Training and Motivating Channel Members

A company needs to view its intermediaries the same way it views its end users. It should determine their needs and wants and tailor its channel offering to provide them with superior value.

Carefully implemented training, market research, and other capability-building programs can motivate and improve intermediaries' performance. The company must constantly communicate that intermediaries are crucial partners in a joint effort to satisfy end users of the product. Microsoft requires its third-party service engineers to complete a set of courses and take certification exams. Those who pass are formally recognized as Microsoft Certified Professionals and can use this designation to promote their own business. Other firms use customer surveys rather than exams.

CHANNEL POWER Producers vary greatly in their skill in managing distributors. **Channel power** is the ability to alter channel members' behavior so they take actions they would not have taken otherwise.[31] Manufacturers can draw on the following types of power to elicit cooperation:

- ***Coercive power.*** A manufacturer threatens to withdraw a resource or terminate a relationship if intermediaries fail to cooperate. This power can be effective, but its exercise produces resentment and can lead the intermediaries to organize countervailing power.
- ***Reward power.*** The manufacturer offers intermediaries an extra benefit for performing specific acts or functions. Reward power typically produces better results than coercive power, but intermediaries may come to expect a reward every time the manufacturer wants a certain behavior to occur.
- ***Legitimate power.*** The manufacturer requests a behavior that is warranted under the contract. As long as the intermediaries view the manufacturer as a legitimate leader, legitimate power works.
- ***Expert power.*** The manufacturer has special knowledge the intermediaries value. Once the intermediaries acquire this expertise, however, expert power weakens. The manufacturer must continue to develop new expertise so intermediaries will want to continue cooperating.
- ***Referent power.*** The manufacturer is so highly respected that intermediaries are proud to be associated with it. Companies such as IBM, Caterpillar, and Hewlett-Packard have high referent power.[32]

Coercive and reward power are objectively observable; legitimate, expert, and referent power are more subjective and depend on the ability and willingness of parties to recognize them.

Most producers see gaining intermediaries' cooperation as a huge challenge. They often use positive motivators, such as higher margins, special deals, premiums, cooperative advertising allowances, display allowances, and sales contests. At times they will apply negative sanctions, such as threatening to reduce margins, slow down delivery, or terminate the relationship. The weakness of this approach is that the producer is using crude, stimulus-response thinking.

In many cases, retailers hold the power. Manufacturers offer the nation's supermarkets between 150 and 250 new items each week, of which store buyers reject over 70 percent. Manufacturers need to know the acceptance criteria buyers, buying committees, and store managers use. ACNielsen interviews found that store managers were most influenced by (in order of importance) strong evidence of consumer acceptance, a well-designed advertising and sales promotion plan, and generous financial incentives.

CHANNEL PARTNERSHIPS More sophisticated companies try to forge a long-term partnership with distributors.[33] The manufacturer clearly communicates what it wants from its distributors in the way of market coverage, inventory levels, marketing development, account solicitation, technical advice and services, and marketing information and may introduce a compensation plan for adhering to the policies.

To streamline the supply chain and cut costs, many manufacturers and retailers have adopted *efficient consumer response (ECR) practices* to organize their relationships in three areas: (1) *demand side management* or collaborative practices to stimulate consumer demand by promoting joint marketing and sales activities, (2) *supply side management* or collaborative practices to optimize supply (with a focus on joint logistics and supply chain activities), and (3) *enablers and integrators*, or collaborative information technology and process improvement tools to support joint activities that reduce operational problems, allow greater standardization, and so on.

Research has shown that although ECR has a positive impact on manufacturers' economic performance and capability development, manufacturers may also feel they are inequitably sharing the burdens of adopting it and not getting as much as they deserve from retailers.[34]

Evaluating Channel Members

Producers must periodically evaluate intermediaries' performance against such standards as sales-quota attainment, average inventory levels, customer delivery time, treatment of damaged and lost goods, and cooperation in promotional and training programs. A producer will occasionally discover it is overpaying particular intermediaries for what they are actually doing. One manufacturer compensating a distributor for holding inventories found the inventories were actually held in a public warehouse at its own expense. Producers should set up functional discounts in which they pay specified amounts for the trade channel's performance of each agreed upon service. Underperformers need to be counseled, retrained, motivated, or terminated.

Modifying Channel Design and Arrangements

No channel strategy remains effective over the whole product life cycle. In competitive markets with low entry barriers, the optimal channel structure will inevitably change over time. The change could mean adding or dropping individual market channels or channel members or developing a totally new way to sell goods.

CHANNEL EVOLUTION A new firm typically starts as a local operation selling in a fairly circumscribed market, using a few existing intermediaries. Identifying the best channels might not be a problem; the problem is often to convince the available intermediaries to handle the firm's line.

If the firm is successful, it might branch into new markets with different channels. In smaller markets, the firm might sell directly to retailers; in larger markets, through distributors. In rural areas, it might work with general-goods merchants; in urban areas, with limited-line merchants. It might grant exclusive franchises or sell through all willing outlets. In one country, it might use international sales agents; in another, it might partner with a local firm.

Early buyers might be willing to pay for high-value-added channels, but later buyers will switch to lower-cost channels. Small office copiers were first sold by manufacturers' direct sales forces, later through office equipment dealers, still later through mass merchandisers, and now by mail-order firms and Internet marketers.

In short, the channel system evolves as a function of local opportunities and conditions, emerging threats and opportunities, company resources and capabilities, and other factors. Consider some of the challenges Dell has encountered in recent years.[35]

Dell

Dell Dell revolutionized the personal computer category by selling directly to customers via the telephone and later the Internet. Customers could custom-design the exact PC they wanted, and rigorous cost cutting allowed for low everyday prices. Sound like a winning formula? It was for almost two decades. But by 2006, the company was encountering problems that led to a steep stock price decline. First, reinvigorated competitors such as HP narrowed the gap in productivity and price. Always focused more on the business market, Dell struggled to sell effectively to the consumer market. A shift in consumer preferences to buying in retail stores didn't help, but self-inflicted damage from an ultra-efficient supply chain model that squeezed costs—and quality—out of customer service was perhaps the most painful. Managers evaluated call center employees primarily on how quickly they finished each call—a recipe for disaster as scores of customers felt their problems were ignored or not properly handled. A drop in R&D spending that hindered new-product development and led to a lack of differentiation didn't help either. Clearly, Dell had entered a new chapter in its history. A fundamental rethinking of its channel strategy and its marketing approach as a whole would consume the company for the next five years.

Channel Modification Decisions

A producer must periodically review and modify its channel design and arrangements.[36] The distribution channel may not work as planned, consumer buying patterns change, the market expands, new competition arises, innovative distribution channels emerge, and the product moves into later stages in the product life cycle.[37]

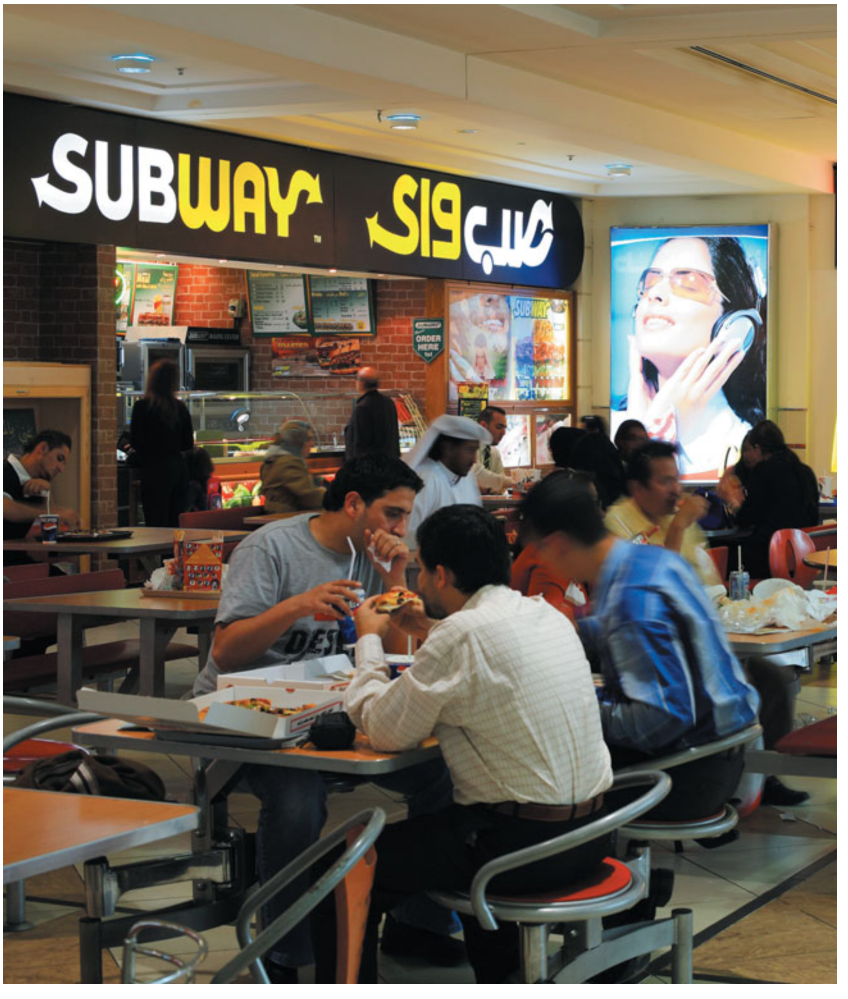
Adding or dropping individual channel members requires an incremental analysis. Increasingly detailed customer databases and sophisticated analysis tools can provide guidance into those decisions.[38] A basic question is: What would the firm's sales and profits look like with and without this intermediary?

Perhaps the most difficult decision is whether to revise the overall channel strategy.[39] Avon's door-to-door system for selling cosmetics was modified as more women entered the workforce. Despite the convenience of automated teller machines, online banking, and telephone call centers, many bank customers still want "high touch" over "high tech," or at least they want the choice. Banks are thus opening more branches and developing cross-selling and up-selling practices to capitalize on the face-to-face contact that results.

Global Channel Considerations

International markets pose distinct challenges, including variations in customers' shopping habits, but opportunities at the same time.[40] In India, sales from "organized retail"—hypermarkets, supermarkets, and department stores—make up only 4 percent of the $322 billion market. Most shopping still takes place in millions of independent grocery shops or *kirana* stores, run by an owner and one or perhaps two other people.[41] Many top global retailers such as Germany's Aldi, the United Kingdom's Tesco, and Spain's Zara have tailored their image to local needs and wants when entering a new market.

Franchised companies such as Curves women's fitness centers and Subway sandwich shops have experienced double-digit growth overseas, especially in developing markets such as Brazil and Central and Eastern Europe. In some cases, *master franchisees* pay a significant fee to acquire a territory or country where they operate as a "mini-franchiser" in their own right. More knowledgeable about local laws, customs, and consumer needs than foreign companies, they sell and oversee franchises and collect royalties.[42]



Subway has franchise operators all over the world, including in the Doha City Center Shopping Mall in Qatar, shown here.

But many pitfalls exist in global expansion, and retailers must also be able to defend their home turf from the entry of foreign retailers. Selling everything from food to televisions, France's Carrefour, the world's second-biggest retailer, has encountered stiff competition in its home markets from smaller supermarkets for groceries and from specialist retailers such as IKEA or Fnac for other goods. Although strong in parts of Europe, Asia, and Latin America, Carrefour (which means "crossroads" in French) has been forced to cease operations in a number of countries, such as Japan, South Korea, Mexico, Czech Republic, Slovakia, Russia, Switzerland, and Portugal. Another of France's mega-retailers the Walmart-like Auchan, has been quite successful in entering emerging markets like China while unable to crack markets in the United States or Britain.[43]

The first step in global channel planning, as is often the case in marketing, is to get close to customers. To adapt its clothing lines to better suit European tastes, Philadelphia-based Urban Outfitters set up a separate design and merchandising unit in London before it opened its first store in Europe. Although they increased costs, the blended American and European looks helped the retailer stand out.[44] Crossing the Atlantic the other way, Tesco introduced its Fresh & Easy gourmet minisupermarkets into California after 20 years of research that included spending time with U.S. families and videotaping the contents of their refrigerators. The retailer had gone through similar steps before entering China.[45]

A good retail strategy that offers customers a positive shopping experience and unique value, if properly adapted, is likely to find success in more than one market. Take Topshop for instance.

Topshop Founded by Sir Richard Green in the United Kingdom in 1994, clothing retailer Topshop is a chain of 310 UK stores and 116 international franchisees that commands intense loyalty from its trendy, style-obsessed customer base. Selling primarily party clothes, accessories, and daywear to women, Topshop blends English street fashion, reasonable prices, and fun services. A higher-end, quirkier version of fast-fashion chains H&M and Zara, Topshop allows middle-market consumers to dress upscale affordably. Partnering with style icons Kate Moss, Stella Vine, and Celia Birtwell to create the latest designs, Topshop offers style advisors, Topshop-to-Go (a Tupperware-type party that brings a style advisor to a customer's home with outfits for up to 10 people), and Topshop Express (an express delivery service via Vespa scooters for fashion "emergencies"). The 60,000 square foot store on Broadway in New York City is Topshop's second biggest and first flagship store outside the United Kingdom.[46]

Topshop's unique combination of fashion, value, and fun is finding success both inside and outside the United Kingdom.

Channel Integration and Systems

Distribution channels don't stand still. We'll look at the recent growth of vertical, horizontal, and multichannel marketing systems; the next section examines how these systems cooperate, conflict, and compete.

Vertical Marketing Systems

A **conventional marketing channel** consists of an independent producer, wholesaler(s), and retailer(s). Each is a separate business seeking to maximize its own profits, even if this goal reduces profit for the system as a whole. No channel member has complete or substantial control over other members.

A **vertical marketing system (VMS)**, by contrast, includes the producer, wholesaler(s), and retailer(s) acting as a unified system. One channel member, the *channel captain,* owns or franchises the others or has so much power that they all cooperate. "Marketing Insight: Channel Stewards Take Charge" provides some perspective on how *channel stewards*, a closely related concept, can work.

Marketing Insight

Channel Stewards Take Charge

Harvard's V. Kasturi Rangan believes companies should adopt a new approach to going to market—**channel stewardship**. Rangan defines channel stewardship as the ability of a given participant in a distribution channel—a steward—to create a go-to-market strategy that simultaneously addresses customers' best interests and drives profits for all channel partners. The channel steward accomplishes channel coordination without issuing commands or directives by persuading channel partners to act in the best interest of all.

A channel steward might be the maker of the product or service (Procter & Gamble or American Airlines), the maker of a key component (microchip maker Intel), the supplier or assembler (Dell or Arrow Electronics), or the distributor (W.W. Grainger) or retailer (Walmart). Within a company, stewardship might rest with the CEO, a top manager, or a team of senior managers.

Channel stewardship should appeal to any organization that wants to bring a disciplined approach to channel strategy. With the customer's point of view in mind, the steward advocates for change among all participants, transforming them into partners with a common purpose.

Channel stewardship has two important outcomes. First it expands value for the steward's customers, enlarging the market or existing customers' purchases through the channel. A second outcome is to create a more tightly woven and yet adaptable channel, in which valuable members are rewarded and the less valuable members are weeded out.

Rangan outlines three key disciplines of channel management:

1. *Mapping* at the industry level provides a comprehensive view of the key determinants of channel strategy and how they are evolving. It identifies current best practices and gaps, and it projects future requirements.
2. *Building and editing* assesses the producer's own channels to identify any deficits in meeting customers' needs and/or competitive best practices to put together a new and improved overall system.
3. *Aligning and influencing* closes the gaps and works out a compensation package in tune with effort and performance for channel members that add or could add value.

Channel stewardship works at the customer level, not at the level of channel institutions. Thus, channel managers can adapt their fulfillment of customer needs without having to change channel structure all at once. An evolutionary approach to channel change, stewardship requires constant monitoring, learning, and adaptation, but all in the best interests of customers, channel partners, and channel steward. A channel steward need not be a huge company or market leader; Rangan cites smaller players, such as Haworth and Atlas Copco, as well as distributors and retailers such as Walmart, Best Buy, and HEB (supermarkets).

Sources: V. Kasturi Rangan, *Transforming Your Go-to-Market Strategy: The Three Disciplines of Channel Management* (Boston: Harvard Business School Press, 2006); Kash Rangan, "Channel Stewardship: An Introductory Guide," www.channelstewardship.com; Partha Rose and Romit Dey, "Channel Stewardship: Driving Profitable Revenue Growth in High-Tech with Multi-Channel Management," *Infosys ViewPoint*, August 2007.

Vertical marketing systems (VMSs) arose from strong channel members' attempts to control channel behavior and eliminate conflict over independent members pursuing their own objectives. VMSs achieve economies through size, bargaining power, and elimination of duplicated services. Business buyers of complex products and systems value the extensive exchange of information they can obtain from a VMS,[47] and VMSs have become the dominant mode of distribution in the U.S. consumer marketplace, serving 70 percent to 80 percent of the market. There are three types: corporate, administered, and contractual.

CORPORATE VMS A *corporate VMS* combines successive stages of production and distribution under single ownership. Sears for years obtained over half the goods it sells from companies it partly or wholly owned. Sherwin-Williams makes paint but also owns and operates 3,300 retail outlets.

ADMINISTERED VMS An *administered VMS* coordinates successive stages of production and distribution through the size and power of one of the members. Manufacturers of dominant brands can secure strong trade cooperation and support from resellers. Thus Kodak, Gillette, and Campbell Soup command high levels of cooperation from their resellers in connection with displays, shelf space, promotions, and price policies. The most advanced supply-distributor arrangement for administered VMSs relies on **distribution programming**, which builds a planned, professionally managed, vertical marketing system that meets the needs of both manufacturer and distributors.

CONTRACTUAL VMS A *contractual VMS* consists of independent firms at different levels of production and distribution, integrating their programs on a contractual basis to obtain more economies or sales impact than they could achieve alone.[48] Sometimes thought of as "value-adding partnerships" (VAPs), contractual VMSs come in three types:

1. ***Wholesaler-sponsored voluntary chains***—Wholesalers organize voluntary chains of independent retailers to help standardize their selling practices and achieve buying economies in competing with large chain organizations.
2. ***Retailer cooperatives***—Retailers take the initiative and organize a new business entity to carry on wholesaling and possibly some production. Members concentrate their purchases through the retailer co-op and plan their advertising jointly. Profits pass back to members in proportion to their purchases. Nonmember retailers can also buy through the co-op but do not share in the profits.
3. ***Franchise organizations***—A channel member called a *franchisor* might link several successive stages in the production-distribution process. Franchising has been the fastest-growing retailing development in recent years.

Although the basic idea is an old one, some forms of franchising are quite new. The traditional system is the *manufacturer-sponsored retailer franchise.* Ford licenses independent businesspeople to sell its cars who agree to meet specified conditions of sales and services. Another system is the *manufacturer-sponsored wholesaler franchise.* Coca-Cola licenses bottlers (wholesalers) in various markets that buy its syrup concentrate and then carbonate, bottle, and sell it to retailers in local markets. A newer system is the *service-firm-sponsored retailer franchise,* organized by a service firm to bring its service efficiently to consumers. We find examples in auto rental (Hertz and Avis), fast food (McDonald's and Burger King), and the motel business (Howard Johnson and Ramada Inn). In a dual distribution system, firms use both vertical integration (the franchisor actually owns and runs the units) and market governance (the franchisor licenses the units to other franchisees).[49]

THE NEW COMPETITION IN RETAILING Many independent retailers that have not joined VMSs have developed specialty stores serving special market segments. The result is a polarization in retailing between large vertical marketing organizations and independent specialty stores, which creates a problem for manufacturers. They are strongly tied to independent intermediaries but must eventually realign themselves with the high-growth vertical marketing systems on less attractive terms. Furthermore, vertical marketing systems constantly threaten to bypass large manufacturers and set up their own manufacturing. The new competition in retailing is no longer between independent business units but between whole systems of centrally programmed networks (corporate, administered, and contractual), competing against one another to achieve the best cost economies and customer response.

Horizontal Marketing Systems

Another channel development is the **horizontal marketing system**, in which two or more unrelated companies put together resources or programs to exploit an emerging marketing opportunity. Each company lacks the capital, know-how, production, or marketing resources to venture alone, or it is afraid of the risk. The companies might work together on a temporary or permanent basis or create a joint venture company.

For example, many supermarket chains have arrangements with local banks to offer in-store banking. Citizens Bank has over 523 branches in supermarkets, making up roughly 35 percent of its branch network. Citizens's staff members in these locations are more sales oriented, younger, and more likely to have some retail sales background than staff in the traditional brick-and-mortar branches.[50]

Integrating Multichannel Marketing Systems

Most companies today have adopted multichannel marketing. Disney sells its DVDs through five main channels: movie rental stores such as Blockbuster, Disney Stores (now owned and run by The Children's Place), retail stores such as Best Buy, online retailers such as Disney's own online stores and Amazon.com, and the Disney catalog and other catalog sellers. This variety affords Disney maximum market coverage and enables it to offer its videos at a number of price points.[51] Here are some of the channel options for leather goods maker Coach.

Coach Coach markets a high-end line of luxury handbags, briefcases, luggage, and accessories. Roughly 84 percent of its sales are via the Internet, catalog, company retail stores in North America, Japan, Hong Kong, Macau and mainland China, and its North American outlet stores. Coach also has store-in-store offerings in Japan and China inside major department stores. Ten percent of sales are from 930 U.S. department store locations, such as Macy's (including Bloomingdale's), Dillard's, Nordstrom, Saks (including Carson's) and Lord & Taylor, as well as some of those retailer's Web sites. Five percent of sales are from international wholesalers in 20 countries, mostly department stores. Finally, Coach has licensing relationships with Movado (watches), Jimlar (footwear), and Marchon (eyewear). These licensed products are sometimes sold in other channels such as jewelry stores, high-end shoe stores, and optical retailers.[52]

Luxury goods maker Coach has a variety of carefully selected and managed channel options.

An **integrated marketing channel system** is one in which the strategies and tactics of selling through one channel reflect the strategies and tactics of selling through one or more other channels. Adding more channels gives companies three important benefits. The first is increased market coverage. Not only are more customers able to shop for the company's products in more places, but those who buy in more than one channel are often more profitable than single-channel customers.[53] The second benefit is lower channel cost—selling by phone is cheaper than personal selling to small customers. The third is more customized selling—such as by adding a technical sales force to sell complex equipment.

There is a trade-off, however. New channels typically introduce conflict and problems with control and cooperation. Two or more may end up competing for the same customers.

Clearly, companies need to think through their channel architecture and determine which channels should perform which functions. Figure 15.6 shows a simple grid to help make channel architecture decisions. The grid consists of major marketing channels (as rows) and the major channel tasks to be completed (as columns).[54]

The grid illustrates why using only one channel is not efficient. Consider a direct sales force. A salesperson would have to find leads, qualify them, presell, close the sale, provide service, and manage account growth. An integrated multichannel approach would be better. The company's marketing department could run a preselling campaign informing prospects about the company's products through advertising, direct mail, and telemarketing; generate leads through telemarketing, direct mail, advertising, and trade shows; and qualify leads into hot, warm, and cool. The salesperson enters when the prospect is ready to talk business and invests his or her costly time primarily in closing the sale. This multichannel architecture optimizes coverage, customization, and control while minimizing cost and conflict.

Companies should use different sales channels for different-sized business customers—a direct sales force for large customers, telemarketing for midsize customers, and distributors for small customers—but be alert for conflict over account ownership. For example, territory-based sales representatives may want credit for all sales in their territories, regardless of the marketing channel used.

Multichannel marketers also need to decide how much of their product to offer in each of the channels. Patagonia views the Web as the ideal channel for showing off its entire line of goods, given that its 20 stores and 5 outlets are limited by space to offering a selection only, and even its catalog promotes less than 70 percent of its total merchandise.[55] Other marketers prefer to limit their online offerings, theorizing that customers look to Web sites

Demand-generation Tasks

Marketing Channels and Methods

VENDOR

	Gather relevant information	Develop & disseminate communications	Reach price agreements	Place orders	Acquire funds for inventories	Assume risks	Facilitate product storage & movement	Facilitate payment	Oversee ownership transfer
Internet									
National account management									
Direct sales									
Telemarketing									
Direct mail									
Retail stores									
Distributors									
Dealers and value-added resellers									

CUSTOMER

|Fig. 15.6|

The Hybrid Grid

Source: Adapted from Rowland T. Moriarty and Ursula Moran, "Marketing Hybrid Marketing Systems," *Harvard Business Review*, November–December, 1990, p. 150.

and catalogs for a "best of" array of merchandise and don't want to have to click through dozens of pages.

Conflict, Cooperation, and Competition

No matter how well channels are designed and managed, there will be some conflict, if only because the interests of independent business entities do not always coincide. **Channel conflict** is generated when one channel member's actions prevent another channel from achieving its goal. Software giant Oracle Corp., plagued by channel conflict between its sales force and its vendor partners, decided to roll out new "All Partner Territories" where all deals except for specific strategic accounts would go through select Oracle partners.[56]

Channel coordination occurs when channel members are brought together to advance the goals of the channel, as opposed to their own potentially incompatible goals.[57] Here we examine three questions: What types of conflict arise in channels? What causes conflict? What can marketers do to resolve it?

Types of Conflict and Competition

Suppose a manufacturer sets up a vertical channel consisting of wholesalers and retailers hoping for channel cooperation and greater profits for each member. Yet horizontal, vertical, and multichannel conflict can occur.

- ***Horizontal channel conflict*** occurs between channel members at the same level. Some Pizza Inn franchisees complained about others cheating on ingredients, providing poor service, and hurting the overall brand image.
- ***Vertical channel conflict*** occurs between different levels of the channel. When Estée Lauder set up a Web site to sell its Clinique and Bobbi Brown brands, the department

When Goodyear expanded its channels to include mass-market retailers, it angered its long-time independent dealers.

store Dayton Hudson reduced its space for Estée Lauder products.[58] Greater retailer consolidation—the 10 largest U.S. retailers account for over 80 percent of the average manufacturer's business—has led to increased price pressure and influence from retailers.[59] Walmart, for example, is the principal buyer for many manufacturers, including Disney, Procter & Gamble, and Revlon, and is able to command reduced prices or quantity discounts from these and other suppliers.[60]

- ***Multichannel conflict*** exists when the manufacturer has established two or more channels that sell to the same market.[61] It's likely to be especially intense when the members of one channel get a lower price (based on larger-volume purchases) or work with a lower margin. When Goodyear began selling its popular tire brands through Sears, Walmart, and Discount Tire, it angered its independent dealers and eventually placated them by offering exclusive tire models not sold in other retail outlets.

Causes of Channel Conflict

Some causes of channel conflict are easy to resolve, others are not. Conflict may arise from:

- ***Goal incompatibility.*** The manufacturer may want to achieve rapid market penetration through a low-price policy. Dealers, in contrast, may prefer to work with high margins and pursue short-run profitability.
- ***Unclear roles and rights.*** HP may sell personal computers to large accounts through its own sales force, but its licensed dealers may also be trying to sell to large accounts. Territory boundaries and credit for sales often produce conflict.
- ***Differences in perception.*** The manufacturer may be optimistic about the short-term economic outlook and want dealers to carry higher inventory. Dealers may be pessimistic. In the beverage category, it is not uncommon for disputes to arise between manufacturers and their distributors about the optimal advertising strategy.
- ***Intermediaries' dependence on the manufacturer.*** The fortunes of exclusive dealers, such as auto dealers, are profoundly affected by the manufacturer's product and pricing decisions. This situation creates a high potential for conflict.

Managing Channel Conflict

Some channel conflict can be constructive and lead to better adaptation to a changing environment, but too much is dysfunctional.[62] The challenge is not to eliminate all conflict, which is

TABLE 15.2	Strategies to Manage Channel Conflict
Strategic justification	
Dual compensation	
Superordinate goals	
Employee exchange	
Joint memberships	
Co-optation	
Diplomacy, mediation, or arbitration	
Legal recourse	

impossible, but to manage it better. There are a number of mechanisms for effective conflict management (see Table 15.2).[63]

Strategic Justification In some cases, a convincing strategic justification that they serve distinctive segments and do not compete as much as they might think can reduce potential for conflict among channel members. Developing special versions of products for different channel members—branded variants as described in Chapter 9—is a clear way to demonstrate that distinctiveness.

Dual Compensation Dual compensation pays existing channels for sales made through new channels. When Allstate started selling insurance online, it agreed to pay agents a 2 percent commission for face-to-face service to customers who got their quotes on the Web. Although lower than the agents' typical 10 percent commission for offline transactions, it did reduce tensions.[64]

Superordinate Goals Channel members can come to an agreement on the fundamental or superordinate goal they are jointly seeking, whether it is survival, market share, high quality, or customer satisfaction. They usually do this when the channel faces an outside threat, such as a more efficient competing channel, an adverse piece of legislation, or a shift in consumer desires.

Employee Exchange A useful step is to exchange persons between two or more channel levels. GM's executives might agree to work for a short time in some dealerships, and some dealership owners might work in GM's dealer policy department. Thus participants can grow to appreciate each other's point of view.

Joint Memberships Similarly, marketers can encourage joint memberships in trade associations. Good cooperation between the Grocery Manufacturers of America and the Food Marketing Institute, which represents most of the food chains, led to the development of the universal product code (UPC). The associations can consider issues between food manufacturers and retailers and resolve them in an orderly way.

Co-option *Co-optation* is an effort by one organization to win the support of the leaders of another by including them in advisory councils, boards of directors, and the like. If the organization treats invited leaders seriously and listens to their opinions, co-optation can reduce conflict, but the initiator may need to compromise its policies and plans to win outsiders' support.

Diplomacy, Mediation, and Arbitration When conflict is chronic or acute, the parties may need to resort to stronger means. *Diplomacy* takes place when each side sends a person or group to meet with its counterpart to resolve the conflict. *Mediation* relies on a neutral third party skilled in conciliating the two parties' interests. In *arbitration* two parties agree to present their arguments to one or more arbitrators and accept their decision.

Legal Recourse If nothing else proves effective, a channel partner may choose to file a lawsuit. When Coca-Cola decided to distribute Powerade thirst quencher directly to Walmart's regional warehouses, 60 bottlers complained the practice would undermine their core direct-store-distribution (DSD) duties and filed a lawsuit. A settlement allowed for the mutual exploration of new service and distribution systems to supplement the DSD system.[65]

Dilution and Cannibalization

Marketers must be careful not to dilute their brands through inappropriate channels, particularly luxury brands whose images often rest on exclusivity and personalized service. Calvin Klein and Tommy Hilfiger took a hit when they sold too many of their products in discount channels.

To reach affluent shoppers who work long hours and have little time to shop, high-end fashion brands such as Dior, Louis Vuitton, and Fendi have unveiled e-commerce sites as a way for customers to research items before walking into a store, and a means to help combat fakes sold on the Internet. Given the lengths to which these brands go to pamper customers in their stores—doormen, glasses of champagne, extravagant surroundings—they have had to work hard to provide a high-quality experience online.[66]

Legal and Ethical Issues in Channel Relations

Companies are generally free to develop whatever channel arrangements suit them. In fact, the law seeks to prevent them from using exclusionary tactics that might keep competitors from using a channel. Here we briefly consider the legality of certain practices, including exclusive dealing, exclusive territories, tying agreements, and dealers' rights.

With *exclusive distribution*, only certain outlets are allowed to carry a seller's products. Requiring that these dealers not handle competitors' products is called *exclusive dealing*. Both parties benefit from exclusive arrangements: The seller obtains more loyal and dependable outlets, and the dealers obtain a steady supply of special products and stronger seller support. Exclusive arrangements are legal as long as they do not substantially lessen competition or tend to create a monopoly, and as long as both parties enter into them voluntarily.

Exclusive dealing often includes exclusive territorial agreements. The producer may agree not to sell to other dealers in a given area, or the buyer may agree to sell only in its own territory. The first practice increases dealer enthusiasm and commitment. It is also perfectly legal—a seller has no legal obligation to sell through more outlets than it wishes. The second practice, whereby the producer tries to keep a dealer from selling outside its territory, has become a major legal issue. One bitter lawsuit was brought by GT Bicycles of Santa Ana, California, against the giant PriceCostco chain, which sold 2,600 of its high-priced mountain bikes at a huge discount, upsetting GT's other U.S. dealers. GT alleges that it first sold the bikes to a dealer in Russia and that they were meant for sale only in Russia. The firm maintains that when discounters work with middlemen to get exclusive goods, it constitutes fraud.[67]

Producers of a strong brand sometimes sell it to dealers only if they will take some or all of the rest of the line. This practice is called *full-line forcing*. Such **tying agreements** are not necessarily illegal, but they do violate U.S. law if they tend to lessen competition substantially.

Producers are free to select their dealers, but their right to terminate dealers is somewhat restricted. In general, sellers can drop dealers "for cause," but they cannot drop dealers if, for example, they refuse to cooperate in a doubtful legal arrangement, such as exclusive dealing or tying agreements.

E-Commerce Marketing Practices

E-commerce uses a Web site to transact or facilitate the sale of products and services online. Online retail sales have exploded in recent years, and it is easy to see why. Online retailers can predictably provide convenient, informative, and personalized experiences for vastly different types of consumers and businesses. By saving the cost of retail floor space, staff, and inventory, online retailers can profitably sell low-volume products to niche markets. Online retailers compete in three key aspects of a transaction: (1) customer interaction with the Web site, (2) delivery, and (3) ability to address problems when they occur.[68]

We can distinguish between **pure-click** companies, those that have launched a Web site without any previous existence as a firm, and **brick-and-click** companies, existing companies that have added an online site for information or e-commerce.

Pure-Click Companies

There are several kinds of pure-click companies: search engines, Internet service providers (ISPs), commerce sites, transaction sites, content sites, and enabler sites. Commerce sites sell all types of products and services, notably books, music, toys, insurance, stocks, clothes, financial services, and so on. They use various strategies to compete: AutoNation is a leading metamediary of car buying and related services; Hotels.com is the information leader in hotel reservations; Buy.com leads on price; and Wine Spectator is a single-category specialist.

E-COMMERCE SUCCESS FACTORS Companies must set up and operate their e-commerce Web sites carefully. Customer service is critical. Online shoppers may select an item for purchase but fail to complete the transaction—one estimate of the conversion rate of Internet shoppers in March 2008 was only about 35 percent. Worse, only 2 percent to 3 percent of visits to online retailers lead to sales, compared with 5 percent of visits to department stores.[69] To improve conversion rates, firms should make the Web site fast, simple, and easy to use. Something as simple as enlarging product images on-screen can increase perusal time and the amount customers buy.[70]

Consumer surveys suggest that the most significant inhibitors of online shopping are the absence of pleasurable experiences, social interaction, and personal consultation with a company representative.[71] Firms are responding. Many now offer live online chat to give potential customers immediate advice about products and suggest purchasing additional items. When a representative is active in the sale, the average amount per order is typically higher. B2B marketers also need to put a human face on their e-commerce presence, and some are taking advantage of Web 2.0 technologies such as virtual environments, blogs, online videos, and click-to-chat.

To increase customer satisfaction and the entertainment and information value of Web-based shopping experiences, some firms are employing *avatars,* graphical representations of virtual, animated characters that act as company representatives, personal shopping assistants, Web site guides, or conversation partners. Avatars can enhance the effectiveness of a Web-based sales channel, especially if they are seen as expert or attractive.[72]

Ensuring security and privacy online remains important. Customers must find the Web site trustworthy, even if it represents an already highly credible offline firm. Investments in Web site design and processes can help reassure customers sensitive to online risk.[73] Online retailers are also trying new technologies such as blogs, social networks, and mobile marketing to attract new shoppers.

B2B E-COMMERCE Although business-to-consumer (B2C) Web sites have attracted much attention in the media, even more activity is being conducted on business-to-business (B2B) sites, which are changing the supplier–customer relationship in profound ways.

In the past, buyers exerted a lot of effort to gather information about worldwide suppliers. B2B sites make markets more efficient, giving buyers easy access to a great deal of information from (1) supplier Web sites; (2) *infomediaries,* third parties that add value by aggregating information about alternatives; (3) *market makers,* third parties that link buyers and sellers; and (4) *customer communities*, where buyers can swap stories about suppliers' products and services.[74] Firms are using B2B auction sites, spot exchanges, online product catalogs, barter sites, and other online resources to obtain better prices. Ironically, the largest of the B2B market makers is Alibaba, homegrown in China where businesses have faced decades of Communist antipathy to private enterprise.

Alibaba The brainchild of Jack Ma, Alibaba began in 1999 and grew over the next decade to become the world's largest online B2B marketplace and Asia's most popular online auction site. Its numbers are staggering. The $9 billion company has 43 million registered users (35 million in China and 10.5 million internationally) and hosts more than 5.5 million shop fronts; at any moment, more than 4 million businesses are trading. At Alibaba's heart are two B2B Web sites: alibaba.com, a marketplace for companies around the globe to buy and sell in English, and china.alibaba, a domestic Chinese marketplace. The Chinese powerhouse has a nationalist agenda: to build markets for China's vast number of small and medium-sized businesses. Alibaba enables these businesses to trade with each other and link to global supply chains. To establish customer trust, the company set up TrustPass, in which users pay Alibaba a fee to hire a third party that verifies them. Users must have five people vouch for them and provide a list of all their certificates/business licenses. Anyone on Alibaba who has done business with a user is encouraged to comment on the firm, in the same way buyers comment on sellers in Amazon.com's or eBay's marketplace. Businesses are even starting to print "TrustPass" on their business cards, a true sign of Alibaba's B2B credibility. Global growth has become a priority. Home pages in Spanish, German, Italian, French, Portuguese, and Russian were launched in 2008 to complement Chinese and U.S. options. After its IPO of $1.7 billion in 2007 (second only to Google's among Internet firms), Alibaba, says Jack Ma, will "create the e-commerce platform for 10 million small enterprises creating 100 million jobs around the world and providing an online retail platform to supply the everyday needs of 1 billion people."[75]

Jack Ma has been the visionary force behind the highly successful Chinese online marketplace and auction site Alibaba.

The effect of these mechanisms is to make prices more transparent.[76] For undifferentiated products, price pressure will increase. For highly differentiated products, buyers will gain a better picture of the items' true value. Suppliers of superior products will be able to offset price transparency with value transparency; suppliers of undifferentiated products will need to drive down their costs in order to compete.

Brick-and-Click Companies

Although many brick-and-mortar companies may have initially debated whether to add an online e-commerce channel for fear of channel conflict with their offline retailers, agents, or their own stores, most eventually added the Internet as a distribution channel after seeing how much business was generated online.[77] Even Procter & Gamble, which used traditional physical channels of distribution exclusively for years, is selling some big brands such as Tide, Pampers, and Olay online, in part to be able to examine consumer shopping habits more closely.[78] Managing the online and offline channels has thus become a priority for many firms.[79]

Adding an e-commerce channel creates the possibility of a backlash from retailers, brokers, agents, and other intermediaries. The question is how to sell both through intermediaries and online. There are at least three strategies for trying to gain acceptance from intermediaries. One, offer different brands or products on the Internet. Two, offer offline partners higher commissions to cushion the negative impact on sales. Three, take orders on the Web site but have retailers deliver and collect payment. Harley-Davidson decided to tread carefully before going online.

Harley-Davidson

Harley-Davidson Given that Harley sells more than $860 million worth of parts and accessories to its loyal followers, an online venture was an obvious next step to generate even more revenue. Harley needed to be careful, however, to avoid the wrath of 850 dealers who benefited from the high margins on those sales. Its solution was to send customers seeking to buy accessories online to the company's Web site. Before they can buy anything, they are prompted to select a participating Harley-Davidson dealer. When the customer places the order, it is transmitted to the selected dealer for fulfillment, ensuring that the dealer still remains the focal point of the customer experience. Dealers, in turn, agreed to a number of standards, such as checking for orders twice a day and shipping promptly. The Web site now gets more than 1 million visitors a month.[80]

Many brick-and-click retailers are trying to give their customers more control over their shopping experiences by bringing Web technologies into the store. Food Lion has experimented with personal scanners so customers can keep track of their supermarket purchases. Barnes & Noble has kiosks that allow customers to search inventory, locate merchandise, and order out-of-stock items.[81]

M-Commerce Marketing Practices

The widespread penetration of cell phones and smart phones—there are currently more mobile phones than personal computers in the world—allows people to connect to the Internet and place online orders on the move. Many see a big future in what is now called *m-commerce* (*m* for *mobile*).[82] The existence of mobile channels and media can keep consumers connected and interacting with a brand throughout their day-to-day lives. GPS-type features can help identify shopping or purchase opportunities for consumers for their favorite brands.

Although in 2009 only one in five phones in the United States was a smart phone such as an iPhone or BlackBerry, sales of smart phones are forecast to exceed those of regular phones by 2011. As their penetration and adoption of 3G increases, and as easy payment options and various apps for mobile phones are developed, m-commerce will take off. By 2015, more people are expected to access the Internet with mobile phones than with PCs.[83]

In some countries, m-commerce already has a strong foothold. Millions of Japanese teenagers carry DOCOMO phones available from NTT (Nippon Telephone and Telegraph). They can also use their phones to order goods. Each month, the subscriber receives a bill from NTT listing the monthly subscriber fee, the usage fee, and the cost of all the transactions. Bills can be paid at the nearest 7-Eleven store.

In the United States, mobile marketing is becoming more prevalent and taking all forms.[84] Retailers such as Amazon.com, CVS, and Sears have launched m-commerce sites that allow consumers to buy books, medicine, and even lawn mowers from their smart phones. The travel industry has used m-commerce to target businesspeople who need to book air or hotel reservations while on the move.[85]

One Nordstrom salesperson increased the amount of merchandise he sold by 37 percent by sending text messages and e-mails of news and promotions to the cell phones of his customers.[86] Mobile marketing can have influence inside the store too. Consumers increasingly are using a cell phone to text a friend or relative about a product while shopping.

Here is how Dunkin' Donuts developed an m-commerce strategy to complement its broader marketing efforts.

Dunkin' Donuts

Dunkin' Donuts Dunkin' Donuts targets busy people on the go, serving 2.7 million customers daily at approximately 8,800 stores in 31 countries, including roughly 6,400 U.S. locations. Portability remains an essential part of the value proposition, evidenced in the campaign theme, "America Runs on Dunkin.'" Knowing that many customers make a "Dunkin' Run" or visit, especially in the afternoon to bring back goodies for others, the company introduced new interactive Web tools and an iPhone application to create a social group ordering experience. The Dunkin' Run mobile campaign featured interactive alerts set to a customer's list of friends or coworkers, telling them when a trip to Dunkin' Donuts was planned, along with a personal message inviting them to place an order online. Invitees could view the menu to make an order or use a personalized list of favorites. All the orders were integrated onto a single screen that the runner could print out or display on a mobile and bring to the store. Dunkin' Run was not the company's first mobile marketing effort. An earlier two-month SMS promotional campaign in Italy increased sales almost 10 percent.[87]

Mobile marketing and the fact that a company can potentially pinpoint a customer or employee's location with GPS technology also raises privacy issues. What if an employer learns an employee is being treated for AIDS at a local clinic, or a wife finds her husband is out clubbing? Like so many new technologies, location-based services have potential for good or harm and ultimately will warrant public scrutiny and regulation.

Summary

1. Most producers do not sell their goods directly to final users. Between producers and final users stands one or more marketing channels, a host of marketing intermediaries performing a variety of functions.
2. Marketing channel decisions are among the most critical decisions facing management. The company's chosen channel(s) profoundly affect all other marketing decisions.
3. Companies use intermediaries when they lack the financial resources to carry out direct marketing, when direct marketing is not feasible, and when they can earn more by doing so. The most important functions performed by intermediaries are information, promotion, negotiation, ordering, financing, risk taking, physical possession, payment, and title.
4. Manufacturers have many alternatives for reaching a market. They can sell direct or use one-, two-, or three-level channels. Deciding which type(s) of channel to use calls for analyzing customer needs, establishing channel objectives, and identifying and evaluating the major alternatives, including the types and numbers of intermediaries involved in the channel.
5. Effective channel management calls for selecting intermediaries and training and motivating them. The goal is to build a long-term partnership that will be profitable for all channel members.
6. Marketing channels are characterized by continuous and sometimes dramatic change. Three of the most important trends are the growth of vertical marketing systems, horizontal marketing systems, and multichannel marketing systems.
7. All marketing channels have the potential for conflict and competition resulting from such sources as goal incompatibility, poorly defined roles and rights, perceptual differences, and interdependent relationships. There are a number of different approaches companies can take to try to manage conflict.
8. Channel arrangements are up to the company, but there are certain legal and ethical issues to be considered with regard to practices such as exclusive dealing or territories, tying agreements, and dealers' rights.
9. E-commerce has grown in importance as companies have adopted "brick-and-click" channel systems. Channel integration must recognize the distinctive strengths of online and offline selling and maximize their joint contributions.
10. An area of increasing importance is m-commerce and marketing through smart phones and PDAs.

Applications

Marketing Debate

Does It Matter Where You Sell?

Some marketers feel that the image of the particular channel in which they sell their products does not matter—all that matters is that the right customers shop there and the product is displayed in the right way. Others maintain that channel images—such as a retail store—can be critical and must be consistent with the image of the product.

Take a position: **Channel images do not really affect the brand images of the products they sell that much *versus* Channel images must be consistent with the brand image.**

Marketing Discussion

Channel Integrations

Think of your favorite retailers. How have they integrated their channel system? How would you like their channels to be integrated? Do you use multiple channels from them? Why?

Marketing Excellence

>>Amazon.com

Founded by Jeff Bezos, Amazon.com started as the "world's largest bookstore" in July 1995. A virtual bookstore that physically owned no books, Amazon.com promised to revolutionize retailing. Although some may debate whether it accomplished that, Bezos clearly blazed a trail of e-commerce innovations that many have studied and followed.

Amazon.com set out to create personalized storefronts for each customer by providing more useful information and more choices than could be found in your typical neighborhood bookstore. Readers can review books and evaluate them on a one- to five-star rating scale, and browsers can rate the reviews for helpfulness. Amazon.com's personal recommendation service aggregates data on buying patterns to infer who might like which book. The site offers peeks into books' contents, index, and beginning pages with a "search inside the book" feature that also lets customers search the entire text of 120,000 books—about as many titles as are in a Barnes & Noble bookstore. Amazon.com's one-click shopping lets buyers make purchases with one click.

Over the years, Amazon.com has diversified its product lines into DVDs, music CDs, computer software, video games, electronics, apparel, furniture, food, toys, and more. In addition, it has established separate Web sites in Canada, the United Kingdom, Germany, France, China, and Japan. Amazon.com continued to expand its product offerings with the 2007 launch of Amazon Video On Demand, allowing consumers to rent or purchase films and television shows on their computers or televisions. Later that year, Amazon.com introduced Amazon MP3, which competes directly with Apple's iTunes and has participation from all the major music labels. The company's most successful recent product launch was the Amazon-branded Kindle, an electronic book reader that can deliver hundreds of thousands of books, magazines, blogs, and newspapers wirelessly in a matter of seconds. As thin as a magazine and light as a paperback, the device was Amazon.com's number one selling product in 2009.

To overcome the lag between purchase and delivery of product, Amazon.com offers fast, inexpensive shipping. For a $79 annual fee, Amazon.com Prime provides unlimited free express shipping for most items. While free shipping and price cuts are sometimes unpopular with investors, Bezos believes it builds customer satisfaction, loyalty, and frequency of purchase orders.

Amazon.com has established itself as an electronic marketplace by enabling merchants of all kinds to sell items on the site. It powers and operates retail Web sites for Target, the NBA, Timex, and Marks & Spencer. Amazon.com derives about 40 percent of its sales from its million-plus affiliates called "Associates," independent sellers or businesses that receive commissions for referring customers who then make a purchase at the Amazon.com site. Associates can refer consumers to Amazon.com through a variety of ways, including direct links and banner ads as well as Amazon Widgets, mini-applications that feature Amazon.com's wide selection of products.

Amazon.com also launched an affiliate product called aStore, which gives Associates the ability to create an Amazon-operated online store easily and without any programming knowledge. Amazon.com then supports these merchants by providing new tools for their Web site, offering access to Amazon.com's catalog of products, and handling all payments and payment security through its Web Services. Amazon.com can also "pick, pack and ship the products to the merchant's customers anytime and to any place" through its Fulfillment by Amazon (FBA). This essentially creates a virtual store for the third-party merchants with low risk and no additional cost.

One key to Amazon.com's success in all these different ventures was a willingness to invest in the latest Internet technology to make shopping online faster, easier, and more personally rewarding for its customers and third-party merchants. The company continues to invest in technology, is focused on the long-term, and has successfully positioned itself as a technology company with its wide range of Amazon Web Services. This growing collection of infrastructure services meets the retailing needs of companies of virtually all sizes.

From the beginning, Bezos stated that even though he started as an online bookstore, he eventually wanted to sell everything through Amazon.com. Now, with more than 600 million annual visitors, the company continues to get closer to that goal with revolutionary products like the Kindle and cloud computing Web services.

Questions

1. Why has Amazon.com succeeded online when so many other companies have failed?
2. Will the Kindle revolutionize the book industry? Why or why not?
3. What's next for Amazon.com? Is cloud computing the right direction for the company? Where else can it grow?

Sources: "Click to Download," *Economist,* August 19, 2006, pp. 57–58; Robert D. Hof, "Jeff Bezos' Risky Bet," *BusinessWeek,* November 13, 2006; Erick Schonfield, "The Great Giveaway," *Business 2.0,* April 2005, pp. 80–86; Elizabeth West, "Who's Next?" *Potentials,* February 2004, pp. 7–8; Robert D. Hof, "The Wizard of Web Retailing," *BusinessWeek,* December 20, 2004, p. 18; Chris Taylor, "Smart Library," *Time,* November 17, 2003, p. 68; Deborah Solomon, "Questions for Jeffrey P. Bezos," *New York Times,* December 2, 2009; Patrick Seitz, "Amazon.com Whiz Jeff Bezos Keeps Kindling Hot Concepts," *Investors' Daily Business*, December 31, 2009; Amazon.com, Amazon.com 2009 Annual Report.

Marketing Excellence

>>Costco

Costco's mission is "to continually provide our members with quality goods and services at the lowest possible prices." With nearly 60 million card-carrying members and over $71 billion in sales, Costco is now the largest warehouse club chain in the United States, the third largest retailer in the United States, and the ninth largest retailer in the world. Costco's success comes from years of building consumer loyalty through its dedicated merchandising and pricing strategy combined with no-frills, cost-cutting policies.

Costco's merchandising strategy focuses on offering a broad range of brand name and private label merchandise at extremely low prices. But unlike a grocery store that carries 40,000 SKUs or a Walmart that can carry up to 150,000, Costco carries approximately 4,000 SKUs—only the fastest-selling flavors, sizes, models, and colors from a single vendor in each category. This efficient product sourcing results in several outcomes: high volume of sales, rapid inventory turnover, extremely low prices, and better product manageability.

Costco buys its merchandise directly from the manufacturer. Products are shipped directly to Costco warehouses or to a depot, which reallocates the shipments to Costco warehouses within 24 hours. This process eliminates several steps such as using a distributor and other intermediaries, eliminating costs associated with storage, additional freight, and handling. At the warehouse, shipments are often taken directly to the floor, unwrapped, and left on the pallet, ready to sell.

Over the years, Costco has expanded its products and services from simple boxed items such as cereal and paper products to more complex items such as fresh produce and flowers, which must be displayed attractively and managed more closely. Today, it sells dairy, baked goods, seafood, clothing, books, computer software, vacuums, home appliances, electronics, jewelry, tires, art, wine, liquor, hot tubs, and furniture. Costco's services include pharmacies, optometrists, photo processors, food courts, and gas stations. The company's private label, Kirkland Signature, provides consumers with high-quality products at even more discounted prices than the comparable branded item. Kirkland Signature products range from diapers to bed sheets to coffee and makeup.

Of the 4,000 products sold, 3,000 are staples, found at Costco week after week, while the remaining 1,000 rotate as part of Costco's "treasure hunt." These special items are offered only temporarily and can be as exotic as Coach bags, Waterford crystal, and expensive jewelry. Costco believes its treasure hunt items create excitement and increase consumer loyalty, bringing back bargain hunters again and again.

Costco's pricing strategy is transparent: The company limits the markup of any branded item to 14 percent and any private-label item to 15 percent. (Supermarkets and department stores mark up items anywhere from 25 percent to 50 percent.) If a manufacturer's price is too high, the company will not restock the item. Costco's CEO, Jim Sinegal, explained, "The traditional retailer will say: 'I'm selling this for $10. I wonder whether I can get $10.50 or $11.' We say: 'We're selling it for $9. How do we get it down to $8?'"

Costco's cost savings tactics extend to its 560+ warehouse locations around the world. Most average 143,000 square feet with floor plans designed to optimize selling space, the handling of merchandise, and the control of inventory. Decor is simple: concrete floors, bare-bones signage, and product displays that consist of pallets right off the truck. Central skylights and day-lighting controls monitor energy usage, and Costco also saves by not supplying its own shopping bags. Instead, consumers use leftover boxes and crates stacked near cash registers to carry home their purchases. Costco spends little on marketing and promotions, except for the occasional direct mail to prospective new members and coupons to regular members.

The one place Costco does not cut costs is its employees. They are compensated well, and 85 percent have health insurance, more than twice the percentage at Target or Walmart. As a result, employee turnover and employee theft are extremely low. Costco's loyal consumer base appreciates the fact that its deep discounts come from strategic business planning and not at the workers' expense.

Costco's customers are not only loyal; many are affluent. The average household income is $74,000; 31 percent earn more than $100,000 per year. The majority of consumers tend to be businesses or large families with houses big enough to store bulk items. Membership at Costco starts at $50 a year and can be upgraded to Executive levels that provide additional benefits. Costco accepts only debit cards, cash, checks, and American Express, which charges Costco a very large interchange fee. While consumers need membership to shop at the warehouse locations, they can shop online without it. In 2008, 58 million consumers visited costco.com and nonmembers paid an addition 5 percent fee for any purchase.

Costco's success has come from focusing on a handful of business practices: sell a limited number of items, keep costs down, rely on high volume, pay workers well, require consumers to buy memberships, and target upscale consumers and business owners. This vision has led to many achievements, including ranking number 24 in the *Fortune* 500 and number 22 on *Fortune*'s Most Admired list. Costco also became the first company to grow from zero to $3 billion in sales in less than six years.

Questions

1. What is unique about Costco's channel management process? What components can other retailers borrow or implement?
2. Where can Costco improve? Should it offer more products or advertise more? Why or why not?

Sources: Matthew Boyle, "Why Costco Is So Addictive," *Fortune,* October 25, 2006; Steven Greenhouse, "How Costco Became the Anti-Walmart," *New York Times,* July 17, 2005; Costco, Costco.com 2009 Annual Report.

Chapter 16

In This Chapter, We Will Address the Following Questions

1. What major types of marketing intermediaries occupy this sector?
2. What marketing decisions do these marketing intermediaries make?
3. What are the major trends with marketing intermediaries?
4. What does the future hold for private label brands?

Cofounder Tony Hsieh has ensured that a strong customer-service culture is at the heart of operations at Zappos, the online footwear and accessories retailer.

Managing Retailing, Wholesaling, and Logistics

In the previous chapter, we examined marketing intermediaries from the viewpoint of manufacturers who wanted to build and manage marketing channels. In this chapter, we view these intermediaries—retailers, wholesalers, and logistical organizations—as requiring and forging their own marketing strategies in a rapidly changing world. Intermediaries also strive for marketing excellence and can reap the benefits like any other type of company.

Online footwear retailer Zappos was co-founded by Tony Hsieh in 1999 with superior customer service and an improved customer experience at the core of its corporate culture. With free shipping and returns, 24/7 customer service, and fast turnaround on a wide selection of 200,000 shoe styles from 1,200 makers, Zappos finds that three-fourths of purchases during any one day are by repeat customers. Unlike many other companies, Zappos has not outsourced its call centers; Hsieh sees that function as too important. In fact, Zappos empowers its customer service reps to solve problems. When a customer called to complain that a pair of boots was leaking after a year of use, the customer service rep sent out a new pair even though the company's policy is that only unworn shoes are returnable. Every employee has a chance each year to contribute a passage to the firm's Culture Book, about life at Zappos, and how each department implements superior customer service from selling to warehousing and delivery, to pricing and billing. Half the interview process for potential new hires is devoted to finding out whether they are sufficiently outgoing, open-minded, and creative to be a good cultural fit for the company. Bought by Amazon.com in 2009 for a reported $850 million but still run separately, the company now also sells clothing, handbags, and accessories. Thanks to its success, it even offers two-day, $4,000 seminars to business executives eager to learn about the secrets behind Zappos's unique corporate culture and approach to customer service.[1]

While innovative retailers such as Zappos, Sweden's H&M, Spain's Zara and Mango, and Britain's Topshop have thrived in recent years, others such as former U.S. stalwarts Gap, Home Depot, and Kmart have struggled. The more successful intermediaries use strategic planning, advanced information systems, and sophisticated marketing tools. They segment their markets, improve their market targeting and positioning, and aggressively pursue market expansion and diversification strategies. In this chapter, we consider marketing excellence in retailing, wholesaling, and logistics.

Retailing

Retailing includes all the activities in selling goods or services directly to final consumers for personal, nonbusiness use. A **retailer** or **retail store** is any business enterprise whose sales volume comes primarily from retailing.

Any organization selling to final consumers—whether it is a manufacturer, wholesaler, or retailer—is doing retailing. It doesn't matter *how* the goods or services are sold (in person, by mail, telephone, vending machine, or on the Internet) or *where* (in a store, on the street, or in the consumer's home).

After reviewing the different types of retailers and the new retail marketing environment, we examine the marketing decisions retailers make. The following are four examples of innovative retail organizations that have experienced market success in recent years.

Innovative Retail Organizations

Panera Bread. The $2.6 billion Panera Bread restaurant chain targets "food people who understand and respond to food or those on the verge of that" by selling fresh "real" food–and lots of warm bread—at full prices that customers are more than willing to pay. An unpretentious atmosphere—no table service, but no time limit—encourages customers to linger. The brand is seen as family-oriented but also sophisticated, offering an appealing combination of fresh, customizable, convenient, and affordable food.

Panera Bread appeals to food lovers of all kinds.

GameStop. Video game and entertainment software retailer GameStop has over 6,000 locations in malls and shopping strips all over the United States, making it highly convenient for customers. Staffed by hard-core gamers who like to connect with customers, GameStop boasts a trade-in policy that gives customers credit for an old game traded in for a new one.

Lumber Liquidators. Lumber Liquidators buys excess wood directly from lumber mills at a discount and stocks almost 350 kinds of hardwood flooring, about the same as Lowe's and Home Depot. It sells at lower prices because it keeps operating costs down by cutting out the middlemen and locating stores in inexpensive locations. Lumber Liquidators also knows a lot about its customers, such as the fact that shoppers who request product samples have a 30 percent likelihood of buying within a month, and that most tend to renovate one room at a time, not the entire home at once.

Net-a-Porter. London-based Net-a-Porter is an online luxury clothing and accessories retailer whose Web site combines the style of a fashion magazine with the thrill of shopping at a chic boutique. Seen by its loyal customers as an authoritative fashion voice, Net-a-Porter stocks over 300 international brands, such as Jimmy Choo, Alexander McQueen, Stella McCartney, Givenchy, Marc Jacobs, and others. The company ships to 170 countries and offers same-day delivery in London and Manhattan; the average order is $250.

Sources: Kate Rockwood, "Rising Dough, *Fast Company*, October 2009, pp. 69–71; Devin Leonard, "GameStop Racks Up the Points," *Fortune*, June 9, 2008, pp. 109–22; Helen Coster, "Hardwood Hero," *Forbes*, November 30, 2009, pp. 60–62; John Brodie, "The Amazon of Fashion," *Fortune*, September 14, 2009, pp. 86–95.

Types of Retailers

Consumers today can shop for goods and services at store retailers, nonstore retailers, and retail organizations.

STORE RETAILERS Perhaps the best-known type of store retailer is the department store. Japanese department stores such as Takashimaya and Mitsukoshi attract millions of shoppers each year and feature art galleries, restaurants, cooking classes, fitness clubs, and children's playgrounds. The most important types of major store retailers are summarized in Table 16.1.

Different formats of store retailers will have different competitive and price dynamics. Discount stores, for example, compete much more intensely with each other than other formats.[2] Retailers also meet widely different consumer preferences for service levels and specific services. Specifically, they position themselves as offering one of four levels of service:

1. ***Self-service***—Self-service is the cornerstone of all discount operations. Many customers are willing to carry out their own "locate-compare-select" process to save money.
2. ***Self-selection***—Customers find their own goods, although they can ask for assistance.
3. ***Limited service***—These retailers carry more shopping goods and services such as credit and merchandise-return privileges. Customers need more information and assistance.
4. ***Full service***—Salespeople are ready to assist in every phase of the "locate-compare-select" process. Customers who like to be waited on prefer this type of store. The high staffing cost, along with the higher proportion of specialty goods and slower-moving items and the many services, result in high-cost retailing.

TABLE 16.1 Major Types of Store Retailers
Specialty store: Narrow product line. The Limited, The Body Shop.
Department store: Several product lines. JCPenney, Bloomingdale's.
Supermarket: Large, low-cost, low-margin, high-volume, self-service store designed to meet total needs for food and household products. Kroger, Safeway.
Convenience store: Small store in residential area, often open 24/7, limited line of high-turnover convenience products plus takeout. 7-Eleven, Circle K.
Drug store: Prescription and pharmacies, health and beauty aids, other personal care, small durable, miscellaneous items. CVS, Walgreens.
Discount store: Standard or specialty merchandise; low-price, low-margin, high-volume stores. Walmart, Kmart.
Extreme value or hard-discount store: A more restricted merchandise mix than discount stores but at even lower prices. Aldi, Lidl, Dollar General, Family Dollar.
Off-price retailer: Leftover goods, overruns, irregular merchandise sold at less than retail. Factory outlets; independent off-price retailers such as TJ Maxx; warehouse clubs such as Costco.
Superstore: Huge selling space, routinely purchased food and household items, plus services (laundry, shoe repair, dry cleaning, check cashing). Category killer (deep assortment in one category) such as Staples; combination store such as Jewel-Osco; hypermarket (huge stores that combine supermarket, discount, and warehouse retailing) such as Carrefour in France and Meijer in the Netherlands.
Catalog showroom: Broad selection of high-markup, fast-moving, brand-name goods sold by catalog at a discount. Customers pick up merchandise at the store. Inside Edge Ski and Bike.

Source: Data from www.privatelabelmag.com.

NONSTORE RETAILING Although the overwhelming bulk of goods and services—97 percent—is sold through stores, *nonstore retailing* has been growing much faster than store retailing. Nonstore retailing falls into four major categories: direct selling, direct marketing (which includes telemarketing and Internet selling), automatic vending, and buying services:

1. ***Direct selling,*** also called *multilevel selling* and *network marketing*, is a multibillion-dollar industry, with hundreds of companies selling door-to-door or at home sales parties. Well-known in one-to-one selling are Avon, Electrolux, and Southwestern Company of Nashville (Bibles). Tupperware and Mary Kay Cosmetics are sold one-to-many: A salesperson goes to the home of a host who has invited friends; the salesperson demonstrates the products and takes orders. Pioneered by Amway, the multilevel (network) marketing sales system works by recruiting independent businesspeople who act as distributors. The distributor's compensation includes a percentage of sales made by those he or she recruits, as well as earnings on direct sales to customers. These direct-selling firms, now finding fewer consumers at home, are developing multidistribution strategies.
2. ***Direct marketing*** has roots in direct-mail and catalog marketing (Lands' End, L.L.Bean); it includes *telemarketing* (1-800-FLOWERS), *television direct-response marketing* (HSN, QVC), and *electronic shopping* (Amazon.com, Autobytel.com). As people become more accustomed to shopping on the Internet, they are ordering a greater variety of goods and services from a wider range of Web sites. In the United States, online sales were estimated to be $210 billion in 2009, with travel being the biggest category ($80 billion).[3]
3. ***Automatic vending*** offers a variety of merchandise, including impulse goods such as soft drinks, coffee, candy, newspapers, magazines, and other products such as hosiery, cosmetics, hot food, and paperbacks. Vending machines are found in factories, offices, large retail stores, gasoline stations, hotels, restaurants, and many other places. They offer 24-hour selling, self-service, and merchandise that is stocked to be fresh. Japan has the most vending machines per person—Coca-Cola has over 1 million machines there and annual vending sales of $50 billion—twice its U.S. figures.
4. ***Buying service*** is a storeless retailer serving a specific clientele—usually employees of large organizations—who are entitled to buy from a list of retailers that have agreed to give discounts in return for membership.

TABLE 16.2 Major Types of Corporate Retail Organizations

Corporate chain store: Two or more outlets owned and controlled, employing central buying and merchandising, and selling similar lines of merchandise. Gap, Pottery Barn.
Voluntary chain: A wholesaler-sponsored group of independent retailers engaged in bulk buying and common merchandising. Independent Grocers Alliance (IGA).
Retailer cooperative: Independent retailers using a central buying organization and joint promotion efforts. Associated Grocers, ACE Hardware.
Consumer cooperative: A retail firm owned by its customers. Members contribute money to open their own store, vote on its policies, elect a group to manage it, and receive dividends. Local cooperative grocery stores can be found in many markets.
Franchise organization: Contractual association between a franchisor and franchisees, popular in a number of product and service areas. McDonald's, Subway, Pizza Hut, Jiffy Lube, 7-Eleven.
Merchandising conglomerate: A corporation that combines several diversified retailing lines and forms under central ownership, with some integration of distribution and management. Federated Department Stores renamed itself after one of its best-known retailers, Macy's, but also owns other retailers such as Bloomingdale's.

CORPORATE RETAILING AND FRANCHISING Although many retail stores are independently owned, an increasing number are part of a **corporate retailing** organization. These organizations achieve economies of scale, greater purchasing power, wider brand recognition, and better-trained employees than independent stores can usually gain alone. The major types of corporate retailing—corporate chain stores, voluntary chains, retailer and consumer cooperatives, franchises, and merchandising conglomerates—are described in Table 16.2.

Franchise businesses such as Subway, Jiffy-Lube, Holiday Inn, Supercuts, and 7-Eleven account for more than $1 trillion of annual U.S. sales and roughly 40 percent of all retail transactions. One of every 12 U.S. retail businesses is a franchise establishment; these firms employ 1 in every 16 workers in the country.[4]

In a franchising system, individual *franchisees* are a tightly knit group of enterprises whose systematic operations are planned, directed, and controlled by the operation's innovator, called a *franchisor.* Franchises are distinguished by three characteristics:

1. The franchisor owns a trade or service mark and licenses it to franchisees in return for royalty payments.
2. The franchisee pays for the right to be part of the system. Start-up costs include rental and lease equipment and fixtures, and usually a regular license fee. McDonald's franchisees may invest as much as $1.6 million in total start-up costs and fees. The franchisee then pays McDonald's a certain percentage of sales plus a monthly rent.
3. The franchisor provides its franchisees with a system for doing business. McDonald's requires franchisees to attend "Hamburger University" in Oak Brook, Illinois, for two weeks to learn how to manage the business. Franchisees must follow certain procedures in buying materials.

Franchising benefits both franchisor and franchisee. Franchisors gain the motivation and hard work of employees who are entrepreneurs rather than "hired hands," the franchisees' familiarity with local communities and conditions, and the enormous purchasing power of being a franchisor. Franchisees benefit from buying into a business with a well-known and accepted brand name. They find it easier to borrow money for their business from financial institutions, and they receive support in areas ranging from marketing and advertising to site selection and staffing.

Franchisees do walk a fine line between independence and loyalty to the franchisor. Some franchisors are giving their franchisees freedom to run their own operations, from personalizing store names to adjusting offerings and price. Beef 'O' Brady's sports pub franchisees are allowed to set prices to reflect their local markets. Great Harvest Bread believes in a "freedom franchise" approach that encourages its franchisee bakers to create new items for their store menus and to share with other franchisees if they are successful.[5]

As part of their franchise agreement, new McDonald's franchisors must attend the company's Hamburger University for two weeks to learn how to properly manage their restaurants.

The New Retail Environment

With the onset of the recession in 2008, many retailers had to fundamentally reassess virtually everything they did. Some adopted a cautious, defensive response, cutting stock levels, slowing expansion, and discounting deeply. Others were more creative about managing inventory, adjusting product lines, and carefully avoiding overpromoting. For example, JCPenney held back 60 percent of inventory for the fall 2009 holiday season, compared to its usual 20 percent, to avoid having empty shelves and stock-outs on one hand and overflowing shelves and heavy discounting on the other hand. Some firms, such as the Container Store and Saks, lowered average prices; others, such as Gilt.com and Neiman Marcus, introduced selective and very short-term deep discounts. Restoration Hardware chose to move its furniture product lines more upscale.[6]

Although many of these short-term adjustments were likely to remain longer-term, a number of other long-term trends are also evident in the retail marketing environment. Here are some that are changing the way consumers buy and manufacturers and retailers compete (see Table 16.3 for a summary).

- ***New Retail Forms and Combinations.*** To better satisfy customers' need for convenience, a variety of new retail forms have emerged. Bookstores feature coffee shops. Gas stations include food stores. Loblaw's Supermarkets have fitness clubs. Shopping malls and bus and train stations have peddlers' carts in their aisles. Retailers are also experimenting with limited-time "pop-up" stores that let them promote brands to seasonal shoppers for a few weeks

TABLE 16.3 Recent Retail Developments
• New Retail Forms and Combinations
• Growth of Intertype Competition
• Competition between Store-Based and Nonstore-Based Retailing
• Growth of Giant Retailers
• Decline of Middle-Market Retailers
• Growing Investment in Technology
• Global Profile of Major Retailers
• Growth of Shopper Marketing

in busy areas and create buzz. For the 2009 holiday season, Toys "R" Us set up 350 temporary stores and toy boutiques, in many cases taking over vacant retail space in shopping centers and malls.[7]

- ***Growth of Intertype Competition.*** Department stores can't worry just about other department stores—discount chains such as Walmart and Tesco are expanding into product areas such as clothing, health, beauty, and electrical appliances. Different types of stores—discount stores, catalog showrooms, department stores—all compete for the same consumers by carrying the same type of merchandise.
- ***Competition between Store-Based and Nonstore-Based Retailing.*** Consumers now receive sales offers through direct-mail letters and catalogs, television, cell phones, and the Internet. The nonstore-based retailers making these offers are taking business away from store-based retailers. Store-based retailers have responded by increasing their Web presence and finding different ways to sell online, including through their own Web sites, as well as creating more involving and engaging experiences in their stores. Store-based retailers want their stores to be destinations where consumers enjoy rich experiences that captivate all their senses. Sophisticated lighting, use of appropriate scents, and inviting, intimate designs are all being increasingly employed.[8]
- ***Growth of Giant Retailers.*** Through their superior information systems, logistical systems, and buying power, giant retailers such as Walmart are able to deliver good service and immense volumes of product to masses of consumers at appealing prices. They are crowding out smaller manufacturers that cannot deliver enough quantity and often dictate to the most powerful manufacturers what to make, how to price and promote, when and how to ship, and even how to improve production and management. Manufacturers need these accounts; otherwise they would lose 10 percent to 30 percent of the market. Some giant retailers are *category killers* that concentrate on one product category, such as pet food (PETCO), home improvement (Home Depot), or office supplies (Staples). Others are *supercenters* that combine grocery items with a huge selection of nonfood merchandise (Walmart).
- ***Decline of Middle-Market Retailers.*** We can characterize the retail market today as hourglass or dog-bone shaped: Growth seems to be centered at the top (with luxury offerings from retailers such as Nordstrom and Neiman Marcus) and at the bottom (with discount pricing from retailers such as Target and Walmart). As discount retailers improve their quality and image, consumers have been willing to trade down. Target offers Proenza Schouler designs and Kmart sells an extensive line of Joe Boxer underwear and sleepwear. At the other end of the spectrum, Coach recently converted 40 of its nearly 300 stores to a more upscale format that offers higher-priced bags and concierge services. Opportunities are scarcer in the middle where one-time successful retailers such as Sears, CompUSA, and Montgomery Ward have struggled or even gone out of business.[9]

  Kohl's has found some success going after middle-market consumers by bringing in trendy names such as Lauren Conrad, Vera Wang, Daisy Fuentes, and Tony Hawk. In addition to offering more up-market merchandise, Kohl's also adapted the stores themselves to make the shopping experience more convenient and pleasant.[10] Marks & Spencer in the United Kingdom features in-house brands and has built a strong retail brand image. Although these stores tend to have high operating costs, they command high margins if their in-house brands are both fashionable and popular.[11]
- ***Growing Investment in Technology.*** Almost all retailers now use technology to produce better forecasts, control inventory costs, and order electronically from suppliers. Technology is also affecting what happens inside the store. In-store programming on plasma TVs can run continual demonstrations or promotional messages. After encountering problems measuring store traffic up and down aisles—GPS on shopping carts didn't work because consumers tended to abandon their carts at times during trips and thermal imaging couldn't tell the difference between turkeys and babies during tests—bidirectional infrared sensors sitting on store shelves have been successfully introduced. Electronic shelf labeling allows retailers to change price levels instantaneously at any time of the day or week. Retailers are also introducing features to help customers as they shop. Some supermarkets are employing "smart" shopping carts or mobile phones that help customers locate items in the store, find out about sales and special offers, and pay for items more easily. As exciting as these new technologies are, their cost and unproven effectiveness in many cases can create significant drawbacks.[12]

- ***Global Profile of Major Retailers.*** Retailers with unique formats and strong brand positioning are increasingly appearing in other countries. U.S. retailers such as The Limited and the Gap have become globally prominent. Walmart operates over 3,600 stores abroad where it does 25 percent of its business. Dutch retailer Ahold and Belgian retailer Delhaize earn almost two-thirds and four-fifths of their sales, respectively, in nondomestic markets. Among foreign-based global retailers in the United States are Italy's Benetton, Sweden's IKEA home furnishings stores, and Japan's UNIQLO casual apparel retailer and Yaohan supermarkets.
- ***Growth of Shopper Marketing.*** Buoyed by research suggesting that as much as 70 percent to 80 percent of purchase decisions are made inside the retail store, firms are increasingly recognizing the importance of influencing consumers at the point of purchase.[13] Where and how a product is displayed and sold can have a significant effect on sales.[14] More communication options are available through in-store advertising such as Walmart TV.[15] Some employ goggle-like devices that record what test customers see by projecting an infrared beam onto the wearer's retina. One finding was that many shoppers ignored products at eye level—the optimum location was between waist and chest level.[16]

High-tech shopping carts allow customers to keep track of their total expenditures, search for products, find out what is on sale, and even pay without waiting in line.

Marketing Decisions

With this new retail environment as a backdrop, we will examine retailers' marketing decisions in the areas of target market, channels, product assortment, procurement, prices, services and store atmosphere, store activities and experiences, communications, and location. We discuss the important topic of private labels for retailers in the next section.

TARGET MARKET Until it defines and profiles the target market, the retailer cannot make consistent decisions about product assortment, store decor, advertising messages and media, price, and service levels. Ann Taylor has used a panel of 3,000 customers to provide feedback on its merchandise and even its marketing campaign. The firm also solicits employees' input.[17] Whole Foods has found success by offering a unique shopping experience to a customer base interested in organic and natural foods.

Whole Foods Market

Whole Foods Market

In 284 stores in North America and the United Kingdom, Whole Foods creates celebrations of food. The markets are bright and well staffed, and food displays are bountiful and seductive. Whole Foods is the largest organic and natural foods grocer in the country, offering more than 2,400 items in four lines of private-label products that add up to 11 percent of sales: the premium Whole Foods Market, Whole Kitchen, and Whole Market lines and the low-priced 365 Everyday Value line. Whole Foods also offers lots of information about its food. If you want to know, for instance, whether the chicken in the display case lived a happy, free-roaming life, you can get a 16-page booklet and an invitation to visit the farm in Pennsylvania where it was raised. If you can't find the information you need, you have only to ask a well-trained and knowledgeable employee. Whole Foods' approach is working, especially for consumers who view organic and artisanal food as an affordable luxury. From 1991–2009, sales grew at a 28 percent compounded annual growth rate (CAGR).[18]

Mistakes in choosing or switching target markets can be costly. When historically mass-market jeweler Zales decided to chase upscale customers, it replaced one-third of its merchandise, dropping inexpensive, low-quality diamond jewelry for high-margin, fashionable 14-karat gold and silver pieces and shifting its ad campaign in the process. The move was a disaster. Zales lost many of its traditional customers without winning over the new customers it had hoped to attract.[19]

To better hit their targets, retailers are slicing the market into ever-finer segments and introducing new lines of stores to exploit niche markets with more relevant offerings: Gymboree launched Janie and Jack, selling apparel and gifts for babies and toddlers; Hot Topic introduced Torrid, selling fashions for plus-sized teen girls; and Limited Brand's Tween Brands sells lower-priced fashion to tween girls.

Channels

Based on a target market analysis and other considerations we reviewed in Chapter 15, retailers must decide which channels to employ to reach their customers. Increasingly, the answer is multiple channels. Staples sells through its traditional retail channel, a direct-response Internet site, virtual malls, and thousands of links on affiliated sites.

As Chapter 15 explained, channels should be designed to work together effectively. Century-old department store chain JCPenney has ensured that its Internet, store, and catalog businesses are fully intertwined. It sells a vast variety of goods online; has made Internet access available at its 35,000 checkout registers; and allows online shoppers to pick up and return orders at stores and check which clothes are in stock there. These strategies—as well as the introduction of a.n.a., a stylish line of women's clothing—have helped give JCPenney a younger, more upscale image.[20]

Although some experts predicted otherwise, catalogs have actually grown in an Internet world as more firms use them as branding devices. Victoria's Secret's integrated multichannel approach of retail stores, catalog, and Internet has played a key role in its brand development.

Victoria's Secret

Victoria's Secret Limited Brands founder Leslie Wexner felt U.S. women would relish the opportunity to have a European-style lingerie shopping experience. "Women need underwear, but women want lingerie," he observed. Wexner's assumption proved correct: A little more than a decade after he bought the business in 1982, Victoria's Secret's average customer was buying 8 to 10 bras per year, compared with the national average of two. To enhance its upscale reputation and glamorous appeal, the brand is endorsed by high-profile supermodels in ads and fashion shows. To expand its accessibility and offer privacy, the company began to sell directly to consumers. Victoria's Secret used a comprehensive marketing strategy to connect its retail, catalog, and Web sales. Wexner sought to make it: "stand [out] as an integrated world-class brand. Across all channels—catalogue, stores, Internet—the same products are launched at the same time, in exactly the same way, with the same quality, and same positioning." Since 1985, Victoria's Secret has delivered 25 percent annual sales growth, selling through its 1,000-plus stores, catalogs, and company Web site, posting $5.6 billion in revenues in 2009. Victoria's Secret ships 400 million catalogs a year, or 1.33 for every U.S. citizen, and catalog and online orders account for nearly 28 percent of its overall revenue, growing at double the rate of sales from its stores.[21]

PRODUCT ASSORTMENT The retailer's product assortment must match the target market's shopping expectations in *breadth* and *depth*. A restaurant can offer a narrow and shallow assortment (small lunch counters), a narrow and deep assortment (delicatessen), a broad and shallow assortment (cafeteria), or a broad and deep assortment (large restaurant).

Identifying the right product assortment can be especially challenging in fast-moving industries such as technology or fashion. Urban Outfitters ran into trouble when it strayed from its "hip, but not too hip" formula, moving to embrace new styles too quickly. Sales fell over 25 percent during 2006.[22] On the other hand, active and casual apparel retailer Aéropostale has found success by carefully matching its product assortment to its young teen target market's needs.

Aéropostale Aéropostale has chosen to embrace a key reality of its target market: 11- to 18-year-olds, especially those on the young end, often want to look like other teens. So while Abercrombie and American Eagle might reduce the number of cargo pants on the sales floor, Aéropostale will keep an ample supply on hand at an affordable price. Staying on top of the right trends isn't easy, but Aéropostale is among the most diligent of teen retailers when it comes to consumer research. In addition to running high school focus groups and in-store product tests, the company launched an Internet-based program that seeks online shoppers' input in creating new styles. It targets 10,000 of its best customers and averages 3,500 participants in each of 20 tests a year. Aéropostale has gone from being a lackluster performer with only 100 stores to a powerhouse with 914 total stores in the United States, Puerto Rico, and Canada. Net sales were up 19 percent in 2008 to $1.9 billion, and net sales from e-commerce business increased 85 percent to $79 million.[23]

Aéropostale's "Teens for Jeans" cause marketing campaign encourages its customers to donate used jeans for homeless teens in North America.

The real challenge begins after defining the store's product assortment, and that is to develop a product-differentiation strategy. To better differentiate themselves and generate consumer interest, some luxury retailers are making their stores and merchandise more varied. Chanel has expanded its "ultralux" goods, including $26,000 alligator bags, while ensuring an ample supply of "must-haves" that are consistently strong sellers.[24] Here are some other possibilities:

- ***Feature exclusive national brands that are not available at competing retailers.*** Saks might get exclusive rights to carry the dresses of a well-known international designer.
- ***Feature mostly private-label merchandise.*** Benetton and Gap design most of the clothes carried in their stores. Many supermarket and drug chains carry private-label merchandise.
- ***Feature blockbuster distinctive merchandise events.*** Bloomingdale's ran a month-long celebration for the Barbie doll's 50th anniversary in March 2009.
- ***Feature surprise or ever-changing merchandise.*** Off-price apparel retailer TJ Maxx offers surprise assortments of distress merchandise (goods the owner must sell immediately because it needs cash), overstocks, and closeouts, totaling 10,000 new items each week at prices 20 percent to 60 percent below department and specialty store regular prices.
- ***Feature the latest or newest merchandise first.*** Zara excels in and profits from being first-to-market with appealing new looks and designs.
- ***Offer merchandise-customizing services.*** Harrods of London will make custom-tailored suits, shirts, and ties for customers, in addition to ready-made menswear.
- ***Offer a highly targeted assortment.*** Lane Bryant carries goods for the larger woman. Brookstone offers unusual tools and gadgets for the person who wants to shop in a "toy store for grown-ups."

Merchandise may vary by geographical market. Electronics superstore Best Buy reviewed each of its 25,000 SKUs to adjust its merchandise according to income level and buying habits of shoppers. It also puts different store formats and staffs in different areas—a location with computer sophisticates gets a different store treatment than one with less technically sophisticated shoppers.[25] Macy's and Ross Stores employ *micro-merchandising* and let managers select a significant percentage of store assortments.[26]

PROCUREMENT After deciding on the product-assortment strategy, the retailer must establish merchandise sources, policies, and practices. In the corporate headquarters of a supermarket chain, specialist buyers (sometimes called *merchandise managers*) are responsible for developing brand assortments and listening to salespersons' presentations.

Retailers are rapidly improving their skills in demand forecasting, merchandise selection, stock control, space allocation, and display. They use computers to track inventory, compute economic order quantities, order goods, and analyze dollars spent on vendors and products. Supermarket chains use scanner data to manage their merchandise mix on a store-by-store basis.

Some stores are experimenting with radio frequency identification (RFID) systems made up of "smart" tags—microchips attached to tiny radio antennas—and electronic readers. The smart tags can be embedded on products or stuck on labels, and when the tag is near a reader, it transmits a unique identifying number to its computer database. The use of RFIDs has been steadily increasing. Coca-Cola and Gillette use them to monitor inventory and track goods in real time as they move from factories to supermarkets to shopping baskets.[27]

When retailers do study the economics of buying and selling individual products, they typically find that a third of their square footage is tied up in products that don't make an economic profit for them (profit above the cost of capital). Another third is typically allocated to product categories that break even. The final third of the space creates the vast majority of the economic profit, yet many retailers are unaware which third of their products generate it.[28]

Stores are using **direct product profitability (DPP)** to measure a product's handling costs (receiving, moving to storage, paperwork, selecting, checking, loading, and space cost) from the time it reaches the warehouse until a customer buys it in the retail store. They learn to their surprise that the gross margin on a product often bears little relation to the direct product profit. Some high-volume products may have such high handling costs that they are less profitable and deserve less shelf space than low-volume products.

Trader Joe's has differentiated itself on its innovative procurement strategy.

Trader Joe's

Trader Joe's

Los Angeles–based Trader Joe's has carved out a special niche as a "gourmet food outlet discount warehouse hybrid," selling a constantly rotating assortment of upscale specialty food and wine at lower-than-average prices. Roughly 80 percent of what it stocks sells under private labels (compared to only 16 percent at most supermarkets), many with a strong environmentally friendly message. For procurement, Trader Joe's has adopted a "less is more" philosophy. Every store carries about 3,000 products, compared to 55,000 at a conventional supermarket, and only what it can buy and sell at a good price, even if that means changing stock weekly. Its 18 expert buyers go directly to hundreds of suppliers, not to intermediaries, and 20 percent to 25 percent of its suppliers are overseas. With thousands of vendor relationships all around the world, Trader Joe's has a success formula that's difficult to copy. In addition, a product finds a space on the shelf only if it's approved by a tasting panel; there is one on each coast to satisfy regional tastes. The company introduces as many as 20 products a week to replace unpopular items.[29]

PRICES Prices are a key positioning factor and must be set in relationship to the target market, product-and-service assortment mix, and competition.[30] All retailers would like high *turns × earns* (high volumes and high gross margins), but the two don't usually go together. Most retailers fall into the *high-markup, lower-volume* group (fine specialty stores) or the *low-markup, higher-volume* group (mass merchandisers and discount stores). Within each of these groups are further gradations. Bijan on Rodeo Drive in Beverly Hills prices suits starting at $1,000 and shoes at $400. At the other end, Target has skillfully combined a hip image with discount prices to offer customers a strong value proposition.

Target

In the mid-1980s, Kmart was the dominant mass retailer, and Walmart was growing rapidly. Sensing a gap in the market for "cheap chic" retail, Target strove to set itself apart from the other big-box retailers by enhancing the design quality of its product selection, focusing on merchandise that was contemporary and unique. The company's team of merchandisers traveled the world looking for the next hot items and trends to bring to the shelves. Target also differentiated its merchandising layout, using low shelves, halogen and track lighting, and wider aisles and avoiding "visual clutter" in stores. With the slogan "Expect More, Pay Less," Target seeks to build an up-market cachet for its brand without losing price-conscious consumers. It introduced a line of products from world-renowned designers such as Michael Graves, Isaac Mizrahi, Mossimo Giannulli, and Liz Lange and has kept innovating with its merchandising model. In 2006, it introduced U.S. consumers to the concept of "fast fashion," already popular in Europe, to help keep the product selection fresh, which in turn led to more frequent shopper visits.[31]

As part of its "cheap chic" retail strategy, Target sells products from famous designers, such as the Harlem Design Series from New York fashion visionary Stephen Burrows.

Most retailers will put low prices on some items to serve as traffic builders or loss leaders or to signal their pricing policies.[32] They will run storewide sales. They will plan markdowns on slower-moving merchandise. Shoe retailers, for example, expect to sell 50 percent of their shoes at the normal markup, 25 percent at a 40 percent markup, and the remaining 25 percent at cost.

As Chapter 14 noted, some retailers such as Walmart have abandoned "sales pricing" in favor of everyday low pricing (EDLP). EDLP can lead to lower advertising costs, greater pricing stability, a stronger image of fairness and reliability, and higher retail profits. Supermarket chains practicing everyday low pricing can be more profitable than those practicing high–low sale pricing, but only in certain circumstances.[33]

SERVICES Retailers must decide on the *services mix* to offer customers:

- ***Prepurchase services*** include accepting telephone and mail orders, advertising, window and interior display, fitting rooms, shopping hours, fashion shows, and trade-ins.
- ***Postpurchase services*** include shipping and delivery, gift wrapping, adjustments and returns, alterations and tailoring, installations, and engraving.
- ***Ancillary services*** include general information, check cashing, parking, restaurants, repairs, interior decorating, credit, rest rooms, and baby-attendant service.

Another differentiator is unerringly reliable customer service, whether face-to-face, across phone lines, or via online chat. Barnes & Noble hires clean-cut people with a passion for customer service and a general love of books; Borders employees are more likely to be tattooed or have multiple body piercings. The company prides itself on the diversity of its employees and hires people who radiate excitement about particular books and music, rather than simply finding a book for a customer.[34]

Whatever retailers do to enhance customer service, they must keep women in mind. Approximately 85 percent of everything sold in the United States is bought or influenced by a woman, and women are fed up with the decline in customer service. They are finding every possible way to get around the system, from ordering online to resisting fake sales to just doing without.[35] And when they do shop, they want well-organized layouts, helpful staff, and speedy checkouts.[36]

STORE ATMOSPHERE *Atmosphere* is another element in the store arsenal. Every store has a look, and a physical layout that makes it hard or easy to move around (see "Marketing Memo: Helping Stores to Sell"). Kohl's floor plan is modeled after a racetrack loop and is designed to convey customers smoothly past all the merchandise in the store. It includes a middle aisle that hurried shoppers can use as a shortcut and yields higher spending levels than many competitors.[37]

Retailers must consider all the senses in shaping the customer's experience. Varying the tempo of music affects average time and dollars spent in the supermarket. Sony Style stores are seasoned with a subtle vanilla and mandarin orange fragrance, and every surface, from countertops to paneling, is designed to be touchable. Bloomingdale's uses different essences in different departments: baby powder in the baby store; suntan lotion in the bathing suit area; lilacs in lingerie; and cinnamon and pine scent during the holiday season.[38]

STORE ACTIVITIES AND EXPERIENCES The growth of e-commerce has forced traditional brick-and-mortar retailers to respond. In addition to their natural advantages, such as products that shoppers can actually see, touch, and test; real-life customer service; and no delivery lag time for most purchases, stores also provide a shopping experience as a strong differentiator.[39]

The store atmosphere should match shoppers' basic motivations — if customers are likely to be in a task-oriented and functional mind-set, then a simpler, more restrained in-store environment may be better.[40] On the other hand, some retailers of experiential products are creating in-store entertainment to attract customers who want fun and excitement.[41] REI, seller of outdoor gear and clothing products, allows consumers to test climbing equipment on 25-foot or even 65-foot walls in the store and to try GORE-TEX raincoats under a simulated rain shower. Bass Pro Shops, a retailer of outdoor sports equipment, features giant aquariums, waterfalls, trout ponds, archery and rifle ranges, fly-tying demonstrations and some with an outdoor pond to test equipment, indoor driving range and putting greens, and classes in everything from ice fishing to conservation—all free. Its first and largest showroom in Missouri is the number one tourist destination in the state.

Bass Pro Shops sells its outdoor sports equipment in an experiential retail environment conducive to product demos and tests.

marketing Memo — Helping Stores to Sell

In pursuit of higher sales volume, retailers are studying their store environments for ways to improve the shopper experience. Paco Underhill is managing director of the retail consultant Envirosell, whose clients include McDonald's, Starbucks, Estée Lauder, Blockbuster, Citibank, Gap, Burger King, CVS, and Wells Fargo. Using a combination of in-store video recording and observation, Underhill and his colleagues study 50,000 people each year as they shop. He offers the following advice for fine-tuning retail space:

- *Attract shoppers and keep them in the store.* The amount of time shoppers spend in a store is perhaps the single most important factor in determining how much they buy. To increase shopping time, give shoppers a sense of community; recognize them in some way; give them ways to deal with their accessories, such as chairs in convenient locations for boyfriends, husbands, children, or bags; and make the environment both familiar and fresh each time they come in.
- *Honor the "transition zone."* On entering a store, people need to slow down and sort out the stimuli, which means they will likely be moving too fast to respond positively to signs, merchandise, or sales clerks in the zone they cross before making that transition. Make sure there are clear sight lines. Create a focal point for information within the store. Most right-handed people turn right upon entering a store.
- *Avoid overdesign.* Store fixtures, point-of-sales information, packaging, signage, and flat-screen televisions can combine to create a visual cacophony. Use crisp and clear signage—"Our Best Seller" or "Our Best Student Computer"—where people feel comfortable stopping and facing the right way. Window signs, displays, and mannequins communicate best when angled 10 to 15 degrees to face the direction that people are moving.
- *Don't make them hunt.* Put the most popular products up front to reward busy shoppers and encourage leisurely shoppers to look more. At Staples, ink cartridges are one of the first products shoppers encounter after entering.
- *Make merchandise available to the reach and touch.* It is hard to overemphasize the importance of customers' hands. A store can offer the finest, cheapest, sexiest goods, but if the shopper cannot reach or pick them up, much of their appeal can be lost.
- *Make kids welcome.* If kids feel welcome, parents will follow. Take a three-year-old's perspective and make sure there are engaging sights at eye level. A virtual hopscotch pattern or dinosaur on the floor can turn a boring shopping trip for a child into a friendly experience.
- *Note that men do not ask questions.* Men always move faster than women do through a store's aisles. In many settings, it is hard to get them to look at anything they had not intended to buy. Men also do not like asking where things are. If a man cannot find the section he is looking for, he will wheel about once or twice, then leave the store without ever asking for help.
- *Remember women need space.* A shopper, especially a woman, is far less likely to buy an item if her derriere is brushed, even lightly, by another customer when she is looking at a display. Keeping aisles wide and clear is crucial.
- *Make checkout easy.* Be sure to have the right high-margin goods near cash registers to satisfy impulse shoppers. People love to buy candy when they check out—so satisfy their sweet tooth.

Sources: Paco Underhill, *Call of the Mall: The Geography of Shopping* (New York: Simon & Schuster, 2004); Paco Underhill, *Why We Buy: The Science of Shopping* (New York: Simon & Schuster, 1999). See also, Kenneth Hein, "Shopping Guru Sees Death of Detergent Aisle," *Brandweek*, March 27, 2006, p. 11; Bob Parks, "5 Rules of Great Design," *Business 2.0* (March 2003): 47–49; Russell Boniface, "I Spy a Shopper!" *AIArchitect*, June 2006; Susan Berfield, "Getting the Most Out of Every Shopper, *BusinessWeek*, February 9, 2009, pp. 45–46; www.envirosell.com.

COMMUNICATIONS Retailers use a wide range of communication tools to generate traffic and purchases. They place ads, run special sales, issue money-saving coupons, and run frequent-shopper-reward programs, in-store food sampling, and coupons on shelves or at checkout points. They work with manufacturers to design point-of-sale materials that reflect both their images.[42] Upscale retailers place tasteful, full-page ads in magazines such as *Vogue, Vanity Fair,* or *Esquire* and carefully train salespeople to greet customers, interpret their needs, and handle complaints. Off-price retailers will arrange their merchandise to promote bargains and savings, while conserving on service and sales assistance. Retailers are also using interactive and social media to pass on information and create communities around their brands.[43] Casual dining chain Houlihan's created a social network site, HQ, to gain honest, immediate feedback from 10,500 invitation-only "Houlifan" customers in return for insider information.

LOCATION The three keys to retail success are often said to be "location, location, and location." Department store chains, oil companies, and fast-food franchisers exercise great care in selecting regions of the country in which to open outlets, then particular cities, and then particular sites. Retailers can place their stores in the following locations:

- ***Central business districts.*** The oldest and most heavily trafficked city areas, often known as "downtown"

- ***Regional shopping centers.*** Large suburban malls containing 40 to 200 stores, typically featuring one or two nationally known anchor stores, such as Macy's or Lord & Taylor or a combination of big-box stores such as PETCO, Payless Shoes, Borders, or Bed Bath & Beyond, and a great number of smaller stores, many under franchise operation[44]
- ***Community shopping centers.*** Smaller malls with one anchor store and 20 to 40 smaller stores
- ***Shopping strips.*** A cluster of stores, usually in one long building, serving a neighborhood's needs for groceries, hardware, laundry, shoe repair, and dry cleaning
- ***A location within a larger store.*** Certain well-known retailers—McDonald's, Starbucks, Nathan's, Dunkin' Donuts—locate new, smaller units as concession space within larger stores or operations, such as airports, schools, or department stores.
- ***Stand-alone stores.*** Some retailers such as Kohl's and JCPenney are avoiding malls and shopping centers to locate new stores in free-standing sites on streets, so they are not connected directly to other retail stores.

In view of the relationship between high traffic and high rents, retailers must decide on the most advantageous locations for their outlets, using traffic counts, surveys of consumer shopping habits, and analysis of competitive locations.

Private Labels

A **private label brand** (also called a reseller, store, house, or distributor brand) is a brand that retailers and wholesalers develop. Benetton, The Body Shop, and Marks & Spencer carry mostly own-brand merchandise. In grocery stores in Europe and Canada, store brands account for as much as 40 percent of the items sold. In Britain, the largest food chains, roughly half of what Sainsbury and Tesco sell is store-label goods.

For many manufacturers, retailers are both collaborators and competitors. According to the Private Label Manufacturers' Association, store brands now account for one of every four items sold in U.S. supermarkets, drug chains, and mass merchandisers, up from 19 percent in 1999. In one study, seven of ten shoppers believed the private label products they bought were as good as, if not better than, their national brand. Setting aside beverages, private labels account for roughly 30 percent of all food served in U.S. homes, and virtually every household purchases private label brands from time to time.[45]

Private labels are rapidly gaining ascendance in a way that has many manufacturers of name brands running scared. Some experts believe though that 50 percent is the natural limit for volume of private labels to carry because (1) consumers prefer certain national brands, and (2) many product categories are not feasible or attractive on a private-label basis.[46] Table 16.4 displays the product categories that have the highest private-label sales.

TABLE 16.4 Top 10 Private Label Categories–2009 (billions of dollars)
• Milk ($8.1)
• Bread & Baked Good ($4.2)
• Cheese ($3.5)
• Medications/Remedies/Vitamins ($3.4)
• Paper Products ($2.6)
• Eggs—Fresh ($1.9)
• Fresh Produce ($1.5)
• Packaged Meat ($1.5)
• Pet Food ($1.5)
• Unprepared Meat/Frozen Seafood ($1.4)

Source: Data from www.privatelabelmag.com. December 9, 2010. Used with permission.

Role of Private Labels

Why do intermediaries sponsor their own brands?[47] First, these brands can be more profitable. Intermediaries search for manufacturers with excess capacity that will produce private label goods at low cost. Other costs, such as research and development, advertising, sales promotion, and physical distribution, are also much lower, so private labels can generate a higher profit margin. Retailers also develop exclusive store brands to differentiate themselves from competitors. Many price-sensitive consumers prefer store brands in certain categories. These preferences give retailers increased bargaining power with marketers of national brands.

Private label or store brands should be distinguished from generics. **Generics** are unbranded, plainly packaged, less expensive versions of common products such as spaghetti, paper towels, and canned peaches. They offer standard or lower quality at a price that may be as much as 20 percent to 40 percent lower than nationally advertised brands and 10 percent to 20 percent lower than the retailer's private-label brands. The lower price is made possible by lower-cost labeling and packaging and minimal advertising, and sometimes lower-quality ingredients. Generics can be found in a wide range of different products, even medicines.

Generic Drugs Generic drugs have become big business. Branded drug sales actually declined for the first time in 2009. By making knockoffs faster and in larger quantities, Israel's Teva has become the world's biggest generic drugmaker, with revenue of $14 billion. Pharma giant Novartis is one of the world's top five makers of branded drugs, with such successes as Diovan for high blood pressure and Gleevec for cancer, but it has also become the world's second-largest maker of generic drugs following its acquisition of Sandoz, HEXAL, Eon Labs, and others. Other pharmaceutical companies such as Sanofi-Aventis and GlaxoSmithKline have entered the generic drug market not in the United States but in emerging markets in Eastern Europe, Latin America, and Asia, where some consumers cannot afford expensive brand-name drugs but worry about counterfeit or low-quality drugs. These consumers are willing to pay at least a small premium for a drug backed by a trusted company.[48]

Generic drugs have become big business as a means to lower health care costs.

Private-Label Success Factors

In the confrontation between manufacturers' and private labels, retailers have many advantages and increasing market power.[49] Because shelf space is scarce, many supermarkets charge a *slotting fee* for accepting a new brand, to cover the cost of listing and stocking it. Retailers also charge for special display space and in-store advertising space. They typically give more prominent display to their own brands and make sure they are well stocked.

Retailers are building better quality into their store brands. Supermarket retailers are adding premium store-brand items like organics or creating new products without direct competition, such as three-minute microwaveable snack pizzas. They are also emphasizing attractive, innovative packaging. Some are even advertising aggressively: Safeway ran a $100 million integrated communication program that featured TV and print ads, touting the store brand's quality.[50]

Loblaw

Loblaw Since 1984, when its President's Choice line of foods made its debut, the term *private label* has brought Loblaw instantly to mind. Toronto-based Loblaw's Decadent Chocolate Chip Cookie quickly became a Canadian leader and showed how innovative store brands could compete effectively with national brands by matching or even exceeding their quality. A finely tuned brand strategy for its premium President's Choice line and its no-frills, yellow-labeled No Name line (which the company relaunched with a vengeance during the recent recession) has helped differentiate its stores and built Loblaw into a powerhouse in Canada and the United States. The President's Choice line of products has become so successful that Loblaw is licensing it to noncompetitive retailers in other countries. In 2010, Loblaw introduced a new tier of low-priced store brands, priced slightly above the No Name line, to be made available at its chain of 175 No Frills "hard discount" grocery stores.[51]

Marketing Insight

Manufacturer's Response to the Private Label Threat

To maintain their marketplace power, leading brand marketers are investing significantly in R&D to bring out new brands, line extensions, features, and quality improvements to stay a step ahead of the store brands. They are also investing in strong "pull" advertising programs to maintain high consumer brand recognition and preference and overcome the in-store marketing advantage that private labels can enjoy. Top-brand marketers also are seeking to partner with major mass distributors in a joint search for logistical economies and competitive strategies that produce savings for both sides. Cutting all unnecessary costs allows national brands to command a price premium, although it can't exceed the value perceptions of consumers.

University of North Carolina's Jan-Benedict E. M. Steenkamp and London Business School's Nirmalya Kumar offer four strategic recommendations for manufacturers to compete against or collaborate with private labels.

- *Fight selectively* where manufacturers can win against private labels and add value for consumers, retailers, and shareholders. This is typically where the brand is one or two in the category or occupying a premium niche position. Procter & Gamble rationalized its portfolio, selling off various brands such as Sunny Delight juice drink, Jif peanut butter, and Crisco shortening, in part so it could concentrate on strengthening its 20+ brands with more than $1 billion in sales.
- *Partner effectively* by seeking win-win relationships with retailers through strategies that complement the retailer's private labels. Estée Lauder created four brands (American Beauty, Flirt, Good Skin, and Grassroots) exclusively for Kohl's, to help the retailer generate volume and protect its more prestigious brands in the process. Manufacturers selling through hard discounters such as Lidl and Aldi have increased sales by finding new customers who have not previously bought the brand.
- *Innovate brilliantly* with new products to help beat private labels. Continuously launching incremental new products keeps the manufacturer brands looking fresh, but the firm must also periodically launch radical new products and protect the intellectual property of all brands. Kraft doubled its number of patent lawyers to make sure its innovations were legally protected as much as possible.
- *Create winning value propositions* by imbuing brands with symbolic imagery as well as functional quality that beats private labels. Too many manufacturer brands have let private labels equal and sometimes better them on functional quality. In addition, to have a winning value proposition, marketers need to monitor pricing and ensure that perceived benefits equal the price premium.

Sources: James A. Narus and James C. Anderson, "Contributing as a Distributor to Partnerships with Manufacturers," *Business Horizons* (September–October 1987); Nirmalya Kumar and Jan-Benedict E. M. Steenkamp, *Private Label Strategy: How to Meet the Store-Brand Challenge* (Boston: Harvard Business School Press, 2007); Nirmalya Kumar, "The Right Way to Fight for Shelf Domination," *Advertising Age*, January 22, 2007; Jan-Benedict E. M. Steenkamp and Nirmalya Kumar, "Don't Be Undersold, *Harvard Business Review*, December 2009, p. 91.

Although retailers get credit for the success of private labels, the growing power of store brands has also benefited from the weakening of national brands. Many consumers have become more price sensitive, a trend reinforced by the continuous barrage of coupons and price specials that has trained a generation to buy on price. Competing manufacturers and national retailers copy and duplicate the quality and features of the best brands in a category, reducing physical product differentiation. Moreover, by cutting marketing communication budgets, some firms have made it harder to create any intangible differences in brand image. A steady stream of brand extensions and line extensions has blurred brand identity at times and led to a confusing amount of product proliferation.

Bucking these trends, many manufacturers or national brands are fighting back. "Marketing Insight: Manufacturer's Respond to the Private Label Threat," describes the strategies and tactics being taken to compete more effectively with private labels.

Wholesaling

Wholesaling includes all the activities in selling goods or services to those who buy for resale or business use. It excludes manufacturers and farmers because they are engaged primarily in production, and it excludes retailers. The major types of wholesalers are described in Table 16.5.

Wholesalers (also called *distributors*) differ from retailers in a number of ways. First, wholesalers pay less attention to promotion, atmosphere, and location because they are dealing with business customers rather than final consumers. Second, wholesale transactions are usually larger than retail

TABLE 16.5 Major Wholesaler Types

Merchant wholesalers: Independently owned businesses that take title to the merchandise they handle. They are full-service and limited-service jobbers, distributors, and mill supply houses.
Full-service wholesalers: Carry stock, maintain a sales force, offer credit, make deliveries, provide management assistance. Wholesale merchants sell primarily to retailers: Some carry several merchandise lines, some carry one or two lines, others carry only part of a line. Industrial distributors sell to manufacturers and also provide services such as credit and delivery.
Limited-service wholesalers: *Cash and carry wholesalers* sell a limited line of fast-moving goods to small retailers for cash. *Truck wholesalers* sell and deliver a limited line of semiperishable goods to supermarkets, grocery stores, hospitals, restaurants, hotels. *Drop shippers* serve bulk industries such as coal, lumber, and heavy equipment. They assume title and risk from the time an order is accepted to its delivery. *Rack jobbers* serve grocery retailers in nonfood items. Delivery people set up displays, price goods, and keep inventory records; they retain title to goods and bill retailers only for goods sold to the end of the year. *Producers' cooperatives* assemble farm produce to sell in local markets. *Mail-order wholesalers* send catalogs to retail, industrial, and institutional customers; orders are filled and sent by mail, rail, plane, or truck.
Brokers and agents: Facilitate buying and selling, on commission of 2 percent to 6 percent of the selling price; limited functions; generally specialize by product line or customer type. *Brokers* bring buyers and sellers together and assist in negotiation; they are paid by the party hiring them—food brokers, real estate brokers, insurance brokers. *Agents* represent buyers or sellers on a more permanent basis. Most manufacturers' agents are small businesses with a few skilled salespeople: Selling agents have contractual authority to sell a manufacturer's entire output; purchasing agents make purchases for buyers and often receive, inspect, warehouse, and ship merchandise; commission merchants take physical possession of products and negotiate sales.
Manufacturers' and retailers' branches and offices: Wholesaling operations conducted by sellers or buyers themselves rather than through independent wholesalers. Separate branches and offices are dedicated to sales or purchasing. Many retailers set up purchasing offices in major market centers.
Specialized wholesalers: Agricultural assemblers (buy the agricultural output of many farms), petroleum bulk plants and terminals (consolidate the output of many wells), and auction companies (auction cars, equipment, etc., to dealers and other businesses).

transactions, and wholesalers usually cover a larger trade area than retailers. Third, the government deals with wholesalers and retailers differently in terms of legal regulations and taxes.

Why do manufacturers not sell directly to retailers or final consumers? Why are wholesalers used at all? In general, wholesalers are more efficient in performing one or more of the following functions:

- ***Selling and promoting.*** Wholesalers' sales forces help manufacturers reach many small business customers at a relatively low cost. They have more contacts, and buyers often trust them more than they trust a distant manufacturer.
- ***Buying and assortment building.*** Wholesalers are able to select items and build the assortments their customers need, saving them considerable work.
- ***Bulk breaking.*** Wholesalers achieve savings for their customers by buying large carload lots and breaking the bulk into smaller units.
- ***Warehousing.*** Wholesalers hold inventories, thereby reducing inventory costs and risks to suppliers and customers.
- ***Transportation.*** Wholesalers can often provide quicker delivery to buyers because they are closer to the buyers.
- ***Financing.*** Wholesalers finance customers by granting credit, and finance suppliers by ordering early and paying bills on time.
- ***Risk bearing.*** Wholesalers absorb some risk by taking title and bearing the cost of theft, damage, spoilage, and obsolescence.
- ***Market information.*** Wholesalers supply information to suppliers and customers regarding competitors' activities, new products, price developments, and so on.

- ***Management services and counseling.*** Wholesalers often help retailers improve their operations by training sales clerks, helping with store layouts and displays, and setting up accounting and inventory-control systems. They may help industrial customers by offering training and technical services.

Trends in Wholesaling

Wholesaler-distributors have faced mounting pressures in recent years from new sources of competition, demanding customers, new technologies, and more direct-buying programs by large industrial, institutional, and retail buyers. Manufacturers' major complaints against wholesalers are: They don't aggressively promote the manufacturer's product line and they act more like order takers; they don't carry enough inventory and therefore don't fill customers' orders fast enough; they don't supply the manufacturer with up-to-date market, customer, and competitive information; they don't attract high-caliber managers to bring down their own costs; and they charge too much for their services.

Savvy wholesalers have rallied to the challenge and adapted their services to meet their suppliers' and target customers' changing needs. They recognize that they must add value to the channel.

Arrow Electronics

Arrow Electronics Arrow Electronics is a global provider of products, services, and solutions to the electronic component and computer product industries. It serves as a supply channel partner for more than 900 suppliers and 125,000 original equipment manufacturers, contract manufacturers, and commercial customers through a global network of 310 locations in 51 countries and territories. With huge contract manufacturers buying more parts directly from suppliers, distributors such as Arrow are being squeezed out. To better compete, Arrow has embraced services, providing financing, on-site inventory management, parts-tracking software, and chip programming. Services helped quadruple Arrow's share price in five years, and the company approached $15 billion in sales in 2009.[52]

Wholesalers have worked to increase asset productivity by managing inventories and receivables better. They're also reducing operating costs by investing in more advanced materials-handling technology, information systems, and the Internet. Finally, they're improving their strategic decisions about target markets, product assortment and services, price, communications, and distribution.

Narus and Anderson interviewed leading industrial distributors and identified four ways they strengthened their relationships with manufacturers:

1. They sought a clear agreement with their manufacturers about their expected functions in the marketing channel.
2. They gained insight into the manufacturers' requirements by visiting their plants and attending manufacturer association conventions and trade shows.
3. They fulfilled their commitments to the manufacturer by meeting the volume targets, paying bills promptly, and feeding back customer information to their manufacturers.
4. They identified and offered value-added services to help their suppliers.[53]

The wholesaling industry remains vulnerable to one of the most enduring trends—fierce resistance to price increases and the winnowing out of suppliers based on cost and quality. The trend toward vertical integration, in which manufacturers try to control or own their intermediaries, is still strong. One firm that succeeds in the wholesaling business is W.W. Grainger.

W.W. Grainger

W.W. Grainger W.W. Grainger is the leading supplier of facilities maintenance products that help 1.8 million businesses and institutions stay up and running. Sales for 2008 were $6.9 billion. Grainger serves customers through a network of over 600 branches in North America and China, 18 distribution centers, numerous catalogs and direct-mail pieces, and four Web sites to guarantee product availability and quick service. Its 4,000-plus-page catalog features 138,000 products, such as motors, lighting, material handlers, fasteners, tools, and safety supplies, and customers can purchase over 300,000 products at Grainger.com. The distribution centers are linked by satellite network, which has reduced customer-response time and boosted sales. Helped by more than 3,000 suppliers, Grainger offers customers a total of more than 900,000 supplies and repair parts in all.[54]

Market Logistics

Physical distribution starts at the factory. Managers choose a set of warehouses (stocking points) and transportation carriers that will deliver the goods to final destinations in the desired time or at the lowest total cost. Physical distribution has now been expanded into the broader concept of **supply chain management (SCM).** Supply chain management starts before physical distribution and means strategically procuring the right inputs (raw materials, components, and capital equipment), converting them efficiently into finished products, and dispatching them to the final destinations. An even broader perspective looks at how the company's suppliers themselves obtain their inputs.

The supply chain perspective can help a company identify superior suppliers and distributors and help them improve productivity and reduce costs. Consumer goods manufacturers admired for their supply chain management include P&G, Kraft, General Mills, PepsiCo, and Nestlé; noteworthy retailers include Walmart, Target, Publix, Costco, Kroger, and Meijer.[55]

Firms are also striving to improve the environmental impact and sustainability of their supply chain by shrinking their carbon footprint and using recyclable packaging. Johnson & Johnson switched to Forest Stewardship Council (FSC)–certified paperboard for its BAND-AID brand boxes. As one executive noted, "Johnson & Johnson and its operating companies are positioned to make paper and packaging procurement decisions that could help influence responsible forest management."[56]

Market logistics includes planning the infrastructure to meet demand, then implementing and controlling the physical flows of materials and final goods from points of origin to points of use, to meet customer requirements at a profit. Market logistics planning has four steps:[57]

1. Deciding on the company's value proposition to its customers. (What on-time delivery standard should we offer? What levels should we attain in ordering and billing accuracy?)
2. Selecting the best channel design and network strategy for reaching the customers. (Should the company serve customers directly or through intermediaries? What products should we source from which manufacturing facilities? How many warehouses should we maintain and where should we locate them?)
3. Developing operational excellence in sales forecasting, warehouse management, transportation management, and materials management
4. Implementing the solution with the best information systems, equipment, policies, and procedures

Studying market logistics leads managers to find the most efficient way to deliver value. For example, a software company might traditionally produce and package software disks and manuals, ship them to wholesalers, which ship them to retailers, which sell them to customers, who bring them home to download onto their PCs. Market logistics offers two superior delivery systems. The first lets the customer download the software directly onto his or her computer. The second allows the computer manufacturer to download the software onto its products. Both solutions eliminate the need for printing, packaging, shipping, and stocking millions of disks and manuals.

Integrated Logistics Systems

The market logistics task calls for **integrated logistics systems (ILS),** which include materials management, material flow systems, and physical distribution, aided by information technology (IT). Information systems play a critical role in managing market logistics, especially via computers, point-of-sale terminals, uniform product bar codes, satellite tracking, electronic data interchange (EDI), and electronic funds transfer (EFT). These developments have shortened the order-cycle time, reduced clerical labor, reduced errors, and provided improved control of operations. They have enabled companies to promise "the product will be at dock 25 at 10:00 AM tomorrow," and deliver on that promise.

Market logistics encompass several activities. The first is sales forecasting, on the basis of which the company schedules distribution, production, and inventory levels. Production plans indicate the materials the purchasing department must order. These materials arrive through inbound transportation, enter the receiving area, and are stored in raw-material inventory. Raw materials are converted into finished goods. Finished-goods inventory is the link between customer orders and manufacturing activity. Customers' orders draw down the finished-goods inventory level, and manufacturing activity builds it up. Finished goods flow off the assembly line and pass through packaging, in-plant warehousing, shipping-room processing, outbound transportation, field warehousing, and customer delivery and servicing.

Management has become concerned about the total cost of market logistics, which can amount to as much as 30 percent to 40 percent of the product's cost. In the U.S. grocery business, waste or "shrink" affects 8 percent to 10 percent of perishable goods, costing $20 billion annually. To reduce shrink, grocery retailer Stop & Shop looked across its entire fresh-food supply chain and reduced everything from the size of suppliers' boxes to the number of products on display. With these changes, the supermarket chain cut shrink by almost a third, saving over $50 million and eliminating 36,000 pounds of rotten food, improving customer satisfaction at the same time.[58]

Many experts call market logistics "the last frontier for cost economies," and firms are determined to wring every unnecessary cost out of the system: In 1982, logistics represented 14.5 percent of U.S. GDP; by 2007, the share had dropped to about 10 percent.[59] Lower market-logistics costs will permit lower prices, yield higher profit margins, or both. Even though the cost of market logistics can be high, a well-planned program can be a potent tool in competitive marketing.

Many firms are embracing **lean manufacturing,** originally pioneered by Japanese firms such as Toyota, to produce goods with minimal waste of time, materials, and money. CONMED's disposable devices are used by a hospital somewhere in the world every 90 seconds to insert and remove fluid around joints during orthoscopic surgery,

ConMed To streamline production, medical manufacturer ConMed set out to link its operations as closely as possible to the ultimate buyer of its products. Rather than moving manufacturing to China, which might have lowered labor costs but could have also risked long lead times, inventory buildup, and unanticipated delays, the firm put new production processes into place to assemble its disposable products only after hospitals placed orders. Some 80 percent of orders were predictable enough that demand forecasts updated every few months could set hourly production targets. As proof of the firm's new efficiency, the assembly area for fluid-injection devices went from covering 3,300 square feet and stocking $93,000 worth of parts to 650 square feet and $6,000 worth of parts. Output per worker increased 21 percent.[60]

By redesigning its production assembly, medical manufacturer ConMed significantly increased productivity.

Lean manufacturing must be implemented thoughtfully and monitored closely. Toyota's recent crisis in product safety that resulted in extensive product recalls has been attributed in part to the fact that some aspects of the lean manufacturing approach—eliminating overlap by using common parts and designs across multiple product lines, and reducing the number of suppliers to procure parts in greater scale—can backfire when quality-control issues arise.[61]

Market-Logistics Objectives

Many companies state their market-logistics objective as "getting the right goods to the right places at the right time for the least cost." Unfortunately, this objective provides little practical guidance. No system can simultaneously maximize customer service and minimize distribution cost. Maximum customer service implies large inventories, premium transportation, and multiple warehouses, all of which raise market-logistics costs.

Nor can a company achieve market-logistics efficiency by asking each market-logistics manager to minimize his or her own logistics costs. Market-logistics costs interact and are often negatively related. For example:

- The traffic manager favors rail shipment over air shipment because rail costs less. However, because the railroads are slower, rail shipment ties up working capital longer, delays customer payment, and might cause customers to buy from competitors who offer faster service.
- The shipping department uses cheap containers to minimize shipping costs. Cheaper containers lead to a higher rate of damaged goods and customer ill will.
- The inventory manager favors low inventories. This increases stock-outs, back orders, paperwork, special production runs, and high-cost, fast-freight shipments.

Given that market-logistics activities require strong trade-offs, managers must make decisions on a total-system basis. The starting point is to study what customers require and what competitors are offering. Customers are interested in on-time delivery, supplier willingness to meet emergency needs, careful handling of merchandise, and supplier willingness to take back defective goods and resupply them quickly.

The company must then research the relative importance of these service outputs. For example, service-repair time is very important to buyers of copying equipment. Xerox developed a service delivery standard that "can put a disabled machine anywhere in the continental United States back into operation within three hours after receiving the service request." It then designed a service division of personnel, parts, and locations to deliver on this promise.

The company must also consider competitors' service standards. It will normally want to match or exceed the competitors' service level, but the objective is to maximize profits, not sales. Some companies offer less service and charge a lower price; other companies offer more service and charge a premium price.

The company ultimately must establish some promise it makes to the market. Coca-Cola wants to "put Coke within an arm's length of desire." Lands' End, the giant clothing retailer, aims to respond to every phone call within 20 seconds and to ship every order within 24 hours of receipt. Some companies define standards for each service factor. One appliance manufacturer has established the following service standards: to deliver at least 95 percent of the dealer's orders within seven days of order receipt, to fill them with 99 percent accuracy, to answer dealer inquiries on order status within three hours, and to ensure that merchandise damaged in transit does not exceed 1 percent.

Given the market-logistics objectives, the company must design a system that will minimize the cost of achieving these objectives. Each possible market-logistics system will lead to the following cost:

$$M = T + FW + VW + S$$

where M = total market-logistics cost of proposed system

T = total freight cost of proposed system

FW = total fixed warehouse cost of proposed system

VW = total variable warehouse costs (including inventory) of proposed system

S = total cost of lost sales due to average delivery delay under proposed system

Choosing a market-logistics system calls for examining the total cost (M) associated with different proposed systems and selecting the system that minimizes it. If it is hard to measure S, the company should aim to minimize $T + FW + VW$ for a target level of customer service.

Market-Logistics Decisions

The firm must make four major decisions about its market logistics: (1) How should we handle orders (order processing)? (2) Where should we locate our stock (warehousing)? (3) How much stock should we hold (inventory)? and (4) How should we ship goods (transportation)?

ORDER PROCESSING Most companies today are trying to shorten the *order-to-payment cycle*—that is, the elapsed time between an order's receipt, delivery, and payment. This cycle has many steps, including order transmission by the salesperson, order entry and customer credit check, inventory and production scheduling, order and invoice shipment, and receipt of payment. The longer this cycle takes, the lower the customer's satisfaction and the lower the company's profits.

WAREHOUSING Every company must store finished goods until they are sold, because production and consumption cycles rarely match. Consumer-packaged-goods companies have been reducing their number of stocking locations from 10 to 15 to about 5 to 7, and pharmaceutical and medical distributors have cut theirs from 90 to about 45. On the one hand, more stocking locations mean goods can be delivered to customers more quickly, but warehousing and inventory costs are higher. To reduce these costs, the company might centralize its inventory in one place and use fast transportation to fill orders.

Some inventory is kept at or near the plant, and the rest in warehouses in other locations. The company might own private warehouses and also rent space in public warehouses. *Storage warehouses* store goods for moderate to long periods of time. *Distribution warehouses* receive goods from various company plants and suppliers and move them out as soon as possible. *Automated warehouses* employ advanced materials-handling systems under the control of a central computer and are increasingly becoming the norm.

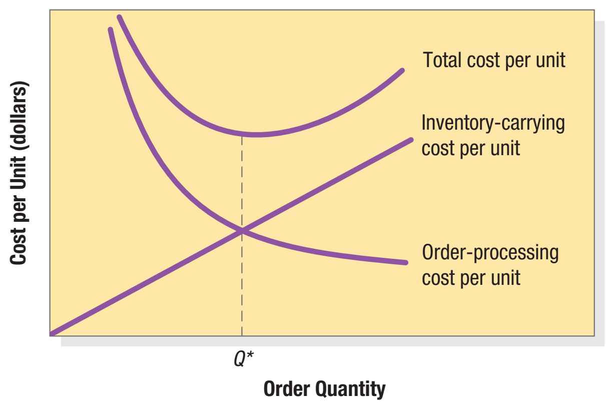
Some warehouses are now taking on activities formerly done in the plant. These include assembly, packaging, and constructing promotional displays. Postponing finalization of the offering to the warehouse can achieve savings in costs and finer matching of offerings to demand.

INVENTORY Salespeople would like their companies to carry enough stock to fill all customer orders immediately. However, this is not cost-effective. *Inventory cost increases at an accelerating rate as the customer-service level approaches 100 percent.* Management needs to know how much sales and profits would increase as a result of carrying larger inventories and promising faster order fulfillment times, and then make a decision.

As inventory draws down, management must know at what stock level to place a new order. This stock level is called the *order* (or *reorder*) *point.* An order point of 20 means reordering when the stock falls to 20 units. The order point should balance the risks of stock-out against the costs of overstock. The other decision is how much to order. The larger the quantity ordered, the less frequently an order needs to be placed. The company needs to balance order-processing costs and inventory-carrying costs. *Order-processing costs* for a manufacturer consist of *setup costs* and *running costs* (operating costs when production is running) for the item. If setup costs are low, the manufacturer can produce the item often, and the average cost per item is stable and equal to the running costs. If setup costs are high, however, the manufacturer can reduce the average cost per unit by producing a long run and carrying more inventory.

Order-processing costs must be compared with *inventory-carrying costs.* The larger the average stock carried, the higher the inventory-carrying costs. These carrying costs include storage charges, cost of capital, taxes and insurance, and depreciation and obsolescence. Carrying costs might run as high as 30 percent of inventory value. This means that marketing managers who want their companies to carry larger inventories need to show that the larger inventories would produce incremental gross profits to exceed incremental carrying costs.

We can determine the optimal order quantity by observing how order-processing costs and inventory-carrying costs sum up at different order levels. Figure 16.1 shows that the order-processing



|Fig. 16.1|

Determining Optimal Order Quantity

cost per unit decreases with the number of units ordered because the order costs are spread over more units. Inventory-carrying charges per unit increase with the number of units ordered, because each unit remains longer in inventory. We sum the two cost curves vertically into a total-cost curve and project the lowest point of the total-cost curve on the horizontal axis to find the optimal order quantity Q^*.[62]

Companies are reducing their inventory costs by treating inventory items differently, positioning them according to risk and opportunity. They distinguish between bottleneck items (high risk, low opportunity), critical items (high risk, high opportunity), commodities (low risk, high opportunity), and nuisance items (low risk, low opportunity).[63] They are also keeping slow-moving items in a central location and carrying fast-moving items in warehouses closer to customers. All these strategies give them more flexibility should anything go wrong, as it often does, be it a dock strike in California, a typhoon in Taiwan, a tsunami in Asia, or a hurricane in New Orleans.[64]

The ultimate answer to carrying *near-zero inventory* is to build for order, not for stock. Sony calls it SOMO, "Sell one, make one." Dell's inventory strategy for years has been to get the customer to order a computer and pay for it in advance. Then Dell uses the customer's money to pay suppliers to ship the necessary components. As long as customers do not need the item immediately, everyone can save money. Some retailers are unloading excess inventory on eBay where, by cutting out the traditional liquidator middleman, they can make 60 to 80 cents on the dollar as opposed to 10 cents.[65] And some suppliers are snapping up excess inventory to create opportunity.

Cameron Hughes "If a winery has an eight-barrel lot, it may only use five barrels for its customers," says Cameron Hughes, a wine "négociant" who buys the excess juice from high-end wineries and wine brokers and combines it to make limited edition, premium blends that taste much more expensive than their price tags. Négociants have been around a long time, first as middlemen who sold or shipped wine as wholesalers, but the profession has expanded as opportunists such as Hughes became more involved in effectively making their own wines. Hughes doesn't own any grapes, bottling machines, or trucks. He outsources the bottling, and he sells directly to retailers such as Costco, Sam's Club, and Safeway, eliminating middlemen and multiple markups. Hughes never knows which or how many excess lots of wine he will have, but he's turned it to his advantage—he creates a new product with every batch. This rapid turnover is part of Costco's appeal for him. The discount store's customers love the idea of finding a rare bargain, and Hughes promotes his wines through in-store wine tastings and insider e-mails that alert Costco customers to upcoming numbered lots. Because lots sell out quickly, fans subscribe to Cameron's e-mail alerts at chwine.com that tell them when a new lot will be sold.[66]

Cameron Hughes has grown a thriving business by using excess lots of wine as input to his limited-edition premium wines.

TRANSPORTATION Transportation choices affect product pricing, on-time delivery performance, and the condition of the goods when they arrive, all of which affect customer satisfaction.

In shipping goods to its warehouses, dealers, and customers, the company can choose rail, air, truck, waterway, or pipeline. Shippers consider such criteria as speed, frequency, dependability, capability, availability, traceability, and cost. For speed, air, rail, and truck are the prime contenders. If the goal is low cost, then the choice is water or pipeline.

Shippers are increasingly combining two or more transportation modes, thanks to containerization. **Containerization** consists of putting the goods in boxes or trailers that are easy to transfer between two transportation modes. *Piggyback* describes the use of rail and trucks; *fishyback,* water and trucks; *trainship,* water and rail; and *airtruck,* air and trucks. Each coordinated mode offers specific advantages. For example, piggyback is cheaper than trucking alone yet provides flexibility and convenience.

Shippers can choose private, contract, or common carriers. If the shipper owns its own truck or air fleet, it becomes a *private carrier.* A *contract carrier* is an independent organization selling transportation services to others on a contract basis. A *common carrier* provides services between predetermined points on a scheduled basis and is available to all shippers at standard rates.

To reduce costly handing at arrival, some firms are putting items into shelf-ready packaging so they don't need to be unpacked from a box and placed on a shelf individually. In Europe, P&G uses a three-tier logistic system to schedule deliveries of fast- and slow-moving goods, bulky items, and small items in the most efficient way.[67] To reduce damage in shipping, the size, weight, and fragility of the item must be reflected in the crating technique used, the density of foam cushioning, etc.[68]

Organizational Lessons

Market-logistics strategies must be derived from business strategies, rather than solely from cost considerations. The logistics system must be information-intensive and establish electronic links among all the significant parties. Finally, the company should set its logistics goals to match or exceed competitors' service standards and should involve members of all relevant teams in the planning process.

Today's stronger demands for logistical support from large customers will increase suppliers' costs. Customers want more frequent deliveries so they don't have to carry as much inventory. They want shorter order-cycle times, which means suppliers must have high in-stock availability. Customers often want direct store delivery rather than shipments to distribution centers. They want mixed pallets rather than separate pallets. They want tighter promised delivery times. They may want custom packaging, price tagging, and display building.

Suppliers can't say "no" to many of these requests, but at least they can set up different logistical programs with different service levels and customer charges. Smart companies will adjust their offerings to each major customer's requirements. The company's trade group will set up *differentiated distribution* by offering different bundled service programs for different customers.

Summary

1. Retailing includes all the activities involved in selling goods or services directly to final consumers for personal, nonbusiness use. Retailers can be understood in terms of store retailing, nonstore retailing, and retail organizations.
2. Like products, retail-store types pass through stages of growth and decline. As existing stores offer more services to remain competitive, costs and prices go up, which opens the door to new retail forms that offer a mix of merchandise and services at lower prices. The major types of retail stores are specialty stores, department stores, supermarkets, convenience stores, discount stores, extreme value or hard-discount store, off-price retailers, superstores, and catalog showrooms.
3. Although most goods and services are sold through stores, nonstore retailing has been growing. The major types of nonstore retailing are direct selling (one-to-one selling, one-to-many party selling, and multilevel network marketing), direct marketing (which includes e-commerce and Internet retailing), automatic vending, and buying services.
4. Although many retail stores are independently owned, an increasing number are falling under some form of corporate retailing. Retail organizations achieve many economies of scale, greater purchasing power, wider brand recognition, and better-trained employees. The major types of corporate retailing are corporate chain stores, voluntary chains, retailer cooperatives, consumer cooperatives, franchise organizations, and merchandising conglomerates.
5. The retail environment has changed considerably in recent years; as new retail forms have emerged, intertype and store-based versus nonstore-based competition has increased, the rise of giant retailers has been matched by the decline of middle-market retailers, investment in technology and global expansion has grown, and shopper marketing inside stores has become a priority.
6. Like all marketers, retailers must prepare marketing plans that include decisions on target markets, channels, product assortment and procurement, prices, services, store atmosphere, store activities and experiences, communications, and location.
7. Wholesaling includes all the activities in selling goods or services to those who buy for resale or business use. Wholesalers can perform functions better and more cost-effectively than the manufacturer can. These functions include selling and promoting, buying and assortment building, bulk breaking, warehousing, transportation, financing, risk bearing, dissemination of market information, and provision of management services and consulting.
8. There are four types of wholesalers: merchant wholesalers; brokers and agents; manufacturers' and retailers' sales branches, sales offices, and purchasing offices; and miscellaneous wholesalers such as agricultural assemblers and auction companies.

9. Like retailers, wholesalers must decide on target markets, product assortment and services, price, promotion, and place. The most successful wholesalers are those who adapt their services to meet suppliers' and target customers' needs.
10. Producers of physical products and services must decide on market logistics—the best way to store and move goods and services to market destinations; to coordinate the activities of suppliers, purchasing agents, manufacturers, marketers, channel members, and customers. Major gains in logistical efficiency have come from advances in information technology.

Applications

Marketing Debate

Should National-Brand Manufacturers Also Supply Private-Label Brands?

Ralston-Purina, Borden, ConAgra, and Heinz have all admitted to supplying products—sometimes lower in quality—to be used for private labels. Other marketers, however, criticize this "if you can't beat them, join them" strategy, maintaining that these actions, if revealed, may create confusion or even reinforce a perception by consumers that all brands in a category are essentially the same.

Take a position: **Manufacturers should feel free to sell private labels as a source of revenue *versus* National manufacturers should never get involved with private labels.**

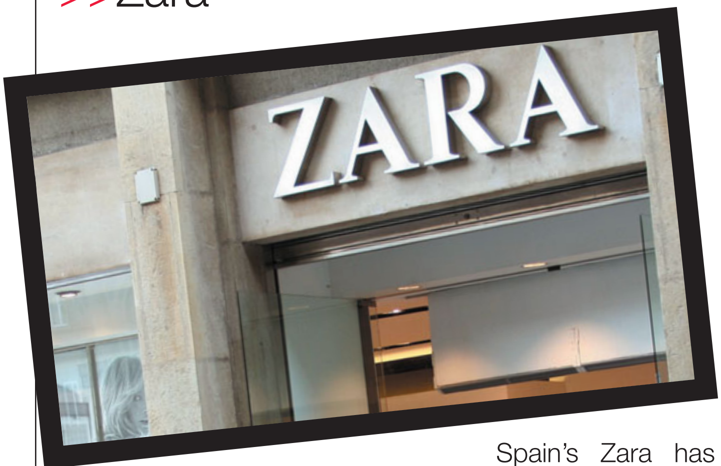
Marketing Discussion

Retail Customer Loyalty

Think of your favorite stores. What do they do that encourages your loyalty? What do you like about the in-store experience? What further improvements could they make?

Marketing Excellence

>>Zara



Spain's Zara has become Europe's leading apparel retailer, providing consumers with current, high fashion styles at reasonable prices. With over $8.7 billion in sales and more than 1,500 stores, the company's success has come from breaking virtually every traditional rule in the retailing industry.

The first Zara store opened in 1975. By the 1980s, Zara's founder, Amancio Ortega, was working with computer programmers to develop a new distribution model that would revolutionize the clothing industry. This new model takes several strategic steps to reduce the lead time from design to distribution to just two weeks—a significant difference from the industry average of six to nine months. As a result, the company makes approximately 20,000 different items a year, about triple what Gap or H&M make in a year. By reducing lead times to a fraction of its competitors, Zara has been able to provide "fast fashion" for its consumers at affordable prices. The company's success lies within four key strategic elements:

Design and Production. Zara employs hundreds of designers at its headquarters in Spain. Thus, new styles are constantly being created and put into production while others are tweaked with new colors or patterns. The firm enforces the speed at which it puts these designs into production by locating half its production facilities nearby in Spain, Portugal, and Morocco. Zara produces only a small quantity of each collection and is willing to experience occasional shortages to preserve an image of exclusivity. Clothes with a longer shelf life, like T-shirts, are outsourced to lower-cost suppliers in Asia and Turkey. With tight control on its manufacturing process, Zara can move more rapidly than any of its competitors and continues to deliver fresh styles to its stores every week.

Logistics. Zara distributes all its merchandise, regardless of origin, from Spain. Its distribution process is designed so that the time from receipt of an order to delivery in the store averages 24 hours in Europe and 48 hours in the United States and Asia. Having 50 percent of its production facilities nearby is key to the success of this model. All Zara stores receive new shipments twice a week, and the small quantities of each collection not only bring consumers back into Zara stores over and over but also entice them to make purchases more quickly. While an average shopper in Spain visits a high street (or main street) store three times a year, shoppers average 17 trips to Zara stores. Some Zara fans know exactly when new shipments arrive and show up early that day to be the first in line for the latest fashions. These practices keep sales strong throughout the year and help the company sell more products at full price—85 percent of its merchandise versus the industry average of 60 percent.

Customers. Everything revolves around Zara's customers. The retailer reacts to customers' changing needs, trends, and tastes with daily reports from Zara shop managers about which products and styles have sold and which haven't. With up to 70 percent of their salaries coming from commission, managers have a strong incentive to stay on top of things. Zara's designers don't have to predict what fashion trends will be in the future. They react to customer feedback—good and bad—and if something fails, the line is withdrawn immediately. Zara cuts its losses and the impact is minimal due to the low quantities of each style produced.

Stores. Zara has never run an advertising campaign. The stores, 90 percent of which it owns, are the key advertising element and are located in prestigious high-traffic locations around the world. Zara spends significant time and effort regularly changing store windows to help lure customers in. In comparison to other retailers, which spend 3 percent to 4 percent of revenues on big brand-building campaigns, Zara spends just 0.3 percent.

The company's success comes from having complete control over all the parts of its business—design, production, and distribution. Louis Vuitton's fashion director, Daniel Piette, described Zara as "possibly the most innovative and devastating retailer in the world." Now, as Zara continues to expand into new markets and countries, it risks losing some of its speed and will have to work hard to continue providing the same "newness"' all over the world that it does so well in Europe. It is also making a somewhat belated major push online that will need to work within its existing business model.

Questions

1. Would Zara's model work for other retailers? Why or why not?
2. How is Zara going to expand successfully all over the world with the same level of speed and instant fashion?

Sources: Rachel Tiplady, "Zara: Taking the Lead in Fast-Fashion." *BusinessWeek,* April 4, 2006; enotes.com, Inditex overview; "Zara: A Spanish Success Story." *CNN*, June 15, 2001; "Fashion Conquistador," *BusinessWeek,* September 4, 2006; Caroline Raux, "The Reign of Spain." *The Guardian,* October 28, 2002; Kerry Capell, "Zara Thrives by Breaking All the Rules," *BusinessWeek*, October 20, 2008, p. 66; Christopher Bjork, "Zara Is to Get Big Online Push," *Wall Street Journal*, September 17, 2009, p. B8.

Marketing Excellence

>>Best Buy

Best Buy is the world's largest consumer electronics retailer, with $34.2 billion in sales in fiscal 2009. Sales boomed in the 1980s as Best Buy expanded nationally and made some risky business decisions, like putting its sales staff on salary instead of commission pay. This decision created a more consumer-friendly, low-pressure shopping atmosphere and resulted in an instant spike in overall revenues. In the 1990s, Best Buy ramped up its computer product offerings and, by 1995, was the biggest seller of home PCs, a powerful position during the Internet boom.

At the turn of the century, Best Buy faced new competitors like Costco and Walmart, which started ramping up their electronics divisions and product offerings. Best Buy believed the best way to differentiate itself was to increase its focus on customer service by selling product warranties and offering personal services like installation and at-home delivery. Its purchase of Geek Squad, a

24-hour computer service company, proved extremely profitable and strategic as home and small office networks became more complex and the need for personal computing attention increased. By 2004, Best Buy had placed a Geek Squad station in each of its stores, providing consumers with personal computing services in the stores, online, on the phone, and at home.

Today, Best Buy has adopted a corporate strategy it calls Customer-Centricity. It has segmented its broad customer base into a handful of specific targets such as the affluent tech geek, the busy suburban mom, the young gadget enthusiast, and the price-conscious family dad. Next, it uses extensive research and analysis to determine which segments are the most abundant and lucrative in each market. Finally, it configures its stores and trains its employees to target those shoppers and encourage them to keep coming back again and again. For example, stores targeting affluent tech geeks have separate home theatre departments with knowledgeable salespeople who can spend time discussing all the different product options. Stores with a high volume of suburban mom shoppers offer personal shopping assistants to help mom get in and out as quickly as possible with the exact items she needs.

Sometimes a store will experience a new type of lucrative shopper. In the coastal town of Baytown, Texas, the local Best Buy observed frequent visits from Eastern European workers coming off cargo ships and oil tankers. These men and women were using their precious free time to race over to Best Buy and search the aisles for Apple's iPods and laptops, which are cheaper in the United States than in Europe. To cater to this unique consumer, the local Best Buy rearranged its store, moved iPods, MacBooks, and their accessories from the back of the store to the front, and added signage in simple English. The result: sales from these European workers increased 67 percent.

This local ingenuity paired with the ability to cater to each market and segment's needs have helped Best Buy survive the electronics storm while competitors like CompUSA and Circuit City have failed. The business is tough, with thin profit margins and continuously evolving products. However, with over 1,300 stores, including locations in Canada, Mexico, China, and Turkey, Best Buy has a 19 percent market share and a trusted, consumer-friendly brand.

Questions

1. What are the keys to Best Buy's success? What are the risks going forward?
2. How else can Best Buy compete against new competitors like Walmart and online companies?

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PART 7 **Communicating Value**

Chapter 17

In This Chapter, We Will Address the Following Questions

1. What is the role of marketing communications?
2. How do marketing communications work?
3. What are the major steps in developing effective communications?
4. What is the communications mix, and how should it be set?
5. What is an integrated marketing communications program?

Ocean Spray has revitalized its brand through extensive new product development and a thoroughly integrated modern marketing communications program.

Designing and Managing Integrated Marketing Communications

Modern marketing calls for more than developing a good product, pricing it attractively, and making it accessible. Companies must also communicate with their present and potential stakeholders and the general public. For most marketers, therefore, the question is not *whether* to communicate but rather *what* to say, *how* and *when* to say it, to *whom*, and *how often*. Consumers can turn to hundreds of cable and satellite TV channels, thousands of magazines and newspapers, and millions of Internet pages. They are taking a more active role in deciding what communications they want to receive as well as how they want to communicate to others about the products and services they use. To effectively reach and influence target markets, holistic marketers are creatively employing multiple forms of communications. Ocean Spray—an agricultural cooperative of cranberry growers—has used a variety of communication vehicles to turn its sales fortunes around.

Facing stiff competition, a number of adverse consumer trends, and nearly a decade of declining sales, Ocean Spray COO Ken Romanzi and Arnold Worldwide decided to "reintroduce the cranberry to America" as the "surprisingly versatile little fruit that supplies modern-day benefits," through a true 360-degree campaign that used all facets of marketing communications to reach consumers in a variety of settings. The intent was to support the full range of products—cranberry sauce, fruit juices, and dried cranberries in different forms—and leverage the fact that the brand was born in the cranberry bogs and remained there still. The agency decided to tell an authentic, honest, and perhaps surprising story dubbed "Straight from the Bog." The campaign was designed to also reinforce two key brand benefits—that Ocean Spray products tasted good and were good for you. PR played a crucial role. Miniature bogs were brought to Manhattan and featured on an NBC Today morning segment. A "Bogs across America Tour" brought the experience to Los Angeles, Chicago, and even London. Television and print advertising featured two growers (depicted by actors) standing waist-deep in a bog and talking, often humorously, about what they did. The campaign also included a Web site, in-store displays, and events for consumers as well as for members of the growers' cooperative itself. Product innovation was crucial, too; new flavor blends were introduced, along with a line of 100 percent juice drinks, diet and light versions, and Craisins sweetened dried cranberries. The campaign hit the mark, lifting sales an average of 10 percent each year from 2005 to 2009 despite continued decline in the fruit juice category.[1]

Done right, marketing communications can have a huge payoff. This chapter describes how communications work and what marketing communications can do for a company. It also addresses how holistic marketers combine and integrate marketing communications. Chapter 18 examines mass (nonpersonal) communications (advertising, sales promotion, events and experiences, and public relations and publicity); Chapter 19 examines personal communications (direct and interactive marketing, word-of-mouth marketing, and personal selling).

The Role of Marketing Communications

Marketing communications are the means by which firms attempt to inform, persuade, and remind consumers—directly or indirectly—about the products and brands they sell. In a sense, marketing communications represent the voice of the company and its brands; they are a means by which the firm can establish a dialogue and build relationships with consumers. By strengthening customer loyalty, marketing communications can contribute to customer equity.

Marketing communications also work for consumers when they show how and why a product is used, by whom, where, and when. Consumers can learn who makes the product and what the company and brand stand for, and they can get an incentive for trial or use. Marketing communications allow companies to link their brands to other people, places, events, brands, experiences, feelings, and things. They can contribute to brand equity—by establishing the brand in memory and creating a brand image—as well as drive sales and even affect shareholder value.[2]

The Changing Marketing Communications Environment

Technology and other factors have profoundly changed the way consumers process communications, and even whether they choose to process them at all. The rapid diffusion of multipurpose smart phones, broadband and wireless Internet connections, and ad-skipping digital video recorders (DVRs) have eroded the effectiveness of the mass media. In 1960, a company could reach 80 percent of U.S. women with one 30-second commercial aired simultaneously on three TV networks: ABC, CBS, and NBC. Today, the same ad would have to run on 100 channels or more to achieve this marketing feat. Consumers not only have more choices of media, they can also decide whether and how they want to receive commercial content. "Marketing Insight: Don't Touch That Remote" describes developments in television advertising.

Marketing Insight

Don't Touch That Remote

That consumers are more in charge in the marketplace is perhaps nowhere more evident than in television broadcasting, where DVRs allow consumers to skip past ads with a push of the fast-forward button. Estimates had DVRs in 34 percent of U.S. households at the end of 2009, and of viewers who use them, between 60 percent and 70 percent fast-forward through commercials (the others either like ads, don't mind them, or can't be bothered).

Is that all bad? Surprisingly, research shows that while focusing on an ad in order to fast-forward through it, consumers actually retain and recall a fair amount of information. The most successful ads in "fast-forward mode" were those consumers had already seen, that used familiar characters, and that didn't have lots of scenes. It also helped to have brand-related information in the center of the screen, where viewers' eyes focus while skipping through. Although consumers are still more likely to recall an ad the next day if they've watched it live, some brand recall occurs even after an ad was deliberately zapped.

Another challenge marketers have faced for a long time is viewers' tendency to switch channels during commercial breaks. Recently, however, Nielsen, which handles television program ratings, has begun to offer ratings for specific ads. Before, advertisers had to pay based on the rating of the program, even if as many as 5 percent to 15 percent of consumers temporarily tuned away. Now they can pay based on the actual commercial audience available when their ad is shown. To increase viewership during commercial breaks, the major broadcast and cable networks are shortening breaks and delaying them until viewers are more likely to be engaged in a program.

Sources: Andrew O'Connell, "Advertisers: Learn to Love the DVR," *Harvard Business Review*, April 2010, p. 22; Erik du Plesis, "Digital Video Recorders and Inadvertent Advertising Exposure," *Journal of Advertising Research* 49 (June 2009); S. Adam Brasel and James Gips, "Breaking Through Fast-Forwarding: Brand Information and Visual Attention," *Journal of Marketing* 72 (November 2008), pp. 31–48; "Watching the Watchers," *Economist*, November 15, 2008, p. 77; Stephanie Kang, "Why DVR Viewers Recall Some TV Spots," *Wall Street Journal*, February 26, 2008; Kenneth C. Wilbur, "How Digital Video Recorder Changes Traditional Television Advertising," *Journal of Advertising* 37 (Summer 2008), pp. 143–49; Burt Helm, "Cable Takes a Ratings Hit," *BusinessWeek*, September 24, 2007.

Ads are appearing everywhere—even on eggs for this popular CBS television show.

But as some marketers flee traditional media, they still encounter challenges. Commercial clutter is rampant. The average city dweller is exposed to an estimated 3,000 to 5,000 ad messages a day. Short-form video content and ads appear at gas stations, grocery stores, doctors' offices, and big-box retailers. Supermarket eggs have been stamped with the name of CBS programs; subway turnstiles carry GEICO's name; Chinese food cartons promote Continental Airlines; and US Airways has sold ads on its motion sickness bags. Dubai sold corporate branding rights to 23 of the 47 stops and two metro lines in its new mass transit rail system.[3]

Marketing communications in almost every medium and form have been on the rise, and some consumers feel they are increasingly invasive. Marketers must be creative in using technology but not intrude in consumers' lives. Consider what Motorola did to solve that problem.[4]

Motorola At Hong Kong International Airport, Motorola's special promotion enabled loved ones to "Say Goodbye" via photos and messages sent from their phones to digital billboards in the departure area. When they checked into the gate area, travelers saw photos of the friends and family who had just dropped them off as part of a digital billboard in the image of a giant Motorola mobile phone. The company also offered departing travelers special instructions for using their phones to send a Motorola-branded good-bye video to friends and families, featuring soccer star David Beckham and Asian pop star Jay Chou.

Motorola's high-tech promotion creatively allowed passengers and those left behind to say one last good-bye with digital billboards.

Marketing Communications, Brand Equity, and Sales

In this new communication environment, although advertising is often a central element of a marketing communications program, it is usually not the only one—or even the most important one—for sales and building brand and customer equity. Like many other firms, over a five-year period from 2004 to 2008, Kimberly-Clark cut the percentage of its marketing budget spent on TV from 60 percent to a little over 40 percent as it invested more heavily in Internet and experiential marketing.[5] Consider Gap's effort in launching a new line of jeans.[6]

Gap

Gap By 2009, with sales slumping, Gap decided to celebrate the 40th anniversary of the opening of its first Gap store by introducing the "Born to Fit" 1969 Premium Jeans line. For its launch, Gap moved away from its typical media-intensive ad campaign, as exemplified by its popular 1998 "Khakis Swing" holiday ads. The campaign featured newer communications elements such as a Facebook page, video clips, a realistic online fashion show on a virtual catwalk, and a StyleMixer iPhone app. The app enabled users to mix and match clothes and organize outfits, get feedback from Facebook friends, and receive discounts when near a Gap store. Simultaneous in-store acoustic shows across 700 locations and temporary pop-up denim stores in major urban locations added to the buzz.

MARKETING COMMUNICATIONS MIX The **marketing communications mix** consists of eight major modes of communication:[7]

1. ***Advertising***—Any paid form of nonpersonal presentation and promotion of ideas, goods, or services by an identified sponsor via print media (newspapers and magazines), broadcast media (radio and television), network media (telephone, cable, satellite, wireless), electronic media (audiotape, videotape, videodisk, CD-ROM, Web page), and display media (billboards, signs, posters).
2. ***Sales promotion***—A variety of short-term incentives to encourage trial or purchase of a product or service including consumer promotions (such as samples, coupons, and premiums), trade promotions (such as advertising and display allowances), and business and sales force promotions (contests for sales reps).
3. ***Events and experiences***—Company-sponsored activities and programs designed to create daily or special brand-related interactions with consumers, including sports, arts, entertainment, and cause events as well as less formal activities.
4. ***Public relations and publicity***—A variety of programs directed internally to employees of the company or externally to consumers, other firms, the government, and media to promote or protect a company's image or its individual product communications.
5. ***Direct marketing***—Use of mail, telephone, fax, e-mail, or Internet to communicate directly with or solicit response or dialogue from specific customers and prospects.
6. ***Interactive marketing***—Online activities and programs designed to engage customers or prospects and directly or indirectly raise awareness, improve image, or elicit sales of products and services.
7. ***Word-of-mouth marketing***—People-to-people oral, written, or electronic communications that relate to the merits or experiences of purchasing or using products or services.
8. ***Personal selling***—Face-to-face interaction with one or more prospective purchasers for the purpose of making presentations, answering questions, and procuring orders.

Table 17.1 lists numerous communication platforms. Company communication goes beyond these. The product's styling and price, the shape and color of the package, the salesperson's manner and dress, the store décor, the company's stationery—all communicate something to buyers. Every *brand contact* delivers an impression that can strengthen or weaken a customer's view of a company.[8]

Marketing communication activities contribute to brand equity and drive sales in many ways: by creating brand awareness, forging brand image in consumers' memories, eliciting positive brand judgments or feelings, and strengthening consumer loyalty.

TABLE 17.1 Common Communication Platforms

Advertising	Sales Promotion	Events and Experiences	Public Relations and Publicity	Direct and Interactive Marketing	Word-of-Mouth Marketing	Personal Selling
Print and broadcast ads	Contests, games, sweepstakes, lotteries	Sports	Press kits	Catalogs	Person-to-person	Sales presentations
Packaging–outer	Premiums and gifts	Entertainment	Speeches	Mailings	Chat rooms	Sales meetings
Packaging inserts	Sampling	Festivals	Seminars	Telemarketing	Blogs	Incentive programs
Cinema	Fairs and trade shows	Arts	Annual reports	Electronic shopping		Samples
Brochures and booklets	Exhibits	Causes	Charitable donations	TV shopping		Fairs and trade shows
Posters and leaflets	Demonstrations	Factory tours	Publications	Fax		
Directories	Coupons	Company museums	Community relations	E-mail		
Reprints of ads	Rebates	Street activities	Lobbying	Voice mail		
Billboards	Low-interest financing		Identity media	Company blogs		
Display signs	Trade-in allowances		Company magazine	Web sites		
Point-of-purchase displays	Continuity programs					
DVDs	Tie-ins					

MARKETING COMMUNICATION EFFECTS The way brand associations are formed does not matter. In other words, whether a consumer has an equally strong, favorable, and unique brand association of Subaru with the concepts "outdoors," "active," and "rugged" because of exposure to a TV ad that shows the car driving over rugged terrain at different times of the year, or because Subaru sponsors ski, kayak, and mountain bike events, the impact in terms of Subaru's brand equity should be identical.

But these marketing communications activities must be integrated to deliver a consistent message and achieve the strategic positioning. The starting point in planning marketing communications is a *communication audit* that profiles all interactions customers in the target market may have with the company and all its products and services. For example, someone interested in purchasing a new laptop computer might talk to others, see television ads, read articles, look for information on the Internet, and look at laptops in a store.

To implement the right communications programs and allocate dollars efficiently, marketers need to assess which experiences and impressions will have the most influence at each stage of the buying process. Armed with these insights, they can judge marketing communications according to their ability to affect experiences and impressions, build customer loyalty and brand equity, and drive sales. For example, how well does a proposed ad campaign contribute to awareness or to creating, maintaining, or strengthening brand associations? Does a sponsorship improve consumers' brand judgments and feelings? Does a promotion encourage consumers to buy more of a product? At what price premium?

In building brand equity, marketers should be "media neutral" and evaluate *all* communication options on effectiveness (how well does it work?) and efficiency (how much does it cost?). Personal financial Web site Mint challenged market leader Intuit—and was eventually acquired by the company—on a marketing budget a fraction of what companies typically spend. A well-read blog, a popular Facebook page, and other social media—combined with extensive PR—helped attract the younger crowd the Mint brand was after.[9] Philips also took another tack in launching a new product.[10]

Philips *Carousel* When Dutch electronics leader Philips wanted to demonstrate the quality of the "world's first cinema proportion" TV, it chose to create *Carousel*, an interactive, long-form Internet film. In this Cannes Grand Prix award-winning effort, online viewers could control the story of a botched robbery while seeing the benefits of the new $3,999 home cinema TV. The film showed an epic "frozen moment" cops and robbers shootout sequence that included clowns, explosions, a decimated hospital, and lots of broken glass, bullet casings, and money. By clicking hot spots in the video, viewers could toggle between the new set's 21:9 display proportion and a conventional flat screen's 16:9, as well as activate the set's signature Ambilight backlighting. The success of the campaign led Phillips to launch a "Parallel Lines" campaign with five short films from famed director Ridley Scott's shop, promoting its whole range of home cinema TVs.

The runaway success of the interactive, long-form Internet film *Carousel* for its new Home Cinema TV model led Philips to launch an even more extensive follow-up campaign.

The Communications Process Models

Marketers should understand the fundamental elements of effective communications. Two models are useful: a macromodel and a micromodel.

MACROMODEL OF THE COMMUNICATIONS PROCESS Figure 17.1 shows a macromodel with nine key factors in effective communication. Two represent the major parties—*sender* and *receiver*. Two represent the major tools—*message* and *media*. Four represent major communication functions—*encoding, decoding, response,* and *feedback*. The last element in the system is *noise*, random and competing messages that may interfere with the intended communication.[11]

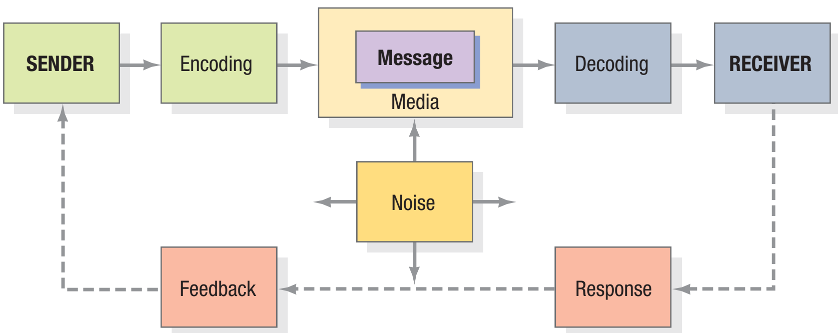
Senders must know what audiences they want to reach and what responses they want to get. They must encode their messages so the target audience can decode them. They must transmit the message through media that reach the target audience and develop feedback channels to monitor the responses. The more the sender's field of experience overlaps that of the receiver, the more effective the message is likely to be. Note that selective attention, distortion, and retention processes—concepts first introduced in Chapter 6—may be operating during communication.

MICROMODEL OF CONSUMER RESPONSES Micromodels of marketing communications concentrate on consumers' specific responses to communications. Figure 17.2 summarizes four classic *response hierarchy models.*

All these models assume the buyer passes through cognitive, affective, and behavioral stages, in that order. This "learn-feel-do" sequence is appropriate when the audience has high involvement with a product category perceived to have high differentiation, such as an automobile or house. An alternative sequence, "do-feel-learn," is relevant when the audience has high involvement but perceives little or no differentiation within the product category, such as an airline ticket or personal

|Fig. 17.1|

Elements in the Communications Process



|Fig. 17.2|

Response Hierarchy Models

Models

Stages	AIDA Model[a]	Hierarchy-of-Effects Model[b]	Innovation-Adoption Model[c]	Communications Model[d]
Cognitive Stage	Attention	Awareness Knowledge	Awareness	Exposure Reception Cognitive response
Affective Stage	Interest Desire	Liking Preference Conviction	Interest Evaluation	Attitude Intention
Behavior Stage	Action	Purchase	Trial Adoption	Behavior

Sources: [a]E. K. Strong, *The Psychology of Selling* (New York: McGraw-Hill, 1925), p. 9; [b]Robert J. Lavidge and Gary A. Steiner, "A Model for Predictive Measurements of Advertising Effectiveness," *Journal of Marketing* (October 1961), p. 61; [c]Everett M. Rogers, *Diffusion of Innovation* (New York: Free Press, 1962), pp. 79–86; [d]various sources.

computer. A third sequence, "learn-do-feel," is relevant when the audience has low involvement and perceives little differentiation, such as with salt or batteries. By choosing the right sequence, the marketer can do a better job of planning communications.[12]

Let's assume the buyer has high involvement with the product category and perceives high differentiation within it. We will illustrate the *hierarchy-of-effects model* (the second column of Figure 17.2) in the context of a marketing communications campaign for a small Iowa college named Pottsville:

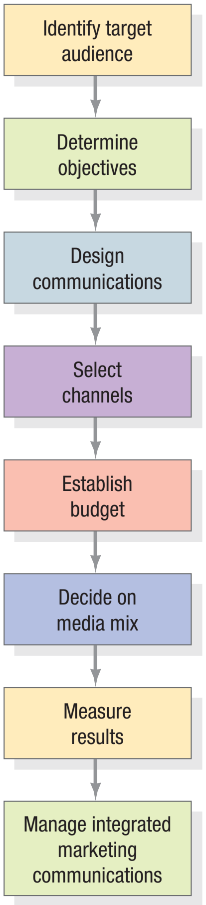
- ***Awareness.*** If most of the target audience is unaware of the object, the communicator's task is to build awareness. Suppose Pottsville seeks applicants from Nebraska but has no name recognition there, although 30,000 Nebraska high school juniors and seniors could be interested in it. The college might set the objective of making 70 percent of these students aware of its name within one year.
- ***Knowledge.*** The target audience might have brand awareness but not know much more. Pottsville may want its target audience to know it is a private four-year college with excellent programs in English, foreign languages, and history. It needs to learn how many people in the target audience have little, some, or much knowledge about Pottsville. If knowledge is weak, Pottsville may select brand knowledge as its communications objective.
- ***Liking.*** Given target members know the brand, how do they feel about it? If the audience looks unfavorably on Pottsville College, the communicator needs to find out why. In the case of real problems, Pottsville will need to fix these and then communicate its renewed quality. Good public relations calls for "good deeds followed by good words."
- ***Preference.*** The target audience might like the product but not prefer it to others. The communicator must then try to build consumer preference by comparing quality, value, performance, and other features to those of likely competitors.
- ***Conviction.*** A target audience might prefer a particular product but not develop a conviction about buying it. The communicator's job is to build conviction and intent to apply among students interested in Pottsville College.
- ***Purchase.*** Finally, some members of the target audience might have conviction but not quite get around to making the purchase. The communicator must lead these consumers to take the final step, perhaps by offering the product at a low price, offering a premium, or letting them try it out. Pottsville might invite selected high school students to visit the campus and attend some classes, or it might offer partial scholarships to deserving students.

To see how fragile the communication process is, assume the probability of *each* of the six steps being successfully accomplished is 50 percent. The laws of probability suggest that the likelihood of *all* six steps occurring successfully, assuming they are independent events, is $.5 \times .5 \times .5 \times .5 \times .5 \times .5$, which equals 1.5625 percent. If the probability of each step's occurring were, on average, a more moderate 10 percent, then the joint probability of all six events occurring is .0001 percent—or only 1 chance in 1,000,000!

To increase the odds for a successful marketing communications campaign, marketers must attempt to increase the likelihood that *each* step occurs. For example, the ideal ad campaign would ensure that:

1. The right consumer is exposed to the right message at the right place and at the right time.
2. The ad causes the consumer to pay attention but does not distract from the intended message.
3. The ad properly reflects the consumer's level of understanding of and behaviors with the product and the brand.
4. The ad correctly positions the brand in terms of desirable and deliverable points-of-difference and points-of-parity.
5. The ad motivates consumers to consider purchase of the brand.
6. The ad creates strong brand associations with all these stored communications effects so they can have an impact when consumers are considering making a purchase.

The challenges in achieving success with communications necessitates careful planning, a topic we turn to next.



|Fig. 17.3|

Steps in Developing Effective Communications

Developing Effective Communications

Figure 17.3 shows the eight steps in developing effective communications. We begin with the basics: identifying the target audience, determining the objectives, designing the communications, selecting the channels, and establishing the budget.

Identify the Target Audience

The process must start with a clear target audience in mind: potential buyers of the company's products, current users, deciders, or influencers, and individuals, groups, particular publics, or the general public. The target audience is a critical influence on the communicator's decisions about what to say, how, when, where, and to whom.

Though we can profile the target audience in terms of any of the market segments identified in Chapter 8, it's often useful to do so in terms of usage and loyalty. Is the target new to the category or a current user? Is the target loyal to the brand, loyal to a competitor, or someone who switches between brands? If a brand user, is he or she a heavy or light user? Communication strategy will differ depending on the answers. We can also conduct *image analysis* by profiling the target audience in terms of brand knowledge.

Determine the Communications Objectives

As we showed with Pottsville College, marketers can set communications objectives at any level of the hierarchy-of-effects model. John R. Rossiter and Larry Percy identify four possible objectives, as follows:[13]

1. ***Category Need***—Establishing a product or service category as necessary to remove or satisfy a perceived discrepancy between a current motivational state and a desired motivational state. A new-to-the-world product such as electric cars will always begin with a communications objective of establishing category need.
2. ***Brand Awareness***—Fostering the consumer's ability to recognize or recall the brand within the category, in sufficient detail to make a purchase. Recognition is easier to achieve than recall—consumers asked to think of a brand of frozen entrées are more likely to recognize Stouffer's distinctive orange packages than to recall the brand. Brand recall is important outside the store; brand recognition is important inside the store. Brand awareness provides a foundation for brand equity.

3. ***Brand Attitude***—Helping consumers evaluate the brand's perceived ability to meet a currently relevant need. Relevant brand needs may be negatively oriented (problem removal, problem avoidance, incomplete satisfaction, normal depletion) or positively oriented (sensory gratification, intellectual stimulation, or social approval). Household cleaning products often use problem solution; food products, on the other hand, often use sensory-oriented ads emphasizing appetite appeal.
4. ***Brand Purchase Intention***—Moving consumers to decide to purchase the brand or take purchase-related action. Promotional offers like coupons or two-for-one deals encourage consumers to make a mental commitment to buy. But many consumers do not have an expressed category need and may not be in the market when exposed to an ad, so they are unlikely to form buy intentions. In any given week, only about 20 percent of adults may be planning to buy detergent, only 2 percent to buy a carpet cleaner, and only 0.25 percent to buy a car.

The most effective communications can achieve multiple objectives. To promote its Smart Grid technology program, GE pushed a number of buttons.[14]

GE Smart Grid

The vision of GE's Smart Grid program is to fundamentally overhaul the United States' power grid, making it more efficient and sustainable and able also to deliver renewable-source energy such as wind and solar. An integrated campaign of print, TV, and online ads and an online augmented-reality demo was designed to increase understanding and support of the Smart Grid and GE's leadership in solving technological problems. GE and its agency partner BBDO chose to employ engaging creative and familiar cultural references to address the technical issues involved. In its 2009 Super Bowl launch TV spot, the famous scarecrow character from *The Wizard of Oz* was shown bouncing along the top of a transmission tower singing, "If I Only Had a Brain." A narrator voiced over the key communication message, "Smart Grid makes the way we distribute electricity more efficient simply by making it more intelligent." One online ad used a flock of birds on electrical wires chirping and flapping their wings in synchronized rhythm to Rossini's "Barber of Seville." Another showed power lines becoming banjo strings for electrical pylons to play "O Susannah." After drawing the audience in, the ads lay out the basic intent of the Smart Grid with links to more information. The augmented-reality GE microsite PlugIntoTheSmartGrid.com allowed users to create a digital hologram of Smart Grid technology using computer peripherals and 3D graphics.

GE's Smart Grid campaign has accomplished several different objectives for the GE brand, including strengthening the company's reputation as innovative.

Design the Communications

Formulating the communications to achieve the desired response requires solving three problems: what to say (message strategy), how to say it (creative strategy), and who should say it (message source).

MESSAGE STRATEGY In determining message strategy, management searches for appeals, themes, or ideas that will tie in to the brand positioning and help establish points-of-parity or points-of-difference. Some of these may be related directly to product or service performance (the quality, economy, or value of the brand), whereas others may relate to more extrinsic considerations (the brand as being contemporary, popular, or traditional).

Researcher John C. Maloney felt buyers expected one of four types of reward from a product: rational, sensory, social, or ego satisfaction.[15] Buyers might visualize these rewards from results-of-use experience, product-in-use experience, or incidental-to-use experience. Crossing the four types of rewards with the three types of experience generates 12 types of messages. For example, the appeal "gets clothes cleaner" is a rational-reward promise following results-of-use experience. The phrase "real beer taste in a great light beer" is a sensory-reward promise connected with product-in-use experience.

CREATIVE STRATEGY Communications effectiveness depends on how a message is being expressed, as well as on its content. If a communication is ineffective, it may mean the wrong message was used, or the right one was poorly expressed. *Creative strategies* are the way marketers translate their messages into a specific communication. We can broadly classify them as either **informational** or **transformational** appeals.[16]

Informational Appeals An *informational appeal* elaborates on product or service attributes or benefits. Examples in advertising are problem solution ads (Excedrin stops the toughest headache pain), product demonstration ads (Thompson Water Seal can withstand intense rain, snow, and heat), product comparison ads (DIRECTV offers better HD options than cable or other satellite operators), and testimonials from unknown or celebrity endorsers (NBA phenomenon LeBron James pitching Nike, Sprite, and McDonald's). Informational appeals assume strictly rational processing of the communication on the consumer's part. Logic and reason rule.

Carl Hovland's research at Yale has shed much light on informational appeals and their relationship to such issues as conclusion drawing, one-sided versus two-sided arguments, and order of argument presentation. Some early experiments supported stating conclusions for the audience. Subsequent research, however, indicates that the best ads ask questions and allow readers and viewers to form their own conclusions.[17] If Honda had hammered away that the Element was for young people, this strong definition might have blocked older drivers from buying it. Some stimulus ambiguity can lead to a broader market definition and more spontaneous purchases.

You might expect one-sided presentations that praise a product to be more effective than two-sided arguments that also mention shortcomings. Yet two-sided messages may be more appropriate, especially when negative associations must be overcome.[18] Two-sided messages are more effective with more educated audiences and those who are initially opposed.[19] Chapter 6 described how Domino's took the drastic step of admitting its pizza's taste problems to try to change the minds of consumers with negative perceptions.

Pringles capitalized on the popping sound that occurs when its package is opened to develop a highly successful ad campaign.

Finally, the order in which arguments are presented is important.[20] In a one-sided message, presenting the strongest argument first arouses attention and interest, important in media where the audience often does not attend to the whole message. With a captive audience, a climactic presentation might be more effective. For a two-sided message, if the audience is initially opposed, the communicator might start with the other side's argument and conclude with his or her strongest argument.[21]

Transformational Appeals A *transformational appeal* elaborates on a nonproduct-related benefit or image. It might depict what kind of person uses a brand (VW advertised to active, youthful people with its famed "Drivers Wanted" campaign) or what kind of experience results from use (Pringles advertised "Once You Pop, the

Fun Don't Stop" for years). Transformational appeals often attempt to stir up emotions that will motivate purchase.

Communicators use negative appeals such as fear, guilt, and shame to get people to do things (brush their teeth, have an annual health checkup) or stop doing things (smoking, abusing alcohol, overeating). Fear appeals work best when they are not too strong, when source credibility is high, and when the communication promises, in a believable and efficient way, to relieve the fear it arouses. Messages are most persuasive when moderately discrepant with audience beliefs. Stating only what the audience already believes at best just reinforces beliefs, and if the messages are too discrepant, audiences will counterargue and disbelieve them.[22]

Communicators also use positive emotional appeals such as humor, love, pride, and joy. Motivational or "borrowed interest" devices—such as the presence of cute babies, frisky puppies, popular music, or provocative sex appeals—are often employed to attract attention and raise involvement with an ad. These techniques are thought necessary in the tough new media environment characterized by low-involvement consumer processing and competing ad and programming clutter. Attention-getting tactics are often *too* effective. They may also detract from comprehension, wear out their welcome fast, and overshadow the product.[23] Thus, one challenge is figuring out how to "break through the clutter" *and* deliver the intended message.

Even highly entertaining and creative means of expression must still keep the appropriate consumer perspective. Toyota was sued in Los Angeles for a promotional campaign designed to create buzz for its youth-targeted Toyota Matrix. The online effort featured a series of e-mails to customers from a fictitious drunken British soccer hooligan, Sebastian Bowler. In his e-mails, he announced that he knew the recipient and was coming to stay with his pit bull, Trigger, to "avoid the cops." In her suit, the plaintiff said she was so convinced that "a disturbed and aggressive" stranger was headed to her house that she slept with a machete next to her in bed.[24]

The magic of advertising is to bring concepts on a piece of paper to life in the minds of the consumer target. In a print ad, the communicator must decide on headline, copy, illustration, and color.[25] For a radio message, the communicator must choose words, voice qualities, and vocalizations. The sound of an announcer promoting a used automobile should be different from one promoting a new Cadillac. If the message is to be carried on television or in person, all these elements plus body language must be planned. For the message to go online, layout, fonts, graphics, and other visual and verbal information must be laid out.

MESSAGE SOURCE Messages delivered by attractive or popular sources can achieve higher attention and recall, which is why advertisers often use celebrities as spokespeople.

Celebrities are likely to be effective when they are credible or personify a key product attribute. Statesman-like Dennis Haysbert for State Farm insurance, rugged Brett Favre for Wrangler jeans, and one-time television sweetheart Valerie Bertinelli for Jenny Craig weight loss program have all been praised by consumers as good fits. Celine Dion, however, failed to add glamour—or sales—to Chrysler, and even though she was locked into a three-year, $14 million deal, she was let go. Ozzy Osbourne would seem an odd choice to advertise "I Can't Believe It's Not Butter" given his seemingly perpetual confusion.

What *is* important is the spokesperson's credibility. The three most often identified sources of credibility are expertise, trustworthiness, and likability.[26] *Expertise* is the specialized knowledge the communicator possesses to back the claim. *Trustworthiness* describes how objective and honest the source is perceived to be. Friends are trusted more than strangers or salespeople, and people who are not paid to endorse a product are viewed as more trustworthy than people who are paid.[27] *Likability* describes the source's attractiveness. Qualities such as candor, humor, and naturalness make a source more likable.

The most highly credible source would score high on all three dimensions—expertise, trustworthiness, and likability. Pharmaceutical companies want doctors to testify about product benefits because doctors have high credibility. Charles Schwab became the centerpiece of ads for his $4 billion-plus discount brokerage firm via the "Talk to Chuck" corporate advertising campaign. Another credible pitchman was boxer George Foreman and his multimillion-selling Lean, Mean, Fat-Reducing Grilling Machine. "Marketing Insight: Celebrity Endorsements as a Strategy" focuses on the use of testimonials.

If a person has a positive attitude toward a source and a message, or a negative attitude toward both, a state of *congruity* is said to exist. But what happens if a consumer hears a likable celebrity praise a brand she dislikes? Charles Osgood and Percy Tannenbaum believe *attitude change will take*

Marketing Insight

Celebrity Endorsements as a Strategy

A well-chosen celebrity can draw attention to a product or brand—as Priceline found when it picked *Star Trek* icon William Shatner to star in campy ads to reinforce its low-price image. The quirky campaigns have run over a decade, and Shatner's decision to receive compensation in the form of stock options reportedly allowed him to net over $600 million for his work. The right celebrity can also lend his or her image to a brand. To reinforce its high status and prestige image, American Express has used movie legends Robert De Niro and Martin Scorsese in ads.

The choice of celebrity is critical. The person should have high recognition, high positive affect, and high appropriateness or "fit" with the product. Paris Hilton, Howard Stern, and Donald Trump have high recognition but negative affect among many groups. Johnny Depp has high recognition and high positive affect but might not seem relevant, for example, for advertising a new financial service. Tom Hanks and Oprah Winfrey could successfully advertise a large number of products because they have extremely high ratings for familiarity and likability (known as the Q factor in the entertainment industry).

Celebrities can play a more fundamentally strategic role for their brands, not only endorsing a product but also helping to design, position, and sell merchandise and services. Believing elite athletes have unique insights into sports performance, Nike often brings its athletic endorsers in on product design. Tiger Woods, Paul Casey, and Stewart Cink have helped to design, prototype, and test new golf clubs and balls at Nike Golf's Research & Development facility dubbed "The Oven."

Some celebrities lend their talents to brands without directly using their fame. A host of movie and TV stars—including Kiefer Sutherland (Bank of America), Alec Baldwin (Blockbuster), Patrick Dempsey (State Farm), Lauren Graham (Special K), and Regina King (Always)—do uncredited commercial voice-overs. Although advertisers assume some viewers will recognize the voices, the basic rationale for uncredited celebrity voice-overs is the incomparable voice talents and skills they bring from their acting careers.

Using celebrities poses certain risks. The celebrity might hold out for a larger fee at contract renewal or withdraw. And just like movies and album releases, celebrity campaigns can be expensive flops. The celebrity might lose popularity or, even worse, get caught in a scandal or embarrassing situation, as did Tiger Woods in a heavily publicized 2009 episode. Besides carefully checking endorsers' backgrounds, some marketers are choosing to use more than one to lessen their brand's exposure to any single person's flaws.

Another solution is for marketers to create their own brand celebrities. Dos Equis beer, imported from Mexico, grew U.S. sales by over 20 percent during the recent recession by riding on the popularity of its "Most Interesting Man in the World" ad campaign. Suave, debonair, with an exotic accent and a silver beard, the character has hundreds of thousands of Facebook friends despite being, of course, completely fictitious. Videos of his exploits log millions of views on YouTube. He even served as the basis of *The Most Interesting Show in the World* tour of the brand's 14 biggest urban markets, which featured one-of-a-kind circus-type performers such as a flaming bowling-ball-juggling stunt comedian, a robot-inspired break dancer, and a contortionist who shoots arrows with her feet. Through a combination of advertising and media coverage, almost 100 million media impressions were achieved on the tour.

Sources: Scott Huver, "Here's the Pitch!," *TV Guide*, May 23, 2010; Linda Massarella, "Shatner's Singing a Happy Tune," *Toronto Sun*, May 2, 2010; "Nike Golf Celebrates Achievements and Successes of Past Year," www.worldgolf.com, January 2, 2009; Piet Levy, "Keeping It Interesting," *Marketing News*, October 30, 2009, p. 8; Keith Naughton, "The Soft Sell," *Newsweek,* February 2, 2004, pp. 46–47; Irving Rein, Philip Kotler, and Martin Scoller, *The Making and Marketing of Professionals into Celebrities* (Chicago: NTC Business Books, 1997).

place in the direction of increasing the amount of congruity between the two evaluations.[28] The consumer will end up respecting the celebrity somewhat less or the brand somewhat more. If she encounters the same celebrity praising other disliked brands, she will eventually develop a negative view of the celebrity and maintain negative attitudes toward the brands. The **principle of congruity** implies that communicators can use their good image to reduce some negative feelings toward a brand but in the process might lose some esteem with the audience.

Select the Communications Channels

Selecting an efficient means to carry the message becomes more difficult as channels of communication become more fragmented and cluttered. Communications channels may be personal and nonpersonal. Within each are many subchannels.

PERSONAL COMMUNICATIONS CHANNELS **Personal communications channels** let two or more persons communicate face-to-face or person-to-audience through a phone, surface mail, or e-mail. They derive their effectiveness from individualized presentation and feedback and include direct and interactive marketing, word-of-mouth marketing, and personal selling.

We can draw a further distinction between advocate, expert, and social communications channels. *Advocate channels* consist of company salespeople contacting buyers in the target market. *Expert channels* consist of independent experts making statements to target buyers. *Social channels* consist of neighbors, friends, family members, and associates talking to target buyers.

A study by Burson-Marsteller and Roper Starch Worldwide found that one influential person's word of mouth tends to affect the buying attitudes of two other people, on average. That circle of influence, however, jumps to eight online. Word about good companies travels fast; word about bad companies travels even faster. Reaching the right people is key.

William Shatner has become the quirky but beloved spokesperson for Priceline in its advertising.

More advertisers now seek greater *earned media*—unsolicited professional commentary, personal blog entries, social network discussion—as a result of their paid media marketing efforts. Kimberly-Clark ran a 30-second TV spot prior to the Academy Awards in March 2010 for its Poise brand, which featured Whoopi Goldberg portraying famous women in history who may have suffered from incontinence. The goal was to get people talking, and talk they did! A social media avalanche followed, culminating in a *Saturday Night Live* spoof, which eventually added up to 200 million PR impressions in total.[29]

Personal influence carries especially great weight (1) when products are expensive, risky, or purchased infrequently, and (2) when products suggest something about the user's status or taste. People often ask others to recommend a doctor, plumber, hotel, lawyer, accountant, architect, insurance agent, interior decorator, or financial consultant. If we have confidence in the recommendation, we normally act on the referral. Service providers clearly have a strong interest in building referral sources.

Even business-to-business marketers can benefit from strong word of mouth. Here is how John Deere created anticipation and excitement when introducing its 764 High Speed Dozer, the category's first launch in 25 years.[30]

John Deere Leading up to the unveiling of its high-speed dozer at the industry's largest CONEXPO trade show, John Deere created an extensive PR campaign. First, e-mail announcements were sent to all trade show registrants with images of the dozer covered in a tarp and teasing headlines, such as "Just a Few Years Ahead of the Competition" and "The Shape of Things to Come." Editors received an invitation to attend a closed-door press conference where they were given a VIP pass and admittance to a special viewing area at the CONEXPO show. Finally, editors were told they could also register for a special, invitation-only press conference with John Deere senior executives, including its CEO. Approximately 2,000 people attended the trade show for a rock-star unveiling of the dozer, with about 80 editors present. Customers at the event who declared their desire for the machine helped Deere staff secure more leads. Press reaction was also extremely positive, including several trade magazine cover stories on the dozer and three segments on CNBC. The integrated effort on behalf of John Deere, which included print ads in trade publications, took home the Grand CEBA Award in American Business Media's annual awards competition.

NONPERSONAL (MASS) COMMUNICATIONS CHANNELS Nonpersonal channels are communications directed to more than one person and include advertising, sales promotions, events and experiences, and public relations. Much recent growth has taken place through events and experiences. Events marketers who once favored sports events are now using other venues such as art museums, zoos, and ice shows to entertain clients and employees. AT&T and IBM sponsor

Through its print ad and trade show efforts, John Deere created buzz and much word of mouth in anticipation of the launch of its new high-speed dozer.

symphony performances and art exhibits, Visa is an active sponsor of the Olympics, and Harley-Davidson sponsors annual motorcycle rallies.

Companies are searching for better ways to quantify the benefits of sponsorship and demanding greater accountability from event owners and organizers. They are also creating events designed to surprise the public and create a buzz. Many efforts amount to guerrilla marketing tactics. As part of a $100 million global advertising and marketing campaign for its line of televisions, LG Electronics developed an elaborate promotion for a fake new TV series, *Scarlet*, including a heavily promoted Hollywood world premiere. Inside, attendees found a new series of actual LG TVs with a red back panel. Teaser TV and online commercials and extensive PR backed the effort.[31]

Events can create attention, although whether they have a lasting effect on brand awareness, knowledge, or preference will vary considerably depending on the quality of the product, the event itself, and its execution.

INTEGRATION OF COMMUNICATIONS CHANNELS Although personal communication is often more effective than mass communication, mass media might be the major means of stimulating personal communication. Mass communications affect personal attitudes and behavior through a two-step process. Ideas often flow from radio, television, and print to opinion leaders, and from these to less media-involved population groups.

This two-step flow has several implications. First, the influence of mass media on public opinion is not as direct, powerful, and automatic as marketers have supposed. It is mediated by opinion leaders, people whose opinions others seek or who carry their opinions to others. Second, the two-step flow challenges the notion that consumption styles are primarily influenced by a "trickle-down" or "trickle-up" effect from mass media. People interact primarily within their own social groups and acquire ideas from opinion leaders in their groups. Third, two-step communication suggests that mass communicators should direct messages specifically to opinion leaders and let them carry the message to others.

Establish the Total Marketing Communications Budget

One of the most difficult marketing decisions is determining how much to spend on marketing communications. John Wanamaker, the department store magnate, once said, "I know that half of my advertising is wasted, but I don't know which half."

Industries and companies vary considerably in how much they spend on marketing communications. Expenditures might be 40 percent to 45 percent of sales in the cosmetics industry, but only

5 percent to 10 percent in the industrial-equipment industry. Within a given industry, there are low- and high-spending companies.

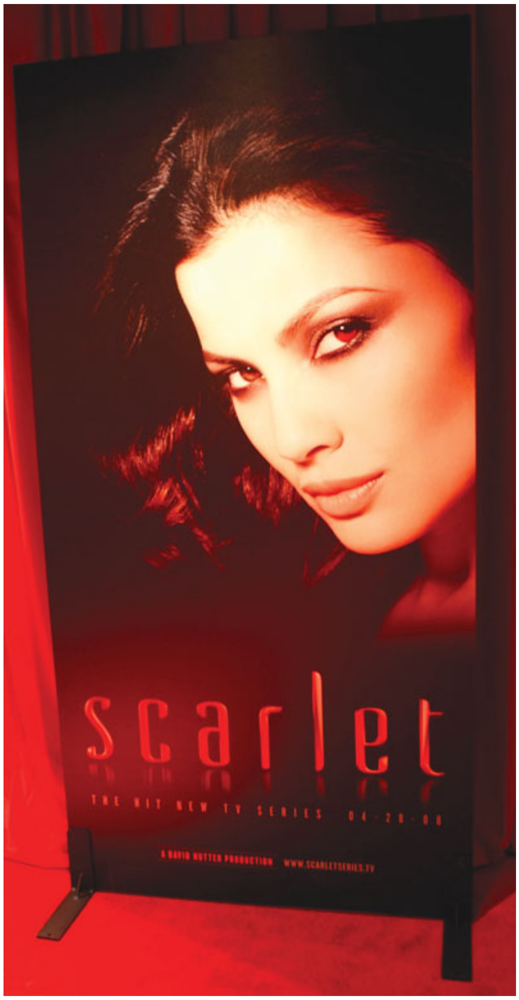
How do companies decide on the communication budget? We will describe four common methods: the affordable method, the percentage-of-sales method, the competitive-parity method, and the objective-and-task method.

AFFORDABLE METHOD Some companies set the communication budget at what they think the company can afford. The affordable method completely ignores the role of promotion as an investment and the immediate impact of promotion on sales volume. It leads to an uncertain annual budget, which makes long-range planning difficult.

PERCENTAGE-OF-SALES METHOD Some companies set communication expenditures at a specified percentage of current or anticipated sales or of the sales price. Automobile companies typically budget a fixed percentage based on the planned car price. Oil companies appropriate a fraction of a cent for each gallon of gasoline sold under their own label.

Supporters of the percentage-of-sales method see a number of advantages. First, communication expenditures will vary with what the company can afford. This satisfies financial managers, who believe expenses should be closely related to the movement of corporate sales over the business cycle. Second, it encourages management to think of the relationship among communication cost, selling price, and profit per unit. Third, it encourages stability when competing firms spend approximately the same percentage of their sales on communications.

In spite of these advantages, the percentage-of-sales method has little to justify it. It views sales as the determiner of communications rather than as the result. It leads to a budget set by the availability of funds rather than by market opportunities. It discourages experimentation with countercyclical communication or aggressive spending. Dependence on year-to-year sales fluctuations interferes with long-range planning. There is no logical basis for choosing the specific percentage, except what has been done in the past or what competitors are doing. Finally, it does not encourage building the communication budget by determining what each product and territory deserves.



To promote its new line of televisions, LG pretended to launch a fake new TV series, even holding a heavily promoted premiere.

COMPETITIVE-PARITY METHOD Some companies set their communication budget to achieve share-of-voice parity with competitors. There are two supporting arguments: that competitors' expenditures represent the collective wisdom of the industry, and that maintaining competitive parity prevents communication wars. Neither argument is valid. There are no grounds for believing competitors know better. Company reputations, resources, opportunities, and objectives differ so much that communication budgets are hardly a guide. And there is no evidence that budgets based on competitive parity discourage communication wars.

OBJECTIVE-AND-TASK METHOD The objective-and-task method calls upon marketers to develop communication budgets by defining specific objectives, determining the tasks that must be performed to achieve these objectives, and estimating the costs of performing them. The sum of these costs is the proposed communication budget.

Suppose Dr. Pepper Snapple Group wants to introduce a new natural energy drink, called Sunburst, for the casual athlete.[32] Its objectives might be as follows:

1. ***Establish the market share goal.*** The company estimates 50 million potential users and sets a target of attracting 8 percent of the market—that is, 4 million users.
2. ***Determine the percentage of the market that should be reached by advertising.*** The advertiser hopes to reach 80 percent (40 million prospects) with its advertising message.
3. ***Determine the percentage of aware prospects that should be persuaded to try the brand.*** The advertiser would be pleased if 25 percent of aware prospects (10 million) tried Sunburst. It estimates that 40 percent of all triers, or 4 million people, will become loyal users. This is the market goal.

4. ***Determine the number of advertising impressions per 1 percent trial rate.*** The advertiser estimates that 40 advertising impressions (exposures) for every 1 percent of the population will bring about a 25 percent trial rate.
5. ***Determine the number of gross rating points that would have to be purchased.*** A gross rating point is one exposure to 1 percent of the target population. Because the company wants to achieve 40 exposures to 80 percent of the population, it will want to buy 3,200 gross rating points.
6. ***Determine the necessary advertising budget on the basis of the average cost of buying a gross rating point.*** To expose 1 percent of the target population to one impression costs an average of \$3,277. Therefore, 3,200 gross rating points will cost \$10,486,400 (= \$3,277 × 3,200) in the introductory year.

The objective-and-task method has the advantage of requiring management to spell out its assumptions about the relationship among dollars spent, exposure levels, trial rates, and regular usage.

COMMUNICATION BUDGET TRADE-OFFS A major question is how much weight marketing communications should receive in relationship to alternatives such as product improvement, lower prices, or better service. The answer depends on where the company's products are in their life cycles, whether they are commodities or highly differentiable products, whether they are routinely needed or must be "sold," and other considerations. Marketing communications budgets tend to be higher when there is low channel support, much change in the marketing program over time, many hard-to-reach customers, more complex customer decision making, differentiated products and nonhomogeneous customer needs, and frequent product purchases in small quantities.[33]

In theory, marketers should establish the total communications budget so the marginal profit from the last communication dollar just equals the marginal profit from the last dollar in the best noncommunication use. Implementing this principle, however, is not easy.

Deciding on the Marketing Communications Mix

Companies must allocate the marketing communications budget over the eight major modes of communication—advertising, sales promotion, public relations and publicity, events and experiences, direct marketing, interactive marketing, word-of-mouth marketing, and the sales force. Within the same industry, companies can differ considerably in their media and channel choices. Avon concentrates its promotional funds on personal selling, whereas Revlon spends heavily on advertising. Electrolux spent heavily on a door-to-door sales force for years, whereas Hoover has relied more on advertising. Table 17.2 breaks down spending on some major forms of communication.

Companies are always searching for ways to gain efficiency by substituting one communications tool for others. Many are replacing some field sales activity with ads, direct mail, and telemarketing. One auto dealer dismissed his five salespeople and cut prices, and sales exploded. The substitutability among communications tools explains why marketing functions need to be coordinated.

Characteristics of the Marketing Communications Mix

Each communication tool has its own unique characteristics and costs. We briefly review them here and discuss them in more detail in Chapters 18 and 19.

ADVERTISING Advertising reaches geographically dispersed buyers. It can build up a long-term image for a product (Coca-Cola ads) or trigger quick sales (a Macy's ad for a weekend sale). Certain forms of advertising such as TV can require a large budget, whereas other forms such as newspaper do not. The mere presence of advertising might have an effect on sales: Consumers might believe a heavily advertised brand must offer "good value."[34] Because of the many forms and uses of advertising, it's difficult to make generalizations about it.[35] Yet a few observations are worthwhile:

1. ***Pervasiveness***—Advertising permits the seller to repeat a message many times. It also allows the buyer to receive and compare the messages of various competitors. Large-scale advertising says something positive about the seller's size, power, and success.

TABLE 17.2 **Advertising and Digital Marketing Communications Forecast for 2010**

Global Advertising Spend Projections	2009–2010 % Change	2010 $ (billions)
Cinema	2.0%	2.23
Internet	12.0%	60.35
Magazines	−4.0%	43.10
Newspapers	−4.0%	97.85
Outdoor	2.0%	29.61
Radio	−2.0%	33.10
Television	2.0%	174.94
Total	0.9%	441.19
Source: *ZenithOptimedia, December 2009.*		
Digital Marketing Communications		
Display Advertising	7%	8.40
Email Marketing	8%	1.36
Mobile Marketing	44%	0.56
Search Marketing	15%	17.80
Social Media	31%	0.94
Total	13%	29.01
Source: Data from Figure 4 in *US Interactive Marketing Forecast 2009 to 2014*. Forester Reseach, Inc. July, 2009.		

Source: Table from Piet Levy, "The Oscar-Contending Drama: Finding the Right Marketing Mix," *Marketing News*, January 30, 2009, p. 15.

2. ***Amplified expressiveness***—Advertising provides opportunities for dramatizing the company and its brands and products through the artful use of print, sound, and color.
3. ***Control***—The advertiser can choose the aspects of the brand and product on which to focus communications.

SALES PROMOTION Companies use sales promotion tools—coupons, contests, premiums, and the like—to draw a stronger and quicker buyer response, including short-run effects such as highlighting product offers and boosting sagging sales. Sales promotion tools offer three distinctive benefits:

1. ***Ability to be attention-getting***—They draw attention and may lead the consumer to the product.
2. ***Incentive***—They incorporate some concession, inducement, or contribution that gives value to the consumer.
3. ***Invitation***—They include a distinct invitation to engage in the transaction now.

PUBLIC RELATIONS AND PUBLICITY Marketers tend to underuse public relations, yet a well-thought-out program coordinated with the other communications-mix elements can be extremely effective, especially if a company needs to challenge consumers' misconceptions. The appeal of public relations and publicity is based on three distinctive qualities:

1. ***High credibility***—News stories and features are more authentic and credible to readers than ads.
2. ***Ability to reach hard-to-find buyers***—Public relations can reach prospects who prefer to avoid mass media and targeted promotions.
3. ***Dramatization***—Public relations can tell the story behind a company, brand, or product.

EVENTS AND EXPERIENCES There are many advantages to events and experiences as long as they have the following characteristics:

1. ***Relevant***—A well-chosen event or experience can be seen as highly relevant because the consumer is often personally invested in the outcome.
2. ***Engaging***—Given their live, real-time quality, events and experiences are more actively engaging for consumers.
3. ***Implicit***—Events are typically an indirect "soft sell."

DIRECT AND INTERACTIVE MARKETING Direct and interactive marketing messages take many forms—over the phone, online, or in person. They share three characteristics:

1. ***Customized***—The message can be prepared to appeal to the addressed individual.
2. ***Up-to-date***—A message can be prepared very quickly.
3. ***Interactive***—The message can be changed depending on the person's response.

WORD-OF-MOUTH MARKETING Word of mouth also takes many forms both online or offline. Three noteworthy characteristics are:

1. ***Influential***—Because people trust others they know and respect, word of mouth can be highly influential.
2. ***Personal***—Word of mouth can be a very intimate dialogue that reflects personal facts, opinions, and experiences.
3. ***Timely***—Word of mouth occurs when people want it to and are most interested, and it often follows noteworthy or meaningful events or experiences.

PERSONAL SELLING Personal selling is the most effective tool at later stages of the buying process, particularly in building up buyer preference, conviction, and action. Personal selling has three notable qualities:

1. ***Personal interaction***—Personal selling creates an immediate and interactive episode between two or more persons. Each is able to observe the other's reactions.
2. ***Cultivation***—Personal selling also permits all kinds of relationships to spring up, ranging from a matter-of-fact selling relationship to a deep personal friendship.
3. ***Response***—The buyer is often given personal choices and encouraged to directly respond.

Factors in Setting the Marketing Communications Mix

Companies must consider several factors in developing their communications mix: type of product market, consumer readiness to make a purchase, and stage in the product life cycle.

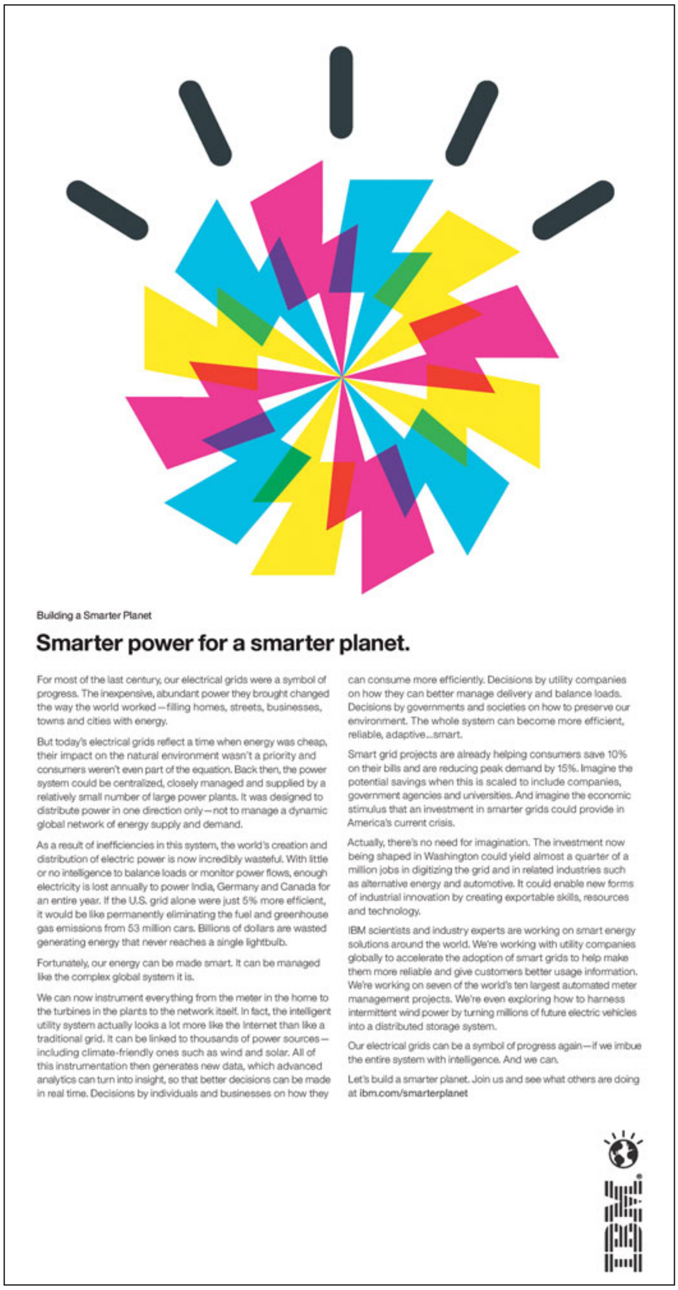
TYPE OF PRODUCT MARKET Communications-mix allocations vary between consumer and business markets. Consumer marketers tend to spend comparatively more on sales promotion and advertising; business marketers tend to spend comparatively more on personal selling. In general, personal selling is used more with complex, expensive, and risky goods and in markets with fewer and larger sellers (hence, business markets).

Although marketers rely more on sales calls in business markets, advertising still plays a significant role:

- Advertising can provide an introduction to the company and its products.
- If the product has new features, advertising can explain them.
- Reminder advertising is more economical than sales calls.
- Advertisements offering brochures and carrying the company's phone number or Web address are an effective way to generate leads for sales representatives.
- Sales representatives can use copies of the company's ads to legitimize their company and products.
- Advertising can remind customers how to use the product and reassure them about their purchase.

Advertising combined with personal selling can increase sales over personal selling alone. Corporate advertising can improve a company's reputation and improve the sales force's chances of getting a favorable first hearing and early adoption of the product.[36] IBM's corporate marketing effort is a notable success in recent years.[37]

IBM Smarter Planet Working with long-time ad agency Ogilvy & Mather, IBM launched "Smarter Planet" in 2008 as a business strategy and multiplatform communications program to promote the way in which IBM technology and expertise helps industry, government, transportation, energy, education, health care, cities, and other businesses work better and "smarter." The point was that technology has evolved so far that many of the world's problems are now fixable. Emphasizing the United States, the United Kingdom, Germany, and China, the campaign began internally to inform and inspire IBM employees about how they could contribute to building a "Smarter Planet." An unconventional "Mandate for Change" series offered long-form, content-rich print ads in the business world's top newspapers outlining how IBM would address 25 key issues to make the world work better. Targeted TV ads and detailed online interactive ads provided more support and substance. A "Smarter Cities" tour hosted major events at which IBM and other experts discussed and debated challenges all cities face: transportation, energy, health care, education, and public safety. The success of the overall "Smarter Planet" campaign was evident in the significant improvements in IBM's image as a company "making the world better" and "known for solving its clients' most challenging problems." Despite a recession, significant increases occurred in new business opportunities and the number of companies interested in doing business with IBM.



IBM's "Smarter Planet" corporate brand campaign, which has met with great success, sometimes breaks the rules, as with this text-heavy print ad.

On the flip side, personal selling can also make a strong contribution in consumer-goods marketing. Some consumer marketers use the sales force mainly to collect weekly orders from dealers and to see that sufficient stock is on the shelf. Yet an effectively trained company sales force can make four important contributions:

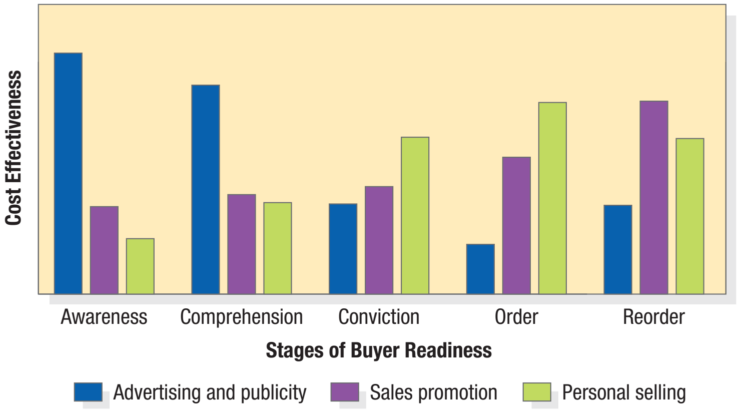
1. ***Increase stock position.*** Sales reps can persuade dealers to take more stock and devote more shelf space to the company's brand.
2. ***Build enthusiasm.*** Sales reps can build dealer enthusiasm by dramatizing planned advertising and communications support for the company's brand.
3. ***Conduct missionary selling.*** Sales reps can sign up more dealers.
4. ***Manage key accounts.*** Sales reps can take responsibility for growing business with the most important accounts.

BUYER-READINESS STAGE Communication tools vary in cost-effectiveness at different stages of buyer readiness. Figure 17.4 shows the relative cost-effectiveness of three communication tools. Advertising and publicity play the most important roles in the awareness-building stage. Customer comprehension is primarily affected by advertising and personal selling. Customer conviction is influenced mostly by personal selling. Closing the sale is influenced mostly by personal selling and sales promotion. Reordering is also affected mostly by personal selling and sales promotion, and somewhat by reminder advertising.

PRODUCT LIFE-CYCLE STAGE In the introduction stage of the product life cycle, advertising, events and experiences, and publicity have the highest cost-effectiveness, followed by personal selling to gain distribution coverage and sales promotion and direct marketing to induce trial. In the growth stage, demand has its own momentum through word of mouth and interactive marketing. Advertising, events and experiences, and personal selling all become more important in the maturity stage. In the decline stage, sales promotion continues strong, other communication tools are reduced, and salespeople give the product only minimal attention.

|Fig. 17.4|

Cost-Effectiveness of Three Different Communication Tools at Different Buyer-Readiness Stages



Measuring Communication Results

Senior managers want to know the *outcomes* and *revenues* resulting from their communications investments. Too often, however, their communications directors supply only *inputs* and *expenses:* press clipping counts, numbers of ads placed, media costs. In fairness, communications directors try to translate inputs into intermediate outputs such as reach and frequency (the percentage of target market exposed to a communication and the number of exposures), recall and recognition scores, persuasion changes, and cost-per-thousand calculations. Ultimately, behavior-change measures capture the real payoff.

After implementing the communications plan, the communications director must measure its impact. Members of the target audience are asked whether they recognize or recall the message, how many times they saw it, what points they recall, how they felt about the message, and what are their previous and current attitudes toward the product and the company. The communicator should also collect behavioral measures of audience response, such as how many people bought the product, liked it, and talked to others about it.

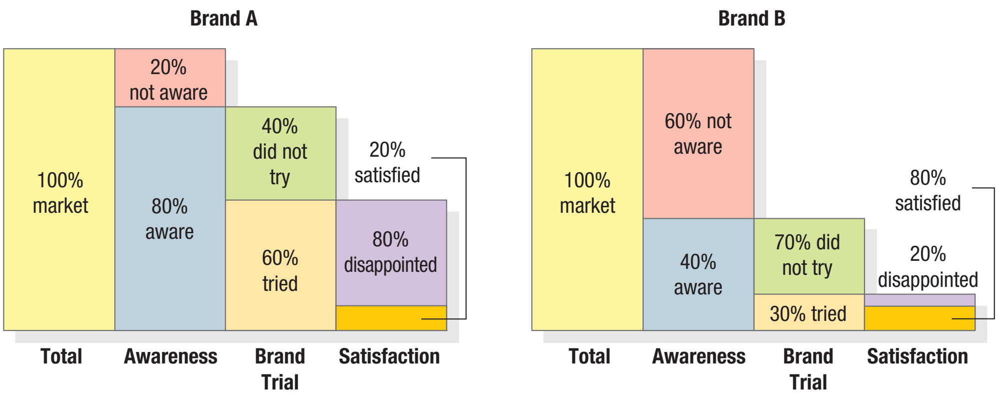
Figure 17.5 provides an example of good feedback measurement. We find 80 percent of the consumers in the total market are aware of brand A, 60 percent have tried it, and only 20 percent who tried it are satisfied. This indicates that the communications program is effective in creating awareness, but the product fails to meet consumer expectations. In contrast, 40 percent of the consumers in the total market are aware of brand B and only 30 percent have tried it, but 80 percent of them are satisfied. In this case, the communications program needs to be strengthened to take advantage of the brand's potential power.

Managing the Integrated Marketing Communications Process

Many companies still rely on only one or two communication tools. This practice persists in spite of the fragmenting of mass markets into a multitude of minimarkets, each requiring its own approach; the proliferation of new types of media; and the growing sophistication of consumers. The

|Fig. 17.5|

Current Consumer States for Two Brands



wide range of communication tools, messages, and audiences makes it imperative that companies move toward integrated marketing communications. Companies must adopt a "360-degree view" of consumers to fully understand all the different ways that communications can affect consumer behavior in their daily lives.[38]

The American Marketing Association defines **integrated marketing communications (IMC)** as "a planning process designed to assure that all brand contacts received by a customer or prospect for a product, service, or organization are relevant to that person and consistent over time." This planning process evaluates the strategic roles of a variety of communications disciplines—for example, general advertising, direct response, sales promotion, and public relations—and skillfully combines these disciplines to provide clarity, consistency, and maximum impact through the seamless integration of messages.

Media companies and ad agencies are expanding their capabilities to offer multiplatform deals for marketers. These expanded capabilities make it easier for marketers to assemble various media properties—as well as related marketing services—in an integrated communication program. Table 17.3 displays the different lines of businesses for marketing and advertising services giant WPP.

Coordinating Media

Media coordination can occur across and within media types, but marketers should combine personal and nonpersonal communications channels through *multiple-vehicle, multiple-stage campaigns* to achieve maximum impact and increase message reach and impact.

Promotions can be more effective when combined with advertising, for example.[39] The awareness and attitudes created by advertising campaigns can increase the success of more direct sales

TABLE 17.3 WPP's Lines of Businesses

Advertising
Global, national and specialist advertising services from a range of top international and specialist agencies, amongst them Grey, JWT, Ogilvy & Mather, United Network and Y&R
Media Investment Management
Above- and below-the-line media planning and buying and specialist sponsorship and branded entertainment services from GroupM companies MediaCom, Mediaedge:cia, Mindshare, Maxus and others
Consumer Insight
WPP's Kantar companies, including TNS, Millward Brown, The Futures Company and many other specialists in brand, consumer, media and marketplace insight, work with clients to generate and apply great insights
Public Relations & Public Affairs
Corporate, consumer, financial and brand-building services from PR and lobbying firms Burson-Marsteller, Cohn & Wolfe, Hill & Knowlton, Ogilvy Public Relations Worldwide and others
Branding & Identity
Consumer, corporate and employee branding and design services, covering identity, packaging, literature, events, training and architecture from Addison, The Brand Union, Fitch, Lambie-Nairn, Landor Associates, The Partners and others
Direct, Promotion & Relationship Marketing
The full range of general and specialist customer, channel, direct, field, retail, promotional and point-of-sale services from Bridge Worldwide, G2, OgilvyOne, OgilvyAction, RTC Relationship Marketing, VML, Wunderman and others.
Healthcare Communications
CommonHealth, GCI Health, ghg, Ogilvy Healthworld, Sudler & Hennessey and others provide integrated healthcare marketing solutions from advertising to medical education and online marketing
Specialist Communications
A comprehensive range of specialist services, from custom media and multicultural marketing to event, sports, youth and entertainment marketing; corporate and business-to-business; media, technology and production services
WPP Digital
Through WPP Digital, WPP companies and their clients have access to a portfolio of digital experts including 24/7 Real Media, Schematic and BLUE

Source: Adapted from WPP, "What We Do," www.wpp.com/wpp/about/whatwedo/ (as at 1 October 2010). Used with permission.

pitches. Advertising can convey the positioning of a brand and benefit from online display advertising or search engine marketing that offers a stronger call to action.[40]

Many companies are coordinating their online and offline communications activities. Web addresses in ads (especially print ads) and on packages allow people to more fully explore a company's products, find store locations, and get more product or service information. Even if consumers don't order online, marketers can use Web sites in ways that drive them into stores to buy.

Implementing IMC

In recent years, large ad agencies have substantially improved their integrated offerings. To facilitate one-stop shopping, these agencies have acquired promotion agencies, public relations firms, package-design consultancies, Web site developers, and direct-mail houses. They are redefining themselves as *communications companies* that assist clients to improve their overall communications effectiveness by offering strategic and practical advice on many forms of communication.[41] Many international clients such as IBM (Ogilvy), Colgate (Young & Rubicam), and GE (BBDO) have opted to put a substantial portion of their communications work through one full-service agency. The result is integrated and more effective marketing communications at a much lower total communications cost.

Integrated marketing communications can produce stronger message consistency and help build brand equity and create greater sales impact.[42] It forces management to think about every way the customer comes in contact with the company, how the company communicates its positioning, the relative importance of each vehicle, and timing issues. It gives someone the responsibility—where none existed before—to unify the company's brand images and messages as they come through thousands of company activities. IMC should improve the company's ability to reach the right customers with the right messages at the right time and in the right place.[43] "Marketing Memo: How Integrated Is Your IMC Program?" provides some guidelines.

marketing Memo

How Integrated Is Your IMC Program?

In assessing the collective impact of an IMC program, the marketer's overriding goal is to create the most effective and efficient communications program possible. The following six criteria can help determine whether communications are truly integrated.

- *Coverage.* Coverage is the proportion of the audience reached by each communication option employed, as well as how much overlap exists among communication options. In other words, to what extent do different communication options reach the designated target market and the same or different consumers making up that market?
- *Contribution.* Contribution is the inherent ability of a marketing communication to create the desired response and communication effects from consumers in the absence of exposure to any other communication option. How much does a communication affect consumer processing and build awareness, enhance image, elicit responses, and induce sales?
- *Commonality.* Commonality is the extent to which *common* associations are reinforced across communication options; that is, the extent to which information conveyed by different communication options share meaning. The consistency and cohesiveness of the brand image is important because it determines how easily existing associations and responses can be recalled and how easily additional associations and responses can become linked to the brand in memory.
- *Complementarity.* Communication options are often more effective when used in tandem. Complementarity relates to the extent to which *different* associations and linkages are emphasized across communication options. Different brand associations may be most effectively established by capitalizing on those marketing communication options best suited to eliciting a particular consumer response or establishing a particular type of brand association. Many of the TV ads during the Super Bowl—America's biggest media event—are designed to create curiosity and interest so that consumers go online and engage in social media and word of mouth to experience and find more detailed information.[44] A 2010 Super Bowl spot for Snickers candy bar featuring legendary TV comedienne Betty White resulted in over 3.5 million visits to the brand's Web site after it was run.
- *Versatility.* In any integrated communication program, when consumers are exposed to a particular marketing communication, some will have already been exposed to other marketing communications for the brand, and some will not have had any prior exposure. Versatility refers to the extent to which a marketing communication option is robust and "works" for different groups of consumers. The ability of a marketing communication to work at two levels—effectively communicating to consumers who have or have *not* seen other communications—is critically important.
- *Cost.* Marketers must weigh evaluations of marketing communications on all these criteria against their cost to arrive at the most effective *and* efficient communications program.

Source: Adapted from Kevin Lane Keller, *Strategic Brand Management,* 3rd ed. (Upper Saddle River, NJ: Prentice Hall, 2008).

Summary

1. Modern marketing calls for more than developing a good product, pricing it attractively, and making it accessible to target customers. Companies must also communicate with present and potential stakeholders and with the general public.
2. The marketing communications mix consists of eight major modes of communication: advertising, sales promotion, public relations and publicity, events and experiences, direct marketing, interactive marketing, word-of-mouth marketing, and personal selling.
3. The communications process consists of nine elements: sender, receiver, message, media, encoding, decoding, response, feedback, and noise. To get their messages through, marketers must encode their messages in a way that takes into account how the target audience usually decodes messages. They must also transmit the message through efficient media that reach the target audience and develop feedback channels to monitor response to the message.
4. Developing effective communications requires eight steps: (1) Identify the target audience, (2) determine the communications objectives, (3) design the communications, (4) select the communications channels, (5) establish the total communications budget, (6) decide on the communications mix, (7) measure the communications results, and (8) manage the integrated marketing communications process.
5. In identifying the target audience, the marketer needs to close any gap that exists between current public perception and the image sought. Communications objectives can be to create category need, brand awareness, brand attitude, or brand purchase intention.
6. Designing the communication requires solving three problems: what to say (message strategy), how to say it (creative strategy), and who should say it (message source). Communications channels can be personal (advocate, expert, and social channels) or nonpersonal (media, atmospheres, and events).
7. Although other methods exist, the objective-and-task method of setting the communications budget, which calls upon marketers to develop their budgets by defining specific objectives, is typically most desirable.
8. In choosing the marketing communications mix, marketers must examine the distinct advantages and costs of each communication tool and the company's market rank. They must also consider the type of product market in which they are selling, how ready consumers are to make a purchase, and the product's stage in the company, brand, and product.
9. Measuring the effectiveness of the marketing communications mix requires asking members of the target audience whether they recognize or recall the communication, how many times they saw it, what points they recall, how they felt about the communication, and what are their previous and current attitudes toward the company, brand, and product.
10. Managing and coordinating the entire communications process calls for integrated marketing communications (IMC): marketing communications planning that recognizes the added value of a comprehensive plan to evaluate the strategic roles of a variety of communications disciplines, and that combines these disciplines to provide clarity, consistency, and maximum impact through the seamless integration of discrete messages.

Applications

Marketing Debate

Has TV Advertising Lost Its Power?

Long deemed the most successful marketing medium, television advertising is increasingly criticized for being too expensive and, even worse, no longer as effective as it once was. Critics maintain that consumers tune out too many ads by zipping and zapping and that it is difficult to make a strong impression. The future, claim some, is with online advertising. Supporters of TV advertising disagree, contending that the multisensory impact of TV is unsurpassed and that no other media option offers the same potential impact.

Take a position: TV advertising has faded in importance *versus* TV advertising is still the most powerful advertising medium.

Marketing Discussion

Communications Audit

Pick a brand and go to its Web site. Locate as many forms of communication as you can find. Conduct an informal communications audit. What do you notice? How consistent are the different communications?

Marketing Excellence

>>Red Bull

Red Bull's integrated marketing communications mix has been so successful that the company has created an entirely new drink category—functional energy drinks—and has become a multibillion-dollar brand among competition from beverage kings like Coca-Cola and Pepsi. In less than 20 years, Red Bull has become the energy drink market leader by skillfully connecting with the global youth. Dietrich Mateschitz founded Red Bull in Austria and introduced the energy drink into Hungary, its first foreign market, in 1992. Today, Red Bull sells 4 billion cans of energy drinks each year in over 160 countries.

So how does Red Bull do it? The answer: differently than others. For years, Red Bull offered just one product, Red Bull Energy Drink, in one size—a slick silver 250 ml. (8.3 oz.) can with a European look and feel. Red Bull's ingredients—amino acid taurine, B-complex vitamins, caffeine, and carbohydrates—mean it's highly caffeinated and energizing, so fans have called it "liquid cocaine" and "speed in a can." Over the last decade, Red Bull has introduced three additional products: Red Bull Sugarfree, Red Bull Energy Shots, and Red Bull Cola—each slight variations of the original energy drink.

Since its beginning, Red Bull has used little traditional advertising and no print, billboards, banner ads, or Super Bowl spots. While the company runs minimal television commercials, the animated spots and tagline "Red Bull Gives You Wiiings" are meant to amuse its young audience and connect in a nontraditional, nonpushy manner.

Red Bull builds buzz about the product through grassroots, viral marketing tactics, starting with its "seeding program" that microtargets trendy shops, clubs, bars, and stores. As one Red Bull executive explained, "We go to on-premise accounts first, because the product gets a lot of visibility and attention. It goes faster to deal with individual accounts, not big chains and their authorization process." Red Bull is easily accepted at clubs because "in clubs, people are open to new things."

Once Red Bull has gained some momentum in the bars, it next moves into convenience stores located near colleges, gyms, health-food stores, and supermarkets, prime locations for its target audience of men and women aged 16 to 29. Red Bull has also been known to target college students directly by providing them with free cases of Red Bull and encouraging them to throw a party. Eventually, Red Bull moves into restaurants and finally, into supermarkets.

Red Bull's marketing efforts strive to build its brand image of authenticity, originality, and community in several ways. First, Red Bull targets opinion leaders by sampling its product, a lot. Free Red Bull energy drinks are available at sports competitions, in limos before award shows, and at exclusive after-parties. Free samples are passed out on college campuses and city streets, given to those who look like they need a lift.

Next, Red Bull aligns itself with a wide variety of extreme sports, athletes, teams, events, and artists (in music, dance, and film). From motor sports to mountain biking, snowboarding to surfing, dancing to extreme sailing, there is no limit to the craziness of a Red Bull event or sponsorship. A few have become notorious for taking originality and extreme sporting to the limit, including the annual Flugtag. At Flugtag, contestants build homemade flying machines that must weigh less than 450 pounds, including the pilot. Teams then launch their contraptions off a specially designed Red Bull branded ramp, 30 feet above a body of water. Crowds of up to 300,000 young consumers cheer on as the contestants and their "planes" stay true to the brand's slogan: "Red Bull gives you wings!"

Another annual event, the Red Bull Air Race, tests the limits of sanity. Twelve of the world's top aerobatic stunt pilots compete in a 3.5 mile course through a low-level aerial racetrack made up of air-filled Red Bull branded pylons 33 feet apart and reaching 65 feet in height. In other words, pilots fly planes with a 26-foot wingspan through a gap of 33 feet at 230 mph. These Red Bull–branded planes crash occasionally, but to date no fatalities have ever occurred.

Red Bull's Web site provides consumers with information about how to find Red Bull events, videos of and interviews with Red Bull–sponsored athletes, and clips of amazing feats that will be tested next. For example, Bull Stratos is a mission one man is undertaking to free-fall from 120,000 feet, or 23 miles high. The jump will be attempted from the edge of space and, if successful, it will mark the first time a human being has reached supersonic speeds in a free fall.

Red Bull buys traditional advertising once the market is mature and the company needs to reinforce the brand to its consumers. As one Red Bull executive explained, "Media is not a tool that we use to establish the market. It is a critical part. It's just later in the development."

Red Bull's "anti-marketing" IMC strategy has been extremely successful connecting with its young consumers. It falls directly in line with the company's mission to be seen as unique, original, and rebellious—just as its Generation Y consumers want to be viewed.

Questions

1. What are Red Bull's greatest strengths and risks as more companies (like Coca-Cola, Pepsi, and Monster) enter the energy drink category and gain market share?
2. Should Red Bull do more traditional advertising? Why or why not?
3. Discuss the effectiveness of Red Bull's sponsorships, for example, Bull Stratos. Is this a good use of Red Bull's marketing budget? Where should the company draw the line?

Sources: Kevin Lane Keller, "Red Bull: Managing a High-Growth Brand," *Best Practice Cases in Branding*, 3rd ed. (Upper Saddle River, NJ: Prentice Hall, 2008); Peter Ha, "Red Bull Stratos: Man Will Freefall from Earth's Stratosphere," *Time,* January 22, 2010; Red Bull, www.redbull.com.

Marketing Excellence

>>Target

Like other discount retailers, Target sells a wide variety of products, including clothing, jewelry, sporting goods, household supplies, toys, electronics, and health and beauty products. However, since its founding in 1962, Target has focused on differentiating itself from the competition. This became evident in the mid-1980s when Kmart dominated the mass retail industry and Walmart was growing rapidly. Kmart and Walmart's marketing messages communicated their low price promise, but their merchandise was perceived as cheap and low-quality. Target sensed a gap in the market for "cheap chic" retail and set out to distinguish itself from the other big-box retailers.

Target planned to build an up-market cachet for its brand without losing its relevance for price-conscious consumers. It positioned itself as a high-fashion brand with trendy styles and quality merchandise at affordable low prices. To fulfill this brand promise, Target's teams of merchandisers travel the world looking for the next hot items. Next, Target brings these trends to the shelves faster than its competitors.

Many styles are sold exclusively at Target through partnerships with world-renowned designers, such as Mossimo Giannulli, Jean Paul Gaultier, and Liz Lange in clothes; Anya Hindmarch in handbags; Sigerson Morrison in shoes; Michael Graves in home goods; and Pixi by Petra Strand in beauty. They are either staples in Target stores or part of the Go International line, a special design collection available for only a few months. In 2006, Target introduced U.S. consumers to the concept of "fast fashion," already popular in Europe, to help keep the product selection fresh, which in turn led to more frequent shopper visits.

Target's designer line collections are just one unique part of its entire integrated marketing communications mix. The company uses a variety of tactics to communicate its "cheap chic" positioning, beginning with its slogan, "Expect More, Pay Less." In its stores, Target uses strategically placed low shelves, halogen and track lighting, cleaner fixtures, and wider aisles to avoid visual clutter. Signage features contemporary imagery but is printed on less expensive materials. Target even catches the eye of consumers in the air by painting its signature red bull's eye on the roof of stores located near busy airports.

Target uses a wide range of traditional advertising such as television ads, direct mailers, print ads, radio, and circulars. Its messages feature hip young customers, a variety of strong name-brand products, and a lighthearted tone—all which have helped make Target's bull's eye logo well recognized. Target also aligns itself with a variety of events, sports, athletes, and museums through corporate sponsorships. From Target Field, the home of the Minnesota Twins in Minneapolis, to Target NASCAR and Indy racing teams and contemporary athletes like Olympic snowboarder Shaun White, sponsorships help Target pinpoint specific consumers, interests, attitudes, and demographics. Target also advertises on and sponsors major awards shows such as the Oscars, Emmys, Grammys, and the Golden Globes.

Target has a strong online presence and uses Target.com as a critical component in its retail and communications strategy. Target.com is able to gain insight into consumers' shopping preferences, which ultimately allows for more targeted direct marketing efforts. The site also features in-store items alongside Web-only items in hopes of driving traffic into the stores. On social Web sites such as Twitter and Facebook, Target builds loyalty and encourages young consumers to share their experiences, discounts, and great finds with each other.

Target reinforces its positive brand image by contributing significantly to surrounding communities. The company donates 5 percent of its annual income, or more than $3 million a week, to programs that focus on education, the arts, social service, and volunteerism. Target donated more than 16 million pounds of food in 2008 to Feed America, the nation's food bank network. Target also sponsors discounted or free days at art museums around the country, including the Museum of Modern Art in New York and the Museum of Contemporary Art in Chicago.

As a result of its integrated marketing plan, Target has attracted many shoppers who would not otherwise shop at a discount retailer. Its customers are younger, more affluent, and more educated than its competitors attract. The median age of Target shoppers is 41 and the median household income is $63,000. Three-quarters of Target consumers are female and 45 percent have children at home. In addition, 97 percent of U.S. consumers recognize the Target bull's eye logo.

While Target's marketing communication mix has effectively communicated its "cheap chic" message over the years, this strategy hurt sales during the recession in 2008–2009. During that time, consumers significantly cut their spending and shopped mostly for necessities at low-cost Walmart instead of for discretionary items, which make up about three-fifths of sales at Target.

As a result, Target tweaked its marketing message and merchandise profile. The company added perishables to its inventory—a necessity in slow economic times—and cut back on discretionary items such as clothing and home accessories. Target's marketing message remains focused on offering consumers high style and unique brand names but emphasizes value more, using phrases such as "fresh for less" and "new way to save."

Today, Target is the second-largest discount retailer in the United States, with $65.4 billion in sales in 2009, and ranks number 28 on the Fortune 500 list. Its successful integrated marketing mix has worked so well that consumers often jokingly pronounce the company's name as if it were an upscale boutique, "Tar-ZHAY."

Questions

1. What has Target done well over the years in terms of its integrated marketing communications strategy? What should it do going forward?
2. How does Target compete against mammoth Walmart? What are the distinct differences in their IMC strategies?
3. Did Target do the right thing by tweaking its message to focus more on value and less on trends? Why or why not?

Sources: "Value for Money Is Back—Target Does Marketing Right," *The Marketing Doctor*, October 2, 2006; Ben Steverman, "Target vs. Wal-Mart: The Next Phase," *BusinessWeek*, August 18, 2009; Ann Zimmerman, "Staying on Target," *Wall Street Journal*, May 7, 2007; Mya Frazier, "The Latest European Import: Fast Fashion," *Advertising Age*, January 9, 2006, p. 6; Julie Schlosser, "How Target Does It," *Fortune*, October 18, 2004, p. 100; Michelle Conlin, "Look Who's Stalking Wal-Mart," *BusinessWeek*, December 7, 2009, pp. 30–36; Wikinvest, www.wikinvest.com; Target, www.target.com.

Chapter 18

In This Chapter, We Will Address the Following Questions

1. What steps are required in developing an advertising program?
2. How should sales promotion decisions be made?
3. What are the guidelines for effective brand-building events and experiences?
4. How can companies exploit the potential of public relations and publicity?

Old Spice has put more than a little swagger in its products—and in its advertising—to modernize the decades-old brand.

Managing Mass Communications: Advertising, Sales Promotions, Events and Experiences, and Public Relations

Although there has been an enormous increase in the use of personal communications by marketers in recent years, due to the rapid penetration of the Internet and other factors, the fact remains that mass media, if used correctly, is still an important component of a modern marketing communications program. The old days of "if you build a great ad, they will come," however, are long gone. To generate consumer interest and sales, mass media must often be supplemented and carefully integrated with other communications, as was the case with Procter & Gamble's Old Spice.[1]

Among the more successful of the 30-second ads estimated to cost over $2.5 million to run during the broadcast of the 2010 Super Bowl was one for Old Spice body wash. Turning a potential negative of being an old brand into a positive of being experienced, Old Spice has made a remarkable transformation in recent years from "your father's aftershave" to a contemporary men's fragrance brand. In a new strategic move, given their important role in the purchase process, the Super Bowl spot targeted women as well as men. The tongue-in-cheek ad featured rugged ex-NFL football player Isaiah Mustafa as "The Man Your Man Could Smell Like." In one seamless take, Mustafa confidently strikes a variety of romantic poses while passing from a shower in a bathroom to standing on a boat to riding a white horse. Uploaded onto YouTube and other social networking sites, the ad was viewed over 10 million additional times. Old Spice's Facebook page included a Web application called "My Perpetual Love," which featured Mustafa offering men the opportunity to be "more like him" by e-mailing and tweeting their sweethearts virtual love notes. For its efforts, the ad agency behind the campaign, Wieden+Kennedy, received a Grand Prix at the Cannes International Ad festival. A follow-up ad in June 2010 showed Mustafa in a new series of "perfect man" activities including baking birthday cakes, building a home with his own hands, swan-diving into a hot tub, and, yes, walking on water.

Although Old Spice clearly has found great success with its ad campaign, other marketers are trying to come to grips with how to best use mass media in the new—and still changing—communication environment.[2] In this chapter, we examine the nature and use of four mass-communication tools—advertising, sales promotion, events and experiences, and public relations and publicity.

Developing and Managing an Advertising Program

Advertising can be a cost-effective way to disseminate messages, whether to build a brand preference or to educate people. Even in today's challenging media environment, good ads can pay off. P&G has also enjoyed double-digit sales gains in recent years from ads touting the efficacy of Olay Definity antiaging skin products and Head & Shoulders Intensive Treatment shampoo.[3]

In developing an advertising program, marketing managers must always start by identifying the target market and buyer motives. Then they can make the five major decisions, known as "the five Ms": *Mission:* What are our advertising objectives? *Money:* How much can we spend and how do we allocate our spending across media types? *Message:* What message should we send? *Media:* What media should we use? *Measurement:* How should we evaluate the results? These decisions are summarized in △ Figure 18.1 and described in the following sections.

Setting the Objectives

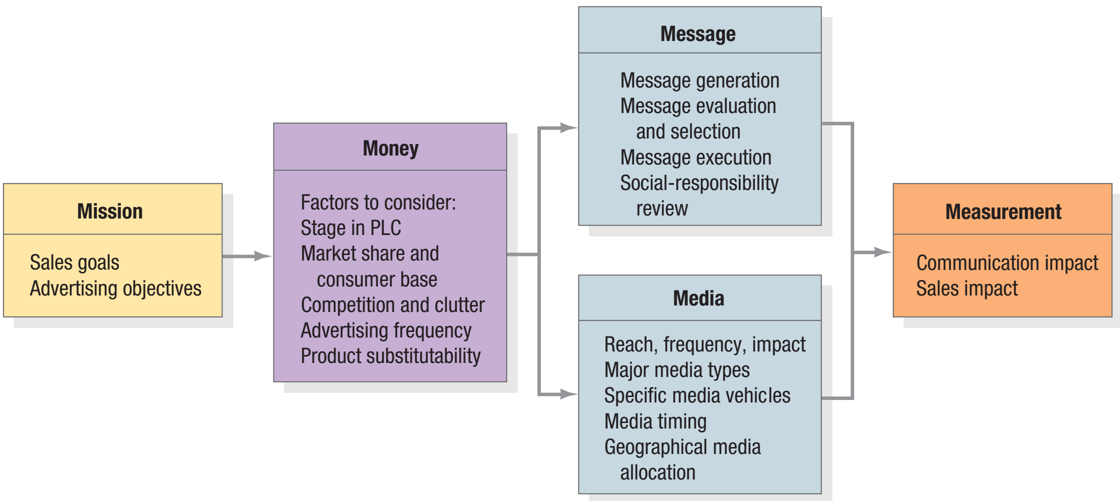
The advertising objectives must flow from prior decisions on target market, brand positioning, and the marketing program.

An **advertising objective** (or goal) is a specific communications task and achievement level to be accomplished with a specific audience in a specific period of time:[4]

> *To increase among 30 million homemakers who own automatic washers the number who identify brand X as a low-sudsing detergent, and who are persuaded that it gets clothes cleaner, from 10 percent to 40 percent in one year.*

We can classify advertising objectives according to whether their aim is to inform, persuade, remind, or reinforce. These objectives correspond to different stages in the *hierarchy-of-effects* model discussed in Chapter 17.

- ***Informative advertising*** aims to create brand awareness and knowledge of new products or new features of existing products.[5] To promote its OnStar in-vehicle safety, security, and information service that uses wireless and GPS satellite technology, GM launched the "Real Stories" campaign in 2002. The award-winning TV, radio, and print ad campaign used actual subscriber stories in their own words and voices to share the importance and benefits of OnStar through life-changing experiences. By 2005, the OnStar brand had reached 100 percent awareness among consumers shopping for a new vehicle.[6]



|Fig. 18.1| △

The Five Ms of Advertising

- ***Persuasive advertising*** aims to create liking, preference, conviction, and purchase of a product or service. Some persuasive advertising uses comparative advertising, which makes an explicit comparison of the attributes of two or more brands. Miller Lite took market share from Bud Lite by pointing out that Bud Lite had higher carbs. Comparative advertising works best when it elicits cognitive and affective motivations simultaneously, and when consumers are processing advertising in a detailed, analytical mode.[7]
- ***Reminder advertising*** aims to stimulate repeat purchase of products and services. Expensive, four-color Coca-Cola ads in magazines are intended to remind people to purchase Coca-Cola.
- ***Reinforcement advertising*** aims to convince current purchasers that they made the right choice. Automobile ads often depict satisfied customers enjoying special features of their new car.

The advertising objective should emerge from a thorough analysis of the current marketing situation. If the product class is mature, the company is the market leader, and brand usage is low, the objective is to stimulate more usage. If the product class is new, the company is not the market leader, but the brand is superior to the leader, then the objective is to convince the market of the brand's superiority.

Deciding on the Advertising Budget

How does a company know it's spending the right amount? Although advertising is treated as a current expense, part of it is really an investment in building brand equity and customer loyalty. When a company spends $5 million on capital equipment, it may treat the equipment as a five-year depreciable asset and write off only one-fifth of the cost in the first year. When it spends $5 million on advertising to launch a new product, it must write off the entire cost in the first year, reducing its reported profit, even if the effects will persist for many years to come.

FACTORS AFFECTING BUDGET DECISIONS Here are five specific factors to consider when setting the advertising budget:[8]

1. ***Stage in the product life cycle***—New products typically merit large advertising budgets to build awareness and to gain consumer trial. Established brands usually are supported with lower advertising budgets, measured as a ratio to sales.
2. ***Market share and consumer base***—High-market-share brands usually require less advertising expenditure as a percentage of sales to maintain share. To build share by increasing market size requires larger expenditures.
3. ***Competition and clutter***—In a market with a large number of competitors and high advertising spending, a brand must advertise more heavily to be heard. Even simple clutter from advertisements not directly competitive to the brand creates a need for heavier advertising.
4. ***Advertising frequency***—The number of repetitions needed to put the brand's message across to consumers has an obvious impact on the advertising budget.
5. ***Product substitutability***—Brands in less-differentiated or commodity-like product classes (beer, soft drinks, banks, and airlines) require heavy advertising to establish a unique image.

ADVERTISING ELASTICITY The predominant response function for advertising is often concave but can be S-shaped. When consumer response is S-shaped, some positive amount of advertising is necessary to generate any sales impact, but sales increases eventually flatten out.[9]

One classic study found that increasing the TV advertising budget had a measurable effect on sales only half the time. The success rate was higher for new products or line extensions than for established brands, and when there were changes in copy or in media strategy (such as an expanded target market). When advertising increased sales, its impact lasted up to two years after peak spending. Moreover, the long-term incremental sales generated were approximately double the incremental sales observed in the first year of an advertising spending increase.[10]

Other studies reinforce these conclusions. In a 2004 IRI study of 23 brands, advertising often didn't increase sales for mature brands or categories in decline. A review of academic research found that advertising elasticities were estimated to be higher for new (.3) than for established products (.1).[11]

Developing the Advertising Campaign

In designing and evaluating an ad campaign, marketers employ both art and science to develop the *message strategy* or positioning of an ad—*what* the ad attempts to convey about the brand—and its *creative strategy*—*how* the ad expresses the brand claims. Advertisers go through three steps: message generation and evaluation, creative development and execution, and social-responsibility review.

MESSAGE GENERATION AND EVALUATION Many of today's automobile ads look similar—a car drives at high speed on a curved mountain road or across a desert. Advertisers are always seeking "the big idea" that connects with consumers rationally and emotionally, sharply distinguishes the brand from competitors, and is broad and flexible enough to translate to different media, markets, and time periods.[12] Fresh insights are important for avoiding using the same appeals and position as others.

Got Milk? After a 20-year decline in milk consumption among Californians, in 1993 milk processors from across the state formed the California Milk Processor Board (CMPB) with one goal in mind: to get people to drink more milk. The ad agency commissioned by the CMPB, Goodby, Silverstein & Partners, developed a novel approach to pitching milk's benefits. Research had shown that most consumers already believed milk was good for them. So the campaign would remind consumers of the inconvenience and annoyance of running out of milk when they went to eat certain foods, which became known as "milk deprivation." The "got milk?" tagline reminded consumers to make sure they had milk in their refrigerators. A year after the launch, sales volume had increased 1.07 percent. In 1995, the "got milk?" campaign was licensed to the National Dairy Board. In 1998, the National Fluid Milk Processor Education Program, which had been using the "milk mustache" campaign since 1994 to boost sales, bought the rights to the "got milk?" tagline. The "got milk?" campaign continues to pay strong dividends by halting the decline in sales of milk in California more than 13 years after its launch.[13]

The tagline for California Milk Processor Board's "Got milk?" campaign has also been used as part of the "milk mustache" print ad series, featuring numerous celebrities such as St. Louis Cardinals baseball slugger Albert Pujols.

A good ad normally focuses on one or two core selling propositions. As part of refining the brand positioning, the advertiser should conduct market research to determine which appeal works best with its target audience and then prepare a *creative brief,* typically one or two pages. This is an elaboration of the *positioning statement* and includes considerations such as key message, target audience, communications objectives (to do, to know, to believe), key brand benefits, supports for the brand promise, and media.

How many alternative ad themes should the advertiser create before making a choice? The more ad themes explored, the higher the probability of finding an excellent one. Fortunately, an ad agency's creative department can inexpensively compose many alternative ads in a short time by drawing still and video images from computer files. Marketers can also cut the cost of creative dramatically by using consumers as their creative team, a strategy sometimes called "open source" or "crowdsourcing."[14]

Consumer-Generated Advertising One of the first major marketers to feature consumer-generated ads was Converse, whose award-winning campaign, "Brand Democracy," used films created by consumers in a series of TV and Web ads. Some of the most popular ads during recent Super Bowl broadcasts have been homemade contest winners for Frito-Lay's Doritos tortilla chips. H. J. Heinz ran a "Top This TV Challenge" inviting the public to create the next commercial for its Heinz Ketchup brand and win $57,000. More than 6,000 submissions and more than 10 million online views resulted, and sales rose over 13 percent year over year. In addition to creating ads, consumers can help disseminate advertising. A UK "Life's for Sharing" ad for T-Mobile in which 400 people break into a choreographed dance routine in the Liverpool Street Station was shown exactly once on the *Celebrity Big Brother* television show, but it was watched more than 15 million times online when word about it spread via e-mail messages, blogs, and social networks.

Although entrusting consumers with a brand's marketing effort can be pure genius, it can also be a regrettable failure. When Kraft sought a hip name for a new flavor variety of its iconic Vegemite

T-Mobile's highly entertaining "Life's for Sharing" subway dance became an online viral marketing sensation.

product in Australia, it labeled the first 3 million jars "Name Me" to enlist consumer support. From 48,000 entries, however, the marketer selected one that was thrown in as a joke—iSnack 2.0—and sales plummeted. The company had to pull iSnack jars from the shelves and start from scratch in a more conventional fashion, yielding the new name Cheesybite.[15]

CREATIVE DEVELOPMENT AND EXECUTION The ad's impact depends not only on what it says, but often more important, on *how* it says it. Execution can be decisive. Every advertising medium has advantages and disadvantages. Here, we briefly review television, print, and radio advertising media.

Television Ads Television is generally acknowledged as the most powerful advertising medium and reaches a broad spectrum of consumers at low cost per exposure. TV advertising has two particularly important strengths. First, it can vividly demonstrate product attributes and persuasively explain their corresponding consumer benefits. Second, it can dramatically portray user and usage imagery, brand personality, and other intangibles.

Because of the fleeting nature of the ad, however, and the distracting creative elements often found in it, product-related messages and the brand itself can be overlooked. Moreover, the high volume of nonprogramming material on television creates clutter that makes it easy for consumers to ignore or forget ads. Nevertheless, properly designed and executed TV ads can still be a powerful marketing tool and improve brand equity and affect sales and profits. In the highly competitive insurance category, advertising can help a brand to stand out.[16]

Aflac Aflac, the largest supplier of supplemental insurance, was relatively unknown until a highly creative ad campaign made it one of the most recognized brands in recent history. (Aflac stands for American Family Life Assurance Company.) Created by the Kaplan Thaler ad agency, the lighthearted campaign features an irascible duck incessantly squawking the company's name, "Aflac!" while consumers or celebrities discuss its products. The duck's frustrated bid for attention appealed to consumers. Sales were up 28 percent in the first year the duck aired, and name recognition went from 13 percent to 91 percent. Aflac has stuck with the duck in its advertising, even incorporating it into its corporate logo in 2005. Social media have allowed marketers to further develop the personality of the duck—it has 170,000 Facebook fans and counting! The Aflac duck is not just a U.S. phenomenon. It also stars in Japanese TV ads—with a somewhat brighter disposition—where it has been credited with helping to drive sales in Aflac's biggest market.

Print Ads Print media offer a stark contrast to broadcast media. Because readers consume them at their own pace, magazines and newspapers can provide detailed product information and effectively

Aflac's iconic duck character has been the centerpiece of its brand-building advertising for years.

communicate user and usage imagery. At the same time, the static nature of the visual images in print media makes dynamic presentations or demonstrations difficult, and print media can be fairly passive.

The two main print media—magazines and newspapers—share many advantages and disadvantages. Although newspapers are timely and pervasive, magazines are typically more effective at building user and usage imagery. Newspapers are popular for local—especially retailer—advertising. On an average day, roughly one-half to three-quarters of U.S. adults read a newspaper, although increasingly that is an online version. Print newspaper circulation fell almost 9 percent in 2009.[17] Although advertisers have some flexibility in designing and placing newspaper ads, relatively poor reproduction quality and short shelf life can diminish the ads' impact.

Researchers studying print advertisements report that the *picture, headline,* and *copy* matter in that order. The picture must be strong enough to draw attention. The headline must reinforce the picture and lead the person to read the copy. The copy must be engaging and the brand's name sufficiently prominent. Even then, less than 50 percent of the exposed audience will notice even a really outstanding ad. About 30 percent might recall the headline's main point, about 25 percent register the advertiser's name, and fewer than 10 percent will read most of the body copy. Ordinary ads don't achieve even these results.

Given how consumers process print ads, some clear managerial implications emerge, as summarized in "Marketing Memo: Print Ad Evaluation Criteria." One print ad campaign that successfully carved out a brand image is Absolut vodka.[18]

marketing Memo — Print Ad Evaluation Criteria

In judging the effectiveness of a print ad, in addition to considering the communication strategy (target market, communications objectives, and message and creative strategy), marketers should be able to answer yes to the following questions about the ad's execution:

1. Is the message clear at a glance? Can you quickly tell what the advertisement is all about?
2. Is the benefit in the headline?
3. Does the illustration support the headline?
4. Does the first line of the copy support or explain the headline and illustration?
5. Is the ad easy to read and follow?
6. Is the product easily identified?
7. Is the brand or sponsor clearly identified?

Source: Adapted from Scott C. Purvis and Philip Ward Burton, *Which Ad Pulled Best,* 9th ed. (Lincolnwood, IL: NTC Business Books, 2002).

Absolut Vodka

Absolut Vodka Vodka is generally viewed as a commodity product, yet the amount of brand preference and loyalty in the vodka market is astonishing and attributed mostly to brand image. When the Swedish brand Absolut entered the U.S. market in 1979, the company sold a disappointing 7,000 cases. By 1991, sales had soared to over 2 million cases. Absolut became the largest-selling imported vodka in the United States, with 65 percent of the market, thanks in large part to its marketing and advertising strategies aimed at sophisticated, upwardly mobile, affluent drinkers. The vodka comes in a distinctive clear bottle that served as the centerpiece of 15,000 ad executions over a 25-year period. The campaign cleverly juxtaposed a punning caption against a stylized image of the bottle—for example, "Absolut Texas" under an image of an oversized bottle, or "Absolut 19th" with a bottle made of a golf green. But feeling that consumers were beginning to tune out the message, in 2007 Absolut introduced a new global campaign that showed what things would be like "In an Absolut World." In this fantasy world, men get pregnant, soap bubbles flow from smokestacks, masterpiece paintings hang in Times Square, protesters and police fight with feather pillows, and perhaps most fantastically of all, the Cubs win the World Series. The revitalized campaign led to a 9 percent increase in case sales before the recession hit in 2008.

Radio Ads Radio is a pervasive medium: Ninety-three percent of all U.S. citizens age 12 and older listen to the radio daily and for around 20 hours a week on average, numbers that have held steady in recent years. Much radio listening occurs in the car and out of home. As streaming Internet access gains ground, traditional AM/FM radio stations are feeling the pressure and account for less than half of all listening at home.[19]

Perhaps radio's main advantage is flexibility—stations are very targeted, ads are relatively inexpensive to produce and place, and short closings allow for quick response. Radio is a particularly effective medium in the morning; it can also let companies achieve a balance between broad and localized market coverage.

The obvious disadvantages of radio are its lack of visual images and the relatively passive nature of the consumer processing that results. Nevertheless, radio ads can be extremely creative. Some see the lack of visual images as a plus because they feel the clever use of music, sound, and other creative devices can tap into the listener's imagination to create powerfully relevant and liked images. Here is an example:[20]

Motel 6

Motel 6 Motel 6, the nation's largest budget motel chain, was founded in 1962 when the "6" stood for $6 a night. After its business fortunes hit bottom in 1986 with an occupancy rate of only 66.7 percent, Motel 6 made a number of marketing changes, including the launch of humorous 60-second radio ads featuring folksy contractor-turned-writer Tom Bodett delivering the clever tagline, "We'll Leave the Light on for You." Named one of the Top 100 Ad Campaigns of the Twentieth Century by leading trade publication *Advertising Age*, the Motel 6 campaign continues to receive awards, including the 2009 Radio Mercury Awards grand prize for an ad called "DVD." In this ad, Bodett introduces the "DVD version" of his latest commercial, utilizing his trademark self-deprecating style to provide "behind the scenes" commentary on his own performance. Still going strong, the ad campaign is credited with a rise in occupancy and a revitalization of the brand that continues to this day.

LEGAL AND SOCIAL ISSUES To break through clutter, some advertisers believe they have to be edgy and push the boundaries of what consumers are used to seeing in advertising. In doing so, marketers must be sure advertising does not overstep social and legal norms[21] or offend the general public, ethnic groups, racial minorities, or special-interest groups.

A substantial body of laws and regulations governs advertising. Under U.S. law, advertisers must not make false claims, such as stating that a product cures something when it does not. They must avoid false demonstrations, such as using sand-covered Plexiglas instead of sandpaper to demonstrate that a razor blade can shave sandpaper. It is illegal in the United States to create ads that have the capacity to deceive, even though no one may actually be deceived. A floor wax advertiser can't say the product gives six months' protection unless it does so under typical conditions, and the maker of a diet bread can't say it has fewer calories simply because its slices are thinner. The challenge is telling the difference between deception and "puffery"—simple exaggerations that are not meant to be believed and that *are* permitted by law.

Splenda versus Equal

Splenda versus Equal Splenda's tagline for its artificial sweetener was "Made from sugar, so it tastes like sugar," with "but it's not sugar" in small writing almost as an afterthought. McNeil Nutritionals, Splenda's manufacturer, does begin production of Splenda with pure cane sugar but burns it off in the manufacturing process. However, Merisant, maker of Equal, claimed that Splenda's advertising confuses consumers who are likely to conclude that a product "made from sugar" is healthier than one made from aspartame, Equal's main ingredient. A document used in court and taken from McNeil's own files notes that consumers' perception of Splenda as "not an artificial sweetener" was one of the biggest triumphs of the company's marketing campaign, which began in 2003. Splenda became the runaway leader in the sugar-substitute category with 60 percent of the market, leaving roughly 14 percent each to Equal (in the blue packets) and Sweet'N Low (pink packets). Although McNeil eventually agreed to settle the lawsuit and pay Merisant an undisclosed but "substantial" award (and change its advertising), it may have been too late for consumers to change their perception of Splenda as something sugary *and* sugar-free.[22]

Sellers in the United States are legally obligated to avoid bait-and-switch advertising that attracts buyers under false pretenses. Suppose a seller advertises a sewing machine at $149. When consumers try to buy the advertised machine, the seller cannot then refuse to sell it, downplay its features, show a faulty one, or promise unreasonable delivery dates in order to switch the buyer to a more expensive machine.[23]

Advertising can play a more positive broader social role. The Ad Council is a nonprofit organization that uses top-notch industry talent to produce and distribute public service announcements for nonprofits and government agencies. From its early origins with "Buy War Bonds" posters, the Ad Council has tackled innumerable pressing social issues through the years. One of its recent efforts featured beloved *Sesame Street* stars Elmo and Gordon exhorting children to wash their hands in the face of the H1N1 flu virus.[24]

Deciding on Media and Measuring Effectiveness

After choosing the message, the advertiser's next task is to choose media to carry it. The steps here are deciding on desired reach, frequency, and impact; choosing among major media types; selecting specific media vehicles; deciding on media timing; and deciding on geographical media allocation. Then the marketer evaluates the results of these decisions.

Deciding on Reach, Frequency, and Impact

Media selection is finding the most cost-effective media to deliver the desired number and type of exposures to the target audience. What do we mean by the desired number of exposures? The advertiser seeks a specified advertising objective and response from the target audience—for example, a target level of product trial. This level depends on, among other things, level of brand awareness. Suppose the rate of product trial increases at a diminishing rate with the level of audience awareness, as shown in Figure 18.2(a). If the advertiser seeks a product trial rate of T*, it will be necessary to achieve a brand awareness level of A*.

The next task is to find out how many exposures, E*, will produce a level of audience awareness of A*. The effect of exposures on audience awareness depends on the exposures' reach, frequency, and impact:

- ***Reach (R).*** The number of different persons or households exposed to a particular media schedule at least once during a specified time period
- ***Frequency (F).*** The number of times within the specified time period that an average person or household is exposed to the message
- ***Impact (I).*** The qualitative value of an exposure through a given medium (thus a food ad will have a higher impact in *Bon Appetit* than in *Fortune* magazine)

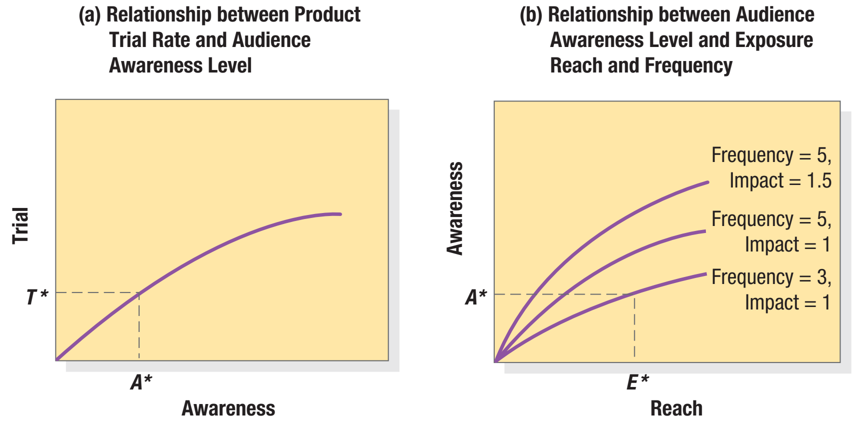
Figure 18.2(b) shows the relationship between audience awareness and reach. Audience awareness will be greater, the higher the exposures' reach, frequency, and impact. There are important trade-offs here. Suppose the planner has an advertising budget of $1,000,000 and the cost per thousand exposures of average quality is $5. This means 200,000,000 exposures ($1,000,000 ÷ [$5/1,000]). If the advertiser seeks an average exposure frequency of 10, it can reach 20,000,000 people (200,000,000 ÷ 10) with the given budget. But if the advertiser wants higher-quality media costing $10 per thousand exposures, it will be able to reach only 10,000,000 people unless it is willing to lower the desired exposure frequency.

The relationship between reach, frequency, and impact is captured in the following concepts:

- ***Total number of exposures (E).*** This is the reach times the average frequency; that is, $E = R \times F$, also called the *gross rating points* (GRP). If a given media schedule reaches 80 percent of homes with an average exposure frequency of 3, the media schedule has a GRP of 240 (80 × 3). If another media schedule has a GRP of 300, it has more weight, but we cannot tell how this weight breaks down into reach and frequency.
- ***Weighted number of exposures (WE).*** This is the reach times average frequency times average impact, that is $WE = R \times F \times I$.

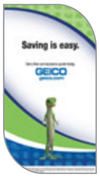
Reach is most important when launching new products, flanker brands, extensions of well-known brands, or infrequently purchased brands; or when going after an undefined target market. Frequency is most important where there are strong competitors, a complex story to tell, high consumer resistance, or a frequent-purchase cycle.[25]

A key reason for repetition is forgetting. The higher the forgetting rate associated with a brand, product category, or message, the higher the warranted level of repetition. However, advertisers should not coast on a tired ad but insist on fresh executions by their ad agency.[26] GEICO has found advertising success by keeping both its campaigns and their executions fresh.



|Fig. 18.2|

Relationship Among Trial, Awareness, and the Exposure Function



GEICO Have the hundreds of millions of dollars GEICO has spent on TV advertising been worth it? Warren Buffet, chairman and CEO of GEICO's parent company Berkshire Hathaway, sure thinks so. He told shareholders he would spend *millions* on GEICO advertising! GEICO has more than quadrupled its revenue over the last decade, from slightly under $3 billion in 1998 to more than $13 billion in 2009—making it the fastest-growing auto insurance company in the United States. The company eschews agents to sell directly to consumers with a basic message, "15 Minutes Could Save You 15% or More on Your Car Insurance." Partnering with The Martin Agency, GEICO has run different award-winning TV campaigns to emphasize different benefits of the brand. Popular TV spots advertising GEICO's claim that its Web site is "So Easy, a Caveman Can Use It" featured offended Neanderthals expressing indignation at the prejudice they face. TV ads featuring the Cockney-speaking Gecko lizard spokes-character reinforce GEICO's brand image as credible and accomplished. A third campaign, themed "Rhetorical Questions," uses cultural icons and touch points to make it seem obvious that GEICO saves customers money by asking self-evident questions such as, "Does Elmer Fudd have trouble with the letter R?" and "Did the Waltons take way too long to say goodnight?" The multiple campaigns complement each other and build on each other's success; the company dominates the TV airwaves with so many varied car insurance messages that any competitors' ads are lost.[27]

One of the most active advertisers around, GEICO employs multiple ad campaigns, including a series featuring the gecko lizard.

Choosing Among Major Media Types

The media planner must know the capacity of the major advertising media types to deliver reach, frequency, and impact. The major advertising media along with their costs, advantages, and limitations are profiled in Table 18.1. Media planners make their choices by considering factors such as target audience media habits, product characteristics, message requirements, and cost.

Alternate Advertising Options

In recent years, reduced effectiveness of traditional mass media has led advertisers to increase their emphasis on alternate advertising media.

PLACE ADVERTISING **Place advertising**, or out-of-home advertising, is a broad category including many creative and unexpected forms to grab consumers' attention. The rationale is that marketers are better off reaching people where they work, play, and, of course, shop. Popular options include billboards, public spaces, product placement, and point of purchase.

Billboards Billboards have been transformed and now use colorful, digitally produced graphics, backlighting, sounds, movement, and unusual—even 3D—images.[28] In New York, manhole covers

TABLE 18.1 Profiles of Major Media Types

Medium	Advantages	Limitations
Newspapers	Flexibility; timeliness; good local market coverage; broad acceptance; high believability	Short life; poor reproduction quality; small "pass-along" audience
Television	Combines sight, sound, and motion; appealing to the senses; high attention; high reach	High absolute cost; high clutter; fleeting exposure; less audience selectivity
Direct mail	Audience selectivity; flexibility; no ad competition within the same medium; personalization	Relatively high cost; "junk mail" image
Radio	Mass use; high geographic and demographic selectivity; low cost	Audio presentation only; lower attention than television; nonstandardized rate structures; fleeting exposure
Magazines	High geographic and demographic selectivity; credibility and prestige; high-quality reproduction; long life; good pass-along readership	Long ad purchase lead time; some waste in circulation
Outdoor	Flexibility; high repeat exposure; low cost; low competition	Limited audience selectivity; creative limitations
Yellow Pages	Excellent local coverage; high believability; wide reach; low cost	High competition; long ad purchase lead time; creative limitations
Newsletters	Very high selectivity; full control; interactive opportunities; relative low costs	Costs could run away
Brochures	Flexibility; full control; can dramatize messages	Overproduction could lead to runaway costs
Telephone	Many users; opportunity to give a personal touch	Relative high cost; increasing consumer resistance
Internet	High selectivity; interactive possibilities; relatively low cost	Increasing clutter

have been reimagined as steaming cups of Folgers coffee; in Belgium, eBay posted "Moved to eBay" stickers on empty storefronts; and in Germany, imaginary workers toiling inside vending machines, ATMs, and photo booths were justification for a German job-hunting Web site to proclaim, "Life Is Too Short for the Wrong Job."[29]

New "Eyes On" measurement techniques allow marketers to better understand who actually has seen their outdoor ads.[30] The right billboard can make all the difference. Chang Soda in Bangkok had enough money in its budget for only one digital billboard. To maximize impact, it built a giant bubbling bottle onto the billboard to illustrate the product's carbonation. Subsequent word-of-mouth buzz quintupled bottle sales from 200,000 to 1 million.[31]

A strong creative message can also break through visual clutter. Snickers out-of-home program used billboards and taxi-top signs with puns combining the brand's benefits and key locations, such as "Satisflying" at the airport, "Transfer to the Ate Train" in the subway, and "Snackonomics" on cabs in Wall Street.[32]

Public Spaces Advertisers have been increasingly placing ads in unconventional places such as on movie screens, on airplanes, and in fitness clubs, as well as in classrooms, sports arenas, office and hotel elevators, and other public places.[33] Billboard-type poster ads are showing up everywhere. Transit ads on buses, subways, and commuter trains—around for years—have become a valuable way to reach working women. "Street furniture"—bus shelters, kiosks, and public areas—is another fast-growing option.

Advertisers can buy space in stadiums and arenas and on garbage cans, bicycle racks, parking meters, airport luggage carousels, elevators, gasoline pumps, the bottom of golf cups and swimming pools, airline snack packages, and supermarket produce in the form of tiny labels on apples and bananas. They can even buy space in toilet stalls and above urinals which, according to one

Snickers uses clever taxi-top signs to increase its brand salience.

research study, office workers visit an average of three to four times a day for roughly four minutes per visit.[34]

Product Placement Marketers pay product placement fees of $100,000 to as much as $500,000 so their products will make cameo appearances in movies and on television.[35] Sometimes placements are the result of a larger network advertising deal, but other times they are the work of small product-placement shops that maintain ties with prop masters, set designers, and production executives. Some firms get product placement at no cost by supplying their product to the movie company (Nike does not pay to be in movies but often supplies shoes, jackets, bags, and so on). Increasingly, products and brands are being woven directly into the story.[36]

Staples and *The Office*

Staples and *The Office* When Staples introduced a new $69.99 paper-shredding device called the MailMate in 2006, the company struck a two-episode deal with NBC's popular television program, *The Office*. In the first episode, the character Kevin Malone was given the responsibility of shredding paper with the MailMate; in the second, another character, Dwight Schrute, took a job at Staples. The writers and producers of the show tried to accommodate Staples' marketing objectives for the product as much as possible. To make sure the shredder looked small enough, it sat on Kevin's desk. To emphasize the shredder was sturdy, Kevin shredded not only paper but also his credit card. To emphasize that the shredder was available only at Staples, the episode closed with Kevin shredding lettuce and making it into a salad. When a colleague asked where he got the salad, he replied, "Staples."

Product placement is not immune to criticism as lawmakers increasingly criticize its stealth nature, threatening to force more explicit disclosure of participating advertisers.

Point of Purchase Chapter 16 discussed the importance of shopper marketing and in-store marketing efforts. The appeal of point-of-purchase advertising lies in the fact that in many product categories consumers make the bulk of their final brand decisions in the store, 74 percent according to one study.[37]

There are many ways to communicate with consumers at the **point of purchase** (**P-O-P**). In-store advertising includes ads on shopping carts, cart straps, aisles, and shelves, as well as promotion options such as in-store demonstrations, live sampling, and instant coupon machines.[38] Some supermarkets are selling floor space for company logos and experimenting with talking shelves. P-O-P radio provides FM-style programming and commercial messages to thousands of food stores and drugstores nationwide. Programming includes a store-selected music format, consumer tips, and commercials. Video screens in some stores allow for TV-type ads to be run.[39]

Walmart SMART Network

Walmart SMART Network One of the in-store advertising pioneers, Walmart, replaced its original Walmart TV with its new SMART network in 2008. The new TV network allows Walmart to monitor and control more than 27,000 individual screens in some 2,700 stores nationwide, reaching 160 million viewers every four weeks. Its "triple play" feature permits ads to be shown on a large welcome screen at the entrance of the store, a category screen in departments, and endcap screens on each aisle. Those highly visible endcap viewings are not cheap. Advertisers pay $325,000 for 30-second spots per two-week cycle in the grocery section and $650,000 per four-week run in the health and beauty aid department. Five-second ads running every two minutes for two weeks on the welcome screens cost advertisers $80,000, and 10-second spots running twice every six minutes on the full network cost $50,000 per week. By linking the time when ads were shown and when product sales were made, Walmart can estimate how much ads increase sales by department (from 7 percent in Electronics to 28 percent in Health & Beauty) and by product type (mature items increase by 7 percent, seasonal items by 18 percent).

EVALUATING ALTERNATE MEDIA Ads now can appear virtually anywhere consumers have a few spare minutes or even seconds to notice them. The main advantage of nontraditional media is that they can often reach a very precise and captive audience in a cost-effective manner. The message must be simple and direct. Outdoor advertising, for example, is often called the "15-second sell." It's more effective at enhancing brand awareness or brand image than creating new brand associations.

Unique ad placements designed to break through clutter may also be perceived as invasive and obtrusive, however. Consumer backlash often results when people see ads in traditionally ad-free spaces, such as in schools, on police cruisers, and in doctors' waiting rooms. Nevertheless, perhaps because of its sheer pervasiveness, some consumers seem to be less bothered by nontraditional media now than in the past.

The challenge for nontraditional media is demonstrating its reach and effectiveness through credible, independent research. Consumers must be favorably affected in some way to justify the marketing expenditures. But there will always be room for creative means of placing the brand in front of consumers, as occurred with McDonald's' alternate-reality game called "The Lost Ring."[40] "Marketing Insight: Playing Games with Brands" describes the role of gaming in marketing in general.

McDonald's and The Lost Ring

McDonald's and The Lost Ring As an official sponsor of the 2008 Beijing Olympics, McDonald's created a multipronged marketing effort. Looking to engage young adults immune to traditional media ploys, McDonald's, its marketing agency AKQA, and game developer Jane McGonigal created a global, multilingual alternate-reality game (ARG) called The Lost Ring. The Web-based game centered around Ariadne, a fictional amnesiac female Olympic athlete from a parallel universe, and united players around the world in an online quest to recover ancient Olympic secrets. Discreetly sponsored by McDonald's, the game began with 50 gaming bloggers receiving enigmatic packages on February 29, 2008 (Leap Day). The packages included an Olympic-themed poster from 1920 and other teasers with a clue to TheLostRing.com. Almost 3 million people in more than 100 countries eventually played the game, which ended August 24, 2008, the last day of the Olympics. The game received the Grand Prize in *Adweek*'s 2008 Buzz Awards.

Marketing Insight

Playing Games with Brands

More than half of U.S. adults age 18 and older play video games, and about one in five play every day or almost every day. Virtually all teens (97 percent) play video games. As many as 40 percent of gamers are women. Women seem to prefer puzzles and collaborative games, whereas men seem more attracted to competitive or simulation games. Given this explosive popularity, many advertisers have decided, "if you can't beat them, join them."

A top-notch "advergame" can cost between $100,000 and $500,000 to develop. The game can be played on the sponsor's corporate homepage, on gaming portals, or even on public locations such as at restaurants. 7-Up, McDonald's, and Porsche have all been featured in games. Honda developed a game that allowed players to choose a Honda and zoom around city streets plastered with Honda logos. In the first three months, 78,000 people played for an average of eight minutes each. The game's cost per thousand (CPM) of $7 compared favorably to a prime-time TV commercial's CPM of $11.65. Marketers collect valuable customer data upon registration and often seek permission to send e-mail. Of game players sponsored by Ford Escape SUV, 54 percent signed up to receive e-mail.

Marketers are also playing starring roles in popular video games. In multiplayer Test Drive Unlimited, players can take a break from the races to go shopping, where they can encounter at least 10 real-world brands such as Lexus and Hawaiian Airlines. Tomb Raider's Lara Craft tools around in a Jeep Commander. Mainstream marketers such as Apple, Procter & Gamble, Toyota, and Visa are all jumping on board. Overall, research suggests that gamers are fine with ads and the way they affect the game experience. One study showed that 70 percent of gamers felt dynamic in-game ads "contributed to realism," "fit the games" in which they served, and looked "cool."

Sources: "In-Game Advertising Research Proves Effectiveness for Brands across Categories and Game Titles," www.microsoft.com, June 3, 2008; Amanda Lenhart, "Video Games: Adults Are Players Too," Pew Internet & American Life Project, www.pewresearch.org, December 7, 2008; "Erika Brown, "Game On!" *Forbes*, July 24, 2006, pp. 84–86; David Radd, "Advergaming: You Got It," *BusinessWeek*, October 11, 2006; Stuart Elliott, "Madison Avenue's Full-Court Pitch to Video Gamers," *New York Times*, October 16, 2005.

Selecting Specific Media Vehicles

The media planner must search for the most cost-effective vehicles within each chosen media type. The advertiser who decides to buy 30 seconds of advertising on network television can pay around $100,000 for a new show, over $300,000 for a popular prime-time show such as *Sunday Night Football, American Idol, Grey's Anatomy*, or *Desperate Housewives*, or over $2.5 million for an event such as the Super Bowl.[41] These choices are critical: The average cost to produce a national 30-second television commercial in 2007 was about $342,000.[42] It can cost as much to run an ad once on network TV as to create and produce the ad to start with!

In making choices, the planner must rely on measurement services that estimate audience size, composition, and media cost. Media planners then calculate the cost per thousand persons reached by a vehicle. A full-page, four-color ad in *Sports Illustrated* cost approximately $350,000 in 2010. If *Sports Illustrated*'s estimated readership was 3.15 million people, the cost of exposing the ad to 1,000 persons is approximately $11.20. The same ad in *Time* cost approximately $500,000, but reached 4.25 million people—at a higher cost-per-thousand of $11.90.

The media planner ranks each magazine by cost per thousand and favors magazines with the lowest cost per thousand for reaching target consumers. The magazines themselves often put together a "reader profile" for their advertisers, describing average readers with respect to age, income, residence, marital status, and leisure activities.

Marketers need to apply several adjustments to the cost-per-thousand measure. First, they should adjust for *audience quality.* For a baby lotion ad, a magazine read by 1 million young mothers has an exposure value of 1 million; if read by 1 million teenagers, it has an exposure value of almost zero. Second, adjust the exposure value for the *audience-attention probability.* Readers of *Vogue* may pay more attention to ads than do readers of *Newsweek.*[43] Third, adjust for the medium's *editorial quality* (prestige and believability). People are more likely to believe a TV or radio ad and to become more positively disposed toward the brand when the ad is placed within a program they like.[44] Fourth, consider *ad placement policies and extra services* (such as regional or occupational editions and lead-time requirements for magazines).

Media planners are using more sophisticated measures of effectiveness and employing them in mathematical models to arrive at the best media mix. Many advertising agencies use software programs to select the initial media and make improvements based on subjective factors.[45]

Deciding on Media Timing and Allocation

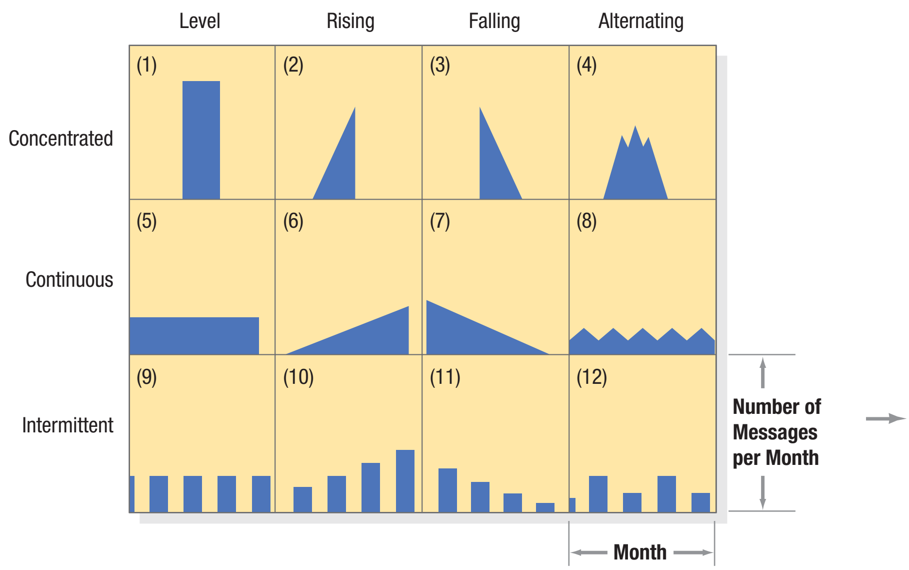
In choosing media, the advertiser has both a macroscheduling and a microscheduling decision. The *macroscheduling decision* relates to seasons and the business cycle. Suppose 70 percent of a product's sales occur between June and September. The firm can vary its advertising expenditures to follow the seasonal pattern, to oppose the seasonal pattern, or to be constant throughout the year.

The *microscheduling decision* calls for allocating advertising expenditures within a short period to obtain maximum impact. Suppose the firm decides to buy 30 radio spots in the month of September. Figure 18.3 shows several possible patterns. The left side shows that advertising messages for the month can be concentrated ("burst" advertising), dispersed continuously throughout the month, or dispersed intermittently. The top side shows that the advertising messages can be beamed with a level, rising, falling, or alternating frequency.

The chosen pattern should meet the communications objectives set in relationship to the nature of the product, target customers, distribution channels, and other marketing factors. The timing pattern should consider three factors. *Buyer turnover* expresses the rate at which new buyers enter the market; the higher this rate, the more continuous the advertising should be. *Purchase frequency* is the number of times the average buyer buys the product during the period; the higher the purchase frequency, the more continuous the advertising should be. The *forgetting rate* is the rate at which the buyer forgets the brand; the higher the forgetting rate, the more continuous the advertising should be.

In launching a new product, the advertiser must choose among continuity, concentration, flighting, and pulsing.

- ***Continuity*** means exposures appear evenly throughout a given period. Generally, advertisers use continuous advertising in expanding market situations, with frequently purchased items, and in tightly defined buyer categories.
- ***Concentration*** calls for spending all the advertising dollars in a single period. This makes sense for products with one selling season or related holiday.
- ***Flighting*** calls for advertising during a period, followed by a period with no advertising, followed by a second period of advertising activity. It is useful when funding is limited, the purchase cycle is relatively infrequent, or items are seasonal.
- ***Pulsing*** is continuous advertising at low-weight levels, reinforced periodically by waves of heavier activity. It draws on the strength of continuous advertising and flights to create a compromise scheduling strategy.[46] Those who favor pulsing believe the audience will learn the message more thoroughly, and at a lower cost to the firm.

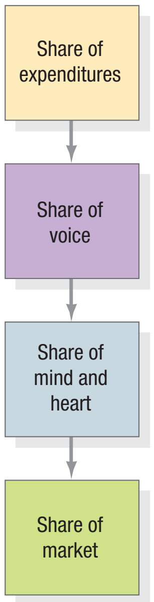


|Fig. 18.3|

Classification of Advertising Timing Patterns

TABLE 18.2 Advertising Pretest Research Techniques
For Print Ads Starch and Gallup & Robinson Inc. are two widely used print pretesting services. Test ads are placed in magazines, which are then circulated to consumers. These consumers are contacted later and interviewed. Recall and recognition tests are used to determine advertising effectiveness.
For Broadcast Ads ***In-home tests:*** A video is taken or downloaded into the homes of target consumers, who then view the commercials.
Trailer tests: In a trailer in a shopping center, shoppers are shown the products and given an opportunity to select a series of brands. They then view commercials and are given coupons to be used in the shopping center. Redemption rates indicate commercials' influence on purchase behavior.
Theater tests: Consumers are invited to a theater to view a potential new television series along with some commercials. Before the show begins, consumers indicate preferred brands in different categories; after the viewing, consumers again choose preferred brands. Preference changes measure the commercials' persuasive power.
On-air tests: Respondents are recruited to watch a program on a regular TV channel during the test commercial or are selected based on their having viewed the program. They are asked questions about commercial recall.

A company must decide how to allocate its advertising budget over space as well as over time. The company makes "national buys" when it places ads on national TV networks or in nationally circulated magazines. It makes "spot buys" when it buys TV time in just a few markets or in regional editions of magazines. These markets are called *areas of dominant influence* (ADIs) or *designated marketing areas* (DMAs). The company makes "local buys" when it advertises in local newspapers, radio, or outdoor sites.



|Fig. 18.4|

Formula for Measuring Different Stages in the Sales Impact of Advertising

Evaluating Advertising Effectiveness

Most advertisers try to measure the communication effect of an ad—that is, its potential impact on awareness, knowledge, or preference. They would also like to measure the ad's sales effect.

COMMUNICATION-EFFECT RESEARCH **Communication-effect research**, called *copy testing*, seeks to determine whether an ad is communicating effectively. Marketers should perform this test both before an ad is put into media and after it is printed or broadcast. Table 18.2 describes some specific advertising pretest research techniques.

Pretest critics maintain that agencies can design ads that test well but may not necessarily perform well in the marketplace. Proponents maintain that useful diagnostic information can emerge and that pretests should not be used as the sole decision criterion anyway. Widely acknowledged as one of the best advertisers around, Nike is notorious for doing very little ad pretesting.

Many advertisers use posttests to assess the overall impact of a completed campaign. If a company hoped to increase brand awareness from 20 percent to 50 percent and succeeded in increasing it to only 30 percent, then the company is not spending enough, its ads are poor, or it has overlooked some other factor.

SALES-EFFECT RESEARCH What sales are generated by an ad that increases brand awareness by 20 percent and brand preference by 10 percent? The fewer or more controllable other factors such as features and price are, the easier it is to measure advertising's effect on sales. The sales impact is easiest to measure in direct marketing situations and hardest in brand or corporate image-building advertising.

Companies are generally interested in finding out whether they are overspending or underspending on advertising. One way to answer this question is to work with the formulation shown in Figure 18.4.

A company's *share of advertising expenditures* produces a *share of voice* (proportion of company advertising of that product to all advertising of that product) that earns a *share of consumers' minds and hearts* and, ultimately, a *share of market.*

Researchers try to measure the sales impact by analyzing historical or experimental data. The *historical approach* correlates past sales to past advertising expenditures using advanced statistical techniques.[47] Other researchers use an *experimental design* to measure advertising's sales impact.

A growing number of researchers are striving to measure the sales effect of advertising expenditures instead of settling for communication-effect measures.[48] Millward Brown International has conducted tracking studies for years to help advertisers decide whether their advertising is benefiting their brand.[49]

Sales Promotion

Sales promotion, a key ingredient in marketing campaigns, consists of a collection of incentive tools, mostly short term, designed to stimulate quicker or greater purchase of particular products or services by consumers or the trade.[50]

Whereas advertising offers a *reason* to buy, sales promotion offers an *incentive*. Sales promotion includes tools for *consumer promotion* (samples, coupons, cash refund offers, prices off, premiums, prizes, patronage rewards, free trials, warranties, tie-in promotions, cross-promotions, point-of-purchase displays, and demonstrations), *trade promotion* (prices off, advertising and display allowances, and free goods), and *business* and *sales force promotion* (trade shows and conventions, contests for sales reps, and specialty advertising).

Objectives

Sales promotion tools vary in their specific objectives. A free sample stimulates consumer trial, whereas a free management-advisory service aims at cementing a long-term relationship with a retailer.

Sellers use incentive-type promotions to attract new triers, to reward loyal customers, and to increase the repurchase rates of occasional users. Sales promotions often attract brand switchers, who are primarily looking for low price, good value, or premiums. If some of them would not have otherwise tried the brand, promotion can yield long-term increases in market share.[51]

Sales promotions in markets of high brand similarity can produce a high sales response in the short run but little permanent gain in brand preference over the longer term. In markets of high brand dissimilarity, they may be able to alter market shares permanently. In addition to brand switching, consumers may engage in stockpiling—purchasing earlier than usual (purchase acceleration) or purchasing extra quantities. But sales may then hit a postpromotion dip.[52]

Advertising versus Promotion

Sales promotion expenditures increased as a percentage of budget expenditure for a number of years, although its growth has recently slowed. Several factors contributed to this growth, particularly in consumer markets. Promotion became more accepted by top management as an effective sales tool, the number of brands increased, competitors used promotions frequently, many brands were seen as similar, consumers became more price-oriented, the trade demanded more deals from manufacturers, and advertising efficiency declined.

But the rapid growth of sales promotion created clutter. Consumers began to tune out promotions: Coupon redemption peaked in 1992 at 7.9 billion coupons redeemed but dropped to 2.6 billion by 2008. Incessant price reductions, coupons, deals, and premiums can also devalue the product in buyers' minds. There is a risk in putting a well-known brand on promotion over 30 percent of the time. Having turned to 0 percent financing, hefty cash rebates, and special lease programs to ignite sales in the soft post-9/11 economy, auto manufacturers have found it difficult to wean consumers from discounts ever since.[53]

Loyal brand buyers tend not to change their buying patterns as a result of competitive promotions. Advertising appears to be more effective at deepening brand loyalty, although we can distinguish added-value promotions from price promotions.[54] Gain's "Love at First Sniff" campaign used direct mail and in-store scented tear-pads and ShelfVision TV to entice consumers to smell the product, resulting in an almost 500 percent increase in shipments over the goal.[55]

Price promotions may not build permanent total-category volume. One study of more than 1,000 promotions concluded that only 16 percent paid off.[56] Small-share competitors may find it advantageous to use sales promotion, because they cannot afford to match the market leaders' large advertising budgets, nor can they obtain shelf space without offering trade allowances or stimulate consumer trial without offering incentives. Dominant brands offer deals less frequently, because most deals subsidize only current users.

The upshot is that many consumer-packaged-goods companies feel forced to use more sales promotion than they wish. They blame heavy use of sales promotion for decreased brand loyalty, increased price sensitivity, brand-quality image dilution, and a focus on short-run marketing planning. One review of promotion effectiveness concluded, "When the strategic disadvantages of promotions are included, that is, losing control to the trade and training consumers to buy only on deal, the case is compelling for a reevaluation of current practices and the incentive systems responsible for this trend."[57]

Major Decisions

In using sales promotion, a company must establish its objectives, select the tools, develop the program, pretest the program, implement and control it, and evaluate the results.

ESTABLISHING OBJECTIVES Sales promotion objectives derive from broader communication objectives, which derive from more basic marketing objectives for the product. For consumers, objectives include encouraging purchase of larger-sized units, building trial among nonusers, and attracting switchers away from competitors' brands. Ideally, promotions with consumers would have short-run sales impact as well as long-run brand equity effects.[58] For retailers, objectives include persuading retailers to carry new items and higher levels of inventory, encouraging off-season buying, encouraging stocking of related items, offsetting competitive promotions, building brand loyalty, and gaining entry into new retail outlets. For the sales force, objectives include encouraging support of a new product or model, encouraging more prospecting, and stimulating off-season sales.[59]

SELECTING CONSUMER PROMOTION TOOLS The promotion planner should take into account the type of market, sales promotion objectives, competitive conditions, and each tool's cost-effectiveness. The main consumer promotion tools are summarized in Table 18.3. *Manufacturer promotions* are, for instance in the auto industry, rebates, gifts to motivate test-drives and purchases, and high-value trade-in credit. *Retailer promotions* include price cuts, feature advertising, retailer coupons, and retailer contests or premiums.[60]

We can also distinguish between sales promotion tools that are *consumer franchise building* and those that are not. The former impart a selling message along with the deal, such as free samples, frequency awards, coupons when they include a selling message, and premiums when they are related to the product. Sales promotion tools that typically are *not* brand building include price-off packs, consumer premiums not related to a product, contests and sweepstakes, consumer refund offers, and trade allowances.

Consumer franchise-building promotions offer the best of both worlds—they build brand equity while moving product. Sampling has gained popularity in recent years—companies such as McDonald's, Dunkin' Donuts, and Starbucks have given away millions of samples of their new products—because consumers like them and they often lead to higher long-term sales for quality products.[61]

Digital coupons eliminate printing costs, reduce paper waste, are easily updatable, and have higher redemption rates. Coupons.com receives almost 5 million unique visitors a month for money-saving deals. Almost 2 million consumers visit CoolSavings.com each month for money-saving coupons and offers from name brands, as well as helpful tips and articles, newsletters, free recipes, sweepstakes, free trials, free samples, and more. Electronic coupons can arrive by cell phone, Twitter, e-mail, or Facebook.[62]

SELECTING TRADE PROMOTION TOOLS Manufacturers use a number of trade promotion tools (see Table 18.4).[63] Manufacturers award money to the trade (1) to persuade the retailer or wholesaler to carry the brand; (2) to persuade the retailer or wholesaler to carry more units than the normal amount; (3) to induce retailers to promote the brand by featuring, display, and price reductions; and (4) to stimulate retailers and their sales clerks to push the product.

The growing power of large retailers has increased their ability to demand trade promotion at the expense of consumer promotion and advertising.[64] The company's sales force and its brand

TABLE 18.3	Major Consumer Promotion Tools
Samples: Offer of a free amount of a product or service delivered door-to-door, sent in the mail, picked up in a store, attached to another product, or featured in an advertising offer.	
Coupons: Certificates entitling the bearer to a stated saving on the purchase of a specific product: mailed, enclosed in other products or attached to them, or inserted in magazine and newspaper ads.	
Cash Refund Offers (rebates): Provide a price reduction after purchase rather than at the retail shop: Consumer sends a specified "proof of purchase" to the manufacturer who "refunds" part of the purchase price by mail.	
Price Packs (cents-off deals): Offers to consumers of savings off the regular price of a product, flagged on the label or package. A *reduced-price pack* is a single package sold at a reduced price (such as two for the price of one). A *banded pack* is two related products banded together (such as a toothbrush and toothpaste).	
Premiums (gifts): Merchandise offered at a relatively low cost or free as an incentive to purchase a particular product. A *with-pack premium* accompanies the product inside or on the package. A *free in-the-mail premium* is mailed to consumers who send in a proof of purchase, such as a box top or UPC code. A *self-liquidating premium* is sold below its normal retail price to consumers who request it.	
Frequency Programs: Programs providing rewards related to the consumer's frequency and intensity in purchasing the company's products or services.	
Prizes (contests, sweepstakes, games): *Prizes* are offers of the chance to win cash, trips, or merchandise as a result of purchasing something. A *contest* calls for consumers to submit an entry to be examined by a panel of judges who will select the best entries. A *sweepstakes* asks consumers to submit their names in a drawing. A *game* presents consumers with something every time they buy—bingo numbers, missing letters—which might help them win a prize.	
Patronage Awards: Values in cash or in other forms that are proportional to patronage of a certain vendor or group of vendors.	
Free Trials: Inviting prospective purchasers to try the product without cost in the hope that they will buy.	
Product Warranties: Explicit or implicit promises by sellers that the product will perform as specified or that the seller will fix it or refund the customer's money during a specified period.	
Tie-in Promotions: Two or more brands or companies team up on coupons, refunds, and contests to increase pulling power.	
Cross-Promotions: Using one brand to advertise another noncompeting brand.	
Point-of-Purchase (P-O-P) Displays and Demonstrations: P-O-P displays and demonstrations take place at the point of purchase or sale.	

TABLE 18.4	Major Trade Promotion Tools
Price-Off (off-invoice or off-list): A straight discount off the list price on each case purchased during a stated time period.	
Allowance: An amount offered in return for the retailer's agreeing to feature the manufacturer's products in some way. An *advertising allowance* compensates retailers for advertising the manufacturer's product. A *display allowance* compensates them for carrying a special product display.	
Free Goods: Offers of extra cases of merchandise to intermediaries who buy a certain quantity or who feature a certain flavor or size.	

Reflecting changes in consumer behavior, digital coupons such as these, available at Coupons.com, have grown in importance.

managers are often at odds over trade promotion. The sales force says local retailers will not keep the company's products on the shelf unless they receive more trade promotion money, whereas brand managers want to spend their limited funds on consumer promotion and advertising.

Manufacturers face several challenges in managing trade promotions. First, they often find it difficult to police retailers to make sure they are doing what they agreed to do. Manufacturers increasingly insist on proof of performance before paying any allowances. Second, some retailers are doing *forward buying*—that is, buying a greater quantity during the deal period than they can immediately sell. Retailers might respond to a 10 percent-off-case allowance by buying a 12-week or longer supply. The manufacturer must then schedule more production than planned and bear the costs of extra work shifts and overtime. Third, some retailers are *diverting*, buying more cases than needed in a region where the manufacturer offers a deal and shipping the surplus to their stores in nondeal regions. Manufacturers handle forward buying and diverting by limiting the amount they will sell at a discount, or by producing and delivering less than the full order in an effort to smooth production.[65]

Ultimately, many manufacturers feel trade promotion has become a nightmare. It contains layers of deals, is complex to administer, and often leads to lost revenues.

SELECTING BUSINESS AND SALES FORCE PROMOTION TOOLS Companies spend billions of dollars on business and sales force promotion tools (see Table 18.5) to gather leads, impress and reward customers, and motivate the sales force.[66] They typically develop budgets for tools that remain fairly constant from year to year. For many new businesses that want to make a splash to a targeted audience, especially in the B2B world, trade shows are an important tool, but the cost per contact is the highest of all communication options.

DEVELOPING THE PROGRAM In planning sales promotion programs, marketers are increasingly blending several media into a total campaign concept, such as the following award-winning promotion.[67]

Oreo Double Stuf Promotion

Oreo Double Stuf Promotion Winner of the Promotional Marketing Association's Super Reggie award for best integrated marketing program of 2008, Kraft's Oreo Double Stuf Racing League promotion cleverly capitalized on the images of professional athlete siblings. In its teaser launch ad, NFL star quarterback brothers Peyton and Eli

TABLE 18.5 Major Business and Sales Force Promotion Tools

Trade Shows and Conventions: Industry associations organize annual trade shows and conventions. Trade shows are an $11.5 billion business, and business marketers may spend as much as 35 percent of their annual promotion budget on trade shows. Trade show attendance can range from a few thousand people to over 70,000 for large shows held by the restaurant or hotel-motel industries. The International Consumer Electronics Show is one of the largest trade shows in the world with more than 200,000 attendees in 2009. Participating vendors expect several benefits, including generating new sales leads, maintaining customer contacts, introducing new products, meeting new customers, selling more to present customers, and educating customers with publications, videos, and other audiovisual materials.
Sales Contests: A sales contest aims at inducing the sales force or dealers to increase their sales results over a stated period, with prizes (money, trips, gifts, or points) going to those who succeed.
Specialty Advertising: Specialty advertising consists of useful, low-cost items bearing the company's name and address, and sometimes an advertising message that salespeople give to prospects and customers. Common items are ballpoint pens, calendars, key chains, flashlights, tote bags, and memo pads.

Manning announced they were officially becoming two-sport competitors. A follow-up ad with the brothers revealed that the classic "split and lick" ritual with Oreo cookies was becoming a professional sport. The Mannings encouraged the public to join the league and to enter a sweepstakes that would award 10 winners a three-day trip to New Orleans to take part in a Double Stuf Lick Race (DSLR) competition and compete for a $10,000 prize. Kraft promoted the DSLR sweepstakes by placing the image of the Mannings on 15 million Oreo packages and setting up in-store and point-of-purchase displays. An instant-win game on the Web site gave visitors a chance to earn one of 2,000 DSLR "training kits," including a cooler, two glasses, and a branded jersey. Professional tennis star sisters Serena and Venus Williams later appeared in a second round of ads, challenging the Mannings to cookie-licking supremacy in what was billed as the "ultimate sibling rivalry."

In deciding to use a particular incentive, marketers must first determine its *size*. A certain minimum is necessary if the promotion is to succeed. Second, the marketing manager must establish *conditions* for participation. Incentives might be offered to everyone or to select groups. Third, the marketer must decide on the *duration* of the promotion. Fourth, the marketer must choose a *distribution vehicle.* A 15-cents-off coupon can be distributed in the product package, in stores, by mail, online, or in advertising. Fifth, the marketing manager must establish the *timing* of promotion, and finally, the *total sales promotion budget.* The cost of a particular promotion consists of the administrative cost (printing, mailing, and promoting the deal) and the incentive cost (cost of premium or cents-off, including redemption costs), multiplied by the expected number of units sold. The cost of a coupon deal would recognize that only a fraction of consumers will redeem the coupons.

IMPLEMENTING AND EVALUATING THE PROGRAM Marketing managers must prepare implementation and control plans that cover lead time and sell-in time for each individual promotion. *Lead time* is the time necessary to prepare the program prior to launching it.[68] *Sell-in time* begins with the promotional launch and ends when approximately 95 percent of the deal merchandise is in the hands of consumers.

Manufacturers can evaluate the program using sales data, consumer surveys, and experiments. Sales (scanner) data helps analyze the types of people who took advantage of the promotion, what they bought before the promotion, and how they behaved later toward the brand and other brands. Sales promotions work best when they attract competitors' customers who then switch. *Consumer surveys* can uncover how many consumers recall the promotion, what they thought of it, how many took advantage of it, and how the promotion affected subsequent brand-choice behavior.[69] *Experiments* vary such attributes as incentive value, duration, and distribution media. For example, coupons can be sent to half the households in a consumer panel. Scanner data can track whether the coupons led more people to buy the product and when.

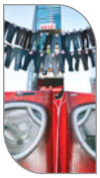
Additional costs beyond the cost of specific promotions include the risk that promotions might decrease long-run brand loyalty. Second, promotions can be more expensive than they appear. Some are inevitably distributed to the wrong consumers. Third are the costs of special production runs, extra sales force effort, and handling requirements. Finally, certain promotions irritate retailers, who may demand extra trade allowances or refuse to cooperate.

Events and Experiences

The IEG Sponsorship Report projected that $17.1 billion would be spent on sponsorships in North America during 2010, with 68 percent going to sports; another 10 percent to entertainment tours and attractions; 5 percent to festivals, fairs, and annual events; 5 percent to the arts; 3 percent to associations and membership organizations; and 9 percent to cause marketing.[70] Becoming part of a personally relevant moment in consumers' lives through events and experiences can broaden and deepen a company or brand's relationship with the target market.

Daily encounters with brands may also affect consumers' brand attitudes and beliefs. *Atmospheres* are "packaged environments" that create or reinforce leanings toward product purchase. Law offices decorated with Oriental rugs and oak furniture communicate "stability" and "success."[71] A five-star hotel will use elegant chandeliers, marble columns, and other tangible signs of luxury. Many firms are creating on-site and off-site product and brand experiences. There is Everything Coca-Cola in Las Vegas and M&M World in Times Square in New York.[72]

Many firms are creating their own events and experiences to create consumer and media interest and involvement. To showcase its international reach and upgrades in seating, food, and beverage, Delta Airlines created a temporary SKY360 pop-up retail lounge on West 57th Street in Manhattan. The lounge featured samples of wine and food items from chef Todd English to eat and drink, comfortable leather seats found in coach to sit in, and the seat-back entertainment system to listen to.[73] Given its central business location for the media industry, Manhattan is the site of many events and experiences.[74]



GE Profile To promote its new GE Profile Frontload Washer and Dryer with SmartDispense Technology—designed to optimize the amount of detergent used in any one wash—GE used traditional online and mass media. To create even more buzz, the firm hung 800 feet of jeans and shirts on a massive clothesline in Times Square to represent the six months' worth of washing the new machines could typically handle before needing more detergent. On one of the traffic islands were 20-foot-high inflatable versions of the new washer/dryer. A live celebrity auction to benefit the nonprofit Clothes Off Our Back Foundation was hosted by television mom Alison Sweeney. A small army of 20 representatives handing out product-related goodies (such as bottles of water and coloring books shaped like the appliance's door) added to the spectacle. GE also ran an online promotion. All these efforts combined to attract 150,000 entrants to a washer/dryer giveaway contest.

A major Times Square event to support the launch of a new line of GE Profile washers and dryers was part of an extensive integrated marketing communications program.

Events Objectives

Marketers report a number of reasons to sponsor events:

1. ***To identify with a particular target market or lifestyle***—Customers can be targeted geographically, demographically, psychographically, or behaviorally according to events. Old Spice sponsors college sports and motor sports—including a 10-year deal with driver Tony Stewart's entries in the Nextel Cup and Busch Series—to highlight product relevance and sample among its target audience of 16- to 24-year-old males.[75]
2. ***To increase salience of company or product name***—Sponsorship often offers sustained exposure to a brand, a necessary condition to reinforce brand salience. Top-of-mind awareness for World Cup soccer sponsors such as Emirates, Hyundai, Kia, and Sony benefited from the repeated brand and ad exposure over the one month–long tournament.

3. ***To create or reinforce perceptions of key brand image associations***—Events themselves have associations that help to create or reinforce brand associations.[76] To toughen its image and appeal to America's heartland, Toyota Tundra elected to sponsor B.A.S.S. fishing tournaments and a Brooks & Dunn country music tour.
4. ***To enhance corporate image***—Sponsorship can improve perceptions that the company is likable and prestigious. Although Visa views its long-standing Olympic sponsorship as a means of enhancing international brand awareness and increasing usage and volume, it also engenders patriotic goodwill and taps into the emotional Olympic spirit.[77]
5. ***To create experiences and evoke feelings***—The feelings engendered by an exciting or rewarding event may indirectly link to the brand. Audi models featured prominently in the 2010 blockbuster *Iron Man 2*, including main character Tony Stark's personal R8 Spyder, the A8, Q5 and Q7 SUVs, and A3 hatchback. Backed by a month-long marketing blitz, surveys revealed that positive word of mouth doubled for the brand.[78]
6. ***To express commitment to the community or on social issues***—Cause-related marketing sponsors nonprofit organizations and charities. Firms such as Timberland, Stonyfield Farms, Home Depot, Starbucks, American Express, and Tom's of Maine have made cause-related marketing an important cornerstone of their marketing programs.
7. ***To entertain key clients or reward key employees***—Many events include lavish hospitality tents and other special services or activities only for sponsors and their guests. These perks engender goodwill and establish valuable business contacts. From an employee perspective, events can also build participation and morale or serve as an incentive. BB&T Corp., a major banking and financial services player in the South and Southeast United States, used its NASCAR Busch Series sponsorship to entertain business customers and its minor league baseball sponsorship to generate excitement among employees.[79]
8. ***To permit merchandising or promotional opportunities***—Many marketers tie contests or sweepstakes, in-store merchandising, direct response, or other marketing activities with an event. Ford, Coca-Cola, and AT&T Mobility have all used their sponsorship of the hit TV show *American Idol* in this way.

Despite these potential advantages, the result of an event can still be unpredictable and beyond the sponsor's control. Although many consumers will credit sponsors for providing the financial assistance to make an event possible, some may resent the commercialization of events.

Major Sponsorship Decisions

Making sponsorships successful requires choosing the appropriate events, designing the optimal sponsorship program, and measuring the effects of sponsorship.[80]

CHOOSING EVENTS Because of the number of opportunities and their huge cost, many marketers are becoming more selective about choosing sponsorship events.

The event must meet the marketing objectives and communication strategy defined for the brand. The audience must match the target market. The event must have sufficient awareness, possess the desired image, and be capable of creating the desired effects. Consumers must make favorable attributions for the sponsor's engagement. An ideal event is also unique but not encumbered with many sponsors, lends itself to ancillary marketing activities, and reflects or enhances the sponsor's brand or corporate image.[81]

DESIGNING SPONSORSHIP PROGRAMS Many marketers believe the marketing program accompanying an event sponsorship ultimately determines its success. At least two to three times the amount of the sponsorship expenditure should be spent on related marketing activities.

Event creation is a particularly important skill in publicizing fund-raising drives for nonprofit organizations. Fund-raisers have developed a large repertoire of special events, including anniversary celebrations, art exhibits, auctions, benefit evenings, book sales, cake sales, contests, dances, dinners, fairs, fashion shows, phonathons, rummage sales, tours, and walkathons.

More firms are now using their names to sponsor arenas, stadiums, and other venues that hold events. Billions of dollars have been spent over the past decade for naming rights to major North American sports facilities. But as with any sponsorship, the most important consideration is the additional marketing activities.[82]

MEASURING SPONSORSHIP ACTIVITIES It's a challenge to measure the success of events. The *supply-side* measurement method focuses on potential exposure to the brand by assessing the extent of media coverage, and the *demand-side* method focuses on exposure reported by consumers. "Marketing Memo: Measuring High Performance Sponsorship Programs" offers some guidelines critical to issues of sponsorship measurement from industry experts IEG.

Supply-side methods approximate the amount of time or space devoted to media coverage of an event, for example, the number of seconds the brand is clearly visible on a television screen or the column inches of press clippings that mention it. These potential "impressions" translate into a value equivalent to the dollar cost of actually advertising in the particular media vehicle. Some industry consultants have estimated that 30 seconds of TV logo exposure during a televised event can be worth 6 percent, 10 percent, or as much as 25 percent of a 30-second TV ad spot.

Although supply-side exposure methods provide quantifiable measures, equating media coverage with advertising exposure ignores the content of the respective communications. The advertiser uses media space and time to communicate a strategically designed message. Media coverage and telecasts only expose the brand and don't necessarily embellish its meaning in any direct way. Although some public relations professionals maintain that positive editorial coverage can be worth 5 to 10 times the equivalent advertising value, sponsorship rarely provides such favorable treatment.[83]

The **demand-side method** identifies the effect sponsorship has on consumers' brand knowledge. Marketers can survey event spectators to measure recall of the event as well as resulting attitudes and intentions toward the sponsor.

Creating Experiences

A large part of local, grassroots marketing is experiential marketing, which not only communicates features and benefits but also connects a product or service with unique and interesting experiences. "The idea is not to sell something, but to demonstrate how a brand can enrich a customer's life."[84]

marketing Memo — Measuring High Performance Sponsorship Programs

1. *Measure outcomes, not outputs.* Focus on what a sponsorship actually produced rather than what a sponsor got or did—rather than focus on 5,000 people sampled at an event, how many of those people would be classified as members of the target market and what is the likely conversion rate between their trial and future behaviors?
2. *Define and benchmark objectives on the front end.* Specific objectives help to identify what measures should be tracked. An objective of motivating the sales force and distributors suggests different measures than one of building brand image and key brand benefits. Contrast measures in terms of sponsorship effects and what might have happened if the sponsorship had not occurred.
3. *Measure return for each objective against prorated share of rights and activation fees.* Rank and rate objectives by importance and allocate the total sponsorship budget against each of those objectives.
4. *Measure behavior.* Conduct a thorough sales analysis to identify shifts in marketplace behavior as a result of the sponsorship.
5. *Apply the assumptions and ratios used by other departments within the company.* Applying statistical methods used by other departments makes it easier to gain acceptance for any sponsorship analysis.
6. *Research the emotional identities of customers and measure the results of emotional connections.* In what ways does a sponsorship psychologically affect consumers and facilitate and deepen long-term loyalty relationships?
7. *Identify group norms.* How strong of a community exists around the sponsored event or participants? Are their formal groups that share interests that will be impacted by the sponsorship?
8. *Include cost savings in ROI calculations.* Contrast expenses that a firm has typically incurred in the past achieving a particular objective from those expenses allocated to achieve the objective as part of the sponsorship.
9. *Slice the data.* Sponsorship affects market segments differently. Breaking down a target market into smaller segments can better identify sponsorship effects.
10. *Capture normative data.* Develop a core set of evaluation criteria that can be applied across all different sponsorship programs.

Source: "Measuring High Performance Sponsorship Programs," IEG Executive Brief, IEG Sponsorship Consulting, www.sponsorship.com, 2009.

Consumers seem to appreciate that. In one survey, four of five respondents found participating in a live event was more engaging than all other forms of communication. The vast majority also felt experiential marketing gave them more information than other forms of communication and would make them more likely to tell others about participating in the event and to be receptive to other marketing for the brand.[85]

Companies can even create a strong image by inviting prospects and customers to visit their headquarters and factories. Ben & Jerry's, Boeing, Crayola, and Hershey's all sponsor excellent company tours that draw millions of visitors a year. Companies such as Hallmark, Kohler, and Beiersdorf (makers of NIVEA) have built corporate museums at or near their headquarters that display their history and the drama of producing and marketing their products.

Crayola brings colorful fun to its company tours and visits.

Public Relations

Not only must the company relate constructively to customers, suppliers, and dealers, it must also relate to a large number of interested publics. A **public** is any group that has an actual or potential interest in or impact on a company's ability to achieve its objectives. **Public relations (PR)** includes a variety of programs to promote or protect a company's image or individual products.

The wise company takes concrete steps to manage successful relationships with its key publics. Most companies have a public relations department that monitors the attitudes of the organization's publics and distributes information and communications to build goodwill. The best PR departments counsel top management to adopt positive programs and eliminate questionable practices so negative publicity doesn't arise in the first place. They perform the following five functions:

1. ***Press relations***—Presenting news and information about the organization in the most positive light
2. ***Product publicity***—Sponsoring efforts to publicize specific products
3. ***Corporate communications***—Promoting understanding of the organization through internal and external communications
4. ***Lobbying***—Dealing with legislators and government officials to promote or defeat legislation and regulation
5. ***Counseling***—Advising management about public issues, and company positions and image during good times and bad

Marketing Public Relations

Many companies are turning to **marketing public relations (MPR)** to support corporate or product promotion and image making. MPR, like financial PR and community PR, serves a special constituency, the marketing department.

The old name for MPR was **publicity**, the task of securing editorial space—as opposed to paid space—in print and broadcast media to promote or "hype" a product, service, idea, place, person, or organization. MPR goes beyond simple publicity and plays an important role in the following tasks:

- ***Launching new products.*** The amazing commercial success of toys such as LeapFrog, Beanie Babies, and even the latest kids' craze, Silly Bandz, owes a great deal to strong publicity.
- ***Repositioning a mature product.*** In a classic PR case study, New York City had extremely bad press in the 1970s until the "I Love New York" campaign.
- ***Building interest in a product category.*** Companies and trade associations have used MPR to rebuild interest in declining commodities such as eggs, milk, beef, and potatoes and to expand consumption of such products as tea, pork, and orange juice.
- ***Influencing specific target groups.*** McDonald's sponsors special neighborhood events in Latino and African American communities to build goodwill.