes it less expensive for the auto producer to buy the computerized machine than to stick with the old methods. The number of customers who have different levels of potential savings also provides some idea about the shape of the demand curve.

Creating a "better mousetrap" that could save customers money in the long run isn't any guarantee that customers will be willing to pay a higher price. To capture the value created, the seller must convince buyers of the savings—and buyers are likely to be skeptical. A salesperson needs to be able to show proof of the claims.[9]

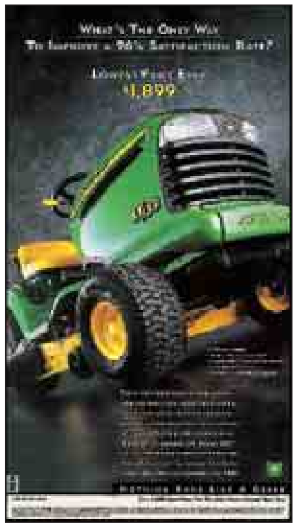
Auctions are coming online fast

Auctions have always been a way to determine exactly what some group of potential customers would pay, or not pay, for a product. However, as we discussed in Chapter 13, auctions were traditionally used for specific types of products and drew only local buyers. That has changed dramatically with the development of online auctions on the Internet. New firms are setting up auctions that specialize in categories of products ranging from vacation trips to



Internet-based auctions have quickly become a very important force in business-to-business markets.

If the price of a product is lower than the target market's reference price, it is likely to be viewed as offering better customer value.



electric energy. Some firms are setting up their own auctions, especially for products in short supply. Recently the U.S. government used an auction to sell broadcast rights to use transmission frequencies (air waves) for a new type of cellular phone service. The bidding among communications companies was so intense that the auction raised more money than anyone had imagined. Count on more growth in online auctions, not only for business products but also for consumer products.[10]

Internet

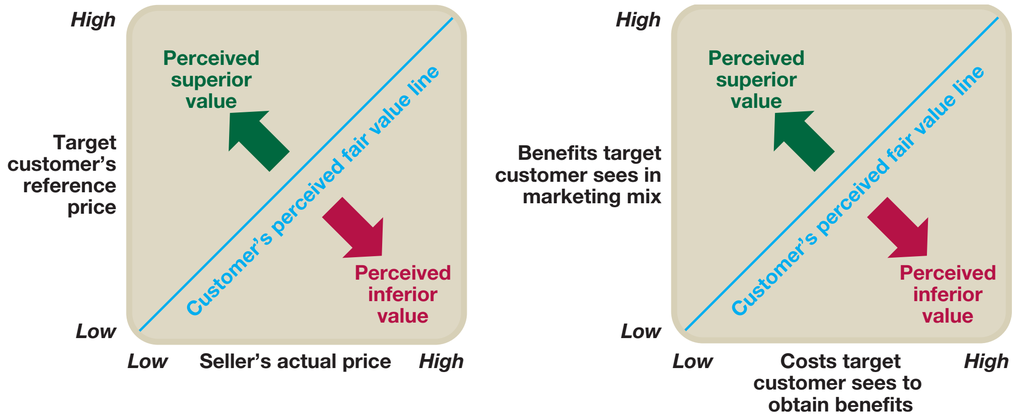
Internet Exercise SportStop launched an Internet auction site for many different categories of sporting goods. Go to the auction website (www.sportstop.com) and review the activities in two auction categories, one for a sport that is in season and another sport that is not. For example, you might compare snowboarding and golfing. Do you think that season makes a difference in the bidding activity? Explain your thinking.

Customers may have reference prices

Some people don't devote much thought to what they pay for the products they buy—including some frequently purchased goods and services. But most consumers have a **reference price**—the price they expect to pay—for many of the products they purchase. And different customers may have different reference prices for the same basic type of purchase. For example, a person who really enjoys reading might have a higher reference price for a popular paperback book than another person who is only an occasional reader. Marketing research can sometimes identify different segments with different reference prices.[11]

If a firm's price is lower than a customer's reference price, customers may view the product as a better value and demand may increase. See Exhibit 18-12. Sometimes a firm will try to position the benefits of its product in such a way that consumers compare it with a product that has a higher reference price. Public Broadcasting System TV stations do this when they ask viewers to make donations that match what they pay for "just one month of cable service." Insurance companies frame the price of premiums for homeowners' coverage in terms of the price to repair flood damage—and advertising makes the damage very vivid. Some retailers just

Exhibit 18-12 How Customer's Reference Price Influences Perceived Value (for a marketing mix with a given set of benefits and costs)



want consumers to use the manufacturer's list price as the reference price, even if no one anywhere actually pays that list price.

Leader pricing—make it low to attract customers

Leader pricing means setting some very low prices—real bargains—to get customers into retail stores. The idea is not only to sell large quantities of the leader items but also to get customers into the store to buy other products. Certain products are picked for their promotion value and priced low—but above cost. In food stores, the leader prices are the "specials" that are advertised regularly to give an image of low prices. Leader items are usually well-known, widely used items that customers don't stock heavily—paper towels, laundry detergent, ice cream, or coffee—but on which they will recognize a real price cut. In other words, leader pricing is normally used with products for which consumers do have a specific reference price.

Leader pricing may try to appeal to customers who normally shop elsewhere. But it can backfire if customers buy only the low-priced leaders. To avoid hurting profits, managers often select leader items that aren't directly competitive with major lines—as when bargain-priced videotapes are a leader for an electronics store.[12]

Bait pricing—offer a steal, but sell under protest

Bait pricing is setting some very low prices to attract customers but trying to sell more expensive models or brands once the customer is in the store. For example, a furniture store may advertise a color TV for $199. But once bargain hunters come to the store, salespeople point out the disadvantages of the low-priced TV and try to convince them to trade up to a better, and more expensive, set. Bait pricing is something like leader pricing. But here the seller *doesn't* plan to sell many at the low price.

If bait pricing is successful, the demand for higher-quality products expands. This approach may be a sensible part of a strategy to trade up customers. And customers may be well served if—once in the store—they find a higher-priced product offers better value, perhaps because its features are better suited to their needs. But bait pricing is also criticized as unethical.

Is bait pricing ethical?

Extremely aggressive and sometimes dishonest bait-pricing advertising has given this method a bad reputation. Some stores make it very difficult to buy the bait

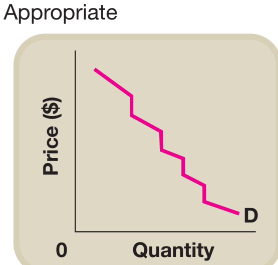
Colgate offers different lines of toothbrushes, with "good," "better" and "best" quality, at different price levels to meet the needs of different market segments.

item. The Federal Trade Commission considers this type of bait pricing a deceptive act and has banned its use in interstate commerce. Even well-known chains like Sears have been criticized for bait-and-switch pricing. But some unethical retailers who operate only within one state continue to advertise bait prices on products they won't sell.

Psychological pricing—some prices just seem right

Psychological pricing means setting prices that have special appeal to target customers. Some people think there are whole ranges of prices that potential customers see as the same. So price cuts in these ranges do not increase the quantity sold. But just below this range, customers may buy more. Then, at even lower prices, the quantity demanded stays the same again—and so on. Exhibit 18-13 shows the kind of demand curve that leads to psychological pricing. Vertical drops mark the price ranges that customers see as the same. Pricing research shows that there *are* such demand curves.[13]

Exhibit 18-13
Demand Curve When Psychological Pricing Is Appropriate



Odd-even pricing is setting prices that end in certain numbers. For example, products selling below $50 often end in the number 5 or the number 9—such as 49 cents or $24.95. Prices for higher-priced products are often $1 or $2 below the next even dollar figure—such as $99 rather than $100.

Some marketers use odd-even pricing because they think consumers react better to these prices—perhaps seeing them as "substantially" lower than the next highest even price. Marketers using these prices seem to assume that they have a rather jagged demand curve—that slightly higher prices will substantially reduce the quantity demanded. Long ago, some retailers used odd-even prices to force their clerks to make change. Then the clerks had to record the sale and could not pocket the money. Today, however, it's not always clear why firms use these prices or whether they really work. Perhaps it's done simply because everyone else does it.[14]

Price lining—a few prices cover the field

Price lining is setting a few price levels for a product line and then marking all items at these prices. This approach assumes that customers have a certain reference price in mind that they expect to pay for a product. For example, many neckties are priced between $20 and $50. In price lining, there are only a few prices within this range. Ties will not be priced at $20, $21, $22, $23, and so on. They might be priced at four levels—$20, $30, $40, and $50.

Price lining has advantages other than just matching prices to what consumers expect to pay. The main advantage is simplicity—for both salespeople and customers. It is less confusing than having many prices. Some customers may consider items in only one price class. Their big decision, then, is which item(s) to choose at that price.

Prestige pricing is often used with luxury products like jewelry and high-end consumer electronics to suggest high quality. But Paradigm wants consumers to view its low price as a sign of good quality and good value, not as a signal of low quality.

For retailers, price lining has several advantages. Sales may increase because (1) they can offer a bigger variety in each price class and (2) it's easier to get customers to make decisions within one price class. Stock planning is simpler because demand is larger at the relatively few prices. Price lining can also reduce costs because inventory needs are lower.

Demand-backward pricing and prestige pricing

Demand-backward pricing is setting an acceptable final consumer price and working backward to what a producer can charge. It is commonly used by producers of consumer products—especially shopping products such as women's clothing and appliances. It is also used with gift items for which customers will spend a specific amount—because they are seeking a $10 or a $15 gift. Here a reverse cost-plus pricing process is used. This method has been called market-minus pricing.

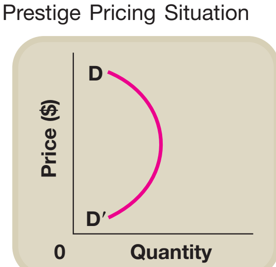
The producer starts with the retail (reference) price for a particular item and then works backward—subtracting the typical margins that channel members expect. This gives the approximate price the producer can charge. Then the average or planned marketing expenses can be subtracted from this price to find how much can be spent producing the item. Candy companies do this. They alter the size of the candy bar to keep the bar at the expected price.

Demand estimates are needed for demand-backward pricing to be successful. The quantity that will be demanded affects production costs—that is, where the firm will be on its average-cost curve. Also, since competitors can be expected to make the best product possible, it is important to know customer needs to set the best amount to spend on manufacturing costs. By increasing costs a little, the value may be so improved in consumers' eyes that the firm will sell many more units.

Prestige pricing is setting a rather high price to suggest high quality or high status. Some target customers want the best, so they will buy at a high price. But if the price seems cheap, they worry about quality and don't buy. Prestige pricing is most common for luxury products such as furs, jewelry, and perfume.

It is also common in service industries—where the customer can't see the product in advance and relies on price to judge its quality. Target customers who respond to prestige pricing give the marketing manager an unusual demand curve. Instead of a normal down-sloping curve, the curve goes down for a while and then bends back to the left again.[15] See Exhibit 18-14.

Exhibit 18-14
Demand Curve Showing a Prestige Pricing Situation



Internet

Internet Exercise Tiffany & Co. is widely recognized as one of the world's premiere jewelers. It commands high prices for what it offers. Go to the Tiffany website (www.tiffany.com) and review the different sections. Do you think that the website communicates superior customer value to the Tiffany target market? Explain your opinion and which specific aspects of the website support your view.

Pricing a Full Line

Our emphasis has been, and will continue to be, on the problem of pricing an individual product mainly because this makes our discussion clearer. But most marketing managers are responsible for more than one product. In fact, their "product" may be the whole company line! So we'll discuss this matter briefly.

Full-line pricing—market- or firm-oriented?

Full-line pricing is setting prices for a whole line of products. How to do this depends on which of two basic situations a firm is facing.

In one case, all products in the company's line are aimed at the same general target market, which makes it important for all prices and value to be logically related. This is a common approach with shopping products. A producer of TV sets might offer several models with different features at different prices to give its target customers some choice. The difference among the prices and benefits should appear reasonable when the target customers are evaluating them. Customer perceptions can be important here. A low-priced item, even one that is a good value at that price, may drag down the image of the higher end of the line. Alternatively, one item that consumers do not see as a good value may spill over to how they judge other products in the line.

In other cases, the different products in the line are aimed at entirely different target markets so there doesn't have to be any relation between the various prices. A chemical producer of a wide variety of products with several target markets, for example, probably should price each product separately.

Costs are complicated in full-line pricing

The marketing manager must try to recover all costs on the whole line—perhaps by pricing quite low on more competitive items and much higher on ones with unique benefits. However, estimating costs for each product is a challenge because there is no single right way to assign a company's fixed costs to each of the products; we'll address this topic in more detail in Chapter 21. Regardless of how costs are allocated, any cost-oriented pricing method that doesn't consider demand can lead to very unrealistic prices. To avoid mistakes, the marketing manager should judge demand for the whole line as well as demand for each individual product in each target market.

As an aid to full-line pricing, marketing managers can assemble directly variable costs on the many items in the line to calculate a price floor. To this floor they can add a reasonable markup based on the quality of the product, the strength of the demand for the product, and the degree of competition. But finally, the image projected by the full line and the value of individual items must be evaluated.

Complementary product pricing

Complementary product pricing is setting prices on several products as a group. This may lead to one product being priced very low so that the profits from another product will increase, thus increasing the product group's total profits. A new

Gillette shaver, for example, may be priced low to sell the blades, which must be replaced regularly.

Complementary product pricing differs from full-line pricing because different production facilities may be involved—so there's no cost allocation problem. Instead, the problem is really understanding the target market and the demand curves for each of the complementary products. Then various combinations of prices can be tried to see what set will be best for reaching the company's pricing objectives.

Product-bundle pricing—one price for several products

A firm that offers its target market several different products may use **product-bundle pricing**—setting one price for a set of products. Firms that use product-bundle pricing usually set the overall price so that it's cheaper for the customer to buy the products at the same time than separately. Drugstores sometimes bundle the cost of a roll of film and the cost of the processing. A bank may offer a product-bundle price for a safe-deposit box, traveler's checks, and a savings account. Sprint bundles wireless minutes and long distance. Bundling encourages customers to spend more and buy products that they might not otherwise buy—because the added cost of the extras is not as high as it would normally be, so the value is better.

Most firms that use product-bundle pricing also set individual prices for the unbundled products. This may increase demand by attracting customers who want one item in a product assortment but don't want the extras. Many firms treat services this way. A software company may have a product-bundle price for its software and access to a toll-free telephone assistance service. However, customers who don't need help can pay a lower price and get just the software.[16]

Bid Pricing and Negotiated Pricing Depend Heavily on Costs

A new price for every job

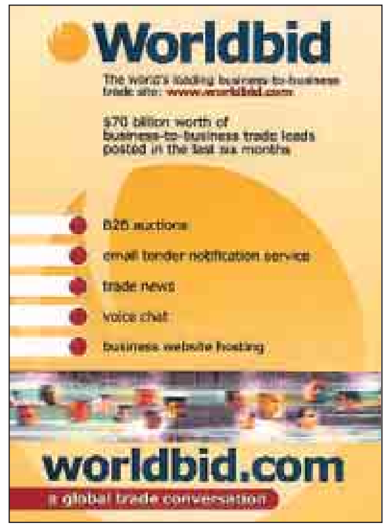
We introduced the issue of competitive bidding and reverse auctions in Chapter 7. But now let's take a closer look at bid pricing. **Bid pricing** means offering a specific price for each possible job rather than setting a price that applies for all customers. In an e-commerce reverse auction for a standardized product, this may just require that the manager decide the firm's lowest acceptable selling price. But in many situations bid pricing is more complicated. For example, building contractors usually must bid on possible projects. And many companies selling services (like cleaning or data processing) must submit bids for jobs they would like to have.

A big problem in bid pricing on a complicated job is estimating all the costs that will apply. This may sound easy, but a complicated bid may involve thousands of cost components. Further, management must include an overhead charge and a charge for profit.

Because many firms use an e-mail distribution list or website to solicit bids, the process is fast and easy for the buyer. But a seller has to be geared up to set a price and respond quickly. However, this system does allow the seller to set a price based on the precise situation and what marginal costs and marginal revenue are involved.

Bids are usually based on purchase specifications provided by the customer. The specs may be sent as an attachment to an e-mail message, or increasingly, they are posted on a website. Sometimes the seller can win the business, even with a higher bid price, by suggesting changes in the specs that save the customer money.

Sometimes it isn't possible to figure out specs or costs in advance. This may lead to a negotiated contract where the customer agrees to pay the supplier's total cost



The Internet is making it fast and easy for customers to communicate their needs to a larger number of suppliers and to use competitively based bid pricing.

plus an agreed-on profit figure (say, 10 percent of costs or a dollar amount)—after the job is finished.

Ethical issues in cost-plus bid pricing

Some unethical sellers give bid prices based on cost-plus contracts a bad reputation by faking their records to make costs seem higher than they really are. In other cases, there may be honest debate about what costs should be allowed. We've already considered, for instance, the difficulties in allocating fixed costs.

Demand must be considered too

Competition must be considered when adding in overhead and profit for a bid price. Usually, the customer will get several bids and accept the lowest one. So unthinking addition of typical overhead and profit rates should be avoided. Some bidders use the same overhead and profit rates on all jobs, regardless of competition, and then are surprised when they don't get some jobs.

Because bidding can be expensive, marketing managers may want to be selective about which jobs to bid on and choose those where they feel they have the greatest chance of success. Firms can spend thousands, or even millions, of dollars just developing bids for large business or government customers.[17]

Sometimes bids are negotiated

Some buying situations, including much government buying, require the use of bids—and the purchasing agent must take the lowest bid. In other cases, however, the customer asks for bids and then singles out the company that submits the *most attractive* bid, not necessarily the lowest, for further bargaining.

Negotiated prices—what will a specific customer pay?

The list price or bidding price the seller would like to charge is sometimes only the *starting point* for discussions with individual customers. What a customer will buy—if the customer buys at all—depends on the **negotiated price,** a price set based on bargaining between the buyer and seller.

As with simple bid pricing, negotiated pricing is most common in situations where the marketing mix is adjusted for each customer—so bargaining may involve the whole marketing mix, not just the price level. For example, a firm that produces machine tools used by other manufacturers to make their products might use this approach. Each customer may need custom-designed machines and different types of installation service. Through the bargaining process, the seller tries to determine what aspects of the marketing mix are most important to the customer. For one customer, selling price may be most important. Then the seller might try to find ways to reduce costs of other elements of the marketing mix—consistent with the customer's needs—in order to earn a profit. Another customer might want more of some other element of the marketing mix—like more technical help after the sale—and be less sensitive to price.

Sellers must know their costs to negotiate prices effectively. However, negotiated pricing is a demand-oriented approach. Here the seller analyzes very carefully a particular customer's position on a demand curve, or on different possible demand curves based on different offerings, rather than the overall demand curve for a group of customers.

Conclusion

In this chapter, we discussed various approaches to price setting. Generally, retailers and wholesalers use markups. Some just use the same markups for all their items. Others find that varying the markups increases turnover and profit. In other words, they consider demand and competition!

Many firms use average-cost pricing to help set their prices. But this approach sometimes ignores demand completely. A more realistic approach to average-cost pricing requires a sales forecast—maybe just assuming that sales in the next period will be roughly the same as in the last period. This approach *does* enable the marketing manager to set a price—but the price may or may not cover all costs and earn the desired profit.

Break-even analysis is useful for evaluating possible prices. It provides a rough-and-ready tool for eliminating unworkable prices. But management must estimate demand to evaluate the chance of reaching these possible break-even points.

The major difficulty with demand-oriented pricing is estimating the demand curve. But experienced managers, aided perhaps by marketing research, can estimate the nature of demand for their products. Such estimates are useful even if they aren't exact. They get you thinking in the right ballpark. Sometimes, when all you need is a decision about raising or lowering price, even rough demand estimates can be very revealing. Further, a firm's demand curve does not cease to exist simply because it's ignored. Some information is better than none at all. And marketers should consider demand in their pricing. We see this with value in use pricing, online auctions, leader pricing, bait pricing, odd-even pricing, psychological pricing, full-line pricing, and even bid pricing. Understanding the factors that influence price sensitivity can make these approaches more effective.

Throughout the book, we stress that firms must consider the customer before they do anything. This certainly applies to pricing. It means that when managers are setting a price, they have to consider what customers will be willing to pay. This isn't always easy. But it's nice to know that there is a profit range around the best price. Therefore, even rough estimates about what potential customers will buy at various prices will probably lead to a better price than mechanical use of traditional markups or cost-oriented formulas.

While our focus in this chapter is on price setting, it's clear that pricing decisions must consider the cost of offering the whole marketing mix. Smart marketers don't just accept costs as a given. Target marketers always look for ways to be more efficient—to reduce costs while improving the value that they offer customers. Improved coordination of physical distribution, for example, may improve customer service and reduce costs. Carefully defined target markets may make promotion spending more efficient. Products that really meet customers' needs reduce costly new-product failures. Channel members can shift and share functions—so that the cost of performing needed marketing activities is as low as possible. Marketers should set prices based on demand as well as on costs. But creative marketers also look for ways to reduce costs—because costs affect profit.

Questions and Problems

1. Why do many department stores seek a markup of about 40 percent when some discount houses operate on a 20 percent markup?
2. A producer distributed its riding lawn mowers through wholesalers and retailers. The retail selling price was $800, and the manufacturing cost to the

company was $312. The retail markup was 35 percent and the wholesale markup 20 percent. *(a)* What was the cost to the wholesaler? To the retailer? *(b)* What percentage markup did the producer take?

3. Relate the concept of stock turnover to the growth of mass-merchandising. Use a simple example in your answer.
4. If total fixed costs are $200,000 and total variable costs are $100,000 at the output of 20,000 units, what are the probable total fixed costs and total variable costs at an output of 10,000 units? What are the average fixed costs, average variable costs, and average costs at these two output levels? Explain what additional information you would want to determine what price should be charged.
5. Explain how experience curve pricing differs from average-cost pricing.
6. Construct an example showing that mechanical use of a very large or a very small markup might still lead to unprofitable operation while some intermediate price would be profitable. Draw a graph and show the break-even point(s).
7. The Davis Company's fixed costs for the year are estimated at $200,000. Its product sells for $250. The variable cost per unit is $200. Sales for the coming year are expected to reach $1,250,000. What is the break-even point? Expected profit? If sales are forecast at only $875,000, should the Davis Company shut down operations? Why?
8. Discuss the idea of drawing separate demand curves for different market segments. It seems logical because each target market should have its own marketing mix. But won't this lead to many demand curves and possible prices? And what will this mean with respect to functional discounts and varying prices in the marketplace? Will it be legal? Will it be practical?
9. Distinguish between leader pricing and bait pricing. What do they have in common? How can their use affect a marketing mix?
10. Cite a local example of psychological pricing and evaluate whether it makes sense.
11. Cite a local example of odd-even pricing and evaluate whether it makes sense.
12. How does a prestige pricing policy fit into a marketing mix? Would exclusive distribution be necessary?
13. Is a full-line pricing policy available only to producers? Cite local examples of full-line pricing. Why is full-line pricing important?

Suggested Cases

17. Enviro Pure Water, Inc.
24. Wire Solutions, Inc.
27. Plastic Master, Inc.

Computer-Aided Problem

18. **Break-Even/Profit Analysis**

This problem lets you see the dynamics of break-even analysis. The starting values (costs, revenues, etc.) for this problem are from the break-even analysis example in this chapter (see Exhibit 18-8).

The first column computes a break-even point. You can change costs and prices to figure new break-even points (in units and dollars). The second column goes further. There you can specify target profit level, and the unit and dollar sales needed to achieve your target profit level will be computed. You can also estimate possible sales quantities, and the program will compute costs, sales, and profits. Use this spreadsheet to address the following issues.

a. Vary the selling price between $1.00 and $1.40. Prepare a table showing how the break-even point (in units and dollars) changes at the different price levels.

b. If you hope to earn a target profit of $15,000, how many units would you have to sell? What would total cost be? Total sales dollars? (Note: Use the right-hand ["profit analysis"] column in the spreadsheet.)

c. *Using the "profit analysis" column (column 2), allow your estimate of the sale quantity to vary between 64,000 and 96,000. Prepare a table that shows, for each quantity level, what happens to average cost per unit and profit. Explain why average cost changes as it does over the different quantity values.*

For additional questions related to this problem, see Exercise 18-5 in the *Learning Aid for Use with Basic Marketing*, 14th edition.

When You Finish This Chapter, You Should

1. Understand how information technology is speeding up feedback for better implementation and control.

2. Know why effective implementation is critical to customer satisfaction and profits.

3. Know how total quality management can improve implementation—including implementation of service quality.

4. Understand how sales analysis can aid marketing strategy planning.

5. Understand the differences in sales analysis, performance analysis, and performance analysis using performance indexes.

6. Understand the difference between the full-cost approach and the contribution-margin approach.

7. Understand how planning and control can be combined to improve the marketing management process.

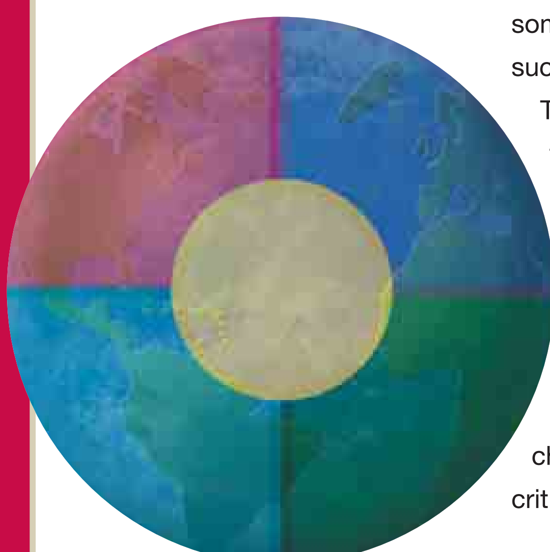
8. Understand what a marketing audit is and when and where it should be used.

9. Understand the important new terms (shown in red).

Chapter Nineteen

Implementing and Controlling Marketing Plans: Evolution and Revolution

Allegiance Healthcare Corporation supplies goods and services to hospitals. Hospitals everywhere are under pressure to cut costs but still provide excellent care. So if Allegiance is going to charge prices that are profitable and still keep the hospitals' business, it must find ways to give them better value on each dollar they spend. There's some evidence that Allegiance is successful doing just that.



That's not to suggest that the firm was doing poorly before. It wasn't. But its strategy wasn't producing the profits that were expected. New products and improved services—designed to help hospitals cut the costs of purchasing, handling, and storing critical supplies—were well

place price promotion produc

received but were producing slim profit margins. So management asked employees throughout the company to make suggestions on ways to improve how the firm was implementing its strategy. They came up with a variety of suggestions.

For example, Allegiance carries over 100,000 products. Some it manufactures, but it also sells products produced by thousands of other suppliers. It seemed that this variety was what hospitals needed. Yet many of the employee concerns were related to the massive assortment of goods. Moreover, when marketing managers did a careful analysis of sales by region and product line they found that the company's profitable level of sales was masking a problem: 57 percent of the products accounted for just 2 percent of sales. Further analysis showed that these same products accounted for a larger than average share of the total costs. While they were waiting to be ordered, they were sitting in warehouses all over the country, running up storing costs. By analyzing sales within product categories, marketing managers were able to see where there was duplication and what they could drop. After all, they probably didn't need to give hospitals a choice among 47 different types of bedpans. Then they worked to make distribution of the products they kept more efficient.

Products that hospitals order frequently—popular styles of gloves, caps, needles, and sutures—are stocked in the 68 regional distribution centers close to customers. Items that hospitals order somewhat less frequently—like odd sizes of surgical gloves—are shipped nationwide from a single distribution center in Illinois. The changes allowed the firm to cut out 30 local warehouses and still offer hospitals a just-in-time delivery program by using its own trucks. With just-in-time delivery, the hospitals carry very few supplies in inventory. For example, the same day a patient is scheduled to go into surgery a package arrives with the 200 items needed for that patient's procedure. They're all packed in the precise order that the surgeons and nurses will use them. There's a skin marker to trace a seven-inch incision, bone wax to stanch the bleeding, suction tips to clear blood, plus scalpels, sutures, and, oh yes, gloves, and gowns.

With these changes in how distribution is implemented, it's the sales rep's job to show the hospitals that these systems save money. Each hospital has to agree to pay a fee for the special services, as well as the price of the supplies. This improves Allegiance's profit margins. But Allegiance also promises that this collaboration will cut the hospital's total cost of supplies. Then they split the savings. For many hospitals, millions of dollars are saved.

What's more, by continuously improving the system, the level of customer satisfaction has increased. For example, Allegiance now uses EDI and e-commerce to deal with 90 percent of its suppliers, which reduces stockouts. As a result, 95 percent of the items that hospitals order are available immediately. Further, customers can now easily order any of 100,000 products online at www.allegiance.net. With this kind of help, hospitals can focus on their real job: helping patients get well.[1]

Good Plans Set the Framework for Implementation and Control

Our primary emphasis in this book is on the strategy planning part of the marketing manager's job. There's a good reason for this focus. The one-time strategy decisions—those that decide what business the company is in and the strategies it will follow—set the firm on a course either toward profitable opportunities or, alternatively, toward costly failure. If a marketing manager makes an error with these basic decisions, there may never be a second chance to set things straight. In contrast, if good strategies and plans are developed, the marketing manager—and everyone else in the organization—knows *what* needs to be done. Thus, good marketing plans set the framework for effective implementation and control.

Implementation puts plans into operation—and control provides feedback

Even so, developing a potentially profitable plan does not ensure either satisfied customers or profit for the firm. Achieving the outcomes envisioned in the plan requires that the whole marketing management process work well. As you learned in Chapter 2, the marketing management process includes not only marketing strategy planning but also implementation and control. See Exhibit 2-5. In fact, in today's highly competitive markets customer satisfaction often hinges on skillful implementation. Further, the ongoing success of the firm is often dependent on **control**—the feedback process that helps the marketing manager learn (1) how ongoing plans and implementation are working and (2) how to plan for the future.

We discussed some specific opportunities and challenges with respect to implementation and control as we introduced each of the marketing strategy decision areas. In this chapter, we'll go into more depth on concepts and how-to approaches for making implementation and control more effective. We'll start with a discussion of how dramatic improvements in information technology and e-commerce are resulting in changes in implementation and control—and in the whole strategy planning process. For many firms, these changes are critically important. They offer revolutionary new ways to meet customer needs. Next we'll highlight some of the new approaches, including total quality management, that are improving marketing implementation. Then we'll explain how marketing managers use control-related tools, such as sales and performance analysis, to improve the quality of planning and implementation decisions. We'll conclude with a discussion of what a marketing audit is, and why it is sometimes necessary.

Speed Up Information for Better Implementation and Control

Feedback improves the marketing management process

Not long ago, marketing managers planned their strategies and put them into action—but then it usually took a long time before they got feedback to know if the strategy and implementation were really working as intended. For example, a marketing manager might not have much feedback on what was happening with sales, expenses, and profits until financial summaries were available—and that sometimes took months or even longer. Further, summary data wasn't very useful in pinpointing which specific aspects of the plan were working and which weren't. In that environment, the feedback was so general and took so long that there often wasn't anything the manager could do about a problem except start over.

That situation has now changed dramatically in many types of business. In Chapter 8, we discussed how firms are using intranets, databases, and marketing information systems to track sales and cost details day by day and week by week. Throughout the book you've seen examples of how marketers get more information faster and use it quickly to improve a strategy or its implementation. For example, scanner data from a consumer panel can provide a marketing manager with almost immediate feedback on whether or not a new consumer product is selling at the expected level in each specific store and whether or not it is actually selling to the intended target market rather than some other group. Similarly, e-commerce order systems can feed into real-time sales reports for each product.

This state-of-the-art information center has replaced over 25 individual processing centers worldwide and allows Colgate managers to monitor activities across the entire supply chain worldwide, all of which brings products to consumers faster and more efficiently than ever before.

Fast feedback can be a competitive advantage

Marketing managers who can get faster feedback on their decisions can often take advantage of it to develop a competitive advantage. They can quickly fine tune a smooth-running implementation to make it work even better. If there are potential problems, they can often spot them early and keep them from turning into big problems.

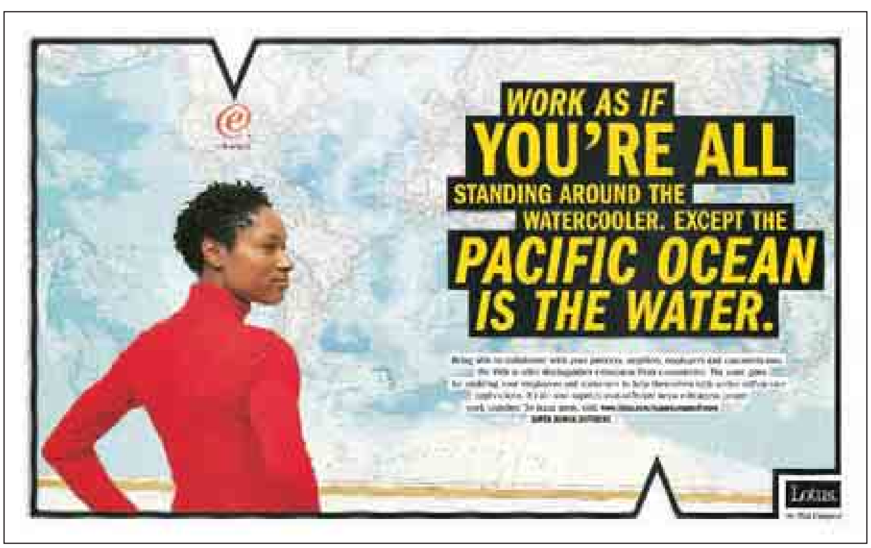
For example, a manager who gets detailed daily reports that compare actual sales results in different cities with sales forecasts in the plan is able to see very quickly if there is a problem in a specific city. Then the manager can track down the cause of the problem. If sales are going slowly because the new salesperson in that city is inexperienced, then the sales manager might immediately spend more time working with that rep. On the other hand, if the problem is that a chain of retail stores in that particular city isn't willing to allocate much shelf space for the firm's product, then the salesperson might need to develop a special analysis to show the buyers for that specific chain how the product could improve the chain's profit.

When information is slow coming in and there is less detail, making implementation changes is usually more difficult. By the time the need for a change is obvious, a bigger change is required for it to have any effect.

The basic strategy planning concepts we've emphasized throughout the text are enduring and will always be at the heart of marketing. Yet the fast pace that is now possible with e-commerce in getting information for control is resulting in fundamental changes in how many managers work, make decisions, plan, and implement their plans. Managers who can quickly adjust the details of their efforts to better solve customer problems or respond to changes in the market can do a better job for their firms—because they can make certain that their plans are really performing as expected.

The marketing manager must take charge

Fast feedback improves implementation and control. And computers now take the drudgery out of analyzing data. But this kind of analysis is not possible unless the data is in machine-processible form—so it can be sorted and analyzed quickly. Here the creative marketing manager plays a crucial role by insisting that the necessary data be collected. If the data he or she wants to analyze is not captured as it comes in, information will be difficult, if not impossible, to get later.



Lotus software allows managers in different locations, including different countries, to quickly share information, which helps to make implementation and control faster and more effective.

A marketing manager may need many different types of information to improve implementation efforts or develop new strategies. In the past, this has often caused delays—even if the information was in a machine-processible form. In a large company, for example, it could take days or even weeks for a marketing manager to find out how to get needed information from another department. Imagine how long it could take for a marketing manager to get needed sales data from sales offices in different countries around the world.

New information technologies offer speed and detail

New approaches for electronic communication and e-commerce help solve these problems. For example, many companies are using the Internet, fiber-optic telephone lines, or satellite transmission systems to *immediately* transfer data from a computer at one location to another. A sales manager with a laptop can pull data off the firm's network computer from anywhere in the world. And marketing managers working on different aspects of a strategy can use e-mail messaging or online video conferencing to communicate. A simple PC, the Internet, and software such as LapLink make it possible for a manager to work at a computer on the other side of the world as if he or she were sitting in front of it. Computer programs that run on a website give even easier access.

This type of electronic pipeline makes data available instantly. A report—such as one that summarizes sales by product, salesperson, or type of customer—that in the past was done once a month now might be done weekly, daily, or whenever an online user wants it. Software can be programmed to search for and flag results that indicate a problem of some sort. Programs like Microsoft Excel can link to the new flow of data and instantly create graphs that make the information vivid and easy to interpret. Then the manager can allocate more time to resolving whatever particular problems show up.

Of course, many firms don't consider or use these types of approaches. But they are becoming much more common—especially as more marketing managers find that they are losing out to more nimble competitors who get information more quickly and adjust their implementation and strategies more often.[2]

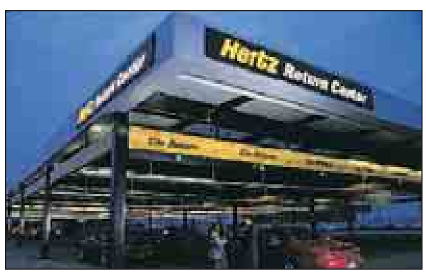
The marketing strategy for the kid's book, *Harry Potter and the Goblet of Fire,* called for it to be released everywhere on the same day. It was an implementation challenge for Amazon.com to get copies to 250,000 eager kids all at once, but FedEx helped solve the delivery problem. On another front, Telerx helps other firms implement their strategies by providing customer service outsourcing.

Effective Implementation Means That Plans Work as Intended

When a marketing manager has developed a good marketing plan, the challenge of implementing it often involves hundreds, or thousands, of operational decisions and activities. In a small company, these may all be handled by a few people, or even by a single person. In a large corporation, literally hundreds of different people may be involved in implementation. That may require a massive amount of careful coordination and communication. Either way, when operational decisions and activities are executed well, customers get what is intended. And if the original plan is good, customers will be satisfied and come back again the next time the need arises. However, even a great plan can leave customers unhappy, and switching to someone else's offering, if implementation is poor.

Good implementation builds relationships with customers

Implementation is especially critical in mature and highly competitive markets. When several firms are all following basically the same strategy—quickly imitating competitors' ideas—customers are often won or lost based on differences in the quality of implementation. Consider the rental car business. Hertz has a strategy that targets business travelers with a choice of quality cars, convenient online reservations, fast pick-up and drop-off, accessories like cell phones, availability at most major airports, and a premium price. Hertz is extremely successful with this strategy even though there is little to prevent other companies from trying the same approach. But a major part of Hertz's success is due to implementation. Customers keep coming back because the Hertz service is both reliable and pain-free.



When a Hertz #1 Club Gold customer calls to make a reservation, the company already has the standard information about that customer in a computer database. At the airport, the customer skips over the line at the Hertz counter and instead just picks up an already-completed rental contract and goes straight to the Hertz bus. The driver gets the customer's name and radios ahead to have someone start the specific car that customer will drive. That way the air conditioner or heater is already doing its job when the bus driver delivers the customer right to the parking slot for his or her car. Customers are certain they're at the right place because there's an electronic sign beside each car with the customer's name on it. When the customer returns the car, an agent comes to the car, scans the customer's contract with a hand-held computer, and prints the receipt.

It's all very smooth. Making this work—day in and day out, customer after customer—isn't easy. But Hertz has set up systems to make it all easier because that's what it takes to implement its plan and to keep customers loyal.[3]

Implementation deals with internal or external matters

As the Hertz example illustrates, marketing implementation usually involves decisions and activities related to both internal and external matters. Figuring out how the correct car will end up in the right parking slot, how the Hertz bus driver will contact the office, and who will coordinate getting the message to the person that starts the car are all internal matters. They are invisible to the customer—as long as they work as planned. On the other hand, some implementation issues are external and involve the customer. For example, the contract must be completed correctly and be in the right spot when the rental customer comes to pick it up, and someone needs to have filled the car with gas and cleaned it.

Implementation has its own objectives

Whether implementation decisions and activities are internal or external, they all must be consistent with the objectives of the overall strategy and with the other details of the plan. However, there are also three general objectives that apply to all implementation efforts. Other things equal, the manager wants to get each implementation job done:

Better, so customers really get superior value as planned.

Faster, to avoid delays that cause customers problems.

At lower cost, without wasting money on things that don't add value for the customer.

The ideal of doing things better, faster, and at lower cost is easy to accept. But in practice implementation is often complicated by trade-offs among the three objectives. For example, doing a job better may take longer or cost more.

So just as a marketing manager should constantly look for new strategy opportunities, it's important to be creative in looking for better solutions to implementation problems. That may require finding ways to better coordinate the efforts of the different people involved, setting up standard operating procedures to deal with recurring problems, or juggling priorities to deal with the unexpected. When the Hertz bus driver is sick, someone still has to be there to pick up the customers and deliver them to their cars.

Implementation requires innovation too

Sometimes the implementation effort can be improved by approaching the task in a new or different way. Exhibit 19-1 shows some of the ways that firms are using information technology to improve specific implementation jobs. Note that some of the examples in Exhibit 19-1 focus on internal matters and some on external, customer-oriented matters.

While finding new approaches helps with some implementation problems, getting better implementation often depends on being vigilant in improving what the firm and its people are already doing. So let's take a closer look at some important ways that managers can improve the quality of their implementation efforts.[4]

Exhibit 19-1 Examples of Approaches to Overcome Specific Marketing Implementation Problems

Marketing Mix Decision Area	Operational Problem	Implementation Approach
Product	Develop design of a new product as rapidly as possible without errors	Use 3-D computer-aided design software
	Pretest consumer response to different versions of a label	Prepare sample labels with PC graphics software and test on Internet
Place	Coordinate inventory levels with middlemen to avoid stock-outs	Use bar code scanner, EDI, and computerized reorder system
	Get franchisee's inputs and cooperation on a new program	Set up a televideo conference
Promotion	Quickly distribute TV ad to local stations in many different markets	Distribute final video version of the ad via satellite link
	Answer final consumers' questions about how to use a product	Put a toll-free telephone number and website address on product label
Price	Identify frequent customers for a quantity discount	Create a "favored customer" club with an ID card
	Figure out if price sensitivity impacts demand for a product; make it easier for customers to compare prices	Show unit prices (for example, per oz.) on shelf markers; set different prices in similar markets and track sales, including sales of competing products

Building Quality into the Implementation Effort

As we've seen on previous occasions throughout this book, even people with the best intentions sometimes lapse into a production orientation. When the pressure is on to get a job done, they forget about satisfying the customer—let alone consider working together! When the product manager is screaming for a budget report, the accountant may view a customer's concerns about a billing error as something a salesperson can smooth over—alone.

Total quality management meets customer requirements

There are many different ways to improve implementation in each of the four Ps decision areas, but here we will focus on total quality management, which you can use to improve *any* implementation effort. With **total quality management (TQM),** everyone in the organization is concerned about quality, throughout all of the firm's activities, to better serve customer needs.

In Chapter 9 we explained that product quality means the ability of a product to satisfy a customer's needs or requirements. Now we'll expand that idea and think about the quality of the whole marketing mix and how it is implemented—to meet customer requirements.

Total quality management is not just for factories

Most of the early attention in quality management focused on reducing defects in goods produced in factories. Reliable goods are important, but there's usually a lot more to marketing implementation than that. Yet if we start by considering product defects, you'll see how the total quality management idea has evolved and how it applies to implementing a marketing program.

At one time most firms assumed defects were an inevitable part of mass production. They assumed the cost of replacing defective parts or goods was just a cost of doing business—an insignificant one compared to the advantages of mass production. However, many firms were forced to rethink this assumption when Japanese producers of cars, electronics, and cameras showed that defects weren't inevitable. And their success in taking customers away from established competitors made it clear that the cost of defects wasn't just the cost of replacement!

Customers want the paint on their new Toyota Tundra to be free from any scratches and that requires attention to implementation details. Factory workers take off their jewelry, wear shirts with rubber buttons, and use belts with special buckles that leave no metal exposed.

Pillsbury Rings in Satisfied Customers

There are thousands of ways that a plan or its implementation can go astray. The consumer's box of laundry detergent may be missing the measuring scoop. The VCR's instructions may be very clear about how to record a program but not explain how to hook the VCR to a consumer's cable box. Left unresolved, implementation glitches like these might result in dissatisfied customers. So most producers now have toll-free telephone lines and Internet websites to help customers with questions and complaints.

Pillsbury's line is typical. Some calls involve a question or praise, but about a third are complaints. For example, one caller reported that a cake mix had a funny taste. The service rep asked the caller for a code number on the box and, after keying it in on her computer, found that the box of mix was six years old. Perhaps the consumer forgot it in her pantry, or perhaps it was lost in some retailer's storeroom. Either way, the Pillsbury rep apologized and sent a coupon for a free replacement box.

The calls can also provide important feedback. For example, soon after Pillsbury introduced Funfetti cake mix with bits of edible confetti, callers began complaining that the confetti packet was missing from their box. A check of the manufacturing line showed the confetti packets were too light to alert weight scales when they were missing from the boxes. After the firm changed to a foil package the complaints stopped.

Toll-free lines and easy-response features built into websites probably don't win many new customers. But they do help a firm keep its current customers. Further, one study found that callers who had their complaints resolved on average told five people about the help they got. Yet there is also a risk. Those who weren't satisfied told twice as many people.[5]

www.mhhe.com/fourps

Having dissatisfied customers is costly

From the customer's point of view, getting a defective product and having to complain about it is a big headache. The customer can't use the defective product and suffers the inconvenience of waiting for someone to fix the problem—if *someone* gets around to it. It certainly doesn't deliver superior value. Rather, it erodes goodwill and leaves customers dissatisfied. The big cost of poor quality is the cost of lost customers.

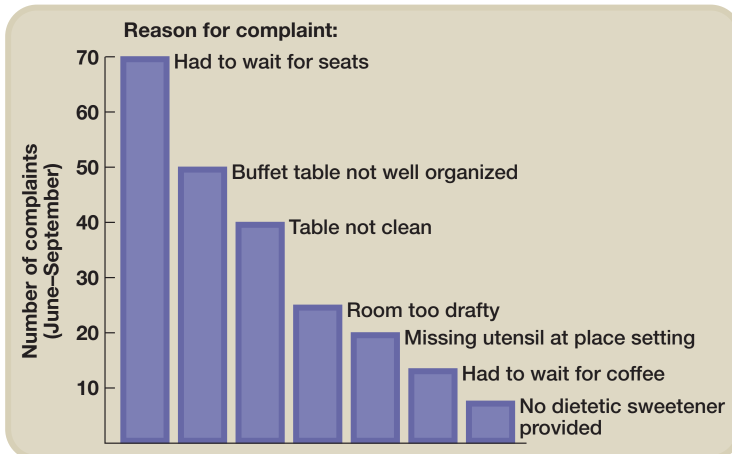
Much to the surprise of some production-oriented managers, the Japanese experience showed that it is less expensive to do something right the first time than to pay to do it poorly and *then* pay again to fix problems. And quality wasn't just a matter of adding more assembly-line inspections. Products had to be designed to meet customer needs from the start. One defective part in 10,000 may not seem like much, but if that part keeps a completed car from cranking at the end of the automaker's production line, finding the problem is a costly nightmare.

Firms that adopted TQM methods to reduce manufacturing defects soon used the same approaches to overcome many other implementation problems. Their success brought attention to what is possible with TQM—whether the implementation problem concerns unreliable delivery schedules, poor customer service, advertising that appears on the wrong TV show, or salespeople who can't answer customers' questions.

Getting a handle on doing things right the first time

The idea of doing things right the first time seems obvious, but it's easier said than done. Problems always come up, and it's not always clear what isn't being done as well as it could be. Most people tend to ignore problems that don't pose an immediate crisis. But firms that adopt TQM always look for ways to improve implementation with **continuous improvement**—a commitment to constantly make things better one step at a time. Once you accept the idea that there *may* be a better way to do something and you look for it, you may just find it! The place to start is to clearly define "defects" in the implementation *process,* from the customer's point of view. Because continuous improvement hinges on employee involvement and communication, many companies display all suggestions for improvements where employees can see them.

Exhibit 19-2
Pareto Chart Showing Frequency of Different Complaints



Things gone right and things gone wrong

Managers who use the TQM approach think of quality improvement as a sorting process—a sorting out of things gone right and things gone wrong. The sorting process calls for detailed measurements related to a problem. Then managers use a set of statistical tools to analyze the measurements and identify the problem areas that are the best candidates for fixing. The statistical details are beyond our focus here, but it's useful to get a feel for how managers use the tools.

Starting with customer needs

Let's consider the case of a restaurant that does well during the evening hours but wants to improve its lunch business. The restaurant develops a strategy that targets local businesspeople with an attractive luncheon buffet. The restaurant decides on a buffet because research shows that target customers want a choice of good healthy food and are willing to pay reasonable prices for it—as long as they can eat quickly and get back to work on time.

As the restaurant implements its new strategy, the manager wants a measure of how things are going. So she encourages customers to fill out comment cards that ask "How did we do today?" After several months of operation, things seem to be going reasonably well—although business is not as brisk as it was at first. The manager reads the comment cards and divides the ones with complaints into categories—to count up different reasons why customers weren't satisfied.

Slay the dragons first

Then the manager creates a graph showing a frequency distribution for the different types of complaints. Quality people call this a **Pareto chart**—a graph that shows the number of times a problem cause occurs, with problem causes ordered from most frequent to least frequent. The manager's Pareto chart, shown in Exhibit 19-2, reveals that customers complain most frequently that they have to wait for a seat. There were other common complaints—the buffet was not well organized, the table was not clean, and so on. However, the first complaint is much more common than the next most frequent.

This type of pattern is typical. The worst problems often occur over and over again. This focuses the manager's attention on which implementation problem to fix first. A rule of quality management is to slay the dragons first—which simply means start with the biggest problem. After removing that problem, the battle moves on to the next most frequent problem. If you do this *continuously*, you solve a lot of problems—and you don't just satisfy customers, you delight them.

Internet

Internet Exercise BaRaN Systems Ltd. has developed a software product called SQC for Excel that works with the Microsoft Excel spreadsheet program and makes it easy to do the types of analyses that are useful for quality management. Go to its website (www.baran-systems.com) and click on the link for *SQC for Excel.* Then at that page scroll down and look at the "Quick Tour" section. What is it about the graphs that makes it easy to see which areas need special attention?

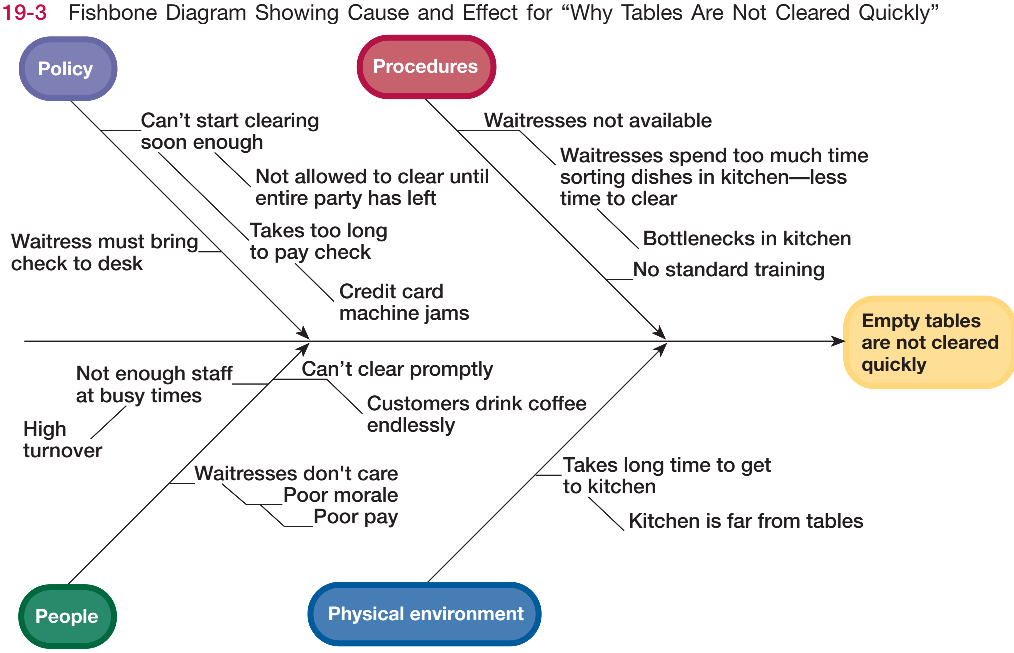
Figure out why things go wrong

So far, our manager has only identified the problem. To solve it, she creates a **fishbone diagram**—a visual aid that helps organize cause-and-effect relationships for "things gone wrong."

Our restaurant manager, for example, discovers that customers wait to be seated because tables aren't cleared soon enough. In fact, the Pareto chart (Exhibit 19-2) shows that customers also complain frequently about tables not being clean. So the two implementation problems may be related.

The manager's fishbone diagram (Exhibit 19-3) summarizes the various causes for tables not being cleaned quickly. There are different basic categories of causes—restaurant policy, procedures, people problems, and the physical environment. With this overview of different ways the service operation is going wrong, the manager can decide what to fix. She establishes different formal measures. For example, she counts how frequently different causes delay customers from being seated. She finds that the cashier's faulty credit card scanning machine holds up check processing. About half the time the cashier has to stop and enter the credit card information by hand. The fishbone diagram shows that restaurant policy is to clear the table after the entire party leaves. But customers have to wait at their tables while the staff deals with the faulty credit card machine, and cleaning is delayed. With the credit card machine replaced, the staff can clear the tables sooner—and because they're not so hurried they do a better cleaning job. Two dragons are on the way to being slayed!

Exhibit 19-3 Fishbone Diagram Showing Cause and Effect for "Why Tables Are Not Cleared Quickly"



Our case shows that people in different areas of the restaurant affect customer satisfaction. The waitperson couldn't do what was needed to satisfy customers because the cashier had trouble with the credit card machine. The TQM approach helps everyone see and understand how their job affects what others do and the customer's satisfaction.[6]

Building quality into services

The restaurant case illustrates how a firm can improve implementation with TQM approaches. We used a service example because providing customer service is often a difficult area of implementation. Recently, marketers in service businesses have been paying a lot of attention to improving service quality.

But some people seem to forget that almost every firm must implement service quality as part of its plan—whether its product is primarily a service, primarily a physical good, or a blend of both. For example, a manufacturer of ball bearings isn't just providing wholesalers or producers with round pieces of steel. Customers need information about deliveries, they need orders filled properly, and they may have questions to ask the firm's accountant, receptionist, or engineers. Because almost every firm must manage the service it provides customers, let's focus on some of the special concerns of implementing quality service.

Train people and empower them to serve

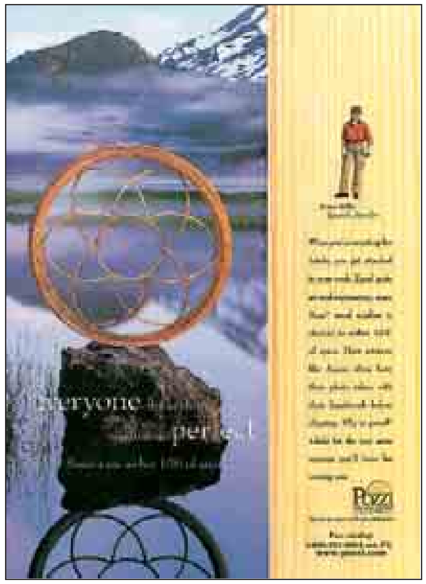
Quality gurus like to say that the firm has only one job: to give customers exactly what they want, when they want it, and where they want it. Marketing managers have been saying that for some time too. But customer service is hard to implement because the server is inseparable from the service. A person doing a specific service job may perform one specific task correctly but still annoy the customer in a host of other ways. Customers will not be satisfied if employees are rude or inattentive—even if they "solve the customer's problem." There are two keys to improving how people implement quality service: (1) training and (2) empowerment.

Firms that commit to customer satisfaction realize that all employees who have any contact with customers need training—many firms see 40 hours a year of training as a minimum. Simply showing customer-contact employees around the rest of the business—so that they learn how their contribution fits in the total effort—can be very effective. Good training usually includes role-playing on handling different types of customer requests and problems. This is not just sales training! A rental car attendant who is rude when a customer is trying to turn in a car may leave the customer dissatisfied—even if the rental car was perfect. How employees treat a customer is as important as whether they perform the task correctly.

Companies can't afford an army of managers to inspect how each employee implements a strategy—and such a system usually doesn't work anyway. Quality cannot be "inspected in." It must come from the people who do the service jobs. So firms that commit to service quality empower employees to satisfy customers' needs. **Empowerment** means giving employees the authority to correct a problem without first checking with management. At a Guest Quarters hotel, an empowered room-service employee knows it's OK to run across the street to buy the specific bottled water a guest requests. In the Saturn car manufacturing plant, employees can stop the assembly line to correct a problem rather than passing it down the line.

Manage expectations—with good communication

The implementation effort sometimes leaves customers dissatisfied because they expect much more than it is possible for the firm to deliver. Some firms react to this by shrugging their shoulders and faulting customers for being unreasonable. Research in the service quality area, however, suggests that the problems often go away if marketers clearly communicate what they are offering. Customers are satisfied when the service matches their expectations, and careful communication leads to reasonable expectations. Sometimes the solution is simple. At Disney World, for example, waiting in line for a popular ride can be very tiring. Disney found, however, Pozzi wants its artisans to be proud of the high-quality windows they produce, so they often have their photos taken with their handiwork before it's shipped. Balboa wants producers of spas to know that its controls meet ISO 9001 quality standards and that, as a supplier, it is dedicated to satisfying the needs of the spa producer's final consumers.



that by posting signs that show how long the wait will likely be, it reduced customer frustration. And it allowed people to know how to pick another ride with less waiting time.

Customers often tolerate a delay and remain satisfied with the service when they are given a full explanation. Most airline passengers seethe at the announcement of a takeoff delay but are happy to wait and stay safe if they know the delay is caused by a thunderstorm high over the airport.

Separate the routine and plan for the special

Implementation usually involves some routine services and some that require special attention. Customer satisfaction increases when the two types of service encounters are separated. For example, banks set up special windows for commercial deposits and supermarkets have cash-only lines. In developing the marketing plan, it's important to analyze the types of service customers will need and plan for both types of situations. In some cases, completely different strategies may be required.

Increasingly, firms try to use computers and other equipment to handle routine services. ATMs are quick and convenient for dispensing cash. American Airlines' Dial a Flight system allows customers to use a touchtone phone to check schedules and arrival times—without the need for an operator. Similarly, the UPS website (www.ups.com) makes it easy for customers to check the status of a delivery.

Firms that study special service requests can use training so that even unusual customer requests become routine to the staff. Every day, hotel guests lose their keys, bank customers run out of checks, and supermarket shoppers leave their wallets at home. A well-run service operation anticipates these special events so service providers can respond in a way that satisfies customers' needs.

Managers lead the quality effort

Quality implementation—whether in a service activity or in another activity—doesn't just happen by itself. Managers must show that they are committed to doing things right to satisfy customers and that quality is everyone's job. Without top-level support, some people won't get beyond their business-as-usual attitude—and TQM won't work. The top executive at American Express had his board of directors give him the title Chief Quality Officer so that everyone in the company would know he was personally involved in the TQM effort.

Specify jobs and benchmark performance

Firms that are successful with quality programs usually go to the effort to clearly specify and write out exactly what tasks need to be done, how, and by whom. This may seem unnecessary. After all, most people know, in general, what they're supposed to do. However, if the tasks are clearly specified, it's easier to see what criteria should be used to measure performance.

Once criteria are established, there needs to be some basis on which to evaluate the job being done. In our restaurant example, one part of the job specification for the cashier is to process credit card payments. In that case, relevant criteria might include the amount of time that it takes and the number of people waiting in line to pay. If the restaurant manager had seen a record of how long it was taking to process credit cards, she would have known that for many customers it was taking too long. Without the measure, the precise nature of the problem was hidden.

That takes us to the issue of **benchmarking**—picking a basis of comparison for evaluating how well a job is being done. For example, consider a case in which a firm asks each of its customers to rate their satisfaction with the sales rep with whom they work. Then the company might benchmark each sales rep against other sales reps on the basis of average customer satisfaction. But if the firm's sales reps as a group are weak, that isn't a sensible approach. The ones that stink the least would look good on a relative basis. Many firms try to benchmark against some external standard. For example, a sales manager might want to benchmark against a competitor's sales reps. Or better, the manager might identify firms in which sales reps earn superlative customer satisfaction ratings, regardless of their industry, and benchmark against them. That approach can also reveal job specifications—things that should be done—that the sales manager had not considered or measured in the first place. For example, salespeople at Saturn dealers earn high customer satisfaction ratings. Office Max doesn't sell cars, but it might benchmark against Saturn's sales reps to find ways to improve its office equipment sales effort.

Getting a return on quality is important

While the cost of poor quality is lost customers, keep in mind that the type of quality efforts we've been discussing also result in costs. It takes time and energy to keep records, analyze the details of implementation efforts, and search for ways to reduce whatever type of defects might appear. It's important to find the right balance between quality in the implementation effort and what it costs to achieve it.

Getting every customer's order exactly correct is a challenge, but it's a basic ingredient of high-quality service for a drive-through restaurant. To improve order accuracy, McDonald's has added computerized displays so the customer can confirm the order. With tires, quality means safety and durability, so Goodyear has continued to improve these features with its new design for the Aquatred tire.

Marketing managers who lose sight of that balance have often created quality programs that cost more than they're worth. It's easy to fall into the trap of running up *unnecessary costs* trying to improve some facet of implementation that really isn't that important to customer satisfaction or customer retention. When that happens, customers may still be satisfied, but the firm can't make a profit because of the extra costs. In other words, there isn't a financial return on the money spent to improve the quality of the implementation effort. Remember that getting everyone to work together to satisfy customers should be the route to profits. If the firm is spending money on quality efforts that don't really provide the customer with superior value—that cost more to provide than customers will ultimately be willing to pay—then someone has lost sight of the marketing concept.

As this suggests, TQM is not a cure-all. Further, it is not the only method for improving marketing implementation, but it is an important approach. Some firms don't yet use TQM; they may be missing an opportunity. Other firms apply some quality methods but act like they are the private property of a handful of "quality specialists" who want to control things. That's not good either. Everyone must own a TQM effort and keep a balanced view of how it improves customer satisfaction and what it costs.

As more marketing managers see the benefits of TQM, it will become a more important part of marketing thinking, especially marketing implementation. And when managers really understand implementation, they can do a better job developing strategies and plans in the first place.[7]

Control Provides Feedback to Improve Plans and Implementation

Keeping a firmer hand on the controls

We've said that computers and other types of information technology are speeding up the flow of feedback and prompting a revolution by allowing managers to improve plans and implementation quickly and continuously. On the other hand, the basic questions that a modern marketing manager wants to answer to make better implementation and strategy decisions are pretty similar to what they've always been.

A good manager wants to know which products' sales are highest and why, which products are profitable, what is selling where, and how much the marketing process is costing. Managers need to know what's happening, in detail, to improve the bottom line.

Unfortunately, traditional accounting reports are usually too general to be much help in answering these questions. A company may be showing a profit, while 80 percent of its business comes from only 20 percent of its products—or customers. The other 80 percent may be unprofitable. But without special analyses, managers won't know it. This 80/20 relationship is fairly common—and it is often referred to as the *80/20 rule*.

What happened with Ben & Jerry's Peace Pops premium ice-cream bars is a good example. The initial plan called for intensive distribution of boxes of Peace Pops in supermarket freezer cases—to compete with competitors like Dove Bar and Häagen-Dazs. But after six months total sales were 50 percent lower than expected. However, detailed sales analysis by package and channel revealed a bright spot: Individual Peace Pops were selling very well in local delis. After further work to better understand the reasons for this focused success, Ben & Jerry's marketing people realized that most of their target customers saw the premium-price Peace Pop as an impulse product rather than as a staple they were willing to heap into a shopping cart. So Ben & Jerry's revised the strategy to better reach impulse buyers at convenience stores. Within a year, the revised strategy worked. Sales increased

60 percent, and sales analysis showed that 70 percent of the sales were at convenience stores. A few years later, however, sales analysis showed that sales were slowly trending down. Rather than wait for a painful death of the product, they replaced it with a new item.[8]

As the Ben & Jerry's example shows, it *is* possible for marketing managers to get detailed information about how marketing plans are working—but only if they ask for and help develop the necessary data. In this section, we'll discuss the kinds of information that can be available and how to use it. The techniques are not really complicated. They basically require only simple arithmetic—and of course computers quickly and easily take care of that when a large volume of sorting, adding, and subtracting is required.

Sales Analysis Shows What's Happening

Sales analysis—a detailed breakdown of a company's sales records—can be very informative. Detailed data can keep marketing executives in touch with what's happening in the market. In addition, routine sales analyses prepared each week or month may show trends and allow managers to check their hypotheses and assumptions.[9]

Some managers resist sales analysis, or any analysis for that matter, because they don't appreciate how valuable it can be. One top executive in a large firm made no attempt to analyze company sales, even by geographic area. When asked why, the executive replied: "Why should we? We're making money!"

But today's profit is no guarantee that you'll make money tomorrow. In fact, ignoring sales analysis can lead not only to poor sales forecasting but to poor decisions in general. One manufacturer did much national advertising on the assumption that the firm was selling all over the country. But a simple sales analysis showed that most present customers were located within a 250-mile radius of the factory! In other words, the firm didn't know who and where its customers were—and it wasted most of the money it spent on national advertising.

But a marketing manager must ask for it

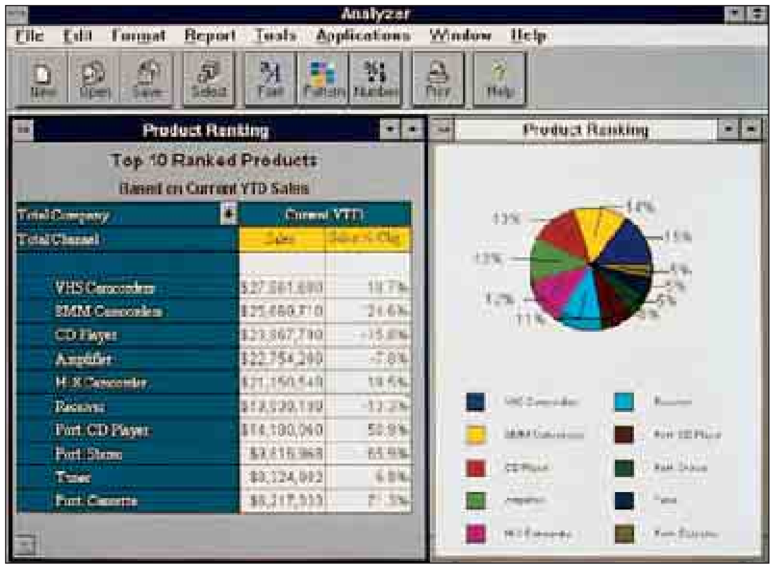
Detailed sales analysis is only possible if a manager asks for the data. Valuable sales information is often buried—perhaps on sales invoices or in billing records on an accountant's computer.

Today, with computer networks and organized marketing information systems, effective sales analysis can be done easily and at relatively small cost—if marketing managers decide they want it done. In fact, the desired information can be obtained as a by-product of basic billing and accounts receivable procedures. The manager simply must make sure the company captures identifying information on important dimensions such as territory, sales reps, product model, customer, and so forth. Then computers can easily run sales analyses and simple trend projections.

What to ask for varies

There is no one best way to analyze sales data. Several breakdowns may be useful—depending on the nature of the company and product and what dimensions are relevant. Typical breakdowns include:

1. Geographic region—country, state, county, city, sales rep's territory.
2. Product, package size, grade, or color.
3. Customer size.
4. Customer type or class of trade.



Information Resources, Inc., developed the DataServer Analyzer Software, illustrated here, to make it easy to do sales analysis and produce graphs that make it easy to see patterns that might otherwise be hidden in a table of numbers.

5. Price or discount class.
6. Method of sale—online, telephone, or sales rep.
7. Financial arrangement—cash or charge.
8. Size of order.
9. Commission class.

Too much data can drown a manager

While some sales analysis is better than none—or better than getting data too late for action—sales breakdowns that are too detailed can drown a manager in reports. Computers can spew out data faster than any manager can read. So wise managers only ask for breakdowns that will help them make decisions. Further, they use computer programs that draw graphs and figures to make it easy to see patterns that otherwise might be hidden scrolling through online tables with a browser. But to avoid coping with mountains of data—much of which may be irrelevant—most managers move on to *performance analysis*.

Performance Analysis Looks for Differences

Numbers are compared

Performance analysis looks for exceptions or variations from planned performance. In simple sales analysis, the figures are merely listed or graphed—they aren't compared against standards. In performance analysis, managers make comparisons. They might compare one territory against another, against the same territory's performance last year, or against expected performance.

The purpose of performance analysis is to improve operations. The salesperson, territory, or other factors showing poor performance can be identified and singled out for detailed analysis and corrective action. Or outstanding performances can be analyzed to see if the successes can be explained and made the general rule.

Performance analysis doesn't have to be limited to sales. Other data can be analyzed too. This data may include inventory required, number of calls made, number of orders, or the cost of various tasks.

Exhibit 19-4 Comparative Performance of Sales Reps

Sales Area	Total Calls	Total Orders	Order-Call Ratio	Sales by Sales Rep	Average Sales Rep Order	Total Customers
A	1,900	1,140	60.0%	$ 912,000	$800	195
B	1,500	1,000	66.7	720,000	720	160
C	1,400	700	50.0	560,000	800	140
D	1,030	279	27.1	132,000	478	60
E	820	165	20.1	62,000	374	50
Total	6,650	3,284	49.3%	$2,386,000	$634	605

A performance analysis can be quite revealing, as shown in the following example.

Straight performance analysis—an illustration

A manufacturer of business products sells to wholesalers through five sales reps, each serving a separate territory. Total net sales for the year amount to $2,386,000. Sales force compensation and expenses come to $198,000, yielding a direct-selling expense ratio of 8.3 percent—that is, $198,000 ÷ $2,386,000 × 100.

This information—taken from a profit and loss statement—is interesting, but it doesn't explain what's happening from one territory to another. To get a clearer picture, the manager compares the sales results with other data *from each territory*. See Exhibits 19-4 and 19-5. Keep in mind that exhibits like these and others that follow in this chapter are now very easy to generate. Common computer programs like Microsoft Office make it easy to apply the ideas discussed here. Larger companies make such analysis available at a website so the manager can sort out whatever is needed.

The reps in sales areas D and E aren't doing well. Sales are low and marketing costs are high. Perhaps more aggressive sales reps could do a better job, but the number of customers suggests that sales potential might be low. Perhaps the whole plan needs revision.

The figures themselves, of course, don't provide the answers. But they do reveal the areas that need improvement. This is the main value of performance analysis. It's up to management to find the remedy, either by revising or changing the marketing plan.

Exhibit 19-5 Comparative Cost of Sales Reps

Sales Area	Annual Compensation	Expense Payments	Total Sales Rep Cost	Sales Produced	Cost-Sales Ratio
A	$ 22,800	$11,200	$ 34,000	$ 912,000	3.7%
B	21,600	14,400	36,000	720,000	5.0
C	20,400	11,600	32,000	560,000	5.7
D	19,200	24,800	44,000	132,000	33.3
E	20,000	32,000	52,000	62,000	83.8
Total	$104,000	$94,000	$198,000	$2,386,000	8.3%

Performance Indexes Simplify Human Analysis

Comparing against "what ought to have happened"

With a straight performance analysis, the marketing manager can evaluate the variations among sales reps to try to explain the "why." But this takes time. And poor performances are sometimes due to problems that bare sales figures don't reveal. Some uncontrollable factors in a particular territory—tougher competitors or ineffective middlemen—may lower the sales potential. Or a territory just may not have much potential.

To get a better check on performance effectiveness, the marketing manager compares what did happen with what ought to have happened. This involves the use of performance indexes.

A performance index is like a batting average

When a manager sets standards—that is, quantitative measures of what ought to happen—it's relatively simple to compute a **performance index**—a number like a baseball batting average that shows the relation of one value to another.

Baseball batting averages are computed by dividing the actual number of hits by the number of times at bat (the possible number of times the batter could have had a hit) and then multiplying the result by 100 to get rid of decimal points. A sales performance index is computed the same way—by dividing actual sales by expected sales for the area (or sales rep, product, etc.) and then multiplying by 100. If a sales rep is batting 82 percent, the index is 82.

A simple example shows where the problem is

We show how to compute a performance index in the following example, which assumes that population is an effective measure of sales potential.

In Exhibit 19-6, the population of the United States is broken down by region as a percent of the total population. The regions are Northeastern, Southern, Midwestern, and Western.

A firm already has $1 million in sales and now wants to evaluate performance in each region. Column 2 shows the actual sales of $1 million broken down in proportion to the population in the four regions. This is what sales *should* be if population were a good measure of future performance. Column 3 in Exhibit 19-6 shows the actual sales for the year for each region. Column 4 shows measures of performance (performance indexes)—Column 3 ÷ Column 2 × 100.

The Western region isn't doing as well as expected. It has 20 percent of the total population—and expected sales (based on population) are $200,000. Actual sales, however, are only $120,000. This means that the Western region's performance index is only 60—(120,000 ÷ 200,000) × 100—because actual sales are much lower than expected on the basis of population. If population is a good basis for

Exhibit 19-6 Development of a Measure of Sales Performances (by region)

Regions	(1) Population as Percent of United States	(2) Expected Distribution of Sales Based on Population	(3) Actual Sales	(4) Performance Index
Northeastern	20	$ 200,000	$ 210,000	105
Southern	25	250,000	250,000	100
Midwestern	35	350,000	420,000	120
Western	20	200,000	120,000	60
Total	100	$1,000,000	$1,000,000	

measuring expected sales (an important *if*), the poor sales performance should be analyzed further. Perhaps sales reps in the Western region aren't working as hard as they should. Perhaps promotion there isn't as effective as elsewhere. Or competitive products may have entered the market.

Whatever the cause, it's clear that performance analysis does not solve problems. Managers do that. But performance analysis does point out potential problems—and it does this well.

Internet

Internet Exercise SPSS sells software that can be used for a variety of purposes, including analyses of sales, cost, and customer data. Browse the SPSS website (www.spss.com) and identify three ways that SPSS could make it easier for a manager to do a performance analysis.

A Series of Performance Analyses May Find the Real Problem

Performance analysis helps a marketing manager see if the firm's marketing plans are working properly—and, if they aren't, it can lead to problem solving. But a marketing manager may need a series of performance analyses, as shown in the following example.

To get a feel for how performance analysis can be part of a problem-solving process, follow this example carefully—one exhibit at a time. Try to anticipate the marketing manager's decision.

The case of Stereo, Inc.

Stereo's sales manager finds that sales for the Pacific Coast region are $130,000 below the quota of $14,500,000 (that is, actual sales are $14,370,000) for the January through June period. The quota is based on forecast sales of the various types of stereo equipment the company sells. Specifically, the quota is based on forecasts for each product type in each store in each sales rep's territory.

Pam Dexter, the sales manager, thinks this difference isn't too large (1.52 percent) and is inclined to forget the matter—especially since forecasts usually err to some extent. But she thinks about sending an e-mail message to all sales reps and district supervisors in the region—a message aimed at stimulating sales effort.

Exhibit 19-7
Sales Performance—Pacific Coast Region, January–June ($000)

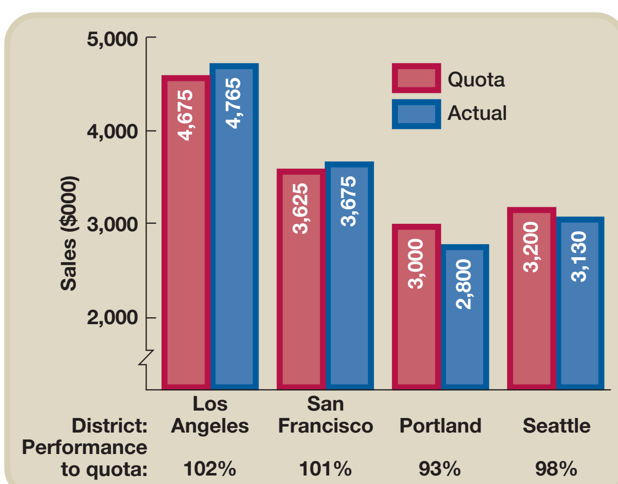


Exhibit 19-8
Sales Performance—Portland District, January–June ($000)

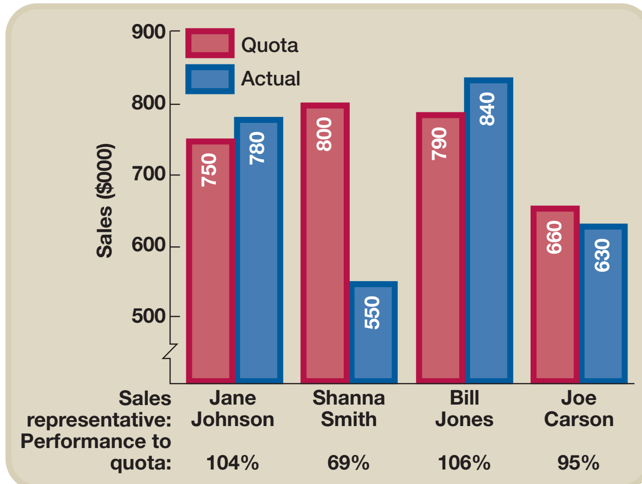


Exhibit 19-7 shows the overall picture of Stereo's sales on the Pacific Coast. What do you think the manager should do?

The Portland district has the poorest performance—but it isn't too bad. Before writing a "let's get with it" letter to Portland and then relaxing, the sales manager decides to analyze the performance of the four sales reps in the Portland district. Exhibit 19-8 shows a breakdown of the Portland figures by sales rep. What conclusion or action do you suggest now?

Since Shanna Smith previously was the top sales rep, the sales manager wonders if Smith is having trouble with some of her larger customers. Before making a drastic move, she obtains an analysis of Smith's sales to the five largest customers. See Exhibit 19-9. What action could the sales manager take now? Should Smith be fired?

Smith's sales in all the large stores are down significantly—although her sales in many small stores are holding up well. Smith's problem seems to be general. Perhaps she just isn't working. Before calling her, the sales manager decides to look at Smith's sales of the four major products. Exhibit 19-10 shows Smith's sales. What action is indicated now?

Exhibit 19-9
Sales Performance—Selected Stores of Shanna Smith in Portland District, January–June ($000)

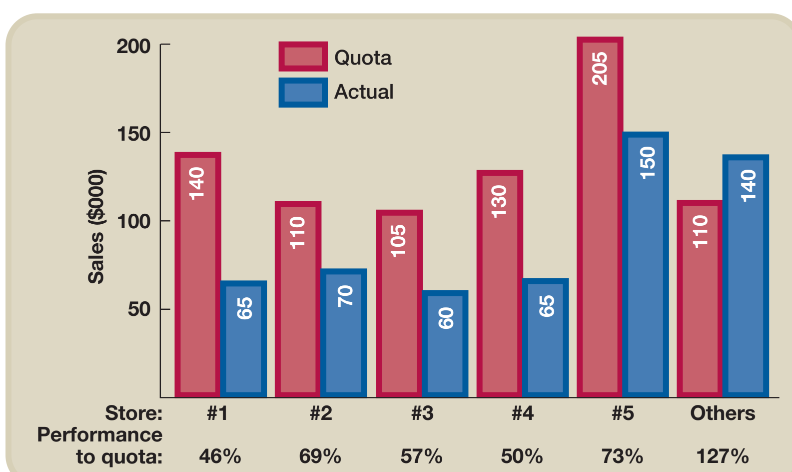
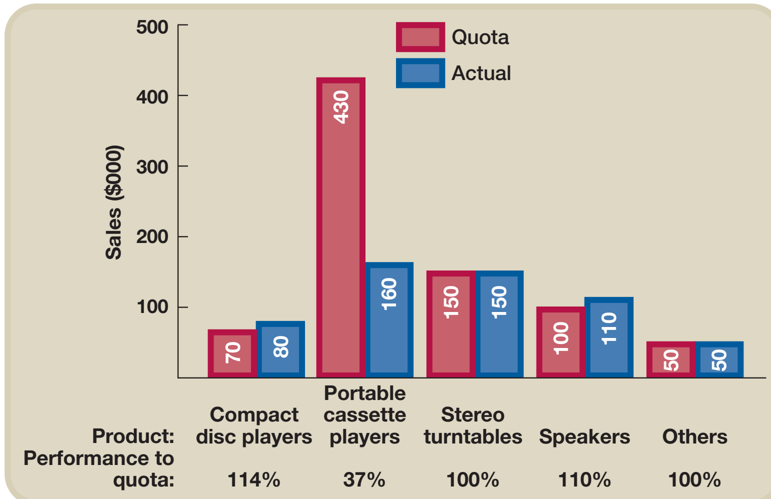


Exhibit 19-10
Sales Performance by Product for Shanna Smith in Portland District, January–June ($000)



Smith is having real trouble with portable cassette players. Was the problem Smith or the players?

Further analysis by product for the whole region shows that everyone on the Pacific Coast is having trouble with portable players because customers there are buying MP3 players that come from another company. But higher sales on other products hid this fact. Since portable player sales are doing all right nationally, the problem is only now showing up. You can see that this is the *major* problem. If Stereo doesn't offer an MP3 player, it will just slowly lose sales as more customers shift to MP3.

Since overall company sales are fairly good, many sales managers wouldn't bother with this analysis. Some might trace the problem to Smith. But without detailed sales records and performance analysis, they might assume that Smith—rather than the missed opportunity to add a new product—is at fault. And Smith herself might not be able to pinpoint what's happening.

Stay home and use the computer

This case shows that total figures can be deceiving. Marketing managers need facts to avoid rash judgments based on incomplete information. Some students want to fire Smith after they see the store-by-store data (Exhibit 19-9).

The home office or computer network should have the records to isolate problem areas—managers then rely on the field staff for explanations and help with locating the exact problem. Continuing detailed analysis usually gives better insights into problems, as this case shows. With computers, managers can obtain information routinely and in great detail, *provided they ask for it*.

The iceberg principle—90 percent is below the surface

One of the most interesting conclusions from the Stereo illustration is the **iceberg principle**—much good information is hidden in summary data. Icebergs show only about 10 percent of their mass above water level. The other 90 percent is below water level, and not directly below either. The submerged portion almost seems to search out ships that come too near.

The same is true of much business and marketing data. Since total sales may be large and company activities varied, problems in one area may hide below the surface. Everything looks calm and peaceful. But closer analysis may reveal jagged edges that can severely damage or even sink the business. The 90:10 ratio—or the 80/20 rule we mentioned earlier—must not be ignored. Averaging and summarizing data are helpful, but be sure summaries don't hide more than they reveal.

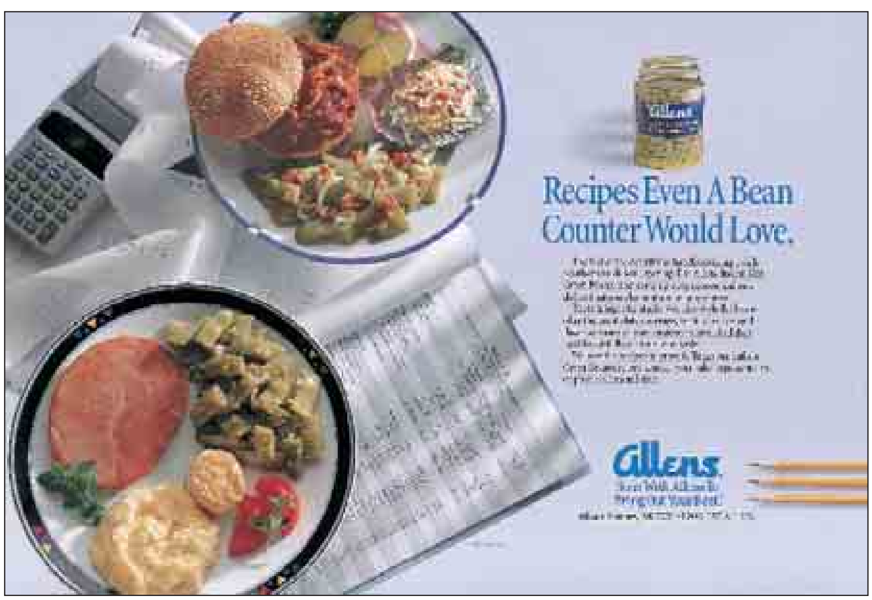
Marketing Cost Analysis—Controlling Costs Too

So far we've emphasized sales analysis. But sales come at a cost. And costs can and should be analyzed and controlled too. You can see why in the case of Watanake Packaging, Ltd. (WPL). WPL developed a new strategy to target the packaging needs of producers of high-tech electronic equipment. WPL designed unique Styrofoam inserts to protect electronic equipment during shipping. It assigned order getters to develop new accounts and recruited agent middlemen to develop overseas markets. The whole marketing mix was well received—and the firm's skimming price led to good profits. But over time competing suppliers entered the market. When marketing managers at WPL analyzed costs, they realized their once-successful strategy was slipping. Personal selling expense as a percent of sales had doubled because it took longer to find and sell new accounts. It was costly to design special products for the many customers who purchased only small quantities. Profit margins were falling too because of increased price competition. In contrast, the analysis showed that online sales of ordinary cardboard shipping boxes for agricultural products were very profitable. So WPL stopped calling on *small* electronics firms and developed a new plan to improve its website and build the firm's share of the less glamorous, but more profitable, cardboard box business.

Marketing costs have a purpose

Detailed cost analysis is very useful in understanding production costs—but much less is done with *marketing cost analysis*.[10] One reason is that many accountants show little interest in their firm's marketing process—or they don't understand the different marketing activities. They just treat marketing as overhead and forget about it.

In the next chapter, when we discuss the relationship between marketing and accounting in more detail, we'll explain how some accountants and marketing managers are working together to address this problem. For now, however, you should see that careful analysis of most marketing costs shows that the money is spent for a specific purpose—for example, to develop or promote a particular product or to serve particular customers.



For a restaurant to be profitable, the manager needs to worry not only about satisfying customers but also about how much each item contributes to overall costs.

Let's reconsider Exhibit 19-5 from this perspective. It shows that the company's spending on sales compensation and sales expenses varies by salesperson and market area. By breaking out and comparing the costs of different sales reps, the marketing manager has a much better idea of what it is costing to implement the strategy in each sales area. In this example, it's clear that the sales reps in sales areas D and especially E are not only falling short in sales, but also that their costs are high relative to other reps who are getting more results. The table shows that the difference isn't due to annual compensation; that's lower. Rather, these reps have expenses that are two or three times the average. The smaller number of total customers in these sales areas (Exhibit 19-4) might explain the lower levels of sales, but it probably doesn't explain the higher expenses. Perhaps the customers are more spread out and require more travel to reach. Here again, the cost analysis doesn't explain *why* the results are as they are—but it does direct the manager's attention to a specific area that needs improvement. A more detailed breakdown of costs may help pinpoint the specific cause.

Allocate costs to specific customers and products

Because marketing costs have a purpose, it usually makes sense to allocate costs to specific market segments, or customers, or to specific products. In some situations, companies allocate costs directly to the various geographical market segments they serve. This may let managers directly analyze the profitability of the firm's target markets. In other cases, companies allocate costs to specific customers or specific products and then add these costs for market segments depending on how much of which products each customer buys.

Should all costs be allocated?

So far we've discussed general principles. But allocating costs is tricky. Some costs are likely to be fixed for the near future, regardless of what decision is made. And some costs are likely to be *common* to several products or customers, making allocation difficult.

Two basic approaches to handling this allocating problem are possible—the full-cost approach and the contribution-margin approach.

Full-cost approach—everything costs something

In the **full-cost approach,** all costs are allocated to products, customers, or other categories. Even fixed costs and common costs are allocated in some way. Because all costs are allocated, we can subtract costs from sales and find the profitability of various customers, products, and so on. This *is* of interest to some managers.

The full-cost approach requires that difficult-to-allocate costs be split on some basis. Here the managers assume that the work done for those costs is equally beneficial to customers, to products, or to whatever group they are allocated. Sometimes this allocation is done mechanically. But often logic can support the allocation—if we accept the idea that marketing costs are incurred for a purpose. For example, advertising costs not directly related to specific customers or products might be allocated to *all* customers based on their purchases—on the theory that advertising helps bring in the sales. We'll go into more detail on allocating costs in the next chapter.

Contribution-margin—ignores some costs to get results

When we use the **contribution-margin approach,** all costs are not allocated in *all* situations. Why?

When we compare various alternatives, it may be more meaningful to consider only the costs directly related to specific alternatives. Variable costs are relevant here.

The contribution-margin approach focuses attention on variable costs rather than on total costs. Total costs may include some fixed costs that do not change in the short run and can safely be ignored or some common costs that are more difficult to allocate.[11]

Exhibit 19-11 Profit and Loss Statement by Department

	Totals	Dept. 1	Dept. 2	Dept. 3
Sales	$100,000	$50,000	$30,000	$20,000
Cost of sales	80,000	45,000	25,000	10,000
Gross margin	20,000	5,000	5,000	10,000
Other expenses:				
Selling expenses	5,000	2,500	1,500	1,000
Administrative expenses	6,000	3,000	1,800	1,200
Total other expenses	11,000	5,500	3,300	2,200
Net profit or (loss)	$ 9,000	$ (500)	$ 1,700	$ 7,800

The two approaches can lead to different decisions

The difference between the full-cost approach and the contribution-margin approach is important. The two approaches may suggest different decisions, as we'll see in the following example.

Full-cost example

Exhibit 19-11 shows a profit and loss statement, using the full-cost approach, for a department store with three operating departments. (These could be market segments or customers or products.)

The administrative expenses, which are the only fixed costs in this case, have been allocated to departments based on the sales volume of each department. This is a typical method of allocation. In this case, some managers argued that Department 1 was clearly unprofitable and should be eliminated because it showed a net loss of $500. Were they right?

To find out, see Exhibit 19-12, which shows what would happen if Department 1 were eliminated.

Several facts become clear right away. The overall profit of the store would be reduced if Department 1 were dropped. Fixed costs of $3,000, now being charged to Department 1, would have to be allocated to the other departments. This would reduce net profit by $2,500, since Department 1 previously covered $2,500 of the $3,000 in fixed costs. Such shifting of costs would then make Department 2 look unprofitable!

Contribution-margin example

Exhibit 19-13 shows a contribution-margin income statement for the same department store. Note that each department has a positive contribution margin. Here the Department 1 contribution of $2,500 stands out better. This actually is the

Exhibit 19-12 Profit and Loss Statement by Department if Department 1 Were Eliminated

	Totals	Dept. 2	Dept. 3
Sales	$50,000	$30,000	$20,000
Cost of sales	35,000	25,000	10,000
Gross margin	15,000	5,000	10,000
Other expenses:			
Selling expenses	2,500	1,500	1,000
Administrative expenses	6,000	3,600	2,400
Total other expenses	8,500	5,100	3,400
Net profit or (loss)	$ 6,500	$ (100)	$ 6,600

Exhibit 19-13 Contribution-Margin Statement by Departments

	Totals	Dept. 1	Dept. 2	Dept. 3
Sales	$100,000	$50,000	$30,000	$20,000
Variable costs:				
Cost of sales	80,000	45,000	25,000	10,000
Selling expenses	5,000	2,500	1,500	1,000
Total variable costs	85,000	47,500	26,500	11,000
Contribution margin	15,000	$ 2,500	$ 3,500	$ 9,000
Fixed costs				
Administrative expenses	6,000			
Net profit	$ 9,000			

amount that would be lost if Department 1 were dropped. (Our simple example assumes that the fixed administrative expenses are *truly* fixed—that none of them would be eliminated if this department were dropped.)

A contribution-margin income statement shows the contribution of each department more clearly, including its contribution to both fixed costs and profit. As long as a department has some contribution-margin, and as long as there is no better use for the resources it uses, the department should be retained.

Contribution-margin versus full-cost—choose your side

Using the full-cost approach often leads to arguments within a company. Any method of allocation can make some products or customers appear less profitable.

For example, it's logical to assign all common advertising costs to customers based on their purchases. But this approach can be criticized on the grounds that it may make large-volume customers appear less profitable than they really are—especially if the marketing mix aimed at the larger customers emphasizes price more than advertising.

Those in the company who want the smaller customers to look more profitable usually argue *for* this allocation method on the grounds that general advertising helps build good customers because it affects the overall image of the company and its products.

Arguments over allocation methods can be deadly serious. The method used may reflect on the performance of various managers—and it may affect their salaries and bonuses. Product managers, for example, are especially interested in how the various fixed and common costs are allocated to their products. Each, in turn, might like to have costs shifted to others' products.

Arbitrary allocation of costs also may have a direct impact on sales reps' morale. If they see their variable costs loaded with additional common or fixed costs over which they have no control, they may ask, "What's the use?"

To avoid these problems, firms often use the contribution-margin approach. It's especially useful for evaluating alternatives and for showing operating managers and salespeople how they're doing. The contribution-margin approach shows what they've actually contributed to covering general overhead and profit.

Top management, on the other hand, often finds full-cost analysis more useful. In the long run, some products, departments, or customers must pay for the fixed costs. Full-cost analysis has its place too.

Planning and Control Combined

We've been treating sales and cost analyses separately up to this point. But management often combines them to keep a running check on its activities—to be sure the plans are working—and to see when and where new strategies are needed.

Sales + Costs + Everybody helps = $163,000

Let's see how this works at Cindy's Fashions, a small-town apparel retailer. This firm netted $155,000 last year. Cindy Reve, the owner, expects no basic change in competition and slightly better local business conditions. So she sets this year's profit objective at $163,000—an increase of about 5 percent.

Next she develops tentative plans to show how she can make this higher profit. She estimates the sales volumes, gross margins, and expenses—broken down by months and by departments in her store—that she would need to net $163,000.

Exhibit 19-14 is a planning and control chart Reve developed to show the contribution each department should make each month. At the bottom of Exhibit 19-14, the plan for the year is summarized. Note that space is provided to insert the actual performance and a measure of variation. So this chart can be used to do both planning and control.

Exhibit 19-14 shows that Reve is focusing on the monthly contribution to overhead and profit by each department. The purpose of monthly estimates is to get more frequent feedback and allow faster adjustment of plans. Generally, the shorter

Exhibit 19-14 Planning and Control Chart for Cindy's Fashions

	Contribution to Store					Store Expense	Operating Profit	Cumulative Operating Profit
	Dept. A	Dept. B	Dept. C	Dept. D*	Total			
January								
Planned	27,000	9,000	4,000	−1,000	39,000	24,000	15,000	15,000
Actual								
Variation								
February								
Planned	20,000	6,500	2,500	−1,000	28,000	24,000	4,000	19,000
Actual								
Variation								
November								
Planned	32,000	7,500	2,500	0	42,000	24,000	18,000	106,500
Actual								
Variation								
December								
Planned	63,000	12,500	4,000	9,000	88,500	32,000	56,500	163,000
Actual								
Variation								
Total								
Planned	316,000	70,000	69,000	−4,000	453,000	288,000	163,000	163,000
Actual								
Variation								

*The objective of minus $4,000 for this department was established on the same basis as the objectives for the other departments—that is, it represents the same percentage gain over last year when Department D's loss was $4,200. Plans call for discontinuance of the department unless it shows marked improvement by the end of the year.

the planning and control period, the easier it is to correct problems before they become emergencies.

In this example, Reve uses a modified contribution-margin approach—some of the fixed costs can be allocated logically to particular departments. On this chart, the balance left after direct fixed and variable costs are charged to departments is called Contribution to Store. The idea is that each department will contribute to covering *general* store expenses—such as top-management salaries and holiday decorations—and to net profits.

In Exhibit 19-14, we see that the whole operation is brought together when Reve computes the monthly operating profit. She totals the contribution from each of the four departments, then subtracts general store expenses to obtain the operating profit for each month.

As time passes, Reve can compare actual sales with what's projected. If actual sales were less than projected, corrective action could take either of two courses: improving implementation efforts or developing new, more realistic strategies.

The Marketing Audit

While crises pop up, planning and control must go on

The analyses we've discussed so far are designed to help a firm plan and control its operations. They can help a marketing manager do a better job. Often, however, the control process tends to look at only a few critical elements, such as sales variations by product in different territories. It misses such things as the effectiveness of present and possible marketing strategies and mixes.

The marketing manager usually is responsible for day-to-day implementing as well as planning and control and may not have the time to evaluate the effectiveness of the firm's efforts. Sometimes crises pop up in several places at the same time. Attention must focus on adjusting marketing mixes or on shifting strategies in the short run.

To make sure that the whole marketing program is evaluated *regularly*, not just in times of crisis, marketing specialists developed the marketing audit. A marketing audit is similar to an accounting audit or a personnel audit, which businesses have used for some time.

The **marketing audit** is a systematic, critical, and unbiased review and appraisal of the basic objectives and policies of the marketing function and of the organization, methods, procedures, and people employed to implement the policies.[12]

A marketing audit requires a detailed look at the company's current marketing plans to see if they are still the best plans the firm can offer. Customers' needs and attitudes change—and competitors continually develop new and better plans. Plans more than a year or two old may be out-of-date or even obsolete. Sometimes marketing managers are so close to the trees that they can't see the forest. An outsider can help the firm see whether it really focuses on some unsatisfied needs and offers appropriate marketing mixes. Basically, the auditor uses our strategy planning framework. But instead of developing plans, the auditor works backward and evaluates the plans being implemented. The consultant-auditor also evaluates the quality of the effort—looking at who is doing what and how well. This means interviewing customers, competitors, channel members, and employees. A marketing audit can be a big job. But if it helps ensure that the company's strategies are on the right track and being implemented properly, it can be well worth the effort.

An audit shouldn't be necessary—but often it is

A marketing audit takes a big view of the business—and it evaluates the whole marketing program. It might be done by a separate department within the company, perhaps by a marketing controller. But to get both expert and objective evaluation, it's probably better to use an outside organization such as a marketing consulting firm.

Ideally, a marketing audit should not be necessary. Good managers do their best in planning, implementing, and control—and they should continually evaluate the effectiveness of the operation. In practice, however, managers often become identified with certain strategies, and pursue them blindly, when other strategies might be more effective. Since an outside view can give needed perspective, marketing audits may be more common in the future.

Conclusion

In this chapter, we've focused on the important role of implementation and control in satisfying customers and the firm's ongoing success. We explained how improvements in information technology are playing a critical role in revolutionizing these areas. Managers should seek new and creative ways to improve implementation, which can often give a firm a competitive advantage in building stronger relationships with customers, even in highly competitive mature markets.

We also went into some detail on how total quality management can help the firm get the type of implementation it needs—implementation that continuously improves and does a better job of meeting customers' needs and at lower cost.

A marketing program must also be controlled. Good control helps the marketing manager locate and correct weak spots and at the same time find strengths that may be applied throughout the marketing program. Control works hand in hand with planning.

Simple sales analysis just gives a picture of what happened. But when sales forecasts or other data showing expected results are brought into the analysis, we can evaluate performance—using performance indexes.

Cost analysis also can be useful. There are two basic approaches to cost analysis—full-cost and contribution-margin. Using the full-cost approach, all costs are allocated in some way. Using the contribution-margin approach, only the variable costs are allocated. Both methods have their advantages and special uses.

Ideally, the marketing manager should arrange for a constant flow of data that can be analyzed routinely, preferably by computer, to help control present plans and plan new strategies. A marketing audit can help this ongoing effort. Either a separate department within the company or an outside organization may conduct this audit.

Questions and Problems

1. Give an example of how a firm has used information technology to improve its marketing implementation and do a better job of meeting your needs.
2. Should marketing managers leave it to the accountants to develop reports that the marketing manager will use to improve implementation and control? Why or why not?
3. Give an example of a firm that has a competitive advantage because of the excellent job it does with implementation activities that directly impact customer satisfaction. Explain why you think your example is a good one.
4. What are the major advantages of total quality management as an approach for improving implementation of marketing plans? What limitations can you think of?
5. If you were asked to recommend a firm (with which you have dealt) as a benchmark for good customer service after the sale, what firm would you recommend? What does this firm do that other firms do not do as well?

6. Various breakdowns can be used for sales analysis depending on the nature of the company and its products. Describe a situation (one for each) where each of the following breakdowns would yield useful information. Explain why.
   a. By geographic region.
   b. By product.
   c. By customer.
   d. By size of order.
   e. By size of sales rep commission on each product or product group.
7. Distinguish between a sales analysis and a performance analysis.
8. Carefully explain what the iceberg principle should mean to the marketing manager.
9. Explain the meaning of the comparative performance and comparative cost data in Exhibits 19-4 and 19-5. Why does it appear that eliminating sales areas D and E would be profitable?
10. Most sales forecasting is subject to some error (perhaps 5 to 10 percent). Should we then expect variations in sales performance of 5 to 10 percent above or below quota? If so, how should we treat such variations in evaluating performance?
11. Why is there controversy between the advocates of the full-cost and the contribution-margin approaches to cost analysis?
12. The June profit and loss statement for the Browning Company is shown. If competitive conditions make price increases impossible and management has cut costs as much as possible, should the Browning Company stop selling to hospitals and schools? Why?

Browning Company Statement

	Retailers	Hospitals and Schools	Total
Sales:			
80,000 units at $0.70	$56,000		$56,000
20,000 units at $0.60		$12,000	12,000
Total	56,000	12,000	68,000
Cost of sales	40,000	10,000	50,000
Gross margin	16,000	2,000	18,000
Sales and administrative expenses:			
Variable	6,000	1,500	7,500
Fixed	5,600	900	6,500
Total	11,600	2,400	14,000
Net profit (loss)	$ 4,400	$ (400)	$ 4,000

13. Explain why a marketing audit might be desirable, even in a well-run company. Who or what kind of an organization would be best to conduct a marketing audit? Would a marketing research firm be good? Would the present CPA firms be most suitable? Why?

Suggested Cases

33. Huntoon & Balbiera, P.C.

35. Romano's Take-Out, Inc.

Computer-Aided Problem

19. **Marketing Cost Analysis**

This problem emphasizes the differences between the full-cost approach and contribution-margin approach to marketing cost analysis.

Tapco, Inc., currently sells two products. Sales commissions and unit costs vary with the quantity of each product sold. With the full-cost approach, Tapco's administrative and advertising costs are allocated to each product based on its share of total sales dollars. Details of Tapco's costs and other data are given in the spreadsheet. The first column shows a cost analysis based on the full-cost approach. The second column shows an analysis based on the contribution-margin approach.

a. If the number of Product A units sold were to increase by 1,000 units, what would happen to the allocated administrative expense for Product A? How would the change in sales of Product A affect the allocated administrative expense for Product B? Briefly discuss why the changes you observe might cause conflict between the product managers of the two different products.

b. *What would happen to total profits if Tapco stopped selling Product A but continued to sell 4,000 units of Product B? What happens to total profits if the firm stops selling Product B but continues to sell 5,000 units of Product A? (Hint: To stop selling a product means that the quantity sold would be zero.)*

c. *If the firm dropped Product B and increased the price of Product A by $2.00, what quantity of Product A would it have to sell to earn a total profit as large as it was originally earning with both products? (Hint: Change values in the spreadsheet to reflect the changes the firm is considering, and then use the What If analysis to vary the quantity of Product A sold and display what happens to total profit.)*

For additional questions related to this problem, see Exercise 19-3 in the *Learning Aid for Use with Basic Marketing*, 14th edition.

Chapter Twenty

Managing Marketing's Link with Other Functional Areas

When You Finish This Chapter, You Should

1. Understand why turning a marketing plan into a profitable business requires money, information, people, and a way to get or produce goods and services.

2. Understand the ways that marketing strategy decisions may need to be adjusted in light of available financing.

3. Understand how a firm can implement and expand a marketing plan using internally generated cash flow.

4. Understand how different aspects of production capacity and flexibility should be coordinated with marketing strategy planning.

5. Understand the ways that the location and cost of production affect marketing strategy planning.

6. Know how marketing managers and accountants can work together to improve analysis of the costs and profitability of specific products and customers.

7. Know some of the human resource issues that a marketer should consider when planning a strategy and implementing a plan.

8. Understand the important new terms (shown in red).

Illinois Tool Works, Inc. (www.itwinc.com) produces and sells thousands of products—ranging from nuts, bolts, screws, nails, and plastic fasteners to sophisticated equipment—like its new robot that automates the manufacture of picture frames by taking molding directly from a high-speed saw and then automatically joining the pieces into a complete picture frame with virtually no labor required. ITW's fasteners are hidden inside or attached to appliances, cars, computers, and hundreds of other products you buy. One key to ITW's success is that it is fast and creative in identifying target markets with specific needs, developing products—actually whole marketing mixes—and then implementing plans to meet the target market's needs. Another key to ITW's success is that managers from different

place

price

promotion

produc

areas—such as production, finance, accounting, and human resources—work closely with the marketing people to be certain that market opportunities are turned into profitable strategies.

Some competing firms make the mistake of defining their markets in terms of the products they've always produced (for example, the "screw market" or the "bolt market"). By contrast, ITW defines markets in terms of customer needs. And often ITW finds that what a customer needs is not a screw or a bolt but something entirely new. As one simple example, factories assemble millions of panels that enclose electronic products like computers and medical equipment. The tiny nuts and bolts typically used to fasten the panels require tools, and users often drop them when they need to open a panel. So ITW created the perfect one-piece plastic fastener. It costs less and simplifies production because it pops into place and there's only one piece to inventory. Users can release it with a twist of their fingers, and it stays attached to the panel so it can't get lost.

The ITW approach of starting with customer needs often requires more than a marketing plan. It often requires new resources—new production capabilities, money to put the plan into operation, and people with new skills.

You can appreciate ITW's approach if you consider the origin of the now-common plastic buckle. The start was simple. A firm that produces life jackets needed a better way to fasten them. ITW's salespeople and R&D people teamed up to develop just the right product for this customer. The result: a durable, safety-rated plastic buckle. ITW had the money to quickly set up new production facilities for the buckle because its other established products were producing profits that ITW

www.mhhe.com/fourps

could reinvest. With production capacity in place, ITW targeted marketing mixes at other firms with similar needs. Today, there are hundreds of different types of ITW's Nexus brand buckles. To get a sense for the variety, check out ITWNexus.com. Millions of them are used not only in life jackets but in hundreds of other products, ranging from belts on swimsuits to straps on backpacks and safety helmets. Adding a wide variety of special buckles for these different markets quickly contributed to profits because most of the major fixed costs had already been covered.

ITW has developed many other innovative products and marketing mixes focused on the needs of specific market segments. For example, ITW makes Kiwi-Lok, a nylon fastener that New Zealand farmers use to secure their kiwi plants. It's not a fluke that ITW saw this unusual fastening need. As one ITW executive put it, "We try to sell where our competitors aren't"—one reason why ITW now serves customers from operations in more than 35 countries. Although ITW is a very large company with many different product lines, it is able to stay in close contact with its customers because all of its businesses are locally managed. At the same time, it expands its reach by maintaining more than 90 different websites for product lines focused at different sets of business customers (but you can link to any of the websites from ITW's home page at www.itwinc.com).

ITW organizes all of its activities, including how it sets up its factories, to adjust to the needs of distinct target markets. ITW serves large-volume segments with "focused factories" that concentrate on quickly producing large quantities of a single product line at a low cost. It handles limited production for small segments in special "batches" on equipment dedicated to short runs. This flexible approach helps ITW fill customers' orders faster than competitors—which is yet another reason for the company's success.[1]

Marketing in the Broader Context

The marketing concept says that everyone in a firm should work together to satisfy customer needs at a profit. Once a marketing strategy has been developed and turned into a marketing plan, the blueprint for what needs to be done is in place. So throughout the text we've developed concepts and how-to approaches relevant to marketing strategy planning, implementation, and control.

From the outset, we've emphasized that what is a good marketing strategy—selection of a target market and a marketing mix to meet target customers' needs—depends on the fit with the specific firm and its market environment—what it's able to do and what it wants to do. Now we'll broaden our view to take a closer look at some of the important ways that marketing links to other functional areas.

Cross-functional links affect strategy planning

Our emphasis is not on the technical details of other functional areas but rather on the most important ways that cross-functional links impact your ability to develop marketing strategies and plans that really work. See Exhibit 20-1.

In firms with a marketing orientation, people from different functional areas work together to make certain that they satisfy the customer.

Implementing a marketing plan usually requires a financial investment—so we'll consider both money required to start up a new plan and the money needed to meet ongoing expenses. Then we'll look at production and operations and review how available production capacity, production flexibility, and operating issues impact marketing planning. We'll also take a closer look at how accounting people and marketing managers work together to get a better handle on marketing costs. We'll conclude with a discussion of human resource issues—because it's people who put plans into action.

How important the linkages with production, finance, accounting, and human resources are for the marketing manager depends on the situation. In an entrepreneurial dot-com start-up, the same person may be making all of the decisions. In a big company, managing the linkages among many specialists may be much more complicated.

Exhibit 20-1
Some Important Links between Marketing and Other Functional Areas

Cross-functional challenges are greatest with new efforts

Our emphasis will be on new efforts. When a new strategy involves only minor changes to a plan that the firm is already implementing, the specialists usually have a pretty good idea of how their activities link to other areas. However, when a potential strategy involves a more significant change—like the introduction of a totally new product idea—understanding the links between the different functional areas is usually much more critical.

The Finance Function: Money to Implement Marketing Plans

Chief financial officer handles money matters

Bright marketing ideas for new ways to satisfy customer needs don't go very far if there isn't enough money to put a plan into operation. Finding and allocating **capital**—the money invested in a firm—is usually handled by a firm's chief financial officer. Entrepreneurs and others who own their own companies may handle this job themselves. In most firms, however, there is a separate financial manager who works with the chief executive to make major finance decisions.

A firm's marketing manager and financial manager must work together to ensure that the firm can successfully implement its marketing plans with the money that is or will be available. Further, a successful strategy should ultimately generate profit. And the financial manager needs to know how much money to expect and when to expect it to be able to plan for how it will be used.

Opportunities compete for capital and budgets

Within an organization, different possible opportunities compete for capital. There's usually not enough money to do everything, so strategies that are inconsistent with the firm's financial objectives and resources are not likely to be funded. It's often best for the marketing manager to use relevant financial measures as quantitative screening criteria when evaluating various alternatives in the first place.

Marketing plans that *are* funded usually must work within a budget constraint. Ideally, the marketing manager should have some inputs on what that budget is—to get the marketing tasks done. Further, some strategy decisions may need to be adjusted, either in the short or long run, to work within the available budget. For example, a marketing manager might prefer to have control over the selling effort for a new product by hiring new people for a separate sales force. However, if there isn't enough money available for salesperson salaries, then the best alternative might be to start with manufacturers' agents. They work for a commission and aren't paid until after they generate a sale and some sales revenue. Then after the market develops and the plan becomes profitable, the firm might expand its own sales force.

When evaluating new opportunities, Unilever brings together a team of managers with experience around the world to be certain that marketing plans that the firm implements will give it a competitive advantage and earn a return that will be attractive to investors.

Working capital pays for short-term expenses

Financial managers usually think about two different uses of capital. First, capital may be required to pay for investments in facilities, equipment, computer networks, and other "fixed assets." These installations are usually purchased and then used, and depreciated, over a number of years. In addition, a firm needs **working capital**—money to pay for short-term expenses such as employee salaries, advertising, marketing research, inventory storing costs, and what the firm owes suppliers. A firm usually must pay for these ongoing expenses as they occur. As a result there is usually a continuing need for working capital.

Capital is usually a critical resource when a marketing plan calls for rapid growth—especially if the growth calls for expensive new facilities. Clearly, a plan to build a chain of 15 hotels requires more money for buildings and equipment, as well as more money for salaries, food, and supplies, than a plan for a single hotel. Such a plan might require that the firm borrow money from a commercial lender. In contrast, a plan that simply calls for improving the service in an existing hotel, perhaps by adding several people to handle room service, would require much less money. In fact, increased food sales from room service might quickly generate more than enough earnings to pay for the added people.

Capital comes from internal and external sources

As these examples imply, there are a number of different possible sources of capital. However, it's useful to boil them down to two categories: *external sources*, such as loans or sales of stocks or bonds, and *internal sources*, such as cash accumulated from the firm's profits. A firm usually seeks outside funding in advance of when it is needed to invest in a new strategy. Internally generated profits may be accumulated and used in the same way, but often internal money is used as it becomes available. In other words, with internally generated funding a firm's marketing program may be expected to "pay its own way."

The timing of when financing is available has an important effect on marketing strategy planning, so we'll look at this topic in more detail. We'll start by looking at external sources of funds.

External funding—investors expect a return

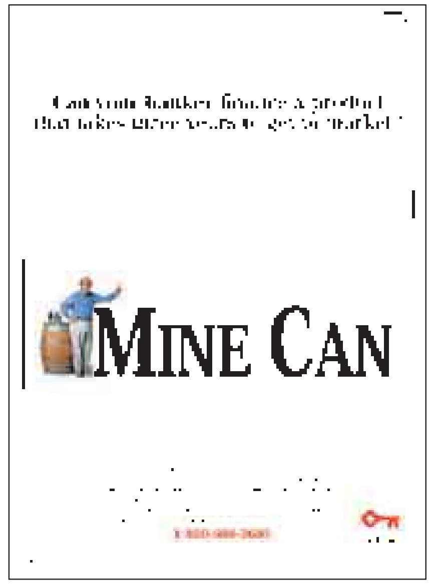
While a firm might like to fund its marketing program from rapid growth in its own profits, that is not always possible. New companies often don't have enough money to start that way. An established company with some capital may not have as much as it needs to make long-term investments and still have enough working capital for the routine expenses of implementing a plan. Getting started may also involve losses, perhaps for several years, before earnings come in. In these circumstances, the firm may need to turn to one of several sources of external capital.

A firm may be able to raise money by selling **stock**—a share in the ownership of a company. Stock sales may be public or private, and the buyers may be individuals, including a firm's own employees, or institutional investors (such as a pension fund or venture capital firm).

People who own stock in a firm want a good return on their investment. That can happen if the company pays owners of its stock a regular dividend. It also happens if the value of the stock goes up over time. Neither is likely if the firm isn't consistently earning profits. Further, the value of a firm's stock typically doesn't increase unless its profits are *growing*. This is one reason that marketing managers are always looking for profitable new growth opportunities. Profits can also improve by being more efficient—getting the marketing jobs done at lower cost, doing a better job holding on to customers, and the like. Ultimately, a firm that doesn't have a successful or at least promising marketing strategy can't attract and keep investors.

On the other hand, it's a sad reality that a firm with a great strategy can't always attract investors. As in other aspects of business, investors sometimes get caught up in a current fad. One week they want to invest in *any* new biotech firm, and then the next week the only thing that gets their attention is the stock, say, for a dot-com

A firm that has a promising marketing plan will usually have more success in obtaining financial resources from external lenders or investors.



business. They don't even stop to figure out if the firm's specific plan makes sense—because it's the Internet label that makes it hot. Oddly, by the time a type of business has attracted enough attention to have fad value to investors there's already likely to be a lot of competition. Then it's usually too late to have an innovative strategy.

Investors' time horizon is important

The time horizon for profit and growth that investors have in mind can be very important to the marketing manager. If investors are patient and willing to wait for a new strategy to become profitable, a marketing manager may have the luxury of developing a plan that will be very profitable in the long run even if it racks up short-term losses. Many Japanese firms take this approach. However, most marketing managers face intense pressure to develop plans that will generate profits quickly; there's more risk for investors if potential profits are off in the future.

It is often a challenge to develop a plan that produces profit in the short term and also positions the firm for long-run success. For example, a low penetration price for a new product may help to prevent competition and to attract repeat purchasers long into the future. Yet a skimming price may be better for profits in the short term. Even so, the marketing manager's plans must take the investors' time horizon into consideration. Unhappy investors can demand new management or put their money somewhere else.

Forecasts may become an ethical issue

Investors usually want detailed information about a firm's plans before they invest money in the firm's stock. The firm's financial people usually provide this information, but financial estimates don't mean much unless they're based on realistic estimates of demand, revenue, and marketing expenses from the marketing manager. An optimistic marketing manager may be hesitant to lay out the potential limitations of a plan or its forecasts—especially if the full story might scare off needed investors. However, this is an important ethical issue. While investors know that there is always some uncertainty in forecasts, they have a right to information that is as accurate as possible. Put another way, just as a marketing manager shouldn't mislead a buyer of the firm's products, it's not appropriate to mislead investors who are buying into the firm's marketing plan.

Debt financing involves an interest cost

Rather than sell stock, some firms prefer **debt financing**—borrowing money based on a promise to repay the loan, usually within a fixed time period and with a specific interest charge. This might involve a loan from a commercial bank or the use of corporate bonds. People or institutions that loan the money typically do not get an ownership share in the company, and they are usually even less willing to take a risk than are investors who buy stock.

Most commercial banks are conservative. They usually won't loan money to a firm that doesn't have some valuable asset to put up as a guarantee that the lender will get its money. Investors who buy a firm's bonds are also very concerned about security—but they often don't have a legal right to some specific assets if the firm can't repay the borrowed money when it's due. In general, the greater the risk that the lender takes on to provide the loan, the greater the interest rate charge will be.

Interest expense may impact prices

The cost of borrowing money can be a real financial burden. Just as a firm's selling price must cover all of the marketing expenses and the other costs of doing business before profits begin to accumulate, it must also cover the interest charge on borrowed money. The impact of interest charges on prices can be significant. For example, the spread between the prices charged by fast-growing, efficient supermarket chains and individual grocery stores would be even greater if the chains weren't paying big interest charges on loans to fund new facilities.

While the cost of borrowing money can be high, it may still make sense if the money is used to implement a marketing plan that earns an even greater return. In that way, the firm leverages the borrowed money to make a profit. Even so, there are often advantages if a firm can pay for its plans with internally generated capital.[2]

Winning strategies generate capital

A company with a successful marketing strategy has its own internal source of funds—profits that become cash in the bank!

For example, the building-supply company, Home Depot, reported a profit of just over $600 million from running its businesses in 1994. The company only paid out about 11 percent of that money as dividends to its stockholders. The stockholders liked it that way because Home Depot used the remaining half a billion dollars to open 126 new stores. And by financing stores in this fashion its profits grew to about $940 million by the beginning of 1997.[3]

Reinvesting cash generated from operations is usually less expensive than borrowing money because no interest expense is involved. So internal financing often helps a firm earn more profit than a competitor that is operating on borrowed money—even if the internally financed company is selling at a lower price.

Expanding profits may support expanded plan

Firms that can't get a loan or that don't want the expense of borrowed money often start with a less costly strategy and a plan to expand it as quickly as is allowed by earnings. Consider the case of Sorrell Ridge, a small company that wanted to compete with the jams and jellies of big competitors like Welch's and Smucker's. Sorrell Ridge started small with a strategy that focused on a better product—"spreadable fruit" with no sugar added—that was targeted at health-conscious consumers. After paying to update its production facilities, Sorrell Ridge didn't have much working capital to pay for promotion and other marketing expenses. So it turned to health-food wholesalers and retailers to give the product a promotion push in the channel. As profits from the health-food channel started to grow, Sorrell Ridge used some of the money for local TV and print ads in big cities in the Northeast. The ads increased consumer demand for Sorrell Ridge's spreads and helped get shelf space from supermarkets in that region. Success from selling through supermarkets in the Northeast generated more volume and profit, which provided Sorrell Ridge with the financial base to enter the big California market. The big supermarket chains there wouldn't consider carrying a new fruit spread without a lot of trade promotion, including hefty stocking allowances. Sorrell Ridge had the money to pay for a coupon program to stimulate consumer trial, but that didn't leave enough money for the stocking allowance. However, the marketing manager had a creative idea that involved giving retailers the stocking allowance in the form of a credit against future purchases rather than cash up front. With a plan for that blend of trade and consumer promotion in place, one of the best food brokers in California agreed to take on the line. And expanding into the new market resulted in profitable growth.[4]

As the Sorrell Ridge case shows, a firm with limited resources can sometimes develop a plan that allows for growth through internally generated money. On the other hand, a company with a mature product that has limited growth potential can invest the earnings from that product in developing a new opportunity that is more profitable. Lotus Development, the software company, is a good example. It used profits from its Lotus 1-2-3 spreadsheet, which faced tough competition from Microsoft's Excel, to fund the development of Lotus Notes, an innovative product for the fast-growing segment of computer users who wanted an easy way to communicate with other networked members of their work group.

Cash flow looks at when money will be available

A marketing manager who wants to plan strategies based on the expected flow of internal funding needs a good idea of how much cash will be available. A **cash flow statement** is a financial report that forecasts how much cash will be available after paying expenses. The amount that's available isn't always just the bottom line or net profit figure shown on the firm's operating statement. Some expenses, like depreciation of facilities, are subtracted from revenue for tax and accounting purposes but do not actually involve writing a check. So in determining cash flow, managers often look at a company's earnings *before* subtracting out these noncash expenses.[5]

Adjusting the strategy to money that's available

Most firms rely on a combination of internal and external capital. An adequate overall amount of capital makes it possible to expand more rapidly or to implement a more ambitious plan from the outset. However, when a marketing manager must rely, at least in part, on internally generated funds to make a strategy self-supporting, that may need to be considered in selecting between alternative strategies or in specific marketing mix decisions for a given strategy.

Improve return of current investment

When finances are tight, it's sensible to look for strategy alternatives that help get a better return on money that's already invested. A firm that sells diagnostic equipment to hospitals might look for another related product for its current salespeople to sell while calling on the same customers. Similarly, a firm that has a successful domestic product might look for new international markets where little or no modification of the product would be required. A firm that is constantly fighting to rewin customers might be better off with a program that offers loyal customers a discount; the increase in the number of customers served might more than offset the lost revenue per sale. Any increase in revenue and profit contribution that the strategy generates—without increasing fixed costs and capital invested—increases profit and the firm's return on investment.

Market mix decisions affect capital needed

Strategy decisions within each of the marketing mix areas often have significantly different capital requirements. For example, offering more models, package sizes, flavors, or colors of a product will almost certainly increase front-end capital needs and increase costs.

Place decisions often have significant financial implications, depending on how responsibilities are shifted and shared in the channel. Indirect distribution usually requires less investment capital than direct approaches. Merchant wholesalers and retailers who pay for products when they purchase them, and who pay the costs of carrying inventory, help a producer's cash flow. Working with public warehousers and transportation firms may help reduce the capital requirements for logistics facilities.

Promotion blends that focus on stimulating consumer pull usually require a big front-end investment in advertising and consumer promotions. For example, it's not unusual for a consumer packaged goods producer to spend half of a new product's first-year sales revenue on advertising. Thus, it may be less risky for a firm with limited capital to put more emphasis on a strategy that relies on push rather than pull. Similarly, capital requirements are less when intermediaries take on much of the responsibility for promotion in the channel.

Production Must Be Coordinated with the Marketing Plan

Production capacity takes many forms

In screening product-market opportunities, a marketing manager needs to have a realistic understanding of what is involved in turning a product concept into something the firm can really deliver. If a firm is going to pursue an opportunity, it's also critical that there be effective coordination between marketing planning and **production capacity**—the ability to produce a certain quantity and quality of specific goods or services.

Different aspects of production capacity have different impacts on marketing planning, so we'll consider this topic in more depth.[6]

Use excess capacity to improve profits

If a firm has unused production capacity, it's sensible for a marketing manager to try to identify new markets or new products that make more effective use of that investment. For example, a company that produces rubber floor mats for automobiles might be able to add a similar line of floor mats for pickup trucks. Expanded production might result in lower costs and better profits for the mats the firm was already producing—because of economies of scale. In addition, revenue and profit contribution from the new products could improve the return on investment the firm had already made.

If a firm's production capacity is flexible, many different marketing opportunities might be possible. For example, in light of growing consumer interest in fancy sport utility vehicles, the marketing manager for the firm above might see even better profit potential in color-coordinated rubber cargo area liners than in commodity floor mats. Opportunities further away from its current markets might be relevant too. For example, there might be better growth and profits in static-electricity-free mats for Internet server equipment than for auto accessories.

Excess capacity may be a safety net

While excess capacity can be costly, it can also serve as a safety net if demand suddenly picks up. For example, many firms that make products for the construction industry faced costly excess capacity during the early 1990s. However, many of those firms were glad that they had that capacity when construction turned into a booming market a few years later. Whether excess capacity is a wasteful cost or a safety net for handling unexpected demand depends on the opportunity costs and likelihood of the two situations.

Or it may be a signal of problems

Excess capacity may exist because the market for what a firm can produce never really materialized or has moved into long-term decline. Excess capacity may also indicate that there's too much competition—with many other firms all fighting for the same fixed demand. In situations like these, rather than struggling to find minor improvements in capacity use, it might be better for the marketing manager to lead the firm toward other, more profitable alternatives.

Slow adjustments result in stock-outs

Another aspect of flexibility concerns how quickly and easily a firm can adjust the quantity of a product it produces. This can be especially important when demand is uncertain. If a new marketing mix is more successful than expected, demand can quickly outstrip supply. This happened to Frito-Lay when it developed WOW! fat-free snack chips using its Olestra fat substitute. It was hard to predict how people would react to the chips because the FDA required a warning label that the chips might cause abdominal cramping and diarrhea. That's not exactly the message the brand manager wanted the package to send! Even so, diet-conscious chip lovers were so enthusiastic about the chips that they were quickly out-of-stock at most supermarkets.[7]

Scarce supply wastes marketing effort

This kind of problem can be serious. Promotion spending is wasted if supply can't keep up with demand. Further, stock-outs frustrate both consumers and channel members. This may give a more nimble competitor the opportunity to introduce an imitation product. By the time the original innovator is able to increase production, consumers may already be loyal to the other brand.

Staged distribution may match capacity

Problems of matching supply and demand are likely to be greatest when a marketing plan calls for quick expansion into many different market areas all at once. That's one reason a marketing manager may plan a regional rollout of a new product. Similarly, initial distribution may focus on certain types of channels—say, drugstores alone rather than drugstores and supermarkets. Experience with the early stages of the implementation effort can help the marketing manager determine how much promotion effort is required to keep distribution channels full and avoid stock-outs.

Virtual corporations may not make anything at all

Many firms are finding that they can satisfy customers and build profits without doing any production in house. Instead, they look for capable suppliers to produce a product that meets the specs laid out in the firm's marketing plan. This is the

When Kellogg's introduced Rice Krispies Treats Squares, production couldn't keep up with the unexpectedly high demand. So Kellogg's used advertising to tell consumers and retailers about the shortages and to ask them to be patient. When the squares were back in stock, Kellogg's again used advertising to communicate with consumers.

A firm that outsources some or all of its production may have more flexibility to enter attractive new product-markets.

approach that Sara Lee is taking. It's selling off the factories that make its apparel products—brands like Champion and Hanes and Playtex. The idea is that Sara Lee will just buy the goods that it wants from independent manufacturers who will produce to its specs. The company thinks that this is attractive to investors because it moves the company away from running knitting machines, which "is a business of yesterday," and into the knowledge business of building its brands. However, this could be risky. Sara Lee will still be competing in a low-growth, mature market whether it does the manufacturing or someone else does. Further, the reputation of a brand often depends on the quality of the manufacturing behind it.

Of course, some firms are making this work and work well. At the extreme, a firm may even act like a **virtual corporation**—where the firm is primarily a coordinator—with a good marketing concept. Consider the case of Calvin Klein fashions. At one time Calvin Klein was a large manufacturer of underwear and jeans. However, the company was better at analyzing markets, designing fashions, and marketing them than it was at production. So the firm sold its factories and arranged for other companies to make the products that carry the Calvin Klein brand.[8]

Outsourcing production may increase a firm's flexibility in some ways, but costs are often higher, and it may be difficult or even impossible to control quality. Similarly, product availability may be unpredictable. If several firms are involved in producing the final product, coordination and logistics problems may arise.

A company with a line of accessories for bicycle riders faced this problem when it decided to introduce a water bottle. Its other products were metal, so it turned to outside suppliers to produce the plastic bottles. However, getting the job done required three suppliers. One made the bottles, another printed the colorful designs on them, and the third attached a clip to hold the bottle to a bike.

Moving the product from one specialist to another added costs, and whenever one supplier hit a snag, all of the others were affected. The firm was constantly struggling to fill orders on time, and too often it was losing the battle. To avoid these problems, the firm invested in its own production facilities.[9]

Design flexibility into operations

Because production flexibility can give a firm a competitive advantage in meeting a target market's needs better or faster, many firms are trying to design more flexibility into their operations. In fact, without flexible production it may not be possible for a firm to provide business customers with just-in-time delivery or rapid response to orders placed by EDI or some other type of e-commerce reorder system.

Producing to order requires flexibility too

By contrast, flexible manufacturing systems may make it possible for a firm to better respond to customer needs. This is a key advantage of Dell Computer's Internet order approach. Early on, most other computer firms produced large quantities of standardized computers and then shipped them to dealers for resale. If the dealer didn't have the right model in stock, it often took weeks to get it. Dell's approach allowed customers to order whatever computer configuration they wanted—then the parts were assembled to match the order. This reduced the cost of finished goods inventories, precisely matched output to customer needs, and kept everyone focused on satisfying each customer. It's been hard for firms like Compaq to directly copy this approach without alienating the dealers that it relies on. But it's trying a variation of the same idea. Compaq ships bare-bones computers to the dealer, and the dealer's service department installs the accessories that the customer wants. Here flexibility is achieved by combining efforts at different levels of the channel.[10]

Mass customization—serves individual needs

Of course, automobile companies, producers of specialized machine tools, and other types of manufacturers, as well as many service firms, have been creating products based on specific orders from individual customers for a long time. However, a wide variety of companies are now looking for innovative ways to serve smaller segments of customers by using **mass customization**—tailoring the principles of mass production to meet the unique needs of individual customers.

Note that using the principles of mass production is not the same thing as trying to appeal to everyone in some mass market. With the mass-customization approach, a firm may still focus on certain market segments within a broad product-market. However, in serving individuals within those target segments it tries to get a competitive advantage by finding a low-cost way to give each customer more or better choices.

The changes that are coming with mass customization are illustrated by Levi's Personal Pair personalized jeans program for women, which is offered in select Levi's stores. With this program, a woman goes to a participating retail store and is carefully measured by a trained fit consultant. These measurements are entered into a computer that generates a pair of prototype trial jeans with these measurements. The customer tries on that prototype for fit; if necessary, other prototypes or modifications of measurements may be tried. When the customer is satisfied, the measurements are sent via computer to the Levi's factory, where sewing operators construct the jeans. In about three weeks, the jeans are ready at the store, or they can be shipped directly to the customer via express mail. The customer's measurements are kept in a database to make it easy to place future orders—perhaps in a different color, finish, or style.

Mass customization is not limited to consumer products. Andersen gives builders and architects a software disk that they use to design their own custom windows. Similarly, sales reps for ChemStation, a firm that produces industrial detergents, work closely with customers to understand their special cleaning needs—a car wash wants something very different from a metal-working plant. Then scientists in ChemStation develop just the right product—with the correct amount of foam,

Lear Corp. has designed modular, interchangeable components that make it possible for car buyers to customize their car interiors. This sort of mass customization could become available in the near future.

Baldor Electric Gets Wired for Worldwide Profits

Baldor Electric Company produces and markets electric motors. While sales in recent times have been depressed by a weak economy, Baldor has weathered bad markets in the past. One of the worst times was about 15 years ago. Back then, demand for electric motors was in a slump. Worse, producers in Asia were pumping out low-cost commodity-type motors from automated factories. The market was so tough that Westinghouse, the original developer of the electric motor, got out of the business altogether. Yet Baldor's sales have increased five times over since that time, and its profits have been on an upward trend. So how has Baldor, an old company in a mature market, achieved profitable growth?

Rather than trying to compete with motors like those available from many suppliers, Baldor focused on specific target markets. It came out with special motors, like the one to run heart pumps in hospitals or the 500-horsepower unit for rolling steel. The R&D group also added computer controllers to motors to improve their value to the customer and to work with factory automation systems that are replacing old approaches. In fact, Baldor's innovations recently earned a "Product of the Year" Gold Award from a major trade magazine. That kind of publicity brings in inquiries and gives Baldor's knowledgeable sales reps the chance to work with individual customers to help them increase their productivity. For example, in a recent sale Baldor's drive doubled the output from the equipment in a customer's factory. Individually, these specialized motors are not big sellers. Rather, Baldor's strategy takes advantage of flexible production to focus on getting higher margins on each motor.

Baldor also expanded distribution into 55 countries. And to make it easy for customers worldwide to get information, Baldor supplements its website (www.baldor.com) with an electronic catalog on a CD. Its CD includes CAD drawings, performance data, and installation manuals for over 2,500 Baldor motors. Product designers in customer-firms use it to pick the right motor, and it also helps the customer-firm train its employees. All of these innovations mean that Baldor can command a premium price.[11]

www.mhhe.com/fourps

grease cutting, grit, and the like. After starting this program, ChemStation's profit margins doubled.[12]

Internet

Internet Exercise Nike offers an online service in which customers can design their own shoes. Go to the Nike website (www.nike.com), select *USA,* then select *Nike iD,* and check out this feature. What do you think are the major (1) strengths and (2) weaknesses of Nike's service?

Batched production requires inventories

If it is expensive for a firm to switch from producing one product (or product line) to another, it may have no alternative but to produce in large batches and maintain large inventories. Then it can supply demand from inventory while it is producing some other product. However, a firm that must pay the costs of carrying extra inventory to avoid stock-outs may not be able to compete with a firm that has more flexible production.

Excess inventory that can't be sold using the firm's normal strategy can become a big problem. In some industries there are specialized middlemen whose primary job is to buy and liquidate excess inventories. There has been a significant increase in the buying and selling of excess, surplus, or obsolete inventory during the past few years, mainly because the Internet makes it possible for buyers to locate sellers and vice versa. Sometimes the inventory is sold with an online auction. The selling price may be high or low, depending on demand at that particular time.

Where products are produced matters

A marketing manager also needs to carefully consider the marketing implications of where products are produced. It often does make sense for a firm to produce where it can produce most economically, if the cost of transporting and storing products to match demand doesn't offset the savings. On the other hand, production in areas distant from customers can make the distribution job much more complicated.

Alien Workshop, which markets skateboarding and snowboarding equipment and apparel, was growing rapidly and needed to move into larger facilities. Key Corp, a provider of financial services, helped the firm develop a plan that made its growth objectives achievable.

Offshore operations may complicate marketing

As an interesting example, consider the marketing implications of Hanes' decision to use offshore production for many of its men's underwear products. Buyers for mass-merchandiser chains, like Wal-Mart and Kmart, put constant pressure on Hanes to find ways to cut prices. That's why much of the sewing work on Hanes underwear is done in the Caribbean Islands where labor costs are low.

However, the only practical way to transport the bulky and inexpensive finished products back to the U.S. market is by boat. Boats are slow, and clearing customs can add further delays. At the port, the bulk cases of underwear must be handled again and broken down into quantities and assortments for shipping to the retailers' distribution centers. And at the distribution centers the cases need to be grouped with other products going to a specific store. All of these steps are necessary to meet customers' needs, but they also make it difficult to quickly adjust supply.[13]

Some critics object to overseas production

Marketing managers must be aware of and sensitive to criticisms that may arise concerning overseas production. Some of these concerns relate to nationalism. But other issues are sometimes at stake.

Although overseas production may reduce prices for domestic consumers, some critics argue that the costs are only lower because the work is handled in countries with lower workplace safety standards and fewer employee protections. At the extreme, some firms have been boycotted for relying on Chinese suppliers who were accused of using political prisoners as slave labor.

Marketing managers can't ignore such concerns. Just as a firm has a social responsibility in the country where it sells products, it also has a social responsibility to the people who produce its products. However, pay or safety standards that seem low in developed nations may make it possible for workers in an undeveloped nation to have a better, healthier life.[14]

Service firms may transfer some tasks

Firms that produce services often must locate near their customers. However, some service firms are finding ways to reduce the cost of some of their production work with **task transfer**—using telecommunications to move service operations to places where there are pools of skilled workers. For example, Bank of America puts its automatic teller machines and branch offices where they're convenient for customers, but many of the programmers who do its backroom computer work are in India.

Price must cover production costs

In Chapter 18, we analyzed various cost curves and how they fit, along with demand curves, into the pricing puzzle. Production costs are usually an important part of the overall costs that must be considered in pricing, so a marketing manager needs to have a reasonable understanding of the costs associated with production—especially when product features called for in the marketing plan drive costs.

Cut costs that don't add value for customers

A well-informed marketing manager can play an important role in working with production people to decide which costs are necessary to add value that meets customer needs and which are just added expense with little real benefit. For example, a software firm was providing a very detailed instruction book along with the disks in its distribution package. The book was running up costs and causing delays because it needed to be changed and reprinted every time the firm came out with a new version of its software. The marketing manager realized that most of the detail in the book wasn't necessary. When users of the software had a problem, they didn't want to search for the book but instead wanted the information on the computer screen. Providing the updated information on the disk was faster and cheaper than printing the book. Further, packaging costs were lower without the book. And as icing on the cake, customers were more satisfied with the online help.

In a situation like this, it is easy to identify specific costs associated with the production job. However, often it's difficult to get a good handle on all of the costs associated with a product without help from the firm's accountants.

Accounting Data Can Help in Understanding Costs and Profit

Accounting data that helps managers track where costs and profit are coming from is an important aid for strategy decisions. Unfortunately, accounting statements that are prepared for tax purposes and for outside investors often aren't helpful for managers who need to make decisions about marketing strategy.

Understanding profitability depends on being able to identify the specific costs of different goods and services. You saw this in the last chapter when two basic approaches to handling costs—the full-cost approach and the contribution-margin approach—resulted in different views of profitability. At that point, however, we didn't go into any detail about how marketing managers and accountants can work together to get a better understanding of costs—especially how to allocate costs that seem to be *common* to several products or customers making allocation of costs difficult. In recent years, some accountants have devoted more attention to approaches to this problem and given it the name "activity-based accounting." In spite of the new name, the basic ideas behind marketing cost analysis were developed years ago by a marketing specialist.[15]

Marketing cost analysis usually requires a new way of classifying accounting data. Instead of using the type of accounts typically used for financial analysis, we have to use functional accounts.

Natural versus functional accounts—what is the purpose?

Natural accounts are the categories to which various costs are charged in the normal financial accounting cycle. These accounts include salaries, wages, social security, taxes, supplies, raw materials, auto, gas and oil expenses, advertising, and others. These accounts are called natural because they have the names of their expense categories.

However, factories don't use this approach to cost analysis—and it's not the one we will use. In the factory, **functional accounts** show the *purpose* for which expenditures are made. Factory functional accounts include shearing, milling, grinding, floor cleaning, maintenance, and so on. Factory cost accounting records are organized so that managers can determine the cost of particular products or jobs and their likely contribution to profit.

Marketing managers often need to assign costs to specific products or customers to be able to understand the profitability of different possible strategies.

Marketing jobs are done for specific purposes too. With some planning, the costs of marketing can also be assigned to specific categories, such as customers and products. Then their profitability can be calculated.

Internet

Internet Exercise ITW, Inc., has a variety of different businesses that produce different products. ITW mainly targets business markets, but its ITW Brands division sells through home improvement retailers. Go to the ITW website (www.itwinc.com) and then select the list of other ITW websites. After you briefly review the descriptions of ITW's different websites, select *ITW Brands* and study it in more detail. From a cost standpoint, does it make sense to have a unit like ITW Brands? Why or why not?

First, get costs into functional accounts

The first step in marketing cost analysis is to reclassify all the dollar cost entries in the natural accounts into functional cost accounts. For example, the many cost items in the natural *salary* account may be allocated to functional accounts with the following names: storing, inventory control, order assembly, packing and shipping, transporting, selling, advertising, order entry, billing, credit extension, and accounts receivable. The same is true for rent, depreciation, heat, light, power, and other natural accounts.

The way natural account amounts are shifted to functional accounts depends on the firm's method of operation. It may require time studies, space measurements, actual counts, and managers' estimates.

Then reallocate to evaluate profitability of profit centers

The next step is to reallocate the functional costs to those items—or customers or market segments—for which the amounts were spent. The most common reallocation of functional costs is to products and customers. After these costs are allocated, the detailed totals can be combined in any way desired—for example, by product or customer class, region, and so on.

The costs allocated to the functional accounts equal, in total, those in the natural accounts. They're just organized differently. But instead of being used only to show *total* company profits, the costs can now be used to calculate the profitability of territories, products, customers, salespeople, price classes, order sizes, distribution methods, sales methods, or any other breakdown desired. Each unit can be treated as a profit center.

Exhibit 20-2
Profit and Loss Statement, One Month

Sales		$17,000
Cost of sales		11,900
Gross margin		5,100
Expenses:		
Salaries	$2,500	
Rent	500	
Wrapping supplies	1,012	
Stationery and stamps	50	
Office equipment	100	
		4,162
Net profit		$ 938

Cost analysis helps track down the loser

The following example illustrates these ideas. This case is simplified, and the numbers are small, so you can follow each step. However, you can use the same basic approach in more complicated situations.

In this case, the usual financial accounting approach, with natural accounts, shows that the company made a profit of $938 last month (Exhibit 20-2). But such a profit and loss statement doesn't show the profitability of the company's three customers. So the managers decide to use marketing cost analysis because they want to know whether a change in the marketing mix will improve profit.

First, we distribute the costs in the five natural accounts to four functional accounts—sales, packaging, advertising, and billing and collection (see Exhibit 20-3)—according to the functional reason for the expenses. Specifically, $1,000 of the total salary cost is for sales reps who seldom even come into the office since their job is to call on customers; $900 of the salary cost is for packaging labor; and $600 is for office help. Assume that the office force split its time about evenly between addressing advertising material and billing and collection. So we split the $600 evenly into these two functional accounts.

The $500 for rent is for the entire building. But the company uses 80 percent of its floor space for packaging and 20 percent for the office. Thus $400 is allocated to the packaging account. We divide the remaining $100 evenly between the advertising and billing accounts because these functions use the office space about equally. Stationery, stamps, and office equipment charges are allocated equally to the latter two accounts for the same reason. Charges for wrapping supplies are allocated to the packaging account because these supplies are used in packaging. In another

Exhibit 20-3 Spreading Natural Accounts to Functional Accounts

Natural Accounts		Functional Accounts: Sales	Packaging	Advertising	Billing and Collection
Salaries	$2,500	$1,000	$ 900	$300	$300
Rent	500		400	50	50
Wrapping supplies	1,012		1,012		
Stationery and stamps	50			25	25
Office equipment	100			50	50
Total	$4,162	$1,000	$2,312	$425	$425

Exhibit 20-4 Basic Data for Cost and Profit Analysis Example

Products	Cost/Unit	Selling Price/Unit	Number of Units Sold in Period	Sales Volume in Period	Relative "Bulk" per Unit	Packaging "Units"
A	$ 7	$ 10	1,000	$10,000	1	1,000
B	35	50	100	5,000	3	300
C	140	200	10	2,000	6	60
			1,110	$17,000		1,360

Customers	Number of Sales Calls in Period	Number of Orders Placed in Period	Number of Each Product Ordered in Period		
			A	B	C
Smith	30	30	900	30	0
Jones	40	3	90	30	3
Brown	30	1	10	40	7
Total	100	34	1,000	100	10

situation, different allocations and even different accounts may be sensible—but these work here.

Allocating functional cost to customers

Now we can calculate the profitability of the company's three customers. But we need more information before we can allocate these functional accounts to customers or products. It is presented in Exhibit 20-4.

Exhibit 20-4 shows that the company's three products vary in cost, selling price, and sales volume. The products also have different sizes, and the packaging costs aren't related to the selling price. So when packaging costs are allocated to products, size must be considered. We can do this by computing a new measure—a packaging unit—which is used to allocate the costs in the packaging account. Packaging units adjust for relative size and the number of each type of product sold. For example, Product C is six times larger than A. While the company sells only 10 units of Product C, it is bulky and requires 10 times 6, or 60 packaging units. So we must allocate more of the costs in the packaging account to each unit of Product C.

Exhibit 20-4 also shows that the three customers require different amounts of sales effort, place different numbers of orders, and buy different product combinations.

Jones seems to require more sales calls. Smith places many orders that must be processed in the office, with increased billing expense. Brown placed only one order—for 70 percent of the sales of high-valued Product C.

Exhibit 20-5 shows the computations for allocating the functional amounts to the three customers. There were 100 sales calls in the period. Assuming that all calls took the same amount of time, we can figure the average cost per call by dividing the $1,000 sales cost by 100 calls—giving an average cost of $10. We use similar reasoning to break down the billing and packaging account totals. Advertising during this period was for the benefit of Product C only—so we split this cost among the units of C sold.

Calculating profit and loss for each customer

Now we can compute a profit and loss statement for each customer. Exhibit 20-6 shows how each customer's purchases and costs are combined to prepare a statement

Exhibit 20-5
Functional Cost Account Allocations

Sales calls	$1,000/100 calls	=	$10/call
Billing	$425/34 orders	=	$12.50/order
Packaging units costs	$2,312/1,360 packaging units	=	$1.70/packaging unit or $1.70 for Product A $5.10 for Product B $10.20 for Product C
Advertising	$425/10 units of C	=	$42.50/unit of C

for each customer. The sum of each of the four major components (sales, cost of sales, expenses, and profit) is the same as on the original statement (Exhibit 20-2)—all we've done is rearrange and rename the data.

For example, Smith bought 900 units of A at $10 each and 300 units of B at $50 each—for the respective sales totals ($9,000 and $1,500) shown in Exhibit 20-6. We compute cost of sales in the same way. Expenses require various calculations. Thirty sales calls cost $300—30 × $10 each. Smith placed 30 orders at an average cost of $12.50 each for a total ordering cost of $375. Total packaging costs amounted to $1,530 for A (900 units purchased × $1.70 per unit) and $153 for B (30 units purchased × $5.10 per unit). There were no packaging costs for C because Smith didn't buy any of Product C. Neither were any advertising costs

Exhibit 20-6 Profit and Loss Statements for Customers

		Smith		Jones		Brown	Whole Company
Sales							
Product A	$9,000		$ 900		$ 100		
Product B	1,500		1,500		2,000		
Product C			600		1,400		
Total sales		$10,500		$ 3,000		$ 3,500	$17,000
Cost of Sales							
Product A	6,300		630		70		
Product B	1,050		1,050		1,400		
Product C			420		980		
Total cost of sales		7,350		2,100		2,450	11,900
Gross margin		3,150		900		1,050	5,100
Expenses							
Sales calls ($10 each)	300		400.00		300.00		
Order costs ($12.50 each)	375		37.50		12.50		
Packaging costs							
Product A	1,530		153.00		17.00		
Product B	153		153.00		204.00		
Product C			30.60		71.40		
Advertising			127.50		297.50		
		2,358		901.60		902.40	4,162
Net profit (or loss)		$ 792		$ (1.60)		$147.60	$ 938

charged to Smith—all advertising costs were spent promoting Product C, which Smith didn't buy.

Analyzing the results

We now see that Smith was the most profitable customer, yielding over 75 percent of the net profit.

This analysis shows that Brown was profitable too—but not as profitable as Smith because Smith bought three times as much. Jones was unprofitable. Jones didn't buy very much and received one-third more sales calls.

The iceberg principle is operating again here. Although the company as a whole is profitable, customer Jones is not. But before dropping Jones, the marketing manager should study the figures and the marketing plan very carefully. Perhaps Jones should be called on less frequently. Or maybe Jones will grow into a profitable account. Now the firm is at least covering some fixed costs by selling to Jones. Dropping this customer may only shift those fixed costs to the other two customers, making them look less attractive. (See the discussion on contribution margin in Chapter 19.)

The marketing manager may also want to analyze the advertising costs against results—since a heavy advertising expense is charged against each unit of Product C. Perhaps the whole marketing plan should be revised.

Cost analysis is not performance analysis

Such a cost analysis is not a performance analysis, of course. If the marketing manager budgeted costs to various jobs, it would be possible to extend this analysis to a performance analysis. This would be logical and desirable, but many companies have not yet moved in this direction.

Now that more accounting and marketing information is routinely available on computers, and software to analyze it is easier to use, many managers are seizing the opportunity to do marketing cost and performance analysis—just like factory cost accounting systems develop detailed cost estimates for products. These changes also mean that more managers are able to compare marketing cost and performance figures with expected figures to evaluate and control their marketing plans.

J.M. Huber is a company that supplies Colgate with a key ingredient for toothpaste. A multidisciplinary team from Colgate and Huber worked together to understand all of the costs in the supply process. Their efforts reduced the total delivered costs of Colgate's finished products by hundreds of thousands of dollars.

People Put Plans into Action

People are an important resource

A great marketing plan may fail if the right people aren't available to implement it. Large firms usually have a separate human resources department staffed by specialists who work with others in the firm to ensure that good people are available to do jobs that need to be done. A small firm may not have a separate department—but somebody (perhaps the owner or other managers) must deal with people-management matters, like recruiting and hiring new employees, deciding how people will be compensated, and what to do when a job is not being performed well or is no longer necessary. Human resource issues are often critically important both in a marketing manager's choice among different possible marketing opportunities and in the actual implementation of marketing plans.

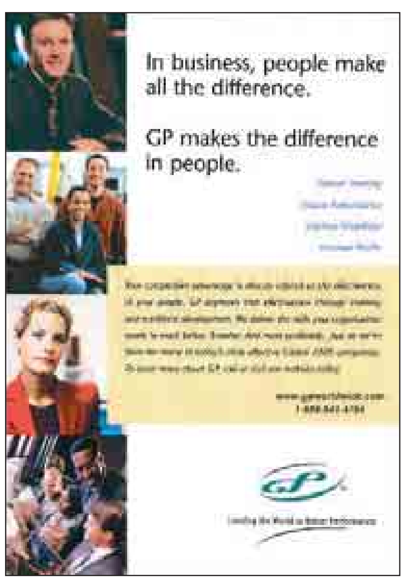
In this section, we'll briefly consider how and why these issues need to be considered in planning new strategies and implementing plans—especially plans that involve major change.

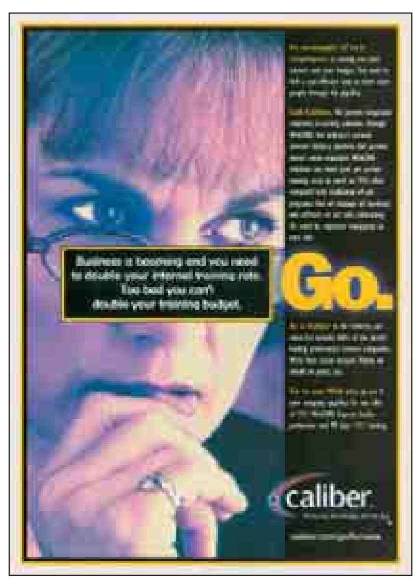
New strategies usually require people changes

New strategies often involve new and different ways of doing things. Even if such changes are required to ensure that the firm will survive, changes often upset the status quo and long-established vested interests of its current employees. A production manager who has spent a career becoming an expert in producing fine wood furniture may not like the idea of switching to an assemble-it-yourself line—even if that's what customers want. And when the market maturity stage of the product life cycle hits, a financial manager who looked like a hero during the profitable growth stage may not see that the picnic is over and that profit growth will resume only if the firm takes some risk and invests in a new product concept.

As these examples suggest, many of the people affected by a new strategy may not be under the control of the marketing manager. And acting alone, the marketing manager may not be the change agent who can instantly turn everyone in the organization into an enthusiastic supporter of the plan. However, if the marketing manager doesn't think about how a new strategy will affect people, and how what people do will affect the success of the strategy, even the best strategy may fail.

New marketing strategies often require new people or new skills or both. Firms like GP and Caliber help other companies develop training programs so that they have the people they need to implement their strategies.





To keep employees up-to-date on the latest information available, Colgate runs training programs all over the world. This session, in Thailand, focuses on research insights about consumers of personal care products.

Communication helps promote change

Good communication is crucial. The marketing manager must find ways to explain the new strategy, what needs to happen, and why. You can't expect people to pull together in an organizationwide effort if they don't know what's going on. Such communication might be handled in meetings, memos, casual discussions, internal newsletters, or any number of other ways, depending on the situation. However, the communication should occur. At a minimum, the marketing manager needs to have clear communication with other managers who will participate in preparing the firm's personnel for a change.

Rapid growth strains human resources

When developing a marketing plan, a pragmatic marketing manager must take a realistic look at how quickly the firm's personnel can get geared up for the plan or whether it will be possible to get people who can.

Firms that are growing rapidly face special challenges in getting enough qualified people to do what needs to be done. A fast-growing retail chain like Home Depot that opens many new stores doesn't just need money for new land, buildings, and inventory. It also needs new store managers, assistant managers, sales clerks, customer service people, advertising managers, computer operators, and even maintenance people. Not all of these jobs are likely to be filled by internal promotions, so at least some of the "new blood" have to learn about the culture of the company, its customers, and its products at the same time they are learning the nuts and bolts of performing their jobs well. Hiring people and getting them up to speed takes time and energy.

Allow time for training and other changes

Training is important in situations like this; but training, like other organizational changes, takes time. A marketing manager who wants to reorganize the firm's sale force so that salespeople are assigned to specific customers rather than by specific product line may have a great idea, but it can't be implemented overnight. A salesperson who is supposed to be a specialist in meeting the needs of a certain customer won't be able to do a very good job if all he or she knows about is the specific product that was previously the focus. So the plan would need to include time for training to take place.

Each change may result in several others

A change in sales assignments is also likely to require changes in compensation. Someone needs to figure out the specifics of the new compensation system, and accountants need time to adjust their computer programs to make certain that the salespeople actually get paid. Similarly, the changes in the sales force are likely to require changes in who they report to and the structure of sales management assignments.

Our objective in this example is not just to detail the changes that might be required for this specific strategy decision, but rather to highlight the more general point that changing people usually takes time—and only so much change can be absorbed effectively in a limited period.

Plan time for changes from the outset

A marketing manager who ignores the ripple effects of a change in strategy may later expect everyone else in the organization to bend over backward, work overtime, and otherwise do everything possible to meet a schedule that was put together with little, or no, forethought. Certainly there are cases of heroic efforts by people in organizations to turn someone's vision into a reality. Yet it's more typical for such a plan to fall behind schedule, to run up unnecessary costs, or to just plain fail. Marketing managers who work that way are likely to be criticized for "not having the time to do it right the first time, but having the time to do it over again."

Cutbacks need human resource plans too

If rapidly expanding marketing efforts involve human resource challenges, decisions to drop products, channels of distribution, or even certain types of customers can be even more traumatic. In these situations, people always worry that *someone* will lose his or her job—and that isn't easy.

Dropping products or making other changes that would result in a cutback on people doing certain jobs must be planned very carefully and with a good dose of humanity. To the extent possible, it's important to plan a phase-out period so that people can make other plans. During the last decade, too many firms downsized so rapidly that long-time employees were abruptly left with no job. Then when a strong economy required growth and more people, they couldn't understand why it was hard for them to recruit!

If a phase-out is carefully planned—considering not only the implications for production facilities and contracts with outside firms but also the people inside—it may be possible to develop strategies that will create exciting new jobs for those who would otherwise be displaced.[16]

Marketing pumps life into an organization

This line of thinking highlights again that marketing is the heart that pumps the lifeblood through an organization. Marketing managers who create profitable marketing strategies and implement them well create a need for a firm's production workers, accountants, financial managers, lawyers, and—yes—even its human resources people. In this chapter we've talked about marketing links with those other functions; but when you get down to brass tacks, organizations and the various departments within them consist of *individuals*. If the marketing manager makes good strategy decisions—ones that lead to satisfied customers and profits—each of the individuals in the organization has a chance to prosper and grow.

Conclusion

Even when everyone in an entire company embraces the marketing concept, coordinating marketing strategies and plans with other functional areas is a challenge. Yet it's a challenge that marketing managers must address. It doesn't make sense to select a strategy that the firm can't implement. And implementing new plans usually requires money, people, and a way to produce goods or services the firm will sell.

Cooperation between the marketing manager and the finance people helps to ensure that there's enough money available for the initial one-time investments and ongoing working capital needed to implement a marketing plan. If money comes from outside investors, the marketing manager may need to develop a strategy that satisfies them as well as customers. If the money available is limited, the strategy may need to be scaled back in various ways, or the marketing manager may need to find creative ways to phase in a strategy over time so that it generates enough cash flow to "pay its own way."

There also needs to be close coordination between a firm's production specialists and the marketing plan. To get that coordination, the marketing manager needs to consider the firm's production capacity when evaluating alternative strategies. And flexibility in production may allow the firm to pursue different strategies at the same time or to switch strategies more easily when new opportunities develop.

Figuring out the profitability of a strategy, product, or customer often requires a real understanding of costs—production costs, marketing costs, and other costs that may accumulate. Traditional accounting reports are often not very useful in pinpointing these costs. However, marketing managers and accountants are now working together to get more accurate cost information—by developing functional accounts rather than just relying on natural accounts typically used for financial analysis.

Money, facilities, and information are all important in developing a successful strategy, but most strategies are implemented by people. So a marketing manager must also be concerned with the availability and skills of the firm's people—its human resources. New marketing strategies may upset established ways of doing things. Plans need to be clearly communicated so that everyone knows what to expect. Further, plans need to take into consideration the time and effort that will be required to get people up to speed on the new jobs they will be expected to do.

Making the strategic planning decisions that concern how a firm is going to use its overall resources—from marketing, production, finance, and other areas—is the responsibility of the chief executive officer, not the marketing manager. Further, the marketing manager usually can't dictate what a manager in some other department should do. However, it is sensible for the marketing manager to make recommendations on these matters. And marketing strategies and plans that the marketing manager recommends are more likely to be accepted, and then successfully implemented, if the links between marketing and other functional areas have been carefully considered from the outset.

Questions and Problems

1. Identify some of the ways that a firm can raise money to support a new marketing plan. Give the advantages and limitations—from a marketing manager's perspective—of each approach.
2. An entrepreneur who started a chain of auto service centers to do fast oil changes wants to quickly expand by building new facilities in new markets but doesn't have enough capital. His financial advisor suggested that he might be able to get around the financial constraint and still grow rapidly if he franchised his idea. That way the franchisees would invest to build their own centers, but fees from the franchise agreement would also provide cash flow to build more company-owned outlets. Do you think this is a good idea? Why or why not?
3. Explain, in your own words, why investors in a firm's stock might be interested in a firm's marketing manager developing a new growth-oriented strategy. Would it be just as good, from the investors' standpoint, for the manager to just maintain the same level of profits? Why or why not?
4. A woman with extensive experience in home health care and a good marketing plan has approached a bank for a loan, most of which she has explained she intends to "invest in advertising designed to recruit part-time nurses and to attract home-care patients for her firm's services." Other than the furniture in her leased office space, she has few assets. Is the bank likely to loan her the money? Why?
5. Could the idea of mass customization be used by a publisher of college textbooks to allow different instructors to order customized teaching materials—perhaps even unique books made up of chapters from a number of different existing books? What do you think would be the major advantages and disadvantages of this approach?
6. Give examples of two different ways that a firm's production capacity might influence a marketing manager's choice of a marketing strategy.
7. Is a small company's flexibility increased or decreased by turning to outside suppliers to produce the products it sells? Explain your thinking.
8. Explain how a marketing manager's sales forecast for a new marketing plan might be used by
   a. A financial manager.
   b. An accountant.
   c. A production manager.
   d. A human resources manager.

9. Explain the difference between natural accounts and functional accounts.
10. Could the approaches to cost allocation that we discussed in this chapter apply to a firm, like a travel agency, that produces only services? Explain your thinking.
11. What types of human resource issues does a marketing manager face when planning to expand sales operations from a branch office in a new overseas market? Are the problems any different than they would be in a new domestic market?

Suggested Cases

17. Enviro Pure Water, Inc.
35. Romano's Take-Out, Inc.

When You Finish This Chapter, You Should

1. Know the content of and differences among strategies, marketing plans, and a marketing program.

2. Understand, in detail, all of the elements of the marketing strategy planning process and the strategy decisions for the four Ps.

3. Understand why the product classes and typical mixes should be considered when developing a marketing plan.

4. Understand ways the marketing strategy and marketing plan is likely to need to change at different stages of the product life cycle.

5. Understand the basic forecasting approaches and why they are used to evaluate the profitability of potential strategies.

6. Know what is involved in preparing a marketing plan, including estimates of costs and revenue and specification of other time-related details.

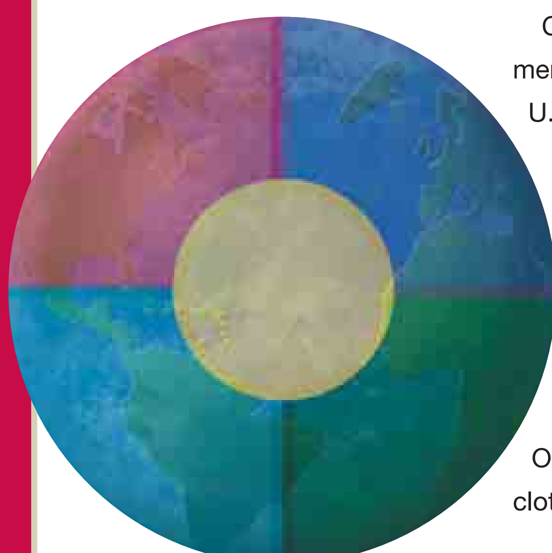
7. Understand the different ways a firm can plan to become involved in international marketing.

8. Understand the important new terms (shown in red).

Chapter Twenty-One

Developing Innovative Marketing Plans

Marketing managers recently went through the marketing strategy planning process to develop an innovative plan that created profitable growth for Maytag by offering target customers superior value. Let's look at what they did. This case is longer than others we've covered—to help you review what is in a marketing plan and the process of creating one. As you read the case, relate it to the ideas you've studied throughout the text.



Changes in the external environment called for a new strategy. The U.S. Department of Energy (DOE) was considering new regulations to require that clothes washers use less water and energy. The U.S. uses three times as much water a day—1,300 gallons per person—as the average European country. One reason is that front-loading clothes washers have long been

place

price

promotion

produc

standard in Europe. This is in part an economic issue. Front-loaders heat less water so less energy is used, and Europeans face steeper energy costs. There is also a cultural difference. North Americans are more convenience-oriented, but front-loaders make you stoop, they spill water on the floor, and you can't throw in a stray sock during the wash cycle.

Maytag's R&D people thought that they could use technology to improve the design of a front-loading washer to make it more convenient and to conserve water and energy as well. With inputs from marketers about broader needs in the clothes care product-market they looked at needs beyond just cleaning. It appeared that a consumer-oriented design could improve basic benefits like easier loading and gentler care of fabrics.

Competitors were also on the move. Frigidaire came out with a front-load unit just in time to be the only one tested for a *Consumer Reports* article. It tested well on cleaning, but Maytag thought it fell short in improving other customer benefits. GE was further behind in working on a front-loader. But these were strong competitors, so if Maytag didn't move quickly they could get a lead.

Maytag formed a cross-functional new-product development team to quickly focus the effort. It screened various product ideas and strategies on criteria such as potential for superior customer value, initial costs, long-term growth, social responsibility, and profitability. Using nearly 40 pieces of consumer research, the team refined what the strategy might be and what it would cost.

S.W.O.T. analysis showed that Maytag's advantages included a strong dealer network, the technical skills to develop the product, and the financial resources to do it. Major threats were mainly related to competitors' efforts and consumers' prior attitudes about front-loading machines. Addressing those threats would take informing and real persuading.

Market segmentation helped to narrow down to a target market. Various segments could be identified. For example, there was a homogeneous business market. It consisted of owners of coin-operated laundries who were mainly interested in operating costs and attracting customers. Consumer segments were more varied. Relevant needs focused on cleaning, removing stains, caring for fabric, and saving water or energy. Some people just wanted less hassle on wash days and a care-free washer. Maytag decided not to target just the segment that conserved energy; that was not a qualifying dimension. Instead they combined several segments into a larger target market. The main qualifying dimension was the ability to pay for a dependable washer that provided superior cleaning. Determining dimensions were interests in saving time, hassle, and expense while getting better results.

The design of the washing machine evolved from target consumers' needs, so it is different from most washers. The stainless steel tub tilts at a 15-degree angle, which improves visibility and reach. Cutting out the normal agitator increases load capacity by about a third while decreasing damage to clothes. It also increases access space for bulky items and makes loading and unloading easier. Fins inside lift the clothes and then plop them back in the shallow basin of water. This eliminates spills because the water level is below the door. In fact, it uses half the water and energy of regular machines but removes tough stains better. As Maytag's design progressed, consumer tests showed that consumers liked the unique benefits and were willing to pay for them. Financial analysis of the marketing plan for this new product indicated that it could meet Maytag's objectives, so Maytag invested the money to put the plan into action.

The new product needed a memorable brand name—Neptune. The existing marketing program positioned Maytag as "the dependability people," so the plan called for a strategy that would build on that base but also position the new product as really new and superior—as "the washer for the new millennium."

The plan specified a warranty that would signal real dependability to consumers. It called for a 10-year warranty on the drive motor or rust damage and for lifetime coverage on the stainless steel wash basket.

Coverage of other parts was two years, and a year on labor. The plan also specified a way to further differentiate Neptune with an unprecedented level of after-sale support. Neptune buyers would get Priority One Service that offers dedicated toll-free assistance and priority scheduling should any in-home calls be required. The plan also got down to details: The easy-to-remember toll-free number is 888-4-MAYTAG.

In stores, the washer is displayed out of the carton, so the plan focused on a package designed to protect the product during handling and, by using bar codes and clear model labels, make logistics in the channel more efficient. But the thrust of the packaging was to protect, not promote.

While our focus here is on the washer, the plan also considered product-line issues. It called for a matching dryer designed so that the length of wash and dry cycles would be virtually the same. This means that a user can move load after load from washer to dryer without the waiting that's typical with conventional laundry pairs. What's more, the dryer handles Neptune's extra large loads with ease and uses the same angled styling—so transferring a load to the dryer is easier than ever.

To reduce start-up costs and keep the effort focused, the initial plan called for only one model of the Neptune washer. However, a full-sized stacked version of a combination washer/dryer was planned for later.

The plan called for a national rollout using Maytag's established dealers. Making a product available in so many places at once added difficulties, but it was consistent with the plan of using national promotion to give the product a big introduction.

To help coordinate efforts in the channel, Maytag released stories in *Merchandiser*, a magazine it publishes for dealers. As channel captain, Maytag kept dealers informed about the specific timing of the program, including when stock would be available. Maytag salespeople got dealers' orders and helped them to plan their own strategies.

The plan anticipated that product availability could be a constraint if the introduction went extremely well. So dealers could participate in a program that allowed consumers to reserve one of the early units off the production line. This preselling activity improved inventory management, reduced stock-outs, and got sales early in the program.

Even with these efforts at coordination, the promotion portion of the plan was developed recognizing that some independent dealers were skeptical about carrying and promoting a premium-price front-loader. So the plan called for a mix of push and pull promotion.

Details of promotion planning was handled as a team effort by Maytag and Leo Burnett, its Chicago agency. The plan called for integrated marketing communications. To make it easy for the sales force, dealers, customers, and potential customers to remember all of Neptune's benefits, the promotion effort consistently focused on Neptune's four Cs—Cleaning, Convenience, Clothes Care, and Conservation. (You can probably figure out where a group of marketing folks got the idea of using a catchy acronym like that.)

The plan relied on different promotion methods to emphasize different benefits and objectives. For example, much of the prerelease publicity focused on conservation of water, energy, and related costs. Then initial advertising focused on availability and cleaning benefits. The marketing plan also specified tests by independent laboratories so that there would be evidence to support claims of superiority.

The distinctive advantages of the Neptune offered a particularly good opportunity to use publicity to create broad awareness and generate interest. Thus, the plan set out an extensive set of public relations events, including a glitzy media launch at New York's Lincoln Center. It featured famous TV moms talking about the Maytag washer they used—followed by the introduction of the Neptune, "the washer for the next millennium." This garnered widespread media attention just a few weeks before the product launch.

The plan also laid out an attention-getting venture with the Department of Energy that involved benchmarking the water and energy usage of all of the washers in a small, water-starved town in Kansas and then replacing half of them with Neptune washers. The test showed that the Neptune produced savings of 39 percent in water usage and 58 percent in energy usage. Media coverage ranged from "NBC Nightly News" to the front page of *USA Today*.

An unknown new product calls for attention-getting advertising, and that is exactly what the plan specified. A big-budget TV commercial debuted at precisely the same moment on both CBS and NBC and then was scheduled for frequent repetitions over the next three months. The ad features Maytag's Lonely Repairman out for a late-night walk with his dog. Ol' Lonely spills a cupful of coffee down his front when the pooch starts racing in circles. You see why when a spaceship appears overhead, beaming down a Neptune washer and three happy little aliens. In a flash, they strip the coffee-stained uniform off Ol' Lonely and throw it in the washer. Following a demo of the washer's tumbling action, the now-spotless uniform reappears on the famous repairman. As the Neptunians depart in their spaceship, Ol' Lonely says, "They're never gonna believe this. A washer that removes stains."

The plan also called for promotion support for dealers. For example, to attract attention Maytag dealers received 20-foot-high balloons that looked like Ol' Lonely to put on top of their stores, as well as in-store banners, posters, and brochures.

Maytag didn't miss the opportunity to plan interactive marketing communications. At the website (www.maytag.com) consumers could see pictures and read about the benefits of the Neptune. A website visitor who was ready to buy could even reserve a Neptune that would be delivered by the local dealer or use an interactive dealer locator to find a store.

The plan didn't ignore the coin-laundry segment. The website featured a special section on how the Neptune could help improve profits for those firms. It went into detail about savings on energy, water, and sewer costs, as well as technical matters related to maintenance.

Of course, the plan called for dealers to pitch in with some promotion efforts of their own, such as setting up displays to demo the Neptune in action. Dealers were required to correctly and attractively display point-of-purchase materials. And salespeople were brought up-to-speed about Neptune's four Cs so they could explain its benefit and help customers determine if it met their needs.

The plan called for an initial suggested list price of $1,099, which was high relative to most washers. The washer-dryer combination was about $1,700. Some dealers, however, cut that price because the plan allowed dealers a higher than normal dollar profit.

The plan anticipated that Frigidaire and GE might cut prices when faced with competition (and in fact that later happened). However, Maytag stuck with its planned higher price because many consumers viewed its design as offering a better value. Further, the plan provided information to help salespeople reduce price sensitivity by reminding consumers that water and energy savings from the Neptune are about $100 a year, so it pays for itself in 10 years.

The plan did not include use of rebates, but some utility companies offered rebates to customers who purchased a Neptune. For example, one water company handed out 1,500 rebates of $50 each. It figures that those Neptunes save 18,000 gallons of water a day.

With the plan finally in operation, Neptunes flew off the dealers' floors and truckload orders began rolling in. This caused some implementation problems, but Maytag production workers went into overdrive and moved Neptunes off the loading docks around the clock. Swiftly, new tooling was installed to raise plant production rates.

As this product-market moves along in the growth stage, competition could get tough. So far, however, Maytag marketers have developed creative strategies and thorough plans that have stimulated growth in sales and profit. And along the way, they've helped raise the social responsibility bar on conservation.[1]

Marketing Planning Process Is More than Assembling the Four Ps

The Maytag case shows that developing a successful marketing plan is a creative process. But it is also a logical process. And the logic that leads to a sound strategy may need to change as the market environment and target customers change.

Even so, the strategy planning process is guided by basic principles. The marketing concept emphasizes that all of a firm's activities should focus on its target markets. Further, a firm should try to find a competitive advantage in meeting the needs of some target market(s) that it can satisfy very well. If it can do that, it provides target customers with superior value. The target market(s) should be large enough to support the firm's efforts and yield a profit. And ideally, the strategy should take advantage of trends in the external market, not buck them.

As we explained in Chapter 3, the marketing strategy planning process involves narrowing down from a broad set of possible marketing opportunities to a specific strategy the firm will pursue. A marketing *strategy* consists of a target market and a marketing mix; it specifies what a firm will do in some target market. A marketing *plan* includes the time-related details—including expected costs and revenues—for that strategy. In most firms, the marketing manager must ultimately combine the different marketing plans into an overall marketing *program*.

3M plans and develops different marketing mixes—including different products, promotion, and pricing—for different target markets around the world.

We'll start with a review of the many variables that must be considered in the marketing strategy planning process. You'll recognize that most of these are highlighted in the Maytag case. Next we'll look at some of the key ways a marketing manager can identify the right blend of the marketing mix for an innovative strategy. Then we'll discuss how these ideas come together in a marketing plan.

We'll also discuss ways to forecast target market potential and sales, which is important not only in evaluating opportunities but also in developing the time-related details for a plan. Of course, plans must ultimately be blended into an overall program—and we'll suggest ways to approach that task. Planning strategies for international markets presents some special challenges, so we'll conclude the chapter by describing the different ways a marketer can address these challenges.

Blending the Four Ps Takes Understanding of a Target Market

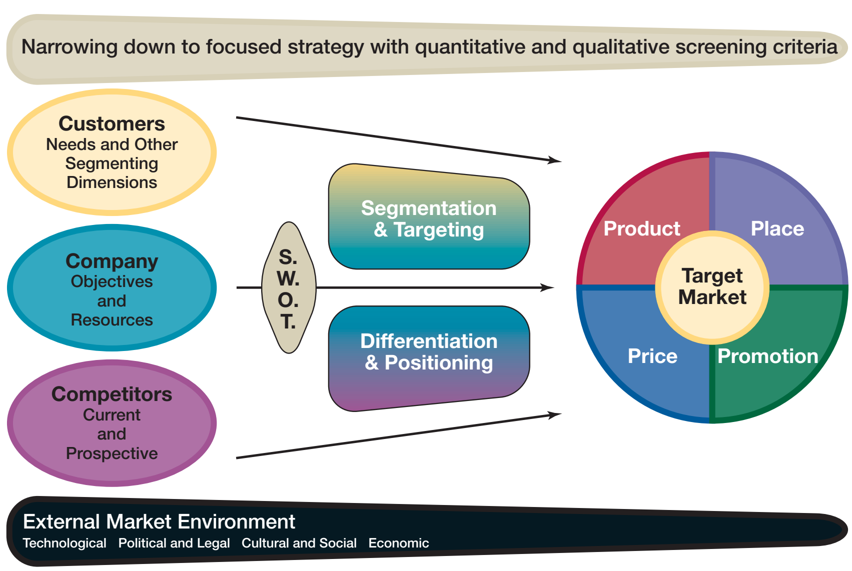
Marketing strategy planning process brings focus to efforts

Developing a good marketing strategy and turning the strategy into a marketing plan requires blending the ideas we've discussed throughout this text. Exhibit 21-1 provides a broad overview of the major areas we've been talking about. You've seen this before in Chapter 3—before you learned what's really involved in each idea. Now we must integrate ideas about these different areas to narrow down to logical marketing mixes, marketing strategies, marketing plans—and a marketing program.

As suggested in Exhibit 21-1, developing an effective marketing strategy involves a process of narrowing down to a specific target market and marketing mix that represents a real opportunity. This narrowing-down process requires a thorough understanding of the market. That understanding is enhanced by careful analysis of customers' needs, current or prospective competitors, and the firm's own objectives and resources. Similarly, favorable or unfavorable factors and trends in the external market environment may make a potential opportunity more or less attractive.

There are usually more different strategy possibilities than a firm can pursue. Each possible strategy usually has a number of different potential advantages and disadvantages. This can make it difficult to zero in on the best target market and marketing mix. However, as we discussed in Chapter 4, developing a set of specific

Exhibit 21-1
Overview of Marketing Strategy Planning Process



Marketers for Ariel stain remover realized that people who travel have special needs, so they developed a travel-size package and advertising that clearly communicated their "wherever you get a stain" positioning.

qualitative and quantitative screening criteria—to define what business and markets the firm wants to compete in—can help eliminate potential strategies that are not well suited for the firm.

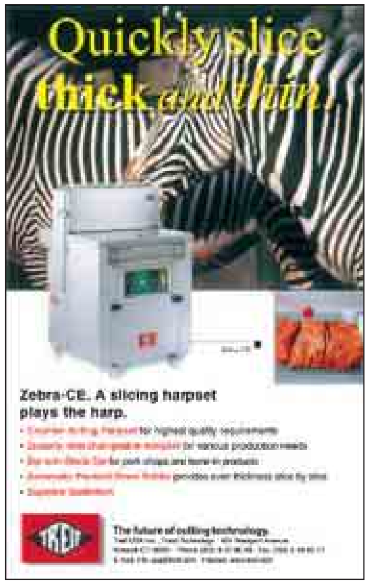
Another useful aid for zeroing in on a feasible strategy is **S.W.O.T. analysis**—which identifies and lists the firm's *s*trengths and *w*eaknesses and its *o*pportunities and *t*hreats. A good S.W.O.T. analysis helps the manager focus on a strategy that takes advantage of the firm's opportunities and strengths while avoiding its weaknesses and threats to its success. These can be compared with the pros and cons of strategies that are considered. For example, if a firm is considering a strategy that focuses on a target market that is already being served by several strong competitors, success will usually hinge on some sort of competitive advantage. Such a competitive advantage might be based on a better marketing mix—perhaps an innovative new product, improved distribution, more effective promotion, or a better price. Just offering a marketing mix that is like what is available from competitors usually doesn't provide superior value—or any real basis for the firm to position or differentiate its marketing mix as better for customers.

Marketing mix flows from target market dimensions

Ideally, the ingredients of a good marketing mix flow logically from all the relevant dimensions of a target market. The market definition and segmenting approaches we discussed in Chapter 3 help the marketing manager identify which dimensions are qualifying and which are determining in customers' choices.

Product benefits must match needs. If and how customers search for information helps to define the promotion blend. Demographic dimensions reveal where customers are located and if they have the income to buy. Where customers shop for or buy products helps define channel alternatives. The value of the whole marketing mix and the urgency of customer needs, combined with an understanding of what customers see as substitute ways of meeting needs, help companies estimate price sensitivity.

It would seem that if we fully understand the needs and attitudes of a target market, then combining the four Ps should be easy. Yet there are three important gaps in this line of reasoning. (1) We don't always know as much as we would like to about the needs and attitudes of our target markets. (2) Competitors are also trying to satisfy these or similar needs—and their efforts may force a firm to shift its



Treif's marketing mix, targeted at firms that process meat, includes this ad for its high-quality slicing equipment, which uses the brand name Zebra-CE. The brand name and the picture of zebras with thick and thin stripes are intended to highlight the thick and thin cutting technology of the equipment but a potential customer might miss the point and instead be distracted with thoughts of sliced zebra meat.

marketing mix. (3) The other dimensions of the marketing environment may be changing—which may require more changes in marketing mixes. These points warrant further consideration.

Product classes suggest typical marketing mixes

Even if you don't or can't know all you would like to about a potential target market, you usually know enough to decide whether the product is a consumer product or a business product and which product class is most relevant (Exhibit 9-3 summarizes the consumer product classes, and Exhibit 9-4 summarizes the business product classes).

Identifying the proper product class helps because it suggests how a typical product should be distributed and promoted. So if you don't know as much as you'd like about potential customers' needs and attitudes, at least knowing how *they* would view the company's product can give you a head start on developing a marketing mix. A convenience product, for example, usually needs more intensive distribution, and the producer usually takes on more responsibility for promotion. A specialty product needs a clear brand identity—which may require a more extensive positioning effort. A new unsought product, like Maytag's front-load Neptune washing machine, will need a mix that leads customers through the adoption process.

It's reassuring to see that product classes do summarize some of what you would like to know about target markets and what marketing mixes are relevant. After all, knowing what others have done in similar situations can serve as a guide to get started. From that base you may see a better way to meet needs that is *not* typical and that provides a competitive advantage.

Typical is not necessarily right

The typical marketing mix for a given product class is not necessarily right for all situations. To the contrary, some marketing mixes are profitable because they depart from the typical—to satisfy some target markets better.

A marketing manager may have to develop a mix that is *not* typical because of various market realities—including special characteristics of the product or target market, the competitive environment, and each firm's capabilities and limitations. In fact, it is often through differentiation of the firm's product and/or other elements of the marketing mix that the marketing manager can offer target customers unique value.

Local Drugstore Delivers a Lifeline to Remote Customers

Stadtlanders Pharmacy was founded in 1930. Until the early 1990s, it was a typical old-fashioned drugstore with a soda fountain. But competition got tough. The growth of giant retail drug chains, like Walgreens and CVS, was eating into profits. Adding nondrug products didn't help much because of competition from mass-merchandisers like Wal-Mart and Kmart. So Stadtlanders developed a new strategy. By focusing on the needs of a specific target market and doing what was *not* typical for a drugstore, Stadtlanders became a huge success. Within a decade it became a $400 million mail-order drug company distributing 4,000 different drugs. By the time the big drug chains realized what it had done, it was tough for them to compete. In fact, the top management at CVS recently decided it would be cheaper to buy Stadtlanders and turn it into a division of CVS rather than to try to do the same thing from scratch.

Stadtlanders started down the path to a new strategy in a not-so-unusual way—providing a little extra customer service. A kidney-transplant patient needed some hard-to-get medicine used to prevent organ rejection. Stadtlanders found a source of the expensive new drug and then extended credit to the customer while she waited for her insurance company to pay. As word spread, other customers and insurers contacted the firm for help. Seeing the opportunity, Stadtlanders created a new strategy to serve this target market. Many of its patients suffer from long-term problems, including AIDS and diabetes, that are extremely expensive to treat.

Stadtlanders was one of the early firms to use mail-order to reach a larger market and squeeze costs out of the traditional health care channels. It added conveniences like toll-free lines with pharmacists available 24/7 to answer questions, and its computerized medication profiles on each home-delivery customer helped in providing guidance. It also added special services, like consulting on complicated insurance reimbursements. By the time Stadtlanders was purchased by CVS, it was shipping medicine and nutrition information to more than 70,000 patients a year and filling more than a million prescriptions.[2]

www.mhhe.com/fourps

Superior mixes may be breakthrough opportunities

When marketing managers fully understand their target markets, they may be able to develop marketing mixes that are superior to competitors' mixes. Such understanding may provide breakthrough opportunities. Taking advantage of these opportunities can lead to large sales and profitable growth. This is why we stress the importance of looking for breakthrough opportunities rather than just trying to imitate competitors' offerings.

Loctite Corporation, a producer of industrial supplies, used careful strategy planning to launch Quick Metal—a puttylike adhesive for repairing worn machine parts. Loctite chemists had developed similar products in the past. But managers paid little attention to developing a *complete marketing strategy*—and sales had been poor.

Before creating Quick Metal, Loctite identified some attractive target customers. Research showed that production people were eager to try any product that helped get broken machines back into production. Quick Metal was developed to meet the needs of this target market. Ads appealed to such needs with copy promising that Quick Metal "keeps machinery running until the new parts arrive." Channel members also received attention. During the introduction stage, sales reps made frequent phone calls and sales visits to the nearly 700 wholesalers who handle Loctite products. Loctite awarded cash prizes to those selling the most Quick Metal.

A tube of Quick Metal was priced at $17.75—about twice the price (and profit margin) of competing products. But Loctite's customers weren't concerned about price. They responded to a quality product that could keep their production lines operating.

Based on past experience, some industry experts estimated that a typical product for this market might reach sales of $300,000 a year. But Loctite didn't rely on a typical strategy. Instead the company offered a carefully targeted marketing mix to meet the needs of a *specific* target market. It sold 100,000 tubes the first week—and within seven months sales exceeded $2.2 million. Loctite's careful planning paid off in an immediate market success and high profits.[3]

Exhibit 21-2
Strategy Decision Areas Organized by the Four Ps

Product	Place	Promotion	Price

Physical good
Service
Features
Benefits
Quality level
Accessories
Installation
Instructions
Warranty
Product lines
Packaging
Branding
	Objectives
	Channel type
	Market exposure
	Kinds of middlemen
	Kinds and locations of stores
	How to handle transporting and storing
	Service levels
	Recruiting middlemen
	Managing channels
		Objectives
		Promotion blend
		Salespeople
		  Kind
		  Number
		  Selection
		  Training
		  Motivation
		Advertising
		  Targets
		  Kinds of ads
		  Media type
		  Copy thrust
		  Prepared by whom
		Sales promotion
		Publicity
			Objectives
			Flexibility
			Level over product life cycle
			Geographic terms
			Discounts
			Allowances

Inferior mixes are easy to reject

Just as some mixes are superior, some mixes are clearly inferior—or unsuitable. For example, a national TV advertising campaign might make sense for a large company like Maytag—but it could quickly be screened out by a small firm that only has the resources to put a web page on the Internet and perhaps get some help from manufacturers' agents.

Marketing manager must blend the four Ps

Exhibit 21-2 reviews the major marketing strategy decision areas organized by the four Ps. Each of these requires careful decision making. Yet marketing planning involves much more than just independent decisions and assembling the parts into a marketing mix. The four Ps must be creatively *blended*—so the firm develops the best mix for its target market. In other words, each decision must work well with all of the others to make a logical whole.

Throughout the text, we've given the job of integrating the four Ps strategy decisions to the marketing manager. The title of that person might vary, but now you should see the need for this integrating role. It is easy for specialists to focus on their own areas and expect the rest of the company to work for or around them.

Bounty can probably get a reasonably good forecast of sales for its improved paper towels based on experience with similar products that it already sells. By contrast, satellite navigation is a newer concept and it will probably be more difficult for Garmin to accurately forecast how quickly sales for its new eTrex product will grow.

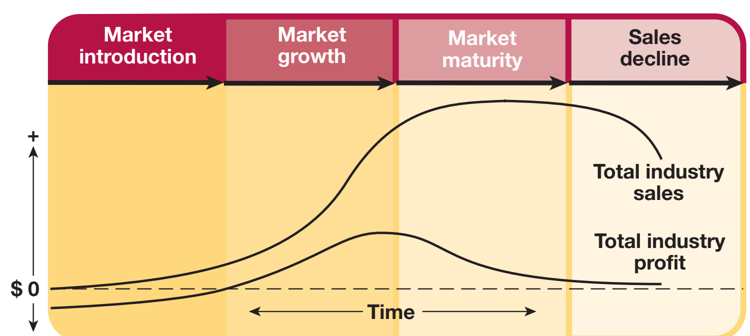
This is especially true in larger firms like Maytag—where specialists are needed—just because the size of the whole marketing job is too big for one person. Yet the ideas of the product manager, the advertising manager, the sales manager, the logistics manager, and whoever makes pricing decisions may have to be adjusted to improve the whole mix. It's critical that each marketing mix decision work well with all of the others. A breakdown in any one decision area may doom the whole strategy to failure.

Product life cycle guides planning

Careful consideration of where a firm's offering fits in the product life cycle can also be a big help in evaluating the best marketing mix. We introduced Exhibit 21-3 in Chapter 10 to summarize how marketing mix variables typically change over the product life cycle. Now you can see that this exhibit is a good review of many topics we've discussed throughout the text. Certainly, the pioneering effort required for a really new product concept is different from the job of taking market share away from an established competitor late in the market growth stage.

Further, when you're thinking about the product life cycle don't forget that markets change continually. This means you must plan strategies that can adjust to changing conditions. The original marketing plan for a new marketing strategy

Exhibit 21-3
Typical Changes in Marketing Variables over the Product Life Cycle



	Market introduction	Market growth	Market maturity	Sales decline
Competitive situation	Monopoly or monopolistic competition	Monopolistic competition or oligopoly	Monopolistic competition or oligopoly heading toward pure competition →	→
Product	One or few	Variety—try to find best product Build brand familiarity	All "same" Battle of brands	Some drop out
Place	Build channels Maybe selective distribution →	Move toward more intensive distribution →		
Promotion	Build primary demand Pioneering-informing	Build selective demand → Informing/Persuading → Persuading/Reminding (frantically competitive)		
Price	Skimming or penetration	Meet competition (especially in oligopoly) → or Price dealing and price cutting →		

may even include details about what adjustments in the marketing mix or target market will be required as the nature of competition and the adoption process evolve.[4]

Forecasting Target Market Potential and Sales

Effective strategy planning and developing a marketing plan require estimates of future sales, costs, and profits. Without such information, it's hard to know if a strategy is potentially profitable.

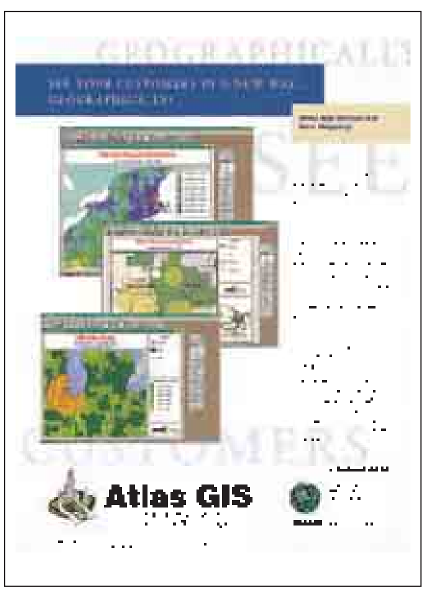
The marketing manager's estimates of sales, costs, and profits are usually based on a forecast (estimate) of target **market potential**—what a whole market segment might buy—and a **sales forecast**—an estimate of how much an industry or firm hopes to sell to a market segment. Usually we must first try to judge market potential before we can estimate what share a particular firm may be able to win with its particular marketing mix.

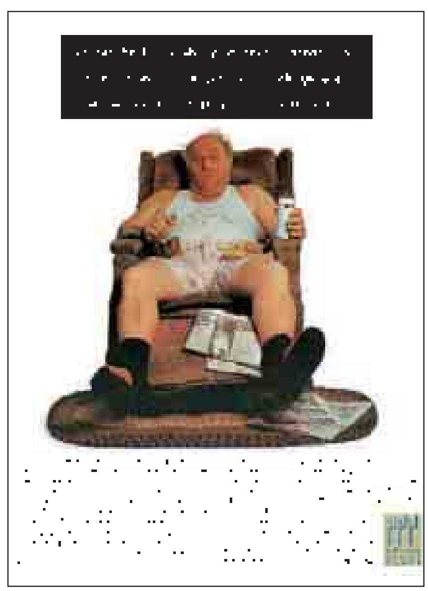
Three levels of forecasts are useful

We're interested in forecasting the potential in specific market segments. To do this, it helps to make three levels of forecasts.

Some economic conditions affect the entire global economy. Others may influence only one country or a particular industry. And some may affect only one company or one product's sales potential. For this reason, a common top-down approach to forecasting is to

1. Develop a *national income forecast* (for each country in which the firm operates) and use this to
2. Develop an *industry sales forecast*, which then is used to
3. Develop forecasts for a *specific company*, its *specific products*, and the *segments* it targets.





A number of firms—including ESRI and Third Wave Research Group—now offer marketers software or databases to help them more accurately forecast sales for specific market areas, products, or segments.

Generally, a marketing manager doesn't have to make forecasts for a national economy or the broad industry. This kind of forecasting—basically trend projecting—is a specialty in itself. Such forecasts are available in business and government publications, and large companies often have their own technical specialists. Managers can use just one source's forecast or combine several. Unfortunately, however, the more targeted the marketing manager's earlier segmenting efforts have been, the less likely that industry forecasts will match the firm's product-markets. So managers have to move directly to estimating potential for their own companies and for their specific products.

Two approaches to forecasting

Many methods are used to forecast market potential and sales, but they can all be grouped into two basic approaches: (1) extending past behavior and (2) predicting future behavior. The large number of methods may seem confusing at first, but this variety has an advantage. Forecasts are so important that managers often develop forecasts in two or three different ways and then compare the differences before preparing a final forecast.

Extending past behavior can miss important turning points

When we forecast for existing products, we usually have some past data to go on. The basic approach—called **trend extension**—extends past experience into the future. With existing products, for example, the past trend of actual sales may be extended into the future. See Exhibit 21-4.

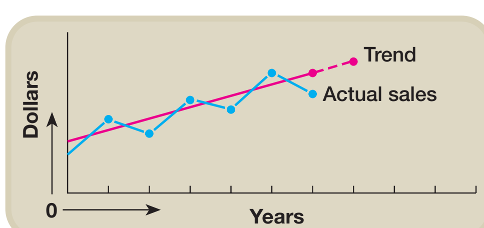
Ideally, when extending past sales behavior, we should decide why sales vary. This is the difficult and time-consuming part of sales forecasting. Usually we can gather a lot of data about the product or market or about changes in the marketing environment. But unless we know the *reason* for past sales variations, it's hard to predict in what direction, and by how much, sales will move. Graphing the data and statistical techniques—including correlation and regression analysis—can be useful here. (These techniques, which are beyond our scope, are discussed in beginning statistics courses.)

Once we know why sales vary, we can usually develop a specific forecast. Sales may be moving directly up as population grows in a specific market segment, for example. So we can just estimate how population is expected to grow and project the impact on sales.

The weakness of the trend extension method is that it assumes past conditions will continue unchanged into the future. In fact, the future isn't always like the past. An agent wholesaler's business may have been on a steady path, but the development of the Internet adds a totally new factor. The past trend for the agent's sales changed because the agent could quickly reach a broader market.

As another example, for years the trend in sales of disposable diapers moved closely with the number of new births. However, as the number of women in the workforce increased and as more women returned to jobs after babies were born, use of disposable diapers increased, and the trend changed. As in these examples, trend

Exhibit 21-4
Straight-Line Trend Projection—Extends Past Sales into the Future



extension estimates will be wrong whenever big changes occur. For this reason—although they may extend past behavior for one estimate—most managers look for another way to help them forecast sharp market changes.

Predicting future behavior takes judgment

When we try to predict what will happen in the future, instead of just extending the past, we have to use other methods and add more judgment. Some of these methods (to be discussed later) include juries of executive opinion, salespeople's estimates, surveys, panels, and market tests.

Forecasting Company and Product Sales by Extending Past Behavior

Past sales can be extended

At the very least, a marketing manager ought to know what the firm's present markets look like and what it has sold to them in the past. A detailed sales analysis for products and geographic areas helps to project future results.

Just extending past sales into the future may not seem like much of a forecasting method. But it's better than just assuming that next year's total sales will be the same as this year's.

Factor method includes more than time

A simple extension of past sales gives one forecast. But it's usually desirable to tie future sales to something more than the passage of time.

The factor method tries to do this. The **factor method** tries to forecast sales by finding a relation between the company's sales and some other factor (or factors). The basic formula is: something (past sales, industry sales, etc.) *times* some factor *equals* sales forecast. A **factor** is a variable that shows the relation of some other variable to the item being forecast. For instance, in our example above, both the birthrate and the number of working mothers are factors related to sales of disposable diapers.

A bread producer example

The following example—about a bread producer—shows how firms can make forecasts for many geographic market segments using the factor method and available data. This general approach can be useful for any firm—producer, wholesaler, or retailer.

Analysis of past sales relationships showed that the bread manufacturer regularly sold one-tenth of 1 percent (0.001) of the total retail food sales in its various target markets. This is a single factor. By using this single factor, a manager could estimate the producer's sales in a new market for the coming period by multiplying a forecast of expected retail food sales by 0.001.

Sales & Marketing Management magazine makes retail food sales estimates each year. Exhibit 21-5 shows the kind of geographically detailed data available.

Let's carry this bread example further—using the data in Exhibit 21-5 for the Denver, Colorado, metro area. Denver's food sales were $3,591,232,000 for the previous year. By simply accepting last year's food sales as an estimate of next year's sales and multiplying the food sales estimate for Denver by the 0.001 factor (the firm's usual share of food purchases in such markets), the manager would have an estimate of next year's bread sales in Denver. That is, last year's food sales estimate ($3,591,232,000) times 0.001 equals this year's bread sales estimate of $3,591,232.

Factor method can use several factors

The factor method is not limited to just one factor; several factors can be used together. For example, *Sales & Marketing Management* regularly gives a "buying power index" (BPI) as a measure of the potential in different geographic areas. See Exhibit 21-5. This index considers (1) the population in a market, (2) the retail sales in that market, and (3) income in that market. The BPI for the Denver,

Exhibit 21-5 Sample of Pages from *Sales & Marketing Management*'s Survey of Buying Power: Metro and County Totals

COLORADO CON'T

METRO AREA	Population						Retail Sales by Store Group ($000)						Effective Buying Income					
		% of Population by Age Group													% of Hslds: by EBI Group			
County City	Total Population (000s)	18–24	25–34	35–49	50 +	House-holds (000s)	Total Retail Sales	Food	Eating & Drinking Places	General Mdse.	Furniture/ Furnish. Appliance	Auto-motive	Total EBI ($000)	Median Hsld. EBI	A $20,000–$34.999	B $35,000–$49,999	C $50,000– & Over	Buying Power Index
COLORADO																		
BOULDER-LONGMONT	**260.2**	**12.2**	**17.3**	**27.9**	**19.2**	**103.6**	**2,999,501**	**525,192**	**432,303**	**304,860**	**182,133**	**660,874**	**5,024,497**	**39,919**	**21.3**	**18.0**	**38.1**	**.1163**
BOULDER	260.2	12.2	17.3	27.9	19.2	103.6	2,999,501	525,192	432,303	304,860	182,133	660,874	5,024,497	39,919	21.3	18.0	38.1	.1163
• Boulder	84.2	23.7	18.4	24.6	17.8	35.5	1,602,708	268,101	246,771	142,011	129,516	304,425	1,618,013	33,409	21.8	14.7	33.3	.0452
• Longmont	57.4	7.6	16.4	25.4	22.4	22.2	771,282	132,991	85,375	61,538	31,383	227,700	916,833	36,965	24.5	21.0	31.9	.0247
COLORADO SPRINGS	**476.8**	**10.1**	**17.2**	**24.4**	**20.1**	**178.3**	**4,883,063**	**703,957**	**557,021**	**685,402**	**279,106**	**1,170,529**	**6,624,809**	**30,020**	**28.4**	**19.4**	**22.4**	**.1747**
EL PASO	476.8	10.1	17.2	24.4	20.1	178.3	4,883,063	703,957	557,021	685,402	279,106	1,170,529	6,624,809	30,020	28.4	19.4	22.4	.1747
• Colorado Springs	331.6	9.2	17.9	24.7	20.8	132.3	4,560,947	661,538	475,447	624,435	272,996	1,141,550	4,793,827	29,398	27.8	18.7	22.2	.1379
DENVER	**1,880.2**	**7.5**	**17.0**	**27.0**	**22.1**	**756.1**	**19,355,163**	**3,591,232**	**2,546,761**	**2,243,175**	**1,399,533**	**4,898,564**	**33,489,662**	**36,606**	**23.3**	**19.4**	**32.9**	**.7783**
ADAMS	313.6	8.4	17.3	24.0	20.8	114.3	2,518,700	574,523	252,072	357,779	155,806	609,381	4,180,008	32,518	27.3	22.3	23.4	.1042
Thornton	70.7	8.0	19.0	26.4	13.3	24.6	642,216	203,950	63,444	104,042	14,744	170,337	954,782	36,563	26.6	25.2	27.5	.0246
Westminster	97.2	8.4	20.1	27.5	14.1	36.3	842,545	144,824	80,403	233,108	81,905	143,178	1,563,416	39,286	24.6	24.1	33.4	.0363
ARAPAHOE	458.7	7.3	16.9	28.7	19.8	183.8	6,560,505	1,049,222	575,350	668,476	465,750	2,418,123	9,187,206	40,923	22.6	19.8	38.7	.2245
Aurora	255.8	8.2	19.3	27.4	17.0	104.5	2,959,057	613,693	308,304	373,495	264,448	769,394	4,284,060	36,665	25.9	22.3	30.4	.1066
DENVER	499.5	8.3	18.0	24.3	27.0	228.4	4,075,124	740,723	918,989	222,440	322,954	616,803	8,397,781	27,458	25.3	16.3	22.2	.1878
• Denver	499.5	8.3	18.0	24.4	26.9	228.4	4,075,124	740,723	918,989	222,440	322,954	616,803	8,397,781	27,458	25.3	16.3	22.2	.1878
DOUGLAS	112.3	4.7	17.2	32.3	14.9	39.3	752,159	163,177	93,281	140,967	63,492	83,206	2,447,689	54,826	14.3	19.3	57.6	.0469
JEFFERSON	496.1	7.1	16.0	28.8	21.6	190.3	5,448,675	1,063,587	707,069	853,513	391,531	1,171,051	9,276,978	43,093	21.1	21.3	40.5	.2149
Arvada	97.0	7.4	14.8	28.1	22.3	36.2	796,133	238,354	102,088	170,176	49,836	27,179	1,655,557	42,897	21.1	22.0	39.5	.0368
Lakewood	123.7	8.7	16.7	26.1	26.2	51.2	1,723,111	229,333	232,966	211,165	130,278	527,661	2,259,951	37,695	25.0	21.1	33.0	.0574
DENVER-BOULDER-GREELEY **CONSOLIDATED AREA . .**	**2,292.9**	**8.3**	**17.0**	**26.8**	**21.8**	**914.6**	**23,486,046**	**4,301,572**	**3,097,926**	**2,738,836**	**1,638,229**	**5,864,367**	**40,369,337**	**36,332**	**23.3**	**19.2**	**32.7**	**.9421**

Colorado, metro area, for example, is 0.7783—that is, Denver accounts for 0.7783 percent of the total U.S. buying power. This means that consumers who live in Denver have higher than average buying power. We know this because Denver accounts for about 0.6681 percent of the U.S. population. We can calculate this figure by using Denver's total population of 1,880,200 (in Exhibit 21-5) and dividing it by the total population of the U.S.—281,422,000 (in Exhibit 5-2). So the people in Denver have buying power that is about 16 percent higher than average.

Using several factors rather than only one uses more information. And in the case of the BPI, it gives a single measure of a market's potential. Rather than falling back on using population only, or income only, or trying to develop a special index, the BPI can be used in the same way that we used the 0.001 factor in the bread example.

Internet

Internet Exercise The Survey of Buying Power has an online site that is available on a pay-for-use basis. However, a sample section is available without charge. Go to the website (www.mysbp.com) and select *Reports and Maps,* and then select *Samples*. Look at the *Income Trend Report* (and others if you wish). How would this information be helpful to a retail chain that is considering a new facility for this sample market?

Producers of business products can use several factors too

Exhibit 21-6 shows how a marketing manager for a firm that makes corrugated fiber boxes used several factors to estimate the sales potential in a particular geographic area. The manager started with trade association data on the value of shipments (sales) by all fiber box suppliers to firms in particular industries (column 1). The trade association estimates were for the *national* market. Note, however, that they were grouped by North American Industry Classification System (NAICS) industry groups. As we discussed in Chapter 7, data on business markets is often organized by NAICS codes. That makes it possible to combine different types of data, which is what the manager did here.

Exhibit 21-6 Estimated Market for Corrugated and Solid Fiber Boxes for Industry Groups, Phoenix, Arizona, Metropolitan Statistical Area

		National Data			Maricopa County	
NAICS Code	Major Industry Group	(1) Value of Box Shipments by End Use ($000)*	(2) Employment by Industry Group	(3) Value of Shipments per Employee by Industry Group (1 ÷ 2) ($)	(4) Employment by Industry Group	(5) Estimated Sales in This Market (3 × 4) ($000)
311	Food and kindred products	$586,164	1,578,305	$371	4,973	$1,845
337	Furniture and fixtures	89,341	364,166	245	616	151
327	Stone, clay, and glass products	226,621	548,058	413	1,612	666
331	Primary metal industries	19,611	1,168,110	16	2,889	46
332	Fabricated metal products	130,743	1,062,096	123	2,422	298
333	Machinery (except electrical)	58,834	1,445,558	40	5,568	228
335	Electrical machinery equipment, and supplies	119,848	1,405,382	85	6,502	553
					Total	$3,787

*Based on data reported in *Fiber Box Industry Statistics,* Fiber Box Association.

Specifically, the manager divided the trade association estimates by government data on the number of people employed in each industry NAICS group (column 2). The result, shown in column 3, is simply an estimate of the value of boxes used per employee in each industry group. For example, furniture and fixture manufacturers buy an average of $245 worth of boxes per employee.

Then the manager multiplied the value per employee number by the number of people employed in each industry group in the target county (column 4). This results in an estimate of the market potential for each industry group (column 5) in that county. For example, since there are 616 people in this county who work in furniture and fixture companies, the sales potential in that industry is only about $151,000 (616 employees × $245 per employee). The sum of the estimates for specific industries is the total market potential in that county.

A firm thinking of going into that market would have to estimate the share it could get with its own marketing mix in order to determine its sales forecast. This approach could be used county by county to estimate the potential in many geographic target markets. It could also aid management's control job. If the firm is already in this industry, it can compare its actual sales (by NAICS code) with the potential to see how it's doing. If its typical market share is 10 percent of the market —and it has only 2 to 5 percent of the market in various NAICS submarkets— then it may need to change its marketing mix to get better penetration.

Times series and leading series may help estimate a fluctuating future

Not all past economic or sales behavior can be neatly extended with a straight line or some manipulation. Economic activity has ups and downs, and other uncontrollable factors change. To cope with such variation, statisticians have developed time series analysis techniques. **Time series** are historical records of the fluctuations in economic variables. We can't give a detailed discussion of these techniques here, but note that there *are* techniques to handle daily, weekly, monthly, seasonal, and annual variations.[5]

All forecasters dream of finding an accurate **leading series**—a time series that changes in the same direction *but ahead of* the series to be forecast. For example, car producers watch trends in the Index of Consumer Sentiment, which is based on regular surveys of consumers' attitudes about their likely future financial security. People are less likely to buy a car or other big-ticket item if they are worried about their future income. As this suggests, a drop in the index usually "leads" a drop in car sales. It is important that there be some logical relation between the leading series and what is being forecast.

No single series has yet been found that leads GNP or other national figures. Lacking such a series, forecasters develop **indices**—statistical combinations of several time series—in an effort to find some time series that will lead the series they're trying to forecast. Government agencies publish some indices of this type. And business publications, like *Business Week* and *The London Financial Times,* publish their own indices.

Predicting Future Behavior Calls for More Judgment and Some Opinions

These past-extending methods use quantitative data—projecting past experience into the future and assuming that the future will be like the past. But this is risky in competitive markets. Usually, it's desirable to add some judgment to other forecasts before making the final forecast yourself.

Jury of executive opinion adds judgment

One of the oldest and simplest methods of forecasting—the **jury of executive opinion**—combines the opinions of experienced executives, perhaps from marketing, production, finance, purchasing, and top management. Each executive estimates market potential and sales for the *coming years*. Then they try to work out a consensus.

The main advantage of the jury approach is that it can be done quickly and easily. On the other hand, the results may not be very good. There may be too much extending of the past. Some of the executives may have little contact with outside market influences. But their estimates could point to major shifts in customer demand or competition.

Estimates from salespeople can help too

Using salespeople's estimates to forecast is like the jury approach. But salespeople are more likely than home office managers to be familiar with customer reactions and what competitors are doing. Their estimates are especially useful in some business markets where the few customers may be well known to the salespeople. But this approach may be useful in any type of market.

However, managers who use estimates from salespeople should be aware of the limitations. For example, new salespeople may not know much about their markets. Even experienced salespeople may not be aware of possible changes in the economic climate or the firm's other environments. And if salespeople think the manager is going to use the estimates to set sales quotas, the estimates may be low!

Surveys, panels, and market tests

Special surveys of final buyers, retailers, and/or wholesalers can show what's happening in different market segments. Some firms use panels of stores—or final consumers—to keep track of buying behavior and to decide when just extending past behavior isn't enough.

Surveys are sometimes combined with market tests when the company wants to estimate customers' reactions to possible changes in its marketing mix. A market test might show that a product increased its share of the market by 10 percent when its price was dropped 1 cent below competition. But this extra business might be quickly lost if the price were increased 1 cent above competition. Such market experiments help the marketing manager make good estimates of future sales when one or more of the four Ps is changed.

Accuracy depends on the marketing mix

Forecasting can help a marketing manager estimate the size of possible market opportunities. But the accuracy of any sales forecast depends on whether the firm selects and implements a marketing mix that turns these opportunities into sales and profits.[6]

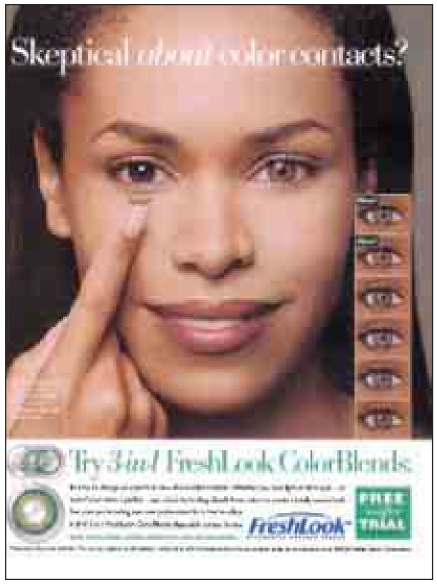
Analysis of Costs and Sales Can Guide Planning

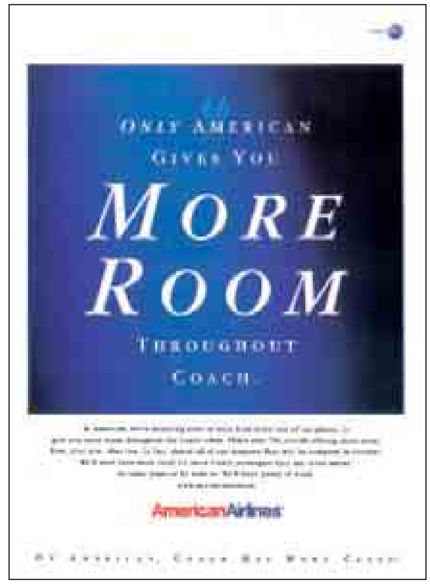
Once a manager has narrowed down to a few reasonable marketing mixes and the relevant forecasts, comparing the sales, costs, and profitability of the different alternatives helps in selecting the marketing mix the firm will implement.

Estimate the cost of each activity

Estimating the costs of the marketing activities for a strategy may be easy or hard depending on the situation. Sometimes the accounting department can help with information about what average costs for similar activities have been in the past. Or sometimes estimates of competitors' costs—perhaps pulled out of annual reports or investor information posted on the Internet—can provide some guidance. However, in general the best approach for estimating costs is to use the task method. We recommended this approach in Chapter 14 when we focused on promotion costs and budgets. However, the same ideas apply to any area of marketing activity. The estimated cost and budget for each activity is based on the job to be done—perhaps

A marketing plan spells out the detailed costs of different marketing activities in the strategy. For example, FreshLook's plan for its new color contact lenses might include estimates of the cost of each ad as well as the cost of the whole promotion blend. The marketing plan for American's roomier service might include estimates of revenue based on the combined effect of the reduced number of seats and higher demand for American flights.





the number of salespeople needed to call on new customers or the amount of inventory required to provide some distribution customer service level. The costs of these individual tasks are then totaled—to determine how much should be budgeted for the overall plan. With this detailed approach, the firm can subsequently assemble its overall marketing budget directly from individual plans rather than just relying on historical patterns or ratios.

Compare the profitability of alternative strategies

Once costs and revenue for possible strategies are estimated, it makes sense to compare them with respect to overall profitability. Exhibit 21-7 shows such a comparison for a small appliance currently selling for $15—Mix A in the example. Here the marketing manager simply estimates the costs and likely results of four reasonable alternatives. And assuming profit is the objective *and* there are adequate resources to consider each of the alternatives, Marketing Mix C is obviously the best alternative.

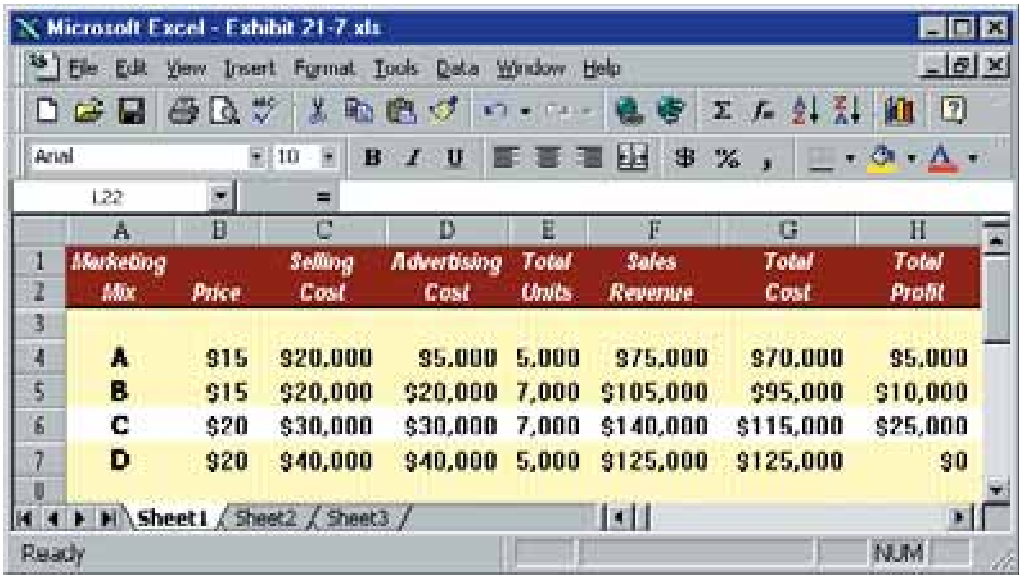
Spreadsheet analysis speeds through calculations

Comparing the alternatives in Exhibit 21-7 is quite simple. But sometimes marketing managers need much more detail to evaluate a plan. Hundreds of calculations may be required to see how specific marketing resources relate to expected outcomes—like total costs, expected sales, and profit. To make that part of the planning job simpler and faster, marketing managers often use spreadsheet analysis. With **spreadsheet analysis,** costs, sales, and other information related to a problem are organized into a data table—a spreadsheet—to show how changing the value of one or more of the numbers affects the other numbers. This is possible because the relationships among the variables are programmed in the computer software. The table in Exhibit 21-7 was prepared using Excel, Microsoft's widely used spreadsheet program. If you've used Excel or Lotus 1-2-3, or the computer-aided problems in this book, you're already familiar with spreadsheet analysis. Even if you haven't, the basic idea is simple.

A spreadsheet helps answer what-if questions

Spreadsheet analysis allows the marketing manager to evaluate what-if type questions. For example, a marketing manager might be interested in the question "What if I charge a higher price and the number of units sold stays the same? What will

Exhibit 21-7 A Spreadsheet Comparing the Estimated Sales, Costs, and Profits of Four "Reasonable" Alternative Marketing Mixes



Marketing Mix	Price	Selling Cost	Advertising Cost	Total Units	Sales Revenue	Total Cost	Total Profit
A	$15	$20,000	$5,000	5,000	$75,000	$70,000	$5,000
B	$15	$20,000	$20,000	7,000	$105,000	$95,000	$10,000
C	$20	$30,000	$30,000	7,000	$140,000	$115,000	$25,000
D	$20	$40,000	$40,000	5,000	$125,000	$125,000	$0

happen to profit?" To look at how a spreadsheet program might be used to help answer this what-if question, let's take a closer look at Mix C in Exhibit 21-7.

The table involves a number of relationships. For example, price times total units equals sales revenue; and total revenue minus total cost equals total profit. If these relationships are programmed in the spreadsheet, a marketing manager can ask questions like: "What if I raise the price to $20.20 and still sell 7,000 units? What will happen to profit?" To get the answer, all the manager needs to do is type the new price in the spreadsheet and the program computes the new profit—$26,400.

In addition, the manager may also want to do many what-if analyses—for example, to see how sales and profit change over a range of prices. Computerized spreadsheet analysis does this quickly and easily. If the manager wants to see what happens to total revenue as the price varies between some minimum (say, $19.80) and a maximum (say, $20.20), the program can show the total revenue and profit for a number of price levels in the range from $19.80 to $20.20. The results are shown in the Excel spreadsheet table in Exhibit 21-8.

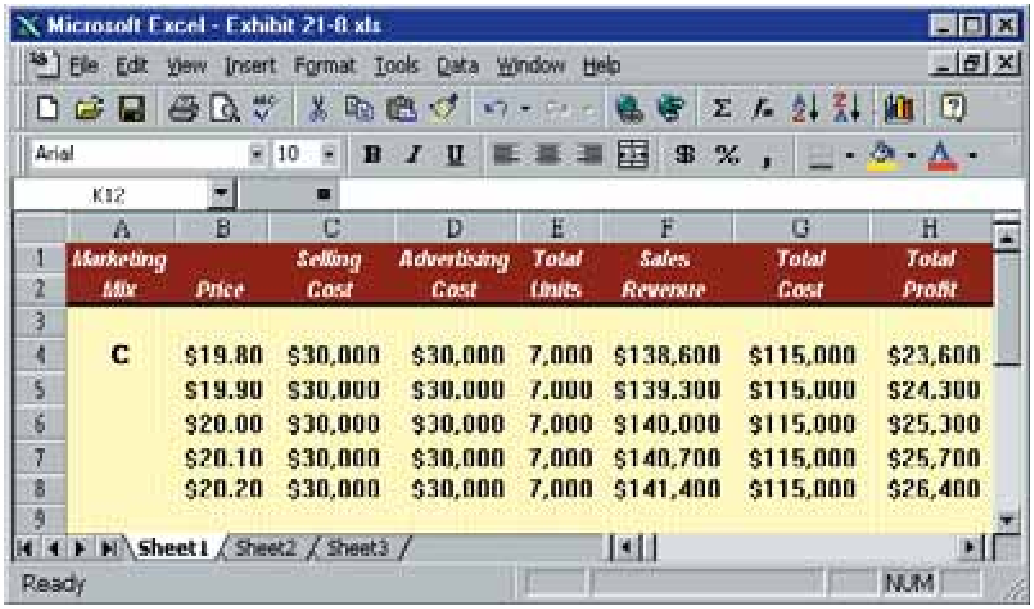
In a problem like this, the marketing manager might be able to do the same calculations quickly by hand. But with more complicated problems the spreadsheet program can be a big help—making it very convenient to more carefully analyze different alternatives.

The Marketing Plan Brings All the Details Together

Marketing plan provides a blueprint for implementation

Once the manager has selected the target market, decided on the (integrated) marketing mix to meet that target market's needs, and developed estimates of the costs and revenue for that strategy, it's time to put it all together in the marketing plan. The plan basically serves as a blueprint for what the firm will do.

Exhibit 21-8 A Spreadsheet Analysis Showing How a Change in Price Affects Sales Revenue and Profit (based on Marketing Mix C from Exhibit 21-7)



Marketing Mix	Price	Selling Cost	Advertising Cost	Total Units	Sales Revenue	Total Cost	Total Profit
C	$19.80	$30,000	$30,000	7,000	$138,600	$115,000	$23,600
	$19.90	$30,000	$30,000	7,000	$139,300	$115,000	$24,300
	$20.00	$30,000	$30,000	7,000	$140,000	$115,000	$25,300
	$20.10	$30,000	$30,000	7,000	$140,700	$115,000	$25,700
	$20.20	$30,000	$30,000	7,000	$141,400	$115,000	$26,400

Exhibit 21-9 provides a summary outline of the different sections of a complete marketing plan. You can see that this outline is basically an abridged overview of the topics we've covered throughout the text and highlighted in this chapter. Thus, you can flesh out your thinking for any portion of a marketing plan by reviewing the section of the book where that topic is discussed in more detail. Further, the Maytag case at the beginning of this chapter also gives you a real example of the types of thinking and detail that are included.

Marketing plan spells out the timing of the strategy

Some time schedule is implicit in any strategy. A marketing plan simply spells out this time period and the time-related details. Usually, we think in terms of some reasonable length of time—such as six months, a year, or a few years. But it might be only a month or two in some cases—especially when rapid changes in fashion or technology are important. Or a strategy might be implemented over several years—perhaps the length of a product life cycle or at least the early stages of the product's life.

Although the outline in Exhibit 21-9 does not explicitly show a place for the time frame for the plan or the specific costs for each decision area, these should be included in the plan—along with expected estimates of sales and profit—so that the plan can be compared with *actual performance* in the future. In other words, the plan not only makes it clear to everyone what is to be accomplished and how—but it also provides a basis for the control process after the plan is implemented.

Tools help set time-related details for the plan

Figuring out and planning the time-related details and schedules for all of the activities in the marketing plan can be a challenge—especially if the plan involves a big start-from-scratch effort. To do a better job in this area, many managers have turned to flowcharting techniques such as CPM (critical path method) or PERT (program evaluation and review technique). These methods were originally developed as part of the U.S. space program (NASA) to ensure that the various contractors and subcontractors stayed on schedule and reached their goals as

Exhibit 21-9 Summary Outline of Different Sections of Marketing Plan

Name of Product-Market

Major screening criteria relevant to product-market opportunity selected
- Quantitative (ROI, profitability, risk level, etc.)
- Qualitative (nature of business preferred, social responsibility, etc.)
- Major constraints

Analysis of Other Aspects of External Market Environment (favorable and unfavorable factors and trends)

Economic environment
Technological environment
Political and legal environment
Cultural and social environment

Customer Analysis (organizational and/or final consumer)

Possible segmenting dimensions (customer needs, other characteristics)
- Identification of qualifying dimensions and determining dimensions

Identification of target market(s) (one or more specific segments)
- Operational characteristics (demographics, geographic locations, etc.)
- Potential size (number of people, dollar purchase potential, etc.) and likely growth

Key psychological and social influences on buying
Type of buying situation
Nature of relationship with customers

Competitor Analysis

Nature of current/likely competition
Current and prospective competitors (and/or rivals)
- Current strategies and likely responses to plan

Competitive barriers to overcome and sources of potential competitive advantage

Company Analysis

Company objectives and overall marketing objectives
Company resources
S.W.O.T.: Identification of major *s*trengths, *w*eaknesses, *o*pportunities, and *t*hreats (based on above analyses of company resources, customers, competitors, and other aspects of external market environment)

Marketing Information Requirements

Marketing research needs (with respect to customers, marketing mix effectiveness, external environment, etc.)
Secondary data and primary data needs
Marketing information system needs, models to be used, etc.

Product

Product class (type of consumer or business product)
Current product life cycle stage
New-product development requirements (people, dollars, time, etc.)
- Product liability, safety and social responsibility considerations

Specification of core physical good and/or service
- Features, quality, etc.

Supporting customer service(s) needed
Warranty (what is covered, timing, who will support, etc.)
Branding (manufacturer versus dealer, family brand versus individual brand, etc.)
Packaging
- Promotion and labeling needs
- Protection needs

Cultural sensitivity of product
Fit with product line

Place

Objectives
- Degree of market exposure required
- Distribution customer service level required

Type of channel (direct, indirect)
- Other channel members and/or facilitators required
  - Type/number of wholesalers (agent, merchant, etc.)
  - Type/number of retailers
- How discrepancies and separations will be handled
- How marketing functions will be shared

Coordination needed in company, channel, and supply chain
- Information requirements (EDI, the Internet, e-mail, etc.)

Transportation requirements
Inventory product-handling requirements
Facilities required (warehousing, distribution centers, etc.)
Reverse channels (for returns, recalls, etc.)

Promotion

Objectives
Major message theme(s) for integrated marketing communications (desired “positioning”)
Promotion blend
- Advertising (type, media, copy thrust, etc.)
- Personal selling (type and number of salespeople, how compensated, how effort will be allocated, etc.)
- Sales promotion (for channel members, customers, employees)
- Publicity
- Interactive media

Mix of push and pull required
Who will do the work

Price

Nature of demand (price sensitivity, price of substitutes)
Demand and cost analyses (marginal analysis)
Markup chain in channel
Price flexibility
Price level(s) (under what conditions) and impact on customer value
Adjustments to list price (geographic terms, discounts, allowances, etc.)

Special Implementation Problems to Be Overcome

People required
Manufacturing, financial, and other resources needed

Control

Marketing information system needs
Criterion measures comparison with objectives (customer satisfaction, sales, cost, performance analysis, etc.)

Forecasts and Estimates

Costs (all elements in plan, over time)
Sales (by market, over time, etc.)
Estimated operating statement *(pro forma)*

Timing

Specific sequence of activities and events, etc.
Likely changes over the product life cycle

planned. PERT, CPM, and other similar project management approaches are even more popular now since inexpensive programs for personal computers make them easier and faster to use. Updating is easier too.

The computer programs develop detailed flowcharts to show which marketing activities must be done in sequence and which can be done concurrently. These charts also show the time needed for various activities. Totaling the time allotments along the various chart paths shows the most critical (the longest) path—as well as the best starting and ending dates for the various activities.

Flowcharting is not complicated. Basically, it requires that all the activities—which have to be performed anyway—be identified ahead of time and their probable duration and sequence shown on one diagram. (It uses nothing more than addition and subtraction.) Working with such information should be part of the planning function anyway. Then the chart can be used later to guide implementation and control.[7]

A complete plan spells out the reasons for decisions

The plan outline shown in Exhibit 21-9 is quite complete. It doesn't just provide information about marketing mix decisions—it also includes information about customers (including segmenting dimensions), competitors' strategies, other aspects of the marketing environment, and the company's objectives and resources. This material provides important background relevant to the "why" of the marketing mix and target market decisions.

Too often, managers do not include this information; their plans just lay out the details of the target market and the marketing mix strategy decisions. This shortcut approach is more common when the plan is really just an update of a strategy that has been in place for some time. However, that approach can be risky.

Managers too often make the mistake of casually updating plans in minor ways—perhaps just changing some costs or sales forecasts—but otherwise sticking with what was done in the past. A big problem with this approach is that it's easy to lose sight of why those strategy decisions were made in the first place. When the market situation changes, the original reasons may no longer apply. Yet if the logic for those strategy decisions is not retained, it's easy to miss changes taking place that should result in a plan being reconsidered. For example, a plan that was established in the growth stage of the product life cycle may have been very successful for a number of years. But a marketing manager can't be complacent and assume that success will continue forever. When market maturity hits, the firm may be in for big trouble—unless the basic strategy and plan are modified. If a plan spells out the details of the market analysis and logic for the marketing mix and target market selected, then it is a simple matter to routinely check and update it. Remember: The idea is for all of the analysis and strategy decisions to fit together as an integrated whole. Thus, as some of the elements of the plan or marketing environment change, the whole plan may need a fresh approach.

Internet

Internet Exercise Go to the Maytag website (www.maytag.com) and review the information about the Neptune line. Do you see any indication that the strategy for Neptune is changing from what is described in the case that introduces this chapter? Explain your point of view.

Pepsi's billboard is only one element of a comprehensive market plan, but it cleverly reinforces Pepsi's "The Joy of Cola" positioning.

Companies Plan and Implement Whole Marketing Programs

Several plans make a program

Most companies implement more than one marketing plan at the same time. A *marketing program* blends all a firm's marketing plans into one big plan.

When the various plans in the company's program are different, managers may be less concerned with how well the plans fit together—except as they compete for the firm's usually limited financial resources.

When the plans are more similar, however, the same sales force may be expected to carry out several plans. Or the firm's advertising department may develop the publicity and advertising for several plans. In these cases, product managers try to get enough of the common resources, say, salespeople's time, for their own plans.

Since a company's resources are usually limited, the marketing manager must make hard choices. You can't launch plans to pursue every promising opportunity. Instead, limited resources force you to choose among alternative plans—while you develop the program.

Finding the best program requires judgment

How do you find the best program? There is no one best way to compare various plans. Managers usually rely on evaluation tools like those discussed in Chapter 4. Even so, much management judgment is usually required. Some calculations are helpful too. If a five-year planning horizon seems realistic for the firm's markets, managers can compare expected profits over the five-year period for each plan.

Assuming the company has a profit-oriented objective, managers can evaluate the more profitable plans first—in terms of both potential profit and resources required. They also need to evaluate a plan's impact on the entire program. One profitable-looking alternative might be a poor first choice if it eats up all the company's resources and sidetracks several plans that together would be more profitable and spread the risks.

Some juggling among the various plans—comparing profitability versus resources needed and available—moves the company toward the most profitable program. This is another area where spreadsheet analysis can help the manager evaluate a large number of alternatives.[8]

Marketers need to develop detailed marketing plans for each strategy, but most firms have multiple products and strategies that need to work together as part of an overall marketing program.

Planning for Involvement in International Marketing

When developing a plan for international markets, marketing managers must decide how involved the firm will be. We will discuss six basic kinds of involvement: exporting, licensing, contract manufacturing, management contracting, joint venturing, and wholly owned subsidiaries.

Exporting often comes first

Some companies get into international marketing just by **exporting**—selling some of what the firm produces to foreign markets. Some firms start exporting just to get rid of surplus output. For others, exporting comes from a real effort to look for new opportunities.

Some firms try exporting without doing much planning. They don't change the product or even the service or instruction manuals! As a result, some early efforts are not very satisfying—to buyers or sellers.[9]

Specialists can help develop the plan

Exporting does require knowledge about the foreign market. But managers who don't have enough knowledge to plan the details of a program can often get expert help from middlemen specialists. As we discussed in Chapter 13, export agents can handle the arrangements as products are shipped outside the country. Then agents or merchant wholesalers can handle the importing details. Even large producers with many foreign operations turn to international middlemen for some products or markets. Such middlemen know how to handle the sometimes confusing formalities and specialized functions. A manager trying to develop a plan alone can make a small mistake that ties products up at national borders for days or months.[10]

Exporting doesn't have to involve permanent relationships. Of course, channel relationships take time to build and shouldn't be treated lightly—sales reps' contacts in foreign countries are investments. But it's relatively easy to cut back on these relationships, or even drop them, if the plan doesn't work.

Some firms, on the other hand, plan more formal and permanent relationships with nationals in foreign countries. The relationships might involve licensing, contract manufacturing, management contracting, and joint venturing.

Licensing is an easy way

Licensing is a relatively easy way to enter foreign markets. **Licensing** means selling the right to use some process, trademark, patent, or other right for a fee or royalty. The licensee takes most of the risk because it must invest some capital to use the right. Further, the licensee usually does most of the planning for the markets it is licensed to serve. If good partners are available, this can be an effective way to enter a market. Gerber entered the Japanese baby food market this way but exports to other countries.[11]

Contract manufacturing takes care of the production problems

Contract manufacturing means turning over production to others while retaining the marketing process. Sears used this approach when it opened stores in Latin America and Spain. This approach doesn't make it any easier to plan the marketing program, but it may make it a lot easier to implement.

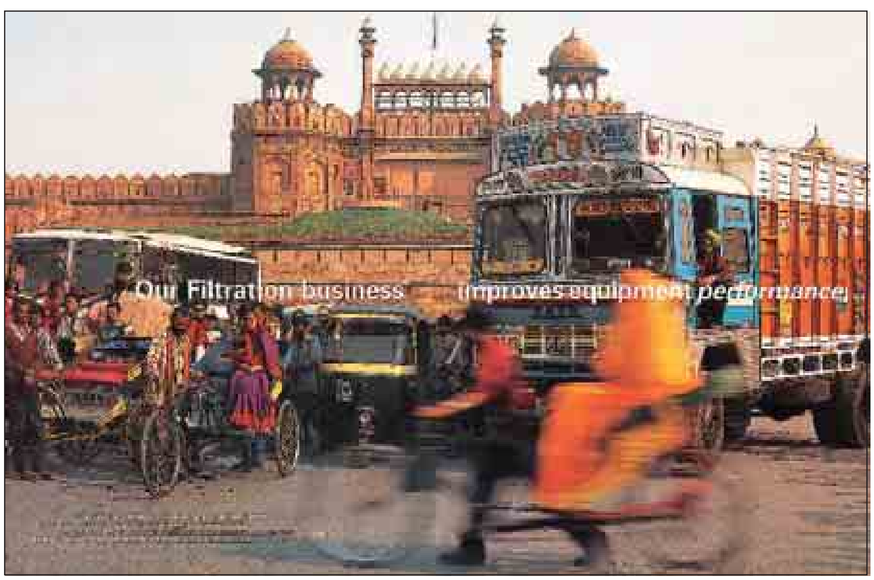
For example, this approach can be especially desirable where labor relations are difficult or where there are problems obtaining supplies or government cooperation. Growing nationalistic feelings may make this approach more attractive in the future.

Management contracting sells know-how

Management contracting means the seller provides only management skills—others own the production and distribution facilities. Some mines and oil refineries are operated this way—and Hilton operates hotels all over the world for local owners. This is a relatively low-risk approach to international marketing. The company makes no commitment to fixed facilities—which can be taken over or damaged in riots or wars. If conditions get too bad, key management people can fly off on the next plane and leave the nationals to manage the operation.

Joint venturing is more involved

Joint venturing means a domestic firm entering into a partnership with a foreign firm. As with any partnership, there can be honest disagreements over objectives—for example, how much profit is desired and how fast it should be paid out—as well



To establish a presence more quickly in India's developing market, Cummins entered a joint venture to produce engines with an Indian firm. That relationship has been a springboard to other joint ventures for Cummins' filtration and exhaust products.

as operating policies. Where a close working relationship can be developed—perhaps based on one firm's technical and marketing know-how and the foreign partner's knowledge of the market and political connections—this approach can be very attractive to both parties.

In some situations, a joint venture is the only type of involvement possible. For example, IBM wanted to increase its 2 percent share of what business customers in Brazil spent on data processing services. But a Brazilian law severely limited expansion by foreign computer companies. To grow, IBM had to develop a joint venture with a Brazilian firm. Because of Brazilian laws, IBM could own only a 30 percent interest in the joint venture. But IBM decided it was better to have a 30 percent share of a business—and be able to pursue new market opportunities—than to stand by and watch competitors take the market.[12]

A joint venture usually requires a big commitment from both parties—and they both must agree on a joint plan. When the relationship doesn't work out well, the ensuing nightmare can make the manager wish that the venture had been planned as a wholly owned operation. But the terms of the joint venture may block this for years.[13]

Wholly owned subsidiaries give more control

When a firm thinks a foreign market looks really promising, it may want to take the final step. A **wholly owned subsidiary** is a separate firm—owned by a parent company. This gives the firm complete control of the marketing plan and operations, and also helps a foreign branch work more easily with the rest of the company. If a firm has too much capacity in a country with low production costs, for example, it can move some production there from other plants and then export to countries with higher production costs.

Multinational corporations evolve to meet the challenge

As firms become more involved in international marketing, some begin to see themselves as worldwide businesses that transcend national boundaries. These **multinational corporations** have a direct investment in several countries and run their businesses depending on the choices available anywhere in the world.

Internet websites that specialize by product-market and that bring together producers, intermediaries, and customers are quickly creating new types of international relationships and opportunities.

Well-known U.S.-based multinational firms include Coca-Cola, Eastman Kodak, Goodyear, Ford, and IBM. They regularly earn over a third of their total sales or profits abroad. And well-known foreign-based multinationals—such as Nestlé, Shell (Royal Dutch Shell), Unilever, Sony, and Honda—have well-accepted brands all around the world.

These multinational operations no longer just export or import. They hire local workers and build local plants. They have relationships with local businesses and politicians. These powerful organizations learn to plan marketing strategies that deal with nationalistic feelings and typical border barriers—treating them simply as part of the marketing environment. We don't yet have one world politically—but business is moving in that direction. We may have to develop new kinds of corporations and laws to govern multinational operations. In the future, it will make less and less sense for business and politics to be limited by national boundaries.

Planning for international markets

Usually marketing managers must plan the firm's overall marketing program so it's flexible enough to be adapted for differences in various countries. When the differences are significant, top management should delegate a great deal of responsibility for strategy planning to local managers (or even middlemen). In many cases, it's not possible to develop a detailed plan without a local feel. In extreme cases, local managers may not even be able to fully explain some parts of their plans because they're based on subtle cultural differences. Then plans must be judged only by their results. The organizational setup should give these managers a great deal of freedom in their planning but ensure tight control against the plans they develop. Top management can simply insist that managers stick to their budgets and meet the plans that they themselves create. When a firm reaches this stage, it is being managed like a well-organized domestic corporation—which insists that its managers (of divisions and territories) meet their own plans so that the whole company's program works as intended.[14]

Conclusion

In this chapter, we stressed the importance of developing whole marketing mixes—not just developing policies for the individual four Ps and hoping they will fit together into some logical whole. The marketing manager is responsible for developing a workable blend—integrating all of a firm's efforts into a coordinated whole that makes effective use of the firm's resources and guides it toward its objectives.

As a starting place for developing new marketing mixes, a marketing manager can use the product classes that have served as a thread through this text. Even if the manager can't fully describe the needs and attitudes of target markets, it is usually possible to select the appropriate product class for a particular product. This, in turn, will help set Place and Promotion policies. It may also clarify what type of marketing mix is typical for the product. However, just doing what is typical may not give a firm any competitive advantage. Creative strategies are often the ones that identify new and better ways of uniquely giving target customers what they want or need. Similarly, seeing where a firm's offering fits in the product life cycle helps to clarify how current marketing mixes are likely to change in the future.

Developing and evaluating marketing strategies and plans usually requires that the manager use some approach to forecasting. We talked about two basic approaches to forecasting market potential and sales: (1) extending past behavior and (2) predicting future behavior. The most common approach is to extend past behavior into the future. This gives reasonably good results if market conditions are fairly stable. Methods here include extension of past sales data and the factor method. We saw that projecting the past into the future is risky when big market changes are likely. To make up for this possible weakness, marketers predict future behavior using their own experience and judgment. They also bring in the judgment of others—using the jury of executive opinion method and salespeople's estimates. And they may use surveys, panels, and market tests. Of course, any sales forecast depends on the marketing mix the firm actually selects.

Once forecasts of the expected sales and estimates of the associated costs for possible strategies are available, alternatives can be compared on potential profitability. Spreadsheet analysis software is an important tool for such comparisons. In the same vein, project planning approaches, such as CPM and PERT, can help the marketing manager do a better job in planning the time-related details for the strategy that is selected.

Throughout the text, we've emphasized the importance of marketing strategy planning. In this chapter, we went on to show that the marketing manager must develop a marketing plan for carrying out each strategy and then merge a set of plans into a marketing program.

Finally, we discussed different approaches that are helpful in planning strategies to enter international markets. The different approaches have different strengths and weaknesses.

Questions and Problems

1. Distinguish clearly between a marketing strategy, a marketing plan, and a marketing program.
2. Discuss how a marketing manager could go about choosing among several possible marketing plans, given that choices must be made because of limited resources. Would the job be easier in the consumer product or in the business product area? Why?
3. Explain how understanding the product classes can help a marketing manager develop a marketing strategy for a really new product that is unlike anything currently available.
4. Distinguish between competitive marketing mixes and superior mixes that lead to breakthrough opportunities.
5. Explain the difference between a forecast of market potential and a sales forecast.
6. Suggest a plausible explanation for sales fluctuations for *(a)* computers, *(b)* ice cream, *(c)* washing machines, *(d)* tennis rackets, *(e)* oats, *(f)* disposable diapers, and *(g)* latex for rubber-based paint.
7. Explain the factor method of forecasting. Illustrate your answer.
8. Based on data in Exhibit 21-5, discuss the relative market potential of the city of Boulder, Colorado, and the city of Lakewood, Colorado, for *(a)* prepared cereals, *(b)* automobiles, and *(c)* furniture.
9. Why is spreadsheet analysis a popular tool for marketing strategy planning?
10. In your own words, explain how a project management technique such as PERT or CPM can help a marketing manager develop a better marketing plan.
11. Why should a complete marketing plan include details concerning the reasons for the marketing strategy decisions and not just the marketing activities central to the four Ps?
12. Consider how the marketing manager's job becomes more complex when it's necessary to develop and plan *several* strategies as part of a marketing program. Be sure to discuss how the manager might have to handle different strategies at different stages in the product life cycle. To make your discussion more concrete, consider the job of a marketing manager for a sporting product manufacturer.
13. How would marketing planning be different for a firm that has entered foreign marketing with a joint venture and a firm that has set up a wholly owned subsidiary?
14. How can a firm set the details of its marketing plan when it has little information about a foreign market it wants to enter?
15. Review the Maytag case at the beginning of this chapter and the outline of a marketing plan in Exhibit 21-9. Indicate which sections of the plan would probably require the most change as the competition among high-efficiency front-load washing machines significantly increases. Briefly explain your thinking.

Suggested Cases

17. Enviro Pure Water, Inc.
27. Plastic Master, Inc.
31. Expert Nursing Services, Inc.
32. Lever, Ltd.
34. Aluminum Basics Co.

When You Finish This Chapter, You Should

1. Understand why marketing must be evaluated differently at the micro and macro levels.

2. Understand why the text argues that micro-marketing costs too much.

3. Understand why the text argues that macro-marketing does not cost too much.

4. Know some of the challenges marketers face as they work to develop ethical marketing strategies that serve consumers' needs.

Chapter Twenty-Two

Ethical Marketing in a Consumer-Oriented World: Appraisal and Challenges

More than ever, the macro-marketing systems of the world are interconnected. The worldwide drive toward market-directed economies is dramatic evidence that consumer-citizens want freedom and choices—not only in politics but in markets. Centrally planned economies simply weren't able to meet needs. Even in China, government officials seem to be gradually softening their hard line on central planning and allowing Western firms to sell products that will improve the life of Chinese consumers.

Although there's much talk about the world as a global village, we're not there yet.

place price promotion produc

Someone in a *real* village on the plains of Kenya may be able to try a cellular phone or watch a TV and get a glimpse of the quality of life that consumers in the advanced Western economies enjoy, but for that person it doesn't seem real. What is real is the struggle to meet the basic physical needs of life—to survive starvation, malnutrition, and epidemic-carrying water. The plight of consumers doesn't seem quite as severe in the fragile and emerging democracies, like those in Eastern Europe. But the vast majority of citizen-consumers in those societies can still only wonder if they'll ever have choices among a wide variety of goods and services—and the income to buy them—that most consumers take for granted in the United States, Canada, England, most countries in Western Europe, Australia, and a few other advanced economies.[1]

The challenges faced by consumers, and marketing managers, in the advanced economies seem minor by contrast. In England, for example, some consumers who live in villages that are off the beaten path may need to worry that they are not included in the 90 percent of the British population served by Tesco delivery vans. Tesco, the largest supermarket chain in England, created its online shopping service for groceries (and hundreds of other products) just a few years ago, but over 500,000 Brits have registered to use the site.[2]

Online shopping for groceries has not proved as popular in the U.S. Webvan and several online-grocery competitors found that out the hard way and went out of business after spending heavily. On the other hand, Web-based retailers like

place price promotion product

Amazon.com are making it easy and economical for U.S. customers to find and buy thousands of other products online. And if Americans are less interested in shopping for groceries online it may just be because they're thinking about instant gratification. We expect the corner convenience store to have a nice selection of frozen gourmet dinners that we can prepare in minutes in a microwave oven. Or perhaps that's too much hassle. After all, Domino's will deliver a hot pizza in less than 30 minutes. And McDonald's has our Egg McMuffins ready when we pull up at the drive-thru at 7 in the morning. We expect everything from fresh tropical fruits to camera batteries to brand-name fashions to be available when and where we want them. In a relative sense, few of the world's consumers can expect so much—and get so much of what they expect. All of this has a price, of course—and we, as consumers, pay the bill.[3]

When you think about these contrasts, it's not hard to decide which consumers are better off. But are we making a straw man comparison? Is the first situation one extreme, with the system in England, the United States, and similar societies just as extreme—only in a different way? Would we be better off if we didn't put quite so much emphasis on marketing? Do we need so many brands of products? Does all the money spent on advertising really help consumers? Should we expect to be able to order groceries over the Internet and have a van deliver them to the front door? Or, conversely, do all of those retail stores in shopping malls just add to the price consumers pay? More generally, does marketing serve society well? In other words, does marketing cost too much? This is a fundamental question. Some people feel strongly that marketing *does* cost too much—that it's a waste of resources we could better use elsewhere.

Now that you have a better understanding of what marketing is all about—and how the marketing manager contributes to the *macro*-marketing process—you should be able to decide whether marketing costs too much. That's what this chapter is about.

Your answer is very important. It will affect your own business career and the economy in which you live.

Do car producers, for example, produce lower-quality cars than they could? Do producers of food and drug products spend too much money advertising trivial differences between their brands? Should they stop trying to brand their products at all and instead sell generics at lower prices? Does marketing encourage us to want too much of the wrong products? Are there too many retailers and wholesalers, all taking "too big" markups? Some critics of marketing would answer Yes! to *all* these important questions. Such critics believe we should change our political and legal environments and the world in which you live and work. Do you agree? Or are you fairly satisfied with the way our system works? How will you vote on your consumer ballot?

How Should Marketing Be Evaluated?

We must evaluate at two levels

As we saw in Chapter 1, it's useful to distinguish between two levels of marketing: the *micro* level (how individual firms run) and the *macro* level (how the whole system works). Some complaints against marketing are aimed at only one of these levels at a time. In other cases, the criticism *seems* to be directed to one level but actually is aimed at the other. Some critics of specific ads, for example, probably wouldn't be satisfied with *any* advertising. When evaluating marketing, we must treat each of these levels separately.

Nation's objectives affect evaluation

Different nations have different social and economic objectives. Dictatorships, for example, may be mainly concerned with satisfying the needs of society as seen by the political elite. In a socialist state, the objective might be to satisfy society's needs as defined by government planners. In a society that has recently broken the chains of communism, the objective may be to make the transition to a market-directed economy as quickly as possible—before there are more revolts.

Consumer satisfaction is the objective in the United States

In the United States, *the basic objective of our market-directed economic system has been to satisfy consumer needs as they, the consumers, see them.* This objective implies that political freedom and economic freedom go hand in hand and that citizens in a free society have the right to live as they choose. The majority of American consumers would be unwilling to give up the freedom of choice they now enjoy. The same can

Planetfeedback.com is a website that makes it easy for consumers to give feedback to companies. Of course, some feedback is clear from customers' choices in the marketplace. For example, Camry marketing managers gain very positive feedback from the fact that Camry is the number one selling car and that it has more repeat buyers than any other car.

1. *Video:* An office. People at work.

2. *Audio* (MVO): "If you are now waiting for something amusing to happen, ..."

3. "... you'll be disappointed. A bank is not a theater."

4. *Video* (cut): Under one of the desks a cat is napping.
Audio (MVO): "Rikk Bank. The most boring bank in the world."

5. *Video:* Cut to view of the whole office.
Audio (MVO): "The people are working. The money is working."

6. *Video:* Cut to the logo of Rikk Bank.
Audio (MVO): "And that's all."

In the U.S., banks provide all kinds of special services to meet customer expectations. In Russia, consumer expectations about banks are different, so Rikk uses TV ads to emphasize that it's not going to do anything unusual, it's just going to be a solid bank.

be said for Canada, Great Britain, and most other countries in the European Union. However, for focus we will concentrate on marketing as it exists in American society.

Therefore, let's try to evaluate the operation of marketing in the American economy—where the present objective is to satisfy consumer needs *as consumers see them*. This is the essence of our system. The business firm that ignores this fact is asking for trouble.

Can Consumer Satisfaction Be Measured?

Since consumer satisfaction is our objective, marketing's effectiveness must be measured by *how well* it satisfies consumers. There have been various efforts to measure overall consumer satisfaction not only in the United States but also in other countries. For example, a team of researchers at the University of Michigan has created the American Customer Satisfaction Index based on regular interviews with thousands of customers of about 200 companies and 34 industries. The 2001 index was lower than it was when the effort started seven years earlier. Similar studies are available for member countries of the European Union.

Satisfaction depends on individual aspirations

This sort of index makes it possible to track changes in consumer satisfaction measures over time and even allows comparison among countries. That's potentially useful. Yet there are limits to interpreting any measure of consumer satisfaction when we try to evaluate macro-marketing effectiveness in any absolute sense. One basic issue is that satisfaction depends on and is *relative to* your level of aspiration or expectation. Less prosperous consumers begin to expect more out of an economy as they see the higher living standards of others. Also, aspiration levels tend to rise with repeated successes and fall with failures. Products considered satisfactory one day may not be satisfactory the next day, or vice versa. A few years ago, most of us were more than satisfied with a 19-inch color TV that pulled in three or four channels. But once you've watched one of the newer large-screen models and enjoyed all the options possible with a digital satellite receiver or a DVD, that old TV is never the same again. And when high-definition digital TVs and interactive broadcast systems become more widespread, today's most satisfying units won't seem quite so acceptable.

In addition, consumer satisfaction is a highly personal concept—and looking at the "average" satisfaction of a whole society does not provide a complete picture for evaluating macro-marketing effectiveness. At a minimum, some consumers are more satisfied than others. So although efforts to measure satisfaction are useful, any evaluation of macro-marketing effectiveness has to be largely subjective.

Probably the supreme test is whether the macro-marketing system satisfies enough individual consumer-citizens so that they vote—at the ballot box—to keep it running. So far, we've done so in the United States.[4]

There are many measures of micro-marketing effectiveness

Measuring micro-marketing effectiveness is also difficult, but it can be done. Expectations may change just as other aspects of the market environment change—so firms have to do a good job of coping with the change. Individual business firms can and should try to measure how well their marketing mixes satisfy their customers (or why they fail). In fact, most large firms now have some type of ongoing effort to determine whether they're satisfying their target markets. For example, the J. D. Power marketing research firm is well known for its studies of consumer satisfaction with different makes of automobiles and computers. And the American Customer Satisfaction Index is also used to rate individual companies. For example, in the 2001 results, McDonald's ranked among the poorest performing retailers. While managers at McDonald's take issue with that result, the firm's own internal satisfaction studies say that on the average day 11 percent of McDonald's customers complain to the restaurant about some dissatisfaction (for example, because of slow service, wrong orders, dirty stores, or employees who have forgotten the company's "we love to see you smile" slogan). It's reported that 70 percent of those dissatisfied customers are further dissatisfied with the way McDonald's handled the complaint.[5]

Many large and small firms measure customer satisfaction with attitude research studies. Other widely used methods include comment cards, e-mail response features on websites, unsolicited consumer responses (usually complaints), opinions of middlemen and salespeople, market test results, and profits. Of course, customers may be very satisfied about some aspects of what a firm is doing but dissatisfied about other dimensions of performance.[6]

In our market-directed system, it's up to each customer to decide how effectively individual firms satisfy his or her needs. Usually, customers will buy more of the products that satisfy them—and they'll do it repeatedly. That's why firms that develop really satisfying marketing mixes are able to develop profitable long-term relationships with the customers that they serve. Because efficient marketing plans can increase profits, profits can be used as a rough measure of a firm's efficiency in satisfying customers. Nonprofit organizations have a different bottom line, but they too will fail if they don't satisfy supporters and get the resources they need to continue to operate.

Evaluating marketing effectiveness is difficult—but not impossible

It's easy to see why opinions differ concerning the effectiveness of micro- and macro-marketing. If the objective of the economy is clearly defined, however—and the argument is stripped of emotion—the big questions about marketing effectiveness probably *can* be answered.

In this chapter, we argue that micro-marketing (how individual firms and channels operate) frequently *does* cost too much but that macro-marketing (how the whole marketing system operates) *does not* cost too much, *given the present objective of the American economy—consumer satisfaction*. Don't accept this position as *the* answer but rather as a point of view. In the end, you'll have to make your own judgment.[7]

Micro-Marketing Often Does Cost Too Much

Throughout the text, we've explored what marketing managers could or should do to help their firms do a better job of satisfying customers—while achieving company objectives. Many firms implement highly successful marketing programs, but others are still too production-oriented and inefficient. For customers of these latter firms, micro-marketing often does cost too much.

Research shows that many consumers are not satisfied. But you know that already. All of us have had experiences when we weren't satisfied—when some firm didn't deliver on its promises. And the problem is much bigger than some marketers want to believe. Research suggests that the majority of consumer complaints are never reported. Worse, many complaints that are reported never get fully resolved.

The failure rate is high

Further evidence that too many firms are too production-oriented—and not nearly as efficient as they could be—is the fact that so many new products fail. New and old businesses—even ones that in the past were leaders in their markets—fail regularly too.

Generally speaking, marketing inefficiencies are due to one or more of three reasons:

1. Lack of interest in or understanding of the sometimes fickle customer.
2. Improper blending of the four Ps—caused in part by overemphasis on internal problems as contrasted with a customer orientation.
3. Lack of understanding of or adjustment to the marketing environment, especially what competitors do.

Any of these problems can easily be a fatal flaw—the sort of thing that leads to death-wish marketing and business failures. A firm can't create value if it doesn't have a clue what customers think or say. Even if a firm listens to the "voice of the customer," there's no incentive for the customer to buy if the benefits of the marketing mix don't exceed the costs. And if the firm succeeds in coming up with a marketing mix with benefits greater than costs, it still won't be a superior value unless it's better than what competitors offer.

The high cost of poor marketing mixes

Perhaps lack of concern for the customer is most noticeable in the ways the four Ps are sometimes combined—or forced—into a marketing mix. This happens in many ways. Too many firms develop a new product to satisfy some manager's pet idea, not to meet the needs of certain target customers. Or they see another company with a successful product and try to jump into the market with another me-too imitation—without even thinking about the competition they'll encounter. Often they don't worry about quality.

If a product is poorly designed, or if a firm uses inadequate channels or pricing that isn't competitive, it's easy to see why promotion may be costly. Aggressive spending on promotion doesn't make up for the other types of mistakes.

Maxwell House ready-to-drink coffee came in a package that looked like a milk carton, but it had an inner foil liner that caused problems when consumers heated the carton in a microwave. There was no mention on the package that it might make good iced coffee. Fixing these problems might not have made the product a success, but they certainly contributed to its failure.

Another sign of failure is the inability of firms to identify new target markets and new opportunities. A new marketing mix that isn't offered doesn't fail—but the lost opportunity can be significant for both a firm and society. Too many managers seize on whatever strategy seems easiest rather than seeking really new ways to satisfy customers. Too many companies stifle really innovative thinking. Layers of bureaucracy and a "that's not the way we do things" mentality just snuff it out.

On the other hand, not every new idea is a good idea for every company. For example, there is little doubt that e-commerce and online systems are having a dramatic effect in improving how many firms serve their customers. But in the last few years, hundreds of firms have lost millions of dollars with failed efforts to capitalize on the Internet or some "hot" website idea. Just jumping on the "what's new" bandwagon—without stopping to figure out how it is going to really satisfy the customer and result in profit for the firm—is as much a ticket for failure as being too slow or bureaucratic.

Micro-marketing does cost too much—but things are changing

For reasons like these, marketing does cost too much in many firms. Despite much publicity, the marketing concept is not really applied in many places.

But not all firms and marketers deserve criticism. More of them *are* becoming customer-oriented. And many are paying more attention to market-oriented planning to carry out the marketing concept more effectively. Throughout the text, we've highlighted firms and strategies that are making a difference. The successes of innovative firms—like Wal-Mart, 3M, ITW, Allegiance, AOL, Dell, Tesco, UPS, and Schwab—do not go unnoticed. Yes, they make some mistakes. That's human—and marketing is a human enterprise. But they have also showed the results that market-oriented strategy planning can produce.

Another encouraging sign is that more companies are recognizing that it often takes a diverse set of backgrounds and talents to meet the increasingly varied needs of its increasingly global customers. They're shedding "not-invented-here" biases and embracing technologies like the Internet and information systems, comparing what they do with the best practices of firms in totally different industries, and teaming up with outside specialists who can bring a fresh perspective.

Managers who adopt the marketing concept as a way of business life do a better job. They look for target market opportunities and carefully blend the elements of the marketing mix to meet their customers' needs. As more of these managers rise in business, we can look forward to much lower micro-marketing costs and strategies that do a better job of satisfying customer needs.

Internet

Internet Exercise Ikea is an innovative furniture company that is using its website to refine its strategy. It has always relied on information technology to keep costs low by tracking sales at individual stores and using the information to control inventory and reduce shipping costs between the factory, distribution centers, and its massive retail stores. Go to the Ikea website (www.ikea.com). What else does the website tell you about Ikea's strategy? Does the website help Ikea offer superior value? Explain your answer.

Macro-Marketing Does Not Cost Too Much

Many critics of marketing take aim at the macro-marketing system. They think (1) advertising, and promotion in general, are socially undesirable and (2) the macro-marketing system causes poor use of resources, limits income and employment, and leads to an unfair distribution of income. Most of these complaints imply that some micro-marketing activities should not be permitted—and because they are, our macro-marketing system does a poor job. Let's look at some of these positions to help you form your own opinion.

Micro-efforts help the economy grow

Some critics feel that marketing helps create a monopoly or at least monopolistic competition. Further, they think this leads to higher prices, restricted output, and reduction in national income and employment.

It's true that firms in a market-directed economy try to carve out separate monopolistic markets for themselves with new products. But consumers do have a choice. They don't *have* to buy the new product unless they think it's a better value. The old products are still available. In fact, to meet the new competition, prices of the old products usually drop. And that makes them even more available.

Marketing stimulates innovation and the development of new ways to meet customers' needs.

Over several years, the innovator's profits may rise—but rising profits also encourage further innovation by competitors. This leads to new investments—which contribute to economic growth and higher levels of national income and employment. Around the world, many countries failed to achieve their potential for economic growth under centrally planned systems because this type of profit incentive didn't exist. Even now, many of the regulations that are imposed by the developed countries are left over from old ways of thinking and get in the way of progress.

Increased profits also attract competition. Profits then begin to drop as new competitors enter the market and begin producing somewhat similar products. (Recall the rise and fall of industry profit during the product life cycle.)

Is advertising a waste of resources?

Advertising is the most criticized of all micro-marketing activities. Indeed, many ads *are* annoying, insulting, misleading, and downright ineffective. This is one reason why micro-marketing often does cost too much. However, advertising can also make both the micro- and macro-marketing processes work better.

Advertising is an economical way to inform large numbers of potential customers about a firm's products. Provided that a product satisfies customer needs, advertising can increase demand for the product—resulting in economies of scale in manufacturing, distribution, and sales. Because these economies may more than offset advertising costs, advertising can actually *lower* prices to the consumer.[8]

Does marketing make people buy things they don't need?

Some critics feel that advertising manipulates consumers into buying products that they don't need. This, of course, raises a question. How should a society determine which products are unnecesary and shouldn't be produced or sold? One critic suggested that Americans could and should do without such items as pets, newspaper comic strips, second family cars, motorcycles, snowmobiles, campers, recreational boats and planes, aerosol products, pop and beer cans, and hats.[9] You may agree with some of these. But who should determine minimum material requirements of life—individual consumers or critics?

Consumers are not puppets

The idea that firms can manipulate consumers to buy anything the company chooses to produce simply isn't true. A consumer who buys a soft drink that tastes terrible won't buy another can of that brand—regardless of how much it's advertised. In fact, many new products fail the test of the market. Not even large corporations are assured of success every time they launch a new product. Consider, for example, the dismal fate of Pets.com and eToys.com, Ford's Edsel, Sony's beta format VCRs, Xerox's personal computers, and half of the TV programs put on the air in recent years by CBS. And if powerful corporations know some way to get people to buy products against their will, would companies like Lucent, General Motors, and Eastern Airlines have ever gone through long periods losing hundreds of millions of dollars?

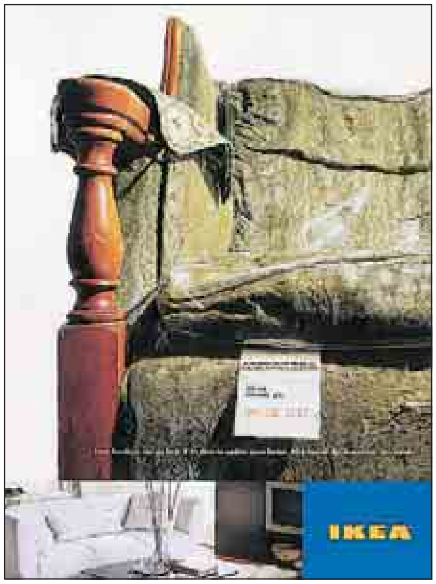
Needs and wants change

Consumer needs and wants change constantly. Few of us would care to live the way our grandparents lived when they were our age—let alone like the pioneers who traveled to unknown destinations in covered wagons. Marketing's job is not just to satisfy consumer wants as they exist at any particular point in time. Rather, marketing must keep looking for new and better ways to create value and serve consumers.[10]

Does marketing make people materialistic?

There is no doubt that marketing caters to materialistic values. However, people disagree as to whether marketing creates these values or simply appeals to values already there.

Even in the most primitive societies, people want to accumulate possessions. In fact, in some tribal villages, social status is measured by how many goats or sheep a person owns. Further, the tendency for ancient pharaohs and kings to surround themselves with wealth and treasures can hardly be attributed to the persuasive powers of advertising agencies!



Some critics argue that people are bombarded with too much advertising and that it tends to cater to materialistic values. However, in a free market consumers have choices, and so advertising tends to reflect society's values rather than create them.

The idea that marketers create and serve "false tastes"—as defined by individual critics—was answered by a well-known economist who said:

> The marketplace responds to the tastes of consumers with the goods and services that are salable, whether the tastes are elevated or depraved. It is unfair to criticize the marketplace for fulfilling these desires . . . it is like blaming waiters in restaurants for obesity.[11]

Marketing reflects our own values

Critics say that advertising elevates the wrong values—for example, by relying on sex appeal to get attention and generally sending the signal that what really matters most is self-gratification. Experts who study values seem to agree that, in the short run, marketing reflects social values, while in the long run it enhances and reinforces them. One expert pointed out that consumers vote for what they want in the marketplace and in the polling place. To say that what they choose is wrong, he said, is to criticize the basic idea of free choice and democracy.[12]

Further, many companies work hard to figure out their customers' beliefs and values. Then they refuse to use ads that would be offensive to their target customers.

Products do improve the quality of life

More is not always better. The quality of life can't be measured just in terms of quantities of material goods. But when we view products as the means to an end rather than the end itself, they *do* make it possible to satisfy higher-level needs. Microwave ovens, for example, greatly reduced the amount of time and effort people must spend preparing meals—leaving them free to pursue other interests. More dependable cars expanded people's geographic horizons—affecting where they can live and work and play. The Internet empowers people with information in ways that few could have even imagined a few years ago.

Not all needs are met

Some critics argue that our macro-marketing system is flawed because it does not provide solutions to important problems, such as questions about how to help the homeless, the uneducated, dependent children, minorities who have suffered discrimination, the elderly poor, and the sick. Many of these people do live in dire circumstances. But is that the result of a market-directed system?

There is no doubt that many firms focus their effort on people who can pay for what they have to offer. But as the forces of competition drive down prices, more people are able to afford more of what they need. And the matching of supply and demand stimulates economic growth, creates jobs, and spreads income among more people. In other words, a market-directed economy makes efficient use of resources. However, it can't guarantee that government aid programs are effective. It doesn't ensure that all voters and politicians agree on which problems should be solved first—or how taxes should be set and allocated. It can't eliminate the possibility of a child being ignored.

These are important societal issues. But they are not the result of a market-directed system. Citizen-consumers in a democratic society assign some responsibilities to business and some to government. Most people in business share the concern that government too often does not do an effective job in addressing these problems. Many firms are working to identify and contribute solutions. But ultimately consumer-citizens vote in the ballot box for how to deal with these concerns—just as they vote with their dollars for which firms to support. As more managers in the public sector understand and apply marketing concepts, we should be able to do a better job meeting the needs of all people.

Challenges Facing Marketers

We've said that our macro-marketing system does *not* cost too much—given the present objective of our economy. But we admit that the performance of many business firms leaves a lot to be desired. This presents a challenge to serious-minded students and marketers. What needs to be done—if anything?

We need better performance at the micro level

Some business executives seem to feel that they should be completely free in a market-directed economy. They don't understand that ours is a market-directed system and that they must provide value to consumer-citizens. Instead, they focus on their own internal problems and don't satisfy consumers very well.

Change is the only thing that's constant

Many firms are still production-oriented. Some hardly plan at all, and others simply extend one year's plans into the next. Progressive firms are beginning to realize that this doesn't work in our fast-changing markets. Market-oriented strategy planning is becoming more important in many companies. Firms are paying more attention to changes in the market—including trends in the marketing environment—and how marketing strategies need to be adapted to consider these changes. Exhibit 22-1 lists some of the important trends and changes we've discussed throughout this text.

Most of the changes and trends summarized in Exhibit 22-1 are having a positive effect on how marketers serve society. Whether it's because marketers are applying new technologies to solve old marketing problems or applying classic marketing concepts to new kinds of opportunities, consumers are better off. And this ongoing improvement is self-directing. As consumers shift their support to firms that do meet their needs, laggard businesses are forced to either improve or get out of the way.

But some basic frameworks are timeless

Good marketing strategy planning needs to focus on a specific target market and a marketing mix to meet its needs. Many of the frameworks and ideas about how to do that are so fundamental that they haven't changed as much as the long list in Exhibit 22-1 seems to suggest. At the same time, thinking about all these changes highlights the fact that marketing is dynamic. Marketing managers must constantly evaluate their strategies to be sure they're not being left in the dust by competitors who see new and better ways of doing things.

If it ain't broke, improve it

It's crazy for a marketing manager to constantly change a strategy that's working well. But too many managers fail to see or plan for needed changes. They're afraid to do anything different and adhere to the idea that "if it ain't broke, don't fix it."

Exhibit 22-1 Some Important Changes and Trends Affecting Marketing Strategy Planning

Communication Technologies
The Internet and intranets
Satellite communications
HTML e-mail and instant messaging
Videoconferencing and Internet telephone
Cellular telephones

Role of Computerization
E-commerce, websites
Computers and PDAs
Spreadsheet analysis
Wireless networks
Scanners and bar codes for tracking
Multimedia integration

Marketing Research
Search engines
Growth of marketing information systems
Decision support systems
XML data exchange
Single source data (and scanner panels)
Data warehouses and data mining
Multimedia data and questionnaires
Customer relationship management (CRM) systems

Demographic Patterns
"Wired" households
Explosion in teen and ethnic submarkets
Aging of the baby boomers
Population growth slowdown in U.S.
Geographic shifts in population
Slower real income growth in U.S.

Business and Organizational Customers
Closer relationships and single sourcing
Just-in-time inventory systems/EDI
Web portals and Internet sourcing
Interactive bidding and proposal requests
Shift to NAICS
ISO 9000
E-commerce and supply chain management

Product Area
More attention to "really new" products
Faster new-product development
Computer-aided design (CAD)
R&D teams with market-driven focus
More attention to quality
More attention to service technologies
More attention to design, including packages
Category management

Channels and Logistics
Internet selling (wholesale and retail)
More vertical marketing systems
Clicks and bricks
Larger, more powerful retail chains
More attention to distribution service
Real-time inventory replenishment
Rapid response, JIT, and ECR
Automated warehousing and handling
Cross-docking at distribution centers
Logistics outsourcing
Cross-channel logistics coordination
Growth of mass-merchandising

Sales Promotion
Database-directed promotion
Point-of-purchase promotion
Trade promotion becoming more sensible
Event sponsorships
Better support from agencies
Customer loyalty programs
Customer acquisition cost analysis

Personal Selling
Sales technology
Automated order-taking
Use of laptop computers
Major accounts specialization
More telemarketing and team selling
Use of e-mail, fax, and voice mail

Mass Selling
Interactive media (websites, etc.)
Integrated marketing communication
More targeted media
- Pointcasting
- Specialty publications
- Specialty radio and TV (cable, satellite)
- Point-of-purchase

Growth of interactive agencies
Consolidation of global agencies
Consolidation of media companies
Changing agency compensation
Direct-response advertising
Shrinking media budgets

Pricing
Electronic bid pricing and auctions
Value pricing
Overuse of sales and deals
Bigger differences in functional discounts
More attention to exchange rate effects
Lower markups on higher stockturn items
Spreadsheets for marginal analysis

International Marketing
Struggles of post-communist economies
More international market development
Global competitors—at home and abroad
Global communication over Internet
New trade rules (NAFTA, WTO, EU, etc.)
More attention to exporting by small firms
International expansion by retailers
Impact of "pop" culture on traditional cultures
Tensions between "have" and "have-not" cultures
Growing role of airfreight

General
Explicit mission statements
SWOT analysis
Collapse of many dot-com startups
Benchmarking and total quality management
More attention to positioning and differentiation
Less regulation of business
Increased use of alliances
Shift away from diversification
More attention to profitability, not just sales
Greater attention to superior value
Addressing environmental concerns

But a firm can't always wait until a problem becomes completely obvious to do something about it. When customers move on and profits disappear, it may be too late to fix the problem. Marketing managers who take the lead in finding innovative new markets and approaches get a competitive advantage.

We need to use technology wisely

We live in a time of dramatic new technologies. For example, in just a few short years information technology has opened the door to radical new approaches for e-commerce and opportunities such as those available via the Internet. Many marketers hate the idea that what they've learned from years of on-the-job experience may no longer apply when a new technology comes along. Or they feel that it's the job of the technical specialist to figure out how a new technology can help the firm serve its customers. But identifying and understanding new ways of satisfying customers and meeting their needs *is* a basic marketing responsibility. Marketers can't just pawn that responsibility off on "somebody else." If that means learning about new technologies, then that is just part of the marketing job. It's better for the marketer to have to struggle to understand the implications of a new technology than it is to just assume that the technology specialists will struggle to understand customers' needs. More often than not, that's a really bad assumption. And when no one is worrying about the customers' point of view, everybody suffers the consequences.

At a broader level, firms face the challenge of determining what technologies are acceptable and which are not. For example, gene research has opened the door to life-saving medicines, genetically altered crops that resist drought or disease, and even cloning of human beings. Yet in all of these arenas there is intense conflict among different groups about what is appropriate. The fact that science allows us to do something doesn't necessarily mean that it should be done. On the other hand, how should these decisions be made? There is no simple answer to this question, but it's clear that old production-oriented views are *not* the answer. Perhaps we will move toward developing answers if some of the marketing ideas that have been applied to understanding individual needs can be extended to better understand the needs of society as a whole.

We need to welcome international competition

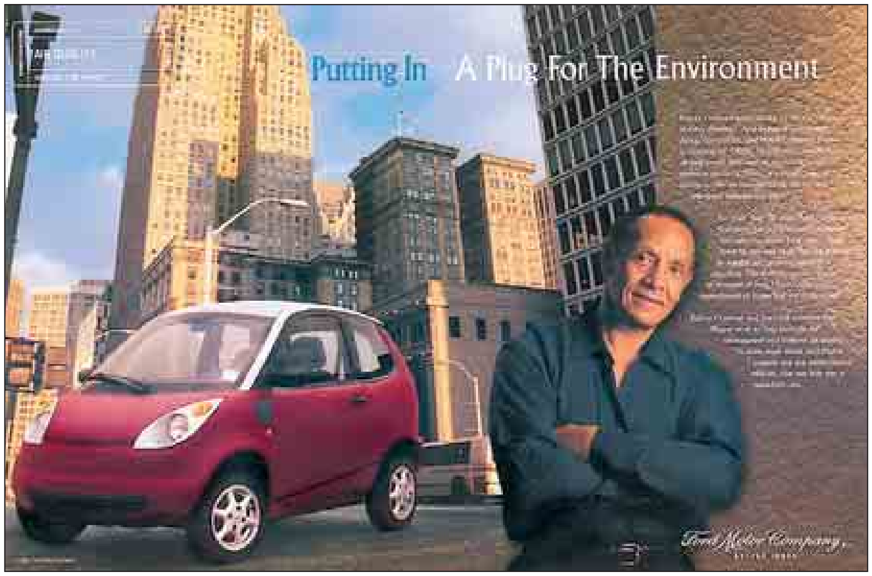
Increasingly, marketing managers face global competition. Some managers hate that thought. Worldwide competition creates even more pressure on marketing managers to figure out what it takes to gain a competitive advantage—both at home and in foreign markets. But with the challenge comes opportunities. The forces of competition in and among market-directed economies will help speed the diffusion of marketing advances to consumers everywhere. As macro-marketing systems improve worldwide, more consumers will have income to buy products—from wherever in the world those products come.

Marketers can't afford to bury their heads in the sand and hope that international competition will go away. Rather, they must realize that it is part of today's marketing environment—and they must do marketing strategy planning that rises to the challenges it poses.

May need more social responsibility

Good business managers put themselves in the consumer's position. A useful rule to follow might be: Do unto others as you would have others do unto you. In practice, this means developing satisfying marketing mixes for specific target markets. It may mean building in more quality or more safety. The consumer's long-run satisfaction should be considered too. How will the product hold up in use? What about service guarantees? While trying to serve the needs of some target market, does the marketing strategy disregard the rights and needs of other consumers or create problems that will be left for future generations?[13]

Short-sighted, production-oriented approaches undoubtedly won't work in the future. Tougher competition—from companies at home and abroad—may force old-style production-oriented business managers to change their thinking just to survive.



Marketers need to understand and be sensitive to consumer concerns. Issues like protecting the environment are important and firms that look for better ways to address this issue may find that they can do well by doing good.

The environment is everyone's need

Marketers need to work harder and smarter at finding ways to satisfy consumer needs without sacrificing the current or future environment. All consumers need the environment—whether they realize it yet or not. We are only beginning to understand the consequences of the environmental damage that's already been done. Acid rain, depletion of the ozone layer, global warming, and toxic waste in water supplies—to mention but a few current environmental problems—have catastrophic effects. Many top executives now say that preserving and protecting the environment will be one of the major challenges, if not *the* major challenge, of business firms in the new millennium.

In the past, most firms didn't pass the cost of environmental damage on to consumers in the prices that they paid. Pollution was a hidden and unmeasured cost for most companies. That is changing rapidly. Firms are already paying billions of dollars to correct problems—including problems created years ago. The government isn't accepting the excuse that "nobody knew it was a big problem." Consider yourself warned: Businesspeople who fail to anticipate the coming public backlash on this issue put their careers and businesses at risk!

Creative marketers should be able to figure out how to preserve the environment, meet customer needs, and make profits all at the same time. Aveda, a cosmetics company, uses seeds from a shrub in the Amazon rain forest for the reddish pigment in its lipstick. By giving natives of the Amazon a way to make a living without further clearing of the rain forest, Aveda is helping to preserve the forest and also meeting the needs of consumers who want to buy environmentally friendly products.[14]

May need attention to consumer privacy

While focusing on consumers' needs, marketers also must be sensitive to other consumer concerns. Today, sophisticated marketing research methods, the Internet, and other new technologies make it easier to abuse consumers' rights to privacy. For example, credit card records—which reveal much about consumers' purchases and private lives—are routinely computerized and sold to anybody who pays for the list.

Most consumers don't realize how much data about their personal lives—some of it incorrect but treated as fact—is collected and available. A simple computer billing error may land consumers on a computer bad-credit list—without their knowledge. Marketing managers should use technology responsibly to improve the quality of life, not disrupt it. If you don't think privacy is a serious matter, enter your social security number in an Internet search engine and see what pops up. You may be surprised.

Promotion Managers Go Back to School

Schools are a targeted place for youth-oriented marketers to promote their products to the U.S.'s 45 million elementary and secondary students. Coke and Pepsi are eager to contribute scoreboards (or is that billboards?) for high school sports fields. In school cafeterias, which serve 30 million meals a day, Kellogg's cereal and Dannon's yogurt sponsor programs to motivate learning (and increase consumption). A school district in Colorado got national attention for selling advertising space on the sides of its school buses. This is not a new idea. The National Dairy Council has promoted dairy products in the schools since 1915.

Even so, the launch of the Channel One television network with ads and programming for schools brought new attention to the issue. Many critics saw it as a crass attempt to exploit captive students. Some schools even hand out coupons tied in with the ads. Channel One notes that schools get benefits. Besides the excellent news programs, they get video equipment and chances to win support for Internet access. Even Internet access is a mixed blessing. It's a great research tool, but there are virtually no limits on Internet advertising banners or websites. A teacher who does an in-class search on an innocent topic like "Asian teens" may click on one of the websites listed and instantly face a screen full of explicit pictures from a Japanese website that sells porno videos. To prevent that sort of thing, many schools use a web-filtering program from N2H2, Inc. But critics are troubled that N2H2 sells information about student surfing habits collected by the program.

To find more targeted ways of reaching students, some consumer products firms turn to promotion specialists, like Sampling Corporation of America (SCA). About 70 percent of all schools participate in SCA programs. For example, every Halloween SCA provides schools with safety literature wrapped around product samples or coupons provided by sponsor companies. Other firms create teaching materials. Dole Foods' nutrition curriculum, for example, centers on a multimedia CD-ROM featuring 30 animated fruits and vegetables. Dole also urges supermarket produce managers to contact their local schools to arrange special tours. More than 750,000 elementary school students have taken in-store produce tours.

There is no question that in-school promotion efforts do provide budget-strapped educators with added resources, including useful teaching materials. Yet promotions targeted at students also raise sensitive issues of educational standards, ethics, and taste. Marketers who are not sensitive to these issues can provoke a hostile public backlash, including a host of new regulations.[15]

www.mhhe.com/fourps

May need to change laws and how they are enforced

One of the advantages of a market-directed economic system is that it operates automatically. But in our version of this system, consumer-citizens provide certain constraints (laws), which can be modified at any time. Managers who ignore consumer attitudes must realize that their actions may cause new restraints.

Before piling on too many new rules, however, we should review the ones we have. Some of them may need to be changed—and others may need to be enforced more carefully. Antitrust laws, for example, are often applied to protect competitors from each other—when they were really intended to encourage competition.

On the other hand, U.S. antitrust laws were originally developed with the idea that all firms competing in a market would be on a level playing field. That is no longer always true. For example, in many markets individual U.S. firms compete with foreign firms whose governments urge them to cooperate with each other. Such foreign firms don't see each other as competitors; rather they see U.S. firms, as a group, as the competitors.

Laws should affect top managers

Strict enforcement of present laws could have far-reaching results if more price fixers, fraudulent or deceptive advertisers, and others who violate existing laws—thus affecting the performance of the macro-marketing system—were sent to jail or given heavy fines. A quick change in attitudes might occur if unethical top managers—those who plan strategy—were prosecuted, instead of the salespeople or advertisers expected to deliver on weak or undifferentiated strategies.

Internet

Internet Exercise Obvious Implementations Corp. is a small consulting and manufacturing firm. Go to its website (www.obviously.com) and then select *How to stop junk mail, e-mail, and phone calls.* Read through the information and, if you wish, follow some of the links to other sites listed. Should it be easier to avoid mail, spam, and calls you don't want? Explain your thinking.

In other words, if the government made it clear that it was serious about improving the performance of our economic system, much could be achieved within the present system—*without* adding new constraints.

Laws merely define minimal ethical standards

As we discussed ethical issues in marketing throughout the text, we emphasized that a marketing manager doesn't face an ethical dilemma about complying with laws and regulations. Whether a marketer is operating in his or her own country or in a foreign nation, the legal environment sets the *minimal* standards of ethical behavior as defined by a society. In addition, the American Marketing Association's code of ethics (Exhibit 2-4) provides a checklist of basic guidelines that a marketing manager should observe. But marketing managers constantly face ethical issues where there are no clearly defined answers. Every marketing manager should be aware of this and make a personal commitment to carefully evaluate the ethical consequences of marketing strategy decisions.

On the other hand, our marketing system is designed to encourage firms to compete aggressively as long as they do it in a fair way. New and better ways of serving customers and society give a firm a competitive advantage—at least for some period of time. This is how we move forward as a society. Innovative new marketing strategies *do* sometimes cause problems for those who have a vested interest in the old ways. Some people try to portray anything that disrupts their own personal interest as unethical. But protecting the status quo is not by itself an appropriate ethical standard. To the contrary, our society's most basic ethical charge to marketers is to find new and better ways to serve society's needs.

Need socially responsible consumers

We've stressed that marketers should act responsibly—but consumers have responsibilities too. Some consumers abuse policies about returning goods, change price tags in self-service stores, and expect attractive surroundings and courteous, well-trained sales and service people—*and* want discount prices. Some are down right abusive to salespeople. Others think nothing of ripping off businesses because "they're rich." Shoplifting is a major problem for most traditional retailers—averaging almost 2 percent of sales nationally. In supermarkets, losses to shoplifters are on average greater than profits. Online retailers, in turn, must fight the use of stolen or fraudulent credit cards. Honest consumers pay for the cost of this theft in higher prices.[16]

Consumers have social responsibilities too. Sensormatic sells equipment that many retailers use to prevent shoplifting.

Americans tend to perform their dual role of consumer-citizens with a split personality. We often behave one way as consumers then take the opposite position at the ballot box. For example, we cover our beaches and parks with garbage and litter, while urging our legislators to take stiff action to curb pollution. We protest sex and violence in the media and then flock to see the latest R- or X-rated movies. Some of the most profitable websites on the Internet are purveyors of pornography. Parents complain about advertising aimed at children then use TV as a Saturday morning babysitter.

Unethical or illegal behavior is widespread. In a major survey of workers, managers, and executives from a wide range of industries, 48 percent admitted to taking unethical or illegal actions in the past year. Offenses included things like cheating on expense accounts, paying or accepting kickbacks, trading sex for sales, lying to customers, leaking company secrets, and looking the other way when environmental laws are violated. Think about it—we're talking about half of the workforce.[17]

As consumer-citizens, each of us shares the responsibility for preserving an effective macro-marketing system. And we should take this responsibility seriously. That even includes the responsibility to be smarter customers. Let's face it, a majority of consumers ignore most of the available information that could help them spend money (and guide the marketing process) more wisely. Consumerism has encouraged nutritional labeling, open dating, unit pricing, truth-in-lending, plain-language contracts and warranties, and so on. Government agencies publish many consumer buying guides on everything from tires to appliances, as do organizations such as Consumers Union. Most of this information is now available from home—over the Internet. It makes sense to use it.

How Far Should the Marketing Concept Go?

Should marketing managers limit consumers' freedom of choice?

Achieving a better macro-marketing system is certainly a desirable objective. But what part should a marketer play in deciding what products to offer?

This is extremely important, because some marketing managers, especially those in large corporations, can have an impact far larger than they do in their roles as consumer-citizens. For example, should they refuse to produce hazardous products, like skis or motorcycles, even though such products are in strong demand? Should they install safety devices that increase costs but that customers don't want?

These are difficult questions to answer. Some things marketing managers do clearly benefit both the firm and consumers because they lower costs and/or improve consumers' options. But other choices may actually reduce consumer choice and conflict with a desire to improve the effectiveness of our macro-marketing system.

Consumer-citizens should vote on the changes

It seems fair to suggest, therefore, that marketing managers should be expected to improve and expand the range of goods and services they make available—always trying to add value and better satisfy consumers' needs and preferences. This is the job we've assigned to business.

If pursuing this objective makes excessive demands on scarce resources or has an unacceptable ecological effect, then consumer-citizens have the responsibility to vote for laws restricting individual firms that are trying to satisfy consumers' needs. This is the role that we, as consumers, have assigned to the government—to ensure that the macro-marketing system works effectively.

It is important to recognize that some *seemingly minor* modifications in our present system *might* result in very big, unintended problems. Allowing some government agency to prohibit the sale of products for seemingly good reasons could lead to major changes we never expected. (Bicycles, for example, are a very hazardous consumer product. Should they continue to be sold?) Clearly, such government actions could seriously reduce consumers' present rights to freedom of choice—including "bad" choices.

The Domino's logo shown here behind home plate does not actually exist on the playing field of this major league baseball game—but rather is created electronically. The advertiser pays the TV broadcaster to get the exposure. As new imaging technologies emerge, companies will have to decide what is fair and appropriate.

We, as consumer-citizens, should be careful to distinguish between proposed changes designed simply to modify our system and those designed to change it—perhaps drastically. In either case, we should have the opportunity to make the decision (through elected representatives). This decision should not be left in the hands of a few well-placed managers or government planners.

Marketing people may be even more necessary in the future

Regardless of the changes consumer-citizens may enact, we will need some kind of a marketing system in the future. Further, if satisfying more subtle needs—such as for the good life—becomes our objective, it could be even more important to have market-oriented firms. We may have to define not only an individual's needs but also society's needs—perhaps for a better neighborhood or more enriching social experiences, and so on. As we go beyond tangible physical goods into more sophisticated need-satisfying blends of goods and services, the trial-and-error approach of the typical production-oriented manager will become even less acceptable.[18]

Conclusion

Macro-marketing does *not* cost too much. Consumers have assigned business the role of satisfying their needs. Customers find it satisfactory and even desirable to permit businesses to cater to them and even to stimulate wants. As long as consumers are satisfied, macro-marketing will not cost too much—and business firms will be permitted to continue as profit-making entities.

But business exists at the consumer's discretion. It's mainly by satisfying the consumer that a particular firm—and *our* economic system—can justify its existence and hope to keep operating.

In carrying out this role—granted by consumers—business firms are not always as effective as they could be. Many business managers don't understand the marketing concept or the role that marketing plays in our way of life. They seem to feel that business has a God-given right to operate as it chooses. And they proceed in their typical production-oriented ways. Further, many managers have had little or no training in business management and are not as competent as they should be. Others fail to adjust to the changes taking place around them. And a few dishonest or unethical managers can do a great deal of damage before consumer-citizens take steps to stop them. As a result, micro-marketing often *does* cost too much. But the situation is improving. More business training is now available, and more competent people are being attracted to marketing and business generally. Clearly, *you* have a role to play in improving marketing activities in the future.

Marketing has new challenges to face in the future. *Our* consumers may have to settle for a lower standard of living. Resource shortages, slower population growth, and a larger number of elderly—with a smaller proportion of the population in the workforce—may all combine to reduce our income growth. This may force consumers to shift their consumption patterns and politicians to change some of the rules governing business. Even our present market-directed system may be threatened.

To keep our system working effectively, individual firms should implement the marketing concept in a more efficient, ethical, and socially responsible way. At the same time, we—as consumers—should consume goods and services in an intelligent and socially responsible way. Further, we have the responsibility to vote and ensure that we get the kind of macro-marketing system we want. What kind do you want? What should you do to ensure that fellow consumer-citizens will vote for your system? Is your system likely to satisfy you as well as another macro-marketing system? You don't have to answer these questions right now—but your answers will affect the future you'll live in and how satisfied you'll be.

Questions and Problems

1. Explain why marketing must be evaluated at two levels. What criteria should be used to evaluate each level of marketing? Defend your answer. Explain why your criteria are better than alternative criteria.
2. Discuss the merits of various economic system objectives. Is the objective of the American economic system sensible? Could it achieve more consumer satisfaction if sociologists or public officials determined how to satisfy the needs of lower-income or less-educated consumers? If so, what education or income level should be required before an individual is granted free choice?
3. Should the objective of our economy be maximum efficiency? If your answer is yes, efficiency in what? If not, what should the objective be?
4. Discuss the conflict of interests among production, finance, accounting, and marketing executives. How does this conflict affect the operation of an individual firm? The economic system? Why does this conflict exist?
5. Why does adoption of the marketing concept encourage a firm to operate more efficiently? Be specific about the impact of the marketing concept on the various departments of a firm.
6. In the short run, competition sometimes leads to inefficiency in the operation of our economic system. Many people argue for monopoly in order to eliminate this inefficiency. Discuss this solution.
7. How would officially granted monopolies affect the operation of our economic system? Consider the effect on allocation of resources, the level of income and employment, and the distribution of income. Is the effect any different if a firm obtains a monopoly by winning out in a competitive market?
8. Comment on the following statement: "Ultimately, the high cost of marketing is due only to consumers."
9. How far should the marketing concept go? How should we decide this issue?
10. Should marketing managers, or business managers in general, refrain from producing profitable products that some target customers want but that may not be in their long-run interest? Should firms be expected to produce "good" but less profitable products? What if such products break even? What if they are unprofitable but the company makes other profitable products—so on balance it still makes some profit? What criteria are you using for each of your answers?
11. Should a marketing manager or a business refuse to produce an "energy-gobbling" appliance that some consumers are demanding? Should a firm install an expensive safety device that will increase costs but that customers don't want? Are the same principles involved in both these questions? Explain.
12. Discuss how one or more of the trends or changes shown in Exhibit 22-1 is affecting marketing strategy planning for a specific firm that serves the market where you live.
13. Discuss how slower economic growth or no economic growth would affect your college community—in particular, its marketing institutions.

Suggested Cases

27. Plastic Master, Inc.
28. PCT, Inc.
29. Metal Works, Inc.
30. DeLuxe Foods, Ltd.
32. Lever, Ltd.

Appendix A

Economics Fundamentals

When You Finish This Appendix, You Should

1. Understand the "law of diminishing demand."

2. Understand demand and supply curves and how they set the size of a market and its price level.

3. Know about elasticity of demand and supply.

4. Know why demand elasticity can be affected by availability of substitutes.

5. Know the different kinds of competitive situations and understand why they are important to marketing managers.

6. Recognize the important new terms (shown in red).

A good marketing manager should be an expert on markets and the nature of competition in markets. The economist's traditional analysis of demand and supply is a useful tool for analyzing markets. In particular, you should master the concepts of a demand curve and demand elasticity. A firm's demand curve shows how the target customers view the firm's Product—really its whole marketing mix. And the interaction of demand and supply curves helps set the size of a market and the market price. The interaction of supply and demand also determines the nature of the competitive environment, which has an important effect on strategy planning. These ideas are discussed more fully in the following sections.

Products and Markets as Seen by Customers and Potential Customers

Economists provide useful insights

How potential customers (not the firm) see a firm's product (marketing mix) affects how much they are willing to pay for it, where it should be made available, and how eager they are for it—if they want it at all. In other words, their view has a very direct bearing on marketing strategy planning.

Economists have been concerned with market behavior for years. Their analytical tools can be quite helpful in summarizing how customers view products and how markets behave.

Economists see individual customers choosing among alternatives

Economics is sometimes called the dismal science—because it says that most customers have a limited income and simply cannot buy everything they want. They must balance their needs and the prices of various products.

Economists usually assume that customers have a fairly definite set of preferences and that they evaluate alternatives in terms of whether the alternatives will make them feel better (or worse) or in some way improve (or change) their situation.

But what exactly is the nature of a customer's desire for a particular product?

Usually economists answer this question in terms of the extra utility the customer can obtain by buying more of a particular product—or how much utility would be lost if the customer had less of the product. (Students who wish further discussion of this approach should refer to indifference curve analysis in any standard economics text.)

It is easier to understand the idea of utility if we look at what happens when the price of one of the customer's usual purchases changes.

The law of diminishing demand

Suppose that consumers buy potatoes in 10-pound bags at the same time they buy other foods such as bread and rice. If the consumers are mainly interested in buying a certain amount of food and the price of the potatoes drops, it seems reasonable to expect that they will switch some of their food money to potatoes and away from some other foods. But if the price of potatoes rises, you expect our consumers to buy fewer potatoes and more of other foods.

The general relationship between price and quantity demanded illustrated by this food example is called the **law of diminishing demand**—which says that if the price of a product is raised, a smaller quantity will be demanded and if the price of a product is lowered, a greater quantity will be demanded. Experience supports this relationship between prices and total demand in a market, especially for broad product categories or commodities such as potatoes.

The relationship between price and quantity demanded in a market is what economists call a "demand schedule." An example is shown in Exhibit A-1. For each row in the table, Column 2 shows the quantity consumers will want (demand) if they have to pay the price given in Column 1. The third column shows that the total revenue (sales) in the potato market is equal to the quantity demanded at a

Exhibit A-1
Demand Schedule for Potatoes (10-pound bags)

Point	(1) Price of Potatoes per Bag (P)	(2) Quantity Demanded (bags per month) (Q)	(3) Total Revenue per Month (P × Q = TR)
A	$1.60	8,000,000	$12,800,000
B	1.30	9,000,000	__________
C	1.00	11,000,000	11,000,000
D	0.70	14,000,000	__________
E	0.40	19,000,000	__________

given price times that price. Note that as prices drop, the total *unit* quantity increases, yet the total *revenue* decreases. Fill in the blank lines in the third column and observe the behavior of total revenue—an important number for the marketing manager. We will explain what you should have noticed, and why, a little later.

The demand curve—usually down-sloping

If your only interest is seeing at which price the company will earn the greatest total revenue, the demand schedule may be adequate. But a demand curve shows more. A **demand curve** is a graph of the relationship between price and quantity demanded in a market—assuming that all other things stay the same. Exhibit A-2 shows the demand curve for potatoes—really just a plotting of the demand schedule in Exhibit A-1. It shows how many potatoes potential customers will demand at various possible prices. This is a "down-sloping demand curve."

Most demand curves are down-sloping. This just means that if prices are decreased, the quantity customers demand will increase.

Demand curves always show the price on the vertical axis and the quantity demanded on the horizontal axis. In Exhibit A-2, we have shown the price in dollars. For consistency, we will use dollars in other examples. However, keep in mind that these same ideas hold regardless of what money unit (dollars, yen, francs, pounds, etc.) is used to represent price. Even at this early point, you should keep in mind that markets are not necessarily limited by national boundaries—or by one type of money.

Note that the demand curve only shows how customers will react to various possible prices. In a market, we see only one price at a time, not all of these prices. The curve, however, shows what quantities will be demanded—depending on what price is set.

You probably think that most businesspeople would like to set a price that would result in a large sales revenue. Before discussing this, however, we should consider the demand schedule and curve for another product to get a more complete picture of demand-curve analysis.

Exhibit A-2
Demand Curve for Potatoes (10-pound bags)

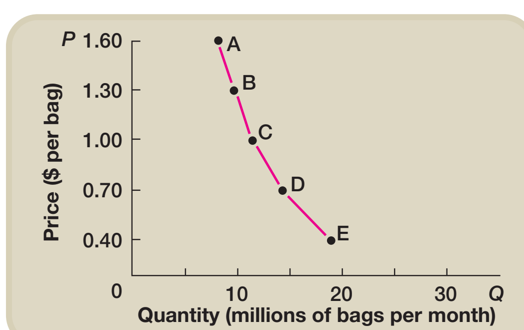


Exhibit A-3
Demand Schedule for 1-Cubic-Foot Microwave Ovens

Point	(1) Price per Microwave Oven (P)	(2) Quantity Demanded per Year (Q)	(3) Total Revenue (TR) per Year (P × Q = TR)
A	$300	20,000	$6,000,000
B	250	70,000	15,500,000
C	200	130,000	26,000,000
D	150	210,000	31,500,000
E	100	310,000	31,000,000

Microwave oven demand curve looks different

A different demand schedule is the one for standard 1-cubic-foot microwave ovens shown in Exhibit A-3. Column (3) shows the total revenue that will be obtained at various possible prices and quantities. Again, as the price goes down, the quantity demanded goes up. But here, unlike the potato example, total revenue increases as prices go down—at least until the price drops to $150.

Every market has a demand curve—for some time period

These general demand relationships are typical for all products. But each product has its own demand schedule and curve in each potential market—no matter how small the market. In other words, a particular demand curve has meaning only for a particular market. We can think of demand curves for individuals, groups of individuals who form a target market, regions, and even countries. And the time period covered really should be specified—although this is often neglected because we usually think of monthly or yearly periods.

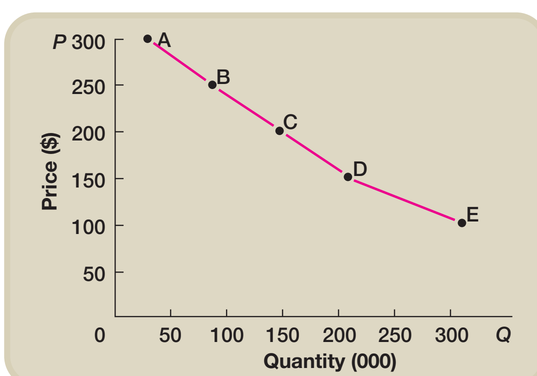
The difference between elastic and inelastic

The demand curve for microwave ovens (see Exhibit A-4) is down-sloping—but note that it is flatter than the curve for potatoes. It is important to understand what this flatness means.

We will consider the flatness in terms of total revenue—since this is what interests business managers.*

When you filled in the total revenue column for potatoes, you should have noticed that total revenue drops continually if the price is reduced. This looks

Exhibit A-4
Demand Curve for 1-Cubic-Foot Microwave Ovens



*Strictly speaking, two curves should not be compared for flatness if the graph scales are different, but for our purposes now we will do so to illustrate the idea of "elasticity of demand." Actually, it would be more accurate to compare two curves for one product—on the same graph. Then both the shape of the demand curve and its position on the graph would be important.

undesirable for sellers and illustrates inelastic demand. **Inelastic demand** means that although the quantity demanded increases if the price is decreased, the quantity demanded will not "stretch" enough—that is, it is not elastic enough—to avoid a decrease in total revenue.

In contrast, **elastic demand** means that if prices are dropped, the quantity demanded will stretch (increase) enough to increase total revenue. The upper part of the microwave oven demand curve is an example of elastic demand.

But note that if the microwave oven price is dropped from $150 to $100, total revenue will decrease. We can say, therefore, that between $150 and $100, demand is inelastic—that is, total revenue will decrease if price is lowered from $150 to $100.

Thus, elasticity can be defined in terms of changes in total revenue. *If total revenue will increase if price is lowered, then demand is elastic. If total revenue will decrease if price is lowered, then demand is inelastic.* (Note: A special case known as "unitary elasticity of demand" occurs if total revenue stays the same when prices change.)

Total revenue may increase if price is raised

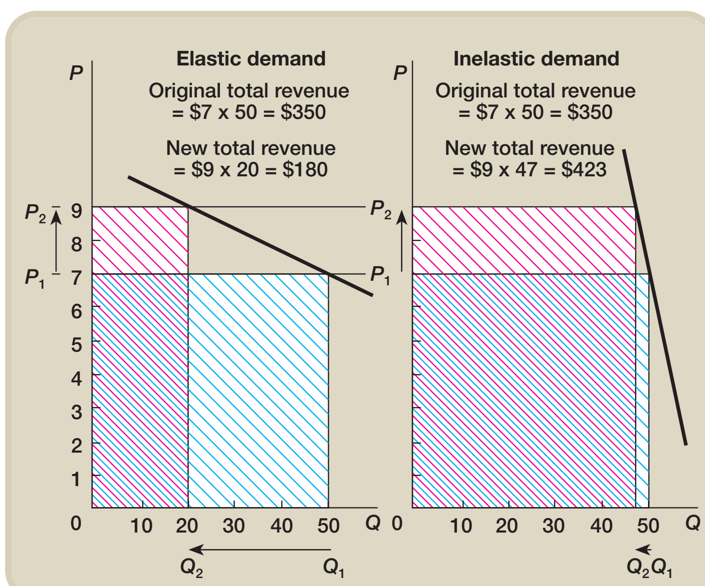
A point often missed in discussions of demand is what happens when prices are raised instead of lowered. With elastic demand, total revenue will *decrease* if the price is *raised.* With inelastic demand, however, total revenue will *increase* if the price is *raised.*

The possibility of raising price and increasing dollar sales (total revenue) at the same time is attractive to managers. This only occurs if the demand curve is inelastic. Here total revenue will increase if price is raised, but total costs probably will not increase—and may actually go down—with smaller quantities. Keep in mind that profit is equal to total revenue minus total costs. So when demand is inelastic, profit will increase as price is increased!

The ways total revenue changes as prices are raised are shown in Exhibit A-5. Here total revenue is the rectangular area formed by a price and its related quantity. The larger the rectangular area, the greater the total revenue.

P_1 is the original price here, and the total potential revenue with this original price is shown by the area with blue shading. The area with red shading shows the total revenue with the new price, P_2. There is some overlap in the total revenue areas, so the important areas are those with only one color. Note that in

Exhibit A-5
Changes in Total Revenue as Prices Increase



the left-hand figure—where demand is elastic—the revenue added (the red-only area) when the price is increased is less than the revenue lost (the blue-only area). Now let's contrast this to the right-hand figure, when demand is inelastic. Only a small blue revenue area is given up for a much larger (red) one when price is raised.

An entire curve is not elastic or inelastic

It is important to see that it is *wrong to refer to a whole demand curve as elastic or inelastic*. Rather, elasticity for a particular demand curve refers to the change in total revenue between two points on the curve, not along the whole curve. You saw the change from elastic to inelastic in the microwave oven example. Generally, however, nearby points are either elastic or inelastic—so it is common to refer to a whole curve by the degree of elasticity in the price range that normally is of interest—the *relevant range*.

Demand elasticities affected by availability of substitutes and urgency of need

At first, it may be difficult to see why one product has an elastic demand and another an inelastic demand. Many factors affect elasticity—such as the availability of substitutes, the importance of the item in the customer's budget, and the urgency of the customer's need and its relation to other needs. By looking more closely at one of these factors—the availability of substitutes—you will better understand why demand elasticities vary.

Substitutes are products that offer the buyer a choice. For example, many consumers see grapefruit as a substitute for oranges and hot dogs as a substitute for hamburgers. The greater the number of "good" substitutes available, the greater will be the elasticity of demand. From the consumer's perspective, products are "good" substitutes if they are very similar (homogeneous). If consumers see products as extremely different, or heterogeneous, then a particular need cannot easily be satisfied by substitutes. And the demand for the most satisfactory product may be quite inelastic.

As an example, if the price of hamburger is lowered (and other prices stay the same), the quantity demanded will increase a lot—as will total revenue. The reason is that not only will regular hamburger users buy more hamburger, but some consumers who formerly bought hot dogs or steaks probably will buy hamburger too. But if the price of hamburger is raised, the quantity demanded will decrease—perhaps sharply. Still consumers will buy some hamburger—depending on how much the price has risen, their individual tastes, and what their guests expect (see Exhibit A-6).

In contrast to a product with many "substitutes"—such as hamburger—consider a product with few or no substitutes. Its demand curve will tend to be inelastic. Motor oil is a good example. Motor oil is needed to keep cars running. Yet no one person or family uses great quantities of motor oil. So it is not likely that the quantity of motor oil purchased will change much as long as price changes are *within a*

Exhibit A-6
Demand Curve for Hamburger (a product with many substitutes)

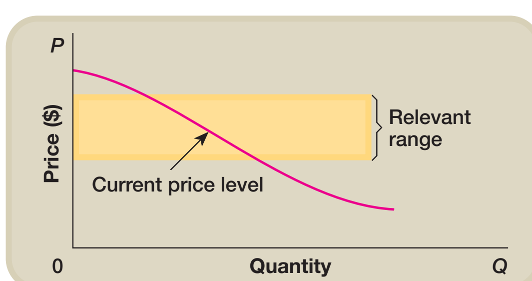
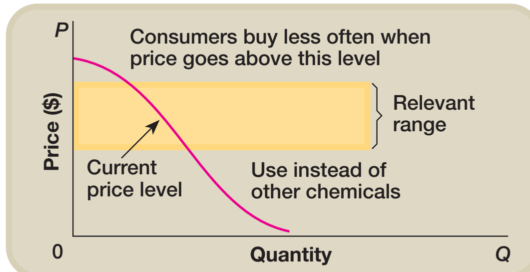


Exhibit A-7
Demand Curve for Motor Oil (a product with few substitutes)



reasonable range. Of course, if the price is raised to a staggering figure, many people will buy less oil (change their oil less frequently). If the price is dropped to an extremely low level, manufacturers may buy more—say, as a lower-cost substitute for other chemicals typically used in making plastic (Exhibit A-7). But these extremes are outside the relevant range.

Demand curves are introduced here because the degree of elasticity of demand shows how potential customers feel about a product—and especially whether they see substitutes for the product. But to get a better understanding of markets, we must extend this economic analysis.

Markets as Seen by Suppliers

Customers may want some product—but if suppliers are not willing to supply it, then there is no market. So we'll study the economist's analysis of supply. And then we'll bring supply and demand together for a more complete understanding of markets.

Economists often use the kind of analysis we are discussing here to explain pricing in the marketplace. But that is not our intention. Here we are interested in how and why markets work and the interaction of customers and potential suppliers. Later in this appendix we will review how competition affects prices, but how individual firms set prices, or should set prices, was discussed fully in Chapters 17 and 18.

Supply curves reflect supplier thinking

Generally speaking, suppliers' costs affect the quantity of products they are willing to offer in a market during any period. In other words, their costs affect their supply schedules and supply curves. While a demand curve shows the quantity of products customers will be willing to buy at various prices, a **supply curve** shows the quantity of products that will be supplied at various possible prices. Eventually, only one quantity will be offered and purchased. So a supply curve is really a hypothetical (what-if) description of what will be offered at various prices. It is, however, a very important curve. Together with a demand curve, it summarizes the attitudes and probable behavior of buyers and sellers about a particular product in a particular market—that is, in a product-market.

Some supply curves are vertical

We usually assume that supply curves tend to slope upward—that is, suppliers will be willing to offer greater quantities at higher prices. If a product's market price is very high, it seems only reasonable that producers will be anxious to produce more of the product and even put workers on overtime or perhaps hire more workers to increase the quantity they can offer. Going further, it seems likely that

Exhibit A-8
Supply Schedule for Potatoes (10-pound bags)

Point	Possible Market Price per 10-lb. Bag	Number of Bags Sellers Will Supply per Month at Each Possible Market Price
A	$1.60	17,000,000
B	1.30	14,000,000
C	1.00	11,000,000
D	0.70	8,000,000
E	0.40	3,000,000

Note: This supply curve is for a month to emphasize that farmers might have some control over when they deliver their potatoes. There would be a different curve for each month.

producers of other products will switch their resources (farms, factories, labor, or retail facilities) to the product that is in great demand.

On the other hand, if consumers are only willing to pay a very low price for a particular product, it's reasonable to expect that producers will switch to other products—thus reducing supply. A supply schedule (Exhibit A-8) and a supply curve (Exhibit A-9) for potatoes illustrate these ideas. This supply curve shows how many potatoes would be produced and offered for sale at each possible market price in a given month.

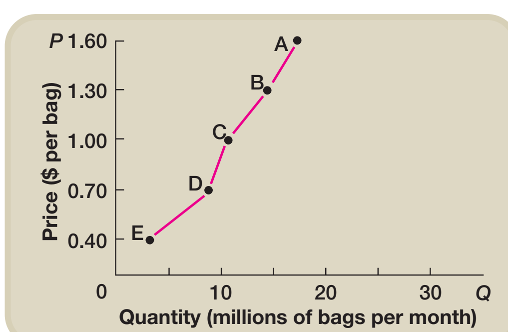
In the very short run (say, over a few hours, a day, or a week), a supplier may not be able to change the supply at all. In this situation, we would see a vertical supply curve. This situation is often relevant in the market for fresh produce. Fresh strawberries, for example, continue to ripen, and a supplier wants to sell them quickly—preferably at a higher price—but in any case, they must be sold.

If the product is a service, it may not be easy to expand the supply in the short run. Additional barbers or medical doctors are not quickly trained and licensed, and they only have so much time to give each day. Further, the prospect of much higher prices in the near future cannot easily expand the supply of many services. For example, a hit play or an "in" restaurant or nightclub is limited in the amount of "product" it can offer at a particular time.

Elasticity of supply

The term *elasticity* also is used to describe supply curves. An extremely steep or almost vertical supply curve, often found in the short run, is called **inelastic supply** because the quantity supplied does not stretch much (if at all) if the price is raised. A flatter curve is called **elastic supply** because the quantity supplied does stretch more if the price is raised. A slightly up-sloping supply curve is typical in longer-

Exhibit A-9
Supply Curve for Potatoes (10-pound bags)



run market situations. Given more time, suppliers have a chance to adjust their offerings, and competitors may enter or leave the market.

Demand and Supply Interact to Determine the Size of the Market and Price Level

We have treated market demand and supply forces separately. Now we must bring them together to show their interaction. The *intersection* of these two forces determines the size of the market and the market price—at which point (price and quantity) the market is said to be in *equilibrium*.

The intersection of demand and supply is shown for the potato data discussed above. In Exhibit A-10, the demand curve for potatoes is now graphed against the supply curve in Exhibit A-9.

In this potato market, demand is inelastic—the total revenue of all the potato producers would be greater at higher prices. But the market price is at the **equilibrium point**—where the quantity and the price sellers are willing to offer are equal to the quantity and price that buyers are willing to accept. The $1.00 equilibrium price for potatoes yields a smaller *total revenue* to potato producers than a higher price would. This lower equilibrium price comes about because the many producers are willing to supply enough potatoes at the lower price. *Demand is not the only determiner of price level. Cost also must be considered—via the supply curve.*

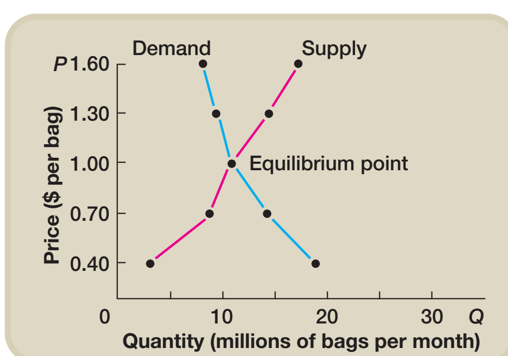
Some consumers get a surplus

Presumably, a sale takes place only if both buyer and seller feel they will be better off after the sale. But sometimes the price a consumer pays in a sales transaction is less than what he or she would be willing to pay.

The reason for this is that demand curves are typically down-sloping, and some of the demand curve is above the equilibrium price. This is simply another way of showing that some customers would have been willing to pay more than the equilibrium price—if they had to. In effect, some of them are getting a bargain by being able to buy at the equilibrium price. Economists have traditionally called these bargains the **consumer surplus**—that is, the difference to consumers between the value of a purchase and the price they pay.

Some business critics assume that consumers do badly in any business transaction. In fact, sales take place only if consumers feel they are at least getting their money's worth. As we can see here, some are willing to pay much more than the market price.

Exhibit A-10
Equilibrium of Supply and Demand for Potatoes (10-pound bags)



Demand and Supply Help Us Understand the Nature of Competition

The elasticity of demand and supply curves and their interaction help predict the nature of competition a marketing manager is likely to face. For example, an extremely inelastic demand curve means that the manager will have much choice in strategy planning, especially price setting. Apparently customers like the product and see few substitutes. They are willing to pay higher prices before cutting back much on their purchases.

Clearly, the elasticity of a firm's demand curves makes a big difference in strategy planning, but other factors also affect the nature of competition. Among these are the number and size of competitors and the uniqueness of each firm's marketing mix. Understanding these market situations is important because the freedom of a marketing manager, especially control over price, is greatly reduced in some situations.

A marketing manager operates in one of four kinds of market situations. We'll discuss three kinds: pure competition, oligopoly, and monopolistic competition. The fourth kind, monopoly, isn't found very often and is like monopolistic competition. The important dimensions of these situations are shown in Exhibit A-11.

When competition is pure

Many competitors offer about the same thing

Pure competition is a market situation that develops when a market has

1. Homogeneous (similar) products.
2. Many buyers and sellers who have full knowledge of the market.
3. Ease of entry for buyers and sellers; that is, new firms have little difficulty starting in business—and new customers can easily come into the market.

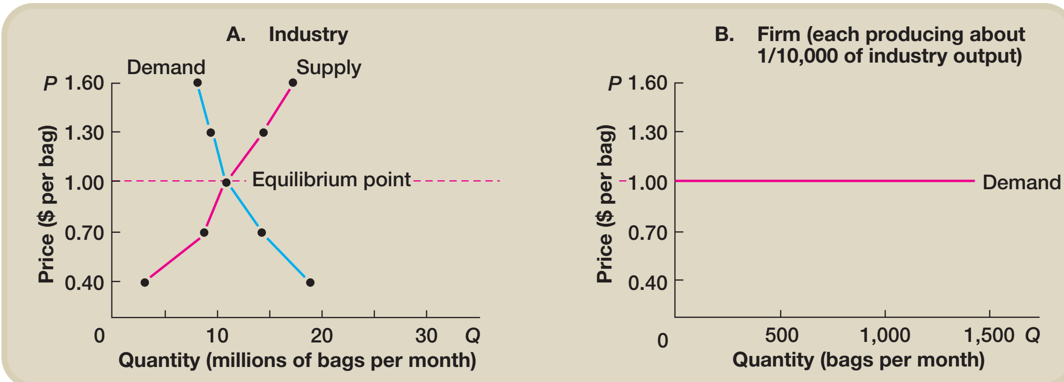
More or less pure competition is found in many agricultural markets. In the potato market, for example, there are thousands of small producers—and they are in pure competition. Let's look more closely at these producers.

Although the potato market as a whole has a down-sloping demand curve, each of the many small producers in the industry is in pure competition, and each of them faces a flat demand curve at the equilibrium price. This is shown in Exhibit A-12.

Exhibit A-11
Some Important Dimensions Regarding Market Situations

	Types of Situations			
Important Dimensions	Pure Competition	Oligopoly	Monopolistic Competition	Monopoly
Uniqueness of each firm's product	None	None	Some	Unique
Number of competitors	Many	Few	Few to many	None
Size of competitors (compared to size of market)	Small	Large	Large to small	None
Elasticity of demand facing firm	Completely elastic	Kinked demand curve (elastic and inelastic)	Either	Either
Elasticity of industry demand	Either	Inelastic	Either	Either
Control of price by firm	None	Some (with care)	Some	Complete

Exhibit A-12 Interaction of Demand and Supply in the Potato Industry and the Resulting Demand Curve Facing Individual Potato Producers



As shown at the right of Exhibit A-12, an individual producer can sell as many bags of potatoes as he chooses at $1—the market equilibrium price. The equilibrium price is determined by the quantity that all producers choose to sell given the demand curve they face.

But a small producer has little effect on overall supply (or on the equilibrium price). If this individual farmer raises 1/10,000th of the quantity offered in the market, for example, you can see that there will be little effect if the farmer goes out of business—or doubles production.

The reason an individual producer's demand curve is flat is that the farmer probably couldn't sell any potatoes above the market price. And there is no point in selling below the market price! So in effect, the individual producer has no control over price.

Markets tend to become more competitive

Not many markets are *purely* competitive. But many are close enough so we can talk about "almost" pure competition situations—those in which the marketing manager has to accept the going price.

Such highly competitive situations aren't limited to agriculture. Wherever *many* competitors sell *homogeneous* products—such as textiles, lumber, coal, printing, and laundry services—the demand curve seen by *each producer* tends to be flat.

Markets tend to become more competitive, moving toward pure competition (except in oligopolies—see below). On the way to pure competition, prices and profits are pushed down until some competitors are forced out of business. Eventually, in long-run equilibrium, the price level is only high enough to keep the survivors in business. No one makes any profit—they just cover costs. It's tough to be a marketing manager in this situation!

When competition is oligopolistic

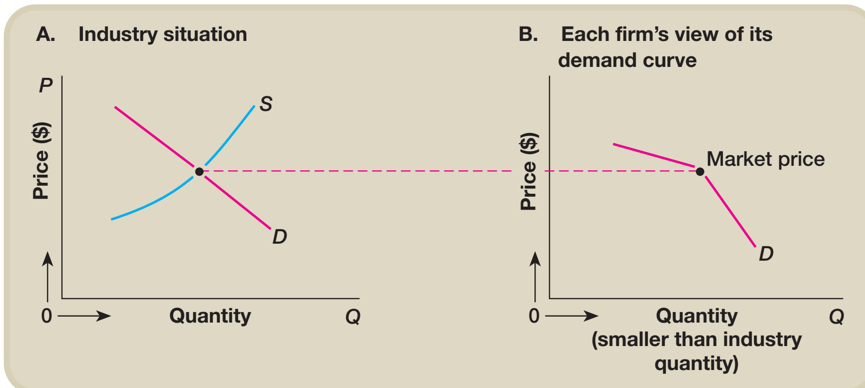
A few competitors offer similar things

Not all markets move toward pure competition. Some become oligopolies. **Oligopoly** situations are special market situations that develop when a market has

1. Essentially homogeneous products—such as basic industrial chemicals or gasoline.
2. Relatively few sellers—or a few large firms and many smaller ones who follow the lead of the larger ones.
3. Fairly inelastic industry demand curves.

The demand curve facing each firm is unusual in an oligopoly situation. Although the industry demand curve is inelastic throughout the relevant range, the demand

Exhibit A-13
Oligopoly—Kinked Demand Curve—Situation



curve facing each competitor looks "kinked." See Exhibit A-13. The current market price is at the kink.

There is a market price because the competing firms watch each other carefully—and they know it's wise to be at the kink. Each firm must expect that raising its own price above the market price will cause a big loss in sales. Few, if any, competitors will follow the price increase. So the firm's demand curve is relatively flat above the market price. If the firm lowers its price, it must expect competitors to follow. Given inelastic industry demand, the firm's own demand curve is inelastic at lower prices—assuming it keeps its share of this market at lower prices. Since lowering prices along such a curve will drop total revenue, the firm should leave its price at the kink—the market price.

Actually, however, there are price fluctuations in oligopolistic markets. Sometimes this is caused by firms that don't understand the market situation and cut their prices to get business. In other cases, big increases in demand or supply change the basic nature of the situation and lead to price cutting. Price cuts can be drastic—such as Du Pont's price cut of 25 percent for Dacron. This happened when Du Pont decided that industry production capacity already exceeded demand, and more plants were due to start production.

It's important to keep in mind that oligopoly situations don't just apply to whole industries and national markets. Competitors who are focusing on the same local target market often face oligopoly situations. A suburban community might have several gas stations—all of which provide essentially the same product. In this case, the "industry" consists of the gas stations competing with each other in the local product-market.

As in pure competition, oligopolists face a long-run trend toward an equilibrium level—with profits driven toward zero. This may not happen immediately—and a marketing manager may try to delay price competition by relying more on other elements in the marketing mix.

When competition is monopolistic

A price must be set

You can see why marketing managers want to avoid pure competition or oligopoly situations. They prefer a market in which they have more control. **Monopolistic competition** is a market situation that develops when a market has

1. Different (heterogeneous) products—in the eyes of some customers.
2. Sellers who feel they do have some competition in this market.

The word *monopolistic* means that each firm is trying to get control in its own little market. But the word *competition* means that there are still substitutes. The vigorous competition of a purely competitive market is reduced. Each firm has its own down-sloping demand curve. But the shape of the curve depends on the similarity of competitors' products and marketing mixes. Each monopolistic competitor has freedom—but not complete freedom—in its own market.

Judging elasticity will help set the price

Since a firm in monopolistic competition has its own down-sloping demand curve, it must make a decision about price level as part of its marketing strategy planning. Here, estimating the elasticity of the firm's own demand curve is helpful. If it is highly inelastic, the firm may decide to raise prices to increase total revenue. But if demand is highly elastic, this may mean many competitors with acceptable substitutes. Then the price may have to be set near that of the competition. And the marketing manager probably should try to develop a better marketing mix.

Conclusion

The economist's traditional demand and supply analysis provides a useful tool for analyzing the nature of demand and competition. It is especially important that you master the concepts of a demand curve and demand elasticity. How demand and supply interact helps determine the size of a market and its price level. The interaction of supply and demand also helps explain the nature of competition in different market situations. We discuss three competitive situations: pure competition, oligopoly, and monopolistic competition. The fourth kind, monopoly, isn't found very often and is like monopolistic competition.

The nature of supply and demand—and competition—is very important in marketing strategy planning. We discuss these topics more fully in Chapters 3 and 4 and then build on them throughout the text. This appendix provides a good foundation on these topics.

Questions and Problems

1. Explain in your own words how economists look at markets and arrive at the "law of diminishing demand."
2. Explain what a demand curve is and why it is usually down-sloping. Then give an example of a product for which the demand curve might not be down-sloping over some possible price ranges. Explain the reason for your choice.
3. What is the length of life of the typical demand curve? Illustrate your answer.
4. If the general market demand for men's shoes is fairly elastic, how does the demand for men's dress shoes compare to it? How does the demand curve for women's shoes compare to the demand curve for men's shoes?
5. If the demand for perfume is inelastic above and below the present price, should the price be raised? Why or why not?
6. If the demand for shrimp is highly elastic below the present price, should the price be lowered?
7. Discuss what factors lead to inelastic demand and supply curves. Are they likely to be found together in the same situation?
8. Why would a marketing manager prefer to sell a product that has no close substitutes? Are high profits almost guaranteed?
9. If a manufacturer's well-known product is sold at the same price by many retailers in the same community, is this an example of pure competition? When a community has many small grocery stores, are they in pure competition? What characteristics are needed to have a purely competitive market?
10. List three products that are sold in purely competitive markets and three that are sold in monopolistically competitive markets. Do any of these products have anything in common? Can any generalizations be made about competitive situations and marketing mix planning?
11. Cite a local example of an oligopoly—explaining why it is an oligopoly.

Appendix B

Marketing Arithmetic

When You Finish This Appendix, You Should

1. Understand the components of an operating statement (profit and loss statement).

2. Know how to compute the stockturn rate.

3. Understand how operating ratios can help analyze a business.

4. Understand how to calculate markups and markdowns.

5. Understand how to calculate return on investment (ROI) and return on assets (ROA).

6. Understand the important new terms (shown in red).

Marketing students must become familiar with the essentials of the language of business. Businesspeople commonly use accounting terms when talking about costs, prices, and profit. And using accounting data is a practical tool in analyzing marketing problems.

The Operating Statement

An **operating statement** is a simple summary of the financial results of a company's operations over a specified period of time. Some beginning students may feel that the operating statement is complex, but as we'll soon see, this really isn't true. *The main purpose of the operating statement is determining the net profit figure and presenting data to support that figure*. This is why the operating statement is often referred to as the *profit and loss statement.*

Exhibit B-1 shows an operating statement for a wholesale or retail business. The statement is complete and detailed so you will see the framework throughout the

Exhibit B-1 An Operating Statement (profit and loss statement)

Smith Company
Operating Statement
For the Year Ended December 31, 200X

Gross sales			$540,000
Less: Returns and allowances			40,000
Net sales			$500,000
Cost of sales:			
Beginning inventory at cost		$ 80,000	
Purchases at billed cost	$310,000		
Less: Purchase discounts	40,000		
Purchases at net cost	270,000		
Plus: freight-in	20,000		
Net cost of delivered purchases		290,000	
Cost of goods available for sale		370,000	
Less: Ending inventory at cost		70,000	
Cost of sales			300,000
Gross margin (gross profit)			200,000
Expenses:			
Selling expenses:			
Sales salaries	60,000		
Advertising expense	20,000		
Website updates	10,000		
Delivery expense	10,000		
Total selling expense		100,000	
Administrative expense:			
Office salaries	30,000		
Office supplies	10,000		
Miscellaneous administrative expense	5,000		
Total administrative expense		45,000	
General expense:			
Rent expense	10,000		
Miscellaneous general expenses	5,000		
Total general expense		15,000	
Total expenses			160,000
Net profit from operation			$ 40,000

discussion, but the amount of detail on an operating statement is *not* standardized. Many companies use financial statements with much less detail than this one. They emphasize clarity and readability rather than detail. To really understand an operating statement, however, you must know about its components.

Only three basic components

The basic components of an operating statement are *sales*—which come from the sale of goods and services; *costs*—which come from the making and selling process; and the balance—called *profit or loss*—which is just the difference between sales and costs. So there are only three basic components in the statement: sales, costs, and profit (or loss). Other items on an operating statement are there only to provide supporting details.

Time period covered may vary

There is no one time period an operating statement covers. Rather, statements are prepared to satisfy the needs of a particular business. This may be at the end of each day or at the end of each week. Usually, however, an operating statement summarizes results for one month, three months, six months, or a full year. Since the time period does vary, this information is included in the heading of the statement as follows:

Smith Company
Operating Statement
For the (Period) Ended (Date)

Also, see Exhibit B-1.

Management uses of operating statements

Before going on to a more detailed discussion of the components of our operating statement, let's think about some of the uses for such a statement. Exhibit B-1 shows that a lot of information is presented in a clear and concise manner. With this information, a manager can easily find the relation of net sales to the cost of sales, the gross margin, expenses, and net profit. Opening and closing inventory figures are available—as is the amount spent during the period for the purchase of goods for resale. Total expenses are listed to make it easier to compare them with previous statements and to help control these expenses.

All this information is important to a company's managers. Assume that a particular company prepares monthly operating statements. A series of these statements is a valuable tool for directing and controlling the business. By comparing results from one month to the next, managers can uncover unfavorable trends in the sales, costs, or profit areas of the business and take any needed action.

A skeleton statement gets down to essential details

Let's refer to Exhibit B-1 and begin to analyze this seemingly detailed statement to get first-hand knowledge of the components of the operating statement.

As a first step, suppose we take all the items that have dollar amounts extended to the third, or right-hand, column. Using these items only, the operating statement looks like this:

Gross sales	$540,000
Less: Returns and allowances	40,000
Net sales	500,000
Less: Cost of sales	300,000
Gross margin	200,000
Less: Total expenses	160,000
Net profit (loss)	$ 40,000

Is this a complete operating statement? The answer is *yes*. This skeleton statement differs from Exhibit B-1 only in supporting detail. All the basic components are included. In fact, the only items we must list to have a complete operating statement are

Net sales	$500,000
Less: Costs	460,000
Net profit (loss)	$ 40,000

These three items are the essentials of an operating statement. All other subdivisions or details are just useful additions.

Meaning of sales

Now let's define the meaning of the terms in the skeleton statement.

The first item is sales. What do we mean by sales? The term **gross sales** is the total amount charged to all customers during some time period. However, there is always some customer dissatisfaction or just plain errors in ordering and shipping goods. This results in returns and allowances—which reduce gross sales.

A **return** occurs when a customer sends back purchased products. The company either refunds the purchase price or allows the customer dollar credit on other purchases.

An **allowance** occurs when a customer is not satisfied with a purchase for some reason. The company gives a price reduction on the original invoice (bill), but the customer keeps the goods and services.

These refunds and price reductions must be considered when the firm computes its net sales figure for the period. Really, we're only interested in the revenue the company manages to keep. This is **net sales**—the actual sales dollars the company receives. Therefore, all reductions, refunds, cancellations, and so forth made because of returns and allowances are deducted from the original total (gross sales) to get net sales. This is shown below.

Gross sales	$540,000
Less: Returns and allowances	40,000
Net sales	$500,000

Meaning of cost of sales

The next item in the operating statement—**cost of sales**—is the total value (at cost) of the sales during the period. We'll discuss this computation later. Meanwhile, note that after we obtain the cost of sales figure, we subtract it from the net sales figure to get the gross margin.

Meaning of gross margin and expenses

Gross margin (gross profit) is the money left to cover the expenses of selling the products and operating the business. Firms hope that a profit will be left after subtracting these expenses.

Selling expense is commonly the major expense below the gross margin. Note that in Exhibit B-1, **expenses** are all the remaining costs subtracted from the gross margin to get the net profit. The expenses in this case are the selling, administrative, and general expenses. (Note that the cost of purchases and cost of sales are not included in this total expense figure—they were subtracted from net sales earlier to get the gross margin. Note, also, that some accountants refer to cost of sales as cost of goods sold.)

Net profit—at the bottom of the statement—is what the company earned from its operations during a particular period. It is the amount left after the cost of sales and the expenses are subtracted from net sales. *Net sales and net profit are not the same*. Many firms have large sales and no profits—they may even have losses! That's why understanding costs, and controlling them, is important.

Detailed Analysis of Sections of the Operating Statement

Cost of sales for a wholesale or retail company

The cost of sales section includes details that are used to find the cost of sales ($300,000 in our example).

In Exhibit B-1, you can see that beginning and ending inventory, purchases, purchase discounts, and freight-in are all necessary to calculate costs of sales. If we pull the cost of sales section from the operating statement, it looks like this:

Cost of sales:			
Beginning inventory at cost		$ 80,000	
Purchases at billed cost	$310,000		
Less: Purchase discounts	40,000		
Purchases at net cost	270,000		
Plus: Freight-in	20,000		
Net cost of delivered purchases		290,000	
Cost of goods available for sale		370,000	
Less: Ending inventory at cost		70,000	
Cost of sales			$300,000

Cost of sales is the cost value of what is *sold,* not the cost of goods on hand at any given time.

Inventory figures merely show the cost of goods on hand at the beginning and end of the period the statement covers. These figures may be obtained by physically counting goods on hand on these dates or estimated from perpetual inventory records that show the inventory balance at any given time. The methods used to determine the inventory should be as accurate as possible because these figures affect the cost of sales during the period and net profit.

The net cost of delivered purchases must include freight charges and purchase discounts received since these items affect the money actually spent to buy goods and bring them to the place of business. A **purchase discount** is a reduction of the original invoice amount for some business reason. For example, a cash discount may be given for prompt payment of the amount due. We subtract the total of such discounts from the original invoice cost of purchases to get the *net* cost of purchases. To this figure we add the freight charges for bringing the goods to the place of business. This gives the net cost of *delivered* purchases. When we add the net cost of delivered purchases to the beginning inventory at cost, we have the total cost of goods available for sale during the period. If we now subtract the ending inventory at cost from the cost of the goods available for sale, we get the cost of sales.

One important point should be noted about cost of sales. The way the value of inventory is calculated varies from one company to another—and it can cause big differences in the cost of sales and the operating statement. (See any basic accounting textbook for how the various inventory valuation methods work.)

Cost of sales for a manufacturing company

Exhibit B-1 shows the way the manager of a wholesale or retail business arrives at his cost of sales. Such a business *purchases* finished products and resells them. In a manufacturing company, the purchases section of this operating statement is replaced by a section called cost of production. This section includes purchases of raw materials and parts, direct and indirect labor costs, and factory overhead charges

Exhibit B-2 Cost of Sales Section of an Operating Statement for a Manufacturing Firm

Cost of sales:			
Finished products inventory (beginning)		$ 20,000	
Cost of production (Schedule 1)		100,000	
Total cost of finished products available for sale		120,000	
Less: Finished products inventory (ending) . .		30,000	
Cost of sales			$ 90,000
Schedule 1, Schedule of cost of production			
Beginning work in process inventory			15,000
Raw materials:			
Beginning raw materials inventory		10,000	
Net cost of delivered purchases		80,000	
Total cost of materials available for use		90,000	
Less: Ending raw materials inventory		15,000	
Cost of materials placed in production		75,000	
Direct labor		20,000	
Manufacturing expenses:			
Indirect labor	$4,000		
Maintenance and repairs	3,000		
Factory supplies	1,000		
Heat, light, and power	2,000		
Total manufacturing expenses		10,000	
Total manufacturing costs			105,000
Total work in process during period			120,000
Less: Ending work in process inventory			20,000
Cost of production			$100,000

(such as heat, light, and power) that are necessary to produce finished products. The cost of production is added to the beginning finished products inventory to arrive at the cost of products available for sale. Often, a separate cost of production statement is prepared, and only the total cost of production is shown in the operating statement. See Exhibit B-2 for an illustration of the cost of sales section of an operating statement for a manufacturing company.

Expenses

Expenses go below the gross margin. They usually include the costs of selling and the costs of administering the business. They do not include the cost of sales—either purchased or produced.

There is no right method for classifying the expense accounts or arranging them on the operating statement. They can just as easily be arranged alphabetically or according to amount, with the largest placed at the top and so on down the line. In a business of any size, though, it is clearer to group the expenses in some way and use subtotals by groups for analysis and control purposes. This was done in Exhibit B-1.

Summary on operating statements

The statement presented in Exhibit B-1 contains all the major categories in an operating statement—together with a normal amount of supporting detail. Further detail can be added to the statement under any of the major categories without changing the nature of the statement. The amount of detail normally is determined by how the statement will be used. A stockholder may be given a sketchy operating statement—while the one prepared for internal company use may have a lot of detail.

Computing the Stockturn Rate

A detailed operating statement can provide the data needed to compute the **stockturn rate**—a measure of the number of times the average inventory is sold during a year. Note that the stockturn rate is related to the *turnover during a year,* not the length of time covered by a particular operating statement.

The stockturn rate is a very important measure because it shows how rapidly the firm's inventory is moving. Some businesses typically have slower turnover than others. But a drop in turnover in a particular business can be very alarming. It may mean that the firm's assortment of products is no longer as attractive as it was. Also, it may mean that the firm will need more working capital to handle the same volume of sales. Most businesses pay a lot of attention to the stockturn rate—trying to get faster turnover (and lower inventory costs).

Three methods—all basically similar—can be used to compute the stockturn rate. Which method is used depends on the data available. These three methods, which usually give approximately the same results, are shown below.*

$$(1) \qquad \frac{\text{Cost of sales}}{\text{Average inventory at cost}}$$

$$(2) \qquad \frac{\text{Net sales}}{\text{Average inventory at selling price}}$$

$$(3) \qquad \frac{\text{Sales in units}}{\text{Average inventory in units}}$$

Computing the stockturn rate will be illustrated only for Formula 1, since all are similar. The only difference is that the cost figures used in Formula 1 are changed to a selling price or numerical count basis in Formulas 2 and 3. Note: Regardless of the method used, you must have both the numerator and denominator of the formula in the same terms.

If the inventory level varies a lot during the year, you may need detailed information about the inventory level at different times to compute the average inventory. If it stays at about the same level during the year, however, it's easy to get an estimate. For example, using Formula 1, the average inventory at cost is computed by adding the beginning and ending inventories at cost and dividing by 2. This average inventory figure is then divided into the cost of sales (in cost terms) to get the stockturn rate.

For example, suppose that the cost of sales for one year was $1,000,000. Beginning inventory was $250,000 and ending inventory $150,000. Adding the two inventory figures and dividing by 2, we get an average inventory of $200,000. We next divide the cost of sales by the average inventory ($1,000,000 ÷ $200,000) and get a stockturn rate of 5. The stockturn rate is covered further in Chapter 18.

Operating Ratios Help Analyze the Business

Many businesspeople use the operating statement to calculate **operating ratios**—the ratio of items on the operating statement to net sales—and to compare these ratios from one time period to another. They can also compare their own operating

*Differences occur because of varied markups and nonhomogeneous product assortments. In an assortment of tires, for example, those with low markups might have sold much better than those with high markups. But with Formula 3, all tires would be treated equally.

ratios with those of competitors. Such competitive data is often available through trade associations. Each firm may report its results to a trade association, which then distributes summary results to its members. These ratios help managers control their operations. If some expense ratios are rising, for example, those particular costs are singled out for special attention.

Operating ratios are computed by dividing net sales into the various operating statement items that appear below the net sales level in the operating statement. The net sales is used as the denominator in the operating ratio because it shows the sales the firm actually won.

We can see the relation of operating ratios to the operating statement if we think of there being another column to the right of the dollar figures in an operating statement. This column contains percentage figures—using net sales as 100 percent. This approach can be seen below.

Gross sales	$540,000	
Less: Returns and allowances	40,000	
Net sales	500,000	100%
Less: Cost of sales	300,000	60
Gross margin	200,000	40
Less: Total Expenses	160,000	32
Net profit	$ 40,000	8%

The 40 percent ratio of gross margin to net sales in the above example shows that 40 percent of the net sales dollar is available to cover sales expenses and administering the business and provide a profit. Note that the ratio of expenses to sales added to the ratio of profit to sales equals the 40 percent gross margin ratio. The net profit ratio of 8 percent shows that 8 percent of the net sales dollar is left for profit.

The value of percentage ratios should be obvious. The percentages are easily figured and much easier to compare than large dollar figures.

Note that because these operating statement categories are interrelated, only a few pieces of information are needed to figure the others. In this case, for example, knowing the gross margin percent and net profit percent makes it possible to figure the expenses and cost of sales percentages. Further, knowing just one dollar amount and the percentages lets you figure all the other dollar amounts.

Markups

A **markup** is the dollar amount added to the cost of sales to get the selling price. The markup usually is similar to the firm's gross margin because the markup amount added onto the unit cost of a product by a retailer or wholesaler is expected to cover the selling and administrative expenses and to provide a profit.

The markup approach to pricing is discussed in Chapter 18, so it will not be discussed at length here. But a simple example illustrates the idea. If a retailer buys an article that costs $1 when delivered to his store, he must sell it for more than this cost if he hopes to make a profit. So he might add 50 cents onto the cost of the article to cover his selling and other costs and, hopefully, to provide a profit. The 50 cents is the markup.

The 50 cents is also the gross margin or gross profit from that item *if* it is sold. But note that it is *not* the net profit. Selling expenses may amount to 35 cents, 45 cents, or even 55 cents. In other words, there is no guarantee the markup will cover costs. Further, there is no guarantee customers will buy at the marked-up price. This may require markdowns, which are discussed later in this appendix.

Markup conversions

Often it is convenient to use markups as percentages rather than focusing on the actual dollar amounts. But markups can be figured as a percent of cost or selling price. To have some agreement, *markup (percent)* will mean percentage of selling price unless stated otherwise. So the 50-cent markup on the $1.50 selling price is a markup of 33⅓ percent. On the other hand, the 50-cent markup is a 50 percent markup on cost.

Some retailers and wholesalers use markup conversion tables or spreadsheets to easily convert from cost to selling price—depending on the markup on selling price they want. To see the interrelation, look at the two formulas below. They can be used to convert either type of markup to the other.

$$(4) \qquad \text{Percent markup on selling price} = \frac{\text{Percent markup on cost}}{100\% + \text{Percent markup on cost}}$$

$$(5) \qquad \text{Percent markup on cost} = \frac{\text{Percent markup on selling price}}{100\% - \text{Percent markup on selling price}}$$

In the previous example, we had a cost of $1, a markup of 50 cents, and a selling price of $1.50. We saw that the markup on selling price was 33⅓ percent—and on cost, it was 50 percent. Let's substitute these percentage figures—in Formulas 4 and 5—to see how to convert from one basis to the other. Assume first of all that we only know the markup on selling price and want to convert to markup on cost. Using Formula 5, we get

$$\text{Percent markup on cost} = \frac{33\tfrac{1}{3}\%}{100\% - 33\tfrac{1}{3}\%} = \frac{33\tfrac{1}{3}\%}{66\tfrac{2}{3}\%} = 50\%$$

On the other hand, if we know only the percent markup on cost, we can convert to markup on selling price as follows:

$$\text{Percent markup on selling price} = \frac{50\%}{100\% + 50\%} = \frac{50\%}{150\%} = 33\tfrac{1}{3}\%$$

These results can be proved and summarized as follows:

Markup $0.50	=	50% of cost, or 33⅓% of selling price
+ Cost $1.00	=	100% of cost, or 66⅔% of selling price
Selling price $1.50	=	150% of cost, or 100% of selling price

Note that when the selling price ($1.50) is the base for a markup calculation, the markup percent (33⅓ percent = $.50/$1.50) must be less than 100 percent. As you can see, that's because the markup percent and the cost percent (66⅔ percent = $1.00/$1.50) sums to exactly 100 percent. So if you see a reference to a markup percent that is greater than 100 percent, it could not be based on the selling price and instead must be based on cost.

Markdown Ratios Help Control Retail Operations

The ratios we discussed above were concerned with figures on the operating statement. Another important ratio, the **markdown ratio,** is a tool many retailers use to measure the efficiency of various departments and their whole business. But note that it is *not directly related to the operating statement*. It requires special calculations.

A **markdown** is a retail price reduction required because customers won't buy some item at the originally marked-up price. This refusal to buy may be due to a variety of reasons—soiling, style changes, fading, damage caused by handling, or an original price that was too high. To get rid of these products, the retailer offers them at a lower price.

Markdowns are generally considered to be due to business errors—perhaps because of poor buying, original markups that are too high, and other reasons. (Note, however, that some retailers use markdowns as a way of doing business rather than a way to correct errors. For example, a store that buys out overstocked fashions from other retailers may start by marking each item with a high price and then reduce the price each week until it sells.) Regardless of the reason, however, markdowns are reductions in the original price—and they are important to managers who want to measure the effectiveness of their operations.

Markdowns are similar to allowances because price reductions are made. Thus, in computing a markdown ratio, markdowns and allowances are usually added together and then divided by net sales. The markdown ratio is computed as follows:

$$\text{Markdown \%} = \frac{\$\text{ Markdowns} + \$\text{ Allowances}}{\$\text{ Net sales}} \times 100$$

The 100 is multiplied by the fraction to get rid of decimal points.

Returns are *not* included when figuring the markdown ratio. Returns are treated as consumer errors, not business errors, and therefore are not included in this measure of business efficiency.

Retailers who use markdown ratios usually keep a record of the amount of markdowns and allowances in each department and then divide the total by the net sales in each department. Over a period of time, these ratios give management one measure of the efficiency of buyers and salespeople in various departments.

It should be stressed again that the markdown ratio is not calculated directly from data on the operating statement since the markdowns take place before the products are sold. In fact, some products may be marked down and still not sold. Even if the marked-down items are not sold, the markdowns—that is, the reevaluations of their value—are included in the calculations in the time period when they are taken.

The markdown ratio is calculated for a whole department (or profit center), *not* individual items. What we are seeking is a measure of the effectiveness of a whole department, not how well the department did on individual items.

Return on Investment (ROI) Reflects Asset Use

Another off-the-operating-statement ratio is **return on investment (ROI)**—the ratio of net profit (after taxes) to the investment used to make the net profit, multiplied by 100 to get rid of decimals. Investment is not shown on the operating statement. But it is on the **balance sheet** (statement of financial condition), another accounting statement, which shows a company's assets, liabilities, and net worth. It may take some digging or special analysis, however, to find the right investment number.

Investment means the dollar resources the firm has invested in a project or business. For example, a new product may require $4 million in new money—for inventory, accounts receivable, promotion, and so on—and its attractiveness may be judged by its likely ROI. If the net profit (after taxes) for this new product is expected to be \$1 million in the first year, then the ROI is 25 percent—that is, (\$1 million ÷ \$4 million) × 100.

There are two ways to figure ROI. The *direct* way is

$$\text{ROI (in \%)} = \frac{\text{Net profit (after taxes)}}{\text{Investment}} \times 100$$

The *indirect* way is

$$\text{ROI (in \%)} = \frac{\text{Net profit (after taxes)}}{\text{Sales}} = \frac{\text{Sales}}{\text{Investment}} \times 100$$

This way is concerned with net profit margin and turnover—that is

$$\text{ROI (in \%)} = \text{Net profit margin} \times \text{Turnover} \times 100$$

This indirect way makes it clearer how to *increase* ROI. There are three ways:

1. Increase profit margin (with lower costs or a higher price).
2. Increase sales.
3. Decrease investment.

Effective marketing strategy planning and implementation can increase profit margins and/or sales. And careful asset management can decrease investment.

ROI is a revealing measure of how well managers are doing. Most companies have alternative uses for their funds. If the returns in a business aren't at least as high as outside uses, then the money probably should be shifted to the more profitable uses.

Some firms borrow more than others to make investments. In other words, they invest less of their own money to acquire assets—what we called *investments*. If ROI calculations use only the firm's own investment, this gives higher ROI figures to those who borrow a lot—which is called *leveraging*. To adjust for different borrowing proportions—to make comparisons among projects, departments, divisions, and companies easier—another ratio has come into use. **Return on assets (ROA)** is the ratio of net profit (after taxes) to the assets used to make the net profit—times 100. Both ROI and ROA measures are trying to get at the same thing—how effectively the company is using resources. These measures became increasingly popular as profit rates dropped and it became more obvious that increasing sales volume doesn't necessarily lead to higher profits—or ROI or ROA. Inflation and higher costs for borrowed funds also force more concern for ROI and ROA. Marketers must include these measures in their thinking or top managers are likely to ignore their plans and requests for financial resources.

Questions and Problems

1. Distinguish between the following pairs of items that appear on operating statements: *(a)* gross sales and net sales, and *(b)* purchases at billed cost and purchases at net cost.
2. How does gross margin differ from gross profit? From net profit?
3. Explain the similarity between markups and gross margin. What connection do markdowns have with the operating statement?
4. Compute the net profit for a company with the following data:

Beginning inventory (cost)	\$ 150,000
Purchases at billed cost	330,000
Sales returns and allowances	250,000
Rent	60,000
Salaries	400,000
Heat and light	180,000
Ending inventory (cost)	250,000
Freight cost (inbound)	80,000
Gross sales	1,300,000

5. Construct an operating statement from the following data:

Returns and allowances	$150,000
Expenses	20%
Closing inventory at cost	600,000
Markdowns	2%
Inward transportation	30,000
Purchases	1,000,000
Net profit (5%)	300,000

6. Compute net sales and percent of markdowns for the data given below:

Markdowns	$ 40,000
Gross sales	400,000
Returns	32,000
Allowances	48,000

7. *(a)* What percentage markups on cost are equivalent to the following percentage markups on selling price: 20, 37½, 50, and 66⅔? *(b)* What percentage markups on selling price are equivalent to the following percentage markups on cost: 33⅓, 20, 40, and 50?
8. What net sales volume is required to obtain a stockturn rate of 20 times a year on an average inventory at cost of $100,000 with a gross margin of 25 percent?
9. Explain how the general manager of a department store might use the markdown ratios computed for her various departments. Is this a fair measure? Of what?
10. Compare and contrast return on investment (ROI) and return on assets (ROA) measures. Which would be best for a retailer with no bank borrowing or other outside sources of funds; that is, the retailer has put up all the money that the business needs?

Appendix C

Career Planning in Marketing

When You Finish This Appendix, You Should

1. Know that there is a job or a career for you in marketing.

2. Know that marketing jobs can be rewarding, pay well, and offer opportunities for growth.

3. Understand the difference between "people-oriented" and "thing-oriented" jobs.

4. Know about the many marketing jobs you can choose from.

5. Know some ways to use the Internet to help with career planning.

One of the hardest jobs facing most college students is the choice of a career. Of course, no one can make this decision for you. You must be the judge of your own objectives, interests, and abilities. Only you can decide what career *you* should pursue. However, you owe it to yourself to at least consider the possibility of a career in marketing.

There's a Place in Marketing for You

We're happy to tell you that many opportunities are available in marketing. There's a place in marketing for everyone—from a service provider in a fast-food restaurant to a vice president of marketing in a large company such as Microsoft or Procter & Gamble. The opportunities range widely—so it will help to be more specific. In the following pages, we'll discuss (1) the typical pay for different marketing jobs, (2) setting your own objectives and evaluating your interests and abilities, and (3) the kinds of jobs available in marketing. We'll also provide some ideas about how to use the Internet to get more information and perhaps even to apply for a job or post your own information; this material is in the special box with the title "Getting Wired for a Career in Marketing."

There Are Many Marketing Jobs, and They Can Pay Well

There are many interesting and challenging jobs for those with marketing training. You may not know it, but 60 percent of graduating college students take their initial job in a sales, marketing, or customer service position regardless of their stated major. So you'll have a head start because you've been studying marketing, and companies are always looking for people who already have skills in place. In terms of upward mobility, more CEOs have come from the sales and marketing side than all other fields combined. The sky is the limit for those who enter the sales and marketing profession prepared for the future!

Further, marketing jobs open to college-level students do pay well. At the time this went to press, marketing undergraduates were being offered starting salaries around $30,000—with a range from about $18,000 to $40,000 a year. Students with a master's in marketing averaged about $45,000; those with an MBA averaged about $55,000. Starting salaries can vary considerably—depending on your background, experience, and location.

Starting salaries in marketing compare favorably with many other fields. They are lower than those in such fields as computer science and electrical engineering where college graduates are currently in demand. But there is even better opportunity for personal growth, variety, and income in many marketing positions. The *American Almanac of Jobs and Salaries* ranks the median income of marketers number 10 in a list of 125 professions. Marketing also supplies about 50 percent of the people who achieve senior management ranks.

How far and fast your career and income rise above the starting level, however, depends on many factors—including your willingness to work, how well you get along with people, and your individual abilities. But most of all, it depends on *getting results*—individually and through other people. And this is where many marketing jobs offer the newcomer great opportunities. It is possible to show initiative, ability, creativity, and judgment in marketing jobs. And some young people move up very rapidly in marketing. Some even end up at the top in large companies or as owners of their own businesses.

Marketing is often the route to the top

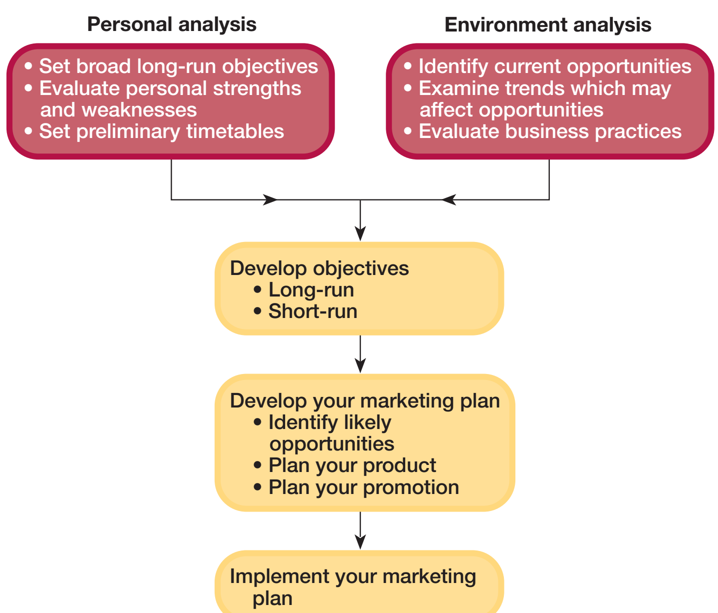
Marketing is where the action is! In the final analysis, a firm's success or failure depends on the effectiveness of its marketing program. This doesn't mean the other functional areas aren't important. It merely reflects the fact that a firm won't have much need for accountants, finance people, production managers, and so on if it can't successfully meet customers' needs and sell its products.

Because marketing is so vital to a firm's survival, many companies look for people with training and experience in marketing when filling key executive positions. In general, chief executive officers for the nation's largest corporations are more likely to have backgrounds in marketing and distribution than in other fields such as production, finance, and engineering.

Develop Your Own Personal Marketing Strategy

Now that you know there are many opportunities in marketing, your problem is matching the opportunities to your own personal objectives and strengths. Basically the problem is a marketing problem: developing a marketing strategy to sell a product—yourself—to potential employers. Just as in planning strategies for products, developing your own strategy takes careful thought. Exhibit C-1 shows how you can organize your own strategy planning. This exhibit shows that you should evaluate yourself first—a personal analysis—and then analyze the environment for opportunities. This will help you sharpen your own long- and short-run objectives—which will lead to developing a strategy. Finally, you should start implementing your own personal marketing strategy. These ideas are explained more fully below.

Exhibit C-1
Organizing Your Own Personal Marketing Strategy Planning



Conduct Your Own Personal Analysis

You are the Product you are going to include in your own marketing plan. So first you have to decide what your long-run objectives are—what you want to do, how hard you want to work, and how quickly you want to reach your objectives. Be honest with yourself—or you will eventually face frustration. Evaluate your own personal strengths and weaknesses—and decide what factors may become the key to your success. Finally, as part of your personal analysis, set some preliminary timetables to guide your strategy planning and implementation efforts. Let's spell this out in detail.

Set broad long-run objectives

Strategy planning requires much trial-and-error decision making. But at the very beginning, you should make some tentative decisions about your own objectives—what you want out of a job and out of life. At the very least, you should decide whether you are just looking for a job or whether you want to build a career. Beyond this, do you want the position to be personally satisfying—or is the financial return enough? And just how much financial return do you need? Some people work only to support themselves and their leisure-time activities. Others work to support themselves and their families. These people seek only financial rewards from a job. They try to find job opportunities that provide adequate financial returns but aren't too demanding of their time or effort.

Other people look first for satisfaction in their job—and they seek opportunities for career advancement. Financial rewards may be important too, but these are used only as measures of success. In the extreme, the career-oriented individual may be willing to sacrifice a lot, including leisure and social activities, to achieve success in a career.

Once you've tentatively decided these matters, then you can get more serious about whether you should seek a job or a career in marketing. If you decide to pursue a career, you should set your broad long-run objectives to achieve it. For example, one long-run objective might be to pursue a career in marketing management (or marketing research). This might require more academic training than you planned, as well as a different kind of training. If your objective is to get a job that pays well, on the other hand, then this calls for a different kind of training and different kinds of job experiences before completing your academic work.

Evaluate personal strengths and weaknesses

What kind of a job is right for you?

Because of the great variety of marketing jobs, it's hard to generalize about what aptitudes you should have to pursue a career in marketing. Different jobs attract people with various interests and abilities. We'll give you some guidelines about what kinds of interests and abilities marketers should have. However, if you're completely lost about your own interests and abilities, see your campus career counselor and take some vocational aptitude and interest tests. These tests will help you to compare yourself with people who are now working in various career positions. They will *not* tell you what you should do, but they can help—especially in eliminating possibilities you are less interested in or less able to do well in.

Are you people-oriented or thing-oriented?

One of the first things you need to decide is whether you are basically "people-oriented" or "thing-oriented." This is a very important decision. A people-oriented person might be very unhappy in an inventory management job, for example, while a thing-oriented person might be miserable in a personal selling or retail management job that involves a lot of customer contact.

Marketing has both people-oriented and thing-oriented jobs. People-oriented jobs are primarily in the promotion area—where company representatives must make contact with potential customers. This may be direct personal selling or customer

Getting Wired for a Career in Marketing

The Internet is a great resource at every stage of career planning and job hunting. It can help you learn: how to do a self-assessment, the outlook for different industries and jobs, what firms have jobs open, how to improve a résumé and post it online for free, and just about anything else you can imagine. Here we'll highlight just a few ideas and websites that can help you get started. However, if you start with some of these suggestions, each website you visit will provide links to other relevant sites that will give you new ideas to think about.

One good place to start is at Yahoo (www.yahoo.com). Select *jobs* under the business and economy heading, and then click on *careers and jobs.* Take a look at all of the information and services that are available when you select the *Yahoo! Careers* link (which takes you to careers.yahoo.com). For example, you can browse résumé tools and salary information, look at job listings, and much more. Yahoo also has a link to a listing of career fields, including a section on advertising and marketing. You may also want to study the information on *career planning,* with a special section for students and recent grads.

Another website to check is at www.marketingjobs.com. It has listings of marketing jobs, links to a number of companies with openings, a résumé center with ideas for preparing a résumé and posting it on the Internet, and lists of helpful periodicals. You might also go to www.careerjournal.com. There are job listings, job-hunting advice, career articles from *The Wall Street Journal,* and more. You can create and post a résumé here as well. Professional associations are another great resource. For example, the American Marketing Association website is at www.ama.org, and the Sales and Marketing Executives International website is at www.smei.com. The Council of Logistics Management website is at www.clm1.org.

Another good website address is www.collegegrad.com. It has links to the best sites on the Web for posting a résumé, information on writing cover letters and getting references, and ideas about how to find a company with job openings. To get a sample of what's possible in tracking down jobs, visit the website at www.thejobresource.com and experiment with its search engine, which lets you look at what's available by state. For example, you might want to search through job listings that mention terms such as *entry level, marketing, advertising,* and *sales.*

This should get you started. Remember, however, that in Chapter 8 we gave addresses for a number of websites with search engines. You can use one of them to help find more detail on any topic that interests you. For example, you might go to www.altavista.digital.com and do a search on terms such as *marketing jobs, salary surveys, post a résumé,* or *entry level position.*

service activities—for example, in technical service or installation and repair. Thing-oriented jobs focus more on creative activities and analyzing data—as in advertising and marketing research—or on organizing and scheduling work—as in operating warehouses, transportation agencies, or the back-end of retailers.

People-oriented jobs tend to pay more, in part because such jobs are more likely to affect sales—the lifeblood of any business. Thing-oriented jobs, on the other hand, are often seen as cost generators rather than sales generators. Taking a big view of the whole company's operations, the thing-oriented jobs are certainly necessary—but without sales no one is needed to do them.

Thing-oriented jobs are usually done at a company's facilities. Further, especially in lower-level jobs, the amount of work to be done and even the nature of the work may be spelled out quite clearly. The time it takes to design questionnaires and tabulate results, for example, can be estimated with reasonable accuracy. Similarly, running a warehouse, analyzing inventory reports, scheduling outgoing shipments, and so on are more like production operations. It's fairly easy to measure an employee's effectiveness and productivity in a thing-oriented job. At the least, time spent can be used to measure an employee's contribution.

A sales rep, on the other hand, might spend all weekend thinking and planning how to make a half-hour sales presentation on Monday. For what should the sales rep be compensated—the half-hour presentation, all of the planning and thinking that went into it, or the results? Typically, sales reps are rewarded for results—and this helps account for the sometimes extremely high salaries paid to effective order getters. At the same time, some people-oriented jobs can be routinized and are lower paid. For example, salespeople in some retail stores are paid at or near the minimum wage.

Managers needed for both kinds of jobs

Here we have oversimplified deliberately to emphasize the differences among types of jobs. Actually, of course, there are many variations between the two extremes. Some sales reps must do a great deal of analytical work before they make a presentation. Similarly, some marketing researchers must be extremely people-sensitive to get potential customers to reveal their true feelings. But the division is still useful because it focuses on the primary emphasis in different kinds of jobs.

Managers are needed for the people in both kinds of jobs. Managing others requires a blend of both people and analytical skills—but people skills may be the more important of the two. Therefore, people-oriented individuals are often promoted into managerial positions more quickly.

What will differentiate your Product?

After deciding whether you're generally people-oriented or thing-oriented, you're ready for the next step—trying to identify your specific strengths (to be built on) and weaknesses (to be avoided or remedied). It is important to be as specific as possible so you can develop a better marketing plan. For example, if you decide you are more people-oriented, are you more skilled in verbal or written communication? Or if you are more thing-oriented, what specific analytical or technical skills do you have? Are you good at working with numbers, using a computer, solving complex problems, or coming to the root of a problem? Other possible strengths include past experience (career-related or otherwise), academic performance, an outgoing personality, enthusiasm, drive, motivation, and so on.

It is important to see that your plan should build on your strengths. An employer will be hiring you to do something—so promote yourself as someone who is able to do something *well.* In other words, find your competitive advantage in your unique strengths—and then communicate these unique things about *you* and what you can do. Give an employer a reason to pick you over other candidates by showing that you'll add superior value to the company.

While trying to identify strengths, you also must realize that you may have some important weaknesses—depending on your objectives. If you are seeking a career that requires technical skills, for example, then you need to get those skills. Or if you are seeking a career that requires independence and self-confidence, then you should try to develop those characteristics in yourself—or change your objectives.

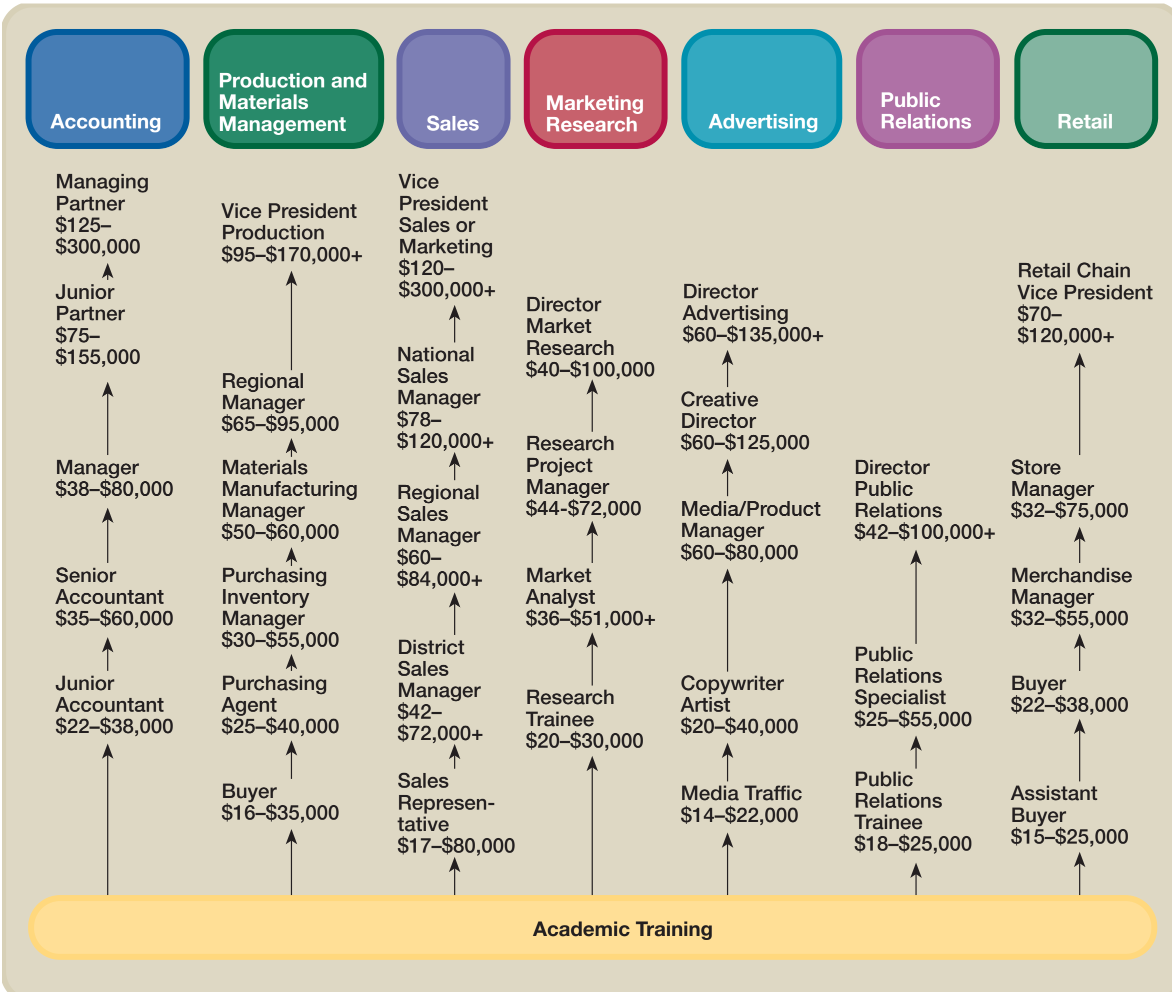
Set some timetables

At this point in your strategy planning process, set some timetables to organize your thinking and the rest of your planning. You need to make some decisions at this point to be sure you see where you're going. You might simply focus on getting your first job, or you might decide to work on two marketing plans: (1) a short-run plan to get your first job and (2) a longer-run plan—perhaps a five-year plan—to show how you're going to accomplish your long-run objectives. People who are basically job-oriented may get away with only a short-run plan—just drifting from one opportunity to another as their own objectives and opportunities change. But those interested in careers need a longer-run plan. Otherwise, they may find themselves pursuing attractive first job opportunities that satisfy short-run objectives—but quickly leave them, frustrated when they realize that they can't achieve their long-run objectives without additional training or other experiences that require starting over again on a new career path.

Environment Analysis

Strategy planning is a matching process. For your own strategy planning, this means matching yourself to career opportunities. So let's look at opportunities available in the marketing environment. (The same approach applies, of course, in the whole business area.) Exhibit C-2 shows some of the possibilities and salary ranges.

Exhibit C-2 Some Career Paths and Salary Ranges



Keep in mind that the salary ranges in Exhibit C-2 are rough estimates. Salaries for a particular job often vary depending on a variety of factors, including company size, industry, and geographic area. People in some firms also get big bonuses that are not counted in salary. In recent years *Advertising Age* has been publishing an annual survey of salary levels for different marketing and advertising jobs—with breakdowns by company size and other factors. Many trade associations—across a variety of different industries—also publish surveys. If you use the Internet search engine at www.yahoo.com and do a search on *salary survey,* you will find that there are hundreds of such surveys available on the Internet for a number of different industries.

Identifying current opportunities in marketing

Because of the wide range of opportunities in marketing, it's helpful to narrow your possibilities. After deciding on your own objectives, strengths, and weaknesses, think about where in the marketing system you might like to work. Would you like to work for manufacturers, or wholesalers, or retailers? Or does it really matter? Do you want to be involved with consumer products or business products? By analyzing your feelings about these possibilities, you can begin to zero in on the kind of job and the functional area that might interest you most.

One simple way to get a better idea of the kinds of jobs available in marketing is to review the chapters of this text—this time with an eye for job opportunities rather than new concepts. The following paragraphs contain brief descriptions of job areas that marketing graduates are often interested in with references to specific chapters in the text. Some, as noted below, offer good starting opportunities, while others do not. While reading these paragraphs, keep your own objectives, interests, and strengths in mind.

Marketing manager (Chapter 2)

This is usually not an entry-level job, although aggressive students may move quickly into this role in smaller companies.

Customer or market analyst (Chapters 3, 4, 5, and 6)

Opportunities as consumer analysts and market analysts are commonly found in large companies, marketing research organizations, advertising agencies, and some consulting firms. Investment banking firms also hire entry-level analysts; they want to know what the market for a new business is like before investing. Beginning market analysts start in thing-oriented jobs until their judgment and people-oriented skills are tested. The job may involve collecting or analyzing secondary data or preparation of reports and plans. Because knowledge of statistics, computer software, Internet search techniques, and/or behavioral sciences is very important, marketing graduates often find themselves competing with majors from statistics, sociology, computer science, and economics. Graduates who have courses in marketing *and* one or more of these areas may have the best opportunities.

Purchasing agent/buyer (Chapter 7)

Entry-level opportunities are commonly found in large companies, and there are often good opportunities in the purchasing area. Many companies are looking for bright newcomers who can help them find new and better ways to work with suppliers. To get off on the right track, beginners usually start as trainees or assistant buyers under the supervision of experienced buyers. That's good preparation for a promotion to more responsibility.

Marketing research opportunities (Chapter 8)

There are entry-level opportunities at all levels in the channel (but especially in large firms where more formal marketing research is done in-house), in advertising agencies, and in marketing research firms. Some general management consulting firms also have marketing research groups. Quantitative and behavioral science skills are extremely important in marketing research, so some firms are more interested in business graduates who have studied statistics or psychology as electives. But there still are many opportunities in marketing research for marketing graduates, especially if they have some experience in working with computers and statistical software. A recent graduate might begin in a training program—conducting interviews or summarizing open-ended answers from questionnaires and helping to prepare electronic slide presentations for clients—before being promoted to a position as an analyst, assistant project manager, account representative, and subsequent management positions.

Packaging specialists (Chapter 9)

Packaging manufacturers tend to hire and train interested people from various backgrounds—there is little formal academic training in packaging. There are many sales opportunities in this field—and with training, interested people can become specialists fairly quickly in this growing area.

Product/brand manager (Chapters 9 and 10)

Many multiproduct firms have brand or product managers handling individual products—in effect, managing each product as a separate business. Some firms hire marketing graduates as assistant brand or product managers, although larger firms typically recruit MBAs for these jobs. Many firms prefer that recent college graduates spend some time in the field doing sales work or working with an ad agency or sales promotion agency before moving into brand or product management positions.

Product planner (Chapter 10)

This is usually not an entry-level position. Instead, people with experience on the technical side of the business or in sales might be moved onto a new-product development team as they demonstrate judgment and analytical skills. However, new employees with winning ideas for new products don't go unnoticed—and they sometimes have the opportunity to grow fast with ideas they spearhead. Having a job that puts you in contact with customers is often a good way to spot new needs.

Distribution channel management (Chapter 11)

This work is typically handled or directed by sales managers and therefore is not an entry-level position. However, many firms form teams of specialists who work closely with their counterparts in other firms in the channel to strengthen coordination and relationships. Such a team often includes new people in sales or purchasing because it gives them exposure to a different part of the firm's activities. It's also not unusual for people to start working in a particular industry and then take a different job at a different level in the channel. For example, a graduate who has trained to be a store manager for a chain of sporting goods stores might go to work for a manufacturers' representative that handles a variety of sports equipment.

Logistics opportunities (Chapter 12)

There are many sales opportunities with physical distribution specialists—but there are also many thing-oriented jobs involving traffic management, warehousing, and materials handling. Here training in accounting, finance, and computer methods could be very useful. These kinds of jobs are available at all levels in channels of distribution.

Retailing opportunities (Chapter 13)

Not long ago, most entry-level marketing positions in retailing involved some kind of sales work. That has changed rapidly in recent years because the number of large retail chains is expanding and they often recruit graduates for their management training programs. Retailing positions tend to offer lower-than-average starting salaries—but they often provide opportunities for very rapid advancement. In a fast-growing chain, results-oriented people can move up very quickly. Most retailers require new employees to have some selling experience before managing others—or buying. A typical marketing graduate can expect to work as an assistant manager or do some sales work and manage one or several departments before advancing to a store management position—or to a staff position that might involve buying, advertising, location analysis, and so on.

Wholesaling opportunities (Chapter 13)

Entry-level jobs with merchant wholesalers typically fall into one of two categories. The first is in the logistics area—working with transportation management, inventory control, distribution customer service, and related activities. The other category usually involves personal selling and customer support. Agent wholesalers typically focus on selling, and entry-level jobs often start out with order-taking responsibilities that grow into order-getting responsibilities. Many wholesalers are moving much of their information to the Internet, so marketing students with skills and knowledge in this arena may find especially interesting opportunities.

Personal selling opportunities (Chapter 15)

Because there are so many different types of sales jobs and so many people are employed in sales, there are many good entry-level opportunities in personal selling. This might be order-getting, order-taking, or missionary selling. Many sales jobs now rely on sales technology, so some of the most challenging opportunities will go to students who know how to prepare spreadsheets and presentation materials using software programs like Microsoft Office. Many students are reluctant to get into personal selling—but this field offers benefits that are hard to match in any other field. These include the opportunity to earn extremely high salaries and commissions quickly, a chance to develop your self-confidence and resourcefulness, an opportunity to work with minimal supervision—almost to the point of being your own boss—and a chance to acquire product and customer knowledge that many firms consider necessary for a successful career in product/brand management, sales management, and marketing management. On the other hand, many salespeople prefer to spend their entire careers in selling. They like the freedom and earning potential that go with a sales job over the headaches and sometimes lower salaries of sales management positions.

Advertising opportunities (Chapters 14 and 16)

Job opportunities in this area are varied and highly competitive. And because the ability to communicate and a knowledge of the behavioral sciences are important, marketing graduates often find themselves competing with majors from fields such as English, communication, psychology, and sociology. There are thing-oriented jobs such as copywriting, media buying, art, and so on. Competition for these jobs is very competitive—and they go to people with a track record. So the entry-level positions are as assistant to a copywriter, media buyer, or art director. There are also people-oriented positions involving work with clients—which are probably of more interest to marketing graduates. This is a glamorous but small and extremely competitive industry where young people can rise very rapidly—but they can also be as easily displaced by new bright young people. Entry-level salaries in advertising are typically low. There are sometimes good opportunities to get started in advertising with a retail chain that prepares its advertising internally. Another way to get more experience with advertising is to take a job with one of the media—perhaps in sales or as a customer consultant. Selling advertising space on a website or cable TV station or newspaper may not seem as glamorous as developing TV ads, but media salespeople help their customers solve promotion problems and get experience dealing with both the business and creative side of advertising.

Sales promotion opportunities (Chapters 14 and 16)

The number of entry-level positions in the sales promotion area is growing because the number of specialists in this area is growing. For example, specialists might help a company plan a special event for employees, figure out procedures to distribute free samples, or perhaps set up a database to send customers a newsletter. Because clients' needs are often different, creativity and judgment are required. It is usually difficult for an inexperienced person to show evidence of these skills right out of school, so entry-level people often work with a project manager until they learn the ropes. In companies that handle their own sales promotion work, a beginner usually starts by getting some experience in sales or advertising.

Pricing opportunities (Chapters 17 and 18)

Pricing decisions are usually handled by experienced executives. However, in some large companies and consulting firms there are opportunities as pricing analysts for marketing graduates who have quantitative skills. These people work as assistants to higher-level executives and collect and analyze information about competitors' prices and costs, as well as the firm's own costs. Thus, being able to work with accounting numbers and computer spreadsheets is often important in these jobs. However, sometimes the route to these jobs is through experience in marketing research or product management.

Credit management opportunities

Specialists in credit have a continuing need for employees who are interested in evaluating customers' credit ratings and ensuring that money gets collected. Both people skills and thing skills can be useful here. Entry-level positions normally involve a training program and then working under the supervision of others until your judgment and abilities are tested.

International marketing opportunities

Many marketing students are intrigued with the adventure and foreign travel promised by careers in international marketing. Some firms hire recent college graduates for positions in international marketing, but more often these positions go to MBA graduates. However, that is changing as more and more firms are pursuing international markets. It's an advantage in seeking an international marketing job to know a second language and to know about the culture of countries where you would like to work. Your college may have courses or international exchange programs that would help in these areas. Graduates aiming for a career in international marketing usually must spend time mastering the firm's domestic marketing operations before being sent abroad. So a good way to start is to focus on firms that are already involved in international marketing, or who are planning to move in that direction soon. On the other hand, there are many websites with listings of international jobs. For example, you might want to visit www.overseasjobs.com.

Customer relations/consumer affairs opportunities (Chapters 14 and 22)

Most firms are becoming more concerned about their relations with customers and the general public. Employees in this kind of work, however, usually have held various positions with the firm before doing customer relations.

Study trends that may affect your opportunities

A strategy planner should always be evaluating the future because it's easier to go along with trends than to buck them. This means you should watch for political, technical, or economic changes that might open, or close, career opportunities.

If you can spot a trend early, you may be able to prepare yourself to take advantage of it as part of your long-run strategy planning. Other trends might mean you should avoid certain career options. For example, rapid technological changes in computers and communications, including the Internet, are leading to major changes in retailing and advertising, as well as in personal selling. Cable television, telephone selling, and direct-mail selling may reduce the need for routine order takers—while increasing the need for higher-level order getters. More targeted and imaginative sales presentations for delivery by mail, e-mail, phone, or even by Internet websites may be needed. The retailers who survive may need a better understanding of their target markets. And they may need to be supported by wholesalers and manufacturers who can plan targeted promotions that make economic sense. This will require a better understanding of the production and physical distribution side of business, as well as the financial side. And this means better training in accounting, finance, inventory control, and so on. So plan your personal strategy with such trends in mind.

One good way to get more detailed analysis is to go to the U.S. Bureau of Labor Statistics website at http://stats.bls.gov and use the search procedure to look for the term *occupational outlook*. The Bureau provides detailed comments about the outlook for employment and growth in different types of jobs, industries, and regions.

Evaluate business practices

Finally, you need to know how businesses really operate and the kind of training required for various jobs. We've already seen that there are many opportunities in marketing—but not all jobs are open to everyone, and not all jobs are entry-level jobs. Positions such as marketing manager, brand manager, and sales manager are higher rungs on the marketing career ladder. They become available only when you have a few years of experience and have shown leadership and judgment. Some positions require more education than others. So take a hard look at your long-run objectives—and then see what degree you may need for the kinds of opportunities you might like.

Develop Objectives

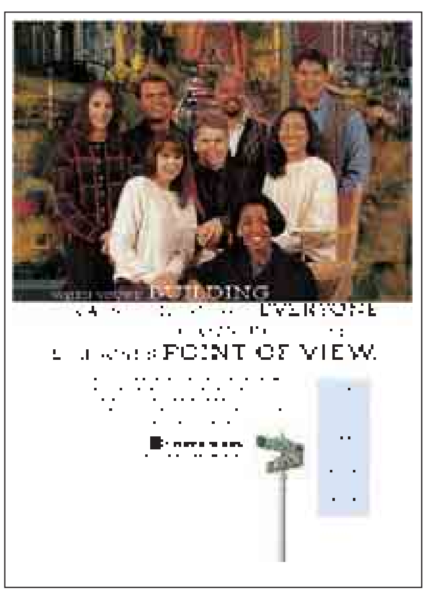
Once you've done a personal analysis and environment analysis—identifying your personal interests, your strengths and weaknesses, and the opportunities in the environment—define your short-run and long-run objectives more specifically.

Develop long-run objectives

Your long-run objectives should clearly state what you want to do and what you will do for potential employers. You might be as specific as indicating the exact career area you want to pursue over the next 5 to 10 years. For example, your long-run objective might be to apply a set of marketing research and marketing management tools to the food manufacturing industry—with the objective of becoming director of marketing research in a small food manufacturing company.

Your long-run objectives should be realistic and attainable. They should be objectives you have thought about and for which you think you have the necessary skills (or the capabilities to develop those skills) as well as the motivation to reach the objectives.

Your long-run objectives should clearly state what you want to do and what you will do for potential employers.



Develop short-run objectives

To achieve your long-run objective(s), you should develop one or more short-run objectives. These should spell out what is needed to reach your long-run objective(s). For example, you might need to develop a variety of marketing research skills *and* marketing management skills—because both are needed to reach the longer-run objective. Or you might need an entry-level position in marketing research for a large food manufacturer to gain experience and background. An even shorter-run objective might be to take the academic courses that are necessary to get that desired entry-level job. In this example, you would probably need a minimum of an undergraduate degree in marketing, with an emphasis on marketing research. (Note that, given the longer-run objective of managerial responsibility, a business degree would probably be better than a degree in statistics or psychology.)

Developing Your Marketing Plan

Now that you've developed your objectives, move on to developing your own personal marketing plan. This means zeroing in on likely opportunities and developing a specific marketing strategy for these opportunities. Let's talk about that now.

Identify likely opportunities

An important step in strategy planning is identifying potentially attractive opportunities. Depending on where you are in your academic training, this can vary all the way from preliminary exploration to making detailed lists of companies that offer the kinds of jobs that interest you. If you're just getting started, talk to your school's career counselors and placement officers about the kinds of jobs being offered to your school's graduates. Your marketing instructors can help you be realistic about ways you can match your training, abilities, and interests to job opportunities. Also, it helps to read business publications such as *Business Week*, *Fortune*, *The Wall Street Journal*, and *Advertising Age*. *Applications in Basic Marketing*, which comes shrinkwrapped with this text, provides reprints of recent articles from these publications. If you are interested in opportunities in a particular industry, check at your library or on the Internet to see if there are trade publications or websites that can bring you up to speed on the marketing issues in that area. Your library or college may also have an online service to make it easier to search for articles about specific companies or industries. And many companies have their own websites that can be a very useful source of information.

Don't overlook the business sections of your local newspapers to keep in touch with marketing developments in your area. And take advantage of any opportunity to talk with marketers directly. Ask them what they're doing and what satisfactions they find in their jobs. Also, if your college has a marketing club, join it and participate actively in the club's programs. It will help you meet marketers and students with serious interest in the field. Some may have had interesting job experiences and can provide you with leads on part-time jobs or exciting career opportunities.

If you're far along in your present academic training, list companies that you know something about or are willing to investigate—trying to match your skills and interests with possible opportunities. Narrow your list to a few companies you might like to work for.

If you have trouble narrowing down to specific companies, make a list of your personal interest areas—sports, travel, reading, music, or whatever. Think about the companies that compete in markets related to these interests. Often your own knowledge about these areas and interest in them can give you a competitive advantage in getting a job. This helps you focus on companies that serve needs you think are important or interesting. A related approach is to do a search on the Internet for websites related to your areas of interest. Websites often display ads or links to firms that are involved in that specific interest area. Further, many companies post job openings on their own websites or at websites that specialize in promoting job searches by many companies.

Then do some research on these companies. Find out how they are organized, their product lines, and their overall strategies. Try to get clear job descriptions for the kinds of positions you're seeking. Match these job descriptions against your understanding of these jobs and your objectives. Jobs with similar titles may offer very different opportunities. By researching job positions and companies in depth, you should begin to have a feel for where you would be comfortable as an employee. This will help you narrow your target market of possible employers to perhaps five firms. For example, you may decide that your target market for an entry-level position consists of large corporations with (1) in-depth training programs, (2) a wide product line, and (3) a wide variety of marketing jobs that will enable you to get a range of experiences and responsibilities within the same company.

Planning your Product

Just like any strategy planner, you must decide what Product features are necessary to appeal to your target market. Identify which credentials are mandatory and which are optional. For example, is your present academic program enough, or will you need more training? Also, identify what technical skills are needed—such as computer programming or accounting. Further, are there any business experiences or extracurricular activities that might help make your Product more attractive to employers? This might involve active participation in college organizations or work experience, either on the job or in internships.

Planning your Promotion

Once you identify target companies and develop a Product you hope will be attractive to them, you have to tell these potential customers about your Product. You can write directly to prospective employers—sending a carefully developed résumé that reflects your strategy planning. Or you can visit them in person (with your résumé). Many colleges run well-organized interviewing services. Seek their advice early in your strategy planning effort.

Implementing Your Marketing Plan

When you complete your personal marketing plan, you have to implement it—starting with working to accomplish your short-run objectives. If, as part of your plan, you decide that you need specific outside experience, then arrange to get it. This may mean taking a low-paying job or even volunteering to work in political organizations or volunteer organizations where you can get that kind of experience. If you decide that you need skills you can learn in academic courses, plan to take these courses. Similarly, if you don't have a good understanding of your opportunities, then learn as much as you can about possible jobs by talking to professors, taking advanced courses, and talking to businesspeople. Of course, trends and opportunities can change—so continue to read business publications, talk with professionals in your areas of interest, and be sure that the planning you've done still makes sense.

Strategy planning must adapt to the environment. If the environment changes or your personal objectives change, you have to develop a new plan. This is an ongoing process—and you may never be completely satisfied with your strategy planning. But even trying will make you look much more impressive when you begin your job interviews. Remember, while all employers would like to hire a Superman or a Wonder Woman, they are also impressed with candidates who know what they want to do and are looking for a place where they can fit in and make a contribution. So planning a personal strategy and implementing it almost guarantee you'll do a better job of career planning, and this will help ensure that you reach your own objectives, whatever they are.

Whether or not you decide to pursue a marketing career, the authors wish you the best of luck in your search for a challenging and rewarding career, wherever your interests and abilities may take you.

Video Cases

Basic Marketing includes two different types of marketing cases: the 7 special video cases in this section and the 35 traditional cases in the next section. All of the cases offer you the opportunity to evaluate marketing concepts at work in a variety of real-world situations. However, the video cases add a multimedia dimension because we have produced a special video to accompany each of the written cases. An abbreviated version of the video for each case is available on the *Student CD-ROM to Accompany Basic Marketing*. The full-length videos are available to professors who adopt *Basic Marketing* for use in their course. (These case-based videos are in addition to 19 other video segments we have custom produced and made available to instructors for possible use with other parts of the text.)

The videos bring to life many of the issues considered in each case. However, you can read and analyze the written case descriptions even if there is no time or opportunity to view the video. Either way, you'll find the case interesting and closely tied to the important concepts you've studied in the text.

The set of questions at the end of each case will get you started in thinking about the marketing issues in the case. Further, we provide instructors with a number of suggestions on using the video cases—both for group discussion in class or individual assignments. Thus, as is also true with the traditional cases in the next section, the video cases can be used in many different ways and sequences. You can analyze all of the cases, or only a subset. In fact, the same case can be analyzed several times for different purposes. As your understanding of marketing deepens throughout the course, you'll "see" many more of the marketing issues considered in each case.

1 Marketing in the Hardwood Industry*

Logs cut from hardwood forests are an important raw material used by many domestic and foreign producers. Unlike pine and other softwoods, which are used mostly for general construction, the demand for oak, black walnut, black cherry, white ash, maple, and other hardwoods derives from consumer demand for high-value products such as hardwood furniture, cabinets, flooring, millwork, and moldings. When properly finished, hardwoods offer a finish that is both durable and beautiful. The wood is also very strong, so even pieces that do not have a perfect appearance are well suited for making frames of chairs, sofas, and other furniture that are covered with various upholstery materials.

Hardwood forests cover many of the rural areas of the eastern United States—areas where there is often little other industry. Thus, the forest products industry is important to economic development and to the employment and quality of life of people who live and work in these areas.

Unfortunately, that potential for economic development is not always achieved. A key reason for this is that many of the firms that harvest logs do not focus on any particular target market or specific customers. Rather, they just see the market opportunity in terms of the products they have always produced: hardwood logs or perhaps "green" roughsawn lumber cut from the logs. As a result, they sell a commodity product to distant customers who view logs from one supplier as like all of the others on the market and simply purchase logs at the lowest price.

Under this production-oriented, commodity approach, the hardwood produced in rural regions of the U.S. has usually been shipped to other regions—including foreign countries—before the wood is processed into intermediate and finished products. But when the wood is sold and shipped out of the region as an unfinished commodity, the profit opportunities—and associated employment—relevant to the secondary processing are exported as well.

Historically, in this commodity-market environment, successful producers were those who could operate with the lowest total cost. The major cost areas are raw material (lumber), labor, any processing that is done, transportation, and, of course, any marketing-related expenses. Small- and medium-sized producers are at an inherent disadvantage in this competitive, cost-oriented environment. They cannot achieve economies of scale because they can't spread their overhead expenses over a large number of units produced. As a result, there is little way for them to obtain a competitive advantage in production or distribution.

Some hardwood producers, including some smaller ones, were able to improve sales and profits—in both the U.S. and international markets—by differentiating their offerings with higher-quality products and service. For example, firms that worked to keep lumber dry and clean were better able to meet the needs of some customers. Further, some customers appreciated supplier firms that did a good job of sorting and grading different types of woods. And some suppliers focused on supplying species of wood that were desirable but less-readily available.

In spite of such efforts, in the past most hardwood from U.S. producers was just sold as a commodity in a very competitive market. However, some people in the hardwood industry are applying marketing concepts to help change this situation. They are focusing attention on ways to expand the market for existing hardwood products and also trying to identify markets with specific needs so that they can increase the value added to the hardwood lumber—by producing finished or semi-processed products—before it is shipped out of the region where the trees are cut.

These efforts are having an effect. For example, some companies have found markets for hardwood-based composite materials for use as beams, columns, or rafters in building construction. Traditional materials for structural framing include softwood lumber and nonrenewable resources such as steel and aluminum. These structural hardwood composites are manufactured by breaking lower quality hardwood logs into small pieces such as strands, flakes, or thin sheets of wood (veneer) and reforming the pieces into large members with names like "parallel-strand lumber" or "laminated veneer lumber" for the construction market. By finding market opportunities for structural hardwood composites, companies add value by using small or poorly formed logs, less desirable hardwood species, and sometimes even the hardwood waste from other industrial processes. Development of value-added markets for structural hardwood composites also has resulted in job creation and economic development in rural, forested areas.

However, producing structural hardwood composites is just one way to meet customer needs that were not previously being satisfied. An increasing number of customers want to buy kiln-dried boards rather than green lumber that isn't immediately ready to use for their own production purposes. So, many firms that cut and sell hardwood are taking the step of adding value to their product by doing the kiln-drying process. But numerous other opportunities to add value still exist. To uncover them, U.S. hardwood suppliers are asking basic questions like: What are the needs of different customers in the broad product-market for hardwood? Who are these customers and where are they located? What kind of hardwood products—beyond the commodity lumber we've sold in the past—do they want? What are the opportunities to differentiate what we sell and add more value to our product through additional processing that meets the needs of specific target segments? How do we go about finding the answers to these questions?

One opportunity for expanding both the market and value-added product opportunities lies in the area of international exports. Prior to 1980, many firms that supplied hardwood ignored the export market. Domestic demand was sufficiently large to sustain growth and profitability. However, as domestic demand softened and competition grew more intense, U.S. suppliers began to rethink entry into the international marketplace. In the last decade, efforts to market hardwood products to foreign markets have expanded significantly, and the value of exported hardwood products has increased substantially.

*This case and the script for the accompanying video were prepared by Thomas G. Ponzurick and James P. Armstrong.

Despite some recent success, there is still a vital need for more U.S. suppliers to adopt the marketing concept, especially in targeting the export marketplace. Currently, international buyers are focusing most of their attention on the higher-grade hardwood products. But growth of sales and profits from exporting will depend on the U.S. industry's ability to find markets for more of their available product inventory—including lower grades and species of hardwood. In fact, finding markets for value-added products may be the best way to improve sales of the lower grades and species. This would not only result in more efficient and profitable use of hardwood resources, but it could also reduce costs by improving economies of scale in production.

However, the question that should be uppermost in marketers' minds is: What do these customers want in the way of hardwood products? To answer this question, one must first determine the needs of these international buyers. In the case of U.S. hardwood suppliers, Canadian buyers are currently the largest market for these products.

Most of the Canadian firms that import U.S. hardwood to Canada are concentrated in a few geographic areas: over 75 percent are located in either Ontario or Quebec. Much of the imported lumber is purchased by Canadian manufacturers who use it to produce their own products—including furniture, cabinets, hardwood flooring, and molding and millwork for the construction industry. However, these customers account for only about 31 percent of U.S. imports. Canadian wholesalers—especially brokers and agents—account for more than half of the Canadian hardwood lumber purchased from U.S. sources. Many of these middlemen specialize in international sales. In fact, nearly 20 percent of all U.S. hardwood lumber imported by Canada is subsequently resold and exported to Europe—usually after some value-adding activities such as grading, sorting, repackaging, or additional product processing.

Red oak, hard maple, and white oak are the principal hardwood species that Canadian customers import from the United States. However, there are also markets for some species of lesser value—including soft maple and yellow poplar.

All types of lumber are graded according to quality, and this grading is important to Canadian buyers who have different hardwood needs. About 70 percent of the total volume of hardwood lumber purchased by Canadian firms is the higher-quality Number 1 Common grade or better. The other 30 percent of lumber imported is graded as Number 2 Common or lower. Firms that purchase the lower grades of lumber are mostly flooring manufacturers, furniture manufacturers, and brokers.

Marketing research studies indicate that Canadian hardwood lumber buyers are relatively satisfied with the quality of products and services now being provided by U.S. suppliers. However, the research reveals that suppliers could enhance customer satisfaction and their competitive advantage by improving their product quality through more accurate grading and reporting of moisture content as well as by providing cleaner and straighter lumber. Buyers would also like to see better distribution customer service from U.S. suppliers. This includes improving the reliability of lumber supplies and reducing order cycle time—that is, the time from when a customer orders lumber until it is delivered. And of course, organizational buyers are always interested in competitive pricing.

Importantly, the research also shows that over one-third of the firms that import hardwood lumber from the United States are potentially interested in purchasing finished hardwood parts from U.S. suppliers. Examples in the area of finished hardwood parts include parts for making furniture, doors, stairways, and railings. Organizations showing an interest in these finished products include importers, export brokers, and manufacturers of various hardwood products. These results indicate that there may be a good opportunity for U.S. suppliers of hardwood products to custom produce such parts for specific customers. Yet it is still unknown how substantial this opportunity might be, how eager Canadian buyers might be to purchase value-added finished hardwood products, and at what prices. To begin to answer these questions, U.S. suppliers need to determine the types and specifications of the finished hardwood products desired by individual buyers. That will require that supplier firms do more marketing research or have more direct personal selling contact with buyers for specific firms than has been typical in the past. Alternatively, working with these customers may require closer relationships—partnerships—with middlemen who can help producers with some of the required marketing functions.

It appears that U.S. hardwood firms face a variety of possible opportunities to expand sales and improve profits. Export markets, including Canada, appear to offer greater potential than has been captured. Further, some of the opportunities are ones that focus on the value-added products that have the potential to foster economic development in rural areas of the U.S. where such activities have in the past been limited. However, just having access to hardwood forests alone isn't enough to turn these opportunities into profitable business. Developing international markets for value-added hardwood products requires that individual supplier firms adapt their marketing strategies to marketplace needs. Producers need to identify specific target markets and understand the unique needs and buying behavior of these markets. They also need to get beyond production-oriented thinking and develop whole marketing mixes to serve their target customers. That means figuring out what type of products and services to offer. It also means making decisions about how to price specific offerings—because firms that are doing something unique for their customers won't just face perfect competition and a price that is set by the market. A firm that does a good job with this marketing strategy planning has the potential to satisfy some target customers very well and in the process gain a sustainable competitive advantage. And, of course, as more firms do that they will not only make better profits, but also contribute to the economic development of the areas in which they operate.

1. Why is it important for firms that produce and supply hardwood to adopt the marketing concept?
2. What are some of the ways hardwood products can be adapted to meet value-added market needs?
3. In what ways is the marketing strategy different for hardwood suppliers who focus on a specific target market than for firms that just sell roughsawn logs or green lumber in the commodity market?

4. What are some of the potential target markets for U.S. hardwood suppliers selling to the Canadian market? Which marketing mix variables are likely to be most important to the target markets you have identified?

2 Celestial Seasonings*

In the late 1960s, the era of Woodstock and Summer of Love music festivals, Mo and Peggy Siegel and two friends began picking herbs in the mountains around Aspen, Colorado. They decided to start a company that they named after one of their friends—Lucinda Ziesing, whose nickname was Celestial. The next year, 10,000 muslin bags of Mo's 36 Herb Tea were sewn, filled, and sold to a health-food store in Boulder, Colorado. A year later, Sleepytime Herb Tea was created, and the business was moved to a barn in Boulder. But that didn't last long. Mo and his friends were onto something hot! Soon they were purchasing herbs around the world and learning how to mass produce their product in a factory. Loose-pack tea was eventually replaced with single-serve tea bags, and additional flavors were created—all of which fueled sales. Today, Celestial Seasonings is recognized as a leader in herbal products, accounting for half the herbal tea market in the United States and expanding worldwide.

Celestial Seasonings' core business is herbal teas. Along with Mo's 36 Herb, Red Zinger, and their best-selling product, Sleepytime, the company has created over 60 different herbal teas.

The tea market is comprised of black teas, herbal and medicinal teas, diet teas, iced teas, and Chai, a sweet Indian spiced blend. The U.S. tea market has an annual growth rate of about 10 percent in recent years. Herbal and medicinal teas represent two-thirds of the total tea market and are growing at about 12 percent a year. Celestial Seasonings is the leading competitor in the herbal tea category, holding 50 percent market share. Other herbal tea competitors include Republic of Tea, Tazo (Starbucks), Yogi Tea, and Oregon Chai.

Herbal teas compete with traditional black teas, dominated by Lipton Tea Company. In the 70s, Celestial revolutionized the tea industry when it introduced the idea of herbal teas as flavorful, healthy beverages for everyday consumption. At that time, herbal teas were perceived as foul-tasting medicinal brews. Few retail stores carried a complete line of herbal teas, so creating awareness, favorable image, and distribution posed a daunting challenge to the company. Initially, Celestial Seasonings promoted and distributed its products through health-food stores.

In 1984, food industry giant Kraft Foods bought Celestial Seasonings. With its marketing muscle and channel power, Kraft expanded distribution of Celestial Seasonings and added a line of gourmet black teas under the Celestial brand name. Shortly after the Kraft buyout, Mo Siegel retired from the company, and Barney Feinblum was named successor. However, the Kraft way of doing business sometimes conflicted with Celestial's culture, which from the beginning was influenced by "hippie-style" entrepreneurship, employee involvement, and earth-friendly community initiatives.

The values of the company are epitomized in its belief statement:

> We believe in marketing and selling healthful and naturally oriented products that nurture people's bodies and uplift their souls. Our products must be superior in quality, of good value, beautifully artistic, and philosophically inspiring.

In 1988, Celestial Seasonings management along with a venture capital firm bought the company back from Kraft. A new board of directors was created, and new headquarters were constructed outside of Boulder, Colorado. In 1991, Mo Siegel returned as CEO and chairman of the board and agreed to stay until 1997.

During Mo's second period of leadership, Celestial Seasonings went public and attempted a variety of product diversifications. A partnership with Perrier was formed to license and produce a line of ready-to-drink bottled teas under the Celestial Seasonings brand. A line of After Dinner Teas was launched, targeting more upscale consumers than Celestial's original back-to-the-earth customers and promoting tea as an after-dinner beverage. Iced Delight teas were created and marketed as "Brews in Your Fridge." A licensing agreement with Warner-Lambert produced Celestial Seasonings Soothers, herbal throat drops. In 1995, with HP Hood Company, Celestial created iced tea flavored frozen popsicles, but they were not a market success. That same year, Celestial developed its first medicinal herb tea—Herbal Comfort. In 1997, based on the success of Herbal Comfort, Celestial Seasonings expanded the line of medicinal teas to include Echinacea, Green Tea, GinkoSharp, Diet Partner, GingerEase, Detox A.M., LaxaTea, and Melatonin P.M. Celestial Seasonings now has 46 percent (up from 24 percent in June 1998) of the fast-growing medicinal tea category.

In 1998, Celestial acquired Mountain Chai, a Boulder-based manufacturer of concentrated Indian-style tea. Six varieties of Mountain Chai were reformulated and introduced under the Celestial logo. That same year, a line of six green teas was launched. Green teas have been used in Asian cultures for hundreds of years and are known for their curative qualities. Green teas were introduced to the American market in the 60s but were not widely successful due to their bland taste.

In 1997, Mo Siegel's commitment to manage the company ended, and Steve Hughes, known in the industry for growing the Healthy Choice line of food products, became Celestial's CEO. With Hughes at the helm, Celestial Seasonings entered a new phase. Saying that Celestial was "a $500 million brand trapped in a $100 million business," Hughes initiated a series of efforts to leverage the Celestial brand name, including the creation of herbal supplements. According to Hughes,

> For 25 years we've cared about one thing—creating healthy, natural products that make our customers feel good. Our herbal supplement line is a natural extension of that mission. We know the power of herbs and the simple solutions they provide for good health. We want to share that.

Launched in April 1998 in capsule form, the herbal supplements line included nine single-herb extracts and eight advanced-formula blend products. The timing seemed perfect. Herbal supplements were rapidly gaining consumer

*This case and the script for the accompanying video were prepared by Professor Davis Folsom of USC Beaufort.

acceptance as alternatives and additions to traditional health and wellness products. A 1998 Market Facts survey showed the percentage of Americans who reported using herbal supplements had grown from just 3 percent in 1990 to 37 percent in 1998, and almost 80 percent of respondents felt herbal supplements were safe to take. Herbal supplements also have a number of logical synergies with Celestial's existing products. Many of the same ingredients are used, and herbal supplements can be sold through the same distribution channels.

Herbal supplements are promoted on the company's Natural Wellness website (www.celestialseasonings.com):

> We do our best to eat right, get enough rest, and exercise, and the benefits are undeniable. But our health can be affected by things we can't control. Environmental toxins, emotional and physical stress and simply getting older create concerns that show up in many ways—as wrinkles, low energy, a flagging mood, and more. We're not defenseless, though. Nature, as usual, provides what we need.

Clearly, Celestial Seasonings is appealing to specific target market segments, like aging baby boomers and health-conscious consumers of all ages. In fact, whenever a new Celestial product or service is proposed, the first question asked is "What will Tracy think?" Tracy Jones is the company's nickname for their primary target market: a 35- to 54-year-old, college-educated, socially involved woman with a focus on healthy lifestyle and household income greater than $50,000. Tracy also is not a major viewer of television. Herbal supplements are primarily targeted to Tracy and secondarily targeted to other health-conscious consumers. With labels that talk about "Tummy Mint" and "Tension Tamer," these new herbal supplements are designed to strike an emotional chord in Tracy.

Launched with a $4 million dollar campaign and priced at a premium, the herbal supplements line brought in 21 percent of Celestial's revenues in 1998. But just as things looked as bright as a summer day in the Rockies, Celestial learned a classic marketing lesson. The market for herbal supplements peaked at the same time two major competitors, One a Day and Centrum, entered the market. Also, 1999 SPINS and AC-Nielsen market research data indicated a variety of changes in the herbal market. Green teas, medicinal blend teas, and Chai were gaining sales, but previously popular single-herb supplements, including St. John's Wort and Ginseng, showed sharp declines.

In response, Celestial restaged the herbal supplements line in 1999 by dropping six products, reducing the advertising budget, and doubling the number of capsules per bottle. Celestial's herbal supplements line still represents a major part of company sales, but initial enthusiasm has mellowed, and the marketing team has begun to look for new opportunities. Also, companies specializing in herbal supplements face several ethical and legal issues.

Almost 80 percent of American consumers believe that herbal supplements are *safe*. However, as one FDA director has stated, "Realize that the label term 'natural' doesn't guarantee that a product is safe. Think of poisonous mushrooms. They're natural." Herbal supplements companies must abide by FDA rules regarding claims of effectiveness of their products; they cannot represent their products as medicines. Mike Gross, Celestial's regulatory expert, explains, "What it all boils down to is that you cannot make any claim to cure, treat, prevent, mitigate, or diagnose any disease state—or even mention a disease! For example, you cannot say 'for the treatment of prostate enlargement' but you can say 'to keep your prostate healthy.'"

One new direction under consideration at most consumer goods companies is the Internet. Surprisingly, the Internet initiative at Celestial started in the Information Technology division of the organization. Celestial started a modest web storefront designed to educate consumers and sell seasonal items and gifts from its mail-order catalog. Then the catalog manager got onboard and the marketing group joined in to build this alternative channel.

Part of the success of Celestial's catalog and Internet sales is attributable to the company kitchen! Started in 1973 as a free lunch program for employees, outsiders began to drift in, wanting to buy products. As more and more customers visited the factory, the idea of a factory tour gained favor. Between 1994 and 1999, over 350,000 people took Celestial's factory tour, creating a huge database for catalog and Internet marketing strategies.

1. What kinds of synergies do herbal supplements have with herbal teas?
2. What environmental trends seem to be fueling sales growth for herbal supplements? What environmental trends pose threats to the sales and profits of herbal supplements?
3. What kinds of new products should Celestial Seasonings develop? What criteria would you use to evaluate new product ideas for Celestial Seasonings? Why?

3 Briggs & Stratton Corporation*

Briggs & Stratton is the world's largest producer of air-cooled gasoline engines for outdoor power equipment, mainly for lawn mowers. The company designs, manufactures, markets, and services these products—which are sold as components to original equipment manufacturers (OEMs) in 85 countries.

Steve Briggs and Harry Stratton started the company in 1909 to produce a six-cylinder, two-cycle engine similar to one Briggs had developed a few years earlier as an engineering student in college. The engine turned out to be too expensive to mass produce, so the partners turned their attention to designing and producing electrical parts for automobiles—including switches, starters, and regulators.

Later B&S acquired the patent for the Motor Wheel—a gasoline engine designed to fit on a bicycle. It was a market success and ultimately proved to be a good way to power several other types of vehicles. In some parts of Asia it was even used on rickshas.

To build on the success of the Motor Wheel, B&S looked for new markets for engines. Its search led to the development of a stationary utility engine for use on such products as garden

*This case and the script for the accompanying video were prepared by Roger C. Shoenfeldt.

cultivators and reel-type mowers. Before utility companies brought electricity to rural parts of the U.S., these B&S engines even powered refrigerators, milking machines, and elevators.

After World War II, the booming U.S. economy, the shift of population to the suburbs, and the growth of leisure time prompted new consumer interest in lawn and garden equipment. B&S saw this growth opportunity and shifted its focus to producing motors for the lawn mower manufacturers who served that market. But B&S didn't just try to push engines it was already producing.

At that time, most power mowers used two-cycle engines; their light weight made mowers easy to push. However, two-cycles weren't reliable and needed a mix of gas and oil—which was inconvenient for consumers. Four-cycle engines like the ones B&S produced were very reliable, but they were made from cast iron and very heavy. Marketing people at B&S realized that consumers wanted *both* reliability and light weight, so the firm designed a new lawn mower engine from aluminum alloy.

Over time, the Briggs & Stratton name has become almost synonymous with the lawn mower. Top producers such as Toro, Snapper, and John Deere proudly proclaim in their ads that their mowers are powered by a Briggs & Stratton engine. In fact, Briggs & Stratton is often the most prominent brand name on the mower, even though the engine is just a component. The Briggs & Stratton name helps sell the mowers because it means quality, reliability, and performance to consumers. Because of this reputation—and consumer demand—many retailers won't sell a mower unless it uses a Briggs & Stratton motor.

Early in the 1980s B&S faced a serious competitive threat. A shift in international exchange rates made Japanese products less expensive in the U.S. and other parts of the world. This gave Japanese motorcycle producers a pricing edge to expand into the market for small engines. Because B&S was the leading producer of small engines, any competitive inroads would be at its expense.

Marketers at B&S realized that to keep competitors from carving up its market they would need to fine tune the firm's offerings for specific market segments. A starting point for that effort was to develop new product lines—actually, whole marketing strategies—for each type of need rather than just trying to get economies of scale by serving bigger, but heterogeneous, product-markets. B&S invested $250 million to develop carefully targeted new products, build new plants, and develop new processes to improve quality and reduce costs.

B&S' new-product development effort for specific segments cut short the Japanese invasion and increased customer satisfaction and brand loyalty. That put B&S in a better position to deal with another change—a big shift in the channel of distribution for lawn mowers. In the past, most consumers bought lawn mowers from independent lawn and garden equipment dealers. However, over time mass-merchandisers have taken away almost all of that business. In fact, five of the largest retail chains now account for half of all the lawn mowers sold in the U.S.—and about 80 percent of B&S' lawn and garden equipment sales are through mass-merchandisers.

This concentration of purchasing power has given the big retail chains new clout in the channel of distribution. Retail buyers pressure lawn mower producers to keep costs and prices low; and the producers in turn expect B&S to keep its prices in check. While this has probably reduced the price premium that the B&S brand commands, it hasn't eliminated it. Retailers know that consumers want lawn mowers with B&S engines. So brand loyalty by final consumers gives B&S an advantage in negotiations with its producer-customers. Even so, the squeeze on profit margins throughout the channel—and intense competition—means that B&S must continue to find better ways to meet customers' needs if it is to maximize market share and earn attractive profits. And for B&S, developing innovative new products has long been the key to meeting needs better. Its skill in this arena is illustrated by its success in developing a 4-horsepower motor to fill a gap in its product line.

In 1993 B&S had four main lines of lawn mower engines. B&S' Classic 3.5-horsepower (HP) engine was at the low end of the price range and it was found on mowers priced at about $99. As the name implies, this reliable model has been popular for many years. If a customer wanted a bit more power and a mower that took less pulling effort to start, B&S' 3.75-HP Sprint engine was available on mowers that sell for about $119. For consumers who wanted an easy-starting engine that quietly conquered even the thickest grass, the Quantum 5.0-HP Plus line was the choice—on a mower that cost from $160 up to $500. Finally, B&S offered a top-of-the-line Diamond Plus model with about 6.0 HP, unique European styling, and all the bells and whistles. A customer who had to ask how much it cost probably couldn't afford it.

In spite of multiple models in each of these lines, B&S did not have a good 4-HP mower engine. Yet there was a clear market for one. B&S' main competitor, Tecumseh, proved that. Its 4-HP engine was a market leader. And B&S needed to develop a new engine if it wanted to compete for the segment of customers who wanted a 4-HP engine. To take customers away from Tecumseh, B&S marketers knew they needed to develop a cost-effective engine that was better than the Tecumseh model on all operating and performance criteria. Research also showed that styling was becoming an important purchase criterion for many customers—perhaps because that was the one difference in engines that consumers could see while shopping.

Although they had a clear idea of what the market wanted, marketing managers at B&S faced a real challenge. Creating a superior new engine wouldn't do much good if lawn mower producers and retailers didn't know about it, and *the* time and place to introduce an important new lawn and garden product was at a big, national trade show that was less than a year away. If they missed that date, they'd effectively lose a year. So getting the new product to market fast—without making costly mistakes—was critical.

To speed up development and also reduce costs, B&S designers created a contemporary, aerodynamic look with a computer-aided design (CAD) system; the tooling of the parts—direct from the computer drawings—was very fast. Further, B&S engineers used standard parts from other B&S engines when they could. This helped to control costs, reduce development time, cut inventory requirements, and later would make after-the-sale service easier and faster. As a result of efforts like these, the new product went from the concept stage to production in about nine months—in time for the trade show deadline.

While the new product team was developing the engine, B&S marketing people had other work to do. To emphasize the new engine's distinct identity, they used an individual brand name, Quattro, which means four in Spanish. They also developed promotional materials to use at the trade show, and started work on ads and other cooperative promotional materials so they would be ready for producers and retailers to use when the Quattro started to appear on lawn mowers in retail stores.

The B&S salespeople also started to call on their top OEM customers. Besides explaining the advantages of the new Quattro motor and answering questions, they provided hundreds of sample motors. That made it possible for the producers to get a head start in creating prototypes of new mowers to show their retailer-customers. And since the retailers have a big influence on the producer's purchase decisions, B&S salespeople also promoted the features of the new motor—and the pull appeal of the Briggs & Stratton name—to retail buyers.

The salespeople also explained the benefits of the B&S cooperative advertising arrangements and how they work. B&S provides cooperative advertising allowances and materials to all of its OEM customers and to the retailers who sell their products.

As a result of all this front-end planning, the Quattro got off to a very successful start. In fact, customer reaction to the new engine's sleek appearance, power, and reliability was so strong that demand was double what B&S had forecast. By mid-1995, the company was hard-pressed to keep up with demand.

That's one reason that during the first year B&S decided to focus the marketing effort for the Quattro primarily on the U.S. market. It didn't make sense to spend money promoting the product in foreign markets if supply would be limited. However, exports account for 21 percent of all B&S engine and parts sales, and the Quattro isn't likely to be an exception to that pattern. When the time comes for the Quattro's international rollout some changes in the domestic marketing strategies may be required. For example, while lawn and garden equipment is important in nations with developed economies, in less-developed countries the Quattro is likely to be used for other types of applications—in agricultural, marine, and other commercial markets.

1. Are there any disadvantages to Briggs & Stratton's decision to hold off introducing its new Quattro engine in international markets? Explain your thinking.
2. What are the marketing implications for Briggs & Stratton of the fact that the U.S. market for lawn mowers is in the market maturity stage?
3. Given that engines are such an important component in manufacturing lawn mowers, would it make sense for Briggs & Stratton to develop and market its own line of mowers? Explain your thinking.
4. Given B&S' ability to compete well with Japanese motorcycle producers when they tried to take market share away from Briggs & Stratton's small engines, would it make sense for Briggs & Stratton to produce a small motorcycle—or perhaps a motorscooter—to market in India and other countries where incomes are low but demand for personal transportation is increasing? Explain your thinking.

4 Frog's Leap Winery*

In order to save a $2.00 camping fee, John Williams rode his motorcycle into a field in the Napa Valley, pitched his tent, and was enjoying a good night's sleep until he was rudely awakened early the next morning by the owner of the property, Larry Turley, a local doctor. In order to make amends, John offered to share a bottle of wine with the doctor, and by the time the bottle was empty, the two had discovered they both shared a strong desire to make wine.

Having grown up on a dairy farm in western New York, John originally went to Cornell University to extend his studies as a dairyman. However, a fortuitous work-study program at Taylor Wine Company—and a few bottles of wine later—made John realize he was more interested in making wine than in returning to the family dairy farm. His newfound interest led him to enroll in the Enology and Viticulture Masters Program at the University of California, Davis. After concluding his studies at Davis, John returned to the Finger Lakes area of New York as the start-up winemaker at Glenora Wine Cellars. But having been exposed to the superior climate and soils of the Napa Valley, John eventually headed back to the Napa Valley to assume winemaking duties at Spring Mountain Vineyards.

Back in the Napa Valley, John reacquainted himself with the good doctor whose land he had poached on several years before, Larry Turley. Larry was now living on a small parcel of land called The Frog Farm, so named because an old ledger revealed that around the turn of the century frogs were raised there and sold for $.33 per dozen, destined no doubt for the tables of Victorian San Francisco restaurants. As a lark, they gathered some grapes and made a small quantity of wine. They called the Wine "Frog's Leap," a combination of a good-natured dig at Stag's Leap, the classy Napa Valley winery, and a tribute to The Frog Farm where Larry lived.

Because of their love of winemaking, they continued to make small quantities of the wine for several years and managed to sell a few cases each year to help defray expenses. John and Larry continued to produce the wine as a hobby—they both were still working full-time in their real jobs—and probably wouldn't have changed except for the fact that a wine writer from *The New York Times* picked up a bottle and wrote a column entitled "Frog's Leap: A Prince of a Wine." The free publicity resulted in hundreds of telephone calls and the sale of their entire year's production.

The opportunity to attempt to grow the winery was too hard to resist, and, according to John, the hobby became a real business when "We made the ultimate male sacrifice and decided to sell our motorcycles in order to raise the capital necessary to start the winery as a commercial venture."

Production grew from 700 cases of wine at its inception in 1982, to 2,900 cases in 1983, to 4,400 cases in 1984. By 1985, the winery was doing well enough for John to quit his paid employment at Spring Mountain Winery and make Frog's

*Peter Rainsford prepared this case and the script for the accompanying video. He would like to thank John Williams, founder and owner of Frog's Leap Winery, for providing information in the case and for his constructive suggestions during its preparation.

Leap his full-time job. Frog's Leap has continued to grow and produced more than 50,000 cases in 2000. There are a variety of reasons for its success, but the overriding theme is best summed up by the following paragraph from the company's mission statement:

> We will strive to produce wines of excellent value that are fresh, delicious, and natural using the best of Napa Valley's organically grown grapes. Our professional presentation will be juxtaposed with our image of irreverent humor, fun, genuine hospitality, openness, and honest caring.

The winery has always been committed to quality and has refused to compromise with respect to quality. As John says, "Our goal is to have fun making elegant wines with superb balance."

While the contents of the bottle may be award-winning quality, the exterior of the bottle reflects the fun and humor of the company. The company's motto is "Time's Fun When You're Having Flies." Each bottle's label—which won a prestigious wine label award at the time it was designed—features an elongated frog in mid leap; it also contains the instructions, "Open Other End," at the base of the label. The humor continues when the bottle is opened as the word "ribbit" is clearly marked on every cork. But make no mistake, their first objective is to produce world-class wines, and if awards are any indication, they are clearly meeting this objective.

Dan Berger described the quality of the wines in the holiday 1995 issue of *Wine Enthusiast*. In an article about the 10 most underrated wineries on the West Coast, Berger states,

> I don't know why people don't see the utter greatness in the wines John Williams makes. His Cabernets are packed with fruit and elegance, his Zinfandel is among the best made anywhere, and his Sauvignon Blanc is a world-beater. This is simply one of the best producers in California and it never seems to get the acclaim it deserves. Maybe John's label note "Open Other End" is too subtle for the number of reviewers. (For that matter, his cork says it all!)

Speaking of the label, John looked for an unknown artist who would be willing to design a label for $100 and several cases of wine. Charles House agreed to do the job and was specifically told not to put a frog on the label. But that's exactly what House created—a captivating, eye-catching rendition of a frog in full leap—a frog "going for it" all out! The label went on to win one of the nation's top graphic design awards, House became famous, and Frog's Leap wine labels became part of the Smithsonian's permanent collection.

By 1994, the winery was not only successful but was bursting at the seams. The company was still located at The Frog Farm, but the business had "succeeded far beyond our expectations." According to John, "Frog's Leap was faced with a lack of production space, a lack of office space, and the need to make the winery accessible to the public." There was also a sense that John and Larry had different goals for both the winery and their personal lives. Larry wanted to spend less time being a doctor and more time involved in the day-to-day aspects of making wine—but on a much smaller scale. They decided, in a very amicable agreement, to split the winery in half. Larry, who owned the property where Frog's Leap had been located, kept the winery, all the winemaking equipment, and the one acre of sauvignon blanc vines located at the site. John retained the Frog's Leap brand, the wine inventory, and the marketing program.

The only problem with the split was the fact that John needed a place to put his winery—it was a winery in name only. He quickly found the ideal spot, a 38-acre parcel on the Rutherford Crossroad with a 8,000-square-foot barn, The Red Barn, which had been built in 1884 as a winery. Although the barn needed a great deal of renovation, it was restorable for use as a winery. The site also provided John with the land he needed to grow some of his own grapes and to practice sustainable agriculture and organic farming.

In the six years since John moved the winery to The Red Barn location, Frog's Leap has continued to improve both its reputation and the quality of its wines. And it has been able to succeed even though more and more wineries have been built in the Napa Valley and as more and more big corporate wineries (e.g., Sutter Home, Robert Mondavi, and Kendall-Jackson, just to name a few) have dominated the Napa and Sonoma Valleys.

1. How would you describe the position strategy for Frog's Leap? How do you think it differs from a large, corporate winery such as Sutter Home?
2. How has Frog's Leap grown over the years? What are the growth strategies that John Williams plans to follow in the future?
3. Do you think the first half of the twenty-first century will be a hospitable environment for winemakers in the U.S.? Why or why not?

5 Girl Scouts*

Girl Scouting is dedicated to and available to all girls age 5 to 17. Today there are approximately 3.6 million Girl Scouts in the U.S., including over 2.7 million girls and nearly 900,000 adult members, most of whom are volunteers. Membership categories for the girls are

Category	*Age*	*Grade*
Daisy	5–6	K, 1
Brownie	6, 7, 8	1, 2, 3
Junior Girl Scout	8, 9, 10, 11	3, 4, 5, 6
Cadette Girl Scout	11, 12, 13, 14	6, 7, 8, 9
Senior Girl Scout	14–17	9–12

Membership is at an all-time high. In 1999, as a result of specific target market initiatives, growth was especially strong among Hispanic (a 6.3 percent increase) and African-American (5.9 percent increase) girls. And membership is not just limited to the United States. Through its membership in the World Association of Girl Guides and Girl Scouts, Girl Scouts of the U.S.A. (GSUSA) is part of a larger entity of over 10 million girls in 140 countries. Although some programs for

*This case and accompanying video script were prepared by Dr. George Prough, the University of Akron, with assistance from Lori Arguelles, Communications Director, GSUSA, and Mary Kintz, Director of Member Services, Western Reserve Girl Scouts Council.

overseas travel and adventure exist, the international link is still being developed and is not nearly as strong as the link between GSUSA and the local councils.

As is true for many nonprofit organizations, the Girl Scouts organization operates on two levels. At the corporate or headquarters level is Girl Scouts of the U.S.A., located in New York. A board of directors, a national president, and a national executive director run GSUSA. From these offices, plans are made for the national parent and for the local councils. These local councils may be thought of as strategic business units (SBUs) for the Girl Scouts. Over 300 local councils serve to direct the activities of the more than 226,000 troops in the United States and overseas. A local board of directors and an executive director manages each of these local councils. To become a part of GSUSA, each of these local councils must go through a type of accreditation review by the national organization. Every four years each council is reviewed, and if it continues to meet the established criteria, it will be rechartered. This chartering process provides GSUSA with a strong weapon to maintain some level of consistency for the strategies and actions of the member Girl Scout councils.

Strategic marketing planning clearly is necessary to run such a large organization. GSUSA does extensive corporate-level planning and also provides the local councils with assistance for their own formulation and execution of plans. Strategic marketing planning at the corporate level is the responsibility of the president and the board, with input from board committees, board task groups, community leaders, and community groups. Four steps are involved. The first step is a SWOT analysis, a review of internal strengths and external trends. This includes using the database maintained by GSUSA that details membership, program attendance, financial and development data, and similar benchmarks. The study of external trends results in the *Environmental Scanning Report*, which uses social, economic, political, and technological data from a variety of sources. This document is then made available to corporate- and council-level planners. One result of this SWOT analysis is the identification of a set of critical issues facing GSUSA. These issues are then used in the second step: to develop corporate goals covering a six-year period. These goals are reviewed at the midpoint of the planning period. In the third step, the group develops strategic guidelines, strategies, and long-range projects. Finally, the group develops long-range resource strategies that are needed to support the projects identified in the third step.

Staff and volunteers involved in implementing the strategic plans are responsible for the development of one-year plans (tactical planning). At this fourth step, priorities are established; specific operational goals are set; action plans are developed, including decisions about who, how, what, and when; and the operational budget is determined.

The completed corporate plan shapes all efforts and programs at the national level. However, local planners can exercise some discretion in planning for their markets. To accomplish local planning, some councils hold planning retreats with local board and community experts; some hold planning sessions for just staff; and some limit the efforts to a committee of the board. Whatever the process, the council board develops a set of five-year goals that it reviews annually. While these usually mirror national goals, each local council has the opportunity to change priorities or to add other goals peculiar to their local efforts. Using these goals, the staff develops proposals for specific objectives and action steps for board approval. These approved objectives and action steps form the basis for the local council's annual operating plan.

During the year, results are measured, compared to objectives, and subjected to corrective actions. Also during the year, the staff has the opportunity to reevaluate the goals that have been set by the board for the coming year and may provide suggestions to the board. The board then meets again early in the following year to plan for that year and to add goals for the fifth year in the current plan. Thus, the local council board always has a plan that looks five years ahead.

Marketing plans and efforts must be directed at three distinct groups. First, plans must be developed for recruiting and marketing efforts directed to the target market for Scouting: girls and their families. In addition, marketing plans also must target volunteers. Scouting could not function nearly as effectively without its giant network of volunteers, both at the local and national levels. There are over 880,000 adult members of Girl Scouting and most all of them are volunteers. Many of these volunteers were involved in scouting when they were young. Others are parents of current scouts.

Finally, the community at large represents an important stakeholder group. This group includes donors, both corporate and individual, who provide financial and other resources; schools and school counselors; church organizations and the like. During the SWOT analysis, all three groups are studied, and this provides input for recruitment plans and for the ongoing marketing efforts.

Quite clearly, young girls in the target demographic are the most important marketing target. Marketing efforts aimed at this group include recruitment efforts as well as retention efforts (keeping existing Scouts delighted with their experiences).

Plans of both types must consider the competition faced by Girl Scouting. All organizations face competition of various sorts, but Girl Scouts planners face an unusual situation. Essentially, the competition for Scouting is other activities that compete for a girl's time. This includes school clubs and other school-related activities; sports; private lessons such as piano, ballet, and music; church; and other social activities, including dating boys. However, the thinking about competition at Girl Scouts is different. Girl Scouting does not attempt to defeat the competition. Instead, Scouting embraces many of these competing activities and offers them as part of their product mix. If it finds that a certain activity is becoming more important to young girls, then Scouting looks at the possibility of incorporating that activity into its product mix of activities.

As girls mature, this kind of competition grows more intense. Older girls have more choices, making retention in these categories more difficult. As a result, there has been a growing concern that the programs and offerings of Girl Scouting, especially in the older age categories, is not sufficiently contemporary. Retention of these older girls is a problem. For instance, analysis of the U.S. membership shows the following data regarding the number of girls served by the Girl Scouts in each membership category:

Category	*Girls Served in the Category*
Daisy	1 of every 8
Brownie	1 of every 4
Junior Girl Scout	1 of every 7
Cadette Girl Scout	1 of every 25
Senior Girl Scout	1 of every 73

To better understand customers and the competing demands on their lives, Girl Scouts USA is beginning to do extensive market and customer research among young girls. During the fall of 2000, GSUSA launched the Girl Scout Research Institute, a research and public policy information center focusing on the healthy development of girls. Through this Institute, the GSUSA hopes to develop a large database of information on girls, with the additional goal of positioning itself as an information resource and expert on girls.

Within this competitive market, the GSUSA uses a variety of plans and strategies in order to attract new girls. The national website offers an overview for interested girls; however, it is not very interactive and has limited recruiting value. Nationally prepared brochures and literature are also available. Often these can be useful as stuffers in store, mall, and other point-of-sale display units. But many councils choose to localize and personalize these efforts. For these councils, most of the recruitment and marketing efforts are planned and developed at the local level. Local websites, school visits, locally prepared fliers, recruiting efforts at malls, churches, and other similar local activities lend a more personal touch to their recruiting.

Specific to certain types of competition, GSUSA has responded with a changing product mix. Each year, Girl Scouts adds to its diversity of activities and merit badges, all awarded for participation and mastery of particular tasks. With the increase in girls participating in sporting activities, Girl Scouts developed *GirlSports*, a program offering senior Girl Scouts from around the country a chance to spend a week during the summer developing certain sporting skills. During the 2000 version, 26 girls met in Oakland, California, with local athletes and trainers, learned 13 extreme sports, and met with and studied with ESPN fitness experts and Olympic athletes. An expanded version of *GirlSports* is being developed to include over 100,000 girls competing in nearly 2,300 different sporting events in over 300 councils.

Another trend identified was the increasing interest of girls in the sciences. As a result, the *Girl at the Center* program was developed. This is a science and technology program in which local councils can take advantage of partnerships between the Girl Scouts and over 31 science museums, encouraging families and girls to explore and to learn more about the sciences. *Girl at the Center* and the *GirlSports* program are examples of how the Girl Scouts organization is forming partnerships with others to make their programs relevant and successful.

Girl Scouting uses several methods to appeal to volunteers, both to attract them and to keep them motivated and involved. To attract volunteers at the national level, the website offers valuable insight as do the nationally prepared brochures highlighting the benefits of volunteering and the many ways of doing so. But again, the local councils often develop their own marketing efforts. Parents are targeted by maintaining a parents' network and involving parents in meetings and events. When the local council has events at malls or churches, the council staff involved makes every attempt to sell volunteering to adults as much as they do scouting to young girls. Additionally, many local councils work with area organizations in an attempt to generate volunteers. Universities, schools, the local housing authority, and other volunteer-based organizations have proven to be excellent sources of interns or other types of volunteers.

To keep volunteers motivated and involved, GSUSA national offers a variety of adult development and training opportunities. These include programs at the corporate training center, a number of online training offerings, and certification programs that support and enable the volunteers to improve their abilities to perform their functions.

The third stakeholder group consists of the community at large. Efforts to interact with this stakeholder group can be planned, and suggestions are made at the national level; however, many of these efforts involve personal contacts and one-on-one relationships with donors or other partnership targets. As a result, many of these efforts are developed and conducted by people at the local council level.

1. Compare strategic marketing planning by the Girl Scouts with planning by for-profit organizations. What are the similarities? What are the differences?
2. What changes would you suggest to improve the planning process in the Girl Scouts?

6 Volkswagen's New Beetle*

Volkswagen management was very surprised at the reaction to their latest design study, the Concept 1. Unveiled in Detroit at the North American International Auto Show in January 1994, the car was an instant hit with the public. Throngs of people crowded around the viewing stand to get a close look at what VW designers had created, a 90s version of the much-loved Beetle. The original Beetle had been sold in the U.S. from 1948 to 1981, and is still sold in some countries such as Mexico and Brazil.

Automotive design studies are used to gauge public reaction to styling and design ideas. The overwhelming response to the Concept 1, which closely resembled the looks of the original Beetle, prompted VW to study what was behind the strong consumer response. They wanted to know if the favorable response was because of the uniquely identifiable profile of the Beetle, the fond memories of the millions of U.S. Beetle owners, or simple nostalgia—a desire to be carried back to a "different" time.

It was clear that the Concept 1 touched the buying public at the auto show. The number of phone calls and letters to U.S. Volkswagen headquarters was so overwhelming that VW management promptly put a product-development team into

*This case and the script for the accompanying video were prepared by Professor Jim Burley.

action. The charge was to create a thoroughly modern version of the beloved Beetle, a car that would utilize the latest cutting-edge edge technologies housed in the uniquely identifiable shape of the most widely produced car in history.

Twenty-one million original Beetles have been built since the original idea for the car was shown to the German government in 1934 by Dr. Ferdinand Porsche. Porsche's dream was to build a simple, high-quality car for the masses, a car that even the average owner could learn to care for and maintain with minimal expense. That was the formula that had worked so well in the United States when Henry Ford introduced the Model T and put America on wheels.

Porsche's dream for the "people's car" (or Volkswagen) would not become a commercial reality until after World War II, though some prototypes and early production units had reached the public prior to the war's outbreak. By 1948, the war-damaged factory was rebuilt and the Beetle was being produced in full scale in Europe. It was also in that year that the Beetle was shown to the U.S. public at the N.Y. Auto Show. By the late 1950s the Beetle was the leading imported car in America, and hundreds of thousands of Americans were driving the small cars with air-cooled engines. Many people loved the simplicity and economy of the car, and the quality was very high. The car represented a very good value for the consumer's money.

Japanese auto manufacturers took notice of Volkswagen's success in the United States and designed their own competing models of small, economical cars. But they were different in character than the Beetle. The Japanese-produced small cars were more like shrunken versions of full-sized cars. They had big car styling and incorporated many features that U.S. car buyers of the 60s wanted, including power-assisted steering, power windows, and automatic transmissions. The small cars introduced by Toyota, Nissan, and Honda quickly cut into Volkswagen's sales volume. Although sales in the small-car category grew rapidly, increased competition left smaller sales volume for the previously dominant Beetle.

VW management held steadfastly to the "simple is beautiful" positioning that was carefully reinforced in the Beetle's advertising campaign. Advertisements with headlines such as "Ugly is only skin deep" reminded customers that the real beauty of the VW was its simplicity, reliability, and the economical ownership experience it produced. Despite this message, many people in the market were attracted to the larger choice of options and features found on the Japanese entries. After the Beetle's U.S. sales peaked at 423,000 units in 1968, sales began to decline.

Volkswagen responded to the market changes that were taking place by introducing the Rabbit, a small European hatchback that was refined to incorporate many of the features Americans wanted. The Rabbit was an immediate hit. Even though it did not have the instant recognizability of the Beetle, it benefited from the Beetle's reputation.

The decline of the Beetle in the U.S. was complete in 1981 when VW management removed it from sale in the U.S. market. However, VW continued to produce and sell the car in Mexico and South America. These were strong markets for the car because the Beetle was ideally suited to developing economies where simple and reliable transportation was more important than a long list of fancy accessories.

Although the original Beetle was a simple car, the New Beetle is not. As VW marketers began to develop the concept for the "New Beetle" they realized that the affluent American consumer expected features such as air conditioning, stereo systems, and security features—as well as government-mandated safety items such as airbags and 5-MPH bumpers. The New Beetle would clearly require a degree of complexity and sophistication that Dr. Porsche could never have imagined.

The product development process incorporated customers' reactions from auto shows around the world. The reaction to the Concept 1 was nearly uniform worldwide, so VW management knew they would have a winner if they could build a street vehicle that incorporated the looks of the Concept 1 with an affordable platform. They found that platform in the one they were developing for the Golf, Europe's most popular car. With a few modifications, a New Beetle body could be built over a Golf chassis. This eliminated much of the time and expense of developing a completely new automobile. The use of the Golf platform also made it possible for VW to bring the New Beetle to market more quickly.

Just four years after first showing the Concept 1, VW management unveiled the New Beetle at the 1998 North American International Auto Show. The response to the "real" car was overwhelming. During much of the show it wasn't even possible to get near the car because of the crowds.

Executives from competing auto producers were astonished at consumers' reaction to the car, and were even more concerned when they learned more about VW's marketing strategy. Preintroduction guesses by the automotive media had suggested a price of $18,000 for the base car, but VW management priced the New Beetle at a low $15,200. This price included airbags, air-conditioning, power door locks, a multispeaker stereo system, tilt and telescoping steering, and many other attractive features. The automotive press in attendance at the unveiling applauded loudly when the price was announced.

Volkswagen marketers had crafted a very desirable new product that their dealers and customers were anxious to have. A promotional strategy was created to build enthusiasm for the car's official arrival in showrooms in spring 1998. Dealers were shown the car at a special party at Disney World in Orlando, Florida. There they not only got to drive the car but also to participate in Disney-style clinics on the attitudes and expectations of the New Beetle target market. Nostalgia was an important component of the target customers' feelings toward the car, but testing also revealed a broad demographic and psychographic appeal that included many young buyers who had never owned an older-style Beetle.

The dealers thought that the 50,000 units scheduled for production the first year would not be enough to satisfy the demand, but they were hopeful that some of the visitors to their showrooms could be switched to other VW products. VW's product line included cars that were either more economical or more spacious depending on the customers' needs. Jeff Williams, a VW dealer, explained the problems and the excitement associated with the new car:

> I'm sure we'll have trouble meeting the demand that seems to be in the market. The car is really exciting customers. I have one customer who's ordered one for his 19-year-old daughter. He hopes she can have as much fun with her car as he did with his Beetle 30 years ago.

1. Why didn't VW managers more accurately forecast the sales potential for the New Beetle?
2. Is styling really what sells cars or is it other factors?

7 Royal Appliance Manufacturing Company: Dirt Devil*

You've just arrived on campus for the fall semester at college. Whether you're in a dorm room, apartment, or a rented home, in no time at all the place is sure to be a mess. And, looking at your current roommate situation, you probably won't get much help with the cleaning. You can either live with the disorder or get a new roommate—the Dirt Devil RoomMate. This new, lightweight upright vacuum may very well be the best companion a college student could ever have.

So begins an August 1997 press release from Dirt Devil, a subsidiary of Royal Appliance Manufacturing Company. The once staid and boring vacuum cleaner industry now sees college students as an interesting, vital target market.

The Dirt Devil brand has been responsible, in large part, for this new-found excitement. New product introductions and a groundbreaking advertising campaign are the latest chapters in the story of arguably the oldest vacuum cleaner manufacturing company in the world.

The first Royal vacuum cleaners were made by the P. A. Geier Company of Cleveland, Ohio, in 1905. As was the case with home computer companies in the 1970s and 1980s, Royal has its roots in a backyard garage. The company grew quickly and moved from the garage to a large, four-story structure where it produced vacuum cleaners, mixers, hair dryers, and washing machine units.

The core business of the P. A. Geier Company, however, continued to be vacuum cleaners. The industry's first handheld vacuum, the Royal Prince, was introduced in 1937. The Geier company maintained its position in the vacuum cleaner industry until the firm was acquired in 1953 and renamed the Royal Appliance Manufacturing Company. The newly named organization was purchased by a group of employees in 1954 and moved to Highland Heights, Ohio, in 1969.

In 1984 Royal Appliance introduced another innovative product, the Dirt Devil Hand Vac, which was touted as a cleaner for couch cushions, stairs, and other hard-to-reach places. Between 1984 and 1997, its light weight, low price, and attractive red plastic body combined to create total sales of over 17 million units, making it the largest selling hand vac in the world. Royal now claims over 95 percent brand name awareness of the Dirt Devil name (up from 4 percent in 1990 and 21 percent in 1992), and it now commands 42 percent of the U.S. market for hand-held vacuums.

Of course, there have been some stumbles along the way. In 1990, Royal began to market Dirt Devil products throughout Europe and Great Britain. However, the European market did not take to the new products as well as Royal had hoped. And, on the domestic front, expensive promotion did not deliver a focused, unified message to American consumers. For example, dispersed promotion efforts in the U.S. in 1991 included advertising on Paul Harvey's radio program and sponsorship of race cars on the Indy Car and Nascar circuits. Because of problems such as these, performance began to dip. By 1995 mounting financial losses necessitated a change in company management and the sale of Royal's European operations. Royal's stock price at the end of 1995 was $2.50 per share, but it rebounded to $9 per share by the end of 1996—a year that saw $286 million in sales and $9.4 million in profit.

A revitalized Royal states its mission on its website.

> The company's mission is to bring innovative household products to the marketplace and thrill customers. It strives to recognize the needs of its customers and supply them with quality products that solve their cleaning problems. . . . The success of the company depends upon the continued introduction and promotion of new, innovative, high-quality products (www.dirtdevil.com).

This mission is associated with the Dirt Devil name—now used on virtually all of the company's consumer goods. The Royal brand name is reserved for high-end, heavy-duty, mostly industrial products. Most manufacturing is contracted out, leaving only some assembly to be done at corporate-owned facilities. This structure allows for the versatility and flexibility needed for the introduction and management of innovative products.

One of these new, innovative products is the Broom Vac. Launched in 1996, the Broom Vac was seen to be as creative as the original Royal Prince was at its debut. It also represented the type of newsworthy breakthrough that the Dirt Devil group needed. The Dirt Devil Broom Vac is a cordless, rechargeable broom that has a vacuum in the center of the unit's bristles to suck up dirt and dust in seconds. It does a better job of sweeping, and the user needs only to empty the filter and dirt compartment when full instead of bending over a dustpan.

Traditionally, the vacuum industry's products are classified as canister, upright, stick, or extractor cleaners. Hoover is recognized as the industry leader, emphasizing middle- and upper-end canisters, uprights, and sticks for an overall U.S. market share of 27 percent, followed by Eureka at 22 percent. Royal's strategy of innovative designs and distribution through mass-merchandisers has earned the company third place in the market and an 18 percent share.

But the industry doesn't know how to classify the Broom Vac. It is usually categorized as a stick vacuum by retailers and in industry sales figures, but it does not really fit in that market sector.

The development team at Dirt Devil was also concerned about how consumers would view the product. Would they perceive sufficient advantage over the usual broom and dustpan to pay a premium price? How much of a premium would they be willing to pay? Where would they want to purchase the product? How should the product be promoted? What should be the message?

In the past, Royal has distributed its products through independent vacuum cleaner dealers, regional retail chains, mass-merchants, and electronic and discount stores. However, none of these was considered to be completely adequate for introducing a high-volume product that would require demonstration of its advantages.

*This case and the script for the accompanying video were prepared by Professor Douglas Hausknecht. He expresses appreciation to Thomas F. Sherer, who assisted in developing the case.

The decision was made to introduce the Broom Vac using direct-response television advertising. This enabled Dirt Devil to control the demonstrations that were seen by prospective purchasers and to experiment with marketing variables. In test markets, variables such as price, shipping cost, and payment options were manipulated. A $50 price point was selected for the direct-response introduction. As the product moved into regular retail channels, this price was expected to be retained throughout the first year of sales.

In order to demonstrate the product fully, a two-minute infomercial was developed. The longer format allowed for a more complete explanation of the features and advantages. Dirt Devil and its advertising agency took pains to produce a high-quality infomercial to counter consumers' possible negative stereotypes of this advertising form. The infomercials concluded with toll-free telephone numbers and shipping information.

Most of the infomercials aired during lower-cost daytime and late-night hours. This provided added cost efficiency in the media purchase. Later, 15-second lifts (excerpts) from the infomercial were aired during prime time for the retail launch of the product.

At first, retailers were concerned that direct-response TV ads would just compete for their customers, but that did not happen. Dirt Devil's retailers found that customers came in looking for the product that they had seen on television. This exposed consumers to the Dirt Devil displays, which featured bright, colorful packaging and plenty of product information. Retailers found that sales volumes were enhanced and that customers required less "selling effort."

Retailers were also encouraged to use special shelf or floor displays of the product. Additionally, some retailers used newspaper inserts or other retail advertising in which Dirt Devil participated on a cooperative advertising basis. Eventually, as the original Broom Vac diffused throughout the market, retailers discounted the product from its original $50 price point.

As 1996 drew to a close, Dirt Devil was poised to once again agitate the industry. This time the shock would come not from a product innovation but rather from attention-getting communication. The grungy, boring, mature vacuum cleaner industry was to be represented in the showcase of American advertising—the Super Bowl.

On January 26, 1997, Dirt Devil aired three 15-second spots during the Super Bowl. Each spot highlighted a different product: the Broom Vac, the Ultra Hand Vac, and the Ultra MVP upright vacuum. This was the first Super Bowl exposure not only for Royal but for any vacuum cleaner.

The commercials featured these products acting as "dance partners" with the late Fred Astaire. The ad campaign, designed by Cleveland advertising agency Meldrum and Fewsmith, achieved several technical breakthroughs in its execution.

Although requested many times in the past, Fred Astaire's image had never been licensed to market any product. An agreement was reached with Astaire's widow based, in part, on the fact that actual dance footage would be used and that Mr. Astaire would not be seen as verbally endorsing any product. In fact, he does not speak in any of the commercials.

Why use Fred Astaire? In his films, Astaire often danced with props. Atomic Films SME of Los Angeles created the movie magic that substituted Dirt Devil products for the props originally used in the films, *Royal Wedding* (1951) and *Easter Parade* (1948). The message to be communicated was that using Dirt Devil products could make cleaning appear to be effortless, even fun!

Royal Appliance and its ad agency felt that the campaign needed to be both attention getting and entertaining in order to be successful. Happily, it was both! Independent tests immediately following the Super Bowl credited the Dirt Devil commercials with achieving good brand name recall (fifth overall among Super Bowl advertisers) and excellent recall of celebrity/brand name pairing (second among the advertisers using this technique). Separate research found the Astaire commercials finishing number one for correct sponsor identification and celebrity association with the brand. The performance was particularly notable since the Dirt Devil brand had relatively little exposure time (45 total seconds) compared to the other advertisers (ranging from one- to four-minute on-air times). Yet Dirt Devil had higher-ranked recall scores. The Bruzzone Research Company, which has extensively studied Super Bowl advertising since 1992, concluded that the Dirt Devil spots were "noticed by more people per dollar investment in airtime than anything we've seen in the past six years."

The commercials were also well received by the broadcasting and advertising industries. *Advertising Age* and other trade outlets gave favorable exposure and reviews. In addition to the 130 million plus Super Bowl viewers, the commercials were shown and/or described on *Entertainment Tonight*, *CBS Evening News*, *NBC Today Show*, *Good Morning America* (ABC), and *Dateline NBC*, and in over 200 additional television stories and 1,100 newspaper and magazine articles.

Concurrently, retail insert advertising was increased. Mr. Astaire was featured in the print advertising as well as in retail display material and on product packaging. Retailers were given advance notice of the campaign so that they could be prepared with adequate stock and have the option to participate in cooperative advertising. In most states, a Dirt Devil free standing insert (FSI) also promoted a sweepstakes with a $1 million grand prize. Finally, positive publicity was generated when Mrs. Astaire announced that the campaign was the first outcome of a joint effort by the Astaire estate and Dirt Devil to sponsor the Arthritis Foundation. The "ease of use" benefit delivered by Dirt Devil's products was a natural linkage to the arthritis cause. Royal executives, for their part, promised a redoubled effort to be responsive to the needs of consumers with arthritis in the design of new and modified products.

During 1997, some of these new products were tested and launched. The Mop Vac was introduced in April as a natural extension of the Broom Vac. With the Mop Vac, consumers could clean up by releasing a cleaning solution where needed from a container on the mop handle, scrubbing, then vacuuming the fluid through a squeegee to leave a clean, dry, streak-free floor. This new household tool was also introduced using direct-response advertising, at a $100 price point. The retail rollout was to follow in time for Christmas shopping in the fall.

Other products flesh out the Dirt Devil line, ranging from two old-fashioned carpet sweepers (using only rollers and brushes, no electricity required) to a new Broom Vac Extra (more suction and more dirt capacity than the original). Two wet/dry vacuums also are available, both featuring a detachable leaf blower (when the suction motor detaches from the storage "tank"). This foray into the outdoors was followed late in 1997 with the Dirt Devil Pick-up. This is a plastic wheelbarrow that was test-marketed via direct-response television. Its unique feature is the lift-and-load wheel mechanism, which allows the container to be flush to the ground for loading and unloading, then lift up to 400 pounds. The pick-up also includes a front trap door that makes the wheelbarrow easy to empty. Another nonvacuum product that was tested, this time without advertising, was a rug cleaner spray. Dirt Devil Carpet Stain Remover was marketed in Wal-Mart stores without manufacturer advertising beyond point of sale.

With all of these products and more on the way, it is no wonder that the Royal Appliance Manufacturing Company's well-known tagline boasts, "Nothing escapes the power of a Dirt Devil!"

1. Describe Dirt Devil's pricing strategy for its recent product introductions.
2. Explain how Dirt Devil integrated its marketing mix in the introduction of the Broom Vac.
3. Was the use of Fred Astaire in television commercials a good idea?
4. What kinds of products might Dirt Devil introduce next?
5. What problems might arise with retailers if Dirt Devil continues to expand its product line beyond basic floor care?

Cases

Guide to the Use of These Cases

Cases can be used in many ways. And the same case can be analyzed several times for different purposes.

"Suggested cases" are listed at the end of most chapters, but these cases can also be used later in the text. The main criterion for the order of these cases is the amount of technical vocabulary—or text principles—that are needed to read the case meaningfully. The first cases are "easiest" in this regard. This is why an early case can easily be used two or three times—with different emphasis. Some early cases might require some consideration of Product and Price, for example, and might be used twice, perhaps regarding product planning and later pricing. In contrast, later cases, which focus more on Price, might be treated more effectively *after* the Price chapters are covered.

In some of the cases, we have disguised certain information—such as names or proprietary financial data—at the request of the people or firms involved in the case. However, such changes do not alter the basic substantive problems you will be analyzing in a case.

1 McDonald's "Seniors" Restaurant

Suzanne Drolet is manager of a McDonald's restaurant in a city with many "seniors." She has noticed that some senior citizens have become not just regular patrons—but patrons who come for breakfast and stay on until about 3 PM. Many of these older customers were attracted initially by a monthly breakfast special for people aged 55 and older. The meal costs $1.99, and refills of coffee are free. Every fourth Monday, between 100 and 150 seniors jam Suzanne's McDonald's for the special offer. But now almost as many of them are coming every day—turning the fast-food restaurant into a meeting place. They sit for hours with a cup of coffee, chatting with friends. On most days, as many as 100 will stay from one to four hours.

Suzanne's employees have been very friendly to the seniors, calling them by their first names and visiting with them each day. In fact, Suzanne's McDonald's is a happy place—with her employees developing close relationships with the seniors. Some employees have even visited customers who have been hospitalized. "You know," Suzanne says, "I really get attached to the customers. They're like my family. I really care about these people." They are all "friends" and it is part of McDonald's corporate philosophy (as reflected in its website, www.mcdonalds.com) to be friendly with its customers and to give back to the communities it serves.

These older customers are an orderly group and very friendly to anyone who comes in. Further, they are neater than most customers and carefully clean up their tables before they leave. Nevertheless, Suzanne is beginning to wonder if anything should be done about her growing "non-fast-food" clientele. There's no crowding problem yet, during the time when the seniors like to come. But if the size of the senior citizen group continues to grow, crowding could become a problem. Further, Suzanne is concerned that her restaurant might come to be known as an "old people's" restaurant—which might discourage some younger customers. And if customers felt the restaurant was crowded, some might feel that they wouldn't get fast service. On the other hand, a place that seems busy might be seen as "a good place to go" and a "friendly place."

Suzanne also worries about the image she is projecting. McDonald's is a fast-food restaurant (there are over 29,000 of them in 120 countries), and normally customers are expected to eat and run. Will allowing people to stay and visit change the whole concept? In the extreme, Suzanne's McDonald's might become more like a European-style restaurant where the customers are never rushed and feel very comfortable about lingering over coffee for an hour or two! Suzanne knows that the amount her senior customers spend is similar to the average customer's purchase—but the seniors do use the facilities for a much longer time. However, most of the older customers leave McDonald's by 11:30—before the noon crowd comes in.

Suzanne is also concerned about another possibility. If catering to seniors is OK, then should she do even more with this age group? In particular, she is considering offering bingo games during the slow morning hours—9 AM to 11 AM. Bingo is popular with some seniors, and this could be a new revenue source—beyond the extra food and drink purchases that probably would result. She figures she could charge $5 per person for the two-hour period and run it with two underutilized employees. The prizes would be coupons for purchases at her store (to keep it legal) and would amount to about two-thirds of the bingo receipts (at retail prices). The party room area of her McDonald's would be perfect for this use and could hold up to 150 persons.

Evaluate Suzanne Drolet's current strategy regarding senior citizens. Does this strategy improve this McDonald's image? What should she do about the senior citizen market—that is, should she encourage, ignore, or discourage her seniors? What should she do about the bingo idea? Explain.

2 Healthy Foods, Inc.

It is 2002, and Don Warren, newly elected president of Healthy Foods, Inc., faces a severe decline in profits. Healthy Foods, Inc., is a 127-year-old California-based food processor. Its multiproduct lines are widely accepted under the Healthy Foods brand. The company and its subsidiaries prepare, package, and sell canned and frozen foods—including fruits, vegetables, pickles, and condiments. Healthy Foods, which operates more than 30 processing plants in the United States, is one of the larger U.S. food processors—with annual sales (in 2001) of about $650 million.

Until 2000, Healthy Foods was a subsidiary of a major midwestern food processor, and many of the present managers came from the parent company. Healthy Foods' last president recently said:

> The influence of our old parent company is still with us. As long as new products look like they will increase the company's sales volume, they are introduced. Traditionally, there has been little, if any, attention paid to margins. We are well aware that profits will come through good products produced in large volume.

Frederico Montegro, a 25-year employee and now production manager, agrees with the multiproduct-line policy. As he puts it: "Volume comes from satisfying needs. We will can or freeze any vegetable or fruit we think consumers might want." Frederico Montegro also admits that much of the expansion in product lines was encouraged by economics. The typical plants in the industry are not fully used. By adding new products to use this excess capacity, costs are spread over greater volume. So the production department is always looking for new ways to make more effective use of its present facilities.

Healthy Foods has a line-forcing policy, which requires that any store wanting to carry its brand name must be willing to carry all 65 items in the Healthy Foods line. This policy, coupled with its wide expansion of product lines, has resulted in 88 percent of the firm's sales coming from supermarket chain stores—such as Safeway, Kroger, and A&P. Smaller stores are generally not willing to accept the Healthy Foods policy. Frederico Montegro explains, "We know that only large stores can afford to stock all our products. But the large stores are the volume! We give consumers the choice of any Healthy Foods product they want, and the result is maximum sales." Many small retailers have complained about Healthy Foods' policy, but they have been ignored because they are considered too small in potential sales volume per store to be of any significance.

In late 2001, a stockholders' revolt over low profits (in 2001, they were only $500,000) resulted in Healthy Foods' president and two of its five directors being removed. Don Warren, an accountant from the company's outside auditing firm, was brought in as president. One of the first things he focused on was the variable and low levels of profits in the past several years. A comparison of Healthy Foods' results with comparable operations of some large competitors supported his concern. In the past 13 years, Healthy Foods' closest competitors had an average profit return on shareholders' investment of 6 to 12 percent, while Healthy Foods averaged only 2.5 percent. Further, Healthy Foods' sales volume, $650 million in 2001, has not increased much from the 1983 level (after adjusting for inflation)—while operating costs have soared upward. Profits for the firm were about $8 million in 1983. The closest Healthy Foods has come since then is about $6 million—in 1991. The outgoing president blamed his failure on an inefficient sales department. He said, "Our sales department has deteriorated. I can't exactly put my finger on it, but the overall quality of salespeople has dropped, and morale is bad. The team just didn't perform." When Don Warren e-mailed Lars Svensson, the vice president of sales, with this charge, his reply was,

> It's not our fault. I think the company made a key mistake in the late 70s. It expanded horizontally—by increasing its number of product offerings—while major competitors were expanding vertically, growing their own raw materials and making all of their packing materials. They can control quality and make profits in manufacturing that can be used in promotion. I lost some of my best people from frustration. We just aren't competitive enough to reach the market the way we should with a comparable product and price.

In a lengthy e-mail from Lars Svensson, Don Warren learned more about the nature of Healthy Foods' market. Although all the firms in the food-processing industry advertise heavily, the size of the market for most processed foods hasn't grown much for many years. Further, most consumers are pressed for time and aren't very selective. If they can't find the brand of food they are looking for, they'll pick up another brand rather than go to some other store. No company in the industry has much effect on the price at which its products are sold. Chain store buyers are very knowledgeable about prices and special promotions available from all the competing suppliers, and they are quick to play one supplier against another to keep the price low. Basically, they have a price they are willing to pay—and they won't exceed it. However, the chains will charge any price they wish on a given brand sold at retail. (That is, a 48-can case of beans might be purchased from any supplier for $18.10, no matter whose product it is. Generally, the shelf price for each is no more than a few pennies different, but chain stores occasionally attract customers by placing a well-known brand on sale.)

Besides insisting that processors meet price points, like for the canned beans, some chains require price allowances if special locations or displays are desired. They also carry nonadvertised brands and/or their own brands at lower price—to offer better value to their customers. And most will willingly accept producers' cents-off coupons—which are offered by Healthy Foods as well as most of the other major producers of full lines.

At this point, Don Warren is trying to decide why Healthy Foods, Inc., isn't as profitable as it once was. And he is puzzled about why some competitors are putting products on the market with low potential sales volume. (For example, one major competitor recently introduced a line of exotic foreign vegetables with gourmet sauces.) And others have been offering frozen dinners or entrees with vegetables for several years. Apparently, Healthy Foods' managers considered trying such products several years ago but decided against it because of the small potential sales volumes and the likely high costs of new-product development and promotion.

Evaluate Healthy Foods' present situation. What would you advise Don Warren to do to improve Healthy Foods' profits? Explain why.

3 Pillsbury's Häagen-Dazs

Jan Phillips is the newly hired ice cream product-market manager for the United States for Häagen-Dazs—the world's leading brand of super premium ice cream (now available in 55 countries) and the market leader in the U.S. Pillsbury says Häagen-Dazs (www.pillsbury.com/main/brands/haagen) is profitable globally, with total sales of more than $900 million. The company saw its sales grow rapidly during the 1990s, but now its markets are facing significant change and very aggressive competition. Phillips is responsible for Häagen-Dazs' ice cream strategy planning for the United States.

Other product-market managers are responsible for Europe, Japan, and other global markets. Therefore, Phillips will be expected to focus only on the United States while knowing that "everyone" will be watching her (and the United States) for clues about what may happen elsewhere.

Overall, ice cream sales in the U.S. have been off 1 to 2 percent in recent years. Still, some new entries have made a big splash. Starbucks, the coffee king, is one such brand. In its first year in grocery-store freezer sections, its Frappuccino bars—in several flavors—were a big hit. In addition, the Starbucks brand quickly became the nation's top-selling premium coffee ice cream. Häagen-Dazs, along with a few other super premium producers, are continuing to grow at rates of 2 to 3 percent. But most other U.S. super premium producers are reporting flat sales—and some are going out of business. The easy availability of super premium ice cream in supermarkets has hurt some of these producers who sell through ice cream stores, which specialize in take-out cones, sundaes, and small containers of ice cream. It is also thought that, at least in part, the decline in sales growth of super premium ice cream in the U.S. since the early 1990s is due to competition from other products such as lower-calorie yogurts and low-fat ice cream.

Despite a real concern about healthy diets, Americans seem to swing back and forth in their yearnings for low fat and rich taste. There is some evidence that "dessert junkies" who want to indulge without too much guilt are turning to low-fat frozen yogurt and low-fat ice cream. This has encouraged a number of super premium ice cream competitors to offer these products too. Pillsbury's Häagen-Dazs, International Dairy Queen, and Baskin Robbins are selling frozen yogurt. And Kraft—which makes Frusen Glädjè, Edy's, and Dreyer's Grand

Ice Cream—is among many other ice cream makers who are promoting gourmet versions of low-fat ice cream.

Because of the competition from low-fat products, Häagen-Dazs recently introduced a line of low-fat super premium ice cream. The new low-fat line contains no more than three grams of fat per serving. That compares with six times that or more grams of fat in a half-cup serving of its full-fat versions. Häagen-Dazs believes that its low-fat super premium ice cream is better tasting than other alternatives. Its belief is that "people like to make every calorie count." Having worked on the low-fat item for more than two years, it developed a process whereby a concentration of dairy proteins from lactose-reduced skim milk give a mouth-feel that approximates that of a higher-fat product. Häagen-Dazs sells its low-fat products in a variety of flavors.

Most ice cream products are considered economy and regular brands—priced at $2 to $5 a half gallon. Super premium ice cream retails for $2.50 to $3.50 a *pint*, or $8 to $10 a half gallon. The retail price for a pint of Häagen-Dazs is usually over $3.00. The low-fat version is comparably priced to the full-fat product.

Many other U.S. ice cream producers have turned to frozen yogurt for growth. Frozen yogurt sales were in a slump for a long time because many people didn't like the tart taste. But after the product was reformulated it started to win customers. The difference is that today's frozen yogurt tastes more like ice cream.

The yogurt market leader, TCBY Enterprises, Inc. (www.tcby.com), which had sales of only about $2 million in 1983, has risen to over $100 million in sales. It numbers over 2,800 stores worldwide and is franchised in over 60 countries. In the U.S., yogurt makers are using aggressive promotion against ice cream. TCBY ads preach: "Say goodbye to high calories—say goodbye to ice cream" and "All the pleasure, none of the guilt." And the ads for its nonfat frozen yogurt emphasize: "Say goodbye to fat and high calories with the great taste of TCBY Nonfat Frozen Yogurt."

Baskin Robbins has introduced yogurt in many of its U.S. stores and has even changed its name to Baskin Robbins Ice Cream and Yogurt. Häagen-Dazs also offers yogurt in most of its stores.

Although the flurry of consumer interest in low-fat yogurt and low-fat ice cream certainly created some new market opportunities, it is not clear how consumers will react to these products over the longer term. One reason is that many consumers who were initially excited about being able to buy a good tasting, low-fat frozen dessert have realized that low fat does not necessarily mean low calorie. In fact, Jan Phillips has been trying to identify a product that Häagen-Dazs could produce that would offer consumers great taste, low fat, and low calories all at the same time. One possibility she is seriously considering is to introduce a line of sorbets based on exotic fruits like kiwi and mango and that use low-calorie sweeteners.

A sorbet is basically the same as sherbet, but European sorbets usually have an icy texture and include less milk. This is the sort of product that Jan Phillips has in mind. She thinks that it might have an upscale appeal and also be different from what is already in the premium ice cream case.

On the other hand, calling a product by a different name doesn't make it really new and different, and basic sherbet has been around for a long time and never been a big seller. Further, consumers don't think of sorbet in the same way that they think about a rich-tasting bowl of ice cream. You don't have to convince people that they might like premium ice cream. Sorbet, on the other hand, isn't something that consumers crave and make a special trip to buy.

Further, Phillips is very conscious that the Häagen-Dazs brand should stand for high quality and the best ingredients. Yet, it's not clear that consumers will think of sorbet as a premium product. Rather, they might just see it as ground-up ice with some flavoring thrown in. But if sorbet isn't the right way to go with new-product development, how should Häagen-Dazs counter the competition from other low-fat ice cream brands like Ben & Jerry's and other new entries to the super premium category like Starbucks?

Evaluate what is happening in the ice cream market, especially regarding the apparent leveling off of super premium ice cream sales and the possibilities for growth of the sorbet market. Is Jan Phillips' idea about rolling out a low-cal fruit sorbet a good idea? Would it be better to use the Häagen-Dazs brand name or a different brand name? What else, if anything, would need to be different about the strategy? Why?

4 Bidwell Carpet Cleaning, Inc.

Sharon Bidwell is getting desperate about her new business. She's not sure she can make a go of it—and she really wants to stay in her hometown of Petoskey, Michigan, a beautiful summer resort area along the eastern shore of Lake Michigan. The area's permanent population of 10,000 more than triples in the summer months and doubles at times during the winter skiing and snowmobiling season.

Sharon spent four years in the Navy after college graduation, returning home in June 2000. She decided to go into business for herself because she couldn't find a good job in the Petoskey area. She set up Bidwell Carpet Cleaning, Inc. She thought that her savings would allow her to start the business without borrowing any money. Her estimates of required expenditures were: $9,000 for a used panel truck, $625 for a steam-cleaning machine adaptable to carpets and furniture, $400 for a heavy-duty commercial vacuum cleaner, $50 for special brushes and attachments, $100 for the initial supply of cleaning fluids and compounds, and $500 for insurance and other incidental expenses. This total of $10,675 still left Sharon with about $4,000 in savings to cover living expenses while getting started.

One of the reasons Sharon chose the cleaning business was her previous work experience. From the time she was 16 until she finished college, Sharon had worked part-time for Peter Kittany. Kittany operates the only successful complete (carpet, furniture, walls, etc.) cleaning company in Petoskey. (There is one other carpet cleaning company in Petoskey, but it is rumored to be near bankruptcy.)

Kittany prides himself on quality work and has a loyal clientele. Specializing in residential carpet cleaning and furniture care, Kittany has built a strong customer franchise. For 35 years, Kittany's major source of new business—besides retailer recommendations—has been satisfied customers who tell friends about his quality service. He is so highly thought of that the leading carpet and furniture stores in Petoskey always recommend Kittany for preventive maintenance in quality carpet and furniture care. Often Kittany is given the keys to the area's finest homes for months at a time—when owners are out of town and want his services. Kittany's customers are so loyal, in fact, that Vita-Clean—a national household carpet-cleaning franchise—found it impossible to compete with him. Even price-cutting was not an effective weapon against Kittany.

Sharon Bidwell thought that she knew the business as well as Kittany—having worked for him many years. Sharon was anxious to reach her $60,000-per-year sales objective because she thought this would provide her with a comfortable living in Petoskey. While aware of cleaning opportunities in businesses such as office buildings and motels, Sharon felt that the sales volume available there was small because most businesses had their own cleaning staffs. As Sharon saw it, her only opportunity was direct competition with Kittany.

To get started, Sharon spent $1,400 to advertise her business in the local newspaper and on an Internet website. With this money she bought two large announcement ads and 52 weeks of daily ads in the classified section—listed under Miscellaneous Residential Services. The website simply listed businesses in the Petoskey area and gave a telephone number, e-mail address, and brief description. She put magnetic sign boards on her truck and waited for business to take off.

Sharon had a few customers and was able to gross about $150 a week. Of course, she had expected much more. These customers were usually Kittany regulars who, for one reason or another (usually stains, spills, or house guests), weren't able to wait the two weeks until Kittany could work them in. While these people agreed that Sharon's work was of the same quality as Kittany's, they preferred Kittany's "quality-care" image and they had an ongoing relationship with him. Sometimes Sharon did get more work than she could handle. This happened during April and May—when seasonal businesses were preparing for summer openings and owners of summer homes and condos were ready to "open the cottage." The same rush occurred in September and October—as many of these places were being closed for the winter. During these months, Sharon was able to gross about $130 to $150 a day—working 10 hours.

Toward the end of her discouraging first year in business, Sharon Bidwell is thinking about quitting. While she hates to think about leaving Petoskey, she can't see any way of making a living there in the carpet- and furniture-cleaning business. Kittany seems to have dominated the market—except in the rush seasons and for people who need emergency cleaning. And the resort housing market is not growing very fast, so there is little hope of a big increase in potential customers.

Evaluate Sharon Bidwell's strategy planning for her new business. Why wasn't she able to reach her objective of $60,000? What should Sharon do now? Explain.

5 Republic Polymer Company

Gary Walden, a chemist in Republic Polymer's polymer resins laboratory, is trying to decide how hard to fight for the new product he has developed. Walden's job is to find new, more profitable applications for the company's present resin products—and his current efforts are running into unexpected problems.

During the last four years, Walden has been under heavy pressure from his managers to come up with an idea that will open up new markets for the company's foamed polystyrene.

Two years ago, Walden developed the "foamed-dome concept"—a method of using foamed polystyrene to make dome-shaped roofs and other structures. He described the procedure for making domes as follows: The construction of a foamed dome involves the use of a specially designed machine that bends, places, and bonds pieces of plastic foam together into a predetermined dome shape. In forming a dome, the machine head is mounted on a boom, which swings around a pivot like the hands of a clock, laying and bonding layer upon layer of foam board in a rising spherical form.

According to Walden, polystyrene foamed boards have several advantages:

1. Foam board is stiff—but can be formed or bonded to itself by heat alone.
2. Foam board is extremely lightweight and easy to handle. It has good structural rigidity.
3. Foam board has excellent and permanent insulating characteristics. (In fact, the major use for foam board is as an insulator.)
4. Foam board provides an excellent base on which to apply a variety of surface finishes, such as a readily available concrete-based stucco that is durable and inexpensive.

Using his good selling abilities, Walden easily convinced his managers that his idea has potential.

According to a preliminary study by the marketing research department, the following were areas of construction that could be served by the domes:

1. Bulk storage.
2. Cold storage.
3. Educational construction.
4. Covers for industrial tanks.
5. Light commercial construction.
6. Planetariums.
7. Recreational construction (such as a golf-course starter house).

The marketing research study focused on uses for existing dome structures. Most of the existing domes are made of cement-based materials. The study showed that large savings would result from using foam boards—due to the reduction of construction time.

Because of the new technology involved, the company decided to do its own contracting (at least for the first four to five years). Walden thought this was necessary to make sure that no mistakes were made by inexperienced contractor crews. (For example, if not applied properly, the plastic may burn.)

After building a few domes in the United States to demonstrate the concept, Walden contacted some leading U.S. architects. Reactions were as follows:

"It's very interesting, but we're not sure the fire marshal of Chicago would ever give his OK."

"Your tests show that foamed domes can be protected against fires, but there are no *good* tests for unconventional building materials as far as I am concerned."

"I like the idea, but foam board does not have the impact resistance of cement."

"We design a lot of recreational facilities, and kids will find a way to poke holes in the foam."

"Building codes in our area are written for wood and cement structures. Maybe we'd be interested if the codes change."

After this unexpected reaction, management didn't know what to do. Walden still thinks they should go ahead with the project. He wants to build several more demonstration projects in the United States and at least three each in Europe and Japan to expose the concept in the global market. He thinks architects outside the United States may be more receptive to really new ideas. Further, he says, it takes time for potential users to "see" and accept new ideas. He is sure that more exposure to more people will speed acceptance. And he is convinced that a few reports of well-constructed domes in leading trade papers and magazines will go a long way toward selling the idea. He is working on getting such reports right now. But his managers aren't sure they want to OK spending more money on "his" project. His immediate boss is supportive, but the rest of the review board is less sure about more demonstration projects or going ahead at all—just in the United States or in global markets.

Evaluate how Republic Polymer got into the present situation. What should Gary Walden do? What should Walden's managers do? Explain.

6 Three Rivers Steel Company

Three Rivers Steel Company is one of two major producers of wide-flange beams in the United States. The other producer is United Steel Corporation (now USX). A few small firms also compete, but they tend to compete mainly on price in nearby markets where they can keep transport costs low. Typically, all interested competitors charge the same delivered price, which varies some depending on how far the customer is from either of the two major producers. In other words, local prices are higher in more remote geographic markets.

Wide-flange beams are one of the principal steel products used in construction. They are the modern version of what are commonly known as I-beams. USX rolls a full range of wide flanges from 6 to 36 inches. Three Rivers entered the field about 20 years ago—when it converted an existing mill to produce this product. Three Rivers' mill is limited to flanges up to 24 inches, however. At the time of the conversion, Three Rivers felt that customer usage of sizes over 24 inches was likely to be small. In recent years, however, there has been a definite trend toward the larger and heavier sections.

The beams produced by the various competitors are almost identical—since customers buy according to standard dimensional and physical-property specifications. In the smaller size range, there are a number of competitors. But above 14 inches, only USX and Three Rivers compete. Above 24 inches, USX has no competition.

All the steel companies sell these beams through their own sales forces. The customer for these beams is called a structural fabricator. This fabricator typically buys unshaped beams and other steel products from the mills and shapes them according to the specifications of each customer. The fabricator sells to the contractor or owner of the structure being built.

The structural fabricator usually must sell on a competitive-bid basis. The bidding is done on the plans and specifications prepared by an architectural or structural engineering firm—and forwarded to the fabricator by the contractor who wants the bid. Although thousands of structural fabricators compete in the U.S., relatively few account for the majority of wide-flange tonnage in the various geographical regions. Since the price is the same from all producers, they typically buy beams on the basis of availability (i.e., availability to meet production schedules) and performance (i.e., reliability in meeting the promised delivery schedule).

Several years ago, Three Rivers' production schedulers saw that they were going to have an excess of hot-rolled plate capacity in the near future. At the same time, development of a new production technology allowed Three Rivers to weld three plates together into a section with the same dimensional and physical properties and almost the same cross-section as a rolled wide-flange beam. This development appeared to offer two key advantages to Three Rivers: (1) It would enable Three Rivers to use some of the excess plate capacity, and (2) larger sizes of wide-flange beams could be offered. Cost analysts showed that by using a fully depreciated plate mill and the new welding process it would be possible to produce and sell larger wide-flange beams at competitive prices—that is, at the same price charged by USX.

Three Rivers' managers were excited about the possibilities—because customers usually appreciate having a second source of supply. Also, the new approach would allow the production of up to a 60-inch flange. With a little imagination, these larger sizes might offer a significant breakthrough for the construction industry.

Three Rivers decided to go ahead with the new project. As the production capacity was converted, the salespeople were kept well informed of the progress. They, in turn, promoted this new capability to their customers—emphasizing that soon they would be able to offer a full range of beam products. Three Rivers sent several general information letters to a broad mailing list but did not advertise. The market development section of the sales department was very busy explaining the new possibilities of the process to fabricators—at engineering trade associations and shows.

When the new production line was finally ready to go, the market reaction was disappointing. No orders came in and none were expected. In general, customers were wary of the new product. The structural fabricators felt they couldn't use it without the approval of their customers—because it would involve deviating from the specified rolled sections. And as long as they could still get the rolled section, why make the extra effort for something unfamiliar—especially with no price advantage. The salespeople were also bothered with a very common question: How can you take plate that you sell for about $460 per ton and make a product that you can sell for $470? This question came up frequently and tended to divert the whole discussion to the cost of production rather than to the way the new product might be used or its value in the construction process.

Evaluate Three Rivers' situation. What should Three Rivers do?

7 Lilybank Lodge

Nestled in the high country of New Zealand's South Island is a getaway adventure playground aimed unashamedly at the world's very wealthy. Presidents, playboys, and other such globe-trotters are the prime targets of this fledgling tourism business developed by Lilybank Lodge. The lodge offers this exclusive niche the opportunity of a secluded holiday in a little-known paradise. Guests, commonly under public scrutiny in their everyday lives, can escape such pressures at a hunting retreat designed specifically with their needs in mind.

A chance meeting between a New Zealand Department of Conservation investigator and the son of the former Indonesian president marked the beginning of this specialty tourist operation. Recognizing that "filthy rich" public figures are constantly surrounded by security and seldom have the luxury of going anywhere incognito, the New Zealander, Gerard Olde-Olthof, suggested that he and his new friend purchase a high-country station and hunting-guide company that was for sale. Olde-Olthof believed that the facilities, and their secluded and peaceful environment, would make an ideal holiday haven for this elite group. His Indonesian partner concurred.

Olde-Olthof, who was by now the company's managing director, developed a carefully tailored package of goods and services for the property. Architecturally designed accommodations, including a game trophy room and eight guest rooms, were constructed using high-quality South Island furniture and fittings, to create the ambience necessary to attract and satisfy the demands of their special clientele.

Although New Zealand had an international reputation for being sparsely populated and green, Olde-Olthof knew that rich travelers frequently complained that local accommodations were below overseas standards. Since the price (NZ$700 a night) was not a significant variable for this target market, sumptuous guest facilities were built. These were designed to be twice the normal size of most hotel rooms, with double-glazed windows that revealed breathtaking views. Ten full-time staff and two seasonal guides were recruited to ensure that visitors received superior customized service, in fitting with the restrained opulence of the lodge.

The 28,000 hectares of original farmland that made up the retreat and backed onto the South Island's Mount Cook National Park were converted into a big-game reserve. All merino sheep on the land were sold, and deer, elk, chamois, and wapiti were brought in and released. This was a carefully considered plan. Olde-Olthof, the former conservationist, believed that financially and environmentally this was the correct decision. Not only do tourists, each staying for one week and taking part in safari shooting, inject as much cash into the business as the station's annual wool clip used to fetch, but the game does less harm to the environment than sheep. Cattle, however, once part of the original station, were left to graze on lower riverflat areas.

For those high-flying customers seeking less bloodthirsty leisure activities, Lilybank developed other product-line extensions. Horse-trekking, golfing on a nearby rural course (with no need for hordes of security forces), world-class photographic opportunities, helicopter trips around nearby Lake Tekapo, nature walks, and other such activities formed part of the exclusive package.

While still in the early stages of operation, this retreat has already attracted a steady stream of visitors. To date the manager has relied solely on positive word of mouth, publicity, and public relations to draw in new customers. Given the social and business circles in which his potential target market moves, Olde-Olthof considers these to be the most appropriate forms of marketing communication. The only real concern for Lilybank Lodge has been the criticism of at least one New Zealand lobby group that the company is yet another example of local land passing into "foreign" hands, and that New Zealanders are prevented from using the retreat and excluded from its financial returns. However, this unwelcome attention has been fairly short-lived.

Identify the likely characteristics of the market segment being targeted by the company. Why are most target customers likely to be foreigners rather than New Zealanders? Suggest what expectations target customers are likely to have regarding the quality, reliability, and range of services. What are the implications for Lilybank Lodge? How difficult is it for Lilybank Lodge to undertake market research? Elaborate.

8 Sophia's Ristorante

Sophia Manderino, the owner and manager of Sophia's Ristorante, is reviewing the slow growth of her restaurant. She's also thinking about the future and wondering if she should change her strategy. In particular, she is wondering if she should join a fast-food or family restaurant franchise chain. Several are located near her, but there are many franchisors without local restaurants. After doing some research on the Internet, she has learned that with help from the franchisors, some of these places gross $500,000 to $1 million a year. Of course, she would have to follow someone else's strategy and thereby lose her independence, which she doesn't like to think about. But those sales figures do sound good, and she has also heard that the return to the owner-manager (including salary) can be over $100,000 per year. She has also considered putting a web page for Sophia's Ristorante on the Internet but is not sure how that will help.

Sophia's Ristorante is a fairly large restaurant—about 2,000 square feet—located in the center of a small shopping center completed early in 2000. Sophia's sells mainly full-course "home-cooked" Italian-style dinners (no bar) at moderate prices. In addition to Sophia's restaurant, other businesses in the shopping center include a supermarket, a hair salon, a liquor store, a video rental store, and a vacant space that used to be a hardware store. The hardware store failed when a Home Depot located nearby. Sophia has learned that a pizzeria is considering locating there soon. She wonders how that competition will affect her. Ample parking space is available at the shopping center, which is located in a residential section of a growing suburb in the East, along a heavily traveled major traffic route.

Sophia graduated from a local high school and a nearby university and has lived in this town with her husband and two children for many years. She has been self-employed in the restaurant business since her graduation from college in 1979. Her most recent venture before opening Sophia's was a large restaurant that she operated successfully with her brother from 1990 to 1996. In 1996, Sophia sold out her share because of illness. Following her recovery, she was anxious for something to do and opened the present restaurant in April 2000. Sophia feels her plans for the business and her opening were well thought out. When she was ready to start her new restaurant, she looked at several possible locations before finally deciding on the present one. Sophia explained: "I looked everywhere, but here I particularly noticed the heavy traffic when I first looked at it. This is the crossroads for practically every main road statewide. So obviously the potential is here."

Having decided on the location, Sophia signed a 10-year lease with option to renew for 10 more years, and then eagerly attacked the problem of outfitting the almost empty store space in the newly constructed building. She tiled the floor, put in walls of surfwood, installed plumbing and electrical fixtures and an extra washroom, and purchased the necessary restaurant equipment. All this cost $100,000—which came from her own cash savings. She then spent an additional $1,500 for glassware, $2,000 for an initial food stock, and $2,125 to advertise Sophia's Ristorante's opening in the local newspaper. The paper serves the whole metro area, so the $2,125 bought only three quarter-page ads. These expenditures also came from her own personal savings. Next she hired five waitresses at $175 a week and one chef at $350 a week. Then, with $24,000 cash reserve for the business, she was ready to open. Reflecting her sound business sense, Sophia knew she would need a substantial cash reserve to fall back on until the business got on its feet. She expected this to take about one year. She had no expectations of getting rich overnight. (Her husband, a high school teacher, was willing to support the family until the restaurant caught on.)

The restaurant opened in April and by August had a weekly gross revenue of only $1,800. Sophia was a little discouraged with this, but she was still able to meet all her operating expenses without investing any new money in the business. By September business was still slow, and Sophia had to invest an additional $2,000 in the business just to survive.

Business had not improved in November, and Sophia stepped up her advertising—hoping this would help. In December, she spent $800 of her cash reserve for radio advertising—10 late-evening spots on a news program at a station that aims at middle-income America. Sophia also spent $1,100 more during the next several weeks for some metro newspaper ads.

By April 2001, the situation had begun to improve, and by June her weekly gross was up to between $2,100 and $2,300. By March 2002, the weekly gross had risen to about $2,800. Sophia increased the working hours of her staff six to seven hours a week and added another cook to handle the increasing number of customers. Sophia was more optimistic for the future because she was finally doing a little better than breaking even. Her full-time involvement seemed to be paying off. She had not put any new money into the business since summer 2001 and expected business to continue to rise. She had not yet taken any salary for herself, even though she had built up a small surplus of about $6,000. Instead, she planned to put in a bigger air-conditioning system at a cost of $4,000 and was also planning to use what salary she might have taken for herself to hire two new waitresses to handle the growing volume of business. And she saw that if business increased much more she would have to add another cook.

Evaluate Sophia's past and present marketing strategy. What should she do now? Should she seriously consider joining some franchise chain?

9 SleepyTime Motel

Eng Huang is trying to decide whether he should make some minor changes in the way he operates his SleepyTime Motel or if he should join either the Days Inn or Holiday Inn motel chains. Some decision must be made soon because his present operation is losing money. But joining either of the chains will require fairly substantial changes, including new capital investment if he goes with Holiday Inn.

Huang bought the recently completed 60-room motel two years ago after leaving a successful career as a production manager for a large producer of industrial machinery. He was looking for an interesting opportunity that would be less demanding than the production manager job. The SleepyTime is located at the edge of a very small town near a rapidly expanding resort area and about one-half mile off an interstate highway. It is 10 miles from the tourist area, with several nationally franchised full-service resort motels suitable for "destination" vacations. There is a Best Western, a Ramada Inn, and a Hilton Inn, as well as many mom and pop and limited-service, lower-priced motels—and some quaint bed and breakfast facilities—in the tourist area. The interstate highway near the SleepyTime carries a great deal of traffic, since the resort area is between several major metropolitan areas. No development has taken place around the turnoff from the interstate highway. The only promotion for the tourist area along the interstate highway is two large signs near the turnoffs. They show the popular name for the area and that the area is only 10 miles to the west. These signs are maintained by the tourist area's Tourist Bureau. In addition, the state transportation department maintains several small signs showing (by symbols) that near this turnoff one can find gas, food, and lodging. Huang does not have any signs advertising SleepyTime except the two on his property. He has been relying on people finding his motel as they go toward the resort area.

Initially, Huang was very pleased with his purchase. He had traveled a lot himself and stayed in many different hotels and motels—so he had some definite ideas about what travelers wanted. He felt that a relatively plain but modern room with a comfortable bed, standard bath facilities, and free cable TV would appeal to most customers. Further, Huang thought a swimming pool or any other nonrevenue-producing additions were not necessary. And he felt a restaurant would be a greater management problem than the benefits it would offer. However, after many customers commented about the lack of convenient breakfast facilities, Huang served a free continental breakfast of coffee, juice, and rolls in a room next to the registration desk.

Day-to-day operations went fairly smoothly in the first two years, in part because Huang and his wife handled registration and office duties as well as general management. During the first year of operation, occupancy began to stabilize around 55 percent of capacity. But according to industry figures, this was far below the average of 68 percent for his classification—motels without restaurants.

After two years of operation, Huang was concerned because his occupancy rates continued to be below average. He decided to look for ways to increase both occupancy rate and profitability and still maintain his independence.

Huang wanted to avoid direct competition with the full-service resort motels. He stressed a price appeal in his signs and brochures and was quite proud of the fact that he had been able to avoid all the "unnecessary expenses" of the full-service resort motels. As a result, Huang was able to offer lodging at a very modest price—about 40 percent below the full-service hotels and comparable to the lowest-priced resort area motels. The customers who stayed at SleepyTime said they found it quite acceptable. But he was troubled by what seemed to be a large number of people driving into his parking lot, looking around, and not coming in to register.

Huang was particularly interested in the results of a recent study by the regional tourist bureau. This study revealed the following information about area vacationers:

1. 68 percent of the visitors to the area are young couples and older couples without children.
2. 40 percent of the visitors plan their vacations and reserve rooms more than 60 days in advance.
3. 66 percent of the visitors stay more than three days in the area and at the same location.
4. 78 percent of the visitors indicated that recreational facilities were important in their choice of accommodations.
5. 13 percent of the visitors had family incomes of less than $24,000 per year.
6. 38 percent of the visitors indicated that it was their first visit to the area.

After much thought, Huang began to seriously consider affiliating with a national motel chain in hopes of attracting more customers and maybe protecting his motel from the increasing competition. There were constant rumors that more motels were being planned for the area. After some investigating, he focused on two national chain possibilities: Days Inn and Holiday Inn. Neither had affiliates in the area even though they have numerous units nationwide: Days Inn has about 1,900 units and Holiday Inn about 1,600.

Days Inn of America, Inc., is an Atlanta-based chain of economy lodgings. It has been growing rapidly and is willing to take on new franchisees. A major advantage of Days Inn is that it would not require a major capital investment by Huang. The firm is targeting people interested in lower-priced motels—in particular, senior citizens, the military, school sports teams, educators, and business travelers. In contrast, Holiday Inn would probably require Huang to upgrade some of his facilities, including adding a swimming pool. The total new capital investment would be between $300,000 and $500,000, depending on how fancy he got. But then Huang would be able to charge higher prices—perhaps $75 per day on the average rather than the $45 per day per room he's charging now.

The major advantages of going with either of these national chains would be their central reservation system and their national names. Both companies offer nationwide, toll-free reservation lines, which produce about 40 percent of all bookings in affiliated motels. Both companies also offer websites (www.daysinn.com and www.holiday-inn.com) that help find a specific hotel by destination, rate, amenities, quality rating, and availability.

A major difference between the two national chains is their method of promotion. Days Inn uses little TV advertising and less print advertising than Holiday Inn. Instead, Days Inn emphasizes sales promotions. In a recent campaign, for example, Blue Bonnet margarine users could exchange proof-of-purchase seals for a free night at a Days Inn. This tie-in led to the Days Inn system *selling* an additional 10,000 rooms. Further, Days Inn operates a September Days Club for travelers 50 and over who receive such benefits as discount rates and a quarterly travel magazine.

Days Inn also has other membership programs, including its InnCentives loyalty club for frequent business and leisure travelers. Other programs targeted to business travelers include two Corporate Rate programs and its new Days Business Place hotels. Not to be outdone, Holiday Inn has a membership program called Priority Club Worldwide.

Both firms charge 8 percent of gross room revenues for belonging to their chain—to cover the costs of the reservation service and national promotion. This amount is payable monthly. In addition, franchise members must agree to maintain their facilities and make repairs and improvements as required. Failure to maintain facilities can result in losing the franchise. Periodic inspections are conducted as part of supervising the whole chain and helping the members operate more effectively.

Evaluate Eng Huang's present strategy. What should he do? Explain.

10 O'Keefe's Ice Arena

Manuel Gray, the manager of O'Keefe's Ice Arena, is trying to decide what strategies to use to increase profits.

O'Keefe's Ice Arena is an ice-skating rink with a conventional hockey rink surface (85 feet × 200 feet). It is the only indoor ice rink in a northern U.S. city of about 450,000. The city's recreation department operates some outdoor rinks in the winter, but they don't offer regular ice skating programs because of weather variability.

Manuel runs a successful hockey program that is more than breaking even—but this is about all he can expect if he only offers hockey. To try to increase his profits, Manuel is trying to expand and improve his public skating program. With such a program, he could have as many as 700 people in a public session at one time, instead of limiting the use of the ice to 12 to 24 hockey players per hour. While the receipts from hockey can be as high as $175 an hour (plus concession sales), the receipts from a two-hour public skating session—charging $4 per person—could yield up to $2,800 for a two-hour period (plus much higher concession sales). The potential revenue from such large public skating sessions could make O'Keefe's Ice Arena a really profitable operation. But, unfortunately, just scheduling public sessions doesn't mean that a large number will come. In fact, only a few prime times seem likely: Friday and Saturday evenings and Saturday and Sunday afternoons.

Manuel has included 14 public skating sessions in his ice schedule, but so far they haven't attracted as many people as he hoped. In total, they only generate a little more revenue than if the times were sold for hockey use. Offsetting this extra revenue are extra costs. More staff people are needed to handle a public skating session—guards, a ticket seller, skate rental, and more concession help. So the net revenue from either use is about the same. He could cancel some of the less attractive public sessions—like the noon-time daily sessions, which have very low attendance—and make the average attendance figures look a lot better. But he feels that if he is going to offer public skating he must have a reasonable selection of times. He does recognize, however, that the different public skating sessions do seem to attract different people and, really, different kinds of people.

The Saturday and Sunday afternoon public skating sessions have been the most successful—with an average of 200 people attending during the winter season. Typically, this is a "kid-sitting" session. More than half of the patrons are young children who have been dropped off by their parents for several hours, but there are also some family groups.

In general, the kids and the families have a good time—and a fairly loyal group comes every Saturday and/or Sunday during the winter season. In the spring and fall, however, attendance drops about in half, depending on how nice the weather is. (Manuel schedules no public sessions in the summer—focusing instead on hockey clinics and figure skating.)

The Friday and Saturday evening public sessions are a big disappointment. The sessions run from 8 until 10—a time when he had hoped to attract teenagers and young adult couples. At $4 per person, plus $1 for skate rental, this would be an economical date. In fact, Manuel has seen quite a few young couples—and some keep coming back. But he also sees a surprising number of 8- to 12-year-olds who have been dropped off by their parents. The younger kids tend to race around the rink playing tag. This affects the whole atmosphere—making it less appealing for dating couples and older patrons.

Manuel has been hoping to develop a teenage and young-adult market for a "social activity"—adapting the format used by roller-skating rinks. Their public skating sessions feature a variety of couples-only and group games as well as individual skating to dance music. Turning ice skating sessions into such social activities is not common, however, although industry newletters suggest that a few ice-rink operators have had success with the roller-skating format. Seemingly, the ice skating sessions are viewed as active recreation, offering exercise and/or a sports experience.

Manuel installed some soft lights to try to change the evening atmosphere. The music was selected to encourage people to skate to the beat and couples to skate together. Some people complained about the "old" music; but it was "danceable," and some skaters really liked it. For a few sessions, Manuel even tried to have some couples-only skates. The couples liked it, but this format was strongly resisted by the young boys who felt that they had paid their money and there was no reason why they should be kicked off the ice. Manuel also tried to attract more young people and especially couples by bringing in a local rock radio station disk jockey to broadcast from O'Keefe's Ice Arena—playing music and advertising the Friday and Saturday evening public sessions. But this had no effect on attendance—which varies from 50 to 100 per two-hour session during the winter.

Manuel seriously considered the possibility of limiting the Friday and Saturday evening sessions to people age 13 and over—to try to change the environment. He knew it would take time to change people's attitudes. But when he counted the customers, he realized this would be risky. More than a quarter of his customers on an average weekend night appear to be 12 or under. This means that he would have to make a serious commitment to building the teenage and young-adult market. And, so far, his efforts haven't been successful. He has already invested over $3,000 in lighting changes and over $9,000 promoting the sessions over the rock music radio station—with very disappointing results. Although the station's sales rep said they reached teenagers all over town, an on-air offer for a free skating session did not get a single response!

Some days, Manuel feels it's hopeless. Maybe he should accept that most public ice skating sessions are a mixed bag. Or maybe he should just sell the time to hockey groups. Still he keeps hoping that something can be done to improve weekend evening public skating attendance, because the upside potential is so good. And the Saturday and Sunday afternoon sessions are pretty good money-makers.

Evaluate O'Keefe's Ice Arena's situation. What should Manuel Gray do? Why?

11 Runners World

Sue Koenig, owner of Runners World, is trying to decide what she should do with her retail business and how committed she should be to her current target market.

Sue is 39 years old, and she started her Runners World retail store in 1987 when she was only 24 years old. She was a nationally ranked runner herself and felt that the growing interest in jogging offered real potential for a store that provided serious runners with the shoes and advice they needed. The jogging boom quickly turned Runners World into a profitable business selling high-end running shoes—and Sue made a very good return on her investment for the first 10 years. From 1987 until 1997, Sue emphasized Nike shoes, which were well accepted and seen as top quality. Nike's aggressive promotion and quality shoes resulted in a positive image that made it possible to get a $5 to $7 per pair premium for Nike shoes. Good volume and good margins resulted in attractive profits for Sue Koenig.

Committing so heavily to Nike seemed like a good idea when its marketing and engineering was the best available. In addition to running shoes, Nike had other athletic shoes Sue could sell. So even though they were not her primary focus, Sue did stock other Nike shoes including walking shoes, shoes for aerobic exercise, basketball shoes, tennis shoes, and cross-trainers. She also added more sportswear to her store and put more emphasis on fashion rather than just function.

Even with this broadened product line, Sue's sales flattened out—and she wasn't sure what to do to get her business back in growth mode. She realized that she was growing older and so were many of her longer-term customers. Many of them were finding that jogging isn't just hard work—it's hard on the body, especially the knees. So many of her previously loyal runner-customers were switching to other, less demanding exercise programs. However, when she tried to orient her store and product line more toward these people she wasn't as effective in serving the needs of serious runners—still an important source of sales for the store.

She was also facing more competition on all fronts. Many consumers who don't really do any serious exercise buy running shoes as their day-to-day casual shoes. As a result, many department stores, discount stores, and regular shoe stores have put more and more emphasis on athletic shoes in their product assortment. When Sue added other brands and put more emphasis on fashion she found that she was in direct competition with a number of other stores—which put more pressure on her to lower prices and cut her profit margins. For example, in Sue's area there are a number of local and online retail chains offering lower-cost and lower-quality versions of similar shoes as well as related fashion apparel. Even Wal-Mart has expanded its assortment of athletic shoes—and it offers rock-bottom prices. Other chains, like Foot Locker, have focused their promotion and product lines on specific target markets. Still, all of them (including Sue's Runners World, the local chains, Wal-Mart, and Foot Locker) are scrambling to catch up with rival category killers whose selections are immense.

In the spring of 2000 Sue tried an experiment. She took on a line of high-performance athletic shoes that were made to order. The distinctive feature of these shoes was that the sole was molded to precisely fit the customer's foot. A pair of these custom-made shoes cost about $170, so the market was not large. Further, Sue didn't put much promotional emphasis on this line. However, when a customer came in the store with a serious interest in high-performance shoes, Sue's sales clerks would tell them about the custom shoe alternative and show a sample. When a customer was interested, a mold of the customer's bare foot was made at the store—using an innovative material that hardened in just a few minutes without leaving a sticky mess. Sue sent the mold off to the manufacturer by UPS, and about two weeks later the finished shoes arrived. Customers who tried these shoes were delighted with the result. However, the company that offered them ran into financial trouble and went out of business.

Sue recently learned about another company that is offering a very similar custom shoe program. However, that company requires more promotion investment by retailers and in return provides exclusive sales territories. Another requirement is that the store establish a website promoting the shoes and providing more detail on how the order process works. All of a retailer's salesclerks are also required to go through a special two-day training program so that they know how to present the benefits of the shoe and do the best job creating the molds. The training program is free, but Sue would have to pay travel, hotel, and food expenses for her salespeople. So before even getting started, the new program would cost her several thousand dollars.

Sue is uncertain about what to do. Although sales have dropped, she is still making a reasonable profit and has a relatively good base of repeat customers—with the serious runners still more than half of her sales and profits. She thinks that the custom shoe alternative is a way to differentiate her store from the mass-merchandisers and to sharpen her focus on the target market of serious runners. On the other hand, that doesn't really solve the problem that the "runners" market seems to be shrinking. It also doesn't address the question of how best to keep a lot of the aging customers she already serves who seem to be shifting away from an emphasis on running. She also worries that she'll lose the loyalty of her repeat customers if she shifts the store further away from her running niche and more toward fashionable athletic shoes or fashionable casual wear. Yet athletic wear—women's, in particular—has come a long way in recent years. Designers like Donna Karan, Calvin Klein, Georgio Armani, and Ralph Lauren are part of the fast-growing women's wear business.

So Sue is trying to decide if there is anything else she can do to better promote her current store and product line, or if she should think about changing her strategy in a more dramatic way. Any change from her current focus would involve retraining her current salespeople and perhaps hiring new salespeople. Adding and maintaining a website isn't an insurmountable challenge, but it is not an area where she has either previous experience or skill.

Clearly, a real shift in emphasis would require that Sue make some hard decisions about her target market and her whole marketing mix. She's got some flexibility—it's not like she's a manufacturer of shoes with a big investment in a factory that can't be changed. On the other hand, she's not certain she's ready for a big change—especially a change that would mean starting over again from scratch. She started Runners World because she was interested in running and felt she had something special to offer. Now she worries that she's just clutching at straws without a real focus or any obvious competitive advantage. She also knows that she is already much more successful than she ever dreamed when she started her business—and in her heart she wonders if she wasn't just spoiled by growth that came fast and easy at the start.

Evaluate Sue Koenig's present strategy. Evaluate the alternative strategies she is considering. Is her primary problem her emphasis on running shoes, her emphasis on trying to hang on to her current customers, or is it something else? What should she do? Why?

12 ChemTech

Jeannie Trenton, a new product manager for ChemTech, must decide what to do with a new engine cooling system product that is not doing well compared to the company's other cooling system products. ChemTech is one of the large chemical companies in the United States—making a wide line of organic and inorganic chemicals and plastics. Technical research has played a vital role in the company's growth.

Recently, one of ChemTech's researchers developed a new engine cooling system product—EC-301. Much time and money was spent on the technical phase, involving various experiments concerned with the quality of the new product.

Then Jeannie Trenton took over and has been trying to develop a strategy for the product.

The engine coolant commonly used now is ethylene glycol. If it leaks into the crankcase oil, it forms a thick, pasty sludge that can cause bearing damage, cylinder scoring, or a dozen other costly and time-consuming troubles for both the operator and the owner of heavy-duty engines.

ChemTech researchers believed that the new product—EC-301—would be very valuable to the owners of heavy-duty diesel and gasoline trucks, as well as other heavy-equipment owners. Chemically, EC-301 uses a propanol base instead of the conventional glycol and alcohol bases. It cannot prevent leakage, but if it does get into the crankcase, it won't cause serious problems.

The suggested list price of EC-301 is $22 per gallon—more than twice the price of regular coolants. The higher price was set because of higher production costs and to obtain a "premium" for making a better engine coolant.

At first, Trenton thought she had two attractive markets for EC-301: (1) the manufacturers of heavy-duty trucks and (2) the users of heavy-duty trucks. ChemTech sales reps have made numerous calls. So far neither type of customer has shown much interest, and the sales manager is discouraging any more calls for EC-301. He feels there are more profitable uses for the sales reps' time. The truck manufacturer prospects are reluctant to show interest in the product until it has been proven in actual use. The maintenance managers for truck fleets, construction companies, and other users of heavy-duty trucks have also been hesitant. Some say the suggested price is far too high for the advantages offered. Others don't understand what is wrong with the present coolants and refuse to talk any more about paying extra for just another me-too product.

Explain what has happened so far. What should Jeannie Trenton do? Why?

13 Paper Supplies Corporation*

Diane Chin, marketing manager for Paper Supplies Corporation, must decide whether she should permit her largest customer to buy some of Paper Supplies' commonly used file folders under the customer's brand rather than Paper Supplies' own FILEX brand. She is afraid that if she refuses, this customer—Office Center, Inc.—will go to another file folder producer and Paper Supplies will lose this business.

Office Center, Inc., is a major distributor of office supplies and has already managed to put its own brand on more than 45 high-sales-volume office supply products. It distributes these products—as well as the branded products of many manufacturers—through its nationwide distribution network, which includes 150 retail stores. Now Ken Sawyer, vice president of marketing for Office Center, is seeking a line of file folders similar in quality to Paper Supplies' FILEX brand, which now has over 60 percent of the market.

This is not the first time that Office Center has asked Paper Supplies to produce a file folder line for Office Center. On both previous occasions, Diane Chin turned down the requests and Office Center continued to buy. In fact, Office Center not only continued to buy the file folders but also the rest of Paper Supplies' lines. And total sales continued to grow as Office Center built new stores. Office Center accounts for about 30 percent of Diane Chin's business. And FILEX brand file folders account for about 35 percent of this volume.

In the past Paper Supplies consistently refused such dealer-branding requests—as a matter of corporate policy. This policy was set some years ago because of a desire (1) to avoid excessive dependence on any one customer and (2) to sell its own brands so that its success is dependent on the quality of its products rather than just a low price. The policy developed from a concern that if it started making products under other customers' brands, those customers could shop around for a low price and the business would be very fickle. At the time the policy was set, Diane Chin realized that it might cost Paper Supplies some business. But it was felt wise nevertheless—to be better able to control the firm's future.

Paper Supplies Corporation has been in business 28 years and now has a sales volume of $40 million. Its primary products are file folders, file markers and labels, and a variety of indexing systems. Paper Supplies offers such a wide range of size, color, and type that no competition can match it in its part of the market. About 40 percent of Paper Supplies' file folder business is in specialized lines such as files for oversized blueprint and engineer drawings; see-through files for medical markets; and greaseproof and waterproof files for marine, oil field, and other hazardous environmental markets. Paper Supplies' competitors are mostly small paper converters. But excess capacity in the industry is substantial, and these converters are always hungry for orders and willing to cut price. Further, the raw materials for the FILEX line of file folders are readily available.

Paper Supplies' distribution system consists of 10 regional stationery suppliers (40 percent of total sales), Office Center, Inc. (30 percent), and more than 40 local stationers who have wholesale and retail operations (30 percent). The 10 regional stationers each have about six branches, while the local stationers each have one wholesale and three or four retail locations. The regional suppliers sell directly to large corporations and to some retailers. In contrast, Office Center's main volume comes from sales to local businesses and walk-in customers at its 150 retail stores.

Diane Chin has a real concern about the future of the local stationers' business. Some are seriously discussing the formation of buying groups to obtain volume discounts from vendors and thus compete more effectively with Office Center's 150 retail stores, the large regionals, and the superstore chains, which are spreading rapidly. These chains—for example, Staples, Office World, Office Max, and Office Depot—operate stores of 16,000 to 20,000 square feet (i.e., large stores compared to the usual office supply stores) and let customers wheel through high-stacked shelves to supermarket-like checkout counters. These chains stress convenience, wide selection, and much lower prices than the typical office supply retailers. They buy directly from manufacturers, such as Paper Supplies, bypassing wholesalers like Office Center. It is likely that the growing pressure from these chains is causing Office Center to renew its proposal to buy a file line with its own name.

*Adapted from a case written by Professor Hardy, University of Western Ontario, Canada.

None of Diane's other accounts is nearly as effective in retailing as Office Center—which has developed a good reputation in every major city in the country. Office Center's profits have been the highest in the industry. Further, its brands are almost as well known as those of some key producers—and its expansion plans are aggressive. And now, these plans are being pressured by the fast-growing superstores—which are already knocking out many local stationers.

Diane is sure that Paper Supplies' brands are well entrenched in the market, despite the fact that most available money has been devoted to new-product development rather than promotion of existing brands. But Diane is concerned that if Office Center brands its own file folders it will sell them at a discount and may even bring the whole market price level down. Across all the lines of file folders, Diane is averaging a 35 percent gross margin, but the commonly used file folders sought by Office Center are averaging only a 20 percent gross margin. And cutting this margin further does not look very attractive to Diane.

Diane is not sure whether Office Center will continue to sell Paper Supplies' FILEX brand of folders along with Office Center's own file folders if Office Center is able to find a source of supply. Office Center's history has been to sell its own brand and a major brand side by side, especially if the major brand offers high quality and has strong brand recognition.

Diane is having a really hard time deciding what to do about the existing branding policy. Paper Supplies has excess capacity and could easily handle the Office Center business. And she fears that if she turns down this business, Office Center will just go elsewhere and its own brand will cut into Paper Supplies' existing sales at Office Center stores. Further, what makes Office Center's offer especially attractive is that Paper Supplies' variable manufacturing costs would be quite low in relation to any price charged to Office Center—that is, there are substantial economies of scale, so the extra business could be very profitable—if Diane doesn't consider the possible impact on the FILEX line. This Office Center business will be easy to get, but it will require a major change in policy, which Diane will have to sell to Paul Jennings, Paper Supplies' president. This may not be easy. Paul is primarily interested in developing new and better products so the company can avoid the "commodity end of the business."

Evaluate Paper Supplies' current strategy. What should Diane Chin do about Office Center's offer? Explain.

14 Mixed Media Technologies, Inc.

Josh Sullivan, manager of Mixed Media Technologies, Inc., is looking for ways to increase profits. But he's turning cautious after the poor results of his last effort—during the previous Christmas season. Mixed Media Technologies, Inc. (MMT), is located along a busy crosstown street about two miles from the downtown of a metropolitan area of 1 million and near a large university. It sells a wide variety of products used for its different types of multimedia presentations. Its lines include high-quality still, video, and digital cameras, color scanners for use with computers, and projection equipment—including 35-mm slide projectors, overhead projectors, and electronic projectors that produce large-screen versions of computer output. Most of the sales of this specialized equipment are made to area school boards for classroom use, to industry for use in research and sales, and to the university for use in research and instruction.

Mixed Media Technologies also offers a good selection of production-quality video media (including hard-to-get betacam tapes and recordable CDs), specialized supplies (such as the acetates used with full-color computer printers), video and audio editing equipment, and a specialized video editing service. Instead of just duplicating videos on a mass production basis, MMT gives each video editing job individual attention—to add an audio track or incorporate computer graphics as requested by a customer. This service is really appreciated by local firms that need help producing high-quality videos—for example, for training or sales applications.

To encourage the school and industrial trade, MMT offers a graphics consultation service. If a customer wants to create a video or computerized presentation, professional advice is readily available. In support of this free service, MMT carries a full line of computer software for multimedia presentations and graphics work.

MMT has four full-time store clerks and two outside sales reps. The sales reps call on business firms, attend trade shows, make presentations for schools, and help both present and potential customers in their use and choice of multimedia materials. Most purchases are delivered by the sales reps or the store's delivery truck. Many orders come in by phone or mail.

The people who make most of the over-the-counter purchases are (1) serious amateurs and (2) some professionals who prepare videos or computerized presentation materials on a fee basis. MMT gives price discounts of up to 25 percent of the suggested retail price to customers who buy more than $2,000 worth of goods per year. Most regular customers qualify for the discount.

In recent years, many amateur photo buffs have started to buy relatively inexpensive new digital cameras to capture family pictures. Frequently, the buyer is a computer user who wants to use the computer as a digital darkroom—and the cameras now available make this easy. MMT has not previously offered the lower-priced and lower-quality digital models such buyers commonly want. But Josh Sullivan knew that lots of such digital cameras were bought and felt that there ought to be a good opportunity to expand sales during the Christmas gift-giving season. Therefore, he planned a special pre-Christmas sale of two of the most popular brands of digital cameras and discounted the prices to competitive discount store levels—about $169 for one and $229 for the other. To promote the sale, he posted large signs in the store windows and ran ads in a Christmas gift-suggestion edition of the local newspaper. This edition appeared each Wednesday during the four weeks before Christmas. At these prices and with this promotion, Josh hoped to sell at least 100 cameras. However, when the Christmas returns were in, total sales were five cameras. Josh was extremely disappointed with these results—especially because trade experts suggested that sales of digital cameras in these price and quality ranges were up 200 percent over last year—during the Christmas selling season.

Evaluate what Mixed Media Technologies is doing and what happened with the special promotion. What should Josh Sullivan do to increase sales and profits?

15 Modern Horizons, Inc.

Melita Sanchez, owner of Modern Horizons, Inc., is deciding whether to take on a new line. She is very concerned, however, because although she wants more lines she feels that something is wrong with her latest possibility.

Melita Sanchez graduated from a large midwestern university in 1998 with a B.S. in business. She worked selling cellular telephones for a year. Then Melita decided to go into business for herself and formed Modern Horizons, Inc. Looking for opportunities, Melita placed several ads in her local newspaper in Columbus, Ohio, announcing that she was interested in becoming a sales representative in the area. She was quite pleased to receive a number of responses. Eventually, she became the sales representative in the Columbus area for three local computer software producers: Accto Company, which produces accounting-related software; Saleco, Inc., a producer of sales management software; and Invo, Inc., a producer of inventory control software. All of these companies were relatively small and were represented in other areas by other sales representatives like Melita Sanchez.

Melita's main job was to call on possible customers. Once she made a sale, she would fax the signed license agreement to the respective producer, who would then UPS the programs directly to the customer. The producer would bill the customer, and Sanchez would receive a commission varying from 5 to 10 percent of the dollar value of the sale. Sanchez was expected to pay her own expenses. And the producers would handle any user questions—either by using 800 numbers for out-of-town calls or by e-mail queries to a technical support group.

Sanchez called on anyone in the Columbus area who might use the products she sold. At first, her job was relatively easy, and sales came quickly because she had little competition. Many national companies offer similar products, but at that time they were not well represented in the Columbus area. Most small businesses needed someone to demonstrate what the software could do.

In 2000, Sanchez sold $250,000 worth of Accto software, earning a 10 percent commission; $100,000 worth of Saleco software, also earning a 10 percent commission; and $200,000 worth of Invo software, earning a 5 percent commission. She was encouraged with her progress and looked forward to expanding sales in the future. She was especially optimistic because she had achieved these sales volumes without overtaxing herself. In fact, she felt she was operating at about 60 percent of her capacity and could easily take on new lines. So she began looking for other products she could sell in the Columbus area. A manufacturer of small lift trucks had recently approached her, but Melita wasn't too enthusiastic about this offer because the commission was only 2 percent on potential annual sales of $150,000.

Now Melita Sanchez is faced with another decision. The owner of the Metclean Company, also in Columbus, has made what looks like an attractive offer. She called on Metclean to see if the firm might be interested in buying her accounting software. The owner didn't want the software, but he was very impressed with Melita. After two long discussions, he asked if she would like to help Metclean solve its current problem. Metclean is having trouble with marketing and the owner would like Melita Sanchez to take over the whole marketing effort.

Metclean produces solvents used to make coatings for metal products. It sells mainly to industrial customers in the mid-Ohio area and faces many competitors selling essentially the same products and charging the same low prices. Metclean is a small manufacturer. Last year's sales were $400,000. It could handle at least four times this sales volume with ease, and is willing to expand to increase sales—its main objective in the short run. Metclean's owner is offering Melita a 12 percent commission on all sales if she will take charge of their pricing, advertising, and sales efforts. Melita is flattered by the offer, but she is a little worried because the job might require a great deal more traveling than she is doing now. For one thing, she would have to call on new potential customers in mid-Ohio, and she might have to travel up to 200 miles around Columbus to expand the solvent business. Further, she realizes that she is being asked to do more than just sell. But she did have marketing courses in college, and thinks the new opportunity might be challenging.

Evaluate Melita Sanchez's current strategy and how the proposed solvent line fits in with what she is doing now. What should she do? Why?

16 Morgan Company

Timothy Morgan, owner of Morgan Company, feels his business is threatened by a tough new competitor. And now Timothy must decide quickly about an offer that may save his business.

Timothy Morgan has been a sales rep for lumber mills for about 20 years. He started selling in a clothing store but gave it up after two years to work in a lumberyard because the future looked much better in the building materials industry. After drifting from one job to another, Timothy finally settled down and worked his way up to manager of a large wholesale building materials distribution warehouse in Buffalo, New York. In 1982, he formed Morgan Company and went into business for himself, selling carload lots of lumber to lumberyards in western New York and Pennsylvania.

Timothy works with five large lumber mills on the West Coast. They notify him when a carload of lumber is available to be shipped, specifying the grade, condition, and number of each size board in the shipment. Timothy isn't the only person selling for these mills—but he is the only one in his area. He isn't required to take any particular number of carloads per month—but once he tells a mill he wants a particular shipment, title passes to him and he has to sell it to someone. Timothy's main function is to find a buyer, buy the lumber from the mill as it's being shipped, and have the railroad divert the car to the buyer.

Having been in this business for 20 years, Timothy knows all of the lumberyard buyers in his area very well and is on good working terms with them. He does most of his business over the telephone or by e-mail from his small office, but he tries to see each of the buyers about once a month. He has been marking up the lumber between 4 and 6 percent—the standard markup, depending on the grades and mix in each car—and has been able to make a good living for himself and his family. The going prices are widely publicized in trade publications and are listed on the Internet, so the buyers can easily check to be sure Timothy's prices are competitive.

In the last few years, a number of Timothy's lumberyard customers have gone out of business—and others have lost sales. The main problem is competition from several national home-improvement chains that have moved into Timothy's market area. These chains buy lumber in large quantities direct from a mill, and their low prices, available inventory, and one-stop shopping are taking some customers away from the traditional lumberyards. Some customers think the quality of the lumber is not quite as good at the big chains, and some contractors stick with the lumberyards out of loyalty or because they get better service, including rush deliveries when they're needed. However, if it weren't for a boom in the construction market—helping to make up for lost market share—Timothy's profits would have taken an even bigger hit.

Six months ago, things got worse. An aggressive young salesman set up in the same business, covering about the same area but representing different lumber mills. This new salesman charges about the same prices as Timothy but undersells him once or twice a week in order to get the sale. On several occasions he even set up what was basically an e-mail-based auction to quickly sell excess wood that was not moving fast enough. Many lumber buyers—feeling the price competition from the big chains and realizing that they are dealing with a homogeneous product—seem to be willing to buy from the lowest-cost source. This has hurt Timothy financially and personally—because even some of his old friends are willing to buy from the new competitor if the price is lower. The near-term outlook seems dark, since Timothy doubts that there is enough business to support two firms like his, especially if the markup gets shaved any closer. Now they seem to be splitting the shrinking business about equally—as the newcomer keeps shaving his markup.

A week ago, Timothy was called on by Mr. DeBeer of Good Timber Mfg. Co., a large manufacturer of windows, raised-panel doors, and accessories. Good Timber doesn't sell to the big chains and instead distributes its quality line only through independent lumberyards. DeBeer knows that Timothy is well acquainted with the local lumberyards and wants him to become Good Timber's exclusive distributor (sales rep) of residential windows and accessories in his area. DeBeer gave Timothy several brochures on the Good Timber product lines. He also explained Good Timber's new support program, which will help train and support Timothy and interested lumberyards on how to sell the higher markup accessories. Later, in a lengthy e-mail, DeBeer explained how this program will help Timothy and interested lumberyards differentiate themselves in this very competitive market.

Most residential windows of specified grades are basically "commodities" that are sold on the basis of price and availability, although some premium and very low end windows are sold also. The national home-improvement chains usually stock and sell only the standard sizes. Most independent lumberyards do not stock windows because there are so many possible sizes. Instead, the lumberyards custom order from the stock sizes each factory offers. Stock sizes are not set by industry standards; they vary from factory to factory, and some offer more sizes. Most factories can deliver these custom orders in two to six weeks—which is usually adequate to satisfy contractors who buy and install them according to architectural plans. This part of the residential window business is well established, and most lumberyards buy from several different window manufacturers—to ensure sources of supply in case of strikes, plant fires, and so on. How the business is split depends on price and the personality and persuasiveness of the sales reps. And given that prices are usually similar, the sales rep–customer relationship can be quite important.

Good Timber Mfg. Co. gives more choice than just about any other supplier. It offers many variations in ⅛-inch increments—to cater to remodelers who must adjust to many situations. Good Timber has even set up a special system on an Internet website. The lumberyard can connect to the website, enter the specs for a window online, and within seconds get a price quote and estimated delivery time.

One reason DeBeer has approached Timothy Morgan is because of Timothy's many years in the business. But the other reason is that Good Timber is aggressively trying to expand—relying on its made-to-order windows, a full line of accessories, and a newly developed factory support system to help differentiate it from the many other window manufacturers.

To give Timothy a quick big picture of the opportunity he is offering, DeBeer explained the window market as follows:

1. For commercial construction, the usual building code ventilation requirements are satisfied with mechanical ventilation. So the windows do not have to operate to permit natural ventilation. They are usually made with heavy-grade aluminum framing. Typically, a distributor furnishes and installs the windows. As part of its service, the distributor provides considerable technical support, including engineered drawings and diagrams to the owners, architects, and/or contractors.
2. For residential construction, on the other hand, windows must be operable to provide ventilation. Residential windows are usually made of wood, frequently with light-gauge aluminum or vinyl on the exterior. The national chains get some volume with standard size windows, but lumberyards are the most common source of supply for contractors in Timothy's area. These lumberyards do not provide any technical support or engineered drawings. A few residential window manufacturers do have their own sales centers in selected geographic areas, which provide a full range of support and engineering services, but none are anywhere near Timothy's area.

Good Timber Mfg. Co. feels a big opportunity exists in the commercial building repair and rehabilitation market (sometimes called the retrofit market) for a crossover of residential windows to commercial applications—and it has designed some accessories and a factory support program to help lumberyards get this "commercial" business. For applications such as nursing homes and dormitories (which must meet commercial codes), the wood interior of a residential window is desired, but the owners and architects are accustomed to commercial grades and building systems. And in some older facilities, the windows may have to provide supplemental ventilation for a deficient mechanical system. So what is needed is a combination of the residential *operable* window with a heavy-gauge commercial exterior frame that is easy to specify and install. And this is what Good Timber Mfg. Co. is offering with a combination of its basic windows and easily adjustable accessory frames. Two other residential window manufacturers offer a similar solution, but neither has pushed its products aggressively and neither offers technical support to lumberyards or trains sales reps like Timothy to do the necessary job. DeBeer feels this could be a unique opportunity for Timothy.

The sales commission on residential windows would be about 5 percent of sales. Good Timber Mfg. Co. would do the billing and collecting. By getting just 20 to 30 percent of his lumberyards' residential window business, Timothy could earn about half of his current income. But the real upside would come from increasing his residential window share. To do this, Timothy would have to help the lumberyards get a lot more (and more profitable) business by invading the commercial market with residential windows and the bigger markup accessories needed for this market. Timothy would also earn a 20 percent commission on the accessories—adding to his profit potential.

Timothy is somewhat excited about the opportunity because the retrofit market is growing. And owners and architects are seeking ways of reducing costs (which Good Timber's approach does—over usual commercial approaches). But he is also concerned that a lot of sales effort will be needed to introduce this new idea. He is not afraid of work, but he is concerned about his financial survival.

Timothy thinks he has three choices:

1. Take DeBeer's offer and sell both window and lumber products.
2. Take the offer and drop lumber sales.
3. Stay strictly with lumber and forget the offer.

DeBeer is expecting an answer within one week, so Timothy has to decide soon.

Evaluate Timothy Morgan's current strategy and how the present offer fits in. What should he do now? Why?

17 Enviro Pure Water, Inc.*

Manish (Manny) Krishna established his company, Enviro Pure Water, Inc. (Enviro), to market a product designed to purify drinking water. The product, branded as the PURITY II Naturalizer Water Unit, is produced by Environmental Control, Inc., a corporation that focuses primarily on water purification and filtering products for industrial markets.

Enviro Pure Water is a small but growing business. Manny started the business with initial capital of only $20,000—which came from his savings and loans from several relatives. Manny manages the company himself. He has a secretary and six full-time salespeople. In addition, he employs two college students part-time; they make telephone calls to prospect for customers and set up appointments for a salesperson to demonstrate the unit in the consumer's home. By holding spending to a minimum, Manny has kept the firm's monthly operating budget at only $4,500—and most of that goes for rent, his secretary's salary, and other necessities like computer supplies and telephone bills.

The PURITY II system uses a reverse osmosis purification process. Reverse osmosis is the most effective technology known for improving drinking water. The device is certified by the Environmental Protection Agency to reduce levels of most foreign substances, including mercury, rust, sediment, arsenic, lead, phosphate, bacteria, and most insecticides.

Each PURITY II unit consists of a high-quality 1-micron sediment removal cartridge, a carbon filter, a sediment filter, a housing, a faucet, and mounting hardware. The compact system fits under a kitchen sink or a wet bar sink. An Enviro salesperson can typically install the PURITY II in about a half hour. Installation involves attaching the unit to the cold-water supply line, drilling a hole in the sink, and fastening the special faucet. It works equally well with water from a municipal system or well water and it can purify up to 15 gallons daily. Enviro sells the PURITY II to consumers for $395, which includes installation.

The system has no movable parts or electrical connections and it has no internal metal parts that will corrode or rust. However, the system does use a set of filters that must be replaced after about two years. Enviro sells the replacement filters for $80. Taking into consideration the cost of the filters, the system provides water at a cost of approximately $.05 per gallon for the average family.

There are two major benefits from using the PURITY II system. First, water treated by this system tastes better. Blind taste tests confirm that most consumers can tell the difference between water treated with the PURITY II and ordinary tapwater. Consequently, the unit improves the taste of coffee, tea, frozen juices, ice cubes, mixed drinks, soup, and vegetables cooked in water. Perhaps more important, the PURITY II's ability to remove potentially harmful foreign matter makes the product of special interest to people who are concerned about health and the safety of the water they consume.

The number of people with those concerns is growing. In spite of increased efforts to protect the environment and water supplies, there are many problems. Hundreds of new chemical compounds—ranging from insecticides to industrial chemicals to commercial cleaning agents—are put into use each year. Some of the residue from chemicals and toxic waste eventually enters water supply sources. Further, floods and hurricanes have damaged or completely shut down water treatment facilities in some cities. Problems like these have led to rumors of possible epidemics of such dread diseases as cholera and typhoid—and more than one city has recently experienced near-panic buying of bottled water.

Given these problems and the need for pure water, Manny believes that the market potential for the PURITY II system is very large. Residences, both single-family and apartment, are one obvious target. The unit is also suitable for use in boats and recreational vehicles; in fact, the PURITY II is standard equipment on several upscale RVs. And it can be used in taverns and restaurants, in institutions such as schools and hospitals, and in commercial and industrial buildings.

There are several competing ways for customers to solve the problem of getting pure water. Some purchase bottled

*The original version of this case was developed by Professor Ben Enis of the University of Southern California, and it is adapted for use here with his permission.

water. Companies such as Ozarka deliver water monthly for an average price of $.60 per gallon. The best type of bottled water is distilled water; it is absolutely pure because it is produced by the process of evaporation. However, it may be *too pure*. The distilling process removes needed elements such as calcium and phosphate—and there is some evidence that removing these trace elements contributes to heart disease. In fact, some health-action groups recommend that consumers not drink distilled water.

A second way to obtain pure water is to use some system to treat tapwater. PURITY II is one such system. Another system uses an ion exchange process that replaces ions of harmful substances like iron and mercury with ions that are not harmful. Ion exchange is somewhat less expensive than the PURITY II process, but it is not well suited for residential use because bacteria can build up before the water is used. In addition, there are a number of other filtering and softening systems. In general, these are less expensive and less reliable than the PURITY II. For example, water softeners remove minerals but do not remove bacteria or germs.

Manny's first year with his young company has gone quite well. Customers who have purchased the system like it, and there appear to be several ways to expand the business and increase profits. For example, so far he has had little time to make sales calls on potential commercial and institutional users or residential builders. He also sees other possibilities such as expanding his promotion effort or targeting consumers in a broader geographic area.

At present, Enviro distributes the PURITY II in the 13-county gulf coast region of Texas. Because of the Robinson-Patman Act, the manufacturer cannot grant an exclusive distributorship. However, Enviro is currently the only PURITY II distributor in this region. In addition, Enviro has the right of first refusal to set up distributorships in other areas of Texas. The manufacturer has indicated that it might even give Enviro distribution rights in a large section of northern Mexico.

The agreement with the manufacturer allows Enviro to distribute the product to retailers, including hardware stores, plumbing supply dealers, and the like. Manny has not yet pursued this channel, but a PURITY II distributor in Florida reported some limited success selling the system to retailers at a wholesale price of $275. Retailers for this type of product typically expect a markup of about 33 percent of their selling price.

Environmental Control, Inc., ships the PURITY II units directly from its warehouse to the Enviro office via UPS. The manufacturer's $200 per unit selling price includes the cost of shipping. Enviro only needs to keep a few units on hand because the manufacturer accepts faxed orders and then ships immediately—so delivery never takes more than a few days. Further, the units are small enough to inventory in the back room of the Enviro sales office. Several of the easy-to-handle units will fit in the trunk of a salesperson's car.

Manny is thinking about recruiting additional salespeople. Finding capable people has not been a problem so far. However, there has already been some turnover, and one of the current salespeople is complaining that the compensation is not high enough. Manny pays salespeople on a straight commission basis. A salesperson who develops his or her own prospects gets $100 per sale; the commission is $80 per unit on sales leads generated by the company's telemarketing people. For most salespeople, the mix of sales is about half and half. Enviro pays the students who make the telephone contacts $4 per appointment set up and $10 per unit sold from an appointment.

An average Enviro salesperson can easily sell 20 units per month. However, Manny believes that a really effective and well-prepared salesperson can sell much more, perhaps 40 units per month.

Enviro and its salespeople get good promotion support from Environmental Control, Inc. For example, Environmental Control supplies sales training manuals and sales presentation flip charts. The materials are also well done, in part because Environment Control's promotion manager previously worked for Electrolux vacuum cleaners, which are sold in a similar way. The company also supplies print copy for magazine and newspaper advertising and tapes of commercials for radio and television. Thus, all Enviro has to do is buy media space or time. In addition, Environmental Control furnishes each salesperson with a portable demonstration unit, and the company recently gave Enviro three units to be placed in models of condominium apartments.

Manny has worked long hours to get his company going, but he realizes that he has to find time to think about how his strategy is working and to plan for the future.

Evaluate Manish Krishna's current marketing strategy for Enviro Pure Water. How do you think he's doing so far, and what should he do next? Why?

18 State Bank

Phil McNeill isn't having much luck convincing his father that their bank needs the new look and image he is proposing.

Phil McNeill was recently appointed director of marketing by his father, Mack McNeill, long-time president of State Bank. Phil is a recent marketing graduate of the nearby state college. He worked in the bank during summer vacations, but this is his first full-time job.

State Bank is a profitable, family-run business located in Hillsborough—the county seat. The town itself has a population of only 15,000, but it serves suburbanites and farmers as far away as 20 miles. About 10 miles east is a metropolitan area of 350,000—to which many in the Hillsborough area commute. Banking competition is quite strong there. But Hillsborough has only one other downtown full-service bank—of about the same size—and two small limited-service branches of two metro banks on the main highway going east. State Bank has been quite profitable, last year earning about $400,000—or 1 percent of assets—a profit margin that would look very attractive to big-city bankers.

State Bank has prospered over the years by emphasizing its friendly, small-town atmosphere. The employees are all local residents and are trained to be friendly with all customers—greeting them on a first-name basis. Even Phil's father tries to know all the customers personally and often comes out of his office to talk with them. The bank has followed a conservative policy—for example, insisting on 25 percent down payments on homes and relatively short maturities on loans. The interest rates charged are competitive or slightly higher than in the nearby city, but they are similar to those charged by the other full-service bank in town. In fact, the two local banks seem to be following more or less the same approach—friendly, small-town service. Since they both have fairly convenient downtown locations, Phil feels that the two banks will continue to share the business equally unless some change is made.

Phil has an idea that he thinks will attract a greater share of the local business. At a recent luncheon meeting with his father, he floated his idea and was disappointed when it wasn't enthusiastically received. Nevertheless, he has continued to push the idea—even going to the trouble to prepare an elaborate PowerPoint presentation with a detailed plan.

Phil has tried to explain that he wants to differentiate the bank by promoting a new look and image. His proposal is to try to get all the people in town to think of the bank as "The Friendly Bank." He believes that this positioning would differentiate State Bank from the other local bank and make it much harder for one of the really big banks to come into town with a new branch office. The big banks can offer diverse financial services, but Phil figures that their size would make it hard for any of them to position themselves as friendly or personal. And Phil wants to paint the inside and outside of the bank in residential-like designers' colors (e.g., pastels) and have all the bank's advertising and printed materials refer to "The Friendly Bank" campaign. The bank would give away pastel shopping bags, offer pastel deposit slips, mail out pastel interest checks, advertise on pastel billboards, and have pastel stationery for the bank's correspondence. The friendly bank message would be printed on all of these items. And all the employees will be trained to be even more friendly to everyone.

Phil knows that his proposal is different for a conservative bank. But that's exactly why he thinks it will work. He wants people to notice his bank instead of just assuming that both banks are alike. He is sure that after the initial surprise, the local people will think even more positively about State Bank. Its reputation is very good now, but he would like it to be recognized as different. Phil feels that this will help attract a larger share of new residents and businesses. Further, he hopes that his "The Friendly Bank" campaign will cause people to talk about State Bank—and given that word-of-mouth comments are likely to be positive, the bank might win a bigger share of the present business.

Mack McNeill is less than excited about his son's proposal. He thinks the bank has done very well under his direction—and he is concerned about changing a good thing. He worries that some of the older townspeople and farmers who are loyal customers will question the sincerity of the bank. His initial request to Phil was to come up with some way of differentiating the bank without offending present customers. Further, Mack McNeill thinks that Phil is talking about an important change that will be expensive and difficult to undo once the decision is made. On the plus side, Mack agrees that the proposal will make the bank appear quite different from its local competitor. Further, people are continuing to move into the Hillsborough area, and he wants an increasing share of this business.

Evaluate State Bank's situation and Phil's proposal. What should the bank do to increase its market share?

19 myWedding.com

Gray Hunter is happy with her life but disappointed that the idea she had for starting her own business hasn't taken off as expected. Within a few weeks she either has to renew the contract for her Internet website or decide not to put any more time and money into her idea. She knows that it doesn't make sense to renew the contract if she doesn't come up with a plan to make her website-based business profitable—and she doesn't like to plan. She's a "doer," not a planner.

Gray's business, myWedding.com, started as an idea 18 months ago as she was planning her own wedding. She attended a bridal fair at the convention center in Raleigh, North Carolina, to get ideas for a wedding dress, check out catering companies and florists, and in general learn more about the various services available to newlyweds. While there she and her fiancé went from one retailer's booth to another to sign up for their wedding gift registries. Almost every major retailer in the city—ranging from the Home Depot warehouse to the Belk's department store to the specialty shops that handle imported crystal glassware—offered a gift registry. Some had computers set up to provide access to their online registries. Being listed in all of the registries improved the odds that her wedding gifts would be items she wanted and could use—and it saved time and hassle for gift-givers. On the way back from the fair, Gray and her fiancé discussed the idea that it would be a lot easier to register gift preferences once on a central Internet site than to provide lots of different stores with bits and pieces of information. A list at a website would also make it easier for gift-givers—at least those who were computer users.

When Gray got back home, she did an Internet search and found several sites that focused on weddings. The biggest seemed to be www.weddingchannel.com. It had features for couples who were getting married, including a national gift registry. The site featured products from a number of companies, especially large national retail chains; however, there was a search feature to locate people who provide wedding-related services in a local ZIP code area. Gray thought that the sites she found looked quite good, but that they were not as helpful as a site could be with a more local focus.

The more Gray and her fiancé discussed the idea of a website offering local wedding-related services, the more it looked like an interesting opportunity. Except for the annual bridal fair, there was no other obvious local place for consumers to get information about planning a wedding and buying wedding-related services. And for local retailers, florists, catering companies, insurance agents, home builders, and many other types of firms, there was no other central place to target promotion at newlyweds. Further, the amount of money spent on weddings and wedding gifts is very substantial, and right before and after getting married many young couples make many important purchase decisions for everything from life insurance to pots and pans. Spending on the wedding itself can easily exceed the cost of a year of college.

Gray was no stranger to the Internet. She worked as a website designer for a small firm whose one and only client was IBM. That IBM was the only client was intentional rather than accidental. A year earlier IBM had decided that it wanted to outsource certain aspects of its website development work and have it handled by an outside contractor. After negotiating a three-year contract to do IBM's work, several IBM employees quit their jobs and started the business. IBM was a good client, and all indications were that IBM could give the firm as much work as it could handle as it hired new people and prospected for additional accounts over the next few years. Gray especially liked the creative aspects of designing the "look" of a website, and technical specialists handled a lot of the subtle details.

Before joining this new company, Gray had several marketing-related jobs—but none had been the glamorous ad agency job she dreamed of in college as an advertising major. Her first job as a college graduate was with an ad agency, but she was in a backroom operation handling a lot of the arrangements for printing and mailing large-scale direct-mail promotions. In spite of promises that it was a path to other jobs at the agency, the pay was bad, the work was always pressured, and every aspect of what she had to do was boring. After six punishing months, she quit and went looking for something else.

When a number of job applications didn't turn up something quickly, she took a part-time job doing telemarketing calls for a life insurance company. Gray's boss told her that she was doing a great job reeling in prospects—but she hated disturbing people at night and just didn't like making sales pitches. Fortunately for her, that pain didn't last long. A neighbor in Gray's apartment complex got Gray an interview for a receptionist position at an ad agency. That, at least, got her foot in the door. Her job description wasn't very interesting, but in a small agency she had the opportunity to learn a lot about all aspects of the business—ranging from working on client proposals and media plans to creative sessions for new campaigns. In fact, it was from a technician at that agency that she learned to work with the graphics software used to create ad layouts and website pages. When the website design job came open at the new firm, her boss gave her a glowing recommendation, and in two days she was off on her new career.

Although Gray's jobs had not been high-profile positions, they did give her some experience in sales promotion, personal selling, and advertising. Those skills were complemented by the technical computer skills of her fiancé (now husband), who made a living as a database programmer for a large software consulting firm. Taking everything as a whole, they thought that they could get a wedding-related website up and running and make it profitable.

There were a number of different facets to the original plan for myWedding.com. One part focused on recruiting local advertisers and "sponsors" who would pay to be listed at the website and be allocated a web page (which Gray would design) describing their services, giving contact information, and links to their own websites. Another facet focused on services for people who were planning to be married. In addition to an online wedding gift registry, sections of the website provided information about typical wedding costs, planning checklists, details about how to get a required marriage license, and other helpful information (including a discussion forum with comments about the strengths and weaknesses of various local suppliers). A man and woman could sign up for the service online and could pay the modest $20 "membership" fee for a year by credit card. Friends, family, and invited guests could visit the website at no charge and get information about wedding preferences, local hotels, discounts on local car rentals, and even printable maps to all of the churches and synagogues in the area.

When Gray told friends about her plan they all thought it sounded like a great idea. In fact, each time she discussed it someone came up with another idea for a locally oriented feature to add to the website. Several friends said that they had tried national websites but that the information was often too general. But generating more new ideas was not the problem. The problem was generating revenue. Gray had already contracted for space from an Internet service provider and created some of the initial content for the website, but she only had four paying sponsors—two of whom happened to be family friends.

Gray started by creating a colorful flyer describing the website and sent it to most of the firms that had participated in the bridal fair. When no one sent back the reply coupon for more information, Gray started to make calls (mainly during her lunch hour at her full-time job). Some stores seemed intrigued by the concept, but no one seemed ready to sign up. One reason was that they all seemed surprised at the cost to participate and get ad space at the website—$2,400 a year (about the same as a 1⁄16-page display ad in the Raleigh Yellow Pages). Another problem was that no one wanted to be the first to sign up. As one florist shop owner put it, "If you pull this off and other florists sign up, then come back and I will too."

Getting couples to sign up went slowly too. Gray paid for four display ads in local Sunday newspapers in the society section, sent information sheets about the website to clergy in the area, listed the website with about 25 Internet search engines, and sent carefully crafted press releases announcing the service to almost every publication in the area. One article that resulted from a press release got some attention, and for a few weeks there was a flurry of e-mail inquiries about her web page. But after that it slowed to a trickle again.

Gray's diagnosis of the problem was simple. Most people thought it was a great idea, but few couples knew to look on the Internet for such a service. Similarly, potential advertisers—many of them small local businesses—were not accustomed to the idea of paying for Internet advertising. They didn't know if the cost was reasonable or if her site would be effective in generating business.

Gray's life as a married person was going great and her job as a web page designer kept her very busy. Her free time outside of work was always in short supply because the young crowd at her office always had some scheme for how to keep entertained. So she wasn't about to quit her job to devote full time to her business idea. Further, she thought that once it got rolling she would only have to devote 10 hours a week to it to earn an extra $30,000 a year. She didn't have delusions of becoming a "dot-com millionaire." She just wanted a good locally oriented business.

However, it still wasn't clear how to get it rolling. After a year of trying on and off, she only had four paying ad sponsors, and one of them had already notified her that he didn't plan to sign up again because it wasn't clear that the website had generated any direct leads or sales. Further, it looked like anything she could do to attract more "members" would end up being expensive and inefficient.

Gray thinks the idea has real potential, and she's willing to do the work. But she's not certain if she can make it pay off.

She has to decide soon, however, because the bill for the Internet service provider is sitting on her desk.

What is Gray's strategy? What should she do? If she were to move forward, what strategy would you recommend? Does her financial goal seem realistic? Why?

20 Outdoor World, Inc.

Jamie McCullough, owner of Outdoor World, Inc., is worried about his business' future. He has tried various strategies for two years now, and he's still barely breaking even.

Two years ago, Jamie McCullough bought the inventory, supplies, equipment, and business of Outdoor World—located on the edge of Minneapolis, Minnesota. The business is in an older building along a major highway leading out of town—several miles from any body of water. The previous owner had sales of about $400,000 a year but was just breaking even. For this reason—plus the desire to retire to Arizona—the owner sold to Jamie for roughly the value of the inventory.

Outdoor World had been selling two well-known brands of small pleasure boats, a leading outboard motor, two brands of snowmobiles and jet-skis, and a line of trailer and pickup-truck campers. The total inventory was valued at $150,000—and Jamie used all of his own savings and borrowed some from two friends to buy the inventory and the business. At the same time, he took over the lease on the building—so he was able to begin operations immediately.

Jamie had never operated a business of his own before, but he was sure that he would be able to do well. He had worked in a variety of jobs—as a used-car salesman, an auto repairman, and a jack-of-all-trades in the maintenance departments of several local businesses.

Soon after starting his business, Jamie hired his friend, Omar, who had a similar background. Together, they handle all selling and setup work on new sales and do maintenance work as needed. Sometimes the two are extremely busy—at the peaks of each sport season. Then both sales and maintenance keep them going up to 16 hours a day. At these times it's difficult to have both new and repaired equipment available as soon as customers want it. At other times, however, Jamie and Omar have almost nothing to do.

Jamie usually charges the prices suggested by the various manufacturers—except at the end of a weather season when he is willing to make deals to clear the inventory. He is annoyed that some of his competitors sell mainly on a price basis—offering 10 to 30 percent off a manufacturer's suggested list prices—even at the beginning of a season! Jamie doesn't want to get into that kind of business, however. He hopes to build a loyal following based on friendship and personal service. Further, he doesn't think he really has to cut price because all of his lines are exclusive for his store. No stores within a five-mile radius carry any of his brands, although nearby retailers offer many brands of similar products.

To try to build a favorable image for his company, Jamie occasionally places ads in local papers and buys some radio spots. The basic theme of this advertising is that Outdoor World is a friendly, service-oriented place to buy the equipment needed for the current season. Sometimes he mentions the brand names he carries, but generally Jamie tries to build an image for concerned, friendly service—both in new sales and repairs—stressing "We do it right the first time." He chose this approach because, although he has exclusives on the brands he carries, there generally are 10 to 15 different manufacturers' products being sold in the area in each product category—and most of the products are quite similar. Jamie feels that this similarity among competing products almost forces him to try to differentiate himself on the basis of his own store's services.

The first year's operation wasn't profitable. In fact, after paying minimal salaries to Omar and himself, the business just about broke even. Jamie made no return on his $150,000 investment.

In hopes of improving profitability, Jamie jumped at a chance to add a line of lawn mowers, tractors, and trimmers as he was starting into his second year of business. This line was offered by a well-known equipment manufacturer who wanted to expand into the Minneapolis area. The equipment is similar to that offered by other lawn equipment manufacturers. The manufacturer's willingness to do some local advertising and to provide some point-of-purchase displays appealed to Jamie. And he also liked the idea that customers probably would want this equipment sometime earlier than boats and other summer items. So he thought he could handle this business without interfering with his other peak selling seasons.

It's two years since Jamie bought Outdoor World—and he's still only breaking even. Sales have increased a little, but costs have gone up too because he had to hire some part-time help. The lawn equipment helped to expand sales—as he had expected—but unfortunately, it did not increase profits as he had hoped. Jamie needed part-time helpers to handle this business—in part because the manufacturer's advertising had generated a lot of sales inquiries. Relatively few inquiries resulted in sales, however, because many people seemed to be shopping for deals. So Jamie may have even lost money handling the new line. But he hesitates to give it up because he doesn't want to lose that sales volume, and the manufacturer's sales rep has been most encouraging—assuring Jamie that things will get better and that his company will be glad to continue its promotion support during the coming year.

Jamie is now considering the offer of a mountain bike producer that has not been represented in the area. The bikes have become very popular with students and serious bikers in the last several years. The manufacturer's sales rep says industry sales are still growing (but not as fast as in the past) and probably will grow for many more years. The sales rep has praised Jamie's service orientation and says this could help him sell lots of bikes because many mountain bikers are serious about buying a quality bike and then keeping it serviced. He says Jamie's business approach would be a natural fit with bike customers' needs and attitudes. As a special inducement to get Jamie to take on the line, the sales rep says Jamie will not have to pay for the initial inventory of bikes, accessories, and repair parts for 90 days. And, of course, the company will supply the usual promotion aids and a special advertising allowance of $10,000 to help introduce the line to Minneapolis. Jamie kind of likes the idea of carrying mountain bikes because he has one himself and knows that they do require some service year-round. But he also knows that the proposed bikes are very similar in price and quality to the ones now being offered by the bike shops in town. These bike shops are service- rather than price-oriented, and Jamie feels that they are doing a good job on service—so he is concerned with how he could be "different."

Evaluate Jamie McCullough's overall strategy(ies) and the mountain bike proposal. What should he do now?

21 Chemical International, Inc.

Chemical International, Inc., is a multinational producer of various chemicals and plastics with plants in the United States, England, France, and Germany. It is run from its headquarters in New Jersey.

Kevin Duryea is marketing manager of Chemical International's plastics business. Kevin is reconsidering his promotion approach. He is evaluating what kind of promotion—and how much—should be directed to car producers and to other major plastics customers worldwide. Currently, Kevin has one salesperson who devotes most of his time to the U.S. car industry. This man is based in the Detroit area and focuses on GM, Ford, and Chrysler—as well as the various firms that mold plastics to produce parts to supply the car industry. This approach worked well when relatively little plastic was used in each car *and* the auto producers did all of the designing themselves and then sent out specifications for very price-oriented competitive bidding. But now the whole product planning and buying system is changing—and of course foreign producers with facilities in the U.S. are much more important.

How the present system works can be illustrated in terms of the approach Chrysler used on its project to design the Sebring.

Instead of the old five-year process of creating a new automobile in sequential steps, the new system is a team approach. Under the old system, product planners would come up with a general concept and then expect the design team to give it artistic form. Next engineering would develop the specifications and pass them on to manufacturing and suppliers. There was little communication between the groups and no overall project responsibility.

Under the new approach, representatives from all the various functions—planning, design, engineering, purchasing, marketing, and manufacturing—work together. In fact, representatives from key suppliers are usually involved from the outset. The whole team takes final responsibility for a car. Because all of the departments are involved from the start, problems are resolved as the project moves on—before they cause a crisis. Manufacturing, for example, can suggest changes in design that will result in higher productivity or better quality.

In the Sebring project, Chrysler engineers followed the Japanese lead and did some reverse engineering of their own. They dismantled several competitors' cars, piece by piece, looking for ideas they could copy or improve. This helped them learn how the parts were assembled and how they were designed. Eventually, Chrysler incorporated almost all of the best features into its design of the Sebring.

In addition to reverse engineering, Chrysler researchers conducted a series of market studies. This led to the inclusion of additional features, such as easier-to-read gauges, oil dipsticks painted a bright yellow for faster identification, and a net in the trunk to hold grocery bags upright.

Chrysler also asked assembly-line workers for suggestions before the car was redesigned and then incorporated their ideas into the new car. All bolts had the same-size head, for example, so workers didn't have to switch from one wrench to another.

Finally, Chrysler included its best suppliers as part of the planning effort. Instead of turning to a supplier after the car's design was completed, the Chrysler team signed long-term contracts with suppliers and invited them to participate in product planning.

Most other vehicles are now developed with an approach similar to this, and Chrysler is not alone in the effort. Ford, for example, used a very similar team approach to redesign its Taurus. And major firms in most other industries are using similar approaches. A major outgrowth of this effort has been a trend by these producers to develop closer working relationships with a smaller number of suppliers.

For example, the suppliers selected for the Sebring project were major suppliers who had already demonstrated a serious commitment to the car industry. They had not only the facilities, but also the technical and professional managerial staff who could understand—and become part of—the program management approach. Chrysler expected these major suppliers to join in its total quality management push and to be able to provide just-in-time delivery systems. Chrysler dropped suppliers whose primary sales technique was to entertain buyers and then submit bids on standard specifications.

Because many firms have moved to these team-oriented approaches and developed closer working relationships with a subset of their previous suppliers, Kevin Duryea is trying to determine if Chemical International's present effort is still appropriate. Kevin's strategy has focused primarily on responding to inquiries and bringing in Chemical International technical people as the situation seems to require. Potential customers with technical questions are sometimes referred to other noncompeting customers already using the materials or to a Chemical International plant—to be sure that all questions are answered. But basically, all producer-customers are treated more or less alike. The sales reps make calls and try to find good business wherever they can.

Each Chemical International sales rep usually has a geographic area. If an area like Detroit needs more than one rep, each may specialize in one or several similar industries. But Chemical International uses the same basic approach—call on present users of plastic products and try to find opportunities for getting a share (or bigger share) of existing purchases or new applications. The sales reps are supposed to be primarily order getters rather than technical specialists. Technical help can be brought in when the customer wants it or sometimes the sales rep simply sets up a conference call between Chemical International's technical experts, the buyer, and the users at the buyer's facility.

Kevin sees that some of his major competitors—including General Electric and Dow Chemical—are becoming more aggressive. They are seeking to affect specifications and product design from the start rather than after a product design is completed. This takes a lot more effort and resources, but Kevin thinks it may get better results. A major problem he sees, however, is that he may have to drastically change the nature of Chemical International's promotion. Instead of focusing primarily on buyers and responding to questions, it may be necessary to try to contact *all* the multiple buying influences and not only answer their questions but help them understand what questions to raise—and help answer them. Such a process may even require more technically trained sales reps. In fact, it may require that people from Chemical International's other departments—engineering, manufacturing, R&D, and distribution—get actively involved in discussions with their counterparts in customer firms. Further, use of e-mail and an Internet website might make ongoing contacts faster and easier.

While Kevin doesn't want to miss the boat if changes are needed, he also doesn't want to go off the deep end. After all, many of the firm's customers don't seem to want Chemical International to do anything very different from what it's been doing. In fact, some say that they're very satisfied with their current supply arrangements and really have no interest in investing in a close relationship with a single supplier.

Contrast Chrysler's previous approach to designing and producing cars to its program management approach, especially as it might affect suppliers' promotion efforts. Given that many other major producers have moved in the program management direction, what promotion effort should Kevin Duryea develop for Chemical International? Should every producer in every geographic area be treated alike—regardless of size? Explain.

22 Cable Designs, Inc.

Steve Russell, vice president of marketing for Cable Designs, Inc., is deciding how to organize and train his sales force—and what to do about Ron Pittman.

At its plant in Pittsburgh, Pennsylvania, Cable Designs, Inc., produces wire cable—ranging from ½ inch to 4 inches in diameter. Cable Designs sells across the United States and Canada. Customers include firms that use cranes and various other overhead lifts in their own operations—ski resorts and amusement parks, for example. The company's main customers, however, are cement plants, railroad and boat yards, heavy-equipment manufacturers, mining operations, construction companies, and steel manufacturers.

Cable Designs employs its own sales specialists to call on and try to sell the buyers of potential users. All of Cable Designs' sales reps are engineers who go through an extensive training program covering the different applications, product strengths, and other technical details concerning wire rope and cable. Then they are assigned their own district—the size depending on the number of potential customers. They are paid a good salary plus generous travel expenses—with small bonuses and prizes to reward special efforts.

Ron Pittman went to work for Cable Designs in 1982, immediately after receiving an engineering degree from the University of Wisconsin. After going through the training program, he took over as the only company rep in the Illinois district. His job was to call on and give technical help to present customers of wire cable. He was also expected to call on new customers, especially when inquiries came in. But his main activities were to (1) service present customers and supply the technical assistance needed to use cable in the most efficient and safe manner, (2) handle complaints, and (3) provide evaluation reports to customers' management regarding their use of cabling.

Ron Pittman soon became Cable Designs' outstanding representative. His exceptional ability to handle customer complaints and provide technical assistance was noted by many of the firm's customers. This helped Ron bring in more sales dollars per customer and more in total from present customers than any other rep. He also brought in many new customers—mostly heavy equipment manufacturers in northern Illinois. Over the years, his sales have been about twice the sales rep average, and always at least 20 percent higher than the next best rep—even though each district is supposed to have about the same sales potential.

Ron's success established Illinois as Cable Designs' largest-volume district. Although the company's sales in Illinois have not continued to grow as fast in the last few years because Ron seems to have found most of the possible applications and won a good share for Cable Designs, the replacement market has been steady and profitable. This fact is mainly due to Ron Pittman. As one of the purchasing managers for a large machinery manufacturer mentioned,

> When Ron makes a recommendation regarding use of our equipment and cabling, even if it is a competitor's cable we are using, we are sure it's for the best of our company. Last week, for example, a cable of one of his competitors broke, and we were going to give him a contract. He told us it was not a defective cable that caused the break, but rather the way we were using it. He told us how it should be used and what we needed to do to correct our operation. We took his advice and gave him the contract as well!

Four years ago, Cable Designs introduced a unique and newly patented wire sling device for holding cable groupings together. The sling makes operations around the cable much safer—and its use could reduce both injuries and lost-time costs due to accidents. The slings are expensive—and the profit margin is high. Cable Designs urged all its representatives to push the sling, but the only sales rep to sell the sling with any success was Ron Pittman. Eighty percent of his customers are currently using the wire sling. In other areas, sling sales are disappointing.

As a result of Ron's success, Steve Russell is now considering forming a separate department for sling sales and putting Ron Pittman in charge. His duties would include traveling to the various sales districts and training other representatives to sell the sling. The Illinois district would be handled by a new rep.

Evaluate Steve Russell's strategy(ies). What should he do about Ron Pittman and his sales force? Explain.

23 Furniture to Go, Inc.

Susan Kurczak, owner of Furniture to Go, Inc., is discouraged with her salespeople and is even thinking about hiring some new blood. Kurczak has been running Furniture to Go for 10 years and has slowly built the sales to $3.5 million a year. Her store is located on the outskirts of a growing city of 275,000 population. This is basically a factory city, and she has deliberately selected blue-collar workers as her target market. She carries some higher-priced furniture lines but emphasizes budget combinations and easy credit terms.

Table 1

In Shopping for Furniture I Found (Find) that	Demographic Groups: Group A	Group B	Group C	Group D
I looked at furniture in many stores before I made a purchase.	78%	72%	52%	50%
I went (am going) to only one store and bought (buy) what I found (find) there.	2	5	10	11
To make my purchase I went (am going) back to one of the stores I shopped in previously.	63	59	27	20
I looked (am looking) at furniture in no more than three stores and made (will make) my purchase in one of these.	20	25	40	45
I like a lot of help in selecting the right furniture.	27	33	62	69
I like a very friendly salesperson.	23	28	69	67

Kurczak is concerned that she may have reached the limit of her sales growth—her sales have not been increasing during the last two years even though total furniture sales have been increasing in the city as new people move in. Her local cable-TV spots and newspaper advertising seems to attract her target customers, but many of these people come in, shop around, and leave. Some of them come back—but most do not. She thinks her product selections are very suitable for her target market and is concerned that her salespeople don't close more sales with potential customers. Several times, she has discussed this matter with her 10 salespeople. Her staff feels they should treat customers the way they personally want to be treated. They argue that their role is to answer questions and be helpful when asked—not to make suggestions or help customers make decisions. They think this would be too "hard sell."

Kurczak says their behavior is interpreted as indifference by the customers attracted to the store by her advertising. She has tried to convince her salespeople that customers must be treated on an individual basis and that some customers need more help in looking and deciding than others. Moreover, Kurczak is convinced that some customers would appreciate more help and suggestions than the salespeople themselves might want. To support her views, she showed her staff the data from a study of furniture store customers (see Tables 1 and 2) that she found on the Internet website for a furniture trade association. She tried to explain the differences in demographic groups and pointed out that her store was definitely trying to aim at specific people. She argued that they (the salespeople) should cater to the needs and attitudes of their customers and think less about how they would like to be treated themselves. Further, Kurczak announced that she is considering changing the sales compensation plan or hiring new blood if the present employees can't do a better job. Currently, the sales reps are paid $22,000 per year plus a 5 percent commission on sales.

Contrast Kurczak's strategy and thoughts about her salespeople with their apparent view of her strategy and especially their role in it. What should she do now? Explain.

Table 2 The Sample Design

Demographic Status
Upper class (Group A); 13% of sample This group consists of managers, proprietors, or executives of large businesses; professionals, including doctors, lawyers, engineers, college professors, and school administrators; and research personnel and sales personnel, including managers, executives, and upper-income salespeople above level of clerks. *Family income over $40,000*
Middle class (Group B); 37% of sample Group B consists of white-collar workers, including clerical, secretarial, salesclerks, bookkeepers, etc. It also includes school teachers, social workers, semiprofessionals, proprietors or managers of small businesses, industrial foremen, and other supervisory personnel. *Family income between $20,000 and $50,000*
Lower middle class (Group C); 36% of sample Skilled workers and semiskilled technicians are in this category, along with custodians, elevator operators, telephone linemen, factory operatives, construction workers, and some domestic and personal service employees. *Family income between $10,000 and $40,000.* *No one in this group has above a high school education.*
Lower class (Group D); 14% of sample Nonskilled employees, day laborers. It also includes some factory operatives and domestic and service people. *Family income under $18,000.* *None has completed high school; some have only grade school education.*

24 Wire Solutions, Inc.

Myra Martinez, marketing manager of consumer products for Wire Solutions, Inc., is trying to set a price for her most promising new product—a space-saving shoe rack suitable for small homes or apartments.

Wire Solutions, Inc.—located in Ft. Worth, Texas—is a custom producer of industrial wire products. The company has a lot of experience bending wire into many shapes and also can chrome- or gold-plate finished products. The company was started 13 years ago and has slowly built its sales volume to $3.2 million a year. Just one year ago, Myra Martinez was appointed marketing manager of the consumer products division. It is her responsibility to develop this division as a producer and marketer of the company's own branded products—as distinguished from custom orders, which the industrial division produces for others.

Martinez has been working on a number of different product ideas for almost a year now and has developed several designs for CD holders, cassette holders, plate holders, doll stands, collapsible book ends, and other such products. Her most promising product is a shoe rack for crowded homes and apartments. The wire rack attaches to the inside of a closet door and holds eight pairs of shoes.

The rack is very similar to one the industrial division produced for a number of years for another company. That company sold the shoe rack and hundreds of other related items out of its "products for organizing and storing" mail-order catalog. Managers at Wire Solutions were surprised by the high sales volume the catalog company achieved with the rack. In fact, that is what interested Wire Solutions in the consumer market and led to the development of the separate consumer products division.

Martinez has sold hundreds of the shoe racks to various local hardware, grocery, and general merchandise stores, and wholesalers on a trial basis, but each time she has negotiated a price—and no firm policy has been set. Now she must determine what price to set on the shoe rack—which she plans to push aggressively wherever she can. Actually, she hasn't decided on exactly which channels of distribution to use. But trials in the local area have been encouraging, and as noted above, the experience in the industrial division suggests that there is a large market for this type of product. Further, she noticed that a Wal-Mart store in her local area was selling a similar rack made of plastic. When she talked casually about her product with the store manager, he suggested that she contact the chain's houseware buyers in the home office in Arkansas. The manufacturing cost on this product—when made in reasonable quantities—is approximately $2.80 if it is painted black and $3.60 if it is chromed. Similar products have been selling at retail in the $9.95 to $19.95 range. The sales and administrative overhead to be charged to the division will amount to $90,000 a year. This will include Martinez's salary and some office expenses. She expects that a number of other products will be developed in the near future. But for the coming year, she hopes the shoe rack will account for about half the consumer products division's sales volume.

Evaluate Myra Martinez's strategy planning so far. What should she do now? What price should she set for the shoe rack? Explain.

25 PlastiForm Mfg., Inc.

David Houston, the marketing manager of PlastiForm Mfg., Inc., wants to increase sales by adding sales reps rather than "playing with price." That's how David describes what Will Houston, his father and PlastiForm's president, is suggesting. Will is not sure what to do either. But he does want to increase sales, so something new is needed.

PlastiForm Mfg., Inc.—of Long Beach, California—is a leading producer in the plastic forming machinery industry. It has patents covering over 200 variations, but PlastiForm's customers seldom buy more than 30 different types in a year. The machines are sold to plastic forming manufacturers to increase production capacity or replace old equipment.

Established in 1970, the company has enjoyed a steady growth to its present position with annual sales of $50 million.

Twelve U.S. firms compete in the U.S. plastic forming machinery market. Several Japanese, German, and Swedish firms compete in the global market, but the Houstons have not seen much of them on the West Coast. Apparently the foreign firms rely on manufacturers' agents who have not provided an ongoing presence. They are not good about following up on inquiries, and their record for service on the few sales they have made on the East Coast is not satisfactory. So the Houstons are not worried about them right now.

Each of the 12 U.S. competitors is about the same size and manufactures basically similar machinery. Each has tended to specialize in its own geographic region. None has exported much because of high labor costs in the United States. Six of the competitors are located in the East, four in the Midwest, and two—including PlastiForm—on the West Coast. The other West Coast firm is in Tacoma, Washington. All of the competitors offer similar prices and sell F.O.B. their factories. Demand has been fairly strong in recent years. As a result, all of the competitors have been satisfied to sell in their geographic areas and avoid price-cutting. In fact, price-cutting is not a popular idea in this industry. About 15 years ago, one firm tried to win more business and found that others immediately met the price cut—but industry sales (in units) did not increase at all. Within a few years, prices returned to their earlier level, and since then competition has tended to focus on promotion and avoid price.

PlastiForm's promotion depends mainly on six company sales reps, who cover the West Coast. In total, these reps cost about $660,000 per year including salary, bonuses, supervision, travel, and entertaining. When the sales reps are close to making a sale, they are supported by two sales engineers—at a cost of about $120,000 per year per engineer. PlastiForm does some advertising in trade journals—less than $50,000—and occasionally uses direct mailings and trade show exhibits. It also has a simple home page on the Internet. But the main promotion emphasis is on personal selling. Any personal contact outside the West Coast market is handled by manufacturers' agents who are paid 4 percent on sales—but sales are very infrequent.

Will Houston is not satisfied with the present situation. Industry sales have leveled off and so have PlastiForm's sales—although the firm continues to hold its share of the market. Will would like to find a way to compete more effectively in the other regions because he sees great potential outside the West Coast.

Competitors and buyers agree that PlastiForm is the top-quality producer in the industry. Its machines have generally been somewhat superior to others in terms of reliability, durability, and productive capacity. The difference, however, usually has not been great enough to justify a higher price—because the others are able to do the necessary job—unless a PlastiForm sales rep convinces the customer that the extra quality will improve the customer's product and lead to fewer production line breakdowns. The sales rep also tries to sell the advantages of PlastiForm's better sales engineers and technical service people—and sometimes is successful. But if a buyer is mainly interested in comparing delivered prices for basic machines—the usual case—PlastiForm's price must be competitive to get the business. In short, if such a buyer has a choice between PlastiForm's and another machine *at the same price,* PlastiForm will usually win the business in its part of the West Coast market. But it's clear that PlastiForm's price has to be at least competitive in such cases.

The average plastic forming machine sells for about $220,000, F.O.B. shipping point. Shipping costs within any of the three major regions average about $4,000—but another $3,000 must be added on shipments between the West Coast and the Midwest (either way) and another $3,000 between the Midwest and the East.

Will Houston is thinking about expanding sales by absorbing the extra $3,000 to $6,000 in freight cost that occurs if a midwestern or eastern customer buys from his West Coast location. By doing this, he would not actually be cutting price in those markets but rather reducing his net return. He thinks that his competitors would not see this as price competition and therefore would not resort to cutting prices themselves.

David Houston, the marketing manager, disagrees. David thinks that the proposed freight absorption plan would stimulate price competition in the Midwest and East and perhaps on the West Coast. He proposes instead that PlastiForm hire some sales reps to work the Midwest and Eastern regions—selling quality—rather than relying on the manufacturers' agents. He argues that two additional sales reps in each of these regions would not increase costs too much and might greatly increase the sales from these markets over that brought in by the agents. With this plan, there would be no need to absorb the freight and risk disrupting the status quo. Adding more of PlastiForm's own sales reps is especially important, he argues, because competition in the Midwest and East is somewhat hotter than on the West Coast—due to the number of competitors (including foreign competitors) in those regions. A lot of expensive entertaining, for example, seems to be required just to be considered as a potential supplier. In contrast, the situation has been rather quiet in the West—because only two firms are sharing this market and each is working harder near its home base. The eastern and midwestern competitors don't send any sales reps to the West Coast—and if they have any manufacturers' agents, they haven't gotten any business in recent years.

Will Houston agrees that his son has a point, but industry sales are leveling off and Will wants to increase sales. Further, he thinks the competitive situation may change drastically in the near future anyway, as global competitors get more aggressive and some possible new production methods and machines become more competitive with existing ones. He would rather be a leader in anything that is likely to happen rather than a follower. But he is impressed with David's comments about the greater competitiveness in the other markets and therefore is unsure about what to do.

Evaluate PlastiForm's current strategies. Given Will Houston's sales objective, what should PlastiForm Mfg. do? Explain.

26 Rainbow Packers, Inc.

Hans Fleming, president of Rainbow Packers, Inc., is not sure what he should propose to the board of directors. His recent strategy change isn't working. And Niels Sondergaard, Rainbow's only sales rep (and a board member), is so frustrated that he refuses to continue his discouraging sales efforts. Sondergaard wants Hans Fleming to hire a sales force or do *something.*

Rainbow Packers, Inc., is a long-time processor in the highly seasonal vegetable canning industry. Rainbow packs and sells canned beans, peas, carrots, corn, peas and carrots mixed, and kidney beans. It sells mainly through food brokers to merchant wholesalers, supermarket chains (such as Kroger, Safeway, A&P, and Jewel), cooperatives, and other outlets—mostly in the Midwest. Of less importance, by volume, are sales to local institutions, grocery stores, and supermarkets—and sales of dented canned goods at low prices to walk-in customers.

Rainbow is located in Wisconsin's Devil's River Valley. The company has more than $28 million in sales annually (exact sales data is not published by the closely held corporation). Plants are located in strategic places along the valley—with main offices in Riverside. The Rainbow brand is used only on canned goods sold in the local market. Most of the goods are sold and shipped under a retailer's label or a broker's/wholesaler's label.

Rainbow is well known for the consistent quality of its product offerings. And it's always willing to offer competitive prices. Strong channel relations were built by Rainbow's former chairman of the board and chief executive officer Dane Christian. Christian—who owns controlling interest in the firm—worked the Chicago area as the company's sales rep in its earlier years, before he took over from his father as president in 1972. Christian was an ambitious and hard-working top manager—the firm prospered under his direction. He became well known within the canned food processing industry for technical/product innovations.

During the off-canning season, Christian traveled widely. In the course of his travels, he arranged several important business deals. His 1986 and 1997 trips resulted in the following two events: (1) inexpensive pineapple was imported from Formosa and sold by Rainbow, primarily to expand the product line, and (2) a technically advanced continuous process cooker (65 feet high) was imported from England and installed at one of the Rainbow plants. It was the first of its kind in the United States and cut processing time sharply while improving quality.

Christian retired in 2001 and named his son-in-law, 35-year-old Hans Fleming, as his successor. Fleming is intelligent and hard-working. He was concerned primarily with the company's financial matters and only recently with marketing problems. During his seven years as financial director, the firm received its highest credit rating and was able to borrow working capital ($5 million to meet seasonal can and wage requirements) at the lowest rate ever.

The fact that the firm isn't unionized allows some competitive advantage. However, changes in minimum wage laws have increased costs. And these and other rising costs have squeezed profit margins. This led to the recent closing of two plants as they became less efficient to operate. Rainbow expanded capacity of the remaining two plants (especially warehouse facilities) so they could operate more profitably with maximum use of existing processing equipment.

Shortly after Christian's retirement, Hans Fleming reviewed the company's situation with his managers. He pointed to narrowing profit margins, debts contracted for new plants and equipment, and an increasingly competitive environment. Even considering the temporary labor-saving competitive advantage of the new cooker system, there seemed to be no way to improve the status quo unless the firm could sell direct—as they do in the local market—thereby eliminating the food brokers' 5 percent commission on sales. This was the plan decided on, and Niels Sondergaard was given the new sales job. An inside salesperson was retained to handle incoming orders and do some telemarketing to smaller accounts.

Niels Sondergaard, the only full-time outside sales rep for the firm, lives in Riverside. Other top managers do some selling but not much. Being a nephew of Christian, Niels Sondergaard is also a member of the board of directors. He is well qualified in technical matters and has a college degree in food chemistry. Although Niels Sondergaard formerly did call on some important customers with the brokers' sales reps, he is not well known in the industry or even by Rainbow's usual customers.

It is now five months later. Niels Sondergaard is not doing very well. He has made several selling trips, placed hundreds of telephone calls, and maintained constant e-mail contacts with prospective customers—all with discouraging results. He is unwilling to continue sales efforts on his own. There seem to be too many potential customers for one person to reach. And much negotiating, wining, and dining seems to be needed—certainly more than he can or wants to do.

Sondergaard insists that Rainbow hire a sales force to continue the present way of operating. Sales are down in comparison both to expectations and to the previous year's results. Some regular supermarket chain customers have stopped buying—though basic consumer demand has not changed. Further, buyers for some supermarket chains that might be potential new customers have demanded quantity guarantees much larger than Rainbow Packers can supply. Expanding supply would be difficult in the short run—because the firm typically must contract with growers to ensure supplies of the type and quality they normally offer.

Christian, still the controlling stockholder, has asked for a special meeting of the board in two weeks to discuss the present situation.

Evaluate Rainbow's past and current strategy planning. What should Hans Fleming tell Mr. Christian? What should Rainbow do now?

27 Plastic Master, Inc.

Nora Hall is trying to decide whether to leave her present job to buy into another business and be part of top management.

Hall is now a sales rep for a plastics components manufacturer. She calls mostly on large industrial accounts—such as refrigerator manufacturers—who might need large quantities of custom-made products like door liners. She is on a straight salary of $35,000 per year, plus expenses and a company car. She expects some salary increases but doesn't see much long-run opportunity with this company.

As a result, she is seriously considering changing jobs and investing $40,000 in Plastic Master, Inc.—an established Chicago (Illinois) thermoplastic molder (manufacturer). Mr. Hanson, the present owner, is nearing retirement and has not trained anyone to take over the business. He has agreed to sell the business to Steve Burton, a lawyer, who has invited Nora Hall to invest and become the sales manager. Steve Burton has agreed to match Hall's current salary plus expenses, plus a bonus of 2 percent of profits. However, she must invest to become part of the new company. She will get a 5 percent interest in the business for the necessary $40,000 investment—almost all of her savings.

Plastic Master, Inc., is well established and last year had sales of $2.2 million but zero profits (after paying Hanson a salary of $40,000). In terms of sales, cost of materials was 46 percent; direct labor, 13 percent; indirect factory labor, 15 percent; factory overhead, 13 percent; and sales overhead and general expenses, 13 percent. The company has not been making any profit for several years—but it has been continually adding new machines to replace those made obsolete by technological developments. The machinery is well maintained and modern, but most of it is similar to that used by its many competitors. Most of the machines in the industry are standard. Special products are made by using specially made dies with these machines.

Sales have been split about two-thirds custom-molded products (that is, made to the specification of other producers or merchandising concerns) and the balance proprietary items (such as housewares and game items, like poker chips and cribbage sets). The housewares are copies of articles developed by others and indicate neither originality nor style. Hanson is in charge of selling the proprietary items, which are distributed through any available wholesale channels. The custom-molded products are sold through two full-time sales reps—who receive a 10 percent commission on individual orders up to $20,000 and then 3 percent above that level—and also by three manufacturers' reps who get the same commissions.

The company seems to be in fairly good financial condition—at least as far as book value is concerned. The $40,000 investment will buy almost $60,000 in assets—and ongoing operations should pay off the seven-year note (see Table 1). Steve Burton thinks that with new management the company has a good chance to make big profits. He expects to make some economies in the production process—because he feels most production operations can be improved. He plans to keep custom-molding sales at approximately the present $1.4

Table 1 Plastic Master, Inc., Statement of Financial Conditions, December 31, 200x

Assets			Liabilities and Net Worth	
Cash		$ 13,000	Liabilities:	
Accounts receivable		55,000	Accounts payable	$ 70,000
Building	$225,000		Notes payable—7 years (machinery)	194,000
Less: depreciation . . .	75,000			
		150,000		
Machinery	1,400,000		Net worth:	
Less: depreciation . . .	450,000		Capital stock	900,000
		950,000	Retained earnings	4,000
Total assets		$1,168,000	Total liabilities and net worth	$1,168,000

million level. His new strategy will try to increase the proprietary sales volume from $800,000 to $2 million a year. Nora Hall is expected to be a big help here because of her sales experience. This will bring the firm up to about capacity level—but it will mean adding additional employees and costs. The major advantage of expanding sales will be spreading overhead.

Some of the products proposed by Steve Burton for expanding proprietary sales are listed below.

New products for consideration:
Safety helmets for cyclists.
Water bottles for cyclists and in-line skaters.
School lunch boxes.
Toolboxes.
Closet organizer/storage boxes for toys.
Short legs for furniture.
Step-on garbage cans without liners.
Outside house shutters and siding.
Importing and distributing foreign housewares.

Plastic Master faces heavy competition from many other similar companies. Further, most retailers expect a wide margin—sometimes 50 to 60 percent of retail selling price. Even so, manufacturing costs are low enough so Plastic Master can spend some money for promotion while still keeping the price competitive. Apparently, many customers are willing to pay for novel new products—if they see them in stores. And Hall isn't worried too much by tough competition. She sees plenty of that in her present job. And she does like the idea of being an "owner and sales manager."

Evaluate Plastic Master's situation and Steve Burton's strategy. What should Nora Hall do? Why?

28 PCT, Inc.

Ben Colavito, president and marketing manager of Prime Cutting Tools, Inc., is deciding what strategy, or strategies, to pursue.

Prime Cutting Tools (PCT) is a manufacturer of industrial cutting tools. These tools include such items as lathe blades, drill press bits, and various other cutting edges used in the operation of large metal cutting, boring, or stamping machines. Ben Colavito takes great pride in the fact that his company—whose $5,200,000 sales in 2001 is small by industry standards—is recognized as a producer of a top-quality line of cutting tools.

Competition in the cutting-tool industry is intense. PCT competes not only with the original machine manufacturers, but also with many other larger domestic and foreign manufacturers offering cutting tools as one of their many different product lines. This has had the effect, over the years, of standardizing the price, specifications, and, in turn, the quality of the competing products of all manufacturers. It has also led to fairly low prices on standard items.

About a year ago, Ben was tiring of the financial pressure of competing with larger companies enjoying economies of scale. At the same time, he noted that more and more potential cutting-tool customers were turning to small tool-and-die shops that used computer-controlled equipment to meet specialized needs that could not be met by the mass production firms. Ben thought perhaps he should consider some basic strategy changes. Although he was unwilling to become strictly a custom producer, he thought that the recent trend toward buying customized cutting edges suggested new markets might be developing—markets too small for the large, multiproduct-line companies to serve profitably but large enough to earn a good profit for a flexible company of PCT's size.

Ben hired a marketing research company, Fennell Associates, to study the feasibility of serving these markets. The initial results were encouraging. It was estimated that PCT might increase sales by 65 percent and profits by 90 percent by serving the emerging markets. This research showed that there are many large users of standard cutting tools who buy directly from large cutting-tool manufacturers (domestic or foreign) or wholesalers who represent these manufacturers. This is the bulk of the cutting-tool business (in terms of units sold and sales dollars). But there are also many smaller users all over the United States who buy in small but regular quantities. And some of these needs are becoming more specialized. That is, a special cutting tool may make a machine and/or worker much more productive, perhaps eliminating several steps with time-consuming setups. This is the area that the research company sees as potentially attractive.

Next, Ben had the sales manager hire two technically oriented market researchers (at a total cost of $60,000 each per year, including travel expenses) to maintain continuous contact with potential cutting-tool customers. The researchers were supposed to identify any present or future needs that might exist in enough cases to make it possible to profitably produce a specialized product. The researchers were not to take orders or sell PCT's products to the potential customers. Ben felt that only through this policy could these researchers talk to the right people.

The initial feedback from the market researchers was most encouraging. Many firms (large and small) had special needs—although it often was necessary to talk to the shop foreman or individual machine operators to find these needs. Most operators were making do with the tools available. Either they didn't know customizing was possible or doubted that their supervisors would do anything about it if they suggested that a more specialized tool would increase productivity. But these operators were encouraging because they said that it would be easier to persuade supervisors to order specialized tools if the tools were already produced and in stock than if they had to be custom made. So Ben decided to continually add high-quality products to meet the ever-changing, specialized needs of users of cutting tools and edges.

PCT's potential customers for specialized tools are located all over the United States. The average sale per customer is likely to be less than $500, but the sale will be repeated several times within a year. Because of the widespread market and the small order size, Ben doesn't think that selling direct—as is done by small custom shops—is practical. At the present time, PCT sells 90 percent of its regular output through a large industrial wholesaler—National Mill Supplies, Inc.—which serves the area east of the Mississippi River and carries a very complete line of industrial supplies (to "meet every industrial need"). National Mill Supplies carries over 10,000 items. Some sales come from customers who know exactly what they want and just place orders directly by fax or at the firm's Internet website. But most of the selling is by National's sales reps, who work from an electronic catalog on a laptop computer. National Mill Supplies, although very large and well known, is having trouble moving cutting tools. National is losing sales of cutting tools in some cities to newer wholesalers specializing in the cutting-tool industry. The new wholesalers are able to give more technical help to potential customers and therefore better service. National's president is convinced that the newer, less-experienced concerns will either realize that a substantial profit margin can't be maintained along with their aggressive strategies, or they will eventually go broke trying to overspecialize.

From Ben's standpoint, the present wholesaler has a good reputation and has served PCT well in the past. National Mill Supplies has been of great help in holding down Ben's inventory costs—by increasing the inventory in National's 35 branch locations. Although Ben has received several complaints about the lack of technical assistance given by National's sales reps—as well as their lack of knowledge about PCT's new special products—he feels that the present wholesaler is providing the best service it can. All its sales reps have been told about the new products at a special training session, and a new page has been added to the catalog they carry with them. So regarding the complaints, Ben says: "The usual things you hear when you're in business."

Ben thinks there are more urgent problems than a few complaints. Profits are declining, and sales of the new cutting tools are not nearly as high as forecast—even though all research reports indicate that the company's new products meet the intended markets' needs perfectly. The high costs involved in producing small quantities of special products and in adding the market research team—together with lower-than-expected sales—have significantly reduced PCT's profits. Ben is wondering whether it is wise to continue to try to cater to the needs of many specific target markets when the results are this discouraging. He also is considering increasing advertising expenditures in the hope that customers will pull the new products through the channel.

Evaluate PCT's situation and Ben Colavito's present strategy. What should he do now?

29 Metal Works, Inc.

Victor Carrington, marketing manager for Metal Works, Inc., is trying to figure out how to explain to his boss why a proposed new product line doesn't make sense for them. Victor is sure it's wrong for Metal Works, Inc., but isn't able to explain why.

Metal Works, Inc., is a producer of malleable iron castings for automobile and aircraft manufacturers and a variety of other users of castings. Last year's sales of castings amounted to over $70 million.

Metal Works also produces about 30 percent of all the original equipment bumper jacks installed in new U.S.-made automobiles each year. This is a very price-competitive business, but Metal Works has been able to obtain its large market share with frequent personal contact between the company's executives and its customers—supported by very close cooperation between the company's engineering department and its customers' buyers. This has been extremely important because the wide variety of models and model changes frequently requires alterations in the specifications of the bumper jacks. All of Metal Works' bumper jacks are sold directly to the automobile manufacturers. No attempt has been made to sell bumper jacks to final consumers through hardware and automotive channels—although they are available through the manufacturers' automobile dealers.

Tom Gaines, Metal Works' production manager, now wants to begin producing hydraulic garage jacks for sale through automobile-parts wholesalers to retail auto parts stores. Gaines saw a variety of hydraulic garage jacks at a recent automotive show and knew immediately that his plant could produce these products. This especially interested him because of the possibility of using excess capacity. Further, he says "jacks are jacks," and the company would merely be broadening its product line by introducing hydraulic garage jacks. (Note:

Hydraulic garage jacks are larger than bumper jacks and are intended for use in or around a garage. They are too big to carry in a car's trunk.)

As Tom Gaines became more enthusiastic about the idea, he found that Metal Works' engineering department already had a design that appeared to be at least comparable to the products now offered on the market. None of these products have any patent protection. Further, Gaines says that the company would be able to produce a product that is better made than the competitive products (i.e., smoother castings)—although he agrees that most customers probably wouldn't notice the difference. The production department estimates that the cost of producing a hydraulic garage jack comparable to those currently offered by competitors would be about $48 per unit.

Victor Carrington, the marketing manager, has just received an e-mail from George Daggett, the company president, explaining the production department's enthusiasm for broadening Metal Works' present jack line into hydraulic jacks. George Daggett seems enthusiastic about the idea too, noting that it would be a way to make fuller use of the company's resources and increase its sales. Daggett's e-mail asks for Victor's reaction, but George Daggett already seems sold on the idea.

Given Daggett's enthusiasm, Victor Carrington isn't sure how to respond. He's trying to develop a good explanation of why he isn't excited about the proposal. The firm's six sales reps are already overworked with their current accounts. And Victor couldn't possibly promote this new line himself—he's already helping other reps make calls and serving as sales manager. So it would be necessary to hire someone to promote the line. And this sales manager would probably have to recruit manufacturers' agents (who probably will want 10 to 15 percent commission on sales) to sell to automotive wholesalers who would stock the jack and sell to the auto parts retailers. The wholesalers will probably expect trade discounts of about 20 percent, trade show exhibits, some national advertising, and sales promotion help (catalog sheets, mailers, and point-of-purchase displays). Further, Victor Carrington sees that Metal Works' billing and collection system will have to be expanded because many more customers will be involved. It will also be necessary to keep track of agent commissions and accounts receivable.

Auto parts retailers are currently selling similar hydraulic garage jacks for about $99. Victor Carrington has learned that such retailers typically expect a trade discount of about 35 percent off of the suggested list price for their auto parts.

All things considered, Victor Carrington feels that the proposed hydraulic jack line is not very closely related to the company's present emphasis. He has already indicated his lack of enthusiasm to Tom Gaines, but this made little difference in Tom's thinking. Now it's clear that Victor will have to convince the president or he will soon be responsible for selling hydraulic jacks.

Contrast Metal Works, Inc.'s current strategy and the proposed strategy. What should Victor Carrington say to George Daggett to persuade him to change his mind? Or should he just plan to sell hydraulic jacks? Explain.

30 Deluxe Foods, Ltd.*

Jessica Walters, marketing manager of Deluxe Foods, Ltd.—a Canadian company—is being urged to approve the creation of a separate marketing plan for Quebec. This would be a major policy change because Deluxe Foods' international parent is trying to move toward a global strategy for the whole firm and Jessica has been supporting Canada-wide planning.

Jessica Walters has been the marketing manager of Deluxe Foods, Ltd., for the last four years—since she arrived from international headquarters in Minneapolis. Deluxe Foods, Ltd., headquartered in Toronto, is a subsidiary of a large U.S.-based consumer packaged-food company with worldwide sales of more than $2 billion in 1997. Its Canadian sales are just over $350 million—with the Quebec and Ontario markets accounting for 69 percent of the company's Canadian sales.

The company's product line includes such items as cake mixes, puddings, pie fillings, pancakes, prepared foods, and frozen dinners. The company has successfully introduced at least six new products every year for the last five years. Products from Deluxe Foods are known for their high quality and enjoy much brand preference throughout Canada—including the Province of Quebec.

The company's sales have risen every year since Jessica Walters took over as marketing manager. In fact, the company's market share has increased steadily in each of the product categories in which it competes. The Quebec market has closely followed the national trend except that, in the past two years, total sales growth in that market began to lag.

According to Walters, a big advantage of Deluxe Foods over its competitors is the ability to coordinate all phases of the food business from Toronto. For this reason, Walters meets at least once a month with her product managers—to discuss developments in local markets that might affect marketing plans. While each manager is free to make suggestions and even to suggest major changes, Jessica Walters has the responsiblity of giving final approval for all plans.

One of the product managers, Marie LeMans, expressed great concern at the last monthly meeting about the poor performance of some of the company's products in the Quebec market. While a broad range of possible reasons—ranging from inflation and the threat of job losses to politics—were reviewed to try to explain the situation, LeMans insisted that it was due to a basic lack of understanding of that market. She felt not enough managerial time and money had been spent on the Quebec market—in part because of the current emphasis on developing all-Canada plans on the way to having one global strategy.

Marie LeMans felt the current marketing approach to the Quebec market should be reevaluated because an inappropriate marketing plan may be responsible for the sales slowdown. After all, she said, "80 percent of the market is French-speaking. It's in the best interest of the company to treat that market as being separate and distinct from the rest of Canada."

Marie LeMans supported her position by showing that Quebec's per capita consumption of many product categories (in which the firm competes) is above the national average

*This case was adapted from one written by Professor Roberta Tamilia, University of Windsor, Canada.

Table 1 Per Capita Consumption Index, Province of Quebec (Canada = 100)

Cake mixes	107	Soft drinks	126
Pancakes	87	Pie fillings	118
Puddings	114	Frozen dinners	79
Salad dressings	85	Prepared packaged foods	83
Molasses	132	Cookies	123

(see Table 1). Research projects conducted by Deluxe Foods also support the "separate and distinct" argument. Over the years, the firm has found many French–English differences in brand attitudes, lifestyles, usage rates, and so on.

LeMans argued that the company should develop a unique Quebec marketing plan for some or all of its brands. She specifically suggested that the French-language advertising plan for a particular brand be developed independently of the plan for English Canada. Currently, the Toronto agency assigned to the brand just translates its English-language ads for the French market. Jessica Walters pointed out that the present advertising approach assured Deluxe Foods of a uniform brand image across Canada. Marie LeMans said she knew what the agency is doing, and that straight translation into Canadian-French may not communicate the same brand image. The discussion that followed suggested that a different brand image might be needed in the French market if the company wanted to stop the brand's decline in sales.

The managers also discussed the food distribution system in Quebec. The major supermarket chains have their lowest market share in that province. Independents are strongest there—the "mom-and-pop" food stores fast disappearing outside Quebec remain alive and well in the province. Traditionally, these stores have stocked a higher proportion (than supermarkets) of their shelf space with national brands—an advantage for Deluxe Foods.

Finally, various issues related to discount policies, pricing structure, sales promotion, and cooperative advertising were discussed. All of this suggested that things were different in Quebec and that future marketing plans should reflect these differences to a greater extent than they do now.

After the meeting, Jessica Walters stayed in her office to think about the situation. Although she agreed with the basic idea that the Quebec market was in many ways different, she wasn't sure how far the company should go in recognizing this fact. She knew that regional differences in food tastes and brand purchases existed not only in Quebec but in other parts of Canada as well. But people are people, after all, with far more similarities than differences, so a Canadian and eventually a global strategy makes some sense too.

Jessica Walters was afraid that giving special status to one region might conflict with top management's objective of achieving standardization whenever possible—one global strategy for Canada, on the way to one worldwide global strategy. She was also worried about the long-term effect of such a policy change on costs, organizational structure, and brand image. Still, enough product managers had expressed their concern over the years about the Quebec market to make her wonder if she shouldn't modify the current approach. Perhaps they could experiment with a few brands—and just in Quebec. She could cite the language difference as the reason for trying Quebec rather than any of the other provinces. But Walters realizes that any change of policy could be seen as the beginning of more change, and what would Minneapolis think? Could she explain it successfully there?

Evaluate Deluxe Foods, Ltd.'s present strategy. What should Jessica Walters do now? Explain.

31 Expert Nursing Services, Inc.

Carol Crane, executive director of Expert Nursing Services, Inc., is trying to clarify her strategies. She's sure some changes are needed, but she's less sure about how *much* change is needed and/or whether it can be handled by her people.

Expert Nursing Services, Inc. (ENS), is a nonprofit organization that has been operating—with varying degrees of success—for 25 years, offering nursing services in clients' homes. Some of its funding comes from the local United Way—to provide emergency nursing services for those who can't afford to pay. The balance of the revenues—about 90 percent of the $2.2 million annual budget—comes from charges made directly to the client or to third-party payers, including insurance companies, health maintenance organizations (HMOs), and the federal government, for Medicare or Medicaid services.

Carol Crane has been executive director of ENS for two years. She has developed a well-functioning organization able to meet most requests for service that come from some local doctors and from the discharge officers at local hospitals. Some business also comes by self-referral—the client finds the ENS name in the Yellow Pages of the local phone directory.

The last two years have been a rebuilding time—because the previous director had personnel problems. This led to a weakening of the agency's image with the local referring agencies. Now the image is more positive. But Carol is not completely satisfied with the situation. By definition, Expert Nursing Services is a nonprofit organization. But it still must cover all its costs: payroll, rent payments, phone expenses, and so on, including Carol's own salary. She can see that while ENS is growing slightly and is now breaking even, it doesn't have much of a cash cushion to fall back on if (1) the demand for ENS nursing services declines, (2) the government changes its rules about paying for ENS' kind of nursing services, either cutting back what it will pay for or reducing the amount it will pay for specific services, or (3) new competitors enter the market. In fact, the last possibility concerns Carol greatly. Some hospitals, squeezed for revenue, are expanding into home health care—especially nursing services as patients are being released earlier from hospitals because of payment limits set by government guidelines. For-profit organizations (e.g., Kelly Home Care Services) are expanding around the country to provide a complete line of home health care services—including nursing services of the kind offered by ENS. These for-profit organizations appear to be efficiently run—offering good service at competitive and sometimes even lower prices than some nonprofit organizations. And they seem to be doing this at a profit—which suggests that it would be possible for these for-profit companies to lower their prices if nonprofit organizations try to compete on price.

Carol is considering whether she should ask her board of directors to let her offer a complete line of home health care services—that is, move beyond just nursing services into what she calls "care and comfort" services.

Currently, ENS is primarily concerned with providing professional nursing care in the home. But ENS nurses are much too expensive for routine home health care activities—helping fix meals, bathing and dressing patients, and other care and comfort activities. The full cost of a nurse to ENS, including benefits and overhead, is about $65 per hour. But a registered nurse is not needed for care and comfort services. All that is required is someone who is honest, can get along with all kinds of people, and is willing to do this kind of work. Generally, any mature person can be trained fairly quickly to do the job—following the instructions and under the general supervision of a physician, a nurse, or family members. The full cost of aides is $8 to $15 per hour for short visits and as low as $65 per 24 hours for a live-in aide who has room and board supplied by the client.

The demand for all kinds of home health care services seems to be growing. With more dual-career families and more single-parent households, there isn't anyone in the family to take over home health care when the need arises—due to emergencies or long-term disabilities. Further, hospitals send patients home earlier than in the past. And with people living longer, there are more single-survivor family situations where there is no one nearby to take care of the needs of these older people. But often some family members—or third-party payers such as the government or insurers—are willing to pay for some home health care services. Carol now occasionally recommends other agencies or suggests one or another of three women who have been doing care and comfort work on their own, part-time. But with growing demand, Carol wonders if ENS should get into this business, hiring aides as needed.

Carol is concerned that a new, full-service home health care organization may come into her market and be a single source for both nursing services *and* less-skilled home care and comfort services. This has happened already in two nearby but somewhat larger cities. Carol fears that this might be more appealing than ENS to the local hospitals and other referrers. In other words, she can see the possibility of losing nursing service business if ENS does not begin to offer a complete home health care service. This would cause real problems for ENS—because overhead costs are more or less fixed. A loss in revenue of as little as 10 percent would require some cutbacks—perhaps laying off some nurses or secretaries, giving up part of the office, and so on.

Another reason for expanding beyond nursing services—using paraprofessionals and relatively unskilled personnel—is to offer a better service to present customers *and* make more effective use of the computer systems and organization structure that she has developed over the last two years. Carol estimates that the administrative and office capabilities could handle twice as many clients without straining the system. It would be necessary to add some clerical help—if the expansion were quite large—as well as expanding the hours when the switchboard is open. But these increases in overhead would be minor compared to the present proportion of total revenue that goes to covering overhead. In other words, additional clients or more work for some clients could increase revenue and ensure the survival of ENS, provide a cushion to cover the normal fluctuations in demand, and ensure more job security for the administrative personnel.

Further, Carol thinks that if ENS were successful in expanding its services—and therefore could generate some surplus—it could extend services to those who aren't now able to pay. Carol says one of the worst parts of her job is refusing service to clients whose third-party benefits have run out or for whatever reason can no longer afford to pay. She is uncomfortable about having to cut off service, but she must schedule her nurses to provide revenue-producing services if she's going to meet the payroll every two weeks. By expanding to provide more services, she might be able to keep serving more of these nonpaying clients. This possibility excites Carol because her nurse's training has instilled a deep desire to serve people in need—whether they can pay or not. This continual pressure to cut off service because people can't pay has been at the root of many disagreements and even arguments between the nurses serving the clients and Carol, as executive director and representative of the board of directors.

Carol knows that expanding into care and comfort services won't be easy. Some decisions would be needed about relative pay levels for nurses, paraprofessionals, and aides. ENS would also have to set prices for these different services and tell the present customers and referral agencies about the expanded services.

These problems aren't bothering Carol too much, however—she thinks she can handle them. She is sure that care and comfort services are in demand and could be supplied at competitive prices.

Her primary concern is whether this is the right thing for Expert Nursing Services—basically a nursing organization—to do. ENS' whole history has been oriented to supplying *nurses' services*. Nurses are dedicated professionals who bring high standards to any job they undertake. The question is whether ENS should offer less-professional services. Inevitably, some of the aides will not be as dedicated as the nurses might like them to be. And this could reflect unfavorably on the nurse image. At a minimum, she would need to set up some sort of training program for the aides. As Carol worries about the future of ENS, and her own future, it seems that there are no easy answers.

Evaluate ENS' present strategy. What should Carol Crane do? Explain.

32 Lever, Ltd.*

Alan Cooke is product manager for Guard Deodorant Soap. He was just transferred to Lever, Ltd., a Canadian subsidiary of Lever Group, Inc., from world headquarters in New York. Alan is anxious to make a good impression because he is hoping to transfer to Lever's London office. He is working on developing and securing management approval of next year's marketing plan for Guard. His first job is submitting a draft marketing plan to Wendy Lee, his recently appointed group

*Adapted from a case prepared by Daniel Aronchick, who at the time of its preparation was marketing manager at Thomas J. Lipton, Limited.

Table 1 Past 12-Month Share of Bar Soap Market (percent)

	Maritimes	Quebec	Ontario	Manitoba/Saskatchewan	Alberta	British Columbia
Deodorant segment						
Zest	21.3%	14.2%	24.5%	31.2%	30.4%	25.5%
Dial	10.4	5.1	12.8	16.1	17.2	14.3
Lifebuoy	4.2	3.1	1.2	6.4	5.8	4.2
Guard	2.1	5.6	1.0	4.2	4.2	2.1
Beauty bar segment						
Camay	6.2	12.3	7.0	4.1	4.0	5.1
Lux	6.1	11.2	7.7	5.0	6.9	5.0
Dove	5.5	8.0	6.6	6.3	6.2	4.2
Lower-priced bars						
Ivory	11.2	6.5	12.4	5.3	5.2	9.0
Sunlight	6.1	3.2	8.2	4.2	4.1	8.0
All others (including stores' own brands)	26.9	30.8	18.6	17.2	16.0	22.6
Total bar soap market	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

product manager, who is responsible for several such plans from product managers like Alan.

Alan's marketing plan is the single most important document he will produce on this assignment. This annual marketing plan does three main things:

1. It reviews the brand's performance in the past year, assesses the competitive situation, and highlights problems and opportunities for the brand.
2. It spells out marketing strategies and the plan for the coming year.
3. Finally, and most importantly, the marketing plan sets out the brand's sales objectives and advertising/promotion budget requirements.

In preparing this marketing plan, Alan gathered the information in Table 1.

Alan was somewhat surprised at the significant regional differences in the bar soap market:

1. The underdevelopment of the deodorant bar segment in Quebec, with a corresponding overdevelopment of the beauty bar segment. But some past research suggested that this is due to cultural factors—English-speaking people have been more interested than others in cleaning, deodorizing, and disinfecting. A similar pattern is seen in most European countries, where the adoption of deodorant soaps has been slower than in North America. For similar reasons, the perfumed soap share is highest in French-speaking Quebec.
2. The overdevelopment of synthetic bars in the Prairies. These bars, primarily in the deodorant segment, lather better in the hard water of the Prairies. Nonsynthetic bars lather very poorly in hard-water areas and leave a soap film.
3. The overdevelopment of the "all-other" segment in Quebec. This segment, consisting of smaller brands, fares better in Quebec, where 43 percent of the grocery trade is done by independent stores. Conversely, large chain grocery stores dominate in Ontario and the Prairies.

Alan's brand, Guard, is a highly perfumed deodorant bar. His business is relatively weak in the key Ontario market. To confirm this share data, Alan calculated consumption of Guard per thousand people in each region (see Table 2).

These differences are especially interesting since per capita sales of all bar soap products are roughly equal in all provinces.

A consumer attitude and usage research study was conducted approximately a year ago. This study revealed that consumer "top-of-mind" awareness of the Guard brand differed greatly across Canada. This was true despite the even—by population—expenditure of advertising funds in past years. Also, trial of Guard was low in the Maritimes, Ontario, and British Columbia (see Table 3).

Table 2 Standard Cases of 3-Ounce Bars Consumed per 1,000 People in 12 Months

	Maritimes	Quebec	Ontario	Manitoba/ Saskatchewan	Alberta	British Columbia
Guard	4.1	10.9	1.9	8.1	4.1	6.2
Sales index	66	175	31	131	131	100

Table 3 Usage Results (in percent)

	Maritimes	Quebec	Ontario	Manitoba/ Saskatchewan	Alberta	British Columbia
Respondents aware of Guard	20%	58%	28%	30%	32%	16%
Respondents ever trying Guard	3	18	2	8	6	4

The attitude portion of the research revealed that consumers who had heard of Guard were aware that its deodorant protection came mainly from a high fragrance level. This was the main selling point in the copy, and it was well communicated by Guard's advertising. The other important finding was that consumers who had tried Guard were satisfied with the product. About 70 percent of those trying Guard had repurchased the product at least twice.

Alan has also discovered that bar soap competition is especially intense in Ontario. It is Canada's largest market, and many competitors want a share of it. The chain stores are also quite aggressive in promotion and pricing—offering specials, in-store coupons, and so on. They want to move goods. And because of this, two key Ontario chains have put Guard on their pending delisting sheets. These chains, which control about half the grocery volume in Ontario, are dissatisfied with how slowly Guard is moving off the shelves.

Now Alan feels he is ready to set a key part of the brand's marketing plan for next year: how to allocate the advertising/sales promotion budget by region.

Guard's present advertising/sales promotion budget is 20 percent of sales. With forecast sales of $4 million, this would amount to an $800,000 expenditure. Traditionally such funds have been allocated in proportion to population (see Table 4).

Alan feels he should spend more heavily in Ontario where the grocery chain delisting problem exists. Last year, 36 percent of Guard's budget was allocated to Ontario, which accounted for only 12 percent of Guard's sales. Alan wants to increase Ontario spending to 48 percent of the total budget by taking funds evenly from all other areas. Alan expects this will increase business in the key Ontario market, which has over a third of Canada's population, because it is a big increase and will help Guard "outshout" the many other competitors who are promoting heavily.

Alan presented this idea to Wendy, his newly appointed group product manager. Wendy strongly disagrees. She has also been reviewing Guard's business and feels that promotion funds have historically been misallocated. It is her strong belief that, to use her words, "A brand should spend where its business is." Wendy believes that the first priority in allocating funds regionally is to support the areas of strength. She suggested to Alan that there may be more business to be had in the brand's strong areas, Quebec and the Prairies, than in chasing sales in Ontario. The needs and attitudes toward Guard, as well as competitive pressures, may vary a lot among the provinces. Therefore, Wendy suggested that spending for Guard in the coming year be proportional to the brand's sales by region rather than to regional population.

Alan is convinced this is wrong, particularly in light of the Ontario situation. He asked Wendy how the Ontario market should be handled. Wendy said that the conservative way to build business in Ontario is to invest incremental promotion funds. However, before these incremental funds are invested, a test of this Ontario investment proposition should be conducted. Wendy recommended that some of the Ontario money should be used to conduct an investment-spending market test in a small area or town in Ontario for 12 months. This will enable Alan to see if the incremental spending results in higher sales and profits—profits large enough to justify higher spending. In other words, an investment payout should be assured before spending any extra money in Ontario. Similarly, Wendy would do the same kind of test in Quebec—to see if more money should go there.

After several e-mails back and forth, Alan feels this approach would be a waste of time and unduly cautious, given the importance of the Ontario market and the likely delistings in two key chains.

Evaluate the present strategy for Guard and Alan's and Wendy's proposed strategies. How should the promotion money be allocated? Should investment-spending market tests be run first? Why? Explain.

Table 4 Allocation of Advertising/Sales Promotion Budget, by Population

	Maritimes	Quebec	Ontario	Manitoba/ Saskatchewan	Alberta	British Columbia	Canada
Percent of population	10%	27%	36%	8%	8%	11%	100%
Possible allocation of budget based on population (in 000s)	$80	$216	$288	$64	$64	$88	$800
Percent of Guard business at present	7%	51%	12%	11%	11%	8%	100%

33 Huntoon & Balbiera, P.C.

The partners of Huntoon & Balbiera are having a serious discussion about what the firm should do in the near future.

Huntoon & Balbiera, P.C. (H&B) is a large regional certified public accounting firm based in Grand Rapids, Michigan—with branch offices in Lansing and Detroit. Huntoon & Balbiera has nine partners and a professional staff of approximately 105 accountants. Gross service billings for the fiscal year ending June 30, 2001, were $6.9 million. Financial data for 1999, 2000, and 2001 are presented in Table 1.

H&B's professional services include auditing, tax preparation, bookkeeping, and some general management consulting. Its client base includes municipal governments (cities, villages, and townships), manufacturing companies, professional organizations (attorneys, doctors, and dentists), and various other small businesses. A good share of revenue comes from the firm's municipal practice. Table 1 gives H&B's gross revenue by service area and client industry for 1999, 2000, and 2001.

At the monthly partners' meeting held in July 2001, Pat Hogan, the firm's managing partner (CEO), expressed concern about the future of the firm's municipal practice. Hogan's presentation to his partners appears below:

> Although our firm is considered to be a leader in municipal auditing in our geographic area, I am concerned that as municipals attempt to cut their operating costs, they will solicit competitive bids from other public accounting firms to perform their annual audits. Four of the six largest accounting firms in the world have local offices in our area. Because they concentrate their practice in the manufacturing industry—which typically has December 31 fiscal year-ends—they have "available" staff during the summer months.
>
> Therefore, they can afford to low-ball competitive bids to keep their staffs busy and benefit from on-the-job training provided by municipal clientele. I am concerned that we may begin to lose clients in our most established and profitable practice area.*

Ann Yost, a senior partner in the firm and the partner in charge of the firm's municipal practice, was the first to respond to Pat Hogan's concern.

> Pat, we all recognize the potential threat of being underbid for our municipal work by our four large accounting competitors. However, H&B is a recognized leader in municipal auditing in Michigan, and we have much more local experience than our competitors. Furthermore, it is a fact that we offer a superior level of service to our clients—which goes beyond the services normally expected during an audit to include consulting on financial and other operating issues. Many of our less sophisticated clients depend on our nonaudit consulting assistance. Therefore, I believe, we have been successful in differentiating our services from our competitors. In many recent situations, H&B was selected over a field of as many as 10 competitors even though our proposed prices were much higher than those of our competitors.

Table 1 Fiscal Year Ending June 30

	2001	2000	1999
Gross billings	$6,900,000	$6,400,000	$5,800,000
Gross billings by service area:			
Auditing	3,100,000	3,200,000	2,750,000
Tax preparation	1,990,000	1,830,000	1,780,000
Bookkeeping	1,090,000	745,000	660,000
Other	720,000	625,000	610,000
Gross billings by client industry:			
Municipal	3,214,000	3,300,000	2,908,000
Manufacturing	2,089,000	1,880,000	1,706,000
Professional	1,355,000	1,140,000	1,108,000
Other	242,000	80,000	78,000

The partners at the meeting agreed with Ann Yost's comments. However, even though H&B had many success stories regarding their ability to retain their municipal clients—despite being underbid—they had lost three large municipal clients during the past year. Ann Yost was asked to comment on the loss of those clients. She explained that the lost clients are larger municipalities with a lot of in-house financial expertise and therefore less dependent on H&B's consulting assistance. As a result, H&B's service differentiation went largely unnoticed. Ann explained that the larger, more sophisticated municipals regard audits as a necessary evil and usually select the low-cost reputable bidder.

Pat Hogan then requested ideas and discussion from the other partners at the meeting. One partner, Joe Reid, suggested that H&B should protect itself by diversifying. Specifically, he felt a substantial practice development effort should be directed toward manufacturing. He reasoned that since manufacturing work would occur during H&B's off-season, H&B could afford to price very low to gain new manufacturing clients. This strategy would also help to counter (and possibly discourage) low-ball pricing for municipals by the four large accounting firms mentioned earlier.

Another partner, Bob LaMott, suggested that "if we have consulting skills, we ought to promote them more, instead of hoping that the clients will notice and come to appreciate us. Further, maybe we ought to be more aggressive in calling on smaller potential clients."

Another partner, John Smith, agreed with LaMott, but wanted to go further. He suggested that they recognize that there are at least two types of municipal customers and that two (at least) different strategies be implemented, including lower prices for auditing only for larger municipal customers and/or higher prices for smaller customers who are buying consulting too. This caused a big uproar from some who said this would lead to price-cutting of professional services and H&B didn't want to be price cutters: "One price for all is the professional way."

However, another partner, Megan Cullen, agreed with John Smith and suggested they go even further—pricing

*Organizations with December fiscal year-ends require audit work to be performed during the fall and in January and February. Those with June 30 fiscal year-ends require auditing during the summer months.

consulting services separately. In fact, she suggested that the partners consider setting up a separate department for consulting—like the four large accounting firms have done. This can be very profitable business. But it is a different kind of business and eventually may require different kinds of people and a different organization. For now, however, it may be desirable to appoint a manager for consulting services—with a budget—to be sure it gets proper attention. This suggestion too caused serious disagreement. Some of the partners knew that having a separate consulting arm had led to major conflicts in some firms. The main problem seemed to be that the consultants brought in more profit than the auditors, but the auditors controlled the partnership and did not properly reward the successful consultants—at least as they saw it!

Pat Hogan thanked everyone for their comments and encouraged them to debate these issues in smaller groups and to share ideas by e-mail before coming to a one-day retreat (in two weeks) to continue this discussion and come to some conclusions.

Evaluate Huntoon & Balbiera's situation. What strategy(ies) should the partners select? Why?

34 Aluminum Basics Co.*

Mark Parcells, newly hired VP of marketing for Aluminum Basics Co., is reviewing the firm's international distribution arrangements because they don't seem to be very well thought out. He is not sure if anything is wrong, but he feels that the company should follow a global strategy rather than continuing its current policies.

Aluminum Basics, based in Atlanta, Georgia, produces finished aluminum products, such as aluminum ladders, umbrella-type clothes racks, scaffolding, and patio tables and chairs that fold flat. Sales in 2001 reached $25 million—primarily to U.S. customers.

In 1997, Aluminum Basics decided to try foreign markets. The sales manager, Bonnie Pope, believed the growing affluence of European workers would help the company's products gain market acceptance quickly.

Bonnie's first step in investigating foreign markets was to join a trade mission to Europe—a tour organized by the U.S. Department of Commerce. This trade mission visited Italy, Germany, Denmark, Holland, France, and England. During this trip, Bonnie was officially introduced to leading buyers for department store chains, import houses, wholesalers, and buying groups. The two-week trip convinced Bonnie that there was ample buying power to make exporting a profitable opportunity.

On her return to Atlanta, Bonnie's next step was to obtain credit references for the firms she considered potential distributors. To those who were judged creditworthy, she sent letters expressing interest and samples, brochures, prices, and other relevant information.

The first orders were from a French wholesaler. Sales in this market totaled $70,000 in 1998. Similar success was achieved in Germany and England. Italy, on the other hand, did not produce any sales. Bonnie felt the semiluxury nature of the company's products and the lower incomes in Italy encouraged a "making do" attitude rather than purchase of goods and services that would make life easier.

In the United States, Aluminum Basics distributes through fairly aggressive and well-organized merchant hardware distributors and buying groups, such as cooperative and voluntary hardware chains, which have taken over much of the strategy planning for cooperating producers and retailers. In its foreign markets, however, there is no recognizable pattern. Channel systems vary from country to country. To avoid mixing channels of distribution, Aluminum Basics has only one account in each country. The chosen distributor is the exclusive distributor.

In France, Aluminum Basics distributes through a wholesaler based in Paris. This wholesaler has five salespeople covering the country. The firm specializes in small housewares and has contacts with leading buying groups, wholesalers, and department stores. Bonnie is impressed with the firm's aggressiveness and knowledge of merchandising techniques.

In Germany, Aluminum Basics sells to a Hamburg-based buying group for hardware wholesalers throughout the country. Bonnie felt this group would provide excellent coverage of the market because of its extensive distribution network.

In Denmark, Aluminum Basics' line is sold to a buying group representing a chain of hardware retailers. This group recently expanded to include retailers in Sweden, Finland, and Norway. Together this group purchases goods for about 500 hardware retailers. The buying power of Scandinavians is quite high, and it is expected that Aluminum Basics' products will prove very successful there.

In the United Kingdom, Aluminum Basics uses an importer-distributor, who both buys on his own account and acts as a sales agent. This firm sells to department stores and hardware wholesalers. This firm has not done very well overall, but it has done very well with Aluminum Basics' line of patio tables and chairs.

Australia is handled by an importer who operates a chain of discount houses. It heard about Aluminum Basics from a United Kingdom contact. After extensive e-mailing, this firm discovered it could land aluminum patio furniture in Melbourne at prices competitive with Japanese imports. So it started ordering because it wanted to cut prices in a high-priced garden furniture market.

The Argentina market is handled by an American who came to the United States from Buenos Aires in search of new lines. Aluminum Basics attributes success in Argentina to the efforts of this aggressive and capable agent. He has built a sizable trade in aluminum ladders.

In Trinidad and Jamaica, Aluminum Basics' products are handled by traders who carry such diversified lines as insurance, apples, plums, and fish. They have been successful in selling aluminum ladders. This business grew out of inquiries sent to the U.S. Department of Commerce and in researching its website (www.doc.gov), which Bonnie Pope followed up by mail.

Bonnie Pope's export policies for Aluminum Basics are as follows:

1. Product: No product modifications will be made in selling to foreign customers. This may be considered later after a substantial sales volume develops.

*Adapted from a case written by Professor Peter Banting, McMaster University, Canada.

2. Price: The company does not publish suggested list prices. Distributors add their own markup to their landed costs. Supply prices will be kept as low as possible. This is accomplished by *(a)* removing advertising expenses and other strictly domestic overhead charges from price calculations, *(b)* finding the most economical packages for shipping (smallest volume per unit), and *(c)* bargaining with carriers to obtain the lowest shipping rates possible.
3. Promotion: The firm does no advertising in foreign markets. Brochures and sales literature already being used in the United States are supplied to foreign distributors, who are encouraged to adapt them or create new materials as required. Aluminum Basics will continue to promote its products by participating in overseas trade shows. These are handled by the sales manager. All inquiries are forwarded to the firm's distributor in that country.
4. Distribution: New distributors will be contacted through foreign trade shows. Bonnie Pope considers large distributors desirable. She feels, however, that they are not as receptive as smaller distributors to a new, unestablished product line. Therefore, she prefers to appoint small distributors. Larger distributors may be appointed after the company has gained a strong consumer franchise in a country.
5. Financing: Aluminum Basics sees no need to provide financial help to distributors. The company views its major contribution as providing good products at the lowest possible prices.
6. Marketing and planning assistance: Bonnie Pope feels that foreign distributors know their own markets best. Therefore, they are best equipped to plan for themselves.
7. Selection of foreign markets: The evaluation of foreign market opportunities for the company's products is based primarily on disposable income and lifestyle patterns. For example, Bonnie fails to see any market in North Africa for Aluminum Basics' products, which she thinks are of a semiluxury nature. She thinks that cheaper products such as wood ladders (often homemade) are preferred to prefabricated aluminum ladders in regions such as North Africa and Southern Europe. Argentina, on the other hand, she thinks is a more highly industrialized market with luxury tastes. Thus, Bonnie sees Aluminum Basics' products as better suited for more highly industrialized and affluent societies.

Evaluate Aluminum Basics' present foreign markets strategies. Should it develop a global strategy? What strategy or strategies should Mark Parcells (the new VP of marketing) develop? Explain.

35 Romano's Take-Out, Inc.

Angelina Cello, manager of the Romano's Take-Out store in Flint, Michigan, is trying to develop a plan for the "sick" store she just took over.

Romano's Take-Out, Inc. (RT) is an owner-managed pizza take-out and delivery business with three stores located in Ann Arbor, Southfield, and Flint, Michigan. RT's business comes from telephone or walk-in orders. Each RT store prepares its own pizzas. In addition to pizzas, RT also sells and delivers a limited selection of soft drinks.

RT's Ann Arbor store has been very successful. Much of the store's success may be due to being close to the University of Michigan campus. Most of these students live within five miles of RT's Ann Arbor store.

The Southfield store has been moderately successful. It serves mostly residential customers in the Southfield area—a largely residential suburb of Detroit. Recently, the store advertised—using direct-mail flyers—to several office buildings within three miles of the store. The flyers described RT's willingness and ability to cater large orders for office parties, business luncheons, and so on. The promotion was quite successful. With this new program and RT's solid residential base of customers in Southfield, improved profitability at the Southfield location seems assured.

RT's Flint location has had mixed results during the last three years. The Flint store has been obtaining only about half of its orders from residential delivery requests. The Flint store's new manager, Angelina Cello, believes the problem with residential pizza delivery in Flint is due to the location of residential neighborhoods in the area. Flint has several large industrial plants (mostly auto industry related) located throughout the city. Small, mostly factory-worker neighborhoods are distributed in between the various plant sites. As a result, RT's store location can serve only two or three of these neighborhoods on one delivery run. Competition is also relevant. RT has several aggressive competitors who advertise heavily, distribute cents-off coupons, and offer 2-for-1 deals. This aggressive competition is probably why RT's residential sales leveled off in the last year or so. And this competitive pressure seems likely to continue as some of this competition comes from aggressive national chains that are fighting for market share and squeezing little firms like Romano's Take-Out. For now, anyway, Angelina feels she knows how to meet this competition and hold on to the present sales level.

Most of the Flint store's upside potential seems to be in serving the large industrial plants. Many of these plants work two or three shifts, five days a week. During each work shift, workers are allowed one half-hour lunch break—which usually occurs at 11 AM, 8 PM, or 2:30 AM, depending on the shift.

Generally, a customer will phone or fax from a plant about 30 minutes before a scheduled lunch break and order several (5 to 10) pizzas for a work group. RT may receive many orders of this size from the same plant (i.e., from different groups of workers). The plant business is very profitable for several reasons. First, a large number of pizzas can be delivered at the same time to the same location, saving transportation costs. Second, plant orders usually involve many different toppings (double cheese, pepperoni, mushrooms, hamburger) on each pizza. This results in $11 to $14 revenue per pizza. The delivery drivers also like delivering plant orders because the tips are usually $1 to $2 per pizza.

Despite the profitability of the plant orders, several factors make it difficult to serve the plant market. RT's store is located 5 to 8 minutes from most of the plant sites, so RT's staff must prepare the orders within 20 to 25 minutes after it receives the telephone order. Often, inadequate staff and/or oven capacity means it is impossible to get all the orders heated at the same time.

Table 1 Practical Capacities and Sales Potential of Current Equipment and Personnel

	11 AM Break	8 PM Break	2:30 AM Break	Daily Totals
Current capacity (pizzas)	48	48	48	144
Average selling price per unit	$ 12.50	$ 12.50	$ 12.50	$ 12.50
Sales potential	$600	$600	$600	$1,800
Variable cost (approximately 40 percent of selling price)*	240	240	240	720
Contribution margin of pizzas	360	360	360	1,080
Beverage sales (2 medium-sized beverages per pizza ordered at 75¢ a piece)†	72	72	72	216
Cost of beverages (30% per beverage)	22	22	22	66
Contribution margin of beverages	50	50	50	150
Total contribution of pizza and beverages	$410	$410	$410	$1,230

*The variable cost estimate of 40% of sales includes variable costs of delivery to plant locations.

†Amounts shown are not physical capacities (there is almost unlimited physical capacity), but potential sales volume is constrained by number of pizzas that can be sold.

Generally, plant workers will wait as long as 10 minutes past the start of their lunch break before ordering from various vending trucks that arrive at the plant sites during lunch breaks. (Currently, no other pizza delivery stores are in good positions to serve most plant locations and/or have chosen to compete.) But there have been a few instances when workers refused to pay for pizzas that were only five minutes late! Worse yet, if the same work group gets a couple of late orders, they are lost as future customers. Angelina Cello believes that the inconsistent profitability of the Flint store is partly the result of such lost customers.

In an effort to rebuild the plant delivery business, Angelina is considering various methods to ensure prompt customer delivery. She thinks that potential demand during lunch breaks is significantly above RT's present capacity. Angelina also knows that if she tries to satisfy all phone or fax orders on some peak days, she won't be able to provide prompt service and may lose more plant customers.

Angelina has outlined three alternatives that may win back some of the plant business for the Flint store. She has developed these alternatives to discuss with RT's owner. Each alternative is briefly described below:

Alternative 1: Determine practical capacities during peak volume periods using existing equipment and personnel. Accept orders only up to that capacity and politely decline orders beyond. This approach will ensure prompt customer service and high product quality. It will also minimize losses resulting from customers' rejection of late deliveries. Financial analysis of this alternative—shown in Table 1—indicates that a potential daily contribution to profit of $1,230 could result if this alternative is implemented successfully. This would be profit before promotion costs, overhead, and net profit (or loss). Note: Any alternative will require several thousand dollars to reinform potential plant customers that Romano's Take-Out has improved its service and "wants your business."

Alternative 2: Add additional equipment (one oven and one delivery car) and hire additional staff to handle peak loads. This approach would ensure timely customer delivery and high product quality as well as provide additional capacity to handle unmet demand. Table 2 is a conservative estimate of potential daily demand for plant orders compared to current capacity and proposed increased capacity. Table 3 gives the cost of acquiring the additional equipment and relevant information related to depreciation and fixed costs.

Table 2 Capacity and Demand for Plant Customer Market

	Estimated Daily Demand	Current Daily Capacity	Proposed Daily Capacity
Pizza units (1 pizza)	320	144	300

Table 3 Cost of Required Additional Assets

	Cost	Estimated Useful Life	Salvage Value	Annual Depreciation*	Daily Depreciation†
Delivery car (equipped with pizza warmer)	$11,000	5 years	$1,000	$2,000	$5.71
Pizza oven	$20,000	8 years	$2,000	$2,250	$6.43

*Annual depreciation is calculated on a straight-line basis.

†Daily depreciation assumes a 350-day (plant production) year. All variable expenses related to each piece of equipment (e.g., utilities, gas, oil) are included in the variable cost of a pizza.

Using this alternative, the following additional pizza preparation and delivery personnel costs would be required:

	Hours Required	Cost per Hour	Total Additional Daily Cost
Delivery personnel	6	6	$36.00
Preparation personnel	8	6	48.00
			$84.00

The addition of even more equipment and personnel to handle all unmet demand was not considered in this alternative because the current store is not large enough.

Alternative 3: Add additional equipment and personnel as described in alternative 2, but move to a new location that would reduce delivery lead times to two to five minutes. This move would probably allow RT to handle all unmet demand—because the reduction in delivery time will provide for additional oven time. In fact, RT might have excess capacity using this approach.

A suitable store is available near about the same number of residential customers (including many of the store's current residential customers). The available store is slightly larger than needed. And the rent is higher. Relevant cost information on the proposed store appears below:

Additional rental expense of proposed store over current store	$ 1,600 per year
Cost of moving to new store (one-time cost)	$16,000

Angelina Cello presented the three alternatives to RT's owner, Romano Marino. Romano was pleased that Angelina had done her homework. He decided that Angelina should make the final decision on what to do (in part because she had a profit-sharing agreement with Romano) and offered the following comments and concerns:

1. Romano agreed that the plant market was extremely sensitive to delivery timing. Product quality and pricing, although important, were of less importance.
2. He agreed that plant demand estimates were conservative. "In fact, they may be 10 to 30 percent low."
3. Romano expressed concern that under alternative 2, and especially under alternative 3, much of the store's capacity would go unused over 80 percent of the time.
4. He was also concerned that RT's store had a bad reputation with plant customers because the prior store manager was not sensitive to timely plant delivery. So Romano suggested that Angelina develop a promotion plan to improve RT's reputation in the plants and be sure that everyone knows that RT has improved its delivery service.

Evaluate Angelina's possible strategies for the Flint store's plant market. What should Angelina do? Why? Suggest possible promotion plans for your preferred strategy.

Computer-Aided Problems

Guide to the Use of the Computer-Aided Problems

Computer-Aided Problem Solving

Marketing managers are problem solvers who must make many decisions. Solving problems and making good decisions usually involves analysis of marketing information. Such information is often expressed in numbers—like costs, revenues, prices, and number of customers or salespeople. Most marketing managers use a computer to help keep track of the numbers and speed through tedious calculations. The computer can also make it easier to look at a problem from many different angles—for example, to see how a change in the sales forecast might impact expected sales revenue, costs, and profit.

The computer can only take a manager so far. The manager is the one who puts it all together—and it still takes skill to decide what the information means. The computer-aided problems at the end of the chapters in this text were specially developed by the authors to help you develop this skill. To work on the problems, you use the computer-aided problem (CAP) software that is included on the *Student CD-ROM to Accompany Basic Marketing* shrinkwrapped with this text.

The problems are short descriptions of decisions faced by marketing managers. Each description includes information to help make the decision. With each problem there are several questions for you to answer. Further, the *Learning Aid for Use with Basic Marketing* includes additional questions related to each problem.

Although you will use the computer program to do an analysis, most problems ask you to indicate what decision you would make and why. Thus, in these problems—as in the marketing manager's job—the computer is just a tool to help you make better decisions.

Each problem focuses on one or more of the marketing decision areas discussed in the corresponding chapter. The earlier problems require less marketing knowledge and are simpler in terms of the analysis involved. The later problems build on the principles already covered in the text. The problems can be used in many ways. And the same problem can be analyzed several times for different purposes. Although it is not necessary to do all of the problems or to do them in a particular order, you will probably want to start with the first problem. This practice problem is simpler than the others. In fact, you could do the calculations quite easily without a computer. But this problem will help you see how the program works and how it can help you solve the more complicated problems that come later.

Spreadsheet Analysis of Marketing Problems

Marketing managers often use spreadsheet analysis to evaluate their alternatives—and the program for the computer-aided problems does computerized spreadsheet analysis. In spreadsheet analysis, costs, revenue, and other data related to a marketing problem are organized into a data table—a spreadsheet. The spreadsheet analysis allows you to change the value of one or more of the variables in the data table—to see how each change affects the value of other variables. This is possible because the relationships among the variables are already programmed into the computer. You do not need to do any programming. Let's look at an overly simple example.

You are a marketing manager interested in the total revenue that will result from a particular marketing strategy. You are considering selling your product at $10.00 per unit. You expect to sell 100 units. In our CAP analysis, this problem might be shown in a (very simple) spreadsheet that looks like this:

Variable	Value
Selling price	$10.00
Units sold	100
Total revenue	$1,000.00

There is only one basic relationship in this spreadsheet: Total revenue is equal to the selling price multiplied by the number of units sold. If that relationship has been programmed into the computer (as it is in these problems), you can change the selling price or the number of units you expect to sell, and the program will automatically compute the new value for total revenue.

But now you can ask questions like: What if I raise the price to $10.40 and still sell 100 units? What will happen to total revenue? To get the answer, all you have to do is enter the new price in the spreadsheet, and the program will compute the total revenue for you.

You may also want to do many "what-if" analyses—for example, to see how total revenue changes over a range of prices. Spreadsheet analysis allows you to do this quickly and easily. For instance, if you want to see what happens to total revenue as you vary the price between some minimum value (say, $8.00) and a maximum value (say, $12.00), the program will provide the results table for a what-if analysis showing total revenue for 11 different prices in the range from $8.00 to $12.00.

In a problem like this—with easy numbers and a simple relationship between the variables—the spreadsheet does not do that much work for you. You could do it in your head. But with more complicated problems, the spreadsheet makes it very convenient to more carefully analyze different alternatives or situations.

Using the Program

You don't have to know about computers or using a spreadsheet to use the computer-aided problems program. It was designed to be easy to learn and use. The Help button will give you more detailed information if you need it. But it's best to just try things out to see how it works. A mistake won't hurt anything.

You're likely to find that it's quicker and easier to just use the program than it is to read the instructions—especially if you've used a Windows program before. So you may want to go ahead and install the CD-ROM on your own computer and try the practice problem now. Check the label on the CD-ROM for instructions about how to install the software. It takes just a few minutes and there's nothing to it.

The Spreadsheet Is Easy to Use

The spreadsheet software is very easy to use and specifically designed for the computer-aided problems. Like the other software on the Student CD-ROM, it follows conventions that are standard to browser programs (like Microsoft Internet Explorer or Netscape Navigator). If you have used a browser to surf the Internet, using this will be the same. Even if you have not used a browser or other Windows software before, using this program will make it easy for you to learn. However, if you want more general information about using Microsoft Windows software, you can review the Help file or tutorial that comes with the Windows operating system.

As with other browser-based programs, you typically use a mouse to move around in the program and select options. When you move the mouse, the cursor (which appears on your screen as an arrow) also moves. If you move the mouse so that the cursor is over one of the options on the screen and quickly press and release the left button on the mouse, the program will perform the action associated with that option. This process of using the mouse to position the cursor and then quickly pressing and releasing the left button is called "clicking" or "selecting." In these instructions, we'll refer to this often. For example, we'll say things like "click the Results button" or "select a problem from the list."

Let's use the first problem to illustrate how the program works.

Start by selecting a problem

When you start the *Basic Marketing* CD-ROM software, the first screen displayed is a home page with the title of the book and various options. Click on the label that says CAPs (short for computer-aided problems).

The computer-aided problem page will appear, and you will see a small window in the upper-left corner with the phrase "Choose a problem by clicking on the arrow." When you click the small arrow to the right of that label, a drop-down list of problems will appear. Select the problem you want to work (in this case, select the first one, "Revenue, Cost, and Profit Relationships").

Note: When you first select a problem, be patient while the program loads. It may take a minute or so. Once the program has loaded, calculations are immediate.

Once you select a problem, the problem description window appears. This is simply a convenient reminder of the problem description found in this text. (The assignment questions for each problem are in this book, so it's useful to have your book with you at the computer when you're working on a problem.)

Across the top of the box in which the problem description appears you will see buttons labeled Description, Spreadsheet, Results, Graph, and Calculator. After you've reviewed the problem description, click the Spreadsheet button.

Each spreadsheet consists of one or two columns of numbers. Each column and row is labeled. Look at the row and column labels carefully to see what variable is represented by the value (number) in the spreadsheet. Study the layout of the spreadsheet, and get a feel for how it organizes the information from the problem description. The spreadsheet displays the starting values for the problem. Keep in mind that sometimes the problem description does not provide as much detail about the starting values as is provided in the spreadsheet.

You will see that some of the values in the spreadsheet appear in a highlighted edit box. These are usually values related to the decision variables in the problem you are solving. You can change any value (number) that appears in one of these boxes. When you make a change, the rest of the values (numbers) in that column are recalculated to show how a change in the value of that one variable affects the others. Think about how the numbers relate to each other.

Making changes in values is easy. When the spreadsheet first appears your cursor appears as a free-floating arrow; however, when you pass the cursor over the box for the value that you want to change the cursor changes to the shape of an I-beam. When you click on the value in that box you can change it. Or to move the cursor to a value in a different box, just click on that box.

When you have selected the box with the value (number) you want to change, there are different ways to type in your new number. A good approach is to position the I-beam cursor before the first digit, and while depressing the mouse button drag the cursor across all of the digits in the number. This will highlight the entire number. Then simply type in the new number and the old one will be replaced. Alternatively, you can use other keys to edit the number. For example, you can use the backspace key to erase digits to the left of the I-beam cursor; similarly, you can use the Del key to erase digits to the right of the cursor. Or you can use the arrow keys to move the cursor to the point where you want to change part of a number. Then you just type in your change. You may want to experiment to see which of these editing approaches you like the best.

When you are finished typing the new number, press the Enter key and the other values in the spreadsheet will be recalculated to show the effect of your new value. Similarly, the other numbers will recalculate if you click on a different box after you have entered a number.

When you are typing numbers into the edit boxes, you'll probably find it most convenient to type the numbers and the decimal point with the keys on the main part of the keyboard (rather than those on the cursor control pad). For example, a price of one thousand dollars and 50 cents would be typed as 1000.50 or just 1000.5—using the number keys on the top row of the keyboard and the period key for the decimal point. *Do not type in the dollar sign or the commas to indicate thousands*. Be careful not to type the letters o or l (lowercase L) instead of the numbers 0 or 1.

Typing percent values is a possible point of confusion—since there are different ways to think about a percent. For example, "ten and a half" percent might be represented by 10.5 or .105. To avoid confusion, the program always expects you to enter percents using the first approach—which is the way percents are discussed in the problems. Thus, if you want to enter the value for ten and a half percent you would type 10.5.

To help prevent errors, each problem is programmed with a set of permitted values for each boxed field. After you click on a specific edit box, the range of permitted values is shown in the line at the bottom left corner of the spreadsheet window. It may be useful to explain what we mean by "permitted values." For example, if you accidentally type a letter when the computer program expects a number, the entry will turn red and what you typed will not be accepted. Further, the program won't allow you to enter a new value for a variable that is outside of a permitted range of values.

For example, if you try to type −10.00 as the price of a product, the entry will turn red. (It doesn't make sense to set the price as a negative number!) If you make an error, check what range of values is permitted—and then retype a new number that is in the permitted range, and press the Enter key to recompute the spreadsheet. When you have entered a permitted value, the value will no longer appear in red.

Remember that a value on the spreadsheet stays changed until you change it again. Some of the questions that accompany the problems ask you to evaluate results associated with different sets of values. It's good practice to check that you have entered all the correct values on a spreadsheet before interpreting the results.

In addition to changing values (numbers) on the spreadsheet itself, there are other options on the spreadsheet menu bar. If you click the Print button, the current spreadsheet will be printed—assuming of course that a graphics printer is properly hooked up to your computer and that it is configured for Windows. *Before you select the Print option, make sure that the printer is turned on and loaded with paper.*

Click the Description button to go back and review the problem description—or you can use the drop-down list again to select another problem. If you click the Results button, a new window will appear that shows the results table for a what-if analysis.

Results of a what-if analysis

The Results button makes it easy for you to study in more detail the effect of changing the value of a particular variable. It systematically changes the value of one variable (which you select) and displays the effect that variable has on two other variables. You could do the same thing manually at the spreadsheet—by entering a value for a variable, checking the effect on other variables, and then repeating the process over and over again. But the manual approach is time-consuming and requires you to keep track of the results after each change. A what-if analysis does all this very quickly and presents the results table summary; you can also print or graph the results table if you wish.

Now let's take a step-by-step look at how you can get the exact what-if analysis that you want. The first step is to decide what variable (value) you want to vary and what result values you want to see in the results table.

You select the variables for your analysis by simply clicking the circle ("radio button") beside the number of interest. Click the radio button beside the value of the variable in an edit box that you want to vary. The radio button for the selected value is filled in. You can only select one variable to vary at a time. So if you want to vary some other variable, simply click on your new selection.

When you select a value to vary, the program computes a default "suggested" minimum value and maximum value for the range over which that variable may vary. The minimum value is usually 20 percent smaller than the value shown on the spreadsheet, and the maximum value is 20 percent larger. These default values are used as the minimum and maximum values to compute the results table for a what-if analysis (when you click the Results button).

You can also select the two variables that you want to display in the results table of the what-if analysis. Typically, you will want to display the results (computed values) for variables that will be affected by the variable you select to vary. Remember the example we used earlier. If you had specified that price was going to vary, you might want to display total revenue—to see how it changes at different price levels.

You select a variable to display in the same way that you select the variable you are going to vary. Simply click on the radio button beside a number on the spreadsheet that is not in an edit box. Then use this approach to select a second variable to be displayed in the results table. If you change your mind, you can click on the radio button for another variable. When you have completed this step, you will see a solid radio button next to the variable you chose to vary and solid radio buttons next to the two variables that you want to display.

Now you can let the computer take over. On the button bar at the top of the spreadsheet window, click the Results button and the results table for the what-if analysis will appear. Each row in the first column of the results table will show a different value for the variable you wanted to vary. The minimum value will be in the first row. The maximum value will be in the bottom row. Evenly spaced values between the minimum and maximum will be in the middle rows. The other columns show the calculated results for the values you selected to display. Each column of values is labeled at the top to identify the column and row from the spreadsheet. The row portion of the label is a short version of the label from the spreadsheet. The results are based on the values that were in the spreadsheet when you selected the Results button—except for the value you selected to vary.

After the results table is displayed, you have the option to type in your own minimum value and maximum values in the edit boxes below the results table. To do that, just use the same approach you use to enter new values in the spreadsheet. When you enter a new minimum or maximum, the results table will be updated based on the new range of values between the minimum and maximum you entered.

At this point you will want to study the results of your analysis. You can also print a copy of the results table by clicking the Print button. The button bar also shows other possibilities. For example, if you select the Spreadsheet button, the spreadsheet will reappear. The radio buttons will still show the values you selected in the previous analysis. From there you can make additional changes in the values in the spreadsheet, check the results table for a new what-if analysis, or select another problem to work. Or you can look at (and print) a graph of values in the results table for the what-if analysis.

Viewing a graph of your results

You can create a graph of values in the results table by clicking the Graph button. The horizontal axis for the graph will be the variable in the first column of the display. The vertical axis on the left side is based on the first variable you selected to display in the results table. The vertical axis on the right side of the graph is for the second variable. There will be a line on the graph that corresponds to each axis. When the graph is displayed, you can select the Print button to print a copy or you can go back to the spreadsheet and select other values to vary or select another column to graph.

What to do next

The next section gives additional tips on the program. You will probably want to look through it after you have done some work with the practice problem. For now, however, you're probably tired of reading instructions. So work a problem or two. It's easier and faster to use the program than to read about it. Give it a try, and don't be afraid to experiment. If you have problems, remember that the Help button is available when you need it.

Some Tips on Using the CAP Program

Resetting the spreadsheet to the initial values

The initial spreadsheet for each problem gives the "starting values" for the problem. While working a problem, you will often change one or more of the starting values to a new number. A changed value stays in effect—unless you change it again. This is a handy feature. But after you make several changes, you may not be able to remember the starting values. There is a simple solution—you can click the button to return to the home page, then click the CAPs label again, and reselect the problem you want. The spreadsheet will appear with the original set of starting values.

Checking the computer's calculations

Some values appear in the spreadsheet as whole numbers, and others appear with one or more digits to the right of a decimal point. For example, dollar values usually have two digits to the right of the decimal point—indicating how many cents are involved. A value indicating, say, number of customers, however, will appear as a whole number.

When you are doing arithmetic by hand, or with a calculator, you sometimes have to make decisions about how much detail is necessary. For example, if you divide 13 by 3 the answer is 4.33, 4.333, 4.3333, or perhaps 4.33333, depending on how important it is to be precise. Usually we round off the number to keep things manageable. Similarly, computers usually display results after rounding off the numbers. This has the potential to create confusion and seeming inaccuracy when many calculations are involved. If the computer uses a lot of detail in its calculations and then displays intermediate results after rounding off, the numbers may appear to be inconsistent. To illustrate this, let's extend the example above. If you multiply 4.33 times 2640, you get 11431.20. But if you multiply 4.333 by 2640, you get 11439.12. To make it easier for you to check relationships between the values on a spreadsheet, the CAP software does not use a lot of hidden detail in calculations. If it rounds off a number to display it in the spreadsheet, the rounded number is used in subsequent calculations. It would be easy for the computer to keep track of all of the detail in its calculations—but that would make it harder for you to check the results yourself. If you check the results on a spreadsheet (perhaps with the calculator provided) and find that your numbers are close but do not match exactly, it is probably because you are making different decisions about rounding than were programmed into the spreadsheet.

The software was designed and tested to be easy to use and error free. In fact, it is programmed to help prevent the user from making typing errors. But it is impossible to anticipate every possible combination of numbers you might enter—and some combinations of numbers can cause problems. For example, a certain combination of numbers might result in an instruction for the computer to divide a number by zero—which is a mathematical impossibility. When a problem of this sort occurs, the word ERROR will appear in the spreadsheet (or in the results table for the what-if analysis) instead of a number. If this happens, you should recheck the numbers in the spreadsheet and redo the analysis—to make certain that the numbers you typed in were what you intended. That should straighten out the problem in almost every case. Yet with any computer program there can be a hidden bug that only surfaces in unusual situations—or on certain computers. Thus, if you think you have found a bug, we would like to know so that we can track down the source of the difficulty.

Notes

Chapter 1

1. Eric H. Shaw, "A Review of Empirical Studies of Aggregate Marketing Costs and Productivity in the United States," *Journal of the Academy of Marketing Science,* Fall, 1990, pp. 285–92; Christopher H. Lovelock and Charles B. Weinberg, *Marketing for Public and Nonprofit Managers* (New York: John Wiley & Sons, 1984).

2. Gregory D. Upah and Richard E. Wokutch, "Assessing Social Impacts of New Products: An Attempt to Operationalize the Macromarketing Concept," *Journal of Public Policy and Marketing* 4 (1985), pp. 166–78.

3. Malcolm P. McNair, "Marketing and the Social Challenge of Our Times," in *A New Measure of Responsibility for Marketing,* ed. Keith Cox and Ben M. Enis (Chicago: American Marketing Association, 1968); John W. Barnes, "Marketing Exchange Relationships, Transactions, and Their Media," *Journal of the Academy of Marketing Science*, Winter 1996, pp. 79–80.

4. An American Marketing Association committee developed a similar—but more complicated—definition of marketing: "Marketing is the process of planning and executing conception, pricing, promotion, and distribution of ideas, goods, and services to create exchanges that satisfy individual and organizational objectives." See *Marketing News,* March 1, 1985, p. 1. See also Ernest F. Cooke, C. L. Abercrombie, and J. Michael Rayburn, "Problems With the AMA's New Definition of Marketing Offer Opportunity to Develop an Even Better Definition," *Marketing Educator,* Spring 1986, p. 1ff.

5. George Fisk, "Editor's Working Definition of Macromarketing," *Journal of Macromarketing* 2, no. 1 (1982), pp. 3–4; Shelby D. Hunt and John J. Burnett, "The Macromarketing/Micromarketing Dichotomy: A Taxonomical Model," *Journal of Marketing,* Summer 1982, pp. 11–26.

6. For an historical review of this topic see Robert W. Nason and Phillip D. White, "The Visions of Charles C. Slater: Social Consequences of Marketing," *Journal of Macromarketing* 1, no. 2 (1981), pp. 4–18.

7. "Russia's Middle Class," *Business Week,* October 16, 2000, pp. 78–85; "Capitalism in a Cold Climate," *Fortune*, June 12, 2000, pp. 195–216; "Special Report: Europe Ten Years Later . . . ," *Business Week,* November 8, 1999, pp. 56–88; "Glow Is Wearing Off in the East," *USA Today*, October 11, 1999, p. 1Aff.; "World Business: Ten Years Later," *The Wall Street Journal Reports,* September 27, 1999; "From Worry to Worse: Revisiting a Family in Russia 7 Years Later," *The Wall Street Journal,* September 28, 1998, p. A1ff.; "World Business: Playing the New Europe," *The Wall Street Journal Reports,* September 28, 1998. See also Stanislaw Gajewski, "Consumer Behavior in Economics of Shortage," *Journal of Business Research,* January 1992, pp. 5–10; Krystyna Iwinska-Knop, "Distribution as a Barrier to Application of Marketing in the Centrally Planned Economy (Case Study of Poland)," *Journal of Business Research,* January 1992, pp. 19–26; "Russia's New Capitalism," *Business Week,* October 10, 1994, pp. 68–80.

8. Victor V. Cordell, "Effects of Public Policy on Marketing," *Journal of Macromarketing,* Spring 1993, pp. 20–32; James M. Carman and Robert G. Harris, "Public Regulation of Marketing Activity, Part III: A Typology of Regulatory Failures and Implications for Marketing and Public Policy," *Journal of Macromarketing,* Spring 1986, pp. 51–64.

9. "Is The Digital Divide a Problem or an Opportunity," *Business Week* (Special Section), December 18, 2000; "Global Capitalism: Can It Be Made to Work Better?" *Business Week,* November 6, 2000, pp. 72–100; "It Takes a Cell Phone," *The Wall Street Journal,* June 25, 1999, p. B1ff.

10. "Who Will Profit from the Internet Agora?" *Business Week E.Biz,* June 5, 2000, pp. EB56–74; "First E-Shopping, Now E-Swapping," *The Wall Street Journal,* January 17, 2000, p. B1ff.

11. Clifford J. Shultz and Anthony Pecotich, "Marketing and Development in the Transition Economies of Southeast Asia: Policy Explication, Assessment, and Implications," *Journal of Public Policy & Marketing,* Spring 1997, pp. 55–68; Charles R. Taylor and Glenn S. Omura, "An Evaluation of Alternative Paradigms of Marketing and Economic Development, Part 1," *Journal of Macromarketing,* Fall 1994, pp. 6–20; Van R. Wood and Scott J. Vitell, "Marketing and Economic Development: Review, Synthesis and Evaluation," *Journal of Macromarketing* 6, no. 1 (1986), pp. 28–48.

12. "Making Sense of India," *Newsweek,* August 4, 1997, pp. 41–46; "In Rural India, Video Vans Sell Toothpaste and Shampoo," *The Wall Street Journal,* January 10, 1996, p. B1ff.

13. Available from World Wide Web: <http://www.odci.gov/cia/publications/factbook/geos>; "A Shrinking Trade Gap Looks Good Stateside," *Business Week,* May 7, 2001, pp. 35–36; "U.S. Slowdown Would Ripple around Globe," *USA Today*, January 22, 2001, p. 1Bff.; "American Economy Offers a Model Others Both Envy and Fear," *The Wall Street Journal*, January 18, 2001, p. A1ff.; "Exporting Management Savvy," *The Wall Street Journal,* October 24, 2000, p. B1ff.; "The Big Myth about U.S. Manufacturing," *Fortune*, October 2, 2000, pp. 244BB–PP; "This Trade Deficit Was Made in the U.S.A.," *The Wall Street Journal,* August 7, 2000, p. A1; "The Atlantic Century?" *Business Week,* February 8, 1999, pp. 64–72; "Global Capitalism, R.I.P.?" *Newsweek*, September 14, 1998, pp. 40–42; "A Whole New Wave of Japanese Exports Is Headed Westward," *The Wall Street Journal,* November 14, 1997, p. A1ff.; "Trade Wars Aside, U.S. and Europe Buy More of Each Other's Foods," *The Wall Street Journal,* November 4, 1997, p. A1ff.; "These Are the Good Old Days," *Fortune,* June 9, 1997, pp. 74–87.

14. "Betting on Free Trade," *Business Week,* April 23, 2001, pp. 60–62; Saeed Samiee, "Globalization, Privatization, and Free Market Economy," *Journal of the Academy of Marketing Science*, Summer 2001, pp. 319–23.

15. "Ready to Burn Rubber in Russia," *Business Week,* March 31, 1997, pp. 52–53; "BMW, Mercedes, Rolls-Royce—Could This Be Russia?" *Business Week,* August 2, 1993, p. 40.

16. "Tariffs Shield Some U.S. Products," *USA Today*, May 6, 1999, p. 1Bff.

17. Available from World Wide Web: <http://www.barternews.com>; and <http://www.cob.ohio-state.edu/citm/expa/countertrade.html>; and <http://www.fita.org/ioma/countertrade.html>; Bureau of the Census, *Statistical Abstract of the United States 2000* (Washington, DC: U.S. Government Printing Office, 2001), pp. 821–56; Laura B. Forker, "Internationalizing Procurement: Determinants of Countertrade Involvement," *International Journal of Purchasing & Materials Management*, Spring 1997, pp. 27–34; Aspy P. Palia and Peter W. Liesch, "Survey of Countertrade Practices in Australia," *Industrial Marketing Management*, July 1997, pp. 301–13; Dorothy A. Paun, Larry D. Compeau, and Dhruv Grewal, "A Model of the Influence of Marketing Objectives on Pricing Strategies in International Countertrade," *Journal of Public Policy & Marketing,* Spring 1997, pp. 69–82; Sam C. Okoroafo, "Implementing International Countertrade: A Dyadic Approach," *Industrial Marketing Management,* July 1994, pp. 229–34; Abla M. Abdel-Latif and Jeffrey B. Nugent, "Countertrade as Trade Creation and Trade Diversion," *Contemporary Economic Policy,* January 1994, pp. 1–11.

18. Available from World Wide Web: <http://www.wto.org/wto/about/cover.htm>; "China Takes a Great Leap toward the WTO," *The Wall Street Journal,* June 22, 2001, p. A13; "Troubled Trade Group Sees Slight Chance for Progress," *USA Today*, November 29, 2000, p. 1Bff.; "Will China Follow WTO Rules?" *Business Week,* June 5, 2000, pp. 42–43; "There's Something Happening Here," *Fortune*, May 15, 2000, pp. 232–44; "Backlash: Behind the Anxiety over Globalization," *Business Week,* April 24, 2000, pp. 38–48; "The Siege of Seattle," *Newsweek*, December 13, 1999, pp. 30–40; "WTO's Failure in Bid to Launch Trade Talks Emboldens Protesters," *The Wall Street Journal,* December 6, 1999, p. A1ff.; "Welcome to the Club," *Business Week,* November 29, 1999, pp. 34–37; "WTO or Bust," *Business Week,* November 22, 1999, pp. 60–61; "In Historic Pact, U.S. Opens Way for China to Finally Join WTO," *The Wall Street Journal,* November 16, 1999, p. A1ff.; "Who Stands to Win, Lose under Trade Treaty," *USA Today,* December 1, 1994, p. 4B; "Trade Pact Is Set by 117 Nations, Slashing Tariffs, Subsidies Globally," *The Wall Street Journal,* December 16, 1993, p. A3ff.

19. William McInnes, "A Conceptual Approach to Marketing," in *Theory in Marketing,* second series, ed. Reavis Cox, Wroe Alderson, and Stanley J. Shapiro (Homewood, IL: Richard D. Irwin, 1964), pp. 51–67.

20. *1990 Annual Report,* Tandem; "The New Germany's Glowing Future," *Fortune,* December 3, 1990, pp. 146–54; "Berlin Tries to Raze Its Great Divide," *Insight,* October 15, 1990, pp. 8–17; "West Brands Rain on East's Parade," *Advertising Age,* October 1, 1990, p. 15ff.

21. "Technology: Overload," *The Wall Street Journal Reports,* June 21, 1999; "Technology Is 'Demolishing' Time, Distance," *USA Today,* April 24, 1997, p. 1Bff.; see also Roger A. Layton, "Measures of Structural Change in Macromarketing Systems," *Journal of Macromarketing,* Spring 1989, pp. 5–15.

22. "Too Much Corporate Power?" *Business Week,* September 11, 2000, pp. 144–58; "Ad Nauseam," *Advertising Age*, July 10, 2000, p1ff.

23. Stanley J. Shapiro, "Ethical Decision Making in Marketing," *Journal of Public Policy & Marketing*, Fall 1996, pp. 321–23; Oswald A. Mascarenhas, "Exonerating Unethical Marketing Executive Behaviors: A Diagnostic Framework," *Journal of Marketing*, April 1995, pp. 43–57; Gina Vega, "Caveat Emptor: Ethical Chauvinism in the Global Economy," *Journal of Business Ethics*, September 1997, pp. 1353–62; George G. Brenkert, "Competing With Integrity in International Business," *Journal of Business Ethics*, January 1997, pp. 6, 22ff. For a discussion of some criticisms of advertising, see Banwari Mittal, "Public Assessment of TV Advertising: Faint Praise and Harsh Criticism," *Journal of Advertising Research,* January/February 1994, pp. 35–53. For a discussion of ethical issues in marketing, see Anusorn Singhapakdi et al., "The Perceived Importance of Ethics and Social Responsibility on Organizational Effectiveness: A Survey of Marketers," *Journal of the Academy of Marketing Science,* Spring 1995, pp. 49–56; Ishmael P. Akaah and Daulatram Lund, "The Influence of Personal and Organizational Values on Marketing Professionals' Ethical Behavior," *Journal of Business Ethics,* June 1994, pp. 417–30.

Chapter 2

1. Available from World Wide Web: <http://www.dell.com>; "The Mother of All Price Wars," *Business Week*, July 20, 2001, pp. 32–35; "Why Dell Isn't Dumb," *Fortune*, July 9, 2001, pp. 134–36; "Automate or Die," *Ecompany*, July 2001, pp. 60–67; "How Dell Fine-Tunes Its PC Pricing to Gain Edge in a Slow Market," *The Wall Street Journal,* June 8, 2001, p. A1ff.; "How Dell Keeps from Stumbling," *Business Week,* May 14, 2001, pp. 38B–D; "How Dell, Starwood and Teva Fight, Win in Commodity-Priced Business," *Investor's Business Daily*, May 4, 2001, p. A1; "Dell Dethrones Compaq as Global PC Sales Leader," *Investor's Business Daily*, April 23, 2001, p. A6; "Dell, Gateway Seen Turning Up the Heat in PC Price Wars," *Investor's Business Daily*, March 28, 2001, p. A7; "Price War Squeezes PC Makers," *The Wall Street Journal,* March 26, 2001, p. B1ff.; "Thinking Outside the Beige PC Box," *Investor's Business Daily*, March 6, 2001, p. A1; "Be like Mike," *Ecompany*, December 2000, pp. 85–86; "How a Low-Cost Provider like Dell also Delivers Best Customer Service," *Investor's Business Daily*, November 13, 2000, p. A1; "Going Digital? Think First," *Fortune*, November 13, 2000, pp. 190–98; "Can Michael Dell Escape the Box?" *Fortune*, October 16, 2000, pp. 92–120; "Dell's Second Web Revolution," *Business Week E.Biz*, September 18, 2000, pp. EB62–EB63; "Dell Looks for Ways to Rekindle the Fire It Had as an Upstart," *The Wall Street Journal,* August 31, 2000, p. A1ff.; "Direct PC Seller Dell Computer Aims to Sell Its Web Expertise," *Investor's Business Daily*, April 13, 2000, p. A6; "Dell to Offer Hosting of Small-Business Web Sites," *The Wall Street Journal,* February 22, 2000, p. B23; "Dell's Big New Act," *Fortune*, December 6, 1999, pp. 152–56; "Dell Cracks China," *Fortune*, June 21, 1999, pp. 120–24; "Nine Ways to Win on the Web," *Fortune*, May 24, 1999, pp. 112–25; "Dell Builds an Electronics Superstore on the Web," *The Wall Street Journal,* March 3, 1999, p. B1ff.; "The Internet: Leading the PC Pack," *The Wall Street Journal Reports,* December 7, 1998, p. R27; "Michael Dell Rocks," *Fortune,* May 11, 1998, pp. 58–70; "No Big Deal: Why Michael Dell Isn't Afraid of The New Compaq," *Fortune,* March 2, 1998, pp. 189–92; "Dell's Profit Leaps 52% as Asian Sales Soar," *The Wall Street Journal,* February 19, 1998, p. B20; "Asia: Why Business Is Still Bullish," *Fortune,* October 27, 1997, pp. 139–42; "And Give Me an Extra-Fast Modem with That, Please," *Business Week,* September 29, 1997, p. 38; "Now Everyone in PCs Wants to Be like Mike," *Fortune,* September 8, 1997, pp. 91–92; "Michael Dell Turns the PC World Inside Out," *Fortune,* September 8, 1997, pp. 76–86; "Dell Fights PC Wars by Emphasizing Customer Service," *The Wall Street Journal,* August 15, 1997, p. B4; Joan Magretta, "The Power of Virtual Integration: An Interview With Dell Computer's Michael Dell," *Harvard Business Review*, March–April 1998, pp. 72–84.

2. Charles R. Weiser, "Championing the Customer," *Harvard Business Review*, November 1995–December 1995, pp. 113–16; Stanley F. Slater and John C. Narver, "Market Orientation and the Learning Organization," *Journal of Marketing*, July 1995, pp. 63–74; Regina F. Maruca, "Getting Marketing's Voice Heard," *Harvard Business Review*, January–February 1998, pp. 10–11; Vikas Mittal, "Driving Customer Equity: How Customer Lifetime Value Is Reshaping Corporate Strategy," *Journal of Marketing*, April 2001, pp. 107–110; Christine Steinman, "Beyond Market Orientation: When Customers and Suppliers Disagree," *Journal of the Academy of Marketing Science,* Winter 2000, pp. 109–120; Francis J. Gouillart and Frederick D. Sturdivant, "Spend a Day in the Life of Your Customers," *Harvard Business Review*, January 1994–February 1994, pp. 116–20ff; George S. Day, "The Capabilities of Market-Driven Organizations," *Journal of Marketing*, October 1994, pp. 37–52; R.W. Ruekert, "Developing a Market Orientation: An Organizational Strategy Perspective," *International Journal of Research in Marketing,* August 1992, pp. 225–46; J. David Lichtenthal and David T. Wilson, "Becoming Market Oriented," *Journal of Business Research,* May 1992, pp. 191–208; George J. Avlonitis and Spiros P. Gounaris, "Marketing Orientation and Company Performance: Industrial Vs. Consumer Goods Companies," *Industrial Marketing Management*, September 1997, pp. 385–402; Bernard J. Jaworski and Ajay K. Kohli, "Market Orientation: Antecedents and Consequences," *Journal of Marketing,* July 1993, pp. 53–70. See also "The Marketing Revolution at Procter & Gamble," *Business Week,* July 25, 1988, pp. 72–73ff.; Frederick E. Webster, Jr., "The Changing Role of Marketing in the Corporation," *Journal of Marketing,* October 1992, pp. 1–17; Franklin S. Houston, "The Marketing Concept: What It Is and What It Is Not," *Journal of Marketing,* April 1986, pp. 81–87; George S. Day, "The Capabilities of Market-Driven Organizations," *Journal of Marketing,* October 1994, pp. 37–52.

3. For more on the marketing concept in the banking industry, see "What's Next—The Bank of Burger King," *Business Week,* June 18, 2001, p. 150; "Could Citi Make Money by Sending Money?" *Business Week,* July 16, 2001, p. 83; "What a Bank Should Be," *Business Week Small Biz,* July 16, 2001, pp. 23–28; "Altering Course, Banks Welcome Check Cashers," *The Wall Street Journal,* July 6, 2001, p. B1ff.; "Banks Cozy Up to Customers," *The Wall Street Journal,* April 26, 2001, p. B1ff.; "Online or Off-Line Banking: Where to Stash Your Cash?" *Ecompany*, January/February 2001, pp. 174–76; "A Small Chain Grows by Borrowing Ideas from Burger Joints," *The Wall Street Journal,* May 17, 2000, p. A1ff.; "On the Road with a Rolling Bank Branch," *The Wall Street Journal,* November 6, 1997, p. B1ff.; "Have You Noticed All of Those ATMs Suddenly Appearing?" *The Wall Street Journal,* October 7, 1997, p. A1ff. For more on the marketing concept and churches, see "The Glorious Rise of Christian Pop," *Newsweek*, July 16, 2001, pp. 38–43; "God, Mammon and 'Bibleman,'" *Newsweek*, July 16, 2001, pp. 44–48: "Rappin' and Rockin' for the Lord," *The Wall Street Journal,* February 28, 2001, p. B1ff.; "Registers Ring in Sanctuary Stores," *The Wall Street Journal,* December 17, 1999, p. B1ff.; "Religious Advertising Converts, Moving Toward a Tougher Sell," *The Wall Street Journal,* February 24, 1998, p. B2; "Bringing the Good Book to the Outlet Mall," *The Wall Street Journal,* December 2, 1997, p. B1ff.; "Churches Launch 'In Your Face' Pitches," *The Wall Street Journal,* November 7, 1997, p. B8. For more on the marketing concept and the academic community, see "The New U: A Tough Market Is Reshaping Colleges," *Business Week,* December 22, 1997, pp. 96–102; "Some Small Colleges Hire Recruiters to Get Bigger Freshman Class," *The Wall Street Journal,* September 5, 1995, p. A1ff. For more on the marketing concept and the medical profession, see "Grocery List: Milk, Bread, QuickMedx," *USA Today*, January 23, 2001, p. 3B; "See the Doctor, Get a Toaster," *Business Week,* December 8, 1997, pp. 86–87; "Hospitals Use TV Spots to Boost Business," *The Wall Street Journal,* September 26, 1996, p. B10; "Rx: Thirty Minutes on the StairMaster Twice Weekly," *Newsweek,* March 17, 1997, p. 46; "Designing a New Hospital? Let Malls Be Your Muse," *The Wall Street Journal,* August 1, 1994, p. B1ff.; "Offering Aerobics, Karate, Aquatics, Hospitals Stress Business of 'Wellness,'" *The Wall Street Journal,* August 9, 1993, P. B1ff.; "Pediatric Centers Spring Up to Provide Off-Hour Care," *The Wall Street Journal,* February 13, 1989, p. B1. See also Gary D. Hailey, "The Federal Trade Commission, the Supreme Court and Restrictions on Professional Advertising," *International Journal of Advertising* 8, no. 1 (1989), pp. 1–16; Betsy D. Gelb, Samuel V. Smith, and Gabriel M. Gelb, "Service Marketing Lessons from the Professionals," *Business Horizons,* September–October 1988, pp. 29–34; Valarie A. Zeithaml, A. Pasasuraman, and Leonard L. Berry, "Problems and Strategies in Services Marketing," *Journal of Marketing,* Spring 1985, pp. 33–46.

4. "Remedies for an Economic Hangover," *Fortune*, June 25, 2001, pp. 130–39; "The Best Little Grocery Store in America," *Inc.*, June 2001, pp. 54–61; "Fanatics!" *Inc.*, April 2001, pp. 36–48; "Internet Nirvana," *Ecompany*, December 2000, pp. 99–108; "The *Inc.* Web Awards," *Inc.* Tech, No. 4, 2000, pp. 45–86; "The Bride Wore Swag," *Ecompany*, October 2000, pp. 201–202; "Why Women Find Lauder Mesmerizing," *Fortune*, May 25, 1998, pp. 96–106; "Smart Managing: The Power of Reflection," *Fortune,* November 24, 1997, pp. 291–96; "Why Some Customers Are More Equal than Others," *Fortune,* September 19, 1994, pp. 215–24; Stanley F. Slater and John C. Narver, "Market Orientation, Customer Value, and Superior Performance," *Business Horizons,* March–April 1994, pp. 22–28; "Relationships: Six Steps to Success," *Sales & Marketing Management,* April 1992, pp. 50–58; Stanley F. Slater, "Developing a Customer Value-Based Theory of the Firm," *Journal of the Academy of Marketing Science*, Spring 1997, pp. 162–67; Sharon E. Beatty, "Keeping Customers," *Journal of Marketing*, April 1994, pp. 124–25; Thomas W. Gruen, "Relationship Marketing: The Route to Marketing Efficiency and Effectiveness," *Business Horizons*, November–December 1997, pp. 32–38; A. Parasuraman, "Reflections on Gaining Competitive Advantage Through Customer Value," *Journal of the Academy of Marketing Science*, Spring 1997, pp. 154–61; Alan W. H. Grant and Leonard A. Schlesinger, "Realize Your Customers' Full Profit Potential," *Harvard Business Review*, September–October 1995, pp. 59–72; Diana L. Deadrick, R. B. McAfee, and Myron Glassman, "'Customers for Life': Does It Fit Your Culture?" *Business Horizons*, July–August 1997, pp. 11–16; Robert B. Woodruff, "Customer Value: The Next Source for Competitive Advantage," *Journal of the Academy of Marketing Science*, Spring 1997, pp. 139–53; Robert M. Morgan, "Aftermarketing: How to Keep Customers for Life Through Relationship Marketing," *Journal of the Academy of Marketing Science*, Winter 1997, pp. 92–93.

5. Available from World Wide Web: <http://www.llbean.com>; "Here's the Maine Store for the Great Outdoors," *The Blade,* (Toledo, Ohio), August 26, 1990; "L.L. Bean Scales Back Expansion Goals to Ensure Pride in Its Service Is Valid," *The Wall Street Journal*, July 31, 1989, p. B3; "Training at L.L. Bean," *TRAINING, The Magazine of Human Resources Development,* October 1988; "Using the Old (L.L.) Bean," *The Reader's Digest,* June 1986.

6. "Dot-Com Decline Turns into Lift for the Dot-Orgs," *The Wall Street Journal,* March 12, 2001, p. B1ff.; "With Recruiting Slow, the Air Force Seeks a New Ad Campaign," *The Wall Street Journal,* February 14, 2001, p. A1ff.; "Big Retailers Cutting into Nonprofits' Tree Sales," *The Wall Street Journal*, December 19, 2000, p. B1ff.; "Dot-Coop, Dot-Museum, Dot-Pro? Enter Domain of New Web Names," *Investor's Business Daily*, November 21, 2000, p. A10; "Uncle Sam Wants You—and So Does Pepsi," *Business Week,* September 4, 2000, p. 52; "When Nonprofits Go After Profits," *Business Week,* June 26, 2000, pp. 173–78; "Army Enlists Net to Be All It Can Be," *USA Today*, April 19, 2000, p. 10B; "Uncle Sam Wants You . . . to Have Fun!" *Business Week,* February 21, 2000, pp. 98–101; "Modern Marketing Helps Sell Life as a Nun," *The Wall Street Journal,* May 11, 1999, p. B1ff.; "This Exhibit Is Brought to You by . . . ," *Business Week,* November 10, 1997, pp. 91–94; "In Funding Squeeze, PBS Cozies Up to Madison Avenue 'Sponsors,'" *The Wall Street Journal*, July 3, 1996, p. B1ff.; "Non-Profits Get Market-Savvy," *Advertising Age*, May 29, 1995, p. 1ff.; William G. Bowen, "When a Business Leader Joins a Nonprofit Board," *Harvard Business Review,* September–October 1994, pp. 38–44; "Charities Draw Younger Donors with Hip Events and Door Prizes," *The Wall Street Journal*, April 25, 1994, p. B1; "Nonprofits Dig into Databases for Big Donors," *The Wall Street Journal,* September 8, 1992, p. B1ff.; William A. Sutton, "Sports Marketing: Competitive Business Strategies for Sports," *Journal of the Academy of Marketing Science*, Spring 1996, pp. 176–77; Russell W. Jones, Carolyn Marshall, and Thomas P. Bergman, "Can a Marketing Campaign Be Used to Achieve Public Policy Goals?" *Journal of Public Policy & Marketing*, Spring 1996, pp. 98–107; J. G. Dees, "Enterprising Nonprofits," *Harvard Business Review*, January–February 1998, pp. 55–67; W. C. Kim and Renee Mauborgne, "Value Innovation: The Strategic Logic of High Growth," *Harvard Business Review*, January–February 1997, pp. 102–12; Gerald E. Smith and Paul D. Berger, "The Impact of Direct Marketing Appeals on Charitable Marketing Effectiveness," *Journal of the Academy of Marketing Science*, Summer 1996, pp. 219–31; Shohreh A. Kaynama, "Fundraising for Non-Profits," *Journal of the Academy of Marketing Science*, Spring 1997, p.173; C. Scott Greene and Paul Miesing, "Public Policy, Technology, and Ethics: Marketing Decisions for NASA's Space Shuttle," *Journal of Marketing,* Summer 1984, pp. 56–67; Alan R. Andreasen, "Nonprofits: Check Your Attention to Customers," *Harvard Business Review,* May–June 1982, pp. 105–10.

7. "The Black Market Vs. the Ozone," *Business Week,* July 7, 1997, pp. 128–30; "CFC-Span: Refrigerant's Reign Nears an End," *USA Today*, August 22, 1994, p. 5B; "Who Scores Best on the Environment," *Fortune,* July 26, 1993, pp. 114–22; "Quick, Save the Ozone," *Business Week,* May 17, 1993, pp. 78–79; "Air-Conditioner Firms Put Chill on Plans to Phase Out Use of Chlorofluorocarbons," *The Wall Street Journal,* May 10, 1993, p. B1ff. See also Alan R. Andreasen, "Social Marketing: Its Definition and Domain," *Journal of Public Policy & Marketing,* Spring 1994, pp. 108–14.

8. For more on Wal-Mart's efforts, see "Wrestling with Your Conscience," *Time*, November 15, 1999, pp. 72–73; "Wal-Mart Provides Many an Introduction to Sport Shooting," *The Wall Street Journal,* April 15, 1999, p. A1ff. For more on Kmart's efforts, see "Kmart Sells Out: Ammo Sales End, under Pressure from PC Prankster," *Investor's Business Daily*, July 10, 2001, p. A18. For more on Green Mountain, see "Green-Mountain.com Makes Pitch for Clean Energy," *The Wall Street Journal,* May 1, 2000, p. A36; "Energy: Green Fees," *The Wall Street Journal Reports,* September 13, 1999, p. R12. For more on overseas sweatshops, see "Global Capitalism: A World of Sweatshops," *Business Week* (Special Report), November 6, 2000, pp. 84–86; "A Life of Fines and Beating," *Business Week,* October 2, 2000, pp. 122–28; "The Root of All Good," *Time*, October 18, 1999, pp. 88–91; "Nike's Image Problem," *USA Today*, October 4, 1999, p. 1Bff.

9. Edward J. O'Boyle and Lyndon E. Dawson, Jr., "The American Marketing Association Code of Ethics: Instructions for Marketers," *Journal of Business Ethics*, December 1992, pp. 921–30; Ellen J. Kennedy and Leigh Lawton, "Ethics and Services Marketing," *Journal of Business Ethics*, October 1993, pp. 785–96; Michael R. Hyman, Robert Skipper, and Richard Tansey, "Ethical Codes Are Not Enough," *Business Horizons*, March/April, 1990, pp. 15–22; John Tsalikis and David J. Fritzsche, "Business Ethics: A Literature Review with a Focus on Marketing Ethics," *Journal of Business Ethics*, September, 1989, pp. 695–702; G. R. Laczniak, R. F. Lusch, and P. E. Murphy, "Social Marketing: Its Ethical Dimensions," *Journal of Marketing*, Spring 1979, pp. 29–36.

10. Mary Anne Raymond and Hiram C. Barksdale, "Corporate Strategic Planning and Corporate Marketing: Toward an Interface," *Business Horizons*, September/October, 1989, pp. 41–48; George S. Day, "Marketing's Contribution to the Strategy Dialogue," *Journal of the Academy of Marketing Science*, Fall 1992, pp. 323–30; P. Rajan Varadarajan and Terry Clark, "Delineating the Scope of Corporate, Business, and Marketing Strategy," *Journal of Business Research*, October–November 1994, pp. 93–106.

11. Available from World Wide Web: <http://www.learningco.com>; "Broderbund: Identify an Need, Turn a Profit," *Fortune*, November 30, 1992, pp. 78–79.

12. "With the Telecom Industry on Hold, Nextel Sends Out a Different Signal," *Investor's Business Daily*, March 2, 2001, p. A1; "Keep 'Em Coming Back," *Business Week E. Biz*, May 15, 2000, p. EB20; "Marketers Put a Price on Your Life," *USA Today*, July 7, 1999, p. 3B.

13. "Genesco Names New Executive of Children's Footwear Division," *Press Release*, Genesco, July 15, 1994; "Toddler University Ends Up in Westport," *Westport News*, March 8, 1991, p. A13; "Whiz Kid," *Connecticut*, August 1989, pp. 56–57; "The Young and the Restless," *Children's Business*, May 1989, p. 29; "Making the Grade," *Young Fashions Magazine*, February 1989.

14. Orville C. Walker, Jr., and Robert W. Ruekert, "Marketing's Role in the Implementation of Business Strategies: A Critical Review and Conceptual Framework," *Journal of Marketing*, July 1987, pp. 15–33; Thomas V. Bonoma, "A Model of Marketing Implementation," *1984 AMA Educators' Proceedings* (Chicago: American Marketing Association, 1984), pp. 185–89; Kevin Romer and Doris C. Van Doren, "Implementing Marketing in a High-Tech Business," *Industrial Marketing Management*, August 1993, pp. 177–86.

15. *2000 Annual Report*, Gillette Company.

16. "For the Wrist that Has Everything," *Newsweek*, June 25, 2001, p. 80; "Now That's Good Timing," *Business Week Small Biz*, April 23, 2001, p. 14; "You Can Be a New-Product Dynamo: Medtronic, Pizza Hut, ADT Tell How," *Investor's Business Daily*, April 9, 2001, p. A1; "Movado Winds Up Lifestyle Effort, Expanded Line, with $15M in Print," *Brandweek*, April 2, 2001, p. 4; "Catching Up to Dick Tracy," *Business Week*, February 12, 2001, p. 100E4; "Timex Pursues Hip, Younger Set in Ads for Its New iControl Watch," *The Wall Street Journal*, May 19, 2000, p. B2; "Swatch: Ready for Net Time," *Business Week*, February 14, 2000, p. 61; "Timex Puts 'Iron' into TV with $5M," *Brandweek*, September 22, 1997, p. 6; "Timex Lines Goes for Museum-Goers," *Brandweek*, July 21, 1997, p. 8; "Timex Back to Basics to Retro-fit Gen X," *Brandweek*, August 5, 1996, p. 3; "Swatch Adds Metal Watch," *Advertising Age*, November 7, 1994, p. 60; Benetton Readies Watch Campaign," *Brandweek*, August 8, 1994, p. 5; "Indiglo Watch Lights Up Better Times for Timex," *Brandweek*, April 25, 1994, pp. 30–32.

Chapter 3

1. Available fromWorld Wide Web: <http://www.i-zone.com>; "Photo Op: Nike, Polaroid Pair Up for Footwear Line," *Advertising Age*, April 2, 2001, p. 8; "Polaroid Teen Focus Advances I-Zone Effort," *Brandweek*, February 26, 2001, p. 8B; "From Kids to Adults, the USA Is Stuck on Stickers," *USA Today*, February 14, 2001, p. 1Dff.; "Hazy Picture at Polaroid," *Business Week*, December 4, 2000, pp. 95–96; "Polaroid Preps I-Zone's Next Step, as Scanner, Combo Cam Get Jiggy," *Brandweek*, October 2, 2000, p. 18; "Polaroid Combo Cam Targets Teens," *Advertising Age*, July 17, 2000, p. 65; "The Techies Grumbled, but Polaroid's Pocket Turned into a Huge Hit," *The Wall Street Journal*, May 2, 2000, p. A1ff.; "Camera Makers Aim to Snap Up Teens' Attention," *Advertising Age*, May 1, 2000, p. 14; "Re-Imaged Image Maker," *Brandweek*, March 13, 2000, pp.22–23; "Targeting Teens Pays Off for Polaroid," *Advertising Age*, March 6, 2000, p. 16; *2000 Annual Report*, Polaroid.

2. Mark B. Houston, "Competing for the Future: Breakthrough Strategies for Seizing Control of Your Industry and Creating the Markets of Tomorrow," *Journal of the Academy of Marketing Science*, Winter 1996, pp. 77–79; George S. Day and Robin Wensley, "Assessing Advantage: A Framework for Diagnosing Competitive Superiority," *Journal of Marketing*, April 1988, pp. 1–20; Kevin P. Coyne, "Sustainable Competitive Advantage—What It Is, What It Isn't," *Business Horizons*, January/February 1986, pp. 54–61; Michael E. Porter, *Competitive Advantage—Creating and Sustaining Superior Performance* (New York: Free Press, MacMillan, 1986).

3. "GM Warms Up Its Branding Iron," *Business Week*, April 16, 2001, pp. 56–58; "GM Still Pushing Lame-Duck Oldsmobiles," *USA Today*, February 19, 2001, p. 4B; "One Last Look at Oldsmobile," *Brandweek*, Janary 8, 2001, pp. 28–32; "GM: 'Out with the Olds' Is Just the Start," *Business Week*, December 25, 2000, p. 57; "In Order to Grow, GM Finds that the Order of the Day Is Cutbacks," *The Wall Street Journal*, December 18, 2000, p. A1ff.; "How to Sell a Dying Brand," *Advertising Age*, December 18, 2000, p. 4ff.; "After Decades of Brand Bodywork, GM Parks Oldsmobile—for Good," *The Wall Street Journal*, December 13, 2000, p. B1ff.; "GM Decides to Shutter Oldsmobile," *USA Today*, December 13, 2000, p. 3B; "Oldsmobile to Go as GM Outlines Cost-Cutting Steps," *Investor's Business Daily*, December 13, 2000, p. A13.

4. "Taking On Procter & Gamble," *Inc.*, October 2000, pp. 66–71.

5. Brian Wansink and Michael L. Ray, "Advertising Strategies to Increase Usage Frequency," *Journal of Marketing*, January 1996, pp. 31–46; Ian C. MacMillan and Rita G. McGrath, "Discover Your Products' Hidden Potential," *Harvard Business Review*, May–June 1996, pp. 58–73; Ian C. MacMillan and Rita G. McGrath, "Discovering New Points of Differentiation," *Harvard Business Review*, July–August 1997, pp. 133–38ff.; Des Thwaites, Keith Walley, and Steve Foots, "Systematic Management of Differential Advantage," *Industrial Marketing Management*, May 1996, pp. 209–22.

6. For more on Coleman, see "Events Light Coleman's Fire," *Advertising Age*, June 18, 2001, p. 61; "Growing to Match Its Brand Name," *Fortune*, June 13, 1994, p. 114; "Coleman's Familiar Name Is Both Help and Hindrance," *The Wall Street Journal*, May 17, 1990, p. B2.

7. For more on E-Z-Go, see "Off-Roading, Golf-Cart Style," *The Wall Street Journal*, June 14, 2001, p. B1ff. For more on McDonald's, see "Disney Orders McDonald's Burger Joint for New Park," *USA Today*, January 15, 2001, p. 1B; "For East German Pair, McDonald's Serves Up an Economic Parable," *The Wall Street Journal*, November 8, 1999, p. A1ff.; "Fast-food Icon Wants Shine Restored to Golden Arches," *USA Today*, May 1, 1998, p. 1Bff.; "McD's Eyes Rollout of Loyalty Card," *Advertising Age*, April 27, 1998, p. 3; "A Really Big Mac," *Newsweek*, November 17, 1997, pp. 56–58; "Why You Won't Find Any Egg McMuffins for Breakfast in Brazil," *The Wall Street Journal*, October 23, 1997, p. A1ff.; "Burger Wars Sizzle as McDonald's Clones the Whopper," *The Wall Street Journal*, "September 17, 1997, p. B1ff.; "Toilet Paper and a Big Mac," *American Demographics*, July 1996, p. 15–16; "McDonald's Conquers the World," *Fortune*, October 17, 1994, pp. 103–16.

8. For more on Heinz EZ Squirt, see "Heinz Picks Purple as New EZ Squirt Color," *Brandweek*, June 25, 2001, p. 7; "Kids Salivate for New, Yucky, Weirdly Colored Food," *USA Today*, April 23, 2001, p. 7B; "Do E-Ads Have a Future?" *Business Week E.Biz*, January 22, 2001, pp. EB46–EB50; "Squeezing New from Old," *USA Today*, January 4, 2001,

p. 1Bff.; "Bottled Up," *Fortune*, September 18, 2000, pp. 194–206; "EZ Being Green: Kids Line Is Latest Heinz Innovation," *Advertising Age*, July 10, 2000, p. 3ff.; *2000 Annual Report*, Heinz. For more on ski resorts, see "It's All Downhill: Sugar Mountain Opens Slopes to Mountain Bikers," *Raleigh News & Observer*, July 25, 1999, p. 1Hff.; "Bikers Give Ski Resorts Summer Time Lift," *The Wall Street Journal*, July 7, 1994, p. B1ff. For more on Nike, see "Nike Puts Its Swoosh on MP3 Players, Walkie-Talkies, Heart Monitors," *The Wall Street Journal*, May 10, 2000, p. B1ff.; *2000 Annual Report*, Nike; "It's Not Just about Shoes," *Newsweek*, May 18, 1998, pp. 50–51.

9. For more on McDonald's and its hotel diversification effort, see "Would You Like a Bed with Your Burger?" *Ad Age Global*, February 2001, p. 12; "The Golden Arches: Burgers, Fries and 4–Star Rooms," *The Wall Street Journal*, November 17, 2000, p. B1ff.; *2000 Annual Report*, McDonald's.

10. For more on Purafil, see "Small Businesses Find International Success," *USA Today*, June 30, 2000, p. 1Bff.

11. For more on JLG, see "The Secret of U.S. Exports: Great Products," *Fortune*, January 10, 2000, pp. 154C-J.

12. Susan P. Douglas, "Exploring New Worlds: the Challenge of Global Marketing," *Journal of Marketing*, January 2001, pp. 103–108; Catharine M. Curran, "Selling to Newly Emerging Markets," *Journal of the Academy of Marketing Science*, Summer 2001, pp. 324–27; "Key Ingredient in Going Global Is Acquiring Local Tastes," *USA Today*, December 2, 1997, p. 15A; Judith Clair, "International Marketing: Your Company's Next Stage of Growth," *Journal of the Academy of Marketing Science*, Summer 1997, pp. 257–58; C. P. Rao, "Marketing to China: One Billion New Customers," *Journal of the Academy of Marketing Science*, Spring 1997, pp. 171–72; Dana-Nicoleta Lascu, "Total Global Strategy: Managing for Worldwide Competitive Advantage," *Journal of Marketing*, July 1994, pp. 121–23.

13. Available from World Wide Web: <http://www.hallmark.com>; *2000 Annual Report*, Hallmark; "American Greetings Thinks Time for 'Anytime' Is Now," *The Wall Street Journal*, March 24, 1998, p. B9; "American Greeting, Hallmark's Cards Will Send an Earful," *The Wall Street Journal*, November 5, 1993, p. B10B; "Old-Fashioned Sentiments Go High-Tech," *The Wall Street Journal*, November 9, 1992, p. B1ff.

14. Shelby D. Hunt and Robert M. Morgan, "Resource-Advantage Theory: A Snake Swallowing Its Tail or a General Theory of Competition?" *Journal of Marketing*, October 1997, pp. 74–82; Stavros P. Kalafatis and Vicki Cheston, "Normative Models and Practical Applications of Segmentation in Business Markets," *Industrial Marketing Management*, November 1997, pp. 519–30; Lisa R. Adam, "Nichecraft: Using Your Specialness to Focus Your Business, Corner Your Market, and Make Customers Seek You Out," *Journal of the Academy of Marketing Science*, Summer 1997, pp. 259–60; S. Ratneshwar, Cornelia Pechmann, and Allan D. Shocker, "Goal-Derived Categories and the Antecedents of Across-Category Consideration," *Journal of Consumer Research*, December 1996, pp. 240–50; George S. Day, A. D. Shocker, and R. K. Srivastava, "Customer-Oriented Approaches to Identifying Product-Markets," *Journal of Marketing*, Fall 1979, pp. 8–19; Rajendra K. Srivastava, Mark I. Alpert, and Allan D. Shocker, "A Customer-Oriented Approach for Determining Market Structures," *Journal of Marketing*, Spring 1984, pp. 32–45.

15. For more on both Nividia and Check Point, see "Little Niches that Grew," *Business Week*, June 18, 2001, pp. 100–01. See also "The Riches in Market Niches," *Fortune*, April 27, 1987, pp. 227–30; Robert E. Linneman and John L. Stanton, Jr., "Mining for Niches," *Business Horizons*, May–June 1992, pp. 43–51; Michael E. Raynor, "The Pitfalls of Niche Marketing," *The Journal of Business Strategy*, March/April, 1992, pp. 29–32.

16. Terry Elrod and Russell S. Winer, "An Empirical Evaluation of Aggregation Approaches for Developing Market Segments," *Journal of Marketing*, Fall 1982, pp. 32–34; Frederick W. Winter, "A Cost-Benefit Approach to Market Segmentation," *Journal of Marketing*, Fall 1979, pp. 103–11; Andrew Hilton, "Mythology, Markets, and the Emerging Europe," *Harvard Business Review*, November–December 1992, pp. 50–127.

17. Available from World Wide Web: <http://www.kaepa.com>; "Tapping into Cheerleading," *Adweek's Marketing Week*, March 2, 1992, p. 17.

18. Philip A. Dover, "Segmentation and Positioning for Strategic Marketing Decisions," *Journal of the Academy of Marketing Science*, Summer 2000, pp. 438–41; John Hogan, "Defining Your Market: Winning Strategies for High-Tech, Industrial, and Service Firms," *Journal of the Academy of Marketing Science*, Summer 2000, pp. 442–4; Hershey H. Friedman and Linda W. Friedman, "Reducing the 'Wait' in Waiting-Line Systems: Waiting Line Segmentation," *Business Horizons*, July–August 1997, pp. 54–58; Alex Chernev, "The Effect of Common Features on Brand Choice: Moderating Role of Attribute Importance," *Journal of Consumer Research*, March 1997, pp. 304–11; Dianne S.P. Cermak, Karen Maru File, and Russ Alan Prince, "A Benefit Segmentation of the Major Donor Market," *Journal of Business Research*, February 1994, pp. 121–30; Robert L. Armacost and Jamshid C. Hosseini, "Identification of Determinant Attributes Using the Analytic Hierarchy Process," *Journal of the Academy of Marketing Science*, Fall 1994, pp. 383–92; Joel S. Dubow, "Occasion-based vs. User-based Benefit Segmentation, A Case Study," *Journal of Advertising Research*, March/April 1992, pp. 11–19; Peter R. Dickson and James L. Ginter, "Market Segmentation, Product Differentiation, and Marketing Strategy," *Journal of Marketing*, April 1987, pp. 1–10; Russell I. Haley, "Benefit Segmentation—20 Years Later," *Journal of Consumer Marketing* 1, no. 2 (1984), pp. 5–14.

19. For more on General Mills, see "General Mills Intends to Reshape Doughboy in Its Own Image," *The Wall Street Journal*, July 18, 2000, p. A1ff. See also "Food Marketing," *Brandweek*, April 30, 2001, pp. 20–26.

20. For more on wired hotels, see "New at the Inn: Remote-Control Curtains," *The Wall Street Journal*, April 27, 2001, p. W9; "Find Wired Hotels at Bargain Prices," *Investor's Business Daily*, September 15, 2000, p. A1; "Hotels Add Fast Internet to Room Services," *Investor's Business Daily*, July 5, 2000, p. A8; "Hotels Target Generation X," *USA Today*, February 10, 2000, p. 1Bff.; "Hotels Fired Up to Get Wired Up," *USA Today*, September 2, 1999, p. 1Bff.; "For Hotel Guests with Glitches, High-Tech Room Service," *The Wall Street Journal*, August 30, 1999, p. B1ff.

21. "Marketers Find 'Tweens' Too Hot to Ignore," *USA Today*, July 10, 2001, p. 13A; "Yamada Card Gives Credit to Struggling Brazilians," *The Wall Street Journal*, March 27, 2001, p. B1ff.; "Grown-Up Drinks for Tender Taste Buds," *Business Week*, March 5, 2001, p. 96; "Boosting Diageo's Spirits," *The Wall Street Journal*, February 12, 2001, p. B1ff.; "Soda Pop That Packs a Punch," *Newsweek*, February 19, 2001, p. 45; "New Web Sites Let Kids Shop, Like, Without Credit Cards," *The Wall Street Journal*, June 14, 1999, p. B1ff.; "How Big Liquor Takes Aim at Teens," *Business Week*, May 19, 1997, p. 92; "How 'Medicaid Moms' Became a Hot Market for Health Industry," *The Wall Street Journal*, May 1, 1997, p. A1ff.; Suzeanne Benet, Robert E. Pitts, and Michael LaTour, "The Appropriateness of Fear Appeal Use for Health Care Marketing to the Elderly: Is It OK to Scare Granny?" *Journal of Business Ethics*, January 1993, pp. 45–56; "New Converse Shoe Named Run 'N Gun Is Angering Critics," *The Wall Street Journal*, February 8, 1993, p. B5; "'Black Death' Becomes 'Black Hat' so that Vodka Can Stay on Shelves," *The Wall Street Journal*, May 12, 1992, p. B6; "Malt Liquor Makers Find Lucrative Market in the Urban Young," *The Wall Street Journal*, March 9, 1992, p. A1ff.; Richard W. Pollay, S. Siddarth, Michael Siegel, Anne Haddix et al., "The Last Straw? Cigarette Advertising and Realized Market Shares Among Youths and Adults, 1979–1993," *Journal of Marketing*, April 1996, pp. 1–16; N. C. Smith and Elizabeth Cooper-Martin, "Ethics and Target Marketing: The Role of Product Harm and Consumer Vulnerability," *Journal of Marketing*, July 1997, pp. 1–20.

22. Girish Punj and David W. Stewart, "Cluster Analysis in Marketing Research: Review and Suggestions for Application," *Journal of Marketing Research*, May 1983, pp. 134–48; Fernando Robles and Ravi Sarathy, "Segmenting the Computer Aircraft Market with Cluster Analysis," *Industrial Marketing Management*, February 1986, pp. 1–12.

23. For more on CRM, see Chapter 8, footnote #5. For more on Amazon, see "This Race Isn't Even Close," *Business Week,* December 18, 2000, pp. 208–10; "Amazon: King of the On-Line Jungle, Master of All Domains," *DSNRetailing Today*, November 20, 2000, pp. 18–22; "The Amazon Way Is Still the Best Model for Web Shopping," *The Wall Street Journal,* September 21, 2000, p. B1; "Amazon: Creative Coddling, Great Word of Mouth," *Business Week E. Biz*, September 16, 2000; "E-Commerce: At Your Service," *Wall Street Journal Reports*, April 17, 2000, p. R12ff.; "Secrets of the New Brand Builders," *Fortune*, June 22, 1998, pp. 167–70. For more on privacy, see Chapter 14, footnote #11 and Chapter 22, footnote #18.

24. Available from World Wide Web: <http://www.hermanmillerred.com>; "Herman Miller Inc. Has Small Businesses Seeing Red," *The Wall Street Journal,* June 18, 2001, p. B4; "New Technology Reconditions Herman Miller, *Investor's Business Daily*, March 8, 2001, p. A8; "The Ultimate Sitting Machine," *Ecompany*, October 2000, pp. 65–66; "Reinventing Herman Miller," *Business Week E.Biz*, April 3, 2000, pp. EB89–EB96; *2000 Annual Report*, Herman Miller; "Where 'Build to Order' Works Best," *Fortune*, April 26, 1999, pp. 160A-V.

25. David A. Aaker and J. Gary Shansby, "Positioning Your Product," *Business Horizons,* May/June, 1982, pp. 56–62; Al Ries and Jack Trout, *Positioning: The Battle for Your Mind* (New York: McGraw-Hill, 1981), p. 53. For some current examples of positioning, see "Getting Corian Out of the Kitchen," *The Wall Street Journal,* December 12, 2000, p. B1ff.; "Corian Refashions," *Advertising Age*, September 18, 2000, pp. 74–76; "Pie in the Sky," *Brandweek*, December 16, 1996, pp. 23–24; "From the Horse's Mouth: Try a Little Hoof Fix on Your Nails," *The Wall Street Journal,* July 29, 1994, p. B1ff.; Hans Muhlbacher, Angelika Dreher, and Angelika Gabriel-Ritter, "MIPS-Managing Industrial Positioning Strategies," *Industrial Marketing Management,* October 1994, pp. 287–98.

Chapter 4

1. Available from World Wide Web: <http://www.ups.com>; "Got Mail?" *The Wall Street Journal,* June 22, 2001, p. B1ff.; "The Total Package," *Ecompany*, June 2001, pp. 90–97; "FedEx Pushes the Right Buttons to Remain No. 1 in Fast Shipping," *Investor's Business Daily*, May 25, 2001, p. A7; "Ground Wars," *Business Week,* May 21, 2001, pp. 64–68; "Federal Expressive," *Ecompany*, May 2001, pp. 45–48; "UPS Targets Logistics Business in Asia," *The Wall Street Journal*, April 26, 2001, p. A17; "Outside the Box," *The Wall Street Journal* (Special Report: E-Commerce), February 12, 2001, p. R20; "FedEx, UPS Join Forces to Stave Off Foreign Push into U.S. Markets," *The Wall Street Journal,* February 1, 2001, p. B1ff.; "A Deal No More, Priority Mail Is Prey for Rivals, *The Wall Street Journal,* January 24, 2001, p. B1ff.; "FedEx, Postal Service Reach Delivery Partnership," *The Wall Street Journal,* January 11, 2001, p. A6; "FedEx, UPS Teach Dot-Coms Ways to Get Gifts under Tree on Time," *The Wall Street Journal,* December 18, 2000, p. B1ff.; "Shippers Brace for E-Commerce," *Investor's Business Daily*, November 24, 2000, p. A5; "When Germans Open the Mail, They Get Message on Capitalism," *The Wall Street Journal,* November 20, 2000, p. A1ff.; "UPS Logistics: Delivering Solutions, Not Packages," *Fortune*, October 30, 2000, pp. T208L-R; "Who's Got Mail?" *Time*, October 16, 2000, pp. 86–88; "UPS Appears Set to Win Battle for China Routes," *The Wall Street Journal,* September 22, 2000, p. A14; "UPS Launches Package-Return Service for Web Purchases that Tracks Progress," *The Wall Street Journal,* September 21, 2000, p. B4; "Big Brown's Big Coup," *Business Week E.Biz*, September 18, 2000, pp. EB76–EB77; "Postal Service, FedEx in Talks to Share Tasks," *The Wall Street Journal,* September 7, 2000, p. B1ff.; "UPS Is in Talks to Buy 2 Logistics Firms," *The Wall Street Journal,* June 12, 2000, p. A3ff.; "They've Got Mail!" *Fortune*, February 7, 2000, pp. 100–112; "Ford Is Hiring UPS to Track Vehicles as They Move from Factories to Dealers," *The Wall Street Journal,* February 2, 2000, p. A6; "Going Nowhere Fast in Cyberspace," *Business Week,* January 31, 2000, pp. 58–59; "Men in Brown," *Forbes*, January 10, 2000; *2000 Annual Report*, UPS; "Overnight, Everything Changed for FedEx: Can It Reinvent Itself?" *The Wall Street Journal,* November 4, 1999, p. A1ff.; "National Mail Services Foil UPS's Big Strategy for Dominating Europe," *The Wall Street Journal,* January 18, 1999, p. A1ff.; *1999 Annual Report*, UPS.

2. See Peter F. Drucker, *Management: Tasks, Responsibilities, Practices, and Plans* (New York: Harper and Row, 1973); Sev K. Keil, "The Impact of Business Objectives and the Time Horizon of Performance Evaluation on Pricing Behavior," *International Journal of Research in Marketing*, June 2001, p. 67; Kenneth E. Clow, "Marketing Strategy: The Challenge of the External Environment," *Journal of the Academy of Marketing Science,* Summer 2000, pp. 437–9.

3. This point of view is discussed at much greater length in a classic article by T. Levitt, "Marketing Myopia," *Harvard Business Review,* September–October 1975, p. 1ff. See also David J. Morris, Jr., "The Railroad and Movie Industries: Were They Myopic?" *Journal of the Academy of Marketing Science,* Fall, 1990, pp. 279–84.

4. Lance Leuthesser and Chiranjeev Kohli, "Corporate Identity: The Role of Mission Statements," *Business Horizons*, May–June 1997, pp. 59–66; Christopher K. Bart, "Sex, Lies, and Mission Statements," *Business Horizons*, November–December 1997, pp. 9–18; Christopher K. Bart, "Industrial Firms and the Power of Mission," *Industrial Marketing Management*, July 1997, pp. 371–83.

5. "Why Inflation Is Not Inevitable," *Fortune,* September 12, 1988, pp. 117–24.

6. "Behind Cisco's Woes Are Some Wounds of Its Own Making," *The Wall Street Journal,* April 18, 2001, p. A1ff.; Robert Jacobson and David A. Aaker, "Is Market Share All That It's Cracked Up to Be?" *Journal of Marketing,* Fall 1985, pp. 11–22; Carolyn Y. Woo, "Market-Share Leadership—Not Always So Good," *Harvard Business Review,* January–February 1984, pp. 50–55; "Reichhold Chemicals: Now the Emphasis Is on Profits Rather than Volume," *Business Week,* June 20, 1983, pp. 178–79.

7. Available from World Wide Web: <http://www.harley-davidson.com>; "Harley Davidson's Jeffrey Bleustein: Communication Focus Keeps His Company Roaring," *Investor's Business Daily*, February 28, 2001, p. A4; *2000 Annual Report*, Harley-Davidson; "Motorcycle Madness Revvs Up Ad Budgets," *Advertising Age*, November 8, 1999, p. 38; "Gearing Up for the Cruiser Wars," *Fortune*, August 3, 1998, pp. 128B–L; "Motorcycle Maker Caters to the Continent," *USA Today,* April 22, 1998, p. 8B; "That Vroom! You Hear May Not Be a Harley," *Business Week,* October 20, 1997, pp. 159–60; "Have Brands, Will Travel," *Brandweek,* October 6, 1997, pp. 22–26; "Japan's Bikers: The Tame Ones," *Business Week,* October 6, 1997, pp. 30D-F; "Killer Strategies that Make Shareholders Rich," *Fortune,* June 23, 1997, pp. 70–84; "Aided by Research, Harley Goes Whole Hog," *Marketing News,* December 2, 1996, pp. 16–17; "Tune-Up Time for Harley," *Business Week,* April 8, 1996, pp. 90–94; "The Rumble Heard Round the World," *Business Week,* May 24, 1993, p. 58–60; "Put to the Test," *Adweek,* December 7, 1992, pp. 28–32; "Yuppies Help Fuel Demand," *USA Today,* July 22, 1991, p. 1Bff.; "Harley-Davidson's U-Turn," *USA Today,* March 2, 1990, p. 1Bff.; "How Harley Beat Back the Japanese," *Fortune,* September 25, 1989, pp. 155–64.

8. For more on Starbucks, see "Remedies for an Economic Hangover," *Fortune*, June 25, 2001, pp. 130–39; "Starbucks Joins Microsoft to Serve Web with Its Coffee," *The Wall Street Journal,* January 4, 2001, p. B8; "Starbucks Takes North America, Seeks Broader Sphere of Influence," *Investor's Business Daily*, July 11, 2000, p. A12; "Starbucks Fills Asia's Cup," *USA Today*, June 7, 2000, p. 10B; "Now, Starbucks Uses Its Bean," *Business Week,* February 14, 2000, pp. 92–93; "Starbucks in Pact with Kozmo.com on Using Stores," *The Wall Street Journal,* February 14, 2000, p. A34; "Trouble Brewing," *Newsweek*, July 19, 1999, pp. 40–41; "Schultz' Caffeinated Crusade," *Brandweek*, July 5, 1999, pp. 20–25; "Battle Grounds," *Inc*., July 1999, pp. 52–58; "Still Perking after All These Years," *Fortune*, May 24, 1999, pp. 203–10; "Starbucks Brews Broader Base," *Raleigh News & Observer*, March 23, 1999, p. 1Dff.; "Some Meatloaf with That Decaf Latte?" *The Wall Street Journal,* March 16, 1999, p. B1ff.; "Starbucks Cultivates Caffeine Rush," *USA Today,* April 30, 1998, p. 1Bff.; "Starbucks.com Will Let Coffee Drinkers Get Wired," *Brandweek,* April 27, 1998, p. 33; "Starbucks Ships Its Coffee

Craze to Pacific Rim," *Advertising Age,* April 27, 1998, p. 28; "Starbucks: Making Values Pay," *Fortune,* September 29, 1997, pp. 261–72; "Starbucks Gives Vitamin Jolt to Frappuccino Drink," *Advertising Age,* September 15, 1997, p. 82; "Restaurant Brands Fill Supermarkets," *USA Today,* August 26, 1997, p. 1Bff.; "Starbucks Does Not Live by Coffee Alone," *Business Week,* August 5, 1996, p. 76; "Japan's Staid Coffee Bars Wake Up and Smell Starbucks," *The Wall Street Journal,* July 25, 1996, p. B1ff.

9. For more on patents, see "Would You Buy a Patent License from This Man?" *Ecompany*, April 2001, pp. 104–10; "PrilosecTime Is Just About Up," *Business Week,* January 8, 2001, p. 47; "Eli Lilly Loses Prozac Patent-Protection Battle," *The Wall Street Journal,* August 10, 2000, p. A3ff.; "Businesses Battle over Intellectual Property," *USA Today*, August 2, 2000, p. 1Bff.; "Qualcomm Hits the Big Time," *Fortune*, May 15, 2000, pp. 213–29; "New Teeth for Old Patents," *Business Week,* November 30, 1998, pp. 92–95; "What's Next—A Patent for the 401(K)?" *Business Week,* October 26, 1998, pp. 104–107; "Drug Pirates," *Fortune*, October 12, 1998, pp. 146–48.

10. For more on Microsoft's Xbox, see "This Game's Not Over Yet," *Fortune*, July 9, 2001, p. 164; " . . . Games," *The Wall Street Journal Reports,* June 25, 2001, p. R6; "Game Wars 5.0," *Newsweek*, May 28, 2001, pp. 65–66; "Let the Game-System War Begin," *USA Today*, May 21, 2001, p. 3D; "The Battle of Seattle," *Time*, May 21, 2001, pp. 58–59; "Sony, AOL Join Up to Link PlayStation 2 to Internet in Move to Outflank Microsoft," *The Wall Street Journal,* May 15, 2001, p. A3; "Xbox Marks the Spot for Launch of Microsoft's Game," *USA Today*, April 23, 2001, p. 1B; "As Microsoft's Xbox Debut Nears, Fan Sites Get Cocky, Rivals—Wary," *The Wall Street Journal,* April 12, 2001, p. B1ff.; "How Microsoft Hopes to Win with Xbox," *The Wall Street Journal,* January 31, 2001, p. B1ff.; "Game Wars," *Time*, March 20, 2000, pp. 44–45; "How Four Renegades Persuaded Microsoft to Make a Game Machine," *The Wall Street Journal,* March 10, 2000, p. B1ff.

11. Peter J. Williamson, "Asia's New Competitive Game," *Harvard Business Review*, September–October 1997, pp. 55–67; David J. Collis and Cynthia A. Montgomery, "Competing on Resources: Strategy in the 1990s," *Harvard Business Review*, July–August 1995, pp. 118–28; "How Goodyear Forecast a Great Decade," *American Demographics,* March 1995, p. 39; "Firms Analyze Rivals to Help Fix Themselves," *The Wall Street Journal,* May 3, 1994, p. B1ff.; Thomas S. Gruca and D Sudharshan, "A Framework for Entry Deterrence Strategy: The Competitive Environment, Choices, and Consequences," *Journal of Marketing*, July 1995, pp. 44–55; Venkatram Ramaswamy, Hubert Gatignon, and David J. Reibstein, "Competitive Marketing Behavior in Industrial Markets," *Journal of Marketing*, April 1994, pp. 45–55; Z. S. Deligonul and S. T. Cavusgil, "Does the Comparative Advantage Theory of Competition Really Replace the Neoclassical Theory of Perfect Competition?" *Journal of Marketing*, October 1997, pp. 65–73; J. S. Armstrong, "Co-Opetition," *Journal of Marketing*, April 1997, pp. 92–95; John L. Haverty and Myroslaw J. Kyj, "What Happens when New Competitors Enter an Industry," *Industrial Marketing Management* 20, no. 1 (1991), pp. 73–80; Arch G. Woodside and Elizabeth J. Wilson, "Diagnosing Customer Comparisons of Competitors' Marketing Mix Strategies," *Journal of Business Research,* October–November 1994, pp. 133–44; David W. Cravens and Shannon H. Shipp, "Market-Driven Strategies for Competitive Advantage," *Business Horizons*, January/February, 1991, pp. 53–61; William W. Keep, Glenn S. Omura, and Roger J. Calantone, "What Managers Should Know about Their Competitors' Patented Technologies," *Industrial Marketing Management*, July 1994, pp. 257–64.

12. *Kao* (Cambridge, MA: Harvard Business School Press, 1984); Bruce R. Klemz, "Managerial Assessment of Potential Entrants: Processes and Pitfalls," *International Journal of Research in Marketing*, June 2001, p. 37.

13. For more on P&G, see "P&G Wins Lawsuit, Loses Market," *Advertising Age,* September 18, 1989, p. 72. For more on corporate spying, see "More Firms Hire Sleuths to Avoid Nasty Surprises," *USA Today*, June 26, 2001, p. 1Bff.; "Your Employees Love IM. Should You Worry?" *Ecompany*, June 2001, pp. 102–106; "Spooked: Is That Salesman Really a Spy?" *Fortune*, January 8, 2001, p. 192; Adam L. Penenberg and Marc Barry, *Spooked: Espionage in Corporate America* (New York: HarperCollins, 2000); "Hey, It's Not Prying; It's Competitive Intelligence," *Raleigh News & Observer*, August 6, 2000, p. 14E; "Call It Mission Impossible *Inc*.—Corporate-Spying Firms Thrive," *The Wall Street Journal,* July 3, 2000, p. B1ff.; "Protecting Corporate Secrets: Does Your Company Own What You Know?" *USA Today*, January 19, 2000, p. 1Aff.; "Eyeing the Competition," *Time*, March 22, 1999, pp. 58–60; "How Safe Are Your Secrets?" *Fortune,* September 8, 1997, pp. 114–20; "High-Tech Tools Usher in Stolen-Information Age," *USA Today,* April 10, 1997, p. 1Bff. For more on the Oracle/Microsoft case, see "Oracle Case Shines Light on Corporate Spying," *Investor's Business Daily*, June 30, 2000, p. A7; "Oracle-Style Investigations Common, Experts Say," *USA Today*, June 29, 2000, p. 3B; "How Piles of Trash Became Latest Focus in Bitter Software Feud," *The Wall Street Journal,* June 29, 2000, p. A1ff.; "Oracle Hired Firm to Probe Microsoft Allies, *The Wall Street Journal,* June 28, 2000, p. A3ff. For more on other specific cases, see "System Breach Is Stirring Up Airline Rivalry," *The Wall Street Journal,* June 27, 2000, p. B1ff.; "China's Spies Target Corporate America," *Fortune,* March 30, 1998, pp. 118–22; "In the Debris of a Failed Merger: Trade Secrets," *The Wall Street Journal,* March 10, 1998, p. B1ff.; "Ex-Kodak Manager Is Sentenced to Jail; Company Sues Scherer," *The Wall Street Journal,* November 17, 1997, p. B17. See also Shaker A. Zahra, "Unethical Practices in Competitive Analysis: Patterns, Causes and Effects," *Journal of Business Ethics*, January 1994, pp. 53–62.

14. "A Whole New Wave of Japanese Exports Is Headed Westward," *The Wall Street Journal,* November 14, 1997, p. A1ff.

15. Rajdeep Grewal, "Building Organizational Capabilities for Managing Economic Crisis: The Role of Market Orientation and Strategic Flexibility," *Journal of Marketing*, April 2001, pp. 67–81; "Gas Prices May Level Off—Until Next Summer," *USA Today*, May 22, 2001, p. 1Aff.; "Daimler Thinks Small: With Gas Prices Soaring, Will Americans Get 'Smart'?" *Newsweek*, May 21, 2001, p. 48; "Europeans Unmoved by USA's Energy Plight," *USA Today*, May 17, 2001, p. 8A; "Diesel-Sippers Win Fans as Gas Prices Soar," *USA Today*, May 15, 2001, p. 1B; "Shock at the Wheel: Wonder Why Gas Prices Suddenly Got So High?" *The Wall Street Journal,* May 14, 2001, p. A1ff.; "Wary Consumers Watch as Inflation Nudges Prices Up," *USA Today*, April 30, 2001, p. 1Bff.; "Time for a Reality Check," *Business Week,* December 2, 1996, pp. 58–67; "Industry Covets Potential of Pacific Rim," *USA Today,* June 17, 1996, p. 1Bff.; "Biggest Show of Force in a Decade Halts Slide of the Dollar—for Now," *The Wall Street Journal*, May 5, 1994, p. A1ff.; "Demand for Wood Leads to Building Panic," *USA Today,* March 17, 1993, p. 1Bff.

16. "New Frontiers: A New Brand of Tech Cities," *Newsweek*, April 30, 2001, pp. 44–70; "Technology: The Era of Living Wirelessly," *USA Today Bonus*, June 26, 2001; "Technology: What's Ahead," *The Wall Street Journal Reports,* June 25, 2001; "tough Times in Techland," *The Wall Street Journal,* December 28, 2000, p. B1ff.; "Tech Extra: Consumer Electronics," *Investor's Business Daily*, December 8, 2000; "Technology: How Technology Has Changed the Way We . . . ," *The Wall Street Journal Reports*, November 13, 2000; "Telecommunications: Untangling the Cord," *The Wall Street Journal Reports,* September 18, 2000; "Tech Extra: The Web Goes Wireless," *Investor's Business Daily*, September 15, 2000; "Gadget Envy," *The Wall Street Journal,* August 3, 2000, p. B1ff.; "Special Report: Wireless in Cyberspace," *Business Week,* May 29, 2000, pp. 136–64; "Special Report: Digital Wheels," *Business Week,* April 10, 2000, pp. 114–24; "Entertainment + Technology: Together at Last," *The Wall Street Journal Reports,* March 20, 2000; "Technology: Cleaning Out Your Desk," *The Wall Street Journal Reports*, November 15, 1999; "The Internet Age," *Business Week,* October 4, 1999, pp. 69–98; "Beyond the PC," *Business Week,* March 8, 1999, pp. 79–88; "Technology: Thinking about Tomorrow," *The Wall Street Journal Reports,* November 16, 1998; "Digital D-Day," *Business Week,* October 26, 1998, pp. 144–58; "Technology: In the Chips," *The Wall Street Journal Reports*, June 15, 1998; Robert A. Peterson, Sridhar Balasubramanian, and Bart J. Bronnenberg, "Exploring the Implications of the Internet for Consumer Marketing," *Journal of the Academy of Marketing Science*, Fall 1997, pp. 329–46; John Deighton, "Commentary on 'Exploring the Implications of the Internet for Consumer Marketing'," *Journal of the Academy of Marketing Science*, Fall 1997, pp. 347–51; D L. Andrus, "Inside the Tornado: Marketing Strategies From Silicon Valley's Cutting Edge," *Journal of Marketing*, April 1997, pp. 97–99; Kim Schatzel, "The Dynamics of Technological Innovation: The Evolution and Development of Information Technology," *Journal of Product Innovation Management*, January 1998, pp. 103–04; Karen A. Graziano, "The Innovator's Dilemma: When New Technologies Cause Great Firms to Fail," *Journal of Product Innovation Management*, January 1998, pp. 95–97; Thomas Kiely, "Obeying the Laws of Cyberspace," *Harvard Business Review*, September–October 1997, pp. 12–13; Edward McDonough, "Strategic Management of Technology and Innovation," *Journal of Product Innovation Management*, November 1997, pp. 533–34.

17. "Chips: Breaking the Light Barrier," *Business Week,* April 16, 2001, pp. 74–75; "Handhelds That Do It All," *Business Week,* February 12, 2001, pp. 98–99; "Will Light Bulbs Go the Way of the Victrola?" *Business Week,* January 22, 2001, p. 94H; "Dick Tracy, Meet '3G,'" *The Wall Street Journal,* January 18, 2001, p. B1ff.; "Raft of New Wireless Technologies Could Lead to Airwave Gridlock," *The Wall Street Journal,* January 8, 2001, p. B1ff.; "Drive-by-Wire Technology Promises Simpler and Safer Car Control," *The Wall Street Journal,* January 12, 2001, p. B1ff.; "Wireless Telephones Shed Keypads to Make Way for Bigger Screens," *The Wall Street Journal,* January 11, 2001, p. B1ff.; "GSM, CDMA, TDMA Make for a Wireless Tower of Babel," *Investor's Business Daily*, December 28, 2000, p. A5; "High-Tech Applications Transform Old Economy," *USA Today*, September 7, 2000, p, 3B; "In Dot-Com World, the Hot New Thing Is the Old Telephone," *The Wall Street Journal,* June 30, 2000, p. A1ff.; "In Japan, the World Goes Flat," *The Wall Street Journal,* June 29, 2000, p. B1ff.; "The World Is Your Office," *Fortune*, June 12, 2000, pp. 227–34; "Wireless Summer," *Time*, May 29, 2000, pp. 58–66; "Wireless Gets Easier and Faster," *Business Week,* May 29, 2000, p. 34; "An Efficiency Drive: Fast-Food Lanes Are Getting Even Faster," *The Wall Street Journal,* May 18, 2000, p. A1ff.; "E-Novel Approach Promises New Chapter for Book Lovers," *USA Today*, May 9, 2000, p. 1Bff.; "Chips for the Post-PC Era," *Business Week,* March 27, 2000, pp. 96–104; "Welcome to 2010," *Business Week,* March 6, 2000, pp. 102–12; "Wireless Option Opens Door to a New E-World," *USA Today*, February 18, 2000, p. 1Aff.; "Wireless Takes to the High Wire," *Business Week,* February 14, 2000, pp. 68–70; "This Frame Fetches Photos from the Net, Staging a Slide Show," *The Wall Street Journal,* February 3, 2000, p. B1; "The Soul of a New Refrigerator," *Business Week,* January 17, 2000, p. 42; "Driving a Stick," *Brandweek*, January 10, 2000, pp. 28–33; "Will the Future Be Written in E-Ink?" *The Wall Street Journal,* January 4, 2000, p. B1ff.; "Made in Japan," *Fortune*, December 6, 1999, pp. 190–202; "GM Will Connect Drivers to the World Wide Web," *The Wall Street Journal,* November 3, 1999, p. B1ff.; "Here Come Smart Phones," *Business Week,* October 25, 1999, pp. 167–94; "Here Come PVRs: Is Network TV Doomed?" *Time*, September 27, 1999, pp. 62–63; "So Many Megabytes, So Little Space," *The Wall Street Journal,* September 3, 1999, p. B1ff.; "Battle of the Batteries," *Business Week,* August 9, 1999, pp. 87–88; "Forget Microwaves: 'Speed Cookers' Also Crisp and Brown," *The Wall Street Journal,* June 30, 1999, p. B1ff.; "Evolutionary Wars," *Brandweek*, January 11, 1999, pp. 20–25; "A PC in Your Car? Why?" *Fortune*, September 7, 1998, pp. 113–15; "In HDTV Age, Successor to VCR Is a Long Way Off," *The Wall Street Journal,* April 8, 1998, p. B1ff.; "The Automakers' Big-Time Bet on Fuel Cells," *Fortune,* March 30, 1998, pp. 122C-P; "Take the Internet with You in a Phone, Watch or Shoe," *USA Today,* March 19, 1998, p. 1Bff.; "Detroit's Impossible Dream," *Business Week,* March 2, 1998, pp. 66–68; "Computer Industry Races to Conquer the Automobile," *The Wall Street Journal,* February 23, 1998, p. B1ff.; "Let's Talk: Speech Technology," *Business Week,* February 23, 1998, pp. 61–80; "Technology, Not Fashion, Now Seen as Crucial to Selling Athletic Shoes," *Brandweek,* February 16, 1998, p. 16; "How Smart Sensors Keep Factories Humming," *Fortune,* March 17, 1997, pp. 144A-H; "In Digital Dorm, Click on Return for Soda," *The Wall Street Journal,* January 23, 1997, p. B1ff.; Noel Capon and Rashi Glazer, "Marketing and Technology: A Strategic Coalignment," *Journal of Marketing,* July 1987, pp. 1–14. For more on privacy, see Chapter 14, footnote #11 and Chapter 22, footnote #18.

18. "Lessons of a Crisis," *Business Week,* April 23, 2001, pp. 56–57; "Made in Japan? Not for Home Team," *The Wall Street Journal,* February 18, 1998, p. A6; "U.S. Backpedals on Law that Hung 'Made in China' Tag on European Goods," *The Wall Street Journal,* August 8, 1997, p. A2; Gopalkrishnan R. Iyer, "Anticompetitive Practices in Japan: Their Impact on the Performance of Foreign Firms," *Journal of Marketing*, October 1997, pp. 97–99; Michael G. Harvey, "Buy American": Economic Concept or Political Slogan?" *Business Horizons,* May–June 1993, pp. 40–46; "Made in America Becomes a Boast in Europe," *The Wall Street Journal,* January 19, 1994, p. B1ff.; Terry Clark, "National Boundaries, Border Zones, and Marketing Strategy: A Conceptual Framework and Theoretical Model of Secondary Boundary Effects," *Journal of Marketing*, July 1994, pp. 67–80.

19. For more on Lands' End example, see "Border Crossings," *The Wall Street Journal* (Special Report: E-Commerce), November 22, 1999, p. R41. For more on EU, see "Ready, Set, Euros!" *Business Week,* July 2, 2001, pp. 48–50; "Blair's Euro Dilemma," *Business Week,* June 25, 2001, pp, 48–49; "Euro Leaves U.S. Investors Under the Weather," *The Wall Street Journal,* June 14, 2001, p. C1ff.; "There's Really No Reason to Worry about the Euro," *Business Week,* June 11, 2001, pp. 60–62; "Future of Euro Sparks a Marketing Contest," *Ad Age Global*, March 2001, p. 21; "Back from the Depths," *Business Week,* January 8, 2001, pp. 52–53; "The Euro: A Dismal Failure, a Ringing Success," *The Wall Street Journal,* November 6, 2000, p. A29ff.; "The Euro Mess," *Business Week,* October 2, 2000, pp. 140–46; "What's Really Wrong with the Euro? It's Not the Currency, But the Gov'ts," *Investor's Business Daily*, September 29, 2000, p. A9; "Is Currency Intervention Enough to Hold Up Euro?" *USA Today*, September 25, 2000, p. 1Bff.; "In Drug-Cost Debate, Europe Offers U.S. a Telling Side Effect," *The Wall Street Journal,* July 21, 2000, p. A1ff.; "The End of a Free Ride for Carmakers?" *Business Week,* June 26, 2000, p. 70; "Why the Euro Keeps Shriveling," *Business Week,* March 27, 2000, pp. 218–19; "Bon Voyage! Weak Euro Is Bonanza for U.S. Tourists," *The Wall Street Journal,* July 16, 1999, p. B1ff.; "Emergence of Euro Embodies Challenge and Hope for Europe," *The Wall Street Journal,* January 4, 1999, p. A1ff.; "Countdown to New Currency," *USA Today*, December 28, 1998, p. 1Bff.; "The Euro: Are You Ready?" *Business Week,* December 14, 1998, pp. 62–72; "As the Euro's Arrival Nears, Europe Braces for Lots of Headaches," *The Wall Street Journal,* November 30, 1998, p. A1ff.; "Au Revoir, Malaise: Europe's Economies Are Back in Business," *The Wall Street Journal,* April 9, 1998, p. A1ff.; "A Tale of Two Nations Shows Europe's Union Has Differing Sides," *The Wall Street Journal,* July 28, 1997, p. A1ff.; "Europe's Borders Fade and People and Goods Can Move More Freely," *The Wall Street Journal,* May 18, 1993, p. A1ff.; Valerie L. Vaccaro, "European Retailing's Vanishing Borders," *Journal of the Academy of Marketing Science*, Fall 1996, pp. 386–88.

20. Available from World Wide Web: <http://www.nafta.org>. For more on NAFTA, see "Border Crossing? No Problema," *Business Week Small Biz*, July 16, 2001, p. 10; "NAFTA Scorecard: So Far, So Good," *Business Week,* July 9, 2001, pp. 54–56; "Mexican Trucks Won't Fill the U.S. Soon," *The Wall Street Journal,* February 16, 2001, p. C4; "Mexican Truckers Face U.S. Obstacle Course," *USA Today*, February 5, 2001, p. 1Bff.; "Car Power," *Business Week,* October 23, 2000, pp. 72–82; "Mexico Thrives under NAFTA, Seeks More," *USA Today*, August 28, 2000, p. 1B; "Mexico Pulls Off Another Trade Coup," *Business Week,* February 7, 2000, p. 56; "Job Shift to Mexico Lets U.S. Firms Upgrade," *The Wall Street Journal,* November 15, 1999, p. A28; "Mexico Builds a Home-Appliance Bonanza," *The Wall Street Journal,* August 23, 1999, p. A12; "In the Wake of NAFTA, a Family Firm Sees Business Go South," *The Wall Street Journal,* February 23, 1999, p. A1; "Mexican Makeover," *Business Week,* December 21, 1998, pp. 50–52; "NAFTA Jam," *USA Today,* April 3, 1998, p. 1Bff.; Kent Jones, "NAFTA Chapter 19: Is There Hope for Bilateral Dispute Resolution of Unfair Trade Law Decisions?" *Journal of Public Policy & Marketing,* Fall 1994, pp. 300–6.

21. Thomas L. Osterhus, "Pro-Social Consumer Influence Strategies: When and How Do They Work?" *Journal of Marketing*, October 1997, pp. 16–29; Roger Swagler, "Evolution and Applications of the Term Consumerism: Theme and Variations," *Journal of Consumer Affairs,* Winter

1994, pp. 347–60; Alan Morrison, "The Role of Litigation in Consumer Protection," *The Journal of Consumer Affairs,* Winter, 1991, pp. 209–20; William K. Darley and Denise M. Johnson, "Cross-National Comparison of Consumer Attitudes Toward Consumerism in Four Developing Countries," *Journal of Consumer Affairs,* Summer 1993, pp. 37–54.

22. For more on Beech-Nut, see "What Led Beech-Nut Down the Road to Disgrace," *Business Week,* February 22, 1988, pp. 124–28. See also David A. Balto, "Emerging Antitrust Issues in Electronic Commerce," *Journal of Public Policy & Marketing,* Fall 2000, pp. 277–87; Shelby D. Hunt, "Competition as an Evolutionary Process and Antitrust Policy," *Journal of Public Policy & Marketing,* Spring 2001, Vol. 20, 1, pp.15–27; "Europe: A Different Take on Antitrust," *Business Week,* June 25, 2001, p. 40; "Trustbusting's Top Cop," *Business Week,* April 30, 2001, pp. 88–89; "A Different Kind of Trustbuster," *Business Week,* April 16, 2001, pp. 66–68; "Antitrust: Laying the Tracks a Bit to the Right," *Business Week,* February 12, 2001, p. 36; "Is the FTC Defending Goliath?" *Business Week,* December 18, 2000, pp. 160–62; "How a Whistle-Blower Spurred Pricing Case Involving Drug Makers," *The Wall Street Journal,* May 12, 2000, p. A1ff.; "Invasion of the Cartel Cops," *Business Week,* May 8, 2000, pp. 130–32; "By Any Other Name, a Monopoly.Com," *Business Week,* April 19, 1999, p. 154; "A Little Internet Firm Got a Big Monopoly; Is That Such a Bad Thing?" *The Wall Street Journal,* October 8, 1998, p. A1ff.; "In Archer-Daniels Saga, Now the Executives Face Trial," *The Wall Street Journal,* July 9, 1998, p. B10; "The FTC's Eager Sheriff," *Business Week,* July 6, 1998, pp. 65–66; Gregory T. Gundlach, "Exchange Relationships and the Efficiency Interests of the Law," *Journal of Public Policy & Marketing,* Fall 1996, pp. 185–202; Tara J. Schleicher, "The U.S. Supreme Court's Use of Post-Chicago Antitrust Theory in Eastman Kodak V. Image Technical Services: Implications for Marketing Practice," *Journal of Public Policy & Marketing,* Fall 1997, pp. 310–18; Ann C. Morales, "Corporate Officer Liability: FTC Expands Its Remedial Reach Over Deceptive Marketing Practices," *Journal of the Academy of Marketing Science,* Spring 1998, pp. 163–64; Jef I. Richards, "Legal Potholes on the Information Superhighway," *Journal of Public Policy & Marketing,* Fall 1997, pp. 319–26; Dan A. Fuller and Debra L. Scammon, "Newly Evolving Organizational Structures in the Health Care Industry: Principles of Antitrust Enforcement and Implications for Marketing," *Journal of Public Policy & Marketing,* Spring 1996, pp. 128–35; G. S. Erickson, "Export Controls: Marketing Implications of Public Policy Choices," *Journal of Public Policy & Marketing,* Spring 1997, pp. 83–92; Thomas A. Hemphill, "The New Era of Business Regulation," *Business Horizons,* July–August 1996, pp. 26–30; Rita M. Cain, "Recent Developments in Telemarketing Regulation," *Journal of Public Policy & Marketing,* Spring 1996, pp. 135–41; Charles S. Gulas, "Marketing Strategies for Services: Globalization, Client-Orientation, Deregulation," *Journal of the Academy of Marketing Science,* Spring 1996, pp. 178–79; Joan T. A. Gabel, "Lanham Act Not Limited to Advertisements Aimed at the Ultimate Consumer," *Journal of the Academy of Marketing Science,* Spring 1997, p.178. See also Louis W. Stern and Thomas L. Eovaldi, *Legal Aspects of Marketing Strategy: Antitrust and Consumer Protection Issues* (Englewood Cliffs, N.J.: Prentice-Hall, 1984).

23. For more on Firestone, see Chapter 9, footnote #13. For more on auto safety, see "Smash, Bang, Crunch, Screech—Wow, What a Car!" *The Wall Street Journal,* April 13, 2001, p. B1ff.; "Safety First," *Newsweek,* October 30, 2000, pp. 56–59; "Formula Predicts Rollover Risk," *USA Today,* July 17, 2000, p. 1Bff.; "New Clan of Crash Dummies Ready for Lab Mayhem," *USA Today,* July 5, 2000, p. 6B; "The Safest Cars? It's in the Bag," *The Wall Street Journal,* May 12, 2000, p. W1; "The Side Air Bag Controversy: No Safety Regulations Mean Risk Levels Differ by Design," *USA Today,* February 11, 1999, p. 1Bff.; For more on food and drug safety, see "Pills on a Pedestal," *USA Today,* February 6, 2001, p. 1Dff.; "Move to Import Medicines: Boon or Boondoggle?" *The Wall Street Journal,* October 13, 2000, p. B1ff.; "Complex Drug Labels Bury Safety Messages," *USA Today,* May 3, 2000, p. 1Aff.; "Many Medicines Prove Potent for Years Past Their Expiration Dates," *The Wall Street Journal,* March 28, 2000, p. A1ff.; "Splitting Hairs on Supplement Claims," *The Wall Street Journal,* February 22, 2000, p. B1ff.; Foul-Ups by Asthma-Drug Maker Draw FDA Fire," *The Wall Street Journal,* January 28, 2000, p. B1ff.; "In Boom for Home Drug Tests, One Runs Afoul of FDA," *The Wall Street Journal,* August 24, 1999, p. B1ff.; "Supplement or Additive? Issue Is on FDA's Plate," *USA Today,* November 4, 1998, p. 1Bff.; "Rush to Judgment? Policy Speeds Approvals, but Some Say It's Risky," *USA Today,* July 10, 1998, p. 1Aff.; "Meat Safety: Critics Say New Regulations Won't Work," *USA Today,* October 8, 1997, p. 1Aff.; "Fine Print in Drug Ads Sparks a Debate," *The Wall Street Journal,* April 1, 1997, p. B1ff.

24. "Microsoft: New Rules of the Road," *Business Week,* July 16, 2001, pp. 34–36; "No Split but Microsoft's a Monopolist," *Time,* July 9, 2001, pp. 36–38; "A Cloud Lifted," *Newsweek,* July 9, 2001, pp. 38–39; "Living in Microsoft's Shadow," *The Wall Street Journal,* July 2, 2001, p. B1ff.; "They're Here, They're Feared, So Get Used to It," *The Wall Street Journal,* July 2, 2001, p. B1ff.; "Microsoft Scores a Big Legal Victory," *The Wall Street Journal,* June 29, 2001, p. B1ff.; "Microsoft: Let the Negotiations Begin," *USA Today,* June 29, 2001, p. 1Bff.; "Are Antitrust Laws Obsolete in the New Economy?" *Investor's Business Daily,* April 16, 2001, p. A6; "Judging Jackson," *Ecompany,* April 2001, p. 40ff.; "Appeal Proceedings Could Embolden Microsoft," *The Wall Street Journal,* March 2, 2001, p. B1ff.; "Microsoft Blames Lower Judge's Bias for Harsh Remedy," *Investor's Business Daily,* February 28, 2001, p. A6; "The Wind Shifts for Microsoft," *Business Week,* February 12, 2001, pp. 93–94; "Damn the Torpedoes! Full Speed Ahead," *Fortune,* July 10, 2000, pp. 98–110; "The Great Antitrust Debate," *Business Week,* June 26, 2000, pp. 40–42; "Microsoft's Six Fatal Errors," *Newsweek,* June 19, 2000, pp. 22–32; "For Policy Makers, Microsoft Suggests Need to Recast Models," *The Wall Street Journal,* June 9, 2000, p. A1ff.; "Keeping on Course in a Crisis," *The Wall Street Journal,* June 9, 2000, p. B1ff.; "Judge's Breakup Order Stands to Transform Microsoft, Its Industry," *The Wall Street Journal,* June 8, 2000, p. A1ff.; "For Antitrust Judge, Trust, or Lack of It, Really Was the Issue," *The Wall Street Journal,* June 8, 2000, p. A1ff.; "Microsoft Awaits a New Hand," *USA Today,* June 8, 2000, p. 1Bff.; "A Breakup Primer for Microsoft?" *The Wall Street Journal,* June 6, 2000, p. B1ff.; "Unintended Consequences," *The Wall Street Journal,* June 2, 2000, p. B1ff.; "Microsoft's All-Out Counterattack," *Business Week,* May 15, 2000, p. 103–106; "Antitrust for the Digital Age," *Business Week,* May 15, 2000, pp. 46–48; "Microsoft's Reply: We Didn't Do It, and We Promise Not to Do It Again," *Investor's Business Daily,* May 11, 2000, p. A1; "Microsoft Proposes Curbs that Open Windows a Crack," *USA Today,* May 11, 2000, p. 1Bff.; "Looking through Microsoft's Window," *The Wall Street Journal,* May 1, 2000, p. B1ff.; "Facing Breakup, Gates to Take Case to People," *USA Today,* May 1, 2000, p. 1Bff.; "Technology Will Test a Washington Culture Born in Industrial Age," *The Wall Street Journal,* May 1, 2000, p. A1ff.; "Creating Two Behemoths?" *The Wall Street Journal,* April 28, 2000, p. B1ff.; "A Tricky Element in the Antitrust Battle: Microsoft's Server Tactics," *The Wall Street Journal,* April 19, 2000, p. B1ff.; "The 'Beast of Redmond' Defanged?" *The Wall Street Journal,* April 5, 2000, p. B1ff.; "Microsoft Judge Faces Demands of Market and of Monopoly Law," *The Wall Street Journal,* April 4, 2000, p. A1ff.; "Microsoft Ruling Open to Appeal," *USA Today,* April 4, 2000, p. 1Bff.; "Does a Breakup Make Sense?" *Business Week,* November 22, 1999, pp. 38–50; "Microsoft Enjoys Monopoly Power," *Time,* November 15, 1999, pp. 60–69; "Bill Takes It on the Chin," *Newsweek,* November 15, 1999, pp. 52–56; "Microsoft Is Found to Be Predatory Monopolist," *The Wall Street Journal,* November 8, 1999, p. A3ff.; "Knowing the ABCs of the Antitrust Case against Microsoft," *The Wall Street Journal,* October 30, 1997, p. B1.

25. "Marketing Law: A Marketer's Guide to Alphabet Soup," *Business Marketing,* January 1990, pp. 56–58; Ray O. Werner, "Marketing and the Supreme Court in Transition, 1982–1984," *Journal of Marketing,* Summer 1985, pp. 97–105; Ray O. Werner, "Marketing and the United States Supreme Court, 1975–1981," *Journal of Marketing,* Spring 1982, pp. 73–81; Dorothy Cohen, "Trademark Strategy," *Journal of Marketing,* January 1986, pp. 61–74.

26. "Nike Introduces Women-Only Stores," *AdAge Global,* June 2001, p. 5; "Women Take Stage in Beer Ads," *USA Today,* April 30, 2001, p. 5B; "The Changing Face of Super Sunday," *USA Today,* January 25, 2001, p. 1Bff.; "Eyes on the Prize," *American Demographics*, November 2000, pp. 48–49; "Cyber Sweat," *Brandweek*, June 19, 2000, p. 38; "Aiming to Please Women," *USA Today*, June 10, 1999, p. 1Bff.; "Women's Site iVillage Woos Busy Female Fitness Buffs," *Advertising Age*, May 3, 1999, p. S26; "Soap and Diaper Makers Pitch to Masses of Web Women," *The Wall Street Journal,* July 20, 1998, p. B1ff.; "Gillette's New Strategy Is to Sharpen Pitch to Women," *The Wall Street Journal,* May 11, 1998, p. B1ff.; "Born to be Mild, or Wild?" *Brandweek,* March 16, 1998, pp. 22–23; "Advertisers Target Women, but Market Remains Elusive," *Advertising Age,* November 10, 1997, p. 1ff.; Patricia Braus, "The Mother Market," *American Demographics,* October 1996, pp. 37–41; "GM Looking to Woo Developing Clout of Females," *Advertising Age,* June 17, 1996, p. 39; Gerry Myers, "Selling a Man's World to Women," *American Demographics,* April 1996, pp. 36–41; "High-Tech Marketers Try to Attract Women without Causing Offense," *The Wall Street Journal,* March 17, 1994, p. B1ff.

27. For more on the changing nature of families, see "In 24-Hour Workplace, Day Care Is Moving to the Night Shift," *The Wall Street Journal,* July 6, 2001, p. A1ff.; Rebecca Gardyn, "Granddaughters of Feminism," *American Demographics*, April 2001, pp. 42–47; "High-Tech List for India's Women," *The Wall Street Journal,* November 1, 2000, p. B1ff.; "Net Lets Japanese Women Join Work Force at Home," *The Wall Street Journal,* February 29, 2000, p. B1ff.; "The New Debate Over Working Moms," *Business Week,* September 18, 2000, pp. 102–16; "Mommy, Do You Love Your Company More Than Me?" *Business Week,* December 20, 1999, p. 175; "More Dads Raise Families without Mom," *The Wall Street Journal,* October 3, 1997, p. B1ff.; "Ads that Portray Women," *USA Today,* September 9, 1996, p. 4B; "In Fitful Pursuit of American Women," *Advertising Age,* January 8, 1996, P. S4ff.; "Narrowcast in Past, Women Earn Revised Role in Advertising," *Advertising Age,* October 4, 1993, p. S1ff.; "Stay-at-Home Moms Are Fashionable Again in Many Communities," *The Wall Street Journal,* July 23, 1993, p. A1ff. For more on changing food habits, see "Skip the Tofu—More Americans Tear into Steaks," *The Wall Street Journal,* March 8, 2001, p. B1ff.; "Food Industry Battles for Moms Who Want to Cook—Just a Little," *The Wall Street Journal,* March 7, 2001, p. A1ff.; "Personal Chefs Are No Longer Just for the Rich," *USA Today*, February 9, 2001, p. 1Aff.; "Can Tyson Fight 'Chicken Fatigue' with Pork, Beef?" *The Wall Street Journal,* January 10, 2001, p. B1ff.; "Takeout Turkey on More Tables as Cooks Relax," *The Wall Street Journal,* November 24, 2000, p. A11ff.; "Bring on the Junk Food," *Newsweek*, July 10, 2000, p. 44; "Breakfast Eats Time, So Workers Gobble at the Office," *USA Today*, June 22, 2000, p. 6B; "Stewing in a Tough Market: Beef Industry Hopes New Ideas . . . ," *USA Today*, July 8, 1999, p. 1Bff.; "On the Run," *Advertising Age*, August 24, 1998, p. 1ff. For more on poverty of time, see "Can Workplace Stress Get Worse?" *The Wall Street Journal,* January 16, 2001, pp. B1ff.; "Telecommuters' Lament," *The Wall Street Journal*, October 31, 2000, p. B1ff.; "The Price of Speed," *USA Today*, August 3, 2000, p. 10D; "Why Everyone Is So Short-Tempered," *USA Today*, July 18, 2000, p. 1Aff.; "The End of Leisure," *American Demographics*, July 2000, pp. 50–56; "Home Is Where the Office Is," *American Demographics*, June 2000, pp. 54–60; "Surviving Commuting," *American Demographics*, July 1998, pp. 51–55. See also Eric Panitz, "Marketing in a Multicultural World: Ethnicity, Nationalism and Cultural Identity," *Journal of the Academy of Marketing Science*, Spring 1997, pp. 169–71; Victoria D. Bush and Thomas Ingram, "Adapting to Diverse Customers: A Training Matrix for International Marketers," *Industrial Marketing Management*, September 1996, pp. 373–83.

28. Available from World Wide Web: <http://www.enrononline.com>; "The Power Party May Be Winding Down," *Business Week,* July 9, 2001, p. 42; "Enron Powers Ahead with Online Marketplaces," *Investor's Business Daily*, May 23, 2001, p. A7; "In Era of Deregulation, Enron Woos Regulators More Avidly Than Ever," *The Wall Street Journal,* May 18, 2001, p. A1ff.; "Is Enron Overpriced?" *Fortune*, March 5, 2001, pp. 122–26; "Power Play," *Business Week,* February 12, 2001, pp. 70–80; "Enron Switches Signals in India," *Business Week,* January 8, 2001, p. 58; "The Power Brokers," *Ecompany*, January/February 2001, pp. 116–24; "The World's Most Admired Companies," *Fortune*, October 2, 2000, pp. 183–97; "From Sleepy Utility to Online Turbotrader," *Business Week E.Biz* (Special Report: Web Smart 50), September 18, 2000, p. EB46; "Gridlock on the Power Grid," *Business Week,* August 28, 2000, pp. 48–49; "Enron Electrified," *Business Week E.Biz*, July 24, 2000, pp. EB54–EB58; "Reinvent Your Company," *Fortune*, June 12, 2000, pp. 98–118; "The Power Merchant," *Fortune*, April 17, 2000, pp. 148–60; "Online Utilities Charge Up," *Business Week,* April 17, 2000, pp. 176B-J; "The Power of Choice," *USA Today*, March 24, 2000, p. 1Bff.; "Enron Takes Its Pipeline to the Net," *Fortune*, January 24, 2000, pp. 127–30; "Virtual Utilities Peddle Power Over the Web," *The Wall Street Journal,* January 6, 2000, p. B1ff.; *2000 Annual Report*, Enron; "The Marketing of Power," *American Demographics*, September 1997, pp. 59–63; "For Sale: Environmentally Correct Electricity," *The Wall Street Journal,* July 23, 1997, p. B1ff.; "Power Struggle: Deregulation Sparks Marketing Battle," *The Wall Street Journal,* March 13, 1996, p. B1ff.

29. Frank R. Bacon, Jr., and Thomas W. Butler, Jr., *Planned Innovation,* rev. ed. (Ann Arbor: Institute of Science and Technology, University of Michigan, 1980).

30. Paul F. Anderson, "Marketing, Strategic Planning and the Theory of the Firm," *Journal of Marketing,* Spring 1982, pp. 15–26; George S. Day, "Analytical Approaches to Strategic Market Planning," in *Review of Marketing 1981,* ed. Ben M. Enis and Kenneth J. Roering (Chicago: American Marketing Association, 1981), pp. 89–105; Ronnie Silverblatt and Pradeep Korgaonkar, "Strategic Market Planning in a Turbulent Business Environment," *Journal of Business Research,* August 1987, pp. 339–58.

31. Richard N. Cardozo and David K. Smith, Jr., "Applying Financial Portfolio Theory to Product Portfolio Decisions: An Empirical Study," *Journal of Marketing,* Spring 1983, pp. 110–19; Yoram Wind, Vijay Mahajan, and Donald J. Swire, "An Empirical Comparison of Standardized Portfolio Models," *Journal of Marketing,* Spring 1983, pp. 89–99; Philippe Haspeslagh, "Portfolio Planning: Uses and Limits," *Harvard Business Review,* January–February 1982, pp. 58–73.

32. Keith B. Murray and Edward T. Popper, "Competing under Regulatory Uncertainty: A U.S. Perspective on Advertising in the Emerging European Market," *Journal of Macromarketing,* Fall 1992, pp. 38–54; "Inside Russia—Business Most Unusual," *UPS International Update,* Spring 1994, p. 1ff.; "Freighted with Difficulties," *The Wall Street Journal,* December 10, 1993, p. R4; "Russia Snickers after Mars Invades," *The Wall Street Journal,* July 13, 1993, p. B1ff.; Michael G. Harvey and James T. Rothe, "The Foreign Corrupt Practices Act: The Good, the Bad and the Future," in *1983 American Marketing Association Educators' Proceedings,* ed. P. E. Murphy et al. (Chicago: American Marketing Association, 1983), pp. 374–79.

33. "Sensitive Export: Seeking New Markets for Tampons, P&G Faces Cultural Barriers," *The Wall Street Journal,* December 8, 2000, p. A1ff.; "Pizza Queen of Japan Turns Web Auctioneer," *The Wall Street Journal,* March 6, 2000, p. B1ff.; "What Makes Italy Easier?" *Going Global—Italy* (supplement to *Inc.*), 1994; "Jean Cloning," *Brandweek,* May 30, 1994, pp. 15–22; "Double Entendre: The Life and the Life of Pepsi Max," *Brandweek,* April 18, 1994, p. 40; "Global Ad Campaigns, After Many Missteps, Finally Pay Dividends," *The Wall Street Journal,* August 27, 1992, p. A1ff.; Kamran Kashani, "Beware the Pitfalls of Global Marketing," *Harvard Business Review,* September–October 1989, pp. 91–98.

Chapter 5

1. Available from World Wide Web: <http://www.schwab.com>; "Advertisers Are Cautious as Household Makeup Shifts," *The Wall Street Journal,* May 15, 2001, p. B1ff.; "Schwab, Going Upscale, Steps on Some Toes," *Business Week,* December 11, 2000, p. 112; "Brokers Are from Mars, Women Are from Venus," *Business Week,* December 4, 2000, p. 158; "Multicultural Marketing," *Advertising Age* (Special Report), November 30, 2000, pp. S1–12; "The Best Way to Trade Stocks," *The Wall Street Journal* (Special Report: The Internet), November 27, 2000, p. R6ff.; "Online Brokerages Go from Clicks to Bricks," *USA Today*, November 1, 2000, p. 1Bff.; "The Center of Attention," *American Demographics*, November 2000, pp. 30–32; "The World's Most Admired Companies," *Fortune*, October 2, 2000, pp. 183–90; "Speaking the Customer's Language—Literally," *Business Week,* September 25, 2000, p. 178; "Charles Schwab," *Business Week E.Biz* (Special Report: Web Smart 50), September 18, 2000, p. EB88; "Reinvent Your Company," *Fortune*, June 12, 2000, pp. 99–118; "How Schwab Grabbed the Lion's Share," *Business Week,* June 28, 1999, p. 88; "Schwab Puts It All Online," *Fortune*, December 7, 1998, pp. 94–100.

2. Based on U.S. Census data including, *Global Population Profile: 2000* and *World Population Profile: 1998* (Washington, DC: Government Printing Office) and *World Population at a Glance: 1998 and Beyond, IB/98–4*; and other Census data available from World Wide Web: <http://www.census.gov/ipc>.

3. Based on U.S. Census data and United Nations statistical data including *World Population Prospects: The 1999 Revision of the UN Population Division* (New York: United Nations, 2000); World Bank data including, *World Development Indicators: 2000* (Washington, DC: International Bank for Reconstruction and Development/The World Bank, 2000) and available from World Wide Web: <http://www.worldbank.org/data/wdi2000> and <http://devdata.worldbank.org/data-query>; Central Intelligence Agency data and available from World Wide Web: <http://www.odci.gov/cia/publications/factbook>; Population Reference Bureau data, including *2000 World Population Data Sheet* (Washington, DC: Population Reference Bureau, 2000) and available from World Wide Web: <http://www.prb.org/pubs/wpds2000>; and CountryWatch, available from World Wide Web: <http://www.countrywatch.com>; "How Rich Nations Can Defuse the Population Bomb," *Business Week,* May 28, 2001, p. 28; "China Tries Easing Once-Brutal Approach to Family Planning," *The Wall Street Journal,* February 2, 2001, p. A1ff.; "These Oldies Look Golden to Japan *Inc.*," *Business Week,* August 7, 2000, p. 59; "Rough Translation: 'No English, No Job'—A Reality Many of Asia's Workers Face," *USA Today*, July 21, 2000, p. 1Bff.; "The Big Crunch," *Time* (Special Issue), April–May 2000, pp. 44–47; "On the Move," *The Wall Street Journal,* January 1, 2000, p. R42ff.; Michel J. Weiss, *The Cluttered World* (Little, Brown and Company, 2000); "Parallel Universe," *American Demographics*, October 1999, pp. 58–63; "Six Billion Served," *American Demographics*, June 1999, pp. 14–16; Tamer S. Cavusgil, "Measuring the Potential of Emerging Markets: An Indexing Approach," *Business Horizons*, January–February 1997, pp. 87–91; E. B. Keehn, "A Yen to Spend," *Harvard Business Review*, March–April 1996, pp. 154–59; Tarun Khanna and Krishna Palepu, "Why Focused Strategies May Be Wrong for Emerging Markets," *Harvard Business Review*, July–August 1997, pp. 41–51.

4. Based on World Bank GNP and GDP data and available from World Wide Web: <http://www.worldbank.org/data/wdi>; and Central Intelligence Agency GDP data available from World Wide Web: <http://www.odci.gov/cia/publications/factbook>. Discussion of difference in GNP/GDP available from World Wide Web: <http://www.cyberus.ca/choose.sustain/Question/GDP-GNP.html>.

5. "World Bank Seeks to Give Poor More Clout," *Investor's Business Daily*, September 13, 2000, p. A10; and World Bank statistical data available from World Wide Web: <http://www.worldbank.org/data/wdi2000/worldview>.

6. "China Coping with Its New Power," *Business Week,* April 16, 2001, pp. 28–36; "China's Coming Telecom Battle," *Fortune*, November 27, 2000, pp. 209–14; "Gates & Co. Attack Asia," *Fortune*, April 17, 2000, pp. 197–208; "China's 'Little Emperors': The Offspring of Policy," *USA Today*, February 23, 2000, p. 10D; "PC Legend in the Making," *USA Today*, December 6, 1999, p. 1Bff.; "Dell Cracks China," *Fortune*, June 21, 1999, pp. 120–24; "How Legend Lives Up to Its Name," *Business Week,* February 15, 1999, pp. 75–78.

7. "African Gold Giant Finds History Impeded a Fight Against AIDS," *The Wall Street Journal,"* June 26, 2001, p. A1ff.; "Bottled Up: As UNICEF Battles Baby-Formula Makers, African Infants Sicken," *The Wall Street Journal,* December 5, 2000, p. A1ff.; "Death of a Continent," *Fortune*, November 13, 2000, pp. 258–74; "World Bank Is Targeting AIDS in Africa," *The Wall Street Journal,* September 12, 2000, p. A3FF; "AIDS in Africa Is Reshaping Whole Populations, Study Says," *USA Today*, July 11, 2000, p. 1A and p. 9D; "AIDS Apocalypse Expanding," *USA Today*, June 28, 2000, p. 7D; "American Home Infant-Formula Giveaway to End," *The Wall Street Journal,* February 4, 1991, p. B1ff.; "Three Small Businesses Profit by Taking on the World," *The Wall Street Journal,* November 8, 1990, p. B2.

8. Based on United Nations statistical data including statistical data from UNESCO available from World Wide Web: <http://unescostat.unesco.org/statsen/statistics/yearbook/tables>; statistical data from World Bank available from World Wide Web: <http://www.worldbank.org/data/wdi2000/illiteracy>; "The Lowdown on Literacy," *American Demographics,* June 1994, p. 6; Lee D. Dahringer and Hans Muhlbacher, *International Marketing: A Global Perspective* (Reading, MA: Addison-Wesley, 1991), p. 182.

9. Based on U. S. Census data including, "Table 2. Resident Population of the 50 States, the District of Columbia, and Puerto Rico: Census 2000," and "Table 5. Resident Population of the 50 States, the District of Columbia, and Puerto Rico: April 1, 2000 (Census 2000) and April 1, 1990 (1990 Census)," and "Figure 1. Percent Change in Resident Population for the 50 States, the District of Columbia, and Puerto Rico:1990 to 2000," and available from World Wide Web: <http://www.census.gov/population/www/cen2000/respop>; and "Census Bureau Projects Doubling of Nation's Population by 2100" (Press Release); "Exploring a Nation of Extremes," *The Wall Street Journal,* May 25, 2001, p. B1ff.; "Census Tracks Geographical Generation Gap," *USA Today*, May 25, 2001, p. 3A; "Lust for Statistics," *American Demographics*, March 2001, pp. 68–70; "Census Shows Record Growth," *USA Today*, December 29, 2000, P. 1Aff.; "Sun Belt Is Still Hot, but Census Finds a Big Shift," *The Wall Street Journal,* December 29, 2000, p. 6A; "Census Shows Gains in South and West," *The Wall Street Journal,* December 29, 2000, p. A2ff. Also based on data from Population Reference Bureau and Ameristat, available from World Wide Web: <http://www.prb.org> and <http://www.ameristat.org>.

10. Based on U.S. Census data and *The American Marketplace* (1999); "A Slow Fade for the Echo Boom," *American Demographics,* July 1994, p. 15; "The Baby Boomlet May End with a Blizzard," *American Demographics,* March 1994, p. 16.

11. Based on U.S. Census data and Rebecca Gardyn, "Retirement Redefined," *American Demographics*, November 2000, pp. 52–57; "Northern Exposure," *Fortune*, August 14, 2000, pp. 164–78; "After 54 Years, Baby Boom on the Wane," *The Wall Street Journal,* July 25, 2000, p. 3A; "A Design with Twists and Turns," *The Wall Street Journal,* February 3, 2000, p. B1ff.; Michelle Krebs, "Shifting Gears," *American Demographics*, January 2000, pp. 52–55; "Hell No, We Won't Go!" *Fortune*, July 19, 1999, pp. 102–108; "Home of the Gray," *Newsweek*, March 1, 1999, pp. 50–53; Jeff Brazil, "You Talkin' to Me?" *American Demographics*, December 1998, pp. 55–59; "The Latest Home Accessory: Garden Tools," *The Wall Street Journal,* April 10, 1998, p. W8; "Off Target?" *USA Today,* December 8, 1997, p. 1Bff.; "More than Meets the Eye," *Brandweek,* October 20, 1997, pp. 24–30; "Boomer Women Fuel Surge in Fashionable Plus-Sizes," *Advertising Age,* July 7, 1997, p. 24; "Entrepreneurs Cater to a Growing Nation," *The Wall Street Journal,* April 10, 1997, p. B1ff.; William R. Swinyard and Heikki J. Rinne, "The Six Shopping Worlds of Baby Boomers," *Business Horizons,* September–October 1994, pp. 64–69.

12. Based on U.S. Census data and Pamela Paul, "Echoboomerang," *American Demographics*, June 2001, pp. 44–49; "Marketers Tweak Strategies as Age Groups Realign," *The Wall Street Journal,* May 15, 2001, p. B1ff.; *Teen Fact Book* (Channel One Network, 2000) and available from World Wide Web: <http://www.TeenFactBook.com>; Susan Mitchell, "The Next Baby Boom," *American Demographics,* October 1995, pp. 22–31; "Teens, the Most Global Market of All," *Fortune,* May 16, 1994, pp. 90–97.

13. Based on U.S. Census data and "Unmarried with Children," *Newsweek*, May 28, 2001, pp. 46–55; "Single-Father Households in USA Increase 62% in '90s," *USA Today*, May 18, 2001, p. 1A; "Census 2000: The New Demographics," *The Wall Street Journal*, May 15, 2001, p. B1ff.; "Advertisers Are Cautious as Household Makeup Shifts," *The Wall Street Journal*, May 15, 2001, p. B1ff.; "For Whom the Bell Tolls," *Brandweek*, May 7, 2001, p. 22; "Houses Aren't Just for Couples," *Business Week*, January 8, 2001, p. 142; Rebecca Gardyn, "Unmarried Bliss," *American Demographics*, December 2000, pp. 56–61; "Demographics on Wall Street," *American Demographics*, December 2000, p. 6; "In Unwedded Bill: More Couples Decide To Avoid the Altar," *The Wall Street Journal*, August 2, 2000, P. S3; "The Heralded Return of Traditional Families Is Not What It Seems," *The Wall Street Journal*, May 31, 2000, p. B1; "Changing the Shape of the American Family," *USA Today*, April 18, 2000, p. 1Bff; Alison Stein Wellner, "Who Is in the House?" *American Demographics*, January 2000, pp. 48–51; "A Home of Their Own," *American Demographics*, September 1999, pp. 35–38.

14. Based on U.S. Census data and "Population of Rural America Is Swelling," *The Wall Street Journal*, July 21, 1996, p. B1ff.; "The Rural Rebound," *American Demographics*, May 1994, pp. 24–29.

15. Based on U.S. Census data and "Minorities Reshape Suburbs," *USA Today*, July 9, 2001, p. 1Aff.; "Counting Change," *Advertising Age*, May 14, 2001, pp. 16–20; "U.S. Cities Buck Trend with Boom Downtown," *USA Today*, May 7, 2001, p. 1Aff.; "Downtowns Make Cities Winners," *USA Today*, May 7, 2001, p. 3A; "Census Gainers and Losers: What Now?" *The Wall Street Journal*, April 11, 2001, p. B13; "Immigration Helped Restore Cities," *USA Today*, March 19, 2001, p. 3A

16. Based on U.S. Census data, including "Geographical Mobility: March 1998 to March 1999 (Update), P20–531" and available from World Wide Web: <http://www.census.gov/population/www/socdemo/migrate>; Roberto Suro, "Movement at Warp Speed," *American Demographics*, August 2000, pp. 61–64.

17. Based on U.S. Census data, including "Press Briefing on 1999 Income and Poverty Estimates, September 26, 2000" and "Poverty Rate Lowest in 20 Years, Household Income at Record High," (Press Release) and available from World Wide Web: <http://www.census.gov/hhes/income/income99> and <http://www.census.gov/hhes/poverty/poverty99>. For more on income, see Alison Stein Wellner, "The Money in the Middle," *American Demographics*, April 2000, pp. 56–64; "Finally, U.S. Median Income Approaches Old Heights," *The Wall Street Journal*, September 25, 1998, p., B1. For more on poverty, see "Down and Out in the Midst of a Boom," *Business Week*, May 28, 2001, p. 24; "Poverty at a 21-Year Low; Income Up, But Gap Wider," *Investor's Business Daily*, September 27, 2000, p. A1; "Poverty Rate Falls to 11.8%, the Lowest Level since 1979," *The Wall Street Journal*, September 27, 2000, p. A2; "Poverty in America," *Business Week*, October 18, 1999, pp. 156–66; "Charting the Pain Behind the Gain," *The Wall Street Journal*, October 1, 1999, p. B1ff.; "How Hard Are Hard Times?" *American Demographics*, February 1998, pp. 30–32; "Income Gap between Rich and Poor Grows Nationwide," *The Wall Street Journal*, December 17, 1997, p. B2.

18. "Nutrament, Debunked as a 'Fitness' Drink, Is Reborn in the Slums," *The Wall Street Journal*, November 2, 1994, p. B1ff; "Some Mortgage Firms Neglect Black Areas More Than Banks Do," *The Wall Street Journal*, August 9, 1994, p. A1ff.; "A Marketing Giant Uses Its Sales Prowess to Profit on Poverty," *The Wall Street Journal*, September 22, 1993, p. A1ff.; Ronald W. Hasty, Joseph A. Bellizzi, and Fernando R. Diaz, "A Cross-Cultural Study of Ethical Perceptions of Whites and Hispanics Toward 14 Questionable Retail Practices," *Journal of Marketing Theory & Practice*, Winter 1997, pp. 135–43.

19. "Marketing to the New Millionaire," *The Wall Street Journal*, October 11, 2000, p. B1ff.; "New Face of Luxury: Who's Wealthy Now?" *Advertising Age*, May 15, 2000, pp. 44–46; "The Lure of the Entrepreneur," *American Demographics*, February 1998, p. 41; "Spending at Our Discretion," *American Demographics*, August 1997, p. 2; Peter K. Francese, "Big Spenders," *American Demographics*, August 1997, pp. 51–57; "Disposable Dollars Determine Spending," *American Demographics*, June 1997, pp. 18–19; "Indulging in Inconspicuous Consumption," *The Wall Street Journal*, April 14, 1997, p. B1ff.

20. Jan Larson, "The New Face of Homemakers," *American Demographics*, September 1997, pp. 45–50; "Work & Family" (Special Section), *The Wall Street Journal*, March 31, 1997, pp. 1–20; "Family Values: Some Surprises," *USA Today*, March 11, 1997, P. 6D; Margaret K. Ambry, "Receipts from a Marriage," *American Demographics*, February 1993, pp. 30–37; "A Snapshot of Younger Lifestage Group Purchases," *American Demographics*, November 9, 1992, p. 28; Patrick E. Murphy and William A. Staples, "A Modernized Family Life Cycle," *Journal of Consumer Research*, June 1979, pp. 12–22.

21. Based on U.S. Census data and Joan Raymond, "The Ex-Files," *American Demographics*, February 2001, pp. 60–64; "The Ties that Bind," *Time*, August 18, 1997, pp. 48–50; "Mobility Mangles Marriage," *USA Today*, September 11, 1996, p. 15A; Frank F. Fustenberg, Jr., "The Future of Marriage," *American Demographics*, June 1996, pp. 34–40.

22. Based on U.S. Census data and "Just How Deep Are Those Teen Pockets?" *Business Week*, July 30, 2001, p. 39; "Special Report: Teen Marketing," *Advertising Age*, June 25, 2001, pp. S1–12; "Marketers Have a Crush on Teens," *USA Today*, November 27, 2000, p. 10B; "To Reach the Unreachable Teen," *Business Week*, September 18, 2000, pp. 78–80; "Rushing to Cash In on the New Baby Boom," *The Wall Street Journal*, August 9, 2000, p. B1ff.; "Stores Roll Out Welcome Mat for Mall Rats," *The Wall Street Journal*, August 9, 2000. P. B1ff.; "My, You've Grown: The Teen Economy Is Like Totally Awesome," *The Wall Street Journal*, June 28, 2000, p. S3; "The Six Value Segments of Global Youth," *Brandweek*, May 22, 2000, pp. 38–50; "Can Levi's Be Cool Again?" *Business Week*, March 13, 2000, pp. 144–48; Elissa Moses, *The $100 Billion Allowance: Accessing the Global Teen Market* (John Wiley & Sons, 2000); Jeff Brazil, "Play Dough," *American Demographics*, December 1999, pp. 56–61; "Generation Y," *Business Week*, February 15, 1999, pp. 80–88; "Teen Retailing: The Underground Tastemakers," *The Wall Street Journal*, December 9, 1998, p. B1ff.; "Teen-Magazine Boom: Beauty, Fashion, Stars and Sex," *The Wall Street Journal*, December 7, 1998, p. B1ff.; "Apartments Replace the Dorm," *The Wall Street Journal*, October 28, 1998, p. B18; "Generation Y: Boomers' Kids a Booming Market," *USA Today*, October 6, 1998, p. 1Aff.; "The Boom Tube," *Adweek*, May 18, 1998, pp. 44–52; "Girl Power," *Fortune*, December 8, 1997, pp. 132–40; "In Developing Nations, Many Youths Splurge, Mainly on U.S. Goods," *The Wall Street Journal*, June 26, 1997, p. A1ff.; Soyeon Shim, "Adolescent Consumer Decision-Making Styles: The Consumer Socialization Perspective," *Psychology & Marketing*, September 1996, pp. 547–69.

23. Based on U.S. Census data and Joan Raymond, "The Joy of Empty Nesting," *American Demographics*, May 2000, pp. 48–54; "Take My Stuff, Please!" *The Wall Street Journal*, March 31, 2000, P.W1ff.; "The Big House Backlash," *The Wall Street Journal*, March 17, 2000, p. W1ff.; "Big Footprints: Hey, Baby Boomers Need Their Space, OK? Look at All Their Stuff," *The Wall Street Journal*, January 7, 2000, p. A1ff.; "Extreme Nesting," *The Wall Street Journal*, January 7, 2000, p. W1ff.; Don Fost, "Growing Older, But Not Up," *American Demographics*, September 1998, pp. 59–65

24. Based on Census data, including "The Older Population in the United States: March 1999, P20–532"; "Senior Theses," *Brandweek*, August 4, 1997, pp. 22–27; "The Ungraying of America," *American Demographics*, July 1997, pp. 12–15; Linda J. Barton, "A Shoulder to Lean On: Assisted Living in the U.S.," *American Demographics*, July 1997, pp. 45–51; "Real-Estate Innovator Sees Future in Catering to Needs of the Elderly," *The Wall Street Journal*, June 30, 1997, p. A1ff.; "Brave Old World," *Newsweek*, June 30, 1997, p. 63; "WebTV Finds a Following among Net-Surging Seniors," *The Wall Street Journal*, April 8, 1997, p. B1ff.; "For One 73-Year-Old, Punching Time Clock Isn't a Labor of Love," *The Wall Street Journal*, March 31, 1997, p. A1ff.; "High-Class Hospital Food," *Brandweek*, September 2, 1996, pp. 31–32; George P. Moschis, "Life Stages of the Mature Market," *American Demographics*, September 1996, pp. 44–50; Paco Underhill, "Seniors in Stores," *American Demographics*, April 1996, pp. 44–48.

25. For an overview of ethnic populations in the U.S., see *Racial and Ethnic Diversity* (Ithaca, NY: New Strategist, 2000); Geng Cui, "Marketing to Ethnic Minority Consumers: An Historical Journey (1932–1997)," *Journal of Macromarketing*," June 2001, Vol. 21, 1, pp. 23–21; Marilyn Halter, *Shopping for Identity: The Marketing of Ethnicity* (Schocken Books, 2000); "An Almost-Invisible $1 Trillion Market," *Business Week,* June 11, 2001, p. 151; William H. Frey, "Micro Melting Pots," *American Demographics*, June 2001, pp. 20–23; "Spanish Study Booms in USA," *USA Today*, May 9, 2001, p. 1Aff.; "Color Them Beautiful—and Visible," *USA Today*, May 2, 2001, p. 1Bff.; "The New Age of Ethnic Marketing," *Brandweek*, March 19, 2001, pp. 24–28; "Impact of Census' Race Data Debated," *USA Today*, March 13, 2001, p. 1Aff.; "Even 126 Sizes Don't Fit All," *The Wall Street Journal,* March 2, 2001, p. B1ff.; "Census to Define Multiracial in Myriad Ways," *USA Today*, February 28, 2001, p. 8D; "The New America: The New Face of Race," *Newsweek*, September 18, 2000, pp. 38–65; "Won't You Be My Neighbor?" *American Demographics*, June 2000, pp. 60–62; "A Consumer in Every Pot," *Brandweek*, April 24, 2000, pp. 32–36; "In the Land of Bratwurst, a New Hispanic Boom," *The Wall Street Journal,* March 16, 2000, p. B1ff.; "Diversity in Advertising," *Advertising Age* (Special Report), February 21, 2000, pp. S1–20; "Our New Look: The Colors of Race," *Newsweek*, January 1, 2000, pp. 28–30; "The Web Goes Multicultural," *Advertising Age* (Special Report), November 29, 1999, pp. S1–14; Roberto Suro, "Mixed Doubles," *American Demographics*, November 1999, pp. 56–62; "The New Face of America," *USA Today*, September 7, 1999, p. 1Aff.; "Time and the Melting Pot," *American Demographics*, June 1998, pp. 18–23; William O'Hare, "Managing Multiple-Race Data," *American Demographics,* April 1998, pp. 42–52; "Multicultural," (Special Report) *Advertising Age,* November 17, 1997, pp. S1–S34. For more on the African-American market, see "U.S. Census data including "The Black Population in the United States: March 1999, P20–530" and available from World Wide Web: <http://www.census.gov/population/www/socdemo/race>; "Black Boom in the 'Burbs," *American Demographics*, July 2001, pp. 20–21; Alison Stein Wellner, "The Forgotten Baby Boom," *American Demographics*, February 2001, pp. 46–51; "The New Demographics of Black Americans," *Business Week,* December 4, 2000, p. 14; Carol M. Motley, "Aunt Jemima, Uncle Ben, and Rastus: Blacks in Advertising, Yesterday, Today, and Tomorrow," *Journal of Marketing*, April 1995, pp. 111–13; "Close Vs. Safe: Rivals Prepare to Market New Razors," *The Wall Street Journal,* September 29, 1997, p. B1ff.; "The New Black Power," *Fortune,* August 4, 1997, pp. 46–83; "Spike Lee: Madison Ave.'s Gotta Have Him," *Fortune*, April 14, 1997, pp. 84–86; "Black America in 2001," *American Demographics,* November 1996, pp. 14–15; "Marketing to African-Americans" (Special Report), *Advertising Age,* July 17, 1995, pp. S1–S4. For more on the Hispanic market, see U.S. Census data, including "The Hispanic Population in the United States: March 2000" and available from World Wide Web: <http://www.census.gov/population/www/socdemo/race>; "The New Frontier," *Time*, June 11, 2001, pp. 36–79; "Hispanics Stump for Success," *USA Today*, May 21, 2001, p. 1Bff.; "U.S. Marketers Adopt Cinco de Mayo as National Fiesta," *The Wall Street Journal,* May 1, 2001, p. B1ff.; "Welcome Mat Rolls Out for Hispanic Workers," *USA Today*, April 12, 2001, p. 1Bff.; "For Hispanic Marketers, Census Says It All," *The Wall Street Journal,* April 24, 2001, p. B8; Rebecca Gardyn, "Habla English?" *American Demographics*, April 2001, pp. 54–57; "Hispanic Growth Reveals Isolation," *USA Today*, March 26, 2001, p. 1Aff.; M. Isabel Valdes, *Marketing to American Latinos* (Ithaca, NY: Paramount, 2000); "P&G Reaches Out to Hispanics," *The Wall Street Journal,* October 13, 2000, p. B1ff.; "Why the Latino Market Is So Hard to Count," *The Wall Street Journal,* October 13, 2000, p. B1ff.; "Hispanic Sector Is Booming—In Unlikely Places," *The Wall Street Journal,* October 11, 2000, p. S3; "Hispanic TV Takes Off in the U.S.," *The Wall Street Journal,* September 7, 2000, p. B1ff.; Cristina Merrill, "Where the Cars Are Caliente!" *American Demographics*, January 2000, pp. 56–59; "Marketing to Hispanics," *Advertising Age* (Special Report), August 30, 1999, pp. S1–20; "Latino America," *Newsweek*, July 12, 1999, pp. 48–58; Helene Stapinski, "Generacion Latino," *American Demographics*, July 1999, pp. 62–68; "Attention, Shoppers: Target Makes a Play for Minority Group Sears Has Cultivated," *The Wall Street Journal,* April 12, 1999, p. A1ff.; "Special Report: Marketing to Hispanics," *Advertising Age*, August 24, 1998, pp. S1–27; "Housing Industry Courts Hispanics like Alas Family," *The Wall Street Journal,* October 2, 1997, p. B1ff.; "Targeting the Hispanic Market," *Advertising Age,* March 31, 1997, pp. A1–A16; "Hispanic Americans in 2001," *American Demographics,* January 1997, pp. 16–17. For more on the Asian-American market, see U.S. Census data, including "The Asian and Pacific Islander Population in the United States: March 1999, P20–529" and available from World Wide Web: <http://www.census.gov/population/www/socdemo/race>; "The Asian American Blind Spot," *American Demographics*, July 2001, pp. 16–17; "U.S. Asian Population Grew and Diversified, Census Shows," *The Wall Street Journal,* May 15, 2001, p. B4; "Cars: Dealing with Asians," *Brandweek,* January 5, 1998, pp. 15–17; "Asian Americans in 2001," *American Demographics,* February 1997, pp. 16–17; Marcia Mogelonsky, "Asian-Indian Americans," *American Demographics,* August 1995, pp. 32–39; "Two English-Speaking Magazines Target Affluent Asian-Americans," *The Wall Street Journal,* October 1, 1993, p. A5A; Charles R. Taylor and Barbara B. Stern, "Asian-Americans: Television Advertising and the 'Model Minority' Stereotype," *Journal of Advertising*, Summer 1997, pp. 47–61; Charles R. Taylor and Ju Yung Lee, "Not in *Vogue*: Portrayals of Asian Americans in Magazine Advertising," *Journal of Public Policy & Marketing,* Fall 1994, pp. 239–45. See also Scott D. Roberts and H. S. Hart, "A Comparison of Cultural Value Orientations As Reflected by Advertisements Directed at the General U.S. Market, the U.S. Hispanic Market, and the Mexican Market," *Journal of Marketing Theory & Practice*, Winter 1997, pp. 91–99; Geng Cui, "Marketing Strategies in a Multi-Ethnic Environment," *Journal of Marketing Theory & Practice*, Winter 1997, pp. 122–34; Michael Laroche, Chung K. Kim, and Madeleine Clarke, "The Effects of Ethnicity Factors on Consumer Deal Interests: An Empirical Study of French- and English-Canadians," *Journal of Marketing Theory & Practice*, Winter 1997, pp. 100–12.

Chapter 6

1. Available from World Wide Web: <http://www.yoplait.com>; "You've Got Surveys," *American Demographics*, November 2000, pp. 42–45; "Marketers of the Year: Groove Tube," *Brandweek* (SuperBrands Issue), October 16, 2000, pp. M111–M116; "Yoplait's Revenge Is Portable Yogurt that Kids Slurp Up," *Advertising Age*, September 11, 2000, pp. 28–30; "Dannon Struggles against Go-Gurt's Market Incursions," *Advertising Age*, September 11, 2000, pp. 28–30; "General Mills Intends to Reshape Doughboy in Its Own Image," *The Wall Street Journal,* July 18, 2000, p. A1ff.; "Squeezable Yogurt? Eggs on a Stick? You Got It!" *USA Today*, March 31, 2000, p. 1D; *Annual Report 2000*, General Mills; "Yogurt Goes Tubular," *Newsweek*, October 11, 1999, p. 63.

2. Kristina D. Frankenberger, "Consumer Psychology for Marketing," *Journal of the Academy of Marketing Science*, Summer 1996, pp. 279–81; K. H. Chung, *Motivational Theories and Practices* (Columbus, Ohio: Grid, 1977), pp. 40–43; A. H. Maslow, *Motivation and Personality* (New York: Harper & Row, 1970).

3. "What Works for One Works for All," *Business Week,* April 20, 1992, pp. 112–13.

4. For more on Ben & Jerry's, see "Ben & Jerry's Keeps Its Folksy Focus," *Advertising Age*, February 12, 2001, p. 4ff. See also Jennifer Gregan-Paxton and Deborah R. John, "Consumer Learning by Analogy: A Model of Internal Knowledge Transfer," *Journal of Consumer Research*, December 1997, pp. 266–84; M. C. Macklin, "Preschoolers' Learning of Brand Names From Visual Cues," *Journal of Consumer Research*, December 1996, pp. 251–61; Jaideep Sengupta, Ronald C. Goodstein, and David S. Boninger, "All Cues Are Not Created Equal: Obtaining Attitude Persistence Under Low-Involvement Conditions," *Journal of Consumer Research*, March 1997, pp. 351–61; John Kim, Jeen-Su Lim, and Mukesh Bhargava, "The Role of Affect in Attitude Formation: A Classical Conditioning Approach," *Journal of the Academy of Marketing Science*, Spring 1998, pp. 143–52; Paul S. Speck and Michael T. Elliott, "Predictors of Advertising Avoidance in Print and Broadcast Media," *Journal of Advertising*, Fall 1997, pp. 61–76; Frances K. McSweeney and Calvin Bierley, "Recent Developments in Classical Conditioning," *Journal of Consumer Research,* September 1984, pp. 619–31; Scott A. Hawkins and Stephen J. Hoch, "Low-Involvement Learning: Memory without Evaluation," *Journal of Consumer Research,* September 1992, pp. 212–25.

5. "Purina Dog Chow: Grand Effie Winner, Pet Care/Gold Winner," *Brandweek,* (Special Effies Winner Supplement), 1997. See also Edward Rosbergen, Rik Pieters, and Michel Wedel, "Visual Attention to Advertising: A Segment-Level Analysis," *Journal of Consumer Research*, December 1997, pp. 305–14; Gavan J. Fitzsimons and Vicki G. Morwitz, "The Effect of Measuring Intent on Brand-Level Purchase Behavior," *Journal of Consumer Research*, June 1996, pp. 1–11; Ellen C. Garbarino and Julie A. Edell, "Cognitive Effort, Affect, and Choice," *Journal of Consumer Research*, September 1997, pp. 147–58.

6. Vikas Mittal, William T. Ross, and Patrick M. Baldasare, "The Asymmetric Impact of Negative and Positive Attribute-Level Performance on Overall Satisfaction and Repurchase Intentions," *Journal of Marketing*, January 1998, pp. 33–47; Mary F. Luce, "Choosing to Avoid: Coping With Negatively Emotion-Laden Consumer Decisions," *Journal of Consumer Research*, March 1998, pp. 409–33; Calvin P. Duncan and Richard W. Olshavsky, "External Search: The Role of Consumer Beliefs," *Journal of Marketing Research,* February 1982, pp. 32–43; M. Joseph Sirgy, "Self-Concept in Consumer Behavior: A Critical Review," *Journal of Consumer Research,* December 1982, pp. 287–300.

7. "Living Larger," *USA Today,* March 16, 1998, p. 4D; "It's Not Easy Being Lean in Cairo Today, but Women Do Try," *The Wall Street Journal*, March 4, 1998, p. A1ff.; "If Fat-Free Pork Is Your Idea of Savory, It's a Bright Future," *The Wall Street Journal,* January 29, 1998, p. A1ff.; "Pork Is Tasty, Say National Ads that Shift Focus from Nutrition," *The Wall Street Journal,* August 13, 1997, p. B5; "Americans Develop More Discriminating Taste," *USA Today,* June 6, 1997, p. 1Bff.; "Hershey Craves Gumdrops, Hard Candy amid Fat Fear," *The Wall Street Journal,* October 23, 1996, p. B1ff.; "Three Diet Firms Settle False-Ad Case; Two Others Vow to Fight FTC Charges," *The Wall Street Journal,* October 1, 1993, p. B5.

8. "The Dirt on At-Home Dry Cleaning," *The Wall Street Journal,* September 15, 2000, p. W14; "Does P&G Still Matter?" *Advertising Age*, September 25, 2000, pp. 48–54; "P&G Shifts Strategy for Dryel," *Advertising Age*, January 24, 2000, p. 4; "Novel P&G Product Brings Dry Cleaning Home," *The Wall Street Journal,* November 19, 1997, p. B1ff.

9. "Chock Full of Peanuts," *American Demographics,* April 1997, p. 60.

10. For more on Van Heusen, see "Men Are Taking a Cotton to Wrinkle-Free Pants," *USA Today,* June 16, 1994, p. 5D; "'Wrinkle-Free' Shirts Don't Live Up to the Name," *The Wall Street Journal,* May 11, 1994, p. B1ff. See also "Rogaine Urges the Nonbald to Use Ounces of Prevention," *The Wall Street Journal,* September 20, 1999, p. B1ff. For more on service quality, see Chapter 9, footnote #3. For more on service expectations, see "Customer Service with a :-)," *USA Today*, December 6, 2000, p. 1Eff.; "Spotty Service Irks Cellphone Users," *USA Today*, November 6, 2000, p. 1Aff.; "Why Service Stinks," *Business Week,* October 23, 2000, pp. 118–28; "Cliff-Hanger Christmas," *Business Week E.Biz*, October 23, 2000, pp. 30–38; "It's the People, Stupid," *Business Week E.Biz*, October 23, 2000, p. EB138; "Service, Please," *Business Week E.Biz,* October 23, 2000, pp. EB48–EB50; "Seller of Suits Loosens Collar, Breathes Easier," *Investor's Business Daily*, October 19, 2000, p. A12; "On a Power Trip, They Arrive with Grating Expectations," *USA Today*, September 22, 2000, p. 1Dff.; "Customer Service: Rewriting the Rules of the Road," *Business Week E.Biz*, September 18, 2000, p. EB86; "How to Lose a Customer in a Matter of Seconds," *Fortune*, June 12, 2000, p. 326; "Special Report: E-Tailing," *Business Week E.Biz*, May 15, 2000, pp. EB103–EB118; "It's the Service, Stupid," *Business Week E.Biz*, April 3, 2000, p. EB118; "Just Another Medium," *Business Week E.Biz*, September 27, 1999, p. EB78; "Internet Businesses Customize to Survive," *Investor's Business Daily*, April 27, 2000, p. A8; "You'll Wanna Hold Their Hands," *Business Week E.Biz*, March 22, 1999, pp. EB30–EB31; "Online with the Operator," *American Demographics*, February 1999, pp. 36–39. See also A. Parasuraman, Valarie A. Zeithaml, and Leonard L. Berry, "Reassessment of Expectations As a Comparison Standard in Measuring Service Quality: Implications for Further Research," *Journal of Marketing*, January 1994, pp. 111–24; Alain Genestre and Paul Herbig, "Service Expectations and Perceptions Revisited: Adding Product Quality to SERVQUAL," *Journal of Marketing Theory & Practice*, Fall 1996, pp. 72–82; Valarie A. Zeithaml, Leonard L. Berry, and A. Parasuraman, "The Nature and Determinants of Customer Expectations of Service," *Journal of the Academy of Marketing Science,* Winter 1993, pp. 1–12.

11. Harold H. Kassarjian and Mary Jane Sheffet, "Personality and Consumer Behavior: An Update," in H. Kassarjian and T. Robertson, *Perspectives in Consumer Behavior* (Glenview, IL: Scott, Foresman, 1981), p. 160; Todd A. Mooradian and James M. Olver, "'I Can't Get No Satisfaction:' The Impact of Personality and Emotion on Postpurchase Processes," *Psychology & Marketing*, July 1997, pp. 379–93.

12. "Generation Next," *Advertising Age*, January 15, 2001, pp. 14–16; "Head Trips," *American Demographics*, October 2000, pp. 38–40; "Label-Crazy Marketers Have Got You Pegged," *USA Today*, August 1, 2000, p. 1Bff.; "Simple Sells," *USA Today*, June 1, 2000, p. 1Aff.; "Make Room for Daddy," *American Demographics*, June 2000, pp. 34–36; "Join the Club," *Brandweek*, February 15, 1999, pp. 26–32; Annetta Miller, "The Millennial Mind-Set," *American Demographics*, January 1999, pp. 60–65; Rebecca Piirto Heath, "The Frontier of Psychographics," *American Demographics,* July 1996, pp. 38–43; "Making Generational Marketing Come of Age," *Fortune,* June 26, 1995, pp. 110–13; Robert A. Mittelstaedt, "Economics, Psychology, and the Literature of the Subdiscipline of Consumer Behavior," *Journal of the Academy of Marketing Science,* Fall, 1990, pp. 303–12; W. D. Wells, "Psychographics: A Critical Review," *Journal of Marketing Research,* May 1975, pp. 196–213.

13. Available from World Wide Web: <http://future.sri.com/vals>; Judith Waldrop, "Markets with Attitude," *American Demographics,* July 1994, pp. 22–33; "New VALS 2 Takes Psychological Route," *Advertising Age,* February 13, 1989, p. 24; Lynn R. Kahle, Sharon E. Beatty, and Pamela Homer, "Alternative Measurement Approaches to Consumer Values: The List of Values (LOV) and Values and Life Styles (VALS)," *Journal of Consumer Research,* December 1986, pp. 405–10.

14. For more on kids' influence in purchase decisions, see "Marketers Find 'Tweens' Too Hot to Ignore," *USA Today*, July 10, 2001, p. 13A; "Marketers Call on Kids to Help Design Web Sites," *USA Today*, June 5, 2001, p. 1Bff.; "Special Report: Marketing to Kids and Tweens," *Advertising Age*, 2001, S2–S14; "Kid-Fluence," *USA Today*, December 29, 2000, p. 1Eff.; "Baby's Booty," *Newsweek*, December 4, 2000, pp. 55–56; "Young Girls Targeted by Makeup Companies," *Advertising Age*, November 27, 2000, p. 15; "Retailers Reaching Out to Capture Kids' Clout," *Advertising Age*, October 9, 2000, p. 16; Alison Stein Wellner, "Generation Z," *American Demographics* September 2000, pp. 60–64; "Fashion's Littlest Victims," *Brandweek*, July 17, 2000, p. 24; "In Quest for Prettiest Baby, Parents Snap Up Pricey Kids' Cosmetics," *The Wall Street Journal,* June 9, 2000, p. B1ff.; "One Size Doesn't Fit All," *American Demographics*, May 2000, pp. 44–45; "Special Report: Youth Marketing," *Advertising Age*, February 14, 2000, pp. 38–45; Jeff Brazil, "Play Dough," *American Demographics*, December 1999, pp. 56–61; "Nickelodeon Makes Deals with Grown-Up Products," *The Wall Street Journal,* November 19, 1999, p. B1ff.; "Kids Shopping On Line," *USA Today*, August 25, 1999, p. 1B; "Foods Targeting Children Aren't Just Child Play," *Advertising Age*, March 1, 1999, p. 16; "Makeup for Moppets: Lots of Glitter, Hot Sales," *The Wall Street Journal,* December 4, 1998, p. B1ff.; "Little Big Spenders: As Children Become More Sophisticated, Marketers Think Older," *The Wall Street Journal,* October 13, 1998, p. A1ff.; James U. McNeal, "Tapping the Three Kids' Markets," *American Demographics,* April 1998, pp. 37–41; "Software Firms Coddle a Growing Market: The Preschool Crowd," *The Wall Street Journal,* April 2, 1998, p. A1ff.; "Not All Approve of Barbie's MasterCard," *USA Today,* March 30, 1998, p. 6B; "Hey Kid, Buy This!" *Business Week,* June 30, 1997, pp. 62–69; "Kodak Focuses on Putting Kids behind a Camera," *The Wall Street Journal,* May

6, 1997, p. B8; "Special Report: Reaching Kids," *Advertising Age,* February 10, 1997, pp. 25–28; "The Rise of the Net-Generation," *Advertising Age,* October 14, 1996, p. 31ff.; Sharon E. Beatty and Salil Talpade, "Adolescent Influence in Family Decision Making: A Replication with Extension," *Journal of Consumer Research,* September 1994, pp. 332–41. See also Ugur Yavas, Emin Babakus, and Nejdet Delener, "Family Purchasing Roles in Saudi Arabia: Perspectives from Saudi Wives," *Journal of Business Research,* September 1994, pp. 75–86; Rosemary Polegato and Judith L. Zaichkowsky, "Family Food Shopping: Strategies Used by Husbands and Wives," *Journal of Consumer Affairs,* Winter 1994, pp. 278–99; Eric H. Shaw and Stephen F. I. Pirog, "A Systems Model of Household Behavior," *Journal of Marketing Theory & Practice*, Summer 1997, pp. 17–30; Kay M. Palan and Robert E. Wilkes, "Adolescent-Parent Interaction in Family Decision Making," *Journal of Consumer Research*, September 1997, pp. 159–69; Mary C. Gilly, John L. Graham, Mary F. Wolfinbarger, and Laura J. Yale, "A Dyadic Study of Interpersonal Information Search," *Journal of the Academy of Marketing Science*, Spring 1998, pp. 83–100; Conway L. Lackman, David P. Hanson, and John M. Lanasa, "Social Relations in Culture and Marketing," *Journal of Marketing Theory & Practice*, Winter 1997, pp. 144–52; Ellen R. Foxman, Patriya S. Tansuhaj, and Karin M. Ekstrom, "Adolescents' Influence in Family Purchase Decisions: A Socialization Perspective," *Journal of Business Research,* March 1989, pp. 159–72; C. Lackman and J.M. Lanasa, "Family Decision-Making Theory: An Overview and Assessment," *Psychology & Marketing,* March/April 1993, pp. 81–94. For more on women's influence in purchase decisions, see U.S. Census data, including "Women in the United States: A Profile, March 2000," and available from World Wide Web: <http://www.census.gov/population/www/socdemo/women>; "Women Hold Power of Purse Strings," *USA Today*, June 26, 2000, p. 11B; "A Guide to Who Holds the Purse Strings," *The Wall Street Journal,* June 22, 2000, p. A14; "How to Market to Women," *Advertising Age*, June 12, 2000, pp. 24–26; Faith Popcorn and Lyn Marigold, *EVEolution: The Eight Truths of Marketing to Women* (Hyperion, 2000); "Plugging into Women," *Brandweek*, March 15, 1999, pp. 25–26.

15. "Luxury for the Masses," *Brandweek*, June 25, 2001, pp. 16–34; "Special Report: Luxury Marketing," *Advertising Age*, June 11, 2001, pp. S1–14; "Which Is Luxury?" *USA Today*, May 4, 2001, p. 1Bff.; Hassan Fattah, "The Rising Tide," *American Demographics*, April 2001, pp. 48–53; "Despite Downturn, Japanese Are Still Having Fits for Luxury Goods," *The Wall Street Journal,* April 24, 2001, p. B1ff.; "The Rise of the Comfortable," *Advertising Age*, October 16, 2000, pp. 60–62; "90s Luxury Beyond Top of the Line," *USA Today*, July 6, 1999, p. 1Aff.; Debra Goldman, "Paradox of Pleasure," *American Demographics*, May 1999, pp. 50–53; "Culture Class: How America's Youth Defines Luxury," *Brandweek*, April 19, 1999, pp. 67–76; Rebecca Piirto Heath, "The New Working Class," *American Demographics*, January 1998, pp. 51–55; "Education Marks a Widening Income Divide," *The Wall Street Journal,* June 28, 1996, p. R2; "Class in America," *Fortune*, February 7, 1994, pp. 114–26; Basil G. Englis and Michael R. Solomon, "To Be and Not to Be: Lifestyle Imagery, Reference Groups, and the Clustering of America," *Journal of Advertising*, Spring 1995, pp. 13–28; Greg J. Duncan, Timothy M. Smeeding, and Willard Rodgers, "The Incredible Shrinking Middle Class," *American Demographics,* May 1992, pp. 34–38; Dennis L. Rosen and Richard W. Olshavsky, "The Dual Role of Informational Social Influence: Implications for Marketing Management," *Journal of Business Research,* April 1987, pp. 123–44; Terry L. Childers and Akshay R. Rao, "The Influence of Familial and Peer-based Reference Groups on Consumer Decisions," *Journal of Consumer Research,* September 1992, pp. 198–211; Basil G. Englis and Michael R. Solomon, "To Be and Not to Be: Lifestyle Imagery, Reference Groups, and The Clustering of America," *Journal of Advertising,* Spring 1995, pp. 13–28.

16. "Auto Makers Find They Don't Want to Avoid Collisions in Movies," *The Wall Street Journal,* July 5, 2001, p. B1ff.; "Small Wonder," *The Wall Street Journal,* June 25, 2001, p. R; Rebecca Gardyn, "Granddaughters of Feminism," *American Demographics*, April 2001, pp. 43–47; "A Wide Web of Advice," *Business Week E.Biz*, January 22, 2001, pp. EB18–EB20; "How to Generate Buzz to Sell Your Product," *Investor's Business Daily*, October 3, 2000, p. A1; "Word of Mouth in the Digital Age: Marketers Win when Friends Hit 'Send,'" *Brandweek*, October 2, 2000, pp. 24–26; "Ebola. Smallpox. Christina Aguilera." *Ecompany*, October 2000, pp. 48–52; "Steering to the Right Sites for the Best Buy," *Time Digital*, May 2000, p. 92; "Marketing Superstars: Aki Maita, Tamagotchi," *Advertising Age International,* December 1997, p. 10; James H. Myers and Thomas S. Robertson, "Dimensions of Opinion Leadership," *Journal of Marketing Research,* February 1972, pp. 41–46.

17. "Art of Noise," *Brandweek*, November 1, 1999, p. 78.

18. "Overcoming the Stigma of Dishwashers in Japan," *The Wall Street Journal,* May 19, 2000, p. B1ff.; Sydney Roslow, "International Consumer Behavior: Its Impact on Marketing Strategy Development," *Journal of the Academy of Marketing Science*, Summer 1996, pp. 278–79; R. Mead, "Where is the Culture of Thailand?" *International Journal of Research in Marketing,* September 1994, pp. 401–04.

19. John L. Graham, "How Culture Works," *Journal of Marketing*, April 1996, pp. 134–35; Gary D. Gregory and James M. Munch, "Cultural Values in International Advertising: An Examination of Familial Norms and Roles in Mexico," *Psychology & Marketing*, March 1997, pp. 99–119; Shiretta F. Ownbey and Patricia E. Horridge, "Acculturation Levels and Shopping Orientations of Asian-American Consumers," *Psychology & Marketing*, January 1997, pp. 1–18; Jennifer L. Aaker and Durairaj Maheswaran, "The Effect of Cultural Orientation on Persuasion," *Journal of Consumer Research*, December 1997, pp. 315–28; Grant McCracken, "Culture and Consumption: A Theoretical Account of the Structure and Movement of the Cultural Meaning of Consumer Goods," *Journal of Consumer Research,* June 1986, pp. 71–84.

20. "Will the British Warm Up to Iced Tea? Some Big Marketers Are Counting on It," *The Wall Street Journal,* August 22, 1994, p. B1ff. See also "Starbucks Hits a Humorous Note in Pitching Iced Coffee to Brits," *The Wall Street Journal,* September 1, 1999, p. B7.

21. "No More Shoppus Interruptus," *American Demographics*, May 2001, pp. 39–40; "No Buy? Then Bye-Bye," *Business Week E.Biz*, April 16, 2001, p. EB6; "Ok, Forget the Whole Damn Thing," *Ecompany*, December 2000, pp. 185–88; "Clinching the Holiday E-Sale," *The Wall Street Journal,* October 9, 2000, p. B1ff.; "A New Cure for Shoppus Interruptus," *American Demographics*, August 2000, pp. 44–47; "Special Report: E-Tailing," *Business Week E.Biz*, May 15, 2000, pp. EB103–EB118; "Many Web Shoppers Abandon Virtual Carts," *Investor's Business Daily*, May 11, 2000, p. A8; Charles S. Areni, Pamela Kiecker, and Kay M. Palan, "Is It Better to Give Than to Receive? Exploring Gender Differences in the Meaning of Memorable Gifts," *Psychology & Marketing*, January 1998, pp. 81–109; Russell W. Belk, "Situational Variables and Consumer Behavior," *Journal of Consumer Research* 2, 1975, pp. 157–64; John F. Sherry, Jr., "Gift Giving in Anthropological Perspective," *Journal of Consumer Research,* September 1983, pp. 157–68.

22. Adapted and updated from James H. Myers and William H. Reynolds, *Consumer Behavior and Marketing Management* (Boston: Houghton Mifflin, 1967), p. 49. See also Ronald E. Goldsmith, "A Theory of Shopping," *Journal of the Academy of Marketing Science,* Fall 2000, pp. 541–4; Judith Lynne Zaichkowsky, "Consumer Behavior: Yesterday, Today, and Tomorrow," *Business Horizons,* May/June 1991, pp. 51–58.

23. Ravi Dhar and Steven J. Sherman, "The Effect of Common and Unique Features in Consumer Choice," *Journal of Consumer Research*, December 1996, pp. 193–203; Victor V. Cordell, "Consumer Knowledge Measures As Predictors in Product Evaluation," *Psychology & Marketing*, May 1997, pp. 241–60; John V. Petrof and Naoufel Daghfous, "Evoked Set: Myth or Reality?" *Business Horizons*, May–June 1996, pp. 72–77; Wayne D. Hoyer, "An Examination of Consumer Decision Making for a Common Repeat Purchase Product," *Journal of Consumer Research,* December 1984, pp. 822–29; James R. Bettman, *An Information Processing Theory of Consumer Choice* (Reading, Mass.: Addison-Wesley Publishing, 1979); Richard W. Olshavsky and Donald H. Granbois, "Consumer Decision Making—Fact or Fiction?" *Journal of Consumer Research,* September 1979, pp. 93–100.

24. Cele Otnes, Tina M. Lowrey, and L J. Shrum, "Toward an Understanding of Consumer Ambivalence," *Journal of Consumer Research*, June 1997, pp. 80–93; Ronald E. Goldsmith, "Consumer Involvement: Concepts and Research," *Journal of the Academy of Marketing Science*, Summer 1996, pp. 281–83; Jeffrey B. Schmidt and Richard A. Spreng, "A Proposed Model of External Consumer Information Search," *Journal of the Academy of Marketing Science*, Summer 1996, pp. 246–56; Judith L. Zaichkowsky, "The Personal Involvement Inventory: Reduction, Revision, and Application to Advertising," *Journal of Advertising*, December 1994, pp. 59–70; Raj Arora, "Consumer Involvement—What It Offers to Advertising Strategy," *International Journal of Advertising* 4, no. 2 (1985), pp. 119–30; J. Brock Smith and Julia M. Bristor, "Uncertainty Orientation: Explaining Differences in Purchase Involvement and External Search," *Psychology & Marketing*, November/December 1994, pp. 587–608; Don R. Rahtz and David L. Moore, "Product Class Involvement and Purchase Intent," *Psychology and Marketing*, Summer 1989, pp. 113–28.

25. Adapted from E. M. Rogers with F. Shoemaker, *Communication of Innovation: A Cross Cultural Approach* (New York: Free Press, 1968). For some sampling (trial) examples, see "Small Wonder," *The Wall Street Journal*, June 25, 2001, p. R; "Freebies Take on Brash New Form," *USA Today*, May 15, 2001, p. 1Bff.; "A Bull's Market," *Brandweek*, May 28, 2001, pp. 21–24; "Red Bull's Good Buzz," *Newsweek*, May 14, 2001, p. 39; "Time to Make the Donuts," *American Demographics*, May 2001, p. 8; "Marketers of the Next Generation: Krispy Kreme," *Brandweek*, March 26, 2001, p. 21; "Use of Samples in Drug Industry Raises Concern," *The Wall Street Journal*, July 19, 2000, p. B1ff.; "Auto Site Rolls Out a Vintage Campaign," *The Wall Street Journal*, July 11, 2000, p. B12; "Canine Cuisine Fetches Success," *USA Today*, February 17, 2000, p. 12B; "Try It. You'll Like It," *The Wall Street Journal*, September 27, 1999, p. 15; "How a Confection Became a Trendy Fashion Accessory," *The Wall Street Journal*, September 29, 1998, p. B1ff.; "Secrets of the New Brand Builders," *Fortune*, June 22, 1998, pp. 167–70; "The Internet Is Mr. Case's Neighborhood," *Fortune*, March 30, 1998, pp. 69–80; "The Cookie Queen," *The Wall Street Journal*, March 30, 1998, p. 6; "Brand Builders: Progresso Warriors," *Brandweek*, June 23, 1997, pp. 20–22; "Read This. It's Free," *Brandweek*, June 16, 1997, p. 42.

26. "PepsiCo Tries to Clarify Pepsi One's Image," *The Wall Street Journal*, February 25, 2000, p. B7.

27. William Cunnings and Mark Venkatesan, "Cognitive Dissonance and Consumer Behavior: A Review of the Evidence," *Journal of Marketing Research*, August 1976, pp. 303–8; Sarah Fisher Gardial et al., "Comparing Consumers' Recall of Prepurchase and Postpurchase Product Evaluation Experience," *Journal of Consumer Research*, March 1994, pp. 548–60.

28. Robert M. March, *The Honourable Customer: Marketing and Selling to the Japanese in the 1990s* (Melbourne, Vic.: Longman Professional, 1990); Robert Gottliebsen, "Japan's Stark Choices," *Business Review Weekly*, October 16, 1992.

Chapter 7

1. "Outsourcing Is More than Cost Cutting," *Fortune*, October 26, 1998, pp. 238C–V; *2000 Annual Report*, Deere & Company; *1999 Annual Report*, Deere & Company.

2. "Detroit to Suppliers: Quality or Else," *Fortune*, September 30, 1996, p. 134Cff.; G. M. Naidu, V. K. Prasad, and Arno Kleimenhagen, "Purchasing's Preparedness for ISO 9000 International Quality Standards," *International Journal of Purchasing & Materials Management*, Fall 1996, pp. 46–53; Wade Ferguson, "Impact of the ISO 9000 Series Standards on Industrial Marketing," *Industrial Marketing Management*, July 1996, pp. 305–10.

3. "The Push to Streamline Supply Chains," *Fortune*, March 3, 1997, pp. 108C–R; P. F. Johnson, Michiel R. Leenders, and Harold E. Fearon, "Evolving Roles and Responsibilities of Purchasing Organizations," *International Journal of Purchasing & Materials Management*, Winter 1998, pp. 2–11; "Purchasing's New Muscle," *Fortune*, February 20, 1995, pp. 75–83; Harry R. Page, "Revolution in Purchasing: Building Competitive Power Through Proactive Purchasing," *International Journal of Purchasing & Materials Management*, Fall 1996, p. 56; Joseph R. Carter and Ram Narasimhan, "Purchasing and Supply Management: Future Directions and Trends," *International Journal of Purchasing & Materials Management*, Fall 1996, pp. 2–12; Joseph R. Carter and Ram Narasimhan, "A Comparison of North American and European Future Purchasing Trends," *International Journal of Purchasing & Materials Management*, Spring 1996, pp. 12–22.

4. Jeffrey E. Lewin, "The Effects of Downsizing on Organizational Buying Behavior: An Empirical Investigation," *Journal of the Academy of Marketing Science*, Spring 2001, pp. 151–165; Larry C. Giunipero and Judith F. Vogt, "Empowering the Purchasing Function: Moving to Team Decisions," *International Journal of Purchasing & Materials Management*, Winter 1997, pp. 8–15; Jerome M. Katrichis, "Exploring Departmental Level Interaction Patterns in Organizational Purchasing Decisions," *Industrial Marketing Management*, March 1998, pp. 135–46; Robert D. McWilliams, Earl Naumann, and Stan Scott, "Determining Buying Center Size," *Industrial Marketing Management*, February 1992, pp. 43–50; Ajay Kohli, "Determinants of Influence in Organizational Buying: A Contingency Approach," *Journal of Marketing*, July 1989, pp. 50–65; Melvin R. Mattson, "How to Determine the Composition and Influence of a Buying Center," *Industrial Marketing Management*, August 1988, pp. 205–14.

5. W. E. I. Patton, "Use of Human Judgment Models in Industrial Buyers' Vendor Selection Decisions," *Industrial Marketing Management*, March 1996, pp. 135–49; Minette E. Drumwright, "Socially Responsible Organizational Buying: Environmental Concern As a Noneconomic Buying Criterion," *Journal of Marketing*, July 1994, pp. 1–19; Lisa M. Ellram, "A Structured Method for Applying Purchasing Cost Management Tools," *International Journal of Purchasing & Materials Management*, Winter 1996, pp. 11–19; Morgan P. Miles, Linda S. Munilla, and Gregory R. Russell, "Marketing and Environmental Registration/Certification: What Industrial Marketers Should Understand About ISO 14000," *Industrial Marketing Management*, July 1997, pp. 363–70; Morry Ghingold and Bruce Johnson, "Technical Knowledge As Value Added in Business Markets," *Industrial Marketing Management*, May 1997, pp. 271–80; Sime Curkovic and Robert Handfield, "Use of ISO 9000 and Baldrige Award Criteria in Supplier Quality Evaluation," *International Journal of Purchasing & Materials Management*, Spring 1996, pp. 2–11; M. Bixby Cooper, Cornelia Droge, and Patricia J. Daugherty, "How Buyers and Operations Personnel Evaluate Service," *Industrial Marketing Management* 20, no. 1 (1991), pp. 81–90.

6. Jeanette J. Arbuthnot, "Identifying Ethical Problems Confronting Small Retail Buyers During the Merchandise Buying Process," *Journal of Business Ethics*, May 1997, pp. 745–55; Gail K. McCracken and Thomas J. Callahan, "Is There Such a Thing As a Free Lunch?" *International Journal of Purchasing & Materials Management*, Winter 1996, pp. 44–50; Robert W. Cooper, Garry L. Frank, and Robert A. Kemp, "The Ethical Environment Facing the Profession of Purchasing and Materials Management," *International Journal of Purchasing & Materials Management*, Spring 1997, pp. 2–11; I. Fredrick Trawick, John E. Swan, Gail W. McGee, and David R. Rink, "Influence of Buyer Ethics and Salesperson Behavior on Intention to Choose a Supplier," *Journal of the Academy of Marketing Science*, Winter 1991, pp. 17–24; Michael J. Dorsch and Scott W. Kelley, "An Investigation into the Intentions of Purchasing Executives to Reciprocate Vendor Gifts," *Journal of the Academy of Marketing Science*, Fall 1994, pp. 315–327; J. A. Badenhorst, "Unethical Behaviour in Procurement: A Perspective on Causes and Solutions," *Journal of Business Ethics*, September 1994, pp. 739–46.

7. H. L. Brossard, "Information Sources Used by an Organization During a Complex Decision Process: An Exploratory Study," *Industrial Marketing Management*, January 1998, pp. 41–50; Michele D. Bunn, "Taxonomy of Buying Decision Approaches," *Journal of Marketing*, January 1993, pp. 38–56; Patricia M. Doney and Gary M. Armstrong, "Effects

of Accountability on Symbolic Information Search and Information Analysis by Organizational Buyers," *Journal of the Academy of Marketing Science*, Winter 1996, pp. 57–65; Thomas G. Ponzurick, "International Buyers Perspective Toward Trade Shows and Other Promotional Methods," *Journal of Marketing Theory & Practice*, Winter 1996, pp. 9–19; Mark A. Farrell and Bill Schroder, "Influence Strategies in Organizational Buying Decisions," *Industrial Marketing Management*, July 1996, pp. 293–303; R. Venkatesh, Ajay K. Kohli, and Gerald Zaltman, "Influence Strategies in Buying Centers," *Journal of Marketing*, October 1995, pp. 71–82; Richard G. Newman, "Monitoring Price Increases With Economic Data: A Practical Approach," *International Journal of Purchasing & Materials Management*, Fall 1997, pp. 35–40; Barbara Kline and Janet Wagner, "Information Sources and Retailer Buyer Decision-Making: The Effect of Product-Specific Buying Experience," *Journal of Retailing,* Spring 1994, p. 75; Ellen Day and Hiram C. Barksdale, Jr., "How Firms Select Professional Services," *Industrial Marketing Management,* May 1992, pp. 85–92; H. Michael Hayes and Steven W. Hartley, "How Buyers View Industrial Salespeople," *Industrial Marketing Management* 18, no. 2 (1989), pp. 73–80; Peter Banting et al., "Similarities in Industrial Procurement Across Four Countries," *Industrial Marketing Management,* May 1985, pp. 133–44; Edward F. Fern and James R. Brown, "The Industrial/Consumer Marketing Dichotomy: A Case of Insufficient Justification," *Journal of Marketing,* Spring 1984, pp. 68–77; Rowland T. Moriarty, Jr. and Robert E. Spekman, "An Empirical Investigation of the Information Sources Used During the Industrial Buying Process," *Journal of Marketing Research,* May 1984, pp. 137–47.

8. "Strong Brands Lure Web Buyers," *Investor's Business Daily*, May 30, 2001, p. A5; "With Promise of Big Savings, Net Bill Paying Could Soon Win Fans among U.S. Businesses," *Investor's Business Daily*, February 26, 2001, p. A7; "How Baxter, PNC, Pratt & Whitney Make the Internet Work for Them," *Investor's Business Daily*, February 12, 2001, p. A1; "Look, Ma, No Humans," *Business Week E.Biz*, November 20, 2000, p. EB132; "Hewlett-Packard's Slick Procurement System," *Ecompany*, November 2000, pp. 236–38; "Schools Are Buying Online; The Savings Could Add Up," *Investor's Business Daily*, July 7, 2000, p. A4; "E-Purchasing Saves Businesses Billions," *USA Today*, February 7, 2000, p. 1Bff.; "Supply Side," *The Wall Street Journal,* November 15, 1999, p. R22; "Purchasing in Packs," *Business Week E.Biz*, November 1, 1999, pp. EB32–EB38; "From Regineering to E-Engineering," *Business Week E.Biz*, March 22, 1999, pp. EB14–EB18; "Setting Standards for Corporate Purchasing on the Internet," *Fortune,* September 8, 1997, pp. 156–58; "Invoice? What's an Invoice?" *Business Week,* June 10, 1996, pp. 110–12; "On-Line Service Offers Fast Lane to Small Businesses," *The Wall Street Journal,* October 11, 1994, p. B2; Earl D. Honeycutt, Theresa B. Flaherty, and Ken Benassi, "Marketing Industrial Products on the Internet," *Industrial Marketing Management*, January 1998, pp. 63–72; A. C. Samli, James R. Wills, and Paul Herbig, "The Information Superhighway Goes International: Implications for Industrial Sales Transactions," *Industrial Marketing Management*, January 1997, pp. 51–58; Barbara C. Perdue, "The Size and Composition of the Buying Firm's Negotiation Team in Rebuys of Component Parts," *Journal of the Academy of Marketing Science,* Spring 1989, pp. 121–28.

9. "The New Golden Rule of Business," *Fortune*, February 21, 1994, pp. 60–64; Janet L. Hartley and Thomas Y. Choi, "Supplier Development: Customers As a Catalyst of Process Change," *Business Horizons*, July–August 1996, pp. 37–44; Theodore P. Stank, Margaret A. Emmelhainz, and Patricia J. Daugherty, "The Impact of Information on Supplier Performance," *Journal of Marketing Theory & Practice*, Fall 1996, pp. 94–105.

10. "The Push to Streamline Supply Chains," *Fortune,* March 3, 1997, pp. 108C-R; "Push from Above," *The Wall Street Journal,* May 23, 1996, p. R24; "The New Golden Rule of Business," *Fortune,* February 21, 1994, pp. 60–64.

11. Much of the discussion in this section is based on research reported in Joseph P. Cannon and William D. Perreault, Jr., "Buyer-Seller Relationships in Business Markets," *Journal of Marketing Research,* November 1999; Joseph P. Cannon, "Buyer-Supplier Relationships and Customer Firm Costs," *Journal of Marketing*, January 2001, pp. 29–44; Alexandra J. Campbell, "What Affects Expectations of Mutuality in Business Relationships?" *Journal of Marketing Theory & Practice*, Fall 1997, pp. 1–11; James C. Anderson, Hakan Hakansson, and Jan Johanson, "Dyadic Business Relationships Within a Business Network Context," *Journal of Marketing*, October 1994, pp. 1–15; Patricia M. Doney and Joseph P. Cannon, "An Examination of the Nature of Trust in Buyer-Seller Relationships," *Journal of Marketing*, April 1997, pp. 35–51; James M. Comer and B.J. Zirger, "Building a Supplier-Customer Relationship Using Joint New Product Development," *Industrial Marketing Management,* March 1997, pp. 203–11; Arun Sharma and Jagdish N. Sheth, "Supplier Relationships: Emerging Issues and Challenges," *Industrial Marketing Management*, March 1997, pp. 91–100; William W. Keep, Stanley C. Hollander, and Roger Dickinson, "Forces Impinging on Long-Term Business-to-Business Relationships in the United States: An Historical Perspective," *Journal of Marketing*, April 1998, pp. 31–45.

12. "Purchasing's New Muscle," *Fortune,* February 20, 1995, pp. 75–83; Rosemary P. Ramsey and Ravipreet S. Sohi, "Listening to Your Customers: The Impact of Perceived Salesperson Listening Behavior on Relationship Outcomes," *Journal of the Academy of Marketing Science*, Spring 1997, pp. 127–37.

13. For more on outsourcing, see "Why Some Sony Gear Is Made in Japan—by Another Company," *The Wall Street Journal,* June 14, 2001, p. A1ff.; "Inside Out-Sourcing," *Fortune*/CNET Technology Review, Summer 2001, pp. 85–92; "Taiwan Goes after the World's Chip Business," *Fortune*, May 14, 2001, pp. 216T–HH; "Outsourcing as a Strategic Option: It's about More than Saving Money," *Investor's Business Daily*, May 7, 2001, p. A1; "The Tech Slump's Next Victim?" *Business Week,* March 5, 2001, pp. 104–105; "Solectron, All Along the Chain Except the Ends," *Fortune*, October 30, 2000, pp. T208T–Z; "You Order It, They'll Make It," *Business Week,* May 29, 2000, pp. 218D–J; "The Low-Tech King of High Tech," *Fortune*, October 25, 1999, pp. 339–43; "New Saturn Is Heavy on Outsourcing," *USA Today,* July 5, 1996, p. 1Bff. For more on supplier speeds and costs, see "When Cool Heads Prevail," *Business Week,* June 11, 2001, p. 114; "Should Suppliers Be Partners?" *Business Week,* June 4, 2001, pp. 30B–D; "Machete Time," *Business Week,* April 9, 2001, pp. 42–43; "Can Chrysler Get Blood from a Supplier?" *Business Week,* December 25, 2000, p. 56; "Chrysler's Checks to Suppliers, Shoppers to Shrink," *The Wall Street Journal,* December 8, 2000, p. B4; "Firms Boost Suppliers' Speeds, Win Investors' Hearts," *The Wall Street Journal,* April 6, 1998, p. A20; "Stores' Demands Squeeze Apparel Companies," *The Wall Street Journal,* July 15, 1997, p. B1ff.; "Hardball Is Still GM's Game," *Business Week,* August 8, 1994, p. 26; "Big Customers' Late Bills Choke Small Suppliers," *The Wall Street Journal,* June 22, 1994, p. B1. For more on JIT, see "As Christmas Approaches, Parts Shortages Plague Electronic Makers," *TheWall Street Journal,* October 10, 2000, p. B1ff.; "Parts Shortages Hamper Electronics Makers," *The Wall Street Journal,* July 7, 2000, p. B5. For some excellent examples, see "The Web at Work: Clorox Co." *The Wall Street Journal,* October 9, 2000, p. B21; "Kimberly-Clark Keeps Costco in Diapers, Absorbing Costs Itself," *The Wall Street Journal,* September 7, 2000, p. A1ff.; "At Ford, E-Commerce Is Job 1," *Business Week,* February 28, 2000, pp. 74–78; "Where 'Build to Order' Works Best," *Fortune*, April 26, 1999, pp. 160C-V. See also John Ramsay, "The Case Against Purchasing Partnerships," *International Journal of Purchasing & Materials Management*, Fall 1996, pp. 13–19; George S. Day, "Managing Market Relationships," *Journal of the Academy of Marketing Science,* Winter 2000, pp. 24–31; John V. Petrof, "Relationship Marketing—the Emperor in Used Clothes," *Business Horizons*, March–April 1998, pp. 79–82; Shankar Ganesan, "Determinants of Long-Term Orientation in Buyer-Seller Relationships," *Journal of Marketing*, April 1994, pp. 1–19; Brian K. H. Low, "Long-Term Relationship in Industrial Marketing: Reality or Rhetoric?" *Industrial Marketing Management*, January 1996, pp. 23–35; Allan J. Magrath and Kenneth G. Hardy, "Building Customer Partnerships," *Business Horizons*, January–February 1994, pp. 24–28; Paul Dion, Debbie Easterling, and Shirley Jo Miller, "What is Really Necessary in

Successful Buyer/Seller Relationships?" *Industrial Marketing Management*, January 1995, pp. 1–10.

14. For another example of a Toyota partnership, see "Why Toyota Wins Such High Marks on Quality Surveys," *The Wall Street Journal*, March 15, 2001, p. A1ff. See also "Japanese Auto Makers Help U.S. Suppliers Become More Efficient," *The Wall Street Journal*, September 9, 1991, p. A1ff.; David L. Blenkhorn and A. Hamid Noori, "What It Takes to Supply Japanese OEMs," *Industrial Marketing Management*, February, 1990, pp. 21–30.

15. For other examples of big/small partnerships, see "A Fruitful Relationship," *Business Week E.Biz*, November 20, 2000, pp. EB94–EB96; "Automating an Automaker," *Inc. Tech 2000*, No. 4, p. 86. See also "Polaroid Corp. Is Selling Its Technique for Limiting Supplier Price Increases," *The Wall Street Journal*, February 13, 1985, p. 36; "Making Honda Parts, Ohio Company Finds, Can Be Road to Ruin," *The Wall Street Journal*, October 5, 1990, p. A1ff.; "Toshiba Official Finds Giving Work to Firms in U.S. Can Be Tricky," *The Wall Street Journal*, March 20, 1987, p. 1ff.

16. "A Blaze in Albuquerque Sets Off Major Crisis for Cell-Phone Giants," *The Wall Street Journal*, January 29, 2001, p. A1ff.; "Toyota's Fast Rebound after Fire at Supplier Shows Why It Is Tough," *The Wall Street Journal*, May 8, 1997, p. A1ff.; Larry R. Smeltzer and Sue P. Siferd, "Proactive Supply Management: The Management of Risk," *International Journal of Purchasing & Materials Management*, Winter 1998, pp. 38–45; Paul D. Larson and Jack D. Kulchitsky, "Single Sourcing and Supplier Certification: Performance and Relationship Implications," *Industrial Marketing Management*, January 1998, pp. 73–81; Rasmus F. Olsen and Lisa M. Ellram, "A Portfolio Approach to Supplier Relationships," *Industrial Marketing Management*, March 1997, pp. 101–13; Cathy Owens Swift, "Preferences for Single Sourcing and Supplier Selection," *Journal of Business Research*, February 1995, pp. 105–12.

17. "You Buy My Widgets, I'll Buy Your Debt," *Business Week*, August 1, 1988, p. 85; Robert E. Weigand, "The Problems of Managing Reciprocity," *California Management Review*, Fall 1973, pp. 40–48.

18. "Who Will Profit from the Internet Agora?" *Business Week E.Biz*, June 5, 2000, pp. EB56–EB74; Rajdeep Grewal, "An Investigation into the Antecedents of Organizational Participation in Business-to-Business Electronic Markets," *Journal of Marketing*, July 2001, pp. 17–34; for discussion of steel industry online, see "Is the Internet Stronger than Steel?" *Fortune*, May 15, 2000, pp. 148–76; "Let's Build an Online Supply Network," *The Wall Street Journal*, April 17, 2000, p. B1ff.; "Industries, from Steel to Chemicals, Say One Internet Site May Not Meet Needs," *The Wall Street Journal*, February 28, 2000, p. A16ff.; "Web Sites Made of Steel," *The Wall Street Journal*, September 16, 1999, p. B1ff. See also "The Missing Link," *Ecompany*, May 2001, pp. 82–88; "Manufacturers Turning to B2B," *Investor's Business Daily*, March 20, 2001, p. A6; "Can Carmakers Corral the Web?" *Investor's Business Daily*, February 21, 2001, p. A6; "Finally, the Net Gets Real," *Newsweek*, December 25, 2000, pp. 66–67; "Amid Downturn, B2B Eyes B2G," *Investor's Business Daily*, December 19, 2000, p. A6; "Let's Keep This Exchange to Ourselves," *Business Week*, December 4, 2000, p. 48; "B2B Is Long on Promise, but Still Short on Results," *Investor's Business Daily*, October 12, 2000, p. A6; "How Ariba Got Airborne," *Business Week E.Biz*, September 18, 2000, pp. EB127–EB130; "IBM-Led Trio Begins Campaign Touting Its E-Commerce Services," *The Wall Street Journal*, August 17, 2000, p. B18; "Old MacDonald Has a Web Site," *Business Week E.Biz*, May 15, 2000, pp. EB82–EB88; "Despite the Hype, B2B Marketplaces Struggle," *USA Today*, May 10, 2000, p. 1Bff.; "E-I-E-I-E-Farming," *Business Week*, May 1, 2000, p. 202; "Farm B2Bs Find Fertile Soil on Net," *USA Today*, April 20, 2000, p. 1Bff.; "Where the Money Is," *The Wall Street Journal*, April 17, 2000, p. R30ff.; "Detroit Goes Digital," *Fortune*, April 17, 2000, pp. 170–74; "In the New Economy, Who Are the Hunters and Who the Hunted?" *The Wall Street Journal*, April 12, 2000, p. A1ff.; "Online Exchanges Also Suffer from a Glut of Players," *The Wall Street Journal*, April 7, 2000, p. B1ff.; "The B2B Tool That Really Is Changing the World," *Fortune*, March 20, 2000, pp. 132–45; "E-Malls for Business," *Business Week*, March 13, 2000, pp. 32–34; "Big Three Car Makers Plan Net Exchange," *The Wall Street Journal*, February 28, 2000, p. A3ff.; "Old-Line Companies Grab a Piece of the 'B2B' Pie," *The Wall Street Journal*, February 28, 2000, p. B1ff.; "A Web Auctioneer Roils the Rust Belt," *The Wall Street Journal*, January 5, 2000, p. B1ff.; "How GM, Ford Think Web Can Make Splash on the Factory Floor," *The Wall Street Journal*, December 3, 1999, p. A1ff.; "Internet Changes the Face of Supply and Demand," *The Wall Street Journal*, October 18, 1999, p. A43Q; "Bidding for E-Nuts and E-Bolts on the Net," *The Wall Street Journal*, March 12, 1999, p. B1ff. See also Li-Pheng Khoo, Shu B. Tor, and Stephen S. G. Lee, "The Potential of Intelligent Software Agents in the World Wide Web in Automating Part Procurement," *International Journal of Purchasing & Materials Management*, Winter 1998, pp. 46–52; Rodney L. Stump and Ven Sriram, "Employing Information Technology in Purchasing: Buyer-Supplier Relationships and Size of the Supplier Base," *Industrial Marketing Management*, March 1997, pp. 127–36; Richard E. Plank, et al., "The Impact of Computer Usage by Purchasing," *Industrial Marketing Management*, August 1992, pp. 243–48; Joel Herche, " Innovations in Procurement Management," *Journal of the Academy of Marketing Science*, Summer 2000, pp. 450–2.

19. Available from World Wide Web: <http://www.getradeweb.com> and <http://www.gegxs.com>. "Sales Are Clicking on Manufacturing's Internet Mart," *Fortune*, July 7, 1997, pp. 136C–T.

20. Available from World Wide Web: <http://www.national.com>. See also "Web Masters," *Sales & Marketing Management*, 2000 and 2001.

21. "Heroes of U.S. Manufacturing," *Fortune*, March 19, 2001, pp. 178C–HH; "Better Machine Tools Give Manufacturers Newfound Resilience," *The Wall Street Journal*, February 15, 2001, p. A1ff.; "The Big Myth about U.S. Manufacturing," *Fortune*, October 2, 2000, pp. 244BB–PP. See also U.S. Bureau of the Census, *Statistical Abstract of the United States 2000* (Washington, DC: U.S. Government Printing Office, 2000); U.S. Bureau of the Census, *County Business Patterns 1998, United States* (Washington, DC: U.S. Government Printing Office, 2000); U.S. Bureau of the Census, *1997 Census of Manufacturers, Subject Series, General Summary* (Washington, DC: U.S. Government Printing Office, 2001).

22. Available from World Wide Web: <http://www.naics.com>. See also "Classified Information," *American Demographics*, July 1999, p. 16; "SIC: The System Explained," *Sales and Marketing Management*, April 22, 1985, pp. 52–113; "Enhancement of SIC System Being Developed," *Marketing News Collegiate Edition*, May 1988, p. 4.

23. U.S. Bureau of the Census, *Statistical Abstract of the United States 2000* (Washington, DC: U.S. Government Printing Office, 2000); U.S. Bureau of the Census, *County Business Patterns 1998, United States* (Washington, DC: U.S. Government Printing Office, 2000). For more on Canon, see "Perfecting the Pitch," *The Wall Street Journal*, May 23, 1996, p. R26ff.; *1996 Annual Report*, Canon; "Can Anyone Duplicate Canon's Personal Copiers' Success?" *Marketing and Media Decisions*, Special Issue, Spring 1985, pp. 97–101.

24. *1996 Annual Report*, Super Valu.

25. *2000 Annual Report, Safeway; 2000 Annual Report*, Food Lion; *2000 Annual Report*, Winn-Dixie; *2000 Annual Report*, A&P; Daulatram B. Lund, "Retail Scanner Checkout System: How Buying Committees Functioned," *Industrial Marketing Management* 18, no. 3 (1989), pp. 179–86; Janet Wagner, Richard Ettenson, and Jean Parrish, "Vendor Selection Among Retail Buyers: An Analysis by Merchandise Division," *Journal of Retailing*, Spring 1989, pp. 58–79.

26. "Create Open-to-Buy Plans the Easy Way," *Retail Control*, December 1984, pp. 21–31.

27. Based on U.S. Census data and "How Not to Buy 300,000 Personal Computers," *Business Week*, March 8, 1993, p. 36; Kevin W. Westbrook, "Risk Coordinative Maneuvers During Buyer-Seller Negotiations," *Industrial Marketing Management*, July 1996, pp. 283–92; Sheryl B. Ball and Catherine C. Eckel, "Buying Status: Experimental Evidence on Status in Negotiation," *Psychology & Marketing*, July 1996, pp. 381–405; Robert

Gulbro and Paul Herbig, "Negotiating Successfully in Cross-Cultural Situations," *Industrial Marketing Management*, May 1996, pp. 235–41; William C. Perkins, James C. Hershauer, Abbas Foroughi, and Michael M. Delaney, "Can a Negotiation Support System Help a Purchasing Manager?" *International Journal of Purchasing & Materials Management*, Spring 1996, pp. 37–45; Warren H. Suss, "How to Sell to Uncle Sam," *Harvard Business Review,* November–December, 1984, pp. 136–44.

28. For a detailed discussion of business ethics in a number of countries, see *Journal of Business Ethics,* (Special Issue) October 1997. See also "How Can a U.S. Company Go International, Avoid the Economic Disaster of a Thai Baht . . . and Pay No Bribes?" *USA Today,* November 17, 1997, p. 5B; Larry R. Smeltzer and Marianne M. Jennings, "Why an International Code of Business Ethics Would Be Good for Business," *Journal of Business Ethics*, January 1998, pp. 57–66; James J. Kellaris, Robert F. Dahlstrom, and Brett A. Boyle, "Contextual Bias in Ethical Judgment of Marketing Practices," *Psychology & Marketing*, October 1996, pp. 677–94; Massoud M. Saghafi, Fanis Varvoglis, and Tomas Vega, "Why U.S. Firms Don't Buy from Latin American Companies," *Industrial Marketing Management* 20, no. 3 (1991), pp. 207–14; Peter Banting, Jozsef Beracs, and Andrew Gross, "The Industrial Buying Process in Capitalist and Socialist Countries," *Industrial Marketing Management* 20, no. 2 (1991), pp. 105–14.

Chapter 8

1. Available from World Wide Web: <http://www.lenscrafters.com>; "LensCrafters Hits One Billion in Sales," *Business Wire*, February 3, 1998; "LensCrafters Polishes Image with Style," *Chain Store Age Executive,* October 1996, p. 144ff.; "'SuperOpticals' Edge out the Corner Optician," *Adweek's Marketing Week,* October 1, 1990, p. 36; "LensCrafters Takes the High Road," *Adweek's Marketing Week*, April 30, 1990, pp. 26–27.

2. "How an Intranet Opened Up the Door to Profits," *Business Week E. Biz,* July 26, 1999, pp. EB32–EB38; "Here Comes the Intranet," *Business Week,* February 26, 1996, pp. 76–84.

3. "Virtual Management," *Business Week*, September 21, 1998, pp. 80–82; John T. Mentzer and Nimish Gandhi, "Expert Systems in Marketing: Guidelines for Development," *Journal of the Academy of Marketing Science,* Winter, 1992, pp. 73–80; William D. Perreault, Jr., "The Shifting Paradigm in Marketing Research," *Journal of the Academy of Marketing Science,* Fall 1992, pp. 367–76; J.M. McCann, W.G. Lahti, and J. Hill, "The Brand Manager's Assistant: A Knowledge-Based System Approach to Brand Management," *International Journal of Research in Marketing*, April 1991, pp. 51–74.

4. Stanley F. Slater, "Intelligence Generation and Superior Customer Value," *Journal of the Academy of Marketing Science*, Winter 2000, pp. 120–128; Philip B. Evans and Thomas S. Wurster, "Strategy and the New Economics of Information," *Harvard Business Review*, September–October 1997, pp. 70–82; Deborah Utter, "Information-Driven Marketing Decisions: Development of Strategic Information Systems," *Journal of the Academy of Marketing Science*, Spring 1998, pp. 157–58; James M. Sinkula, "Market Information Processing and Organizational Learning," *Journal of Marketing*, January 1994, pp. 35–45; Lawrence B. Chonko, John F. Tanner, Jr., and Ellen Reid Smith, "The Sales Force's Role in International Marketing Research and Marketing Information Systems," *Journal of Personal Selling and Sales Management*, Winter, 1991, pp. 69–80; James C. Bondra and Tim R. V. Davis, "Marketing's Role in Cross-Functional Information Management," *Industrial Marketing Management*, May 1996, pp. 187–95; Alfred C. Holden, "How to Locate and Communicate with Overseas Customers," *Industrial Marketing Management* 20, no. 3 (1991), pp. 161–68.

5. For more on CRM, see Chapter 3, footnote #23. "Marketers Hone Targeting," *Advertising Age*, June 18, 2001, p. T16; "Data Miners Reel after Wal-Mart Snub," *Brandweek*, May 21, 2001, p. 9; "Closer Than Ever," *Business Week Small Biz,* May 21, 2001, pp. 14–15; "CRM: Shooting Holes in the Hype," *Advertising Age*, April 16, 2001, p. 1ff.; "Firms See Value of CRM Software, but Adoption Can Be Costly," *Investor's Business Daily*, April 4, 2001, p. A7; "A Singular Sensation," *Brandweek*, February 28, 2001, pp. 32–38; "Product by Design," *American Demographics*, February 2001, pp. 38–41; "CRM Firms Adjust to Downturn," *Investor's Business Daily*, December 28, 2000, p. A4; "The New Software Whizzes," *Business Week E.Biz*, December 11, 2000, pp. EB30–EB42; "Mystery Shoppers," *American Demographics*, December 2000, pp. 41–43; "Mountains to Mine," *American Demographics*, August 2000, pp. 40–44; "With All Companies Lured to Web, Enterprise Software Is a Must-Have," *Investor's Business Daily*, April 17, 2000, p. A10; "Mining Everyone's Business," *Brandweek*, February 28, 2000, pp. 32–56; "An Eagle Eye on Customers," *Business Week*, February 21, 2000, pp. 66–76; "The Information Gold Mine," *Business Week E.Biz*, July 26, 1999, pp. EB16–EB30; "Data Mining Digs In," *American Demographics*, July 1999, pp. 38–45; "Looking for Patterns," *The Wall Street Journal*, June 21, 1999, p. R16ff.; "Know Your Customer," *The Wall Street Journal*, June 21, 1999, p. R18. See also Siva K. Balasubramanian, "The New Marketing Research Systems—How to Use Strategic Database Information for Better Marketing Decisions," *Journal of the Academy of Marketing Science*, Spring 1996, pp. 179–81; John I. Hagel and Jeffrey F. Rayport, "The Coming Battle for Customer Information," *Harvard Business Review*, January–February 1997, pp. 53–65; "What's the Best Source of Market Research?" *Inc.*, June 1992, p. 108; James M. Sinkula, "Perceived Characteristics, Organizational Factors, and the Utilization of External Market Research Suppliers," *Journal of Business Research*, August, 1990, pp. 1–18. For more on privacy, see Chapter 14, footnote #11 and Chapter 22, footnote #18.

6. For a discussion of ethical issues in marketing research, see "How 'Tactical Research' Muddied Diaper Debate: a Case," *The Wall Street Journal,* May 17, 1994, p. B1ff.; John R. Sparks and Shelby D. Hunt, "Marketing Researcher Ethical Sensitivity: Conceptualization, Measurement, and Exploratory Investigation," *Journal of Marketing*, April 1998, pp. 92–109; Naresh K. Malhotra and Gina L. Miller, "An Integrated Model for Ethical Decisions in Marketing Research," *Journal of Business Ethics*, February 1998, pp. 263–80; Stephen B. Castleberry, Warren French and Barbara A. Carlin, "The Ethical Framework of Advertising and Marketing Research Practitioners: A Moral Development Perspective," *Journal of Advertising,* June 1993, pp. 39–46; Ishmael P. Akaah, "Attitudes of Marketing Professionals toward Ethics in Marketing Research: A Cross-National Comparison," *Journal of Business Ethics*, January, 1990, pp. 45–54.

7. Linda I. Nowak, Paul D. Boughton, and Arun J. A. Pereira, "Relationships Between Businesses and Marketing Research Firms," *Industrial Marketing Management*, November 1997, pp. 487–95; Peter M. Chisnall, "The Effective Use of Market Research: A Guide for Management to Grow the Business," *International Journal of Market Research*, Summer 2000, Vol. 42, 3, p. 359; Seymour Sudman and Edward Blair, *Marketing Research: A Problem Solving Approach* (Burr Ridge, IL: Irwin/McGraw-Hill, 1998). See also Christine Moorman, Rohit Deshpande, and Gerald Zaltman, "Factors Affecting Trust in Market Research Relationships," *Journal of Marketing,* January 1993, pp. 81–101.

8. "Special Report: 2001 David Ogilvy Research Awards," *American Demographics*, March 2001, pp. S1–21; "Special Report: 2000 David Ogilvy Research Awards," *American Demographics*, March 2000, pp. S1–22; "What Consumer Research Won't Tell You," *Brandweek*, November 1, 1999, pp. 40–48; "Intelligence Agents," *American Demographics*, March 1999, pp. 52–60; "Grandma Got Run Over by Bad Research," *Inc.*, January 1998, p. 27.

9. Available from World Wide Web: <http://www.windweaver.com/searchtools> and <http://www.windweaver.com/searchengines>; "What's Ahead for Search Engines," *The Wall Street Journal,* June 25, 2001, p. R17; "Avoid Quagmires with Simple Web Search Tactics," *Investor's Business Daily*, April 4, 2001, p. A9; "Google Is Smart, Fast, Honest and May Be Best Sleuth on the Web," *The Wall Street Journal,* March 1, 2001, p. B1; "Browser Beware," *Inc. Tech 2001,* No. 2, pp. 77–81; "The Internet: The Best Way to Search," *The Wall Street Journal Reports,* November 27, 2000, p. R26ff.; "Vroom Vroom," *Adweek*, November 27, 2000, p. IQ10; "Shop Bots Can Save You Money," *Ecompany*, October 2000, pp. 221–22; "In Search of Google," *Time*, August 21, 2000, pp. 66–67; "Successful Net Search Starts with Need," *USA Today*, January 24, 2000, p. 3D; "The Internet: The Best Way to Search Online," *The Wall Street Journal Reports,* December 6, 1999, p. R25; Shikhar Ghosh, "Making Business Sense of the Internet," *Harvard Business Review*, March–April 1998, pp. 126–35.

10. An excellent review of commercially available secondary data may be found in William R. Dillon, Thomas J. Madden, and Neil H. Firtle, *Marketing Research in a Marketing Environment,* 3rd ed. (Burr Ridge, IL: Irwin/McGraw-Hill, 1993). For more on Census data, see "The National Headcount," *American Demographics*, March 2001, p. S12; "Counting on the Census," *The Wall Street Journal,* February 14, 2001, p. B1ff.; "Census 2000: Math, Not Politics, Please," *Business Week,* September 22, 1997, p. 42; "Two Words and a Number," *American Demographics,* February 1997, pp. 10–15; "Preparing for 2000, Census Bureau Tests Carrots vs. Sticks," *The Wall Street Journal,* May 2, 1996, p. B1ff.; Jackson Morton, "Census on the Internet," *American Demographics,* March 1995, p. 52. See also "Library Sites Can Be Useful when Doing Online Research," *Investor's Business Daily*, April 5, 2001, p. A13; "Hey, It's Not Prying; It's Competitive Intelligence," *Raleigh News & Observer*, August 6, 2000, p. 14E.

11. Available from World Wide Web: <http://www.burke.com/ice/online>; "Heinz Picks Purple as New EZ Squirt Color," *Brandweek*, June 25, 2001, p. 7; "Web Enhances Market Research," *Advertising Age*, June 18, 2001, p. T18; "Marketers Call on Kids to Help Design Web Sites," *USA Today*, June 5, 2001, p. 1Bff.; "Speaking Up: One Focus Group Revealed," *The Wall Street Journal,* November 27, 2000, p. B21; "Double Play," *Business Week E.Biz*, October 23, 2000, pp. EB42–EB46; "More Marketers Bypass Focus Groups," *USA Today*, August 23, 1999, p. 6B. See also William J. McDonald, "Focus Group Research Dynamics and Reporting: An Examination of Research Objectives and Moderator Influences," *Journal of the Academy of Marketing Science,* Spring 1993, pp. 161; Thomas Kiely, "Wired Focus Groups," *Harvard Business Review*, January–February 1998, pp. 12–16.

12. "Japan's High-School Girls Excel in Art of Setting Trends," *The Wall Street Journal,* April 24, 1998, p. B1ff.

13. "Selling Sibelius Isn't Easy," *American Demographics,* The 1994 Directory, pp. 24–25; "Symphony Strikes a Note for Research as It Prepares to Launch a New Season," *Marketing News,* August 29, 1988, p. 12.

14. Available from World Wide Web: <http://www.sawtooth.com/pages/glossary>; "Friendly Spies on the Net," *Business Week E.Biz*, July 9, 2001, pp. EB26–EB28; "You've Got Surveys," *American Demographics*, November 2000, pp. 42–45; "A Matter of Opinion," *The Wall Street Journal Reports,* October 23, 2000, p. R46; "Pollster Aims at One-Stop Marketing Shop," *The Wall Street Journal,* September 7, 2000, p. B6ff; "Online Testing Rated," *Advertising Age*, May 8, 2000, p. 64; "Western Pair's Madeforchina.com Clicks into Consumer Mind There," *The Wall Street Journal,* May 5, 2000, p. B6; "The Surfer in the Family," *American Demographics*, April 2000, pp. 34–36; "Market Research for the Internet Has Its Drawbacks," *The Wall Street Journal,* March 2, 2000, p. B4; "Safe at Any Speed?" *Advertising Age*, January 24, 2000, p. 1ff.; "High Level of Comfort Leads to Truthful Research Worth a Mint," *USA Today*, May 17, 1999, p. 1Aff.; "Surprise! A Home Builder (Finally) Surveys Buyers," *The Wall Street Journal,* February 11, 1998, p. B1ff.; Christine M. Fox, K. L. Robinson, and Debra Boardley, "Cost-Effectiveness of Follow-Up Strategies in Improving the Response Rate of Mail Surveys," *Industrial Marketing Management*, March 1998, pp. 127–33; Kathy E. Green, "Sociodemographic Factors and Mail Survey Response," *Psychology & Marketing*, March 1996, pp. 171–84; Terry L. Childers and Steven J. Skinner, "Toward a Conceptualization of Mail Survey Response Behavior," *Psychology & Marketing*, March 1996, pp. 185–209; Frederick Wiseman and Maryann Billington, "Comment on a Standard Definition of Response Rates," *Journal of Marketing Research,* August 1984, pp. 336–38.

15. Available from World Wide Web: <http://www.whirlpool.com> and <http://acsi.asqc.org>; "Firms Hope to Clean Up Taking Housework High-Tech," *The Wall Street Journal,* March 16, 2001, p. B4; "As I Was Saying to My Refrigerator . . . ," *Business Week E.Biz*, September 18, 2000, pp. EB40–EB41; "Now Are You Satisfied?" *Fortune,* February 16, 1998, pp.161–64; "Your Customers Are Telling the Truth," *Fortune,* February 16, 1998, pp. 164–66; "Product Pampering," *Brandweek,* June 16, 1997, pp. 29–40; Deborah Duarte and Nancy Snyder, "From Experience: Facilitating Global Organizational Learning in Product Development at Whirlpool Corporation," *Journal of Product Innovation Management*, January 1997, pp. 48–55.

16. "P&G Checks Out Real Life," *The Wall Street Journal,* May 17, 2001, p. B1ff.; "Research on a Shoestring," *American Demographics*, April 2001, pp. 38–39; "Consumers in the Mist," *Business Week,* February 26, 2001, pp. 92–94; "Under the Lens," *American Demographics*, September 2000, pp. 42–45; "O&M Turns Reality TV into Research Tool," *Advertising Age*, July 10, 2000, p. 6; "How Do You Like Your Beef?" *American Demographics*, January 2000, pp. 35–37; "Attention Shoppers: This Man Is Watching You," *Fortune*, July 19, 1999, pp. 131–34; "What Shoppers Want," *Inc.*, July 1999, pp. 72–82; "New Ways to Get into Our Heads," *USA Today*, March 2, 1999, p. 1Bff.; "The New Market Research," *Inc.*, July 1998, pp. 87–94. See also Stephen J. Grove and Raymond P. Fisk, "Observational Data Collection Methods for Services Marketing: An Overview," *Journal of the Academy of Marketing Science*, Summer 1992, pp. 217–24; "Coupon Clippers, Save Your Scissors," *Business Week,* June 20, 1994, pp. 164–66; Magid M. Abraham and Leonard M. Lodish, "An Implemented System for Improving Promotion Productivity Using Store Scanner Data," *Marketing Science,* Summer 1993, pp. 248–69; "The Nitty-Gritty of ECR Systems: How One Company Makes It Pay," *Advertising Age,* May 2, 1994, pp. S1ff.; Peter J. Danaher and Terence W. Beed, "A Coincidental Survey of People Meter Panelists: Comparing What People Say with What They Do," *Journal of Advertising Research,* January/February 1993, p. 86.

17. "Will Your Web Business Work? Take It for a Test Drive," *Ecompany*, May 2001, pp. 101–104; "Ads Awaken to Fathers' New Role in Family Life," *Advertising Age,* January 10, 1994, p. S8; "AT&T's Secret MultiMedia Trials Offer Clues to Capturing Interactive Audiences," *The Wall Street Journal,* July 28, 1993, p. B1ff.; "Experimenting in the U.K.: Phone, Cable Deals Let U.S. Test Future," *USA Today,* June 28, 1993, p. 1Bff. See also Raymond R. Burke, "Virtual Shopping: Breakthrough in Marketing Research," *Harvard Business Review*, March–April 1996, pp. 120–31; Glen L. Urban, Bruce D. Weinberg, and John R. Hauser, "Premarket Forecasting of Really-New Products," *Journal of Marketing*, January 1996, pp. 47–60; "Bar Wars: Hershey Bites Mars," *Fortune,* July 8, 1985, pp. 52–57.

18. "Nielsen Plans New Pricing as Part of Bid to Double People Meters," *The Wall Street Journal,* June 29, 2001, p. B6; "Confessions of a Nielsen Household," *American Demographics*, May 2001; "Trying to Clean Up Sweeps," *American Demographics*, May 2001, pp. 42–49; "The Metrics System," *Brandweek*, November 13, 2000, pp. 106–10; "Special Report: Top 25 Global Research Organizations," *Advertising Age,* August 24, 2000; "We're Being Watched," *American Demographics*, October 1998, pp. 52–58; "Special Report: 100 Leading Research Companies," *Advertising Age,* May 19, 1997; "Rivals Duel Bitterly for Job of Supplying Market Information, *The Wall Street Journal,* November 15, 1993, p. A1ff.

19. For more detail on data analysis techniques, see William R. Dillon, Thomas J. Madden, and Neil H. Firtle, *Marketing Research in a Marketing Environment,* 3rd ed. (Burr Ridge, IL: Irwin/McGraw-Hill, 1993) or other current marketing research texts. See also "Merry Maids Clean Up Territories with MapInfo System," *Investor's Business Daily*, February 20, 2001, p. A8; Michael D. Johnson and Elania J. Hudson, "On the Perceived Usefulness of Scaling Techniques in Market Analysis," *Psychology & Marketing*, October 1996, pp. 653–75; Milton D. Rosenau, "Graphing Statistics and Data: Creating Better Charts," *Journal of Product Innovation Management*, March 1997, p. 144.

20. "Careful What You Ask For," *American Demographics*, July 1998, pp. 8–15; See also John G. Keane, "Questionable Statistics," *American Demographics*, June 1985, pp. 18–21. Detailed treatment of confidence intervals is beyond the scope of this text, but it is covered in most marketing research texts, such as Donald R. Lehmann, *Analysis for Marketing Planning* 4th ed. (Burr Ridge, IL: Irwin/McGraw-Hill, 1997).

21. E. Jerome McCarthy et al., *Basic Marketing: A Managerial Approach*, 1st Australasian ed. (Richard D. Irwin: Burr Ridge, IL, 1994), pp. 128–29.

22. Alan R. Andreasen, "Cost-Conscious Marketing Research," *Harvard Business Review*, July–August, 1983, pp. 74–81; A. Parasuraman, "Research's Place in the Marketing Budget," *Business Horizons*, March/April 1983, pp. 25–29; Jack J. Honomichl, "Point of View: Why Marketing Information Should Have Top Executive Status," *Journal of Advertising Research*, November/December 1994, pp. 61–66; Jim Bessen, "Riding the Marketing Information Wave," *Harvard Business Review*, September–October 1993, pp. 150–61.

Chapter 9

1. Available from World Wide Web: <http://www.kodak.com>; "Price Wars, Shift to Digital Photos Leaving Kodak Out of the Picture," *Investor's Business Daily*, March 19, 2001, p. A1; "Will Kodak's Carp Miss His Photo Op?" *Business Week*, October 9, 2000, p. 52; "Kodak Hires Web Guru to Develop Its Digital Plans," *The Wall Street Journal*, October 9, 2000, p. B1ff.; "With Polaroid Film, You're Seconds from Digital Fun," *USA Today*, September 20, 2000, p. 3D; "Affordable Digital Cameras Arrive, Bringing Decent Quality under $150," *Investor's Business Daily*, September 8, 2000, p. A4; "Digital Video Cameras Give Amateurs Entree to Real Movie-Making," *The Wall Street Journal*, August 31, 2000, p. B1; "Shutterbugs Ditch 35mm Gear for Digital Cameras, Computer Printers," *The Wall Street Journal*, May 8, 2000, p. B1ff.; "Businesses Prove the Focus of Big Digital Camera Sales," *Investor's Business Daily*, April 25, 2000, p. A6; "Wall Street Left to Wonder Whether Kodak's Getting the Digital Picture," *Investor's Business Daily*, April 11, 2000, p. A1; "Eastman Kodak Splits Focus Between Old, New Film Worlds," *USA Today*, February 14, 2000, p. 5B; "Fuji: Beyond Film," *Business Week*, November 22, 1999, pp. 132–38; "Film vs. Digital: Can Kodak Build a Bridge?" *Business Week*, August 2, 1999, pp. 66–69; "Shutter Snaps on Fisher's Leadership at Kodak," *The Wall Street Journal*, June 10, 1999, p. B1ff.; "Momentous Shifts," *Brandweek*, June 1, 1998, pp. 26–30; "For New Film, a Brighter Picture," *The Wall Street Journal*, May 5, 1998, p. B1ff.; "For Kodak's Advantix, Double Exposure as Company Relaunches Camera System," *The Wall Street Journal*, April 23, 1997, p. B1ff.; "APS Camera Brands Make Picture-Imperfect Debut," *Ad Age International*, January 1997, p. I2ff.; "Camera System Is Developed but Not Delivered," *The Wall Street Journal*, August 7, 1996, p. B1ff.

2. Joseph M. Juran, "Made In U.S.A.: A Renaissance in Quality," *Harvard Business Review*, July–August 1993, pp. 42–53; "Measuring Quality Perception of America's Top Brands," *Brandweek*, April 4, 1994, pp. 24–26; Ajay Menon, Bernard J. Jaworski, and Ajay K. Kohli, "Product Quality: Impact of Interdepartmental Interactions," *Journal of the Academy of Marketing Science*, Summer 1997, pp. 187–200; Neil A. Morgan and Nigel F. Piercy, "Market-Led Quality," *Industrial Marketing Management*, May 1992, pp. 111–18; H. Michael Hayes, "ISO9000: The New Strategic Consideration," *Business Horizons*, May–June 1994, pp. 52–60.

3. For more on service expectations, see Chapter 6, footnote #10. For more on service quality, see Leonard L. Berry, "Cultivating Service Brand Equity," *Journal of the Academy of Marketing Science*, Winter 2000, pp. 128–138; Dwayne D. Gremler, "Discovering the Soul of Service: The Nine Drivers of Sustainable Business Success," *Journal of the Academy of Marketing Science*, Spring 2000, pp. 311–13; *2000 Annual Report*, MCI; *2000 Annual Report*, Merrill Lynch; "Air Service Faces Heat from Fliers," *USA Today*, June 1, 2000, p. 3B; "Airlines and Airwaves: Services Take Off," *Advertising Age*, May 1, 2000, pp. 18–20; "The Death of the Bellman," *The Wall Street Journal*, March 10, 2000, p. W11; "Avis to Try Even Harder with Ads Touting High Quality of Service," *The Wall Street Journal*, February 18, 2000, p. B9; "Better Service or Lip Service?" *USA Today*, December 16, 1999, p. 1Bff.; "How Does Low Unemployment Affect Service?" *Raleigh News & Observer*, December 5, 1999, pp. 27A–28A; "Price Isn't Everything," *The Wall Street Journal*, July 12, 1999, p. R20; "Only Extra Nice Will Suffice," *The Wall Street Journal*, June 14, 1999, p. 16ff.; "Buckling Up the Business Traveler," *American Demographics*, December 1998, pp. 48–52; "Service Is Everybody's Business," *Fortune*, June 27, 1994, pp. 48–60; James Golleher, "Value-Added Customer Service," *Journal of Personal Selling & Sales Management*, Spring 1997, p.71; James Reardon, Chip Miller, Ronald Hasty, and Blaise J. Waguespack, "A Comparison of Alternative Theories of Services Marketing," *Journal of Marketing Theory & Practice*, Fall 1996, pp. 61–71; Kirk Smith, "Service Aspects of Industrial Products Lead to Future Product Purchase Intentions," *Industrial Marketing Management*, January 1998, pp. 83–93; James C. Anderson and James A. Narus, "Capturing the Value of Supplementary Services," *Harvard Business Review*, January 1995–February 1995, pp. 75–83; Banwari Mittal and Walfried M. Lassar, "The Role of Personalization in Service Encounters," *Journal of Retailing*, Spring 1996, pp. 95–109; Barry J. Babin and James S. Boles, "Employee Behavior in a Service Environment: A Model and Test of Potential Differences Between Men and Women," *Journal of Marketing*, April 1998, pp. 77–91; Mary Jo Bitner, Bernard H. Booms, and Lois A. Mohr, "Critical Service Encounters: The Employee's Viewpoint," *Journal of Marketing*, October 1994, pp. 95–106; Leonard L. Berry, A. Parasuraman, and Valarie A. Zeithaml, "The Service-Quality Puzzle," *Business Horizons*, September/October 1988, pp. 35–43; Leonard L. Berry, "Services Marketing Is Different," in Christopher H. Lovelock, *Services Marketing* (Englewood Cliffs, NJ: Prentice-Hall, 1984), pp. 29–37.

4. *2000 Annual Report*, Sara Lee; *2000 Annual Report*, Enterprise; *2000 Annual Report*, 3M; Edward M. Tauber, "Why Do People Shop?" *Journal of Marketing*, October 1972, pp. 46–49; Christopher H. Lovelock, "Classifying Services to Gain Strategic Marketing Insights," *Journal of Marketing*, Summer 1983, pp. 9–20.Tom Boyt and Michael Harvey, "Classification of Industrial Services," *Industrial Marketing Management*, July 1997, pp. 291–300.

5. Dennis W. Rook, "The Buying Impulse," *Journal of Consumer Research*, September 1987, pp. 189–99; Cathy J. Cobb and Wayne D. Hoyer, "Planned Versus Impulse Purchase Behavior," *Journal of Retailing*, Winter 1986, pp. 384–409.

6. For example, see "Russian Maneuvers Are Making Palladium Ever More Precious," *The Wall Street Journal*, March 6, 2000, p. A1ff. See also William S. Bishop, John L. Graham, and Michael H. Jones, "Volatility of Derived Demand in Industrial Markets and Its Management Implications," *Journal of Marketing*, Fall 1984, pp. 95–103.

7. William B. Wagner and Patricia K. Hall, "Equipment Lease Accounting in Industrial Marketing Strategy," *Industrial Marketing Management* 20, no. 4 (1991), pp. 305–10; Robert S. Eckley, "Caterpillar's Ordeal: Foreign Competition in Capital Goods," *Business Horizons*, March/April 1989, pp. 80–86; M. Manley, "To Buy or Not to Buy," *Inc.*, November 1987, pp. 189–90.

8. P. Matthyssens and W. Faes, "OEM Buying Process for New Components: Purchasing and Marketing Implications," *Industrial Marketing Management*, August 1985, pp. 145–57; Paul A. Herbig and Frederick Palumbo, "Serving the Aftermarket in Japan and the United States," *Industrial Marketing Management*, November 1993, pp. 339–46; Ralph W. Jackson and Philip D. Cooper, "Unique Aspects of Marketing Industrial Services," *Industrial Marketing Management*, May 1988, pp. 111–18; Timothy L. Wilson and Frank E. Smith, "Business Services 1982–1992: Growth, Industry Characteristics, Financial Performance," *Industrial Marketing Management*, March 1996, pp. 162–71.

9. Ruth H. Krieger and Jack R. Meredith, "Emergency and Routine MRO Part Buying," *Industrial Marketing Management*, November 1985, pp. 277–82; Warren A. French et al., "MRO Parts Service in the Machine Tool Industry," *Industrial Marketing Management*, November 1985, pp. 283–88. See also "The Web's New Plumbers," *Ecompany*, March 2001, pp. 126–28.

10. For more on Starbucks' Frappuccino, see "Starbucks Cultivates Caffeine Rush," *USA Today,* April 30, 1998, p. 1Bff.; "All Things Starbucks," *Brandweek,* December 1, 1997, p. 1ff.; "Starbucks Gives Vitamin Jolt to Frappuccino Drink," *Advertising Age,* September 15, 1997, p. 82; "Starbucks Does Not Live by Coffee Alone," *Business Week,* August 5, 1996, p. 76; "Starbucks Readies Supermarket Invasion," *Advertising Age,* June 9, 1997, p. 1ff. For more on brand extensions, see "Cookie Makers Bake Up New Twists," *USA Today*, March 27, 2001, p. 3B; "Much about History," *Brandweek*, March 12, 2001, pp. 19–20; "Watershed Crystal," *Brandweek*, October 30, 2000, pp. 22–25; "Reposition: Simplifying the Customer's Brandscape," *Brandweek*, October 2, 2000, pp. 36–48; "The Joy of Laundry," *Business Week,* July 17, 2000, p. 8; "Crackers Say Cheese," *Advertising Age*, April 24, 2000, p. 32; "M&M/Mars Ice Cream Sees Red for Its Debut," *Advertising Age*, March 13, 2000, p. 33; "Clorox Tries Formula 409 for Carpets," *Advertising Age,* March 10, 1997, p. 6; "Can Betty Crocker Heat Up General Mills' Cereal Sales?" *The Wall Street Journal,* July 19, 1996, p. B1ff.; "Nabisco to Bring Top Cookie Brands to Breakfast Line," *The Wall Street Journal,* February 23, 1994, p. B5; "Multiple Varieties of Established Brands Muddle Consumers, Make Retailers Mad," *The Wall Street Journal,* January 24, 1992, p. B1ff. For more on brand equity and brand value, see "When Designers Attack!" *Ecompany*, June 2001, pp. 45–46; "Designated Shopper," *Brandweek*, May 28, 2001, p. 40; "Brand Building: Chairman of the Board," *Business Week,* May 28, 2001, p. 96; "In the Movie 'Foodfight,' Mr. Clean Plays Bit Part That Worries His Agent," *The Wall Street Journal,* April 30, 2001, p. A1ff.; "Mission, Message and Monitoring: How the Best Build, Nurture Brands," *Investor's Business Daily*, March 12, 2001, p. A1; David F. D'Alessandro, *Brand Warfare: 10 Rules for Building the Killer Brand* (2001); "Making the Emotional Connection," *Brandweek*, January 29, 2001, pp. 23–27; "What to Do with a Brand Gone Bland?" *The Wall Street Journal,* December 14, 2000, p. B14; "Pledge of Allegiance," *American Demographics*, November 2000, pp. 40–42; Marc Gob, *Emotional Branding: The New Paradigm for Connecting Brands to People* (New York: Watson-Guptill, 2000); Marc Braunstein and Edward H. Levine, *Deep Branding on the Internet* (2000); "Making Your Mark Online," *Advertising Age*, October 9, 2000, pp. 46–48; "A Word of Advice to Body Shop: Don't Undermine Your Fine Branding with an Inconsistent Internet Effort," *Brandweek*, September 25, 2000, pp. 34–36; "Brands in a Bind," *Business Week,* August 28, 2000, pp. 234–38; "Branded Blooms Find Fertile Market," *Advertising Age*, January 24, 2000, p. 16; "Two Ways to Destroy a Valuable Brand," *Brandweek*, November 15, 1999, p. 26; "Creating the New Gold Standard," *Brandweek*, July 27, 1998, pp. 27–30. See also Elise K. Prosser, "Brand Marketing: Building Winning Brand Strategies That Deliver Value and Customer Satisfaction," *Journal of the Academy of Marketing Science*, Winter 1996, pp. 86–87; David A. Aaker, "Should You Take Your Brand to Where the Action Is?" *Harvard Business Review*, September–October 1997, pp. 135–43; Richard C. Leventhal, "Branding Strategy," *Business Horizons*, September–October 1996, pp. 17–23; Deborah R. John, Barbara Loken, and Christopher Joiner, "The Negative Impact of Extensions: Can Flagship Products Be Diluted?" *Journal of Marketing*, January 1998, pp. 19–32; Cathy J. Cobb-Walgren, Cynthia A. Ruble, and Naveen Donthu, "Brand Equity, Brand Preference, and Purchase Intent," *Journal of Advertising*, Fall 1995, pp. 25–40; Vijay Vishwanath and Jonathan Mark, "Your Brand's Best Strategy," *Harvard Business Review*, May–June 1997, pp. 123–29; Michael A. Kamins and Nancy A. Frost, "A 'Brand' New Language," *Journal of Marketing*, April 1994, pp. 129–30; John A. Quelch and David Kenny, "Extend Profits, Not Product Lines," *Harvard Business Review*, September 1994–October 1994, pp. 153–60; Linda B. Samuels and Samuels Jeffery M, "Famous Marks Now Federally Protected Against Dilution," *Journal of Public Policy & Marketing*, Fall 1996, pp. 307–10; Pamela W. Henderson and Joseph A. Cote, "Guidelines for Selecting or Modifying Logos," *Journal of Marketing*, April 1998, pp. 14–30; Erich Joachimsthaler and David A. Aaker, "Building Brands Without Mass Media," *Harvard Business Review*, January–February 1997, pp. 39–50; Kevin Lane Keller, "Conceptualizing, Measuring, and Managing Customer-Based Brand Equity," *Journal of Marketing,* January 1993, pp. 1–22.

11. "Global Products Require Name-Finders," *The Wall Street Journal,* April 11, 1996, p. B8; Martin S. Roth, "Effects of Global Market Conditions on Brand Image Customization and Brand Performance," *Journal of Advertising*, Winter 1995, pp. 55–75.

12. Available from World Wide Web: <http://www.yahoo.com>; "Coterie of Early Hires Made Yahoo! A Hit but an Insular Place," *The Wall Street Journal,* March 9, 2001, p. A1ff.; "Yahoo Drops Bomb with Koogle's Exit," *USA Today*, March 8, 2001, p. 1Bff.; "Voulez-vous Yahoo Avec Moi?" *Fortune*, October 16, 2000, pp. 245–54; "Yahoo's Grand Vision for Web Advertising Takes Some Hard Hits," *The Wall Street Journal,* September 1, 2000, p. A1ff.; "Yahoo Stands Alone in Web Wars," *USA Today*, August 24, 2000, p. 1Bff.; "Surprise! Yahoo Goes Broadband," *Fortune*, May 29, 2000, pp. 182–92; "The Two Grown-Ups behind Yahoo!'s Surge," *The Wall Street Journal,* April 10, 1998, p. B1ff.; "Yahoo! Challenges AOL as a Portal to World Wide Web," *The Wall Street Journal,* March 19, 1998, p. B1; "How Yahoo! Won the Search Wars," *Fortune*, March 2, 1998, pp. 148–54; "*Brandweek*'s Marketers of the Year: Yahoo!, Karen Edwards," *Superbrands '98,* October 20, 1997, pp. 70–74; "What Hath Yahoo Wrought?" *Business Week,* February 12, 1996, pp. 88–89.

13. "Highway Safety: Time for Tougher Cops," *Business Week,* July 2, 2001, p. 42; "Firestone Plans to Close Troubled Decatur Factory," *The Wall Street Journal,* June 28, 2001, p. A3ff.; "First, Crunch Time for Jac," *Fortune*, June 25, 2001, pp. 34–35; "Ford: Why It's Worse than You Think," *Business Week,* June 25, 2001, pp. 80–89; "Ford: Other Firestone Tires Fail, Too," *USA Today*, June 14, 2001, p. 1B; "Firestone: Is This Brand beyond Repair?" *Business Week,* June 11, 2001, p. 48; "Ford Vs. Firestone: A Corporate Whodunit," *Business Week,* June 11, 2001, pp. 46–47; "Ford's Gamble: Will It Backfire?" *Business Week,* June 4, 2001, pp. 40–41; "Tired of Each Other," *Time*, June 4, 2001, pp. 50–56; "Ford Has Big Problem Beyond the Tire Mess: Making Quality Cars," *The Wall Street Journal,* May 25, 2001, p. A1ff.; "Confused Drivers May Have Trouble Trusting Either Firm," *USA Today*, May 23, 2001, p. 1Bff.; "Ford to Replace Up to 13 Million Firestone Tires," *Investor's Business Daily*, May 23, 2001, p. A9; "Firestone Quits as Tire Supplier to Ford," *The Wall Street Journal,* May 22, 2001, p. A3ff.; "Meet the New Face of Firestone," *Business Week,* April 30, 2001, pp. 64–66; "Facing or Fearing a Publicity Crisis? Right Steps to Get Past the Trouble," *Investor's Business Daily*, April 23, 2001, p. A1; "After Tireless Efforts, Ford Launches All-New Explorer," *USA Today*, March 29, 2001, p. 1Bff.; "Under Glare of Recall, Tire Makers Are Giving New Technology a Spin," *The Wall Street Journal,* March 23, 2001, p. A1ff.; "Industry Report: Tires," *Investor's Business Daily*, February 12, 2001, p. B22; "More Firestone Tires Peel," *USA Today*, February 8, 2001, p. 1Bff.; "What Japan's CEOs Can Learn from Bridgestone," *Business Week,* January 29, 2001, p. 50; "Firestone Leaves an Indelible Mark," *USA Today*, December 26, 2000, p. 1Bff.; "Cost Hinders Wider Use of Nylon to Make Steel-Belted Tires Safer," *The Wall Street Journal,* December 20, 2000, p. A8; "Firestone Admits Manufacturing Problems But Also Scrutinizes Tire-Inflation Levels," *The Wall Street Journal,* December 20, 2000, p. A3ff; "Firestone Recall Fuels Interest in 'Smart' Tires," *The Wall Street Journal,* November 22, 2000, p. B1ff.; "Drivers Complained of Tread Problems Years before Recall," *USA Today*, November 15, 2000, p. 1Bff.; "Firestone Dealers Step Up to Defend Tiremaker," *USA Today*, November 10, 2000, p. 10B; "Can Courts' Cloak of Secrecy Be Deadly?" *USA Today*, October 16, 2000, p. 1Bff.; "The Tire Flap: Behind the Feeding Frenzy," *Business Week,* October 16, 2000, pp. 126–28; "Firestone Team Faces Challenge of Steering Company Past Crisis," *The Wall Street Journal,* October11, 2000, p. A1ff.; "Squabbles between Ford and Firestone May Hurt Their Legal Defense," *The Wall Street Journal,* October 9, 2000, p. B1ff.; "Documents Imply Firestone Knew of Tire Trouble in '94," *USA Today*, October 4, 2000, p. 1Bff.; "Would You Buy One?" *Business Week,* September 25, 2000, pp. 46–47; "Jac Nasser's Biggest Test," *Fortune*, September 18, 2000, pp. 123–28; "Ford: A Crisis of Confidence," *Business Week,* September 18, 2000, pp. 40–42; "Answers Still Elusive in Tire Crisis," *The Wall Street Journal,* September 15, 2000, p. B1ff.; "Anatomy of a Recall," *Time*, September 11, 2000, pp. 28–32; "How

Ford, Firestone Let the Warnings Slide By as Debacle Developed," *The Wall Street Journal,* September 6, 2000, p. A1ff.; "Tension between Ford and Firestone Mounts amid Recall Efforts," *The Wall Street Journal,* August 28, 2000, p. A1ff.; "More People Die Despite Recall," *USA Today*, August 22, 2000, p. 1Bff.; "Ford CEO Takes Recall Reins as More Questions Arise," *USA Today*, August 17, 2000, p. 1Bff.; "What You Don't Know about Your Tires," *USA Today*, August 11, 2000, p. 1Bff.; "Bridgestone/Firestone Handling of Recall Results in Consumer Confusion, Chaos," *The Wall Street Journal,* August 11, 2000, p. A3ff.; "How the Tire Problem Turned into a Crisis for Firestone and Ford," *The Wall Street Journal,* August 10, 2000, p. A1ff.; "Could $1 Worth of Nylon Have Saved People's Lives?" *USA Today*, August 9, 2000, p. 1Bff.; "A Blowout Blindsides Bridgestone," *The Wall Street Journal,* August 7, 2000, p. A8ff.

14. "Road to Foreign Franchises Is Paved with New Problems," *The Wall Street Journal,* May 14, 2001, p. B10; "Tiger Fight Sees Kellogg, ExxonMobil Clash in Court," *Ad Age Global*, November 2000; "Wrestling, Wildlife Fund Battle over WWF Site," *USA Today*, October 25, 2000, p. 1A; "More Firms Flash New Badge," *USA Today*, October 4, 2000, p. 3B; "Name Lawsuit Prompts AppleSoup to Become Flycode," *USA Today*, September 11, 2000, p. 6B; Charles H. Schwepker, "Trademark Problems and How to Avoid Them," *Journal of the Academy of Marketing Science*, Winter 1997, pp. 89–90; Lee B. Burgunder, "Trademark Protection of Product Characteristics: A Predictive Model," *Journal of Public Policy & Marketing,* Fall 1997, pp. 277–88; Itamar Simonson, "Trademark Infringement from the Buyer Perspective: Conceptual Analysis and Measurement Implications," *Journal of Public Policy & Marketing,* Fall 1994, pp. 181–99; "Asian Trademark Litigation Continues," *The Wall Street Journal,* February 16, 1994, p. B8.

15. "Product Piracy Poses Biggest Threat to China's Economic Status," *USA Today*, June 28, 2001, p. 6B; "Beijing's Phony War on Fakes," *Fortune*, October 30, 2000, pp. 188–208; "Knocking Out the Knockoffs," *Fortune*, October 2, 2000, pp. 213–18; "Can Microsoft Stamp Out Piracy?" *Business Week,* October 2, 2000, p. 28; "China's Piracy Plague," *Business Week,* June 5, 2000, pp. 44–48; "Hackers, Pirates Thrive in Russia's Tech Underworld," *USA Today*, June 1, 2000, p. 17A; "Why Tommy Hilfiger Just Can't Seem to Stay Out of Local Wal-Mart," *The Wall Street Journal,* January 28, 1999, p. A1ff.; "In China's Software Market, a Hundred Microsoft-Bashers Bloom," *The Wall Street Journal,* December 31, 1999, p. B1ff.; "In Pursuit of Pokemon Pirates," *The Wall Street Journal,* November 8, 1999, p. B1ff.; "Software Piracy Ahoy!" *USA Today*, September 22, 1999, p. 1Bff.; "Europe Piracy!" *Business Week,* July 26, 1999, pp. 90–94; "Private Eye Stalks Mexico's Mall Pirates," *The Wall Street Journal,* December 2, 1998, p. B1ff.; "A Crackdown on Smugglers—and Foreign Companies," *Business Week,* November 9, 1998, p. 70; "Originals Increasingly Taking Knockoffs to Court," *USA Today*, October 26, 1998, p. 6B; "China's Antismuggling Drive to Hurt U.S. Exporters that Support Crackdown," *The Wall Street Journal,* August 5, 1998, p. A12; "China's CD Pirates Find a New Hangout," *Business Week,* December 15, 1997, p. 138F; "Busting Bogus Merchandise Peddlers with the Logo Cops," *The Wall Street Journal,* October 24, 1997, p. B1ff.; "Reebok Tussles with Venezuelan Company over Name, Designs," *Ad Age International,* September 1997, p. I38; "CD Piracy Flourishes in China, and West Supplies Equipment," *The Wall Street Journal,* April 24, 1997, p. A1ff.; Janeen E. Olsen and Kent L. Granzin, "Using Channels Constructs to Explain Dealers' Willingness to Help Manufacturers Combat Counterfeiting," *Journal of Business Research,* June 1993, pp. 147–70; Ronald F. Bush, Peter H. Bloch, and Scott Dawson, "Remedies for Product Counterfeiting," *Business Horizons*, January–February 1989, pp. 59–65; Alexander Nill and Clifford J. Clifford J II, "The Scourge of Global Counterfeiting," *Business Horizons*, November–December 1996, pp. 37–42.

16. For more on licensing, see "Washed Up at Warnaco?" *Time*, June 25, 2001, pp. 36–37; "Jordan Leaps into Palm of Your Hand," *USA Today*, June 18, 2001, p. 4B; "Ford Buys Beanstalk for Licensing Magic," *The Wall Street Journal,* June 11, 2001, p. B6; "New Jeep Is Sure to Turn Heads, on the Playground," *The Wall Street Journal,* January 9, 2001, p. B1ff.; "Brand New Goods," *Time*, November 1, 1999; "Deals that Go Bump in the Night," *Business Week,* February 16, 1998, p. 84; "Brand Builders: Licensing, the Color of Money," *Brandweek,* September 15, 1997, pp. 22–23; "Toy Makers Offer the Moon for New 'Star Wars' Licenses," *The Wall Street Journal,* August 19, 1997, p. B1ff.; "Arm & Hammer's Owner Looks at Licensing to Freshen Results," *The Wall Street Journal,* August 6, 1997, p. B2.

17. Amitabh Mungale, "Managing Product Families," *Journal of Product Innovation Management*, January 1998, pp. 102–03; Gloria Barczak, "Product Management," *Journal of Product Innovation Management*, September 1997, pp. 425–26; "Brand Managing's New Accent," *Adweek's Marketing Week,* April 15, 1991, pp. 18–22; "Brand Managers: 90s Dinosaurs?" *Advertising Age,* December 19, 1988, p. 19.

18. "Ten Years May Be Generic Lifetime," *Advertising Age,* March 23, 1987, p. 76; Brian F. Harris and Roger A. Strang, "Marketing Strategies in the Age of Generics," *Journal of Marketing,* Fall 1985, pp. 70–81.

19. Kusum L. Ailawadi, "Pursuing the Value-Conscious Consumer: Store Brands Versus National Brand Promotions," *Journal of Marketing*, January 2001, pp. 71–90; "White Clouds Could Bring Rain on P&G," *Advertising Age*, July 2, 2001, p. 4; "Black Eye in Store for Big Brands," *Advertising Age*, April 30, 2001, p. 1ff.; "National Tool Brands Vie for Maximum Exposure," *DSN Retailing Today*, March 5, 2001, p. 26ff.; "New Private-Label Alternatives Bring Changes to Supercenters, Clubs," *DSN Retailing Today*, February 5, 2001, p. 66; "Target Signs Exclusive Deal with *Parents* Magazine for Educational Toy Line," *DSN Retailing Today*, December 11, 2000, p. 7ff.; "Popularity of PL Toys Stems from Benefits in Cost, Exclusivity," *DSN Retailing Today*, November 20, 2000, p. 4ff.; "Wal-Mart Stores Go Private (Label)," *Advertising Age*, November 29, 1999, p. 1ff.; "For Wal-Mart, a Soap War Looms Against Mighty P&G," *The Wall Street Journal,* August 6, 1999, p. B1ff.; "Dr. Pop and Frisk Help a Grocery Chain Grow," *The Wall Street Journal,* April 13, 1998, p. B1ff.; Marcia Mogelonsky, "When Stores Become Brands," *American Demographics,* February 1995, pp. 32–38; "Big Firms Come Out Fighting, Slow Sales of Private-Label Rivals," *The Wall Street Journal,* July 7, 1994, p. B8; "Exposing the Five Myths of Private Label Brands," *Brandweek,* June 20, 1994, p. 17; R. Sethuraman and J. Mittelstaedt, "Coupons and Private Labels: A Cross-Category Analysis of Grocery Products," *Psychology & Marketing,* November/December 1992, pp. 487–500; "Store-Brand Sales Have Their Ups and Downs as Buying Habits Shift," *The Wall Street Journal,* May 12, 1994, p. B6; John A. Quelch and David Harding, "Brands Versus Private Labels: Fighting to Win," *Harvard Business Review*, January–February 1996, pp. 99–109.

20. "Many-Flavored Milk Competes with Sodas," *USA Today*, January 26, 2001, p. 1D; "Chug-a-Mania," *Brandweek*, June 22, 1998, pp. 22–23; "Dean Foods Attempts to Reintroduce Milk to Consumers," *The Wall Street Journal,* March 26, 1998, p. B4; "The Hip New Drink: Milk," *Business Week,* February 16, 1998, p. 44; "Milk Marches into New Era with Branded Product Push," *Advertising Age,* January 26, 1998, p. 14.

21. "Getting a Grip on Consumer Tastes," *Business Week,* July 16, 2001, p. 12; "Color Me Popular: Marketers Shape Up Packaging," *USA Today*, February 8, 2001, p. 7B; "See-Through Stuff Sells Big," *USA Today*, December 26, 2000, p. 6B; "This Potion's Power Is in Its Packaging," *The Wall Street Journal,* December 21, 2000, p. B12; "APPEX Show Features Top Auto Products," *DSN Retailing Today*, November 20, 2000, p. 4ff.; "Heinz Puts Squeeze on Places Refilling Its Ketchup Bottles," *The Wall Street Journal,* June 22, 2000, p. A1ff.; "Online Sales Pack a Crunch," *USA Today*, December 6, 1999, p. 1Dff.; "Hefty's Plastic Zipper Bag Is Rapping Rivals," *The Wall Street Journal,* April 16, 1999, p. B1ff.; "Excedrin Is Upfront about New Package," *The Wall Street Journal,* April 8, 1998, p. B8; "Quaker, Coca-Cola Introduce Colorful Drink Contenders," *Advertising Age,* January 26, 1998, p. 52; "What's Foiling the Aluminum Can," *Business Week,* October 6, 1997, pp. 106–8; "Breakthrough Bottles," *Brandweek,* May 20, 1996, pp. 32–52; "If Your Brand's Number Two, Get with the Package Program," *Brandweek,* June 27, 1994, pp. 26–27; Brian Wansink, "Can Package Size Accelerate Usage Volume?" *Journal of Marketing,* July 1996, pp. 1–14.

22. "UPC Registers Retailing Impact," *Advertising Age,* April 7, 1986, p. 3ff.; "Bar Codes: Beyond the Checkout Counter," *Business Week,* April 8, 1985, p. 90; Ronald C. Goodstein, "UPC Scanner Pricing Systems: Are They Accurate?" *Journal of Marketing,* April 1994, pp. 20–30; "Firms Line Up to Check Out Bar Codes," *USA Today,* December 4, 1985, pp. B1–2.

23. Bruce A. Silverglade, "The Nutrition Labeling and Education Act—Progress to Date and Challenges for the Future," *Journal of Public Policy & Marketing*, Spring 1996, pp. 148–50; Sandra J. Burke, Sandra J. Milberg, and Wendy W. Moe, "Displaying Common but Previously Neglected Health Claims on Product Labels: Understanding Competitive Advantages, Deception, and Education," *Journal of Public Policy & Marketing*, Fall 1997, pp. 242–55; Scott B. Keller, Mike Landry, Jeanne Olson, Anne M. Velliquette et al., "The Effects of Nutrition Package Claims, Nutrition Facts Panels, and Motivation to Process Nutrition Information on Consumer Product Evaluations," *Journal of Public Policy & Marketing*, Fall 1997, pp. 256–69; Paul J. Petruccelli, "Consumer and Marketing Implications of Information Provision: The Case of the Nutrition Labeling and Education Act of 1990," *Journal of Public Policy & Marketing*, Spring 1996, pp. 150–53; Christine Moorman, "A Quasi Experiment to Assess the Consumer and Informational Determinants of Nutrition Information Processing Activities: The Case of the Nutrition Labeling and Education Act," *Journal of Public Policy & Marketing*, Spring 1996, pp. 28–44.

24. "Open at Your Own Risk," *USA Today*, July 13, 2001, p. 1Aff.; "Pushing Paper in a Plastic World," *The Wall Street Journal,* February 24, 1998, p. B1ff.; "Record Makers Giving Retailers the Blues," *The Wall Street Journal,* March 16, 1992, p. B1ff.; "Shed the Egg, Spare the Image," *Adweek's Marketing Week,* July 15, 1991, p. 9; "New Packaging That's Thriftier! Niftier! and Cooks Your Food!" *Fortune,* September 5, 1994, p. 109.

25. Paula Fitzgerald, Bone Corey, and Robert J. Corey, "Ethical Dilemmas in Packaging: Beliefs of Packaging Professionals," *Journal of Macromarketing,* Spring 1992, pp. 45–54. For more on downsizing, see "Big Trend: Smaller Packaging," *USA Today,* April 1, 1993, p. 1Bff.; "State AGs Attack Downsized Brands," *Advertising Age,* February 18, 1991, p. 1ff.; "Critics Call Cuts in Package Size Deceptive Move," *The Wall Street Journal,* February 5, 1991, p. B1ff. For more discussion on disposable products, see "Disposing of the Green Myth," *Adweek's Marketing Week,* April 13, 1992, pp. 20–21; "The Waste Land," *Adweek*, November 11, 1991, p. 26; "Ridding the Nation of Polystyrene Peanuts," *Adweek's Marketing Week,* October 22, 1990, p. 17.

26. J. E. Russo, "The Value of Unit Price Information," *Journal of Marketing Research,* May 1977, pp. 193–201; David A. Aaker and Gary T. Ford, "Unit Pricing Ten Years Later: A Replication," *Journal of Marketing,* Winter 1983, pp. 118–22.

27. For more on service guarantees, see "Got a Gripe? Amtrak Patrons Get Free Ride," *USA Today*, July 7, 2000, p. 2B; "Amtrak Rolls Out Service Guarantee, New Logo," *Investor's Business Daily*, July 7, 2000, p. A7; "Biztravel.com Promises Money Back for Flight Delays," *USA Today*, May 23, 2000, p. 1Bff.; "It's Service in a Box from Hewlett-Packard," *Advertising Age,* May 10, 1993, p. 5; "More Firms Pledge Guaranteed Service," *The Wall Street Journal,* July 17, 1991, p. B1ff. For more on warranties, see M. E. Blair and Daniel E. Innis, "The Effects of Product Knowledge on the Evaluation of Warranteed Brands," *Psychology & Marketing*, August 1996, pp. 445–56; Ellen M. Moore and F. Kelly Shuptrine, "Warranties: Continued Readability Problems After the 1975 Magnuson-Moss Warranty Act," *Journal of Consumer Affairs,* Summer 1993, pp. 23–36; M.A.J. Menezes and I.S. Currim, "An Approach for Determination of Warranty Length," *International Journal of Research in Marketing,* May 1992, pp. 177–96; "Service Dealers Complain about Warranty Business," *The Wall Street Journal,* February 20, 1992, p. B2.

Chapter 10

1. Available from World Wide Web: <http://www.palm.com>; "Palm Slips to No. 2 in Revenue as iPaq Grabs the Top Spot," *Investor's Business Daily*, June 19, 2001, p. A6; "Jordan Leaps into Palm of Your Hand," *USA Today*, June 18, 2001, p. 4B; "Palm's Fortune Take a Tumble, Pressuring CEO," *The Wall Street Journal,* June 4, 2001, p. B1ff.; "The 411 on PDAs," *Ecompany*, June 2001, pp. 133–35; "Has Palm Lost Its Grip?" *Fortune*, May 28, 2001, pp. 104–108; "Palm Shares Sink as One-Time Star Says Sales Fading," *Investor's Business Daily*, May 21, 2001, p. A6; "HandEra's Hand-Held Puts Some New Twists on the Usual Formula," *The Wall Street Journal,* May 10, 2001, p. B1; "Hand-Helds that Are Less of a Handful," *Business Week,* April 9, 2001, p. 18; "PDA Wars: Round 2," *Time*, April 2, 2001, pp. 40–41; "No Cartwheels for Handspring," *Business Week,* April 2, 2001, pp. 56–58; "Palm and Handspring Offer Welcome Updates to Hand-Held Models," *The Wall Street Journal,* March 29, 2001, p. B1; "New Devices Shrink Difference in Price for Palm, Pocket PC," *Investor's Business Daily*, March 21, 2001, p. A6; "Palm and Handspring Lead a Sector that Hardly Had to Sweat," *Investor's Business Daily*, January 2, 2001, p. A6; "Palm, Microsoft Extend Rivalry to Wireless Arena," *Investor's Business Daily*, November 20, 2000, p. A6; "Seeding Demand for Handspring," *Advertising Age*, November 6, 2000, p. S36; "Palm Hopes to Blaze a New Image in Major Campaign," *The Wall Street Journal,* November 1, 2000, p. B10; "Hard Cell," *Fortune*, October 30, 2000, pp. 305–308; "Hand-Held Makers Spring Free from Parent," *Investor's Business Daily*, October 4, 2000, p. A12; "Palm and Handspring Go Hand to Hand," *Fortune*, September 18, 2000, pp. 319–20; "Palm Puts Up Its Fists as Microsoft Attacks Hand-Held PC Market," *The Wall Street Journal,* August 8, 2000, p. A1ff.; "Army of Programmers Helps Palm Keep Its Edge," *The Wall Street Journal,* June 1, 2000, p. B1ff.; "Improved Hand-Helds Still Don't Capture the Magic of Palms," *The Wall Street Journal,* May 4, 2000, p. B1; "If at First You Don't Succeed . . . ," *Business Week,* April 24, 2000, pp. 120–30; "Palm Gets Ready for New Hands," *The Wall Street Journal,* February 28, 2000, p. B1ff.; "3Com Tries to Solve Its Palm Problem," *Fortune*, October 11, 1999, pp. 167–68; "Palm Has the Whole World in Its Hand," *USA Today*, September 14, 1999, p. 1Bff.; "Putting Fluff over Function," *Fortune*, March 15, 1999, pp. 163–65; "The Palm Pilot Sequel Is a Hit," *Fortune,* April 13, 1998, pp. 154–56; "3Com Again Changes Name of Hot-Selling PalmPilot," *Advertising Age,* March 9, 1998, p. 4; "Apple Drops Newton, an Idea Ahead of Its Time," *The Wall Street Journal,* March 2, 1998, p. B1ff.; "What's in a Name? Ask 3Com," *Business Week,* January 26, 1998, p. 6; "Little Computers, Big New Marketing Battle," *The Wall Street Journal,* November 17, 1997, p. B1ff.; "A Rocket in Its Pocket," *Business Week,* September 9, 1996, pp. 111–14; "How Palm Computing Became an Architect," *Harvard Business Review*, September–October 1997, p. 89.

2. Lee G. Cooper, "Strategic Marketing Planning for Radically New Products," *Journal of Marketing*, January 2000, pp. 1–16; Robert W. Veryzer, "Key Factors Affecting Customer Evaluation of Discontinuous New Products," *Journal of Product Innovation Management*, March 1998, pp. 136–50; Laura Birou, Stanley E. Fawcett, and Gregory M. Magnan, "Integrating Product Life Cycle and Purchasing Strategies," *International Journal of Purchasing & Materials Management*, Winter 1997, pp. 23–31; Frank H. Alpert and Michael A. Kamins, "An Empirical Investigation of Consumer Memory, Attitude and Perceptions Toward Pioneer and Follower Brands," *Journal of Marketing*, October 1995, pp. 34–45; Neil A. Morgan, "Managing Imitation Strategies: How Later Entrants Seize Market Share From Pioneers," *Journal of Marketing*, October 1995, pp. 104–06; David M. Szymanski, Lisa C. Troy, and Sundar G. Bharadwaj, "Order of Entry and Business Performance: An Empirical Synthesis and Reexamination," *Journal of Marketing*, October 1995, pp. 17–33; George Day, "The Product Life Cycle: Analysis and Applications Issues," *Journal of Marketing,* Fall 1981, pp. 60–67; John E. Swan and David R. Rink, "Fitting Marketing Strategy to Varying Product Life Cycles," *Business Horizons,* January/February 1982, pp. 72–76; Igal Ayal, "International Product Life Cycle: A Reassessment and Product Policy Implications," *Journal of Marketing,* Fall 1981, pp. 91–96; Edward T. Popper and Bruce D. Buskirk, "Technology Life Cycles in Industrial Markets," *Industrial Marketing Management,* February 1992, pp. 23–32; Vijay Mahajan, Subhash Sharma, and Robert D. Buzzell, "Assessing the Impact of Competitive Entry on Market Expansion and Incumbent Sales," *Journal*

of Marketing, July 1993, pp. 39–52; Mary Lambkin and George S. Day, "Evolutionary Processes in Competitive Markets: Beyond the Product Life Cycle," *Journal of Marketing,* July 1989, pp. 4–20.

3. Jorge Alberto Sousa De Vasconcellos, "Key Success Factors in Marketing Mature Products," *Industrial Marketing Management* 20, no. 4 (1991), pp. 263–78; Paul C.N. Michell, Peter Quinn, and Edward Percival, "Marketing Strategies for Mature Industrial Products," *Industrial Marketing Management* 20, no. 3 (1991), pp. 201–6; "Computers Become a Kind of Commodity, to Dismay of Makers," *The Wall Street Journal,* September 5, 1991, p. A1ff.; Peter N. Golder and Gerard J. Tellis, "Pioneer Advantage: Marketing Logic or Marketing Legend?" *Journal of Marketing Research,* May 1993, pp. 158–70; "As Once Bright Market for CAT Scanners Dims, Smaller Makers of the X-Ray Devices Fade Out," *The Wall Street Journal,* May 6, 1980, p. 40.

4. U.S. Bureau of the Census, *Statistical Abstract of the United States 2000* (Washington, DC: U.S. Government Printing Office, 2000), p. 726.

5. "Netscape's Plan: Survive, Thrive—New Focus Is on Digital Economy," *USA Today,* April 21, 1998, p. 1Bff.; "Netscape to Share Browser Program Code," *The Wall Street Journal,* January 23, 1998, p. B6; "Special Report: The Internet," *The Wall Street Journal,* December 8, 1997, pp. R1–32; "Netspeed at Netscape," *Business Week,* February 10, 1997, pp. 78–86; "A Sea Change for Netscape: Internet Upstart Shows Muscle on the Web," *USA Today,* February 6, 1996, p. 1Bff.

6. "Would You Buy a Patent License from This Man?" *Ecompany,* April 2001, pp. 104–10; "Businesses Battle Over Intellectual Property," *USA Today,* August 2, 2000, p. 1Bff.; "Rivals Square Off Toe to Toe," *USA Today,* August 24, 1993, p. 1Bff.; "The Patent Pirates Are Finally Walking the Plank," *Business Week,* February 17, 1992, pp. 125–27; "Is It Time to Reinvent the Patent System?" *Business Week,* December 2, 1991, pp. 110–15; C. C. Baughn, Michael Bixby, and L S. Woods, "Patent Laws and the Public Good: IPR Protection in Japan and the United States," *Business Horizons,* July–August 1997, pp. 59–65; Karen Bronikowski, "Speeding New Products to Market," *The Journal of Business Strategy,* September/October 1990, pp. 34–37.

7. "Betamax Wars All Over Again," *Business Week,* September 29, 1997, pp. 35–36; "The Next Great Gadget," *Time,* January 20, 1997, p. 66; "Sony Isn't Mourning the 'Death' of Betamax," *Business Week,* January 25, 1988, p. 37; Sigvald J. Harryson, "How Canon and Sony Drive Product Innovation Through Networking and Application-Focused R&D," *Journal of Product Innovation Management,* July 1997, pp. 288–95; M. Lambkin, "Pioneering New Markets: A Comparison of Market Share Winners and Losers," *International Journal of Research in Marketing,* March 1992, pp. 5–22.

8. For more on Zara, see "Just-in-Time Fashion," *The Wall Street Journal,* May 18, 2001, p. B1ff.; "The Fashion Cycle Hits High Gear," *Business Week E.Biz,* September 18, 2000, p. EB66; "Zara Has a Made-to-Order Plan for Success," *Fortune,* September 4, 2000, p. 80; "The Mark of Zara," *Business Week,* May 29, 2000, pp. 98–100.

9. "Retailers Seek Higher Profits in Low-Rise Jeans," *The Wall Street Journal,* June 28, 2001, p. B1ff.; "Recipe for a Fashion Brand?" *The Wall Street Journal,* June 25, 2001, p. B1ff.; "Dusting Off Fashion's Old Bags," *Time* (Special Issue: Your Business), June 2001, pp. Y2–Y4; "Retailers' Holiday Leather Fetish," *The Wall Street Journal,* November 29, 2000, p. B1ff.; "Designers Howl for Fur," *The Wall Street Journal,* September 22, 2000, p. B1ff.; "Goose Bumps Define the Height of Fashion as Fall Tinges the Air," *The Wall Street Journal,* September 12, 2000, p. A1ff.; "More Teens Get Hung Up on Cellphones," *USA Today,* July 18, 2000, p. 3B; "Like, Be Hip or Be Gone in Teen Clothes Market," *USA Today,* July 5, 2000, p. 8B; "To Track Fickle Fashion, Apparel Firms Go Online," *The Wall Street Journal,* May 11, 2000, p. B1ff.; "Blue Collar No More," *Time,* May 8, 2000, p. 80; "Frilly and Full," *USA Today,* April 10, 2000, p. 8D; "Claiborne Patches Together an Empire," *The Wall Street Journal,* February 2, 2000, p. B1ff.; "Pokemon Makes a Monster Splash," *USA Today,* December 7, 1999, p. 1Dff.; "Forget the Clothes—Fashion Fortunes Turn on Heels and Purses," *The Wall Street Journal,* November 23, 1999, p. A1ff.; "Pokemon Poised to Stomp Elmo, Furby," *USA Today,* November 10, 1999, p. 1Bff.; "True Grit, or How Sights Denim Makes Money in Dirty Jeans," *The Wall Street Journal,* October 12, 1999, p. A1ff.; "Beanie Brouhaha," *Advertising Age,* September 6, 1999, p. 1ff.; "The Latest Trend in Newfangled Bangles," *The Wall Street Journal,* September 2, 1999, p. B1ff.; "It's Lustrous, It's Chic, It's Plastic," *The Wall Street Journal,* September 1, 1999, p. B1ff.; "Nokia Shoots for the Stars with New Phone," *The Wall Street Journal,* August 24, 1999, p. B7; "Fashion Coup at Dawson's Creek," *The Wall Street Journal,* June 22, 1999, p. B1ff.; "Sheer Marketing: Bare Pantyhose," *The Wall Street Journal,* May 24, 1999, p. B1ff.; "Banana Republic's Answer to Khaki Overdose: Chino!" *The Wall Street Journal,* March 26, 1999, p. B1ff.; "Fashion Understatement: That's So 5 Minutes Ago," *USA Today,* March 23, 1999, p. 1Dff.; "A Fad Flames Out, and Retailers Get Burned," *The Wall Street Journal,* January 21, 1999, p. B1ff.; "Urban Wear Goes Suburban," *Fortune,* December 21, 1998, pp. 169–72; "Despite Hype, There Are No Endangered Furbies," *USA Today,* December 15, 1998, p. 1D; "Army Pants with Pouchy Pockets Storm Fashion World," *The Wall Street Journal,* July 9, 1998, p. B1ff.; "At McDonald's, a Case of Mass Beaniemania," *The Wall Street Journal,* June 5, 1998, p. B1ff.; "Fidel Meets Naomi," *The Wall Street Journal,* March 2, 1998, p. B1ff.; "Updating a Classic: The Man in the Gray Spandex Suit," *The Wall Street Journal,* January 27, 1998, p. B1ff.; "Teletubbies Are Coming: Brit Hit Sets U.S. Invasion," *Advertising Age,* January 19, 1998, p. 12; "Rural Kids Like Hip Clothes, Too, Hot Chain Discovers," *The Wall Street Journal,* January 15, 1998, p. B1ff.; "A Grumpy Old Lady Becomes a Big Hit for Hallmark," *The Wall Street Journal,* December 24, 1997, p. B1ff.; "How Belgian Engineer Created a Global Backpack Trend," *The Wall Street Journal,* December 10, 1997, p. B1ff.; "Will Working Women Wear This Stuff?" *The Wall Street Journal,* October 8, 1997, p. B1ff.; "Virtual Pets Are Some Campers' Best Friends," *USA Today,* July 29, 1997, p. 1D; "The Beanie Factor," *Brandweek,* June 16, 1997, pp. 22–27. See also Martin G. Letscher, "How to Tell Fads from Trends," *American Demographics,* December 1994, pp. 38–45; R.E. Goldsmith, J.B. Freiden, and J.C. Kilsheimer, "Social Values and Female Fashion Leadership: A Cross-Cultural Study," *Psychology & Marketing,* September/October 1993, pp. 399–412; "Special Report: Fashion Marketing," *Advertising Age,* August 22, 1994, pp. 23–28; Craig J. Thompson and Diana L. Haytko, "Speaking of Fashion: Consumers' Uses of Fashion Discourses and the Appropriation of Countervailing Cultural Meanings," *Journal of Consumer Research,* June 1997, pp. 15–42.

10. "Pioneer, Panasonic Drive toward Recordable DVD," *Investor's Business Daily,* June 26, 2001, p. A7; "Blockbuster Tests Postvideo Future," *The Wall Street Journal,* June 18, 2001, p. B1ff.; "DVDs Aren't Ready for Home Movies Yet," *Business Week,* May 7, 2001, p. 28; "DVDs' Popularity Gives Studio Earnings Much-Needed Spin," *USA Today,* April 30, 2001, p. 4B; "Vivastar's DVD System Is Affordable, Recordable," *Investor's Business Daily,* April 20, 2001, p. A4; "Apple and Compaq Give a Sneak Preview of DVD Recording," *The Wall Street Journal,* April 5, 2001, p. B1; "Is It Time to Hop on the DVD Bandwagon?" *Ecompany,* March 2001, pp. 162–64; "Sales of DVD Players Boom, but Makers Record Little Profit," *Investor's Business Daily,* January 22, 2001, p. A6; "DVD Makers Battle over Recording Standard," *The Wall Street Journal,* November 9, 2000, p. B6ff.; "To DVD—or Not to DVD?" *The Wall Street Journal,* November 3, 2000, p. W1ff.; "Those Great DVD Sets Are Hitting the Market, but Don't Buy One Yet," *The Wall Street Journal,* August 24, 2000, p. B1ff.; "DVD Sales Energize Home Video Market," *USA Today,* April 30, 2000, p. 3B; "Don't Throw Away Those CDs Yet, Recordable DVDs a Long Way Off," *Investor's Business Daily,* April 13, 2000, p. A6; "DVD Players: Don't Toss That VCR Yet," *Business Week,* March 6, 2000, p. 160H; "As Prices Tumble, Sales of DVD Players Explode for the Holidays," *The Wall Street Journal,* December 9, 1999, p. B1ff.; "Thou Shalt Buy DVD," *Fortune,* November 8, 1999, pp. 201–208; "DVD Acceptance Picks Up Pace," *Discount Store News,* August 9, 1999, pp. 29–34; "With a Clear Path Ahead, DVD Readies for Mass Rule," *Discount Store News,* July 12, 1999, pp. 29–44; "DVD and Conquer: Why One Technology Prevailed," *Business Week,* July 5, 1999, p. 34; "Divx: The Video Technology That Geeks Love to Hate," *Fortune,* June 21, 1999, p. 177; "Circuit City Pulls the Plug on Its Divx Videodisk Venture," *The Wall Street Journal,* June 17, 1999, p. B10; "8–Tracks, Betamax—and Divx?" *Business Week,* November 9, 1998, pp. 108–10; "DVDs Catch On (but Don't Junk the VCR Yet)," *The Wall Street Journal,* September 8, 1998, p. B1ff.; "A New Spin," *Time,* August 24, 1998, pp. 60–61.

11. "Video Games Win Respect as Researchers Adapt Features for Computer Programs," *The Wall Street Journal,* August 29, 1991, p. B1ff.; "Multimedia Goes Mainstream," *Business Marketing,* June 1991, pp. 20–22; "A New Spin on Videodiscs," *Newsweek,* June 5, 1989, pp. 68–69.

12. *2000 Annual Report,* RJR Nabisco; "Oreo, Ritz Join Nabisco's Low-Fat Feast," *Advertising Age,* April 4, 1994, p. 3ff.; "They're Not Crying in Their Crackers at Nabisco," *Business Week,* August 30, 1993, p. 61; "Nabisco Unleashes a New Batch of Teddies," *Adweek's Marketing Week,* September 24, 1990, p. 18.

13. For more on Tide, see *2000 Annual Report,* Procter & Gamble; "Detergent Tablets of the '70s Make a Comeback," *USA Today,* July 27, 2000, p. 9B; "Boom in Liquid Detergents Has P&G Scrambling," *The Wall Street Journal,* September 25, 1997, p. B1ff.; "Ultra-Clean—Retail Cheers Still More P&G Concentrates," *Advertising Age,* August 22, 1994, p. 1ff.; "Detergent Industry Spins into New Cycle," *The Wall Street Journal,* January 5, 1993, p. B1ff.; "P&G Unleashes Flood of New Tide Products," *Advertising Age,* June 16, 1986, p. 3ff. For more on rescuing products online, see "How the Web Rescued Quisp from a Cereal Killing," *The Wall Street Journal,* April 24, 2000, p. B1ff.; "Oh, Heavenly Tastes: We Miss You Back on Earth," *USA Today,* March 24, 2000, p. 5D. See also "The Hard Life of Orphan Brands," *The Wall Street Journal,* April 13, 2001, p. B1ff.; "Orphan Relief," *Advertising Age,* March 19, 2001, p. 3ff.

14. For more on rejuvenating mature products, see "Dawn Gets Grease Out of Traffic's Way after Tanker Truck Spill," *Raleigh News & Observer,* May 6, 1998, p. 1Aff.; Brian Wansink, "Making Old Brands New," *American Demographics,* December 1997, pp. 53–58; "Classic Roller Skates Return as Safety Fears Dull Blades," *The Wall Street Journal,* October 24, 1997, p. B1ff.; "Dusting Off the *Britannica,*" *Business Week,* October 20, 1997, pp. 143–46; "Never Say 'Old and Lousy,'" *Fortune,* October 13, 1997, p. 40; "At Du Pont, Time to Both Sow and Reap," *Business Week,* September 29, 1997, pp. 107–8; "A Boring Brand Can Be Beautiful," *Fortune,* November 18, 1991, pp. 169–77; "Teflon Is 50 Years Old, but Du Pont Is Still Finding New Uses for Invention," *The Wall Street Journal,* April 7, 1988, p. 34; Stephen W. Miller, "Managing Imitation Strategies: How Later Entrants Seize Markets From Pioneers," *Journal of the Academy of Marketing Science,* Summer 1996, pp. 277–78; Richard E. Anderson, "Phased Product Development Friend or Foe?" *Business Horizons,* November–December 1996, pp. 30–36; Regina Fazio Maruca and Amy L. Halliday, "When New Products and Customer Loyalty Collide," *Harvard Business Review,* November–December 1993, pp. 22–36.

15. For more on Dryel, see "The Dirt on At-Home Dry Cleaning," *The Wall Street Journal,* September 15, 2000, p. W14; "Does P&G Still Matter?" *Advertising Age,* September 25, 2000, pp. 48–54; "P&G Shifts Strategy for Dryel," *Advertising Age,* January 24, 2000, p. 4; "Novel P&G Product Brings Dry Cleaning Home," *The Wall Street Journal,* November 19, 1997, p. B1ff. For more on Net appliances, see "Net Appliances Do the Job for Surfing and E-Mail," *Investor's Business Daily,* March 1, 2001, p. A8; "Sometimes Less Is Less," *Business Week,* January 15, 2001, p. 23; "PCs Unplugged," *Brandweek,* January 1, 2001, pp. 25–27; "Appliance Shopping," *Fortune,* December 18, 2000, pp. 339–44; "Audrey: Cute, but No Raving Beauty," *Business Week,* November 13, 2000, p. 35; "Audrey Aiming for 'Palm'-Sized Success," *Investor's Business Daily,* October 18, 2000, p. A8; "Audrey Waltzes Off with My Heart," *USA Today,* October 18, 2000, p. 3D.

16. "Too Many Choices," *The Wall Street Journal,* April 20, 2001, p. B1ff.; "Reposition: Simplifying the Customer's Brandscape," *Brandweek,* October 2, 2000, pp. 36–48; "Consumers to GM: You Talking to Me?" *Business Week,* June 19, 2000, pp. 213–16; "How Growth Destroys Differentiation," *Brandweek,* April 24, 2000, pp. 42–50; "P&G, Seeing Shoppers Were Being Confused, Overhauls Marketing," *The Wall Street Journal,* January 15, 1997, P. A1ff.; "Make It Simple," *Business Week,* September 9, 1996, pp. 96–104; "Diaper Firms Fight to Stay on the Bottom," *The Wall Street Journal,* March 23, 1993, p. B1ff.; "Multiple Varieties of Established Brands Muddle Consumers, Make Retailers Mad," *The Wall Street Journal,* January 24, 1992, p. B1ff.

17. "Too Many Choices," *The Wall Street Journal,* April 20, 2001, p. B1ff.; "Special Report: New Products," *Ad Age International,* April 13, 1998, pp. 17–20; "The Ghastliest Product Launches," *Fortune,* March 16, 1998, p. 44; "New and Improved," *American Demographics,* March 1998, p. 32; "Seems the Only Problem with New Products Is That They're New," *Brandweek,* August 22, 1994, pp. 36–40; "Flops: Too Many New Products Fail. Here's Why—and How to Do Better," *Business Week,* August 16, 1993, pp. 76–82; Brian D. Ottum and William L. Moore, "The Role of Market Information in New Product Success/Failure," *Journal of Product Innovation Management,* July 1997, pp. 258–73.

18. "Makers of Chicken Tonight Find Many Cooks Say, 'Not Tonight,'" *The Wall Street Journal,* May 17, 1994, p. B1ff.; "Failure of Its Oven Lovin' Cookie Dough Shows Pillsbury Pitfalls of New Products," *The Wall Street Journal,* June 17, 1993, p. B1ff.; Sharad Sarin and Gour M. Kapur, "Lessons From New Product Failures: Five Case Studies," *Industrial Marketing Management,* November 1990, pp. 301–14.

19. "How Top Software Firms Dominate," *Investor's Business Daily,* June 12, 2001, p. A1; "Opening the Spigot," *Business Week E.Biz,* June 4, 2001, pp. EB16–Eb20; "Digital Workflow Speeds Time to Shelf," *Brand Packaging,* March/April 2001, pp. 24–26; "Shelf Life Is Short for Innovations: How to Speed Products to Market," *Investor's Business Daily,* February 26, 2001, p. A1; "How the Web Is Retooling Detroit," *Business Week,* November 27, 2000, pp. 194B–D; "How Fast Can This Baby Go?" *Business Week,* April 10, 2000, pp. 38–40; Kathleen M. Eisenhardt and Shona L. Brown, "Time Pacing: Competing in Markets That Won't Stand Still," *Harvard Business Review,* March–April 1998, pp. 59–69; Marco Iansiti and Alan MacCormack, "Developing Product on Internet Time," *Harvard Business Review,* September–October 1997, pp. 108–17; Bryan Lilly and Rockney Walters, "Toward a Model of New Product Preannouncement Timing," *Journal of Product Innovation Management,* January 1997, pp. 4–20; Richard Bauhaus, "Developing Products in Half the Time," *Journal of Product Innovation Management,* January 1997, pp. 68–69; "Fast-Selling Software that Hurries Products to Market," *Fortune,* April 29, 1996, p. 150Cff.; Joseph T. Vesey, "Time-to-Market: Put Speed in Product Development," *Industrial Marketing Management,* May 1992, pp. 151–58. For more on P&G's efforts to bring products to market faster, see "Brands in a Bind," *Business Week,* August 28, 2000, pp. 234–238; "Warm and Fuzzy Won't Save Procter & Gamble," *Business Week,* June 26, 2000, pp. 48–50; "Is P&G's Makeover Only Skin-Deep?" *Business Week,* November 15, 1999, p. 52; "P&G and Unilever's Giant Headaches," *Advertising Age,* May 24, 1999, pp. 22–28.

20. "How Burger King Got Burned in Quest to Make the Perfect Fry," *The Wall Street Journal,* January 16, 2001, p. A1ff.; "Tailoring World's Cars to U.S. Tastes," *The Wall Street Journal,* January 15, 2001, p. B1ff.; "From Research Dollars to Riches," *Investor's Business Daily,* December 5, 2000, p. A1ff; "Look Who's Doing R&D," *Fortune,* November 27, 2000, pp. 232C-Z; "Why Dow Chemical Finds Slime Sublime," *The Wall Street Journal,* November 15, 1999, p. B1ff.; "Product Development Is Always Difficult; Consider the Frito Pie," *The Wall Street Journal,* October 25, 1999, p. A1ff.; Robert Polk, Richard E. Plank, and David A. Reid, "Technical Risk and New Product Success: An Empirical Test in High Technology Business Markets," *Industrial Marketing Management,* November 1996, pp. 531–43; X. M. Song and Mark E. Parry, "A Cross-National Comparative Study of New Product Development Processes: Japan and the United States," *Journal of Marketing,* April 1997, pp. 1–18; Robert G. Cooper, "Overhauling the New Product Process," *Industrial Marketing Management,* November 1996, pp. 465–82; Jeffrey B. Schmidt and Roger J. Calantone, "Are Really New Product Development Projects Harder to Shut Down?" *Journal of Product Innovation Management,* March 1998, pp. 111–23; S. N. Wasti and Jeffrey K. Liker, "Risky Business or Competitive Power? Supplier Involvement in Japanese Product Design," *Journal of Product Innovation Management,* September 1997, pp. 337–55; Cheryl

Nakata and K Sivakumar, "National Culture and New Product Development: An Integrative Review," *Journal of Marketing*, January 1996, pp. 61–72; William H. Murphy and Linda Gorchels, "How to Improve Product Management Effectiveness," *Industrial Marketing Management*, January 1996, pp. 47–58; Gary S. Lynn, Joseph G. Morone, and Albert S. Paulson, "Marketing and Discontinuous Innovation: The Probe and Learn Process," *California Management Review*, Spring 1996, pp. 8–37; Dorothy Leonard and Jeffrey F. Rayport, "Spark Innovation Through Empathic Design," *Harvard Business Review*, November–December 1997, pp. 102–8ff.; Gary L. Ragatz, Robert B. Handfield, and Thomas V. Scannell, "Success Factors for Integrating Suppliers into New Product Development," *Journal of Product Innovation Management*, May 1997, pp. 190–202; X. M. Song and Mitzi M. Montoya-Weiss, "Critical Development Activities for Really New Versus Incremental Products," *Journal of Product Innovation Management*, March 1998, pp. 124–35.

21. "Hallmark Hits the Mark," *USA Today*, June 14, 2001, p. 1Dff.; "Pickups Get Women's Touch," *USA Today*, June 13, 2001 p. 1Bff.; "Windstar's Designing Women," *USA Today*, July 19, 1999, p. 3B; "Where Great Ideas Come From," *Inc.,* April 1998, pp. 76–94; Ari-Pekka Hameri and Jukka Nihtila, "Distributed New Product Development Project Based on Internet and World-Wide Web: A Case Study," *Journal of Product Innovation Management*, March 1997, pp. 77–87; "Seeing the Future First," *Fortune,* September 5, 1994, pp. 64–70; "Detroit's New Strategy to Beat Back Japanese Is to Copy Their Ideas," *The Wall Street Journal,* October 1, 1992, p. A1ff.

22. "It Was a Hit in Buenos Aires—So Why Not Boise?" *Business Week,* September 7, 1998, pp. 56–58; Don R. Graber, "How to Manage a Global Product Development Process," *Industrial Marketing Management*, November 1996, pp. 483–89; "U.S. Companies Shop Abroad for Product Ideas," *The Wall Street Journal,* March 14, 1990, p. B1ff.

23. Eric von Hippel, *The Sources of Innovation* (New York: Oxford University Press, 1988).

24. "Gun Makers to Push Use of Gun Locks," *The Wall Street Journal,* May 9, 2001, p. B12; "U.S. Recalls Millions of Evenflo 'Joyride' Infant Seats, Carriers," *The Wall Street Journal,* May 2, 2001, p. B6; "Cosco's History Reads Like Recipe for Recalls," *USA Today*, April 4, 2001, p. 1Bff.; "Stand Up and Fight," *Business Week,* September 11, 2000, pp. 54–55; "Why One Jury Dealt a Big Blow to Chrysler in Minivan-Latch Case," *The Wall Street Journal,* November 19, 1997, p. A1ff.; "Chinese Discover Product-Liability Suits," *The Wall Street Journal,* November 13, 1997, p. B1ff.; Paula Mergenhagen, "Product Liability: Who Sues?" *American Demographics,* June 1995, pp. 48–55; "How a Jury Decided that a Coffee Spill Is Worth $2.9 Million," *The Wall Street Journal,* September 1, 1994, p. A1ff.; Paul A. Herbig and James E. Golden, "Innovation and Product Liability," *Industrial Marketing Management,* July 1994, pp. 245–56; Robert N. Mayer and Debra L. Scammon, "Caution: Weak Product Warnings May Be Hazardous to Corporate Health," *Journal of Business Research,* June 1992, pp. 347–60; Thomas V. Greer, "Product Liability in the European Community: The Legislative History," *Journal of Consumer Affairs,* Summer 1992, pp. 159–76.

25. "Want Shelf Space at the Supermarket? Ante Up," *Business Week,* August 7, 1989, pp. 60–61; "Grocer 'Fee' Hampers New-Product Launches," *Advertising Age,* August 3, 1987, p. 1ff; Frank H. Alpert, Michael A. Kamins, and John L. Graham, "An Examination of Reseller Buyer Attitudes Toward Order of Brand Entry," *Journal of Marketing,* July 1992, pp. 25–37.

26. "This Bright Idea Could Make GE a Billion," *Business Week,* December 4, 1989, p. 120.

27. Fred Langerak, Ed Peelen, and Harry Commandeur, "Organizing for Effective New Product Development," *Industrial Marketing Management*, May 1997, pp. 281–89; Keith Goffin, "Evaluating Customer Support During New Product Development—An Exploratory Study," *Journal of Product Innovation Management*, January 1998, pp. 42–56; Paul S. Adler, Avi Mandelbaum, Vien Nguyen, and Elizabeth Schwerer, "Getting the Most Out of Your Product Development Process," *Harvard Business Review*, March–April 1996, pp. 134–52; Frank R. Bacon, Jr., and Thomas W. Butler, Jr., *Planned Innovation,* rev. ed. (Ann Arbor: Institute of Science and Technology, University of Michigan, 1980); Christer Karlsson and Par Ahlstrom, "Perspective: Changing Product Development Strategy—A Managerial Challenge," *Journal of Product Innovation Management*, November 1997, pp. 473–84.

28. "Torture Testing," *Fortune*, October 2, 2000, pp. 244B–X; "Industry's Amazing New Instant Prototypes," *Fortune,* January 12, 1998, pp. 120E–L; "Secrets of Product Testing," *Fortune,* November 28, 1994, pp. 166–72; "A Smarter Way to Manufacture," *Business Week,* April 30, 1990, pp. 110–17; "Oops! Marketers Blunder Their Way through the 'Herb Decade,'" *Advertising Age,* February 13, 1989, p. 3ff.

29. For more on Gillette's razor costs, see "Gillette's Edge," *Brandweek*, May 28, 2001, p. 5; "No New CEO, but Gillette Does Have a New Product," *Advertising Age*, November 6, 2000, p. 25; "Brands in a Bind," *Business Week,* August 28, 2000, pp. 234–38; "Gillette Loses Face," *Fortune*, November 8, 1999, pp. 147–52; "Everything's at a Premium," *Advertising Age*, August 2, 1999, pp. 12–15; "Would You Spend $1.50 for a Razor Blade?" *Business Week,* April 27, 1998, p. 46; "The Men Who Broke Mach3," *Time,* April 27, 1998, p. 4; "Gillette Puts $300 Mil behind Its Mach3 Shaver," *Advertising Age,* April 20, 1998, p. 6; "How Gillette Brought Its MACH3 to Market," *The Wall Street Journal,* April 15, 1998, p. B1ff.; "Gillette Finally Reveals Its Vision of the Future, and It Has 3 Blades," *The Wall Street Journal,* April 14, 1998, p. A1ff. For more on Gillette's toothbrush costs, see "All About Gadgets and Gizmosity," *Fortune*, February 19, 2001, p. 264; "Gillette Lines Up Oral-B Ad Push," *Advertising Age*, December 4, 2000, p. 22; "Fashionable Mouths Bristle at the Ordinary," *USA Today*, May 10, 2000, p. 5D; "Oral-B Hopes New Toothbrush Scrubs the Competition," *USA Today*, January 4, 1999, p. 10B; "New Toothbrush Is Big-Ticket Item," *The Wall Street Journal,* October 27, 1998, p. B1ff.

30. "Oops! Marketers Blunder Their Way Through the 'Herb Decade,'" *Advertising Age*, February 13, 1989, p. 3ff.

31. "An Rx for Drug Trials," *Business Week E.Biz*, December 11, 2000, pp. EB66–EB68; "Web Sites Give Retailers Better Way to Test-Market Products," *USA Today*, August 29, 2000, p. 3B; "Can Procter & Gamble Change Its Culture, Protect Its Market Share, and Find the Next Tide?" *Fortune*, April 26, 1999, pp. 146–52; "To Test or Not to Test . . . ," *American Demographics*, June 1998, p. 64; John R. Dickinson and Carolyn P. Wilby, "Concept Testing With and Without Product Trial," *Journal of Product Innovation Management*, March 1997, pp. 117–25; "Born to Be a Little Too Wild," *Business Week,* December 18, 2000, pp. 69–70.

32. William E. Souder, David Buisson, and Tony Garrett, "Success Through Customer-Driven New Product Development: A Comparison of U.S. and New Zealand Small Entrepreneurial High Technology Firms," *Journal of Product Innovation Management*, November 1997, pp. 459–72; Artemis March, "Usability: The New Dimension of Product Design," *Harvard Business Review*, September 1994–October 1994, pp. 144–49; Peter H. Bloch, "Seeking the Ideal Form: Product Design and Consumer Response," *Journal of Marketing*, July 1995, pp. 16–29; Roger J. Calantone, "Engines of Innovation: U.S. Industrial Research at the End of an Era," *Journal of Product Innovation Management*, July 1997, pp. 315–17; George M. Chryssochoidis and Veronica Wong, "Rolling Out New Products Across Country Markets: An Empirical Study of Causes of Delays," *Journal of Product Innovation Management*, January 1998, pp. 16–41; Erik J. Hultink, Abbie Griffin, Susan Hart, and Henry S. Robben, "Industrial New Product Launch Strategies and Product Development Performance," *Journal of Product Innovation Management*, July 1997, pp. 243–57; Alan Flaschner, "Technology Fountainheads: The Management Challenge of R&D Consortia," *Journal of Product Innovation Management*, July 1997, pp. 309–12; William Q. Judge, Gerald E. Fryxell, and Robert S. Dooley, "The New Task of R&D Management: Creating Goal-Directed Communities for Innovation," *California Management Review*, Spring 1997, pp. 72–85; John P. Workman, Jr., "Marketing's Limited Role in New Product Development in One Computer Systems Firm," *Journal of Marketing Research,* November 1993, pp. 405–21.

33. Available from World Wide Web: <http://www.3m.com>; *2000 Annual Report,* 3M; "How to Get the Most Out of R&D: Balance Funds against Risk, Timing" *Investor's Business Daily*, May 11, 2001, p. A1; "3M: Glued to the Web," *Business Week E.Biz*, November 20, 2000, pp. EB65–EB70; "3M's Big Cleanup," *Business Week,* June 5, 2000, pp. 96–98; "3M: The Heat Is on the Boss," *Business Week,* March 15, 1999, pp. 82–84; "Steel Wool Dino Roars a Powerful Message," *Advertising Age,* September 16, 1996, p. 55; "3M Eyes Retail Software with E-Post-it Notes," *Brandweek,* March 11, 1996, p. 12; "How 3M, by Tiptoeing into Foreign Markets, Became a Big Exporter," *The Wall Street Journal,* March 29, 1991, p. A1ff.

34. "Brands at Work," *Brandweek,* April 13, 1998, pp. 27–35; "Special Report: Auto Marketing & Brand Management," *Advertising Age,* April 6, 1998, pp. S1–28; "P&G Redefines the Brand Manager," *Advertising Age,* October 13, 1997, p1ff.; Don Frey, "Learning the Ropes: My Life as a Product Champion," *Harvard Business Review,* September/October 1991, pp. 46–57; Stephen K. Markham, "New Products Management," *Journal of Product Innovation Management*, July 1997, pp. 312–14; Manfred F. Maute and William B. Locander, "Innovation as a Socio-Political Process: An Empirical Analysis of Influence Behavior among New Product Managers," *Journal of Business Research,* June 1994, pp. 161–74.

Chapter 11

1. Available from World Wide Web: <http://www.bn.com> and <http://www.amazon.com>; "Ingram Book Group and Valley Media Partner," *Nashville Business Journal,* May 29, 2001; "Ingram Book Group Shifts Distribution from Chino, Calif. To Roseburg, Ore.," *The Business Journal Portland,* May 2, 2001; "Booking Space on the Net," *USA Today,* January 28, 1998, p. 4D; "Virtual Bookstores Start to Get Real," *Business Week,* October 27, 1997, pp. 146–48; "Why the Bookstore Wars Are Good," *Fortune,* October 27, 1997, pp. 50–54; "Stop Your Whining," *Fortune,* October 13, 1997, pp. SB3–6; "Why Barnes & Noble May Crush Amazon," *Fortune,* September 29, 1997, pp. 248–50; "A Haven for the Intellect," *USA Today,* July 10, 1997, p. 1Dff.; "Bookstore Survival Stunts Have Scant Literary Merit," *The Wall Street Journal,* June 3, 1997, p. B1ff.; "Book Superstores Bring Hollywood-Like Risks to Publishing Business," *The Wall Street Journal,* May 29, 1997, p. A1ff.; "Superstores, Megabooks—and Humongous Headaches," *Business Week,* April 14, 1997, pp. 92–94; "Volume Business," *Inc. Tech,* No. 2, 1997, pp. 54–61.

2. *2000 Annual Report,* Colgate-Palmolive; *2000 Annual Report,* Procter & Gamble; "After Gobbling Up Iams, P&G Finds People Who Have Bones to Pick," *The Wall Street Journal,* June 14, 2000, p. B1ff.; "For Online Pet Stores, It's Dog-Eat-Dog," *Business Week,* March 6, 2000, pp. 78–80; "P&G Is Out to Fetch Distribution Gains for Iams Pet Food," *The Wall Street Journal,* January 6, 2000, p. A6; "Pet Supplies: Pure-Plays Teach Old Dogs New Tricks," *Discount Store News*, December 13, 1999, p. 49; "Big Pet-Supply Retailers Try to Tame the Competition," *The Wall Street Journal,* August 20, 1999, p. B4; "P&G to Buy Iams: Will Pet-Food Fight Follow?" *The Wall Street Journal,* August 12, 1999, p. B1ff.; "A Web Surfer's Best Friend," *The Wall Street Journal,* July 12, 1999, p. R45; "It's Becoming a Dogfight for the $15 Billion Pet Supply Market," *Raleigh News & Observer*, September 25, 1994, p. 5F; "Pet Superstores Collar Customers from Supermarkets, Small Shops," *The Wall Street Journal,* November 18, 1993, p. B12.

3. "Apple Gambles with Retail Plan," *Advertising Age*, June 4, 2001, p. 45; "Sorry, Steve: Here's Why It Won't Work," *Business Week,* May 21, 2001, pp. 44–45; "Apple to Open 25 Retail Stores This Year in a Bid to Reach Out to New Customers," *The Wall Street Journal,* May 16, 2001, p. B8; "Mac Sales Coming to Mall Near You," *USA Today*, May 16, 2001, p. 3D.

4. For a discussion of the advantages and disadvantages of direct channel systems, see Donald Bowersox and M. Bixby Cooper, *Strategic Marketing Channel Management,* 2nd ed. (Burr Ridge, IL: Irwin/McGraw-Hill, 1992). See also David Shipley, Colin Egan, and Scott Edgett, "Meeting Source Selection Criteria: Direct versus Distributor Channels," *Industrial Marketing Management* 20, no. 4 (1991), pp. 297–304; Thomas L. Powers, "Industrial Distribution Options: Trade-Offs to Consider," *Industrial Marketing Management* 18, no. 3 (1989), pp. 155–62.

5. "Sears Says Stores Won't Sell Makeup, a Setback for Avon's New Line," *The Wall Street Journal,* July 11, 2001, p. B1ff.; "Avon Thinks Younger, Wealthier," *Advertising Age*, October 2, 2000, p. 69; "Avon Expects Boutiques in Sears, Penneys to Break Even by 2002," *The Wall Street Journal,* September 28, 2000, p. B14; "Avon: The New Calling," *Business Week,* September 18, 2000, pp. 136–48; "Avon Goes Store to Store," *The Wall Street Journal,* September 18, 2000, p. B1ff.; "Avon's Calling Beyond In-House," *Advertising Age*, June 19, 2000, p. 1ff.; "Tour de Face," *Brandweek*, May 29, 2000, pp. 34–36; *2000 Annual Report*, Avon; "Ding-Dong, Avon Calling (on the Web, Not Your Door)," *The Wall Street Journal,* December 28, 1999, p. B4; "Deck the Mall with Kiosks," *Business Week,* December 13, 1999, pp. 86–88; "Is the Bell Tolling for Door-to-Door Selling?" *Business Week E.Biz*, November 1, 1999, pp. EB58–EB60; "Not Your Mother's Avon," *Fortune*, May 24, 1999, pp. 44–46; *1999 Annual Report*, Avon; "Avon Malling," *American Demographics*, April 1999, pp. 38–40; "Avon Is Calling with a New Way to Make a Sale," *The Wall Street Journal,* October 27, 1997, p. B1ff.; "Avon's New Calling: Sell Barbie in China," *The Wall Street Journal,* May 1, 1997, p. B1ff.

6. Edward L. Nash, *Direct Marketing* (New York: McGraw-Hill, 1986).

7. For a discussion of indirect channel systems, see Frederick E. Webster, Jr., "Understanding the Relationships among Brands, Consumers, and Resellers," *Journal of the Academy of Marketing Science,* Winter 2000, pp. 17–24; Richard Parker and G. R. Funkhouser, "The Consumer As an Active Member of the Channel: Implications for Relationship Marketing," *Journal of Marketing Theory & Practice*, Spring 1997, pp. 72–79; Gordon C. Bruner, "Cyberspace: The Marketing Frontier," *Journal of Marketing*, January 1997, pp. 112–13; Lou E. Pelton, David Strutton, and James R. Lumpkin, *Marketing Channels: A Relationship Management Approach* (Burr Ridge, IL: Irwin/McGraw-Hill, 1997). See also Bert Rosenbloom and Trina L. Larsen, "How Foreign Firms View Their U.S. Distributors," *Industrial Marketing Management,* May 1992, pp. 93–102; Frank Lynn, "The Changing Economics of Industrial Distribution," *Industrial Marketing Management,* November 1992, pp. 355–60. For more on middlemen intermediaries and their functions, see Richard Greene, "Wholesaling," *Forbes,* January 2, 1984, pp. 226–28; James D. Hlavacek and Tommy J. McCuistion, "Industrial Distributors—When, Who, and How?" *Harvard Business Review,* January–February 1983, pp. 96–101; Elizabeth J. Wilson and Arch G. Woodside, "Marketing New Products with Distributors," *Industrial Marketing Management,* February 1992, pp. 15–22; W. Benoy et al., "How Industrial Distributors View Distributor-Supplier Partnership Arrangements," *Industrial Marketing Management,* January 1995, pp. 27–36.

8. For a classic discussion of the discrepancy concepts, see Wroe Alderson, "Factors Governing the Development of Marketing Channels," in *Marketing Channels for Manufactured Goods,* ed. Richard M. Clewett (Homewood, IL: Richard D. Irwin, 1954), pp. 7–9.

9. "Cellular Carriers Bypass Dealers, Creating Static," *The Wall Street Journal*, March 9, 1998, p. B1ff.

10. For some examples on how channels change to adjust discrepancies, see "How Magazines Arrive on Shelves, and Why Some Soon May Not," *The Wall Street Journal,* February 26, 1998, p. A1ff.; "Blockbuster Seeks a New Deal with Hollywood," *The Wall Street Journal,* March 25, 1998, p. B1ff.; Robert A. Mittelstaedt and Robert E. Stassen, "Structural Changes in the Phonograph Record Industry and Its Channels of Distribution, 1946–1966," *Journal of Macromarketing,* Spring 1994, pp. 31–44; Arun Sharma and Luis V. Dominguez, "Channel Evolution: A Framework for Analysis," *Journal of the Academy of Marketing Science,* Winter 1992, pp. 1–16.

11. "What's Wrong with Selling Used CDs?" *Business Week,* July 26, 1993, p. 38.

12. Jakki J. Mohr, Robert J. Fisher, and John R. Nevin, "Collaborative Communication in Interfirm Relationships: Moderating Effects of Integration and Control," *Journal of Marketing*, July 1996, pp. 103–15; Joseph P. Cannon, "Contracts, Norms, and Plural Form Governance," *Journal of the Academy of Marketing Science,* Spring 2000, pp. 180–195; Amy E. Cox and Orville C. Walker, "Reactions to Disappointing Performance in Manufacturer-Distributor Relationships: The Role of Escalation and Resource Commitments," *Psychology & Marketing*, December 1997, pp. 791–821; Rajiv P. Dant and Patrick L. Schul, "Conflict Resolution Processes in Contractual Channels of Distribution," *Journal of Marketing,* January 1992, pp. 38–54.

13. "Get Great Results from Salespeople by Finding What Really Moves Them," *Investor's Business Daily*, July 2, 2001, p. A1.

14. "For Two Tire Makers, a Flat-Out Pitch for Safer Wheels," *The Wall Street Journal,* July 3, 1997, p. B4; "Bridgestone Takes on Goodyear in Aggressive Campaign," *The Wall Street Journal,* April 16, 1997, p. B2; "Goodyear Revs Image," *Brandweek,* February 10, 1997, p. 12; "Goodyear Wins Court Dispute with Dealers," *The Wall Street Journal,* July 2, 1996, p. B6; "Stan Gault's Designated Driver," *Business Week,* April 8, 1996, pp. 128–30; "Goodyear Drives Home Lifetime Promise," *The Wall Street Journal,* March 7, 1996, p. B8; "Goodyear Expands Just Tires by Converting Full Service Centers," *Discount Store News,* May 16, 1994, p. 6; "Goodyear Plans to Sell Its Tires at Sears Stores," *The Wall Street Journal,* March 3, 1992, p. B1ff.; Thomas L. Baker, "Leaders in Selling and Sales Management: An Analysis of the Impact of Sales and Marketing Principles on the Career of Stanley C. Gault," *Journal of Personal Selling & Sales Management,* Spring 1993, pp. 91–94; Wujin Chu and Paul R. Messinger, "Information and Channel Profits," *Journal of Retailing*, Winter 1997, pp. 487–99; Donald V. Fites, "Make Your Dealers Your Partners," *Harvard Business Review*, March–April 1996, pp. 84–95; John F. Tanner, Rick E. Ridnour, and Stephen B. Castleberry, "Types of Vertical Exchange Relationships: An Empirical Re-Examination of the Cadre/Hired-Hand Distinction," *Journal of Marketing Theory & Practice*, Summer 1997, pp. 109–25; Zhan G. Li and Rajiv P. Dant, "An Exploratory Study of Exclusive Dealing in Channel Relationships," *Journal of the Academy of Marketing Science*, Summer 1997, pp. 201–13.

15. "Kimberly-Clark Keeps Costco in Diapers, Absorbing Costs Itself," *The Wall Street Journal,* September 7, 2000, p. A1ff.

16. For more on what's happening in the beer industry, see "How Big Brewers Are Sidling into Retail," *The Wall Street Journal,* May 18, 1998, p. B1ff.; "Amid Probe, Anheuser Conquers Turf," *The Wall Street Journal,* March 9, 1998, p. B1ff.; "Some Liquor Makers Are Happy if You Switch to Beer—as Long as It's Theirs," *The Wall Street Journal,* May 23, 1996, p. B1ff. See also "Making the Middleman an Endangered Species," *Business Week,* June 6, 1994, pp. 114–15; Jule B. Gassenheimer et al., "Models of Channel Maintenance: What Is the Weaker Party to Do?" *Journal of Business Research,* July 1994, pp. 225–36; Gregory T. Gundlach, Ravi S. Achrol, and John T. Mentzer, "The Structure of Commitment in Exchange," *Journal of Marketing,* January 1995, pp. 78–92; Jan B. Heide, "Interorganizational Governance in Marketing Channels," *Journal of Marketing,* January 1994, pp. 71–85; Jean L. Johnson et al., "The Exercise of Interfirm Power and Its Repercussions in U.S.-Japanese Channel Relationships," *Journal of Marketing,* April 1993, pp. 1–10.

17. "Mothers Work: Giving the Lady What She Wants," *Fortune*, October 30, 2000, pp. T208BB–HH.

18. Ravi S. Achrol, "Changes in the Theory of Interorganizational Relations in Marketing: Toward a Network Paradigm," *Journal of the Academy of Marketing Science*, Winter 1997, pp. 56–71; Aric Rindfleisch and Jan B. Heide, "Transaction Cost Analysis: Past, Present, and Future Applications," *Journal of Marketing*, October 1997, pp. 30–54; Robert F. Lusch and James R. Brown, "Interdependency, Contracting, and Relational Behavior in Marketing Channels," *Journal of Marketing*, October 1996, pp. 19–38; Robert D. Buzzell, "Is Vertical Integration Profitable?" *Harvard Business Review,* January–February 1983, pp. 92–102; Michael Etgar and Aharon Valency, "Determinants of the Use of Contracts in Conventional Marketing Channels," *Journal of Retailing,* Winter 1983, pp. 81–92; Louis W. Stern and Torger Reve, "Distribution Channels as Political Economies: A Framework for Comparative Analysis," *Journal of Marketing,* Summer 1980, pp. 52–64.

19. "Special Report: Partners," *Business Week,* October 25, 1999, pp, 106–30.

20. "A Talk with the Man Who Got Rayovac All Charged Up," *Business Week,* February 21, 2000, pp. 32F–32H.

21. "Esprit's Spirited Style Is Hot Seller," *USA Today,* March 25, 1986, p. B5; "Apparel Firm Makes Profits, Takes Risks by Flouting Tradition," *The Wall Street Journal,* June 11, 1985, p. 1ff; David Rylander, David Strutton, and Lou E. Pelton, "Toward a Synthesized Framework of Relational Commitment: Implications for Marketing Channel Theory and Practice," *Journal of Marketing Theory & Practice*, Spring 1997, pp. 58–71; Gary L. Frazier and Walfried M. Lassar, "Determinants of Distribution Intensity," *Journal of Marketing*, October 1996, pp. 39–51; Adam J. Fein and Erin Anderson, "Patterns of Credible Commitments: Territory and Brand Selectivity in Industrial Distribution Channels," *Journal of Marketing*, April 1997, pp. 19–34.

22. "This Isn't the Legend Acura Dealers Had in Mind," *Business Week,* November 28, 1988, pp. 106–10; "GM Speeds Its Makeover of Car-Dealership Network," *The Wall Street Journal,* June 6, 1997, p. A3ff.; "GM's Dealership Relocation Plan Runs into Resistance," *The Wall Street Journal,* April 3, 1997, p. B1ff.; "Radio Shack Looks like a Palace Now," *Business Week,* May 13, 1996, pp. 153–54.

23. "Antitrust Issues and Marketing Channel Strategy" and "Case 1—Continental T.V., Inc., et al. v. GTE Sylvania, Inc.," in Louis W. Stern and Thomas L. Eovaldi, *Legal Aspects of Marketing Strategy* (Englewood Cliffs, NJ: Prentice-Hall, 1984), pp. 300–361.

24. For more on Reebok, see *2000 Annual Report,* Reebok; "Reebok's Direct Sales Spark a Retail Revolt," *Adweek's Marketing Week,* December 2, 1991, p. 7. See also Saul Sands and Robert J. Posch, Jr., "A Checklist of Questions for Firms Considering a Vertical Territorial Distribution Plan," *Journal of Marketing,* Summer 1982, pp. 38–43; Debra L. Scammon and Mary Jane Sheffet, "Legal Issues in Channels Modification Decisions: The Question of Refusals to Deal," *Journal of Public Policy and Marketing* 5 (1986), pp. 82–96. For more on VW Beetle sales online, see "Volkswagen Drives Some Beetle Sales Online," *Investor's Business Daily*, June 21, 2000, p. A8; "VW Rides a Hot Streak," *Newsweek*, May 22, 2000, pp. 48–50; "VW Targets Web-Savvy with Online Beetle Offer," *Advertising Age*, May 8, 2000, p. 18. For more on Volvo sales online, see "Driving through the Clutter," *Brandweek*, November 27, 2000, pp. IQ34–IQ36; "Volvo Plans Online Ad Campaign for Latest Launch," *The Wall Street Journal,* September 25, 2000, p. B1ff.; "Volvo, Seeking Younger Buyers, Tries to Create a Sexier Image," *The Wall Street Journal,* August 26, 1999, p. B1ff.

25. Gregory T. Gundlach and Patrick E. Murphy, "Ethical and Legal Foundations of Relational Marketing Exchanges," *Journal of Marketing,* October 1993, pp. 35–46; Craig B. Barkacs, "Multilevel Marketing and Antifraud Statutes: Legal Enterprises or Pyramid Schemes?" *Journal of the Academy of Marketing Science*, Spring 1997, pp. 176–77; Robert A. Robicheaux and James E. Coleman, "The Structure of Marketing Channel Relationships," *Journal of the Academy of Marketing Science,* Winter 1994, pp. 38–51; Brett A. Boyle and F. Robert Dwyer, "Power, Bureaucracy, Influence and Performance: Their Relationships in Industrial Distribution Channels," *Journal of Business Research,* March 1995, pp. 189–200.

26. "It's Getting Easier to Return Items Bought on the Web," *Investor's Business Daily*, Mary 1, 2001, p. A8; "Returning Gifts Bought Online Presents Fewer Problems," *Investor's Business Daily*, January 22, 2001, p. A8.

27. See, for example, "P&G to Stores: Keep the Dented Crisco Cans," *The Wall Street Journal,* March 21, 1997, p. B1ff.; "Turning Trash into Cash," *Traffic Management,* October 1993, pp. 46–48; Harvey Alter, "Cost of Recycling Municipal Solid Waste With and Without a Concurrent Beverage Container Deposit Law," *Journal of Consumer Affairs*, Summer 1993, pp. 166–86.

Chapter 12

1. "Coca-Cola Gets Hip to the 'Net," *Advertising Age*, July 2, 2001, p. 21; "Coke and Pepsi Escalate Their Water Fight," *The Wall Street Journal*, May 18, 2001, p. B8; "Sports Drinks Refresh Rivalry for Coke, Pepsi," *The Wall Street Journal*, May 8, 2001, p. B1ff.; "Will Coke.net Be the Real Thing to Put Fizz into Fountain Sales?" *Investor's Business Daily*, May 4, 2001, p. A5; "Coke Hopes to Add Fizz to Future with New Structure, Management," *Investor's Business Daily*, April 18, 2001, p. A1; "Why Coke Indulges (the Few) Fans of Tab," *The Wall Street Journal*, April 13, 2001, p. B1ff.; "Guess Who's Winning the Cola Wars," *Fortune*, April 2, 2001, pp. 164–65; "Coca-Cola Readies Global Assault," *Advertising Age*, April 2, 2001, p. 1ff.; "Repairing the Coke Machine," *Business Week*, March 19, 2001, pp. 86–88; "Coke and P&G's Shotgun Wedding," *Ad Age Global*, March 2001, p. 6; "Coke's 'Think Local' Strategy Has Yet to Prove Itself," *The Wall Street Journal*, March 1, 2001, p. B6; "Is Coke Getting as Good as It Gives in P&G Partnership?" *The Wall Street Journal*, February 22, 2001, p. B4; "Coke and P&G Plan to Create $4.2 Billion Juice and Snack Company," *The Wall Street Journal*, February 21, 2001, p. B1ff.; "Coke Retains Top Spot in U.S. Soda Sales," *The Wall Street Journal*, February 16, 2001, p. B8; "Coke Shifts Strategy as Surge Fizzles," *Advertising Age*, February 12, 2001, p. 1ff.; "Coke to Acquire Maker of Coffee, Bottled Drinks," *The Wall Street Journal*, January 12, 2001, p. B4; "Tea Is a Hit for Coke," *Ad Age Global*, January 2001, p. 5; "Pepsi, Coke Still at War, but on Different Fronts," *Advertising Age*, December 11, 2000, p. 4; "Coke and Pepsi Do Battle on the Web," *Ad Age Global*, November 2000, p. 48; "Pepsi, Coke Duke It Out in India, China," *Ad Age Global*, October 2000, p. 6; "Consumers Lose Some Appetite for Fizzy Drinks," *The Wall Street Journal*, September 19, 2000, p. B1ff.; "Brands in a Bind," *Business Week*, August 28, 2000, pp. 234–38; "Coca-Cola Light Employs Local Edge," *Advertising Age*, August 21, 2000, p. 18ff.; "For Coke, Local Is It," *Business Week*, July 3, 2000, p. 122; "To Fix Coca-Cola, Daft Sets Out to Get Relationships Right," *The Wall Street Journal*, June 23, 2000, p. A1ff.; "Coke Looses Ad Reins," *Ad Age International*, April 2000, p. 1ff.; "Now, Coke Is No Longer It," *Business Week*, February 28, 2000, pp. 148–51; "Guess Who Wants to Make a Splash in Water," *Business Week*, March 1, 1999, p. 36; "The China Card," *Fortune*, May 25, 1998, p. 82; "For Pepsi, a Battle to Capture Coke's Fountain Sales," *The Wall Street Journal*, May 11, 1998, p. B1ff.; "Pepsi Hits Coca-Cola with an Antitrust Lawsuit," *The Wall Street Journal*, May 8, 1998, p. A3ff.; "For Coke in India, Thums Up Is the Real Thing," *The Wall Street Journal*, April 29, 1998, p. B1ff.; "I'd Like the World to Buy a Coke," *Business Week*, April 13, 1998, pp. 70–76; "If You Can't Beat 'Em, Copy 'Em," *Business Week*, November 17, 1997, p. 50; "Where Coke Goes from Here," *Fortune*, October 13, 1997, pp. 88–91; "Advertising Breezes along the Nile River with Signs for Sails," *The Wall Street Journal*, July 18, 1997, p. A1ff.; "Coke Recruits Paraplegics to Help Fight PepsiCo in Soda War in India," *The Wall Street Journal*, June 10, 1997, p. B9; "A Coke and a Perm? Soda Giant Is Pushing into Unusual Locales," *The Wall Street Journal*, May 8, 1997, p. A1ff.; "For Coca-Cola in Japan, Things Go Better with Milk," *The Wall Street Journal*, January 20, 1997, p. B1ff.; "Coke Pours into Asia," *Business Week*, October 28, 1996, p. 72ff.; "Coke's Soda Fountain for Offices Fizzles, Dashing High Hopes," *The Wall Street Journal*, June 14, 1993, p. A1ff.; "The World's Best Brand," *Fortune*, May 31, 1993, pp. 44–54. For more on Pepsi's distribution, see "Playing for Time," *Brandweek*, June 11, 2001, p. 4; "Beverage Marketers See Refreshing Distribution Possibilities," *The Wall Street Journal*, May 29, 2001, p. B2; "FTC Could Try to Block Pepsi-Quaker Merger," *USA Today*, May 10, 2001, p. 1B.; "Necessity and Invention," *Brandweek*, February 19, 2001, pp. 22–25; "Done Duo," *Brandweek*, January 15, 2001, p. 1ff.; "Quaker Accepts Pepsi's $13.4B Bid," *USA Today*, December 5, 2000, p. 3B; "Race to Buy Gatorade Stirs Up Drink Market," *Investor's Business Daily*, December 4, 2000, p. A10; "Regulators to Keep Close Eye on PepsiCo after Deal," *USA Today*, December 4, 2000, p. 14A; "PepsiCo Hopes to Feast on Profits from Quaker Snacks," *The Wall Street Journal*, December 4, 2000, p. B4; "Behind the Coke Board's Refusal to Let CEO Daft Buy Quaker Oats," *The Wall Street Journal*, November 30, 2000, p. B1ff.; "Gotta Get That Gator," *Business Week*, November 27, 2000, pp. 91–94; "Cadbury's Snapple Testing Out Bottled Beer," *Advertising Age*, November 27, 2000, p. 26; "New Age Dawns as Soda Giants Go Alternative," *Advertising Age*, November 6, 2000, p. 96; "Pepsi Edges Past Coke, and It Has Nothing to Do with Cola," *The Wall Street Journal*, November 6, 2000, p. A1ff.; "Pepsi Edges Coke in Deal to Buy New Age SoBe," *The Wall Street Journal*, October 30, 2000, p. B1ff.; "Pucker Up! Pepsi's Latest Weapon Is Lemon-Lime," *The Wall Street Journal*, October 13, 2000, p. B1ff.; "Snapple vs. SoBe," *Brandweek*, July 10, 2000, p. 1ff.; "PepsiCo's New Formula: How Roger Enrico Is Remaking the Company . . . and Himself," *Business Week*, April 10, 2000, pp. 172–84; "Lizard Wizards," *Brandweek*, November 22, 1999, pp. 30–32; "A Fruity Kind of Cola War," *USA Today*, August 3, 1999, p. 1Bff.; "Between Coke and a Hard Place," *Brandweek*, June 22, 1998, pp. 34–38; "Pepsi Gets Back in the Game," *Time*, April 26, 1999, pp. 44–46; "Herbal-Tonic Bottler Has Healthy Start," *Inc.*, June 1999, pp. 21–22.

2. Available from World Wide Web: <http://www.transora.com> and <http://www.fmi.org/media/bg/ecr1>; "How to Make a Frozen Lasagna (with Just $250 Million)," *Fortune*, April 30, 2001, pp. 149–54; "Delivering the Goods," *Fortune*, November 28, 1994, pp. 64–78; "Making the Middleman an Endangered Species," *Business Week*, June 6, 1994, pp. 114–15; "The Nitty-Gritty of ECR Systems: How One Company Makes It Pay," *Advertising Age*, May 2, 1994, pp. S1ff.; "Behind the Tumult at P&G," *Fortune*, March 7, 1994, pp. 74–82.

3. "Compaq Stumbles as PCs Weather New Blow," *The Wall Street Journal*, March 9, 1998, p. B1ff.; "At What Profit Price?" *Brandweek*, June 23, 1997, pp. 24–28; "Delivering the Goods," *Fortune*, November 28, 1994, pp. 64–78; Brian F. O'Neil and Jon L. Iveson, "Strategically Managing the Logistics Function," *The Logistics and Transportation Review*, December 1991, pp. 359–78; Lloyd M. Rinehart, M. Bixby Cooper, and George D. Wagenheim, "Furthering the Integration of Marketing and Logistics Through Customer Service in the Channel," *Journal of the Academy of Marketing Science*, Winter 1989, pp. 63–72; Philip B. Schary, "A Concept of Customer Service," *The Logistics and Transportation Review*, December 1992, pp. 341–52; Edward A. Morash and John Ozment, "Toward Management of Transportation Service Quality," *The Logistics and Transportation Review*, June 1994, pp. 115–40; Michael H. Morris and Duane L. Davis, "Measuring and Managing Customer Service in Industrial Firms," *Industrial Marketing Management*, November 1992, pp. 343–54; Gary L. Frazier, Robert E. Spekman, and Charles R. O'Neal, "Just-In-Time Exchange Relationships in Industrial Markets," *Journal of Marketing*, October 1988, pp. 52–67; William D. Perreault, Jr., and Frederick A. Russ, "Physical Distribution Service in Industrial Purchase Decisions," *Journal of Marketing*, April 1976, pp. 3–10.

4. Daniel J. Flint, "Logiticians as Marketers: Their Role When Customers' Desired Value Changes," *Journal of Business Logistics*, 2000, Vol. 21, 2, pp. 19–46; "Logistics Gets a Little Respect," *Business Week E.Biz*, November 20, 2000, pp. EB112–EB116; "One Smart Cookie," *Business Week E.Biz*, November 20, 2000, p. EB120; "A Cereal Maker Hitches Its Wagons to the Web," *Business Week E.Biz*, September 18, 2000, p. EB80; "Costs Too High? Bring in the Logistics Experts," *Fortune*, November 10, 1997, pp. 200C–T; "Ryder Sees the Logic of Logistics," *Business Week*, August 5, 1996, p. 56; Carol J. Emerson and Curtis M. Grimm, "The Relative Importance of Logistics and Marketing Customer Service: A Strategic Perspective," *Journal of Business Logistics*, 1998, pp. 17–32; Edward A. Morash, Cornelia L. M. Droge, and Shawnee K. Vickery, "Strategic Logistics Capabilities for Competitive Advantage and Firm Success," *Journal of Business Logistics*, 1996, pp. 1–22; John L. Kent and Daniel J. Flint, "Perspectives on the Evolution of Logistics Thought," *Journal of Business Logistics*, 1997, pp. 15–29; Jonathan W. Kohn and Michael A. McGinnis, "Logistics Strategy: A Longitudinal Study," *Journal of Business Logistics*, 1997, pp. 1–14; Steven R. Clinton and David J. Closs, "Logistics Strategy: Does It Exist?" *Journal of Business Logistics*, 1997, pp. 19–44; Prabir K. Bagchi and Helge Virum, "Logistical Alliances: Trends and Prospects in Integrated Europe," *Journal of Business Logistics*, 1998, pp. 191–213.

5. For more on Clorox, see *2000 Annual Report*, Clorox; "The Web @ Work/Clorox Co.," *The Wall Street Journal*, October 9, 2000, p. B21; also available from World Wide Web: <http://www.clorox.com>. See also Forrest E. Harding, "Logistics Service Provider Quality: Private Measurement, Evaluation, and Improvement," *Journal of Business Logistics*, 1998, pp. 103–20; Carol C. Bienstock, John T. Mentzer, and Monroe M. Bird, "Measuring Physical Distribution Service Quality," *Journal of the Academy of Marketing Science*, Winter 1997, pp. 31–44; G. T. M. Hult, "Measuring Cycle Time of the Global Procurement Process," *Industrial Marketing Management*, September 1997, pp. 403–12; R. Mohan Pisharodi, "Preference for Supplier When Supplier and Customer Perceptions of Customer Service Levels Differ," *The Logistics and Transportation Review*, March 1994, pp. 31–54; Benson P. Shapiro, V.K. Rangan, and J.J. Sviokla, "Staple Yourself to an Order," *Harvard Business Review*, July–August, 1992, pp. 113–22; J.B. Fuller, J. O'Conor, and R. Rawlinson, "Tailored Logistics: The Next Advantage," *Harvard Business Review*, May–June 1993, pp. 87–98.

6. Lisa M. Ellram and Sue P. Siferd, "Total Cost of Ownership: A Key Concept in Strategic Cost Management Decisions," *Journal of Business Logistics*, 1998, pp. 55–84; Scott R. Swenseth and Michael R. Godfrey, "Estimating Freight Rates for Logistics Decisions," *Journal of Business Logistics*, 1996, pp. 213–31; Philip T. Evers, "The Impact of Transshipments on Safety Stock Requirements," *Journal of Business Logistics*, 1996, pp. 109–33.

7. *2000 Annual Report*, Tyson Foods; "Holly Farms' Marketing Error: The Chicken that Laid an Egg," *The Wall Street Journal*, February 9, 1988, p. 44.

8. For more on JIT, see "As Christmas Approaches, Parts Shortages Plague Electronic Makers," *The Wall Street Journal*, October 10, 2000, p. B1ff.; "Parts Shortages Hamper Electronics Makers," *The Wall Street Journal*, July 7, 2000, p. B5; Richard Germain, Cornelia Droge, and Nancy Spears, "The Implications of Just-in-Time for Logistics Organization Management and Performance," *Journal of Business Logistics*, 1996, pp. 19–34; Claudia H. Pragman, "JIT II: A Purchasing Concept for Reducing Lead Times in Time-Based Competition," *Business Horizons*, July–August 1996, pp. 54–58; Faye W. Gilbert, Joyce A. Young, and Charles R. O'Neal, "Buyer-Seller Relationships in Just-in-Time Purchasing Environments," *Journal of Business Research*, February 1994, pp. 111–20; Steve McDaniel, Joseph G. Ormsby, and Alicia B. Gresham, "The Effect of JIT on Distributors," *Industrial Marketing Management*, May 1992, pp. 145–50; "Allen-Edmonds Shoe Tries 'Just-in-Time' Production," *The Wall Street Journal*, March 4, 1993, p. B2.

9. Available from World Wide Web: <http://silmaril.smeal.psu.edu/misc/supply_chain>; Rakesh Niraj, "Customer Profitability in a Supply Chain," *Journal of Marketing*, July 2001, pp. 1–17; William F. Crittenden, "Business Success: A Way of Thinking about Strategy, Critical Supply Chain Assets and Operational Best Practices," *Journal of the Academy of Marketing Science*, Summer 2000, pp. 446–8; Donald J. Bowersox, "Ten Mega-Trends That Will Revolutionize Supply Chain Logistics," *Journal of Business Logistics*, 2000, Vol. 21, 2, pp. 1–17; "New Victories in the Supply-Chain Revolution," *Fortune*, October 30, 2000, pp. T208C–HH; "How a Tighter Supply Chain Extends the Enterprise," *Fortune*, November 8, 1999, pp. 272A–DD; "Wrestling New Wealth from the Supply Chain," *Fortune*, November 9, 1998, pp. 204C–204Z; "The Push to Streamline Supply Chains," *Fortune*, March 3, 1997, pp. 108C–R; Chickery J. Kasouf and Kevin G. Celuch, "Interfirm Relationships in the Supply Chain: The Small Supplier's View," *Industrial Marketing Management*, November 1997, pp. 475–86; William H. Borghesani, Peter L. de la Cruz, and David B. Berry, "Controlling the Chain: Buyer Power, Distributive Control, and New Dynamics in Retailing," *Business Horizons*, July–August 1997, pp. 17–24; Jeffrey H. Dyer, Dong S. Cho, and Wujin Chu, "Strategic Supplier Segmentation: The Next 'Best Practice' in Supply Chain Management," *California Management Review*, Winter 1998, pp. 57–77; Noel P. Greis and John D. Kasarda, "Enterprise Logistics in the Information Era," *California Management Review*, Summer 1997, pp. 55–78; Craig R. Carter and Lisa M. Ellram, "Reverse Logistics: A Review of the Literature and Framework for Future Investigation," *Journal of Business Logistics*, 1998, pp. 85–102; Harry L. Sink and C. J. Langley, "A Managerial Framework for the Acquisition of Third-Party Logistics Services," *Journal of Business Logistics*, 1997, pp. 163–89; Robert C. Lieb and Hugh L. Randall, "A Comparison of the Use of Third-Party Logistics Services by Large American Manufacturers, 1991, 1994, and 1995," *Journal of Business Logistics*, 1996, pp. 305–20; B.C. Arntzen, G.C. Brown, T.P. Harrison et al., "Global Supply Chain Management at Digital Equipment Corporation," *Interfaces*, January–February, 1995.

10. Cornelia Droge, "The Relationship of Electronic Data Interchange with Inventory and Financial Performance," *Journal of Business Logistics*, 2000, Vol. 21, 2, pp. 209–31; Lisa R. Williams, Avril Nibbs, Dimples Irby, and Terence Finley, "Logistics Integration: The Effect of Information Technology, Team Composition, and Corporate Competitve Positioning," *Journal of Business Logistics*, 1997, pp. 31–41; Paul R. Murphy and James M. Daley, "International Freight Forwarder Perspectives on Electronic Data Interchange and Information Management Issues," *Journal of Business Logistics*, 1996, pp. 63–84; Kenneth B. Kahn and John T. Mentzer, "EDI and EDI Alliances: Implications for the Sales Forecasting Function," *Journal of Marketing Theory & Practice*, Spring 1996, pp. 72–78; Ira Lewis and Alexander Talalayevsky, "Logistics and Information Technology: A Coordination Perspective," *Journal of Business Logistics*, 1997, pp. 141–57.

11. "A Smart Cookie at Pepperidge," *Fortune*, December 22, 1986, pp. 67–74.

12. "As Stores Scrimp More and Order Less, Suppliers Take on Greater Risks, Costs," *The Wall Street Journal*, December 10, 1991, p. B1ff.

13. Douglas Lambert, James R. Stock, and Lisa M. Ellram, *Fundamentals of Logistics* (Burr Ridge, IL: Irwin/McGraw-Hill, 1998).

14. For more detail on deregulation of transportation, see Paul D. Larson, "Transportation Deregulation, JIT, and Inventory Levels," *The Logistics and Transportation Review*, June 1991, pp. 99–112; James C. Nelson, "Politics and Economics in Transport Regulation and Deregulation—A Century Perspective of the ICC's Role," *The Logistics and Transportation Review*, March, 1987, pp. 5–32; Karl M. Ruppentha, "U.S. Airline Deregulation-Winners and Losers," *The Logistics and Transportation Review*, March 1987, pp. 65–82.

15. For a more detailed comparison of mode characteristics, see Robert Dahlstrom, Kevin M. McNeilly, and Thomas W. Speh, "Buyer-Seller Relationships in the Procurement of Logistical Services," *Journal of the Academy of Marketing Science*, Spring 1996, pp. 110–24; Roger Dale Abshire and Shane R. Premeaux, "Motor Carriers' and Shippers' Perceptions of the Carrier Choice Decision," *The Logistics and Transportation Review*, December 1991, pp. 351–58; Brian J. Gibson, Harry L. Sink, and Ray A. Mundy, "Shipper-Carrier Relationships and Carrier Selection Criteria," *The Logistics and Transportation Review*, December 1993, pp. 371–82.

16. "Inside the Race to Get Hot Video Games on Shelves," *The Wall Street Journal*, December 20, 2000, p. B1ff.

17. "Trains: Industry Report," *Investor's Business Daily*, May 7, 2001, p. B6; "Railroads: Asleep at the Switch," *Business Week*, April 2, 2001, pp. 78B-78D; "Tired of Costs, Delays of Railroads, Firms Lay Their Own Tracks," *The Wall Street Journal*, February 6, 1998, p. A1ff.; "America's Railroads Struggle to Recapture Their Former Glory," *The Wall Street Journal*, December 5, 1997, p. A1ff.; "The Rails: Trouble Behind, Trouble Ahead," *Business Week*, November 24, 1997, pp. 40–42; "An Unsolved Mystery: Where Are Shippers' Rail Cars?" *The Wall Street Journal*, October 13, 1997, p. B1ff.; "Union Pacific Tie-Ups Reach across Economy," *The Wall Street Journal*, October 8, 1997, p. B1ff.; "The Great Train Game," *Fortune*, November 11, 1996, pp. 151–54; "High Tech Puts Them Back on Track," *USA Today*, November 2, 1994, p. 1Bff.

18. "Trucking: Rig and Roll," *The Wall Street Journal*, October 23, 2000, p. R51; "Diesel Is Fueling a New Kind of Road Rage," *Business Week*, September 18, 2000, pp. 154–56; "Trucking Gets Sophisticated," *Fortune*, July 24, 2000, pp. T270B–R; "Forward Air Corp.: Hauler Gets Freight from Jets to Businesses," *Investor's Business Daily*, June 6, 2000, p. A14; "Making Sure Big Rigs Have Something to Carry," *Business Week*, June 12, 2000, p. 168F; "Trucking Finds the Internet," *Heavy Duty Trucking*, October 1999, pp. 116–20; "Hauling Super Freight Takes Ingenuity and a Huge Rig," *The Wall Street Journal*, April 13, 1998, p. B1ff.; "Extra-Big Rigs Could Barrel Down More Roads," *The Wall Street Journal*, June 16, 1997, p. B1ff.; "More Trucks Shake Residential America," *The Wall Street Journal*, April 29, 1997, p. B1ff.; "Riding the Data Highway," *Newsweek*, March 21, 1994, p. 54–55; "Hauling It for Less," *Nation's Business*, January 1994, pp. 46–48. For trucking's role in e-commerce, see "Bekins Worldwide," *Ecompany*, April 2001, p. 126; "Gunning for the Heavy Weights in National Delivery," *Fortune*, June 12, 2000, p. 322; "How E-Tailers Deliver within Hours," *Fortune*, May 29, 2000, pp. T210B-N; "E-Commerce's Newest Portals: Truck Drivers," *The Wall Street Journal*, January 3, 2000, p. A11ff.; "Getting the Goods," *The Wall Street Journal*, November 22, 1999, p. R39.

19. "Shipping Firms' Web Sites Help You Track Items," *Investor's Business Daily*, July 6, 2001, p. A6; "Why FedEx Is Flying High," *Fortune*, November 10, 1997, pp. 155–60; "UPS Puts Its Back into It," *Business Week*, October 27, 1997, p. 50; "FedEx Hears International Opportunity Knocking," *USA Today*, October 7, 1997, p. 3B; "Federal Express, UPS Battle for a Foothold in Asia," *The Wall Street Journal*, January 22, 1997, p. B1ff.; "UPS, Feeling Boxed In, Stages Its Own Coming Out," *The Wall Street Journal*, September 17, 1996, p. B4.

20. K. Raguraman and Claire Chan, "The Development of Sea-Air Intermodal Transportation: An Assessment of Global Trends," *The Logistics and Transportation Review*, December 1994, p. 379; "Cargo that Phones Home," *Fortune*, November 15, 1993, p. 143; "Grain Processor Improvises to Stay Afloat," *The Wall Street Journal*, July 21, 1993, p. B1ff.

21. *2000 Annual Report*, Du Pont; *2000 Annual Report*, Matlack; *2000 Annual Report*, Shell; "Conservation Power," *Business Week*, September 16, 1991, pp. 86–91; "On the Road Again and Again and Again: Auto Makers Try to Build Recyclable Car," *The Wall Street Journal*, April 30, 1991, p. B1; "Clean-Air Proposal Eventually May Add as Much as $600 to Car Sticker Prices," *The Wall Street Journal*, October 11, 1990, p. B1ff.

22. Paul R. Murphy, "Third-Party Logistics: Some User Versus Provider Perspectives," *Journal of Business Logistics*, 2000, Vol. 21, 1, pp. 121–134; Kant Rao, Richard R. Young, and Judith A. Novick, "Third Party Services in the Logistics of Global Firms," *The Logistics and Transportation Review*, December 1993, pp. 363–70; Judith A. Fuerst, "Sorting Out the Middlemen," *Handling and Shipping Management*, March 1985, pp. 46–50.

23. "You Make It, They Distribute It," *Nation's Business*, March 1994, pp. 46–48; C. H. White and R. B. Felder, "Turn Your Truck Fleet into a Profit Center," *Harvard Business Review*, May–June 1983, pp. 14–17.

24. "Hospital Cost Cutters Push Use of Scanners to Track Inventories," *The Wall Street Journal*, June 10, 1997, p. A1ff.; "Retired General Speeds Deliveries, Cuts Costs, Helps Sears Rebound," *The Wall Street Journal*, July 16, 1996, p. A1ff.; Paul Zinszer, "Supply Chain Strategies for Managing Excess Inventories," *Journal of Marketing Theory & Practice*, Spring 1996, pp. 55–60; Paul A. Dion, Loretta M. Hasey, Patrick C. Dorin, and Jean Lundin, "Consequences of Inventory Stockouts," *Industrial Marketing Management* 20, no. 1 (1991), pp. 23–28.

25. Anita Lahey, "Brand Revolution," from World Wide Web: <http://www.fmi.org>.

26. "Compaq Borrows Wal-Mart's Idea to Boost Production," *The Wall Street Journal*, June 17, 1994, p. B4; Wade Ferguson, "Buying an Industrial Service Warehouse Space," *Industrial Marketing Management*, February 1983, pp. 63–66; Arnold B. Maltz, "Outsourcing the Warehousing Function: Economics and Strategic Considerations," *The Logistics and Transportation Review*, September 1994, pp. 245–66; Patricia J. Daugherty, Dale S. Rogers, and Theodore P. Stank, "Benchmarking: Strategic Implications for Warehousing Firms," *The Logistics and Transportation Review*, March 1994, pp. 55–72.

27. "Hot New Technologies for American Factories," *Fortune*, June 26, 2000, pp. 288A–K; "Smart Labels Do What Bar Codes Do, Only Better," *Raleigh News & Observer*, November 22, 1999, p. 6D; "Cotter DC Rides the Wave of Technology into the Future," *Hardware Age*, October 1995, p. 50ff.; "Scanning the Distribution Horizon," *Foodservice Equipment & Supplies Specialist*, June 1994, pp. 44–52.

28. "Distribution Center Doubles Output with Paperless System," *Modern Materials Handling/Scan Tech News*, September 1994, pp. S17–19; Maureen E. Lynch, Sharon J. Imada, and James H. Bookbinder, "The Future of Logistics in Canada: A Delphi-Based Forecast" *The Logistics and Transportation Review*, March 1994, p. 95.

Chapter 13

1. Available from World Wide Web: <http://www.friedas.com>; "How Lower-Tech Gear Beat Web 'Exchanges' at Their Own Game," *The Wall Street Journal*, March 16, 2001, p. A1ff.; "Family Firms Confront Calamities of Transfer," *USA Today*, August 29, 2000, p. 1Bff.; "Business, Too Close to Home," *Time*, July 17, 2000, pp. B24–B27; "The Kiwi to My Success," *Hemispheres*, July 1999; "Searching for the Next Kiwi: Frieda's Branded Produce," *Brandweek*, May 2, 1994, pp. 46–48; "Strange Fruits," *Inc.*, November 1989, pp. 80–90; "The Produce Marketer," *Savvy*, June 1988, pp. 26–28.

2. Available from World Wide Web: <http://www.census.gov>; U.S. Bureau of the Census, *Statistical Abstract of the United States 2000* (Washington, DC: U.S. Government Printing Office, 2000); U.S. Bureau of the Census, *County Business Patterns 1998, United States* (Washington, DC: U.S. Government Printing Office, 2000); "Remedies for an Economic Hangover," *Fortune*, June 25, 2001, pp. 130–39; "Outlet Centers Go Upmarket with Amenities," *The Wall Street Journal*, June 6, 2001, p. B12; "Designer Stores, in Extra Large," *The Wall Street Journal*, June 6, 2001, p. B1ff.; "Special Report: The New Leaders," *DSN Retailing Today*, May 8, 2000, pp. 37–130; "Feisty Mom-and-Pops of Gotham Strike Back at Drugstore Chains," *The Wall Street Journal*, March 20, 2000, p. A1ff.; "Making Malls (Gasp!) Convenient," *The Wall Street Journal*, February 8, 2000, p. B1ff.; "Look Who's Thinking Small," *Business Week*, May 17, 1999, pp. 66–70; "Revolution in the Showroom," *Business Week*, February 19, 1996, pp. 70–76; "The Future of Retailing," *American Demographics*, September 1995, p. 26ff.

3. "99 Cents Only Stores: So You Think It's Funny? Well, Come On In," *Investor's Business Daily*, July 13, 2001, p. A6; "Family Dollar Uses 'Hardline' Stance to Get a Leg Up in Discount Battles," *Investor's Business Daily*, May 23, 2001, p. A1; "Family Dollar's Howard Levine: Information Helps Him Keep His Company on Top," *Investor's Business Daily*, May 18, 2001, p. A3; "Cheap Thrills for Shoppers," *Newsweek*, April 16, 2001, p. 45; "Dollar General Hits Milestone," *DSN Retailing Today*, February 19, 2001, p. 1ff.; "In ModestTimes, 'Dollar' Stores Remain Upbeat," *The Wall Street Journal*, December 22, 2000, p. B1ff.; "The Buck Stops Here," *Advertising Age*, November 6, 2000, p. 1ff.; "Penny Pinchers Propel a Retail Star," *The Wall Street Journal*, March 20, 1998, p. B1ff.; "The Best Retailer You've Never Heard Of," *Fortune*, March 16, 1998, pp. 110–12; "For You, Toto, 10% Off on the Lamp," *Fortune*, February 2, 1998, pp. 148D–F; "Ikea's New Game Plan," *Business Week*, October 6, 1997, pp. 99–102; "Beyond the Database: Sales and Service on a First-Name Basis," *Colloguy*, No. 1, 1997, pp. 8–9; "Neiman Marcus, Saks Wage Expensive Battle for Upscale Shoppers," *The Wall Street Journal*, November 21, 1996, p. A1ff.; Eric R. Spangenberg, Ayn E. Crowley, and Pamela W. Henderson, "Improving the Store Environment: Do Olfactory Cues Affect Evaluations and Behaviors?" *Journal of Marketing*, April 1996, pp. 67–80; Richard L. Oliver, Roland T. Rust, and Sajeev Varki, "Customer Delight: Foundations, Findings, and Managerial Insight," *Journal of Retailing*, Fall 1997, pp. 311–36; William R. Darden and Barry J. Babin, "Exploring the Concept of Affective

Quality: Expanding the Concept of Retail Personality," *Journal of Business Research,* February 1994, pp. 101–10; Jeffrey S. Conant, Denise T. Smart, and Roberto Solano-Mendez, "Generic Retailing Types, Distinctive Marketing Competencies, and Competitive Advantage," *Journal of Retailing,* Fall, 1993, pp. 254–79; Robert J. Donovan et al., "Store Atmosphere and Purchasing Behavior," *Journal of Retailing,* Fall 1994, p. 283; John P. Dickson and Douglas L. MacLachlan, "Social Distance and Shopping Behavior," *Journal of the Academy of Marketing Science,* Spring 1990, pp. 153–62.

4. "Small Retailers Outfox Big Rivals," *Investor's Business Daily*, November 28, 2000, p. A1; "Urban Rarity: Stores Offering Spiffy Service," *The Wall Street Journal,* July 25, 1996, p. B1ff.; "Airports: New Destination for Specialty Retailers," *USA Today,* January 11, 1996, p. 5B; "Buoyant Shoppers Boost Specialty Sales," *The Wall Street Journal,* December 15, 1992, p. B1ff.; Sharon E. Beatty, Morris Mayer, James E. Coleman, Kristy E. Reynolds, and Jungki Lee, "Customer-Sales Associate Retail Relationships," *Journal of Retailing,* Fall 1996, pp. 223–47.

5. Available from World Wide Web: <http://www.census.gov>; U.S. Bureau of the Census, *County Business Patterns 1998, United States,*; U.S. Bureau of the Census, *1997 Census of Retail Trade, Subject Series, Establishment and Firm Size* (Washington, DC: U.S. Government Printing Office, 2000); "Department Stores and Designer Tenants Jockey Over Real Estate," *The Wall Street Journal,* October 31, 2000, p. A1ff.; "They Tried to Save It, but This Penney Store Is Set to Close Forever," *The Wall Street Journal,* March 31, 1998, p. A1ff.; "Bright Lights, Big Store," *Business Week,* March 17, 1997, p. 43; "Reinventing Sears," *Time,* December 23, 1996, pp. 53–55; "Department Stores, Seemingly Outmoded, Are Perking Up Again," *The Wall Street Journal,* January 4, 1994, p. A1ff.; Richard A. Rauch, "Retailing's Dinosaurs: Department Stores and Supermarkets," *Business Horizons,* September/October 1991, pp. 21–25.

6. David Appel, "The Supermarket: Early Development of an Institutional Innovation," *Journal of Retailing,* Spring 1972, pp. 39–53.

7. Available from World Wide Web: <http://www.census.gov> and <http://www.fmi.org/food/superfact>; "Grocery Shoppers Can Be Own Cashiers," *USA Today,* March 9, 1998, p. 6B; "The Taste of the Nation," *USA Today,* March 9, 1998, p. 1Dff.; "Finally, Supermarkets Find Ways to Increase Their Profit Margins," *The Wall Street Journal,* May 29, 1997, p. A1ff.; "Special Report: Grocery Marketing," *Advertising Age,* May 8, 1995, pp. S1–10; U.S. Bureau of the Census, *1997 Census of Retail Trade, Subject Series, Establishment and Firm Size* (Washington, DC: U.S. Government Printing Office, 2000).

8. "How Growth Destroys Differentiation," *Brandweek*, April 24, 2000, pp. 42–50.

9. "Ahold's Supermarkets 'Go Native' to Succeed in U.S.," *The Wall Street Journal,* October 4, 1994, p. B4; "Supermarkets Mimic Warehouse Clubs," *Advertising Age,* July 12, 1993, p. 20; "Supermarkets Want to Join the Club," *Adweek,* July 5, 1993, p. 10; "Supermarkets Can Beat Warehouse Clubs, but Not on Price Alone," *Brandweek,* January 4, 1993, p. 25.

10. "Catalog Showrooms Revamp to Keep Their Identity," *Business Week,* Industrial/Technology Edition, June 10, 1985, pp. 117–20; Pradeep K. Korgaonkar, "Consumer Preferences for Catalog Showrooms and Discount Stores," *Journal of Retailing,* Fall 1982, pp. 76–88.

11. For more on Wal-Mart and Kmart, see Chapter 18, footnote #1. For more on Target, see "Why Is Target So Cool," *DSN Retailing Today*, April 2, 2001, p. A4; "Special Report: Target," *DSN Retailing Today*, April 2, 2001, pp. 43–64; "Marketer of the Year: On Target," *Advertising Age*, December 11, 2000, p. 1ff.; "Special Report: Target," *DSN Retailing Today*, July 24, 2000, pp. 45–72; "How Target Got Hot," *Fortune*, May 24, 1999, pp. 169–74; "Power Retailer: Target," *Discount Store News*, April 19, 1999, pp. 53–86; "Power Retailer: Target," *Discount Store News*, April 6, 1998, pp. 59–96. See also James Reardon, Ron Hasty, and Barbara Coe, "The Effect of Information Technology on Productivity in Retailing," *Journal of Retailing*, Winter 1996, pp. 445–61; Christopher D. Norek, "Mass Merchant Discounters: Drivers of Logistics Change," *Journal of Business Logistics*, 1997, pp. 1–17.

12. "Super Stores: Land for Plenty," *Raleigh News & Observer*, March 3, 2001, p. 1Dff.; "SuperTarget Grows Grocery," *Discount Store News*, March 20, 2000, p. 1ff.; "Target's Aim: Bring Fashion to Food on a National Scale," *The Wall Street Journal,* March 1, 2000, p. B4; "How Grocers Are Fighting Giant Rivals," *The Wall Street Journal,* March 27, 1997, p. B1ff.; "Wal-Mart's Super Day: 23 Supercenters in 14 States," *Discount Store News,* February 6, 1995, p. 1ff.

13. "Warehouse Clubs: When the Going Gets Tough . . . ," *Business Week,* July 16, 2001, p. 60; "BJ's Wholesale Club: Exclusive Club Has Retailer Raising the Stakes," *Investor's Business Daily*, February 28, 2001, p. A12; "Costco's In-Store Foodservice Operations Add Relish to the Company's Overall Sales," *DSN Retailing Today*, January 22, 2001, p. 24; "Gasoline Fuels Heavier Traffic at Clubs," *DSN Retailing Today*, January 1, 2001, p. 7; "Costco Cooks Up Factory Concept," *DSN Retailing Today*, November 6, 2000, p. 3ff.; "Costco to Bridge Coastal Presence with Aggressive 3-Year Plan," *DSN Retailing Today*, October 23, 2000, p. 1ff.; "Sharpening Its Razor-Thin Margins Is Costco's Way of Doing Business," *Investor's Business Daily*, April 13, 2000, p. A1; "Inside the Cult of Costco," *Fortune*, September 6, 1999, pp. 184–90; "Why Sam's Wants Businesses to Join the Club," *Business Week,* June 27, 1994, p. 48; "Warehouse-Club War Leaves Few Standing, and They Are Bruised," *The Wall Street Journal,* November 18, 1993, p. A1ff.

14. "Category Killers Go from Lethal to Lame in the Space of a Decade," *The Wall Street Journal,* March 9, 2000, p. A1ff.; "U.S. Superstores Find Japanese Are a Hard Sell," *The Wall Street Journal,* February 14, 2000, p. B1ff.; "Look Who's Thinking Small," *Business Week,* May 17, 1999, pp. 66–70; "Office-Supply Superstores Find Bounty in the Boonies," *The Wall Street Journal,* September 1, 1998, p. B1ff.; "Health-Care Superstores Experience Growing Pains," *The Wall Street Journal,* May 12, 1997, p. B1ff.; "New Sneaker Superstores Aim to Step on Their Competition," *The Wall Street Journal,* March 19, 1997, p. B1ff.; "Bridal Superstores Woo Couples with Miles of Gowns and Tuxes," *The Wall Street Journal,* February 14, 1996, p. B1ff.; "Superstore Sells Every Necessity for Reading, 'Riting, 'Rithmetic," *The Wall Street Journal,* May 16, 1994, p. B1ff.; "This Do-It-Yourself Store Is Really Doing It," *Business Week,* May 2, 1994, p. 108; "Pet Superstores Collar Customers from Supermarkets, Small Shops," *The Wall Street Journal,* November 18, 1993, p. B12.

15. For more on 7-Eleven in Japan, see "From Convenience Store to Online Behemoth?" *Business Week,* April 10, 2000, p. 64; "Japan Goes Web Crazy," *Fortune*, February 7, 2000, pp. 115–18; "Seven-Eleven Japan, Sony Set E-Commerce Plan," *The Wall Street Journal,* January 7, 2000, p. A13; "In Japan, the Hub of E-Commerce Is a 7-Eleven," *The Wall Street Journal,* November 1, 1999, p. B1ff. For more on 7-Eleven in the U.S., see "New Banking Hours: From 7 a.m. to 11 p.m.," *Newsweek*, May 7, 2001, p. 79; "7-Eleven Kiosk Program Banks on Shifts in Strategy," *DSN Retailing Today*, March 19, 2001, p. 2; "Mobile Phone with That Slurpee? Holiday Shoppers Buy on the Run," *USA Today*, December 15, 2000, p. 1B; "Now at 7-Eleven: Gas, Food and Christmas Shopping," *The Wall Street Journal,* November 28, 2000, p. B1ff.; "New 7-Eleven Kiosks Bring On-Line Transactions Home," *Discount Store News*, February 21, 2000, p. 2ff.; "7-Eleven Stores Face Fresh Food Showdown," *Brandweek*, February 28, 1994, p. 1ff.

16. "Kodak Rages in Favor of the Machines," *Brandweek*, February 26, 2001, p. 6; "Push-Button Lover," *The Economist,* November 16, 1991, p. 88; "Machines Start New Fast-Food Era," *USA Today,* July 19, 1991, pp. 1B–2B; "High-Tech Vending Machines Cook Up a New Menu of Hot Fast-Food Entrees," *The Wall Street Journal,* May 13, 1991, p. B1ff.

17. "New Page in E-Retailing: Catalogs," *The Wall Street Journal,* November 30, 2000, p. B1ff.; "Beyond Mail Order: Catalogs Now Sell Image, Advice," *The Wall Street Journal,* July 29, 1997, p. B1ff.; "Catalogers Expand in Asia," *USA Today,* October 18, 1996, p. 4B; "Spiegel's Book Is a Real Page-Turner," *Business Week,* September 12, 1994, pp.

74–76; "U.S. Catalogers Test International Waters," *The Wall Street Journal,* April 19, 1994, p. B1; C.R. Jasper and P.N.R. Lan, "Apparel Catalog Patronage: Demographic, Lifestyle, and Motivational Factors," *Psychology & Marketing,* July/August 1992, pp. 275–96; "Shoppers Seem to Prefer Mail over Mall," *USA Today,* August 12, 1993, p. 4B.

18. "Is There a Future for the TV Mall?" *Brandweek,* March 25, 1996, pp. 24–26; "QVC Draws Wares from Everywhere," *USA Today,* November 1, 1994, p. 1Dff.; "Battling for Buck$," *Profiles,* November 1994, pp. 49–52; "MTV Home Shopping Picks Model Host," *The Wall Street Journal,* July 18, 1994, p. B5; "TV or Not TV," *Inc.,* June 1994, pp. 63–68; "Purchasing Power," *U.S. News & World Report,* January 31, 1994, pp. 56–59; "Home Shoppers to Be Given Yet Another Service," *The Wall Street Journal,* January 14, 1994, p. B1ff.

19. "Etoys to Close Up Shop This Spring," *DSN Retailing Today*, February 19, 2001, p. 6ff.; "The eToys Saga: Costs Kept Rising But Sales Slowed," *The Wall Street Journal,* January 22, 2001, p. B1ff.; "Bridging the Loyalty Gap," *Business Week E.Biz*, January 22, 2001, p. EB10; "Etoys' Disappointing Holiday Spells Disaster for Pure-Players," *DSN Retailing Today*, January 1, 2001, p. 11ff.; "Toy Stores Make Their Own Hits," *The Wall Street Journal,* December 20, 2000, p. B1ff.; "Etoys' Disappointing Forecast Prompts Hard Look at Rest of E-Commerce Sector," *The Wall Street Journal,* December 18, 2000, p. A3ff.; "E-Tailers Alter Marketing Plans, Invest New Dollars in Old Medium," *DSN Retailing Today*, December 11, 2000, p. 6ff.; "Santa's Middleman Takes Stock," *The Wall Street Journal,* December 8, 2000, p. B1ff.; "Etoys Isn't Playing Around in Strategy," *USA Today*, November 24, 2000, p. 5B; "Toby Lenk," *Brandweek*, October 30, 2000, pp. IQ36–46; "The Last e-Store on the Block," *Fortune*, September 18, 2000, pp. 214–20; "He's Not Playing," *Business Week E.Biz*, July 24, 2000, pp. EB92–EB96; "Etoys' Strategy to Stay in the Game," *The Wall Street Journal,* April 25, 2000, p. B1ff.; "Stocking a Giant Toybox," *USA Today*, November 24, 1999, p. 1Bff.; "Amazon, Etoys Make Big, Opposing Bets; Which One Is Right?" *The Wall Street Journal,* November 2, 1999, p. A1ff.; "On the Internet, Toys R Us Plays Catch-Up," *The Wall Street Journal,* August 19, 1999, p. B1ff.; "This Toy War Is No Game," *Business Week,* August 9, 1999, p. 86ff.; "Etoys Story," *The Wall Street Journal,* July 12, 1999, p. R38.

20. "Has Growth of the Net Flattened?" *The Wall Street Journal,* July 16, 2001, p. B1ff.; "Remedies for an Economic Hangover," *Fortune*, June 25, 2001, pp. 130–39; "An Internet Model That Works," *Inc.*, May 2001, pp. 25–26; "Battle-Tested Rules of Online Retail," *Ecompany*, April 2001, pp. 72–80; Matthew L Meuter, "Self-Service Technologies: Understanding Customer Satisfaction with Technology-Based Service Encounters," *Journal of Marketing*, July 2000, pp. 50–65; "Special Report: Rethinking the Internet," *Business Week,* March 26, 2001, pp. 117–41; "Online America," *American Demographics* March 2001, pp. 53–60; "The Broad Backlash Against E-Tailers," *Business Week,* February 5, 2001, p. 102; "Bricks vs. Clicks," *The Wall Street Journal,* December 11, 2000, p. R10; "Clinching the Holiday E-Sale," *The Wall Street Journal,* October 9, 2000, p. B1ff.; "Are You Web Smart?" *Business Week E.Biz*, September 18, 2000, pp. EB36–EB38; "Toil and Trouble: Online Shopping Is Still a Muddle," *Fortune*, September 4, 2000, pp. 374–76; "Special Report: E-Tailing," *Business Week E.Biz*, May 15, 2000, pp. 102–25; "Wooing the Newbies," *Business Week E.Biz*, May 15, 2000, pp. 116–19; "Revamping the Model: Clicks and Bricks," *The Wall Street Journal,* April 17, 2000, p. R8ff.; "The Lessons Learned," *The Wall Street Journal,* April 17, 2000, p. R6ff.; "Xtreme Retailing," *Business Week,* December 20, 1999, pp. 120–28; "Nothing Like the Real Thing," *The Wall Street Journal,* November 22, 1999, p. R25; "A New Model: Buying Frenzy," *The Wall Street Journal,* July 12, 1999, p. R6ff.; "The Impact of Electronic Commerce on Marketing," *Harvard Business Review*, May–June 1996, p.137; Raymond R. Burke, "Do You See What I See? The Future of Virtual Shopping," *Journal of the Academy of Marketing Science*, Fall 1997, pp. 352–60; Joseph Alba, John Lynch, Barton Weitz, Chris Janiszewski et al., "Interactive Home Shopping: Consumer, Retailer, and Manufacturer Incentives to Participate in Electronic Marketplaces," *Journal of Marketing*, July 1997, pp. 38–53; Birud Sindhav, "Net Gain: Expanding Markets Through Virtual Communities," *Journal of Marketing*, January 1998, pp. 120–21; "Doing Business in the Internet Age," *Business Week,* June 22, 1998, pp. 121–72; "Entrepreneurs Reap Riches from Net Niches," *USA Today,* April 20, 1998, p. 3B; "Shopping On-Line? Here's Why You Should—and Shouldn't," *The Wall Street Journal,* November 20, 1997, p. B4.

21. Chip E. Miller, "The Effects of Competition on Retail Structure: an Examination of Intratype, Intertype, and Intercategory Competition," *Journal of Marketing*, October 1999, pp. 107–21; "Latest Supermarket Special—Gasoline," *The Wall Street Journal,* April 30, 2001, p. B1ff.; "Barnes & Noble Plots Way to Sell Magazines Via Web," *Investor's Business Daily*, April 30, 2001, p. A6; "Levi's Doesn't Fancy Selling with Cukes," *The Wall Street Journal,* April 10, 2001, p. B10; "Price Wars, Shift to Digital Photos Leaving Kodak Out of the Picture," *Investor's Business Daily*, March 19, 2001, p. A1; "Barnes & Noble Finds Grinch Effect in Games Strategy," *The Wall Street Journal,* December 20, 2000, p. B4; "Now at 7-Eleven: Gas, Food and Christmas Shopping," *The Wall Street Journal,* November 28, 2000, p. B1ff.; "Fill 'Er Up with Regular in Aisle 9," *Business Week,* October 23, 2000, p. 14; "Savoring Chocolate," *Advertising Age*, September 4, 2000, pp. 24–26; "In Aisle 10, Soup, Tea—and Bikinis?" *The Wall Street Journal,* June 28, 2000, p. B1ff.; "Grocery List: Peas, Veal, Throat Culture," *The Wall Street Journal,* May 20, 1998, p. B1ff.; "7-Eleven Follows Trend, Brews High-End Coffee," *USA Today,* April 22, 1998, p. 5B; "Fill It Up and a Cheeseburger, Please," *The Wall Street Journal,* October 15, 1997, p. B18; "Cued by Mini-Marts, Supermarkets Try Pumping Gas," *The Wall Street Journal,* October 14, 1997, p. B4; "Shoppers Park Their Grocery Carts and Eat a Little Dinner," *Marketing News,* May 20, 1996, p. 10; "Stung by Mass Merchandisers, Drugstores Try New Remedies," *The Wall Street Journal,* February 11, 1993, p. B1ff.; Jack M. Cadeaux, "Industry Product Volatility and Retailer Assortments," *Journal of Macromarketing,* Fall 1992, pp. 28–37; Ronald Savitt, "The 'Wheel of Retailing' and Retail Product Management," *European Journal of Marketing* 18, no. 6/7 (1984), pp. 43–54.

22. "How Did Sears Blow This Gasket?" *Business Week,* June 29, 1992, p. 38; "An Open Letter to Sears Customers," *USA Today,* June 25, 1992, p. 8A; see also John Paul Fraedrich, "The Ethical Behavior of Retail Managers," *Journal of Business Ethics,* March 1993, pp. 207–18.

23. Available from World Wide Web: <http://www.census.gov>; *County Business Patterns 1998, United States* U.S. Bureau of the Census, *1997 Census of Retail Trade, Subject Series, Establishment and Firm Size*; "Retailers Grab Power, Control Marketplace," *Marketing News,* January 16, 1989, pp. 1–2; Dale D. Achabal, John M. Heineke, and Shelby H. McIntyre, "Issues and Perspectives on Retail Productivity," *Journal of Retailing,* Fall 1984, p. 107ff.; Charles A. Ingene, "Scale Economies in American Retailing: A Cross-Industry Comparison," *Journal of Macromarketing* 4, no. 2 (1984), pp. 49–63; "Mom-and-Pop Videotape Shops Are Fading Out," *Business Week,* September 2, 1985, pp. 34–35.

24. "European Inns Take the Hilton Route," *The Wall Street Journal,* April 23, 2001, p. B1ff.; "Forging Ahead with Custom Contracts," *Foodservice Equipment & Supplies Specialist,* June 1994, p. 52; "Manufacturers Start to Spurn Big Discounters," *The Wall Street Journal,* November 30, 1993, p. B1ff.; "CLOUT! More and More, Retail Giants Rule the Marketplace," *Business Week,* December 21, 1992, pp. 66–73.

25. "Why Subway Is 'The Biggest Problem in Franchising,'" *Fortune,* March 16, 1998, pp. 126–34; "Fast-Food Fight," *Business Week,* June 2, 1997, pp. 34–36; "Rattling the Chains," *Brandweek,* April 21, 1997, pp. 28–40; "Lawsuit Spoils the Party at Tupperware," *The Wall Street Journal,* November 29, 1996, p. B1ff.; "Court Decides Franchisees Get Elbow Room," *The Wall Street Journal,* August 14, 1996, p. B1ff.; "Chicken and Burgers Create Hot New Class: Powerful Franchisees," *The Wall Street Journal,* May 21, 1996, p. A1ff.; "Some Franchisees Say Moves by McDonald's Hurt Their Operations," *The Wall Street Journal,* April 17, 1996, p. A1ff.; Robert Dahlstom, "Franchising: Contemporary Issues and Research," *Journal of Public Policy & Marketing*, Spring 1996, pp. 159–61; Surinder Tikoo, "Assessing the Franchise Option," *Business Horizons*, May–June 1996, pp. 78–82; Rajiv P. Dant, Audhesh K. Paswan, and Patrick J. Kaufman, "What We Know About Ownership Redirection in Franchising: A Meta-Analysis," *Journal of Retailing*, Winter 1996, pp.

429–44; Alessandro Baroncelli and Angelo Manaresi, "Franchising As a Form of Divestment: An Italian Study," *Industrial Marketing Management*, May 1997, pp. 223–35; Roger D. Blair and Jill B. Herndon, "Franchise Supply Agreements: Quality Control or Illegal Tying?" *Journal of the Academy of Marketing Science*, Spring 1997, pp. 177–78; Richard C. Hoffman and John F. Preble, "Franchising into the Twenty-First Century," *Business Horizons,* November–December 1993, pp. 35–43; "Trouble in Franchise Nation," *Fortune,* March 6, 1995, pp. 115–29; Francine Lafontaine and Patrick J. Kaufmann, "The Evolution of Ownership Patterns in Franchise Systems," *Journal of Retailing,* Summer 1994, pp. 97–114; "The Franchise Hall of Fame," *Inc.,* April 1994, pp. 86–95.

26. Foo N. Ho, Beng S. Ong, and Seonsu Lee, "A Multicultural Comparison of Shopping Patterns Among Asian Consumers," *Journal of Marketing Theory & Practice*, Winter 1997, pp. 42–51.

27. Arieh Goldman, "The Transfer of Retail Formats into Developing Economies: The Example of China," *Journal of Retailing*, Summer 2001, Vol. 77, 2, p. 221; Valerie Severin, "The Stability of Retail Shopping Choices Over Time and Across Countries," *Journal of Retailing*, Summer 2001, Vol. 77, 2, p. 185; "European Inns Take the Hilton Route," *The Wall Street Journal,* April 23, 2001, p. B1ff.; "U.S. Superstores Find Japanese Are a Hard Sell," *The Wall Street Journal,* February 14, 2000, p. B1ff.; Philip R. Cateora, *International Marketing,* 10th ed. (Burr Ridge, IL: Irwin/McGraw-Hill, 1999); Saeed Samiee, "Retailing and Channel Considerations in Developing Countries: A Review and Research Propositions," *Journal of Business Research,* June 1993, pp. 103–30; "In Guam, Shopping Sprees Are Replacing Tanning," *The Wall Street Journal,* August 23, 1996, p. B4; "How's This for a Cultural Revolution? Chinese Are Getting Home Shopping," *The Wall Street Journal,* January 4, 1996, p. A6; "Retailers Go Global," *Fortune,* February 20, 1995, pp. 102–8; "Russians Say 'Ja' to Swedish Shops," *Advertising Age,* November 7, 1994, p. 47; "A Different World," *The Wall Street Journal,* October 28, 1994, p. R6; "Wal-Mart Is Slowed by Problems of Price and Culture in Mexico," *The Wall Street Journal,* July 29, 1994, p. A1ff.; "A Bargain Basement Called Japan," *Business Week,* June 27, 1994, pp. 42–43; "From Men's Suits to Sake, Discounting Booms in Japan," *Advertising Age International,* March 21, 1994, p. I1ff.; "Europe's Smaller Food Shops Face Finis," *The Wall Street Journal,* May 12, 1993, p. B1ff.

28. "Why the Web Can't Kill the Middleman," *Ecompany*, April 2001, p. 75; "Not Dead Yet," *Inc. Tech,* No. 1, 2001, pp. 58–59; "Electronics Distributors Are Reporting Record Profits," *The Wall Street Journal,* July 13, 2000, p. B4; "Chow (On)Line," *Business Week E.Biz,* June 5, 2000, pp. EB84–EB90; "Why Online Distributors—Once Written Off—May Thrive," *Fortune*, September 6, 1999, pp. 270–72; "Middlemen Find Ways to Survive Cyberspace Shopping," *The Wall Street Journal,* December 12, 1996, p. B6; "Invoice? What's an Invoice?" *Business Week,* June 10, 1996, pp. 110–12; "Computer Wholesalers Face Shakeout and Consolidation," *The Wall Street Journal,* August 26, 1994, p. B4; "Electric Power Brokers Create New Breed of Business," *The Wall Street Journal,* August 2, 1994, p. B4; Allan J. Magrath, "The Hidden Clout of Marketing Middlemen," *Journal of Business Strategy,* March/April 1990, pp. 38–41; Paul Herbig and Bradley S. O'Hara, "Industrial Distributors in the Twenty-First Century," *Industrial Marketing Management,* July 1994, pp. 199–204.

29. "Cold War: Amana Refrigeration Fights Tiny Distributor," *The Wall Street Journal,* February 26, 1992, p. B2. For another example, see "Quickie-Divorce Curbs Sought By Manufacturers' Distributors," *The Wall Street Journal,* July 13, 1987, p. 27; "Merger of Two Bakers Teaches Distributors a Costly Lesson (3–parts)," *The Wall Street Journal,* September 14, 1987, p. 29; October 19, 1987, p. 35; November 11, 1987, p. 33.

30. Available from World Wide Web: <http://www.census.gov>; U.S. Bureau of the Census, *County Business Patterns 1998, United States*; U.S. Bureau of the Census, *1997 Census of Wholesale Trade, Geographic Area Series, United States* (Washington, DC: U.S. Government Printing Office, 2000); "Why Manufacturers Are Doubling as Distributors," *Business Week,* January 17, 1983, p. 41. See also "Who Is Bob Kierlin—and Why Is He So Successful?" *Fortune,* December 8, 1997, pp. 245–48; Robert F. Lusch, Deborah S. Coykendall, and James M. Kenderdine, *Wholesaling in Transition: An Executive Chart Book* (Norman, OK: Distribution Research Program, University of Oklahoma, 1990).

31. "Revolution in Japanese Retailing," *Fortune,* February 7, 1994, pp. 143–46; Arieh Goldman, "Evaluating the Performance of the Japanese Distribution System," *Journal of Retailing,* Spring 1992, pp. 11–39; "Japan Begins to Open the Door to Foreigners, a Little," *Brandweek,* August 2, 1993, pp. 14–16.

32. Available from World Wide Web: <http://www.rell.com>; "Richardson Electronics Ltd.: Maker of Ancient Tech Finds a Way to Prosper," *Investor's Business Daily*, June 27, 2000, p. A12; *2000 Annual Report*, Richardson Electronics.

33. Available from World Wide Web: <http://www.inmac.com> and <http://www.grainger.com>; "B2B: Yesterday's Darling," *The Wall Street Journal,* October 23, 2000, p. R8; "W.W. Grainger's Web Investments: Money Well Spent? Don't Ask Street," *Investor's Business Daily*, September 19, 2000, p. A1; "Junk That Catalog and Get On the Web," *Business Week,* June 26, 2000, pp. 28B–D.

34. For more on manufacturers' agents being squeezed, see "Wal-Mart Draws Fire: Reps, Brokers Protest Being Shut Out by New Policy," *Advertising Age,* January 13, 1992, p. 3ff.; Patrick R. Mehr, "Identifying Independent Reps," *Industrial Marketing Management,* November 1992, pp. 319–22; "Independent Sales Reps Are Squeezed by the Recession," *The Wall Street Journal,* December 27, 1991, p. B1. For more discussion on wholesaling abroad, see "Japan Rises to P&G's No. 3 Market," *Advertising Age,* December 10, 1990, p. 42; "'Papa-Mama' Stores in Japan Wield Power to Hold Back Imports," *The Wall Street Journal,* November 14, 1988, p. 1ff.; Yoo S. Yang, Robert P. Leone, and Dana L. Alden, "A Market Expansion Ability Approach to Identify Potential Exporters," *Journal of Marketing,* January 1992, pp. 84–96; Daniel C. Bello and Ritu Lohtia, "The Export Channel Design: The Use of Foreign Distributors and Agents," *Journal of the Academy of Marketing Science,* Spring 1995, pp. 83–93; Jim Gibbons, "Selling Abroad with Manufacturers' Agents," *Sales & Marketing Management,* September 9, 1985, pp. 67–69; Evelyn A. Thomchick and Lisa Rosenbaum, "The Role of U.S. Export Trading Companies in International Logistics," *Journal of Business Logistics,* September 1984, pp. 85–105; D. Steven White, "Behind the Success and Failure of U.S. Export Intermediaries: Transactions, Agents and Resources," *Journal of the Academy of Marketing Science,* Summer 2001, pp. 18–20.

35. "Keep the Excess Moving," *Business Week E.Biz,* November 20, 2000, pp. EB78–EB82; "Good-Bye to Fixed Pricing?" *Business Week,* May 4, 1998, pp. 71–84; "Sales Are Clicking on Manufacturing's Internet Mart," *Fortune,* July 7, 1997, pp. 136C–T.

36. "Sick of Checkout Lines? These Guys Can Help," *Investor's Business Daily*, July 9, 2001, p. A7; "What's Ahead for Retailing," *The Wall Street Journal,* June 25, 2001, p. R16; "Digital ID Cards," *The Wall Street Journal,* June 25, 2001, p. R16; "Get Smart: Target Will Be First Among Big Stores to Issue Cards," *The Wall Street Journal,* June 20, 2001, p. B6; "Now, Harried Shoppers Can Take Control at Supermarkets," *USA Today*, June 7, 2001, p. 1Aff.; "Leave It in the Box," *Business Week E.Biz*, December 11, 2000, pp. EB82–EB83; "Master Plan," *Brandweek*, October 18, 1999, pp. 52–54.

Chapter 14

1. Available from World Wide Web: <http://www.chrysler.com/pt-cruiser>; "Special Report: Buzz Marketing," *Business Week,* July 30, 2001, pp. 50–56; "Fuel Standards: How to Plug the Leaks," *Business Week,* May 28, 2001, p. 36; "A Risky Mass-Market Move for the PT," *Business Week,* May 7, 2001, p. 14; "Ford Seeks 'PT-Style' Buzz for T-Bird Via Relationship Efforts, Not TV," *Brandweek*, January 15, 2001, p. 4; "Focusing on the Front End," *Brandweek* (Marketers of the Year Special Issue), October 16, 2000, pp. M66–M74; "PT Cruiser Crash Tests Produce Mixed Results," *USA Today*, July 26, 2000, p. 3B; "Too Cool for Chrysler?" *The Wall Street Journal,* July 20, 2000, p. B1ff.; "An Economy Car in Hot Rod's Clothing," *The Wall Street Journal,* June 30, 2000, p.

W11C; "Pricey PT Cruisers Land NHTSA in Hot Water," *USA Today*, June 29, 2000, p. 8B; "Safety Testers Pay $20,000 Above Sticker for Cruisers," *USA Today*, May 25, 2000, p. 1B; "Chrysler PT Cruises by Fair Pricing," *USA Today*, May 22, 2000, p. 24A; "PT Cruiser Drives Some Buyers Wild," *USA Today*, May 16, 2000, p. 1Aff.; "Chrysler Hits Right Buttons to Unveil Novel PT Cruiser," *Advertising Age*, April 17, 2000, p. 73; "Hearst Designs Promotion for Chrysler's PT Cruiser," *Advertising Age*, March 27, 2000, p. 20; "New Cruiser Stirs Beetle-Like Buzz," *USA Today*, March 17, 2000, p. 1Bff.; "EPA Labels PT Cruiser a Car, Creating Potential Trouble for Some Auto Makers," *The Wall Street Journal,* March 3, 2000, p. A3; "Sampling: PT Barnstorm," *Brandweek*, October 25, 1999, pp. 26–28.

2. "Wary Over Harry," *Brandweek*, June 11, 2001, p. 1ff.; "Inside the Halls of Hogwarts," *On Magazine,* June 2001, pp. 74–75; "Harry Potter and the Marketing Whiz-Kids," *Ad Age Global*, March 2001, p. 5; "Potter Fans Put Hex of a Boycott on Warner Bros.," *USA Today*, February 22, 2001, p. 1D; "Warner Bros. Chooses Coke to Bestow Marketing Magic on Harry Potter Film," *The Wall Street Journal,* February 20, 2001, p. A3ff.; "Transportation," *Business Week,* January 8, 2001, P. 130; "Next Up for Wizard Fans: Harry Potter and the Contested Domains," *The Wall Street Journal,* December 21, 2000, p. B1ff.; "Potter Cognoscenti All Know a Muggle When They See One," *The Wall Street Journal,* October 18, 2000, p. A1ff.; "Buzzmeisters of the Year," *Brandweek* (Marketers of the Year Special Issue), October 16, 2000, pp. M8–M18; "Harry Potter, Meet 'Ha-li Bo-te,'" *The Wall Street Journal,* September 21, 2000, p. B1ff.; "Creative Coddling, Great Word of Mouth," *Business Week E.Biz*, September 18, 2000; "Wizard of Marketing," *Business Week,* July 24, 2000, pp. 84–87; "Wizard for a Day: Now Young Muggles Act Out 'Potter' Online," *The Wall Street Journal,* July 31, 2000, p. B1; "Marketers Count on Potter Film for Golden Touch," *USA Today*, July 18, 2000, p. 1Bff.; "Web Booksellers Give Potter Fans Rush Delivery," *The Wall Street Journal,* June 22, 2000, p. B1ff.; "Harry Potter and the Booksellers," *The Wall Street Journal,* June 16, 2000, p. B1ff.; "Mattel and Hasbro Get Licenses for Harry Potter," *The Wall Street Journal,* February 11, 2000, p. B6.

3. "Old-Fashioned PR Gives General Mills Advertising Bargains," *The Wall Street Journal,* March 20, 1997, p. A1ff.; "Name That Chintz! How Shelter Magazines Boost Brands," *The Wall Street Journal,* March 14, 1997, p. B1ff.; "Rosie and 'Friends' Make Drake's Cakes a Star," *The Wall Street Journal,* February 10, 1997, p. B1ff.; "Toy Story: How Shrewd Marketing Made Elmo a Hit," *The Wall Street Journal,* December 16, 1996, p. B1ff.; "PR Shouldn't Mean 'Poor Relations,'" *Industry Week,* February 3, 1992, p. 51; Siva K. Balasubramanian, "Beyond Advertising and Publicity: Hybrid Messages and Public Policy Issues," *Journal of Advertising*, December 1994, pp. 29–46; Thomas H. Bivins, "Ethical Implications of the Relationship of Purpose to Role and Function in Public Relations," *Journal of Business Ethics,* January, 1989, pp. 65–74.

4. "Small Wonder," *The Wall Street Journal,* June 25, 2001, p. R; "Minute Maid Opens Juicy Site to Promote New Drink," *Brandweek*, April 30, 2001, p. B; "PMA Reggie Awards 2001," *Brandweek* (Supplement), March 12, 2001, pp. R1–R22; "Mystery Shoppers," *American Demographics*, December 2000, pp. 41–43; "Sweet Deals," *Inc. Tech,* No. 4, 2000, pp. 98–109; "Hot Wheels," *American Demographics*, August 2000, pp. 48–49; "Calling All Car Worms," *Brandweek*, March 6, 2000, pp. 22–23; "Sharp Curves Ahead for Car Marketers," *Brandweek*, January 3, 2000, pp. 18–19; "Talbots Mounting Its Biggest Integrated Marketing Push," *Advertising Age,* August 11, 1997, p. 29; "Olds' Intrigue Stars in Web Game Based on NBC TV Show," *Advertising Age,* July 28, 1997, p. 16ff.; "Product Program Flea Control," *Advertising Age,* Special Issue, 1997, p. E8; "Promotion Marketing," *Brandweek,* March 4, 1996, pp. 22–26; J. R. Shannon, "The New Promotions Mix: A Proposed Paradigm, Process, and Application," *Journal of Marketing Theory & Practice*, Winter 1996, pp. 56–68; Kathleen J. Kelly, "Integrated Marketing Communication: Putting It Together & Making It Work," *Journal of the Academy of Marketing Science*, Winter 1997, pp. 83–85.

5. "High-Tech Branding: Pushing Digital PCS," *Brandweek,* August 4, 1997, pp. 30–34; "Brand Builders: Delivery Guy Chic," *Brandweek,* June 30, 1997, pp. 18–19; "Eye-Catching Logos All Too Often Leave Fuzzy Images in Minds of Consumers," *The Wall Street Journal,* December 5, 1991, p. B1ff.; David I. Gilliland and Wesley J. Johnston, "Toward a Model of Business-to-Business Marketing Communications Effects," *Industrial Marketing Management*, January 1997, pp. 15–29; Michel T. Pham and Gita V. Johar, "Contingent Processes of Source Identification," *Journal of Consumer Research*, December 1997, pp. 249–65; Louisa Ha and Barry R. Litman, "Does Advertising Clutter Have Diminishing and Negative Returns?" *Journal of Advertising*, Spring 1997, pp. 31–42; Barbara B. Stern, "A Revised Communication Model for Advertising: Multiple Dimensions of the Source, the Message, and the Recipient," *Journal of Advertising*, June 1994, pp. 5–15; Ronald E. Dulek, John S. Fielden, and John S. Hill, "International Communication: An Executive Primer," *Business Horizons,* January/February 1991, pp. 20–25; Kaylene C. Williams, Rosann L. Spiro, and Leslie M. Fine, "The Customer-Salesperson Dyad: An Interaction/Communication Model and Review," *Journal of Personal Selling and Sales Management,* Summer 1990, pp. 29–44; Susan Mitchell, "How to Talk to Young Adults," *American Demographics,* April 1993, p. 50; Richard F. Beltramini and Edwin R. Stafford, "Comprehension and Perceived Believability of Seals of Approval Information in Advertising," *Journal of Advertising,* September 1993, pp. 3–14; Jacob Jacoby and Wayne D. Hoyer, "The Comprehension/Miscomprehension of Print Communication: Selected Findings," *Journal of Consumer Research,* March 1989, pp. 434–43.

6. "Good Housekeeping Unveils Web Site Review Program," *Brandweek*, May 29, 2000, p. 52; "Good Housekeeping to Offer 'Seal' to Autos," *Advertising Age*, June 29, 1998, p. 18; "Marketing in Which We Bash a Baby Seal," *Fortune,* September 8, 1997, p. 36ff; Jagdish Agrawal and Wagner A. Kamakura, "The Economic Worth of Celebrity Endorsers: An Event Study Analysis," *Journal of Marketing*, July 1995, pp. 56–62; David J. Moore, John C. Mowen, and Richard Reardon, "Multiple Sources in Advertising Appeals: When Product Endorsers Are Paid by the Advertising Sponsor," *Journal of the Academy of Marketing Science,* Summer 1994, pp. 234–43.

7. "Global Branding: Same, But Different," *Brandweek*, April 9, 2001, p. 25; "When You Translate 'Got Milk' for Latinos, What Do You Get?" *The Wall Street Journal,* June 3, 1999, p. A1ff.; "Cash, Cache, Cachet: All 3 Seem to Matter When You Buy a PC," *The Wall Street Journal,* December 18, 1998, p. A1ff.; "Hey, #!@*% Amigo, Can You Translate the Word 'Gaffe'?" *The Wall Street Journal,* July 8, 1996, p. B2; "Lost in Translation: How to 'Empower Women' in Chinese," *The Wall Street Journal,* September 13, 1994, p. A1ff.; "In World Cup Games, Words Get Lost and Gained in Translation," *The Wall Street Journal,* July 14, 1994, p. B1ff.; "Too Many Computer Names Confuse Too Many Buyers," *The Wall Street Journal,* June 29, 1994, p. B1ff.; "Go Ask Alice," *Adweek,* January 17, 1994, p. 32.

8. "The Corruption of TV Health News," *Business Week,* February 28, 2000, pp. 66–68; "Collagen Corp.'s Video Uses News Format," *The Wall Street Journal,"* March 29, 1994, p. B8; "Totally Hidden Video," *Inside PR,* August 1990, pp. 11–13; "'News' Videos That Pitch Drugs Provoke Outcry for Regulations," *The Wall Street Journal,* February 8, 1990, p. B6; Thomas H. Bivins, "Public Relations, Professionalism, and the Public Interest," *Journal of Business Ethics,* February 1993, pp. 117–26; Siva K. Balasubramanian, "Beyond Advertising and Publicity: Hybrid Messages and Public Policy Issues," *Journal of Advertising,* December 1994, pp. 47–58.

9. "Escalade Got Game," *Advertising Age*, June 11, 2001, p. 42; "All Juiced Up," *American Demographics*, January 2001, pp. 42–44; Albert Schofield, "Alternative Reply Vehicles in Direct-Response Advertising," *Journal of Advertising Research*, September/October 1994, pp. 28–34. For an electronic direct mail example, see "Web Slice," *Brandweek,* May 26, 1997, pp. 22–23; Judy F. Davis, "Maintaining Customer Relationships Through Effective Database Marketing: A Perspective for Small Retailers," *Journal of Marketing Theory & Practice*, Spring 1997, pp. 31–42; Craig A. Conrad, "Response! The Complete Guide to Direct Marketing," *Journal of the Academy of Marketing Science*, Winter 1998, pp. 70–71; Kapil Bawa, "Influences on Consumer Response to Direct Mail Coupons:

An Integrative Review," *Psychology & Marketing*, March 1996, pp. 129–56; William J. Carner, "Direct Marketing Through Broadcast Media: TV, Radio, Cable, Infomercials, Home Shopping, and More," *Journal of the Academy of Marketing Science*, Winter 1997, pp. 86–87.

10. "Ryder Redraws the Self-Move Map with Service, Convenience," *Brandweek,* January 25, 1993, pp. 34–35; *Mover's Advantage: The Complete Home Moving Guide & Planning Kit,* (Ryder System, October 1990); "At the Echo Awards, It's Not Just Junk Mail Anymore," *Adweek's Marketing Week,* October 29, 1990, pp. 20–21.

11. For more on privacy, see Chapter 22, footnote #18. "Why Those Companies Are So Eager to Get Your E-Mail Address," *The Wall Street Journal,* February 12, 2001, p. B1; "Direct Mail That Really Sells Hinges on Data Smarts and Clever Content," *The Wall Street Journal,* January 22, 2001, p. A1; "When E-Mail Ads Aren't Spam," *Business Week*, October 16, 2000, pp. 112–14; "Special Report: Direct and Database Marketing," *Advertising Age*, October 16, 2000, pp. S1–22; "Jupiter Projects E-Mail Marketing Will Jump to $7.3 Billion by 2005," *Advertising Age*, May 8, 2000, p. 80ff.; "E-Mail Direct," *Brandweek*, April 10, 2000, pp. 108–12; "You've Got Snail Mail!" *American Demographics*, March 2000, pp. 54–56; "Special Report: Direct and Database Marketing," *Advertising Age*, October 18, 1999, pp. S1–8; "Special Report: Direct Marketing," *Advertising Age*, October 12, 1998, pp. S1–8; "Customers Are Eager, Infrastructure Lags," *Advertising Age*, October 5, 1998, p. 12; George R. Milne and Mary Ellen Gordon, "Direct Mail Privacy-Efficiency Trade-Offs Within an Implied Social Contract Framework," *Journal of Public Policy & Marketing,* Fall 1993, pp. 206–15.

12. Donna L. Hoffman and Thomas P. Novak, "Marketing in Hypermedia Computer-Mediated Environments: Conceptual Foundations," *Journal of Marketing*, July 1996, pp. 50–68; Gregory C. Mosier and James M. Jackman, "Personal Jurisdiction: Is Internet Presence Enough?" *Journal of the Academy of Marketing Science*, Spring 1998, p.164; Pierre Berthon, Leyland Pitt, and Richard T. Watson, "Marketing Communication and the World Wide Web," *Business Horizons*, September–October 1996, pp. 24–32.

13. For more on DTC advertising, see "While Critics May Fret, Public Likes DTC Ads," *Advertising Age*, March 26, 2001, p. 24; "Drug Firms, Stymied in the Lab, Become Marketing Machines," *The Wall Street Journal,* July 6, 2000, p. A1ff.; "New Venture Aims to Measure Effectiveness of DTC Drug Work," *Advertising Age*, May 29, 2000, pp. 16–18; "An Overdoes of Drug Advertising?" *Business Week,* May 22, 2000, p. 52; "DTC Execs Quick to Learn Upfront Value," *Advertising Age*, May 15, 2000, p. S58; "Drug Makers Prescribed Direct-Mail Pitch," *The Wall Street Journal,* December 16, 1999, p. B16; "Flu Season Will Arrive with Two New Drugs and Ad Blitz by Makers," *The Wall Street Journal,* September 22, 1999, p. A1ff.; "Prescription for Profit," *Advertising Age*, March 15, 1999, pp. S1–20; "Ads Reveal New Side to Drug Industry," *Raleigh News & Observer*, January 24, 1999, p. 13E; "A Little Knowledge," *The Wall Street Journal,* October 19, 1998, p. R8; "The Fine Print," *The Wall Street Journal,* October 19, 1998, p. R6ff.; "But First, Call Your Drug Company," *American Demographics*, October 1998, pp. 27–30; "Are Drug Ads a Cure-All?" *Business Week,* March 30, 1998, pp. 59–60; "Prescription for Profit," *Advertising Age*, March 16, 1998, pp. S1–30; "Campaign for Prozac Targets Consumers," *The Wall Street Journal,* July 1, 1997, p. B1ff. See also Steven W. Kopp and Mary J. Sheffet, "The Effect of Direct-to-Consumer Advertising of Prescription Drugs on Retail Gross Margins: Empirical Evidence and Public Policy Implications," *Journal of Public Policy & Marketing*, Fall 1997, pp. 270–76; Mary C. Gilly and Mary Wolfinbarger, "Advertising's Internal Audience," *Journal of Marketing*, January 1998, pp. 69–88; S. A. Erdem and L. J. Harrison-Walker, "Managing Channel Relationships: Toward an Identification of Effective Promotional Strategies in Vertical Marketing Systems," *Journal of Marketing Theory & Practice*, Spring 1997, pp. 80–87; Michael Levy, John Webster, and Roger Kerin, "Formulating Push Marketing Strategies: A Method and Application," *Journal of Marketing,* Winter 1983, pp. 25–34.

14. "Decker Scores with Sweepstakes to Promote Days Inn," *USA Today,* November 6, 1997, p. B10; "Biore: The Nose Knew at Lilith Fair," *Brandweek,* September 15, 1997, p. 28; "Brand Builders: Progresso Warriors," *Brandweek,* June 23, 1997, pp. 20–22; "Advertisers Often Cheer the Loudest," *USA Today,* March 27, 1997, p. 1Aff.; "Crossing the Border," *Brandweek,* December 16, 1996, pp. 17–22; "Brand Builders: Pie in the Sky," *Brandweek,* December 16, 1996, pp. 23–24; "Tractor Dealers Get Down in the Dirt Promoting Machines," *The Wall Street Journal,* July 16, 1996, p. A1ff.; "Pepsi Cancels an Ad Campaign as Customers Clamor for Stuff," *The Wall Street Journal*, June 27, 1996, p. B1ff.

15. "Compensation and Expenses," *Sales & Marketing Management,* June 28, 1993, p. 65; "The Cost of Selling Is Going Up," *Boardroom Reports,* December 15, 1991, p. 15; "An In-House Sales School," *Inc.,* May 1991, pp. 85–86.

16. For an example of Toyota's Prius targeting innovators and early adopters, see "Changing Lanes," *The Wall Street Journal,* April 23, 2001, p. R32; "Green Cars," *American Demographics*, January 2001, pp. 56–61; "Hybrid Power," *Time*, December 11, 2000, pp. 94–95; "Prius Pumps Up Luxury of Efficiency," *USA Today*, November 17, 2000, p. 13D; "Another Way to Beat High Gas Prices," *Fortune*, October 30, 2000, p. 58; "U.S. Auto Makers to Rev Up Output of 'Hybrid' Vehicles," *The Wall Street Journal,* October 24, 2000, p. B4; "The World's Most Admired Companies," *Fortune*, October 2, 2000, pp. 183–89; "The Eco-Car," *Business Week,* August 14, 2000, pp. 63–70; "Toyota Makes a Bet on New Hybrid Prius," *The Wall Street Journal*, July 20, 2000, pp. B18; "Forget Electric—Hydrogen Is Cars' Future," *Investor's Business Daily*, July 7, 2000, p. A6; "California May Soften Electric Car Mandate," *The Wall Street Journal*, June 2, 2000, p. 3B; "Attention Techies and Assorted Geniuses: Toyota Prius Wants You," *Brandweek*, May 8, 2000, p. 113; "Toyota To Sell Prius Hybrid Only on Net," *USA Today*, April 19, 2000, p. 3B; "Toyota, Honda Start to Push Hybrid Vehicles," *Advertising Age*, June 28, 1999, p. 20; "Toyota's Green Machine," *Business Week,* December 15, 1997, pp. 108–110; "How Toyota Defies Gravity," *Fortune*, December 8, 1997, pp. 100–108. For more on word of mouth, see "Auto Makers Find They Don't Want to Avoid Collisions in Movies," *The Wall Street Journal,* July 5, 2001, p. B1, "Small Wonder," *The Wall Street Journal,* June 25, 2001, p. R; "Word of Mouth Makes Nike Slip-On Sneakers Take Off," *The Wall Street Journal,* June 7, 2001, p. B1ff.; "Bristol-Myers Builds Buzz for True Intense Color Line," *Advertising Age*, April 23, 2001, p. 18; "Improbable Eastern Hit Proves It Can Fly in U.S.," *Advertising Age*, March 26, 2001, p. S2; "How Sony Marketers Gave 'Crouching Tiger' an Early Leg Up," *The Wall Street Journal,* January 11, 2001, p. A1ff.; "How an Idea Spreads Like Flu," *Advertising Age*, May 8, 2000, pp. 42–46; "Street Marketing Hits the Internet," *Advertising Age*, May 1, 2000, p. 32; "Ad Budget: Zero. Buzz: Deafening," *The Wall Street Journal,* December 29, 1999, p. B1ff.; "Word of Mouth Makes Kansas Store a Star," *The Wall Street Journal,* November 7, 1997, p. B1ff.; "Why the Veterinarian Really Recommends that 'Designer' Chow," *The Wall Street Journal,* November 3, 1997, p. A1ff.; "Foot Soldiers Help Sell Street Chic," *USA Today,* June 16, 1997, p. 1Bff. See also Jagdip Singh, "Voice, Exit, and Negative Word-of-Mouth Behaviors: An Investigation Across Three Service Categories," *Journal of the Academy of Marketing Science,* Winter 1990, pp. 1–16; Jeffrey G. Blodgett, Donald H. Granbois, and Rockney G. Walters, "The Effects of Perceived Justice on Complainants' Negative Word-of Mouth Behavior and Repatronage Intentions," *Journal of Retailing,* Winter 1993, pp. 399–428; Paula Fitzgerald Bone, "Word-of-Mouth Effects on Short-term and Long-term Product Judgments," *Journal of Business Research,* March 1995, pp. 213–24; Bruce MacEvoy, "Change Leaders and the New Media," *American Demographics,* January 1994, pp. 42–49; Dale F. Duhan, Scott D. Johnson, James B. Wilcox, and Gilbert D. Harrell, "Influences on Consumer Use of Word-of-Mouth Recommendation Sources," *Journal of the Academy of Marketing Science*, Fall 1997, pp. 283–95; Russell N. Laczniak, Thomas E. DeCarlo, and Carol M. Motley, "Retail Equity Perceptions and Consumers' Processing of Negative Word-of-Mouth Communication," *Journal of Marketing Theory & Practice*, Fall 1996, pp. 37–48.

17. "Special Report: Buzz Marketing," *Business Week,* July 30, 2001, pp. 50–56; "Viral Marketing Breaks Through," *Advertising Age*, June 25, 2001, p. S10; Barbara Bickart, "Internet Forums as Influential Sources of

Consumer Information," *Journal of Interactive Marketing*, Summer 2001, p. 31; "Marketers Find 'Tweens' Too Hot to Ignore," *USA Today*, July 10, 2001, p. 13A; "Hollywood, the Internet, and Kids," *American Demographics*, May 2001, pp. 51–55; "Viral Marketing Alert!" *Business Week E.Biz*, March 19, 2001, p. EB8; "How a Viral Marketing E-Mail Campaign Delivered for Lee Apparel," *Advertising Age*, 2000, pp. A10–A11; "This Is One Virus You Want to Spread," *Fortune*, November 27, 2000, pp. 297–300; "Accelerating Natural Contagion," *Brandweek*, October 20, 2000, pp. 31–38; "Sneaker Shock," *Brandweek*, October 2, 2000, p. 1ff.; "Motorola's 'Silent Bill' Arrives Via E-Mail," *The Wall Street Journal,* August 3, 2000, p. B13; "Tell Me a (Digital) Story," *Business Week E.Biz*, May 15, 2000, pp. EB91–94; "Guerrilla Marketers of the Year," *Brandweek*, March 27, 2000, pp. 28–76; "Desperately Seeking Buzz," *Business Week E.Biz*, February 7, 2000, pp. EB98–EB100.

18. Meera P. Venkatraman, "Opinion Leaders, Adopters, and Communicative Adopters: A Role Analysis," *Psychology and Marketing,* Spring 1989, pp. 51–68; S. Ram and Hyung-Shik Jung, "Innovativeness in Product Usage: A Comparison of Early Adopters and Early Majority," *Psychology & Marketing,* January/February 1994, pp. 57–68; Robert J. Fisher and Linda L. Price, "An Investigation into the Social Context of Early Adoption Behavior," *Journal of Consumer Research,* December 1992, p. 477; Leisa R. Flynn, Ronald E. Goldsmith, and Jacqueline K. Eastman, "Opinion Leaders and Opinion Seekers: Two New Measurement Scales," *Journal of the Academy of Marketing Science*, Spring 1996, pp. 137–47; Everett M. Rogers and F. Floyd Shoemaker, *Communication of Innovations: A Cross-Cultural Approach* (New York: Free Press, 1971), pp. 203–9.

19. Kusum L. Ailawadi, Paul W. Farris and Mark E. Parry, "Share and Growth Are Not Good Predictors of the Advertising and Promotion/Sales Ratio," *Journal of Marketing,* January 1994, pp. 86–97.

20. Deborah Utter, "Marketing on a Budget," *Journal of the Academy of Marketing Science*, Summer 2000, pp. 441–3; Kim P. Corfman and Donald R. Lehmann, "The Prisoner's Dilemma and the Role of Information in Setting Advertising Budgets," *Journal of Advertising*, June 1994, pp. 35–48; C.L. Hung and Douglas West, "Advertising Budgeting Methods in Canada, the UK and the USA," *International Journal of Advertising* 10, no. 3 (1991), pp. 239–50; Pierre Filiatrault and Jean-Charles Chebat, "How Service Firms Set Their Marketing Budgets," *Industrial Marketing Management,* February 1990, pp. 63–68; James E. Lynch and Graham J. Hooley, "Industrial Advertising Budget Approaches in the U.K.," *Industrial Marketing Management* 18, no. 4 (1989), pp. 265–70; "Beat the Budgeting Blues," *Business Marketing,* July 1989, pp. 48–57; Douglas J. Dalrymple and Hans B. Thorelli, "Sales Force Budgeting," *Business Horizons,* July/August 1984, pp. 31–36; Peter J. Danaher and Roland T. Rust, "Determining the Optimal Level of Media Spending," *Journal of Advertising Research,* January/February 1994, pp. 28–34.

Chapter 15

1. Available from World Wide Web: <http://www.cisco.com>; "Cisco Fractures Its Own Fairy Tale," *Fortune*, May 14, 2001, pp. 105–12; "Tech Consultants: You'll Need One Sooner or Later—So Get It Right," *Investor's Business Daily*, March 5, 2001, p. A1; "How Cisco Makes Takeovers Work with Rules, Focus on Client Needs," *Investor's Business Daily*, November 20, 2000, p. A1; "Going Digital? Think First," *Fortune*, November 13, 2000, pp. 190—98; "Cisco Not the Top Choice of Every Network Builder," *Investor's Business Daily*, November 13, 2000, p. A6; "Cisco Keeps Growing, But Exactly How Fast Is Becoming an Issue," *The Wall Street Journal,* November 3, 2000, p. A1ff.; "Accelerating Natural Contagion," *Brandweek*, October 30, 2000, pp. 31–38; "Factory Marks New Optical Era for Cisco," *Investor's Business Daily*, October 4, 2000, p. A8; "At Cisco, Executives Accumulate Stakes in Clients, Suppliers," *The Wall Street Journal,* October 3, 2000, p. A1ff.; "The World's Most Admired Companies," *Fortune*, October 2, 2000, pp. 183–89; "Cisco: A Web-Profit Prophet Spreads the Word," *Business Week E.Biz*, September 18, 2000, p. EB68; "Spread the Web: Cisco Reaches Beyond Techies," *The Wall Street Journal,* June 13, 2000, p. B1ff.; "Cisco High," *Business Week E.Biz*, June 5, 2000, pp. EB102–EB104; "How to Drive an Express Train," *The Wall Street Journal,* June 1, 2000, p. B1ff.; "How Cisco and Alcoa Make Real Time Work," *Fortune*, May 29, 2000, pp. 284–86; "There's Something About Cisco," *Fortune*, May 15, 2000, pp. 114–38; "Eating Their Own Dog Food," *The Wall Street Journal,* April 19, 2000, p. B1ff.; "Ford, Cisco Team Up to Speed Wiring of 40,000 Suppliers and Dealers for Web," *The Wall Street Journal,* February 10, 2000, p. A5; "Do You Know Cisco?" *Time*, January 17, 2000, pp. 72–74; "Customers Move Into the Driver's Seat," *Business Week,* October 4, 1999, pp. 103–106; "Mr. Internet," *Business Week,* September 13, 1999, pp. 128–40; "The Corporation of the Future," *Business Week,* August 31, 1998, pp. 102–106; "The New Economy Is Still Being Driven by the Old Hard Sell," *The Wall Street Journal,* August 13, 1999, p. B1.

2. "The Seoul Answer to Selling," *Going Global* (supplement to *Inc.*), March 1994; "AIG Sells Insurance in Shanghai, Testing Service Firms' Role," *The Wall Street Journal,* July 21, 1993, p. A1ff.; "Hungarians Seeking to Find a New Way Find Instead Amway," *The Wall Street Journal,* January 15, 1993, p. A1ff.; "The Secret to Northern's Japanese Success: When in Tokyo . . . ," *Business Week,* July 27, 1992, p. 57; "U.S. Companies in China Find Patience, Persistence and Salesmanship Pay Off," *The Wall Street Journal,* April 3, 1992, p. B1ff.; Paul A. Herbig and Hugh E. Kramer, "Do's and Don'ts of Cross-Cultural Negotiations," *Industrial Marketing Management*, November 1992, pp. 287–98; Alan J. Dubinsky et al., "Differences in Motivational Perceptions among U.S., Japanese, and Korean Sales Personnel," *Journal of Business Research,* June 1994, pp. 175–86; Carl R. Ruthstrom and Ken Matejka, "The Meanings of 'YES' in the Far East," *Industrial Marketing Management,* August 1990, pp. 191–92.

3. Tom Richman, "Seducing the Customer: Dale Ballard's Perfect Selling Machine," *Inc.,* April, 1988, pp. 96–104; *1987 Annual Report,* Ballard Medical Products.

4. Thomas R. Wotruba, "The Transformation of Industrial Selling: Causes and Consequences," *Industrial Marketing Management*, September 1996, pp. 327–38; William M. Strahle, Rosann L. Spiro, and Frank Acito, "Marketing and Sales: Strategic Alignment and Functional Implementation," *Journal of Personal Selling & Sales Management*, Winter 1996, pp. 1–20; Paul Boughton, "Winning Customers, Building Accounts: Some Do It Better Than Others," *Journal of the Academy of Marketing Science*, Spring 1996, pp. 175–76; Jerome A. Colletti and Lawrence B. Chonko, "Change Management Initiatives: Moving Sales Organizations From Obsolescence to High Performance," *Journal of Personal Selling & Sales Management*, Spring 1997, pp. 1–30; Marvin A. Jolson, "Broadening the Scope of Relationship Selling," *Journal of Personal Selling & Sales Management*, Fall 1997, pp. 75–88; Douglas M. Lambert, Howard Marmorstein, and Arun Sharma, "Industrial Salespeople as a Source of Market Information," *Industrial Marketing Management,* May 1990, pp. 141–48.

5. "Pushing Doctors to Buy High Tech for the Office," *Business Week,* September 2, 1985, pp. 84–85.

6. "NationsBank Asks Tellers to Branch Out," *Raleigh News & Observer,* September 12, 1993, p. 1Fff.

7. Mark A. Moon and Susan F. Gupta, "Examining the Formation of Selling Centers: A Conceptual Framework," *Journal of Personal Selling & Sales Management*, Spring 1997, pp. 31–41; S. Joe Puri and Pradeep Korgaonkar, "Couple the Buying and Selling Teams," *Industrial Marketing Management* 20, no. 4 (1991), pp. 311–18; "P&G Rolls Out Retailer Sales Teams," *Advertising Age,* May 21, 1990, p. 18.

8. Dan C. Weilbaker and William A. Weeks, "The Evolution of National Account Management: A Literature Perspective," *Journal of Personal Selling & Sales Management*, Fall 1997, pp. 49–59; C. J. Lambe and Robert E. Spekman, "National Account Management: Large Account Selling or Buyer-Supplier Alliance?" *Journal of Personal Selling & Sales Management*, Fall 1997, pp. 61–74; Catherine Pardo, "Key Account Management in the Business to Business Field: The Key Account's Point of View," *Journal of Personal Selling & Sales Management*, Fall 1997, pp. 17–26; Sanjit Sengupta, Robert E. Krapfel, and Michael A.

Pusateri, "Switching Costs in Key Account Relationships," *Journal of Personal Selling & Sales Management*, Fall 1997, pp. 9–16; Paul Dishman and Philip S. Nitse, "National Accounts Revisited: New Lessons From Recent Investigations," *Industrial Marketing Management*, January 1998, pp. 1–9.

9. "Telephone Sales Reps Do Unrewarding Jobs that Few Can Abide," *The Wall Street Journal,* September 9, 1993, p. A1ff.; Brett A. Boyle, "The Importance of the Industrial Inside Sales Force: A Case Study," *Industrial Marketing Management*, September 1996, pp. 339–48; "How to Unite Field and Phone Sales," *Inc.,* July 1992, p. 115; "Telemarketers Take Root in the Country," *The Wall Street Journal,* February 2, 1989, p. B1; "FCC Adopts Rules to Curb Telemarketing," *The Wall Street Journal,* September 18, 1992, p. B1; "Congress' 'Cure' for Junk Calls Faces a Skeptical FCC," *The Wall Street Journal,* May 19, 1992, p. B6.

10. "How to Remake Your Sales Force," *Fortune,* May 4, 1992, pp. 98–103; "What Flexible Workers Can Do," *Fortune,* February 13, 1989, pp. 62–64; "Apparel Makers Play Bigger Part on Sales Floor," *The Wall Street Journal,* March 2, 1988, p. 31; Ravipreet S. Sohi, Daniel C. Smith, and Neil M. Ford, "How Does Sharing a Sales Force Between Multiple Divisions Affect Salespeople?" *Journal of the Academy of Marketing Science*, Summer 1996, pp. 195–207; David W. Cravens and Raymond W. LaForge, "Salesforce Deployment Analysis," *Industrial Marketing Management,* July 1983, pp. 179–92; Michael S. Herschel, "Effective Sales Territory Development," *Journal of Marketing,* April 1977, pp. 39–43.

11. "Salespeople Say Automation Software Still Lacking," *Investor's Business Daily*, January 18, 2001, p. A4; "MarketSoft Tailors Products to Solve Problems," *The Wall Street Journal,* November 30, 2000, p. B8; "New Software's Payoff? Happier Salespeople," *Investor's Business Daily*, May 23, 2000, p. A8; "Making the Sale," *The Wall Street Journal*, November 15, 1999, p. R16; "Free Software from Anywhere?" *Business Week,* September 13, 1999, pp. 37–38; "Offices Goin' Mobile," *USA Today*, May 17, 1999, p. 3B; "Bob Schmonsees Has a Tool for Better Sales and It Ignores Excuses," *The Wall Street Journal,* March 26, 1999, p. B1; "Companies Sold on the Latest Technology for the Sales Force," *Chicago Tribune,* November 8, 1992, Sect. 19, p. 5; "New Software Is Helping Reps Fill Custom Orders without Glitches," *The Wall Street Journal,* August 11, 1992, p. B6; "Salespeople on Road Use Laptops to Keep in Touch," *The Wall Street Journal,* April 25, 1991, p. B1.

12. "Supercharged Sell," *Inc. Tech,* No. 2, 1997, pp. 42–51; Mary Jo Bitner, "Technology Infusion in Service Encounters," *Journal of the Academy of Marketing Science,* Winter 2000, pp. 138–150; Allan J. Magrath, "From the Practitioner's Desk: A Comment on 'Personal Selling and Sales Management in the New Millennium'," *Journal of Personal Selling & Sales Management*, Winter 1997, pp. 45–47; Michael J. Swenson and Adilson Parrella, "Sales Technology Applications: Cellular Telephones and the National Sales Force," *Journal of Personal Selling & Sales Management,* Fall 1992, pp. 67–74; Paul Dishman and Kregg Aytes, "Exploring Group Support Systems in Sales Management Applications," *Journal of Personal Selling & Sales Management*, Winter 1996, pp. 65–77.

13. "Fiorina Whips H-P into Fighting Shape," *USA Today*, June 5, 2001, p. 3B; "H-P Profit Drops 66% But Tops Forecast," *The Wall Street Journal,* May 17, 2000, p. A3ff.; "H-P Woes Are Deeper Than the Downturn," *Business Week,* May 7, 2001, p. 48; "The Radical: Carly Fiorina's Bold Management Experiment at HP," *Business Week,* February 19, 2001, pp. 68–80; "The Boss," *Business Week,* August 2, 1999, pp. 76–84.

14. "The Art of the Sale," *The Wall Street Journal,* January 11, 2001, p. B1ff.

15. Available from World Wide Web: <http://www.achievement.com/sales>; Ellen B. Pullins, Leslie M. Fine, and Wendy L. Warren, "Identifying Peer Mentors in the Sales Force: An Exploratory Investigation of Willingness and Ability," *Journal of the Academy of Marketing Science*, Spring 1996, pp. 125–36; Alan J. Dubinsky, "Some Assumptions About the Effectiveness of Sales Training," *Journal of Personal Selling & Sales Management*, Summer 1996, pp. 67–76; Earl D. Honeycutt, Ashraf M. Attia, and Angela R. D Auria, "Sales Certification Programs," *Journal of Personal Selling & Sales Management*, Summer 1996, pp. 59–65; "Systematizing Salesperson Selection," *Sales and Marketing Management,* February 1992, pp. 65–68; "The Faxable International Sales-Rep Application," *Inc.,* November 1993, pp. 95–97; Patrick L. Schul and Brent M. Wren, "The Emerging Role of Women in Industrial Selling: A Decade of Change," *Journal of Marketing,* July 1992, pp. 38–54; William A. Weeks and Carl G. Stevens, "National Account Management Sales Training and Directions for Improvement: A Focus on Skills/Abilities," *Industrial Marketing Management*, September 1997, pp. 423–31; Earl D. Honeycutt, Jr., John B. Ford, and John F. Tanner, Jr., "Who Trains Salespeople? The Role of Sales Trainers and Sales Managers," *Industrial Marketing Management,* February 1994, pp. 65–70; Jeffrey K. Sager, "Recruiting and Retaining Committed Salespeople," *Industrial Marketing Management* 20, no. 2 (1991), pp. 99–104; S. Joe Puri, "Where Industrial Sales Training Is Weak," *Industrial Marketing Management,* May 1993, pp. 101–8.

16. Douglas M. Lambert, Arun Sharma, and Michael Levy, "What Information Can Relationship Marketers Obtain From Customer Evaluations of Salespeople?" *Industrial Marketing Management*, March 1997, pp. 177–87; Erin Anderson and Thomas S. Robertson, "Inducing Multiline Salespeople to Adopt House Brands," *Journal of Marketing*, April 1995, pp. 16–31; Stephen B. Knouse and David Strutton, "Molding a Total Quality Salesforce Through Managing Empowerment, Evaluation, and Reward and Recognition Processes," *Journal of Marketing Theory & Practice*, Summer 1996, pp. 24–35; Ajay K. Kolhi and Bernard J. Jaworksi, "The Influence of Coworker Feedback on Salespeople," *Journal of Marketing*, October 1994, pp. 82–94; "Fire Up Your Sales Force," *Business Marketing,* July 1990, pp. 52–55; William L. Cron, Alan J. Dubinsky, and Ronald E. Michaels, "The Influence of Career Stages on Components of Salesperson Motivation," *Journal of Marketing,* January 1988, pp. 78–92.

17. Goutam Ghallagalla, "Supervisory Orientations and Salesperson Work Outcomes: the Moderating Effect of Salesperson Location," *The Journal of Personal Selling & Sales Management*, Summer 2000, pp. 161–172; "Creating Incentives Down in Ranks: Marriott Ties Pay to Guest Replies," *Investor's Business Daily*, July 6, 2001, p. A1; "Get Great Results from Salespeople by Finding What Really Moves Them," *Investor's Business Daily*, July 2, 2001, p. A1; "Medical Gear Sales Force Works on Commission," *Investor's Business Daily*, July 25, 2000, p. A14; Rene Y. Darmon, "Selecting Appropriate Sales Quota Plan Structures and Quota-Setting Procedures," *Journal of Personal Selling & Sales Management*, Winter 1997, pp. 1–16; Thomas E. Tice, "Managing Compensation Caps in Key Accounts," *Journal of Personal Selling & Sales Management*, Fall 1997, pp. 41–47; Kissan Joseph and Manohar U. Kalwani, "The Role of Bonus Pay in Salesforce Compensation Plans," *Industrial Marketing Management*, March 1998, pp. 147–59; Russell Abratt and Michael R. Smythe, "A Survey of Sales Incentive Programs," *Industrial Marketing Management,* August 1989, pp. 209–14; "Incentive Pay Isn't Good for Your Company," *Inc.,* September 1994, pp. 23–24; "The Few, the True, the Blue," *Business Week,* May 30, 1994, pp. 124–26; Arun Sharma, "Customer Satisfaction-Based Incentive Systems: Some Managerial and Salesperson Considerations," *Journal of Personal Selling & Sales Management*, Spring 1997, pp. 61–70; William Strahle and Rosann L. Spiro, "Linking Market Share Strategies to Salesforce Objectives, Activities, and Compensation Policies," *Journal of Personal Selling and Sales Management,* August 1986, pp. 11–18.

18. "New Software's Payoff? Happier Salespeople," *Investor's Business Daily*, May 23, 2000, p. A8.

19. Richard L. Oliver and Erin Anderson, "An Empirical Test of the Consequences of Behavior- and Outcome-Based Sales Control Systems," *Journal of Marketing*, October 1994, pp. 53–67; Susan K. DelVecchio, "The Salesperson's Operating Freedom: A Matter of Perception," *Industrial Marketing Management*, January 1998, pp. 31–40; Vlasis Stathakopoulos, "Sales Force Control: A Synthesis of Three Theories," *Journal of Personal Selling & Sales Management*, Spring 1996, pp. 1–12; Gregory A. Rich, "The Constructs of Sales Coaching: Supervisory Feedback, Role Modeling and Trust," *Journal of Personal Selling & Sales Management*, Winter 1998, pp. 53–63; Goutam N. Challagalla and

Tasadduq A. Shervani, "Dimensions and Types of Supervisory Control: Effects on Salesperson Performance and Satisfaction," *Journal of Marketing*, January 1996, pp. 89–105; Steven P. Brown and Robert A. Peterson, "The Effect of Effort on Sales Performance and Job Satisfaction," *Journal of Marketing*, April 1994, pp. 70–80; Paul A. Dion, Debbie Easterling, and Raj Javalgi, "Women in the Business-to-Business Salesforce: Some Differences in Performance Factors," *Industrial Marketing Management*, September 1997, pp. 447–57; Frederick A. Russ, Kevin M. McNeilly, and James M. Comer, "Leadership, Decision Making and Performance of Sales Managers: A Multi-Level Approach," *Journal of Personal Selling & Sales Management*, Summer 1996, pp. 1–15; Jhinuk Chowdhury, "The Motivational Impact of Sales Quotas on Effort," *Journal of Marketing Research,* February 1993, pp. 28–41; Alan J. Dubinsky, Francis J. Yammarino, and Marvin A. Jolson, "Closeness of Supervision and Salesperson Work Outcomes: An Alternate Perspective," *Journal of Business Research,* March 1994, pp. 225–38; David W. Cravens et al., "Behavior-Based and Outcome-Based Salesforce Control Systems," *Journal of Marketing,* October 1993, pp. 47–59; Daniel A. Sauers, James B. Hunt, and Ken Bass, "Behavioral Self-Management as a Supplement to External Sales Force Controls," *Journal of Personal Selling and Sales Management,* Summer 1990, pp. 17–28; Douglas N. Behrman and William D. Perreault, Jr., "A Role Stress Model of the Performance and Satisfaction of Industrial Salespersons," *Journal of Marketing,* Fall 1984, pp. 9–21; Richard T. Hise and Edward L. Reid, "Improving the Performance of the Industrial Sales Force in the 1990s," *Industrial Marketing Management,* October 1994, pp. 273–80.

20. "Chief Executives Are Increasingly Chief Salesmen," *The Wall Street Journal,* August 6, 1991, p. B1ff.; Joe F. Alexander, Patrick L. Schul, and Emin Babakus, "Analyzing Interpersonal Communications in Industrial Marketing Negotiations," *Journal of the Academy of Marketing Science,* Spring 1991, pp. 129–40.

21. Andris A. Zoltners, "Sales Territory Alignment: An Overlooked Productivity Tool," *The Journal of Personal Selling & Sales Management*, Summer 2000, pp. 139–151; Sanjit Sengupta, "An Empirical Investigation of Key Account Salesperson Effectiveness," *The Journal of Personal Selling & Sales Management*, Fall 2000, pp. 253–62; Ken Grant, "The Role of Satisfaction with Territory Design on the Motivation, Attitudes, and Work Outcomes of Salespeople," *Journal of the Academy of Marketing Science,* Spring 2001, pp. 165–179; William C. Moncrief, et al., "Examining the Roles of Telemarketing in Selling Strategy," *Journal of Personal Selling and Sales Management,* Fall 1989, pp. 1–12; J. David Lichtenthal, Saameer Sikri, and Karl Folk, "Teleprospecting: An Approach for Qualifying Accounts," *Industrial Marketing Management,* February 1989, pp. 11–18.

22. "When Should I Give Up on a Sales Prospect?" *Inc.*, May 1998, p. 129; "Downloading Their Dream Cars," *Business Week,* March 9, 1998, pp. 93–94; "The New Wave of Sales Automation," *Business Marketing,* June 1991, pp. 12–16; L. Brent Manssen, "Using PCs to Automate and Innovate Marketing Activities," *Industrial Marketing Management,* August 1990, pp. 209–14; Doris C. Van Doren and Thomas A. Stickney, "How to Develop a Database for Sales Leads," *Industrial Marketing Management,* August 1990, pp. 201–8.

23. "Novartis' Marketing Doctor," *Business Week,* March 5, 2001, p. 56.

24. For more on sales presentation approaches, see "Advise and Conquer," *Brandweek*, May 14, 2001, p. 1ff.; "Rick Francolini, TV Guide," *Brandweek*, October 25, 1999, p. 22; "The 60-Second Sales Pitch," *Inc.*, October 1994, pp. 87–89; David M. Szymanski, "Modality and Offering Effects in Sales Presentations for a Good Versus a Service," *Journal of the Academy of Marketing Science*, Spring 2001, pp. 179–190; Cathy Waters, "Customer Centered Selling: Eight Steps to Success from the World's Best Sales Force," *Journal of the Academy of Marketing Science*, Fall 2000, pp. 546–8; Jon M. Hawes, James T. Strong, and Bernard S. Winick, "Do Closing Techniques Diminish Prospect Trust?" *Industrial Marketing Management*, September 1996, pp. 349–60; Stephen B. Castleberry and C. David Shepherd, "Effective Interpersonal Listening and Personal Selling," *Journal of Personal Selling & Sales Management,* Winter 1993, pp. 35–50; Morgan P. Miles, Danny R. Arnold, and Henry W. Nash, "Adaptive Communication: The Adaption of the Seller's Interpersonal Style to the Stage of the Dyad's Relationship and the Buyer's Communication Style," *Journal of Personal Selling and Sales Management,* Winter 1990, pp. 21–28; Harish Sujan, Barton A. Weitz, and Nirmalya Kumar, "Learning Orientation, Working Smart, and Effective Selling," *Journal of Marketing*, July 1994, pp. 39–52.

25. For more on pharmaceutical company selling tactics, see "Doctors Step Out; Drug Salesmen Step In," *USA Today*, July 5, 2001, p. 11A; "Why Some Dialysis Patients Take $12-a-Day Drug Instead of Tums," *The Wall Street Journal,* June 26, 2001, p. B1ff.; "Sales Pitch: Drug Firms Use Perks to Push Pills," *USA Today*, May 16, 2001, p. 1Bff.; "Drug Database for Doctors Sells Ads to Sponsors," *The Wall Street Journal,* June 19, 2000, p. B1ff.; "Who's Teaching the Doctors?" *USA Today*, March 9, 2000, p. 1Dff.; "Web Links Give Drug Reps Foot in Doctors' Door," *The Wall Street Journal,* May 18, 1999, p. B1ff.; "In Marketing of Drugs, Genentech Tests Limits of What Is Acceptable," *The Wall Street Journal,* January 10, 1995, p. A1ff.; "Pharmacy Chain's Successful Sales Pitch Dismays Some Doctors and Drug Firms," *The Wall Street Journal,* February 26, 1993, p. B1ff. For more on Sears' selling tactics, see "Did Sears Take Other Customers for a Ride?" *Business Week,* August 3, 1992, pp. 24–25. See also Barry J. Babin, " Representing the Perceived Ethical Work Climate among Marketing Employees," *Journal of the Academy of Marketing Science,* Summer 2000, pp. 345–359; Bulent Menguc, "Organizational Consequences, Marketing Ethics and Salesforce Supervision: Further Empirical Evidence," *Journal of Business Ethics*, March 1998, pp. 333–52; David Strutton, J. B. I. Hamilton, and James R. Lumpkin, "An Essay on When to Fully Disclose in Sales Relationships: Applying Two Practical Guidelines for Addressing Truth-Telling Problems," *Journal of Business Ethics*, April 1997, pp. 545–60; Lawrence B. Chonko, John F. Tanner, and William A. Weeks, "Ethics in Salesperson Decision Making: A Synthesis of Research Approaches and an Extension of the Scenario Method," *Journal of Personal Selling & Sales Management*, Winter 1996, pp. 35–52; Alan J. Dubinsky, Marvin A. Jolson, Masaaki Kotabe, and Chae Un Lim, "A Cross-National Investigation of Industrial Salespeople's Ethical Perceptions," *Journal of International Business Studies*, Winter 1991, pp. 651–70.

Chapter 16

1. "Lays Chips Lands at DDB Needham," *Advertising Age,* May 12, 1997, p. 1ff.; "Rebecca Johnson: Frito-Lay," *Brandweek,* November 4, 1996, pp. 74–76; "Frito-Lay Named New Product Marketer of 1995," *Marketing News,* May 6, 1996, p. E2ff.; "Baked Chips Are Such a Hit, There's a Crunch," *USA Today,* March 20, 1996, p. 1Bff.

2. "Special Report: U.S. Multinationals," *Ad Age International,* January 1998, pp. 17–26; "Colgate-Palmolive Is Really Cleaning Up in Poland," *Business Week,* March 15, 1993, pp. 54–56; Charles R. Taylor, Gordon E. Miracle, and R. D. Wilson, "The Impact of Information Level on the Effectiveness of U.S. and Korean Television Commercials," *Journal of Advertising*, Spring 1997, pp. 1–18; Ann M. Barry, "Advertising and Culture: Theoretical Perspectives," *Journal of the Academy of Marketing Science*, Winter 1998, pp. 67–68; Siew M. Leong, Sween H. Ang, and Leng L. Tham, "Increasing Brand Name Recall in Print Advertising Among Asian Consumers," *Journal of Advertising*, Summer 1996, pp. 65–81; Ronald E. Taylor, Mariea G. Hoy, and Eric Haley, "How French Advertising Professionals Develop Creative Strategy," *Journal of Advertising*, Spring 1996, pp. 1–14; Nan Zhou and Mervin Y. T. Chen, "A Content Analysis of Men and Women in Canadian Consumer Magazine Advertising: Today's Portrayal, Yesterday's Image?" *Journal of Business Ethics*, April 1997, pp. 485–95; Johny K. Johansson, "The Sense of 'Nonsense': Japanese TV Advertising," *Journal of Advertising*, March 1994, pp. 17–26; Yong Zhang and Betsy D. Gelb, "Matching Advertising Appeals to Culture: The Influence of Products' Use Conditions," *Journal of Advertising*, Fall 1996, pp. 29–46; John L. Graham, Michael A. Kamins and Djoko S. Oetomo, "Content Analysis of German and Japanese Advertising in Print Media from Indonesia, Spain, and the United States," *Journal of Advertising*, June 1993, pp. 5–16; Bob D. Cutler and

Rajshekhar G. Javalgi, "A Cross-Cultural Analysis of the Visual Components of Print Advertising: The United States and the European Community," *Journal of Advertising Research*, January/February 1992, p.71; Terence Nevett, "Differences Between American and British Television Advertising: Explanations and Implications," *Journal of Advertising,* December 1992, pp. 61–72; Bob D. Cutler and Rajshekhar G. Javalgi, "Comparison of Business-to-Business Advertising: The United States and the United Kingdom," *Industrial Marketing Management,* April 1994, pp. 117–24.

3. "Write It Off," *Advertising Age*, July 2, 2001, p. 1ff.; "Turn Signals," *Advertising Age*, June 25, 2001, p. 44; "Forecast: Hazy," *Advertising Age*, June 18, 2001, p. 4ff.; "Europe's Ad-Spending Picture Gets Darker," *The Wall Street Journal,* June 14, 2001, p. B5; "Top Forecaster Sees Lower Ad Growth," *Advertising Age*, June 11, 2001, p. 1ff.; "A Lot of Subtraction in Ad Game," *Raleigh News & Observer*, April 6, 2001, p. 1Dff.; "The Party's Over," *Advertising Age*, January 1, 2001, p. 1ff.; "Asian Industry Has High Hopes for 2001," *The Wall Street Journal,* December 29, 2000, p. A10.

4. "Unilever Leapfrogs P&G, Takes Ad Lead Outside U.S.," *Advertising Age*, November 13, 2000, p. 21; "Special Report: Global Marketers, the World's Biggest Spenders," *Ad Age Global*, November 2000, pp. 35–44. "2000 Advertising-to-Sales Ratios for the 200 Largest Ad Spending Industries," *Advertising Age,* June 2000; Kip D. Cassino, "An Advertising Atlas," *American Demographics,* August 1994, pp. 44–55; Kusum L. Ailawadi, Paul W. Farris, and Mark E. Parry, "Share and Growth Are Not Good Predictors of the Advertising and Promotion/Sales Ratio," *Journal of Marketing*, January 1994, pp. 86–97.

5. "Forecast: Hazy," *Advertising Age*, June 18, 2001, p. 4ff.; "Top Forecaster Sees Lower Ad Growth," *Advertising Age*, June 11, 2001, p. 1ff.; "Economic Mood Channels Tough Talk on TV Ad Sales," *USA Today*, May 9, 2001, p. 1Bff.; "The Party's Over," *Advertising Age*, January 1, 2001, p. 1ff.

6. Exact data on this industry are elusive, but see U.S. Bureau of the Census, *Statistical Abstract of the United States 1997* (Washington, DC: U.S. Government Printing Office, 1997), pp. 410–15

7. For more on Dryel, see "The Dirt on At-Home Dry Cleaning," *The Wall Street Journal*, September 15, 2000, p. W14. See also "Sour Dough: Pizza Hut v. Papa John's," *Brandweek*, May 21, 2001, pp. 26–30; Kenneth C. Manning, "Understanding the Mental Representations Created by Comparative Advertising," *Journal of Advertising*, Summer 2001, pp. 27–40; "Irate Firms Take Comparisons to Court," *The Wall Street Journal,* December 22, 1999, p. B8; "Survey: Comparative Ads Can Dent Car's Credibility," *Advertising Age,* May 4, 1998, p. 26; "Rivals Take the Gloves Off as Taste-Test Wars Heat Up," *The Wall Street Journal,* March 30, 1998, p. B10; "Industry Panel Refers FedEx Case to FTC," *The Wall Street Journal,* April 11, 1997, p. B6; Diana L. Haytko, "Great Advertising Campaigns: Goals and Accomplishments," *Journal of Marketing*, April 1995, pp. 113–15; Carolyn Tripp, "Services Advertising: An Overview and Summary of Research, 1980–1995," *Journal of Advertising*, Winter 1997, pp. 21–38; Dhruv Grewal, Sukumar Kavanoor, Edward F. Fern, Carolyn Costley, and James Barnes, "Comparative Versus Noncomparative Advertising: A Meta-Analysis," *Journal of Marketing*, October 1997, pp. 1–15; Marla R. Stafford and Ellen Day, "Retail Services Advertising: The Effects of Appeal, Medium, and Service," *Journal of Advertising*, Spring 1995, pp. 57–71; For more on AT&T, MCI, and Sprint's comparative ads, see "Best Phone Discounts Go to Hardest Bargainers," *The Wall Street Journal,* February 13, 1997, p. B1ff.; "Fighting for Customers Gets Louder," *USA Today,* January 9, 1995, p. 1Bff.; "Discount War Can Be Confusing," *USA Today,* September 23, 1994, p. 1Bff.; "AT&T Tweaks MCI's 'Friends,'" *Advertising Age,* March 2, 1992, p. 4. For other examples of comparative advertising, see "Allergy Drugs Wage a Bitter War of the Noses," *The Wall Street Journal,* May 23, 1996, p. B1ff.; "New Drug Ads Give Doctors Heartburn," *The Wall Street Journal,* April 25, 1996, p. B9; "Bitter Ads to Swallow," *Time,* April 1, 1996, pp. 48–49; "More Heartburn Relief Unsettles Market," *The Wall Street Journal,* February 7, 1996, p. B6; "New Ammo for Comparative Ads," *Advertising Age,* February 14, 1994, p. 26; Thomas E. Barry, "Comparative Advertising: What Have We Learned in Two Decades?" *Journal of Advertising Research,* March/April 1993, pp. 19–29; Naveen Donthu, "Comparative Advertising Intensity," *Journal of Advertising Research,* November/December 1992, pp. 53–58.

8. "As BP Goes Green, the Fur Is Flying," *The Wall Street Journal,* April 16, 2001, p. B1ff.

9. "Brawl Erupts Over Do-Good Advertising," *The Wall Street Journal,* September 29, 1997, p. B1ff.; "Cause and Effects Marketing," *Brandweek,* April 22, 1996, pp. 38–40; "Are Good Causes Good Marketing?" *Business Week,* March 21, 1994, pp. 64–66; "Chemical Firms Press Campaigns to Dispel Their 'Bad Guy' Image," *The Wall Street Journal,* September 20, 1988, p. 1ff.; "Spiffing up the Corporate Image," *Fortune,* July 21, 1986, pp. 68–72; Minette E. Drumwright, "Company Advertising With a Social Dimension: The Role of Noneconomic Criteria," *Journal of Marketing*, October 1996, pp. 71–87; Eric Haley, "Exploring the Construct of Organization As Source: Consumer's Understandings of Organizational Sponsorship of Advocacy Advertising," *Journal of Advertising*, Summer 1996, pp. 19–35; John K. Ross III, Larry T. Patterson, and Mary Ann Stutts, "Consumer Perceptions of Organizations That Use Cause-Related Marketing," *Journal of the Academy of Marketing Science,* Winter 1992, pp. 93–98.

10. For more on Benetton, see "Store Owners Rip into Benetton," *Advertising Age,* February 6, 1995, p. 1; "Benetton, German Retailers Squabble," *Advertising Age,* February 6, 1995, p. 46; "Benetton Brouhaha," *Advertising Age,* February 17, 1992, p. 62. For more on Intel, see "Intel Inside at 10," *Advertising Age*, April 30. 2001, p. 4ff.; "Co-op Crossroads," *Advertising Age*, November 15, 1999, p. 1ff.; "Intel Will Help Pay Costs of PC Makers' Web Ads," *USA Today,* August 5, 1997, p. 1B; "Changes to Intel's Co-Op Program Could Boost Web Advertising 40%," *The Wall Street Journal,* August 5, 1997, p. B7; "Intel Co-op Could Bring $150 Million to the Web," *Advertising Age,* July 28, 1997, p. 16; "How Strong Is the Case Against Intel?" *Business Week,* June 22, 1998, p. 42; "Intel Proposal Is Angering Web Publishers," *The Wall Street Journal,* January 16, 1998, p. B1ff.; "Trade Bait," *Brandweek,* December 1, 1997, pp. 36–44; "Intel's Amazing Profit Machine," *Fortune,* February 17, 1997, pp. 60–72. For more on GM, see "Still Pulling the Strings, But Locally, Too," *Brandweek*, April 17, 2000, pp. 34–42; "GM Dealers Rebel Against Local Ad Structure," *Advertising Age*, January 24, 2000, p. 3ff.; "GM Dealers Aren't Buying It," *Business Week,* February 8, 1999, pp. 46–50.

11. For more on co-op ads, see "Big Blue Offers Solutions with $60 Mil Co-op Effort," *Advertising Age*, April 30, 2001, p. 8; "Revlon Plans Another Makeover," *The Wall Street Journal,* November 21, 2000, p. B1ff.; "Retailers Open Doors Wide for Co-op," *Advertising Age,* August 1, 1994, p. 30; John P. Murry and Jan B. Heide, "Managing Promotion Program Participation Within Manufacturer-Retailer Relationships," *Journal of Marketing*, January 1998, pp. 58–68. For more on joint promotions, see "Joint Marketing with Retailers Spreads," *The Wall Street Journal,* October 24, 1996, p. B6; "Joint Promotions Spawn Data Swap," *Advertising Age,* October 7, 1991, p. 44; "H&R Block, Excedrin Discover Joint Promotions Can Be Painless," *The Wall Street Journal,* February 28, 1991, p. B3.

12. "Firms Pitch New Place to Park Ads," *The Wall Street Journal,* July 11, 2001, p. B10; "Look Up, Down, All Around—Ads Fill Airports, Planes," *USA Today*, July 10, 2001, p. 12B; "It's an Ad, Ad, Ad, Ad World," *Time*, July 9, 2001, p. 17; "Ads Are Here, There, Everywhere," *USA Today*, June 19, 2001, p. 1Bff.; "Ahh, the Sun, the Surf . . . and Tons of Ads," *USA Today*, May 24, 2001, p. 3B; "Video Venue Joins the Line for Gas-Pump Advertising," *Advertising Age*, April 23, 2001, p. 8; "Think Graffiti Is All That's Hanging in Subway Tunnels? Look Again," *The Wall Street Journal,* April 4, 2001, p. B1ff.; "Ads Show Up in Unexpected Places," *USA Today*, March 23, 2001, p. 1Bff.; "Ad-Packed TVs May Soon Be Boarding City Buses," *The Wall Street Journal*, February 21, 2001, p. B1ff.; "Signage-itis: More Buildings Sport Billboards," *The Wall Street Journal*, January 10, 2001, p. B10; "Happy Meal?" *Brandweek*, November 13, 2000, p. 98; "From Elevators to Gas Stations, Ads Multiplying," *Advertising Age*, November 13, 2000, pp. 40–42; "Moving Targets," *American Demographics*, October 2000, pp. 32–36; "Motorists

Finding Logos a Gas," *USA Today*, September 15, 2000, p. 3A; "From Cell Phones to Sell Phones," *Business Week,* September 11, 2000, pp. 88–90; "New Gas Pumps Deliver Ads Via the Net," *Investor's Business Daily*, June 23, 2000, p. A6; "Advertisers Find One of the Last Clutter-Free Places," *The Wall Street Journal,* June 15, 2000, p. B1ff.; "Believe Your Eyes? Ads Bend Reality," *USA Today*, April 24, 2000, p. 1Bff.; "Virtual Ads Grab More Attention from Marketers," *Advertising Age*, May 29, 2000; "It's an Ad, Ad, Ad, Ad World," *Inc.*, March 2000, pp. 23–26; "The Omnipresent Persuaders," *The Wall Street Journal,* January 1, 2000, p. R26; "P&G's Tide Rolls Into Pizza Shops," *Brandweek*, July 26, 1999, p. 9; "Bright Idea Has Business Looking Up for Ad Blimps," *The Wall Street Journal,* October 14, 1997, p. B1ff.

13. *Standard Rate and Data,* 2000; "Special Report: Media Outlook 2001," *Adweek*, September 25, 2000. For more on the Yellow Pages medium, see "Print Yellow Pages Are Still Profitable," *The Wall Street Journal,* May 22, 2000, p. B16; "The Truth About Yellow Pages: Making Them Work for You," *Journal of the Academy of Marketing Science*, Winter 1998, pp. 71–72; "'Sleeping Giant,' the Yellow Pages, Tries to Waken Madison Avenue," *The Wall Street Journal,* August 19, 1993, p. B6. For more on videotape medium, see "Are Spots on Home Video Badvertising?" *Brandweek,* January 29, 1996, p. 40; "Special Report: Direct Marketing," *Advertising Age,* October 28, 1996, pp. S1–6; "Direct Marketers Press Fast-Forward on Videotape Use," *The Wall Street Journal,* October 31, 1994, p. B8B. For more on the outdoor medium, see "A Market on the Move," *Ad Age Global*, April 2001, p. 38; "Billboards Help Media Firms Weather Slowdown," *USA Today*, December 12, 2000, p. 6B; "New Technology, Improved Image Draw Companies to Billboard Ads," *The Wall Street Journal,* July 31, 2000, p. B10; "Look Up! Seeing Is Believing," *Advertising Age*, August 2, 1999, p. S2; "The Great Outdoors," *Fortune*, March 1, 1999, pp. 150–57; "Billboards Aren't Boring Anymore," *Business Week,* September 21, 1998, pp. 86–90. See also Charles R. Taylor and John C. Taylor, "Regulatory Issues in Ourdoor Advertising: A Content Analysis of Billboards," *Journal of Public Policy & Marketing,* Spring 1994, pp. 97–107. For more on the radio medium, see "Old Media Get a Web Windfall," *The Wall Street Journal*, September 17, 1999, p. B1ff.; "TV Commercials Turn Obscure Songs into Radio Hits," *The Wall Street Journal,* October 9, 1998, p. B1ff.; "Radio's New Spin on an Oldie: Pay-for-Play," *The Wall Street Journal,* March 16, 1998, p. B1ff. See also Darryl W. Miller and Lawrence J. Marks, "Mental Imagery and Sound Effects in Radio Commercials," *Journal of Advertising,* December 1992, pp. 83–94. For more on the newspaper medium, see "Special Report: Newspaper Industry," *Advertising Age*, April 30, 2001, pp. S1–7; "Special Report: Newspapers," *Adweek*, April 30, 2001, pp. SR1–14; "Special Report: Newspapers," *Advertising Age*, May 8, 2000, pp. S1–20; "Publish or Perish?" *Fortune*, January 10, 2000, pp. 140–54; "Special Report: Newspapers," *Adweek*, April 26, 1999, pp. 1–28; "Newspapers," *Advertising Age*, April 26, 1999, pp. S1–22. See also Lawrence C. Soley and Robert L. Craig, "Advertising Pressures on Newspapers: A Survey," *Journal of Advertising,* December 1992, pp. 1–10; Srini S. Srinivasan, Robert P. Leone, and Francis J. Mulhern, "The Advertising Exposure Effect of Free Standing Inserts," *Journal of Advertising*, Spring 1995, pp. 29–40; Karen W. King, Leonard N. Reid, and Margaret Morrison, "Large-Agency Media Specialists' Opinions on Newspaper Advertising for National Accounts," *Journal of Advertising*, Summer 1997, pp. 1–17. For more on the magazine medium, see "To Sell Ad Pages, Magazines Offer Extra Services," *The Wall Street Journal,* July 9, 2001, p. B1ff.; "O Sister, Where Art Thou? Buying O," *USA Today*, January 18, 2001, p. 10D; "Special Report: Magazine Forecast," *Advertising Age*, October 23, 2000, pp. S1–36; "Magazines Think Outside the Rack," *USA Today*, November 15, 1999, p. 1Bf.; "Special Report: Magazines," *Advertising Age*, October 25, 1999, pp. S1–28. For more on the television and cable medium, see "MTV Networks Chief Juggles Expectations," *USA Today*, June 11, 2001, p. 1Bff.; "Special Report: TV's Upfront," *Advertising Age*, May 14, 2001, pp. S1–54; "Special Report: Cable TV," *Ad Age Global*, May 1, 2001, pp. 25–38; "Special Report: Cable TV," *Advertising Age*, April 16, 2001, pp. S1–28; "Special Report: TV's Upfront," *Advertising Age*, May 15, 2000, pp. S1–60; "Special Report: Cable TV Convergence," *Advertising Age*, April 10, 2000, pp. S1–38; "Special Report: Cable TV," *Advertising Age*, December 6, 1999, pp. S1–28. See also Jean L. Rogers, "Mail Advertising and Consumer Behavior," *Psychology & Marketing*, March 1996, pp. 211–33; Elizabeth C. Hirschman and Craig J. Thompson, "Why Media Matter: Toward a Richer Understanding of Consumers' Relationships With Advertising and Mass Media," *Journal of Advertising*, Spring 1997, pp. 43–60; Richard J. Fox and Gary L. Geissler, "Crisis in Advertising?" *Journal of Advertising*, December 1994, pp. 79–84; Roland T. Rust and Richard W. Oliver, "The Death of Advertising," *Journal of Advertising*, December 1994, pp. 71–77.

14. "Sex-Themed Ads Often Don't Travel Well," *The Wall Street Journal,* March 31, 2000, p. B7; "U.S. Admakers Cover It Up; Others Don't Give a Fig Leaf," *USA Today,* June 27, 1997, p. 1Bff.; "Mars Inc. Dips into Sex to Lure Consumers into Arms of M&M's," *The Wall Street Journal,* January 21, 1997, p. B9; "Underwear Ads Caught in Bind over Sex Appeal," *Advertising Age,* July 8, 1996, p. 27; "No Sexy Sales Ads, Please—We're Brits and Swedes," *Fortune,* October 21, 1991, p. 13.

15. "Looking for Mr. Plumber," *MediaWeek,* June 27, 1994, p. 7ff.; "Those Really Big Shows Are Often Disappointing to Those Who Advertise," *The Wall Street Journal,* June 14, 1994, p. B1ff.

16. "Yech and Yada in 'Seinfeld' Ads," *Advertising Age,* May 18, 1998, p. 63; "'Seinfeld' Finale Advertisers Put on Game Faces," *USA Today,* April 29, 1998, p. 1B; "NBC May Get Only $1.5 Million for Ad Spots on 'Seinfeld' Finale," *The Wall Street Journal,* March 4, 1998, p. B6.

17. "Gardenburger's Ad May Help Its Rival," *The Wall Street Journal,* May 20, 1998, p. B8; "Gardenburger Bets the (Soybean) Farm on the Last 'Seinfeld,'" *The Wall Street Journal,* April 13, 1998, p. A1ff..

18. For more on ATM ads, see "Ads on Automated Teller Machines Multiply as Technology Improves," *Investor's Business Daily*, October 5, 2000, p. A6; "ATMs Are Latest Place-Based Medium," *Advertising Age,* November 24, 1997, p. 1ff. For more on Nascar ads, see "Revved-Up Prices Stall Fox Nascar Spots," *The Wall Street Journal,* March 26, 2001, p. B8; "On-Track Tragedy May Create Hazard for Future Nascar Sponsorships," *Brandweek*, February 26, 2001, p. 8; "Nascar's New Deal: Will Street Ride Along?" *Investor's Business Daily*, February 16, 2001, p. A8; "Forget Football," *American Demographics*, February 2001, pp. 34–36; "Start the Engines!" *Brandweek*, October 9, 2000, p. 1ff.; "Speed Sells," *Fortune*, April 12, 1999, pp. 56–70; "Babes, Bordeaux, and Billy Bobs," *Time*, May 31, 1999, pp. 70–76; "Sports Marketing: Stock Rising," *Brandweek*, March 22, 1999, pp. 24–26; "The Green Flag Is Up," *American Demographics*, April 1999, pp. 33–36; "Smile, You're a Winner!" *Time* June 15, 1998, pp. 42–43; "Speed Sells," *Business Week,* August 11, 1997, pp. 86–90; "New Breed of Sponsors Race to NASCAR," *USA Today,* April 5, 1996, p. 1Bff. See also Alan J. Greco and Linda E. Swayne, "Sales Response of Elderly Consumers to Point-of-Purchase Advertising," *Journal of Advertising Research,* September/October 1992, pp. 43–53.

19. "Ads Held Viewers the Super Bowl Bored," *The Wall Street Journal,* February 2, 2001, p. B6; "Super Bowl Ad Meter," *USA Today*, January 29, 2001, p. 8Bff.; "Super Bowl Accepts No Half-Hearted Effort," *USA Today*, January 26, 2001, p. 1Bff.; "Super Bowl's 30-Second Ad Rush," *The Wall Street Journal,* January 26, 2001, p. B1ff.; "No Gain," *Advertising Age*, January 25, 2001, p. 1ff.; "Diageo Designs Sneak Ad Play for Super Bowl," *The Wall Street Journal,* January 15, 2001, p. B1ff.; "CBS Eyes Windfall from Record Rates for 'Survivor' Ads," *The Wall Street Journal,* January 12, 2001, p. B4; "Edgy Spots Stir Controversy, and Results," *The Wall Street Journal,* January 11, 2001, p. B13; "Super Bowl Ads Are Latest Victim of Downturn," *The Wall Street Journal,* January 9, 2001, p. B1ff.; "Firms Pick Super Bowl as Prime Time for Kickoff Ads," *USA Today*, January 2, 2001, p. 1B; "VW + XXXV = $uper Bowl $trategy," *USA Today*, December 20, 2000, p. 2B; "ER Tops Price Charts, Regis Wears the Crown," *Advertising Age*, October 2, 2000, p. 1ff.; "ABC Tally for Oscar: $62.4 Mil," *Advertising Age*, March 20, 2000, pp. 40–42.

20. Kim Bartel Sheehan, "Re-Weaving the Web: Integrating Print and Online Communications," *Journal of Interactive Marketing,* Spring 2001, p. 47; Lee Sherman, "Banner Advertising: Measuring Effectiveness and Optimizing Placement," *Journal of Interactive Marketing*, Spring 2001,

p. 60; "Behind the Wheel Driving the Web," *Advertising Age*, July 23, 2001, pp. 10–12; "Web Ads Getting in Your Way? Try Blocking Software," *Investor's Business Daily*, July 12, 2001, p. A6; "Aggressive Web Ads Push Ahead," *Investor's Business Daily*, July 3, 2001, p. A5; "The Bright Future of Web Advertising," *Ecompany*, June 2001, pp. 51–60; "Can You Say 'Cheese'? Intrusive Web Ads Could Drive Us Nuts," *The Wall Street Journal,* May 21, 2001, p. B1; "Choices, Choices . . . Web Advertising," *The Wall Street Journal*, April 23, 2001, p. R12; "Ad Nauseam," *The Wall Street Journal,* April 23, 2001, p. R8ff.; "Advertisers Have a Banner Year," *Investor's Business Daily*, March 9, 2001, p. A4; "Web's Next Phase Will Weave Through Your Life," *USA Today*, March 2, 2001, p. 1Bff.; "Looking Beyond Banners to Revive Web Advertising," *The Wall Street Journal,* February 26, 2001, p. B1ff.; "Dot-Com Rarity: NextCard Finds Online Ads Work," *The Wall Street Journal,* January 29, 2001, p. B1f.; "Do e-Ads Have a Future?" *Business Week E.Biz*, January 22, 2001, pp. EB46–EB50; "Beyond the Banner Ad," *Business Week E.Biz.*, December 11, 2000, p. EB16; "As Ads Fail to Heat Up, Sites Turning to Paid Subscribers," *Investor's Business Daily*, December 11, 2000, p. A8; "Content on Web Is Under Fire for Losing Cash," *The Wall Street Journal,* October 9, 2000, p. B1ff.; "Web Sites Toot Their Horns Amid Ad Chill," *The Wall Street Journal*, June 27, 2000, p. B1ff.; "Online Ads Turn to Hand-Held Devices," *The Wall Street Journal,* February 4, 2000, p. B6; "The Silicon Alley Heart of Internet Advertising," *Fortune*, December 6, 1999, pp. 166–68; "Banner Ads Are Driving Web Purchases," *The Wall Street Journal,* November 24, 1999, p. B9ff.; "Now It's Time for a Commercial," *The Wall Street Journal,* November 22, 1999, p. R28ff.; "Internet Waves Hit Asia Shores," *Ad Age International,* November 1999, p. 43ff.; "The Net Chases the Networks," *Fortune*, October 11, 1999, p. 296; "Humor Is Used to Slow Down Web Surfers," *The Wall Street Journal,* August 17, 1999, p. B9; "P&G Lathers On-Line Ad Revolution," *USA Today*, July 15, 1999, p. 3B; "Getting Noticed," *The Wall Street Journal,* July 12, 1999, p. R16ff.; "Online Persuaders," *The Wall Street Journal,* July 12, 1999, p. R12ff.; "Wacky Internet Ads Ride Creative Wave," *USA Today*, June 9, 1999, p. 1Bff.; "The Trouble with Web Advertising," *Fortune*, April 12, 1999, pp. 147–48; "Clicks for Free," *American Demographics*, February 1999, pp. 54–55; "Ads Click for Net Retailers," *USA Today*, January 28, 1999, p. 3B; "Your Message Here," *Inc. Tech,* No. 1, 1999, pp. 76–80; "Web Sites Say: Your Ad Sells or It's on Us," *The Wall Street Journal,* June 27, 1997, p. B9; "How Net Is Becoming More Like Television to Draw Advertisers," *The Wall Street Journal,* December 13, 1996, p. A1ff.; Richard T. Watson, Sigmund Akselsen, and Leyland F. Pitt, "Attractors: Building Mountains in the Flat Landscape of the World Wide Web," *California Management Review*, Winter 1998, pp. 36–56; W W. Kassaye, "Global Advertising and the World Wide Web," *Business Horizons*, May–June 1997, pp. 33–42.

21. For more on Jordan, see "Jordan Leaps into Palm of Your Hand," *USA Today*, June 18, 2001, p. 4B; "Marketers Drool over a Jordan Return," *USA Today*, April 11, 2001, p. 1B; "Jordan Trades Pitches for Piece of the Action," *Advertising Age*, March 27, 2000, p. 1ff.; "Jordan Tires of Ad Gigs," *USA Today*, March 23, 2000, p. 3B; "MJ's Court," *Newsweek*, January 25, 1999, pp. 46–55; "Birth of an Icon," *Advertising Age*, January 25, 1999, pp. 22–24; "Michael Jordan Isn't Retiring from Hot Deals," *The Wall Street Journal,* January 15, 1999, p. B1ff.; "The Jordan Effect," *Fortune*, June 22, 1998, pp. 124–38; "NBA Bravely Plans for Post-Jordan Era," *The Wall Street Journal,* February 6, 1998, p. B1ff. For more on Woods, see "The Dominator," *Newsweek*, June 18, 2001, pp. 44–49; "Nike: Great Balls Afire. Will Golf Clubs Be Next?" *Business Week,* February 26, 2001, p. 109; "Tiger Vs. the PGA: How Serious Is It?" *Business Week,* November 27, 2000, pp. 102–106; "The Yin and Yang of the Tiger Effect," *Business Week,* October 16, 2000, p. 110; "Woods' Latest Trophy: $100 Million Nike Deal," *USA Today*, September 15, 2000, p. 1A; "Can Tiger Make Buick Roar?" *USA Today*, December 15, 1999, p. 1Bff.; "Woods Brand Gets New Look," *USA Today*, September 18, 1998,p. 1Bff. For more on the Williams Sisters, see "Ad-Vantage: the Williams Sisters," *Business Week,* February 5, 2001, p. 71; "Venus and Serena Become Avon's New Leading Ladies," *Advertising Age*, January 22, 2001, p. 8; "Deal Sealed, Venus Endorses Fee Idea," *USA Today*, December 22, 2000, p. 1Cff.; "Girl Power: Advertisers Shift Focus to Female Athletes," *USA Today*, December 12, 2000, p. 1B; "Show Them the Money," *Time*, December 4, 2000, p. 63. See also "Subaru's Forester Takes Female Athletes on a New $18M Ad Ride," *Brandweek*, April 30, 2001, p. 16; "Why Sports Should Fear the Hand that Feeds It," *Ad Age Global*, October 2000, p. 29; "Holly Wired," *Time Digital*, May 2000, pp. 78–81; "Meet Lycra's New Face," *Brandweek*, April 24, 2000, p. 1ff.; "Kwan Spins Silver into Gold," *USA Today*, February 9, 2000, p. 1Bff.; "Battle of the Golf Shirts," *The Wall Street Journal,* January 6, 2000, p. B1ff.; "Golfing with Troy, and Other Perks," *The Wall Street Journal,* October 4, 1999, p. B1ff.; "Sports Bra's Flash Could Cash In," *USA Today*, July 13, 1999, p. 1Aff.; "Show Me the Money," *The Wall Street Journal,* May 17, 1999, p. B1ff.; "Home-Run Heroes Bring In Few Endorsements," *The Wall Street Journal,* October 21, 1998, p. B1ff.; "In the NBA, Shoe Money Is No Longer a Slam-Dunk," *The Wall Street Journal,* May 14, 1998, p. B1ff. See also "Dip Ad Stirs Church Ire," *Advertising Age*, July 2, 2001, p., 8ff.; "Ghosts of Cannes," *Advertising Age*, June 11, 2001, p. 1ff.; "Duck Ads Have New Customers," *USA Today*, September 18, 2000, p. 13B; "Cough Syrup Touts 'Awful' Taste in U.S.," *The Wall Street Journal,* December 15, 1999, p. B10; "Honda Hopes Mr. Clean Helps to Make Its Image Sparkle," *The Wall Street Journal,* September 26, 1997, p. B20; "Madison Avenue Picks an Average Joe as '90s Pitchman," *The Wall Street Journal,* September 11, 1996, p. B1ff. See also Erik L. Olson, "How Magazine Articles Portrayed Advertising From 1900 to 1940," *Journal of Advertising*, Fall 1995, pp. 41–54; Audhesh K. Paswan, "Marketing to the Mind: Right Brain Strategies for Advertising and Marketing," *Journal of the Academy of Marketing Science*, Winter 1998, pp. 68–69; Avery M. Abernethy and George R. Franke, "The Information Content of Advertising: A Meta-Analysis," *Journal of Advertising*, Summer 1996, pp. 1–17; James H. Leigh, "The Use of Figures of Speech in Print Ad Headlines," *Journal of Advertising*, June 1994, pp. 17–33; Bruce A. Huhmann and Timothy P. Brotherton, "A Content Analysis of Guilt Appeals in Popular Magazine Advertisements," *Journal of Advertising*, Summer 1997, pp. 35–45; Margaret F. Callcott and Wei-Na Lee, "A Content Analysis of Animation and Animated Spokes-Characters in Television Commercials," *Journal of Advertising*, December 1994, pp. 1–12; Alan J. Bush and Victoria D. Bush, "The Narrative Paradigm As a Perspective for Improving Ethical Evaluations of Advertisements," *Journal of Advertising*, September 1994, pp. 31–41; L. W. Turley and Scott W. Kelley, "A Comparison of Advertising Content: Business to Business Versus Consumer Services," *Journal of Advertising*, Winter 1997, pp. 39–48; Eleonora Curlo and Robert Chamblee, "Ad Processing and Persuasion: The Role of Brand Identification," *Psychology & Marketing*, May 1998, pp. 279–99; V. C. Broach, Thomas J. Page, and R. D. Wilson, "Television Programming and Its Influence on Viewers' Perceptions of Commercials: The Role of Program Arousal and Pleasantness," *Journal of Advertising*, Winter 1995, pp. 45–54; Laurie A. Babin and Alvin C. Burns, "Effects of Print Ad Pictures and Copy Containing Instructions to Imagine on Mental Imagery That Mediates Attitudes," *Journal of Advertising*, Fall 1997, pp. 33–44; Noel M. Murray and Sandra B. Murray, "Music and Lyrics in Commercials: A Cross-Cultural Comparison Between Commercials Run in the Dominican Republic and in the United States," *Journal of Advertising*, Summer 1996, pp. 51–63; Barbara B. Stern, "Advertising Intimacy: Relationship Marketing and the Services Consumer," *Journal of Advertising*, Winter 1997, pp. 7–19; Baba Shiv, Julie A. Edell, and John W. Payne, "Factors Affecting the Impact of Negatively and Positively Framed Ad Messages," *Journal of Consumer Research*, December 1997, pp. 285–94; Harlan E. Spotts, Marc G. Weinberger, and Amy L. Parsons, "Assessing the Use and Impact of Humor on Advertising Effectiveness: A Contingency Approach," *Journal of Advertising*, Fall 1997, pp. 17–32; Martha Rogers and Kirk H. Smith, "Public Perceptions of Subliminal Advertising: Why Practitioners Shouldn't Ignore This Issue," *Journal of Advertising Research,* March/April 1993, pp. 10–18; Kathryn T. Theus, "Subliminal Advertising and the Psychology of Processing Unconscious Stimuli: A Review of Research," *Psychology & Marketing,* May/June 1994, pp. 271–90; Carolyn A. Lin, "Cultural Differences in Message Strategies: A Comparison between American and Japanese TV Commercials," *Journal of Advertising Research,* July/August 1993, pp. 40–49; Robert Chamblee and Dennis M. Sandler, "Business-to-

Business Advertising: Which Layout Style Works Best?" *Journal of Advertising Research,* November/December 1992, pp. 39–46.

22. Fahad S. Al-Olayan, "A Content Analysis of Magazine Advertisements from the United States and the Arab World," *Journal of Advertising*, Fall 2000, pp. 69–83; "Exxon Centralizes New Global Campaign," *The Wall Street Journal,* July 11, 2001, p. B6; "McCann Finds Global a Tough Sell in Japan," *The Wall Street Journal,* June 19, 1997, p. B2; "Microsoft Global Image Campaign Is Dizzying without a Hard Sell," *The Wall Street Journal,* November 11, 1994, p. B7; Fred Zandpour et al., "Global Reach and Local Touch: Achieving Cultural Fitness in TV Advertising," *Journal of Advertising Research,* September/October 1994, pp. 35–63; Michael G. Harvey, "A Model to Determine Standardization of the Advertising Process in International Markets," *Journal of Advertising Research,* July/August 1993, pp. 57–64; Barbara Mueller, "Standardization vs. Specialization: An Examination of Westernization in Japanese Advertising," *Journal of Advertising Research,* January/February 1992, pp. 15–24; Dana L. Alden, Wayne D. Hoyer, and Chol Lee, "Identifying Global and Culture-Specific Dimensions of Humor in Advertising: A Multinational Analysis," *Journal of Marketing,* April 1993, pp. 64–75; "International Special Report: Global Media," *Advertising Age International,* July 18, 1994, p. I11–16; Ali Kanso, "International Advertising Strategies: Global Commitment to Local Vision," *Journal of Advertising Research,* January/February 1992, pp. 10–14; "Professor Stands by His Theory on Global Advertising," *The Wall Street Journal,* October 13, 1992, p. B10; Theodore Levitt, "The Globalization of Markets," *Harvard Business Review,* May–June 1983, pp. 92–102; Kamran Kashani, "Beware the Pitfalls of Global Marketing," *Harvard Business Review,* September/October 1989, pp. 91–98; Ludmilla G. Wells, "Western Concepts, Russian Perspectives: Meanings of Advertising in the Former Soviet Union," *Journal of Advertising,* March 1994, pp. 83–95; William L. Shanklin and David A. Griffith, "Crafting Strategies for Global Marketing in the New Millennium," *Business Horizons*, September–October 1996, pp. 11–16.

23. "Will Ad Agencies Survive Slowdown?" *Investor's Business Daily*, May 8, 2001, p. A1; "IBD Corporate Leaders: Advertising Agencies," *Investor's Business Daily*, May 8, 2001, p. B20; "Agency Report," *Advertising Age*, April 23, 2001, pp. S1–36; "Interpublic Still Faces Hurdles in True North Deal," *Advertising Age*, March 26, 2001, p. 3fff.; "Slim Selection Is Seen for Takeover Targets," *The Wall Street Journal,* March 21, 2001, p. B14; "Slow Ad Period Likely to Spur More Deals," *The Wall Street Journal,* March 20, 2001, p. B2; "A Chill Hits Madison Avenue," *The Wall Street Journal,* March 19, 2001, p. B1ff.; "Culture Shock," *Advertising Age*, January 8, 2001, p. 1ff.; "How the Internet Gave Big Edge to Tiny Ad Firm," *The Wall Street Journal,* June 22, 2000, p. B1ff.; "Road Less Traveled Leads Cappelli to Success," *USA Today*, May 11, 2000, p. 3B; "Agencies Teach Skill Building," *Advertising Age*, May 1, 2000, p. 12; "Agencies Form Group to Help Set Guidelines for Ads on the Web," *The Wall Street Journal,* April 19, 2000, p. B7; "Special Report: Interactive," *Advertising Age*, March 6, 2000, pp. S1–48; "It's Splitsville When Dot-Coms Irk Ad Agencies," *The Wall Street Journal,* December 8, 1999, p. B1ff.; "Agencies Left in Cold as Marketers Expand Online," *Advertising Age*, July 26, 1999, pp. S26–30; "The Old Order Blurreth," *Brandweek*, April 19, 1999, pp. 54–64; "Agencies Centralize Web Ad Serving," *Advertising Age*, March 1, 1999, pp. S1–12; "IQ's Leading Agencies," *Brandweek*, January 18, 1999, pp. IQ20–41; "The Race to Inter-Activity," *Advertising Age*, January 4, 1999, p. 1ff. See also Louise Ripley, "Why Industrial Advertising is Often Done in House," *Industrial Marketing Management,* November 1992, pp. 331–34; Murray Young and Charles Steilen, "Strategy-Based Advertising Agency Selection: An Alternative to 'Spec' Presentations," *Business Horizons*, November–December 1996, pp. 77–80; Douglas C. West, "Purchasing Professional Services: The Case of Advertising Agencies," *International Journal of Purchasing & Materials Management*, Summer 1997, pp. 2–9; Douglas W. LaBahn and Chiranjeev Kohli, "Maintaining Client Commitment in Advertising Agency-Client Relationships," *Industrial Marketing Management*, November 1997, pp. 497–508; Alan T. Shao and John S. Hill, "Executing Transnational Advertising Campaigns: Do U.S. Agencies Have the Overseas Talent?" *Journal of Advertising Research,* January/February 1992, pp. 49–58.

24. "Feeling the Squeeze," *Advertising Age*, June 4, 2001, p.1ff.; "Unilever Reviews the Way It Pays for Ads," *The Wall Street Journal,* April 27, 2001, p. B6; "Kraft Folds $800 Million into Starcom," *Advertising Age*, December 18, 2000, p. 1ff.; "Agencies, Beware a Downturn," *Advertising Age*, July 10, 2000, p. 30; "Performance Pays," *Advertising Age*, February 28, 2000, pp. S14–S16; "Agencies Get Dot-Com Stock for Hot Spots," *The Wall Street Journal,* February 8, 2000, p. B1ff.; "Dot-Compensation: Ad Agencies Feel Net Effect," *Advertising Age*, February 7, 2000, p. 1ff.; "P&G Expands Its Program to Tie Agency Pay to Brand Performance," *The Wall Street Journal,* September 16, 1999, p. B12; "Nissan Ties TBWA's Pay to Car Sales," *Advertising Age*, June 7, 1999, p. 1ff.; "Incentive Compensation: A Trend or a Tsunami?" *Advertising Age*, March 1, 1999, p. 26; "P&G to Test Ad-Agency Pay Tied to Sales," *The Wall Street Journal,* November 9, 1998, p. B10; "Price Becomes Prime Issue," *Advertising Age*, September 14, 1998, p. 24; "ANA Survey: Under 50% Pay Agency Commissions," *Advertising Age*, June 15, 1998, p. 18; "Becoming Strategic Partners in the 1990s," *Advertising Age,* June 8, 1998, p. 28; "P&G Poised to Rewrite Ad Agency Pay Policies," *Advertising Age,* February 16, 1998, p. 1ff. See also R. Susan Ellis and Lester W. Johnson, "Agency Theory as a Framework for Advertising Agency Compensation Decisions," *Journal of Advertising Research,* September/October 1993, p. 76; Thorolf Helgesen, "Advertising Awards and Advertising Agency Performance Criteria," *Journal of Advertising Research,* July/August 1994, pp. 43–53.

25. "Can An Agency Be Guilty of Malpractice?" *Advertising Age*, January 31, 2000, pp. 24–25; "Bowl Postmortem: Tadpoles, Ad Polls," *Advertising Age,* February 6, 1995, p. 44; "Why A-B Bounced Bud," *Advertising Age,* November 21, 1994, p. 1ff.; "Ties that Bind Agency, Client Unravel," *The Wall Street Journal,* November 16, 1994, p. B9; Paul C.N. Mitchell, Harold Cataquet, and Stephen Hague, "Establishing the Causes of Disaffection in Agency-Client Relations," *Journal of Advertising Research,* March/April 1992, pp. 41–48.

26. "Behind the Scenes at an American Express Commercial," *Business Week,* May 20, 1985, pp. 84–88.

27. Ann Marie Barry, "How Advertising Works: The Role of Research," *Journal of the Academy of Marketing Science,* Winter 2001, p.1036. For one specific example, see "Dog-Gone Days: FCB Creates Ads for Taco Bell Acc't," *Advertising Age*, July 24, 2000, p. 4; "Taco Bell Drops the Chihuahua in Management Shuffle," *USA Today*, July 19, 2000, p. 1B; "Taco Bell Fences in Chihuahua for Ads," *Advertising Age*, July 3, 2000, p. 32; "Chihuahua Gets Muzzled as Taco Bell Pushes Value," *Advertising Age*, November 29, 1999, p. 26; "Taco Bell Ads to Focus on Food, Not Dog," *The Wall Street Journal,* October 11, 1999, p. B10; "Say Bark in Hindi!" *Advertising Age*, January 11, 1999, p. 1ff.; "Taco Bell Finds a Dog's Life Quite Fetching," *USA Today*, October 22, 1998, p. 1Bff.; "Chiat's New Day," *Newsweek*, August 3, 1998. See also "How Terrific Ads Propelled Colgate, Dethroned Longtime Leader P&G," *Investor's Business Daily*, April 20, 2001, p. A1ff.; "MasterCard Learns Ads Can Be Tricky," *The Wall Street Journal,* February 23, 2001, p. B8; "Measuring Up," *Advertising Age*, February 5, 2001, p. 1ff.; "Does Creativity Count?" *Brandweek*, December 11, 2000, pp. 32–44; "The Metrics System," *Brandweek*, November 13, 2000, pp. 106–10; "Protests Let Air Out of Nike Ads," *USA Today*, November 13, 2000, p. 6B; "Nike Rescinds Ad, Apologizes to Disabled People," *The Wall Street Journal,* October 26, 2000, p. B20; "Hard Selling on the Net," *Advertising Age*, October 23, 2000, pp. 48–52; "Jazzy Sprint Ads Fail to Connect," *USA Today*, August 28, 2000, p. 5B; "Uncle Sam Wants Who? New Report Calls Military's Ads Off Target," *The Wall Street Journal,* July 6, 2000, p. B1ff.; "Where Have All the Gerbils Gone?" *The Wall Street Journal,* March 30, 2000, p. B1ff.; "Shock Treatment," *Newsweek*, November 1, 1999, pp. 58–59; "Omnicom Group to Measure How Ads Do," *The Wall Street Journal,* October 21, 1999, p. B16; "Glamour Sets Out to Prove Its Ads Work," *The Wall Street Journal,* August 26, 1999, p. B8; "Where's the Commercial?" *USA Today*, June 25, 1999, p. 1Bff.; "I'd Like to Teach the World to Sell," *Business Week*, June 7, 1999, p. 59; "Traditional Marketing Is Dead," *Advertising Age*, May 31, 1999, pp. 24–26; "ADKnowledge

Goes Beyond Clicks to Measurable Results," *Advertising Age*, March 1, 1999, p. S14 "Nissan's Crisis Was Made in the U.S.A.," *The Wall Street Journal*, November 25, 1998, p. B1ff.; "Great Ad! What's It For?" *Business Week*, July 20, 1998, pp. 118–20; "When Ads Get Creative, Some Click, Some Bomb," *USA Today*, December 15, 1997, p. 1Bff. See also Gerald J. Tellis and Doyle L. Weiss, "Does TV Advertising Really Affect Sales? The Role of Measures, Models, and Data Aggregation," *Journal of Advertising*, Fall 1995, pp. 1–12; John H. Holmes, "When Ads Work," *Journal of the Academy of Marketing Science*, Winter 1997, pp. 88–89; Karen Whitehill King, John D. Pehrson, and Leonard N. Reid, "Pretesting TV Commercials: Methods, Measures, and Changing Agency Roles," *Journal of Advertising*, September 1993, p. 85; "Researchers Probe Ad Effectiveness Globally," *Marketing News*, August 29, 1994, pp. 6–7. See also Erik du Plessis, "Recognition versus Recall," *Journal of Advertising Research*, May/June 1994, pp. 75–91.

28. "In Asia, It's Not a Wide-Open Web," *The Wall Street Journal*, July 9, 2001, p. B1ff.; "Chinese Officials Force Magazines to Go Without Famous Names," *The Wall Street Journal*, February 2, 2000, p. B1ff.; "Sweden Presses EU for Further Ad Restrictions," *Advertising Age*, April 12, 1999, p. 2; "Vietnamese Police Raid Bates' Ho Chi Minh Office," *Advertising Age*, May 4, 1998, p. 6; "Pakistan Cracks Whip," *Ad Age International*, February 9, 1998, p. 26; "Indian Court Tells Lever to Clean Up Ad Claims," *Ad Age International*, January 1998, p. 32; "PepsiCo's Pitch in Japan Has New Twist," *The Wall Street Journal*, May 23, 1997, p. B10. See also Alexander Simonson, "The Impact of Advertising Law on Business and Public Policy," *Journal of Marketing*, October 1994, pp. 123–25; Ross D. Petty, "Advertising Law in the United States and European Union," *Journal of Public Policy & Marketing*, Spring 1997, pp. 2–13; Steve Lysonski and Michael F. Duffy, "The New Zealand Fair Trading Act of 1986: Deceptive Advertising," *Journal of Consumer Affairs*, Summer 1992, pp. 177–99; "Drop That Remote! In Britain, Watching TV Can Be a Crime," *The Wall Street Journal*, September 27, 1993, p. A1ff.; "East Europeans Adjust to Western Ads; Information after Years of Propaganda," *The Wall Street Journal*, July 17, 1993, p. A5B; Albert Schofield, "International Differences in Advertising Practices: Britain Compared with Other Countries," *International Journal of Advertising* 10, no. 4 (1991), pp. 299–308.

29. "FDA Faults 'Misleading' Drug-Ad Images," *The Wall Street Journal*, May 4, 2001, p. B8; "Xenical Ads Avoid Listing Unpleasant Side Effects," *The Wall Street Journal*, April 3, 2001, p. B1ff.; "FDA's Not-So-Secret Weapon," *Advertising Age*, March 19, 2001, pp. S1–10; "FDA Scrambles to Police Drug Ads' Truthfulness," *The Wall Street Journal*, January 2, 2001, p. A24; "Microsoft WebTV Settles False-Advertising Complaint," *The Wall Street Journal*, October 26, 2000, p. B16; "Amex, Ogilvy Face the Music over Tune," *The Wall Street Journal*, May 1, 1998, p. B4; "Claim by Gerber for Baby Food Was Simply Mush, FTC Alleges," *The Wall Street Journal*, March 13, 1997, p. B15; "Ford Threatens Lawsuit over GM Test-Drive Video," *USA Today*, January 30, 1998, p. 1Bff.; "Competition in Sippy-Cup Market Spills into Court," *The Wall Street Journal*, August 19, 1997, p. B1ff.; "FDA Ruling Gives Colgate Cause to Smile," *The Wall Street Journal*, July 15, 1997, p. B3; "Ad Watchdogs Track Untruths, Sometimes Bite," *The Wall Street Journal*, July 7, 1997, p. B1ff.; "Vacuums Make Sweeping Health Claims," *The Wall Street Journal*, September 25, 1996, p. B1ff.; "FTC Hammers Pain Relievers to Keep Their Claims in Check," *The Wall Street Journal*, June 28, 1996, p. B12. See also Boris W. Becker, "The Tangled Web They Weave: Truth, Falsity, & Advertisers," *Journal of Advertising*, Summer 1996, pp. 83–85; Elizabeth K. LaFleur, R. E. Reidenbach, Donald P. Robin, and PJ Forrest, "An Exploration of Rule Configuration Effects on the Ethical Decision Processes of Advertising Professionals," *Journal of the Academy of Marketing Science*, Winter 1996, pp. 66–76; Barbara B. Stern, "'Crafty Advertisers': Literary Versus Literal Deceptiveness," *Journal of Public Policy & Marketing*, Spring 1992, pp. 72–81; Joel J. Davis, "Ethics in Advertising Decisionmaking: Implications for Reducing the Incidence of Deceptive Advertising," *Journal of Consumer Affairs*, Winter 1994, pp. 380–402.

30. "Kids Ads: To Regulate or Not?" *Advertising Age*, October 9, 2000, pp. 58–60; "Can Hollywood Shelter Kids from Its Ads?" *The Wall Street Journal*, September 29, 2000, p. B1ff.; "Studios Admit to Targeting Children," *USA Today*, September 28, 2000, p. 1Aff.; "FTC Report on Violence Stokes Regulatory Fires," *Advertising Age*, September 18, 2000, p. 3ff.; "Selling to Kids Blurs Ethical Picture," *USA Today*, March 20, 2000, p. 7D; "A Virtual Playground," *USA Today*, September 28, 1999, p. 1Bff.; "California Sues Reynolds Over Magazine Ads," *The Wall Street Journal*, March 20, 2001, p. A3ff.; "Top Ad Agency Defends Tossing Joe Camel Files," *The Wall Street Journal*, April 30, 1998, p. B1ff.; "Anheuser-Busch Amphibian Ads Called Cold-Blooded by Doctors," *The Wall Street Journal*, April 10, 1998, p. B8; "How the Beer Industry Uses TV Ads to Mollify Critics, Buff Its Image," *The Wall Street Journal*, August 14, 1997, p. A1ff.; "With Joe Camel Out, Goverment Wants the Marlboro Man 'Down,'" *Advertising Age*, July 14, 1997, p. 3ff.; "Liquor Industry Votes to Rescind Ban on TV Ads," *The Wall Street Journal*, November 8, 1996, p. B1ff.; "25 Years of Self-Regulation," *Advertising Age*, December 2, 1996, pp. C1–7; "TV Advertising Aimed at Kids Is Filled with Fat," *The Wall Street Journal*, November 9, 1993, p. B1; Mary C. Martin, "Children's Understanding of the Intent of Advertising: A Meta-Analysis," *Journal of Public Policy & Marketing*, Fall 1997, pp. 205–16; Avery M. Abernethy, "Advertising Clearance Practices of Radio Stations: A Model of Advertising Self-Regulation," *Journal of Advertising*, September 1993, pp. 15–26.

31. Ivan L. Preston, "Regulatory Positions Toward Advertising Puffery of the Uniform Commercial Code and the Federal Trade Commission," *Journal of Public Policy & Marketing*, Fall 1997, pp. 336–44; Claude R. Martin, Jr., "Ethical Advertising Research Standards: Three Case Studies," *Journal of Advertising*, September 1994, pp. 17–30; William K. Darley and Robert E. Smith, "Advertising Claim Objectivity: Antecedents and Effects," *Journal of Marketing*, October 1993, pp. 100–13; George M. Zinkhan, "Advertising Ethics: Emerging Methods and Trends," *Journal of Advertising*, September 1994, pp. 1–4; Alexander Simonson and Morris B. Holbrook, "Permissible Puffery Versus Actionable Warranty in Advertising and Salestalk: An Empirical Investigation," *Journal of Public Policy & Marketing*, Fall 1993, pp. 216–33.

32. Nancy Spears, "Time Pressure and Information in Sales Promotion Strategy: Conceptual Framework and Content Analysis," *Journal of Advertising*, Spring 2001, pp. 67–77; "Not Just Cereal Material: Prizes Pop Up in More CDs," *The Wall Street Journal*, May 31, 2001, p. B1ff.; "Events & Promotions," *Advertising Age*, March 17, 1997, pp. S1–6; "Special Report: Promotional Marketing," *Advertising Age*, March 21, 1994, pp. S1–14. See also K. Sivakumar, "Tradeoff Between Frequency and Depth of Price Promotions: Implications for High- and Low-Priced Brands," *Journal of Marketing Theory & Practice*, Winter 1996, pp. 1–8.

33. "Too Many Choices," *The Wall Street Journal*, April 20, 2001, p. B1ff.; "Reposition: Simplifying the Customer's Brandscape," *Brandweek*, October 2, 2000, pp. 36–48; "Make It Simple," *Business Week*, September 9, 1996, pp. 96–104; "Pay for Performance Picking Up Speed," *Advertising Age*, August 9, 1993, p. 19; Donald R. Lichtenstein, Scot Burton, and Richard G. Netemeyer, "An Examination of Deal Proneness Across Sales Promotion Types: A Consumer Segmentation Perspective," *Journal of Retailing*, Summer 1997, pp. 283–97; Donald R. Glover, "Distributor Attitudes Toward Manufacturer-Sponsored Promotions," *Industrial Marketing Management* 20, no. 3 (1991), pp. 241–50; A.S.C. Ehrenberg, Kathy Hammond, and G.J. Goodhardt, "The After-Effects of Price-related Consumer Promotions," *Journal of Advertising Research*, July/August 1994, pp. 11–21; Jean J. Boddewyn and Monica Leardi, "Sales Promotions: Practice, Regulation and Self-Regulation Around the World," *International Journal of Advertising* 8, no. 4 (1989), pp. 363–74.

34. For another example, see "Shopper Turns Lots of Pudding into Free Miles," *The Wall Street Journal*, January 24, 2000, p. B1ff.; "The Pudding Guy Flies Again (and Again) Over Latin America," *The Wall Street Journal*, March 16, 2000, p. B1. See also P. Rajan Varadarajan, "Horizontal Cooperative Sales Promotion: A Framework for Classification and Additional Perspectives," *Journal of Marketing*, April, 1986 pp. 61–73.

35. J. F. Engel, M. R. Warshaw, and T. C. Kinnear, *Promotional Strategy* (Homewood, IL: Richard D. Irwin, 1988).

36. "Cybercoupons," *Discount Store News,* March 9, 1998, p. 18; "The Scoop on Coupons," *Brandweek,* March 17, 1997, pp. 34–48; "Many Companies Are Starting to Wean Shoppers Off Coupons," *The Wall Street Journal,* January 22, 1997, p. B1ff.; "Internet Coupons offer H.O.T! Deals," *USA Today,* December 13, 1996, p. 17D; "First, Green Stamps. Now, Coupons?" *Business Week,* April 22, 1996, p. 68; "P&G Ad Chief Plots Demise of the Coupon," *The Wall Street Journal,* April 17, 1996, p. B1ff; Judy F. Graham, "Increasing Repurchase Rates: A Reappraisal of Coupon Effects," *Psychology & Marketing,* November/December 1994, pp. 533–48; A. Krishna and R.W. Shoemaker, "Estimating the Effects of Higher Coupon Face Values on the Timing of Redemptions, the Mix of Coupon Redeemers, and Purchase Quality," *Psychology & Marketing,* November/December 1992, pp. 453–68; Venkatram Ramaswamy and Srini S. Srinivasan, "Coupon Characteristics and Redemption Intentions: A Segment-Level Analysis," *Psychology & Marketing,* January 1998, pp. 59–80.

37. "The Cyber-Show Must Go On," *Trade Media,* May 7, 2001, pp. SR3–4; "Getting the Most from a Trade-Show Booth," *Investor's Business Daily,* April 25, 2000, p. 1; Marnik G. Dekimpe, Pierre Francois, Srinath Gopalakrishna, Gary L. Lilien, and Christophe Van den Bulte, "Generalizing About Trade Show Effectiveness: A Cross-National Comparison," *Journal of Marketing,* October 1997, pp. 55–64; Scott Barlass, "How to Get the Most Out of Trade Shows," *Journal of Product Innovation Management,* September 1997, pp. 423–24; Srinath Gopalakrishna, Gary L. Lilien, Jerome D. Williams, and Ian K. Sequeira, "Do Trade Shows Pay Off?" *Journal of Marketing,* July 1995, pp. 75–83; Ronald C. Curhan and Robert J. Kopp, "Obtaining Retailer Support for Trade Deals: Key Success Factors," *Journal of Advertising Research,* December 1987–January 1988, pp. 51–60; Donald W. Jackson, Janet E. Keith, and Richard K. Burdick, "The Relative Importance of Various Promotional Elements in Different Industrial Purchase Situations," *Journal of Advertising* 16, no. 4 (1987), pp. 25–33.

38. "Trade Promotion Rises," *Advertising Age,* April 3, 2000, p. 24; "Getting Tough on Trade," *Adweek,* April 13, 1992, pp. 20–30; "A Shift in Direction?" *Adweek's Marketing Week,* April 13, 1992, pp. 26–27; Mary A. Raymond and Jong W. Lim, "Promotion and Trade Mix Considerations for Entering and Competing in the Korean Market," *Journal of Marketing Theory & Practice,* Winter 1996, pp. 44–55; Sunil Gupta, "Impact of Sales Promotions on When, What, and How Much to Buy," *Journal of Marketing Research,* November 1988, pp. 342–55.

39. "Creating Incentives Down in Ranks: Marriott Ties Pay to Guest Replies," *Investor's Business Daily,* July 6, 2001, p. A1; "Get Great Results from Salespeople by Finding What Really Moves Them," *Investor's Business Daily,* July 2, 2001, p. A1.

Chapter 17

1. Available from World Wide Web: <http://www.chevrolet.com/suburban>; "A Super-Size Station Wagon," *The Wall Street Journal,* February 11, 2000, p. W15C; "Toyota: Overdue for a Tune-Up?" *Business Week,* May 4, 1998, pp. 158F–J; "You'll Charge What I Tell You to Charge," *Business Week,* October 6, 1997, pp. 118–20; "Automakers Draft New Designs in Global Mission," *USA Today,* September 11, 1997, p. 1Bff.; "Cadillac and Lincoln Try to Regain Their Cachet," *The Wall Street Journal,* July 3, 1997, p. B1ff.; "Navigator Overcomes Looks with Inner Beauty," *USA Today,* June 4, 1997, p. 6B; "Which Bigger Is Better?" *Fortune,* November 25, 1996, pp. 226–27; "Honk If You're Building a Sport-Utility Vehicle," *Business Week,* September 30, 1996, p. 35; "Ford's New Expedition Heads into Suburban's Terrain," *The Wall Street Journal,* June 24, 1996, p. B1ff.; "Even Luxury Models Join Rugged Race," *USA Today,* January 5, 1996, p. 1Bff.; "Demand in Overdrive for Top Models," *USA Today,* November 18, 1994, p. 1Aff.; "World War II Workhorse Started Trend," *USA Today,* June 6, 1994, p. 1Bff.

2. "Adding Options Helps Car Firms Increase Prices," *The Wall Street Journal,* December 27, 1993, p. 9ff.; "Car Makers Seek to Mask Price Increases," *The Wall Street Journal,* August 16, 1989, p. B1.

3. Alfred Rappaport, "Executive Incentives versus Corporate Growth," *Harvard Business Review,* July–August 1978, pp. 81–88; David M. Szymanski, Sundar G. Bharadwaj, and P. Rajan Varadarajan, "An Analysis of the Market Share-Profitability Relationship," *Journal of Marketing,* July 1993, pp. 1–18.

4. Pricing "in the public interest" is often an issue in pricing government services; for an interesting example, see "Price Policy on Space Shuttle's Commercial Use Could Launch—or Ground—NASA's Rockets," *The Wall Street Journal,* March 21, 1985, p. 64.

5. "The Mother of All Price Wars," *Business Week,* July 30, 2001, pp. 32–35; "Cheap PCs," *Business Week,* March 23, 1998, pp. 28–32; "Good-Quality Laptops Are Starting to Get a Little Less Expensive," *The Wall Street Journal,* March 26, 1998, p. B1; "Crashing Prices," "Five Easy PCs," *Fortune,* November 10, 1997, pp. 311–12; "I'm Not Going to Pay a Lot for This Aptiva," *Business Week,* October 13, 1997, p. 59; "Now PC Buyers Are Getting More for Even Less," *The Wall Street Journal,* June 18, 1996, p. B1ff.

6. "Applying Old Pricing Lessons to a New Investing World," *The Wall Street Journal,* May 21, 2001, p. C1ff.; Stephen E. Frank, *Net Worth* (2001); "E-Assets for Sale," *Business Week E.Biz,* May 14, 2001, pp. EB20–EB22; "Last Guys Finish First," *Ecompany,* May 2001, pp. 93–97; "After the Wild Ride," *Business Week E.Biz,* April 16, 2001, pp. EB29–EB30; "Study: Net Start-Ups Ignored Economics 101," *Investor's Business Daily,* March 2, 2001, p. A8; "12 Months When the Dot Turned into a Dark Period," *Investor's Business Daily,* January 2, 2001, p. A6; "We're Heading into Something Big—but What?" *USA Today,* December 29, 2000, p. 1Bff.; "What Detonated Dot-Bombs?" *USA Today,* December 4, 2000, p. 1Bff.; "Dot-Bombs," *Brandweek,* November 27, 2000, pp. IQ16–IQ20; "Pets.com's Demise: Too Much Litter, Too Few Funds," *The Wall Street Journal,* November 8, 2000, p. B1ff.; "Dot-Coms, What Have We Learned?" *Fortune,* October 30, 2000, pp. 82–137; "Sock Dogma," *Brandweek,* June 5, 2000, pp. IQ28–IQ34; "Shakeout E-Tailers," *Business Week E.Biz,* May 15, 2000, pp. EB102–EB118; "E-Tail Gets Derailed: How Web Upstarts Misjudged the Game," *The Wall Street Journal,* April 5, 2000, p. A1ff.

7. "What Are Price Wars Good For? Absolutely Nothing," *Fortune,* May 12, 1997, p. 156; "Price Wars," *Adweek's Marketing Week,* June 8, 1992, pp. 18–22; "A Remarkable Gamble in an Industry Slump Pays Off Fast for Agco," *The Wall Street Journal,* August 19, 1997, p. A1ff.; "Why the Price Wars Never End," *Fortune,* March 23, 1992, pp. 68–78; "Avis, Sidestepping Price Wars, Focuses on the Drive Itself," *Adweek's Marketing Week,* February 12, 1990, p. 24.

8. "Aluminum Firms Offer Wider Discounts but Price Cuts Stop at Some Distributors," *The Wall Street Journal,* November 16, 1984, p. 50.

9. Michael V. Marn and Robert L. Rosiello, "Managing Price, Gaining Profit," *Harvard Business Review,* September–October 1992, pp. 84–94; Subhash C. Jain and Michael B. Laric, "A Framework for Strategic Industrial Pricing," *Industrial Marketing Management* 8 (1979), pp. 75–80; Peter R. Dickson and Joel E. Urbany, "Retailer Reactions to Competitive Price Changes," *Journal of Retailing,* Spring 1994, pp. 1–22; Mary Karr, "The Case of the Pricing Predicament," *Harvard Business Review,* March–April, 1988, pp. 10–23; Saeed Samiee, "Pricing in Marketing Strategies of U.S. and Foreign-Based Companies," *Journal of Business Research,* February 1987, pp. 17–30; Gerard J. Tellis, "Beyond the Many Faces of Price: An Integration of Pricing Strategies," *Journal of Marketing,* October 1986, pp. 146–60.

10. For more on Priceline, see "Fasten Your Seat Belt!" *Time* Digital, 2001; "Inside Jay Walker's House of Cards," *Fortune,* November 13, 2000, pp. 127–38; "Live Long and Prosper?" *The Wall Street Journal,* October 23, 2000, p. R22ff.; "How Jay Walker Built WebHouse on a Theory that He Couldn't Prove," *The Wall Street Journal,* October 16, 2000, p. 1Aff.; "Letting the Masses Name Their Price," *Business Week E.Biz,* September 18, 2000, p. EB44; "Be Yor Own Barcode," *Time,* July 10, 2000, pp. 96–97; "Name Your Price—for Everything?" *Business Week,* April 17, 2000, pp. 72–78; "The Hype Is Big, Really Big, at Priceline," *Fortune*, September 6, 1999, pp. 193–202. For more on other online travel sites, see "Orbitz Doesn't Soar," *Business Week E.Biz*, July 9, 2001, p. EB8; "Southwest Limits Most Travel Data to Own Web Site," *USA Today*, July 6, 2001, p. 3B; "Your Family May Be Too Big for Orbitz," *USA Today*, June 29, 2001, p. 5D; "Airlines Jettison Incentives for Making Reservations Over the Internet," *The Wall Street Journal,* June 25, 2001, p. B1; "Hotel Reservation Network: Travel Site Enjoys Solid Profits," *Investor's Business Daily*, June 20, 2001, p. A5; "Good Fares Await Travelers Buying Tickets Online," *Investor's Business Daily*, June 12, 2001, p. A8; "Where the Net Delivers: Travel," *Business Week,* June 11, 2001, pp. 142–44; "Southwest Pushes Its Online Booking, Says Internet Rivals Come Up Short," *Brandweek*, June 11, 2001, p. 16; "Orbitz Puts New Spin on Airfares," *USA Today*, June 8, 2001, p. 8D; "Big Airlines Officially Open Online Outlet," *USA Today*, June 4, 2001, p. 1Bff.; "Airlines to Offer Cheap Tickets on the Internet," *The Wall Street Journal,* June 29, 2000, p. B1ff.

11. Stephen P. Bradley, "Ebay, Inc.," *Journal of Interactive Marketing*, Autumn 2000, p. 73; "Ebay Allows Sellers to Set Up 'Storefronts' Online in Bid to Expand Beyond Auctions," *The Wall Street Journal,* June 12, 2001, p. B8; "Corporate Sellers Put the Online Auctioneer on Even Faster Track," *The Wall Street Journal*, June 1, 2001, p. A1ff.; "One Man's Economic Gotterdammerung Is Another's Clearance Sale," *Ecompany*, May 2001, pp. 106–108; "Ebay's Bid to Conquer All," *Time*, February 5, 2001, pp. 48–51; "A Revolution in Pricing? Not Quite," *Business Week,* November 20, 2000, pp. 48–49; "Will Auction Frenzy Cool?" *Business Week E. Biz,* September 18, 2000, p. EB140; "Going, Going, Gone," *Business Week,* April 12, 1999, pp. 30–32; "Good-Bye to Fixed Pricing," *Business Week,* May 4, 1998, pp. 71–84; "One-Price Deals Save Time, Hassles, but Not Money," *USA Today,* March 11, 1998, p. 1Bff; "Airlines Raise Their Class Consciousness," *Business Week,* February 23, 1998, p. 40; "Haggling in Cyberspace Transforms Car Sales," *The Wall Street Journal,* December 30, 1997, p. B1ff.; "Car Hagglers May Still Drive Best Car Deals," *The Wall Street Journal,* October 12, 1994, p. B1ff. See also Eric Matson, "Customizing Prices," *Harvard Business Review*, November–December 1995, pp. 13–14; Sanjay K. Dhar and Stephen J. Hoch, "Price Discrimination Using in-Store Merchandising," *Journal of Marketing*, January 1996, pp. 17–30; Michael H. Morris, "Separate Prices as a Marketing Tool," *Industrial Marketing Management,* May 1987, pp. 79–86; P. Ronald Stephenson, William L. Cron, and Gary L. Frazier, "Delegating Pricing Authority to the Sales Force: The Effects on Sales and Profit Performance," *Journal of Marketing,* Spring 1979, pp. 21–24.

12. For more on Amazon offering different prices to different customers, see "Price? For You, $2; For the Rich Guy, $5," *Investor's Business Daily*, September 29, 2000, p. A8. For more on the Winn-Dixie example, see "Squeezin' the Charmin," *Fortune,* January 16, 1989, pp. 11–12; "Grocers Join Winn-Dixie," *Advertising Age,* November 7, 1988, p. 3; "Grocery Chains Pressure Suppliers for Uniform Prices," *The Wall Street Journal,* October 21, 1988, p. B1.

13. "What's a Fair Price for Drugs?" *Business Week,* April 30, 2001, pp. 105–106; "AIDS Gaffes in Africa Come Back to Haunt Drug Industry at Home," *The Wall Street Journal,* April 23, 2001, p. A1ff.; "Vaccine's Price Drives a Debate about Its Use," *The Wall Street Journal,* February 16, 2000, p. B1ff.; "Price Tag for Schering-Plough Drug Angers Activists," *The Wall Street Journal,* August 24, 1999, p. B6; "AZT Price Cut for Third World Mothers-to-Be," *The Wall Street Journal,* March 5, 1998, p. B1ff.; "Breakthrough in Birth Control May Elude Poor," *The Wall Street Journal,* March 4, 1991, p. B1ff; "Burroughs Wellcome Reaps Profits, Outrage from Its AIDS Drug," *The Wall Street Journal,* September 15, 1989, p. A1ff; Richard A. Spinello, "Ethics, Pricing and the Pharmaceutical Industry," *Journal of Business Ethics,* August 1992, pp. 617–26; Dhruv Grewal and Larry D. Compeau, "Comparative Price Advertising: Informative or Deceptive?" *Journal of Public Policy & Marketing*, Spring 1992, pp. 52–62.

14. "Mobile Warfare," *Time,* May 26, 1997, pp. 52–54; "Motorola Goes for the Hard Cell," *Business Week,* September 23, 1996, p. 39; "Why Motorola Has Nonworking Numbers," *Business Week,* July 22, 1996, p. 39; "Cell-Phone Service May Be Getting Cheaper," *The Wall Street Journal*, January 11, 1996, p. B1ff.; Alan Reynolds, "A Kind Word for 'Cream Skimming,'" *Harvard Business Review,* November–December 1974, pp. 113–20.

15. For more on Palm, see Chapter 10, footnote #1. See also "A Best Seller Gets Better," *Newsweek,* March 16, 1998, p. 79; "Apple Drops Newton, an Idea Ahead of Its Time," *The Wall Street Journal,* March 2, 1998, p. B1ff.; "A Rocket in Its Pocket," *Business Week,* September 9, 1996, pp. 111–14.

16. Check out foreign exchange rates on the World Wide Web: <http://www.imf.org> and <http://www.federal reserve.gov>; "One Dollar Is Worth One Dollar, but That Wasn't Always So," *The Wall Street Journal,* January 13, 1998, p. A1ff.; "The Buck Bites Back," *Newsweek*, May 5, 1997, p. 47; "Luxury Prices for U.S. Goods No Longer Pass Muster in Japan," *The Wall Street Journal,* February 28, 1996, p. B1ff.; Timothy A. Luehrman, "Exchange Rate Changes and the Distribution of Industry Value," *Journal of International Business Studies,* Winter, 1991, pp. 619–50; James K. Weekly, "Pricing in Foreign Markets: Pitfalls and Opportunities," *Industrial Marketing Management,* May 1992, p. 173.

17. "Soap Smugglers Clean Up in Vietnam," *The Wall Street Journal,* April 1, 1998, p. B1ff.

18. "Discounts Follow Dip in Business Travel," *USA Today*, June 21, 2001, p. 1Bff.; "Sailing on Sale: Travelers Ride a Wave of Discounts on Cruise Ships," *The Wall Street Journal,* July 17, 2000, p. B1ff.; "Competing Online, Drugstore Chains Virtually Undersell Themselves," *The Wall Street Journal,* January 10, 2000, p. B1ff.; "Prescription: Cash Only, Some Doctors Offer Discounts," *USA Today*, December 22, 1999, p. 1Bff.; "Printer Wars: Toner Discount Incites Rivals," *The Wall Street Journal,* April 10, 1998, p. B1ff.; "Snaring Cheap Fares on the Internet," *The Wall Street Journal,* October 10, 1997, p. B10; "Ask and It Shall Be Discounted," *Business Week,* October 6, 1997, pp. 116–18; "The Latest Weapon in the Price Wars," *Fortune,* July 7, 1997, p. 200; "Owens Corning: Back from the Dead," *Fortune,* May 26, 1997, pp. 118–26; "Travelers Take Internet Route for Discounts," *USA Today,* January 13, 1997, p. 3B; Douglas D. Davis and Charles A. Holt, "List Prices and Discounts: The Interrelationship Between Consumer Shopping Patterns and Profitable Marketing Strategies," *Psychology & Marketing*, July 1996, pp. 341–63; David W. Arnesen, C. P. Fleenor, and Rex S. Toh, "The Ethical Dimensions of Airline Frequent Flier Programs," *Business Horizons*, January–February 1997, pp. 47–56; K.J. Blois, "Discounts in Business Marketing Management," *Industrial Marketing Management,* April 1994, pp. 93–100; James B. Wilcox et al., "Price Quantity Discounts: Some Implications for Buyers and Sellers," *Journal of Marketing,* July 1987, pp. 60–70; Mark T. Spriggs and John R. Nevin, "The Legal Status of Trade and Functional Price Discounts," *Journal of Public Policy & Marketing,* Spring 1994, pp. 61–75; Judith Waldrop, "The Seasons of Business," *American Demographics,* May 1992, pp. 40–45; "Cash Discounts," *Electrical Wholesaling,* May 1989, pp. 90–96.

19. For more on P&G's everyday low pricing, see "P&G, Others Try New Uses for Coupon-Heavy Media," *Advertising Age,* September 22, 1997, p. 20; "Move to Drop Coupons Puts Procter & Gamble in Sticky PR Situation," *The Wall Street Journal,* April 17, 1997, p. A1ff.; "Zeroing In on Zero Coupons," *Brandweek*, June 3, 1996, pp. 30–36; "Company Makes Big Cuts to Stay Fit," *USA Today,* July 16, 1993, p. 1Bff.; "P&G Plays Pied Piper on Pricing," *Advertising Age,* March 9, 1992, p. 6; Stephen J. Hoch, Xavier Dreze, and Mary E. Purk, "EDLP, Hi-Lo, and Margin Arithmetic," *Journal of Marketing,* October 1994, pp. 16–27; George S. Bobinski, Dena Cox, and Anthony Cox, "Retail 'Sale' Advertising, Perceived Retailer Credibility, and Price Rationale," *Journal of Retailing*, Fall 1996, pp. 291–306; Francis J. Mulhern and Daniel T. Padgett, "The Relationship Between Retail Price Promotions and Regular Price Purchases," *Journal of Marketing*, October 1995, pp. 83–90.

20. Paul N. Bloom, "Slotting Allowances and Fees: Schools of Thought and the Views of Practicing Managers," *Journal of Marketing*, April 2000, pp. 92–109. For an example of company that refuses to pay slotting fees, see "Green Mountain Coffee: Bad Break Room Coffee Stirs Opportunity Here," *Investor's Business Daily*, May 11, 2001, p. A8; "Green Mountain Coffee: Starbucks Proliferation Sweetens Wholesaler," *Investor's Business Daily*, November 1, 2000, p. A12. See also "Clorox Gives In on Glad, Hikes Trade Promotion," *Advertising Age*, November 27, 2000, p. 22; "Beer Makers Frothing over Plan to Charge for Retail Shelf Space," *The Wall Street Journal*, April 22, 1994, p. B1ff.

21. For more on coupons on the Web, see "Penny-Pinchers' Paradise," *Business Week E.Biz*, January 22, 2001, p. EB12; "E-Tailers Missing the Mark with Flood of Web Coupons," *Advertising Age*, September 25, 2000, p. 104. For more on rebates on the Web, see "Free-with-Rebate Costs Web Buyers Some Big Bucks," *The Wall Street Journal*, May 18, 2001, p. B1ff.; "One Web Retailer's Watchword: 'Free after Rebate,'" *The Wall Street Journal*, March 5, 2001, p. B1ff. For more on rebates on green cars, see "How to Get Green Cars on the Road," *Business Week*, November 20, 2000, p. 89; "If You Paid Half Price for That New SUV, You Must Be in Arizona," *The Wall Street Journal*, October 26, 2000, p. A1ff. See also William D. Diamond, "Just What Is a 'Dollar's Worth'? Consumer Reactions to Price Discounts vs. Extra Product Promotions," *Journal of Retailing*, Fall 1992, pp. 254–70; Kenneth A. Hunt and Susan M. Keaveney, "A Process Model of the Effects of Price Promotions on Brand Image," *Psychology & Marketing*, November/December 1994, pp. 511–32; "Coupon Scams Are Clipping Companies," *Business Week*, June 15, 1992, pp. 110–11; "Rebates' Secret Appeal to Manufacturers: Few Consumers Actually Redeem Them," *The Wall Street Journal*, February 10, 1998, p. B1ff.; Peter K. Tat, "Rebate Usage: A Motivational Perspective," *Psychology & Marketing*, January/February 1994, pp. 15–26; Abdul Ali, Marvin A. Jolson, and Rene Y. Darmon, "A Model for Optimizing the Refund Value in Rebate Promotions," *Journal of Business Research*, March 1994, pp. 239–46.

22. "Two-Tier Marketing," *Business Week*, March 17, 1997, pp. 82–90; "Makeup Ads Downplay Glamour for Value," *The Wall Street Journal*, June 20, 1994, p. B5; "Value Pricing Kicks off Model Year," *USA Today*, October 1, 1993, p. 1Bff.; "Value Pricing Comes to Funerals," *USA Today*, July 14, 1993, p. 5B; "Tide, Cheer Join P&G 'Value Pricing' Plan," *Advertising Age*, February 15, 1993, p. 3ff.; "More Stores Switch from Sales to 'Everyday Low Prices,'" *The Wall Street Journal*, November 12, 1992, p. B1ff.; "Value Marketing," *Business Week*, November 11, 1991, pp. 132–40; Louis J. De Rose, "Meet Today's Buying Influences with Value Selling," *Industrial Marketing Management* 20, no. 2 (1991), pp. 87–90.

23. "At What Profit Price?" *Brandweek*, June 23, 1997, pp. 24–28.

24. For an excellent discussion of laws related to pricing, see Louis W. Stern and Thomas L. Eovaldi, *Legal Aspects of Marketing Strategy: Antitrust and Consumer Protection Issues* (Englewood Cliffs, NJ: Prentice-Hall, 1984); Joseph P. Guiltinan and Gregory T. Gundlach, "Aggressive and Predatory Pricing: A Framework for Analysis," *Journal of Marketing*, July 1996, pp. 87–102.

25. For more on dumping, see "Will Kodak Get Lucky in China?" *Business Week*, July 28, 1997, p. 48; "Antidumping Laws Keep Out Goods that Pacts Would Ordinarily Let In," *The Wall Street Journal*, February 26, 1993, p. A11.

26. For more on phony list prices, see Larry D. Compeau, Dhruv Grewal, and Diana S. Grewal, "Adjudicating Claims of Deceptive Advertised Reference Prices: The Use of Empirical Evidence," *Journal of Public Policy & Marketing*, Fall 1994, pp. 312–18; Patrick J. Kaufmann, N. Craig Smith, and Gwendolyn K. Ortmeyer, "Deception in Retailer High-Low Pricing: A 'Rule of Reason' Approach," *Journal of Retailing*, Summer 1994, pp. 115–38.

27. For more on airline pricing, see "Is American-United Rivalry Too Friendly?" *USA Today*, June 27, 2001, p. 1Bff.; "Predatory Pricing: Cleared for Takeoff," *Business Week*, May 14, 2001, p. 50; "American Airlines Secures Antitrust Win," *The Wall Street Journal*, April 30, 2001, p. A3ff.; "Caveat Predator?" *Business Week*, May 22, 2000, pp. 116–18. For more on credit card pricing, see "House of Cards?" *Time*, October 23, 2000, pp. B10–B11; "Breaking Up the Old Card Game," *Business Week*, June 12, 2000, pp. 98–102; "Antitrust Suit Targeting MasterCard and Visa Puts the Pair at Odds," *The Wall Street Journal*, June 12, 2000, p. B1ff.; "Facing Its Own Antitrust Trial, Visa Lashes Out at American Express," *The Wall Street Journal*, May 10, 2000, p. B1ff. For more on CD pricing, see "Prices of CDs Likely to Drop, Thanks to FTC," *The Wall Street Journal*, May 11, 2000, p. B1ff. See also "Online Booksellers Abound in Japan, But Legal Price Fixing Poses Challenge," *The Wall Street Journal*, July 31, 2000, p. B8; "Up Against the Wall, Monopolist," *Business Week*, March 23, 1998, p. 35; "P&G Calls the Cops as It Strives to Expand Sales in Latin America," *The Wall Street Journal*, March 20, 1998, p. A1ff.; "Independent Bookstores Are Suing Borders Group and Barnes & Noble," *The Wall Street Journal*, March 19, 1998, p. B10; "Antitrust Crackdown Frustrates Businesses," *USA Today*, March 12, 1998, p. 1Bff.; "Are Corporate Predators on the Loose," *Business Week*, February 23, 1998, pp. 124–25; "Antitrust Enforcers Drop the Ideology, Focus on Economics," *The Wall Street Journal*, February 27, 1997, p. A1ff.; "The ADM Scandal: Betrayal," *Fortune*, February 3, 1997, pp. 82–91; "Frito-Lay under Snack Attack," *Time*, June 10, 1996, pp. 62–63; "FTC Says Toys "R" Us Competes Unfairly," *The Wall Street Journal*, May 23, 1996, p. A3; "Archer-Daniels Cuts Surprisingly Good Deal in Price-Fixing Suit," *The Wall Street Journal*, April 12, 1996, p. A1ff.; Larry L. Miller, Steven P. Schnaars, and Valerie L. Vaccaro, "The Provocative Practice of Price Signaling: Collusion Versus Cooperation," *Business Horizons*, July–August 1993, pp. 59–65; Mary Jane Sheffet, "The Supreme Court and Predatory Pricing," *Journal of Public Policy & Marketing*, Spring 1994, pp. 163–67; Michael L. Ursic and James G. Helgeson, "Using Price as a Weapon: An Economic and Legal Analysis of Predatory Pricing," *Industrial Marketing Management*, April 1994, pp. 125–32; Robert L. Cutts, "Capitalism In Japan: Cartels and Keiretsu," *Harvard Business Review*, July–August 1992, pp. 48–129; Daniel T. Ostas, "Ethics of Contract Pricing," *Journal of Business Ethics*, February 1992, pp. 137–46; Mary Jane Sheffet and Debra L. Scammon, "Resale Price Maintenance: Is It Safe to Suggest Retail Prices?" *Journal of Marketing*, Fall 1985, pp. 82–91.

28. Richard L. Pinkerton and Deborah J. Kemp, "The Industrial Buyer and the Robinson-Patman Act," *International Journal of Purchasing & Materials Management*, Winter 1996, pp. 29–36.

29. "Is the Cost Defense Workable?" *Journal of Marketing*, January 1965, pp. 37–42; B. J. Linder and Allan H. Savage, "Price Discrimination and Cost Defense—Change Ahead?" *MSU Business Topics*, Summer 1971, pp. 21–26; "Firms Must Prove Injury from Price Bias to Qualify for Damages, High Court Says," *The Wall Street Journal*, May 19, 1981, p. 8.

30. "Booksellers Say Five Publishers Play Favorites," *The Wall Street Journal*, May 27, 1994, p. B1ff.; Joseph P. Vaccaro and Derek W. F. Coward, "Managerial and Legal Implications of Price Haggling: A Sales Manager's Dilemma," *Journal of Personal Selling & Sales Management*, Summer 1993, pp. 79–86; John R. Davidson, "FTC, Robinson-Patman and Cooperative Promotion Activities," *Journal of Marketing*, January 1968, pp. 14–18; L. X. Tarpey, Sr., "Buyer Liability under the Robinson-Patman Act: A Current Appraisal," *Journal of Marketing*, January 1972, pp. 38–42.

Chapter 18

1. For more on Wal-Mart International, see "Wal*Mart International, the Division that Defines the Future," *DSN Retailing Today* (Special Issue), June 2001; "Wal-Mart Gets Aggressive about Brazil," *The Wall Street Journal*, May 25, 2001, p. A8ff.; "Wal-Mart to Add Japan to Global Lineup," *DSN Retailing Today*, January 22, 2001, p. 1ff.; "Wal-Mart de Mexico to Grow Stores by 10%," *DSN Retailing Today*, March 19, 2001, p. 3ff.; "Wal-Mart Fumes at Argentine Legislation," *The Wall Street Journal*, November 28, 2000, p. A23; "Stores Told to Lift Prices in Germany," *The Wall Street Journal*, September 11, 2000, p. A27ff.; "Wal-Mart Girds for Major German Expansion," *The Wall Street Journal*, July 20, 2000, p. A21ff.; "Who's Afraid of Wal-Mart," *Fortune*, June 26, 2000, pp. 186–96; "With ASDA in Tow, Wal-Mart Shakes Up Supermarket World," *Ad*

Age International, February 2000, p. 4; "Wal-Mart's Not-So-Secret British Weapon," *Business Week,* January 24, 2000, p. 132; "As Wal-Mart Invades Europe, Rivals Rush to Match Its Formula," *The Wall Street Journal,* October 6, 1999, p. A1ff.; "For French Retailers, a Weapon against Wal-Mart," *The Wall Street Journal,* September 27, 1999, p. B1ff.; "En Garde, Wal-Mart," *Business Week,* September 13, 1999, pp. 54–55; "French Retailers Create New Wal-Mart Rival," *The Wall Street Journal,* August 31, 1999, p. A14; "Wal-Mart Rocks European Retailing as It Rolls into United Kingdom," *Discount Store News*, July 12, 1999, p. 1ff.; "Watch Out: Here Comes Wal-Mart," *Business Week*, June 28, 1999, pp. 48–49; "Wal-Mart Goes Shopping in Europe," *Fortune*, June 7, 1999, pp. 105–12; "Wal-Mart Ends Speculation with Euro Entry, Acquires German Chain," *Discount Store News,* January 5, 1998, p. 1ff.; "The Wal-Mart Way Sometimes Gets Lost in Translation Overseas," *The Wall Street Journal,* October 8, 1997, p. A1ff.; "Wal-Mart Spoken Here," *Business Week,* June 23, 1997, pp. 138–44; "Wal-Mart International Reshapes the World Retailing Order," *Discount Store News,* January 20, 1997, pp. 21–28. For more on Wal-Mart's Neighborhood Markets, see "Neighborhood Market Redefines Convenience," *DSN Retailing Today*, February 5, 2001, p. 5ff.; "Store Distinctions Blur at Wal-Mart," *Discount Store News*, February 7, 2000, p. 6ff; "Wal-Mart Upgrades Neighborhood Market," *Discount Store News*, November 22, 1999, p. 1ff.; "Wal-Mart's 'Small-Marts' May Make It Biggest Grocer," *The Wall Street Journal,* June 21, 1999, p. B4; "Wal-Mart Goes Express with 'Market' Concept," *Discount Store News*, February 22, 1999, p. 1ff.; "Look Out, Supermarkets—Wal-Mart Is Hungry," *Business Week,* September 14, 1998, pp. 98–100. For more on Wal-Mart on the Web, see "Amazon + Wal-Mart = Win/Win," *Business Week,* March 19, 2001, p. 42; "Walmart.com Purchases Garden.com Content Assets," *DSN Retailing Today*, February 5, 2001, p. 8; "Will Walmart.com Get It Right This Time?" *Business Week,* November 6, 2000, pp. 104–12; "Wal-Mart Launches Web Site a Third Time, This Time Emphasizing Speed and Ease," *The Wall Street Journal,* October 31, 2000, p. B12; "Preparing for Net-Speed, Walmart.com Names CEO," *Discount Store News*, March 20, 2000, p. 1ff.; "A Matchmaker for 'Bricks' and 'Clicks,'" *The Wall Street Journal,* March 13, 2000, p. B1ff.; "Overhauling Its Web Site, Wal-Mart Will Push Toys and Electronics," *The Wall Street Journal,* October 1, 1999, p. B1ff.; "Wal-Mart's Goal: To Reign over Web," *Advertising Age*, July 5, 1999, p. 1ff.; "When Wal-Mart Flexes Its Cybermuscles . . . ," *Business Week,* July 26, 1999, pp. 82–85; "As Web Retailing Surges, Where's Wal-Mart?" *The Wall Street Journal,* May 17, 1999, p. B1ff. For more on Wal-Mart in the U.S., see "Kmart, Wal-Mart Face Off in Price-Cutting Fight," *USA Today*, *USA Today*, June 8, 2001, p. 1B; "How Wal-Mart Transfers Power," *The Wall Street Journal,* March 27, 2001, p. B1ff.; "After Legendary Sprint to the Top, Wal-Mart Finally Hits Speed Bump," *Investor's Business Daily*, March 14, 2001, p. A1; "Super Stores: Land for Plenty," *Raleigh News & Observer*, March 3, 2001, p. 1Dff.; "Wal-Mart Wows with Growth Plan," *DSN Retailing Today*, October 23, 2000, p. 3ff.; "Big Three Redirect Efforts, Let Spoils Go to Regionals, Smaller-Format Chains," *DSN Retailing Today*, August 7, 2000, pp. 31–32; "Wal-Mart 'Imagines' Even Greater Growth," *DSN Retailing Today*, June 19, 2000, p. 1ff.; "Sam Would Be Proud," *Fortune*, April 17, 2000, pp. 130–44; "Wal-Mart Wins Reversal in Trademark Lawsuit," *The Wall Street Journal,* March 23, 2000, p. A3ff.; "Bankers Assail Mint for Deal with Wal-Mart," *The Wall Street Journal,* February 9, 2000, p. B1ff.; "Someday, Lee, This May All Be Yours," *Business Week,* November 15, 1999, pp. 84–92; *2000 Annual Report*, Wal-Mart; "Wal*Mart, Retailer of the Century," *Discount Store News* (Special Issue), October 1999; "Wal-Mart Sets Computer Doctor Centers," *The Wall Street Journal,* September 20, 1999, p. A3; "Power Retailer: Wal-Mart," *Discount Store News*, June 7, 1999, pp. 81–147; "Logistics Whiz Rises at Wal-Mart," *The Wall Street Journal*, March 11, 1999, p. B1ff.; "An Unstoppable Marketing Force," *USA Today*, November 6, 1998, p. 1Bff.; "Wal-Mart's Garth-Quake May Spur Sales," *The Wall Street Journal,* November 2, 1998, p. B1ff. See also Norman W. Hawker, "Wal-Mart and the Divergence of State and Federal Predatory Pricing Law," *Journal of Public Policy & Marketing*, Spring 1996, pp. 141–47. For more on Kmart Bluelight, see "Battle-Tested Rules of Online Retail," *Ecompany*, April 2001; "No Bluelight Special as Kmart Is Forced into Free ISP Field," *Investor's Business Daily*, December 5, 2000, p. A6; "Going for Gold at BlueLight," *Business Week E.Biz*, November 20, 2000, pp. EB43–EB46; "Attention Kmart Bashers," *Fortune*, November 13, 2000, pp. 213–22; "BlueLight, Green Light," *Brandweek*, October 2, 2000, pp. 21–22; "Kmart Gives Green Light to Bluelight Business Model," *DSN Retailing Today*, July 24, 2000, p. 18ff.; "BlueLight.com Aims to Coax Kmart Shoppers Online," *The Wall Street Journal,* June 19, 2000, p. B4; "It's All Net," *Brandweek*, May 1, 2000, pp. IQ18–IQ22. For more on Kmart, see "CEO Rings Up Plan to Restore Kmart," *USA Today*, June 27, 2001, p. 3B; "Turning Up the Intensity on a Storied Turnaround," *DSN Retailing Today*, May 21, 2001, pp. 17–18; "Super K Showcases the Future," *DSN Retailing Today*, May 21, 2001, p. 1ff.; "Kmart's Bright Idea," *Business Week,* April 19, 2001, pp. 50–52; "Kmart Turns to Blue Light to Boost Image," *DSN Retailing Today*, April 16, 2001, p. 1ff.; "Code Blue," *Advertising Age*, April 9, 2001, p. 1ff.; "Kmart: On the Threshold of a New Era," *DSN Retailing Today*, March 5, 2001, pp. 33–68; "Kmart Targets Target as It Taps TBWA for Ads," *Advertising Age*, October 2, 2000, p. 20; "A Kmart Special: Better Service," *Business Week,* September 4, 2000, pp. 80–84; "Kmart's New CEO Outlines Plans for Fast Changes," *The Wall Street Journal,* July 27, 2000, p. B4; "Attention, Kmart Investors: Retailer Is Likely to Be Second Fiddle Awhile," *Investor's Business Daily*, May 2, 2000, p. 1; "Ms. Stewart's Advice for How to Improve Kmart: Ask Martha," *The Wall Street Journal,* May 1, 2000, p. A1ff.; "Power Retailer: Kmart," *Discount Store News*, March 6, 2000, pp. 49–81; "Kmart Food Supply Deal Whets Retailer's Appetite," *Discount Store News*, August 9, 1999, p. 1ff.; "Power Retailer: Kmart," *Discount Store News*, March 22, 1999, pp. 21–71.

2. Marvin A. Jolson, "A Diagrammatic Model for Merchandising Calculations," *Journal of Retailing,* Summer 1975, pp. 3–9; C. Davis Fogg and Kent H. Kohnken, "Price-Cost Planning," *Journal of Marketing,* April 1978, pp. 97–106.

3. "Women Pay More for Haircuts, Dry Cleaning, and Clothing Alterations, a New York City Council Study Shows," *New York Daily News*, September 28, 1996, p. 7; Emerald Yeh and Christine McMurry, "The Cost of the Gender Gap" and "Gender Pricing-Part 1" and "Gender Pricing-Part 2" available from World Wide Web: <http://www.kron.com/nc4/contact4/stories/gender>; "Why Women Pay More," *American Demographics*, April 1996, pp. 40–41; "Women Demand Fair Shear," *U. Magazine,* May 1995, p. 8; "State May Ban Bias in Pricing Hairdos, Wash," *The Wall Street Journal,* May 11, 1994, p. B1ff.

4. "The Little Extras That Count (Up)," *The Wall Street Journal,* July 12, 2001, p. B1ff.; "CEO Rings Up Plan to Restore Kmart," *USA Today*, June 27, 2001, p. 3B; "Battle-Tested Rules of Online Retail," *Ecompany*, April 2001; "The Return of Pricing Power," *Business Week,* May 8, 2000, pp. 50–51; "The Power of Smart Pricing," *Business Week,* April 10, 2000, pp. 160–64. See also Mary L. Hatten, "Don't Get Caught with Your Prices Down: Pricing in Inflationary Times," *Business Horizons,* March 1982, pp. 23–28; Douglas G. Brooks, "Cost Oriented Pricing: A Realistic Solution to a Complicated Problem," *Journal of Marketing,* April 1975, pp. 72–74; Steven M.Shugan, "Retail Product-Line Pricing Strategy When Costs and Products Change," *Journal of Retailing*, Spring 2001, Vol. 77, 1, p. 17.

5. William W. Alberts, "The Experience Curve Doctrine Reconsidered," *Journal of Marketing*, July, 1989, pp. 36–49; G. Dean Kortge et al., "Linking Experience, Product Life Cycle, and Learning Curves: Calculating the Perceived Value Price Range," *Industrial Marketing Management,* July 1994, pp. 221–28.

6. G. Dean Kortge, "Inverted Breakeven Analysis for Profitable Marketing Decisions," *Industrial Marketing Management,* October 1984, pp. 219–24; Thomas L. Powers, "Breakeven Analysis with Semifixed Costs," *Industrial Marketing Management,* February 1987, pp. 35–42.

7. Approaches for estimating price–quantity relationships are reviewed in Kent B. Monroe, *Pricing: Making Profitable Decisions* (New York: McGraw-Hill, 1979). For a specific example see Frank D. Jones, "A

Survey Technique to Measure Demand under Various Pricing Strategies," *Journal of Marketing,* July 1975, pp. 75–77; or Gordon A. Wyner, Lois H. Benedetti, and Bart M. Trapp, "Measuring the Quantity and Mix of Product Demand," *Journal of Marketing,* Winter 1984, pp. 101–9. See also Michael H. Morris and Mary L. Joyce, "How Marketers Evaluate Price Sensitivity," *Industrial Marketing Management,* May, 1988, pp. 169–76.David E. Griffith and Roland T. Rust, "The Price of Competitiveness in Competitive Pricing," *Journal of the Academy of Marketing Science*, Spring 1997, pp. 109–16; Robert J. Dolan, "How Do You Know When the Price Is Right?" *Harvard Business Review*, September 1995–October 1995, pp. 174–83; S. C. Choi, "Price Competition in a Duopoly Common Retailer Channel," *Journal of Retailing*, Summer 1996, pp. 117–35.

8. "Latest Supermarket Special—Gasoline," *The Wall Street Journal,* April 30, 2001, p. B1ff.; "Who Really Needs a Pentium 4?" *Fortune*, January 8, 2001, pp. 217–18; "Extra $75 a Month Helps the Medicine Go Down," *USA Today*, October 30, 2000, p. 1Bff.; "Marriott International: A Hotel That Clicks with Guests," *Business Week E.Biz*, September 18, 2000, p. EB58; "The Paradox of Value," *Brandweek*, June 5, 2000, pp. 40–56; Watts Wacker and Jim Taylor, *The Visionary's Handbook: Nine Paradoxes That Will Shape the Future of Your Business* (HarperCollins, 2000); "Selling Pears at $5 a Pound," *USA Today*, December 3, 1999, p. 1Bff.; "How Low Should They Go?" *The Wall Street Journal,* November 22, 1999, p. R20ff.; "Your Room Costs $250 . . . No! $200 . . . No . . . ," *The Wall Street Journal,* May 5, 1999, p. B1ff. See also Dhruv Grewal, Kent B. Monroe, and R. Krishnan, "The Effects of Price-Comparison Advertising on Buyers' Perceptions of Acquisition Value, Transaction Value, and Behavioral Intentions," *Journal of Marketing*, April 1998, pp. 46–59; John T. Gourville, "Pennies-a-Day: The Effect of Temporal Reframing on Transaction Evaluation," *Journal of Consumer Research*, March 1998, pp. 395–408; Joel E. Urbany, Rosemary Kalapurakal, and Peter R. Dickson, "Price Search in the Retail Grocery Market," *Journal of Marketing*, April 1996, pp. 91–104; Venkatesh Shankar and Lakshman Krishnamurthi, "Relating Price Sensitivity to Retailer Promotional Variables and Pricing Policy: An Empirical Analysis," *Journal of Retailing*, Fall 1996, pp. 249–72; Chakravarthi Narasimhan, Scott A. Neslin, and Subrata K. Sen, "Promotional Elasticities and Category Characteristics," *Journal of Marketing*, April 1996, pp. 17–30; K. Sivakumar and S. P. Raj, "Quality Tier Competition: How Price Change Influences Brand Choice and Category Choice," *Journal of Marketing*, July 1997, pp. 71–84.

9. "Fram Pays Up Now," *Brandweek*, July 20, 1998, pp. 16–17; "New Long-Life Bulbs May Lose Brilliance in a Crowded Market," *The Wall Street Journal,* June 2, 1992, p. B4; Benson P. Shapiro and Barbara P. Jackson, "Industrial Pricing to Meet Customer Needs," *Harvard Business Review,* November–December 1978, pp. 119–27; "The Race to the $10 Light Bulb," *Business Week,* May 19, 1980, p. 124; see also Michael H. Morris and Donald A. Fuller, "Pricing an Industrial Service," *Industrial Marketing Management,* May 1989, pp. 139–46.

10. "Good-Bye to Fixed Pricing?" *Business Week,* May 4, 1998, pp. 71–84.

11. Thomas T. Nagle, *The Strategy and Tactics of Pricing* (Englewood Cliffs, NJ: Prentice-Hall, 2001), pp. 249–55; Hooman Estelami, "The Impact of Research Design on Consumer Price Recall Accuracy: An Integrative Review," *Journal of the Academy of Marketing Science,* Winter 2001, pp. 36–50; Richard A. Briesch, Lakshman Krishnamurthi, Tridib Mazumdar, and S. P. Raj, "A Comparative Analysis of Reference Price Models," *Journal of Consumer Research*, September 1997, pp. 202–14; Tracy A. Suter and Scot Burton, "Believability and Consumer Perceptions of Implausible Reference Prices in Retail Advertisements," *Psychology & Marketing*, January 1996, pp. 37–54; K. N. Rajendran and Gerard J. Tellis, "Contextual and Temporal Components of Reference Price," *Journal of Marketing*, January 1994, pp. 22–34; Abhijit Biswas, Elizabeth J. Wilson, and Jane W. Licata, "Reference Pricing Studies in Marketing: A Synthesis of Research Results," *Journal of Business Research,* July 1993, pp. 239–56; Daniel S. Putler, "Incorporating Reference Price Effects into a Theory of Consumer Choice," *Marketing Science,* Summer 1992, pp. 287–309; Kristina D. Frankenberger and Ruiming Liu, "Does Consumer Knowledge Affect Consumer Responses to Advertised Reference Price Claims?" *Psychology & Marketing,* May/June 1994, pp. 235–52; Tridib Mazumdar and Kent B. Monroe, "Effects of Inter-store and In-store Price Comparison on Price Recall Accuracy and Confidence," *Journal of Retailing,* Spring 1992, pp. 66–89.

12. For an example applied to a high-price item, see "Sale of Mink Coats Strays a Fur Piece from the Expected," *The Wall Street Journal,* March 21, 1980, p. 30.

13. Noel M. Noel and Nessim Hanna, "Benchmarking Consumer Perceptions of Product Quality With Price: An Exploration," *Psychology & Marketing*, September 1996, pp. 591–604; Niraj Dawar and Philip Parker, "Marketing Universals: Consumers' Use of Brand Name, Price, Physical Appearance, and Retailer Reputation As Signals of Product Quality," *Journal of Marketing*, April 1994, pp. 81–95; Tung-Zong Chang and Albert R. Wildt, "Impact of Product Information on the Use of Price As a Quality Cue," *Psychology & Marketing*, January 1996, pp. 55–75; B. P. Shapiro, "The Psychology of Pricing," *Harvard Business Review,* July–August 1968, pp. 14–24; Lutz Hildebrandt, "The Analysis of Price Competition Between Corporate Brands," *International Journal of Research in Marketing*, June 2001, p. 139.

14. Robert M. Schindler and Patrick N. Kirby, "Patterns of Rightmost Digits Used in Advertised Prices: Implications for Nine-Ending Effects," *Journal of Consumer Research*, September 1997, pp. 192–201; Mark Stiving and Russell S. Winer, "An Empirical Analysis of Price Endings With Scanner Data," *Journal of Consumer Research*, June 1997, pp. 57–67; Robert M. Schindler and Alan R. Wiman, "Effects of Odd Pricing on Price Recall," *Journal of Business Research,* November 1989, pp. 165–78.

15. "Keeping the Cachet," *The Wall Street Journal,* April 23, 2001, p. R28; "Luxury Sites Get Scrappy," *The Wall Street Journal,* December 4, 2000, p. B1ff.; "Online Luxury Has Limits," *Business Week E.Biz*, September 18, 2000, p. EB24; "Special Report: Luxury Marketing," *Advertising Age*, August 14, 2000, pp. S1–14; "The Galloping Gourmet Chocolate," *Brandweek*, July 31, 2000, pp. 32–37. See also Rebecca Piirto Heath, "Life on Easy Street," *American Demographics,* April 1997, pp. 33–38; K. M. Monroe and S. Petroshius, "Buyers' Subjective Perceptions of Price: An Update of the Evidence," in *Perspectives in Consumer Behavior,* ed. T. Robertson and H. Kassarjian (Glenview, IL: Scott Foresman, 1981), pp. 43–55; G. Dean Kortge and Patrick A. Okonkwo, "Perceived Value Approach to Pricing," *Industrial Marketing Management,* May 1993, pp. 133–40; Valarie A. Zeithaml, "Consumer Perceptions of Price, Quality, And Value: A Means-End Model and Synthesis of Evidence," *Journal of Marketing,* July 1988, pp. 2–22.

16. "Combatting a Fading Signal," *Brandweek*, November 27, 2000, pp. 37–42; "Why 'Bundling' Its Consumer Services Hasn't Benefited AT&T," *The Wall Street Journal,* October 24, 2000, p. B1ff.; "Soda Marketers Pour Out Fast-Feeding Frenzy of Ads," *Advertising Age*, September 11, 2000, p. 14; "PeoplePC Taps 9-Year-Old to Front $40 Mil Campaign," *Advertising Age*, May 8, 2000, p. 1ff.; Andrea Ovans, "Make a Bundle Bundling," *Harvard Business Review*, November–December 1997, pp. 18–20; Preyas S. Desai and Kannan Srinivasan, "Aggregate Versus Product-Specific Pricing: Implications for Franchise and Traditional Channels," *Journal of Retailing*, Winter 1996, pp. 357–82; Manjit S. Yadav and Kent B. Monroe, "How Buyers Perceive Savings in a Bundle Price: An Examination of a Bundle's Transaction Value," *Journal of Marketing Research,* August 1993, pp. 350–58; Dorothy Paun, "When to Bundle or Unbundle Products," *Industrial Marketing Management*, February 1993, pp. 29–34.

17. Peter E. Connor and Robert K. Hopkins, "Cost Plus What? The Importance of Accurate Profit Calculations in Cost-Plus Agreements," *International Journal of Purchasing & Materials Management*, Spring 1997, pp. 35–40; Daniel T. Ostas, "Ethics of Contract Pricing," *Journal of Business Ethics*, February 1992, pp. 137–46; J. Steve Davis, "Ethical Problems in Competitive Bidding: The Paradyne Case," *Business and Professional Ethics Journal,* 7, no. 2 (1988), pp. 3–26; David T. Levy, "Guaranteed Pricing in Industrial Purchases: Making Use of Markets in Contractual

Relations," *Industrial Marketing Management,* October 1994, pp. 307–14; Akintola Akintoye and Martin Skitmore, "Pricing Approaches in the Construction Industry," *Industrial Marketing Management,* November 1992, pp. 311–18.

Chapter 19

1. Available from World Wide Web: <http://www.allegiance.net>; "Baxter's Big Makeover in Logistics," *Fortune,* July 8, 1996, pp.106C–N.

2. For more on Weyerhaeuser as an example, see "How Fast Can This Baby Go?" *Business Week,* April 10, 2000, pp. 38–40; Garold Lantz, "Clockspeed Winning Industry Control in the Age of Temporary Advantage," *Journal of the Academy of Marketing Science,* Summer 2000, pp. 443–5; Peter R. Dickson, "Dynamic Strategic Thinking," *Journal of the Academy of Marketing Science,* Summer 2001, p. 216–38; "Weblining," *Business Week E.Biz*, April 3, 2000, pp. EB26–EB34; "How an Intranet Opened Up the Door to Profits," *Business Week E.Biz*, July 26, 1999, pp. EB32–EB38. For more on Pillsbury as an example, see "Pillsbury: Saving Dough with NetStat," *Business Week E.Biz*, September 18, 2000, p. EB94; "A Digital Doughboy," *Business Week E.Biz*, April 3, 2000, pp. EB78–EB86. For more on Utz as an example, see "Using the Net to Stay Crisp," *Business Week E.Biz*, April 16, 2001, pp. EB34–EB36. For more on Nestle as an example, see "Nestle: An Elephant Dances," *Business Week E.Biz*, December 11, 2000, pp. EB44–EB48. For more on Webcor as an example, see "Wired at Webcor," *Business Week E.Biz*, November 20, 2000, pp. EB58–EB62. For more on Kaiser as an example, see "Kaiser Takes the Cyber Cure," *Business Week E.Biz*, February 7, 2000, pp. EB80–EB86. For more on Office Depot as an example, see "Empire Builders: Office Depot," *Business Week E.Biz*, May 14, 2001, p. EB28; "Why Office Depot Loves the Net," *Business Week E.Biz*, September 27, 1999, pp. EB66–EB68. For more on Cemex as an example, see "Cemex Unit to Form E-Commerce Portal for Latin America," *The Wall Street Journal,* December 12, 2000, p. A23; "Going Digital? Think First," *Fortune*, November 13, 2000, pp. 190–98; "Cemex Loves Its 'Ants' but Wants More," *The Wall Street Journal,* October 2, 2000, p. A22. See also Kevin Rollins, "Using Information to Speed Execution," *Harvard Business Review*, March–April 1998, p.81; Clayton M. Christensen, "Making Strategy: Learning by Doing," *Harvard Business Review*, November–December 1997, pp. 141–56; Ram Charan, "How Networks Reshape Organizations—For Results," *Harvard Business Review,* September/October 1991, pp. 104–15; William J. Bruns, Jr., and W. Warren McFarlan, "Information Technology Puts Power in Control Systems," *Harvard Business Review,* September–October, 1987, pp. 89–94.

3. Available from World Wide Web: <http://www.hertz.com>; *2000 Annual Report*, Hertz; "How Market Leaders Keep Their Edge," *Fortune,* February 6, 1995, pp. 88–98.

4. Thomas M. Hout and John C. Carter, "Getting It Done: New Roles for Senior Executives," *Harvard Business Review*, November 1995–December 1995, pp. 133–41ff.; Hemant C. Sashittal and David Wilemon, "Marketing Implementation in Small and Midsized Industrial Firms: An Exploratory Study," *Industrial Marketing Management*, January 1996, pp. 67–78; Hemant C. Sashittal and Clint Tankersley, "The Strategic Market Planning-Implementation Interface in Small and Midsized Industrial Firms: An Exploratory Study," *Journal of Marketing Theory & Practice*, Summer 1997, pp. 77–92; Thomas V. Bonoma, "Making Your Marketing Strategy Work," *Harvard Business Review,* March–April 1984, pp. 68–76; Barbara J. Coe, "Key Differentiating Factors and Problems Associated with Implementation of Strategic Market Planning," in *1985 American Marketing Association Educators' Proceedings,* ed. R. F. Lusch et al. (Chicago: American Marketing Association, 1985), pp. 275–81.

5. Available from World Wide Web: <http://www.pillsbury.com>; Available from World Wide Web: <http://www.bettycrocker.com>; "Pillsbury's Telephones Ring with Peeves, Praise," *The Wall Street Journal,* April 20, 1994, p. B1ff.; "'Do Call Us': More Companies Install 1-800 Phone Lines," *The Wall Street Journal,* April 20, 1994, p. B1ff; "Your Pet Iguana Swallowed a Staple? Computerized Help Desk Will Try to Help," *The Wall Street Journal,* November 3, 1993, p. B1ff.

6. The restaurant case is adapted from Marie Gaudard, Roland Coates and Liz Freeman, "Accelerating Improvement," *Quality Progress,* October 1991, pp. 81–88. For more on quality management and control, see "Miller Brewing: Beer with a Good Head on Its Shoulders," *Business Week E.Biz*, September 18, 2000, p. EB64; "How to Bring Out Better Products Faster," *Fortune*, November 23, 1998, pp. 238B–T. See also Roland T. Rust, Anthony J. Zahorik, and Timothy L. Keiningham, "Return on Quality (ROQ): Making Service Quality Financially Accountable," *Journal of Marketing*, April 1995, pp. 58–70; "TQM: More than a Dying Fad?" *Fortune,* October 18, 1993, pp. 66–72; "Quality Control from Mars," *The Wall Street Journal,* January 27, 1992, p. A12; William B. Locander and Daniel J. Goebel, "The Quality Train Is Leaving and Marketers Are Nodding Off in the Club Car," *Journal of Marketing Theory & Practice*, Summer 1996, pp. 1–10; William C. LaFief, "Total Quality Marketing: The Key to Regaining Market Shares," *Journal of the Academy of Marketing Science*, Fall 1996, pp. 377–78; David W. Finn, Julie Baker, Greg W. Marshall, and Roy Anderson, "Total Quality Management and Internal Customers: Measuring Internal Service Quality," *Journal of Marketing Theory & Practice*, Summer 1996, pp. 36–51; Robert F. Hurley, Melissa T. Gropper, and Gianpaolo Roma, "The Role of TQM in Advertising: A Conceptualization and a Framework for Application," *Journal of Marketing Theory & Practice*, Summer 1996, pp. 11–23; Teresa A. Swartz, "Why TQM Fails and What to Do About It," *Journal of the Academy of Marketing Science*, Fall 1996, pp. 380–81; Iris Mohr-Jackson, "Managing a Total Quality Orientation: Factors Affecting Customer Satisfaction," *Industrial Marketing Management*, March 1998, pp. 109–25; Cengiz Haksever, "Total Quality Management in the Small Business Environment," *Business Horizons*, March–April 1996, pp. 33–40; Michael P. Bigwood, "Total Quality Management at Work: Development of an Effective Competitive Analysis Process," *Industrial Marketing Management*, September 1997, pp. 459–66.

7. For examples of empowerment, see "Whole Foods Vs. Wild Oats Markets: A Study in Culture, Vision, Execution," *Investor's Business Daily*, June 29, 2001, p. A1; "Glass Act: How a Window Maker Rebuilt Itself," *Fortune*, November 13, 2000, pp. 384B–V. See also Roland T. Rust, Anthony J. Zahorik, and Timothy L. Keiningham, *Return on Quality* (Chicago: Probus, 1994); Valarie A. Zeithaml, "Service Quality, Profitability, and the Economic Worth of Customers: What We Know and What We Need to Learn," *Journal of the Academy of Marketing Science,* Winter 2000, pp. 67–86; Warren S. Martin and Wendy K. Martin, "The Application of Benchmarking to Marketing," *Journal of Marketing Theory & Practice*, Summer 1996, pp. 52–59; J. J. Cronin and Steven A. Taylor, "SERVPERF Versus SERVQUAL: Reconciling Performance-Based and Perceptions-Minus-Expectations Measurement of Service Quality," *Journal of Marketing*, January 1994, pp. 125–31; Timothy C. Johnston and Molly A. Hewa, "Fixing Service Failures," *Industrial Marketing Management*, September 1997, pp. 467–73; Shirley Taylor, "Waiting for Service: The Relationship Between Delays and Evaluations of Service," *Journal of Marketing*, April 1994, pp. 56–69; Mary J. Bitner, Bernard H. Booms, and Lois A. Mohr, "Critical Service Encounters: The Employee's Viewpoint," *Journal of Marketing*, October 1994, pp. 95–106; G T. M. Hult, "Service Quality: New Directions in Theory and Practice," *Journal of the Academy of Marketing Science*, Summer 1997, pp. 264–65; Scott W. Kelley, Timothy Longfellow, and Jack Malehorn, "Organizational Determinants of Service Employees' Exercise of Routine, Creative, and Deviant Discretion," *Journal of Retailing*, Summer 1996, pp. 135–57; Pierre Filiatrault, Jean Harvey, and Jean-Charles Chebat, "Service Quality and Service Productivity Management Practices," *Industrial Marketing Management*, May 1996, pp. 243–55; Joseph H. Foegen, "Are Managers Losing Control?" *Business Horizons*, March–April 1998, pp. 2–5; Robert Simons, "Control in an Age of Empowerment," *Harvard Business Review*, March 1995–April 1995, pp. 80–88; "Finding, Training & Keeping the Best Service Workers," *Fortune,* October 3, 1994, pp. 110–22; Timothy L. Keiningham, Roland T. Rust, and M. Marshall Weems, "The Bottom Line on Quality," *Financial Executive,* September/October 1994, pp. 50–52.

8. *2000 Annual Report,* Ben & Jerry's; "Ben & Jerry's: Surviving the Big Squeeze," *Food Business,* May 6, 1991, pp. 10–12; "The Peace Pop

Puzzle," *Inc.*, March 1990, p. 25. See also William C. Taylor, "Control in an Age of Chaos," *Harvard Business Review,* November–December 1994, pp. 64–90; Bernard J. Jaworski, Vlasis Stathakopoulos, and H. Shanker Krishnan, "Control Combinations in Marketing: Conceptual Framework and Empirical Evidence," *Journal of Marketing,* January 1993, pp. 57–69; Subhash Sharma and Dale D. Achabal, "STEMCOM: An Analytical Model for Marketing Control," *Journal of Marketing,* Spring 1982, pp. 104–13; Kenneth A. Merchant, "Progressing Toward a Theory of Marketing Control: A Comment," *Journal of Marketing,* July 1988, pp. 40–44.

9. Ed Weymes, "A Different Approach to Retail Sales Analysis," *Business Horizons,* March/April 1982, pp. 66–74; Robert H. Collins, Regan F. Carey, and Rebecca F. Mauritson, "Microcomputer Applications: Maps on a Micro—Applications in Sales and Marketing Management," *Journal of Personal Selling and Sales Management,* November 1987, p. 83ff.

10. "The Numbers Game," *Business Week,* May 14, 2001, pp. 100–110; "Accounting Gets Radical," *Fortune*, April 16, 2001, pp. 184–94; "Kmart's Bright Idea," *Business Week,* April 9, 2001, pp. 50–52; "Manufacturing Masters Its ABCs," *Business Week,* August 7, 2000, p. 86J; Robin Cooper and W. B. Chew, "Control Tomorrow's Costs Through Today's Designs," *Harvard Business Review*, January–February 1996, pp. 88–97; Robin Cooper and Robert S. Kaplan, "Profit Priorities From Activity-Based Costing," *Harvard Business Review,* May/June 1991, pp. 130–37; Douglas M. Lambert and Jay U. Sterling, "What Types of Profitability Reports Do Marketing Managers Receive?" *Industrial Marketing Management*, November, 1987, pp. 295–304; Nigel F. Piercy, "The Marketing Budgeting Process: Marketing Management Implications," *Journal of Marketing,* October 1987, pp. 45–59; Michael J. Sandretto, "What Kind of Cost System Do You Need?" *Harvard Business Review,* January–February 1985, pp. 110–18; Patrick M. Dunne and Harry I. Wolk, "Marketing Cost Analysis: A Modularized Contribution Approach," *Journal of Marketing,* July 1977, pp. 83–94.

11. Technically, a distinction should be made between variable and direct costs, but we will use these terms interchangeably. Similarly, not all costs that are common to several products are fixed costs, and vice versa. But the important point here is to recognize that some costs are fairly easy to allocate, and other costs are not. See Stewart A. Washburn, "Establishing Strategy and Determining Costs in the Pricing Decision," *Business Marketing,* July 1985, pp. 64–78.

12. James T. Rothe, Michael G. Harvey, and Candice E. Jackson, "The Marketing Audit: Five Decades Later," *Journal of Marketing Theory & Practice*, Summer 1997, pp. 1–16; Douglas Brownlie, "The Conduct of Marketing Audits," *Industrial Marketing Management*, January 1996, pp. 11–22; Leonard L. Berry, Jeffrey S. Conant, and A. Parasuraman, "A Framework for Conducting a Services Marketing Audit," *Journal of the Academy of Marketing Science,* Summer 1991, pp. 255–68; John F. Grashof, "Conducting and Using a Marketing Audit," in *Readings in Basic Marketing,* ed. E. J. McCarthy, J. J. Grashof, and A. A. Brogowicz (Homewood, IL: Richard D. Irwin, 1984).

Chapter 20

1. Available from World Wide Web: <http://www.itwinc.com>; "Reinvent Your Company," *Fortune*, June 12, 2000, pp. 99–118; "The Ultimate Nuts and Bolts Company," *Fortune,* July 16, 1990, pp. 70–73.

2. For more on Alien Workshop, see *1998 Annual Report*, Key Corp. See also W. Keith Schilit, "The Globalization of Venture Capital," *Business Horizons,* January–February 1992, pp. 17–23; Nikolaos Tzokas, Michael Saren, and Douglas Brownlie, "Generating Marketing Resources by Means of R&D Activities in High Technology Firms," *Industrial Marketing Management*, July 1997, pp. 331–40; George S. Bobinski and Gabriel G. Ramirez, "Advertising to Investors: The Effect of Financial-Relations Advertising on Stock Volume and Price," *Journal of Advertising*, December 1994, pp. 13–28; Rajendra K. Srivastava, Tasadduq A. Shervani, and Liam Fahey, "Market-Based Assets and Shareholder Value: A Framework for Analysis," *Journal of Marketing*, January 1998, pp. 2–18; Gary Tighe, "From Experience: Securing Sponsors and Funding for New Product Development Projects—The Human Side of Enterprise," *Journal of Product Innovation Management*, January 1998, pp. 75–81; Robert C. Pozen, "Institutional Investors: The Reluctant Activists," *Harvard Business Review,* January–February 1994, p. 140; Michael E. Porter, "Capital Disadvantage: America's Failing Capital Investment System," *Harvard Business Review,* September–October 1992, pp. 65–83; Bill Parks, "Rate of Return—The Poison Apple?" *Business Horizons,* May–June 1993, pp. 55–58.

3. "Home Depot: Beyond Do-It-Yourselfers," *Business Week,* June 30, 1997, pp. 86–89; *1997 Annual Report,* Home Depot.

4. *Sorrell Ridge: Slotting Allowances* (Cambridge, MA: Harvard Business School Press, 1988).

5. Julie H. Hertenstein and Sharon M. McKinnon, "Solving the Puzzle of the Cash Flow Statement," *Business Horizons*, January–February 1997, pp. 69–76; Amar Bhide, "Bootstrap Finance: The Art of Start-Ups," *Harvard Business Review,* November–December 1992, pp. 109–17; Marv Rubinstein, "Effective Industrial Marketing with a Piggy Bank Budget," *Industrial Marketing Management,* August 1992, pp. 203–14; Amar Bhide, "How Entrepreneurs Craft Strategies That Work," *Harvard Business Review,* March–April 1994, pp. 150–63.

6. For more on production flexibility at DaimlerChrysler, see "Amid the Turmoil, a Rare Success at DaimlerChrysler," *Fortune*, January 22, 2001, pp. 112C–O; *1999 Annual Report*, DaimlerChrysler, pp. 10–11. See also David M. Upton, "What Really Makes Factories Flexible?" *Harvard Business Review*, July 1995–August 1995, pp. 74–79ff.; John P. MacDuffie and Susan Helper, "Creating Lean Suppliers: Diffusing Lean Production Through the Supply Chain," *California Management Review*, Summer 1997, pp. 118–51; Robert J. Fisher, Elliot Maltz, and Bernard J. Jaworski, "Enhancing Communication Between Marketing and Engineering: The Moderating Role of Relative Functional Identification," *Journal of Marketing*, July 1997, pp. 54–70; X. M. Song, Mitzi M. Montoya-Weiss, and Jeffrey B. Schmidt, "Antecedents and Consequences of Cross-Functional Cooperation: A Comparison of R&D, Manufacturing, and Marketing Perspectives," *Journal of Product Innovation Management*, January 1997, pp. 35–47; Roger G. Schroeder and Michael J. Pesch, "Focusing the Factory: Eight Lessons," *Business Horizons*, September–October 1994, pp. 76–81; Andrew D. Bartmess, "The Plant Location Puzzle," *Harvard Business Review,* March–April 1994, pp. 20–38; Robert H. Hayes and Gary P. Pisano, "Beyond World-Class: The New Manufacturing Strategy," *Harvard Business Review,* January–February 1994, pp. 77–87; Victoria L. Crittenden, Lorraine R. Gardiner, and Antonie Stam, "Reducing Conflict between Marketing and Manufacturing," *Industrial Marketing Management,* November 1993, pp. 299–310; Paul A. Konijnendijk, "Dependence and Conflict Between Production and Sales," *Industrial Marketing Management,* August 1993, pp. 161–68; Kenneth B. Kahn and John T. Mentzer, "Norms that Distinguish between Marketing and Manufacturing," *Journal of Business Research,* June 1994, pp. 111–18; William B. Wagner, "Establishing Supply Service Strategy for Shortage Situations," *Industrial Marketing Management,* December 1994, pp. 393–402; Roger W. Schmenner, "So You Want to Lower Costs?" *Business Horizons,* July–August 1992, pp. 24–28.

7. "Special Report: Brands in Demand," *Advertising Age,* February 7, 1994, pp. S1–10; "Kellogg to Consumers: Please Bear with Us," *Advertising Age,* March 29, 1993, p. 44; see also J. Mahajan et al., "An Exploratory Investigation of the Interdependence Between Marketing and Operations Functions in Service Firms," *International Journal of Research in Marketing,* January 1994, pp. 1–16.

8. "Sri Lanka Keeps Victoria's Secret," *The Wall Street Journal,* July 13, 1999, p. B1ff.; "Remember When Companies Made Things?" *The Wall Street Journal,* September 18, 1997, p. C1; "'Virtual' Companies Leave the Manufacturing to Others," *The New York Times,* July 17, 1994, Sect. 3, p. 5; "Shaken by a Series of Business Setbacks, Calvin Klein is Redesigning Itself," *The Wall Street Journal,* March 21, 1994, p. B1; "Calvin Klein Inc.: Definitive Pact Is Reached on Sale of Jeans Division," *The Wall Street Journal,* July 15, 1994, p. B4; Ravi Venkatesan, "Strategic Sourcing: To Make or Not To Make," *Harvard Business Review,* November–December 1992, pp. 98–108.

9. L. Scott Flaig, "The 'Virtual Enterprise': Your New Model for Success," *Electronic Business*, March 30, 1992, pp. 153–55; William H. Davidow and Michael S. Malone, *The Virtual Corporation* (New York: Harper Collins, 1992).

10. For more on Dell and the PC Wars, see Chapter 2, footnote #1. Available from World Wide Web: <http://www.dell.com>; "Michael Dell Rocks," *Fortune,* May 11, 1998, pp. 58–70; "No Big Deal: Why Michael Dell Isn't Afraid of The New Compaq," *Fortune*, March 2, 1998, pp. 189–92; "Now Everyone in PCs Wants to Be like Mike," *Fortune*, September 8, 1997, pp. 91–92; "Dell: Built-to-Order Success, Rivals Rush to Imitate Direct Sell," *USA Today,* June 30, 1997, p. 1Bff.

11. Available from World Wide Web: <http://www.baldor.com>; *2000 Annual Report,* Baldor; "Baldor's Success: Made in the U.S.A.," *Fortune,* July 17, 1989, pp. 101–4; see also Jeen-Su Lim and David A. Reid, "Vital Cross-Functional Linkages with Marketing," *Industrial Marketing Management,* May 1992, pp. 159–66.

12. "Brand Me," *On Monthly* (suppl. to *Time*), June 2001, pp. 39–41; "Customizing for the Masses," *Business Week,* March 20, 2000, pp. 130B–F; "Nike Lets You Be a Shoemaker," *USA Today*, November 22, 1999, p. 14B; "P&G Gives Birth to a Web Baby," *Business Week,* September 27, 1999, pp. 87–88; "In 1999, You'll Have It Your Way," *USA Today*, December 29, 1998, p. 3B; "Levi's Plans to Get Personal in Bid to Halt Share Declines," *Advertising Age*, November 9, 1998, p. 3ff.; "Mass Customization," *Fortune*, September 28, 1998, pp. 114–24; "Sale of Modern Music Keyed to Customization," *Inc.,* May 1998, pp. 23–25; "Jeans Made in Heaven: Earthly Fit," *Inc.,* May 1988, p. 24; "Producing Unique Goods—and Headaches," *Inc.,* May 1998, pp. 24–25; "Mass Production Gives Way to Mass Customization," *USA Today,* February 16, 1998, p. 3B; "Give 'Em Exactly What They Want," *Fortune*, November 10, 1997, pp. 283–85; "Have It Your Way," *Inc. Tech,* No. 4, 1997, pp. 56–64. For more on Levi Strauss' custom-fit jeans for women, see "One Writer's Hunt for the Perfect Jeans," *Fortune,* April 17, 1995, p. 30; "Levi Strauss Sizes the Retail Scene," *Advertising Age,* January 23, 1995, p. 4; James H. Gilmore and B Joseph Pine, "The Four Faces of Mass Customization," *Harvard Business Review*, January–February 1997, pp. 91–101; B. Joseph Pine, Bart Victor, and Andrew C. Boynton, "Making Mass Customization Work," *Harvard Business Review,* September–October 1993, pp. 108–21.

13. *Sara Lee: Rapid Response at Hanes Knitware* (Cambridge, MA: Harvard Business School Press, 1993); see also Richard Peisch, "When Outsourcing Goes Awry," *Harvard Business Review*, May–June 1995, pp. 24–37; "A Killing in the Caymans?" *Business Week,* May 11, 1998, pp. 50–54; Stanley E. Fawcett, Linda L. Stanley, and Sheldon R. Smith, "Developing a Logistics Capability to Improve the Performance of International Operations," *Journal of Business Logistics*, 1997, pp. 101–27; P. F. Johnson and Michiel R. Leenders, "Make-or-Buy Alternatives in Plant Disposition Strategies," *International Journal of Purchasing & Materials Management*, Spring 1997, pp. 20–26; Thomas Kiely, "Business Processes: Consider Outsourcing," *Harvard Business Review*, May–June 1997, pp. 11–12; Edward W. Davis, "Global Outsourcing: Have U.S. Managers Thrown the Baby Out with the Bath Water?" *Business Horizons,* July–August 1992, pp. 58–65.

14. For more on Levi Strauss hiring foreign labor, see "Managing by Values," *Business Week,* August 1, 1994, pp. 46–52; "Working for Mr. Clean Jeans," *U.S. News & World Report,* August 2, 1993, pp. 49–50; Martha Nichols, "Third-World Families at Work: Child Labor or Child Care?" *Harvard Business Review,* January–February 1993, pp. 12–23.

15. "The Numbers Game," *Business Week,* May 14, 2001, pp. 100–110; "Accounting Gets Radical," *Fortune*, April 16, 2001, pp. 184–94; "Manufacturing Masters Its ABCs," *Business Week,* August 7, 2000, p. 86J. See also Joseph A. Ness and Thomas G. Cucuzza, "Tapping the Full Potential of ABC," *Harvard Business Review*, July 1995–August 1995, pp. 130–38; Jae K. Shim and Joel G. Siegel, *Modern Cost Management and Analysis* (Hauppauge, NY: Barrons, 1992); John K. Shank and Vijay Govindarajan, *Strategic Cost Management: The New Tool for Competitive Advantage* (New York: The Free Press, 1993); Robin Cooper and Robert S. Kaplan, "Profit Priorities From Activity-Based Costing," *Harvard Business Review,* May/June 1991, pp. 130–37; Douglas M. Lambert and Jay U. Sterling, "What Types of Profitability Reports Do Marketing Managers Receive?" *Industrial Marketing Management,* November, 1987, pp. 295–304.

16. For an example of melding the culture gap between BlueLight and Kmart, see "Going for the Gold at BlueLight," *Business Week E.Biz*, November 20, 2000, pp. EB42–EB46; "Attention Kmart Bashers," *Fortune*, November 13, 2000, pp. 213–22. See also "Creating Incentives Down in Ranks: Marriott Ties Pay to Guest Replies," *Investor's Business Daily*, July 6, 2001, p. A1; "How the Truly Innovative Leaders Get Those (Creative) Sparks Flying," *Investor's Business Daily*, June 22, 2001, p. A1; "A Training Program Should Zero in on What Your Staffers Must Know," *Investor's Business Daily*, June 18, 2001, p. A1; "IBM Uses Education, Skills Training to Fill Gaps, Give Workers Options," *Investor's Business Daily*, May 14, 2001, p. A1; "Don't Let Economy Sap Staff Morale: Duke Energy, Southwest Air Tell How," *Investor's Business Daily*, April 16, 2001, p. A1; "As More Companies End Little Perks, Critics Call Moves Petty, Pointless," *The Wall Street Journal*, January 4, 2001, p. B1ff.; "Want Smarter Employees? Get on the E-Train," *Ecompany*, January/February 2001, pp. 140–46; "If Pat Sajak Were Your CEO," *Fortune*, December 18, 2000, p. 330; "Tapping the Last Big Labor Pool," *Fortune*, September 4, 2000, pp. 326B–V; "Thank-You Is Nice, but This Is Better," *Fortune*, November 22, 1999, p. 370; "The Search for the Young and Gifted," *Business Week,* October 4, 1999, pp. 108–116; "Low-Wage Lessons: How Marriott Keeps Good Help," *Business Week,* November 11, 1996, pp. 108–16; "Hiring Welfare People, Hotel Chain Finds, Is Tough but Rewarding," *The Wall Street Journal,* October 31, 1996, p. A1ff.; Randy Englund, "Human Resource Skills for the Project Manager: The Human Aspects of Project Management, Volume Two," *Journal of Product Innovation Management*, January 1998, pp. 99–100; Patricia W. Meyers, "Organizational Change and Redesign: Ideas and Insights for Improving Performance," *Journal of Product Innovation Management*, March 1997, pp. 144–45; Dave Ulrich, "A New Mandate for Human Resources," *Harvard Business Review*, January–February 1998, pp. 124–34; Vincent A. Mabert and Roger W. Schmenner, "Assessing the Roller Coaster of Downsizing," *Business Horizons*, July–August 1997, pp. 45–53; Myron Glassman and Bruce McAfee, "Integrating the Personnel and Marketing Functions: The Challenge of the 1990s," *Business Horizons,* May–June 1992, pp. 52–59; Madhubalan Viswanathan and Eric M. Olson, "The Implementation of Business Strategies: Implications for the Sales Function," *Journal of Personal Selling & Sales Management,* Winter 1992, pp. 45–58; Jeanie Daniel Duck, "Managing Change: The Art of Balancing," *Harvard Business Review,* November–December 1993, pp. 109–18.

Chapter 21

1. Available from World Wide Web: <http://www.maytag.com>; "Sears to Defend Appliance Business with New Washer," *The Wall Street Journal,* June 25, 2001, p. B4; "Maytag Picks Ralph Hake as Chairman and CEO," *The Wall Street Journal,* June 20, 2001, p. B9; "Maytag to Buy Rival Amana Appliances from Goodman Global for $325 Million," *The Wall Street Journal,* June 6, 2001, p. B6; "Maytag Chairman Ward Resigns after Tenure Lasting 15 Months," *The Wall Street Journal,* November 10, 2000, p. B8; "Maytag Through the Wringer," *Business Week,* September 27, 1999, p. 54; "The Saga of Lloyd Ward," *Business Week,* August 9, 1999, pp. 58–70; "A New Spin on Clothes Washers," *Consumer Reports,* July 1998, pp. 50–54.; "Maytag's Top Officer, Expected to Do Little, Surprises His Board," *The Wall Street Journal,* June 23, 1998, p. A1ff.; "New Spin on an Old Chore: New Front-Loader Is Water-Stingy," *USA Today,* March 25, 1998, p. 1Aff.; "Maytag's Neptune Takes the Market by Storm," *Maytag Merchandiser,* No. 3, 1997; "Product Pampering," *Brandweek,* June 16, 1997, pp. 29–40.

2. Available from World Wide Web: <http://www.cvspro.com>; "From Soda Fountain to Mail-Order Drugs," *The Wall Street Journal,* May 29, 1997, p. B1ff.

3. *2000 Annual Report,* Loctite; "Companies to Watch: Loctite Corporation," *Fortune,* June 19, 1989, p. 148; "Loctite: Home Is Where the Customers Are," *Business Week,* April 13, 1987, p. 63; "Loctite 'Listens' to the Marketplace," in Ronald Alsop and Bill Abrams, *The Wall Street Journal on Marketing* (New York: Dow Jones & Co., 1986), pp. 281–83.

4. "Good Product. Sound Plans. No Sure Thing," *The New York Times*, January 18, 1998, Sect. 3, p. 1ff.; John E. Smallwood, "The Product Life Cycle: A Key to Strategic Marketing Planning," *MSU Business Topics,* Winter 1973, pp. 29–35; Richard F. Savach and Laurence A. Thompson, "Resource Allocation within the Product Life Cycle," *MSU Business Topics,* Autumn 1978, pp. 35–44; Peter F. Kaminski and David R. Rink, "PLC: The Missing Link between Physical Distribution and Marketing Planning," *International Journal of Physical Distribution and Materials Management* 14, no. 6 (1984), pp. 77–92.

5. See most basic statistics textbooks under time series analysis.

6. Checking the accuracy of forecasts is a difficult subject. See John B. Mahaffie, "Why Forecasts Fail," *American Demographics,* March 1995, pp. 34–41; "Don't Be Trapped By Past Success," *Nation's Business,* March 1992, pp. 52–54; Margaret K. Ambry, "States of the Future," *American Demographics,* October 1994, pp. 36–45; Marcus O'Connor, William Remus, and Ken Griggs, "Going Up—Going Down: How Good Are People at Forecasting Trends and Changes in Trends?" *Journal of Forecasting*, May 1997, pp. 165–76; Marshall L. Fisher, Janice H. Hammond, Walter R. Obermeyer, and Ananth Raman, "Making Supply Meet Demand in an Uncertain World," *Harvard Business Review*, May 1994–June 1994, pp. 83–89+; Craig S. Galbraith and Gregory B. Merrill, "The Politics of Forecasting: Managing the Truth," *California Management Review*, Winter 1996, pp. 29–43; Larry D. Compeau, "Forecasting and Market Analysis Techniques: A Practical Approach," *Journal of the Academy of Marketing Science*, Spring 1996, pp. 181–83; Richard H. Evans, "Analyzing the Potential of a New Market," *Industrial Marketing Management,* February 1993, pp. 35–40; Shelby H. McIntyre, Dale D. Achabal, and Christopher M. Miller, "Applying Case-Based Reasoning to Forecasting Retail Sales," *Journal of Retailing,* Winter 1993, pp. 372–98; Paul A. Berbig, John Milewicz, and James E. Golden, "The Do's and Don'ts of Sales Forecasting," *Industrial Marketing Management,* February 1993, pp. 49–58; David L. Kendall and Michael T. French, "Forecasting the Potential for New Industrial Products," *Industrial Marketing Management* 20, no. 3 (1991), pp. 177–84; F. William Barnett, "Four Steps to Forecast Total Market Demand," *Harvard Business Review,* July–August 1988, pp. 28–40; D. M. Georgoff and R. G. Murdick, "Manager's Guide to Forecasting," *Harvard Business Review,* January–February 1986, pp. 110–20. See also "1997 Survey of Buying Power" (Supplement) *Sales & Marketing Management,* 1997, and available from World Wide Web: <http://www.sbponline.com>.

7. Gloria Barczak, "Analysis for Marketing Planning," *Journal of Product Innovation Management*, September 1997, pp. 424–25; William A. Sahlman, "How to Write a Great Business Plan," *Harvard Business Review*, July–August 1997, pp. 98–108; Paul Boughton, "The 1-Day Marketing Plan: Organizing and Completing the Plan That Works," *Journal of the Academy of Marketing Science*, Summer 1996, pp. 275–76; William Sandy, "Avoid the Breakdowns Between Planning and Implementation," *The Journal of Business Strategy,* September/October 1991, pp. 30–33; Michael MacInnis and Louise A. Heslop, "Market Planning in a High-Tech Environment," *Industrial Marketing Management,* May 1990, pp. 107–16; David Strutton, "Marketing Strategies: New Approaches, New Techniques," *Journal of the Academy of Marketing Science*, Summer 1997, pp. 261–62; Rita G. McGrath and Ian C. MacMillan, "Discovery-Driven Planning," *Harvard Business Review*, July 1995–August 1995, pp. 44–54; Jeffrey Elton and Justin Roe, "Bringing Discipline to Project Management," *Harvard Business Review*, March–April 1998, pp. 153–58; Tridib Mazumdar, K Sivakumar, and David Wilemon, "Launching New Products With Cannibalization Potential: An Optimal Timing Framework," *Journal of Marketing Theory & Practice*, Fall 1996, pp. 83–93; Andrew Campbell and Marcus Alexander, "What's Wrong With Strategy?" *Harvard Business Review*, November–December 1997, pp. 42–51; "Marketing Software Review: Project Management Made Easy," *Business Marketing,* February 1989, pp. 20–27.

8. For further discussion on evaluating and selecting alternative plans, see Francis Buttle, "The Marketing Strategy Worksheet—A Practical Planning Tool," *Long Range Planning,* August 1985, pp. 80–88; Douglas A. Schellinck, "Effect of Time on a Marketing Strategy," *Industrial Marketing Management,* April 1983, pp. 83–88; George S. Day and Liam Fahey, "Valuing Market Strategies," *Journal of Marketing,* July 1988, pp. 45–57.

9. Sam C. Okoroafo, "Modes of Entering Foreign Markets," *Industrial Marketing Management* 20, no. 4 (1991), pp. 341–46; Mike Van Horn, "Market-Entry Approaches for the Pacific Rim," *The Journal of Business Strategy,* March/April 1990, pp. 14–19; Refik Culpan, "Export Behavior of Firms: Relevance of Firm Size," *Journal of Business Research,* May, 1989, pp. 207–18; Anthony C. Koh and Robert A. Robicheaux, "Variations in Export Performance Due to Differences in Export Marketing Strategy: Implications for Industrial Marketers," *Journal of Business Research,* November 1988, pp. 249–58; S. Tamer Cavusgil, Shaoming Zou, and G.M. Naidu, "Product and Promotion Adaptation in Export Ventures: An Empirical Investigation," *Journal of International Business Studies*, Third Quarter 1993, pp. 479–506; Camille P. Schuster and Charles D. Bodkin, "Market Segmentation Practices of Exporting Companies," *Industrial Marketing Management,* May 1987, pp. 95–102.

10. Constantine S. Katsikeas and Neil M. Morgan, "Firm-Level Export Performance Assessment: Review, Evaluation, and Development," *Journal of the Academy of Marketing Science*, Fall 2000, pp. 493–512; "For U.S. Marketers, the Russian Front Is No Bowl of 'Vishnyas,'" *Adweek's Marketing Week,* March 5, 1990; "Learning the Exporting Ropes," *Business Marketing,* May 1989, pp. 80–85; "'Papa-Mama' Stores in Japan Wield Power to Hold Back Imports," *The Wall Street Journal,* November 14, 1988, p. A1ff.; Jerry Haar and Marta Ortiz-Buonafina, "The Internationalization Process and Marketing Activities: The Case of Brazilian Export Firms," *Journal of Business Research,* February 1995, pp. 175–82; "U.S. Concerns Trying to Do Business in Japan Face Government, Market, Cultural Barriers," *The Wall Street Journal*, July 8, 1985, p. 16; Robert E. Morgan and Constantine S. Katsikeas, "Exporting Problems of Industrial Manufacturers," *Industrial Marketing Management*, March 1998, pp. 161–76.

11. Masaaki Kotabe, Arvind Sahay, and Preet S. Aulakh, "Emerging Role of Technology Licensing in the Development of Global Product Strategy: Conceptual Framework and Research Propositions," *Journal of Marketing*, January 1996, pp. 73–88; John A. Quelch, "How to Build a Product Licensing Program," *Harvard Business Review,* May–June 1985, p. 186ff.

12. "The Steel Deal That Could Boost Big Blue in Brazil," *Business Week,* May 19, 1986, p. 66. See also Robert Porter Lynch, "Building Alliances to Penetrate European Markets," *The Journal of Business Strategy,* March/April 1990, pp. 4–9; D. Robert Webster, "International Joint Ventures with Pacific Rim Partners," *Business Horizons,* March/April 1989, pp. 65–71; Kenichi Ohmae, "The Global Logic of Strategic Alliances," *Harvard Business Review,* March/April 1989, pp. 143–54.

13. "Top U.S. Companies Move into Russia," *Fortune,* July 31, 1989, pp. 165–71; "When U.S. Joint Ventures with Japan Go Sour," *Business Week,* July 24, 1989, pp. 30–31; Ashish Nanda and Peter J. Williamson, "Use Joint Ventures to Ease the Pain of Restructuring," *Harvard Business Review*, November 1995–December 1995, pp. 119–28; Paul Lawrence and Charalambos Vlachoutsicos, "Joint Ventures in Russia: Put the Locals in Charge," *Harvard Business Review,* January–February 1993, pp. 44–55; F. Kingston Berlew, "The Joint Venture—A Way into Foreign Markets," *Harvard Business Review,* July–August 1984, pp. 48–55.

14. "Place vs. Product: It's Tough to Choose a Management Model," *The Wall Street Journal,* June 27, 2001, p. A1ff.; "Distractions Make Global Manager a Difficult Role," *The Wall Street Journal,* November 21, 2000, p. B1ff.; "How to Project Power Around the World," *The Wall Street Journal,* November 13, 2000, p. A23ff.; "New CEO Preaches Rebellion for P&G's Cult," *The Wall Street Journal,* December 11, 1998,

p. B1ff.; "Young Managers Learn Global Skills," *The Wall Street Journal,* March 31, 1992, p. B1; "As Costs of Overseas Assignments Climb, Firms Select Expatriates More Carefully," *The Wall Street Journal,* January 9, 1992, p. B1ff.; Regina F. Maruca, "The Right Way to Go Global: An Interview With Whirlpool CEO David Whitwam," *Harvard Business Review*, March 1994–April 1994, pp. 134–45; Tevfik Dalgic, "Multinational Companies in United States International Trade: A Statistical and Analytical Sourcebook," *Journal of the Academy of Marketing Science*, Spring 1997, pp. 172–73; Keith Cerny, "Making Local Knowledge Global," *Harvard Business Review*, May–June 1996, pp. 22–26; Chi-fai Chan and Neil B. Holbert, "Whose Empire Is This, Anyway? Reflections on the Empire State of Multi-National Corporations," *Business Horizons,* July–August 1994, pp. 51–54; Syed H. Akhter and Yusuf A. Choudhry, "Forced Withdrawal from a Country Market: Managing Political Risk," *Business Horizons,* May–June 1993, pp. 47–54; M. Krishna Erramilli and C.P. Rao, "Service Firms' International Entry-Mode Choice: A Modified Transaction-Cost Analysis Approach," *Journal of Marketing,* July 1993, pp. 19–38.

Chapter 22

1. Suk-ching Ho, "The Emergence of Consumer Power in China," *Business Horizons*, September–October 1997, pp. 15–21; Matthew B. Myers, "New and Improved: The Story of Mass Marketing in America," *Journal of the Academy of Marketing Science*, Summer 1997, pp. 258–59; "Cranky Consumers Devise Web Sites to Air Complaints," *The Wall Street Journal,* December 26, 1997, p. B1ff.; Terry Clark, "Moving Mountains to Market: Reflections on Restructuring the Russian Economy," *Business Horizons,* March–April 1994, pp. 16–21. See also "From Sour Grapes to Online Whine," *USA Today*, April 7, 2000, p. 1Bff.; "Service with a What?" *Business Week,* September 8, 1997, pp. 130F–H; "Oh, What a Feeling," *Newsweek,* July 28, 1997, p. 51; "Attention, Wal-Mart Shoppers: You Want Fries with That?" *The Wall Street Journal,* July 25, 1997, p. B6; "Buyers Get No Satisfaction," *USA Today,* July 22, 1997, p. 1Bff.; "Little Is Common beyond Gender?" *Insight,* December 10, 1990, pp. 48–49.

2. "British Supermarket Giant Cooks Up Plans to Go Global," *The Wall Street Journal,* July 5, 2001, p. A9; "Levi's Doesn't Fancy Selling with Cukes," *The Wall Street Journal,* April 10, 2001, p. B10; "British Grocer Tesco Thrives Filling Web Orders from Its Stores' Aisles," *The Wall Street Journal,* October 16, 2000, p. B1ff.; "Tesco: A Fresh Approach to Online Groceries," *Business Week E.Biz*, September 18, 2000, p. EB79; "A British E-Grocer Takes on Amazon," *Fortune*, June 12, 2000, pp. 246–55.

3. For more on Webvan, see "After Stock Giveaway, Webvan Executive Sees Diamonds Turn to Glass," *The Wall Street Journal,* July 16, 2001, p. B1ff.; "Traditional Grocers Feel Vindicated by Webvan's Failure," *The Wall Street Journal,* July 11, 2001, p. B4; "On-Line Grocers Still Chewing on Concept of Off-Line Alliances," *DSN Retailing Today*, April 2, 2001, p. 10ff.; "Cash Rich? So?" *Business Week E.Biz*, March 19, 2001, pp. EB52–EB56; "Webvan Gets Food for Thought," *Investor's Business Daily*, February 15, 2001, p. A5; "Will Webvan Ever Find a Better Way to Bring Home the Bacon?" *The Wall Street Journal,* October 2, 2000, p. B1ff.; "Webvan Group: The 21st Century Milkman," *Business Week E.Biz*, September 18, 2000, p. EB82; "Profit Delivery Stalled, Webvan Hits New Roads," *The Wall Street Journal,* July 31, 2000, p. B1ff.; "Webvan Goes Shopping, Adds Homegrocer to Cart," *DSN Retailing Today*, July 10, 2000, p. 2ff.; "Webvan Lugs a Big Dream," *USA Today*, June 27, 2000, p. 1Bff.; "The Jury's Still Out on Online Groceries," *Investor's Business Daily*, June 16, 2000, p. A10; "Webvan Finding Market, But Can Grocer Produce?" *Investor's Business Daily*, May 4, 2000, p. A6; "Webvan Campaign Plays Upon Anti-Grocery Store Sentiment," *Advertising Age*, April 17, 2000, p. 58; "The Milkman Returns—with Much More," *The Wall Street Journal,* December 15, 1999, p. B1ff.; "How Webvan Conquers E-Commerce's Last Mile," *The Wall Street Journal,* December 15, 1999, p. B1ff.; "Can You Sell Groceries Like Books?" *Business Week E.Biz,* July 26, 1999, pp. EB44–EB50; "Grocery Chore No More," *USA Today*, July 21, 1999, p. 1Bff.; "A Hard Sell Online? Guess Again," *Business Week,* July 12, 1999, pp. 142–43; "On-Line Grocery Shopping Heats Up Despite Concern over Big Issues," *Discount Store News*, July 12, 1999, p. 18ff.; "Co-Founder of Borders to Launch Online Megagrocer," *The Wall Street Journal,* April 22, 1999, p. B1ff. See also "Information Gridlock: Fate, Fortune Ride on Flow of Critical Data," *USA Today,* July 2, 1996, p. 1Bff.; Michael B. Mazis, "Marketing and Public Policy: Prospects for the Future," *Journal of Public Policy & Marketing*, Spring 1997, pp. 139–43; Cornelia Droge et al., "The Consumption Culture and Its Critiques: A Framework for Analysis," *Journal of Macromarketing,* Fall 1993, pp. 32–45.

4. *The American Customer Satisfaction Index, 2000*; "Now Are You Satisfied? The 1998 American Customer Satisfaction Index," *Fortune,* February 16, 1998, pp. 161–68; Claes Fornell, Michael D. Johnson, Eugene W. Anderson, Jaesung Cha, and Barbara E. Bryant, "The American Customer Satisfaction Index: Nature, Purpose, and Findings," *Journal of Marketing*, October 1996, pp. 7–18; Eugene W. Anderson, Claes Fornell, and Donald R. Lehmann, "Customer Satisfaction, Market Share, and Profitability: Findings From Sweden," *Journal of Marketing*, July 1994, pp. 53–66; John F. Gaski and Michael J. Etzel, "The Index of Consumer Sentiment Toward Marketing," *Journal of Marketing,* July 1986, pp. 71–81; "The Limits of Customer Satisfaction," *Brandweek,* March 3, 1997, p. 17; Hiram C. Barksdale et al., "A Cross-National Survey of Consumer Attitudes Toward Marketing Practices, Consumerism, and Government Regulations," *Columbia Journal of World Business,* Summer 1982, pp. 71–86; Hiram C. Barksdale and William D. Perreault, Jr., "Can Consumers Be Satisfied?" *MSU Business Topics,* Spring 1980, pp. 19–30.

5. "McDonald's Finds Angry Customers on Its Menu," *The Wall Street Journal,* July 16, 2001, p. A14.

6. Michael Brady, "Improving Your Measurement of Customer Satisfaction: A Guide to Creating, Conducting, Analyzing, and Reporting Customer Satisfaction Measurement Programs," *Journal of the Academy of Marketing Science*, Spring 2000, p. 315; David M. Szymanski, "Customer Satisfaction: A Meta-Analysis of the Empirical Evidence," *Journal of the Academy of Marketing Science,* Winter 2001, pp. 16–36; Janelle Barlow and Claus Moller, *A Complaint Is a Gift: Using Customer Feedback as a Strategic Tool* (2000); "A Satisfied Customer Isn't Enough," *Fortune,* July 21, 1997, pp. 112–13; Theodore P. Stank, Patricia J. Daugherty, and Alexander E. Ellinger, "Voice of the Customer: The Impact on Customer Satisfaction," *International Journal of Purchasing & Materials Management*, Fall 1997, pp. 2–9; Jeffrey G. Blodgett, Donna J. Hill, and Stephen S. Tax, "The Effects of Distributive, Procedural, and Interactional Justice on Postcomplaint Behavior," *Journal of Retailing*, Summer 1997, pp. 185–210; Thorsten Hennig-Thurau and Alexander Klee, "The Impact of Customer Satisfaction and Relationship Quality on Customer Retention: A Critical Reassessment and Model Development," *Psychology & Marketing*, December 1997, pp. 737–64; Scott W. Hansen, Thomas L. Powers, and John E. Swan, "Modeling Industrial Buyer Complaints: Implications for Satisfying and Saving Customers," *Journal of Marketing Theory & Practice*, Fall 1997, pp. 12–22; Paul G. Patterson, Lester W. Johnson, and Richard A. Spreng, "Modeling the Determinants of Customer Satisfaction for Business-to-Business Professional Services," *Journal of the Academy of Marketing Science*, Winter 1997, pp. 4–17; Stanley F. Slater, Eric M. Olson, and Venkateshwar K. Reddy, "Strategy-Based Performance Measurement," *Business Horizons*, July–August 1997, pp. 37–44; Stephen S. Tax, Stephen W. Brown, and Murali Chandrashekaran, "Customer Evaluations of Service Complaint Experiences: Implications for Relationship Marketing," *Journal of Marketing*, April 1998, pp. 60–76; Sunder Narayanan, "Customer Satisfaction Measurement and Management," *Journal of the Academy of Marketing Science*, Summer 1996, pp. 276–77; Mary C. Gilly, William B. Stevenson, and Laura J. Yale, "Dynamics of Complaint Management in the Service Organization," *The Journal of Consumer Affairs,* Winter 1991, pp. 295–322; F. Gouillart and F. Sturdivant, "Spend a Day in the Life of Your Customers," *Harvard Business Review,* January–February 1994, pp. 116–27; Erdener Kaynak, Orsay Kucukemiroglu, and Yavuz Odabasi, "Consumer Complaint Handling in an Advanced Developing Economy: An Empirical Investigation," *Journal of Business Ethics,* November 1992, pp. 813–30; Jagdip Singh, "Industry Characteristics and Consumer Dissatisfaction," *The Journal of Consumer Affairs,* Summer 1991, pp. 19–56; A. Parasuraman, Valarie A. Zeithaml, and Leonard L. Berry, "SERVQUAL:

A Multiple-Item Scale for Measuring Consumer Perceptions of Service Quality," *Journal of Retailing,* Spring 1988, pp. 12–40.

7. Kevin J. Clancy and Robert S. Shulman, *Marketing Myths that are Killing Business: The Cure for Death Wish Marketing* (New York: McGraw-Hill, 1994); Regina E. Herzlinger, "Can Public Trust in Nonprofits and Governments Be Restored?" *Harvard Business Review*, March–April 1996, pp. 97–107; Michael S. Minor, "Relentless: The Japanese Way of Marketing," *Journal of the Academy of Marketing Science*, Spring 1998, pp. 160–61; Charles C. Snow, "Twenty-First-Century Organizations: Implications for a New Marketing Paradigm," *Journal of the Academy of Marketing Science*, Winter 1997, pp. 72–74; Frederick F. Reichheld, "Learning From Customer Defections," *Harvard Business Review*, March–April 1996, pp. 56–61ff. For a classic discussion of the problem and mechanics of measuring the efficiency of marketing, see Reavis Cox, *Distribution in a High-Level Economy* (Englewood Cliffs, NJ: Prentice-Hall, 1965).

8. For more on criticisms of advertising, see Barbara J. Phillips, "In Defense of Advertising: A Social Perspective," *Journal of Business Ethics*, February 1997, pp. 109–18; Charles Trappey, "A Meta-Analysis of Consumer Choice and Subliminal Advertising," *Psychology & Marketing*, August 1996, pp. 517–30; Karl A. Boedecker, Fred W. Morgan, and Linda B. Wright, "The Evolution of First Amendment Protection for Commercial Speech," *Journal of Marketing*, January 1995, pp. 38–47; Thomas C. O Guinn and L. J. Shrum, "The Role of Television in the Construction of Consumer Reality," *Journal of Consumer Research*, March 1997, pp. 278–94; see also Robert B. Archibald, Clyde A. Haulman, and Carlisle E. Moody, Jr., "Quality, Price, Advertising, and Published Quality Ratings," *Journal of Consumer Research,* March 1983, pp. 347–56.

9. Donald F. Dixon, "The Economics of Conspicuous Consumption: Theory and Thought Since 1700," *Journal of Macromarketing*, June 2001, Vol. 21, 1, pp. 101–4; Guliz Ger, "Human Development and Humane Consumption: Well-Being Beyond the 'Good Life,'" *Journal of Public Policy & Marketing*, Spring 1997, pp. 110–25; Ronald P. Hill and Sandi Macan, "Consumer Survival on Welfare With an Emphasis on Medicaid and the Food Stamp Program," *Journal of Public Policy & Marketing*, Spring 1996, pp. 118–27; Dennis J. Cahill, "The Refinement of America: Persons, Houses, Cities," *Journal of Marketing*, October 1994, pp. 121–22; Arnold J. Toynbee, *America and World Revolution* (New York: Oxford University Press, 1966), pp. 144–45. See also John Kenneth Galbraith, *Economics and the Public Purpose* (Boston: Houghton Mifflin, 1973), pp. 144–45 and Russell J. Tomsen, "Take It Away," *Newsweek,* October 7, 1974, p. 21.

10. Thomas O. Jones and W E. Sasser, "Why Satisfied Customers Defect," *Harvard Business Review*, November 1995–December 1995, pp. 88–99; "The Satisfaction Trap," *Harvard Business Review*, March–April 1996, pp. 58–59.

11. Michael J. Barone, Randall L. Rose, Kenneth C. Manning, and Paul W. Miniard, "Another Look at the Impact of Reference Information on Consumer Impressions of Nutrition Information," *Journal of Public Policy & Marketing*, Spring 1996, pp. 55–62; Thomas A. Hemphill, "Legislating Corporate Social Responsibility," *Business Horizons*, March–April 1997, pp. 53–58; Priscilla A. La Barbera and Zeynep Gurhan, "The Role of Materialism, Religiosity, and Demographics in Subjective Well-Being," *Psychology & Marketing*, January 1997, pp. 71–97; Dennis J. Cahill, "Consumption and the World of Goods," *Journal of Marketing*, April 1994, pp. 131–32; Jacqueline K. Eastman, Bill Fredenberger, David Campbell, and Stephen Calvert, "The Relationship Between Status Consumption and Materialism: A Cross-Cultural Comparison of Chinese, Mexican and American Students," *Journal of Marketing Theory & Practice*, Winter 1997, pp. 52–66; James A. Muncy and Jacqueline K. Eastman, "Materialism and Consumer Ethics: An Exploratory Study," *Journal of Business Ethics*, January 1998, pp. 137–45; "Intellectuals Should Re-Examine the Marketplace: It Supports Them, Helps Keep Them Free," *Advertising Age,* January 28, 1963; Donald P. Robin and R. Eric Reidenbach, "Identifying Critical Problems for Mutual Cooperation Between the Public and Private Sectors: A Marketing Perspective," *Journal of the Academy of Marketing Science,* Fall 1986, pp. 1–12.

12. Frederick Webster, *Social Aspects of Marketing* (Englewood Cliffs, NJ: Prentice-Hall, 1974), p. 32; Terrence H. Witkowski, "The Early American Style: A History of Marketing and Consumer Values," *Psychology & Marketing*, March 1998, pp. 125–43.

13. "Can Business Still Save the World?" *Inc.*, April 2001, pp. 58–71; "Apparel Makers Back New Labor Inspection Group," *The Wall Street Journal,* April 10, 2001, p. B1ff.; "The Man Who Sold Silicon Valley on Giving," *Fortune*, November 27, 2000, pp. 182–90; "The Fight Against Latin Poverty," *Business Week,* May 1, 2000, pp. 72–84; "Corporate Charity: Why It's Slowing," *Business Week,* December 18, 2000, pp. 164–66.

14. For more on Aveda, see "From the Amazon to Your Armrest," *The Wall Street Journal,* May 1, 2001, p. B1ff. For other environmental issues, see "It May Be Time to Toss Old Ideas on Recycling," *USA Today*, July 2, 2001, p. 7D; "Battle Breaks Out over Rival Seals for 'Green' Wood," *The Wall Street Journal*, May 23, 2001, p. B1ff.; "As BP Goes Green, the Fur Is Flying," *The Wall Street Journal*, April 16, 2001, p. A10ff.; "Once Is Not Enough," *Business Week,* April 16, 2001, pp. 128B–F; "EarthShell Saw Big Macs and Big Bucks—Got Big Woes," *The Wall Street Journal,* April 10, 2001, p. B2; "Recycling Redefined," *The Wall Street Journal,* March 6, 2001, p. B1ff.; "More Gas-Powered Autos on 'Green' List," *USA Today*, February 9, 2001, p. 3B; "Saving the Earth, One Click at a Time," *American Demographics*, January 2001, pp. 30–33; "Life After Death," *Ecompany*, December 2000, pp. 167–78; "A Terrible Thing to Waste," *Time Digital*, December 2000, pp. 50–53; "Nonprofits—and Landfills—Deluged with Old PCs," *Investor's Business Daily*, November 27, 2000, p. A6; "Conservation: Been There, Doing That," *Business Week,* November 27, 2000, pp. 194F-H; "Where TVs Go When They Die," *The Wall Street Journal*, July 14, 2000, p. B1ff.; "Are Old PCs Poisoning Us?" *Business Week,* June 12, 2000, pp. 78–80; "A Clean Technology Powers Up," *Business Week*, May 8, 2000, pp. 102–105; "It's Not Trendy Being Green," *Advertising Age*, April 10, 2000, p. 16; "Recycler's Nightmare: Beer in Plastic," *The Wall Street Journal,* November 16, 1999, p. B1ff.; "Diesel Vehicles, in Greener Mode, May Stage Comeback," *The Wall Street Journal,* April 9, 1998, p. B4; "As Old Pallets Pile Up, Critics Hammer Them as a New Eco-Menace," *The Wall Street Journal,* April 1, 1998, p. A1ff.; "A Maine Forest Firm Prospers by Earning Eco-Friendly Label," *The Wall Street Journal,* November 26, 1997, p. A1ff.; "When Green Begets Green," *Business Week,* November 10, 1997, pp. 98–104. See also Anil Menon and Ajay Menon, "Enviropreneurial Marketing Strategy: The Emergence of Corporate Environmentalism As Market Strategy," *Journal of Marketing*, January 1997, pp. 51–67; William E. Kilbourne, "Green Advertising: Salvation or Oxymoron?" *Journal of Advertising*, Summer 1995, pp. 7–19.

15. "Coke Finds Its Exclusive School Contracts Aren't So Easily Given Up," *The Wall Street Journal,* June 26, 2001, p. B1ff.; "Web-Filter Data from Schools Put Up for Sale," *The Wall Street Journal*, January 26, 2001, p. B1ff.; "On Many Campuses, Big Brewers Play a Role in New Alcohol Policies," *The Wall Street Journal,* November 2, 2000, p. A1ff.; "Pepsi Hits High Note with Schools," *Advertising Age*, October 9, 2000, p. 30; "If It's Marketing, Can It Also Be Education?" *Fortune*, October 2, 2000, p. 274; "AOL to Announce This Week the Launch of Free Online Service Aimed at Schools," *The Wall Street Journal,* May 16, 2000, p. B6; "Mouse-Trapping the Student Market," *American Demographics*, May 2000, pp. 30–34; "Grad Students Match Wits in Marketing Competition," *The Wall Street Journal,* February 9, 2000, p. S1ff.; "Pitching Saturns to Your Classmates—for Credit," *The Wall Street Journal*, January 31, 2000, p. B1ff.; "Marketers on Campus: A New Bag of Tricks," *The Wall Street Journal,* January 31, 2000, p. B1ff.; "Tobacco Money Sparks a New Fight," *The Wall Street Journal,* December 10, 1999, p. B1ff.; "Schools for Sale," *Advertising Age*, October 25, 1999, pp. 22–26; "Big Cards on Campus," *Business Week,* September 20, 1999, p. 138; "Cola Contracts Lose Fizz in Schools," *USA Today*, August 18, 1999, p. 9D; "Ads in Schools: Lesson in Failure?" *Advertising Age*, June 7, 1999, p. 26; "Classrooms for Sale," *Time*, April 19, 1999, pp. 44–45; "Big Car on Campus?" *Business Week,* August 31, 1998, p. 32; "Are We Selling Our

Students?" *Raleigh News & Observer*, August 2, 1998, p. 25Aff.; "This School Was Sponsored by . . . ," *Parenting,* March 1998, p. 23; "Channel One Taps Principals as Promoters," *The Wall Street Journal,* September 15, 1997, p. B1ff.; "School's Back, and So Are the Marketers," *The Wall Street Journal,* September 15, 1997, p. B1ff.; "Hey Kid, Buy This!" *Business Week,* June 30, 1997, pp. 62–69; "This Class Brought to You by . . . ," *USA Today,* January 3, 1997, p. 3A; "New Ad Vehicles: Police Car, School Bus, Garbage Truck," *The Wall Street Journal,* February 20, 1996, p. B1ff.; "A Lesson in Sample Arithmetic," *Advertising Age,* January 2, 1995, p. 22; "Companies Teach All Sorts of Lessons with Educational Tools They Give Away," *The Wall Street Journal,* April 19, 1994, p. B1ff.

16. For more on online fraud, see "Credit-Card Scams Bedevil E-Stores," *The Wall Street Journal,* September 19, 2000, p. B1ff.; "Fraud on the Internet," *Business Week E.Biz*, April 3, 2000, pp. EB58–EB64; "Online Scambusters," *Business Week E.Biz*, April 3, 2000, p. EB66; "Card Sharps," *Business Week E.Biz*, April 3, 2000, pp. EB68–EB76. For more on in-store fraud, see "Stores Battle Employee Theft," *Raleigh News & Observer*, October 15, 2000, p. 1Eff.; "As Thievery by Insiders Overtakes Shoplifting, Retailers Crack Down," *The Wall Street Journal,* September 8, 2000, p. A1ff.; "Electronic Tags Are Beeping Everywhere," *The Wall Street Journal,* April 20, 1998, p. B1ff.; "A Time to Steal," *Brandweek,* February 16, 1998, p. 24; Scott Dawson, "Consumer Responses to Electronic Article Surveillance Alarms," *Journal of Retailing,* Fall 1993, pp. 353–62.

17. For more on socially responsible and ethical behavior, see W. P. Cunningham, "The Golden Rule As Universal Ethical Norm," *Journal of Business Ethics*, January 1998, pp. 105–09; 'Ethnic Pricing' Means Unfair Air Fares," *The Wall Street Journal,* December 5, 1997, p. B1ff.; William P. Cordeiro, "Suggested Management Responses to Ethical Issues Raised by Technological Change," *Journal of Business Ethics*, September 1997, pp. 1393–400; Eli P. I. Cox, Michael S. Wogalter, Sara L. Stokes, and Elizabeth J. T. Murff, "Do Product Warnings Increase Safe Behavior? A Meta-Analysis," *Journal of Public Policy & Marketing*, Fall 1997, pp. 195–204; "On the Net, Anything Goes," *Newsweek,* July 7, 1997, pp. 28–30; "'Levi's As Ye Sew, So Shall Ye Reap," *Fortune,* May 12, 1997, pp. 104–16; "48% of Workers Admit to Unethical or Illegal Acts," *USA Today,* April 4, 1997, p. 1Aff.; H. R. Dodge, Elizabeth A. Edwards, and Sam Fullerton, "Consumer Transgressions in the Marketplace: Consumers' Perspectives," *Psychology & Marketing*, December 1996, pp. 821–35; David W. Stewart, "Internet Marketing, Business Models, and Public Policy," *Journal of Public Policy & Marketing*, Fall 2000, pp. 287–297; Albert A. Foer, "E-commerce Meets Antitrust: A Primer," *Journal of Public Policy & Marketing*, Spring 2001, pp. 51–64; "Ethics for Hire," *Business Week,* July 15, 1996, pp. 26–28; "How a Drug Firm Paid for University Study, Then Undermined It," *The Wall Street Journal,* April 25, 1996, p. A1ff.; James A. Roberts, "Will the Real Socially Responsible Consumer Please Step Forward?" *Business Horizons*, January–February 1996, pp. 79–83; John Priddle, "Marketing Ethics, Macromarketing, and the Managerial Perspective Reconsidered," *Journal of Macromarketing,* Fall 1994, pp. 47–62; Bernard Avishai, "What is Business's Social Compact?" *Harvard Business Review,* January–February 1994, pp. 38–49; Paul N. Bloom, George R. Milne, and Robert Adler, "Avoiding Misuse of New Information Technologies: Legal and Societal Considerations," *Journal of Marketing*, January 1994, pp. 98–110; James A. Muncy and Scott J. Vitell, "Consumer Ethics: An Investigation of the Ethical Beliefs of the Final Consumer," *Journal of Business Research,* June 1992, pp. 297–312; Gene R. Laczniak and Patrick E. Murphy, "Fostering Ethical Marketing Decisions," *Journal of Business Ethics,* April 1991, pp. 259–72.

18. For more on privacy, see Chapter 14, footnote #11. See also "Internet Insecurity," *Time*, July 2, 2001, pp. 44–50; "Mixed Signals," *American Demographics*, July 2001, pp. 44–49; "Swap Meet," *American Demographics*, July 2001, pp. 50–57; "Technology . . . Privacy," *The Wall Street Journal Reports,* June 25, 2001, p. R17; "What's Ahead for Cellular Phones," *The Wall Street Journal Reports,* June 25, 2001, p. R8ff.; "Why Privacy Notices Are a Sham," *Business Week,* June 18, 2001, pp. 82–83; "Marketing Gurus Clash on Internet Privacy Rules," *USA Today*, April 27, 2001, p. 1Bff.; "Silicon Valley's Open Secrets," *The Wall Street Journal,* April 27, 2001, p. B1ff.; "You've Got Mail (You Don't Want)," *The Wall Street Journal,* April 23, 2001, p. R21; "I'm Not Paranoid, But . . . ," *Business Week E.Biz*, April 16, 2001, p. EB38; "If the FBI Hopes to Get the Goods on You, It May Ask ChoicePoint," *The Wall Street Journal,* April 13, 2001, p. A1ff.; "Privacy Options Are a Blur," *USA Today*, April 10, 2001, p. 3D; "To Annoyance of Cellphone Users, Text Messages May Well Be Spam," *The Wall Street Journal,* March 28, 2001, p. B1ff.; "Microsoft's Web Effort Raises Questions," *The Wall Street Journal,* March 23, 2001, p. B5; "The Battle Over Web Privacy," *The Wall Street Journal,* March 21, 2001, p. B1ff.; "Private Matters," *The Wall Street Journal,* February 12, 2001, p. R24ff.; "Network Solutions Sells Marketers Its Web Database," *The Wall Street Journal,* February 16, 2001, p. B1ff.; "Wireless, with Strings Attached," *USA Today*, February 7, 2001, p. 1Dff.; "Continental Air Loses Some Accounts after Data-Disclosure Demand," *The Wall Street Journal,* February 6, 2001, p. B1ff.; "The Secret (Server) Service," *Brandweek*, January 1, 2001, pp. IQ31–32; "Who's Prying Now," *Business Week E.Biz*, December 11, 2000, p. EB80; "Someone to Watch over You," *The Wall Street Journal,* December 11, 2000, p. R8; "You're Being Followed (This Is Not News)," *Ecompany*, December 2000, pp. 63–64; "Chances Are, Somebody's Watching You," *USA Today*, November 30, 2000, p. 1Aff.; "It's Not Big Brother Invading Kids' Privacy, It's Mom and Dad," *The Wall Street Journal,* November 6, 2000, p. A1ff.; "TrustUs.com," *American Demographics*, November 2000, p. 47; "You Have No Secrets," *The Wall Street Journal,* October 23, 2000, p. R32; "Big Brother Calling," *Business Week,* September 25, 2000, pp. 92–98; "Freedom Software Lets You Get Some Privacy while Surfing the Web," *The Wall Street Journal,* August 10, 2000, p. B1; "Keep Away from My Cookies, More Marketers Say," *The Wall Street Journal,* March 20, 2000, p. B1ff.; "It's Time for Rules in Wonderland," *Business Week,* March 20, 2000, pp. 82–96; "Targeted Ads: Consumer Trap or a Net Necessity?" *USA Today*, February 25, 2000, p. 1Bff.; "Privacy: Outrage on the Web," *Business Week,* February 14, 2000, pp. 38–40; "We'll Be Watching You," *The Wall Street Journal,* January 1, 2000, p. R26; "A Secret Cat-and-Mouse Game Online," *The Wall Street Journal,* October 13, 1999, p. B1ff.; "The New Gatekeepers," *American Demographics*, June 1999, pp. 41–42; "Special Report: Privacy," *Business Week,* April 5, 1999, pp. 84–90.; "Knowing You All Too Well," *Newsweek*, March 29, 1999, pp. 48–50; Ellen R. Foxman and Paula Kilcoyne, "Information Technology, Marketing Practice, and Consumer Privacy: Ethical Issues," *Journal of Public Policy & Marketing,* Spring 1993, pp. 106–19; Robert E. Thomas and Virginia G. Maurer, "Database Marketing Practice: Protecting Consumer Privacy," *Journal of Public Policy & Marketing*, Spring 1997, pp. 147–55; Marren J. Roy, "Regulation of Automatic Dialing and Announcing Devices Upheld," *Journal of the Academy of Marketing Science*, Summer 1997, pp. 269–70.

Glossary

Accessories Short-lived capital items—tools and equipment used in production or office activities.

Accumulating Collecting products from many small producers.

Administered channel systems Various channel members informally agree to cooperate with each other.

Administered prices Consciously set prices aimed at reaching the firm's objectives.

Adoption curve Shows when different groups accept ideas.

Adoption process The steps individuals go through on the way to accepting or rejecting a new idea.

Advertising Any *paid* form of nonpersonal presentation of ideas, goods, or services by an identified sponsor.

Advertising agencies Specialists in planning and handling mass-selling details for advertisers.

Advertising allowances Price reductions to firms in the channel to encourage them to advertise or otherwise promote the firm's products locally.

Advertising managers Managers of their company's mass-selling effort in television, newspapers, magazines, and other media.

Agent middlemen Wholesalers who do not own (take title to) the products they sell.

AIDA model Consists of four promotion jobs: (1) to get *Attention*, (2) to hold *Interest*, (3) to arouse *Desire*, and (4) to obtain *Action*.

Allowance (accounting term) Occurs when a customer is not satisfied with a purchase for some reason and the seller gives a price reduction on the original invoice (bill), but the customer keeps the goods or services.

Allowances Reductions in price given to final consumers, customers, or channel members for doing something or accepting less of something.

Assorting Putting together a variety of products to give a target market what it wants.

Attitude A person's point of view toward something.

Auction companies Agent middlemen who provide a place where buyers and sellers can come together and complete a transaction.

Automatic vending Selling and delivering products through vending machines.

Average cost (per unit) The total cost divided by the related quantity.

Average-cost pricing Adding a reasonable markup to the average cost of a product.

Average fixed cost (per unit) The total fixed cost divided by the related quantity.

Average variable cost (per unit) The total variable cost divided by the related quantity.

Bait pricing Setting some very low prices to attract customers but trying to sell more expensive models or brands once the customer is in the store.

Balance sheet An accounting statement that shows a company's assets, liabilities, and net worth.

Basic list prices The prices that final customers or users are normally asked to pay for products.

Basic sales tasks *Order-getting*, *order-taking*, and *supporting*.

Battle of the brands The competition between dealer brands and manufacturer brands.

Belief A person's opinion about something.

Benchmarking Picking a basis of comparison for evaluating how well a job is being done.

Bid pricing Offering a specific price for each possible job rather than setting a price that applies for all customers.

Birthrate The number of babies per 1,000 people.

Brand equity The value of a brand's overall strength in the market.

Brand familiarity How well customers recognize and accept a company's brand.

Brand insistence Customers insist on a firm's branded product and are willing to search for it.

Brand managers Manage specific products, often taking over the jobs formerly handled by an advertising manager—sometimes called product managers.

Brand name A word, letter, or a group of words or letters.

Brand nonrecognition Final customers don't recognize a brand at all—even though middlemen may use the brand name for identification and inventory control.

Brand preference Target customers usually choose the brand over other brands, perhaps because of habit or favorable past experience.

Brand recognition Customers remember the brand.

Brand rejection Potential customers won't buy a brand—unless its image is changed.

Branding The use of a name, term, symbol, or design—or a combination of these—to identify a product.

Break-even analysis An approach to determine whether the firm will be able to break even—that is, cover all its costs—with a particular price.

Break-even point (BEP) The sales quantity where the firm's total cost will just equal its total revenue.

Breakthrough opportunities Opportunities that help innovators develop hard-to-copy marketing strategies that will be very profitable for a long time.

Brokers Agent middlemen who specialize in bringing buyers and sellers together.

Bulk-breaking Dividing larger quantities into smaller quantities as products get closer to the final market.

Business and organizational customers Any buyers who buy for resale or to produce other goods and services.

Business products Products meant for use in producing other products.

Buying center All the people who participate in or influence a purchase.

Buying function Looking for and evaluating goods and services.

Capital The money invested in a firm.

Capital item A long-lasting product that can be used and depreciated for many years.

Cash-and-carry wholesalers Like service wholesalers, except that the customer must pay cash.

Cash discounts Reductions in the price to encourage buyers to pay their bills quickly.

Cash flow statement A financial report that forecasts how much cash will be available after paying expenses.

Catalog showroom retailers Stores that sell several lines out of a catalog and display showroom with backup inventories.

Catalog wholesalers Sell out of catalogs that may be distributed widely to smaller industrial customers or retailers who might not be called on by other middlemen.

Central markets Convenient places where buyers and sellers can meet one-on-one to exchange goods and services.

Chain of supply The complete set of firms and facilities and logistics activities that are involved in procuring materials, transforming them into intermediate and finished products, and distributing them to customers.

Channel captain A manager who helps direct the activities of a whole channel and tries to avoid, or solve, channel conflicts.

Channel of distribution Any series of firms or individuals who participate in the flow of products from producer to final user or consumer.

Close The salesperson's request for an order.

Clustering techniques Approaches used to try to find similar patterns within sets of data.

Combination export manager A blend of manufacturers' agent and selling agent—handling the entire export function for several producers of similar but noncompeting lines.

Combined target market approach Combining two or more submarkets into one larger target market as a basis for one strategy.

Combiners Firms that try to increase the size of their target markets by combining two or more segments.

Communication process A source trying to reach a receiver with a message.

Comparative advertising Advertising that makes specific brand comparisons using actual product names.

Competitive advantage A firm has a marketing mix that the target market sees as better than a competitor's mix.

Competitive advertising Advertising that tries to develop selective demand for a specific brand rather than a product category.

Competitive barriers The conditions that may make it difficult, or even impossible, for a firm to compete in a market.

Competitive bids Terms of sale offered by different suppliers in response to the buyer's purchase specifications.

Competitive environment The number and types of competitors the marketing manager must face, and how they may behave.

Competitive rivals A firm's closest competitors.

Competitor analysis An organized approach for evaluating the strengths and weaknesses of current or potential competitors' marketing strategies.

Complementary product pricing Setting prices on several related products as a group.

Components Processed expense items that become part of a finished product.

Concept testing Getting reactions from customers about how well a new product idea fits their needs.

Confidence intervals The range on either side of an estimate from a sample that is likely to contain the true value for the whole population.

Consultative selling approach A type of sales presentation in which the salesperson develops a good understanding of the individual customer's needs before trying to close the sale.

Consumer panel A group of consumers who provide information on a continuing basis.

Consumer Product Safety Act A 1972 law that set up the Consumer Product Safety Commission to encourage more awareness of safety in product design and better quality control.

Consumer products Products meant for the final consumer.

Consumer surplus The difference to consumers between the value of a purchase and the price they pay.

Consumerism A social movement that seeks to increase the rights and powers of consumers.

Containerization Grouping individual items into an economical shipping quantity and sealing them in protective containers for transit to the final destination.

Continuous improvement A commitment to constantly make things better one step at a time.

Contract manufacturing Turning over production to others while retaining the marketing process.

Contractual channel systems Various channel members agree by contract to cooperate with each other.

Contribution-margin approach A cost analysis approach in which all costs are not allocated in *all* situations.

Control The feedback process that helps the marketing manager learn (1) how ongoing plans and implementation are working and (2) how to plan for the future.

Convenience (food) stores A convenience-oriented variation of the conventional limited-line food stores.

Convenience products Products a consumer needs but isn't willing to spend much time or effort shopping for.

Cooperative advertising Middlemen and producers sharing in the cost of ads.

Cooperative chains Retailer-sponsored groups, formed by independent retailers, to run their own buying organizations and conduct joint promotion efforts.

Copy thrust What the words and illustrations of an ad should communicate.

Corporate chain A firm that owns and manages more than one store—and often it's many.

Corporate channel systems Corporate ownership all along the channel.

Corrective advertising Ads to correct deceptive advertising.

Cost of sales Total value (at cost) of the sales during the period.

Countertrade A special type of bartering in which products from one country are traded for products from another country.

Cues Products, signs, ads, and other stimuli in the environment.

Cultural and social environment Affects how and why people live and behave as they do.

Culture The whole set of beliefs, attitudes, and ways of doing things of a reasonably homogeneous set of people.

Cumulative quantity discounts Reductions in price for larger purchases over a given period, such as a year.

Customer relationship management (CRM) An approach where the seller fine-tunes the marketing effort with information from a detailed customer database.

Customer satisfaction The extent to which a firm fulfills a consumer's needs, desires, and expectations.

Customer service level How rapidly and dependably a firm can deliver what customers want.

Customer value The difference between the benefits a customer sees from a market offering and the costs of obtaining those benefits.

Data warehouse A place where databases are stored so that they are available when needed.

Dealer brands Brands created by middlemen—sometimes referred to as private brands.

Debt financing Borrowing money based on a promise to repay the loan, usually within a fixed time period and with a specific interest charge.

Decision support system (DSS) A computer program that makes it easy for marketing managers to get and use information *as they are making decisions*.

Decoding The receiver in the communication process translating the message.

Demand-backward pricing Setting an acceptable final consumer price and working backward to what a producer can charge.

Demand curve A graph of the relationship between price and quantity demanded in a market—assuming all other things stay the same.

Department stores Larger stores that are organized into many separate departments and offer many product lines.

Derived demand Demand for business products derives from the demand for final consumer products.

Determining dimensions The dimensions that actually affect the customer's purchase of a *specific* product or brand in a *product-market*.

Differentiation The marketing mix is distinct from and better than what's available from a competitor.

Direct marketing Direct communication between a seller and an individual customer using a promotion method other than face-to-face personal selling.

Direct type advertising Competitive advertising that aims for immediate buying action.

Discount houses Stores that sell hard goods (cameras, TVs, appliances) at substantial price cuts to customers who go to discounter's low-rent store, pay cash, and take care of any service or repair problems themselves.

Discounts Reductions from list price given by a seller to buyers, who either give up some marketing function or provide the function themselves.

Discrepancy of assortment The difference between the lines a typical producer makes and the assortment final consumers or users want.

Discrepancy of quantity The difference between the quantity of products it is economical for a producer to make and the quantity final users or consumers normally want.

Discretionary income What is left of disposable income after paying for necessities.

Disposable income Income that is left after taxes.

Dissonance Tension caused by uncertainty about the rightness of a decision.

Distribution center A special kind of warehouse designed to speed the flow of goods and avoid unnecessary storing costs.

Diversification Moving into totally different lines of business—perhaps entirely unfamiliar products, markets, or even levels in the production-marketing system.

Door-to-door selling Going directly to the consumer's home.

Drive A strong stimulus that encourages action to reduce a need.

Drop-shippers Wholesalers who own (take title to) the products they sell but do not actually handle, stock, or deliver them.

Dual distribution When a producer uses several competing channels to reach the same target market—perhaps using several middlemen in addition to selling directly.

Dumping Pricing a product sold in a foreign market below the cost of producing it or at a price lower than in its domestic market.

Early adopters The second group in the adoption curve to adopt a new product; these people are usually well respected by their peers and often are opinion leaders.

Early majority A group in the adoption curve that avoids risk and waits to consider a new idea until many early adopters try it and like it.

E-commerce Exchanges between individuals or organizations—and activities that facilitate those exchanges—based on applications of information technology.

Economic and technological environment Affects the way firms, and the whole economy, use resources.

Economic buyers People who know all the facts and logically compare choices in terms of cost and value received—to get the greatest satisfaction from spending their time and money.

Economic needs Needs concerned with making the best use of a consumer's time and money—as the consumer judges it.

Economic system The way an economy organizes to use scarce resources to produce goods and services and distribute them for consumption by various people and groups in the society.

Economies of scale As a company produces larger numbers of a particular product, the cost for each of these products goes down.

Elastic demand If prices are dropped, the quantity demanded will stretch enough to increase total revenue.

Elastic supply The quantity supplied does stretch more if the price is raised.

Electronic data interchange (EDI) An approach that puts information in a standardized format easily shared between different computer systems.

Emergency products Products that are purchased immediately when the need is great.

Empowerment Giving employees the authority to correct a problem without first checking with management.

Empty nesters People whose children are grown and who are now able to spend their money in other ways.

Encoding The source in the communication process deciding what it wants to say and translating it into words or symbols that will have the same meaning to the receiver.

Equilibrium point The quantity and the price sellers are willing to offer are equal to the quantity and price that buyers are willing to accept.

Everyday low pricing Setting a low list price rather than relying on a high list price that frequently changes with various discounts or allowances.

Exclusive distribution Selling through only one middleman in a particular geographic area.

Expectation An outcome or event that a person anticipates or looks forward to.

Expense item A product whose total cost is treated as a business expense in the period it's purchased.

Expenses All the remaining costs that are subtracted from the gross margin to get the net profit.

Experience curve pricing Average-cost pricing using an estimate of *future* average costs.

Experimental method A research approach in which researchers compare the responses of two or more groups that are similar except on the characteristic being tested.

Export agents Manufacturers' agents who specialize in export trade.

Export brokers Brokers who specialize in bringing together buyers and sellers from different countries.

Exporting Selling some of what the firm produces to foreign markets.

Extensive problem solving The type of problem solving consumers use for a completely new or important need—when they put much effort into deciding how to satisfy it.

Facilitators Firms that provide one or more of the marketing functions other than buying or selling.

Factor A variable that shows the relation of some other variable to the item being forecast.

Factor method An approach to forecast sales by finding a relation between the company's sales and some other factor (or factors).

Fad An idea that is fashionable only to certain groups who are enthusiastic about it—but these groups are so fickle that a fad is even more short-lived than a regular fashion.

Family brand A brand name that is used for several products.

Farm products Products grown by farmers, such as oranges, wheat, sugar cane, cattle, poultry, eggs, and milk.

Fashion Currently accepted or popular style.

Federal Fair Packaging and Labeling Act A 1966 law requiring that consumer goods be clearly labeled in easy-to-understand terms.

Federal Trade Commission (FTC) Federal government agency that polices antimonopoly laws.

Financing Provides the necessary cash and credit to produce, transport, store, promote, sell, and buy products.

Fishbone diagram A visual aid that helps organize cause and effect relationships for "things gone wrong."

Fixed-cost (FC) contribution per unit The selling price per unit minus the variable cost per unit.

Flexible-price policy Offering the same product and quantities to different customers at different prices.

F.O.B. A transportation term meaning free on board some vehicle at some point.

Focus group interview An interview of 6 to 10 people in an informal group setting.

Foreign Corrupt Practices Act A law passed by the U.S. Congress in 1977 that prohibits U.S. firms from paying bribes to foreign officials.

Form utility Provided when someone produces something tangible.

Franchise operation A franchisor develops a good marketing strategy, and the retail franchise holders carry out the strategy in their own units.

Freight absorption pricing Absorbing freight cost so that a firm's delivered price meets the nearest competitor's.

Freight forwarders Transportation wholesalers who combine the small shipments of many shippers into more economical shipping quantities.

Full-cost approach All costs are allocated to products, customers, or other categories.

Full-line pricing Setting prices for a whole line of products.

Functional accounts The categories to which various costs are charged to show the *purpose* for which expenditures are made.

General merchandise wholesalers Service wholesalers who carry a wide variety of nonperishable items such as hardware, electrical supplies, plumbing supplies, furniture, drugs, cosmetics, and automobile equipment.

General stores Early retailers who carried anything they could sell in reasonable volume.

Generic market A market with *broadly* similar needs—and sellers offering various and *often diverse* ways of satisfying those needs.

Generic products Products that have no brand at all other than identification of their contents and the manufacturer or middleman.

Gross margin (gross profit) The money left to cover the expenses of selling the products and operating the business.

Gross national product (GNP) The total market value of goods and services produced in an economy in a year.

Gross sales The total amount charged to all customers during some time period.

Heterogeneous shopping products Shopping products the customer sees as different and wants to inspect for quality and suitability.

Homogeneous shopping products Shopping products the customer sees as basically the same and wants at the lowest price.

Hypermarkets Very large stores that try to carry not only food and drug items but all goods and services that the consumer purchases *routinely* (also called supercenters).

Hypotheses Educated guesses about the relationships between things or about what will happen in the future.

Iceberg principle Much good information is hidden in summary data.

Ideal market exposure When a product is available widely enough to satisfy target customers' needs but not exceed them.

Implementation Putting marketing plans into operation.

Import agents Manufacturers' agents who specialize in import trade.

Import brokers Brokers who specialize in bringing together buyers and sellers from different countries.

Impulse products Products that are bought quickly as *unplanned* purchases because of a strongly felt need.

Indices Statistical combinations of several time series used to find some time series that will lead the series to be forecast.

Indirect type advertising Competitive advertising that points out product advantages—to affect future buying decisions.

Individual brands Separate brand names used for each product.

Individual product A particular product within a product line.

Inelastic demand Although the quantity demanded increases if the price is decreased, the quantity demanded will not stretch enough to avoid a decrease in total revenue.

Inelastic supply The quantity supplied does not stretch much (if at all) if the price is raised.

Innovation The development and spread of new ideas and products.

Innovators The first group to adopt new products.

Installations Important capital items such as buildings, land rights, and major equipment.

Institutional advertising Advertising that tries to promote an organization's image, reputation, or ideas rather than a specific product.

Integrated marketing communications The intentional coordination of every communication from a firm to a target customer to convey a consistent and complete message.

Intensive distribution Selling a product through all responsible and suitable wholesalers or retailers who will stock and/or sell the product.

Intermediary A middleman.

Internet A system for linking computers around the world.

Intranet A system for linking computers within a company.

Introductory price dealing Temporary price cuts to speed new products into a market.

Inventory The amount of goods being stored.

ISO 9000 A way for a supplier to document its quality procedures according to internationally recognized standards.

Job description A written statement of what a salesperson is expected to do.

Joint venturing In international marketing, a domestic firm entering into a partnership with a foreign firm.

Jury of executive opinion Forecasting by combining the opinions of experienced executives—perhaps from marketing, production, finance, purchasing, and top management.

Just-in-time delivery Reliably getting products there *just* before the customer needs them.

Laggards Prefer to do things the way they have been done in the past and are very suspicious of new ideas—sometimes called nonadopters—see *adoption curve*.

Lanham Act A 1946 law that spells out what kinds of marks (including brand names) can be protected and the exact method of protecting them.

Late majority A group of adopters who are cautious about new ideas—see *adoption curve*.

Law of diminishing demand If the price of a product is raised, a smaller quantity will be demanded—and if the price of a product is lowered, a greater quantity will be demanded.

Leader pricing Setting some very low prices—real bargains—to get customers into retail stores.

Leading series A time series that changes in the same direction *but ahead of* the series to be forecast.

Learning A change in a person's thought processes caused by prior experience.

Licensed brand A well-known brand that sellers pay a fee to use.

Licensing Selling the right to use some process, trademark, patent, or other right for a fee or royalty.

Lifestyle analysis The analysis of a person's day-to-day pattern of living as expressed in that person's Activities, Interests, and Opinions—sometimes referred to as AIOs or psychographics.

Limited-function wholesalers Merchant wholesalers who provide only *some* wholesaling functions.

Limited-line stores Stores that specialize in certain lines of related products rather than a wide assortment—sometimes called single-line stores.

Limited problem solving When a consumer is willing to put *some* effort into deciding the best way to satisfy a need.

Logistics The transporting, storing, and handling of goods to match target customers' needs with a firm's marketing mix—both within individual firms and along a channel of distribution (i.e., another name for physical distribution).

Long-run target return pricing Pricing to cover all costs and over the long run achieve an average target return.

Low-involvement purchases Purchases that have little importance or relevance for the customer.

Macro-marketing A social process that directs an economy's flow of goods and services from producers to consumers in a way that effectively matches supply and demand and accomplishes the objectives of society.

Magnuson-Moss Act A 1975 law requiring that producers provide a clearly written warranty if they choose to offer any warranty.

Major accounts sales force Salespeople who sell directly to large accounts such as major retail chain stores.

Management contracting The seller provides only management skills—others own the production and distribution facilities.

Manufacturer brands Brands created by producers.

Manufacturers' agents Agent middlemen who sell similar products for several noncompeting producers for a commission on what is actually sold.

Manufacturers' sales branches Separate warehouses that producers set up away from their factories.

Marginal analysis Evaluating the change in total revenue and total cost from selling one more unit to find the most profitable price and quantity.

Marginal cost The change in total cost that results from producing one more unit.

Marginal profit Profit on the last unit sold.

Marginal revenue The change in total revenue that results from the sale of one more unit of a product.

Markdown A retail price reduction that is required because customers won't buy some item at the originally marked-up price.

Markdown ratio A tool used by many retailers to measure the efficiency of various departments and their whole business.

Market A group of potential customers with similar needs who are willing to exchange something of value with sellers offering various goods and/or services—that is, ways of satisfying those needs.

Market development Trying to increase sales by selling present products in new markets.

Market-directed economic system The individual decisions of the many producers and consumers make the macro-level decisions for the whole economy.

Market growth A stage of the product life cycle when industry sales grow fast—but industry profits rise and then start falling.

Market information function The collection, analysis, and distribution of all the information needed to plan, carry out, and control marketing activities.

Market introduction A stage of the product life cycle when sales are low as a new idea is first introduced to a market.

Market maturity A stage of the product life cycle when industry sales level off and competition gets tougher.

Market penetration Trying to increase sales of a firm's present products in its present markets—probably through a more aggressive marketing mix.

Market potential What a whole market segment might buy.

Market segment A relatively homogeneous group of customers who will respond to a marketing mix in a similar way.

Market segmentation A two-step process of (1) *naming* broad product-markets and (2) *segmenting* these broad product-markets in order to select target markets and develop suitable marketing mixes.

Marketing audit A systematic, critical, and unbiased review and appraisal of the basic objectives and policies of the marketing function and of the organization, methods, procedures, and people employed to implement the policies.

Marketing company era A time when, in addition to short-run marketing planning, marketing people develop long-range plans—sometimes 5 or more years ahead—and the whole company effort is guided by the marketing concept.

Marketing concept The idea that an organization should aim *all* its efforts at satisfying its *customers*—at a *profit*.

Marketing department era A time when all marketing activities are brought under the control of one department to improve short-run policy planning and to try to integrate the firm's activities.

Marketing ethics The moral standards that guide marketing decisions and actions.

Marketing information system (MIS) An organized way of continually gathering, accessing, and analyzing information that marketing managers need to make decisions.

Marketing management process The process of (1) *planning* marketing activities, (2) directing the *implementation* of the plans, and (3) *controlling* these plans.

Marketing mix The controllable variables that the company puts together to satisfy a target group.

Marketing model A statement of relationships among marketing variables.

Marketing orientation Trying to carry out the marketing concept.

Marketing plan A written statement of a marketing strategy *and* the time-related details for carrying out the strategy.

Marketing program Blends all of the firm's marketing plans into one big plan.

Marketing research Procedures to develop and analyze new information to help marketing managers make decisions.

Marketing research process A five-step application of the scientific method that includes (1) defining the problem, (2) analyzing the situation, (3) getting problem-specific data, (4) interpreting the data, and (5) solving the problem.

Marketing strategy Specifies a target market and a related marketing mix.

Markup A dollar amount added to the cost of products to get the selling price.

Markup chain The sequence of markups firms use at different levels in a channel—determining the price structure in the whole channel.

Markup (percent) The percentage of selling price that is added to the cost to get the selling price.

Mass customization Tailoring the principles of mass production to meet the unique needs of individual customers.

Mass marketing The typical production-oriented approach that vaguely aims at everyone with the same marketing mix.

Mass-merchandisers Large, self-service stores with many departments that emphasize soft goods (housewares, clothing, and fabrics) and staples (like health and beauty aids) and selling on lower margins to get faster turnover.

Mass-merchandising concept The idea that retailers should offer low prices to get faster turnover and greater sales volume by appealing to larger numbers.

Mass selling Communicating with large numbers of potential customers at the same time.

Merchant wholesalers Wholesalers who own (take title to) the products they sell.

Message channel The carrier of the message.

Metropolitan Statistical Area (MSA) An integrated economic and social unit with a large population nucleus.

Micro-macro dilemma What is good for some producers and consumers may not be good for society as a whole.

Micro-marketing The performance of activities that seek to accomplish an organization's objectives by anticipating customer or client needs and directing a flow of need-satisfying goods and services from producer to customer or client.

Middleman Someone who specializes in trade rather than production, sometimes called an intermediary.

Mission statement Sets out the organization's basic purpose for being.

Missionary salespeople Supporting salespeople who work for producers by calling on their middlemen and their customers.

Modified rebuy The in-between process where some review of the buying situation is done—though not as much as in new-task buying or as little as in straight rebuys.

Monopolistic competition A market situation that develops when a market has (1) different (heterogeneous) products and (2) sellers who feel they do have some competition in this market.

Multinational corporations Firms that have a direct investment in several countries and run their businesses depending on the choices available anywhere in the world.

Multiple buying influence Several people share in making a purchase decision—perhaps even top management.

Multiple target market approach Segmenting the market and choosing two or more segments, then treating each as a separate target market needing a different marketing mix.

Nationalism An emphasis on a country's interests before everything else.

Natural accounts The categories to which various costs are charged in the normal financial accounting cycle.

Natural products Products that occur in nature—such as fish and game, timber and maple syrup, and copper, zinc, iron ore, oil, and coal.

Needs The basic forces that motivate a person to do something.

Negotiated contract buying Agreeing to a contract that allows for changes in the purchase arrangements.

Negotiated price A price that is set based on bargaining between the buyer and seller.

Net An invoice term meaning that payment for the face value of the invoice is due immediately—also see *cash discounts*.

Net profit What the company earns from its operations during a particular period.

Net sales The actual sales dollars the company receives.

New product A product that is new *in any way* for the company concerned.

New-task buying When an organization has a new need and the buyer wants a great deal of information.

New unsought products Products offering really new ideas that potential customers don't know about yet.

Noise Any distraction that reduces the effectiveness of the communication process.

Nonadopters Prefer to do things the way they have been done in the past and are very suspicious of new ideas—sometimes called laggards—see *adoption curve*.

Noncumulative quantity discounts Reductions in price when a customer purchases a larger quantity on an *individual order*.

Nonprice competition Aggressive action on one or more of the Ps other than Price.

North American Free Trade Agreement (NAFTA) Lays out a plan to reshape the rules of trade among the U.S., Canada, and Mexico.

North American Industry Classification System (NAICS) codes Codes used to identify groups of firms in similar lines of business.

Odd-even pricing Setting prices that end in certain numbers.

Oligopoly A special market situation that develops when a market has (1) essentially homogeneous products, (2) relatively few sellers, and (3) fairly inelastic industry demand curves.

One-price policy Offering the same price to all customers who purchase products under essentially the same conditions and in the same quantities.

Open to buy A buyer has budgeted funds that he can spend during the current time period.

Operating ratios Ratios of items on the operating statement to net sales.

Operating statement A simple summary of the financial results of a company's operations over a specified period of time.

Operational decisions Short-run decisions to help implement strategies.

Opinion leader A person who influences others.

Order getters Salespeople concerned with establishing relationships with new customers and developing new business.

Order-getting Seeking possible buyers with a well-organized sales presentation designed to sell a good, service, or idea.

Order takers Salespeople who sell to the regular or established customers, complete most sales transactions, and maintain relationships with their customers.

Order-taking The routine completion of sales made regularly to the target customers.

Packaging Promoting, protecting and enhancing the product.

Pareto chart A graph that shows the number of times a problem cause occurs, with problem causes ordered from most frequent to least frequent.

Penetration pricing policy Trying to sell the whole market at one low price.

Perception How we gather and interpret information from the world around us.

Performance analysis Analysis that looks for exceptions or variations from planned performance.

Performance index A number that shows the relation of one value to another.

Personal needs An individual's need for personal satisfaction unrelated to what others think or do.

Personal selling Direct spoken communication between sellers and potential customers, usually in person but sometimes over the telephone.

Phony list prices Misleading prices that customers are shown to suggest that the price they are to pay has been discounted from list.

Physical distribution (PD) The transporting, storing, and handling of goods to match target customers' needs with a firm's marketing mix—both within individual firms and along a channel of distribution (i.e., another name for logistics).

Physical distribution (PD) concept All transporting, storing, and product-handling activities of a business and a whole channel system should be coordinated as one system that seeks to minimize the cost of distribution for a given customer service level.

Physiological needs Biological needs such as the need for food, drink, rest, and sex.

Piggyback service Loading truck trailers or flat-bed trailers carrying containers on railcars to provide both speed and flexibility.

Pioneering advertising Advertising that tries to develop primary demand for a product category rather than demand for a specific brand.

Place Making goods and services available in the right quantities and locations—when customers want them.

Place utility Having the product available *where* the customer wants it.

Planned economic system Government planners decide what and how much is to be produced and distributed by whom, when, to whom, and why.

Population In marketing research, the total group you are interested in.

Portfolio management Treats alternative products, divisions, or strategic business units (SBUs) as though they are stock investments to be bought and sold using financial criteria.

Positioning An approach that refers to how customers think about proposed and/or present brands in a market.

Possession utility Obtaining a good or service and having the right to use or consume it.

Prepared sales presentation A memorized presentation that is not adapted to each individual customer.

Prestige pricing Setting a rather high price to suggest high quality or high status.

Price The amount of money that is charged for "something" of value.

Price discrimination Injuring competition by selling the same products to different buyers at different prices.

Price fixing Competitors illegally getting together to raise, lower, or stabilize prices.

Price leader A seller who sets a price that all others in the industry follow.

Price lining Setting a few price levels for a product line and then marking all items at these prices.

Primary data Information specifically collected to solve a current problem.

Primary demand Demand for the general product idea, not just the company's own brand.

Private brands Brands created by middlemen—sometimes referred to as dealer brands.

Private warehouses Storing facilities owned or leased by companies for their own use.

Product The need-satisfying offering of a firm.

Product advertising Advertising that tries to sell a specific product.

Product assortment The set of all product lines and individual products that a firm sells.

Product-bundle pricing Setting one price for a set of products.

Product development Offering new or improved products for present markets.

Product liability The legal obligation of sellers to pay damages to individuals who are injured by defective or unsafe products.

Product life cycle The stages a new product idea goes through from beginning to end.

Product line A set of individual products that are closely related.

Product managers Manage specific products, often taking over the jobs formerly handled by an advertising manager—sometimes called brand managers.

Product-market A market with *very* similar needs—and sellers offering various *close substitute* ways of satisfying those needs.

Production Actually *making* goods or *performing* services.

Production capacity The ability to produce a certain quantity and quality of specific goods or services.

Production era A time when a company focuses on production of a few specific products—perhaps because few of these products are available in the market.

Production orientation Making whatever products are easy to produce and *then* trying to sell them.

Professional services Specialized services that support a firm's operations.

Profit maximization objective An objective to get as much profit as possible.

Promotion Communicating information between seller and potential buyer or others in the channel to influence attitudes and behavior.

Prospecting Following all the leads in the target market to identify potential customers.

Psychographics The analysis of a person's day-to-day pattern of living as expressed in that person's Activities, Interests, and Opinions—sometimes referred to as AIOs or lifestyle analysis.

Psychological pricing Setting prices that have special appeal to target customers.

Public relations Communication with noncustomers—including labor, public interest groups, stockholders, and the government.

Public warehouses Independent storing facilities.

Publicity Any *unpaid* form of nonpersonal presentation of ideas, goods, or services.

Pulling Using promotion to get consumers to ask middlemen for the product.

Purchase discount A reduction of the original invoice amount for some business reason.

Purchasing managers Buying specialists for their employers.

Purchasing specifications A written (or electronic) description of what the firm wants to buy.

Pure competition A market situation that develops when a market has (1) homogeneous (similar) products, (2) many buyers and sellers who have full knowledge of the market, and (3) ease of entry for buyers and sellers.

Pure subsistence economy Each family unit produces everything it consumes.

Push money (or prize money) allowances Allowances (sometimes called PMs or spiffs) given to retailers by manufacturers or wholesalers to pass on to the retailers' salesclerks for aggressively selling certain items.

Pushing Using normal promotion effort—personal selling, advertising, and sales promotion—to help sell the whole marketing mix to possible channel members.

Qualifying dimensions The dimensions that are relevant to including a customer type in a product-market.

Qualitative research Seeks in-depth, open-ended responses, not yes or no answers.

Quality A product's ability to satisfy a customer's needs or requirements.

Quantitative research Seeks structured responses that can be summarized in numbers—like percentages, averages, or other statistics.

Quantity discounts Discounts offered to encourage customers to buy in larger amounts.

Quotas The specific quantities of products that can move in or out of a country.

Rack jobbers Merchant wholesalers who specialize in hard-to-handle assortments of products that a retailer doesn't want to manage—and they often display the products on their own wire racks.

Random sampling Each member of the research population has the *same* chance of being included in the sample.

Raw materials Unprocessed expense items—such as logs, iron ore, wheat, and cotton—that are moved to the next production process with little handling.

Rebates Refunds to consumers after a purchase.

Receiver The target of a message in the communication process, usually a potential customer.

Reciprocity Trading sales for sales—that is, "if you buy from me, I'll buy from you."

Reference group The people to whom an individual looks when forming attitudes about a particular topic.

Reference price The price a consumer expects to pay.

Regrouping activities Adjusting the quantities and/or assortments of products handled at each level in a channel of distribution.

Regularly unsought products Products that stay unsought but not unbought forever.

Reinforcement Occurs in the learning process when the consumer's response is followed by satisfaction—that is, reduction in the drive.

Reminder advertising Advertising to keep the product's name before the public.

Requisition A request to buy something.

Research proposal A plan that specifies what marketing research information will be obtained and how.

Resident buyers Independent buying agents who work in central markets for several retailer or wholesaler customers based in outlying areas or other countries.

Response An effort to satisfy a drive.

Response rate The percent of people contacted in a research sample who complete the questionnaire.

Retailing All of the activities involved in the sale of products to final consumers.

Return When a customer sends back purchased products.

Return on assets (ROA) The ratio of net profit (after taxes) to the assets used to make the net profit—multiplied by 100 to get rid of decimals.

Return on investment (ROI) Ratio of net profit (after taxes) to the investment used to make the net profit—multiplied by 100 to get rid of decimals.

Reverse channels Channels used to retrieve products that customers no longer want.

Risk taking Bearing the uncertainties that are part of the marketing process.

Robinson-Patman Act A 1936 law that makes illegal any price discrimination if it injures competition.

Routinized response behavior When consumers regularly select a particular way of satisfying a need when it occurs.

Rule for maximizing profit The highest profit is earned at the price where marginal cost is just less than or equal to marginal revenue.

Safety needs Needs concerned with protection and physical well-being.

Sale price A temporary discount from the list price.

Sales analysis A detailed breakdown of a company's sales records.

Sales decline A stage of the product life cycle when new products replace the old.

Sales era A time when a company emphasizes selling because of increased competition.

Sales forecast An estimate of how much an industry or firm hopes to sell to a market segment.

Sales managers Managers concerned with managing personal selling.

Sales-oriented objective An objective to get some level of unit sales, dollar sales, or share of market—without referring to profit.

Sales presentation A salesperson's effort to make a sale or address a customer's problem.

Sales promotion Those promotion activities—other than advertising, publicity, and personal selling—that stimulate interest, trial, or purchase by final customers or others in the channel.

Sales promotion managers Managers of their company's sales promotion effort.

Sales quota The specific sales or profit objective a salesperson is expected to achieve.

Sales territory A geographic area that is the responsibility of one salesperson or several working together.

Sample A part of the relevant population.

Scientific method A decision-making approach that focuses on being objective and orderly in *testing* ideas before accepting them.

Scrambled merchandising Retailers carrying any product lines that they think they can sell profitably.

Search engine A computer program that helps a marketing manager find information that is needed.

Seasonal discounts Discounts offered to encourage buyers to buy earlier than present demand requires.

Secondary data Information that has been collected or published already.

Segmenters Aim at one or more homogeneous segments and try to develop a different marketing mix for each segment.

Segmenting An aggregating process that clusters people with similar needs into a market segment.

Selective demand Demand for a company's own brand rather than a product category.

Selective distribution Selling through only those middlemen who will give the product special attention.

Selective exposure Our eyes and minds seek out and notice only information that interests us.

Selective perception People screen out or modify ideas, messages, and information that conflict with previously learned attitudes and beliefs.

Selective retention People remember only what they want to remember.

Selling agents Agent middlemen who take over the whole marketing job of producers, not just the selling function.

Selling formula approach A sales presentation that starts with a prepared presentation outline—much like the prepared approach—and leads the customer through some logical steps to a final close.

Selling function Promoting the product.

Senior citizens People over 65.

Service A deed performed by one party for another.

Service mark Those words, symbols, or marks that are legally registered for use by a single company to refer to a service offering.

Service wholesalers Merchant wholesalers who provide all the wholesaling functions.

Shopping products Products that a customer feels are worth the time and effort to compare with competing products.

Simple trade era A time when families traded or sold their surplus output to local middlemen who resold these goods to other consumers or distant middlemen.

Single-line (or general-line) wholesalers Service wholesalers who carry a narrower line of merchandise than general merchandise wholesalers.

Single-line stores Stores that specialize in certain lines of related products rather than a wide assortment—sometimes called limited-line stores.

Single target market approach Segmenting the market and picking one of the homogeneous segments as the firm's target market.

Situation analysis An informal study of what information is already available in the problem area.

Skimming price policy Trying to sell the top of the market—the top of the demand curve—at a high price before aiming at more price-sensitive customers.

Social class A group of people who have approximately equal social position as viewed by others in the society.

Social needs Needs concerned with love, friendship, status, and esteem—things that involve a person's interaction with others.

Social responsibility A firm's obligation to improve its positive effects on society and reduce its negative effects.

Sorting Separating products into grades and qualities desired by different target markets.

Source The sender of a message.

Specialty products Consumer products that the customer really wants and makes a special effort to find.

Specialty shop A type of conventional limited-line store—usually small and with a distinct personality.

Specialty wholesalers Service wholesalers who carry a very narrow range of products and offer more information and service than other service wholesalers.

Spreadsheet analysis Organizing costs, sales, and other information into a data table to show how changing the value of one or more numbers affects the other numbers.

Standardization and grading Sorting products according to size and quality.

Staples Products that are bought often, routinely, and without much thought.

Statistical packages Easy-to-use computer programs that analyze data.

Status quo objectives "Don't-rock-the-*pricing*-boat" objectives.

Stock A share in the ownership of a company.

Stocking allowances Allowances given to middlemen to get shelf space for a product—sometimes called slotting allowances.

Stockturn rate The number of times the average inventory is sold during a year.

Storing The marketing function of holding goods.

Storing function Holding goods until customers need them.

Straight rebuy A routine repurchase that may have been made many times before.

Strategic business unit (SBU) An organizational unit (within a larger company) that focuses its efforts on some product-markets and is treated as a separate profit center.

Strategic (management) planning The managerial process of developing and maintaining a match between an organization's resources and its market opportunities.

Substitutes Products that offer the buyer a choice.

Supercenters Very large stores that try to carry not only food and drug items, but all goods and services that the consumer purchases *routinely* (also called hypermarkets).

Supermarkets Large stores specializing in groceries—with self-service and wide assortments.

Supplies Expense items that do not become part of a finished product.

Supply curve The quantity of products that will be supplied at various possible prices.

Supporting salespeople Salespeople who help the order-oriented salespeople but don't try to get orders themselves.

S.W.O.T. analysis Identifies and lists the firm's strengths and weaknesses and its opportunities and threats.

Target market A fairly homogeneous (similar) group of customers to whom a company wishes to appeal.

Target marketing A marketing mix is tailored to fit some specific target customers.

Target return objective A specific level of profit as an objective.

Target return pricing Pricing to cover all costs and achieve a target return.

Tariffs Taxes on imported products.

Task method An approach to developing a budget—basing the budget on the job to be done.

Task transfer Using telecommunications to move service operations to places where there are pools of skilled workers.

Task utility Provided when someone performs a task for someone else—for instance, when a bank handles financial transactions.

Team selling Different sales reps working together on a specific account.

Technical specialists Supporting salespeople who provide technical assistance to order-oriented salespeople.

Technology The application of science to convert an economy's resources to output.

Telemarketing Using the telephone to call on customers or prospects.

Telephone and direct-mail retailing Allows consumers to shop at home—usually placing orders by mail or a toll-free long-distance telephone call and charging the purchase to a credit card.

Time series Historical records of the fluctuations in economic variables.

Time utility Having the product available *when* the customer wants it.

Total cost The sum of total fixed and total variable costs.

Total cost approach Evaluating each possible PD system and identifying *all* of the costs of each alternative.

Total fixed cost The sum of those costs that are fixed in total—no matter how much is produced.

Total quality management (TQM) A management approach in which everyone in the organization is concerned about quality, throughout all of the firm's activities, to better serve customer needs.

Total variable cost The sum of those changing expenses that are closely related to output—such as expenses for parts, wages, packaging materials, outgoing freight, and sales commissions.

Trade (functional) discount A list price reduction given to channel members for the job they are going to do.

Trade-in allowance A price reduction given for used products when similar new products are bought.

Trademark Those words, symbols, or marks that are legally registered for use by a single company.

Traditional channel systems A channel in which the various channel members make little or no effort to cooperate with each other.

Transporting The marketing function of moving goods.

Transporting function The movement of goods from one place to another.

Trend extension Extends past experience to predict the future.

Truck wholesalers Wholesalers who specialize in delivering products that they stock in their own trucks.

2/10, net 30 Allows a 2 percent discount off the face value of the invoice if the invoice is paid within 10 days.

Unfair trade practice acts Put a lower limit on prices, especially at the wholesale and retail levels.

Uniform delivered pricing Making an average freight charge to all buyers.

Unit-pricing Placing the price per ounce (or some other standard measure) on or near the product.

Universal functions of marketing Buying, selling, transporting, storing, standardizing and grading, financing, risk taking, and market information.

Universal product code (UPC) Special identifying marks for each product readable by electronic scanners.

Unsought products Products that potential customers don't yet want or know they can buy.

Utility The power to satisfy human needs.

Validity The extent to which data measures what it is intended to measure.

Value in use pricing Setting prices that will capture some of what customers will save by substituting the firm's product for the one currently being used.

Value pricing Setting a fair price level for a marketing mix that really gives the target market superior customer value.

Vendor analysis Formal rating of suppliers on all relevant areas of performance.

Vertical integration Acquiring firms at different levels of channel activity.

Vertical marketing systems Channel systems in which the whole channel focuses on the same target market at the end of the channel.

Virtual corporation The firm is primarily a coordinator—with a good marketing concept—instead of a producer.

Voluntary chains Wholesaler-sponsored groups that work with independent retailers.

Wants Needs that are learned during a person's life.

Warranty What the seller promises about its product.

Wheel of retailing theory New types of retailers enter the market as low-status, low-margin, low-price operators and then, if successful, evolve into more conventional retailers offering more services with higher operating costs and higher prices.

Wheeler Lea Amendment Law that bans unfair or deceptive acts in commerce.

Wholesalers Firms whose main function is providing *wholesaling activities*.

Wholesaling The *activities* of those persons or establishments that sell to retailers and other merchants, and/or to industrial, institutional, and commercial users, but who do not sell in large amounts to final consumers.

Wholly owned subsidiary A separate firm owned by a parent company.

World Trade Organization (WTO) The only international body dealing with the rules of trade between nations.

Working capital Money to pay for short-term expenses such as employee salaries, advertising, marketing research, inventory storing costs, and what the firm owes suppliers.

Zone pricing Making an average freight charge to all buyers within specific geographic areas.

Illustration Credits

Chapter 1

Exhibits: *P.* 15, 1-2, adapted from Wroe Alderson, "Factors Governing the Development of Marketing Channels," in *Marketing Channels for Manufactured Products*, ed. Richard M. Clewett (Homewood, IL: Richard D. Irwin, 1954), p. 7. *P.* 22, 1-3, adapted from William McInnes, "A Conceptual Approach to Marketing," in *Theory in Marketing*, 2d ser., ed. Reavis Cox, Wroe Alderson, and Stanley J. Shapiro (Homewood, IL: Richard D. Irwin, 1964), pp. 51–67. *P.* 23, 1-4, model suggested by Professor A. A. Brogowicz, Western Michigan University.

Photos/ads: *P.* 2, Ben Stechschulte/Contact Press Images. *P.* 4, Courtesy of The ServiceMaster Company. *P.* 7, Robert Azzi/Woodfin Camp & Associates, Inc. *P.* 9 (left), "GLAD and STAND & ZIP are trademarks of The Glad Products Company. Advertisement ©2000 The Glad Products Company. Used with permission; (right), Courtesy Ogilvy & Mather/Paris. *P.* 13 (left), Courtesy Alcoa; (middle), Courtesy The Clorox Company; (right), ©The Procter & Gamble Company. Used by permission. *P.* 15 (left), Steven Begleiter; (right), Greg Girardi/Contact Press Images. *P.* 17 (left), Courtesy AllBusiness; (right), UPS & UPS shield designs are registered trademarks of United Parcel Service of America, Inc. Used by permission. *P.* 21, Agency: Hal Riney & Partners; Art Director: Chris Chaffin; Copywriter: Tony Barlow; Photographer: Bob Mizono. *P.* 23 (left), Courtesy of Maryland Aviation Administration; (right), Courtesy Global Crossing. *P.* 25 (left), Courtesy 3M; (right), ©2000 CarParts Technologies. Artwork supplied courtesy Schwartz Rahman Candelaria. *P.* 26, Tony Stone.

Chapter 2

Exhibits: *P.* 38, 2-2, adapted from R. F. Vizza, T. E. Chambers, and E. J. Cook, *Adoption of the Marketing Concept—Fact or Fiction* (New York: Sales Executive Club, Inc., 1967), pp. 13–15. *P.* 44, 2-4, adapted from discussions of an American Marketing Association Strategic Planning Committee. *P.* 57, 2-13, Copernicus: The Marketing Investment Strategy Group, Inc., 450 Lexington Street, Auburndale, MA 02166.

Photos/ads: *P.* 31, ©Brian Coats, All Rights Reserved. *P.* 33, Courtesy of Bellsports; Agency: Goodby, Silverstein & Partners. *P.* 35, Courtesy Ford Motor Company. *P.* 36 (left), Courtesy Burst.com; (right), Courtesy The Valvoline Company. *P.* 39 (left), Courtesy Payless ShoeSource, Inc.; Agency: Barkley Evergreen & Partners, Inc.; (right), Courtesy Williams-Sonoma, Inc.; Agency: Garner, Geary, Coll & Young. *P.* 40, Courtesy L.L. Bean, Inc. *P.* 42 (left), Courtesy CMG Communications; (right), Courtesy of Obata Design and Emerson Electric Co. *P.* 49 (left and right), Courtesy Pennzoil-Quaker State Co. *P.* 52 (left and right), Courtesy of Toddler University, Inc. *P.* 56, Courtesy Timex Corporation.

Chapter 3

Exhibits: *P.* 67, 3-2, Igor Ansoff, *Corporate Strategy* (New York; McGraw-Hill, 1965). *P.* 87, 3-13, Russell I. Haley, "Benefit Segmentation: A Decision-Oriented Research Tool," *Journal of Marketing*, July 1968, p. 33.

Photos/ads: *P.* 61, ©Kimberly Holcombe. *P.* 63 (left), S.C. Johnson & Son, Inc.; (right), Crème Savers is a trademark owned by Nabisco Brands Company and used by permission. *P.* 65, Courtesy of Audi of Norway; Agency: Bates Reklamebyra/Oslo. *P.* 67, Ilja C. Hendel/The Image Works. *P.* 69, Courtesy Unilever P.L.C.; ©1999 Barry Lewis/Network. *P.* 70 (left), Courtesy Olympus America, Inc.; (middle), Courtesy of Vivitar Corporation; Potter, Katz, Postal and Ferguson; MGI Software Inc.; (right), Courtesy of Sony Electronics Inc. *P.* 71, Courtesy of Hallmark Cards, Inc. *P.* 72 (left), Courtesy Claritas; (right), Courtesy Maplinx Corporation. *P.* 74, Used with permission of GM Media Archives. *P.* 76, Courtesy H.J. Heinz Company. Used with permission. *P.* 79, Made available courtesy of iVillage, Inc.; www.ivillage.com, ©1999 iVillage, Inc. All rights reserved. *P.* 80, Photographer: Steve Bonini *P.* 84 (left), Courtesy Nabisco Brands, Inc.; (right), Courtesy Club Med. *P.* 86 (left), Courtesy Grey Worldwide/Thailand; (right), Courtesy Target Stores.

Chapter 4

Exhibits: *P.* 118, 4-7, adapted from M. G. Allen, "Strategic Problems Facing Today's Corporate Planner," speech given at the Academy of Management, 36th Annual Meeting, Kansas City, Missouri, 1976.

Photos/ads: *P.* 93, Courtesy United Parcel Service of America, Inc. *P.* 95, ©Angelika Grundler. *P.* 98, Courtesy Harley-Davidson Motor Company. *P.* 99, ©2001 Hertz System, Inc. Hertz is a registered service mark and trademark of Hertz System, Inc. *P.* 100, Courtesy of BBDO/Detroit; Photographer: Mark Preston. *P.* 101, Courtesy AOL UK. *P.* 105 (left), Courtesy Smart Money; Ad created by: DiMassimo Brand Advertising, New York; (right), Courtesy of CNN. *P.* 107, Courtesy Real Media. *P.* 109, Courtesy Adero, Inc. *P.* 112, Courtesy Adidas America; Photo by Bob Allen. *P.* 114, KELLOGG'S® NUTRI-GRAIN® and KELLOGG'S® SNACK'UMS™ are trademarks of Kellogg Company. All rights reserved. Used with permission. *P.* 119 (left, middle, and right) Courtesy American Honda Motor Co. *P.* 120 (left), Courtesy Baldor Electric; (right), Courtesy Click 2 Asia.

Chapter 5

Exhibits: *Pp.* 130–131, 5-1, map developed by the authors based on data from U.S. Bureau of the Census, Reports WP/94 and WP/94-DD, *World Population Profile: 1994* (Washington, DC: U.S. Government Printing Office). *Pp.* 132–133, 5-2, table based on U.S. Census data, including *Global Population Profile: 2000* and *World Population Profile: 1998* (Washington, DC: U.S. Government Printing Office) and *World Population at a Glance: 1998 and Beyond, IB/98-4*; and other Census data available from World Wide Web: <http://www.census.gov/ipc>; United Nations statistical data including *World Population Prospects: The 1999 Revision of the UN Population Division* (New York: United Nations, 2000); World Bank data, including *World Development Indicators: 2000* (Washington, DC: International Bank for Reconstruction and Development/The World Bank, 2000) and available from World Wide Web: <http://www.worldbank.org/data/wdi2000> and <http://devdata.worldbank.org/data-query>; Central Intelligence Agency data and available from World Wide Web: <http://www.odci.gov/cia/publications/factbook>; Population Reference Bureau data, including *2000 World Population Data Sheet* (Washington, DC: Population Reference Bureau, 2000) and available from World Wide Web: <http://www.prb.org/pubs/wpds2000>. *P.* 137, 5-3, map developed by the authors based on U.S. Census data available from World Wide Web: <http://www.census.gov/population/www/cen2000/respop> and "Table 2. Resident Population of the 50 States, the District of Columbia, and Puerto Rico: Census 2000." *P.* 138, 5-4, map developed by the authors based on U.S. Census data available from World Wide Web: <http://www.census.gov/population/www/cen2000/respop> and "Table 5. Resident Population of the 50 States, the District of Columbia, and Puerto Rico: April 1, 2000 (Census 2000) and April 1, 1990 (1990 Census)" and "Figure 1. Percent Change in Resident Population for the 50 States, the District of Columbia, and Puerto Rico: 1990 to 2000." *P.* 139, 5-5, graph developed by the authors based on U.S. Census data available from World Wide Web: <http://www.census.gov/statab/www/part>; U.S. Bureau of the Census, *Statistical Abstract of the United States 2000*, p. 8; U.S. Bureau of the Census, *Current Population Reports*, P25-1095 and P25-1130, and *Population Paper Listing #57*. *P.* 141, 5-6, graph developed by the authors based on U.S. Census data: 2000 and 2010 figures from U.S. Census Bureau, "National Population Projections—Summary Tables" (January 13, 2000) and available from World Wide Web: <http://www.census.gov/population/www/projections/natsum-T3.html> and U.S. Bureau of the Census, *Statistical Abstract of the United States 2000*, p. 15; 1990 figures from U.S. Census Bureau, *Current Population Reports*, P25-917 and P25-1095 and unpublished data and available on World Wide Web: <http://www.census.gov/population/www/estimates/popest> and <http://www.census.gov/statab/freq/99s0014>; 1980 figures from U.S. Bureau of the Census, *Statistical Abstract of the United States 1998*, pp. 13, 15. *P.* 144, 5-7, graph developed by the authors based on U.S. Census data available from World Wide Web: <http://www.census.gov/hhes/income/hitinc/f06.html> , Table F-6, "Regions–Families (All Races) by Median and Mean Income: 1953 to 1999." *P.* 145, 5-8, graph developed by the authors based on U.S. Census data available from World Wide Web: <http://www.census.gov/hhes/income/histinc/f01.html> , Table F-1, "Income Limits for Each Fifth and Top 5 Percent of Families (All Races): 1947 to 1999" and available from World Wide Web: <http://www.census.gov/hhes/income/histinc/f02.html> , Table F-2, "Share of Aggregate Income Received by Each Fifth and Top 5 Percent of Families (All Races): 1947 to 1999." *P.* 148, 5-9, adapted from Patrick E. Murphy and William A. Staples, "A Modern Family Life Cycle," *Journal of Consumer Research*, June 1979, p. 17.

Photos/ads: *P.* 125, ©James Keyser Photography. *P.* 127 (left), Courtesy SRC; (right), TETRAD Computer Applications Inc. *P.* 128 (left), Courtesy Delia's; (right), Courtesy Wieden & Kennedy/Amsterdam. *P.* 129 (left and right), Courtesy of Colgate-Palmolive Company. *P.* 134 (left), Pablo Bartholomew/Gamma Liaison; (right), Courtesy Monsanto. *P.* 140, Courtesy AARP. *P.* 144, Courtesy of CBS Television Network. *P.* 147, Agency: Oasis Interanational Group Limited. *P.* 150, Courtesy Colgate-Palmolive Company.

Chapter 6

Exhibits: *P.* 159, 6-2, adapted from C. Glenn Walters, *Consumer Behavior*, 3d ed. (Homewood, IL: Richard D. Irwin, 1979). *P.* 166, 6-5, Joseph T. Plummer, "The Concept and Application of Life-Style Segmentation," *Journal of Marketing*, January 1974, pp. 33–37. *P.* 168, 6-6, adapted from Rebecca Piirto Heath, "The New Working Class," *American Demographics*, January 1998, pp. 51–55; "Education Marks a Widening Income Divide," *The Wall Street Journal*, June 28, 1996, p. R2; "Class in America," *Fortune*, February 7, 1994, pp. 114–26; Greg J. Duncan, Timothy M. Smeeding, and Willard Rodgers, "The Incredible Shrinking Middle Class," *American Demographics*, May 1992, pp. 34–38; Richard P. Coleman, "The Continuing Significance of Social Class to Marketing," *Journal of Consumer Research*, December 1983, pp. 265–80; "What Is Happening to the Middle Class?" *American Demographics*, January 1985, pp. 18–25; Donald W. Hendon, Emelda L. Williams, and Douglas E. Huffman, "Social Class System Revisited," *Journal of Business Research*, November 1988, pp. 259–70.

Photos/ads: *P.* 155, Copyright 2001 USA TODAY. Reprinted with permission. *P.* 156 (left), ©The Procter & Gamble Company. Used by permission; (right), Courtesy of ConAgra Foods. *P.* 160, Courtesy Ortho-McNeil Pharmaceutical. *P.* 161 (left), Courtesy Reckitt Benckiser, Inc.; (right), Courtesy Iomega Corporation. *P.* 163 (left), Courtesy White Wave, Inc.; (right), Courtesy PureTek Corporation. *P.* 164 (left, middle, and right), Courtesy of Procter & Gamble *P.* 166, Courtesy General Mills. *P.* 167, M. Hruby. *P.* 169 (left), ©2000 Jockey International, Inc. World rights reserved; (right), Courtesy Salton, Inc. *P.* 171, Courtesy Discover card. ©1999 Greenwood Trust Company. *P.* 175 (left), Courtesy Colgate-Palmolive Company. (right), ©John Abbott. *P.* 178 (left and right), Courtesy eTrade Group, Inc.

Chapter 7

Exhibits: *P.* 185, 7-1, U.S. Bureau of the Census, *Statistical Abstract of the United States 2000*; U.S. Bureau of the Census, *County Business Patterns 1998, United States* (Washington, DC: U.S. Government Printing Office, 2000). *P.* 192, 7-5, adapted from Rowland T. Moriarty, Jr., and Robert E. Spekman, "An Empirical Investigation of the Information Sources Used During the Industrial Buying Process, *Journal of Marketing Research*, May 1984, pp. 137–47. *P.* 205, 7-8, data adapted from U.S. Bureau of the Census, *Statistical Abstract of the United States 2000*; U.S. Bureau of the Census, *County Business Patterns 1998, United States*; U.S. Bureau of the Census, *1997 Census of Manufacturers, Subject Series, General Summary* (Washington, DC: U.S. Government Printing Office, 2001). *P.* 207, 7-9, available from World Wide Web: <http://www.naics.com>.

Photos/ads: *P.* 183, ©Sonia Katchian. *P.* 186, Courtesy Microsoft Corporation. *P.* 187, Courtesy The Timken Company. *P.* 188 (left and right), ©Roger Ball Photography. *P.* 190, Courtesy Federal Express. *P.* 193 (left), Courtesy SpaceWorks, Inc.; (right), Courtesy GoCo-op. *P.* 194 (left), Courtesy Hormel Foods; (right), Courtesy Rockwell International Corporation. *P.* 196, Courtesy IBM Corporation. *P.* 198, Courtesy Toyota Motor North America, Inc. *P.* 202, Courtesy National Semiconductor. *P.* 204 (left), Courtesy Hertz Corporation; (right), Courtesy General Motors. *P.* 206 (left, middle, and right), Courtesy of Alcoa. *P.* 208, Courtesy Walgreen Company. *P.* 209, Courtesy Colgate-Palmolive. *P.* 211, Wendy Ledis/Palm Beach Post.

Chapter 8

Exhibits: *P.* 239, 8-5, adapted from Paul E. Green, Frank J. Carmone, and David P. Wachpress, "On the Analysis of Qualitative Data in Marketing Research," *Journal of Marketing Research*, February 1977, pp. 52–59.

Photos/ads: *P.* 217, ©1994 LensCrafters, Inc. *P.* 219 (left), Courtesy of Sun Microsystems, Inc; Agency: Lowe & Partners; (right), Courtesy of MapInfo. *P.* 223, Courtesy Zero Knowledge Systems, Inc. *P.* 227, Alta Vista®. *P.* 228 (left), Reprinted with permission from Northern Light Technology, Inc. Copyright 1999; (right), Courtesy Greenfield Online, Inc. *P.* 229, Agency: Renfer Mayr. *P.* 230, Courtesy Deere & Company. *P.* 231, Courtesy Cetia, Inc. *P.* 232 (left and right), Courtesy Greenfield Online, Inc. *P.* 234, Courtesy Colgate-Palmolive Company. *P.* 235 (left), ©John Harding; (right), Courtesy Information Resources, Inc. *P.* 236 (left and right), Courtesy Simmons Company. *P.* 237 (left), Courtesy Claritas; (right), Courtesy Business Objects. *P.* 238 (left), Courtesy SPSS, Inc.; (right), Courtesy StatSoft. *P.* 240 (left), Courtesy Survey Sampling, Inc.; (right), Courtesy Simmons Custom Research. *P.* 242 (left), Courtesy P. Robert & Partners; (right), Courtesy Quality Controlled Services-St. Louis, MO.

Chapter 9

Photos/ads: *P.* 247, ©2001 William D. Perreault, Jr. *P.* 250 (left), Reproduced courtesy of the Workrite Uniform Company-Oxnard, CA; Agency: Applied Concepts – Ventura, CA. *P.* 250 (right), Courtesy The Hertz Corporation. *P.* 251, Crowley Webb and Associates – Buffalo, NY, for M & T Bank. *P.* 252, Courtesy 3M. *P.* 253 (left and right), Courtesy of Bridgestone Corporation – Tokyo, Japan. *P.* 255, Courtesy Crate & Barrel. *P.* 256, Courtesy GE Plastics. *P.* 258, Courtesy Printnation.com. *P.* 259 (left), Courtesy Provident Bank; (right), Courtesy Phillips Plastics Corporation™. *P.* 262 (left and right), ©The Procter & Gamble Company. Used by permission. *P.* 265 (left), Courtesy Del Monte Fresh Produce N.A., Inc.; (right), Courtesy GE Lighting. *P.* 266 (left), ©M. Hruby; (right), Courtesy General Mills. *P.* 267, M. Hruby. *P.* 269, Used by permission of Dean's Food Company. *P.* 270 (left), Courtesy American Isuzu Motors, Inc.; (right), Courtesy Sears Roebuck & Co.

Chapter 10

Exhibits: *P.* 290, 10-4, adapted from Frank R. Bacon, Jr., and Thomas W. Butler, *Planned Innovation* (Ann Arbor: University of Michigan Institute of Science and Technology, 1980). *P.* 291, 10-5, adapted from Philip Kotler, "What Consumerism Means for Marketers," *Harvard Business Review*, May–June 1972, pp. 55–56.

Photos/ads: *P.* 275, 3Com, the 3Com logo and Graffiti are registered trademarks and HotSync, Palm OS, Palm Pilot, and the Palm Pilot logo are trademarks of 3Com Corporation or its subsidiaries. All other brands and product names are trademarks and registered trademarks of their respective holders. This product is not manufactured by Pilot Corporation or Pilot Corporation of America, manufacturers and distributors of writing instruments. *P.* 278, Courtesy PictureTel Corporation. *P.* 279 (left), Courtesy Leo Burnett, Singapore; (right), Courtesy of Nabisco Brands, Inc. *P.* 280, Courtesy Braun, Inc. *P.* 282, Courtesy E.I. Dupont De Nemours & Co. *P.* 285 (left), Courtesy Unilever P.L.C.; Photographer: Barry Lewis/Network; (right), Courtesy Toys "R" Us. *P.* 286 (left and right), Courtesy of 3M. *P.* 287 (left and right), ©The Procter & Gamble Company. Used by permission. *P.* 289 (left), Courtesy Sauder Woodworking Company; (right), Courtesy Caliber Learning Network, Inc. *P.* 292 (left), Courtesy E.I. Dupont De Nemours & Co.; (right), Courtesy Komatsu America. *P.* 294 (top), Courtesy GE Company; (bottom), Courtesy Zenith Electronics Corporation. *P.* 296 (top), Courtesy Porsche Cars North America; (bottom), Mark Joseph Photography-Chicago. All other rights are reserved by Mark Joseph Photography except those specifically granted by this delivery memo. *P.* 299, Courtesy of Nabisco Brands, Inc.

Chapter 11

Exhibits: *P.* 316, 11-2, adapted from D. J. Bowersox and E. J. McCarthy, "Strategic Development of Planned Vertical Marketing Systems," in *Vertical Marketing Systems*, ed. Louis Bucklin (Glenview, IL: Scott, Foresman, 1970).

Photos/ads: *P.* 303, William D. Perreault, Jr. *P.* 304 (left and right), Courtesy The Home Depot. *P.* 306 (left and right), Courtesy Colgate-Palmolive. *P.* 307 (left, middle, and right), Courtesy Unilever P.L.C.; Photographer: Bill Prentice. *P.* 308, ©2001, USA TODAY. Reprinted with permission. *P.* 311, Courtesy Office Depot. *P.* 312 (left and right), Mark Joseph Photography-Chicago. All other rights are reserved by Mark Joseph Photography except those specifically granted by this delivery memo. *P.* 313 (left), ©The Procter & Gamble Company. Used by permission; (right), Courtesy Leisure Concepts, Inc. *P.* 315, Courtesy The Goodyear Tire & Rubber Company. *P.* 316 (left), Courtesy Nyman; (right), Courtesy Wal-Mart Stores, Inc. *P.* 320, Tom Wagner/SABA. *P.* 323, Courtesy Reebok International, Ltd. *P.* 324, Courtesy Volkswagen of America, Inc.

Chapter 12

Exhibits: *P.* 341, 12-4, adapted from B. J. LaLonde and P. H. Zinzer, *Customer Service: Meaning and Measurement* (Chicago: National Council of Physical Distribution Management, 1976); and D. Phillip Locklin, *Transportation for Management* (Homewood, IL: Richard D. Irwin, 1972). *P.* 350, 12-7, adapted from Louis W. Stern and Adel I. El-Ansary, *Marketing Channels* (Englewood Cliffs, NJ: Prentice Hall, 1977), p. 150.

Photos/ads: *P.* 329, ©Fritz Hoffman. *P.* 331 (left), Courtesy Prince Castle; (right), Courtesy W.W. Grainger, Inc. *P.* 335 (left), Courtesy Business Objects; (right), Courtesy Sauder Woodworking Company. *P.* 337, Courtesy CNF, Inc. *P.* 340 (left), Steve Smith/Onyx; (right), ©Allan Hunter Shoemake Photography, Inc. *P.* 343, Courtesy Ryder System, Inc. *P.* 344, Courtesy Cummins, Inc. *P.* 346 (left), Courtesy Sunlite Casual Furniture; (right), Courtesy GE Information Services. *P.* 347, ©Stephen Begleiter. *P.* 351, ©Ovak Arsianian.

Chapter 13

Exhibits: *P.* 374, 13-5, available from World Wide Web: <http://www.census.gov>. U.S. Bureau of the Census, *County Business Patterns 1998, United States*; U.S. Bureau of the Census, *1997 Census of Retail Trade, Subject Series, Establishment and Firm Size* (Washington, DC: U.S. Government Printing Office, 2000). *P.* 378, 13-6, available from World Wide Web: <http://www.census.gov>. U.S. Bureau of the Census, *County Business Patterns 1998, United States*; U.S. Bureau of the Census, *1997 Census of Wholesale Trade, Geographic Area Series, United States* (Washington, DC: U.S. Government Printing Office, 2000).

Photos/ads: *P.* 355, Photo/Karen Capland Courtesy Frieda's, Inc. *P.* 359 (left), Courtesy Toys "R" Us; (middle), Courtesy Land's End, Inc.; (right), Courtesy The Home Depot. *P.* 360 (left), Courtesy Colgate-Palmolive; (right), Tom Wagner/SABA. *Pp.* 362–363, Courtesy of Office Depot. *P.* 366, Reproduced courtesy of Exxon Mobil Corporation. *P.* 370, Courtesy Barnes & Noble.com. *P.* 372, Courtesy Jersey Gardens Outlet Mall. *P.* 375, Courtesy of Tesco Stores, Ltd; Agency: Lowe-Howard Spink/London; Photographer: Tony Campbell. *P.* 377, Courtesy Cross Link, Inc. *P.* 380 (left), Courtesy Unilever, P.L.C.; (right), ©2000 by Reid Horn. *P.* 381, ©Steve Niedorf. *P.* 383, Advance Bar Code Technology, Inc. *P.* 384, Courtesy Tradeout.com.

Chapter 14

Photos/ads: *P.* 391, ©Ron Kimball. *P.* 393, Courtesy Colgate-Palmolive. *P.* 395 (left), Courtesy Act Media; (right), Courtesy Colgate-Palmolive. *P.* 396 (all), Courtesy Stanley Works. *P.* 399 (left), KELLOGG'S ® NUTRI-GRAIN® and KELLOGG'S® SNACK'UMS™ are trademarks of Kellogg Company. All rights reserved. Used with permission; (right), Courtesy Beech Nutrition Corporation. *P.* 401, Courtesy Good Housekeeping. *P.* 403 (left), Courtesy Florists Transworld Delivery; (right), Courtesy Campbell Soup Company; (in-text), Courtesy Ryder TRS. *P.* 407 (left), Courtesy Lipstream Networks, Inc.; (right), Courtesy Macromedia, Inc. *P.* 408 (left), Courtesy Nestle U.S.A., Inc.; Agency: McCann-Erickson L.A.; (right), Courtesy of Dome Industries, Inc. *P.* 410, Courtesy New Channel, Inc. *P.* 412 (left), Advertisement courtesy of Compaq Computer Corporation; Photo courtesy of Brad Harris; (right), Courtesy Oasis The Campaign Agency. *P.* 414 (left), Courtesy Almond Board of California; Agency: Sterling-Rice Group; (right), Courtesy of Alice/Paris. *P.* 415, Courtesy Reily Foods Company. *P.* 416 (left), ©2000 Network Solutions, Inc.; (right), ©Yahoo! Inc.

Chapter 15

Exhibits: *P.* 440, 15-3, exhibit suggested by Professor A. A. Brogowicz, Western Michigan University.

Photos/ads: *P.* 421, ©Timothy Archibald. *P.* 423, Photograph courtesy of Glaxo Holdings, p.l.c. *P.* 424 (left), Courtesy Boise Cascade Office Products; (right), Courtesy of Sauder Woodworking Company. *P.* 426 (left), Courtesy The Home Depot; (right), Courtesy Unisys. *P.* 427, Courtesy General Electric Company; Photo by Brownie Harris. *P.* 428, ©1996 Vickers & Beechler. *P.* 429, Courtesy Alcoa; Photo by Robert Feldman. *P.* 430, Courtesy The Clorox Company; Photo by Lisa Papel. *P.* 431, Courtesy Colgate-Palmolive. *P.* 434, Courtesy Salesforce.com. *P.* 437 (left), Courtesy Ross Roy Advertising Agency; (right), Courtesy Vcampus. *P.* 442 (left), Courtesy Experian, Inc.; (right), Courtesy Eiki International, Inc. *P.* 445, Courtesy Keebler.

Chapter 16

Exhibits: *P.* 453, 16-2, "2000 Advertising to Sales Ratios for the 200 Largest Ad Spending Industries," *Advertising Age*, July 24, 2000, and available from World Wide Web: <http://www.adage.com>. *P.* 460, 16-4, cost data from *Standard Rate and Data*, 2000, and sales estimates from "Forecast: Hazy," *Advertising Age*, June 18, 2001, p. 4ff.; "Top Forecaster Sees Lower Ad Growth," *Advertising Age*, June 11, 2001, p. 1ff.; "Choices, Choices," *The Wall Street Journal*, April 23, 2001, p. R12. *P.* 470, 16-5, "IBD Corporate Leaders: Advertising Agencies," *Investor's Business Daily*, May 8, 2001, p. B. 20; "Agency Report," *Advertising Age*, April 23, 2001; "A Chill Hits Madison Avenue," *The Wall Street Journal*, March 19, 2001, p. B1ff.

Photos/ads: *P.* 449, William D. Perreault, Jr. *P.* 452 (left), Michael Goldwater/Network; (right), ©The Procter & Gamble Company. Used by permission. *P.* 455, Reproduced courtesy of Exxon Mobil Corporation. *P.* 456, (left), Courtesy of Del Pharmaceuticals, Inc.; (right), ©Microsoft Corporation. Reproduced with permission. *P.* 457 (left and right), Courtesy of Brown Shoe Co., Inc. *P.* 461, (left), Courtesy Value Click; (right), Courtesy ClickAction. *P.* 462, David Taylor/Allsport. *P.* 464 (left), Courtesy National Geographic; (right), Courtesy Tripod. *P.* 466, Courtesy Birdsall Voss & Kloppenburg. *P.* 467, ©Ben Van Hook. *P.* 468, Courtesy Euro RSCG. *P.* 472, (left), Courtesy Bates USA South/Miami; *P.* 472 (right), Courtesy Greenfield Online, Inc. *P.* 473, (left), Lara Jo Regan/Gettysource Liaison Agency. *P.* 473 (right), Patrick Dori/Beach 'n Billboard™. *P.* 475, Courtesy of Circuit City; Photographer: Jeff Zaruba. *P.* 478 (right), Courtesy Catalina Marketing.

Chapter 17

Exhibits: *P.* 496, 17-6, exchange rate data is available from the Federal Reserve Bank; see also International Monetary Fund data available from World Wide Web: <http://www.imf.org/external/np/tre/sdr/drates> and Universal Currency Converter available from World Wide Web: <http://www.xe.net/currency>.

Photos/ads: *P.* 483, ©Patty Wood. *P.* 484, Courtesy Clarke Goward Agency. *P.* 488, Courtesy Merck Co., Inc. *P.* 489, Courtesy People PC. *P.* 490, Courtesy Hydra Pools. *P.* 492 (left), Courtesy Carnival Corporation; (right), Courtesy National

Trade Publications, Inc.; (in-text), Courtesy Circuit City Stores, Inc. *P.* 494 (left), Courtesy Palm, Inc.; Agency: Citron Haligman BedeCarré; Photograph by David Allan Brandt; (right), Courtesy Handspring *P.* 495 (left), Courtesy 8 in 1 Pet Products, Inc.; (right), Courtesy H.J. Heinz Company. Used with permission. *P.* 497, ©James Price/Sipa. *P.* 499 (left), Courtesy Cargill, Inc.; (right), Courtesy Euro RSCG/Beijing. *P.* 500, Mike Williams/Mercury. *P.* 502 (left), Courtesy Goodyear Tire & Rubber Company; (right), Courtesy of THUNKdesign. *P.* 504, Courtesy Auto-By-Tel Corporation. *P.* 505, ©The Procter & Gamble Company. Used by permission. *P.* 508, ©Fritz Hoffman.

Chapter 18

Exhibits: *P.* 517, 18-12, this exhibit is different from, but stimulated by, a graph that appears on the Satisfaction Management Systems, Inc., website <http://www.satmansys.com>.

Photos/ads: *P.* 513, ©Brian Coats. All Rights Reserved. *P.* 516, Courtesy Kohler Co.; (in-text), Don Smetzer/Tony Stone Images. *P.* 518, Anheuser-Busch Companies, St. Louis, MO. *P.* 521, Courtesy Colgate-Palmolive. *P.* 524, Owens-Corning Fiberglas Corporation. *P.* 526, Gillette Mark Henley/Impact. *P.* 532 (top), Courtesy Hallmark Cards, Inc.; Agency: Leo Burnett/Chicago, IL; (left), Courtesy Metform, L.L.C. (right), Courtesy Emerson Electric Company. *P.* 533, Courtesy Commerce One. *P.* 534 (left), Courtesy Deere & Co.; (right), Courtesy eCampus.com; Agency: Devito-Verdi Advertising. *P.* 536, Courtesy Colgate-Palmolive. *P.* 537 (left), Courtesy Dior; Photo: Albert Gordan; (right), Courtesy Audio Stream. *P.* 540 (left), Courtesy DoveBid.com; (right), Courtesy Worldbid.com.

Chapter 19

Exhibits: *P.* 554, 19-2, Marie Gaudard, Roland Coates, and Liz Freeman, “Accelerating Improvement,” *Quality Progress*, October 1991, pp. 81–88. *P.* 555, 19-3, Marie Gaudard, Roland Coates, and Liz Freeman, “Accelerating Improvement,” *Quality Progress*, October 1991, pp. 81–88.

Photos/ads: *P.* 545, Courtesy Allegiance Healthcare Association. *P.* 547, Courtesy Colgate-Palmolive. *P.* 548, Courtesy Lotus Development Corporation, an IBM company. *P.* 549 (left), Courtesy FedEx Services; (right), Courtesy Telerx. *P.* 550, Courtesy The Hertz Corporation. *P.* 552, Courtesy Toyota Motor Company. *P.* 557 (left), Courtesy Pozzi; (right), Courtesy Balboa Instruments, Inc. *P.* 558 (left), Courtesy McDonald’s Corporation; Photograph by Robert Mizono; (right), Courtesy Goodyear Tire & Rubber Courtesy. *P.* 561, Courtesy Information Resources, Inc. *P.* 567, Courtesy Allen Canning Company.

Chapter 20

Photos/ads: *P.* 577, William D. Perreault, Jr. *P.* 579, Courtesy Great Plains Software, Inc. *P.* 580, Network/SABA. *P.* 582 (left), Courtesy Prime Street Corporation; (right), Courtesy KeyBank. *P.* 583, Courtesy The Home Depot. *P.* 586, (left and right), Kellogg’s ® and package design are registered trademarks of Kellogg Company. All rights reserved. Used with permission. *P.* 587, O. Toscani; Courtesy United Colors of Benetton. *P.* 588 (left and right), Courtesy of Lear Corporation. *P.* 590, Courtesy KeyCorp; Photo by: Will Faller/Word Management Group. *P.* 592, Courtesy SMART Technologies, Inc. *P.* 596, Courtesy Colgate-Palmolive. *P.* 597 (left), Courtesy General Physics Corporation; (right), Courtesy Caliber Learning Network, Inc. *P.* 598, Courtesy Colgate-Palmolive.

Chapter 21

Exhibits: *P.* 617, 21-5, “1997 Survey of Buying Power,” *Sales & Marketing Management*, Supplement, 1997. *P.* 618, 21-6, based on data reported in *Fiber Box Industry Statistics*, Fiber Box Association and NAICS codes available from World Wide Web: <http://www.naics.com>.

Photos/ads: *P.* 603, William D. Perreault, Jr. *P.* 604, Jeff Tuttle. *P.* 606, William D. Perreault, Jr. *P.* 607 (left and right), Courtesy of 3M. *P.* 609 (left and right), ©The Procter & Gamble Company. Used by permission. *P.* 610, Courtesy Trief USA Inc., Food Technology. *P.* 612 (left), ©The Procter & Gamble Company. Used by permission; (right), Courtesy Garmin International. *P.* 614 (left), Courtesy ESRI; (right), Courtesy of Third Wave Research Group, Ltd. *P.* 621 (left), Courtesy Wesley Jessen Corporation; (right), Courtesy AMR Corporation. *P.* 627, Courtesy Pepsi-Cola Canada, Ltd. *P.* 628, Courtesy Frieda’s, Inc. *P.* 629, Courtesy Cummins, Inc. *P.* 630, Courtesy Planet HVAC.

Chapter 22

Exhibits: *P.* 646, 22-1, adapted and updated from discussions of an American Marketing Association Strategic Planning Committee.

Photos/ads: *P.* 635, Dod Miller/Network/SABA. *P.* 637, Robin Moyer/Time Magazine; (left), Courtesy Planetfeedback.com; (right), Courtesy Toyota Motor Sales, USA; Agency: Saatchi & Saatchi/Los Angeles; Photographer: Tim Damon. *P.* 639, Courtesy J.D.Power and Associates. *P.* 641, Courtesy The New Products Showcase & Learning Center. *P.* 642 (left), Courtesy The Hertz Corporation; (right), Courtesy Novatel Wireless, Inc.; Creative Director: Jimmy Long; Production Coordinator: Erika Kubli. *P.* 644, Courtesy IKEA. *P.* 648, Courtesy Ford Motor Company. *P.* 650, Courtesy Sensormatic. *P.* 652, Courtesy Princeton Video Image.

Appendix C

Exhibits: *P.* 687, C-2, available from World Wide Web: <http://www.stats.bls.gov/oco/ocos>; <http://www.adage.com/dataplace/archives>; <http://www.marketingmag.ca/content/34.97/table1>; <http://www.scip.org/salmid>; <http://www.scip.org/salgen>; <http://www.thomas-staffing.com/survey98/salary>; <http://www.mwsu.edu/htmldocs/departments/bus_admin/salary_survey>.

Photos/ads: *P.* 692, Courtesy General Motors.

Subject Index

Name Index