MARKETING MANAGEMENT 14E

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Marketing Management

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This book is dedicated to my wife and best friend, Nancy, with love.

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This book is dedicated to my wife, Punam, and my two daughters, Carolyn and Allison, with much love and thanks.

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About the Authors

Philip Kotler

Philip Kotler *is one of the world's leading authorities on marketing. He is the S. C. Johnson & Son Distinguished Professor of International Marketing at the Kellogg School of Management, Northwestern University. He received his master's degree at the University of Chicago and his Ph.D. at MIT, both in economics. He did postdoctoral work in mathematics at Harvard University and in behavioral science at the University of Chicago.*

Dr. Kotler is the coauthor of ***Principles of Marketing*** *and* ***Marketing: An Introduction.*** *His* ***Strategic Marketing for Nonprofit Organizations,*** *now in its seventh edition, is the best seller in that specialized area. Dr. Kotler's other books include* ***Marketing Models; The New Competition; Marketing Professional Services; Strategic Marketing for Educational Institutions; Marketing for Health Care Organizations; Marketing Congregations; High Visibility; Social Marketing; Marketing Places; The Marketing of Nations; Marketing for Hospitality and Tourism; Standing Room Only—Strategies for Marketing the Performing Arts; Museum Strategy and Marketing; Marketing Moves; Kotler on Marketing; Lateral Marketing: Ten Deadly Marketing Sins;*** *and* ***Corporate Social Responsibility.***

In addition, he has published more than one hundred articles in leading journals, including the ***Harvard Business Review, Sloan Management Review, Business Horizons, California Management Review,*** *the* ***Journal of Marketing,*** *the* ***Journal of Marketing Research, Management Science,*** *the* ***Journal of Business Strategy,*** *and* ***Futurist.*** *He is the only three-time winner of the coveted Alpha Kappa Psi award for the best annual article published in the* ***Journal of Marketing.***

Professor Kotler was the first recipient of the American Marketing Association's (AMA) Distinguished Marketing Educator Award (1985). The European Association of Marketing Consultants and Sales Trainers awarded him their Prize for Marketing Excellence. He was chosen as the Leader in Marketing Thought by the Academic Members of the AMA in a 1975 survey. He also received the 1978 Paul Converse Award of the AMA, honoring his original contribution to marketing. In 1995, the Sales and Marketing Executives International (SMEI) named him Marketer of the Year. In 2002, Professor Kotler received the Distinguished Educator Award from the Academy of Marketing Science. He has received honorary doctoral degrees from Stockholm University, the University of Zurich, Athens University of Economics and Business, DePaul University, the Cracow School of Business and Economics, Groupe H.E.C. in Paris, the Budapest School of Economic Science and Public Administration, and the University of Economics and Business Administration in Vienna.

Professor Kotler has been a consultant to many major U.S. and foreign companies, including IBM, General Electric, AT&T, Honeywell, Bank of America, Merck, SAS Airlines, Michelin, and others in the areas of marketing strategy and planning, marketing organization, and international marketing.

He has been Chairman of the College of Marketing of the Institute of Management Sciences, a Director of the American Marketing Association, a Trustee of the Marketing Science Institute, a Director of the MAC Group, a member of the Yankelovich Advisory Board, and a member of the Copernicus Advisory Board. He was a member of the Board of Governors of the School of the Art Institute of Chicago and a member of the Advisory Board of the Drucker Foundation. He has traveled extensively throughout Europe, Asia, and South America, advising and lecturing to many companies about global marketing opportunities.

Kevin Lane Keller

Kevin Lane Keller *is widely recognized as one of the top marketing academics of the last 25 years. He is the E. B. Osborn Professor of Marketing at the Tuck School of Business at Dartmouth College. Professor Keller has degrees from Cornell, Carnegie-Mellon, and Duke universities. At Dartmouth, he teaches MBA courses on marketing management and strategic brand management and lectures in executive programs on those topics.*

Previously, Professor Keller was on the faculty of the Graduate School of Business at Stanford University, where he also served as the head of the marketing group. Additionally, he has been on the marketing faculty at the University of California at Berkeley and the University of North Carolina at Chapel Hill, been a visiting professor at Duke University and the Australian Graduate School of Management, and has two years of industry experience as Marketing Consultant for Bank of America.

Professor Keller's general area of expertise lies in marketing strategy and planning, and branding. His specific research interest is in how understanding theories and concepts related to consumer behavior can improve marketing strategies. His research has been published in three of the major marketing journals—the ***Journal of Marketing,*** *the* ***Journal of Marketing Research,*** *and the* ***Journal of Consumer Research.*** *He also has served on the Editorial Review Boards of those journals. With over ninety published papers, his research has been extensively cited and has received numerous awards.*

Professor Keller is acknowledged as one of the international leaders in the study of brands and branding. His textbook on those subjects, ***Strategic Brand Management,*** *has been adopted at top business schools and leading firms around the world and has been heralded as the "bible of branding."*

Actively involved with industry, he has worked on a host of different types of marketing projects. He has served as a consultant and advisor to marketers for some of the world's most successful brands, including Accenture, American Express, Disney, Ford, Intel, Levi Strauss, Procter & Gamble, and Samsung. Additional brand consulting activities have been with other top companies such as Allstate, Beiersdorf (Nivea), BlueCross BlueShield, Campbell's, Colgate, Eli Lilly, ExxonMobil, General Mills, GfK, Goodyear, Intuit, Johnson & Johnson, Kodak, L.L.Bean, Mayo Clinic, Nordstrom, Ocean Spray, Red Hat, SAB Miller, Shell Oil, Starbucks, Unilever, and Young & Rubicam. He has also served as an academic trustee for the Marketing Science Institute.

A popular and highly sought-after speaker, he has made speeches and conducted marketing seminars to top executives in a variety of forums. Some of his senior management and marketing training clients have included such diverse business organizations as Cisco, Coca-Cola, Deutsche Telekom, GE, Google, IBM, Macy's, Microsoft, Nestle, Novartis, and Wyeth. He has lectured all over the world, from Seoul to Johannesburg, from Sydney to Stockholm, and from Sao Paulo to Mumbai. He has served as keynote speaker at conferences with hundreds to thousands of participants.

An avid sports, music, and film enthusiast, in his so-called spare time, he has helped to manage and market, as well as serve as executive producer for, one of Australia's great rock and roll treasures, The Church, as well as American power-pop legends Dwight Twilley and Tommy Keene. Additionally, he is the Principal Investor and Marketing Advisor for Second Motion Records. He is also on the Board of Directors for The Doug Flutie, Jr. Foundation for Autism and the Montshire Museum of Science. Professor Keller lives in Etna, NH, with his wife, Punam (also a Tuck marketing professor), and his two daughters, Carolyn and Allison.

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Preface

What's New in the 14th Edition

The overriding goal of the revision for the 14th edition of *Marketing Management* was to create as comprehensive, current, and engaging MBA marketing textbook as possible. Where appropriate, new material was added, old material was updated, and no longer relevant or necessary material was deleted. *Marketing Management,* 14th edition, allows those instructors who have used the 13th edition to build on what they have learned and done while at the same time offering a text that is unsurpassed in breadth, depth, and relevance for students experiencing *Marketing Management* for the first time.

The successful across-chapter reorganization into eight parts that began with the 12th edition of *Marketing Management* has been preserved, as well as many of the favorably received within-chapter features that have been introduced through the years, such as topical chapter openers, in-text boxes highlighting noteworthy companies or issues, and the Marketing Insight and Marketing Memo boxes that provide in-depth conceptual and practical commentary.

Significant changes to the 14th edition include:

- Brand new opening vignettes for each chapter set the stage for the chapter material to follow. By covering topical brands or companies, the vignettes are great classroom discussion starters.
- Almost half of the in-text boxes are new. These boxes provide vivid illustrations of chapter concepts using actual companies and situations. The boxes cover a variety of products, services, and markets, and many have accompanying illustrations in the form of ads or product shots.
- The end-of-chapter section now includes two Marketing in Action mini-cases highlighting innovative, insightful marketing accomplishments by leading organizations. Each case includes questions that promote classroom discussion and analysis.
- Dramatic changes in the marketing environment have occurred in recent years—in particular, the economic, natural, and technological environments. Throughout the new edition, these three areas are addressed, sometimes via new subsections in chapters, with emphasis on marketing during economic downturns and recessions, the rise of sustainability and "green" marketing, and the increased development of computing power, the Internet, and mobile phones. These new marketing realities make it more important than ever for marketers to be holistic in what they do, the overriding theme of this text.
- Chapter 19, on personal communications, received a significant update with much new material to reflect the changing social media landscape and communications environment.
- Forecasting has been moved to Chapter 3 where it fits well with the material on the marketing environment.
- Chapter 5 was re-titled as "Creating Long-Term Loyalty Relationships" to better reflect its stronger area of emphasis.
- Chapters 10 and 11 were reorganized and material swapped. Chapter 11 was also re-titled as "Competitive Dynamics" to acknowledge the significant material added on marketing in an economic downturn.

What Is *Marketing Management* All About?

Marketing Management is the leading marketing text because its content and organization consistently reflect changes in marketing theory and practice. The very first edition of *Marketing Management,* published in 1967, introduced the concept that companies must be customer-and-market driven. But there was little mention of what have now become fundamental topics such as segmentation, targeting, and positioning. Concepts such as brand equity, customer value analysis, database marketing, e-commerce, value networks, hybrid channels, supply chain management, and integrated marketing communications were not even part of the marketing vocabulary then. *Marketing Management* continues to reflect the changes in the marketing discipline over the past 40 years.

Firms now sell goods and services through a variety of direct and indirect channels. Mass advertising is not nearly as effective as it was, so marketers are exploring new forms of communication, such as experiential, entertainment, and viral marketing. Customers are telling companies what types of product or services they want and when, where, and how they want to buy them. They are increasingly reporting to other consumers what they think of specific companies and products—using e-mail, blogs, podcasts, and other digital media to do so. Company messages are becoming a smaller fraction of the total "conversation" about products and services.

In response, companies have shifted gears from managing product portfolios to managing *customer* portfolios, compiling databases on individual customers so they can understand them better and construct individualized offerings and messages. They are doing less product and service standardization and more niching and customization. They are replacing monologues with customer dialogues. They are improving their methods of measuring customer profitability and customer lifetime value. They are intent on measuring the return on their marketing investment and its impact on shareholder value. They are also concerned with the ethical and social implications of their marketing decisions.

As companies change, so does their marketing organization. Marketing is no longer a company department charged with a limited number of tasks—it is a company-wide undertaking. It drives the company's vision, mission, and strategic planning. Marketing includes decisions like who the company wants as its customers, which of their needs to satisfy, what products and services to offer, what prices to set, what communications to send and receive, what channels of distribution to use, and what partnerships to develop. Marketing succeeds only when all departments work together to achieve goals: when engineering designs the right products; finance furnishes the required funds; purchasing buys high-quality materials; production makes high-quality products on time; and accounting measures the profitability of different customers, products, and areas.

To address all these different shifts, good marketers are practicing holistic marketing. *Holistic marketing* is the development, design, and implementation of marketing programs, processes, and activities that recognize the breadth and interdependencies of today's marketing environment. Four key dimensions of holistic marketing are:

1. ***Internal marketing***—ensuring everyone in the organization embraces appropriate marketing principles, especially senior management.
2. ***Integrated marketing***—ensuring that multiple means of creating, delivering, and communicating value are employed and combined in the best way.
3. ***Relationship marketing***—having rich, multifaceted relationships with customers, channel members, and other marketing partners.
4. ***Performance marketing***—understanding returns to the business from marketing activities and programs, as well as addressing broader concerns and their legal, ethical, social, and environmental effects.

These four dimensions are woven throughout the book and at times spelled out explicitly. The text specifically addresses the following tasks that constitute modern marketing management in the 21st century:

1. Developing marketing strategies and plans
2. Capturing marketing insights and performance
3. Connecting with customers
4. Building strong brands
5. Shaping the market offerings
6. Delivering and communicating value
7. Creating successful long-term growth

What Makes *Marketing Management* the Marketing Leader?

Marketing is of interest to everyone, whether they are marketing goods, services, properties, persons, places, events, information, ideas, or organizations. As it has maintained its respected position among students, educators, and businesspeople, *Marketing Management* has kept up-to-date and contemporary. Students (and instructors) feel that the book is talking directly to them in terms of both content and delivery.

Marketing Management owes its marketplace success to its ability to maximize three dimensions that characterize the best marketing texts—depth, breadth, and relevance—as measured by the following criteria:

- ***Depth.*** Does the book have solid academic grounding? Does it contain important theoretical concepts, models, and frameworks? Does it provide conceptual guidance to solve practical problems?
- ***Breadth.*** Does the book cover all the right topics? Does it provide the proper amount of emphasis on those topics?
- ***Relevance.*** Does the book engage the reader? Is it interesting to read? Does it have lots of compelling examples?

The 14th edition builds on the fundamental strengths of past editions that collectively distinguish it from all other marketing management texts:

- ***Managerial Orientation.*** The book focuses on the major decisions that marketing managers and top management face in their efforts to harmonize the organization's objectives, capabilities, and resources with marketplace needs and opportunities.
- ***Analytical Approach.*** *Marketing Management* presents conceptual tools and frameworks for analyzing recurring problems in marketing management. Cases and examples illustrate effective marketing principles, strategies, and practices.
- ***Multidisciplinary Perspective.*** The book draws on the rich findings of various scientific disciplines—economics, behavioral science, management theory, and mathematics—for fundamental concepts and tools directly applicable to marketing challenges.
- ***Universal Applications.*** The book applies strategic thinking to the complete spectrum of marketing: products, services, persons, places, information, ideas and causes; consumer and business markets; profit and nonprofit organizations; domestic and foreign companies; small and large firms; manufacturing and intermediary businesses; and low- and high-tech industries.
- ***Comprehensive and Balanced Coverage.*** *Marketing Management* covers all the topics an informed marketing manager needs to understand to execute strategic, tactical, and administrative marketing.

Student Supplements

mymarketinglab

Mymarketinglab gives you the opportunity to test yourself on key concepts and skills, track your progress through the course and use the personalized study plan activities—all to help you achieve success in the classroom.

Features include:

- ***Personalized Study Plans***—Pre- and post-tests with remediation activities directed to help you understand and apply the concepts where you need the most help.

- ***Interactive Elements***—A wealth of hands-on activities and exercises let you experience and learn actively.
- ***Current Events Articles***—Concise, highly relevant articles about the latest marketing related news with thought provoking short essay questions.
- ***Critical Thinking Challenge Question***—These questions measure core critical-thinking skills through the context of marketing applications. To answer these questions, you will need to recognize assumptions, evaluate arguments, identify relevant issues, draw inferences, spot logical flaws, and recognize similarities between arguments. Knowledge of marketing content picked up through the text and the class will help you zero in on the correct issues, but you will still need to exercise critical judgment in order to get the correct answer.

Marketing Management Cases

Prentice Hall Custom Business Resources can provide instructors and students with all the cases and articles needed to enhance and maximize learning in a marketing course. Instructors can create Custom CoursePacks or Custom CaseBooks. Resources include top-tier cases from Darden, Harvard, Ivey, NACRA, and Thunderbird, plus full access to a database of articles. For details on how to order these value-priced packages, contact your local representative or visit the Prentice Hall Custom Business Resources Web site at www.prenhall.com/custombusiness.

Marketing Management Video Gallery

Make your classroom "newsworthy." PH has updated the Marketing Management video library for the 14th edition. A full library of video segments accompany this edition featuring issue-focused footage such as interviews with top executives, objective reporting by real news anchors, industry research analysts, and marketing and advertising campaign experts. A full video guide, including synopses, discussion questions, and teaching suggestions, is available on the IRC (online and on CD-ROM) to accompany the video library.

The Marketing Plan Handbook, 4th edition, with Marketing Plan Pro

Marketing Plan Pro is a highly rated commercial software program that guides you through the entire marketing plan process. The software is totally interactive and features 10 sample marketing plans, step-by-step guides, and customizable charts. Customize your marketing plan to fit your marketing needs by following easy-to-use plan wizards. Follow the clearly outlined steps from strategy to implementation. Click to print, and your text, spreadsheet, and charts come together to create a powerful marketing plan. The new *The Marketing Plan Handbook,* by Marian Burk Wood, supplements the in-text marketing plan material with an in-depth guide to what student marketers really need to know. A structured learning process leads to a complete and actionable marketing plan. Also included are timely, real-world examples that illustrate key points, sample marketing plans, and Internet resources.

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Marketing Management

PART 1 Understanding Marketing Management

Chapter **1** | **Defining Marketing for the 21st Century**
Chapter **2** | Developing Marketing Strategies and Plans

Chapter 1

One of the key factors in Barack Obama's victory in the 2008 U.S. presidential election was a well-designed and well-executed marketing program.

In This Chapter, We Will Address the Following Questions

1. **Why is marketing important?**
2. **What is the scope of marketing?**
3. **What are some core marketing concepts?**
4. **How has marketing management changed in recent years?**
5. **What are the tasks necessary for successful marketing management?**

Defining Marketing for the 21st Century

Formally or informally, people and organizations engage in a vast number of activities we could call marketing. Good marketing has become increasingly vital for success. But what constitutes good marketing is constantly evolving and changing. The election of Barack Obama as the 44th President of the United States was attributed, in part, to the adoption of new marketing practices.

The "Obama for America" presidential campaign combined a charismatic politician, a powerful message of hope, and a thoroughly integrated modern marketing program. The marketing plan needed to accomplish two very different goals: expand the electorate via broader messages while targeting very specific audiences. Multimedia tactics combined offline and online media, as well as free and paid media. When research showed that the more voters learned about Obama, the more they identified with him, the campaign added long-form videos to traditional print, broadcast, and outdoor ads. The Obama team—aided by its agency GMMB—also put the Internet at the heart of the campaign, letting it serve as the "central nervous system" for PR, advertising, advance work, fund-raising, and organizing in all 50 states. Their guiding philosophy was to "build online tools to help people self-organize and then get out of their way." Technology was a means to "empower people to do what they were interested in doing in the first place." Although social media like Facebook, Meetup, YouTube, and Twitter were crucial, perhaps Obama's most powerful digital tool was a massive 13.5 million–name e-mail list. What were the results of these online efforts? About $500 million (most in sums of less than $100) was raised online from 3 million donors; 35,000 groups organized through the Web site, My.BarackObama.com; 1,800 videos posted to YouTube; the creation of Facebook's most popular page; and, of course, the election of the next President of the United States.[1]

Good marketing is no accident, but a result of careful planning and execution using state-of-the-art tools and techniques. It becomes both an art and a science as marketers strive to find creative new solutions to often-complex challenges amid profound changes in the 21st century marketing environment. In this book, we describe how top marketers balance discipline and imagination to address these new marketing realities. In the first chapter, we lay the foundation by reviewing important marketing concepts, tools, frameworks, and issues.

The Importance of Marketing

The first decade of the 21st century challenged firms to prosper financially and even survive in the face of an unforgiving economic environment. Marketing is playing a key role in addressing those challenges. Finance, operations, accounting, and other business functions won't really matter without sufficient demand for products and services so the firm can make a profit. In other words, there must be a top line for there to be a bottom line. Thus financial success often depends on marketing ability.

Marketing's broader importance extends to society as a whole. Marketing has helped introduce and gain acceptance of new products that have eased or enriched people's lives. It can inspire enhancements in existing products as marketers innovate to improve their position in the marketplace. Successful marketing builds demand for products and services, which, in turn, creates jobs. By contributing to the bottom line, successful marketing also allows firms to more fully engage in socially responsible activities.[2]

CEOs recognize the role of marketing in building strong brands and a loyal customer base, intangible assets that contribute heavily to the value of a firm. Consumer goods makers, health care insurers, nonprofit organizations, and industrial product manufacturers all trumpet their latest marketing achievements. Many now have a chief marketing officer (CMO) to put marketing on a more equal footing with other C-level executives such as the chief financial officer (CFO) or chief information officer (CIO).[3]

Making the right marketing decisions isn't always easy. One survey of more than a thousand senior marketing and sales executives revealed that although 83 percent felt that marketing and sales capabilities were a top priority for their organization's success, in rating their actual marketing effectiveness, only 6 percent felt that they were doing an "extremely good" job.[4]

Marketers must decide what features to design into a new product or service, what prices to set, where to sell products or offer services, and how much to spend on advertising, sales, the Internet, or mobile marketing. They must make those decisions in an Internet-fueled environment where consumers, competition, technology, and economic forces change rapidly, and the consequences of the marketer's words and actions can quickly multiply.

Domino's When two employees in Conover, North Carolina, posted a YouTube video showing themselves preparing sandwiches while putting cheese up their noses and violating other health-code standards, Domino's learned an important lesson about PR and brand communications in a modern era. Once it found the employees—who claimed the video was just a gag and the sandwiches were never delivered—the company fired them. In just a few days, however, there had been more than a million downloads of the video and a wave of negative publicity. When research showed that perception of quality for the brand had turned from positive to negative in that short time, the firm aggressively took action through social media such as Twitter, YouTube, and others.[5]

After a distasteful video was posted online by two employees, Domino's Pizza learned a valuable lesson about the power of social media.

As Domino's learned, in an era of connectivity, it is important to respond swiftly and decisively. While marketers were coming to grips with this increasingly wired world, the economic recession of 2008–2009 brought budget cuts and intense pressure from senior management to make every marketing dollar count. More than ever, marketers need to understand and adapt to the latest marketplace developments. At greatest risk are firms that fail to carefully monitor their customers and competitors, continuously improve their value offerings and marketing strategies, or satisfy their employees, stockholders, suppliers, and channel partners in the process.

Skillful marketing is a never-ending pursuit. Consider how some top firms drive business:

- OfficeMax promoted a new line of products by professional organizer Peter Walsh with Web videos and in-store events featuring local experts demonstrating his OfficeMax-branded organizing system.
- eBay promoted its "Let's Make a Daily Deal" holiday promotion by recreating the famous 1970s TV game show *Let's Make a Deal* in Times Square, adding an online component so people outside New York City could play.
- Johnson & Johnson launched BabyCenter.com to help new parents. Its success is thought to have contributed to subscription slumps experienced by parenting magazines.

Good marketers are always seeking new ways to satisfy customers and beat competition.[6]

The Scope of Marketing

To prepare to be a marketer, you need to understand what marketing is, how it works, who does it, and what is marketed.

What Is Marketing?

Marketing is about identifying and meeting human and social needs. One of the shortest good definitions of marketing is "meeting needs profitably." When eBay recognized that people were unable to locate some of the items they desired most, it created an online auction clearinghouse. When IKEA noticed that people wanted good furnishings at substantially lower prices, it created knockdown furniture. These two firms demonstrated marketing savvy and turned a private or social need into a profitable business opportunity.

The American Marketing Association offers the following formal definition: *Marketing is the activity, set of institutions, and processes for creating, communicating, delivering, and exchanging offerings that have value for customers, clients, partners, and society at large.*[7] Coping with these exchange processes calls for a considerable amount of work and skill. *Marketing management* takes place when at least one party to a potential exchange thinks about the means of achieving desired responses from other parties. Thus we see **marketing management** as *the art and science of choosing target markets and getting, keeping, and growing customers through creating, delivering, and communicating superior customer value*.

We can distinguish between a social and a managerial definition of marketing. A social definition shows the role marketing plays in society; for example, one marketer has said that marketing's role is to "deliver a higher standard of living." Here is a social definition that serves our purpose: *Marketing is a societal process by which individuals and groups obtain what they need and want through creating, offering, and freely exchanging products and services of value with others*.

Managers sometimes think of marketing as "the art of selling products," but many people are surprised when they hear that selling is *not* the most important part of marketing! Selling is only the tip of the marketing iceberg. Peter Drucker, a leading management theorist, puts it this way:

> There will always, one can assume, be need for some selling. But the aim of marketing is to make selling superfluous. The aim of marketing is to know and understand the customer so well that the product or service fits him and sells itself. Ideally, marketing should result in a customer who is ready to buy. All that should be needed then is to make the product or service available.[8]

When Nintendo designed its Wii game system, when Canon launched its ELPH digital camera line, and when Toyota introduced its Prius hybrid automobile, these manufacturers were swamped with orders because they had designed the right product, based on doing careful marketing homework.

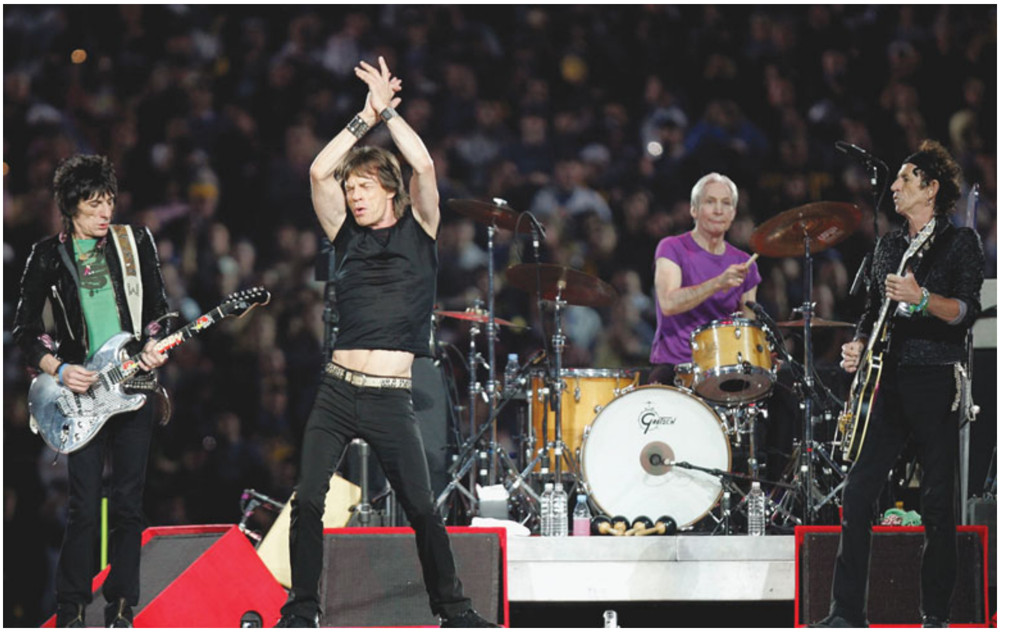
What Is Marketed?

Marketers market 10 main types of entities: goods, services, events, experiences, persons, places, properties, organizations, information, and ideas. Let's take a quick look at these categories.

GOODS Physical goods constitute the bulk of most countries' production and marketing efforts. Each year, U.S. companies market billions of fresh, canned, bagged, and frozen food products and millions of cars, refrigerators, televisions, machines, and other mainstays of a modern economy.

SERVICES As economies advance, a growing proportion of their activities focuses on the production of services. The U.S. economy today produces a 70–30 services-to-goods mix. Services include the work of airlines, hotels, car rental firms, barbers and beauticians, maintenance and repair people, and accountants, bankers, lawyers, engineers, doctors, software programmers, and management consultants. Many market offerings mix goods and services, such as a fast-food meal.

EVENTS Marketers promote time-based events, such as major trade shows, artistic performances, and company anniversaries. Global sporting events such as the Olympics and the World Cup are promoted aggressively to both companies and fans.



The Rolling Stones have done a masterful job of marketing their rebellious form of rock and roll to audiences of all ages.

EXPERIENCES By orchestrating several services and goods, a firm can create, stage, and market experiences. Walt Disney World's Magic Kingdom allows customers to visit a fairy kingdom, a pirate ship, or a haunted house. There is also a market for customized experiences, such as a week at a baseball camp with retired baseball greats, a four-day rock and roll fantasy camp, or a climb up Mount Everest.[9]

PERSONS Artists, musicians, CEOs, physicians, high-profile lawyers and financiers, and other professionals all get help from celebrity marketers.[10] Some people have done a masterful job of marketing themselves—David Beckham, Oprah Winfrey, and the Rolling Stones. Management consultant Tom Peters, a master at self-branding, has advised each person to become a "brand."

PLACES Cities, states, regions, and whole nations compete to attract tourists, residents, factories, and company headquarters.[11] Place marketers include economic development specialists, real estate agents, commercial banks, local business associations, and advertising and public relations agencies. The Las Vegas Convention & Visitors Authority succeeded with its provocative ad campaign, "What Happens Here, Stays Here," portraying Las Vegas as "an adult playground." In the recession of 2008, however, convention attendance declined. Concerned about its potentially out-of-step racy reputation, the Authority took out a full-page *BusinessWeek* ad to defend its ability to host serious business meetings. Unfortunately, the 2009 summer box office blockbuster *The Hangover*, set in a debauched Las Vegas, likely did not help the city position itself as a choice business and tourist destination.[12]

PROPERTIES Properties are intangible rights of ownership to either real property (real estate) or financial property (stocks and bonds). They are bought and sold, and these exchanges require marketing. Real estate agents work for property owners or sellers, or they buy and sell residential or commercial real estate. Investment companies and banks market securities to both institutional and individual investors.

ORGANIZATIONS Organizations work to build a strong, favorable, and unique image in the minds of their target publics. In the United Kingdom, Tesco's "Every Little Helps" marketing program reflects the food marketer's attention to detail in everything it does, within the store and in the community and environment. The campaign has vaulted Tesco to the top of the UK supermarket chain industry. Universities, museums, performing arts organizations, corporations, and nonprofits all use marketing to boost their public images and compete for audiences and funds.

INFORMATION The production, packaging, and distribution of information are major industries.[13] Information is essentially what books, schools, and universities produce, market, and distribute at a price to parents, students, and communities. The former CEO of Siemens Medical

For a city like Las Vegas that thrives on tourism, good marketing is essential.

Solutions USA, Tom McCausland, says, "[our product] is not necessarily an X-ray or an MRI, but information. Our business is really health care information technology, and our end product is really an electronic patient record: information on lab tests, pathology, and drugs as well as voice dictation."[14]

IDEAS Every market offering includes a basic idea. Charles Revson of Revlon once observed: "In the factory we make cosmetics; in the drugstore we sell hope." Products and services are platforms for delivering some idea or benefit. Social marketers are busy promoting such ideas as "Friends Don't Let Friends Drive Drunk" and "A Mind Is a Terrible Thing to Waste."

Who Markets?

MARKETERS AND PROSPECTS A **marketer** is someone who seeks a response—attention, a purchase, a vote, a donation—from another party, called the **prospect**. If two parties are seeking to sell something to each other, we call them both marketers.

One of the most important areas of marketing is the work that social marketers do to promote socially desirable behaviors.

Marketers are skilled at stimulating demand for their products, but that's a limited view of what they do. Just as production and logistics professionals are responsible for supply management, marketers are responsible for demand management. They seek to influence the level, timing, and composition of demand to meet the organization's objectives. Eight demand states are possible:

1. ***Negative demand***—Consumers dislike the product and may even pay to avoid it.
2. ***Nonexistent demand***—Consumers may be unaware of or uninterested in the product.
3. ***Latent demand***—Consumers may share a strong need that cannot be satisfied by an existing product.
4. ***Declining demand***—Consumers begin to buy the product less frequently or not at all.
5. ***Irregular demand***—Consumer purchases vary on a seasonal, monthly, weekly, daily, or even hourly basis.
6. ***Full demand***—Consumers are adequately buying all products put into the marketplace.
7. ***Overfull demand***—More consumers would like to buy the product than can be satisfied.
8. ***Unwholesome demand***—Consumers may be attracted to products that have undesirable social consequences.

In each case, marketers must identify the underlying cause(s) of the demand state and determine a plan of action to shift demand to a more desired state.

MARKETS Traditionally, a "market" was a physical place where buyers and sellers gathered to buy and sell goods. Economists describe a *market* as a collection of buyers and sellers who transact over a particular product or product class (such as the housing market or the grain market).

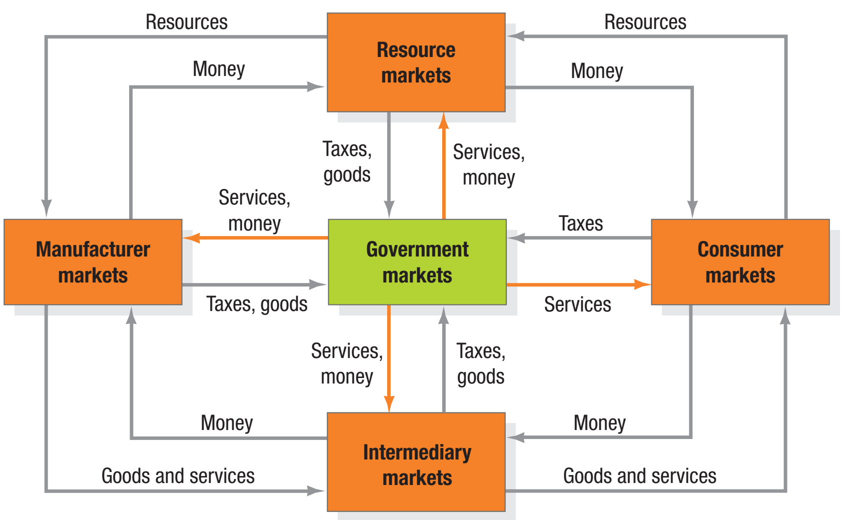
Five basic markets and their connecting flows are shown in Figure 1.1. Manufacturers go to resource markets (raw material markets, labor markets, money markets), buy resources and turn them into goods and services, and sell finished products to intermediaries, who sell them to consumers. Consumers sell their labor and receive money with which they pay for goods and services. The government collects tax revenues to buy goods from resource, manufacturer, and intermediary markets and uses these goods and services to provide public services. Each nation's economy, and the global economy, consists of interacting sets of markets linked through exchange processes.

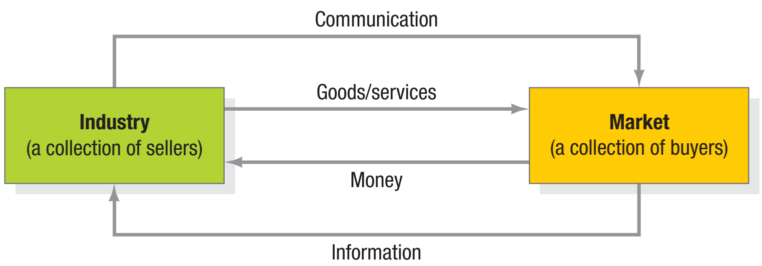
Marketers use the term **market** to cover various groupings of customers. They view sellers as constituting the industry and buyers as constituting the market. They talk about need markets (the diet-seeking market), product markets (the shoe market), demographic markets (the youth market), and geographic markets (the Chinese market); or they extend the concept to cover voter markets, labor markets, and donor markets, for instance.

Figure 1.2 shows the relationship between the industry and the market. Sellers and buyers are connected by four flows. Sellers send goods and services and communications such as ads and direct mail to the market; in return they receive money and information such as customer attitudes and sales data. The inner loop shows an exchange of money for goods and services; the outer loop shows an exchange of information.

|Fig. 1.1|

Structure of Flows in a Modern Exchange Economy





|Fig. 1.2|

A Simple Marketing System

KEY CUSTOMER MARKETS Consider the following key customer markets: consumer, business, global, and nonprofit.

Consumer Markets Companies selling mass consumer goods and services such as juices, cosmetics, athletic shoes, and air travel spend a great deal of time establishing a strong brand image by developing a superior product and packaging, ensuring its availability, and backing it with engaging communications and reliable service.

Business Markets Companies selling business goods and services often face well-informed professional buyers skilled at evaluating competitive offerings. Business buyers buy goods to make or resell a product to others at a profit. Business marketers must demonstrate how their products will help achieve higher revenue or lower costs. Advertising can play a role, but the sales force, the price, and the company's reputation may play a greater one.

Global Markets Companies in the global marketplace must decide which countries to enter; how to enter each (as an exporter, licenser, joint venture partner, contract manufacturer, or solo manufacturer); how to adapt product and service features to each country; how to price products in different countries; and how to design communications for different cultures. They face different requirements for buying and disposing of property; cultural, language, legal and political differences; and currency fluctuations. Yet, the payoff can be huge.

Nonprofit and Governmental Markets Companies selling to nonprofit organizations with limited purchasing power such as churches, universities, charitable organizations, and government agencies need to price carefully. Lower selling prices affect the features and quality the seller can build into the offering. Much government purchasing calls for bids, and buyers often focus on practical solutions and favor the lowest bid in the absence of extenuating factors.[15]

MARKETPLACES, MARKETSPACES, AND METAMARKETS The *marketplace* is physical, such as a store you shop in; the *marketspace* is digital, as when you shop on the Internet.[16] Northwestern University's Mohan Sawhney has proposed the concept of a *metamarket* to describe a cluster of complementary products and services closely related in the minds of consumers, but spread across a diverse set of industries.

Metamarkets are the result of marketers packaging a system that simplifies carrying out these related product/service activities. The automobile metamarket consists of automobile manufacturers, new and used car dealers, financing companies, insurance companies, mechanics, spare parts dealers, service shops, auto magazines, classified auto ads in newspapers, and auto sites on the Internet.

A car buyer will engage many parts of this metamarket, creating an opportunity for *metamediaries* to assist him or her in moving seamlessly through them. Edmund's (www.edmunds.com) lets a car buyer find the stated features and prices of different automobiles and easily click to other sites to search for the lowest-price dealer for financing, accessories, and used cars. Metamediaries also serve other metamarkets, such as home ownership, parenting and baby care, and weddings.[17]

Core Marketing Concepts

To understand the marketing function, we need to understand the following core set of concepts.

Needs, Wants, and Demands

Needs are the basic human requirements such as for air, food, water, clothing, and shelter. Humans also have strong needs for recreation, education, and entertainment. These needs become *wants* when they are directed to specific objects that might satisfy the need. A U.S. consumer needs food but may want a Philly cheesesteak and an iced tea. A person in Afghanistan needs food but may want rice, lamb, and carrots. Wants are shaped by our society.

Demands are wants for specific products backed by an ability to pay. Many people want a Mercedes; only a few are able to buy one. Companies must measure not only how many people want their product, but also how many are willing and able to buy it.

These distinctions shed light on the frequent criticism that "marketers create needs" or "marketers get people to buy things they don't want." Marketers do not create needs: Needs preexist marketers. Marketers, along with other societal factors, influence wants. They might promote the idea that a Mercedes would satisfy a person's need for social status. They do not, however, create the need for social status.

Some customers have needs of which they are not fully conscious or that they cannot articulate. What does it mean when the customer asks for a "powerful" lawn mower or a "peaceful" hotel? The marketer must probe further. We can distinguish five types of needs:

1. Stated needs (The customer wants an inexpensive car.)
2. Real needs (The customer wants a car whose operating cost, not initial price, is low.)
3. Unstated needs (The customer expects good service from the dealer.)
4. Delight needs (The customer would like the dealer to include an onboard GPS navigation system.)
5. Secret needs (The customer wants friends to see him or her as a savvy consumer.)

Responding only to the stated need may shortchange the customer.[18] Consumers did not know much about cellular phones when they were first introduced, and Nokia and Ericsson fought to shape consumer perceptions of them. To gain an edge, companies must help customers learn what they want.

Target Markets, Positioning, and Segmentation

Not everyone likes the same cereal, restaurant, college, or movie. Therefore, marketers start by dividing the market into segments. They identify and profile distinct groups of buyers who might prefer or require varying product and service mixes by examining demographic, psychographic, and behavioral differences among buyers.

After identifying market segments, the marketer decides which present the greatest opportunities—which are its *target markets.* For each, the firm develops a *market offering* that it *positions* in the minds of the target buyers as delivering some central benefit(s). Volvo develops its cars for buyers to whom safety is a major concern, positioning its vehicles as the safest a customer can buy.

Offerings and Brands

Companies address customer needs by putting forth a **value proposition**, a set of benefits that satisfy those needs. The intangible value proposition is made physical by an *offering,* which can be a combination of products, services, information, and experiences.

A *brand* is an offering from a known source. A brand name such as McDonald's carries many associations in people's minds that make up its image: hamburgers, cleanliness, convenience, courteous service, and golden arches. All companies strive to build a brand image with as many strong, favorable, and unique brand associations as possible.

Value and Satisfaction

The buyer chooses the offerings he or she perceives to deliver the most *value,* the sum of the tangible and intangible benefits and costs to her. Value, a central marketing concept, is primarily a combination of quality, service, and price (qsp), called the *customer value triad*. Value perceptions increase with quality and service but decrease with price.

We can think of marketing as the identification, creation, communication, delivery, and monitoring of customer value. *Satisfaction* reflects a person's judgment of a product's perceived performance in relationship to expectations. If the performance falls short of expectations, the customer is disappointed. If it matches expectations, the customer is satisfied. If it exceeds them, the customer is delighted.

Marketing Channels

To reach a target market, the marketer uses three kinds of marketing channels. *Communication channels* deliver and receive messages from target buyers and include newspapers, magazines, radio, television, mail, telephone, billboards, posters, fliers, CDs, audiotapes, and the Internet. Beyond these, firms communicate through the look of their retail stores and Web sites and other media. Marketers are increasingly adding dialogue channels such as e-mail, blogs, and toll-free numbers to familiar monologue channels such as ads.

The marketer uses *distribution channels* to display, sell, or deliver the physical product or service(s) to the buyer or user. These channels may be direct via the Internet, mail, or mobile phone or telephone, or indirect with distributors, wholesalers, retailers, and agents as intermediaries.

To carry out transactions with potential buyers, the marketer also uses *service channels* that include warehouses, transportation companies, banks, and insurance companies. Marketers clearly face a design challenge in choosing the best mix of communication, distribution, and service channels for their offerings.

Supply Chain

The supply chain is a longer channel stretching from raw materials to components to finished products carried to final buyers. The supply chain for coffee may start with Ethiopian farmers who plant, tend, and pick the coffee beans, selling their harvest to wholesalers or perhaps a Fair Trade cooperative. If sold through the cooperative, the coffee is washed, dried, and packaged for shipment by an Alternative Trading Organization (ATO) that pays a minimum of $1.26 a pound. The ATO transports the coffee to the developing world where it can sell it directly or via retail channels. Each company captures only a certain percentage of the total value generated by the supply chain's value delivery system. When a company acquires competitors or expands upstream or downstream, its aim is to capture a higher percentage of supply chain value.

Competition

Competition includes all the actual and potential rival offerings and substitutes a buyer might consider. An automobile manufacturer can buy steel from U.S. Steel in the United States, from a foreign firm in Japan or Korea, or from a minimill such as Nucor at a cost savings, or it can buy aluminum for certain parts from Alcoa to reduce the car's weight, or engineered plastics from Saudi Basic Industries Corporation (SABIC) instead of steel. Clearly, U.S. Steel would be thinking too narrowly about its competition if it thought only of other integrated steel companies. In the long run, U.S. Steel is more likely to be hurt by substitute products than by other steel companies.

Marketing Environment

The marketing environment consists of the task environment and the broad environment. The *task environment* includes the actors engaged in producing, distributing, and promoting the offering. These are the company, suppliers, distributors, dealers, and target customers. In the supplier group are material suppliers and service suppliers, such as marketing research agencies, advertising agencies, banking and insurance companies, transportation companies, and telecommunications companies. Distributors and dealers include agents, brokers, manufacturer representatives, and others who facilitate finding and selling to customers.

The *broad environment* consists of six components: demographic environment, economic environment, social-cultural environment, natural environment, technological environment, and political-legal environment. Marketers must pay close attention to the trends and developments in these and adjust their marketing strategies as needed. New opportunities are constantly emerging that await the right marketing savvy and ingenuity. Here are two good examples.

TerraCycle

TerraCycle After finding that some of his friend's indoor herbal plants flourished with a fertilizer made by feeding table scraps to red wiggler worms in a composting bin, TerraCycle founder Tom Szaky came up with an idea for a business. TerraCycle is devoted to "upcycling," finding new ways to use nonrecyclable waste materials. Plastic bags become sturdy totes, yogurt cups become plant holders, and cookie wrappers become notebook covers, all distributed by major retailers such as Home Depot, Whole Foods, and Walmart. The firm also has partnerships with Kraft, Target, Honest Tea, Stonyfield Farms, and others. Schools, churches, wineries, and nonprofits provide space to store donated used bottles, corks, and candy wrappers. For each item collected, TerraCycle makes a donation to a charity (typically 2 cents).[19]

Allrecipes.com

Allrecipes.com Allrecipes.com has cooked up a winning online formula by blending recipes posted by individuals with those provided by corporations promoting their own products like Kraft cheese or Campbell's Soup. After almost a 50 percent increase in site visits and unique visitors in 2009, the Web site overtook the Food Network's recipe site as the market leader. With tens of thousands of posted recipes, it thrives on people's willingness to share recipes and the satisfaction they feel if their recipe becomes popular with others. The viral nature of the site's success is obvious—it doesn't spend any money on advertising! Users tend to think of it as "their" site—not something with a big company behind it.[20]

The New Marketing Realities

We can say with some confidence that the marketplace isn't what it used to be. It is dramatically different from what it was even 10 years ago.

Major Societal Forces

Today, major, and sometimes interlinking, societal forces have created new marketing behaviors, opportunities, and challenges. Here are 12 key ones.

- ***Network information technology.*** The digital revolution has created an Information Age that promises to lead to more accurate levels of production, more targeted communications, and more relevant pricing.
- ***Globalization.*** Technological advances in transportation, shipping, and communication have made it easier for companies to market in, and consumers to buy from, almost any country in the world. International travel has continued to grow as more people work and play in other countries.
- ***Deregulation.*** Many countries have deregulated industries to create greater competition and growth opportunities. In the United States, laws restricting financial services, telecommunications, and electric utilities have all been loosened in the spirit of greater competition.
- ***Privatization.*** Many countries have converted public companies to private ownership and management to increase their efficiency, such as the massive telecom company Telefónica CTC in Chile and the international airline British Airways in the United Kingdom.
- ***Heightened competition.*** Intense competition among domestic and foreign brands raises marketing costs and shrinks profit margins. Brand manufacturers are further buffeted by powerful retailers that market their own store brands. Many strong brands have become megabrands and extended into a wide variety of related product categories, presenting a significant competitive threat.
- ***Industry convergence.*** Industry boundaries are blurring as companies recognize new opportunities at the intersection of two or more industries. The computing and consumer electronics industries are converging, for example, as Apple, Sony, and Samsung release a stream of entertainment devices from MP3 players to plasma TVs and camcorders. Digital technology fuels this massive convergence.[21]
- ***Retail transformation.*** Store-based retailers face competition from catalog houses; direct-mail firms; newspaper, magazine, and TV direct-to-customer ads; home shopping TV; and e-commerce. In response, entrepreneurial retailers are building entertainment into

Modern retailers increasingly emphasize in-store experiences for their customers, as does Dick's Sporting Goods.

their stores with coffee bars, demonstrations, and performances, marketing an "experience" rather than a product assortment. Dick's Sporting Goods has grown from a single bait-and-tackle store in Binghamton, New York, into a 300-store sporting goods retailer in 30 states. Part of its success springs from the interactive features of its stores. Customers can test golf clubs in indoor ranges, sample shoes on its footwear track, and shoot bows in its archery range.[22]

- ***Disintermediation.*** The amazing success of early dot-coms such as AOL, Amazon.com, Yahoo!, eBay, E*TRADE, and others created *disintermediation* in the delivery of products and services by intervening in the traditional flow of goods through distribution channels. These firms struck terror into the hearts of established manufacturers and retailers. In response, traditional companies engaged in *reintermediation* and became "brick-and-click" retailers, adding online services to their offerings. Some became stronger contenders than pure-click firms, because they had a larger pool of resources to work with and established brand names.
- ***Consumer buying power.*** In part, due to disintermediation via the Internet, consumers have substantially increased their buying power. From the home, office, or mobile phone, they can compare product prices and features and order goods online from anywhere in the world 24 hours a day, 7 days a week, bypassing limited local offerings and realizing significant price savings. Even business buyers can run a *reverse auction* in which sellers compete to capture their business. They can readily join others to aggregate their purchases and achieve deeper volume discounts.
- ***Consumer information.*** Consumers can collect information in as much breadth and depth as they want about practically anything. They can access online encyclopedias, dictionaries, medical information, movie ratings, consumer reports, newspapers, and other information sources in many languages from anywhere in the world. Personal connections and user-generated content thrive on social media such as Facebook, Flickr (photos), Del.icio.us (links), Digg (news stories), Wikipedia (encyclopedia articles), and YouTube (video).[23] Social networking sites—such as Dogster for dog lovers, TripAdvisor for ardent travelers, and Moterus for bikers—bring together consumers with a common interest. At CarSpace.com auto enthusiasts talk about chrome rims, the latest BMW model, and where to find a great local mechanic.[24]
- ***Consumer participation.*** Consumers have found an amplified voice to influence peer and public opinion. In recognition, companies are inviting them to participate in designing and even marketing offerings to heighten their sense of connection and ownership. Consumers see their favorite companies as workshops from which they can draw out the offerings they want.
- ***Consumer resistance.*** Many customers today feel there are fewer real product differences, so they show less brand loyalty and become more price- and quality-sensitive in their search for value, and less tolerant about undesired marketing. A Yankelovich study

found record levels of marketing resistance from consumers; a majority reported negative opinions about marketing and advertising and said they avoid products they feel are over-marketed.[25]

New Company Capabilities

These major societal forces create complex challenges for marketers, but they have also generated a new set of capabilities to help companies cope and respond.

- ***Marketers can use the Internet as a powerful information and sales channel.*** The Internet augments marketers' geographical reach to inform customers and promote products worldwide. A Web site can list products and services, history, business philosophy, job opportunities, and other information of interest. In 2006, a Montgomery, Alabama, flea market gained national popularity when owner Sammy Stephens's rap-style advertisement spread virally through the Internet. Created for $1,500, the advertisement was viewed more than 100,000 times on YouTube and landed Stephens on *The Ellen DeGeneres Show*. Stephens now sells T-shirts, ring tones, and other branded merchandise through his Web site, advises retailers about advertising, and hosts hundreds of visitors from all over the world at his store each month.[26]
- ***Marketers can collect fuller and richer information about markets, customers, prospects, and competitors.*** Marketers can conduct fresh marketing research by using the Internet to arrange focus groups, send out questionnaires, and gather primary data in several other ways. They can assemble information about individual customers' purchases, preferences, demographics, and profitability. The drugstore chain CVS uses loyalty-card data to better understand what consumers purchase, the frequency of store visits, and other buying preferences. Its ExtraCare program netted an extra 30 million shoppers and $12 billion a year in revenue across 4,000 stores.[27]
- ***Marketers can tap into social media to amplify their brand message.*** Marketers can feed information and updates to consumers via blogs and other postings, support online communities, and create their own stops on the Internet superhighway. Dell Corporation's @DellOutlet Twitter account has more than 600,000 followers. Between 2007 and June 2009, Dell took in more than $2 million in revenue from coupons provided through Twitter, and another $1 million from people who started at Twitter and went on to buy a new computer on the company's Web site.[28]
- ***Marketers can facilitate and speed external communication among customers.*** Marketers can also create or benefit from online and offline "buzz" through brand advocates and user

Sammy Stephen's viral video helped his flea market receive unprecedented attention.

communities. Word-of-mouth marketing agency BzzAgent has assembled a nationwide volunteer army of 600,000 consumers who join promotional programs for products and services they deem worth talking about.[29] In 2005, Dunkin' Donuts hired BzzAgent to help launch a new espresso beverage, Latte Lite. Three thousand trained volunteers (called BzzAgents) in 12 test markets experienced the Latte Lite, formed their opinions, engaged in natural conversations about the product, and reported back to BzzAgent via the company's reporting interface. After four weeks, product sales had increased by more than 15 percent in test markets.[30]

- ***Marketers can send ads, coupons, samples, and information to customers who have requested them or given the company permission to send them.*** Micro-target marketing and two-way communication are easier thanks to the proliferation of special-interest magazines, TV channels, and Internet newsgroups. Extranets linking suppliers and distributors let firms send and receive information, place orders, and make payments more efficiently. The company can also interact with each customer individually to *personalize* messages, services, and the relationship.
- ***Marketers can reach consumers on the move with mobile marketing.*** Using GPS technology, marketers can pinpoint consumers' exact location and send them messages at the mall with coupons good only that day, a reminder of an item on their wish list, and a relevant perk (buy this book today and get a free coffee at the bookstore's coffee shop). Location-based advertising is attractive because it reaches consumers closer to the point of sale. Firms can also advertise on video iPods and reach consumers on their cell phones through mobile marketing.[31]
- ***Companies can make and sell individually differentiated goods.*** Thanks to advances in factory customization, computer technology, and database marketing software, customers can buy M&M candies, TABASCO jugs, or Maker's Mark bottles with their names on them; Wheaties boxes or Jones soda cans with their picture on the front; and Heinz ketchup bottles with customized messages.[32] BMW's technology allows buyers to design their own car models from among 350 variations, with 500 options, 90 exterior colors, and 170 trims. The company claims that 80 percent of the cars bought in Europe and up to 30 percent bought in the United States are built to order.
- ***Companies can improve purchasing, recruiting, training, and internal and external communications.*** Firms can recruit new employees online, and many have Internet training products for their employees, dealers, and agents. Retailer Patagonia has joined Walt Disney, General Motors, and McDonald's in embracing corporate blogging to communicate with the public and employees. Patagonia's The Cleanest Line posts environmental news, reports the results of its sponsored athletes, and posts pictures and descriptions of employees' favorite outdoor locations.[33]
- ***Companies can facilitate and speed up internal communication among their employees by using the Internet as a private intranet.*** Employees can query one another, seek advice, and download or upload needed information from and to the company's main computer. Seeking a single online employee portal that transcended business units, General Motors launched a platform called mySocrates in 2006 consisting of announcements, news, links, and historical information. GM credits the portal with $17.4 million in cost savings to date.[34]
- ***Companies can improve their cost efficiency by skillful use of the Internet.*** Corporate buyers can achieve substantial savings by using the Internet to compare sellers' prices and purchase materials at auction, or by posting their own terms in reverse auctions. Companies can improve logistics and operations to reap substantial cost savings while improving accuracy and service quality.

Companies are increasingly allowing customers to customize their products, such as with personalized messages on the front labels of Heinz ketchup bottles.

Marketing in Practice

Not surprisingly, these new marketing forces and capabilities have profoundly changed marketing management. In theory, the marketing *planning* process consists of analyzing marketing opportunities, selecting target markets, designing marketing strategies, developing marketing programs, and managing the marketing effort.

In practice, however, in the highly competitive marketplaces that are more often the norm, marketing planning is more fluid and is continually refreshed.

Companies must always be moving forward with marketing programs, innovating products and services, staying in touch with customer needs, and seeking new advantages rather than relying on past strengths. This is especially true of incorporating the Internet into marketing plans. Marketers must try to balance increased spending on search advertising, social media, direct e-mail, and text/SMS marketing efforts with appropriate spending on traditional marketing communications. But they must do so in tough economic times, when accountability has become a top priority and returns on investment are expected from every marketing activity. "Marketing Insight: Marketing in an Age of Turbulence" offers some recommendations for adjusting to new marketing realities.

Marketing Insight

Marketing in an Age of Turbulence

The severe economic recession of 2008–2009 caused marketers to rethink best practices of management. Philip Kotler and John Caslione see management entering a new Age of Turbulence in which chaos, risk, and uncertainty characterize many industries, markets, and companies. According to them, turbulence is the new normal, punctuated by periodic and intermittent spurts of prosperity and downturn—including extended downturns amounting to recession, or even depression. They see many new challenges in the foreseeable future, and unlike past recessions, there may be no assurance that a return to past management practices would ever be successful again.

According to Kotler and Caslione, marketers should always be ready to activate automatic responses when turbulence whips up and chaos reigns in. They recommend marketers keep these eight factors in mind as they create "*chaotics* marketing strategies."

1. ***Secure your market share from core customer segments.*** This is not a time to get greedy, so get your core customer segments firmly secured, and be prepared to ward off attacks from competitors seeking your most profitable and loyal customers.
2. ***Push aggressively for greater market share from competitors.*** All companies fight for market share, and in turbulent and chaotic times, many have been weakened. Slashing marketing budgets and sales travel expenses is a sure sign a competitor is buckling under pressure. Push aggressively to add to your core customer segments at the expense of your weakened competitors.
3. ***Research customers more now, because their needs and wants are in flux.*** Everyone is under pressure during times of turbulence and chaos, and all customers—even those in your core segments whom you know so well—are changing. Stay close to them as never before. Research them more than ever. Don't find yourself using old, tried-and-true marketing messages that no longer resonate with them.
4. ***Minimally maintain, but seek to increase, your marketing budget.*** With your competitors aggressively marketing to your core customers, this is the worst time to think about cutting anything in your marketing budget that targets them. In fact, you need to add to it, or take money away from forays into totally new customer segments. It's time to secure the home front.
5. ***Focus on all that's safe and emphasize core values.*** When turbulence is scaring everyone in the market, most customers flee to higher ground. They need to feel the safety and security of your company and your products and services. Do everything possible to tell them that continuing to do business with you is safe, and to sell them products and services that keep making them feel safe.
6. ***Drop programs that aren't working for you quickly.*** Your marketing budgets will always be scrutinized, in good times and bad times. If anyone is to cut one of your programs, let it be you, before anyone else spots any ineffective ones. If you're not watching, rest assured someone else is, including your peers whose budgets couldn't be protected from the axe.
7. ***Don't discount your best brands.*** Discounting your established and most successful brands tells the market two things: your prices were too high before, and your products won't be worth the price in the future once the discounts are gone. If you want to appeal to more frugal customers, create a new brand with lower prices. This lets value-conscious customers stay close to you, without alienating those still willing to pay for your higher-priced brands. Once the turbulence subsides, you may consider discontinuing the value product line—or not.
8. ***Save the strong; lose the weak.*** In turbulent markets, your strongest brands and products must become even stronger. There's no time or money to be wasted on marginal brands or products that lack strong value propositions and a solid customer base. Appeal to safety and value to reinforce strong brands and product and service offerings. Remember, your brands can never be strong enough, especially against the waves of a turbulent economy.

Source: Based on Philip Kotler and John A. Caslione, *Chaotics: The Business and Marketing in the Age of Turbulence* (New York: AMACOM, 2009) pp. 151–153.

THE NEW CMO The rapidly changing marketing environment is putting even greater demands on marketing executives. A well-publicized survey revealed that the average CMO tenure at U.S. companies is about 28 months, well below the average tenure of CEOs (54 months) or other C-level positions. One explanation is that the role of marketing—and thus management expectations—varies widely among firms. Harvard's Gail McGovern and John Quelch find tremendous variability in CMO responsibilities and job descriptions.[35]

Another challenge CMOs face is that the success factors for top marketers are many and varied. CMOs must have strong quantitative skills but also well-honed qualitative skills; they must have an independent, entrepreneurial attitude but also work in close harmony with other departments such as sales; and they must capture the "voice" and point of view of consumers yet have a keen bottom-line understanding of how marketing creates value within their organization.[36] One survey asked 200 senior-level marketing executives which innate and learned qualities were most important; here are their answers:[37]

- **Innate Qualities**
  - Risk taker
  - Willingness to make decisions
  - Problem-solving ability
  - Change agent
  - Results-oriented
- **Learned Qualities**
  - Global experience
  - Multichannel expertise
  - Cross-industry experience
  - Digital focus
  - Operational knowledge

Perhaps the most important role for any CMO is to infuse a customer perspective and orientation in business decisions affecting any customer *touch point* (where a customer directly or indirectly interacts with the company in some form). The CMO of lodging franchisor Choice Hotels International, Chris Malone, is responsible for directing virtually all customer-facing efforts for the firm, including:[38]

- Advertising, loyalty programs, and direct response;
- Guiding the company's central reservations systems, including its call centers, Web site, and relationships with outside travel vendors such as Travelocity and Orbitz; and
- Heading up the company's global group sales efforts with organizations such as AAA, AARP, and professional sports teams.

MARKETING IN THE ORGANIZATION Although an effective CMO is crucial, increasingly marketing is *not* done only by the marketing department. Because marketing must affect every aspect of the customer experience, marketers must properly manage all possible touch points—store layouts, package designs, product functions, employee training, and shipping and logistics methods. Marketing must also be influential in key general management activities, such as product innovation and new-business development. To create a strong marketing organization, marketers must think like executives in other departments, and executives in other departments must think more like marketers.[39]

As the late David Packard of Hewlett-Packard observed, "Marketing is far too important to leave to the marketing department." Companies now know that every employee has an impact on the customer and must see the customer as the source of the company's prosperity. So they're beginning to emphasize interdepartmental teamwork to manage key processes. They're emphasizing the smooth management of core business processes, such as new-product realization, customer acquisition and retention, and order fulfillment.

Company Orientation Toward the Marketplace

Given these new marketing realities, what philosophy should guide a company's marketing efforts? Increasingly, marketers operate consistent with the holistic marketing concept. Let's first review the evolution of earlier marketing ideas.

The Production Concept

The **production concept** is one of the oldest concepts in business. It holds that consumers prefer products that are widely available and inexpensive. Managers of production-oriented businesses concentrate on achieving high production efficiency, low costs, and mass distribution. This orientation makes sense in developing countries such as China, where the largest PC manufacturer, Legend (principal owner of Lenovo Group), and domestic appliances giant Haier take advantage of the country's huge and inexpensive labor pool to dominate the market. Marketers also use the production concept when they want to expand the market.[40]

The Product Concept

The **product concept** proposes that consumers favor products offering the most quality, performance, or innovative features. However, managers are sometimes caught in a love affair with their products. They might commit the "better-mousetrap" fallacy, believing a better product will by itself lead people to beat a path to their door. A new or improved product will not necessarily be successful unless it's priced, distributed, advertised, and sold properly.

The Selling Concept

The **selling concept** holds that consumers and businesses, if left alone, won't buy enough of the organization's products. It is practiced most aggressively with unsought goods—goods buyers don't normally think of buying such as insurance and cemetery plots—and when firms with overcapacity aim to sell what they make, rather than make what the market wants. Marketing based on hard selling is risky. It assumes customers coaxed into buying a product not only won't return or bad-mouth it or complain to consumer organizations but might even buy it again.

The Marketing Concept

The **marketing concept** emerged in the mid-1950s[41] as a customer-centered, sense-and-respond philosophy. The job is to find not the right customers for your products, but the right products for your customers. Dell doesn't prepare a perfect computer for its target market. Rather, it provides product platforms on which each person customizes the features he or she desires in the computer.

The marketing concept holds that the key to achieving organizational goals is being more effective than competitors in creating, delivering, and communicating superior customer value to your target markets. Harvard's Theodore Levitt drew a perceptive contrast between the selling and marketing concepts:

> Selling focuses on the needs of the seller; marketing on the needs of the buyer. Selling is preoccupied with the seller's need to convert his product into cash; marketing with the idea of satisfying the needs of the customer by means of the product and the whole cluster of things associated with creating, delivering, and finally consuming it.[42]

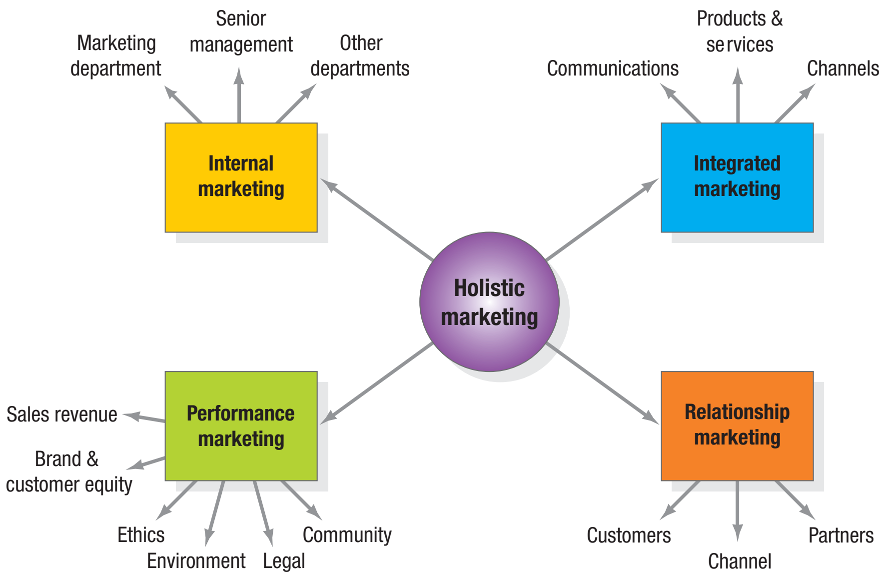
Several scholars found that companies embracing the marketing concept at that time achieved superior performance.[43]

The Holistic Marketing Concept

Without question, the trends and forces that have defined the first decade of the 21st century are leading business firms to a new set of beliefs and practices. "Marketing Memo: Marketing Right and Wrong" suggests where companies go wrong—and how they can get it right—in their marketing.

The **holistic marketing** concept is based on the development, design, and implementation of marketing programs, processes, and activities that recognize their breadth and interdependencies. Holistic marketing acknowledges that everything matters in marketing—and that a broad, integrated perspective is often necessary.

Holistic marketing thus recognizes and reconciles the scope and complexities of marketing activities. Figure 1.3 provides a schematic overview of four broad components characterizing holistic marketing: relationship marketing, integrated marketing, internal marketing, and performance marketing. We'll examine these major themes throughout this book. Successful companies keep their marketing changing with the changes in their marketplace—and marketspace.



|Fig. 1.3|

Holistic Marketing Dimensions

marketing Memo

Marketing Right and Wrong

The Ten Deadly Sins of Marketing

1. The company is not sufficiently market focused and customer driven.
2. The company does not fully understand its target customers.
3. The company needs to better define and monitor its competitors.
4. The company has not properly managed its relationships with its stakeholders.
5. The company is not good at finding new opportunities.
6. The company's marketing plans and planning process are deficient.
7. The company's product and service policies need tightening.
8. The company's brand-building and communications skills are weak.
9. The company is not well organized to carry on effective and efficient marketing.
10. The company has not made maximum use of technology.

The Ten Commandments of Marketing

1. The company segments the market, chooses the best segments, and develops a strong position in each chosen segment.
2. The company maps its customers' needs, perceptions, preferences, and behavior and motivates its stakeholders to obsess about serving and satisfying the customers.
3. The company knows its major competitors and their strengths and weaknesses.
4. The company builds partners out of its stakeholders and generously rewards them.
5. The company develops systems for identifying opportunities, ranking them, and choosing the best ones.
6. The company manages a marketing planning system that leads to insightful long-term and short-term plans.
7. The company exercises strong control over its product and service mix.
8. The company builds strong brands by using the most cost-effective communication and promotion tools.
9. The company builds marketing leadership and a team spirit among its various departments.
10. The company constantly adds technology that gives it a competitive advantage in the marketplace.

Source: Adapted from Philip Kotler, *Ten Deadly Marketing Sins* (Hoboken, NJ: John Wiley & Sons, 2004) pp. 10, 145–148.

Relationship Marketing

Increasingly, a key goal of marketing is to develop deep, enduring relationships with people and organizations that directly or indirectly affect the success of the firm's marketing activities. **Relationship marketing** aims to build mutually satisfying long-term relationships with key constituents in order to earn and retain their business.[44]

Four key constituents for relationship marketing are customers, employees, marketing partners (channels, suppliers, distributors, dealers, agencies), and members of the financial community (shareholders, investors, analysts). Marketers must create prosperity among all these constituents and balance the returns to all key stakeholders. To develop strong relationships with them requires understanding their capabilities and resources, needs, goals, and desires.

The ultimate outcome of relationship marketing is a unique company asset called a **marketing network**, consisting of the company and its supporting stakeholders—customers, employees, suppliers, distributors, retailers, and others—with whom it has built mutually profitable business relationships. The operating principle is simple: build an effective network of relationships with key stakeholders, and profits will follow.[45] Thus more companies are choosing to own brands rather than physical assets and are subcontracting activities to firms that can do them better and more cheaply, while retaining core activities at home.

Companies are also shaping separate offers, services, and messages to *individual customers*, based on information about past transactions, demographics, psychographics, and media and distribution preferences. By focusing on their most profitable customers, products, and channels, these firms hope to achieve profitable growth, capturing a larger share of each customer's expenditures by building high customer loyalty. They estimate individual customer lifetime value and design their market offerings and prices to make a profit over the customer's lifetime.

These activities fall under what Columbia Business School professor Larry Selden and his wife and business consulting partner, Yoko Sugiura Selden, call "customer centricity." The Seldens offer the Royal Bank of Canada as an example.

Royal Bank of Canada

Royal Bank of Canada

Thinking of its business in terms of customer segments rather than product segments, Royal Bank of Canada (RBC) has put each of its roughly 11 million clients into meaningful segments whose profitability it can measure. In the process, it discovered a sizable subsegment of customers hidden within its broader categories of "wealth preservers" and "wealth accumulators." Dubbed "snowbirds," these individuals spent a number of months each winter in Florida, where they were experiencing difficulties establishing credit as well as missing their Canadian communities, particularly the familiarity of the French-Canadian accent and fluency in French. To meet their unique needs, RBC created a Canadian banking experience in Florida.[46]

Because attracting a new customer may cost five times as much as retaining an existing one, relationship marketing also emphasizes customer retention. Companies build customer share by offering a larger variety of goods to existing customers, training employees in cross-selling and upselling. Marketing must skillfully conduct not only customer relationship management (CRM), but partner relationship management (PRM) as well. Companies are deepening their partnering arrangements with key suppliers and distributors, seeing them as partners in delivering value to final customers so everybody benefits.

Integrated Marketing

Integrated marketing occurs when the marketer devises marketing activities and assembles marketing programs to create, communicate, and deliver value for consumers such that "the whole is greater than the sum of its parts." Two key themes are that (1) many different marketing activities can create, communicate, and deliver value and (2) marketers should design and implement any one marketing activity with all other activities in mind. When a hospital buys an MRI from General Electric's Medical Systems division, for instance, it expects good installation, maintenance, and training services to go with the purchase.

All company communications also must be integrated. Using an integrated communication strategy means choosing communication options that reinforce and complement each other. A marketer might selectively employ television, radio, and print advertising, public relations and events, and PR and Web site communications so each contributes on its own as well as improving the effectiveness of the others. Each must also deliver a consistent brand message at every contact.

When BMW launched the modernized MINI Cooper in 2002, it employed an integrated marketing strategy in the United States that included a broad mix of media: billboards, posters, Internet, print, PR, product placement, and grassroots campaigns. Many were linked to a cleverly designed Web site with product and dealer information. The car was placed atop Ford Excursion SUVs at 21 auto shows across the United States, was used as seats in a sports stadium, and appeared in *Playboy* magazine as a centerfold. The imaginative integrated campaign built a six-month waiting list for the MINI Cooper.

The company must also develop an integrated channel strategy. It should assess each channel option for its direct effect on product sales and brand equity, as well as its indirect effect through interactions with other channel options. Marketers must weigh the trade-off between having too many channels (leading to conflict among channel members and/or a lack of support) and too few (resulting in market opportunities being overlooked).

Online marketing activities are increasingly prominent in building brands and sales. Created for $300,000 and no additional promotional expense, the Carnival Connections site made it easy for cruise fans to compare notes on destinations and onboard entertainment from casinos to conga lines. In a few short months, 2,000 of the site's 13,000 registered users planned trips aboard Carnival's 22 ships, generating an estimated $1.6 million in revenue for the company.[47]

Internal Marketing

Internal marketing, an element of holistic marketing, is the task of hiring, training, and motivating able employees who want to serve customers well. It ensures that everyone in the organization embraces appropriate marketing principles, especially senior management. Smart marketers recognize that marketing activities *within* the company can be as important—or even more important—than those directed outside the company. It makes no sense to promise excellent service before the company's staff is ready to provide it.

Snowshoe Mountain

Snowshoe Mountain in Snowshoe, West Virginia, embarked on a marketing program to better brand the ski resort with a promise of an "authentic, rustic and engaging wilderness experience." In launching a branding initiative to define their goals and articulate what they wanted the Snowshoe Mountain

To improve its guests' experiences, Snowshoe Mountain ski resort engages in a series of internal marketing activities to build its brand promise with employees.

brand to represent to visitors, the resort's marketers started inside. They incorporated the new brand promise in a 40-page brand book that contained the history of the resort and a list of seven attitude words that characterized how employees should interact with guests. On-mountain messaging and signs also reminded employees to deliver on the brand promise. All new hires received a brand presentation from the director of marketing to help them better understand the brand and become effective advocates.[48]

Marketing is no longer the responsibility of a single department—it is a company-wide undertaking that drives the company's vision, mission, and strategic planning.[49] It succeeds only when all departments work together to achieve customer goals (see Table 1.1): when engineering designs the right products, finance furnishes the right amount of funding, purchasing buys the right materials, production makes the right products in the right time horizon, and accounting measures profitability in the right ways. Such interdepartmental harmony can only truly coalesce, however, when management clearly communicates a vision of how the company's marketing orientation and philosophy serve customers. The following example highlights some of the potential challenge in integrating marketing:

> The marketing vice president of a major European airline wants to increase the airline's traffic share. His strategy is to build up customer satisfaction by providing better food, cleaner cabins, better-trained cabin crews, and lower fares, yet he has no authority in these matters. The catering department chooses food that keeps food costs down; the maintenance department uses inexpensive cleaning services; the human resources department hires people without regard to whether they are naturally friendly; the finance department sets the fares. Because these departments generally take a cost or production point of view, the vice president of marketing is stymied in his efforts to create an integrated marketing program.

Internal marketing requires vertical alignment with senior management and horizontal alignment with other departments, so everyone understands, appreciates, and supports the marketing effort.

Performance Marketing

Performance marketing requires understanding the financial and nonfinancial returns to business and society from marketing activities and programs. Top marketers are increasingly going beyond sales revenue to examine the marketing scorecard and interpret what is happening to market share, customer loss rate, customer satisfaction, product quality, and other measures. They are also considering the legal, ethical, social, and environmental effects of marketing activities and programs.

FINANCIAL ACCOUNTABILITY Marketers are increasingly asked to justify their investments in financial and profitability terms, as well as in terms of building the brand and growing the customer base.[50] They're employing a broader variety of financial measures to assess the direct and indirect value their marketing efforts create and recognizing that much of their firms' market value comes from intangible assets, particularly brands, customer base, employees, distributor and supplier relations, and intellectual capital. Marketing metrics can help firms quantify and compare their marketing performance along a broad set of dimensions. Marketing research and statistical analysis assess the financial efficiency and effectiveness of different marketing activities. Finally, firms can employ processes and systems to make sure they maximize the value from analyzing these different metrics.

SOCIAL RESPONSIBILITY MARKETING Because the effects of marketing extend beyond the company and the customer to society as a whole, marketers must consider the ethical, environmental, legal, and social context of their role and activities.[51]

The organization's task is thus to determine the needs, wants, and interests of target markets and satisfy them more effectively and efficiently than competitors while preserving or enhancing consumers' and society's long-term well-being. LG Electronics, Toshiba, and NEC Display Solutions

TABLE 1.1 Assessing Which Company Departments Are Customer-Minded

R&D
- They spend time meeting customers and listening to their problems.
- They welcome the involvement of marketing, manufacturing, and other departments to each new project.
- They benchmark competitors' products and seek "best of class" solutions.
- They solicit customer reactions and suggestions as the project progresses.
- They continuously improve and refine the product on the basis of market feedback.

Purchasing
- They proactively search for the best suppliers.
- They build long-term relationships with fewer but more reliable, high-quality suppliers.
- They don't compromise quality for price savings.

Manufacturing
- They invite customers to visit and tour their plants.
- They visit customer plants.
- They willingly work overtime to meet promised delivery schedules.
- They continuously search for ways to produce goods faster and/or at lower cost.
- They continuously improve product quality, aiming for zero defects.
- They meet customer requirements for "customization" where possible.

Marketing
- They study customer needs and wants in well-defined market segments.
- They allocate marketing effort in relation to the long-run profit potential of the targeted segments.
- They develop winning offers for each target segment.
- They measure company image and customer satisfaction on a continuous basis.
- They continuously gather and evaluate ideas for new products, product improvements, and services.
- They urge all company departments and employees to be customer centered.

Sales
- They have specialized knowledge of the customer's industry.
- They strive to give the customer "the best solution."
- They make only promises that they can keep.
- They feed back customers' needs and ideas to those in charge of product development.
- They serve the same customers for a long period of time.

Logistics
- They set a high standard for service delivery time and meet this standard consistently.
- They operate a knowledgeable and friendly customer service department that can answer questions, handle complaints, and resolve problems in a satisfactory and timely manner.

Accounting
- They prepare periodic "profitability" reports by product, market segment, geographic areas (regions, sales territories), order sizes, channels, and individual customers.
- They prepare invoices tailored to customer needs and answer customer queries courteously and quickly.

Finance
- They understand and support marketing expenditures (e.g., image advertising) that produce long-term customer preference and loyalty.
- They tailor the financial package to the customer's financial requirements.
- They make quick decisions on customer creditworthiness.

Public Relations
- They send out favorable news about the company and "damage control" unfavorable news.
- They act as an internal customer and public advocate for better company policies and practices.

Source: ©Philip Kotler, *Kotler on Marketing* (New York: Free Press, 1999), pp. 21–22. Reprinted with permission of The Free Press, a Division of Simon & Schuster Adult Publishing Group.

TABLE 1.2 Corporate Social Initiatives

Type	Description	Example
Corporate social marketing	Supporting behavior change campaigns	McDonald's promotion of a statewide childhood immunization campaign in Oklahoma
Cause marketing	Promoting social issues through efforts such as sponsorships, licensing agreements, and advertising	McDonald's sponsorship of Forest (a gorilla) at Sydney's Zoo—a 10-year sponsorship commitment, aimed at preserving this endangered species
Cause-related marketing	Donating a percentage of revenues to a specific cause based on the revenue occurring during the announced period of support	McDonald's earmarking of $1 for Ronald McDonald Children's Charities from the sale of every Big Mac and pizza sold on McHappy Day
Corporate philanthropy	Making gifts of money, goods, or time to help nonprofit organizations, groups, or individuals	McDonald's contributions to Ronald McDonald House Charities
Corporate community involvement	Providing in-kind or volunteer services in the community	McDonald's catering meals for firefighters in the December 1997 bushfires in Australia
Socially responsible business practices	Adapting and conducting business practices that protect the environment and human and animal rights	McDonald's requirement that suppliers increase the amount of living space for laying hens on factory farms

Source: Philip Kotler and Nancy Lee, *Corporate Social Responsibility: Doing the Most Good for Your Company and Your Cause* (Hoboken, NJ: Wiley, 2004). Copyright © 2005 by Philip Kotler and Nancy Lee. Used by permission of John Wiley & Sons, Inc.

Ben & Jerry's "triple bottom line" business philosophy is based on monitoring the environmental and social effects of its actions in addition to the profits from the sale of its products.

offer electronic recycling programs, for instance, often providing consumers with prepaid postage to return old items. Retailers such as Office Depot, Best Buy, and AT&T offer similar programs in their stores.

Table 1.2 displays some different types of corporate social initiatives, illustrated by McDonald's.[52]

As goods become more commoditized, and consumers grow more socially conscious, some companies—including The Body Shop, Timberland, and Patagonia—incorporate social responsibility as a way to differentiate themselves from competitors, build consumer preference, and achieve notable sales and profit gains. When they founded Ben & Jerry's, Ben Cohen and Jerry Greenfield embraced the performance marketing concept by dividing the traditional financial bottom line into a "double bottom line" that also measured the environmental impact of their products and processes. That later expanded into a "triple bottom line," to represent the social impacts, negative and positive, of the firm's entire range of business activities.[53]

Stonyfield Farm

Stonyfield Farm Social responsibility has been at the core of Stonyfield Farm—makers of all-natural organic yogurts—from the start. Stonyfield's suppliers eschew the productivity practices of agribusiness, including the use of antibiotics, growth hormones, pesticides, and fertilizers. After calculating the amount of energy used to run its plant, Stonyfield decided to make an equivalent investment in environmental projects such as reforestation and wind farms. The company dropped plastic lids on its yogurt, saving about a million pounds of plastic a year, and added on-package messages about global warming, the perils of hormones, and genetically modified foods. It makes low-fat versions of its products, and adds cultures or dietary supplements to help the immune system fight off illness. The attitudes and beliefs Stonyfield adopted have not hurt its financial performance as it has become the number-three yogurt brand in the United States.[54]

Updating The Four Ps

McCarthy classified various marketing activities into *marketing-mix* tools of four broad kinds, which he called *the four Ps* of marketing: product, price, place, and promotion.[55] The marketing variables under each P are shown in Figure 1.4.

Given the breadth, complexity, and richness of marketing, however—as exemplified by holistic marketing—clearly these four Ps are not the whole story anymore. If we update them to reflect the holistic marketing concept, we arrive at a more representative set that encompasses modern marketing realities: people, processes, programs, and performance, as in Figure 1.5.

People reflects, in part, internal marketing and the fact that employees are critical to marketing success. Marketing will only be as good as the people inside the organization. It also reflects the fact that marketers must view consumers as people to understand their lives more broadly, and not just as they shop for and consume products and services.

Processes reflects all the creativity, discipline, and structure brought to marketing management. Marketers must avoid ad hoc planning and decision making and ensure that state-of-the-art marketing ideas and concepts play an appropriate role in all they do. Only by instituting the right set of processes to guide activities and programs can a firm engage in mutually beneficial long-term relationships. Another important set of processes guides the firm in imaginatively generating insights and breakthrough products, services, and marketing activities.

Programs reflects all the firm's consumer-directed activities. It encompasses the old four Ps as well as a range of other marketing activities that might not fit as neatly into the old view of marketing. Regardless of whether they are online or offline, traditional or nontraditional, these activities must be integrated such that their whole is greater than the sum of their parts and they accomplish multiple objectives for the firm.

|Fig. 1.4|

The Four P Components of the Marketing Mix

|Fig. 1.5|

The Evolution of Marketing Management

We define *performance* as in holistic marketing, to capture the range of possible outcome measures that have financial and nonfinancial implications (profitability as well as brand and customer equity), and implications beyond the company itself (social responsibility, legal, ethical, and community related).

Finally, these new four Ps actually apply to *all* disciplines within the company, and by thinking this way, managers grow more closely aligned with the rest of the company.

Marketing Management Tasks

With the holistic marketing philosophy as a backdrop, we can identify a specific set of tasks that make up successful marketing management and marketing leadership. We'll use the following situation to illustrate these tasks in the context of the plan of the book. (The "Marketing Memo: Marketers' Frequently Asked Questions" is a good checklist for the questions marketing managers ask, all of which we examine in this book.)

> Zeus Inc. (name disguised) operates in several industries, including chemicals, cameras, and film. The company is organized into SBUs. Corporate management is considering what to do with its Atlas camera division, which produces a range of 35mm and digital cameras. Although Zeus has a sizable share and is producing revenue, the 35mm market is rapidly declining. In the much faster-growing digital camera segment, Zeus faces strong competition and has been slow to gain sales. Zeus's corporate management wants Atlas's marketing group to produce a strong turnaround plan for the division.

Developing Marketing Strategies and Plans

The first task facing Atlas is to identify its potential long-run opportunities, given its market experience and core competencies (see Chapter 2). Atlas can design its cameras with better features. It can make a line of video cameras, or it can use its core competency in optics to design a line of binoculars and telescopes. Whichever direction it chooses, it must develop concrete marketing plans that specify the marketing strategy and tactics going forward.

Capturing Marketing Insights

Atlas needs a reliable marketing information system to closely monitor its marketing environment so it can continually assess market potential and forecast demand. Its microenvironment consists of all the players who affect its ability to produce and sell cameras—suppliers, marketing intermediaries, customers, and competitors. Its macroenvironment includes demographic, economic, physical, technological, political-legal, and social-cultural forces that affect sales and profits (see Chapter 3).

Atlas also needs a dependable marketing research system. To transform strategy into programs, marketing managers must make basic decisions about their expenditures, activities, and budget

marketing Memo

Marketers' Frequently Asked Questions

1. How can we spot and choose the right market segment(s)?
2. How can we differentiate our offerings?
3. How should we respond to customers who buy on price?
4. How can we compete against lower-cost, lower-price competitors?
5. How far can we go in customizing our offering for each customer?
6. How can we grow our business?
7. How can we build stronger brands?
8. How can we reduce the cost of customer acquisition?
9. How can we keep our customers loyal longer?
10. How can we tell which customers are more important?
11. How can we measure the payback from advertising, sales promotion, and public relations?
12. How can we improve sales force productivity?
13. How can we establish multiple channels and yet manage channel conflict?
14. How can we get the other company departments to be more customer-oriented?

allocations. They may use sales-response functions that show how the amount of money spent in each application will affect sales and profits (see Chapter 4).

Connecting with Customers

Atlas must consider how to best create value for its chosen target markets and develop strong, profitable, long-term relationships with customers (see Chapter 5). To do so, it needs to understand consumer markets (see Chapter 6). Who buys cameras, and why? What features and prices are they looking for, and where do they shop? Atlas also sells cameras to business markets, including large corporations, professional firms, retailers, and government agencies (see Chapter 7), where purchasing agents or buying committees make the decisions. Atlas needs to gain a full understanding of how organizational buyers buy. It needs a sales force well trained in presenting product benefits.

Atlas will not want to market to all possible customers. It must divide the market into major market segments, evaluate each one, and target those it can best serve (see Chapter 8).

Building Strong Brands

Atlas must understand the strengths and weaknesses of the Zeus brand as customers see it (see Chapter 9). Is its 35mm film heritage a handicap in the digital camera market? Suppose Atlas decides to focus on the consumer market and develop a positioning strategy (see Chapter 10). Should it position itself as the "Cadillac" brand, offering superior cameras at a premium price with excellent service and strong advertising? Should it build a simple, low-priced camera aimed at more price-conscious consumers? Or something in between?

Atlas must also pay close attention to competitors (see Chapter 11), anticipating their moves and knowing how to react quickly and decisively. It may want to initiate some surprise moves, in which case it needs to anticipate how its competitors will respond.

Shaping the Market Offerings

At the heart of the marketing program is the product—the firm's tangible offering to the market, which includes the product quality, design, features, and packaging (see Chapter 12). To gain a competitive advantage, Atlas may provide leasing, delivery, repair, and training as part of its product offering (see Chapter 13).

A critical marketing decision relates to price (see Chapter 14). Atlas must decide on wholesale and retail prices, discounts, allowances, and credit terms. Its price should match well with the offer's perceived value; otherwise, buyers will turn to competitors' products.

Delivering Value

Atlas must also determine how to properly deliver to the target market the value embodied in its products and services. Channel activities include those the company undertakes to make the product accessible and available to target customers (see Chapter 15). Atlas must identify, recruit, and link various marketing facilitators to supply its products and services efficiently to the target market. It must understand the various types of retailers, wholesalers, and physical-distribution firms and how they make their decisions (see Chapter 16).

Communicating Value

Atlas must also adequately communicate to the target market the value embodied by its products and services. It will need an integrated marketing communication program that maximizes the individual and collective contribution of all communication activities (see Chapter 17). Atlas needs to set up mass communication programs consisting of advertising, sales promotion, events, and public relations (see Chapter 18). It also needs to plan more personal communications, in the form of direct and interactive marketing, as well as hire, train, and motivate salespeople (see Chapter 19).

Creating Successful Long-Term Growth

Based on its product positioning, Atlas must initiate new-product development, testing, and launching as part of its long-term view (see Chapter 20). The strategy should take into account changing global opportunities and challenges (see Chapter 21).

Finally, Atlas must build a marketing organization capable of implementing the marketing plan (see Chapter 22). Because surprises and disappointments can occur as marketing plans unfold, Atlas will need feedback and control to understand the efficiency and effectiveness of its marketing activities and how it can improve them.[56]

Summary

1. Marketing is an organizational function and a set of processes for creating, communicating, and delivering value to customers and for managing customer relationships in ways that benefit the organization and its stakeholders. Marketing management is the art and science of choosing target markets and getting, keeping, and growing customers through creating, delivering, and communicating superior customer value.
2. Marketers are skilled at managing demand: they seek to influence its level, timing, and composition for goods, services, events, experiences, persons, places, properties, organizations, information, and ideas. They also operate in four different marketplaces: consumer, business, global, and nonprofit.
3. Marketing is not done only by the marketing department. It needs to affect every aspect of the customer experience. To create a strong marketing organization, marketers must think like executives in other departments, and executives in other departments must think more like marketers.
4. Today's marketplace is fundamentally different as a result of major societal forces that have resulted in many new consumer and company capabilities. These forces have created new opportunities and challenges and changed marketing management significantly as companies seek new ways to achieve marketing excellence.
5. There are five competing concepts under which organizations can choose to conduct their business: the production concept, the product concept, the selling concept, the marketing concept, and the holistic marketing concept. The first three are of limited use today.
6. The holistic marketing concept is based on the development, design, and implementation of marketing programs, processes, and activities that recognize their breadth and interdependencies. Holistic marketing recognizes that everything matters in marketing and that a broad, integrated perspective is often necessary. Four components of holistic marketing are relationship marketing, integrated marketing, internal marketing, and socially responsible marketing.
7. The set of tasks necessary for successful marketing management includes developing marketing strategies and plans, capturing marketing insights, connecting with customers, building strong brands, shaping the market offerings, delivering and communicating value, and creating long-term growth.

Applications

Marketing Debate

Does Marketing Create or Satisfy Needs?

Marketing has often been defined in terms of satisfying customers' needs and wants. Critics, however, maintain that marketing goes beyond that and creates needs and wants that did not exist before. They feel marketers encourage consumers to spend more money than they should on goods and services they do not really need.

Take a position: Marketing shapes consumer needs and wants *versus* Marketing merely reflects the needs and wants of consumers.

Marketing Discussion

Shifts in Marketing

Consider the broad shifts in marketing. Do any themes emerge in them? Can you relate the shifts to the major societal forces? Which force has contributed to which shift?

Marketing Excellence

>>Nike

Nike hit the ground running in 1962. Originally known as Blue Ribbon Sports, the company focused on providing high-quality running shoes designed for athletes by athletes. Founder Philip Knight believed high-tech shoes for runners could be manufactured at competitive prices if imported from abroad. Nike's commitment to designing innovative footwear for serious athletes helped it build a cult following among U.S. consumers.

Nike believed in a "pyramid of influence" in which the preferences of a small percentage of top athletes influenced the product and brand choices of others. From the start its marketing campaigns featured accomplished athletes. Runner Steve Prefontaine, the first spokesperson, had an irreverent attitude that matched the company's spirit.

In 1985, Nike signed up then-rookie guard Michael Jordan as a spokesperson. Jordan was still an up-and-comer, but he personified superior performance. Nike's bet paid off—the Air Jordan line of basketball shoes flew off the shelves and revenues hit over $100 million in the first year alone. As one reporter stated, "Few marketers have so reliably been able to identify and sign athletes who transcend their sports to such great effect."

In 1988, Nike aired the first ads in its $20 million "Just Do It" ad campaign. The campaign, which ultimately featured 12 TV spots in all, subtly challenged a generation of athletic enthusiasts to chase their goals. It was a natural manifestation of Nike's attitude of self-empowerment through sports.

As Nike began expanding overseas to Europe, it found that its U.S.-style ads were seen as too aggressive. Nike realized it had to "authenticate" its brand in Europe, so it focused on soccer (known as football outside the United States) and became active as a sponsor of youth leagues, local clubs, and national teams. However, for Nike to build authenticity among the soccer audience, consumers had to see professional athletes using its product, especially athletes who won. Nike's big break came in 1994 when the Brazilian team (the only national team for which Nike had any real sponsorship) won the World Cup. That victory transformed Nike's image in Europe from a sneaker company into a brand that represented emotion, allegiance, and identification. It also helped launch Nike into other international markets over the next decade, and by 2003, overseas revenues surpassed U.S. revenues for the first time.

In 2007, Nike acquired Umbro, a British maker of soccer-related footwear, apparel, and equipment. The acquisition helped boost Nike's presence in soccer as the company became the sole supplier of uniforms to over 100 professional soccer teams around the world.

Nike focused its efforts on international markets, especially China, during the 2008 Summer Olympics in Beijing. Although Nike's rival, Adidas, was the official sponsor of the Olympic Games, Nike received special permission from the International Olympic Committee to run Nike ads featuring Olympic athletes during the games. In addition, Nike sponsored several teams and athletes, including most of the Chinese teams and 11 of the 12 high-profile members on the United States men's basketball teams. That year, sales in the Asian region grew 15 percent to $3.3 billion and Nike's international divisions grew to 53 percent of the company's revenue. Some believed Nike's marketing strategy during the Olympics was more effective than Adidas's Olympic sponsorship.

In addition to expanding the brand overseas, Nike successfully entered new athletic footwear, apparel, and equipment product categories by using endorsements from high-profile athletes and consumer outreach programs. The Nike Golf brand, endorsed by Tiger Woods, has changed the way professional golfers dress. Tiger's powerful influence on the game and his Nike emblazoned style have turned the greens at the majors into "golf's fashion runway." In addition, Nike has used the superstar to help build its relationship with consumers. In 2009, it launched a Tiger Web Talkback session at nikegolf.com, where fans could ask questions and hear Tiger talk about golf. The session was part of a nationwide Nike Golf consumer experience day, which included equipment demos, long-drive contests, and in-store specials.

In tennis, Nike has aligned with Maria Sharapova, Roger Federer, and Rafael Nadal to push its line of tennis clothing and gear. Some called the famous 2008 Wimbledon match between Roger Federer and Rafael Nadal—both dressed in swooshes from head to toe—a five-hour Nike commercial valued at $10.6 million.

Nike teamed up with seven-time Tour de France champion Lance Armstrong not only to sell Nike products but also to help Armstrong's LIVESTRONG campaign. Nike designed, manufactured, and sold over 70 million yellow LIVESTRONG bracelets, netting $80 million for the Lance Armstrong Foundation. It also featured Armstrong's message of survival, willpower, and giving in a series of Nike commercials.

To promote its line of basketball shoes and apparel, Nike continues to feature basketball superstars such as Kobe Bryant and LeBron James. In addition, it formed a partnership with Foot Locker to create a new chain of stores, House of Hoops by Foot Locker, which offers only basketball products by Nike brands such as Converse and Jordan.

Recently, Nike's lead in the running category has grown to 60 percent market share thanks to its exclusive partnership with Apple. Nike+ (Plus) technology includes a sensor that runners put into their running shoes and a receiver, which fits into an iPod, iTouch, or iPhone. When the athlete goes for a run or hits the gym, the receiver captures his or her mileage, calories burned, and pace and stores it until the information is downloaded. Nike+ is now considered the world's largest running club.

In 2008 and 2009, Nike+ hosted the Human Race 10K, the largest and only global virtual race in the world. The event, designed to celebrate running, drew 780,000 participants in 2008 and surpassed that number in 2009. To participate, runners register online, gear up with Nike+ technology, and hit the road on race day, running any 10K route they choose at any time during the day. Once the data is downloaded from the Nike+ receiver, each runner's official time is posted and can be compared to the times of runners from around the world.

Like many companies, Nike is trying to make its company and products more eco-friendly. However, unlike many companies, Nike does not promote its efforts. One brand consultant explained, "Nike has always been about winning. How is sustainability relevant to its brand?" Nike executives agree that promoting an eco-friendly message would distract from its slick high-tech image, so efforts like recycling old shoes into new shoes are kept quiet.

Today, Nike dominates the athletic footwear market with a 31 percent market share globally and a 50 percent market share in the United States. Swooshes abound on everything from wristwatches to skateboards to swimming caps. The firm's long-term strategy focuses on basketball, running, football, women's fitness, men's training, and sports culture. As a result of its successful expansion across geographic markets and product categories, Nike is the top athletic apparel and footwear manufacturer in the world, with corporate fiscal 2009 revenues exceeding $19 billion.

Questions

1. What are the pros, cons, and risks associated with Nike's core marketing strategy?
2. If you were Adidas, how would you compete with Nike?

Sources: Justin Ewers and Tim Smart, "A Designer Swooshes In," *U.S. News & World Report*, January 26, 2004, p. 12; "Corporate Media Executive of the Year," *Delaney Report*, January 12, 2004, p. 1; Barbara Lippert, "Game Changers: Inside the Three Greatest Ad Campaigns of the Past Three Decades," *Adweek*, November 17, 2008; "10 Top Nontraditional Campaigns," *Advertising Age*, December 22, 2003, p. 24; Chris Zook and James Allen, "Growth Outside the Core," *Harvard Business Review*, December 2003, p. 66; Jeremy Mullman, "NIKE; What Slowdown? Swoosh Rides Games to New High," *Advertising Age*, October 20, 2008, p. 34; Allison Kaplan, "Look Just Like Tiger (until you swing)," *America's Intelligence Wire*, August 9, 2009; Reena Jana and Burt Helm, "Nike Goes Green, Very Quietly," *BusinessWeek*, June 22, 2009.

Marketing Excellence

>>Google

In 1998, two Stanford University PhD students, Larry Page and Sergey Brin, founded a search engine company and named it Google. The name plays on the number *googol*—1 followed by 100 zeroes—and refers to the massive quantity of data available online that the company helps users find. Google's corporate mission is "To organize the world's information and make it universally accessible and useful." From the beginning, Google has strived to be one of the "good guys" in the corporate world, supporting a touchy-feely work environment, strong ethics, and a famous founding credo: "Don't be evil."

The company has become the market leader for search engines through its business focus and constant innovation. As Google grew into a primary destination for Web users searching for information online, it attracted a host of online advertisers. These advertisers drove Google's revenue by buying "search ads," little text-based boxes shown alongside search results that advertisers pay for only when users click on them. Google's search ad program, called AdWords, sells space on its search pages to ads linked with specific keywords. Google auctions off the keyword ads, with prime keywords and page locations going to the highest bidder. Google recently added a program called AdSense, which allows any Web site to display targeted Google ads related to the content of its site. Web site publishers earn money every time visitors click on these ads.

In addition to offering prime online "real estate" for advertisers, Google adds value by providing tools to better target their ads and better understand the effectiveness of their marketing. Google Analytics, free to Google's advertisers, provides a custom report, or dashboard, detailing how Internet users found the site, what ads they saw and/or clicked on, how they behaved while there, and how much traffic was generated. Google client Discount Tire was able to identify where visitors encountered problems that led them to abandon a purchase midstream. After modifying its site and updating its keyword search campaign, Discount Tire measured a 14 percent increase in sales within a week.

With its ability to deploy data that enable up-to-the-minute improvements in a Web marketing program, Google supports a style of marketing in which the advertising resources and budget can be constantly monitored and optimized. Google calls this approach "marketing asset management," implying that advertising should be managed like assets in a portfolio depending on the market conditions. Rather than following a marketing plan developed months in advance, companies use the real-time data collected on their campaigns to optimize the campaign's effectiveness and be more responsive to the market.

Over the past decade, Google has expanded far beyond its search capabilities with numerous other services, applications, and tools. It creates and distributes its products for free, which in turn provide new opportunities for the firm to sell additional targeted advertising space. Since 97 percent of Google's revenues come from online advertising, new advertising space is critical to the company's growth.

Google's wide range of products and services fall into five categories: desktop products, mobile products, Web products, hardware products, and other products. *Desktop products* include both stand-alone applications such as Google Earth (a virtual globe that uses satellite imagery and aerial photography), Google Chrome (a Web browser), and Google Video/YouTube (Google acquired the video hosting site YouTube in 2006 for $1.65 billion), or desktop extensions such as Google Toolbar (a browser toolbar). *Mobile products* include all Google products available for mobile devices. *Web products* are broken down into the following subsets—advertising (e.g., AdWorks, DoubleClick, Click-to-Call), communications and publishing (e.g., Google Docs, Google Calendar, Google Gadgets, Wave), development (e.g., Android, Google Code), mapping (e.g., Google Sky, Google Maps), Search (e.g., Google Dictionary, Google Alerts, Google Scholar), and statistics (e.g., Google Trends, Google Analytics).

Google's stage of development starts within Google Labs, which lists new products available for testing. It next moves to beta status, where invited users test early prototypes. Once the product is fully tested and ready to be released to the general public, it moves into the gold stage as a core Google product. Google Voice, for example, is in the beta stage. It provides consumers with one Google phone number, which then connects to the user's home, office, and cell numbers. The user decides which phones ring, based on who calls. Due to Google Voice's complexity and popularity, users can sign up only by invitation.

Google has not spent a lot of money on traditional advertising. Recent efforts have targeted Microsoft consumers with appeals to use Google's "cloud computing" applications instead of Microsoft Office or Windows. By "Going Google," a user can access all of his or her documents and applications via a Web browser instead of owning the physical infrastructure and software. In addition, in 2009 Google launched its first-ever television commercial for Google Chrome, an alternative to Microsoft's Internet Explorer Web browser.

Google is also betting big in the mobile category. With its 2008 launch of Android, a mobile operating system, Google went head-to-head with Apple's iPhone. Although many still prefer Apple's platform, even critics have praised Android's benefits. Most importantly, Android is free, open sourced, and backed by a multimillion-dollar investment. That means Google wants its partners to help build and design Android over the years. In addition, the iPhone is available only through AT&T in the United States, while most of AT&T's competitors support Android phones. If Google influences millions of new consumers to use smart phones, it could make billions in mobile advertising. One analyst stated that Google "is trying to get ahead of the curve with these initiatives so when [mobile advertising] becomes mainstream, Google will be one of the major players, and display is a key growth area for Google."

Google's goal is to reach as many people as possible on the Web—whether by PC or by phone. The more users on the Web, the more advertising Google can sell. Google's new products also accomplish this goal and make the Web a more personalized experience. One program allows users to mark their current position on Google Maps, click the local tab, and receive information about local restaurants, bars, and entertainment venues.

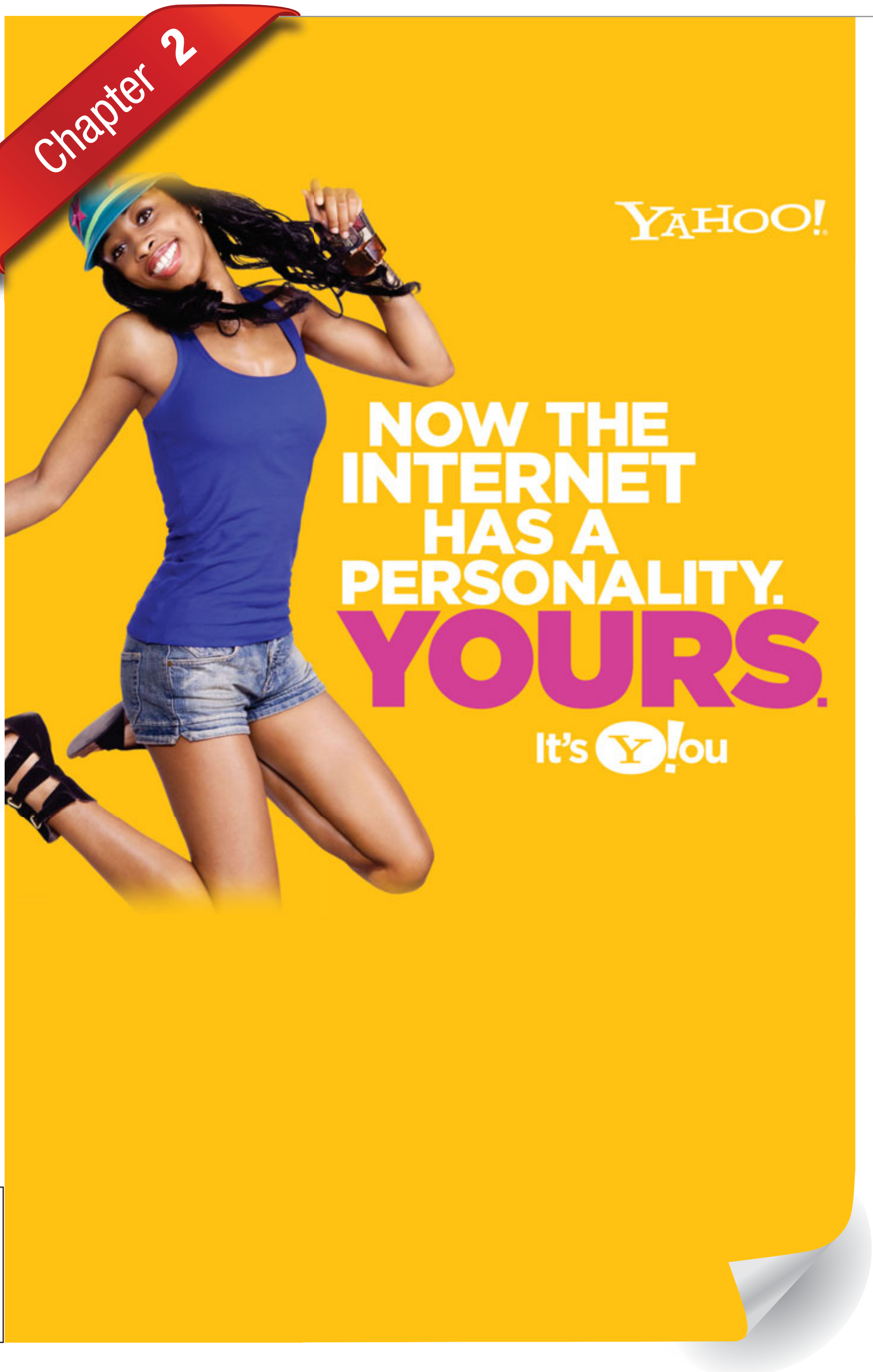
Google has enjoyed great success as a company and a brand since its launch. When it experienced an hour-long outage in 2009, worldwide Internet traffic decreased by 5 percent. In 2009, Google held a 65 percent market share in search in the United States, significantly greater than second place Yahoo!'s 20 percent market share. Globally, Google held a more dominant lead with 89 percent market share versus Yahoo!'s 5 percent and MSN's 3 percent. Google's revenues topped $21 billion in 2008, and the company was ranked the most powerful brand in the world with a brand value of $86 billion.

Questions

1. With a portfolio as diverse as Google's, what are the company's core brand values?
2. What's next for Google? Is it doing the right thing taking on Microsoft with the concept of cloud computing, and Apple in the fight for smart phones?

Sources: www.google.com; Catherine P. Taylor, "Google Flex," *Adweek*, March 20, 2006, cover story; Richard Karpinski, "Keywords, Analytics Help Define User Lifetime Value," *Advertising Age*, April 24, 2006, p. S2; Danny Gorog, "Survival Guide," *Herald Sun*, March 29, 2006; Julie Schlosser, "Google," *Fortune*, October 31, 2005, pp. 168–69; Jefferson Graham, "Google's Profit Sails Past Expectations," *USA Today*, October 21, 2005; Dan Frommer, "BrandZ Top 100 2008 Report"; "Google's Android Mobile Platform Is Getting Huge," *Advertising Age*, October 8, 2009; Rita Chang, "Google Set for Richer Advertising on Smartphones," *Advertising Age*, October 5, 2009.

Chapter 2



In This Chapter, We Will Address the Following Questions

1. How does marketing affect customer value?
2. How is strategic planning carried out at different levels of the organization?
3. What does a marketing plan include?

Yahoo! faces many strategic challenges as it attempts to fend off competition from Google and others.

Developing Marketing Strategies and Plans

Key ingredients of the marketing management process are insightful, creative strategies and plans that can guide marketing activities. Developing the right marketing strategy over time requires a blend of discipline and flexibility. Firms must stick to a strategy but also constantly improve it. They must also develop strategies for a range of products and services within the organization.

Founded in 1994 by Web-surfing Stanford University grad students, Yahoo! grew from a tiny upstart surrounded by Silicon Valley heavyweights to a powerful force in Internet media. Yahoo! worked hard to be more than just a search engine. The company proudly proclaims it is "The only place anyone needs to go to find anything, communicate with anyone, or buy anything." Its range of services includes e-mail, news, weather, music, photos, games, shopping, auctions, and travel. A large percentage of revenues comes from advertising, but the company also profits from subscription services such as online personal ads, premium e-mail, and small-business services. Although Yahoo! strives to achieve a competitive advantage over rival Google with its vast array of original content, Google's ascension to the runaway leader in search, e-mail, and related services has made it a darling with advertisers. Yahoo!'s acquisition of photo-sharing service Flickr, social bookmark manager Del.icio.us, and online video editing site Jumpcut strengthened its capabilities. Yahoo! has also continued to grow globally in Europe and Asia, helped in part by the acquisition of Kelkoo, a European comparison-shopping site, for $579 million, and of 46 percent of Alibaba, a Chinese e-commerce company, for $1 billion in cash. Discussions with Microsoft about a possible merger culminated in a 10-year deal in June 2009 that gave Microsoft full access to the Yahoo! search engine, to be used in future Microsoft projects for its own search engine, Bing. CEO Carol Bartz faced many questions, however, about how Yahoo! should best move forward.[1]

This chapter begins by examining some of the strategic marketing implications in creating customer value. We'll look at several perspectives on planning and describe how to draw up a formal marketing plan.

Marketing and Customer Value

The task of any business is to deliver customer value at a profit. In a hypercompetitive economy with increasingly informed buyers faced with abundant choices, a company can win only by fine-tuning the value delivery process and choosing, providing, and communicating superior value.

The Value Delivery Process

The traditional view of marketing is that the firm makes something and then sells it, with marketing taking place in the selling process. Companies that subscribe to this view have the best chance of succeeding in economies marked by goods shortages where consumers are not fussy about quality, features, or style—for example, basic staple goods in developing markets.

This traditional view will not work, however, in economies with many different types of people, each with individual wants, perceptions, preferences, and buying criteria. The smart competitor must design and deliver offerings for well-defined target markets. This realization inspired a new view of business processes that places marketing at the *beginning* of planning. Instead of emphasizing making and selling, companies now see themselves as part of a value delivery process.

We can divide the value creation and delivery sequence into three phases.[2] First, *choosing the value* represents the "homework" marketing must do before any product exists. Marketers must segment the market, select the appropriate target, and develop the offering's value positioning. The formula "segmentation, targeting, positioning (STP)" is the essence of strategic marketing. The second phase is *providing the value.* Marketing must determine specific product features, prices, and distribution. The task in the third phase is *communicating the value* by utilizing the sales force, Internet, advertising, and any other communication tools to announce and promote the product. The value delivery process begins before there is a product and continues through development and after launch. Each phase has cost implications.

The Value Chain

Harvard's Michael Porter has proposed the **value chain** as a tool for identifying ways to create more customer value.[3] According to this model, every firm is a synthesis of activities performed to design, produce, market, deliver, and support its product. The value chain identifies nine strategically relevant activities—five primary and four support activities—that create value and cost in a specific business.

The *primary activities* are (1) inbound logistics, or bringing materials into the business; (2) operations, or converting materials into final products; (3) outbound logistics, or shipping out final products; (4) marketing, which includes sales; and (5) service. Specialized departments handle the *support activities*—(1) procurement, (2) technology development, (3) human resource management, and (4) firm infrastructure. (Infrastructure covers the costs of general management, planning, finance, accounting, legal, and government affairs.)

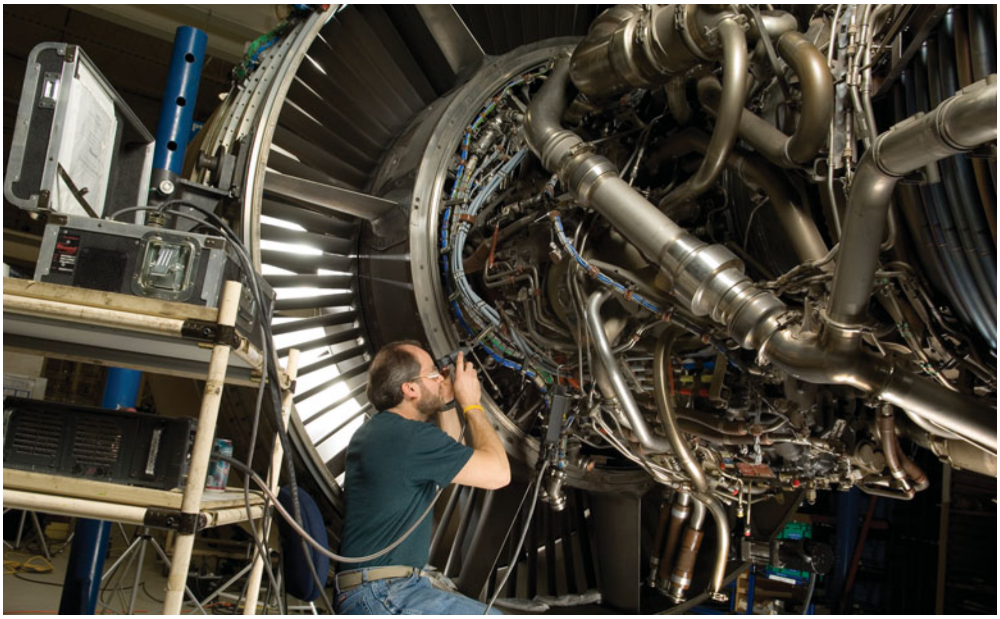
The firm's task is to examine its costs and performance in each value-creating activity and look for ways to improve it. Managers should estimate competitors' costs and performances as *benchmarks* against which to compare their own. And they should go further and study the "best of class" practices of the world's best companies. We can identify best-practice companies by consulting customers, suppliers, distributors, financial analysts, trade associations, and magazines to see whom they rate as doing the best job. Even the best companies can benchmark, against other industries if necessary, to improve their performance. To support its corporate goal to be more innovative, GE has benchmarked against P&G as well as developing its own best practices.[4]

The firm's success depends not only on how well each department performs its work, but also on how well the company coordinates departmental activities to conduct *core business processes*.[5] These processes include:

- ***The market-sensing process.*** All the activities in gathering and acting upon information about the market
- ***The new-offering realization process.*** All the activities in researching, developing, and launching new high-quality offerings quickly and within budget
- ***The customer acquisition process.*** All the activities in defining target markets and prospecting for new customers
- ***The customer relationship management process.*** All the activities in building deeper understanding, relationships, and offerings to individual customers
- ***The fulfillment management process.*** All the activities in receiving and approving orders, shipping the goods on time, and collecting payment

Strong companies are reengineering their work flows and building cross-functional teams to be responsible for each process.[6] At Xerox, a Customer Operations Group links sales, shipping, installation, service, and billing so these activities flow smoothly into one another. Winning companies excel at managing core business processes through cross-functional teams. AT&T, LexisNexis, and Pratt & Whitney have reorganized their employees into cross-functional teams; cross-functional teams exist in nonprofit and government organizations as well.

To be successful, a firm also needs to look for competitive advantages beyond its own operations, into the value chains of suppliers, distributors, and customers. Many companies today have



Pratt & Whitney employs cross-functional employee teams to build its products, such as this 4000 series aircraft engine.

partnered with specific suppliers and distributors to create a superior **value delivery network**, also called a **supply chain**.

Sony

Sony In May 2009, Sony announced it would cut its number of suppliers in half over the next two years (to 1,200), increasing the volume of parts and materials from each and thus reducing unit costs and overall procurement spending. Some stock analysts received the news positively as evidence of the company's commitment to restructuring. Others were less optimistic, such as Mizuho Investors Securities analyst Nobuo Kurahashi: "I'm not sure how effective this is because it's just operational streamlining and wouldn't simply push up earnings or bear fruit immediately."[7]

Core Competencies

Traditionally, companies owned and controlled most of the resources that entered their businesses—labor power, materials, machines, information, and energy—but many today outsource less-critical resources if they can obtain better quality or lower cost.

The key, then, is to own and nurture the resources and competencies that make up the *essence* of the business. Many textile, chemical, and computer/electronic product firms do not manufacture their own products because offshore manufacturers are more competent in this task. Instead, they focus on product design and development and marketing, their core competencies. A **core competency** has three characteristics: (1) It is a source of competitive advantage and makes a significant contribution to perceived customer benefits. (2) It has applications in a wide variety of markets. (3) It is difficult for competitors to imitate.[8]

Competitive advantage also accrues to companies that possess *distinctive capabilities* or excellence in broader business processes. Wharton's George Day sees market-driven organizations as excelling in three distinctive capabilities: market sensing, customer linking, and channel bonding.[9] In terms of market sensing, he believes tremendous opportunities and threats often begin as "weak signals" from the "periphery" of a business.[10] He offers a systematic process for developing peripheral vision, and practical tools and strategies for building "vigilant organizations" attuned to changes in the environment, by asking three questions each related to learning from the past, evaluating the present, and envisioning the future.

Competitive advantage ultimately derives from how well the company has fitted its core competencies and distinctive capabilities into tightly interlocking "activity systems." Competitors find it hard to imitate Southwest Airlines, Walmart, and IKEA because they are unable to copy their activity systems.

Business realignment may be necessary to maximize core competencies. It has three steps: (1) (re)defining the business concept or "big idea", (2) (re)shaping the business scope, and (3) (re)positioning the company's brand identity. Consider what Kodak is doing to realign its business.

Kodak With the advent of the digital era and the capacity to store, share, and print photos using PCs, Kodak faces more competition than ever, in-store and online. In 2004, after being bumped from the Dow Jones Industrial Average where it had held a spot for more than 70 years, the company started the painful process of transformation. It began by expanding its line of digital cameras, printers, and other equipment, and it also set out to increase market share in the lucrative medical imaging business. Making shifts is not without challenges, however. The company eliminated almost 30,000 jobs between 2004 and 2007 and acquired a string of companies for its graphics communications unit. In 2006, Kodak announced it would outsource the making of its digital cameras. Not only must Kodak convince consumers to buy its digital cameras and home printers, but it also must become known as the most convenient and affordable way to process digital images. So far, it faces steep competition from Sony, Canon, and Hewlett-Packard.[11]

Kodak has installed thousands of its Picture Kiosks to allow customers to print digital photos or scan existing photos when, where, and how they want.

A Holistic Marketing Orientation and Customer Value

One view of holistic marketing sees it as "integrating the value exploration, value creation, and value delivery activities with the purpose of building long-term, mutually satisfying relationships and coprosperity among key stakeholders."[12] Holistic marketers thus succeed by managing a superior value chain that delivers a high level of product quality, service, and speed. They achieve profitable growth by expanding customer share, building customer loyalty, and capturing customer lifetime value. Holistic marketers address three key management questions:

1. ***Value exploration***—How a company identifies new value opportunities
2. ***Value creation***—How a company efficiently creates more promising new value offerings
3. ***Value delivery***—How a company uses its capabilities and infrastructure to deliver the new value offerings more efficiently

The Central Role of Strategic Planning

Successful marketing thus requires capabilities such as understanding, creating, delivering, capturing, and sustaining customer value. Only a select group of companies have historically stood out as master marketers (see Table 2.1). These companies focus on the customer and are organized to respond effectively to changing customer needs. They all have well-staffed marketing departments, and their other departments accept that the customer is king.

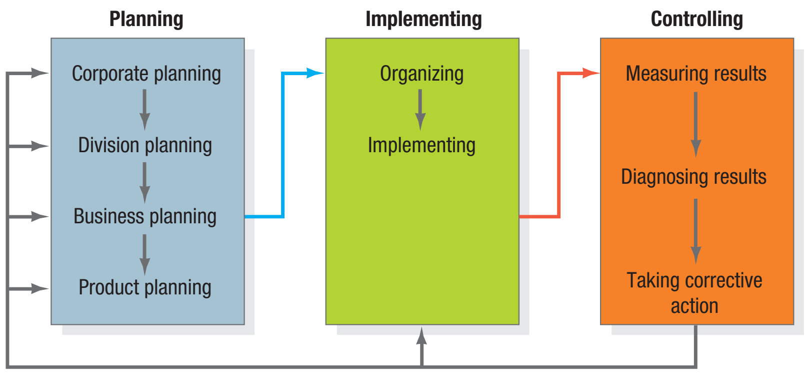
To ensure they select and execute the right activities, marketers must give priority to strategic planning in three key areas: (1) managing a company's businesses as an investment portfolio, (2) assessing each business's strength by considering the market's growth rate and the company's position and fit in that market, and (3) establishing a strategy. The company must develop a game plan for achieving each business's long-run objectives.

Most large companies consist of four organizational levels: (1) corporate, (2) division, (3) business unit, and (4) product. Corporate headquarters is responsible for designing a corporate strategic plan to guide the whole enterprise; it makes decisions on the amount of resources to allocate to each division, as well as on which businesses to start or eliminate. Each division establishes a plan covering the allocation of funds to each business unit within the division. Each business unit develops a strategic plan to carry that business unit into a profitable future. Finally, each product level (product line, brand) develops a marketing plan for achieving its objectives.

The **marketing plan** is the central instrument for directing and coordinating the marketing effort. It operates at two levels: strategic and tactical. The **strategic marketing plan** lays out the

TABLE 2.1 Some Examples of Master Marketers

Amazon.com	Electrolux	Progressive Insurance
Bang & Olufsen	Enterprise Rent-A-Car	Ritz-Carlton
Barnes & Noble	Google	Samsung
Best Buy	Harley-Davidson	Sony
BMW	Honda	Southwest Airlines
Borders	IKEA	Starbucks
Canon	LEGO	Target
Caterpillar	McDonald's	Tesco
Club Med	Nike	Toyota
Costco	Nokia	Virgin
Disney	Nordstrom	Walmart
eBay	Procter & Gamble	Whole Foods



|Fig. 2.1|

The Strategic Planning, Implementation, and Control Processes

target markets and the firm's value proposition, based on an analysis of the best market opportunities. The **tactical marketing plan** specifies the marketing tactics, including product features, promotion, merchandising, pricing, sales channels, and service. The complete planning, implementation, and control cycle of strategic planning is shown in Figure 2.1. Next, we consider planning at each of these four levels of the organization.

Corporate and Division Strategic Planning

Some corporations give their business units freedom to set their own sales and profit goals and strategies. Others set goals for their business units but let them develop their own strategies. Still others set the goals and participate in developing individual business unit strategies.

All corporate headquarters undertake four planning activities:

1. Defining the corporate mission
2. Establishing strategic business units
3. Assigning resources to each strategic business unit
4. Assessing growth opportunities

We'll briefly look at each process.

Defining the Corporate Mission

An organization exists to accomplish something: to make cars, lend money, provide a night's lodging. Over time, the mission may change, to take advantage of new opportunities or respond to new market conditions. Amazon.com changed its mission from being the world's largest online bookstore to aspiring to become the world's largest online store; eBay changed from running online auctions for collectors to running online auctions of all kinds of goods; and Dunkin' Donuts switched its emphasis from doughnuts to coffee.

To define its mission, a company should address Peter Drucker's classic questions:[13] What is our business? Who is the customer? What is of value to the customer? What will our business be? What should our business be? These simple-sounding questions are among the most difficult a company will ever have to answer. Successful companies continuously raise and answer them.

Organizations develop **mission statements** to share with managers, employees, and (in many cases) customers. A clear, thoughtful mission statement provides a shared sense of purpose, direction, and opportunity.

Mission statements are at their best when they reflect a vision, an almost "impossible dream" that provides direction for the next 10 to 20 years. Sony's former president, Akio Morita, wanted everyone to have access to "personal portable sound," so his company created the Walkman and portable CD player. Fred Smith wanted to deliver mail anywhere in the United States before 10:30 AM the next day, so he created FedEx.

Good mission statements have five major characteristics.

1. ***They focus on a limited number of goals.*** The statement "We want to produce the highest-quality products, offer the most service, achieve the widest distribution, and sell at the lowest prices" claims too much.
2. ***They stress the company's major policies and values.*** They narrow the range of individual discretion so employees act consistently on important issues.
3. ***They define the major competitive spheres within which the company will operate.*** Table 2.2 summarizes some key competitive dimensions for mission statements.
4. ***They take a long-term view.*** Management should change the mission only when it ceases to be relevant.
5. ***They are as short, memorable, and meaningful as possible.*** Marketing consultant Guy Kawasaki advocates developing three- to four-word corporate mantras rather than mission statements, like "Enriching Women's Lives" for Mary Kay.[14]

Compare the rather vague mission statements on the left with Google's mission statement and philosophy on the right:

To build total brand value by innovating to deliver customer value and customer leadership faster, better, and more completely than our competition.	**Google Mission** To organize the world's information and make it universally accessible and useful.
We build brands and make the world a little happier by bringing our best to you.	**Google Philosophy** Never settle for the best. **1.** Focus on the user and all else will follow. **2.** It's best to do one thing really, really well. **3.** Fast is better than slow. **4.** Democracy on the Web works. **5.** You don't need to be at your desk to need an answer. **6.** You can make money without doing evil. **7.** There is always more information out there. **8.** The need for information crosses all borders. **9.** You can be serious without a suit. **10.** Great just isn't good enough.[15]

TABLE 2.2 Defining Competitive Territory and Boundaries in Mission Statements

- **Industry.** *Some companies operate in only one industry; some only in a set of related industries; some only in industrial goods, consumer goods, or services; and some in any industry.*
  - Caterpillar focuses on the industrial market; John Deere operates in the industrial and consumer markets.
- **Products and applications.** *Firms define the range of products and applications they will supply.*
  - St. Jude Medical is "dedicated to developing medical technology and services that put more control in the hands of physicians, and that advance the practice of medicine and contribute to successful outcomes for every patient."
- **Competence.** *The firm identifies the range of technological and other core competencies it will master and leverage.*
  - Japan's NEC has built its core competencies in computing, communications, and components to support production of laptop computers, television receivers, and handheld telephones.
- **Market segment.** *The type of market or customers a company will serve is the market segment.*
  - Aston Martin makes only high-performance sports cars. Gerber serves primarily the baby market.
- **Vertical.** *The vertical sphere is the number of channel levels, from raw material to final product and distribution, in which a company will participate.*
  - At one extreme are companies with a large vertical scope. American Apparel dyes, designs, sews, markets, and distributes its line of clothing apparel out of a single building in downtown Los Angeles.
  - At the other extreme are "hollow corporations," which outsource the production of nearly all goods and services to suppliers. Metro International prints 34 free local newspaper editions in 16 countries. It employs few reporters and owns no printing presses; instead it purchases its articles from other news sources and outsources all its printing and much of its distribution to third parties.[16]
- **Geographical.** *The range of regions, countries, or country groups in which a company will operate defines its geographical sphere.*
  - Some companies operate in a specific city or state. Others are multinationals like Deutsche Post DHL and Royal Dutch/Shell, which each operate in more than 100 countries.

Establishing Strategic Business Units

Companies often define themselves in terms of products: They are in the "auto business" or the "clothing business." *Market definitions* of a business, however, describe the business as a customer-satisfying process. Products are transient; basic needs and customer groups endure forever. Transportation is a need: the horse and carriage, automobile, railroad, airline, ship, and truck are products that meet that need.

Viewing businesses in terms of customer needs can suggest additional growth opportunities. Table 2.3 lists companies that have moved from a product to a market definition of their business. It highlights the difference between a target market definition and a strategic market definition.

A *target market definition* tends to focus on selling a product or service to a current market. Pepsi could define its target market as everyone who drinks carbonated soft drinks, and competitors would therefore be other carbonated soft drink companies. A *strategic market definition,* however, also focuses on the potential market. If Pepsi considered everyone who might drink something to quench their thirst, its competition would include noncarbonated soft drinks, bottled water, fruit juices, tea, and coffee. To better compete, Pepsi might decide to sell additional beverages with promising growth rates.

A business can define itself in terms of three dimensions: customer groups, customer needs, and technology.[17] Consider a small company that defines its business as designing incandescent lighting

American Apparel is a fully vertically integrated company that conducts all its business from its Los Angeles, California, location.

systems for television studios. Its customer group is television studios; the customer need is lighting; the technology is incandescent lighting. The company might want to expand to make lighting for homes, factories, and offices, or it could supply other services television studios need, such as heating, ventilation, or air conditioning. It could design other lighting technologies for television

TABLE 2.3 Product-Oriented versus Market-Oriented Definitions of a Business

Company	Product Definition	Market Definition
Union Pacific Railroad	We run a railroad.	We are a people-and-goods mover.
Xerox	We make copying equipment.	We help improve office productivity.
Hess Corporation	We sell gasoline.	We supply energy.
Paramount Pictures	We make movies.	We market entertainment.
Encyclopaedia Britannica	We sell encyclopedias.	We distribute information.
Carrier	We make air conditioners and furnaces.	We provide climate control in the home.

The Kate Spade brand allows Liz Claiborne to attract a more youthful customer.

studios, such as infrared or ultraviolet lighting or perhaps environmentally friendly "green" fluorescent bulbs.

Large companies normally manage quite different businesses, each requiring its own strategy. At one time, General Electric classified its businesses into 49 **strategic business units (SBUs)**. An SBU has three characteristics:

1. It is a single business, or a collection of related businesses, that can be planned separately from the rest of the company.
2. It has its own set of competitors.
3. It has a manager responsible for strategic planning and profit performance, who controls most of the factors affecting profit.

The purpose of identifying the company's strategic business units is to develop separate strategies and assign appropriate funding. Senior management knows its portfolio of businesses usually includes a number of "yesterday's has-beens" as well as "tomorrow's breadwinners."[18] Liz Claiborne has put more emphasis on some of its younger businesses such as Juicy Couture, Lucky Brand Jeans, Mexx, and Kate Spade while selling businesses without the same buzz (Ellen Tracy, Sigrid Olsen, and Laundry). Campbell Soup has out-paced the stock market for close to a decade by developing or keeping only products that ranked number one or number two in the categories of simple meals, baked snacks, and veggie-based drinks and that had a strong emphasis on value, nutrition, and convenience.[19]

News Corp.

News Corp. Media conglomerate News Corp.'s vast empire encompasses virtually all aspects of print and broadcast media (see Table 2.4). The economic recession of 2008–2009 had different effects on each. Hit hard were its broadcast television business. Even though the Fox network retained popular shows like *American Idol*, lower ratings and advertising sales took their toll. The cable network business, whose revenue is more stable due to lower ad rates and monthly provider fees, was a bright spot; profits actually grew. A continued slump in the newspaper and magazine business led the firm to start charging reader fees for all its news Web sites. News Corp.'s $650 million investment in MySpace in 2005 continued to falter as the social network site struggled to attract advertisers. At the same time, free online video service Hulu began to hit its stride, and News Corp. remained committed to a strong online presence. The goal? To develop hit TV shows and movies that would drive DVD sales and lead to streaming shows over the Internet, and eventually to products downloadable to mobile phones.[20]

TABLE 2.4	News Corp. Business Units
Newspapers ($4.5 Billion): *New York Post, Wall Street Journal, The Sun* (UK)	
Magazines ($1 Billion): *Weekly Standard, TV Guide*	
Book Publishing ($1.3 Billion): HarperCollins	
Broadcast TV ($5.7 Billion): Fox Network, WNYW New York, KTTV Los Angeles	
Cable Networks ($4 Billion): FX, FSN, Fox News Channel	
Satellite Television ($3 Billion): Sky Italia, BSkyB, Tata Sky	
Filmed Entertainment ($6.7 Billion): 20th Century Fox, Fox Searchlight Pictures, Blue Sky Studios	
Other ($2.3 Billion): MySpace, IGN Entertainment, Jamba, Hulu	

Assigning Resources to Each SBU[21]

Once it has defined SBUs, management must decide how to allocate corporate resources to each. Several portfolio-planning models provide ways to make investment decisions. The GE/McKinsey Matrix classifies each SBU by the extent of its competitive advantage and the attractiveness of its industry. Management can decide to grow, "harvest" or draw cash from, or hold on to the business. Another model, BCG's Growth-Share Matrix, uses relative market share and annual rate of market growth as criteria to make investment decisions, classifying SBUs as dogs, cash cows, question marks, and stars.

Portfolio-planning models like these have fallen out of favor as oversimplified and subjective. Newer methods rely on shareholder value analysis, and on whether the market value of a company is greater with an SBU or without it (whether it is sold or spun off). These value calculations assess the potential of a business based on growth opportunities from global expansion, repositioning or retargeting, and strategic outsourcing.

Assessing Growth Opportunities

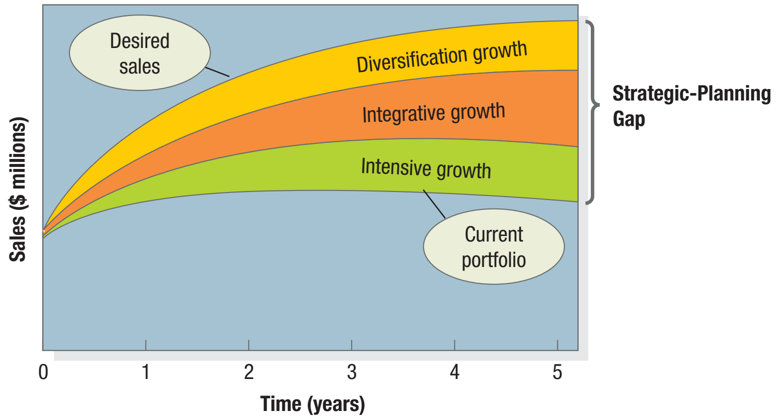
Assessing growth opportunities includes planning new businesses, downsizing, and terminating older businesses. If there is a gap between future desired sales and projected sales, corporate management will need to develop or acquire new businesses to fill it.

Figure 2.2 illustrates this strategic-planning gap for a major manufacturer of blank compact disks called Musicale (name disguised). The lowest curve projects the expected sales over the next five years from the current business portfolio. The highest describes desired sales over the same period. Evidently, the company wants to grow much faster than its current businesses will permit. How can it fill the strategic-planning gap?

The first option is to identify opportunities for growth within current businesses (intensive opportunities). The second is to identify opportunities to build or acquire businesses related to

|Fig. 2.2|

The Strategic-Planning Gap



current businesses (integrative opportunities). The third is to identify opportunities to add attractive unrelated businesses (diversification opportunities).

INTENSIVE GROWTH Corporate management's first course of action should be a review of opportunities for improving existing businesses. One useful framework for detecting new intensive-growth opportunities is a "product-market expansion grid." It considers the strategic growth opportunities for a firm in terms of current and new products and markets.

The company first considers whether it could gain more market share with its current products in their current markets, using a *market-penetration strategy*. Next it considers whether it can find or develop new markets for its current products, in a *market-development strategy*. Then it considers whether it can develop new products of potential interest to its current markets with a *product-development strategy*. Later the firm will also review opportunities to develop new products for new markets in a *diversification strategy*. Consider how ESPN has employed growth opportunities.[22]

ESPN ESPN (the Entertainment and Sports Programming Network) was launched in 1978 in Bristol, Connecticut, with a single satellite, broadcasting regional sports and obscure international sporting contests such as the "World's Strongest Man." Through its singular focus on providing sports programming and news, it grew into the biggest name in sports. In the early 1990s, the company crafted a well-thought-out plan: wherever sports fans watched, read, and discussed sports, ESPN would be there. It pursued this strategy by expanding its brand into a number of new categories and by 2009 encompassed 10 cable channels, a Web site, a magazine, a restaurant chain (ESPN Zone), more than 600 local radio affiliates, original movies and television series, book publishing, a sports merchandise catalog and online store, music and video games, and a mobile service. ESPN continues to expand its brand footprint. Its failed seven-month foray into the fiercely competitive cell phone market in 2006 left it undaunted. It transitioned from a service provider to a content provider in 2007 and partnered with Verizon Wireless to launch ESPN MVP. Now owned by The Walt Disney Company, ESPN earns $5 billion a year in revenue, but perhaps the greatest tribute to the power of its brand came from one male focus group respondent: "If ESPN was a woman, I'd marry her."

ESPN has entered a wide range of sports-related businesses, including its sports-themed ESPN Zone restaurant, to connect with its customers in more ways and places.

So how might Musicale use these three major intensive growth strategies to increase its sales? It could try to encourage its current customers to buy more by demonstrating the benefits of using compact disks for data storage in addition to music storage. It could try to attract competitors' customers if it noticed major weaknesses in their products or marketing programs. Finally, Musicale could try to convince nonusers of compact disks to start using them.

How can Musicale use a market-development strategy? First, it might try to identify potential user groups in the current sales areas. If it has been selling compact disks only to consumer markets, it might go after office and factory markets. Second, it might seek additional distribution channels by adding mass merchandising or online channels. Third, the company might sell in new locations in its home country or abroad.

Management should also consider new-product possibilities. Musicale could develop new features, such as additional data storage capabilities or greater durability. It could offer the CD at two or more quality levels, or it could research an alternative technology such as flash drives.

These intensive growth strategies offer several ways to grow. Still, that growth may not be enough, and management must also look for integrative growth opportunities.

INTEGRATIVE GROWTH A business can increase sales and profits through backward, forward, or horizontal integration within its industry. Merck has gone beyond developing and selling prescription pharmaceuticals. It formed joint ventures in 1989 with Johnson & Johnson to sell over-the-counter pharmaceuticals; in 1991 with DuPont to expand basic research, and in 2000 with Schering-Plough to develop and market new prescription medicines. In 1997, Merck and Rhône-Poulenc S.A. (now Sanofi-Aventis S.A.) combined their animal health and poultry genetics businesses to form Merial Limited, a fully integrated animal health company. Finally, Merck purchased Medco, a mail-order pharmaceutical distributor, in 2003 and Sirna Therapeutics in 2006.

Horizontal mergers and alliances don't always work out. The merger between Sears and Kmart didn't solve either retailer's problems.[23] Media companies, however, have long reaped the benefits of integrative growth. Here's how one business writer explains the potential NBC could reap from its merger with Vivendi Universal Entertainment to become NBC Universal. Although it's a far-fetched example, it gets across the possibilities inherent in this growth strategy:[24]

> [When] the hit movie *Fast & Furious* 4 (produced by Universal Pictures) comes to television, it would air on Bravo (owned by NBC) or USA Network (owned by Universal), followed by the inevitable bid to make the movie into a TV series (by Universal Television Group), with the pilot being picked up by NBC. The show then begins airing on Hulu.com (owned in part by NBC), and ultimately leads to the creation of a popular amusement-park attraction at Universal Studios.

In today's highly integrated media world, NBC Universal may take a successful movie franchise such as *Fast & Furious* and leverage it across all its businesses, including its Universal Studios theme park.

How might Musicale achieve integrative growth? The company might acquire one or more of its suppliers, such as plastic material producers, to gain more control or generate more profit through backward integration. It might acquire some wholesalers or retailers, especially if they are highly profitable, in forward integration. Finally, Musicale might acquire one or more competitors, provided the government does not bar this horizontal integration. However, these new sources may still not deliver the desired sales volume. In that case, the company must consider diversification.

DIVERSIFICATION GROWTH Diversification growth makes sense when good opportunities exist outside the present businesses—the industry is highly attractive and the company has the right mix of business strengths to succeed. From its origins as an animated film producer, The Walt Disney Company has moved into licensing characters for merchandised goods, publishing general interest fiction books under the Hyperion imprint, entering the broadcast industry with its own Disney Channel as well as ABC and ESPN, developing theme parks and vacation and resort properties, and offering cruise and commercial theatre experiences.

Several types of diversification are possible for Musicale. First, the company could choose a concentric strategy and seek new products that have technological or marketing synergies with existing product lines, though appealing to a different group of customers. It might start a laser disk manufacturing operation, because it knows how to manufacture compact discs. Second, it might use a horizontal strategy to search for unrelated new products that appeal to current customers. Musicale might produce compact disc cases, for example, though they require a different manufacturing process. Finally, the company might seek new businesses that have no relationship to its current technology, products, or markets, adopting a conglomerate strategy to consider making application software or personal organizers.

DOWNSIZING AND DIVESTING OLDER BUSINESSES Companies must carefully prune, harvest, or divest tired old businesses to release needed resources for other uses and reduce costs. To focus on its travel and credit card operations, American Express in 2005 spun off American Express Financial Advisors, which provided insurance, mutual funds, investment advice, and brokerage and asset management services (it was renamed Ameriprise Financial).

Organization and Organizational Culture

Strategic planning happens within the context of the organization. A company's **organization** consists of its structures, policies, and corporate culture, all of which can become dysfunctional in a rapidly changing business environment. Whereas managers can change structures and policies (though with difficulty), the company's culture is very hard to change. Yet adapting the culture is often the key to successfully implementing a new strategy.

What exactly is a **corporate culture**? Some define it as "the shared experiences, stories, beliefs, and norms that characterize an organization." Walk into any company and the first thing that strikes you is the corporate culture—the way people dress, talk to one another, and greet customers. When Mark Hurd became CEO of HP, one of his goals was to reinvigorate the famous "HP Way," a benevolent but hard-nosed corporate culture that rewarded employees amply but expected teamwork, growth, and profits in return.[25]

A customer-centric culture can affect all aspects of an organization. Sometimes corporate culture develops organically and is transmitted directly from the CEO's personality and habits to the company employees. Mike Lazaridis, president and co-CEO of BlackBerry producer Research In Motion, is a scientist in his own right, winning an Academy Award for technical achievement in film. He has hosted a weekly, innovation-centered "Vision Series" at company headquarters that focuses on new research and company goals. As he states, "I think we have a culture of innovation here, and [engineers] have absolute access to me. I live a life that tries to promote innovation."[26]

Marketing Innovation

Innovation in marketing is critical. Imaginative ideas on strategy exist in many places within a company.[27] Senior management should identify and encourage fresh ideas from three underrepresented groups: employees with youthful or diverse perspectives, employees far removed from company headquarters, and employees new to the industry. Each group can challenge company orthodoxy and stimulate new ideas.

German-based Reckitt Benckiser has been an innovator in the staid household cleaning products industry by generating 40 percent of sales from products under three years old. Its multinational staff is encouraged to dig deep into consumer habits and is well rewarded for excellent performance. "Marketing Insight: Creating Innovative Marketing" describes how some leading companies approach innovation.

Firms develop strategy by identifying and selecting among different views of the future. The Royal Dutch/Shell Group has pioneered **scenario analysis**, which develops plausible representations of a firm's possible future using assumptions about forces driving the market and different uncertainties. Managers think through each scenario with the question, "What will we do if it happens?" adopt one scenario as the most probable, and watch for signposts that might confirm or disconfirm it.[28] Consider the challenges faced by the movie industry.

Marketing Insight

Creating Innovative Marketing

When IBM surveyed top CEOs and government leaders about their priorities, business-model innovation and coming up with unique ways of doing things scored high. IBM's own drive for business-model innovation led to much collaboration, both within IBM itself and externally with companies, governments, and educational institutions. CEO Samuel Palmisano noted how the breakthrough Cell processor, based on the company's Power architecture, would not have happened without collaboration with Sony and Nintendo, as well as competitors Toshiba and Microsoft.

Procter & Gamble (P&G) similarly has made it a goal for 50 percent of new products to come from outside P&G's labs—from inventors, scientists, and suppliers whose new-product ideas can be developed in-house.

Business guru Jim Collins's research emphasizes the importance of systematic, broad-based innovation: "Always looking for the one big breakthrough, the one big idea, is contrary to what we found: To build a truly great company, it's decision upon decision, action upon action, day upon day, month upon month. . . . It's cumulative momentum and no one decision defines a great company." He cites the success of Walt Disney with theme parks and Walmart with retailing as examples of companies that were successful after having executed against a big idea brilliantly over such a long period of time.

Northwestern's Mohanbir Sawhney and his colleagues outline 12 dimensions of business innovation that make up the "innovation radar" (see Table 2.5) and suggest that business innovation is about increasing customer *value*, not just creating new *things*; comes in many flavors and can take place on any dimension of a business system; and is systematic and requires careful consideration of all aspects of a business.

Finally, to find breakthrough ideas, some companies find ways to immerse a range of employees in solving marketing problems. Samsung's Value Innovation Program (VIP) isolates product development teams of engineers, designers, and planners with a timetable and end date in the company's center just south of Seoul, Korea, while 50 specialists help guide their activities. To help make tough trade-offs, team members draw "value curves" that rank attributes such as a product's sound or picture quality on a scale from 1 to 5. To develop a new car, BMW similarly mobilizes specialists in engineering, design, production, marketing, purchasing, and finance at its Research and Innovation Center or Project House.

Sources: Steve Hamm, "Innovation: The View from the Top," *BusinessWeek*, April 3, 2006, pp. 52–53; Jena McGregor, "The World's Most Innovative Companies," *BusinessWeek*, April 24, 2006, pp. 63–74; Rich Karlgard, "Digital Rules," *Forbes*, March 13, 2006, p. 31; Jennifer Rooney and Jim Collins, "Being Great Is *Not* Just a Matter of Big Ideas," *Point*, June 2006, p. 20; Moon Ihlwan, "Camp Samsung," *BusinessWeek*, July 3, 2006, pp. 46–47; Mohanbir Sawhney, Robert C. Wolcott, and Inigo Arroniz, "The 12 Different Ways for Companies to Innovate," *MIT Sloan Management Review* (Spring 2006), pp. 75–85.

TABLE 2.5 The 12 Dimensions of Business Innovation

Dimension	Definition	Examples
Offerings (WHAT)	Develop innovative new products or services.	• Gillette MACH3 Turbo Razor • Apple iPod music player and iTunes music service
Platform	Use common components or building blocks to create derivative offerings.	• General Motors OnStar telematics platform • Disney animated movies
Solutions	Create integrated and customized offerings that solve end-to-end customer problems.	• UPS logistics services Supply Chain Solutions • DuPont Building Innovations for construction
Customers (WHO)	Discover unmet customer needs or identify underserved customer segments.	• Enterprise Rent-A-Car focus on replacement car renters • Green Mountain Energy focus on "green power"
Customer Experience	Redesign customer interactions across all touch points and all moments of contact.	• Washington Mutual Occasio retail banking concept • Cabela's "store as entertainment experience" concept

(Continued)

Value Capture	Redefine how company gets paid or create innovative new revenue streams.	• Google paid search • Blockbuster revenue sharing with movie distributors
Processes (HOW)	Redesign core operating processes to improve efficiency and effectiveness.	• Toyota Production System for operations • General Electric Design for Six Sigma (DFSS)
Organization	Change form, function, or activity scope of the firm.	• Cisco partner-centric networked virtual organization • Procter & Gamble front-back hybrid organization for customer focus
Supply Chain	Think differently about sourcing and fulfillment.	• Moen ProjectNet for collaborative design with suppliers • General Motors Celta use of integrated supply and online sales
Presence (WHERE)	Create new distribution channels or innovative points of presence, including the places where offerings can be bought or used by customers.	• Starbucks music CD sales in coffee stores • Diebold RemoteTeller System for banking
Networking	Create network-centric intelligent and integrated offerings.	• Otis Remote Elevator Monitoring service • Department of Defense Network-Centric Warfare
Brand	Leverage a brand into new domains.	• Virgin Group "branded venture capital" • Yahoo! as a lifestyle brand

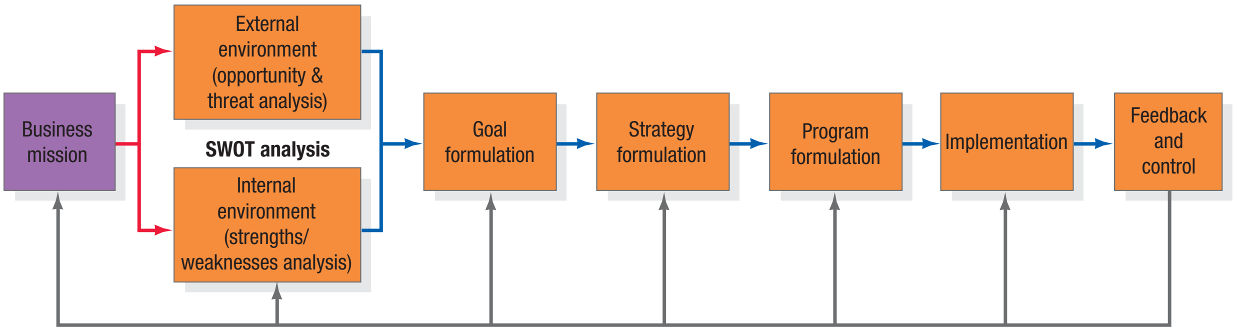
Source: Mohanbir Sawhney, Robert C. Wolcott, and Inigo Arroniz, "The 12 Different Ways for Companies to Innovate," *MIT Sloan Management Review* (Spring 2006), p. 78. © 2006 by Massachusetts Institute of Technology. All rights reserved. Distributed by Tribune Media Services.

Movie Industry The success of Netflix (see Chapter 15) and the ease of watching longer-form entertainment or playing games on broadband Internet helped produce a 6.8 percent decrease in DVD sales—one that experts believe will continue. The recent emergence of Redbox and its thousands of kiosks renting movies for $1 a day poses yet another threat to the movie business and DVD sales. Film studios clearly need to prepare for the day when films are primarily sold not through physical distribution but through satellite and cable companies' video-on-demand services. Although studios make 70 percent on a typical $4.99 cable viewing versus 30 percent on the sale of a DVD, sales of DVDs still generate 70 percent of film profits. To increase electronic distribution without destroying their DVD business, studios are experimenting with new approaches. Some, such as Warner Bros., are releasing a DVD at the same time as online and cable versions of a movie. Disney has emphasized its parent-friendly Disney-branded films, which generate higher DVD sales and are easy to cross-promote at the company's theme parks, on its TV channels, and in its stores. Paramount chose to debut *Jackass 2.5* on Blockbuster's site for free to create buzz and interest. Film studios are considering all possible scenarios as they rethink their business model in a world where the DVD no longer will reign as king.[29]

The easy availability of rentals from Redbox kiosks has film studios rethinking their pricing and distribution strategies.

Business Unit Strategic Planning

The business unit strategic-planning process consists of the steps shown in Figure 2.3. We examine each step in the sections that follow.



|Fig. 2.3|

The Business Unit Strategic-Planning Process

The Business Mission

Each business unit needs to define its specific mission within the broader company mission. Thus, a television-studio-lighting-equipment company might define its mission as, "To target major television studios and become their vendor of choice for lighting technologies that represent the most advanced and reliable studio lighting arrangements." Notice this mission does not attempt to win business from smaller television studios, offer the lowest price, or venture into nonlighting products.

SWOT Analysis

The overall evaluation of a company's strengths, weaknesses, opportunities, and threats is called SWOT analysis. It's a way of monitoring the external and internal marketing environment.

EXTERNAL ENVIRONMENT (OPPORTUNITY AND THREAT) ANALYSIS A business unit must monitor key *macroenvironment forces* and significant *microenvironment factors* that affect its ability to earn profits. It should set up a marketing intelligence system to track trends and important developments and any related opportunities and threats.

Good marketing is the art of finding, developing, and profiting from these opportunities.[30] A **marketing opportunity** is an area of buyer need and interest that a company has a high probability of profitably satisfying. There are three main sources of market opportunities.[31] The first is to offer something that is in short supply. This requires little marketing talent, as the need is fairly obvious. The second is to supply an existing product or service in a new or superior way. How? The *problem detection method* asks consumers for their suggestions, the *ideal method* has them imagine an ideal version of the product or service, and the *consumption chain method* asks them to chart their steps in acquiring, using, and disposing of a product. This last method often leads to a totally new product or service.

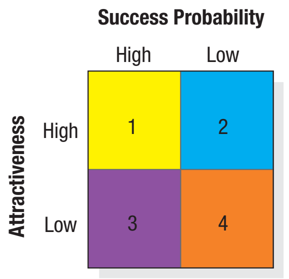
Marketers need to be good at spotting opportunities. Consider the following:

- ***A company may benefit from converging industry trends and introduce hybrid products or services that are new to the market.*** Major cell manufacturers have released phones with digital photo and video capabilities, and Global Positioning Systems (GPS).
- ***A company may make a buying process more convenient or efficient.*** Consumers can use the Internet to find more books than ever and search for the lowest price with a few clicks.
- ***A company can meet the need for more information and advice.*** Angie's List connects individuals with local home improvement contractors and doctors that have been reviewed by others.
- ***A company can customize a product or service.*** Timberland allows customers to choose colors for different sections of their boots, add initials or numbers to their boots, and choose different stitching and embroidery.
- ***A company can introduce a new capability.*** Consumers can create and edit digital "iMovies" with the iMac and upload them to an Apple Web server or Web site such as YouTube to share with friends around the world.
- ***A company may be able to deliver a product or service faster.*** FedEx discovered a way to deliver mail and packages much more quickly than the U.S. Post Office.
- ***A company may be able to offer a product at a much lower price.*** Pharmaceutical firms have created generic versions of brand-name drugs, and mail-order drug companies often sell for less.

|Fig. 2.4|

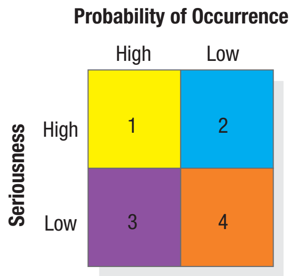
Opportunity and Threat Matrices

(a) Opportunity Matrix



1. Company develops more powerful lighting system
2. Company develops device to measure energy efficiency of any lighting system
3. Company develops device to measure illumination level
4. Company develops software program to teach lighting fundamentals to TV studio personnel

(b) Threat Matrix



1. Competitor develops superior lighting system
2. Major prolonged economic depression
3. Higher costs
4. Legislation to reduce number of TV studio licenses

To evaluate opportunities, companies can use **market opportunity analysis (MOA)** to ask questions like:

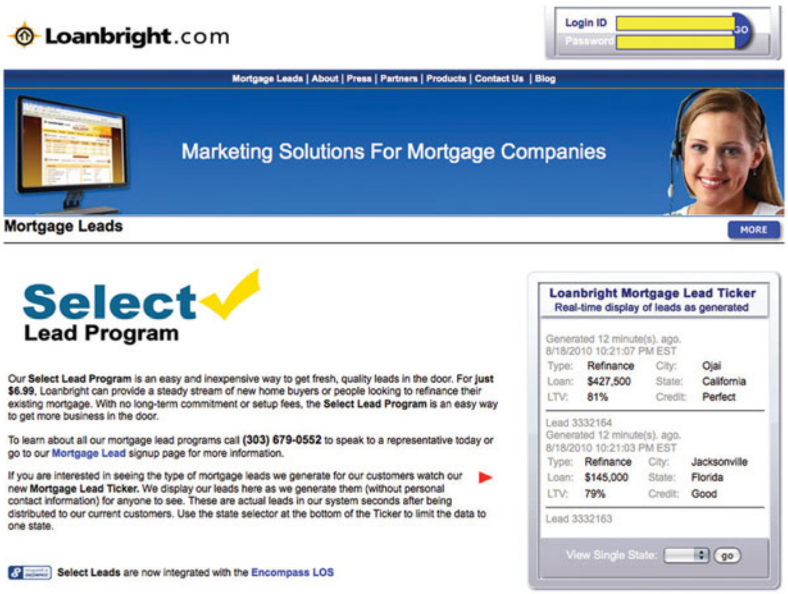
1. Can we articulate the benefits convincingly to a defined target market(s)?
2. Can we locate the target market(s) and reach them with cost-effective media and trade channels?
3. Does our company possess or have access to the critical capabilities and resources we need to deliver the customer benefits?
4. Can we deliver the benefits better than any actual or potential competitors?
5. Will the financial rate of return meet or exceed our required threshold for investment?

In the opportunity matrix in Figure 2.4 (a), the best marketing opportunities facing the TV-lighting-equipment company appear in the upper-left cell (#1). The opportunities in the lower-right cell (#4) are too minor to consider. The opportunities in the upper-right cell (#2) and the lower-left cell (#3) are worth monitoring in the event that any improve in attractiveness and potential.

An **environmental threat** is a challenge posed by an unfavorable trend or development that, in the absence of defensive marketing action, would lead to lower sales or profit. Figure 2.4 (b) illustrates the threat matrix facing the TV-lighting-equipment company. The threats in the upper-left cell are major, because they have a high probability of occurrence and can seriously hurt the company. To deal with them, the company needs contingency plans. The threats in the lower-right cell are minor and can be ignored. The firm will want to carefully monitor threats in the upper-right and lower-left cells in the event they grow more serious.

INTERNAL ENVIRONMENT (STRENGTHS AND WEAKNESSES) ANALYSIS It's one thing to find attractive opportunities, and another to be able to take advantage of them. Each business needs to evaluate its internal strengths and weaknesses.

Loan Bright At the Web site of Loan Bright, an online mortgage company, potential homebuyers can get a personalized list of lenders and available terms. At first, Loan Bright made its money by selling the homebuyer data to high-end mortgage lenders, including Wells Fargo Home Mortgage, Bank of America Mortgage, and Chase Home Mortgage. These firms turned the data into leads for their sales teams. But worrisome internal issues arose. For



On the basis of a SWOT analysis, online mortgage company Loan Bright changed the focus of their marketing efforts to target individual loan officers.

one thing, Loan Bright had to please every one of its big clients, yet each was becoming tougher to satisfy, eating up time and resources. The company's top managers gathered to analyze the market and Loan Bright's strengths and weaknesses. They decided that instead of serving a few choice clients, they would serve many more individual loan officers who responded to the company's Google ads and only wanted to buy a few leads. The switch required revamping the way Loan Bright salespeople brought in new business, including using a one-page contract instead of the old 12-page contract, and creating a separate customer service department.[32]

Businesses can evaluate their own strengths and weaknesses by using a form like the one shown in "Marketing Memo: Checklist for Performing Strengths/Weaknesses Analysis."

Clearly, the business doesn't have to correct *all* its weaknesses, nor should it gloat about all its strengths. The big question is whether it should limit itself to those opportunities for which it possesses the required strengths, or consider those that might require it to find or develop new strengths. Managers at Texas Instruments (TI) were split between those who wanted to stick to industrial electronics, where TI has clear strength, and those who wanted to continue introducing consumer products, where TI lacks some required marketing strengths.

Goal Formulation

Once the company has performed a SWOT analysis, it can proceed to **goal formulation,** developing specific goals for the planning period. Goals are objectives that are specific with respect to magnitude and time.

Most business units pursue a mix of objectives, including profitability, sales growth, market share improvement, risk containment, innovation, and reputation. The business unit sets these objectives and then manages by objectives (MBO). For an MBO system to work, the unit's objectives must meet four criteria:

1. ***They must be arranged hierarchically, from most to least important.*** The business unit's key objective for the period may be to increase the rate of return on investment. Managers can increase profit by increasing revenue and reducing expenses. They can grow revenue, in turn, by increasing market share and prices.
2. ***Objectives should be quantitative whenever possible.*** The objective "to increase the return on investment (ROI)" is better stated as the goal "to increase ROI to 15 percent within two years."
3. ***Goals should be realistic.*** Goals should arise from an analysis of the business unit's opportunities and strengths, not from wishful thinking.
4. ***Objectives must be consistent.*** It's not possible to maximize sales and profits simultaneously.

Other important trade-offs include short-term profit versus long-term growth, deep penetration of existing markets versus development of new markets, profit goals versus nonprofit goals, and high growth versus low risk. Each choice calls for a different marketing strategy.[33]

Many believe adopting the goal of strong market share growth may mean foregoing strong short-term profits. Volkswagen has 15 times the annual revenue of Porsche—but Porsche's profit margins are seven times bigger than Volkswagen's. Other successful companies such as Google, Microsoft, and Samsung have maximized profitability *and* growth.

Strategic Formulation

Goals indicate what a business unit wants to achieve; **strategy** is a game plan for getting there. Every business must design a strategy for achieving its goals, consisting of a *marketing strategy* and a compatible *technology strategy* and *sourcing strategy.*

PORTER'S GENERIC STRATEGIES Michael Porter has proposed three generic strategies that provide a good starting point for strategic thinking: overall cost leadership, differentiation, and focus.[34]

- *Overall cost leadership.* Firms work to achieve the lowest production and distribution costs so they can underprice competitors and win market share. They need less skill in marketing. The problem is that other firms will usually compete with still-lower costs and hurt the firm that rested its whole future on cost.
- *Differentiation.* The business concentrates on achieving superior performance in an important customer benefit area valued by a large part of the market. The firm seeking quality leadership, for example, must make products with the best components, put them together expertly, inspect them carefully, and effectively communicate their quality.
- *Focus.* The business focuses on one or more narrow market segments, gets to know them intimately, and pursues either cost leadership or differentiation within the target segment.

Customers can travel virtually anywhere in the world via flights on Star Alliance airlines.

The online air travel industry provides a good example of these three strategies: Travelocity is pursuing a differentiation strategy by offering the most comprehensive range of services to the traveler; Lowestfare is pursuing a lowest-cost strategy; and Last Minute is pursuing a niche strategy by focusing on travelers who have the flexibility to travel on very short notice. Some companies use a hybrid approach.

According to Porter, firms directing the same strategy to the same target market constitute a **strategic group**.[35] The firm that carries out that strategy best will make the most profits. Circuit City went out of business because it did not stand out in the consumer electronics industry as lowest in cost, highest in perceived value, or best in serving some market segment.

Porter draws a distinction between operational effectiveness and strategy. Competitors can quickly copy the operationally effective company using benchmarking and other tools, thus diminishing the advantage of operational effectiveness. Porter defines strategy as "the creation of a unique and valuable position involving a different set of activities." A company can claim it has a strategy when it "performs different activities from rivals or performs similar activities in different ways."

STRATEGIC ALLIANCES Even giant companies—AT&T, Philips, and Nokia—often cannot achieve leadership, either nationally or globally, without forming alliances with domestic or multinational companies that complement or leverage their capabilities and resources.

Just doing business in another country may require the firm to license its product, form a joint venture with a local firm, or buy from local suppliers to meet "domestic content" requirements. Many firms have developed global strategic networks, and victory is going to those who build the better global network. The Star Alliance brings together 21 airlines, including Lufthansa, United Airlines, Singapore Airlines, Air New Zealand, and South Africa Airways, in a huge global partnership that allows travelers to make nearly seamless connections to hundreds of destinations.

Many strategic alliances take the form of marketing alliances. These fall into four major categories.

1. ***Product or service alliances***—One company licenses another to produce its product, or two companies jointly market their complementary products or a new product. The credit card industry is a complicated combination of cards jointly marketed by banks such as Bank of America, credit card companies such as Visa, and affinity companies such as Alaska Airlines.
2. ***Promotional alliances***—One company agrees to carry a promotion for another company's product or service. McDonald's teamed up with Disney for 10 years to offer products related to current Disney films as part of its meals for children.
3. ***Logistics alliances***—One company offers logistical services for another company's product. Warner Music Group and Sub Pop Records created the Alternative Distribution Alliance (ADA) in 1993 as a joint venture to distribute and manufacture records owned by independent labels. ADA is the leading "indie" distribution company in the United States for both physical and digital product.
4. ***Pricing collaborations***—One or more companies join in a special pricing collaboration. Hotel and rental car companies often offer mutual price discounts.

marketing **Memo**

Checklist for Performing Strengths/Weaknesses Analysis

	Performance					Importance		
	Major Strength	Minor Strength	Neutral	Minor Weakness	Major Weakness	High	Med.	Low
Marketing								
1. Company reputation	____	____	____	____	____	____	____	____
2. Market share	____	____	____	____	____	____	____	____
3. Customer satisfaction	____	____	____	____	____	____	____	____
4. Customer retention	____	____	____	____	____	____	____	____
5. Product quality	____	____	____	____	____	____	____	____
6. Service quality	____	____	____	____	____	____	____	____
7. Pricing effectiveness	____	____	____	____	____	____	____	____
8. Distribution effectiveness	____	____	____	____	____	____	____	____
9. Promotion effectiveness	____	____	____	____	____	____	____	____
10. Sales force effectiveness	____	____	____	____	____	____	____	____
11. Innovation effectiveness	____	____	____	____	____	____	____	____
12. Geographical coverage	____	____	____	____	____	____	____	____
Finance								
13. Cost or availability of capital	____	____	____	____	____	____	____	____
14. Cash flow	____	____	____	____	____	____	____	____
15. Financial stability	____	____	____	____	____	____	____	____
Manufacturing								
16. Facilities	____	____	____	____	____	____	____	____
17. Economies of scale	____	____	____	____	____	____	____	____
18. Capacity	____	____	____	____	____	____	____	____
19. Able, dedicated workforce	____	____	____	____	____	____	____	____
20. Ability to produce on time	____	____	____	____	____	____	____	____
21. Technical manufacturing skill	____	____	____	____	____	____	____	____
Organization								
22. Visionary, capable leadership	____	____	____	____	____	____	____	____
23. Dedicated employees	____	____	____	____	____	____	____	____
24. Entrepreneurial orientation	____	____	____	____	____	____	____	____
25. Flexible or responsive	____	____	____	____	____	____	____	____

Companies need to give creative thought to finding partners that might complement their strengths and offset their weaknesses. Well-managed alliances allow companies to obtain a greater sales impact at lower cost. To keep their strategic alliances thriving, corporations have begun to develop organizational structures to support them, and many have come to view the ability to form and manage partnerships as core skills called **partner relationship management (PRM)**.[36]

Both pharmaceutical and biotech companies are starting to make partnership a core competency. It's estimated that nearly 700 such partnerships were formed in 2007 alone.[37] After years of growth through acquisition and buying interests in two dozen companies, the world's biggest wireless telecom operator, Vodafone, has looked outside the company for partners to help it leverage its existing assets.[38]

Vodafone To spur more innovation and growth, Vodafone has embraced open source software and open platforms that allow it to tap into the creativity and skills of others. With its Web portal called Betavine, amateur or professional software developers can create and test their latest mobile applications on any network, not just Vodafone's. While these developers retain intellectual property rights, Vodafone gains early exposure to the latest trends and ensures that innovations are compatible with its network. Some of the new apps include real-time train arrivals and departures, movie show times, and an Amazon.com widget with personalized details. With 289 million customers in 27 countries, the $35 billion company hasn't had trouble finding help from interested corporate partners either. Dell has collaborated with Vodafone to design laptops and low-priced netbooks with built-in wireless broadband access over Vodafone's networks.

Vodafone has actively partnered with a number of other firms to help drive its innovation.

Program Formulation and Implementation

Even a great marketing strategy can be sabotaged by poor implementation. If the unit has decided to attain technological leadership, it must strengthen its R&D department, gather technological intelligence, develop leading-edge products, train its technical sales force, and communicate its technological leadership.

Once they have formulated marketing programs, marketers must estimate their costs. Is participating in a particular trade show worth it? Will a specific sales contest pay for itself? Will hiring another salesperson contribute to the bottom line? Activity-based cost accounting (ABC)—described in greater detail in Chapter 5—can help determine whether each marketing program is likely to produce sufficient results to justify its cost.[39]

Today's businesses recognize that unless they nurture other stakeholders—customers, employees, suppliers, distributors—they may never earn sufficient profits for the stockholders. A company might aim to delight its customers, perform well for its employees, and deliver a threshold level of satisfaction to its suppliers. In setting these levels, it must not violate any stakeholder group's sense of fairness about the treatment it is receiving relative to the others.[40]

A dynamic relationship connects the stakeholder groups. A smart company creates a high level of employee satisfaction, which leads to higher effort, which leads to higher-quality products and services, which creates higher customer satisfaction, which leads to more repeat business, which leads to higher growth and profits, which leads to high stockholder satisfaction, which leads to more investment, and so on. This virtuous circle spells profits and growth.

According to McKinsey & Company, strategy is only one of seven elements—all of which start with the letter *s*—in successful business practice.[41] The first three—strategy, structure, and systems—are considered the "hardware" of success. The next four—style, skills, staff, and shared values—are the "software."

The first "soft" element, *style*, means company employees share a common way of thinking and behaving. The second, *skills,* means employees have the skills needed to carry out the company's strategy. *Staffing* means the company has hired able people, trained them well, and assigned them to the right jobs. The fourth element, *shared values,* means employees share the same guiding values. When these elements are present, companies are usually more successful at strategy implementation.[42]

Feedback and Control

A company's strategic fit with the environment will inevitably erode, because the market environment changes faster than the company's seven Ss. Thus, a company might remain efficient yet lose effectiveness. Peter Drucker pointed out that it is more important to "do the right thing"—to be effective—than "to do things right"—to be efficient. The most successful companies, however, excel at both.

Once an organization fails to respond to a changed environment, it becomes increasingly hard to recapture its lost position. Consider KB Toys. Founded in 1922 as a candy wholesaler, the company successfully reinvented itself many times, first by shifting its focus to discounted toys and then by anticipating the growth of shopping malls. The firm became the second-largest toy retailer in the world but ultimately crumbled due to competition from big-box retailers and its failed acquisition of eToys. The company declared bankruptcy in 1994 but reemerged in the late 1990s—only to again file bankruptcy and liquidate its assets in late 2008.

Organizations, especially large ones, are subject to inertia. It's difficult to change one part without adjusting everything else. Yet, organizations can be changed through strong leadership, preferably in advance of a crisis. The key to organizational health is willingness to examine the changing environment and adopt new goals and behaviors.

Product Planning: The Nature and Contents of a Marketing Plan

Working within the plans set by the levels above them, product managers come up with a marketing plan for individual products, lines, brands, channels, or customer groups. Each product level, whether product line or brand, must develop a marketing plan for achieving its goals. A **marketing plan** is a written document that summarizes what the marketer has learned about the marketplace and indicates how the firm plans to reach its marketing objectives.[43] It contains tactical guidelines for the marketing programs and financial allocations over the planning period. [44]

A marketing plan is one of the most important outputs of the marketing process. It provides direction and focus for a brand, product, or company. Nonprofit organizations use marketing plans to guide their fund-raising and outreach efforts, and government agencies use them to build public awareness of nutrition and stimulate tourism.

More limited in scope than a business plan, the marketing plan documents how the organization will achieve its strategic objectives through specific marketing strategies and tactics, with the customer as the starting point. It is also linked to the plans of other departments. Suppose a marketing plan calls for selling 200,000 units annually. The production department must gear up to make that many units, finance must arrange funding to cover the expenses, human resources must be ready to hire and train staff, and so on. Without the appropriate level of organizational support and resources, no marketing plan can succeed.

Marketing plans are becoming more customer- and competitor-oriented, better reasoned, and more realistic. They draw more inputs from all the functional areas and are team-developed. Planning is becoming a continuous process to respond to rapidly changing market conditions. The most frequently cited shortcomings of current marketing plans, according to marketing executives, are lack of realism, insufficient competitive analysis, and a short-run focus. (See "Marketing Memo: Marketing Plan Criteria" for some guideline questions to ask in developing marketing plans.)

Although the exact length and layout varies from company to company, most marketing plans cover one year in anywhere from 5 to 50 pages. Smaller businesses may create shorter or less formal marketing plans, whereas corporations generally require highly structured documents. To guide implementation effectively, every part of the plan must be described in considerable detail. Sometimes a company will post its marketing plan on an internal Web site so everyone can consult specific sections and collaborate on changes. A marketing plan usually contains the following sections.

- ***Executive summary and table of contents.*** The marketing plan should open with a table of contents and brief summary for senior management of the main goals and recommendations.
- ***Situation analysis.*** This section presents relevant background data on sales, costs, the market, competitors, and the various forces in the macroenvironment. How do we define the market, how big is it, and how fast is it growing? What are the relevant trends and critical issues? Firms will use all this information to carry out a SWOT analysis.
- ***Marketing strategy.*** Here the marketing manager defines the mission, marketing and financial objectives, and needs the market offering is intended to satisfy as well as its competitive positioning. All this requires inputs from other areas, such as purchasing, manufacturing, sales, finance, and human resources.
- ***Financial projections.*** Financial projections include a sales forecast, an expense forecast, and a break-even analysis. On the revenue side is forecasted sales volume by month and product category, and on the expense side the expected costs of marketing, broken down into finer categories. The break-even analysis estimates how many units the firm must sell monthly (or how many years it will take) to offset its monthly fixed costs and average per-unit variable costs.

  A more complex method of estimating profit is **risk analysis**. Here we obtain three estimates (optimistic, pessimistic, and most likely) for each uncertain variable affecting profitability, under an assumed marketing environment and marketing strategy for the planning period. The marketing **Memo**

Marketing Plan Criteria

Here are some questions to ask in evaluating a marketing plan.

1. *Is the plan simple?* Is it easy to understand and act on? Does it communicate its content clearly and practically?
2. *Is the plan specific?* Are its objectives concrete and measurable? Does it include specific actions and activities, each with specific dates of completion, specific persons responsible, and specific budgets?
3. *Is the plan realistic?* Are the sales goals, expense budgets, and milestone dates realistic? Has a frank and honest self-critique been conducted to raise possible concerns and objections?
4. *Is the plan complete?* Does it include all the necessary elements? Does it have the right breadth and depth?

Source: Adapted from Tim Berry and Doug Wilson, *On Target: The Book on Marketing Plans* (Eugene, OR: Palo Alto Software, 2000).

computer simulates possible outcomes and computes a distribution showing the range of possible rates of returns and their probabilities.[45]

- ***Implementation controls.*** The last section outlines the controls for monitoring and adjusting implementation of the plan. Typically, it spells out the goals and budget for each month or quarter, so management can review each period's results and take corrective action as needed. Some organizations include contingency plans.

The Role of Research

To develop innovative products, successful strategies, and action programs, marketers need up-to-date information about the environment, the competition, and the selected market segments. Often, analysis of internal data is the starting point for assessing the current marketing situation, supplemented by marketing intelligence and research investigating the overall market, the competition, key issues, threats, and opportunities. As the plan is put into effect, marketers use research to measure progress toward objectives and identify areas for improvement.

Finally, marketing research helps marketers learn more about their customers' requirements, expectations, perceptions, satisfaction, and loyalty. Thus, the marketing plan should outline what marketing research will be conducted and when, as well as how the findings will be applied.

The Role of Relationships

Although the marketing plan shows how the company will establish and maintain profitable customer relationships, it also affects both internal and external relationships. First, it influences how marketing personnel work with each other and with other departments to deliver value and satisfy customers. Second, it affects how the company works with suppliers, distributors, and partners to achieve the plan's objectives. Third, it influences the company's dealings with other stakeholders, including government regulators, the media, and the community at large. Marketers must consider all these relationships when developing a marketing plan.

From Marketing Plan to Marketing Action

Most companies create yearly marketing plans. Marketers start planning well in advance of the implementation date to allow time for marketing research, analysis, management review, and coordination between departments. As each action program begins, they monitor ongoing results, investigate any deviation from plans, and take corrective steps as needed. Some prepare contingency plans; marketers must be ready to update and adapt marketing plans at any time.

The marketing plan should define how progress toward objectives will be measured. Managers typically use budgets, schedules, and marketing metrics for monitoring and evaluating results.

With budgets, they can compare planned expenditures with actual expenditures for a given period. Schedules allow management to see when tasks were supposed to be completed and when they actually were. Marketing metrics track actual outcomes of marketing programs to see whether the company is moving forward toward its objectives.

Summary

1. The value delivery process includes choosing (or identifying), providing (or delivering), and communicating superior value. The value chain is a tool for identifying key activities that create value and costs in a specific business.
2. Strong companies develop superior capabilities in managing core business processes such as new-product realization, inventory management, and customer acquisition and retention. Managing these core processes effectively means creating a marketing network in which the company works closely with all parties in the production and distribution chain, from suppliers of raw materials to retail distributors. Companies no longer compete—marketing networks do.
3. According to one view, holistic marketing maximizes value exploration by understanding the relationships between the customer's cognitive space, the company's competence space, and the collaborator's resource space; maximizes value creation by identifying new customer benefits from the customer's cognitive space, utilizing core competencies from its business domain, and selecting and managing business partners from its collaborative networks; and maximizes value delivery by becoming proficient at customer relationship management, internal resource management, and business partnership management.
4. Market-oriented strategic planning is the managerial process of developing and maintaining a viable fit between the organization's objectives, skills, and resources and its changing market opportunities. The aim of strategic planning is to shape the company's businesses and products so they yield target profits and growth. Strategic planning takes place at four levels: corporate, division, business unit, and product.
5. The corporate strategy establishes the framework within which the divisions and business units prepare their strategic plans. Setting a corporate strategy means defining the corporate mission, establishing strategic business units (SBUs), assigning resources to each, and assessing growth opportunities.
6. Strategic planning for individual businesses includes defining the business mission, analyzing external opportunities and threats, analyzing internal strengths and weaknesses, formulating goals, formulating strategy, formulating supporting programs, implementing the programs, and gathering feedback and exercising control.
7. Each product level within a business unit must develop a marketing plan for achieving its goals. The marketing plan is one of the most important outputs of the marketing process.

Applications

Marketing Debate

What Good Is a Mission Statement?

Mission statements are often the product of much deliberation and discussion. At the same time, critics claim they sometimes lack "teeth" and specificity, or do not vary much from firm to firm and make the same empty promises.

Take a position: **Mission statements are critical to a successful marketing organization *versus* Mission statements rarely provide useful marketing value.**

Marketing Discussion

Marketing Planning

Consider Porter's value chain and the holistic marketing orientation model. What implications do they have for marketing planning? How would you structure a marketing plan to incorporate some of their concepts?

Marketing Excellence

>>Cisco

Cisco Systems is the worldwide leading supplier of networking equipment for the Internet. The company sells hardware (routers and switches), software, and services that make most of the Internet work. Cisco was founded in 1984 by a husband and wife team who worked in the computer operations department at Stanford University. They named the company cisco—with a lowercase *c*, short for San Francisco, and developed a logo that resembled the Golden Gate Bridge, which they frequently traveled.

Cisco went public in 1990 and the two founders left the company shortly thereafter, due to conflicting interests with the new president and CEO. Over the next decade, the company grew exponentially, led by new-product launches such as patented routers, switches, platforms, and modems—which significantly contributed to the backbone of the Internet. Cisco opened its first international offices in London and France in 1991 and has opened a number of new international offices since then. During the 1990s, Cisco acquired and successfully integrated 49 companies into its core business. As a result, the company's market capitalization grew faster than for any company in history—from $1 billion to $300 billion between 1991 and 1999. In March 2000, Cisco became the most valuable company in the world, with market capitalization peaking at $582 billion or $82 per share.

By the end of the 20th century, although the company was extremely successful, brand awareness was low—Cisco was known to many for its stock price rather than for what it actually did. Cisco developed partnerships with Sony, Matsushita, and US West to co-brand its modems with the Cisco logo in hopes of building its name recognition and brand value. In addition, the company launched its first television spots as part of a campaign entitled "Are You Ready?" In the ads, children and adults from around the world delivered facts about the power of the Internet and challenged viewers to ponder, "Are You Ready?"

Surviving the Internet bust, the company reorganized in 2001 into 11 new technology groups and a marketing organization, which planned to communicate the company's product line and competitive advantages better than it had in the past. In 2003, Cisco introduced a new marketing message, "This Is the Power of the Network. Now." The international campaign targeted corporate executives and highlighted Cisco's critical role in a complicated, technological system by using a soft-sell approach. Television commercials explained how Cisco's systems change people's lives around the world and an eight-page print ad spread didn't mention Cisco's name until the third page. Marilyn Mersereau, Cisco's vice president of corporate marketing, explained, "Clever advertising involves the reader in something that's thought-provoking and provocative and doesn't slam the brand name into you from the first page."

The year 2003 brought new opportunities as Cisco entered the consumer segment with the acquisition of Linksys, a home and small-office network gear maker. By 2004, Cisco offered several home entertainment solutions, including wireless capabilities for music, printing, video, and more. Since previous marketing strategies had targeted corporate and IT decision makers, the company launched a rebranding campaign in 2006, to increase awareness among consumers and help increase the overall value of Cisco's brand. "The Human Network" campaign tried to "humanize" the technology giant by repositioning it as more than just a supplier of switches and routers and communicating its critical role in connecting people through technology. The initial results were positive. Cisco's revenues increased 41 percent from 2006 to 2008, led by sales increases in both home and business use. By the end of 2008, Cisco's revenue topped $39.5 billion and *BusinessWeek* ranked it the 18th biggest global brand.

With its entrance into the consumer market, Cisco has had to develop unique ways to connect with consumers. One recent development is *Cisco Connected Sports,* a platform that turns sports stadiums into digitally connected interactive venues. The company already has transformed the Dallas Cowboys, New York Yankees, Kansas City Royals, Toronto Blue Jays, and Miami Dolphins stadiums into "the ultimate fan experience" and plans to add more teams to its portfolio. Fans can virtually meet the players through Telepresence, a videoconferencing system. Digital displays throughout the stadium allow fans to pull up scores from other games, order food, and view local traffic. In addition, HD flat-screen televisions throughout the stadium ensure that fans never miss a play—even in the restroom.

Today, Cisco continues to acquire companies—including 40 between 2004 and 2009—that help it expand into newer markets such as consumer electronics, business collaboration software, and computer servers. These acquisitions align with Cisco's goal of increasing overall Internet traffic, which ultimately drives demand for its networking hardware products. However, by entering into these new markets, Cisco has gained new competitors such as Microsoft, IBM, and Hewlett-Packard. To compete against them, it reaches out to both consumers and businesses in its advertising efforts, including tapping into social media such as Facebook, Twitter, and blogs.

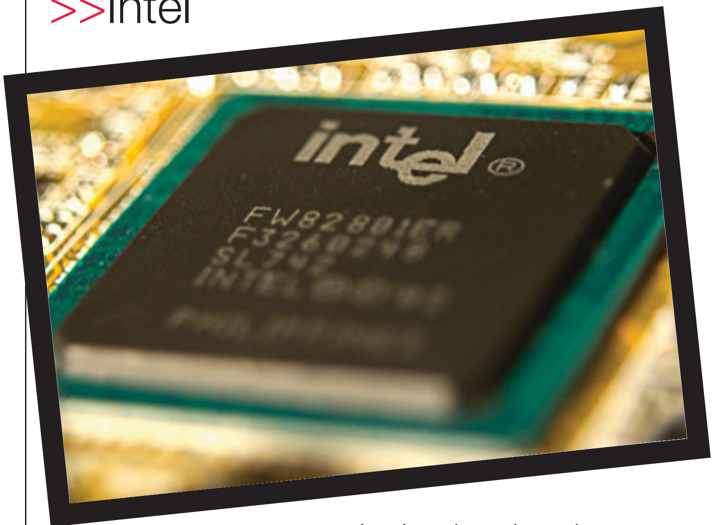
Questions

1. How is building a brand in a business-to-business context different from doing so in the consumer market?
2. Is Cisco's plan to reach out to consumers a viable one? Why or why not?

Sources: Marguerite Reardon, "Cisco Spends Millions on Becoming Household Name." *CNET,* October 5, 2006; Michelle Kessler, "Tech Giants Build Bridge to Consumers." *USA Today,* March 13, 2006; Marla Matzer, "Cisco Faces the Masses." *Los Angeles Times,* August 20, 1998; David R. Baker, "New Ad Campaign for Cisco." *San Francisco Chronicle,* February 18, 2003; Bobby White, "Expanding into Consumer Electronics, Cisco Aims to Jazz Up Its Stodgy Image," *Wall Street Journal,* September 6, 2006, p. B1; Burt Helm, "Best Global Brands" *BusinessWeek,* September 18, 2008; Ashlee Vance, "Cisco Buys Norwegian Firm for $3 Billion." *New York Times,* October 1, 2009; Jennifer Leggio, "10 Fortune 500 Companies Doing Social Media Right." *ZDNet,* September 28, 2009.

Marketing Excellence

>>Intel



Intel makes the microprocessors found in 80 percent of the world's personal computers. Today, it is one of the most valuable brands in the world, with revenues exceeding $37 billion. In the early days, however, Intel microprocessors were known simply by their engineering numbers, such as "80386" or "80486." Since numbers can't be trademarked, competitors came out with their own "486" chips and Intel had no way to distinguish itself. Nor could consumers see Intel's products, buried deep inside their PCs. Thus, Intel had a hard time convincing consumers to pay more for its high-performance products.

As a result, Intel created the quintessential ingredient-branding marketing campaign and made history. It chose a name for its latest microprocessor introduction that could be trademarked, Pentium, and launched the "Intel Inside" campaign to build brand awareness of its whole family of microprocessors. This campaign helped move the Intel brand name outside the PC and into the minds of consumers. In order to execute the new brand strategy, it was essential that the computer manufacturers who used Intel processors support the program. Intel gave them significant rebates when they included the Intel logo in their PC ads or when they placed the "Intel Inside" sticker on the outside of their PCs and laptops.

The company created several effective and identifiable marketing campaigns in the late 1990s to become a recognizable and well-liked ingredient brand name. The "Bunny People" series featured Intel technicians dressed in brightly colored contamination suits as they danced to disco music inside a processor facility. Intel also used the famous Blue Man Group in its commercials for Pentium III and Pentium IV.

In 2003, Intel launched Centrino, a platform that included a new microprocessor, an extended battery, and wireless capabilities. The company launched a multimillion-dollar media effort around the new platform called "Unwired," which urged the wired world to "Unwire. Untangle. Unburden. Uncompromise. Unstress." "Unwired" helped the company generate $2 billion in revenue during the first nine months of the campaign.

As the PC industry slowed in the mid-2000s, Intel sought opportunities in new growth areas such as home entertainment and mobile devices. It launched two new platforms: Viiv (rhymes with "five") aimed at home entertainment enthusiasts, and Centrino Duo mobile. In addition, the company created a $2 billion global marketing campaign to help reposition Intel from a brainy microprocessor company to a "warm and fuzzy company" that offered solutions for consumers as well. As part of the campaign, Intel's new slogan "Leap Ahead" replaced the familiar "Intel Inside" campaign that had become synonymous with the Intel brand, and a new logo was created.

In 2007, Intel created the Classmate PC—a small, kid-friendly, durable, and affordable Intel processor–based computer intended for children in remote regions of the world. It was part of an initiative called Intel Learning Series, intended to help expand education in technology throughout the world.

The following year, Intel launched the Atom processor, the company's smallest processor to date, designed for mobile Internet devices, netbooks, and nettops such as the Classmate PC. Also that year, Intel introduced its most advanced microprocessor, the Intel Core i7, which focused on the needs for video, 3-D gaming, and advanced computer activities. Both processors became an instant hit. The Atom, smaller than a grain of rice, ideally powered the growing market of netbooks—mobile, light computers that weighed as little as 13 ounces. Intel sold more than 20 million Atom processors for netbooks in its first year alone and 28 million in its second year. Some analysts predict that when the Atom processor taps into the smart phone and cell phone markets, Intel could sell hundreds of millions of units in a very short amount of time.

Intel's most recent ad campaign aimed to improve the company's brand awareness was entitled "Sponsors of Tomorrow." The commercials highlighted Intel's role in changing the future of technology and took a humorous tone. In one, a middle-aged man wearing his company ID tag struts through the cafeteria as fellow employees scream, grope, and beg for his autograph. The screen reads, "Ajay Bhatt, co-inventor of the U.S.B." as the employee (played by an actor) winks at a fan. The ad ends with the line, "Our superheroes aren't like your superheroes."

As Intel's superheroes continue to create powerful microprocessors for smaller and more mobile devices, the company's brand value continues to grow, as does its influence on the future of technology.

Questions

1. Discuss how Intel changed ingredient-marketing history. What did it do so well in those initial marketing campaigns?
2. Evaluate Intel's more recent marketing efforts. Did they lose something by dropping the "Intel Inside" tagline or not?

Sources: Cliff Edwards, "Intel Everywhere?" *BusinessWeek,* March 8, 2004, pp. 56–62; Scott Van Camp, "ReadMe.1st," *Brandweek,* February 23, 2004, p. 17; "How to Become a Superbrand," *Marketing,* January 8, 2004, p. 15; Roger Slavens, "Pam Pollace, VP-Director, Corporate Marketing Group, Intel Corp," *BtoB,* December 8, 2003, p. 19; Kenneth Hein, "Study: New Brand Names Not Making Their Mark," *Brandweek,* December 8, 2003, p. 12; Heather Clancy, "Intel Thinking Outside the Box," *Computer Reseller News,* November 24, 2003, p. 14; Cynthia L. Webb, "A Chip Off the Old Recovery?" *Washingtonpost.com*, October 15, 2003; "Intel Launches Second Phase of Centrino Ads," *Technology Advertising & Branding Report,* October 6, 2003; David Kirkpatrick, "At Intel, Speed Isn't Everything," *Fortune,* February 9, 2004, p. 34; Don Clark. "Intel to Overhaul Marketing in Bid to Go Beyond PCs," *Wall Street Journal*, December 30, 2005; Stephanie Clifford, "Tech Company's Campaign to Burnish Its Brand," *New York Times,* May 6, 2009, p. B7; Tim Bajarin, "Intel Makes Moves in Mobility," *PC Magazine,* October 5, 2009.

Sample Marketing Plan Pegasus Sports International*

1.0 Executive Summary

Pegasus Sports International is a start-up aftermarket inline skating accessory manufacturer. In addition to the aftermarket products, Pegasus is developing SkateTours, a service that takes clients out, in conjunction with a local skate shop, and provides them with an afternoon of skating using inline skates and some of Pegasus' other accessories such as SkateSails. The aftermarket skate accessory market has been largely ignored. Although there are several major manufacturers of the skates themselves, the accessory market has not been addressed. This provides Pegasus with an extraordinary opportunity for market growth. Skating is a booming sport. Currently, most of the skating is recreational. There are, however, a growing number of skating competitions, including team-oriented competitions such as skate hockey as well as individual competitions such as speed skate racing. Pegasus will work to grow these markets and develop the skate transportation market, a more utilitarian use of skating. Several of Pegasus' currently developed products have patents pending, and local market research indicates that there is great demand for these products. Pegasus will achieve fast, significant market penetration through a solid business model, long-range planning, and a strong management team that is able to execute this exciting opportunity. The three principals on the management team have over 30 years of combined personal and industry experience. This extensive experience provides Pegasus with the empirical information as well as the passion to provide the skating market with much-needed aftermarket products. Pegasus will sell its products initially through its Web site. This "Dell" direct-to-the-consumer approach will allow Pegasus to achieve higher margins and maintain a close relationship with the customers, which is essential for producing products that have a true market demand. By the end of the year, Pegasus will have also developed relationships with different skate shops and will begin to sell some of its products through retailers.

2.0 Situation Analysis

Pegasus is entering its first year of operation. Its products have been well received, and marketing will be key to the development of brand and product awareness as well as the growth of the customer base. Pegasus International offers several different aftermarket skating accessories, serving the growing inline skating industry.

2.1 Market Summary

Pegasus possesses good information about the market and knows a great deal about the common attributes of the most prized customer. This information will be leveraged to better understand who is served, what their specific needs are, and how Pegasus can better communicate with them.

Target Markets

- Recreational
- Fitness
- Speed
- Hockey
- Extreme

2.1.1 Market Demographics

The profile for the typical Pegasus customer consists of the following geographic, demographic, and behavior factors:

Geographics

- Pegasus has no set geographic target area. By leveraging the expansive reach of the Internet and multiple delivery services, Pegasus can serve both domestic and international customers.
- The total targeted population is 31 million users.

TABLE 2.1 Target Market Forecast

Target Market Forecast

Potential Customers	Growth	2011	2012	2013	2014	2015	CAGR*
Recreational	10%	19,142,500	21,056,750	23,162,425	25,478,668	28,026,535	10.00%
Fitness	15%	6,820,000	7,843,000	9,019,450	10,372,368	11,928,223	15.00%
Speed	10%	387,500	426,250	468,875	515,763	567,339	10.00%
Hockey	6%	2,480,000	2,628,800	2,786,528	2,953,720	3,130,943	6.00%
Extreme	4%	2,170,000	2,256,800	2,347,072	2,440,955	2,538,593	4.00%
Total	10.48%	31,000,000	34,211,600	37,784,350	41,761,474	46,191,633	10.48%

*Compound Annual Growth Rate

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Demographics

- There is an almost equal ratio between male and female users.
- Ages 13–46, with 48% clustering around ages 23–34. The recreational users tend to cover the widest age range, including young users through active adults. The fitness users tend to be ages 20–40. The speed users tend to be in their late twenties and early thirties. The hockey players are generally in their teens through their early twenties. The extreme segment is of similar age to the hockey players.
- Of the users who are over 20, 65% have an undergraduate degree or substantial undergraduate coursework.
- The adult users have a median personal income of $47,000.

Behavior Factors

- Users enjoy fitness activities not as a means for a healthy life, but as an intrinsically enjoyable activity in itself.
- Users spend money on gear, typically sports equipment.
- Users have active lifestyles that include some sort of recreation at least two to three times a week.

2.1.2 Market Needs

Pegasus is providing the skating community with a wide range of accessories for all variations of skating. The company seeks to fulfill the following benefits that are important to its customers:

- **Quality craftsmanship.** The customers work hard for their money and do not enjoy spending it on disposable products that work for only a year or two.
- **Well-thought-out designs.** The skating market has not been addressed by well-thought-out products that serve skaters' needs. Pegasus' industry experience and personal dedication to the sport will provide it with the needed information to produce insightfully designed products.
- **Customer service.** Exemplary service is required to build a sustainable business that has a loyal customer base.

2.1.3 Market Trends

Pegasus will distinguish itself by marketing products not previously available to skaters. The emphasis in the past has been to sell skates and very few replacement parts. The number of skaters is not restricted to any one single country, continent, or age group, so there is a world market. Pegasus has products for virtually every group of skaters. The fastest-growing segment of this sport is the fitness skater. Therefore, the marketing is being directed toward this group. BladeBoots will enable users to enter establishments without having to remove their skates. BladeBoots will be aimed at the recreational skater, the largest segment. SkateAids, on the other hand, are great for everyone.

The sport of skating will also grow through SkateSailing. This sport is primarily for the medium-to-advanced skater, and its growth potential is tremendous. The sails that Pegasus has manufactured have been sold in Europe, following a pattern similar to windsurfing. Windsailing originated in Santa Monica but did not take off until it had already grown big in Europe.

Another trend is group skating. More and more groups are getting together on skating excursions in cities all over the world. For example, San Francisco has night group skating that attracts hundreds of people. The market trends are showing continued growth in all directions of skating.

2.1.4 Market Growth

With the price of skates going down due to competition by so many skate companies, the market has had steady growth throughout the world, although sales had slowed down in some markets. The growth statistics for 2007 were estimated to be over 35 million units. More and more people are discovering—and in many cases rediscovering—the health benefits and fun of skating.

2.2 SWOT Analysis

The following SWOT analysis captures the key strengths and weaknesses within the company and describes the opportunities and threats facing Pegasus.

2.2.1 Strengths

- In-depth industry experience and insight
- Creative, yet practical product designers
- The use of a highly efficient, flexible business model utilizing direct customer sales and distribution

2.2.2 Weaknesses

- The reliance on outside capital necessary to grow the business
- A lack of retailers who can work face-to-face with the customer to generate brand and product awareness
- The difficulty of developing brand awareness as a start-up company

2.2.3 Opportunities

- Participation within a growing industry
- Decreased product costs through economy of scale
- The ability to leverage other industry participants' marketing efforts to help grow the general market

2.2.4 Threats

- Future/potential competition from an already established market participant
- A slump in the economy that could have a negative effect on people's spending of discretionary income on fitness/recreational products
- The release of a study that calls into question the safety of skating or the inability to prevent major skating-induced traumas

2.3 Competition

Pegasus Sports International is forming its own market. Although there are a few companies that do make sails and foils that a few skaters are using, Pegasus is the only brand that is truly designed for and by skaters. The few competitors' sails on the market are not designed for skating, but for windsurfing or for skateboards. In the case of foils, storage and carrying are not practical. There are different indirect competitors who are manufacturers of the actual skates. After many years in the market, these companies have yet to become direct competitors by manufacturing accessories for the skates that they make.

2.4 Product Offering

Pegasus Sports International now offers several products:

- The first product that has been developed is BladeBoots, a cover for the wheels and frame of inline skates, which allows skaters to enter places that normally would not allow them in with skates on. BladeBoots come with a small pouch and belt that converts to a well-designed skate carrier.
- The second product is SkateSails. These sails are specifically designed for use while skating. Feedback that Pegasus has received from skaters indicates skatesailing could become a very popular sport. Trademarking this product is currently in progress.
- The third product, SkateAid, will be in production by the end of the year. Other ideas for products are under development, but will not be disclosed until Pegasus can protect them through pending patent applications.

2.5 Keys to Success

The keys to success are designing and producing products that meet market demand. In addition, Pegasus must ensure total customer satisfaction. If these keys to success are achieved, it will become a profitable, sustainable company.

2.6 Critical Issues

As a start-up business, Pegasus is still in the early stages. The critical issues are for Pegasus to:

- Establish itself as the premier skating accessory company.
- Pursue controlled growth that dictates that payroll expenses will never exceed the revenue base. This will help protect against recessions.
- Constantly monitor customer satisfaction, ensuring that the growth strategy will never compromise service and satisfaction levels.

3.0 Marketing Strategy

The key to the marketing strategy is focusing on the speed, health and fitness, and recreational skaters. Pegasus can cover about 80% of the skating market because it produces products geared toward each segment. Pegasus is able to address all of the different segments within the market because, although each segment is distinct in terms of its users and equipment, its products are useful to all of the different segments.

3.1 Mission

Pegasus Sports International's mission is to provide the customer with the finest skating accessories available. "We exist to attract and maintain customers. With a strict adherence to this maxim, success will be ensured. Our services and products will exceed the expectations of the customers."

3.2 Marketing Objectives

- Maintain positive, strong growth each quarter (notwithstanding seasonal sales patterns).
- Achieve a steady increase in market penetration.
- Decrease customer acquisition costs by 1.5% per quarter.

3.3 Financial Objectives

- Increase the profit margin by 1% per quarter through efficiency and economy-of-scale gains.
- Maintain a significant research and development budget (as a percentage relative to sales) to spur future product developments.
- Achieve a double- to triple-digit growth rate for the first three years.

3.4 Target Markets

With a world skating market of over 31 million that is steadily growing (statistics released by the Sporting Goods Manufacturers Association), the niche has been created. Pegasus' aim is to expand this market by promoting SkateSailing, a new sport that is popular in both Santa Monica and Venice Beach in California. The Sporting Goods Manufacturers Association survey indicates that skating now has more participation than football, softball, skiing, and snowboarding combined. The breakdown of participation in skating is as follows: 1+% speed (growing), 8% hockey (declining), 7% extreme/aggressive (declining), 22% fitness (nearly 7 million—the fastest growing), and 61% recreational (first-timers). Pegasus' products are targeting the fitness and recreational groups, because they are the fastest growing. These groups are gearing themselves toward health and fitness, and combined, they can easily grow to 85% (or 26 million) of the market in the next five years.

3.5 Positioning

Pegasus will position itself as the premier aftermarket skating accessory company. This positioning will be achieved by leveraging Pegasus' competitive edge: industry experience and passion. Pegasus is a skating company formed by skaters for skaters. Its management is able to use its vast experience and personal passion for the sport to develop innovative, useful accessories for a broad range of skaters.

3.6 Strategies

The single objective is to position Pegasus as the premier skating accessory manufacturer, serving the domestic market as well as the international market. The marketing strategy will seek to first create customer awareness concerning the offered products and services and then develop the customer base. The message that Pegasus will seek to communicate is that it offers the best-designed, most useful skating accessories. This message will be communicated through a variety of methods. The first will be the Pegasus Web site, which will provide a rich source of product information and offer consumers the opportunity to purchase. A lot of time and money will be invested in the site to provide the customer with the perception of total professionalism and utility for Pegasus' products and services.

The second marketing method will be advertisements placed in numerous industry magazines. The skating industry is supported by several different glossy magazines designed to promote the industry as a whole. In addition, a number of smaller periodicals serve the smaller market segments within the skating industry. The last method of communication is the use of printed sales literature. The two previously mentioned marketing methods will create demand for the sales literature, which will be sent out to customers. The cost of the sales literature will be fairly minimal, because it will use the already-compiled information from the Web site.

3.7 Marketing Program

Pegasus' marketing program is comprised of the following approaches to pricing, distribution, advertising and promotion, and customer service.

- **Pricing.** This will be based on a per-product retail price.
- **Distribution.** Initially, Pegasus will use a direct-to-consumer distribution model. Over time, it will use retailers as well.
- **Advertising and promotion.** Several different methods will be used for the advertising effort.
- **Customer service.** Pegasus will strive to achieve benchmarked levels of customer care.

3.8 Marketing Research

Pegasus is blessed with the good fortune of being located in the center of the skating world: Venice, California. It will be able to leverage this opportune location by working with many of the different skaters that live in the area. Pegasus was able to test all of its products not only with its principals, who are accomplished skaters, but also with the many other dedicated and "newbie" users located in Venice. The extensive product testing by a wide variety of users provided Pegasus with valuable product feedback and has led to several design improvements.

4.0 Financials

This section will offer the financial overview of Pegasus related to marketing activities. Pegasus will address break-even analysis, sales forecasts, expense forecast, and indicate how these activities link to the marketing strategy.

4.1 Break-Even Analysis

The break-even analysis indicates that $7,760 will be required in monthly sales revenue to reach the break-even point.

TABLE 4.1 Break-Even Analysis

Break-Even Analysis:	
Monthly Units Break-Even	62
Monthly Sales Break-Even	$ 7,760
Assumptions:	
Average Per-Unit Revenue	$125.62
Average Per-Unit Variable Cost	$ 22.61
Estimated Monthly Fixed Cost	$ 6,363

4.2 Sales Forecast

Pegasus feels that the sales forecast figures are conservative. It will steadily increase sales as the advertising budget allows. Although the target market forecast (Table 2.1) listed all of the potential customers divided into separate groups, the sales forecast groups customers into two categories: recreational and competitive. Reducing the number of categories allows the reader to quickly discern information, making the chart more functional.

Monthly Sales Forecast

TABLE 4.2 Sales Forecast

Sales Forecast			
Sales	**2011**	**2012**	**2013**
Recreational	$455,740	$598,877	$687,765
Competitive	$ 72,918	$ 95,820	$110,042
Total Sales	$528,658	$694,697	$797,807
Direct Cost of Sales	**2011**	**2012**	**2013**
Recreational	$ 82,033	$107,798	$123,798
Competitive	$ 13,125	$ 17,248	$ 19,808
Subtotal Cost of Sales	$ 95,158	$125,046	$143,606

4.3 Expense Forecast

The expense forecast will be used as a tool to keep the department on target and provide indicators when corrections/modifications are needed for the proper implementation of the marketing plan.

Milestones

TABLE 4.3 Milestones

			Plan		
Milestones	**Start Date**	**End Date**	**Budget**	**Manager**	**Department**
Marketing plan completion	1/1/11	2/1/11	$ 0	Stan	Marketing
Web site completion	1/1/11	3/15/11	$20,400	outside firm	Marketing
Advertising campaign #1	1/1/11	6/30/11	$ 3,500	Stan	Marketing
Advertising campaign #2	3/1/11	12/30/11	$ 4,550	Stan	Marketing
Development of the retail channel	1/1/11	11/30/11	$ 0	Stan	Marketing
Totals			$28,450		

Monthly Expense Budget

TABLE 4.4 Marketing Expense Budget

Marketing Expense Budget	2011	2012	2013
Web Site	$ 25,000	$ 8,000	$ 10,000
Advertisements	$ 8,050	$ 15,000	$ 20,000
Printed Material	$ 1,725	$ 2,000	$ 3,000
Total Sales and Marketing Expenses	$ 34,775	$ 25,000	$ 33,000
Percent of Sales	6.58%	3.60%	4.14%
Contribution Margin	$398,725	$544,652	$621,202
Contribution Margin/Sales	75.42%	78.40%	77.86%

5.0 Controls

The purpose of Pegasus' marketing plan is to serve as a guide for the organization. The following areas will be monitored to gauge performance:

- Revenue: monthly and annual
- Expenses: monthly and annual
- Customer satisfaction
- New-product development

5.1 Implementation

The following milestones identify the key marketing programs. It is important to accomplish each one on time and on budget.

5.2 Marketing Organization

Stan Blade will be responsible for the marketing activities.

5.3 Contingency Planning

Difficulties and Risks

- Problems generating visibility, a function of being an Internet-based start-up organization
- An entry into the market by an already-established market competitor

Worst-Case Risks

- Determining that the business cannot support itself on an ongoing basis
- Having to liquidate equipment or intellectual capital to cover liabilities

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Chapter 3

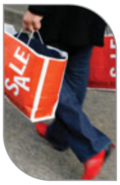
The severe economic recession that began in 2008 led many firms to cut their prices and use sales to try to retain customers.

In This Chapter, We Will Address the Following Questions

1. What are the components of a modern marketing information system?
2. What are useful internal records for such a system?
3. What makes up a marketing intelligence system?
4. What are some influential macroenvironment developments?
5. How can companies accurately measure and forecast demand?

Collecting Information and Forecasting Demand

Making marketing decisions in a fast-changing world is both an art and a science. To provide context, insight, and inspiration for marketing decision making, companies must possess comprehensive, up-to-date information about macro trends, as well as about micro effects particular to their business. Holistic marketers recognize that the marketing environment is constantly presenting new opportunities and threats, and they understand the importance of continuously monitoring, forecasting, and adapting to that environment.



The severe credit crunch and economic slowdown of 2008–2009 brought profound changes in consumer behavior as shoppers cut and reallocated spending. Sales of discretionary purchases like toys, apparel, jewelry, and home furnishings dropped. Sales of luxury brands like Mercedes—driven for years by free-spending baby boomers—declined by a staggering one-third. Meanwhile, brands that offered simple, affordable solutions prospered. General Mills's revenues from such favorites as Cheerios, Wheaties, Progresso soup, and Hamburger Helper rose. Consumers also changed how and where they shopped, and sales of low-priced private label brands soared. Virtually all marketers were asking themselves whether a new age of prudence and frugality had emerged and, if so, what would be the appropriate response.

Firms are adjusting the way they do business for more reasons than just the economy. Virtually every industry has been touched by dramatic shifts in the technological, demographic, social-cultural, natural, and political-legal environments. In this chapter, we consider how firms can develop processes to identify and track important macroenvironment trends. We also outline how marketers can develop good sales forecasts. Chapter 4 will review how they conduct more customized research on specific marketing problems.

Components of a Modern Marketing Information System

The major responsibility for identifying significant marketplace changes falls to the company's marketers. Marketers have two advantages for the task: disciplined methods for collecting information, and time spent interacting with customers and observing competitors and other outside groups. Some firms have marketing information systems that provide rich detail about buyer wants, preferences, and behavior.

DuPont

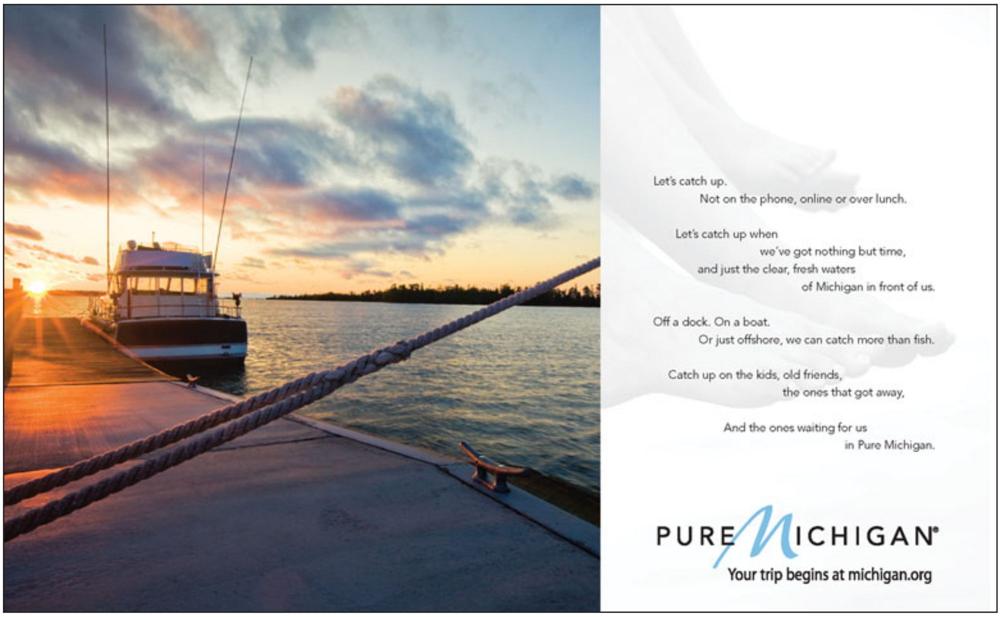
DuPont DuPont commissioned marketing studies to uncover personal pillow behavior for its Dacron Polyester unit, which supplies filling to pillow makers and sells its own Comforel brand. One challenge is that people don't give up their old pillows: 37 percent of one sample described their relationship with their pillow as being like that of "an old married couple," and an additional 13 percent said their pillow was like a "childhood friend." Respondents fell into distinct groups in terms of pillow behavior: stackers (23 percent), plumpers (20 percent), rollers or folders (16 percent), cuddlers (16 percent), and smashers, who pound their pillows into a more comfy shape (10 percent). Women were more likely to plump, men to fold. The prevalence of stackers led the company to sell more pillows packaged as pairs, as well as to market different levels of softness or firmness.[1]

Marketers also have extensive information about how consumption patterns vary across and within countries. On a per capita basis, for example, the Swiss consume the most chocolate, the Czechs the most beer, the Portuguese the most wine, and the Greeks the most cigarettes. Table 3.1 summarizes these and other comparisons across countries. Consider regional differences within the United States: Seattle's residents buy more toothbrushes per person than in any other U.S. city, people in Salt Lake City eat more candy bars, New Orleans residents use more ketchup, and people in Miami drink more prune juice.[2]

TABLE 3.1 A Global Profile of Extremes

Highest fertility rate	Niger	6.88 children per woman
Highest education expenditure as percent of GDP	Kiribati	17.8% of GDP
Highest number of mobile phone subscribers	China	547,286,000
Largest number of airports	United States	14,951 airports
Highest military expenditure as percent of GDP	Oman	11.40% of GDP
Largest refugee population	Pakistan	21,075,000 people
Highest divorce rate	Aruba	4.4 divorces per 1,000 population
Highest color TV ownership per 100 households	United Arab Emirates	99.7 TVs
Mobile telephone subscribers per capita	Lithuania	138.1 subscribers per 100 people
Highest cinema attendance	India	1,473,400,000 cinema visits
Biggest beer drinkers per capita	Czech Republic	81.9 litres per capita
Biggest wine drinkers per capita	Portugal	33.1 litres per capita
Highest number of smokers per capita	Greece	8.2 cigarettes per person per day
Highest GDP per person	Luxembourg	$87,490
Largest aid donors as % of GDP	Sweden	1.03% of GDP
Most economically dependent on agriculture	Liberia	66% of GDP
Highest population in workforce	Cayman Islands	69.20%
Highest percent of women in workforce	Belarus	53.30%
Most crowded road networks	Qatar	283.6 vehicle per km of road
Most deaths in road accidents	South Africa	31 killed per 100,000 population
Most tourist arrivals	France	79,083,000
Highest life expectancy	Andorra	83.5 years
Highest diabetes rate	United Arab Emirates	19.5% of population aged 20–79

Source: *CIA World Fact Book*, https://www.cia.gov/library/publications/the-world-factbook/geos/xx.html, accessed July 24, 2009; *The Economist's Pocket World in Figures*, 2009 edition, www.economist.com.



A well-researched and well-executed marketing campaign for the state of Michigan increased tourism and state tax revenue.

Companies with superior information can choose their markets better, develop better offerings, and execute better marketing planning. The Michigan Economic Development Corporation (MEDC) studied the demographic information of its visitors and those of competing Midwestern cities to create a new marketing message and tourism campaign. The information helped MEDC attract 3.8 million new trips to Michigan, $805 million in new visitor spending, and $56 million in incremental state tax revenue over the period 2004–2008.[3]

Every firm must organize and distribute a continuous flow of information to its marketing managers. A **marketing information system (MIS)** consists of people, equipment, and procedures to gather, sort, analyze, evaluate, and distribute needed, timely, and accurate information to marketing decision makers. It relies on internal company records, marketing intelligence activities, and marketing research. We'll discuss the first two components here, and the third one in the next chapter.

The company's marketing information system should be a mixture of what managers think they need, what they really need, and what is economically feasible. An internal MIS committee can interview a cross-section of marketing managers to discover their information needs. Table 3.2 displays some useful questions to ask them.

TABLE 3.2	Information Needs Probes
1.	What decisions do you regularly make?
2.	What information do you need to make these decisions?
3.	What information do you regularly get?
4.	What special studies do you periodically request?
5.	What information would you want that you are not getting now?
6.	What information would you want daily? Weekly? Monthly? Yearly?
7.	What online or offline newsletters, briefings, blogs, reports, or magazines would you like to see on a regular basis?
8.	What topics would you like to be kept informed of?
9.	What data analysis and reporting programs would you want?
10.	What are the four most helpful improvements that could be made in the present marketing information system?

Internal Records

To spot important opportunities and potential problems, marketing managers rely on internal reports of orders, sales, prices, costs, inventory levels, receivables, and payables.

The Order-to-Payment Cycle

The heart of the internal records system is the order-to-payment cycle. Sales representatives, dealers, and customers send orders to the firm. The sales department prepares invoices, transmits copies to various departments, and back-orders out-of-stock items. Shipped items generate shipping and billing documents that go to various departments. Because customers favor firms that can promise timely delivery, companies need to perform these steps quickly and accurately. Many use the Internet and extranets to improve the speed, accuracy, and efficiency of the order-to-payment cycle.

Fossil Group

Fossil Group Fossil Group Australia designs and distributes accessories and apparel globally. Its account executives lacked the latest information about pricing and inventory while taking wholesale orders. High demand items were often out of stock, creating problem for retailers. After the firm deployed a mobile sales solution that connected account executives with current inventory data, the number of sales tied up in back orders fell 80 percent. The company can now provide retailers with actual inventory levels and ship orders in hours instead of days.[4]

Sales Information Systems

Marketing managers need timely and accurate reports on current sales. Walmart operates a sales and inventory data warehouse that captures data on every item for every customer, every store, every day and refreshes it every hour. Consider the experience of Panasonic.

Panasonic Panasonic makes digital cameras, plasma televisions, and other consumer electronics. After missing revenue goals, the company decided to adopt a vendor-managed inventory solution. Inventory distribution then came in line with consumption, and availability of products to customers jumped from 70 percent to 95 percent. The average weeks that product supply sat in Panasonic's channels went from 25 weeks to just 5 weeks within a year, and unit sales of the targeted plasma television rose from 20,000 to approximately 100,000. Best Buy, the initial retailer covered by the vendor-managed inventory model, has since elevated Panasonic from a Tier 3 Supplier to a Tier 1 "Go-To" Brand for plasma televisions.[5]

Panasonic's new vendor-managed inventory system met with marketplace success, including from retailers.

Companies that make good use of "cookies," records of Web site usage stored on personal browsers, are smart users of targeted marketing. Many consumers are happy to cooperate: A recent survey showed that 49 percent of individuals agreed cookies are important to them when using the Internet. Not only do they *not* delete cookies, but they also expect customized marketing appeals and deals once they accept them.

Companies must carefully interpret the sales data, however, so as not to draw the wrong conclusions. Michael Dell gave this illustration: "If you have three yellow Mustangs sitting on a dealer's lot and a customer wants a red one, the salesman may be really good at figuring out how to sell the yellow Mustang. So the yellow Mustang gets sold, and a signal gets sent back to the factory that, hey, people want yellow Mustangs."[6]

Databases, Data Warehousing, and Data Mining

Companies organize their information into customer, product, and salesperson databases—and then combine their data. The customer database will contain every customer's name, address, past transactions, and sometimes even demographics and psychographics (activities, interests, and opinions). Instead of sending a mass "carpet bombing" mailing of a new offer to every customer in its database, a company will rank its customers according to factors such as purchase recency, frequency, and monetary value (RFM) and send the offer to only the highest-scoring customers. Besides saving on mailing expenses, such manipulation of data can often achieve a double-digit response rate.

Companies make these data easily accessible to their decision makers. Analysts can "mine" the data and garner fresh insights into neglected customer segments, recent customer trends, and other useful information. Managers can cross-tabulate customer information with product and salesperson information to yield still-deeper insights. Using in-house technology, Wells Fargo can track and analyze every bank transaction made by its 10 million retail customers—whether at ATMs, at bank branches, or online. When it combines transaction data with personal information provided by customers, Wells Fargo can come up with targeted offerings to coincide with a customer's life-changing event. As a result, compared with the industry average of 2.2 products per customer, Wells Fargo sells 4 products.[7] Best Buy is also taking advantage of these new rich databases.

Best Buy Best Buy has assembled a 15-plus terabyte database with seven years of data on 75 million households. It captures information about every interaction—from phone calls and mouse clicks to delivery and rebate-check addresses—and then deploys sophisticated algorithms to classify over three-quarters of its customers, or more than 100 million individuals, into profiled categories such as "Buzz" (the young technology buff), "Jill" (the suburban soccer mom), "Barry" (the wealthy professional guy), and "Ray" (the family man). The firm also applies a customer lifetime value model that measures transaction-level profitability and factors in customer behaviors that increase or decrease the value of the relationship. Knowing so much about consumers allows Best Buy to employ precision marketing and customer-triggered incentive programs with positive response rates.[8]

Best Buy uses a massive database to develop profiles with which to classify its customers.

Marketing Intelligence

The Marketing Intelligence System

A **marketing intelligence system** is a set of procedures and sources that managers use to obtain everyday information about developments in the marketing environment. The internal records system supplies *results* data, but the marketing intelligence system supplies *happenings* data. Marketing managers collect marketing intelligence in a variety of different ways, such as by reading books, newspapers, and trade publications; talking to customers, suppliers, and distributors; monitoring social media on the Internet; and meeting with other company managers.

Before the Internet, sometimes you just had to go out in the field, literally, and watch the competition. This is what oil and gas entrepreneur T. Boone Pickens did. Describing how he learned about a rival's drilling activity, Pickens recalls, "We would have someone who would watch [the rival's] drilling floor from a half mile away with field glasses. Our competitor didn't like it but there wasn't anything they could do about it. Our spotters would watch the joints and drill pipe. They would count them; each [drill] joint was 30 feet long. By adding up all the joints, you would be able to tally the depth of the well." Pickens knew that the deeper the well, the more costly it would be for his rival to get the oil or gas up to the surface, and this information provided him with an immediate competitive advantage.[9]

Marketing intelligence gathering must be legal and ethical. In 2006, the private intelligence firm Diligence paid auditor KPMG $1.7 million for having illegally infiltrated it to acquire an audit of a Bermuda-based investment firm for a Russian conglomerate. Diligence's cofounder posed as a British intelligence officer and convinced a member of the audit team to share confidential documents.[10]

A company can take eight possible actions to improve the quantity and quality of its marketing intelligence. After describing the first seven, we devote special attention to the eighth, collecting marketing intelligence on the Internet.

- ***Train and motivate the sales force to spot and report new developments.*** The company must "sell" its sales force on their importance as intelligence gatherers. Grace Performance Chemicals, a division of W. R. Grace, supplies materials and chemicals to the construction and packaging industries. Its sales reps were instructed to observe the innovative ways customers used its products in order to suggest possible new products. Some were using Grace waterproofing materials to soundproof their cars and patch boots and tents. Seven new-product ideas emerged, worth millions in sales.[11]
- ***Motivate distributors, retailers, and other intermediaries to pass along important intelligence.*** Marketing intermediaries are often closer to the customer and competition and can offer helpful insights. ConAgra has initiated a study with some of its retailers such as Safeway, Kroger, and Walmart to study how and why people buy its foods. Finding that shoppers who bought their Orville Redenbacher and Act II brands of popcorn tended to also buy Coke, ConAgra worked with the retailers to develop in-store displays for both products. Combining retailers' data with its own qualitative insights, ConAgra learned that many mothers switched to time-saving meals and snacks when school started. It launched its "Seasons of Mom" campaign to help grocers adjust to seasonal shifts in household needs.[12]
- ***Hire external experts to collect intelligence.*** Many companies hire specialists to gather marketing intelligence.[13] Service providers and retailers send mystery shoppers to their stores to assess cleanliness of facilities, product quality, and the way employees treat customers. Health care facilities' use of mystery patients has led to improved estimates of wait times, better explanations of medical procedures, and less-stressful programming on the waiting room TV.[14]
- ***Network internally and externally.*** The firm can purchase competitors' products, attend open houses and trade shows, read competitors' published reports, attend stockholders' meetings, talk to employees, collect competitors' ads, consult with suppliers, and look up news stories about competitors.
- ***Set up a customer advisory panel.*** Members of advisory panels might include the company's largest, most outspoken, most sophisticated, or most representative customers. For example, GlaxoSmithKline sponsors an online community devoted to weight loss and says it is learning far more than it could have gleamed from focus groups on topics from packaging its weight-loss pill to where to place in-store marketing.[15]
- ***Take advantage of government-related data resources.*** The U.S. Census Bureau provides an in-depth look at the population swings, demographic groups, regional migrations, and changing family structure of the estimated 304,059,724 people in the United States (as of July 1, 2008). Census marketer Nielsen Claritas cross-references census figures with consumer surveys and its own grassroots research for clients such as The Weather Channel, BMW, and Sovereign Bank. Partnering with "list houses" that provide customer phone and address information, Nielsen Claritas can help firms select and purchase mailing lists with specific clusters.[16]
- ***Purchase information from outside research firms and vendors.*** Well-known data suppliers include firms such as the A.C. Nielsen Company and Information Resources Inc. They collect information about product sales in a variety of categories and consumer exposure to various media. They also gather consumer-panel data much more cheaply than marketers manage on their own. Biz360 and its online content partners, for example, provide real-time coverage and analysis of news media and consumer opinion information from over 70,000 traditional and social media sources (print, broadcast, Web sites, blogs, and message boards).[17]

Collecting Marketing Intelligence on the Internet

Thanks to the explosion of outlets available on the Internet, online customer review boards, discussion forums, chat rooms, and blogs can distribute one customer's experiences or evaluation to other potential buyers and, of course, to marketers seeking information about the consumers and the competition. There are five main ways marketers can research competitors' product strengths and weaknesses online.[18]

- ***Independent customer goods and service review forums.*** Independent forums include Web sites such as Epinions.com, RateItAll.com, ConsumerReview.com, and Bizrate.com. Bizrate.com collects millions of consumer reviews of stores and products each year from two sources: its 1.3 million volunteer members, and feedback from stores that allow Bizrate.com to collect it directly from their customers as they make purchases.
- ***Distributor or sales agent feedback sites.*** Feedback sites offer positive and negative product or service reviews, but the stores or distributors have built the sites themselves. Amazon.com offers an interactive feedback opportunity through which buyers, readers, editors, and others can review all products on the site, especially books. Elance.com is an online professional services provider that allows contractors to describe their experience and level of satisfaction with subcontractors.
- ***Combo sites offering customer reviews and expert opinions.*** Combination sites are concentrated in financial services and high-tech products that require professional knowledge. ZDNet.com, an online advisor on technology products, offers customer comments and evaluations based on ease of use, features, and stability, along with expert reviews. The advantage is that a product supplier can compare experts' opinions with those of consumers.
- ***Customer complaint sites.*** Customer complaint forums are designed mainly for dissatisfied customers. PlanetFeedback.com allows customers to voice unfavorable experiences with specific companies. Another site, Complaints.com, lets customers vent their frustrations with particular firms or offerings.
- ***Public blogs.*** Tens of millions of blogs and social networks exist online, offering personal opinions, reviews, ratings, and recommendations on virtually any topic—and their numbers continue to grow. Firms such as Nielsen's BuzzMetrics and Scout Labs analyze blogs and social networks to provide insights into consumer sentiment.

Communicating and Acting on Marketing Intelligence

In some companies, the staff scans the Internet and major publications, abstracts relevant news, and disseminates a news bulletin to marketing managers. The competitive intelligence function works best when it is closely coordinated with the decision-making process.[19]

Ticket broker StubHub monitors online activity so that when confusion arose over a rainout at a New York Yankees game, for instance, it was able to respond quickly.

Given the speed of the Internet, it is important to act quickly on information gleaned online. Here are two companies that benefited from a proactive approach to online information:[20]

- When ticket broker StubHub detected a sudden surge of negative sentiment about its brand after confusion arose about refunds for a rain-delayed Yankees–Red Sox game, it jumped in to offer appropriate discounts and credits. The director of customer service observed, "This [episode] is a canary in a coal mine for us."
- When Coke's monitoring software spotted a Twitter post that went to 10,000 followers from an upset consumer who couldn't redeem a prize from a MyCoke rewards program, Coke quickly posted an apology on his Twitter profile and offered to help resolve the situation. After the consumer got the prize, he changed his Twitter avatar to a photo of himself holding a Coke bottle.

Analyzing the Macroenvironment

Successful companies recognize and respond profitably to unmet needs and trends.

Needs and Trends

Enterprising individuals and companies manage to create new solutions to unmet needs. Dockers was created to meet the needs of baby boomers who could no longer fit into their jeans and wanted a physically and psychologically comfortable pair of pants. Let's distinguish among fads, trends, and megatrends.

- A **fad** is "unpredictable, short-lived, and without social, economic, and political significance." A company can cash in on a fad such as Crocs clogs, Elmo TMX dolls, and Pokémon gifts and toys, but getting it right requires luck and good timing.[21]
- A direction or sequence of events with momentum and durability, a **trend** is more predictable and durable than a fad; trends reveal the shape of the future and can provide strategic direction. A trend toward health and nutrition awareness has brought increased government regulation and negative publicity for firms seen as peddling unhealthy food. Macaroni Grill revamped its menu to include more low-calorie and low-fat offerings after a wave of bad press: *The Today Show* called its chicken and artichoke sandwich "the calorie equivalent of 16 Fudgesicles," and in its annual list of unhealthy restaurant dishes, *Men's Health* declared its 1,630 calorie dessert ravioli the "worst dessert in America."[22]
- A **megatrend** is a "large social, economic, political, and technological change [that] is slow to form, and once in place, influences us for some time—between seven and ten years, or longer."[23]
- To help marketers spot cultural shifts that might bring new opportunities or threats, several firms offer social-cultural forecasts. The Yankelovich Monitor interviews 2,500 people nationally each year and has tracked 35 social value and lifestyle trends since 1971, such as "anti-bigness," "mysticism," "living for today," "away from possessions," and "sensuousness." A new market opportunity doesn't guarantee success, of course, even if the new product is technically feasible. Market research is necessary to determine an opportunity's profit potential.

Identifying the Major Forces

The end of the first decade of the new century brought a series of new challenges: the steep decline of the stock market, which affected savings, investment, and retirement funds; increasing unemployment; corporate scandals; stronger indications of global warming and other signs of deterioration in the national environment; and of course, the rise of terrorism. These dramatic events were accompanied by the continuation of many existing trends that have already profoundly influenced the global landscape.[24]

Firms must monitor six major forces in the broad environment: demographic, economic, social-cultural, natural, technological, and political-legal. We'll describe them separately, but remember that their interactions will lead to new opportunities and threats. For example, explosive population growth (demographic) leads to more resource depletion and pollution (natural), which leads consumers to call for more laws (political-legal), which stimulate new technological solutions and products (technological) that, if they are affordable (economic), may actually change attitudes and behavior (social-cultural).

The Demographic Environment

Demographic developments often move at a fairly predictable pace. The main one marketers monitor is *population,* including the size and growth rate of population in cities, regions, and nations; age distribution and ethnic mix; educational levels; household patterns; and regional characteristics and movements.

WORLDWIDE POPULATION GROWTH World population growth is explosive: Earth's population totaled 6.8 billion in 2010 and will exceed 9 billion by 2040.[25] Table 3.3 offers an interesting perspective.[26]

Population growth is highest in countries and communities that can least afford it. Developing regions of the world currently account for 84 percent of the world population and are growing at 1 percent to 2 percent per year; the population in developed countries is growing at only 0.3 percent.[27] In developing countries, modern medicine is lowering the death rate, but the birthrate remains fairly stable.

A growing population does not mean growing markets unless there is sufficient purchasing power. Care and education of children can raise the standard of living but are nearly impossible to accomplish in most developing countries. Nonetheless, companies that carefully analyze these markets can find major opportunities. Sometimes the lessons from developing markets are helping businesses in developed markets. See "Marketing Insight: Finding Gold at the Bottom of the Pyramid."

POPULATION AGE MIX Mexico has a very young population and rapid population growth. At the other extreme is Italy, with one of the world's oldest populations. Milk, diapers, school supplies, and toys will be more important products in Mexico than in Italy.

There is a global trend toward an aging population. In 1950, there were only 131 million people 65 and older; in 1995, their number had almost tripled to 371 million. By 2050, one of ten people worldwide will be 65 or older. In the United States, boomers—those born between 1946 and 1964—represent a market of some 36 million, about 12 percent of the population. By 2011, the 65-and-over population will be growing faster than the population as a whole in each of the 50 states.[28]

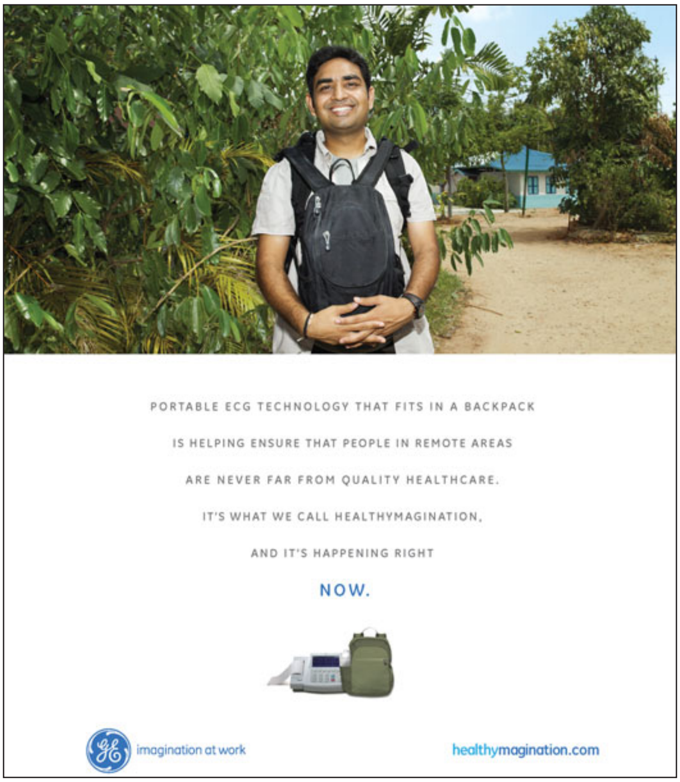
Marketers generally divide the population into six age groups: preschool children, school-age children, teens, young adults age 20 to 40, middle-aged adults 40 to 65, and older adults 65 and

TABLE 3.3 The World as a Village

If the world were a village of 100 people:
• 61 villagers would be Asian (of that, 20 would be Chinese and 17 would be Indian), 14 would be African, 11 would be European, 8 would be Latin or South American, 5 would be North American, and only one of the villagers would be from Australia, Oceania, or Antarctica.
• At least 18 villagers would be unable to read or write but 33 would have cellular phones and 16 would be online on the Internet.
• 18 villagers would be under 10 years of age and 11 would be over 60 years old. There would be an equal number of males and females.
• There would be 18 cars in the village.
• 63 villagers would have inadequate sanitation.
• 32 villagers would be Christians, 20 would be Muslims, 14 would be Hindus, 6 would be Buddhists, 16 would be non-religious, and the remaining 12 would be members of other religions.
• 30 villagers would be unemployed or underemployed, while of those 70 who would work, 28 would work in agriculture (primary sector), 14 would work in industry (secondary sector), and the remaining 28 would work in the service sector (tertiary sector).
• 53 villagers would live on less than two U.S. dollars a day. One villager would have AIDS, 26 villagers would smoke, and 14 villagers would be obese.
• By the end of a year, one villager would die and two new villagers would be born so the population would climb to 101.

Source: David J. Smith and Shelagh Armstrong, *If the World Were a Village: A Book About the World's People*, 2nd ed. (Tonawanda, NY: Kids Can Press, 2002).

Marketing Insight



Finding Gold at the Bottom of the Pyramid

Business writer C.K. Prahalad believes much innovation can come from developments in emerging markets such as China and India. He estimates there are 5 billion unserved and underserved people at the so-called "bottom of the pyramid." One study showed that 4 billion people live on $2 or less a day. Firms operating in those markets have had to learn how to do more with less.

In Bangalore, India, Narayana Hrudayalaya Hospital charges a flat fee of $1,500 for heart bypass surgery that costs 50 times as much in the United States. The hospital has low labor and operating expenses and an assembly-line view of care that has specialists focus on their own area. The approach works—the hospital's mortality rates are half those of U.S. hospitals. Narayana also operates on hundreds of infants for free and profitably insures 2.5 million poor Indians against serious illness for 11 cents a month.

Overseas firms are also finding creative solutions in developing countries. In Brazil, India, Eastern Europe, and other markets, Microsoft launched its pay-as-you-go FlexGo program, which allows users to prepay to use a fully loaded PC only for as long as wanted or needed without having to pay the full price the PC would normally command. When the payment runs out, the PC stops operating and the user prepays again to restart it.

Other firms find "reverse innovation" advantages by developing products in countries like China and India and then distributing them globally. After GE successfully introduced a $1,000 handheld electrocardiogram device for rural India and a portable, PC-based ultrasound machine for rural China, it began to sell them in the United States. Nestlé repositioned its low-fat Maggi brand dried noodles—a popular, low-priced meal for rural Pakistan and India—as a budget-friendly health food in Australia and New Zealand.

Sources: C.K. Prahalad, *The Fortune at the Bottom of the Pyramid* (Upper Saddle River, NJ: Wharton School Publishing, 2010); Bill Breen, "C.K. Prahalad: Pyramid Schemer," *Fast Company*, March 2007, p. 79; Pete Engardio, "Business Prophet: How C.K. Prahalad Is Changing the Way CEOs Think," *BusinessWeek*, January 23, 2006, pp. 68–73; Reena Jane, "Inspiration from Emerging Economies," *BusinessWeek*, March 23 and 30, 2009, pp. 38–41; Jeffrey R. Immelt, Vijay Govindarajan, and Chris Trimble, "How GE Is Disrupting Itself," *Harvard Business Review*, October 2009, pp. 56–65; Peter J. Williamson and Ming Zeng, "Value-for-Money Strategies for Recessionary Times," *Harvard Business Review*, March 2009, pp. 66–74.

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older. Some marketers focus on **cohorts**, groups of individuals born during the same time period who travel through life together. The defining moments they experience as they come of age and become adults (roughly ages 17 through 24) can stay with them for a lifetime and influence their values, preferences, and buying behaviors.

ETHNIC AND OTHER MARKETS Ethnic and racial diversity varies across countries. At one extreme is Japan, where almost everyone is Japanese; at the other is the United States, where nearly 25 million people—more than 9 percent of the population—were born in another country. As of the 2000 census, the U.S. population was 72 percent White, 13 percent African American, and 11 percent Hispanic. The Hispanic population has been growing fast and is expected to make up 18.9 percent of the population by 2020; its largest subgroups are of Mexican (5.4 percent), Puerto Rican (1.1 percent), and Cuban (0.4 percent) descent. Asian Americans constituted 3.8 percent of the U.S. population; Chinese are the largest group, followed by Filipinos, Japanese, Asian Indians, and Koreans, in that order.

The growth of the Hispanic population represents a major shift in the nation's center of gravity. Hispanics made up half of all new workers in the past decade and will account for 25 percent of workers in two generations. Despite lagging family incomes, their disposable income has grown twice as fast as the rest of the population and could reach $1.2 trillion by 2012. From the food U.S. consumers eat, to the clothing, music, and cars they buy, Hispanics are having a huge impact.

Companies are scrambling to refine their products and marketing to reach this fastest-growing and most influential consumer group:[29] Research by Hispanic media giant Univision suggests 70 percent of Spanish-language viewers are more likely to buy a product when it's advertised in Spanish. Fisher-Price, recognizing that many Hispanic mothers did not grow up with its brand, shifted away from appeals to their heritage. Instead, its ads emphasize the joy of mother and child playing together with Fisher-Price toys.[30]

Several food, clothing, and furniture companies have directed products and promotions to one or more ethnic groups.[31] Yet marketers must not overgeneralize. Within each ethnic group are consumers quite different from each other.[32] For instance, a 2005 Yankelovich Monitor Multicultural Marketing study separated the African American market into six sociobehavioral segments: Emulators, Seekers, Reachers, Attainers, Elites, and Conservers. The largest and perhaps most influential are the Reachers (24 percent) and Attainers (27 percent), with very different needs. Reachers, around 40, are slowly working toward the American dream. Often single parents caring for elderly relatives, they have a median income of $28,000 and seek the greatest value for their money. Attainers have a more defined sense of self and solid plans for the future. Their median income is $55,000, and they want ideas and information to improve their quality of life.[33]

Diversity goes beyond ethnic and racial markets. More than 51 million U.S. consumers have disabilities, and they constitute a market for home delivery companies, such as Peapod, and for various drugstore chains.

EDUCATIONAL GROUPS The population in any society falls into five educational groups: illiterates, high school dropouts, high school diplomas, college degrees, and professional degrees. Over two-thirds of the world's 785 million illiterate adults are found in only eight countries (India, China, Bangladesh, Pakistan, Nigeria, Ethiopia, Indonesia, and Egypt); of all illiterate adults in the world, two-thirds are women.[34] The United States has one of the world's highest percentages of college-educated citizens: 54 percent of those 25 years or older have had "some college or more," 28 percent have bachelor's degrees, and 10 percent have advanced degrees. The large number of educated people in the United States drives strong demand for high-quality books, magazines, and travel, and creates a high supply of skills.

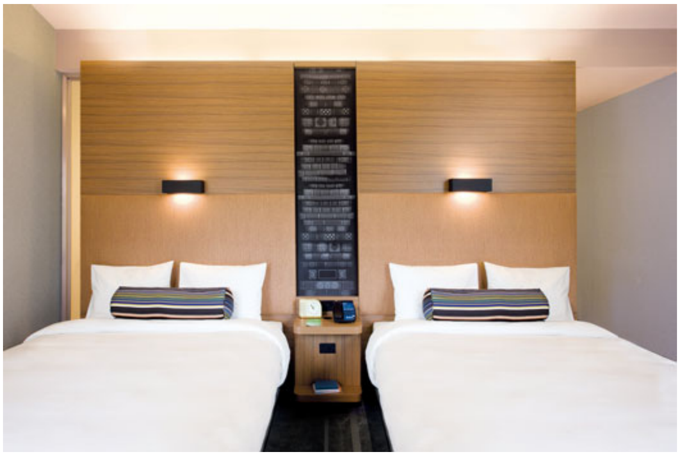
HOUSEHOLD PATTERNS The traditional household consists of a husband, wife, and children (and sometimes grandparents). Yet by 2010, only one in five U.S. households will consist of a married couple with children under 18. Other households are single live-alones (27 percent), single-parent families (8 percent), childless married couples and empty nesters (32 percent), living with nonrelatives only (5 percent), and other family structures (8 percent).[35]

More people are divorcing or separating, choosing not to marry, marrying later, or marrying without intending to have children. Each group has distinctive needs and buying habits. The single, separated, widowed, and divorced may need smaller apartments; inexpensive and smaller appliances, furniture, and furnishings; and smaller-size food packages.[36]

Nontraditional households are growing more rapidly than traditional households. Academics and marketing experts estimate that the gay and lesbian population ranges between 4 percent and 8 percent of the total U.S. population, higher in urban areas.[37] Even so-called traditional households have experienced change. Boomer dads marry later than their fathers or grandfathers did, shop more, and are much more active in raising their kids. To appeal to them, the maker of the high-concept Bugaboo stroller designed a model with a sleek look and dirt bike–style tires. Dyson, the high-end vacuum company, is appealing to dads' inner geek by focusing on the machine's revolutionary technology. Before Dyson entered the U.S. market, men weren't even on the radar for vacuum cleaner sales. Now they make up 40 percent of Dyson's customers.[38]

The Economic Environment

The available purchasing power in an economy depends on current income, prices, savings, debt, and credit availability. As the recent economic downturn vividly demonstrated, trends affecting purchasing power can have a strong impact on business, especially for companies whose products are geared to high-income and price-sensitive consumers.



Starwood's Aloft hotel chain blends urban chic with affordable prices.

CONSUMER PSYCHOLOGY Did new consumer spending patterns during the 2008–2009 recession reflect short-term, temporary adjustments or long-term, permanent changes?[39] Some experts believed the recession had fundamentally shaken consumers' faith in the economy and their personal financial situations. "Mindless" spending would be out; willingness to comparison shop, haggle, and use discounts would become the norm. Others maintained tighter spending reflected a mere economic constraint and not a fundamental behavioral change. Thus, consumers' aspirations would stay the same, and spending would resume when the economy improves.

Identifying the more likely long-term scenario—especially with the coveted 18- to 34-year-old age group—would help to direct how marketers spend their money. After six months of research and development in the baby boomer market, Starwood launched a "style at a steal" initiative to offer affordable but stylish hotel alternatives to its high-end W, Sheraton, and Westin chains. Targeting an audience seeking both thrift and luxury, it introduced two new low-cost chains: Aloft, designed to reflect the urban cool of loft apartments, and Element, suites with every "element" of modern daily lives, including healthy food choices and spa-like bathrooms.[40]

INCOME DISTRIBUTION There are four types of industrial structures: *subsistence economies* like Papua New Guinea, with few opportunities for marketers; *raw-material-exporting economies* like Democratic Republic of Congo (copper) and Saudi Arabia (oil), with good markets for equipment, tools, supplies, and luxury goods for the rich; *industrializing economies* like India, Egypt, and the Philippines, where a new rich class and a growing middle class demand new types of goods; and *industrial economies* like Western Europe, with rich markets for all sorts of goods.

Marketers often distinguish countries using five income-distribution patterns: (1) very low incomes; (2) mostly low incomes; (3) very low, very high incomes; (4) low, medium, high incomes; and (5) mostly medium incomes. Consider the market for the Lamborghini, an automobile costing more than $150,000. The market would be very small in countries with type 1 or 2 income patterns. One of the largest single markets for Lamborghinis is Portugal (income pattern 3)—one of the poorer countries in Western Europe, but with enough wealthy families to afford expensive cars.

INCOME, SAVINGS, DEBT, AND CREDIT Consumer expenditures are affected by income levels, savings rates, debt practices, and credit availability. U.S. consumers have a high debt-to-income ratio, which slows expenditures on housing and large-ticket items. When credit became scarcer in the recession, especially to lower-income borrowers, consumer borrowing dropped for the first time in two decades. The financial meltdown that led to this contraction was due to overly liberal credit policies that allowed consumers to buy homes and other items they could really not afford. Marketers wanted every possible sale, banks wanted to earn interest on loans, and near financial ruin resulted.

An economic issue of increasing importance is the migration of manufacturers and service jobs offshore. From India, Infosys provides outsourcing services for Cisco, Nordstrom, Microsoft, and others. The 25,000 employees the fast-growing $4 billion company hires every year receive technical, team, and communication training in Infosys's $120 million facility outside Bangalore.[41]

The Sociocultural Environment

From our sociocultural environment we absorb, almost unconsciously, a world view that defines our relationships to ourselves, others, organizations, society, nature, and the universe.

- ***Views of ourselves.*** In the United States during the 1960s and 1970s, "pleasure seekers" sought fun, change, and escape. Others sought "self-realization." Today, some are adopting more conservative behaviors and ambitions (see Table 3.4 for favorite consumer leisure-time activities and how they have changed, or not, in recent years).
- ***Views of others.*** People are concerned about the homeless, crime and victims, and other social problems. At the same time, they seek those like themselves for long-lasting relationships, suggesting a growing market for social-support products and services such as health clubs, cruises, and religious activity as well as "social surrogates" like television, video games, and social networking sites.

TABLE 3.4 Favorite Leisure-Time Activities

	1995	2008
	%	%
Reading	28	30
TV watching	25	24
Spending time with family/kids	12	20
Going to movies	8	8
Fishing	10	7
Computer activities	2	7
Gardening	9	5
Renting movies	5	5
Walking	8	6
Exercise (aerobics, weights)	2	8

Source: Harris Interactive, "Spontaneous, Unaided Responses to: 'What Are Your Two or Three Most Favorite Leisure-Time Activities?'" http://www.harrisinteractive.com/harris_poll/index.asp?PID=980. Base: All Adults.

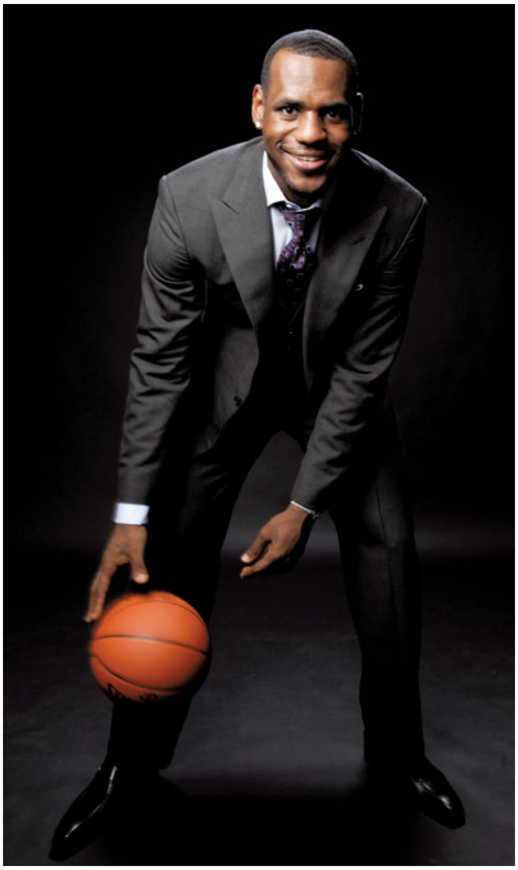
- ***Views of organizations.*** After a wave of layoffs and corporate scandals, organizational loyalty has declined.[42] Companies need new ways to win back consumer and employee confidence. They need to ensure they are good corporate citizens and that their consumer messages are honest.[43]
- ***Views of society.*** Some people defend society (preservers), some run it (makers), some take what they can from it (takers), some want to change it (changers), some are looking for something deeper (seekers), and still others want to leave it (escapers).[44] Consumption patterns often reflect these social attitudes. Makers are high achievers who eat, dress, and live well. Changers usually live more frugally, drive smaller cars, and wear simpler clothes. Escapers and seekers are a major market for movies, music, surfing, and camping.
- ***Views of nature.*** Business has responded to increased awareness of nature's fragility and finiteness by producing wider varieties of camping, hiking, boating, and fishing gear such as boots, tents, backpacks, and accessories.
- ***Views of the universe.*** Most U.S. citizens are monotheistic, although religious conviction and practice have waned through the years or been redirected into an interest in evangelical movements or Eastern religions, mysticism, the occult, and the human potential movement.

Other cultural characteristics of interest to marketers are the high persistence of core cultural values and the existence of subcultures. Let's look at both.

HIGH PERSISTENCE OF CORE CULTURAL VALUES Most people in the United States still believe in working, getting married, giving to charity, and being honest. *Core beliefs* and values are passed from parents to children and reinforced by social institutions—schools, churches, businesses, and governments. *Secondary beliefs* and values are more open to change. Believing in the institution of marriage is a core belief; believing people should marry early is a secondary belief.

Marketers have some chance of changing secondary values, but little chance of changing core values. The nonprofit organization Mothers Against Drunk Drivers (MADD) does not try to stop the sale of alcohol but promotes lower legal blood-alcohol levels for driving and limited operating hours for businesses that sell alcohol.

Although core values are fairly persistent, cultural swings do take place. In the 1960s, hippies, the Beatles, Elvis Presley, and other cultural phenomena had a major impact on hairstyles, clothing, sexual norms, and life goals. Today's young people are influenced by new heroes and activities: the alternative rock band Green Day, the NBA's LeBron James, and snowboarder and skateboarder Shaun White.



Young people may be influenced by a diverse range of heroes, from basketball player LeBron James to punk-rock band Green Day.

EXISTENCE OF SUBCULTURES Each society contains **subcultures**, groups with shared values, beliefs, preferences, and behaviors emerging from their special life experiences or circumstances. Marketers have always loved teenagers because they are trendsetters in fashion, music, entertainment, ideas, and attitudes. Attract someone as a teen, and you will likely keep the person as a customer later in life. Frito-Lay, which draws 15 percent of its sales from teens, noted a rise in chip snacking by grown-ups. "We think it's because we brought them in as teenagers," said Frito-Lay's marketing director.[45]

The Natural Environment

In Western Europe, "green" parties have pressed for public action to reduce industrial pollution. In the United States, experts have documented ecological deterioration, and watchdog groups such as the Sierra Club and Friends of the Earth carry these concerns into political and social action.

Environmental regulations hit certain industries hard. Steel companies and public utilities have invested billions of dollars in pollution-control equipment and environmentally friendly fuels, making hybrid cars, low-flow toilets and showers, organic foods, and green office buildings everyday realities. Opportunities await those who can reconcile prosperity with environmental protection. Consider these solutions to concerns about air quality:[46]

- Nearly a quarter of the carbon dioxide that makes up about 80 percent of all greenhouse gases comes from electrical power plants. Dublin-based Airtricity operates wind farms in the United States and the United Kingdom that offer cheaper and greener electricity.
- Transportation is second only to electricity generation as a contributor to global warming, accounting for roughly a fifth of carbon emissions. Vancouver-based Westport Innovations developed a conversion technology—high-pressure direct injection—that allows diesel engines to run on cleaner-burning liquid natural gas, reducing greenhouse emissions by a fourth.

Actor and environmental activist Ed Begley Jr. examines a solar oven.

- Due to millions of rural cooking fires, parts of Southern Asia suffer extremely poor air quality. A person cooking over an open wood or kerosene fire inhales the equivalent of two packs of cigarettes a day. Illinois-based Sun Ovens International makes family-sized and institutional solar ovens that use mirrors to redirect the sun's rays into an insulated box. Used in 130 countries, the oven both saves money and reduces greenhouse gas emissions.

Corporate environmentalism recognizes the need to integrate environmental issues into the firm's strategic plans. Trends in the natural environment for marketers to be aware of include the shortage of raw materials, especially water; the increased cost of energy; increased pollution levels; and the changing role of governments. (See also "Marketing Insight: The Green Marketing Revolution.")[47]

- The earth's raw materials consist of the infinite, the finite renewable, and the finite nonrenewable. Firms whose products require *finite nonrenewable resources*—oil, coal, platinum, zinc, silver—face substantial cost increases as depletion approaches. Firms that can develop substitute materials have an excellent opportunity.
- One finite nonrenewable resource, oil, has created serious problems for the world economy. As oil prices soar, companies search for practical means to harness solar, nuclear, wind, and other alternative energies.
- Some industrial activity will inevitably damage the natural environment, creating a large market for pollution-control solutions such as scrubbers, recycling centers, and landfill systems as well as for alternative ways to produce and package goods.
- Many poor nations are doing little about pollution, lacking the funds or the political will. It is in the richer nations' interest to help them control their pollution, but even richer nations today lack the necessary funds.

The Technological Environment

It is the essence of market capitalism to be dynamic and tolerate the creative destructiveness of technology as the price of progress. Transistors hurt the vacuum-tube industry, and autos hurt the railroads. Television hurt the newspapers, and the Internet hurt them both.

When old industries fight or ignore new technologies, their businesses decline. Tower Records had ample warning that its music retail business would be hurt by Internet downloads of music (as well as the growing number of discount music retailers). Its failure to respond led to the liquidation of all its domestic physical stores in 2006.

Marketing Insight

The Green Marketing Revolution

Consumers' environmental concerns are real. Gallup polls reveal the percentage of U.S. adults who believe global warming will pose a serious threat during their lifetime has increased from 25 percent in 1998 to 40 percent in 2008. A Mediamark Research & Intelligence study in 2008 found that almost two-thirds of U.S. men and women stated that "preserving the environment as a guiding principle in your life" was "very important." A *Washington Post*/ABC News/Stanford University poll in 2007 found that 94 percent of respondents were "willing" to "personally change some of the things you do in order to improve the environment," with 50 percent saying they were "very willing."

Converting this concern into concerted consumer action on the environment, however, will be a longer-term process. A 2008 TNS survey found that only 26 percent of Americans said they were "actively seeking environmentally friendly products." A 2008 Gallup poll found that only 28 percent of respondents claimed to have made "major changes" in their own shopping and living habits over the past five years to protect the environment. Other research reported that consumers were more concerned with closer to home environmental issues such as water pollution in rivers and lakes than broader issues such as global warming. As is often the case, behavioral change is following attitudinal change for consumers.

Nevertheless, as research by GfK Roper Consulting shows, consumer expectations as to corporate behavior with the environment have significantly changed, and in many cases these expectations are higher than the demands they place on themselves. Consumers vary, however, in their environmental sensitivity and can be categorized into five groups based on their degree of commitment (see △ Figure 3.1). Interestingly, although some marketers assume that younger people are more concerned about the environment than older consumers, some research suggests that older consumers actually take their eco-responsibilities more seriously.

In the past, the "green marketing" programs launched by companies around specific products were not always entirely successful for several possible reasons. Consumers might have thought that the product was inferior because it was green, or that it was not even really green to begin with. Those green products that were successful, however, persuaded consumers that they were acting in their own and society's long-run interest at the same time. Some examples were organic foods that were seen as healthier, tastier, and safer, and energy-efficient appliances that were seen as costing less to run.

There are some expert recommendations as to how to avoid "green marketing myopia" by focusing on consumer value positioning, calibration of consumer knowledge, and the credibility of product claims. One challenge with green marketing is the difficulty consumers have in understanding the environmental benefits of products, leading to many accusations of "greenwashing" where products are not nearly as green and environmentally beneficial as their marketing might suggest.

Although there have been green products emphasizing their natural benefits for years—Tom's of Maine, Burt's Bees, Stonyfield Farm, and Seventh Generation to name just a few—products offering environmental benefits are becoming more mainstream. Part of the success of Clorox Green Works cleaning products and household cleaning products, launched in January 2008, was that it found the sweet spot of a target market wanting to take smaller steps toward a greener lifestyle

|Fig. 3.1| △

Consumer Environmental Segments

Source: GfK Roper Green Gauge® 2007, GfK Roper Consulting, New York, NY.

- *Genuine Greens* (15%): This segment is the most likely to think and act green. Some may be true environmental activists, but most probably fall more under the category of strong advocates. This group sees few barriers to behaving green and may be open to partnering with marketers on environmental initiatives.
- *Not Me Greens* (18%): This segment expresses very pro-green attitudes, but its behaviors are only moderate, perhaps because these people perceive lots of barriers to living green. There may be a sense among this group that the issue is too big for them to handle, and they may need encouragement to take action.
- *Go-with-the-Flow Greens* (17%): This group engages in some green behaviors—mostly the "easy" ones such as recycling. But being green is not a priority for them, and they seem to take the path of least resistance. This group may only take action when it's convenient for them.
- *Dream Greens* (13%): This segment cares a great deal about the environment, but doesn't seem to have the knowledge or resources to take action. This group may offer the greatest opportunity to act green if given the chance.
- *Business First Greens* (23%): This segment's perspective is that the environment is not a huge concern and that business and industry is doing its part to help. This may explain why they don't feel the need to take action themselves—even as they cite lots of barriers to doing so.
- *Mean Greens* (13%): This group claims to be knowledgeable about environmental issues, but does not express pro-green attitudes or behaviors. Indeed, it is practically hostile toward pro-environmental ideas. This segment has chosen to reject prevailing notions about environmental protection and may even be viewed as a potential threat to green initiatives.

and matched that with a green product with a very modest price premium and sold through a grassroots marketing program.

Environmental concerns are affecting how virtually every major company does their business: Walt Disney Corp. has pledged to reduce its solid waste by 2013, conserve millions of gallons of water, invest in renewable energy, and become completely carbon neutral (reaching 50 percent of that goal by 2012); Best Buy has expanded its recycling program for electronics; Caterpillar announced plans to reduce the GHG emissions of its entire product line by 20 percent by 2020; and Whole Foods, a leader among national supermarket chains in selling certified "organic food" already, cofounded a partnership to reduce emissions from grocery refrigerators and offsets 100 percent of its electricity use with renewable energy via wind-energy credits.

Toyota, HP, IKEA, Procter & Gamble, and Walmart have all been linked to high-profile environmental and sustainability programs. Some other marketers, fearing harsh scrutiny or unrealistic expectations, keep a lower profile. Even though Nike uses recycled sneakers in its soles of new shoes, they chose not to publicize that fact so that they can keep their focus on performance and winning. The rules of the game in green marketing are changing rapidly as both consumers and companies respond to problems and proposed solutions to the significant environmental problems that exist.

Sources: Jerry Adler, "Going Green," *Newsweek*, July 17, 2006, pp. 43–52; Jacquelyn A. Ottman, Edwin R. Stafford, and Cathy L. Hartman, "Avoiding Green Marketing Myopia," *Environment* (June 2006): 22–36; Jill Meredith Ginsberg and Paul N. Bloom, "Choosing the Right Green Marketing Strategy," *MIT Sloan Management Review* (Fall 2004): 79–84; Jacquelyn Ottman, *Green Marketing: Opportunity for Innovation,* 2nd ed. (New York: BookSurge Publishing, 2004); Mark Dolliver, "Deflating a Myth,"*Brandweek*, May 12, 2008, pp. 30–31; "Winner: Corporate Sustainability, Walt Disney Worldwide," *Travel and Leisure*, November 2009, p. 106; "The Greenest Big Companies in America, *Newsweek*, September 28, 2009, pp. 34–53; Sarah Mahoney, "Best Buy Connects Green with Thrift," *Media Post News: Marketing Daily*, January 28, 2009; Reena Jana, "Nike Quietly Goes Green," *BusinessWeek,* June 11, 2009.

Clorox's Green Works has been a huge market hit by combining environmental benefits with affordability.

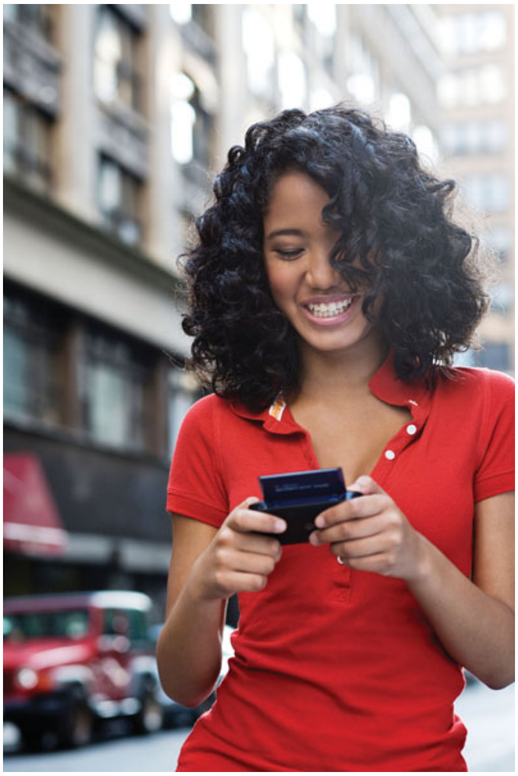
Major new technologies stimulate the economy's growth rate. Unfortunately, between innovations, an economy can stagnate. Minor innovations fill the gap—new supermarket products such as frozen waffles, body washes, and energy bars might pop up—but while lower risk, they can also divert research effort away from major breakthroughs.

Innovation's long-run consequences are not always foreseeable. The contraceptive pill reduced family size and thus increased discretionary incomes, also raising spending on vacation travel, durable goods, and luxury items. Cell phones, video games, and the Internet are reducing attention to traditional media, as well as face-to-face social interaction as people listen to music or watch a movie on their cell phones.

Marketers should monitor the following technology trends: the accelerating pace of change, unlimited opportunities for innovation, varying R&D budgets, and increased regulation of technological change.

ACCELERATING PACE OF CHANGE More ideas than ever are in the works, and the time between idea and implementation is shrinking. So is the time between introduction and peak production. Apple ramped up in seven years to sell a staggering 220 million iPods worldwide by September 2009.

UNLIMITED OPPORTUNITIES FOR INNOVATION Some of the most exciting work today is taking place in biotechnology, computers, microelectronics, telecommunications, robotics, and designer materials. Researchers are working on AIDS vaccines, safer contraceptives, and nonfattening foods. They are developing new classes of antibiotics to fight ultra-resistant infections, superheating furnaces to reduce trash to raw materials, and building miniature water-treatment plants for remote locations.[48]



Text messaging is profoundly changing how consumers choose to communicate.

VARYING R&D BUDGETS A growing portion of U.S. R&D expenditures goes to the development as opposed to the research side, raising concerns about whether the United States can maintain its lead in basic science. Many companies put their money into copying competitors' products and making minor feature and style improvements. Even basic research companies such as Dow Chemical, Bell Laboratories, and Pfizer are proceeding cautiously, and more consortiums than single companies are directing research efforts toward major breakthroughs.

INCREASED REGULATION OF TECHNOLOGICAL CHANGE Government has expanded its agencies' powers to investigate and ban potentially unsafe products. In the United States, the Food and Drug Administration (FDA) must approve all drugs before they can be sold. Safety and health regulations have increased for food, automobiles, clothing, electrical appliances, and construction.

The Political-Legal Environment

The political and legal environment consists of laws, government agencies, and pressure groups that influence various organizations and individuals. Sometimes these laws create new business opportunities. Mandatory recycling laws have boosted the recycling industry and launched dozens of new companies making new products from recycled materials. Two major trends are the increase in business legislation and the growth of special-interest groups.

INCREASE IN BUSINESS LEGISLATION Business legislation is intended to protect companies from unfair competition, protect consumers from unfair business practices, protect society from unbridled business behavior, and charge businesses with the social costs of their products or production processes. Each new law may also have the unintended effect of sapping initiative and slowing growth.

The European Commission has established new laws covering competitive behavior, product standards, product liability, and commercial transactions for the 27 member nations of the European Union. The United States has many consumer protection laws covering competition, product safety and liability, fair trade and credit practices, and packaging and labeling, but many countries' laws are stronger.[49] Norway bans several forms of sales promotion—trading stamps, contests, and premiums—as inappropriate or unfair. Thailand requires food processors selling national brands to market low-price brands also, so low-income consumers can find economy brands. In India, food companies need special approval to launch duplicate brands, such as another cola drink or brand of rice. As more transactions take place in cyberspace, marketers must establish new ways to do business ethically.

GROWTH OF SPECIAL-INTEREST GROUPS Political action committees (PACs) lobby government officials and pressure business executives to respect the rights of consumers, women, senior citizens, minorities, and gays and lesbians. Insurance companies directly or indirectly affect the design of smoke detectors; scientific groups affect the design of spray products. Many companies have established public affairs departments to deal with these groups and issues. The **consumerist movement** organized citizens and government to strengthen the rights and powers of buyers in relationship to sellers. Consumerists have won the right to know the real cost of a loan, the true cost per standard unit of competing brands (unit pricing), the basic ingredients and true benefits of a product, and the nutritional quality and freshness of food.

Privacy issues and identity theft will remain public policy hot buttons as long as consumers are willing to swap personal information for customized products—from marketers they trust.[50] Consumers worry they will be robbed or cheated; that private information will be used against them; that they will be bombarded by solicitations; and that children will be targeted.[51] Wise companies establish consumer affairs departments to formulate policies and resolve complaints.

Forecasting and Demand Measurement

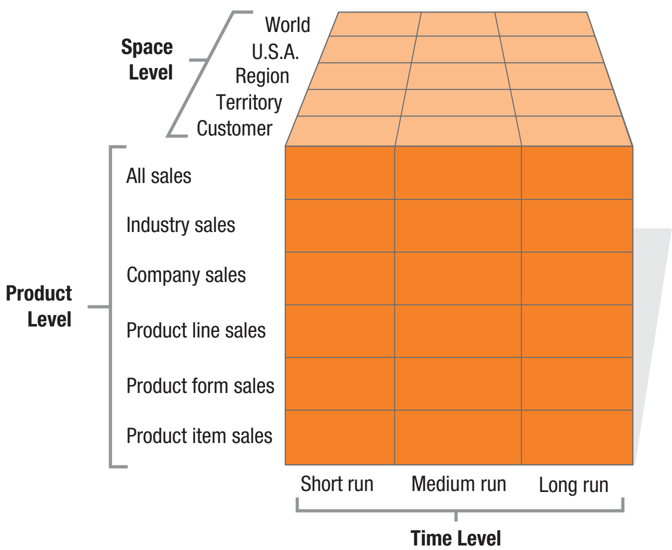
Understanding the marketing environment and conducting marketing research (described in Chapter 4) can help to identify marketing opportunities. The company must then measure and forecast the size, growth, and profit potential of each new opportunity. Sales forecasts prepared by marketing are used by finance to raise cash for investment and operations; by manufacturing to establish capacity and output; by purchasing to acquire the right amount of supplies; and by human resources to hire the needed workers. If the forecast is off the mark, the company will face excess or inadequate inventory. Since it's based on estimates of demand, managers need to define what they mean by market demand. Although DuPont's Performance Materials group knows DuPont Tyvek has 70 percent of the $100 million market for air-barrier membranes, they see greater opportunity with more products and services to tap into the entire $7 billion U.S. home construction market.[52]

The Measures of Market Demand

Companies can prepare as many as 90 different types of demand estimates for six different product levels, five space levels, and three time periods (see Figure 3.2). Each demand measure serves a specific purpose. A company might forecast short-run demand to order raw materials, plan production, and borrow cash. It might forecast regional demand to decide whether to set up regional distribution.

There are many productive ways to break down the market:

- The **potential market** is the set of consumers with a sufficient level of interest in a market offer. However, their interest is not enough to define a market unless they also have sufficient income and access to the product.
- The **available market** is the set of consumers who have interest, income, *and* access to a particular offer. The company or government may restrict sales to certain groups; a particular state might ban motorcycle sales to anyone under 21 years of age. Eligible adults constitute the *qualified available market*—the set of consumers who have interest, income, access, and qualifications for the market offer.
- The **target market** is the part of the qualified available market the company decides to pursue. The company might concentrate its marketing and distribution effort on the East Coast.
- The **penetrated market** is the set of consumers who are buying the company's product.



|Fig. 3.2|

Ninety Types of Demand Measurement ($6 \times 5 \times 3$)

These definitions are a useful tool for market planning. If the company isn't satisfied with its current sales, it can try to attract a larger percentage of buyers from its target market. It can lower the qualifications for potential buyers. It can expand its available market by opening distribution elsewhere or lowering its price, or it can reposition itself in the minds of its customers.

A Vocabulary for Demand Measurement

The major concepts in demand measurement are market demand and company demand. Within each, we distinguish among a demand function, a sales forecast, and a potential.

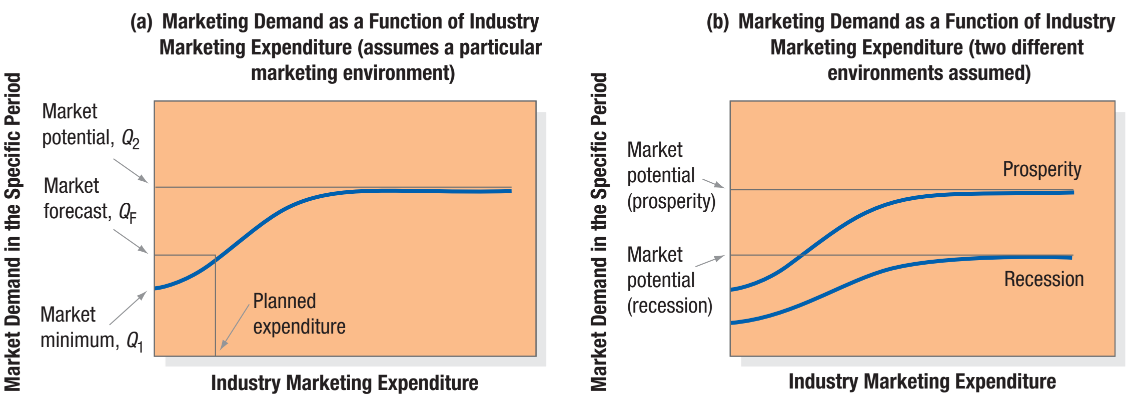
MARKET DEMAND The marketer's first step in evaluating marketing opportunities is to estimate total market demand. **Market demand** for a product is the total volume that would be bought by a defined customer group in a defined geographical area in a defined time period in a defined marketing environment under a defined marketing program.

Market demand is not a fixed number, but rather a function of the stated conditions. For this reason, we call it the *market demand function*. Its dependence on underlying conditions is illustrated in △ Figure 3.3(a). The horizontal axis shows different possible levels of industry marketing expenditure in a given time period. The vertical axis shows the resulting demand level. The curve represents the estimated market demand associated with varying levels of marketing expenditure.

Some base sales—called the *market minimum* and labeled Q_1 in the figure—would take place without any demand-stimulating expenditures. Higher marketing expenditures would yield higher levels of demand, first at an increasing rate, then at a decreasing rate. Take fruit juices. Given the indirect competition they face from other types of beverages, we would expect increased marketing expenditures to help fruit juice products stand out and increase demand and sales. Marketing expenditures beyond a certain level would not stimulate much further demand, suggesting an upper limit called the *market potential* and labeled Q_2 in the figure.

The distance between the market minimum and the market potential shows the overall *marketing sensitivity of demand*. We can think of two extreme types of markets, the expansible and the nonexpansible. An *expansible market*, such as the market for racquetball playing, is very much affected in size by the level of industry marketing expenditures. In terms of Figure 3.3(a), the distance between Q_1 and Q_2 is relatively large. A *nonexpansible market*—for example, the market for weekly trash or garbage removal—is *not* much affected by the level of marketing expenditures; the distance between Q_1 and Q_2 is relatively small. Organizations selling in a nonexpansible market must accept the market's size—the level of *primary demand* for the product class—and direct their efforts toward winning a larger **market share** for their product, that is, a higher level of selective demand for their product.

It pays to compare the current and potential levels of market demand. The result is the **market-penetration index**. A low index indicates substantial growth potential for all the firms. A high index suggests it will be expensive to attract the few remaining prospects. Generally, price competition increases and margins fall when the market-penetration index is already high.



|Fig. 3.3| △ Market Demand Functions

Comparing current and potential market shares yields a firm's **share-penetration index**. If this index is low, the company can greatly expand its share. Holding it back could be low brand awareness, low availability, benefit deficiencies, or high price. A firm should calculate the share-penetration increases from removing each factor, to see which investments produce the greatest improvement.[53]

Remember the market demand function is not a picture of market demand over time. Rather, it shows alternative current forecasts of market demand associated with possible levels of industry marketing effort.

MARKET FORECAST Only one level of industry marketing expenditure will actually occur. The market demand corresponding to this level is called the **market forecast**.

MARKET POTENTIAL The market forecast shows *expected* market demand, not maximum market demand. For the latter, we need to visualize the level of market demand resulting from a very high level of industry marketing expenditure, where further increases in marketing effort would have little effect. **Market potential** is the limit approached by market demand as industry marketing expenditures approach infinity for a given marketing environment.

The phrase "for a given market environment" is crucial. Consider the market potential for automobiles. It's higher during prosperity than during a recession. The dependence of market potential on the environment is illustrated in Figure 3.3(b). Market analysts distinguish between the position of the market demand function and movement along it. Companies cannot do anything about the position of the market demand function, which is determined by the marketing environment. However, they influence their particular location on the function when they decide how much to spend on marketing.

Companies interested in market potential have a special interest in the **product-penetration percentage**, the percentage of ownership or use of a product or service in a population. Companies assume that the lower the product-penetration percentage, the higher the market potential, although this also assumes everyone will eventually be in the market for every product.

COMPANY DEMAND **Company demand** is the company's estimated share of market demand at alternative levels of company marketing effort in a given time period. It depends on how the company's products, services, prices, and communications are perceived relative to the competitors'. Other things equal, the company's market share depends on the relative scale and effectiveness of its market expenditures. Marketing model builders have developed sales response functions to measure how a company's sales are affected by its marketing expenditure level, marketing mix, and marketing effectiveness.[54]

COMPANY SALES FORECAST Once marketers have estimated company demand, their next task is to choose a level of marketing effort. The **company sales forecast** is the expected level of company sales based on a chosen marketing plan and an assumed marketing environment.

We represent the company sales forecast graphically with sales on the vertical axis and marketing effort on the horizontal axis, as in Figure 3.3. We often hear that the company should develop its marketing plan on the basis of its sales forecast. This forecast-to-plan sequence is valid if *forecast* means an estimate of national economic activity, or if company demand is nonexpansible. The sequence is not valid, however, where market demand is expansible or where *forecast* means an estimate of company sales. The company sales forecast does not establish a basis for deciding what to spend on marketing. On the contrary, the sales forecast is the result of an assumed marketing expenditure plan.

Two other concepts are important here. A **sales quota** is the sales goal set for a product line, company division, or sales representative. It is primarily a managerial device for defining and stimulating sales effort, often set slightly higher than estimated sales to stretch the sales force's effort.

A **sales budget** is a conservative estimate of the expected volume of sales, primarily for making current purchasing, production, and cash flow decisions. It's based on the need to avoid excessive risk and is generally set slightly lower than the sales forecast.

COMPANY SALES POTENTIAL **Company sales potential** is the sales limit approached by company demand as company marketing effort increases relative to that of competitors. The absolute limit of company demand is, of course, the market potential. The two would be equal if the company got 100 percent of the market. In most cases, company sales potential is less than the market potential, even when company marketing expenditures increase considerably. Each competitor has a hard core of loyal buyers unresponsive to other companies' efforts to woo them.

Estimating Current Demand

We are now ready to examine practical methods for estimating current market demand. Marketing executives want to estimate total market potential, area market potential, and total industry sales and market shares.

TOTAL MARKET POTENTIAL **Total market potential** is the maximum sales available to all firms in an industry during a given period, under a given level of industry marketing effort and environmental conditions. A common way to estimate total market potential is to multiply the potential number of buyers by the average quantity each purchases, times the price.

If 100 million people buy books each year, and the average book buyer buys three books a year at an average price of \$20 each, then the total market potential for books is \$6 billion (100 million × 3 × \$20). The most difficult component to estimate is the number of buyers. We can always start with the total population in the nation, say, 261 million people. Next we eliminate groups that obviously would not buy the product. Assume illiterate people and children under 12 don't buy books and constitute 20 percent of the population. This means 80 percent of the population, or 209 million people, are in the potentials pool. Further research might tell us that people of low income and low education don't buy books, and they constitute over 30 percent of the potentials pool. Eliminating them, we arrive at a prospect pool of approximately 146.3 million book buyers. We use this number to calculate total market potential.

A variation on this method is the *chain-ratio method*, which multiplies a base number by several adjusting percentages. Suppose a brewery is interested in estimating the market potential for a new light beer especially designed to accompany food. It can make an estimate with the following calculation:

Demand for the new light beer	×	Population	×	Average percentage of personal discretionary income per capita spent on food	×	Average percentage of amount spent on food that is spent on beverages	×	Average percentage of amount spent on beverages that is spent on alcoholic beverages	×	Average percentage of amount spent on alcoholic beverages that is spent on beer	×	Expected percentage of amount spent on beer that will be spent on light beer

AREA MARKET POTENTIAL Because companies must allocate their marketing budget optimally among their best territories, they need to estimate the market potential of different cities, states, and nations. Two major methods are the market-buildup method, used primarily by business marketers, and the multiple-factor index method, used primarily by consumer marketers.

Market-Buildup Method The **market-buildup method** calls for identifying all the potential buyers in each market and estimating their potential purchases. It produces accurate results if we have a list of all potential buyers and a good estimate of what each will buy. Unfortunately, this information is not always easy to gather.

Consider a machine-tool company that wants to estimate the area market potential for its wood lathe in the Boston area. Its first step is to identify all potential buyers of wood lathes in the area, primarily manufacturing establishments that shape or ream wood as part of their operations. The company could compile a list from a directory of all manufacturing establishments in the area. Then it could estimate the number of lathes each industry might purchase, based on the number of lathes per thousand employees or per \$1 million of sales in that industry.

An efficient method of estimating area market potentials makes use of the *North American Industry Classification System (NAICS)*, developed by the U.S. Bureau of the Census in conjunction with the Canadian and Mexican governments.[55] The NAICS classifies all manufacturing into 20 major industry sectors and further breaks each sector into a six-digit, hierarchical structure as follows.

51	Industry sector (information)
513	Industry subsector (broadcasting and telecommunications)
5133	Industry group (telecommunications)
51332	Industry (wireless telecommunications carriers, except satellite)
513321	National industry (U.S. paging)

For each six-digit NAICS number, a company can purchase CD-ROMs of business directories that provide complete company profiles of millions of establishments, subclassified by location, number of employees, annual sales, and net worth.

To use the NAICS, the lathe manufacturer must first determine the six-digit NAICS codes that represent products whose manufacturers are likely to require lathe machines. To get a full picture of all six-digit NAICS industries that might use lathes, the company can (1) determine past customers' NAICS codes; (2) go through the NAICS manual and check off all the six-digit industries that might have an interest in lathes; (3) mail questionnaires to a wide range of companies inquiring about their interest in wood lathes.

The company's next task is to determine an appropriate base for estimating the number of lathes each industry will use. Suppose customer industry sales are the most appropriate base. Once the company estimates the rate of lathe ownership relative to the customer industry's sales, it can compute the market potential.

Multiple-Factor Index Method Like business marketers, consumer companies also need to estimate area market potentials, but since their customers are too numerous to list they commonly use a straightforward index. A drug manufacturer might assume the market potential for drugs is directly related to population size. If the state of Virginia has 2.55 percent of the U.S. population, Virginia might be a market for 2.55 percent of total drugs sold.

A single factor is rarely a complete indicator of sales opportunity. Regional drug sales are also influenced by per capita income and the number of physicians per 10,000 people. Thus, it makes sense to develop a multiple-factor index and assign each factor a specific weight. Suppose Virginia has 2.00 percent of U.S. disposable personal income, 1.96 percent of U.S. retail sales, and 2.28 percent of U.S. population, and the respective weights are 0.5, 0.3, and 0.2. The buying-power index for Virginia is then 2.04 [0.5(2.00) + 0.3(1.96) + 0.2(2.28)]. Thus 2.04 percent of the nation's drug sales (not 2.28 percent) might be expected to take place in Virginia.

The weights in the buying-power index are somewhat arbitrary, and companies can assign others if appropriate. A manufacturer might adjust the market potential for additional factors, such as competitors' presence, local promotional costs, seasonal factors, and market idiosyncrasies.

Many companies compute area indexes to allocate marketing resources. Suppose the drug company is reviewing the six cities listed in Table 3.5. The first two columns show its percentage of U.S. brand and category sales in these six cities. Column 3 shows the **brand development index (BDI)**, the index of brand sales to category sales. Seattle has a BDI of 114 because the brand is

TABLE 3.5 Calculating the Brand Development Index (BDI)

Territory	(a) Percent of U.S. Brand Sales	(b) Percent of U.S. Category Sales	BDI (a ÷ b) × 100
Seattle	3.09	2.71	114
Portland	6.74	10.41	65
Boston	3.49	3.85	91
Toledo	.97	.81	120
Chicago	1.13	.81	140
Baltimore	3.12	3.00	104

relatively more developed than the category in Seattle. Portland's BDI is 65, which means the brand is relatively underdeveloped there.

Normally, the lower the BDI, the higher the market opportunity, in that there is room to grow the brand. Other marketers would argue instead that marketing funds should go into the brand's *strongest* markets, where it might be important to reinforce loyalty or more easily capture additional brand share. Investment decisions should be based on the potential to grow brand sales. Feeling it was underperforming in a high-potential market, Anheuser-Busch targeted the growing Hispanic population in Texas with a number of special marketing activities. Cross-promotions with Budweiser and Clamato tomato clam cocktail (to mix the popular Michiladas drink), sponsorship of the Esta Noche Toca concert series, and support of Latin music acts with three-on-three soccer tournaments helped drive higher sales.[56]

After the company decides on the city-by-city allocation of its budget, it can refine each city allocation down to census tracts or zip+4 code centers. *Census tracts* are small, locally defined statistical areas in metropolitan areas and some other counties. They generally have stable boundaries and a population of about 4,000. Zip+4 code centers (designed by the U.S. Post Office) are a little larger than neighborhoods. Data on population size, median family income, and other characteristics are available for these geographical units. Using other sources such as loyalty card data, Mediabrands's Geomentum targets "hyper-local" sectors of zip codes, city blocks, or even individual households with ad messages delivered via interactive TV, zoned editions of newspapers, Yellow Pages, outdoor media, and local Internet searches.[57]

INDUSTRY SALES AND MARKET SHARES Besides estimating total potential and area potential, a company needs to know the actual industry sales taking place in its market. This means identifying competitors and estimating their sales.

The industry trade association will often collect and publish total industry sales, although it usually does not list individual company sales separately. With this information, however, each company can evaluate its own performance against the industry's. If a company's sales are increasing by 5 percent a year and industry sales are increasing by 10 percent, the company is losing its relative standing in the industry.

Another way to estimate sales is to buy reports from a marketing research firm that audits total sales and brand sales. Nielsen Media Research audits retail sales in various supermarket and drugstore product categories. A company can purchase this information and compare its performance to the total industry or any competitor to see whether it is gaining or losing share, overall or brand by brand. Because distributors typically will not supply information about how much of competitors' products they are selling, business-to-business marketers operate with less knowledge of their market share results.

Estimating Future Demand

The few products or services that lend themselves to easy forecasting generally enjoy an absolute level or a fairly constant trend, and competition that is either nonexistent (public utilities) or stable (pure oligopolies). In most markets, in contrast, good forecasting is a key factor in success.

Companies commonly prepare a macroeconomic forecast first, followed by an industry forecast, followed by a company sales forecast. The macroeconomic forecast projects inflation, unemployment, interest rates, consumer spending, business investment, government expenditures, net exports, and other variables. The end result is a forecast of gross domestic product (GDP), which the firm uses, along with other environmental indicators, to forecast industry sales. The company derives its sales forecast by assuming it will win a certain market share.

How do firms develop their forecasts? They may create their own or buy forecasts from outside sources such as marketing research firms, which interview customers, distributors, and other knowledgeable parties. Specialized forecasting firms produce long-range forecasts of particular macroenvironmental components, such as population, natural resources, and technology. Examples are IHS Global Insight (a merger of Data Resources and Wharton Econometric Forecasting Associates), Forrester Research, and the Gartner Group. Futurist research firms produce speculative scenarios; three such firms are the Institute for the Future, Hudson Institute, and the Futures Group.

All forecasts are built on one of three information bases: what people say, what people do, or what people have done. Using what people say requires surveying buyers' intentions, composites of sales force opinions, and expert opinion. Building a forecast on what people do means putting the product into a test market to measure buyer response. To use the final basis—what people have done—firms analyze records of past buying behavior or use time-series analysis or statistical demand analysis.

SURVEY OF BUYERS' INTENTIONS **Forecasting** is the art of anticipating what buyers are likely to do under a given set of conditions. For major consumer durables such as appliances, research organizations conduct periodic surveys of consumer buying intentions, ask questions like *Do you intend to buy an automobile within the next six months?* and put the answers on a **purchase probability scale**:

0.00	0.20	0.40	0.60	0.80	1.00
No chance	Slight possibility	Fair possibility	Good possibility	High possibility	Certain

Surveys also inquire into consumers' present and future personal finances and expectations about the economy. They combine bits of information into a consumer confidence measure (Conference Board) or a consumer sentiment measure (Survey Research Center of the University of Michigan).

For business buying, research firms can carry out buyer-intention surveys for plant, equipment, and materials, usually falling within a 10 percent margin of error. These surveys are useful in estimating demand for industrial products, consumer durables, product purchases where advanced planning is required, and new products. Their value increases to the extent that buyers are few, the cost of reaching them is low, and they have clear intentions they willingly disclose and implement.

COMPOSITE OF SALES FORCE OPINIONS When buyer interviewing is impractical, the company may ask its sales representatives to estimate their future sales. Few companies use these estimates without making some adjustments, however. Sales representatives might be pessimistic or optimistic, they might not know how their company's marketing plans will influence future sales in their territory, and they might deliberately underestimate demand so the company will set a low sales quota. To encourage better estimating, the company could offer incentives or assistance, such as information about marketing plans or past forecasts compared to actual sales.

Sales force forecasts yield a number of benefits. Sales reps might have better insight into developing trends than any other group, and forecasting might give them greater confidence in their sales quotas and more incentive to achieve them. A "grassroots" forecasting procedure provides detailed estimates broken down by product, territory, customer, and sales rep.

EXPERT OPINION Companies can also obtain forecasts from experts, including dealers, distributors, suppliers, marketing consultants, and trade associations. Dealer estimates are subject to the same strengths and weaknesses as sales force estimates. Many companies buy economic and industry forecasts from well-known economic-forecasting firms that have more data available and more forecasting expertise.

Occasionally, companies will invite a group of experts to prepare a forecast. The experts exchange views and produce an estimate as a group (*group-discussion method*) or individually, in which case another analyst might combine them into a single estimate (*pooling of individual estimates*). Further rounds of estimating and refining follow (the Delphi method).[58]

PAST-SALES ANALYSIS Firms can develop sales forecasts on the basis of past sales. *Time-series analysis* breaks past time series into four components (trend, cycle, seasonal, and erratic) and projects them into the future. *Exponential smoothing* projects the next period's sales by combining an average of past sales and the most recent sales, giving more weight to the latter. *Statistical demand analysis* measures the impact of a set of causal factors (such as income, marketing expenditures, and price) on the sales level. Finally, *econometric analysis* builds sets of equations that describe a system and statistically derives the different parameters that make up the equations statistically.

MARKET-TEST METHOD When buyers don't plan their purchases carefully, or experts are unavailable or unreliable, a direct-market test can help forecast new-product sales or established product sales in a new distribution channel or territory. (We discuss market testing in detail in Chapter 20.)

Summary

1. To carry out their analysis, planning, implementation, and control responsibilities, marketing managers need a marketing information system (MIS). The role of the MIS is to assess the managers' information needs, develop the needed information, and distribute that information in a timely manner.
2. An MIS has three components: (a) an internal records system, which includes information on the order-to-payment cycle and sales information systems; (b) a marketing intelligence system, a set of procedures and sources used by managers to obtain everyday information about pertinent developments in the marketing environment; and (c) a marketing research system that allows for the systematic design, collection, analysis, and reporting of data and findings relevant to a specific marketing situation.
3. Marketers find many opportunities by identifying trends (directions or sequences of events that have some momentum and durability) and megatrends (major social, economic, political, and technological changes that have long-lasting influence).
4. Within the rapidly changing global picture, marketers must monitor six major environmental forces: demographic, economic, social-cultural, natural, technological, and political-legal.
5. In the demographic environment, marketers must be aware of worldwide population growth; changing mixes of age, ethnic composition, and educational levels; the rise of nontraditional families; and large geographic shifts in population.
6. In the economic arena, marketers need to focus on income distribution and levels of savings, debt, and credit availability.
7. In the social-cultural arena, marketers must understand people's views of themselves, others, organizations, society, nature, and the universe. They must market products that correspond to society's core and secondary values and address the needs of different subcultures within a society.
8. In the natural environment, marketers need to be aware of the public's increased concern about the health of the environment. Many marketers are now embracing sustainability and green marketing programs that provide better environmental solutions as a result.
9. In the technological arena, marketers should take account of the accelerating pace of technological change, opportunities for innovation, varying R&D budgets, and the increased governmental regulation brought about by technological change.
10. In the political-legal environment, marketers must work within the many laws regulating business practices and with various special-interest groups.
11. There are two types of demand: market demand and company demand. To estimate current demand, companies attempt to determine total market potential, area market potential, industry sales, and market share. To estimate future demand, companies survey buyers' intentions, solicit their sales force's input, gather expert opinions, analyze past sales, or engage in market testing. Mathematical models, advanced statistical techniques, and computerized data collection procedures are essential to all types of demand and sales forecasting.

Applications

Marketing Debate

Is Consumer Behavior More a Function of a Person's Age or Generation?

One of the widely debated issues in developing marketing programs that target certain age groups is how much consumers change over time. Some marketers maintain that age differences are critical and that the needs and wants of a 25-year-old in 2010 are not that different from those of a 25-year-old in 1980. Others argue that cohort and generation effects are critical, and that marketing programs must therefore suit the times.

Take a position: **Age differences are fundamentally more important than cohort effects *versus* Cohort effects can dominate age differences.**

Marketing Discussion

Age Targeting

What brands and products do you feel successfully "speak to you" and effectively target your age group? Why? Which ones do not? What could they do better?

Marketing Excellence

>>Microsoft

Microsoft is the world's most successful software company. The company was founded by Bill Gates and Paul Allen in 1975 with the original mission of having "a computer on every desk and in every home, running Microsoft software." Since then, Microsoft has grown to become the third most valuable brand in the world through strategic marketing and aggressive growth tactics.

Microsoft's first significant success occurred in the early 1980s with the creation of the DOS operating system for IBM computers. The company used this initial success with IBM to sell software to other manufacturers, quickly making Microsoft a major player in the industry. Initial advertising efforts focused on communicating the company's range of products from DOS to the launch of Excel and Windows—all under a unified "Microsoft" look.

Microsoft went public in 1986 and grew tremendously over the next decade as the Windows operating system and Microsoft Office took off. In 1990, Microsoft launched a completely revamped version of its operating system and named it Windows 3.0. Windows 3.0 offered an improved set of Windows icons and applications like File Manager and Program Manager that are still used today. It was an instant success; Microsoft sold more than 10 million copies of the software within two years—a phenomenon in those days. In addition, Windows 3.0 became the first operating system to be preinstalled on certain PCs, marking a major milestone in the industry and for Microsoft.

Throughout the 1990s, Microsoft's communication efforts convinced businesses that its software was not only the best choice for business but also that it needed to be upgraded frequently. Microsoft spent millions of dollars in magazine advertising and received endorsements from the top computer magazines in the industry, making Microsoft Windows and Office the must-have software of its time. Microsoft successfully launched Windows 95 in 1995 and Windows 98 in 1998, using the slogan, "Where Do You Want to Go Today?" The slogan didn't push individual products but rather the company itself, which could help empower companies and consumers alike.

During the late 1990s, Microsoft entered the notorious "browser wars" as companies struggled to find their place during the Internet boom. In 1995, Netscape launched its Navigator browser over the Internet. Realizing what a good product Netscape had, Microsoft launched the first version of its own browser, Internet Explorer, later that same year. By 1997, Netscape held a 72 percent share and Explorer an 18 percent share. Five years later, however, Netscape's share had fallen to 4 percent.

During those five years, Microsoft took three major steps to overtake the competition. First, it bundled Internet Explorer with its Office product, which included Excel, Word, and PowerPoint. Automatically, consumers who wanted MS Office became Explorer users as well. Second, Microsoft partnered with AOL, which opened the doors to 5 million new consumers almost overnight. And, finally, Microsoft used its deep pockets to ensure that Internet Explorer was available free, essentially "cutting off Netscape's air supply." These efforts, however, were not without controversy. Microsoft faced antitrust charges in 1998 and numerous lawsuits based on its marketing tactics, and some perceived that it was monopolizing the industry.

Charges aside, the company's stock took off, peaking in 1999 at $60 per share. Microsoft released Windows 2000 in 2000 and Windows XP in 2001. It also launched Xbox in 2001, marking the company's entrance into the multibillion-dollar gaming industry.

Over the next several years, Microsoft's stock price dipped by over $40 a share as consumers waited for the next operating system and Apple made a significant comeback with several new Mac computers, the iPod, the iPhone, and iTunes. Microsoft launched the Vista operating system in 2007 to great expectations; however, it was plagued with bugs and problems.

As the recession worsened in 2008, the company found itself in a bind. Its brand image was tarnished from years of Apple's successful "Get a Mac" campaign, a series of commercials that featured a smart, creative, easygoing Mac character alongside a geeky, virus-prone, uptight PC character. In addition, consumers and analysts continued to slam Vista for its poor performance.

In response, Microsoft created a campaign entitled "Windows. Life Without Walls" to help turn its image around. The company focused on how cost effective computers with its software were, a message that resonated well in the recession. It launched a series of commercials boasting "I'm a PC" that began with a Microsoft employee (looking very similar to the PC character from the Apple ads) stating, "Hello, I'm a PC and I've been made into a stereotype." The commercials, which highlighted a wide variety of individuals who prided themselves on being PC owners, helped improve employee morale and customer loyalty.

Microsoft opened a handful of retail stores—similar to Apple stores—in 2009. "The purpose of opening these stores is to create deeper engagement with consumers and continue to learn firsthand about what they want and how they buy," Microsoft said in a statement.

Today, the company offers a wide range of software and home entertainment products. In the ongoing browser wars, Internet Explorer holds a 66 percent market share compared to Firefox's 22 percent and Safari's 8 percent. In 2009, Microsoft launched a new search engine called Bing, which challenges Google's dominant position in the marketplace and claims to give better search results. Microsoft's most profitable products continue to be Microsoft Windows and Microsoft Office, which bring in approximately 90 percent of the company's $60 billion in revenue.

Questions

1. Evaluate Microsoft's strategy in good and poor economic times.
2. Discuss the pros and cons of Microsoft's most recent "I'm a PC" campaign. Is Microsoft doing a good thing by acknowledging Apple's campaign in its own marketing message? Why or why not?

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Marketing Excellence

>>Walmart

Walmart, the giant chain of discount stores, is the second largest company in the world, with over $400 billion in revenue and 2.1 million associates (or employees). The phenomenal success story began in 1962 when Sam Walton opened up his first discount store in Rogers, Arkansas. He sold the same products as his competitors but kept prices lower by reducing his profit margin. His customers quickly caught on and the company took off almost immediately. Walton's EDLP (Every Day Low Price) strategy remains the foundation of Walmart's success today. Through the company's economies of scale, Walmart is able to offer customers top brand-name products for the lowest price.

Walmart expanded throughout the United States in the 1970s and 1980s by acquiring some of its competitors and opening new stores. The first Walmart Supercenter—a discount store with food outlets, an optical center, photo lab, hair salon, among other amenities—opened in 1988. By 1990, Walmart had become the nation's number one retailer, with $32 billion in revenue and stores in 33 states. The company's international expansion began with a store outside Mexico City in 1991 and has grown to over 3,800 international locations, some under a different brand name.

Walmart thrives on three basic beliefs and values: "Respect for the Individual," "Service to Our Customers," and "Striving for Excellence." Sam Walton's original 10-foot rule—"I promise that whenever I come within 10 feet of a customer, I will look him in the eye, greet him, and ask if I can help him."—still governs today, embodied by the "greeters" at the front door. In addition, Walmart embraces the communities in which it enters in order to develop strong local relationships and build its brand image in the area. The company donates significant amounts of money to local charities through its "Good Works" program, hires local individuals, and purchases food from local farmers.

Walmart's marketing strategy has evolved over the years. Early marketing efforts were based on word of mouth, positive PR, and aggressive store expansion. In 1992, Walmart introduced its well-known tagline, "Always Low Prices. Always," which effectively communicated the company's core brand promise and resonated with millions. In 1996, Walmart launched its price rollback campaign featuring the familiar yellow smiley face as the star of the campaign. The smiley face happily slashed prices in Walmart's television commercials and appeared on store signage as well as employees' aprons and buttons. The campaign helped Walmart's stock soar 1173 percent in the 1990s.

Walmart hit a few bumps in the road as it entered the 21st century, and critics protested its entry into small communities. In one study at Iowa State University, researchers found that within 10 years of a new Walmart store opening, up to one-half of the small stores in that town can disappear. Walmart also faced multiple lawsuits from employees who complained about poor work conditions, exposure to health hazards, and pay below minimum wage, which left employees with families below the poverty line. In some cases, employees said Walmart failed to pay for overtime and prevented them from taking rest or lunch breaks. Another lawsuit claimed the company discriminated against women in awarding pay and promotions. These problems led to a very high turnover rate in the 2000s. According to one Walmart survey, 70 percent of employees left the company within the first year of employment due to lack of recognition and inadequate pay.

From 2000 to 2005, Walmart's stock price fell 27 percent and remained low from 2005 to 2007. Negative backlash, combined with Target's reemergence on the retail scene, contributed to the decline. Target revamped its stores, merchandise, and marketing strategy to appeal to a more aspirational discount buyer and stole some of Walmart's top-tier customers. Target stores were nicely lit, offering wider aisles and better-displayed merchandise. Target's television commercials featured attractive models and trendy clothes from high-end designers such as Isaac Mizrahi and Liz Lange. One analyst stated, "Target tends to have more upscale customers who don't feel the effects of gasoline prices and other economic factors as much as Walmart's core customers might." From 2003 to 2007, Target outperformed Walmart in same-store sales growth by 1.7 percent and profit growth by 5.7 percent. During this time, Walmart also lost the exclusive rights to use the smiley face in its marketing campaign.

For all these—and other—reasons, Walmart decided it was time for a new direction and launched a series of new initiatives to help improve sales and its image. First, it introduced a highly successful $4 generic drug campaign, a program eventually copied by Target. Walmart also launched several environmentally friendly initiatives such as constructing new buildings from recycled materials, cutting transportation costs and energy usage, and encouraging customers to buy more green products.

In 2007, Walmart introduced a new marketing campaign and tagline, "Save Money. Live Better." Television commercials highlighted the company's positive impact on decreased energy costs, increased 401(k) (retirement) savings, good employee health care coverage, and increased family savings. One commercial stated, "In today's economy, nobody's more committed to helping family budgets go further than Walmart. Walmart saves the average family about $3,100 a year, no matter where they shop."

Walmart also used the new campaign and aggressive price cuts to attract new consumers affected by the recession. It slashed prices on popular toys and electronics during the holidays and implemented a massive store remodeling effort called Project Impact. As a result, stores became cleaner, aisles less cluttered, and merchandise easier to reach—all to help improve the overall shopping experience and steal customers from Target.

Walmart's tactics worked: Same-store sales rose and its stock price improved during the recession. Analysts explained that Walmart's product mix—45 percent consumables (food, beauty, health items)—is a better strategy in a poor economy than Target's product mix—20 percent consumables and 40 percent home and apparel products. One analyst said, "Walmart sells what you need to have as opposed to what you want to have."

Stephen Quinn, Walmart's CMO, stated, "We are fortunate that this recession came along. It played to our positioning really well. But our own insecurity is that all the credit would go to the external environment and none of the work we all did. The kinds of things we were working on anyway when this environment came along are the same things we need to do to keep these so-called new customers and I think continued to build loyalty with our existing base."

Today, Walmart has stores in 16 international markets and serves more than 200 million customers a week through its variety of discount stores. These include Walmart Supercenters, Discount Stores, Neighborhood Markets, and Sam's Club warehouses.

Questions

1. Evaluate Walmart's new marketing campaign and tagline. Did the company make the right decision to drop "Always Low Prices. Always." as a tagline? Why or why not?
2. Walmart does very well when the economy turns sour. How can it protect itself when the economy is on the rise? Explain.

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Insightful consumer research helped Kimberly-Clark improve its Huggies diapers and gain share in the market.

In This Chapter, We Will Address the Following Questions

1. What constitutes good marketing research?
2. What are the best metrics for measuring marketing productivity?
3. How can marketers assess their return on investment of marketing expenditures?

Conducting Marketing Research

Good marketers need insights to help them interpret past performance as well as plan future activities. To make the best possible tactical decisions in the short run and strategic decisions in the long run, they need timely, accurate, and actionable information about consumers, competition, and their brands. Discovering a consumer insight and understanding its marketing implications can often lead to a successful product launch or spur the growth of a brand.

A series of novel consumer innovations through the years—including Kleenex facial tissues, Kotex feminine napkins, and others—have transformed Kimberly-Clark from a paper mill company to a consumer products powerhouse. Among the company's recent successes was Huggies Supreme Natural Fit, named one of the most successful new product launches in 2007. Nearly three years of research and design were invested in the creation of the new diaper. After assembling a sample of new mothers from different parts of the country with different income backgrounds and ethnicities, Kimberly-Clark's marketers conducted in-home interviews and placed motion-activated cameras in homes to learn about diaper-changing routines. Seeing new moms constantly struggle to straighten a squirming baby's legs when putting on a diaper led to the insight that the new diaper also needed to be shaped to better follow the curves of a baby's body. Because mothers said they wanted their older babies to feel like they weren't wearing a diaper, the new diaper also had to be thinner with a closer fit, so new polymers cut the width of the imbedded absorbent by 16 percent and stretch was added to the back waistband. When research also revealed that moms often used the cartoon graphics on another diaper to distract the baby during a diaper change, more active images of Disney-licensed Winnie the Pooh characters were added. The successful launch of the research-inspired innovation boosted Kimberly-Clark's market share by one to two percentage points and significantly contributed to the company's $4 billion-plus sales in diapers that year.[1]

In this chapter, we review the steps in the marketing research process. We also consider how marketers can develop effective metrics for measuring marketing productivity.

The Marketing Research System

Marketing managers often commission formal marketing studies of specific problems and opportunities. They may request a market survey, a product-preference test, a sales forecast by region, or an advertising evaluation. It's the job of the marketing researcher to produce insight into the customer's attitudes and buying behavior. **Marketing insights** provide diagnostic information about how and why we observe certain effects in the marketplace, and what that means to marketers.[2]

Good marketing insights often form the basis of successful marketing programs. When an extensive consumer research study of U.S. retail shoppers by Walmart revealed that the store's key competitive advantages were the functional benefit of "offers low prices" and the emotional benefit of "makes me feel like a smart shopper," its marketers used those insights to develop their "Save Money, Live Better" campaign. Gillette's Venus razor has become the most successful female shaving line ever—holding more than 50 percent of the global women's shaving market—as a result of insightful consumer research that led to product design, packaging, and advertising cues that better satisfied female shaving needs.[3]

Venus Razor As part of a $300 million budget for the development of its first razor designed solely for women, Gillette conducted extensive consumer research and performed numerous market tests. The razor, called Venus, was a marked departure from previous women's razor designs, which had essentially been colored or repackaged versions of men's razors. After research revealed that women change their grip on a razor about 30 times during each shaving session, Gillette designed the Venus with a wide, sculpted rubberized handle offering superior grip and control, and an oval-shaped blade in a storage case that could stick to shower walls. Research also indicated that women were reluctant to leave the shower in order to replace a dull blade, so the case was made to hold spare blade cartridges. When Gillette research later revealed four distinct segments of women shavers—perfect shave seekers (no missed hairs), skin pamperers, pragmatic functionalists, and EZ seekers—the company designed Venus products for each of them.

Extensive consumer research was crucial to the success of Gillette's Venus series of razors designed exclusively for women.

Gaining marketing insights is crucial for marketing success. If marketers lack consumer insights, they often get in trouble. When Tropicana redesigned its orange juice packaging, dropping the iconic image of an orange skewered by a straw, it failed to adequately test for consumer reactions, with disastrous results. Sales dropped by 20 percent, and Tropicana reinstated the old package design after only a few months.[4]

We define **marketing research** as the systematic design, collection, analysis, and reporting of data and findings relevant to a specific marketing situation facing the company. Spending on marketing research topped $28 billion globally in 2009, according to ESOMAR, the world association of opinion and market research professionals.[5] Most large companies have their own marketing research departments, which often play crucial roles within the organization. Procter & Gamble's Consumer & Market Knowledge (CMK) market research function has dedicated CMK groups working for P&G businesses around the world to improve both their brand strategies and program execution, as well as a relatively smaller, centralized corporate CMK group that focuses on a variety of big-picture concerns that transcend any specific line of business.

Marketing research, however, is not limited to large companies with big budgets and marketing research departments. Often at much smaller companies, everyone carries out marketing research—including the customers. Small companies can also hire the services of a marketing research firm or conduct research in creative and affordable ways, such as:

1. ***Engaging students or professors to design and carry out projects***—Companies such as American Express, Booz Allen Hamilton, GE, Hilton Hotels, IBM, Mars, Price Chopper, and Whirlpool engage in "crowdcasting" and are sponsors of competitions such as the Innovation Challenge, where top MBA students compete in teams. The payoff to the students is experience and visibility; the payoff to the companies is a fresh sets of eyes to solve problems at a fraction of what consultants would charge.[6]
2. ***Using the Internet***—A company can collect considerable information at very little cost by examining competitors' Web sites, monitoring chat rooms, and accessing published data.
3. ***Checking out rivals***—Many small businesses, such as restaurants, hotels, or specialty retailers, routinely visit competitors to learn about changes they have made.
4. ***Tapping into marketing partner expertise***—Marketing research firms, ad agencies, distributors, and other marketing partners may be able to share relevant market knowledge they have accumulated. Those partners targeting small or medium-sized businesses may be especially

helpful. For example, to promote more shipping to China, UPS conducted several in-depth surveys of the Chinese market to portray its complexities but also its opportunities for even small and medium-sized businesses.[7]

Most companies use a combination of marketing research resources to study their industries, competitors, audiences, and channel strategies. Companies normally budget marketing research at 1 percent to 2 percent of company sales and spend a large percentage of that on the services of outside firms. Marketing research firms fall into three categories:

1. ***Syndicated-service research firms***—These firms gather consumer and trade information, which they sell for a fee. Examples include the Nielsen Company, Kantar Group, Westat, and IRI.
2. ***Custom marketing research firms***—These firms are hired to carry out specific projects. They design the study and report the findings.
3. ***Specialty-line marketing research firms***—These firms provide specialized research services. The best example is the field-service firm, which sells field interviewing services to other firms.

To take advantage of all these different resources and practices, good marketers adopt a formal marketing research process.

The Marketing Research Process

Effective marketing research follows the six steps shown in △ Figure 4.1. We illustrate them in the following situation.[8]

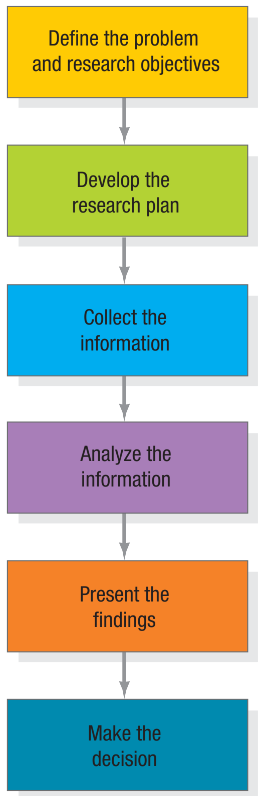
American Airlines (AA) was one of the first companies to install phone handsets on its planes. Now it's reviewing many new ideas, especially to cater to its first-class passengers on very long flights, mainly businesspeople whose high-priced tickets pay most of the freight. Among these ideas are: (1) an Internet connection primarily for e-mail but with some limited access to Web pages, (2) 24 channels of satellite cable TV, and (3) a 50-CD audio system that lets each passenger create a customized in-flight play list. The marketing research manager was assigned to investigate how first-class passengers would rate these services, specifically the Internet connection, and how much extra they would be willing to pay for it. One source estimates revenues of $70 billion from in-flight Internet access over 10 years, if enough first-class passengers paid $25. AA could thus recover its costs in a reasonable time. Making the connection available would cost the airline $90,000 per plane.[9]

Step 1: Define the Problem, the Decision Alternatives, and the Research Objectives

Marketing managers must be careful not to define the problem too broadly or too narrowly for the marketing researcher. A marketing manager who says, "Find out everything you can about first-class air travelers' needs," will collect a lot of unnecessary information. One who says, "Find out whether enough passengers aboard a B747 flying direct between Chicago and Tokyo would be willing to pay $25 for an Internet connection for American Airlines to break even in one year on the cost of offering this service," is taking too narrow a view of the problem.

The marketing researcher might even ask, "Why does the Internet connection have to be priced at $25 as opposed to $15, $35, or some other price? Why does American have to break even on the cost of the service, especially if it attracts new customers?" Another relevant question to ask is, "How important is it to be first in the market, and how long can the company sustain its lead?"

The marketing manager and marketing researcher agreed to define the problem as follows: "Will offering an in-flight Internet service create enough incremental preference and profit for American Airlines to justify its cost against other possible investments in service enhancements American might make?" To help in designing the research, management should first spell out the decisions it might face and then work backward. Suppose management outlines these decisions: (1) Should American offer an Internet connection? (2) If so, should we offer the service to first-class only, or



|Fig. 4.1| △

The Marketing Research Process

An airline looking to add in-flight Internet service would need to conduct careful consumer research.

include business class, and possibly economy class? (3) What price(s) should we charge? (4) On what types of planes and lengths of trips should we offer the service?

Now management and marketing researchers are ready to set specific research objectives: (1) What types of first-class passengers would respond most to using an in-flight Internet service? (2) How many first-class passengers are likely to use the Internet service at different price levels? (3) How many extra first-class passengers might choose American because of this new service? (4) How much long-term goodwill will this service add to American Airlines' image? (5) How important is Internet service to first-class passengers relative to other services, such as a power plug or enhanced entertainment?

Not all research projects can be this specific. Some research is *exploratory*—its goal is to shed light on the real nature of the problem and to suggest possible solutions or new ideas. Some research is *descriptive*—it seeks to quantify demand, such as how many first-class passengers would purchase in-flight Internet service at $25. Some research is *causal*—its purpose is to test a cause-and-effect relationship.

Step 2: Develop the Research Plan

The second stage of marketing research is where we develop the most efficient plan for gathering the needed information and what that will cost. Suppose American made a prior estimate that launching in-flight Internet service would yield a long-term profit of $50,000. If the manager believes that doing the marketing research will lead to an improved pricing and promotional plan and a long-term profit of $90,000, he should be willing to spend up to $40,000 on this research. If the research will cost more than $40,000, it's not worth doing.[10]

To design a research plan, we need to make decisions about the data sources, research approaches, research instruments, sampling plan, and contact methods.

DATA SOURCES The researcher can gather secondary data, primary data, or both. *Secondary data* are data that were collected for another purpose and already exist somewhere. *Primary data* are data freshly gathered for a specific purpose or for a specific research project.

Researchers usually start their investigation by examining some of the rich variety of low-cost and readily available secondary data, to see whether they can partly or wholly solve the problem without collecting costly primary data. For instance, auto advertisers looking to get a better return on their online car ads might purchase a copy of J.D. Power and Associates' semiannual Power Auto Online Media Study, a survey that gives insights into who buys specific brands and where on the Web advertisers can find them.[11]

When the needed data don't exist or are dated, inaccurate, incomplete, or unreliable, the researcher will need to collect primary data. Most marketing research projects do include some primary-data collection.

RESEARCH APPROACHES Marketers collect primary data in five main ways: through observation, focus groups, surveys, behavioral data, and experiments.

Observational Research Researchers can gather fresh data by observing the relevant actors and settings unobtrusively as they shop or consume products.[12] Sometimes they equip consumers with pagers and instruct them to write down what they're doing whenever prompted, or they hold informal interview sessions at a café or bar. Photographs can also provide a wealth of detailed information.

Ethnographic research is a particular observational research approach that uses concepts and tools from anthropology and other social science disciplines to provide deep cultural understanding of how people live and work.[13] The goal is to immerse the researcher into consumers' lives to uncover unarticulated desires that might not surface in any other form of research.[14] Firms such as Fujitsu Laboratories, Herman Miller, IBM, Intel, Steelcase, and Xerox have embraced ethnographic research to design breakthrough products. Here are three specific examples.

- Bank of America's ethnographic research that followed female baby boomers at home and while they shopped yielded two insights—women rounded up financial transactions because it was more convenient, and those with children found it difficult to save. Subsequent research led to the launch of "Keep the Change," a debit card program that rounded purchases up to the nearest dollar amount and automatically transferred the added difference from a checking to a savings account. Since the launch, 2.5 million customers have signed up for the program, opening 800,000 new checking accounts and 3 million new savings accounts in the process.[15]
- To boost sagging sales for its Orville Redenbacher popcorn, ConAgra spent nine months observing families in their homes and assembling their weekly diaries of how they felt about various snacks. In reviewing the results, ConAgra found a key insight: the essence of popcorn was that it was a "facilitator of interaction." Four nationwide TV ads followed with the tagline, "Spending Time Together: That's the Power of Orville Redenbacher."[16]
- When package design firm 4sight, Inc., was hired by PepsiCo to come up with a new design for Gatorade's 64-ounce package, its team initially assumed the package functioned as a "family pack" to be used for multiple servings to multiple users in the household. In watching moms in their homes, however, team members were surprised to find them taking the jug out of the refrigerator—for example, after a hard workout—and chugging it right there on the spot! That insight led to a totally different package design, one that could be easily gripped and grabbed.[17]

Ethnographic research with female baby boomers helped Bank of America launch its well-received "Keep the Change" program.

Ethnographic research isn't limited to consumer companies in developed markets. In a business-to-business setting, GE's ethnographic research into the plastic-fiber industry revealed to the firm that it wasn't in a commodity business driven by price, as it had assumed. Instead it was in an artisanal industry, with customers who wanted collaborations at the earliest stages of development. GE completely reoriented the way it interacted with the companies in the industry as a result. In developing markets, ethnographic research also can be very useful, especially in far-flung rural areas, given that marketers often do not know these consumers as well.[18]

The American Airlines researchers might meander around first-class lounges to hear how travelers talk about the different carriers and their features or sit next to passengers on planes. They can fly on competitors' planes to observe in-flight service.

Focus Group Research A **focus group** is a gathering of 6 to 10 people carefully selected by researchers based on certain demographic, psychographic, or other considerations and brought together to discuss various topics of interest at length. Participants are normally paid a small sum for attending. A professional research moderator provides questions and probes based on the marketing managers' discussion guide or agenda. In focus groups, moderators try to discern consumers' real motivations and why they say and do certain things. They typically record the sessions, and marketing managers often remain behind two-way mirrors in the next room. To allow for more in-depth discussion with participants, focus groups are trending smaller in size.[19]

Focus-group research is a useful exploratory step, but researchers must avoid generalizing from focus-group participants to the whole market, because the sample size is too small and the sample is not drawn randomly. Some marketers feel the research setting is too contrived and prefer to seek other means of collecting information that they believe are less artificial. "Marketing Memo: Conducting Informative Focus Groups" has some practical tips to improve the quality of focus groups.

In the American Airlines research, the moderator might start with a broad question, such as, "How do you feel about first-class air travel?" Questions then move to how people view the different airlines, different existing services, different proposed services, and specifically, Internet service.

marketing **Memo**

Conducting Informative Focus Groups

Focus groups allow marketers to observe how and why consumers accept or reject concepts, ideas, or any specific notion. The key to using focus groups successfully is to ***listen and observe.*** Marketers should eliminate their own biases as much as possible. Although many useful insights can emerge from thoughtfully run focus groups, questions can arise about their validity, especially in today's complex marketing environment.

There are many challenges to conducting a good focus group. Some researchers believe consumers have been so bombarded with ads, they unconsciously (or perhaps cynically) parrot back what they've already heard instead of what they really think. There's always a concern that participants are just trying to maintain their self-image and public persona or have a need to identify with the other members of the group. Participants also may not be willing to acknowledge in public—or may not even recognize—their behavior patterns and motivations. And the "loudmouth" or "know-it-all" problem often crops up when one highly opinionated person drowns out the rest of the group. Getting the right participants is crucial, but it may be expensive to recruit qualified subjects who meet the sampling criteria ($3,000 to $5,000 per group).

Even when marketers use multiple focus groups, it may be difficult to generalize the results to a broader population. For example, within the United States, focus-group findings often vary from region to region. One firm specializing in focus-group research claimed the best city to conduct groups was Minneapolis, because there it could get a sample of fairly well-educated people who were honest and forthcoming with their opinions. Many marketers interpret focus groups in New York and other northeastern cities carefully, because the people in these areas tend to be highly critical and generally don't report that they like much.

Participants must feel as relaxed as possible and strongly motivated to be truthful. Physical surroundings can be crucial to achieving the right atmosphere. At one agency an executive noted, "We wondered why people always seemed grumpy and negative—people were resistant to any idea we showed them." Finally in one session a fight broke out between participants. The problem was the room itself: cramped, stifling, forbidding. "It was a cross between a hospital room and a police interrogation room." To fix the problem, the agency gave the room a makeover. Other firms are adapting the look of the room to fit the theme of the topic—such as designing the room to look like a playroom when speaking to children.

To allow for more interactivity among focus group members, some researchers are incorporating pre-session homework assignments such as diaries, photography, and videography. An area of increasing interest is online focus groups. These may cost less than a fourth of a traditional, in-person focus group. Online focus groups also offer the advantages of being less intrusive, allowing geographically diverse subjects to participate, and yielding fast results. They are useful at collecting reactions to focused topics such as a specific new product concept.

Proponents of traditional focus groups, on the other hand, maintain that in-person focus groups allow marketers to be immersed in the research process, get a close-up look to people's emotional and physical reactions, and ensure that sensitive materials are not leaked. Marketers can also make spontaneous adjustments to the flow of discussion and delve deeply into more complex topics, such as alternative creative concepts for a new ad campaign.

Regardless of the particular form it takes, the beauty of a focus group, as one marketing executive noted, is that "it's still the most cost-effective, quickest, dirtiest way to get information in rapid time on an idea." In analyzing the pros and cons, Wharton's Americus Reed might have said it best: "A focus group is like a chain saw. If you know what you're doing, it's very useful and effective. If you don't, you could lose a limb."

Sources: Naomi R. Henderson, "Beyond Top of Mind," *Marketing Research* (September 1, 2005); Rebecca Harris, "Do Focus Groups Have a Future?" *Marketing,* June 6, 2005, p. 17; Linda Tischler, "Every Move You Make," *Fast Company,* April 2004, pp. 73–75; Alison Stein Wellner, "The New Science of Focus Groups," *American Demographics,* March 2003, pp. 29–33; Dennis Rook, "Out-of-Focus Groups," *Marketing Research* 15, no. 2 (Summer 2003), p. 11; Dennis W. Rook, "Loss of Vision: Focus Groups Fail to Connect Theory, Current Practice," *Marketing News,* September 15, 2003, p. 40; Sarah Jeffrey Kasner, "Fistfights and Feng Shui," *Boston Globe,* July 21, 2001; Piet Levy, "In With the Old, In Spite of the New," *Marketing News,* May 30, 2009, p. 19.

Survey Research Companies undertake surveys to assess people's knowledge, beliefs, preferences, and satisfaction and to measure these magnitudes in the general population. A company such as American Airlines might prepare its own survey instrument to gather the information it needs, or it might add questions to an omnibus survey that carries the questions of several companies, at a much lower cost. It can also pose the questions to an ongoing consumer panel run by itself or another company. It may do a mall intercept study by having researchers approach people in a shopping mall and ask them questions.

As we'll discuss in more detail later in this chapter, many marketers are taking their surveys online where they can easily develop, administer, and collect e-mail and Web-based questionnaires. However they conduct their surveys—online, by phone, or in person—companies must feel the information they're getting from the mounds of data makes it all worthwhile. San Francisco–based Wells Fargo bank collects more than 50,000 customer surveys each month through its bank branches. It has used customers' comments to begin more stringent new wait-time standards designed to improve customer satisfaction.

Of course, by putting out so many surveys each month, companies may run the risk of creating "survey burnout" and seeing response rates plummet. Keeping a survey short and simple and contacting customers no more than once a month are two keys to drawing people into the data collection effort. Offering incentives is another way companies get consumers to respond. Both Gap and Jack in the Box offer coupons for discount merchandise or the chance to win a cash prize.[20]

BEHAVIORAL RESEARCH Customers leave traces of their purchasing behavior in store scanning data, catalog purchases, and customer databases. Marketers can learn much by analyzing these data. Actual purchases reflect consumers' preferences and often are more reliable than statements they offer to market researchers. For example, grocery shopping data show that high-income people don't necessarily buy the more expensive brands, contrary to what they might state in interviews; and many low-income people buy some expensive brands. And as Chapter 3 described, there is a wealth of online data to collect from consumers. Clearly, American Airlines can learn many useful things about its passengers by analyzing ticket purchase records and online behavior.

EXPERIMENTAL RESEARCH The most scientifically valid research is **experimental research**, designed to capture cause-and-effect relationships by eliminating competing explanations of the observed findings. If the experiment is well designed and executed, research and marketing managers can have confidence in the conclusions. Experiments call for selecting matched groups of subjects, subjecting them to different treatments, controlling extraneous variables, and checking whether observed response differences are statistically significant. If we

An important marketing research tool is focus groups.

can eliminate or control extraneous factors, we can relate the observed effects to the variations in the treatments or stimuli.

American Airlines might introduce in-flight Internet service on one of its regular flights from Chicago to Tokyo and charge $25 one week and $15 the next week. If the plane carried approximately the same number of first-class passengers each week and the particular weeks made no difference, the airline could relate any significant difference in the number of passengers using the service to the different prices charged.

RESEARCH INSTRUMENTS Marketing researchers have a choice of three main research instruments in collecting primary data: questionnaires, qualitative measures, and technological devices.

Questionnaires A **questionnaire** consists of a set of questions presented to respondents. Because of its flexibility, it is by far the most common instrument used to collect primary data. Researchers need to carefully develop, test, and debug questionnaires before administering them on a large scale. The form, wording, and sequence of the questions can all influence the responses. *Closed-end questions* specify all the possible answers and provide answers that are easier to interpret and tabulate. *Open-end questions* allow respondents to answer in their own words and often reveal more about how people think. They are especially useful in exploratory research, where the researcher is looking for insight into how people think rather than measuring how many people think a certain way. Table 4.1 provides examples of both types of questions; also see "Marketing Memo: Questionnaire Dos and Don'ts."

Qualitative Measures Some marketers prefer more qualitative methods for gauging consumer opinion, because consumer actions don't always match their answers to survey questions. *Qualitative research techniques* are relatively unstructured measurement approaches that permit a range of possible responses. Their variety is limited only by the creativity of the marketing researcher.

Because of the freedom it affords both researchers in their probes and consumers in their responses, qualitative research can often be an especially useful first step in exploring consumers' brand and product perceptions. It is indirect in nature, so consumers may be less guarded and reveal more about themselves in the process.

Qualitative research does have its drawbacks. Marketers must temper the in-depth insights that emerge with the fact that the samples are often very small and may not necessarily generalize to broader populations. And different researchers examining the same qualitative results may draw very different conclusions.

marketing **Memo**

Questionnaire Dos and Don'ts

1. *Ensure that questions are without bias.* Don't lead the respondent into an answer.
2. *Make the questions as simple as possible.* Questions that include multiple ideas or two questions in one will confuse respondents.
3. *Make the questions specific.* Sometimes it's advisable to add memory cues. For example, be specific with time periods.
4. *Avoid jargon or shorthand.* Avoid trade jargon, acronyms, and initials not in everyday use.
5. *Steer clear of sophisticated or uncommon words.* Use only words in common speech.
6. *Avoid ambiguous words.* Words such as "*usually*" or "*frequently*" have no specific meaning.
7. *Avoid questions with a negative in them.* It is better to say, "Do you ever . . . ?" than "Do you never . . . ?"
8. *Avoid hypothetical questions.* It's difficult to answer questions about imaginary situations. Answers aren't necessarily reliable.
9. *Do not use words that could be misheard.* This is especially important when administering the interview over the telephone. "What is your opinion of sects?" could yield interesting but not necessarily relevant answers.
10. *Desensitize questions by using response bands.* To ask people their age or ask companies about employee turnover rates, offer a range of response bands instead of precise numbers.
11. *Ensure that fixed responses do not overlap.* Categories used in fixed-response questions should be distinct and not overlap.
12. *Allow for the answer "other" in fixed-response questions.* Precoded answers should always allow for a response other than those listed.

Source: Adapted from Paul Hague and Peter Jackson, *Market Research: A Guide to Planning, Methodology, and Evaluation* (London: Kogan Page, 1999). See also, Hans Baumgartner and Jan-Benedict E. M. Steenkamp, "Response Styles in Marketing Research: A Cross-National Investigation," *Journal of Marketing Research* (May 2001), pp. 143–56.

TABLE 4.1 Types of Questions

Name	Description	Example
A. Closed-End Questions		
Dichotomous	A question with two possible answers	In arranging this trip, did you personally phone American? Yes No
Multiple choice	A question with three or more answers	With whom are you traveling on this flight? ☐ No one ☐ Children only ☐ Spouse ☐ Business associates/friends/relatives ☐ Spouse and children ☐ An organized tour group
Likert scale	A statement with which the respondent shows the amount of agreement/disagreement	Small airlines generally give better service than large ones. Strongly disagree 1____ Disagree 2____ Neither agree nor disagree 3____ Agree 4____ Strongly agree 5____
Semantic differential	A scale connecting two bipolar words. The respondent selects the point that represents his or her opinion.	American Airlines Large ________________ Small Experienced ________________ Inexperienced Modern ________________ Old-fashioned
Importance scale	A scale that rates the importance of some attribute	Airline in-flight service to me is Extremely important 1____ Very important 2____ Somewhat important 3____ Not very important 4____ Not at all important 5____
Rating scale	A scale that rates some attribute from “poor” to “excellent”	American in-flight service is Excellent 1____ Very Good 2____ Good 3____ Fair 4____ Poor 5____
Intention-to-buy scale	A scale that describes the respondent’s intention to buy	If an in-flight telephone were available on a long flight, I would Definitely buy 1____ Probably buy 2____ Not sure 3____ Probably not buy 4____ Definitely not buy 5____
B. Open-End Questions		
Completely unstructured	A question that respondents can answer in an almost unlimited number of ways	What is your opinion of American Airlines?
Word association	Words are presented, one at a time, and respondents mention the first word that comes to mind.	What is the first word that comes to your mind when you hear the following? Airline________________ American________________ Travel________________
Sentence completion	An incomplete sentence is presented and respondents complete the sentence.	When I choose an airline, the most important consideration in my decision is ________________ .
Story completion	An incomplete story is presented, and respondents are asked to complete it.	“I flew American a few days ago. I noticed that the exterior and interior of the plane had very bright colors. This aroused in me the following thoughts and feelings. . . .” Now complete the story.
Picture	A picture of two characters is presented, with one making a statement. Respondents are asked to identify with the other and fill in the empty balloon.	
Thematic Apperception Test (TAT)	A picture is presented and respondents are asked to make up a story about what they think is happening or may happen in the picture.	

Nevertheless, there is increasing interest in using qualitative methods. "Marketing Insight: Getting into the Heads of Consumers" describes the pioneering ZMET approach. Some other popular qualitative research approaches to get inside consumers' minds and find out what they think or feel about brands and products include:[21]

1. ***Word associations***—Ask subjects what words come to mind when they hear the brand's name. "What does the Timex name mean to you? Tell me what comes to mind when you think of Timex watches." The primary purpose of free-association tasks is to identify the range of possible brand associations in consumers' minds.
2. ***Projective techniques***—Give people an incomplete stimulus and ask them to complete it, or give them an ambiguous stimulus and ask them to make sense of it. One approach is "bubble exercises" in which empty bubbles, like those found in cartoons, appear in scenes of people buying or using certain products or services. Subjects fill in the bubble, indicating what they believe is happening or being said. Another technique is comparison tasks in which people compare brands to people, countries, animals, activities, fabrics, occupations, cars, magazines, vegetables, nationalities, or even other brands.
3. ***Visualization***—Visualization requires people to create a collage from magazine photos or drawings to depict their perceptions.

Marketing Insight

Getting into the Heads of Consumers

Harvard Business School marketing professor Gerald Zaltman, with some of his research colleagues, has developed an in-depth methodology to uncover what consumers truly think and feel about products, services, brands, and other things. The basic assumption behind the Zaltman Metaphor Elicitation Technique (ZMET) is that most thoughts and feelings are unconscious and shaped by a set of "deep metaphors." **Deep metaphors** are basic frames or orientations that consumers have toward the world around them. Largely unconscious and universal, they recast everything someone thinks, hears, says, or does. According to Zaltman, there are seven main metaphors:

1. *Balance:* justice equilibrium and the interplay of elements;
2. *Transformation:* changes in substance and circumstance;
3. *Journey:* the meeting of past, present, and future;
4. *Container:* inclusion, exclusion, and other boundaries;
5. *Connection:* the need to relate to oneself and others;
6. *Resource:* acquisitions and their consequences; and
7. *Control:* sense of mastery, vulnerability, and well-being

The ZMET technique works by first asking participants in advance to select a minimum of 12 images from their own sources (magazines, catalogs, family photo albums) to represent their thoughts and feelings about the research topic. In a one-on-one interview, the study administrator uses advanced interview techniques to explore the images with the participant and reveal hidden meanings. Finally, the participants use a computer program to create a collage with these images that communicates their subconscious thoughts and feelings about the topic. The results often profoundly influence marketing actions, as the following three examples illustrate:

- In a ZMET study about pantyhose for marketers at DuPont, some respondents' pictures showed fence posts encased in plastic wrap or steel bands strangling trees, suggesting that pantyhose are tight and inconvenient. But another picture showed tall flowers in a vase, suggesting that the product made a woman feel thin, tall, and sexy. The "love-hate" relationship in these and other pictures suggested a more complicated product relationship than the DuPont marketers had assumed.
- A ZMET study of Nestlé Crunch revealed that—besides the obvious associations to a small indulgence in a busy world, a source of quick energy, and something that just tasted good—the candy bar was also seen as a powerful reminder of pleasant childhood memories.
- When Motorola conducted a ZMET study of a proposed new security system, study participants selected images of what they felt when they were secure. The Motorola researchers were struck by how many images of dogs showed up, suggesting that it might be appropriate to position the product as a companion.

Sources: Gerald Zaltman and Lindsay Zaltman, *Marketing Metaphoria: What Deep Metaphors Reveal About the Minds of Consumers* (Boston: Harvard Business School Press, 2008); Daniel H. Pink, "Metaphor Marketing," *Fast Company*, March/April 1998, pp. 214–29; Brad Wieners, "Getting Inside—Way Inside—Your Customer's Head," *Business 2.0*, April 2003, pp. 54–55; Glenn L. Christensen and Jerry C. Olson, "Mapping Consumers' Mental Models with ZMET," *Psychology & Marketing* 19, no. 6 (June 2002), pp. 477–502; Emily Eakin, "Penetrating the Mind by Metaphor," *New York Times*, February 23, 2002.

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4. ***Brand personification***—Ask subjects what kind of person they think of when the brand is mentioned: "If the brand were to come alive as a person, what would it be like, what would it do, where would it live, what would it wear, who would it talk to if it went to a party (and what would it talk about)?" For example, the John Deere brand might make someone think of a rugged Midwestern male who is hardworking and trustworthy. The brand personality delivers a picture of the more human qualities of the brand.
5. ***Laddering***—A series of increasingly more specific "why" questions can reveal consumer motivation and consumers' deeper, more abstract goals. Ask why someone wants to buy a Nokia cell phone. "They look well built" (attribute). "Why is it important that the phone be well built?" "It suggests Nokia is reliable" (a functional benefit). "Why is reliability important?" "Because my colleagues or family can be sure to reach me" (an emotional benefit). "Why must you be available to them at all times?" "I can help them if they're in trouble" (brand essence). The brand makes this person feel like a Good Samaritan, ready to help others.

Marketers don't necessarily have to choose between qualitative and quantitative measures, however, and many marketers use both approaches, recognizing that their pros and cons can offset each other. For example, companies can recruit someone from an online panel to participate in an in-home use test in which the subject is sent a product and told to capture his or her reactions and intentions with both a video diary and an online survey.[22]

Technological Devices There has been much interest in recent years in various technological devices. Galvanometers can measure the interest or emotions aroused by exposure to a specific ad or picture. The tachistoscope flashes an ad to a subject with an exposure interval that may range from less than one hundredth of a second to several seconds. After each exposure, the respondent describes everything he or she recalls. Eye cameras study respondents' eye movements to see where their eyes land first, how long they linger on a given item, and so on.

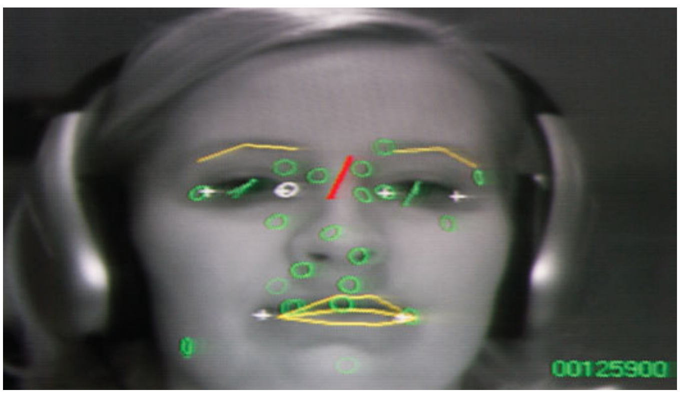
Technology has now advanced to such a degree that marketers can use devices such as skin sensors, brain wave scanners, and full body scanners to get consumer responses.[23] Some researchers study eye movements and brain activity of Web surfers to see which ads grab their attention.[24] "Marketing Insight: Understanding Brain Science" provides a glimpse into some new marketing research frontiers studying the brain.

Technology has replaced the diaries that participants in media surveys used to keep. Audiometers attached to television sets in participating homes now record when the set is on and to which channel it is tuned. Electronic devices can record the number of radio programs a person is exposed to during the day, or, using Global Positioning System (GPS) technology, how many billboards a person may walk or drive by during a day.

SAMPLING PLAN After deciding on the research approach and instruments, the marketing researcher must design a sampling plan. This calls for three decisions:

1. ***Sampling unit: Whom should we survey?*** In the American Airlines survey, should the sampling unit consist only of first-class business travelers, first-class vacation travelers, or both? Should it include travelers under age 18? Both traveler and spouse? Once they have determined the sampling unit, marketers must develop a sampling frame so everyone in the target population has an equal or known chance of being sampled.
2. ***Sample size: How many people should we survey?*** Large samples give more reliable results, but it's not necessary to sample the entire target population to achieve reliable results. Samples of less than 1 percent of a population can often provide good reliability, with a credible sampling procedure.
3. ***Sampling procedure: How should we choose the respondents?*** Probability sampling allows marketers to calculate confidence limits for sampling error and makes the sample more representative. Thus, after choosing the sample, marketers could conclude that "the interval five to seven trips per year has 95 chances in 100 of containing the true number of trips taken annually by first-class passengers flying between Chicago and Tokyo."

CONTACT METHODS Now the marketing researcher must decide how to contact the subjects: by mail, by telephone, in person, or online.



Using sophisticated equipment and methods, neuroscience researchers are studying how brain activity is affected by consumer marketing.

Marketing Insight

Understanding Brain Science

As an alternative to traditional consumer research, some researchers have begun to develop sophisticated techniques from neuroscience that monitor brain activity to better gauge consumer responses to marketing. The term *neuromarketing* describes brain research on the effect of marketing stimuli. Firms with names such as NeuroFocus and EmSense are using EEG (electroencephalograph) technology to correlate brand activity with physiological cues such as skin temperature or eye movement and thus gauge how people react to ads.

Researchers studying the brain have found different results from conventional research methods. One group of researchers at UCLA used functional magnetic resonance imaging (fMRI) to measure how consumers' brains responded to 2006's Super Bowl advertisements. They found that the ads for which subjects displayed the highest brain activity were different from the ads with the highest stated preferences. Other research found little effect from product placement unless the products in question played an integral role in the storyline.

One major research finding to emerge from neurological consumer research is that many purchase decisions appear to be characterized less by the logical weighing of variables and more "as a largely unconscious habitual process, as distinct from the rational, conscious, information-processing model of economists and traditional marketing textbooks." Even basic decisions, such as the purchase of gasoline, seem to be influenced by brain activity at the subrational level.

Neurological research has been used to measure the type of emotional response consumers exhibit when presented with marketing stimuli. A group of researchers in England used an EEG to monitor cognitive functions related to memory recall and attentiveness for 12 different regions of the brain as subjects were exposed to advertising. Brain wave activity in different regions indicated different emotional responses. For example, heightened activity in the left prefrontal cortex is characteristic of an "approach" response to an ad and indicates an attraction to the stimulus. In contrast, a spike in brain activity in the right prefrontal cortex is indicative of a strong revulsion to the stimulus. In yet another part of the brain, the degree of memory formation activity correlates with purchase intent. Other research has shown that people activate different regions of the brain in assessing the personality traits of people than they do when assessing brands.

By adding neurological techniques to their research arsenal, marketers are trying to move toward a more complete picture of what goes on inside consumers' heads. Although it may be able to offer different insights from conventional techniques, neurological research at this point is very costly, running as much as $100,000 or even more per project. Given the complexity of the human brain, however, many researchers caution that neurological research should not form the sole basis for marketing decisions. These research activities have not been universally accepted. The measurement devices to capture brain activity can be highly obtrusive, such as with skull caps studded with electrodes, creating artificial exposure conditions. Others question whether they offer unambiguous implications for marketing strategy. Brian Knutson, a professor of neuroscience and psychology at Stanford University, compares the use of EEG to "standing outside a baseball stadium and listening to the crowd to figure out what happened." Other critics worry that if the methods do become successful, they will only lead to more marketing manipulation by companies. Despite all this controversy, marketers' endless pursuit of deeper insights about consumers' response to marketing virtually guarantees continued interest in neuromarketing.

Sources: Carolyn Yoon, Angela H. Gutchess, Fred Feinberg, and Thad A. Polk, "A Functional Magnetic Resonance Imaging Study of Neural Dissociations between Brand and Person Judgments," *Journal of Consumer Research* 33 (June 2006), pp. 31–40; Daryl Travis, "Tap Buyers' Emotions for Marketing Success," *Marketing News*, February 1, 2006, pp. 21–22; Deborah L. Vence, "Pick Someone's Brain," *Marketing News*, May 1, 2006, pp. 11–13; Martin Lindstrom, *Buyology: Truth and Lies About Why We Buy* (New York: Doubleday, 2008); Tom Abate, "Coming to a Marketer Near You: Brain Scanning," *San Francisco Chronicle*, May 19, 2008; Brian Sternberg, "How Couch Potatoes Watch TV Could Hold Clues for Advertisers," *Boston Globe*, September 6, 2009, pp. G1, G3.

Mail Contacts The *mail questionnaire* is one way to reach people who would not give personal interviews or whose responses might be biased or distorted by the interviewers. Mail questionnaires require simple and clearly worded questions. Unfortunately, the response rate is usually low or slow.

Telephone Contacts *Telephone interviewing* is a good method for gathering information quickly; the interviewer is also able to clarify questions if respondents do not understand them. Interviews must be brief and not too personal. Although the response rate has typically been higher than for mailed questionnaires, telephone interviewing in the United States is getting more difficult because of consumers' growing antipathy toward telemarketers.

In late 2003, Congress passed legislation allowing the Federal Trade Commission to restrict telemarketing calls through its "Do Not Call" registry. By mid-2010, consumers had registered over 200 million phone numbers. Marketing research firms are exempt from the ruling, but given the increasingly widespread resistance to telemarketing, it undoubtedly reduces the effectiveness of telephone surveys as a marketing research method in the United States.

In other parts of the world, such restrictive legislation does not exist. Because mobile phone penetration in Africa has risen from just 1 in 50 people in 2000 to almost one-third of the population in 2008, cell phones in Africa are used to convene focus groups in rural areas and to interact via text messages.[25]

In parts of the developing world such as Africa, the widespread penetration of cell phones allows them to be used to conduct marketing research.

Personal Contacts *Personal interviewing* is the most versatile method. The interviewer can ask more questions and record additional observations about the respondent, such as dress and body language. At the same time, however, personal interviewing is the most expensive method, is subject to interviewer bias, and requires more administrative planning and supervision. Personal interviewing takes two forms. In *arranged interviews*, marketers contact respondents for an appointment and often offer a small payment or incentive. In *intercept interviews,* researchers stop people at a shopping mall or busy street corner and request an interview on the spot. Intercept interviews must be quick, and they run the risk of including nonprobability samples.

Online Contacts An approach of increasing importance, the Internet offers many ways to do research. A company can embed a questionnaire on its Web site and offer an incentive to answer it, or it can place a banner on a frequently visited site such as Yahoo!, inviting people to answer some questions and possibly win a prize. Online product testing, in which companies float trial balloons for new products, is also growing and providing information much faster than traditional new-product marketing research techniques. Here is how one small business is using the Internet to conduct research on new-product development.

Local Motors

Local Motors The Web site of Local Motors of Wareham, Massachusetts, a small-scale automaker, lets anyone upload design ideas. The site occasionally hosts competitions for cash prizes of up to $10,000 in which registered members—who include trained design engineers and transportation experts—vote on the designs they like best, or other decisions related to building the autos and running the company. The winning ideas are then incorporated in the cars Local Motors builds. Members remain involved after the competitions, offering criticism and suggestions throughout the cars' development. Local Motors has been diligent about building its car design community by marketing the site on other sites that attract design enthusiasts and experts. To make sure outside contributors do not seek compensation if their ideas are adopted, Local Motors requires members of its online community to sign a lengthy legal agreement.[26]

Marketers can also host a real-time consumer panel or virtual focus group or sponsor a chat room, bulletin board, or blog and introduce questions from time to time. They can ask customers to brainstorm or have followers of the company on Twitter rate an idea. Online communities and networks of customers serve as a resource for a wide variety of companies. Insights from Kraft-sponsored online communities helped the company develop its popular line of 100-calorie snacks.[27] Here are two other examples.

- Del Monte tapped into its 400-member, handpicked online community called "I Love My Dog" when it was considering a new breakfast treat for dogs. The consensus request was for something with a bacon-and-egg taste and an extra dose of vitamins and minerals. Continuing to work with the online community throughout the product development, the company introduced fortified "Snausage Breakfast Bites" in half the time usually required to launch a new product.[28]
- InterContinental Hotel Groups uses both surveys and communities to gather data on customer satisfaction. Online surveys provide actionable and speedy results to correct customer service issues; the online community provides a sounding board for more in-depth, longer-term research objectives.[29]

Online research was estimated to make up 33 percent of all survey-based research in 2006, and Internet-based questionnaires also accounted for nearly one-third of U.S. spending on market research surveys in the same year.[30] There are many other means to use the Internet as a research tool. The company can learn about individuals who visit its site by tracking how they *clickstream* through the Web site and move to other sites. It can post different prices, use different headlines, and offer different product features on different Web sites or at different times to learn the relative effectiveness of its offerings.

Yet, as popular as online research methods are, smart companies are choosing to use them to augment rather than replace more traditional methods. At Kraft Foods, online research is a supplement to traditional research, said Seth Diamond, director of consumer insights and strategy. "Online is not a solution in and of itself to all of our business challenges," he said, "but it does expand our toolkit."[31]

There are a number of pros and cons to online research.[32] Here are some advantages:

- ***Online research is inexpensive.*** A typical e-mail survey can cost between 20 percent and 50 percent less than what a conventional survey costs, and return rates can be as high as 50 percent.
- ***Online research is fast.*** Online surveys are fast because the survey can automatically direct respondents to applicable questions and transmit results immediately. One estimate says an online survey can generate 75 percent to 80 percent of the targeted response in 48 hours, compared to a telephone survey that can require 70 days to obtain 150 interviews.
- ***People tend to be honest and thoughtful online.*** People may be more open about their opinions when they can respond privately and not to another person whom they feel might be judging them, especially on sensitive topics (such as, "how often do you bathe or shower?"). Because they choose when and where they take the survey and how much time to devote to each question, they may be more relaxed, introspective, and candid.
- ***Online research is versatile.*** Increased broadband penetration offers online research even more flexibility and capabilities. For instance, virtual reality software lets visitors inspect 3-D models of products such as cameras, cars, and medical equipment and manipulate product characteristics. Even at the basic tactile level, online surveys can make answering a questionnaire easier and more fun than paper-and-pencil versions. Online community blogs allow customer participants to interact with each other.

Some disadvantages include:

- ***Samples can be small and skewed.*** Some 40 percent of households were without broadband Internet access in the United States in 2009; the percentage is even higher among lower-income groups, in rural areas, and in most parts of Asia, Latin America, and Central and Eastern Europe, where socioeconomic and education levels also differ.[33] Although it's certain that more and more people will go online, online market researchers must find creative ways to reach population segments on the other side of the "digital divide." One option is to combine offline sources with online findings. Providing temporary Internet access at locations such as malls and recreation centers is another strategy. Some research firms use statistical models to fill in the gaps in market research left by offline consumer segments.
- ***Online panels and communities can suffer from excessive turnover.*** Members may become bored with the company's efforts and flee. Or perhaps even worse, they may stay but only half-heartedly participate. Panel and community organizers are taking steps to address the quality of the panel and the data they provide by raising recruiting standards, downplaying incentives, and carefully monitoring participation and engagement levels. New features, events, and other activities must be constantly added to keep members interested and engaged.[34]
- ***Online market research can suffer from technological problems and inconsistencies.*** Problems can arise with online surveys because browser software varies. The Web designer's final product may look very different on the research subject's screen.

Online researchers have also begun to use text messaging in various ways—to conduct a chat with a respondent, to probe more deeply with a member of an online focus group, or to direct respondents to a Web site.[35] Text messaging is also a useful way to get teenagers to open up on topics.

Step 3: Collect the Information

The data collection phase of marketing research is generally the most expensive and the most prone to error. Marketers may conduct surveys in homes, over the phone, via the Internet, or at a central interviewing location like a shopping mall. Four major problems arise in surveys. Some respondents will be away from home or otherwise inaccessible and must be contacted again or replaced. Other respondents will refuse to cooperate. Still others will give biased or dishonest answers. Finally, some interviewers will be biased or dishonest.

Internationally, one of the biggest obstacles to collecting information is the need to achieve consistency.[36] Latin American respondents may be uncomfortable with the impersonal nature of the Internet and need interactive elements in a survey so they feel they're talking to a real person. Respondents in Asia, on the other hand, may feel more pressure to conform and may therefore not be as forthcoming in focus groups as online. Sometimes the solution may be as simple as ensuring the right language is used.

Leica Surveying and Engineering

Leica Surveying and Engineering When Leica Surveying and Engineering, a global provider of high-end surveying and measurement equipment, sought to gather competitive intelligence in its industry, it initially deployed surveys only in English, because the company's business was typically conducted in English, even across several different European countries. However, the response rate was dismal, even though the sample comprised individuals who had an affinity with the company. Closer review showed that the in-country sales representatives conducted business in their native languages. Consequently, the company redeployed its survey in various languages, such as Spanish and German, and the response rate doubled almost overnight.[37]

Step 4: Analyze the Information

The next-to-last step in the process is to extract findings by tabulating the data and developing summary measures. The researchers now compute averages and measures of dispersion for the major variables and apply some advanced statistical techniques and decision models in the hope of discovering additional findings. They may test different hypotheses and theories, applying sensitivity analysis to test assumptions and the strength of the conclusions.

Step 5: Present the Findings

As the last step, the researcher presents findings relevant to the major marketing decisions facing management. Researchers increasingly are being asked to play a more proactive, consulting role in translating data and information into insights and recommendations.[38] They're also considering ways to present research findings in as understandable and compelling a fashion as possible. "Marketing Insight: Bringing Marketing Research to Life with Personas" describes an approach that some researchers are using to maximize the impact of their consumer research findings.

The main survey findings for the American Airlines case showed that:

1. Passengers' chief reason for using in-flight Internet service would be to stay connected and receive and send e-mails. Some would also pass the time surfing the Web. This entertainment capability would require expensive broadband Internet access, but passengers stated they would be able to charge the cost and their companies would pay.
2. At \$25, about 5 out of 10 first-class passengers would use Internet service during a flight; about 6 would use it at \$15. Thus, a fee of \$15 would produce less revenue ($\$90 = 6 \times \$15$) than \$25 ($\$125 = 5 \times \$25$). Assuming the same flight takes place 365 days a year, American could collect \$45,625 ($= \$125 \times 365$) annually. Given an investment of \$90,000, it would take two years to break even.
3. Offering in-flight Internet service would strengthen the public's image of American Airlines as an innovative and progressive airline. American would gain some new passengers and customer goodwill.

Step 6: Make the Decision

The American Airlines managers who commissioned the research need to weigh the evidence. If their confidence in the findings is low, they may decide against introducing the in-flight Internet service. If they are predisposed to launching the service, the findings support their inclination.

Marketing Insight

Bringing Marketing Research to Life with Personas

To bring all the information and insights they have gained about their target market to life, some researchers are employing personas. *Personas* are detailed profiles of one, or perhaps a few, hypothetical target market consumers, imagined in terms of demographic, psychographic, geographic, or other descriptive attitudinal or behavioral information. Researchers may use photos, images, names, or short bios to help convey the particulars of the persona.

The rationale behind personas is to provide exemplars or archetypes of how the target customer looks, acts, and feels that are as true-to-life as possible, to ensure marketers within the organization fully understand and appreciate their target market and therefore incorporate a target-customer point of view in all their marketing decision making. Consider some applications:

- Chrysler designed rooms for two fictional characters—28-year-old single male Roberto Moore and 30-year-old pharmaceutical rep Jenny Sieverson—and decorated them to reflect the personality, lifestyles, and brand choices of these key targets for the Dodge Caliber and Jeep Compass.
- Specialty tool and equipment maker Campbell Hausfeld relied on the many retailers it supplied, including Home Depot and Lowe's, to help it keep in touch with consumers. After developing eight consumer profiles, including a female do-it-yourselfer and an elderly consumer, the firm was able to successfully launch new products such as drills that weighed less or that included a level for picture hanging.
- Unilever's biggest and most successful hair-care launch, for Sunsilk, was aided by insights into the target consumer the company dubbed "Katie." The Katie persona outlined the twenty-something female's hair-care needs, but also her perceptions and attitudes and the way she dealt with her everyday life "dramas."

Although personas provide vivid information to aid marketing decision making, marketers also have to be careful to not overgeneralize. Any target market may have a range of consumers who vary along a number of key dimensions. To accommodate these potential differences, researchers sometimes employ two to six personas. Best Buy used multiple personas to help redesign and relaunch GeekSquad.com, the online site of its fast-growing national computer-support service. Using quantitative, qualitative, and observational research, the firm developed five online customer personas to guide its Web redesign efforts:

- "Jill"—a suburban mom who uses technology and her computer daily and depends on the Geek Squad as an outsourced service akin to a landscape or plumber.
- "Charlie"—a 50-plus male who is curious about and interested in technology but needs an unintimidating guide.
- "Daryl"—a technologically savvy hands-on experimenter who occasionally needs a helping hand with his tech projects.
- "Luis"—a time-pressed small-business owner whose primary goal is to complete tasks as expediently as possible.
- "Nick"—a prospective Geek Squad agent who views the site critically and needs to be challenged.

To satisfy Charlie, a prominent 911 button was added to the upper right-hand corner in case a crisis arose, but to satisfy Nick, Best Buy created a whole channel devoted to geek information.

Sources: Dale Buss, "Reflections of Reality," *Point* (June 2006), pp. 10–11; Todd Wasserman, "Unilever, Whirlpool Get Personal with Personas," *Brandweek,* September 18, 2006, p. 13; Daniel B. Honigman, "Persona-fication," *Marketing News*, April 1, 2008, p. 8. Rick Roth, "Take Back Control of the Purchase," *Advertising Age*, September 3, 2007, p. 13. Lisa Sanders, "Major Marketers Get Wise to the Power of Assigning Personas," *Advertising Age*, April 9, 2007, p. 36.

They may even decide to study the issues further and do more research. The decision is theirs, but rigorously done research provides them with insight into the problem (see Table 4.2).[39]

Some organizations use marketing decision support systems to help their marketing managers make better decisions. MIT's John Little defines a **marketing decision support system (MDSS)** as a coordinated collection of data, systems, tools, and techniques, with supporting software and hardware, by which an organization gathers and interprets relevant information from business and environment and turns it into a basis for marketing action.[40] Once a year, *Marketing News* lists hundreds of current marketing and sales software programs that assist in designing marketing research studies, segmenting markets, setting prices and advertising budgets, analyzing media, and planning sales force activity.[41]

Overcoming Barriers to the Use of Marketing Research

In spite of the rapid growth of marketing research, many companies still fail to use it sufficiently or correctly.[42] They may not understand what all marketing research is capable of and not provide the

To better understand what people thought of Cheetos snacks, researchers dressed up as the brand's Chester Cheetah character and interacted with consumers in the street.

TABLE 4.2 The Seven Characteristics of Good Marketing Research

1. Scientific method	Effective marketing research uses the principles of the scientific method: careful observation, formulation of hypotheses, prediction, and testing.
2. Research creativity	In an award-winning research study to reposition Cheetos snacks, researchers dressed up in a brand mascot Chester Cheetah suit and walked around the streets of San Francisco. The response the character encountered led to the realization that even adults loved the fun and playfulness of Cheetos. The resulting repositioning led to a double-digit sales increase despite a tough business environment.[43]
3. Multiple methods	Marketing researchers shy away from overreliance on any one method. They also recognize the value of using two or three methods to increase confidence in the results.
4. Interdependence of models and data	Marketing researchers recognize that data are interpreted from underlying models that guide the type of information sought.
5. Value and cost of information	Marketing researchers show concern for estimating the value of information against its cost. Costs are typically easy to determine, but the value of research is harder to quantify. It depends on the reliability and validity of the findings and management's willingness to accept and act on those findings.
6. Healthy skepticism	Marketing researchers show a healthy skepticism toward glib assumptions made by managers about how a market works. They are alert to the problems caused by "marketing myths."
7. Ethical marketing	Marketing research benefits both the sponsoring company and its customers. The misuse of marketing research can harm or annoy consumers, increasing resentment at what consumers regard as an invasion of their privacy or a disguised sales pitch.

researcher the right problem definition and information from which to work. They may also have unrealistic expectations about what researchers can offer. Failure to use marketing research properly has led to numerous gaffes, including the following historic one.

Star Wars In the 1970s, a successful marketing research executive left General Foods to try a daring gambit: bringing market research to Hollywood, to give film studios access to the same research that had spurred General Foods's success. A major film studio handed him a science fiction film proposal and asked him to research and predict its success or failure. His views would inform the studio's decision about whether to back the film. The research executive concluded the film would fail. For one, he argued, Watergate had made the United States less trusting of institutions and, as a result, its citizens in the 1970s prized realism and authenticity over science fiction. This particular film also had the word "*war*" in its title; he reasoned that viewers, suffering from post-Vietnam hangover, would stay away in droves. The film was *Star Wars*, which eventually grossed over $4.3 billion in box office receipts alone. What this researcher delivered was information, not insight. He failed to study the

Improperly conducted and interpreted consumer research almost killed Star Wars, one of the most successful film franchises of all time.

script itself, to see that it was a fundamentally human story—of love, conflict, loss, and redemption—that happened to play out against the backdrop of space.[44]

Measuring Marketing Productivity

Marketers are facing increased pressure to provide clear, quantifiable evidence to senior management as to how their marketing expenditures help the firm to achieve its goals and financial objectives. Although we can easily quantify marketing expenses and investments as inputs in the short run, the resulting outputs such as broader brand awareness, enhanced brand image, greater customer loyalty, and improved new product prospects may take months or even years to manifest themselves. Moreover, a whole host of internal changes within the organization and external changes in the marketing environment may coincide with the marketing expenditures, making it hard to isolate the effects of any particular marketing activity.[45]

Nevertheless, an important task of marketing research is to assess the efficiency and effectiveness of marketing activities. In one survey, 65 percent of marketers indicated that return on marketing investment was a concern.[46] A recent survey of the nation's leading technology Chief Marketing Officers revealed that over 80 percent of the companies surveyed expressed dissatisfaction with their ability to benchmark their marketing program's business impact and value.[47]

Marketing research can help address this increased need for accountability. Two complementary approaches to measuring marketing productivity are: (1) *marketing metrics* to assess marketing effects and (2) *marketing-mix modeling* to estimate causal relationships and measure how marketing activity affects outcomes. *Marketing dashboards* are a structured way to disseminate the insights gleaned from these two approaches within the organization.

Marketing Metrics

Marketers employ a wide variety of measures to assess marketing effects.[48] **Marketing metrics** is the set of measures that helps them quantify, compare, and interpret their marketing performance. Here is how two marketing executives look at marketing metrics to better understand marketing ROI at their companies:[49]

- The CMO of Mary Kay , Rhonda Shasteen, focuses on four long-term brand strength metrics—market awareness, consideration, trial, and 12-month beauty consultant productivity—as well as a number of short-term program-specific metrics like ad impressions, Web site traffic, and purchase conversion.
- The Virgin America VP of marketing, Porter Gale, looks at a broad set of online metrics—cost per acquisition, cost per click, and cost per thousand page impressions (CPM). She also looks at total dollars driven by natural and paid search and online display advertising as well as tracking results and other metrics from the offline world.

There are many different marketing measures; marketers choose one or more based on the particular issue they face or the problem they must solve. An advocate of simple, relevant metrics, the University of Virginia's Paul Farris draws an analogy to the way a Boeing 747 jet pilot decides what information to use from the vast array of instruments in the cockpit to fly the plane:[50]

> Aircraft pilots have protocols. When they are sitting on the tarmac warming their engines waiting to take off, they are looking at certain things. When they are taxiing, they look at others. When they are in flight, they look at still others. There is a sequence of knowing when to pay attention to which metrics, which lets them have their cake and eat it too, in terms of the simplicity and complexity trade-off.

London Business School's Tim Ambler suggests that if firms think they are already measuring marketing performance adequately, they should ask themselves five questions:[51]

1. Do you routinely research consumer behavior (retention, acquisition, usage) and why consumers behave that way (awareness, satisfaction, perceived quality)?
2. Do you routinely report the results of this research to the board in a format integrated with financial marketing metrics?
3. In those reports, do you compare the results with the levels previously forecasted in the business plans?
4. Do you also compare them with the levels achieved by your key competitor using the same indicators?
5. Do you adjust short-term performance according to the change in your marketing-based asset(s)?

Ambler says firms must give priority to measuring and reporting marketing performance through marketing metrics. He believes they can split evaluation into two parts: (1) short-term results and (2) changes in brand equity. Short-term results often reflect profit-and-loss concerns as shown by sales turnover, shareholder value, or some combination of the two. Brand-equity measures could include customer awareness, attitudes, and behaviors; market share; relative price premium; number of complaints; distribution and availability; total number of customers; perceived quality, and loyalty and retention.[52]

Companies can also monitor an extensive set of internal metrics, such as innovation. For example, 3M tracks the proportion of sales resulting from its recent innovations. Ambler also recommends developing employee measures and metrics, arguing that "end users are the ultimate customers, but your own staff are your first; you need to measure the health of the internal market." Table 4.3 summarizes a list of popular internal and external marketing metrics from Ambler's survey in the United Kingdom.[53]

Carefully measuring the effects of a marketing activity or program helps ensure managers make the right decisions going forward. Seeking greater engagement with younger consumers, Servus Credit Union in Alberta, Canada, launched its "Young & Free Alberta" program featuring a competition to find a youth spokesperson for Alberta. To connect with young Albertans, Kelsey MacDonald, the 2010 winner, works with Servus to create daily blogs, post entertaining and educational videos at YoungFreeAlberta.com, and maintain a Facebook and Twitter presence.

TABLE 4.3 Sample Marketing Metrics

I. External	II. Internal
Awareness	Awareness of goals
Market share (volume or value)	Commitment to goals
Relative price (market share value/volume)	Active innovation support
Number of complaints (level of dissatisfaction)	Resource adequacy
Consumer satisfaction	Staffing/skill levels
Distribution/availability	Desire to learn
Total number of customers	Willingness to change
Perceived quality/esteem	Freedom to fail
Loyalty/retention	Autonomy
Relative perceived quality	Relative employee satisfaction

Source: Tim Ambler, "What Does Marketing Success Look Like?" *Marketing Management* (Spring 2001), pp. 13–18. Reprinted with permission from Marketing Management, published by the American Marketing Association.

Canada's Servus Credit Union used research to validate the effects of the spokesperson for its Young & Free Alberta Spokester program. Kelsey MacDonald, shown here, was the 2010 contest winner.

Kelsey also attends events throughout Alberta where she interacts with the 17- to 25-year-old crowd in order to better understand their financial needs. Research validated the campaign's success, with more than 107 million impressions to the program generated through various forms of media and thousands of new accounts opened.[54]

Marketing-Mix Modeling

Marketing accountability also means that marketers must more precisely estimate the effects of different marketing investments. *Marketing-mix models* analyze data from a variety of sources, such as retailer scanner data, company shipment data, pricing, media, and promotion spending data, to understand more precisely the effects of specific marketing activities.[55] To deepen understanding, marketers can conduct multivariate analyses, such as regression analysis, to sort through how each marketing element influences marketing outcomes such as brand sales or market share.[56]

Especially popular with packaged-goods marketers such as Procter & Gamble, Clorox, and Colgate, the findings from marketing-mix modeling help allocate or reallocate expenditures. Analyses explore which part of ad budgets are wasted, what optimal spending levels are, and what minimum investment levels should be.[57]

Although marketing-mix modeling helps to isolate effects, it is less effective at assessing how different marketing elements work in combination. Wharton's Dave Reibstein also notes three other shortcomings:[58]

- Marketing-mix modeling focuses on incremental growth instead of baseline sales or long-term effects.
- The integration of important metrics such as customer satisfaction, awareness, and brand equity into marketing-mix modeling is limited.
- Marketing-mix modeling generally fails to incorporate metrics related to competitors, the trade, or the sales force (the average business spends far more on the sales force and trade promotion than on advertising or consumer promotion).

Marketing Dashboards

Firms are also employing organizational processes and systems to make sure they maximize the value of all these different metrics. Management can assemble a summary set of relevant internal and external measures in a *marketing dashboard* for synthesis and interpretation. Marketing dashboards are like the instrument panel in a car or plane, visually displaying real-time indicators to ensure proper functioning. They are only as good as the information on which they're based, but sophisticated visualization tools are helping bring data alive to improve understanding and analysis.[59]

Some companies are also appointing marketing controllers to review budget items and expenses. Increasingly, these controllers are using business intelligence software to create digital versions of marketing dashboards that aggregate data from disparate internal and external sources.

As input to the marketing dashboard, companies should include two key market-based scorecards that reflect performance and provide possible early warning signals.

- A **customer-performance scorecard** records how well the company is doing year after year on such customer-based measures as those shown in Table 4.4. Management should set target goals for each measure and take action when results get out of bounds.
- A **stakeholder-performance scorecard** tracks the satisfaction of various constituencies who have a critical interest in and impact on the company's performance: employees, suppliers, banks, distributors, retailers, and stockholders. Again, management should take action when one or more groups register increased or above-norm levels of dissatisfaction.[60]

Some executives worry that they'll miss the big picture if they focus too much on a set of numbers on a dashboard. Some critics are concerned about privacy and the pressure the technique places on employees. But most experts feel the rewards offset the risks.[61] "Marketing Insight: Marketing Dashboards to Improve Effectiveness and Efficiency" provides practical advice about the development of these marketing tools.

TABLE 4.4 Sample Customer-Performance Scorecard Measures

• Percentage of new customers to average number of customers
• Percentage of lost customers to average number of customers
• Percentage of win-back customers to average number of customers
• Percentage of customers falling into very dissatisfied, dissatisfied, neutral, satisfied, and very satisfied categories
• Percentage of customers who say they would repurchase the product
• Percentage of customers who say they would recommend the product to others
• Percentage of target market customers who have brand awareness or recall
• Percentage of customers who say that the company's product is the most preferred in its category
• Percentage of customers who correctly identify the brand's intended positioning and differentiation
• Average perception of company's product quality relative to chief competitor
• Average perception of company's service quality relative to chief competitor

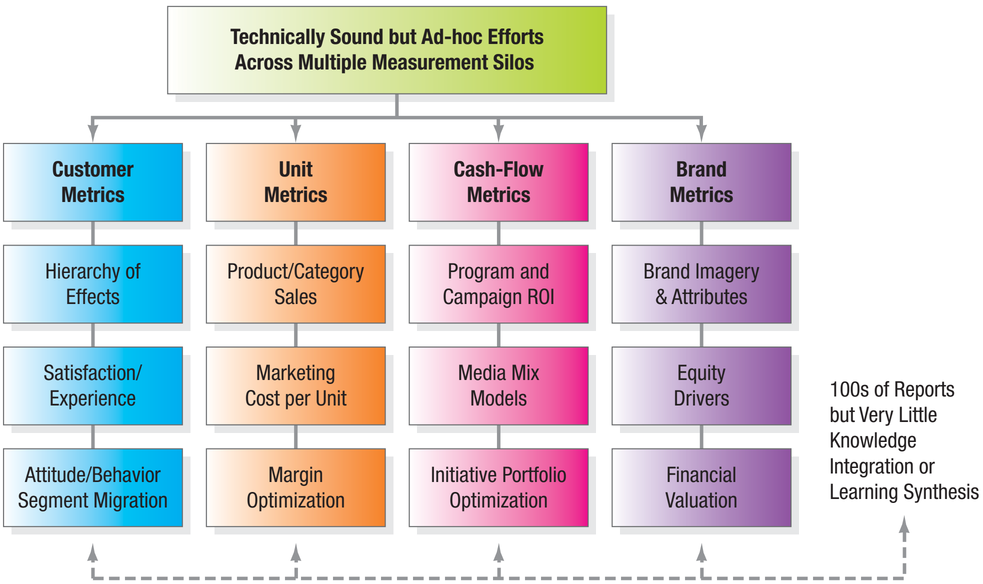
Marketing Insight

Marketing Dashboards to Improve Effectiveness and Efficiency

Marketing consultant Pat LaPointe sees marketing dashboards as providing all the up-to-the-minute information necessary to run the business operations for a company—such as sales versus forecast, distribution channel effectiveness, brand equity evolution, and human capital development. According to LaPointe, an effective dashboard will focus thinking, improve internal communications, and reveal where marketing investments are paying off and where they aren't.

LaPointe observes four common measurement "pathways" marketers are pursuing today (see Figure 4.2).

- The *customer metrics pathway* looks at how prospects become customers, from awareness to preference to trial to repeat purchase, or some less linear model. This area also examines how the customer experience contributes to the perception of value and competitive advantage.
- The *unit metrics pathway* reflects what marketers know about sales of product/service units—how much is sold by product line and/or by geography; the marketing cost per unit sold as an efficiency yardstick; and where and how margin is optimized in terms of characteristics of the product line or distribution channel.



|Fig. 4.2|

Marketing Measurement Pathway

(continued)

|Fig. 4.3|

Example of a Marketing Dashboard

Source: Adapted from Patrick LaPointe, *Marketing by the Dashboard Light—How to Get More Insight, Foresight, and Accountability from Your Marketing Investments.* © 2005, Patrick LaPointe.

- The *cash-flow metrics pathway* focuses on how well marketing expenditures are achieving short-term returns. Program and campaign ROI models measure the immediate impact or net present value of profits expected from a given investment.
- The *brand metrics pathway* tracks the development of the longer-term impact of marketing through brand equity measures that assess both the perceptual health of the brand from customer and prospective customer perspectives as well as the overall financial health of the brand.

LaPointe feels a marketing dashboard can present insights from all the pathways in a graphically related view that helps management see subtle links between them. A well-constructed dashboard can have a series of tabs that allow the user to toggle easily between different "families" of metrics organized by customer, product, experience, brand, channels, efficiency, organizational development, or macroenvironmental factors. Each tab presents the three or four most insightful metrics, with data filtered by business unit, geography, or customer segment based on the users' needs. (See Figure 4.3 for a sample brand metrics page.)

Ideally, the number of metrics presented in the marketing dashboard would be reduced to a handful of key drivers over time. Meanwhile, the process of developing and refining the marketing dashboard will undoubtedly raise and resolve many key questions about the business.

Source: Adapted from Pat LaPointe, *Marketing by the Dashboard Light*, Association of National Advertisers, 2005, www.MarketingNPV.com.

Summary

1. Companies can conduct their own marketing research or hire other companies to do it for them. Good marketing research is characterized by the scientific method, creativity, multiple research methods, accurate model building, cost-benefit analysis, healthy skepticism, and an ethical focus.
2. The marketing research process consists of defining the problem, decision alternatives; and research objectives; developing the research plan; collecting the information; analyzing the information; presenting the findings to management; and making the decision.
3. In conducting research, firms must decide whether to collect their own data or use data that already exist. They must also choose a research approach (observational, focus group, survey, behavioral data, or experimental) and research instruments (questionnaire, qualitative measures, or technological devices). In addition, they must decide on a sampling plan and contact methods (by mail, by phone, in person, or online).

4. Two complementary approaches to measuring marketing productivity are: (1) marketing metrics to assess marketing effects and (2) marketing-mix modeling to estimate causal relationships and measure how marketing activity affects outcomes. Marketing dashboards are a structured way to disseminate the insights gleaned from these two approaches within the organization.

Applications

Marketing Debate

What Is the Best Type of Marketing Research?

Many market researchers have their favorite research approaches or techniques, although different researchers often have different preferences. Some researchers maintain that the only way to really learn about consumers or brands is through in-depth, qualitative research. Others contend that the only legitimate and defensible form of marketing research uses quantitative measures.

Take a position: **The best marketing research is quantitative in nature *versus* The best marketing research is qualitative in nature.**

Marketing Discussion

Survey Quality

When was the last time you participated in a survey? How helpful do you think the information you provided was? How could the research have been done differently to make it more effective?

Marketing Excellence

>>IDEO

IDEO is the largest design consultancy firm in the United States. The company has created some of the most recognizable design icons of the technology age, including the first laptop computer, the first mouse (for Apple), the Palm V PDA, and the TiVo digital video recorder. Beyond its high-tech wizardry, the company has designed household items such as the Swiffer Sweeper and the Crest Neat Squeeze toothpaste tube, both for Procter & Gamble. IDEO's diverse roster of clients includes AT&T, Bank of America, Ford Motor Company, PepsiCo, Nike, Marriott, Caterpillar, Eli Lilly, Lufthansa, Prada, and the Mayo Clinic.

IDEO's success is predicated on an approach called "design thinking" based on a "human-centered methodology." The company strives to design products that consumers actively want because they offer a superior experience and solve a problem. In order to achieve these consumer-friendly solutions, IDEO tries to uncover deep insights through a variety of human-centered research methods. These studies help the firm better understand how consumers purchase, interact with, use, and even dispose of products. This customer-focused approach has run counter to the prevailing wisdom of many high-tech firms that focus more on their own capabilities when designing products. David Blakely, head of IDEO's technology group, explained, "Tech companies design from the inside out, whereas we design from the outside in so that we can put customers first."

IDEO employs a number of other observational methods to conduct "deep dives" into consumer behavior. The company's "human factors" team shadows consumers, takes pictures or videos of them during product purchase or use occasions, and conducts in-depth interviews with them to further evaluate their experiences. Another method is called "behavioral mapping," which creates a photographic log of people within a certain area like an airline departure lounge, a hospital waiting room, or a food court at a shopping mall over a period of days to gauge how the experience can be improved. A third method relies on "camera journals" that participants keep, in which they record their visual impressions of a given product or category. IDEO also invites consumers to use "storytelling" techniques to share personal narratives, videos, skits, or even animations about their experiences with a product or service.

Prototyping has also contributed to IDEO's success. It takes place throughout the design process so individuals can test out, experience, and improve upon each level of development. IDEO encourages its clients, even senior executives, to participate in the research so they get a sense of the actual consumer experience with their product or service. AT&T executives, for example, were sent on a scavenger hunt designed to test the company's location software for its mMode mobile phones. The executives soon realized the software was not user-friendly. One resorted to calling his wife so she could use Google to help him find an item on the list. IDEO helped AT&T redesign the interface to be more intuitive for the average user.

IDEO helped apparel-maker Warnaco improve sales by having its designers shadow eight women as they shopped for lingerie. The "shop-alongs" revealed that most consumers had a negative buying experience. They had difficulty locating the lingerie section in the department store and finding the right size in the overcrowded display, and they felt the fitting rooms were too small. IDEO developed a new six-stage merchandising environment that included larger fitting rooms, "concierges" to give shoppers information, and improved displays. Warnaco implemented this plan with the help of the department stores.

In another example, Marriott hired IDEO to help make its Courtyard by Marriott hotels more appealing to younger guests. IDEO conducted interviews and observed guests in the hotel's lounges, lobbies, and restaurants. Its research revealed that younger guests were turned off by the lack of activity in the hotel's public places, the lack of technology offered, and the poor food options. As a result, Courtyard by Marriott changed its furniture and decor to be more warm, comfortable, and inviting. The hotel added advanced technology options throughout its lobbies and lounges, such as flat-screen TVs and free Wi-Fi. Marriott converted the breakfast buffets to 24/7 coffee-shop-style cafés, where guests can quickly grab a gourmet coffee drink and healthy bite to eat any time. And Courtyard created new outdoor hangout spots with sound speakers and fire pits. After the renovations, Courtyard by Marriott changed its tagline to "Courtyard. It's a New Stay."

IDEO's novel consumer-led approach to design has led to countless success stories and awards for its clients and for the firm itself. The most important result for IDEO's designs is that they solve a usability problem for clients. The company goes "broad and deep" to achieve this goal. Since its founding, it has been issued over 1,000 patents, and in 2008 the company generated $120 million in revenues.

Questions

1. Why has IDEO been so successful? What is the most difficult challenge it faces in conducting its research and designing its products?
2. In the end, IDEO creates great solutions for companies that then receive all the credit. Should IDEO try to create more brand awareness for itself? Why or why not?

Sources: Lisa Chamberlain, "Going off the Beaten Path for New Design Ideas," *New York Times*, March 12, 2006; Chris Taylor, "School of Bright Ideas," *Time*, March 6, 2005, p. A8; Scott Morrison, "Sharp Focus Gives Design Group the Edge," *Financial Times*, February 17, 2005, p. 8; Bruce Nussbaum, "The Power of Design," *BusinessWeek*, May 17, 2004, p. 86; Teressa Iezzi, "Innovate, But Do It for Consumers," *Advertising Age*, September 11, 2006; Barbara De Lollis, "Marriott Perks Up Courtyard with Edgier, More Social Style," *USA Today*, April 1, 2008; Tim Brown, "Change by Design," *BusinessWeek*, October 5, 2009, pp. 54–56.

Marketing Excellence

>>Intuit

Intuit develops and sells financial and tax solution software for consumers and small to medium-sized businesses. The company was founded in 1983 by a former Procter & Gamble employee, Scott Cook, and a Stanford University programmer, Tom Proulx, after Cook realized there must be a better way to automate his bill-paying process. For over 25 years, Intuit's mission has been to "revolutionize people's lives by solving their important business and financial management problems."

Intuit launched its first product, Quicken, in 1984 and struggled to survive during those first years. After some favorable reviews in the trade journals and an effective print advertising campaign, the company got its first break. By 1988, Quicken was the best-selling finance product on the market. In 1992, the company launched QuickBooks, a bookkeeping and payroll software product for small businesses, and went public the following year.

Intuit grew quickly in the early 1990s, thanks to the success of Quicken, QuickBooks, and TurboTax, a tax preparation software program. Intuit's products did something for small businesses that more complicated accounting packages didn't: they solved finance and tax problems in a simple, easy-to-use manner. Intuit had recognized correctly that simplicity was the key, not in-depth accounting analysis. By 1995, the firm held a 70 percent market share, and Microsoft tried to purchase it for $2 billion. However, the Justice Department blocked the deal as anticompetitive and the buyout collapsed.

From 1995 to 1997, Intuit's stock tumbled 72 percent and forced the company to refocus its strategic efforts. It turned to the growing power of the Internet, online banking capabilities, and valuable input from its customers to develop new product versions, which in turn improved the company's stock value and market position throughout the 2000s.

Intuit spends a significant amount of time and money—approximately 20 percent of net revenues—on consumer research each year. It is critical for Intuit to know exactly how customers use and feel about their products due to the fast-paced nature of technology, shifting consumer needs, and the competitiveness of its industry. Intuit conducts several levels of research and invites consumers and businesses to participate in a variety of ways.

During a *Site Visit,* Intuit researchers visit the individual's home or office to observe and learn exactly how its products are used and can be improved in the true work environment. A *Lab Study* invites consumers to one of Intuit's U.S. research labs to test out new products and ideas. During a *Remote Study*, consumers are interviewed over the phone and often asked to view new design concepts over the Internet. The company also conducts an ongoing extensive research study with the Institute for the Future, to learn more about the future trends affecting small businesses. Intuit uses what it learns not only to produce improved versions of its products each year, but also to better understand the next generation of financial and tax software, such as solutions for mobile devices.

Demand for Intuit's products is seasonal, and its marketing efforts are typically concentrated around tax preparation time—November through April. During that time, Intuit develops promotions with original equipment manufacturers (OEMs) and major retailers. It promotes its products through a number of marketing efforts including direct mail, Web marketing, print, radio, and television ads.

While Intuit's marketing campaigns have evolved over the years, it was clear early on that positive word of mouth and exceptional customer service are its most effective marketing tools. Harry Pforzheimer, chief communications officer and marketing leader, explained, "It's a little harder to measure but when you know that roughly eight out of 10 customers bought your product because of word-of-mouth that's a pretty powerful tool . . . So engaging with our customers directly is part of our DNA and communicating with customers on a timely basis is critical. And that timely basis now is instantaneous."

Recently, Intuit has increased its presence on social media Web sites such as Twitter, Facebook, and LinkedIn. Just 12 weeks after the firm integrated a small-business Web site with these social networks, sales of QuickBooks increased 57 percent. To measure the viral success of this site, Intuit identified bloggers who either wrote their own stories or picked up stories originally posted by a few influential bloggers who were given a special preview. Intuit classified each blog post according to *velocity* (whether it took a month or happened in a few days), *share of voice* (how much talk occurred in the blogosphere), *voice quality* (what was said and how positive or negative it was), and *sentiment* (how meaningful the comments were).

In 2008, Intuit earned $3.1 billion in revenue, primarily from Quicken, QuickBooks, and TurboTax sales. The company now employs over 8,000 people, mostly in the United States, and is planning to expand internationally. It continues to acquire companies, such as personal finance Web site Mint.com in 2009, that will help it in growth areas such as solutions for mobile devices. Intuit believes that expanding its mobile solutions will encourage younger consumers to turn to the company for their finance and tax software. Growth will also come from previous Microsoft Money customers. In 2009, Microsoft announced it would discontinue its Money product line after an 18-year battle with Quicken. The victory was a rare win against the software giant and one that should provide great opportunity for Intuit.

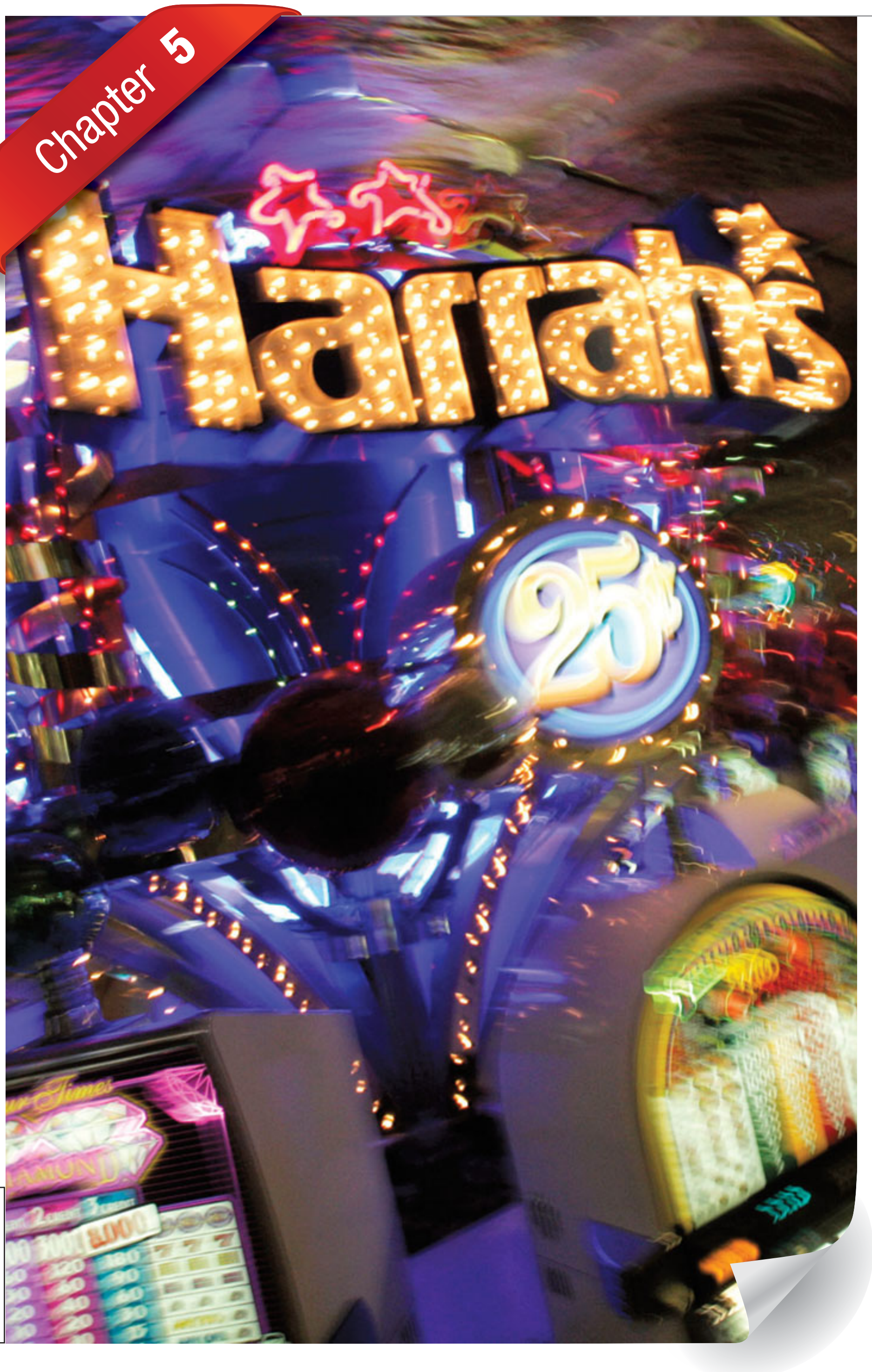
Questions

1. Elaborate on Intuit's use of customer research. Why did it work so well for the company?
2. Could anything go wrong for Intuit now that it has beaten out Microsoft? Why or why not?
3. How should Intuit gauge the results of its research among younger consumers with mobile devices?

Sources: Intuit, *2008 Annual Report*; Karen E. Klein, "The Face of Entrepreneurship in 2017," *BusinessWeek*, January 31, 2007; Intuit, "Intuit Study: Next-Gen Artisans Fuel New Entrepreneurial Economy," February 13, 2008; Michael Bush, "How PR Chiefs Have Shifted Toward Center of Marketing Departments," *Advertising Age,* September 21, 2009; Jon Swartz, "More Marketers Use Social Networking to Reach Customers," *USA Today,* August 28, 2009; Mark Johnson and Joe Sinfield, "Focusing on Consumer Needs Is Not Enough," *Advertising Age,* April 28, 2008; "Intuit CEO Sees Growth in Mobile, Global Markets," *Associated Press,* September 23, 2009.

PART 3 Connecting with Customers

Chapter 5



In This Chapter, We Will Address the Following Questions

1. What are customer value, satisfaction, and loyalty, and how can companies deliver them?
2. What is the lifetime value of customers, and how can marketers maximize it?
3. How can companies attract and retain the right customers and cultivate strong customer relationships?
4. What are the pros and cons of database marketing?

Harrah's Total Rewards loyalty program has significantly increased customer value to the firm.

Creating Long-term Loyalty Relationships

Today, companies face their toughest competition ever. Moving from a product-and-sales philosophy to a holistic marketing philosophy, however, gives them a better chance of outperforming the competition. The cornerstone of a well-conceived holistic marketing orientation is strong customer relationships. Marketers must connect with customers—informing, engaging, and maybe even energizing them in the process. Customer-centered companies are adept at building customer relationships, not just products; they are skilled in market engineering, not just product engineering. A pioneer in customer relationship management techniques is Harrah's Entertainment.

In 1997, Harrah's Entertainment, in Las Vegas, launched a pioneering loyalty program that pulled all customer data into a centralized warehouse and provided sophisticated analysis to better understand the value of the investments the casino made in its customers. Harrah's has over 10 million active members in its Total Rewards loyalty program, a system it has fine-tuned to achieve near-real-time analysis: As customers interact with slot machines, check into casinos, or buy meals, they receive reward offers—food vouchers or gambling credits, for example—based on the predictive analyses. The company has now identified hundreds of highly specific customer segments, and by targeting offers to each of them, it can almost double its share of customers' gaming budgets and generate $6.4 billion annually (80 percent of its gaming revenue). Harrah's dramatically cut back its traditional ad spending, largely replacing it with direct mail and e-mail—a good customer may receive as many as 150 pieces in a year. Data from the Total Rewards program even influenced Harrah's decision to buy Caesars Entertainment, when company research revealed that most of Harrah's customers who visited Las Vegas without staying at a Harrah's-owned hotel were going to Caesars Palace. Harrah's latest loyalty innovation is a mobile marketing program that sends time-based and location-based offers to customers' mobile devices in real time.[1]

As Harrah's experience shows, successful marketers are those who carefully manage their customer base. In this chapter, we spell out in detail the ways they can go about winning customers and beating competitors. The answer lies largely in doing a better job of meeting or exceeding customer expectations.

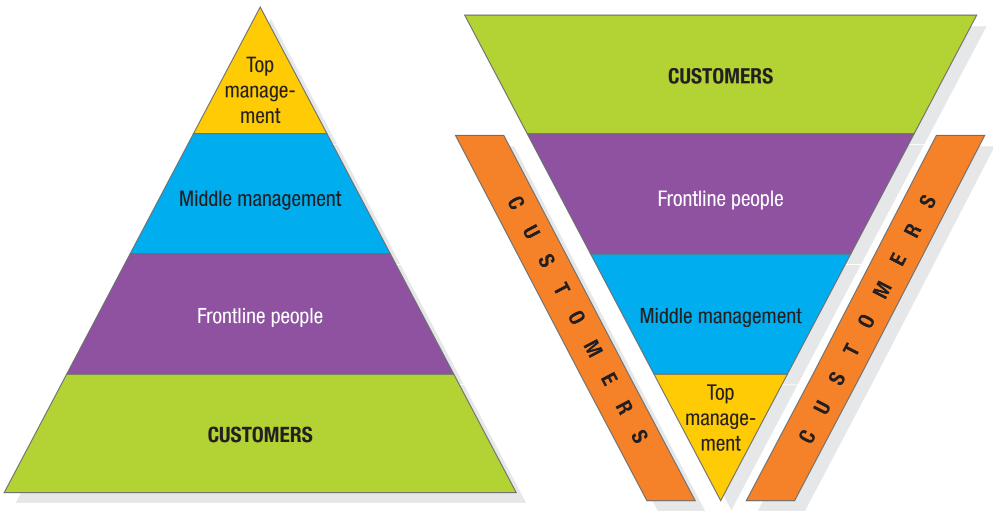
Building Customer Value, Satisfaction, and Loyalty

Creating loyal customers is at the heart of every business.[2] As marketing experts Don Peppers and Martha Rogers say:[3]

> The only value your company will ever create is the value that comes from customers—the ones you have now and the ones you will have in the future. Businesses succeed by getting, keeping, and growing customers. Customers are the only reason you build factories, hire employees, schedule meetings, lay fiber-optic lines, or engage in any business activity. Without customers, you don't have a business.

|Fig. 5.1|

Traditional Organization versus Modern Customer-Oriented Company Organization



Managers who believe the customer is the company's only true "profit center" consider the traditional organization chart in Figure 5.1(a)—a pyramid with the president at the top, management in the middle, and frontline people and customers at the bottom—obsolete.[4]

Successful marketing companies invert the chart as in Figure 5.1(b). At the top are customers; next in importance are frontline people who meet, serve, and satisfy customers; under them are the middle managers, whose job is to support the frontline people so they can serve customers well; and at the base is top management, whose job is to hire and support good middle managers. We have added customers along the sides of Figure 5.1(b) to indicate that managers at every level must be personally involved in knowing, meeting, and serving customers.

Some companies have been founded with the customer-on-top business model, and customer advocacy has been their strategy—and competitive advantage—all along. With the rise of digital technologies such as the Internet, increasingly informed consumers today expect companies to do more than connect with them, more than satisfy them, and even more than delight them. They expect companies to *listen* and *respond* to them.[5]

When Office Depot added customer reviews to its Web site in 2008, revenue and sales conversion increased significantly. The company also incorporated review-related terms to its paid search advertising campaign. As a result of these efforts, Web site revenue and the number of new buyers visiting the site both increased by more than 150 percent.[6]

When certain business decisions led to a deterioration of customer service, Dell's founder Michael Dell took decisive action.

Customer Perceived Value

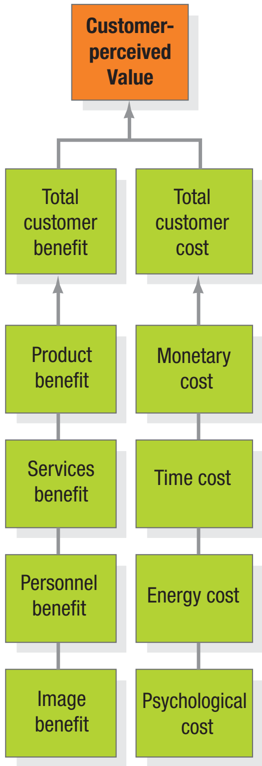
Consumers are better educated and informed than ever, and they have the tools to verify companies' claims and seek out superior alternatives.[7]

Dell Dell rode to success by offering low-priced computers, logistical efficiency, and after-sales service. The firm's maniacal focus on low costs has been a key ingredient in its success. When the company shifted its customer-service call centers to India and the Philippines to cut costs, however, understaffing frequently led to 30-minute waits for customers. Almost half the calls required at least one transfer. To discourage customer calls, Dell even removed its toll-free service number from its Web site. With customer satisfaction slipping, and competitors matching its product quality and prices *and* offering improved service, Dell's market share and stock price both declined sharply. Dell ended up hiring more North American call center employees. "The team was managing cost instead of managing service and quality," Michael Dell confesses.[8]

How then do customers ultimately make choices? They tend to be value maximizers, within the bounds of search costs and limited knowledge, mobility, and income. Customers estimate which offer they believe—for whatever reason—will deliver the most perceived value and act on it (△ Figure 5.2). Whether the offer lives up to expectation affects customer satisfaction and the probability that the customer will purchase the product again. In one 2008 survey asking U.S. consumers "Does [Brand X] give good value for what you pay?" the highest scoring brands included Craftsman tools, Discovery Channel, History Channel, Google, and Rubbermaid.[9]

Customer-perceived value (CPV) is the difference between the prospective customer's evaluation of all the benefits and all the costs of an offering and the perceived alternatives. **Total customer benefit** is the perceived monetary value of the bundle of economic, functional, and psychological benefits customers expect from a given market offering because of the product, service, people, and image. **Total customer cost** is the perceived bundle of costs customers expect to incur in evaluating, obtaining, using, and disposing of the given market offering, including monetary, time, energy, and psychological costs.

Customer-perceived value is thus based on the difference between benefits the customer gets and costs he or she assumes for different choices. The marketer can increase the value of the customer offering by raising economic, functional, or emotional benefits and/or reducing one or more costs. The customer choosing between two value offerings, V1 and V2, will favor V1 if the ratio V1:V2 is larger than one, favor V2 if the ratio is smaller than one, and be indifferent if the ratio equals one.



|Fig. 5.2| △

Determinants of Customer-Perceived Value

APPLYING VALUE CONCEPTS Suppose the buyer for a large construction company wants to buy a tractor for residential construction from either Caterpillar or Komatsu. He wants the tractor to deliver certain levels of reliability, durability, performance, and resale value. The competing salespeople carefully describe their respective offers. The buyer decides Caterpillar has greater product benefits based on his perceptions of those attributes. He also perceives differences in the accompanying services—delivery, training, and maintenance—and decides Caterpillar provides better service as well as more knowledgeable and responsive staff. Finally, he places higher value on Caterpillar's corporate image and reputation. He adds up all the economic, functional, and psychological benefits from these four sources—product, services, personnel, and image—and perceives Caterpillar as delivering greater customer benefits.

Does he buy the Caterpillar tractor? Not necessarily. He also examines his total cost of transacting with Caterpillar versus Komatsu, which consists of more than money. As Adam Smith observed over two centuries ago in *The Wealth of Nations*, "The real price of anything is the toil and trouble of acquiring it." Total customer cost also includes the buyer's time, energy, and psychological costs expended in product acquisition, usage, maintenance, ownership, and disposal. The buyer evaluates these elements together with the monetary cost to form a total customer cost. Then he considers whether Caterpillar's total customer cost is too high compared to total customer benefits. If it is, he might choose Komatsu. The buyer will choose whichever source delivers the highest perceived value.

Now let's use this decision-making theory to help Caterpillar succeed in selling to this buyer. Caterpillar can improve its offer in three ways. First, it can increase total customer benefit by improving economic, functional, and psychological benefits of its product, services, people, and/or image. Second, it can reduce the buyer's nonmonetary costs by reducing the time, energy, and psychological investment. Third, it can reduce its product's monetary cost to the buyer.

Suppose Caterpillar concludes the buyer sees its offer as worth $20,000. Further, suppose Caterpillar's cost of producing the tractor is $14,000. This means Caterpillar's offer generates $6,000 over its cost, so the firm needs to charge between $14,000 and $20,000. If it charges less than $14,000, it won't cover its costs; if it charges more, it will price itself out of the market.

Caterpillar's price will determine how much value it delivers to the buyer and how much flows to Caterpillar. If it charges $19,000, it is creating $1,000 of customer perceived value and keeping $5,000 for itself. The lower Caterpillar sets its price, the higher the customer perceived value and, therefore, the higher the customer's incentive to purchase. To win the sale, the firm must offer more customer perceived value than Komatsu does.[10] Caterpillar is well aware of the importance of taking a broad view of customer value.

Caterpillar

Caterpillar has become a leading firm by maximizing total customer value in the construction-equipment industry, despite challenges from a number of able competitors such as John Deere, Case, Komatsu, Volvo, and Hitachi. First, Caterpillar produces high-performance equipment known for reliability and durability—key purchase

Caterpillar's market success is partly a result of how well the firm creates customer value.

considerations in heavy industrial equipment. The firm also makes it easy for customers to find the right product by providing a full line of construction equipment and a wide range of financial terms. Caterpillar maintains the largest number of independent construction-equipment dealers in the industry. These dealers all carry a complete line of Caterpillar products and are typically better trained and perform more reliably than competitors' dealers. Caterpillar has also built a worldwide parts and service system second to none in the industry. Customers recognize all the value Caterpillar creates in its offerings, allowing the firm to command a premium price 10 percent to 20 percent higher than competitors. Caterpillar's biggest challenges are a reenergized Komatsu, which has made a strong push in China, and some supply chain issues in introducing new products.[11]

Very often, managers conduct a **customer value analysis** to reveal the company's strengths and weaknesses relative to those of various competitors. The steps in this analysis are:

1. ***Identify the major attributes and benefits customers value.*** Customers are asked what attributes, benefits, and performance levels they look for in choosing a product and vendors. Attributes and benefits should be defined broadly to encompass all the inputs to customers' decisions.
2. ***Assess the quantitative importance of the different attributes and benefits.*** Customers are asked to rate the importance of different attributes and benefits. If their ratings diverge too much, the marketer should cluster them into different segments.
3. ***Assess the company's and competitors' performances on the different customer values against their rated importance.*** Customers describe where they see the company's and competitors' performances on each attribute and benefit.
4. ***Examine how customers in a specific segment rate the company's performance against a specific major competitor on an individual attribute or benefit basis.*** If the company's offer exceeds the competitor's offer on all important attributes and benefits, the company can charge a higher price (thereby earning higher profits), or it can charge the same price and gain more market share.
5. ***Monitor customer values over time.*** The company must periodically redo its studies of customer values and competitors' standings as the economy, technology, and features change.

CHOICE PROCESSES AND IMPLICATIONS Some marketers might argue the process we have described is too rational. Suppose the customer chooses the Komatsu tractor. How can we explain this choice? Here are three possibilities.

1. ***The buyer might be under orders to buy at the lowest price.*** The Caterpillar salesperson's task is then to convince the buyer's manager that buying on price alone will result in lower long-term profits and customer value.
2. ***The buyer will retire before the company realizes the Komatsu tractor is more expensive to operate.*** The buyer will look good in the short run; he is maximizing personal benefit. The Caterpillar salesperson's task is to convince other people in the customer company that Caterpillar delivers greater customer value.
3. ***The buyer enjoys a long-term friendship with the Komatsu salesperson.*** In this case, Caterpillar's salesperson needs to show the buyer that the Komatsu tractor will draw complaints from the tractor operators when they discover its high fuel cost and need for frequent repairs.

The point is clear: Buyers operate under various constraints and occasionally make choices that give more weight to their personal benefit than to the company's benefit.

Customer-perceived value is a useful framework that applies to many situations and yields rich insights. It suggests that the seller must assess the total customer benefit and total customer cost associated with each competitor's offer in order to know how his or her offer rates in the buyer's mind. It also implies that the seller at a disadvantage has two alternatives: increase total customer benefit or decrease total customer cost. The former calls for strengthening or augmenting the economical, functional, and psychological benefits of the offering's product, services, personnel, and image. The latter calls for reducing the buyer's costs by reducing the price or cost of ownership and maintenance, simplifying the ordering and delivery process, or absorbing some buyer risk by offering a warranty.[12]

DELIVERING HIGH CUSTOMER VALUE Consumers have varying degrees of loyalty to specific brands, stores, and companies. Oliver defines **loyalty** as "a deeply held commitment to rebuy or repatronize a preferred product or service in the future despite situational influences and marketing efforts having the potential to cause switching behavior."[13] Table 5.1 displays brands with the greatest degree of customer loyalty according to one 2010 survey.[14]

The **value proposition** consists of the whole cluster of benefits the company promises to deliver; it is more than the core positioning of the offering. For example, Volvo's core positioning has been "safety," but the buyer is promised more than just a safe car; other benefits include good performance, design, and safety for the environment. The value proposition is thus a promise about the experience customers can expect from the company's market offering and their relationship with the supplier. Whether the promise is kept depends on the company's ability to manage its value delivery system.[15] The **value delivery system** includes all the experiences the customer will have on the way to obtaining and using the offering. At the heart of a good value delivery system is a set of core business processes that help deliver distinctive consumer value.[16]

TABLE 5.1 Top 25 Brands in Customer Loyalty

Brand	Category	Rankings	
		2010	2009
Apple iPhone	Wireless Handset	1	1
Clairol (hair color)	Hair Color	2	NA
Samsung	Wireless Handset	3	2
Mary Kay	Cosmetics (Mass Merchandiser)	4	7
Grey Goose	Vodka	5	6
Clinique (cosmetics: Luxury)	Cosmetics (Luxury)	6	19
AVIS	Car Rental	7	8
Walmart	Retail Store (Discount)	8	5
Google	Search Engine	9	3
Amazon.com	Online Book/Music	10	10
Bing	Search Engine	11	NA
J. Crew	Retail Store (Apparel)	12	23
AT&T Wireless	Wireless Phone	13	123
Discover Card	Credit Card	14	121
Verizon Wireless	Wireless Phone	15	21
Intercontinental Hotels	Hotel (Luxury)	16	103
Cheerios	Breakfast Cereal: Kids	17	71
Dunkin' Donuts	Coffee	18	54
Home Depot	Retail Store (Home Improvement)	19	192
Domino's Pizza	Pizza	20	156
Barilla	Pasta Sauce	21	NA
Canon	MFP Copier	22	44
Nike	Athletic Footwear	23	178
Coors Light	Beer (Light)	24	63
Acer	Computer (Netbook)	25	NA

Source: "2010 Brand Keys Customer Loyalty Leaders List," www.brandkeys.com.