- ***Defending products that have encountered public problems.*** PR professionals must be adept at managing crises, such as those weathered by such well-established brands as Tylenol, Toyota, and BP in 2010.
- ***Building the corporate image in a way that reflects favorably on its products.*** Steve Jobs's heavily anticipated Macworld keynote speeches have helped to create an innovative, iconoclastic image for Apple Corporation.

As the power of mass advertising weakens, marketing managers are turning to MPR to build awareness and brand knowledge for both new and established products. MPR is also effective in blanketing local communities and reaching specific groups and can be more cost-effective than advertising. Nevertheless, it must be planned jointly with advertising.[86]

Clearly, creative public relations can affect public awareness at a fraction of the cost of advertising. The company doesn't pay for media space or time but only for a staff to develop and circulate the stories and manage certain events. An interesting story picked up by the media can be worth millions of dollars in equivalent advertising. Some experts say consumers are five times more likely to be influenced by editorial copy than by advertising. The following is an example of an award-winning PR campaign.[87]

Man Lives in IKEA IKEA showed that a highly successful marketing campaign does not have to cost a lot of money if PR is properly employed. With its PR firm Ketchum, the company created the clever "Man Lives in IKEA" PR campaign. Using a budget of only $13,500, IKEA allowed comedian Mark Malkoff to live in an apartment in the Paramus, New Jersey, store from January 7 to 12, 2007, during which time he was allowed 24-hour access to film anything and everything. The campaign's goals included increasing sales, boosting traffic to IKEA-USA.com, and promoting two key brand messages: "IKEA has everything you need to live and make a home" and "Home is the most important place in the world." Ketchum and IKEA secured interviews with store executives and planned the week's schedule, which included a goodbye party featuring singer Lisa Loeb. Malkoff's team documented his interactions, including with security guards and customers relaxing in his "home," and posted 25 videos during the week. MarkLivesInIKEA.com received more than 15 million hits, and home-related IKEA blog coverage rose 356 percent from January 2007 to January 2008. IKEA calculated that the effort generated more than 382 million positive media impressions. Coverage highlights included the AP, *Today*, *Good Morning America*, and CNN. Sales at the Paramus store were up 5.5 percent compared to January 2007, while traffic to the IKEA Web site was up 6.8 percent.

In a clever PR campaign to reinforce its "everything for the home" brand message, a man lived in an IKEA store for almost a week, which many people heard about through the film crew following him for a short documentary on his Web site: http://www.marklivesinikea.com.

Major Decisions in Marketing PR

In considering when and how to use MPR, management must establish the marketing objectives, choose the PR messages and vehicles, implement the plan carefully, and evaluate the results. The main tools of MPR are described in Table 18.6.

ESTABLISHING OBJECTIVES MPR can build *awareness* by placing stories in the media to bring attention to a product, service, person, organization, or idea. It can build *credibility* by communicating the message in an editorial context. It can help boost sales force and dealer *enthusiasm* with stories about a new product before it is launched. It can hold down *promotion cost* because MPR costs less than direct-mail and media advertising.

Whereas PR practitioners reach their target publics through the mass media, MPR is increasingly borrowing the techniques and technology of direct-response marketing to reach target audience members one-on-one.

CHOOSING MESSAGES AND VEHICLES Suppose a relatively unknown college wants more visibility. The MPR practitioner will search for stories. Are any faculty members working on unusual projects? Are any new and unusual courses being taught? Are any interesting events taking place on campus? If there are no interesting stories, the MPR practitioner should propose newsworthy events the college could sponsor. Here the challenge is to create meaningful news.

TABLE 18.6 Major Tools in Marketing PR

Publications: Companies rely extensively on published materials to reach and influence their target markets. These include annual reports, brochures, articles, company newsletters and magazines, and audiovisual materials.
Events: Companies can draw attention to new products or other company activities by arranging and publicizing special events such as news conferences, seminars, outings, trade shows, exhibits, contests and competitions, and anniversaries that will reach the target publics.
Sponsorships: Companies can promote their brands and corporate name by sponsoring and publicizing sports and cultural events and highly regarded causes.
News: One of the major tasks of PR professionals is to find or create favorable news about the company, its products, and its people and to get the media to accept press releases and attend press conferences.
Speeches: Increasingly, company executives must field questions from the media or give talks at trade associations or sales meetings, and these appearances can build the company's image.
Public Service Activities: Companies can build goodwill by contributing money and time to good causes.
Identity Media: Companies need a visual identity that the public immediately recognizes. The visual identity is carried by company logos, stationery, brochures, signs, business forms, business cards, buildings, uniforms, and dress codes.

PR ideas include hosting major academic conventions, inviting expert or celebrity speakers, and developing news conferences.

Each event and activity is an opportunity to develop a multitude of stories directed at different audiences. A good PR campaign will engage the public from a variety of angles, as did this award-winning Dreyer's Ice Cream campaign.[88]

Dreyer's Ice Cream In *PRWeek*'s Campaign of the Year in 2010, Dreyer's Ice Cream teamed up with PR firm Ketchum to launch a campaign to turn the tough economic environment into a positive. Taking advantage of the 80th anniversary of its introduction of the Rocky Road flavor—designed to cheer people up during the Great Depression—Dreyer's launched a celebratory limited edition "Red, White & No More Blues!" flavor. The ice cream combined rich, creamy vanilla ice cream with swirls of real strawberry and blueberry. The ensuing "A Taste of Recovery" campaign was designed to reinforce the feel-good aspects of the brand. A Monster.com-posted contest asked contestants to submit videos explaining a personal dream they would fulfill if they earned $100,000 for scooping ice cream. The contest drew over 85,000 online visits and more than 14,000 entries. A media blitz greeting the winner helped to contribute to the 46 million media impressions the campaign enjoyed. Despite tough economic times, sales of Dreyer's Slow Churned Limited Editions ice cream increased over 25 percent from the previous year.

A brand anniversary is a great opportunity to celebrate what is good about a brand, as Dreyer's did via its special-edition ice cream.

IMPLEMENTING THE PLAN AND EVALUATING RESULTS MPR's contribution to the bottom line is difficult to measure, because it is used along with other promotional tools.

The easiest measure of MPR effectiveness is the number of *exposures* carried by the media. Publicists supply the client with a clippings book showing all the media that carried news about the product and a summary statement such as the following:

> *Media coverage included 3,500 column inches of news and photographs in 350 publications with a combined circulation of 79.4 million; 2,500 minutes of air time on*

290 radio stations and an estimated audience of 65 million; and 660 minutes of air time on 160 television stations with an estimated audience of 91 million. If this time and space had been purchased at advertising rates, it would have amounted to $1,047,000.[89]

This measure is not very satisfying because it contains no indication of how many people actually read, heard, or recalled the message and what they thought afterward; nor does it contain information about the net audience reached, because publications overlap in readership. It also ignores the effects of electronic media. Publicity's goal is reach, not frequency, so it would be more useful to know the number of unduplicated exposures across all media types.

A better measure is the *change in product awareness, comprehension, or attitude* resulting from the MPR campaign (after allowing for the effect of other promotional tools). For example, how many people recall hearing the news item? How many told others about it (a measure of word of mouth)? How many changed their minds after hearing it?

Summary

1. Advertising is any paid form of nonpersonal presentation and promotion of ideas, goods, or services by an identified sponsor. Advertisers include not only business firms but also charitable, nonprofit, and government agencies.
2. Developing an advertising program is a five-step process: (1) Set advertising objectives, (2) establish a budget, (3) choose the advertising message and creative strategy, (4) decide on the media, and (5) evaluate communication and sales effects.
3. Sales promotion consists of mostly short-term incentive tools, designed to stimulate quicker or greater purchase of particular products or services by consumers or the trade.
4. 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.
5. Events and experiences are a means to become part of special and more personally relevant moments in consumers' lives. Events can broaden and deepen the sponsor's relationship with its target market, but only if managed properly.
6. Public relations (PR) includes a variety of programs designed to promote or protect a company's image or its individual products. Marketing public relations (MPR), to support the marketing department in corporate or product promotion and image making, can affect public awareness at a fraction of the cost of advertising and is often much more credible. The main tools of PR are publications, events, news, community affairs, identification media, lobbying, and social responsibility.

Applications

Marketing Debate

Should Marketers Test Advertising?

Advertising creatives have long lamented ad pretesting. They believe it inhibits their creative process and results in too much sameness in commercials. Marketers, on the other hand, believe pretesting provides necessary checks and balances to ensure the ad campaign will connect with consumers and be well received in the marketplace.

Take a position: **Ad pretesting in often an unnecessary waste of marketing dollars *versus* Ad pretesting provides an important diagnostic for marketers as to the likely success of an ad campaign.**

Marketing Discussion

Television Advertising

What are some of your favorite TV ads? Why? How effective are the message and creative strategies? How are they creating consumer preference and loyalty and building brand equity?

Marketing Excellence

>>Coca-Cola

When it comes to mass marketing, perhaps no one does it better than Coca-Cola. Coke is the most popular and best-selling soft drink in history. With an annual marketing budget of nearly $3 billion and annual sales exceeding $30 billion, the brand tops the Interbrand ranking year after year. Today, Coca-Cola holds a current brand value of $68 billion and reaches consumers in over 200 countries, making it the best-known product in the world. In fact, Coca-Cola is such a global phenomenon that its name is the second-most understood word in the world (after *okay*).

The history of Coke's success is astonishing. The drink was invented in 1886 by Dr. John S. Pemberton, who mixed a syrup of his own invention with carbonated water to cure headaches. The company's first president later turned the product into a pop culture phenomenon by introducing it to pharmacists and consumers around the world and handing out clocks, posters, and other paraphernalia with the Coca-Cola logo.

Coca-Cola believed early on that to gain worldwide acceptance, the brand needed to connect emotionally and socially with the masses, and the product needed to be "within arm's-length of desire." So the company focused on gaining extensive distribution and worked hard at making the product loved by all. In World War II, it declared that "every man in uniform gets a bottle of Coca-Cola for 5 cents, wherever he is, and whatever it costs the company." This strategy helped introduce the soft drink to people around the world as well as connect with them positively in a time of turmoil.

Why is Coca-Cola so much bigger than any other competitor? What Coke does better than everyone else is create highly current, uplifting global campaigns that translate well into different countries, languages, and cultures. Coke's advertising over the years has primarily focused on the product's ability to quench thirst and the brand's magical ability to connect people no matter who they are or how they live. Andy Warhol said it best, "A Coke is a Coke and no amount of money can get you a better Coke than the one the bum on the corner is drinking."

One of Coca-Cola's most memorable and successful commercials was called "Hilltop" and featured the song, "I'd like to buy the world a Coke." Launched in 1971, the ad featured young adults from all over the world sharing a happy, harmonious moment and common bond (drinking a Coke) on a hillside in Italy. The commercial touched so many consumers emotionally and so effectively showed the worldwide appeal of Coke that the song became a top ten hit single later that year.

Coca-Cola's television commercials still touch upon the message of universal connection over a Coke, often in a lighthearted tone to appeal to a young audience. In one spot, a group of young adults sit around a campfire, playing the guitar, laughing, smiling, and passing around a bottle of Coke. The bottle reaches a slimy, one-eyed alien who joins in on the fun, takes a sip from the bottle, and passes it along. When the next drinker wipes off the slime in disgust, the music stops suddenly and the group stares at him in disappointment. The man hesitantly hands the bottle back to the alien to get re-slimed and then drinks from it, and the music and the party continue in perfect harmony.

Coca-Cola's mass communications strategy has evolved over the years and today mixes a wide range of media including television, radio, print, online, in-store, digital, billboard, public relations, events, paraphernalia, and even its own museum. The company's target audience and reach are so massive that choosing the right media and marketing message is critical. Coca-Cola uses big events to hit huge audiences; it has sponsored the Olympics since 1928 and advertises during the Super Bowl. Red Coke cups are placed front and center during top-rated television shows like *American Idol*, and the company spends over $1 billion a year on sports sponsorships such as NASCAR and the World Cup. Coca-Cola's global campaigns must also be relevant on a local scale. In China, for example, Coca-Cola has given its regional managers control over its advertising so they can include appropriate cultural messages.

The delicate balance between Coca-Cola's local and global marketing is crucial because, as one Coca-Cola executive explained, "Creating effective marketing at a local level in the absence of global scale can lead to huge inefficiencies." In 2006, for example, Coca-Cola ran two campaigns during the FIFA World Cup as well as several local campaigns. In 2010, the company ran a single campaign during the same event in over 100 markets. Executives at Coca-Cola estimated that the latter, more global strategy saved the company over $45 million in efficiencies.

Despite its unprecedented success over the years, Coke is not perfect. In 1985, in perhaps the worst product launch ever, Coca-Cola introduced New Coke—a sweeter concoction of the original secret formula. Consumers instantly rejected it and sales plummeted. Three months later, Coca-Cola retracted New Coke and relaunched the original formula under the name Coca-Cola Classic, to the delight of customers everywhere. Then-CEO Roberto Goizueta stated, "The simple fact is that all the time and money and skill poured into consumer research on the new Coca-Cola could not measure or reveal the deep and abiding emotional attachment to original Coca-Cola felt by so many people."

Coca-Cola's success at marketing a product on such a global, massive scale is unique. No other product is so universally available, universally accepted, and universally loved. As the company continues to grow, it seeks out new ways to better connect with even more individuals. Referring to itself as a "Happiness Factory," it is optimistic that it will succeed.

Questions

1. What does Coca-Cola stand for? Is it the same for everyone? Explain.
2. Coca-Cola has successfully marketed to billions of people around the world. Why is it so successful?
3. Can Pepsi or any other company ever surpass Coca-Cola? Why or why not? What are Coca-Cola's greatest risks?

Sources: Natalie Zmuda, "Coca-Cola Lays Out Its Vision for the Future at 2010 Meeting." *Advertising Age,* November 22, 2009; Natalie Zmuda, "Coke's 'Open Happiness' Keeps It Simple for Global Audience," *Advertising Age,* January 21, 2009; John Greenwald, "Will Teens Buy It?" *Time,* June 24, 2001; "Coca-Cola Still Viewed as Most Valuable Brand." *USA Today,* September 18, 2009; Edward Rothstein, "Ingredients: Carbonated Water, High-Fructose Corniness . . ." *New York Times,* July 30, 2007; Brad Cook, "Coca-Cola: A Classic," *Brandchannel,* December 2, 2002; Coca-Cola, *Annual Report.*

Marketing Excellence

>>Gillette

Gillette knows men. Not only does the company understand what products men desire for their grooming needs, it also knows how to market to men all around the world. Since the invention of the safety razor by King C. Gillette in 1901, Gillette has had a number of breakthrough product innovations. These include the first twin-blade shaving system in 1971 named the Trac II, a razor with a pivoting head in 1977 called the Atra, and the first razor with spring-mounted twin blades in 1989 dubbed the Sensor. In 1998, Gillette introduced the first triple-blade system, Mach3, which became a billion-dollar brand surpassed only by the 2006 launch of the "best shave on the planet"—the six-bladed Fusion, with five blades in the front for regular shaving and one in the back for trimming.

Today, Gillette holds a commanding lead in the shaving and razor business with a 70 percent global market share and $7.5 billion in annual sales. Six hundred million men use a Gillette product every day, and the Fusion razor accounts for 45 percent of the men's razors sold in the United States. Gillette's mass appeal is a result of several factors, including extensive consumer research, quality product innovations, and successful mass communications.

While Gillette's product launches have improved male grooming, it's the company's impressive marketing knowledge and campaigns that have helped it reach this international level of success. Traditionally, Gillette uses one global marketing message rather than individual targeted messages for each country or region. This message is backed by a wide spectrum of advertising support, including athletic sponsorships, television campaigns, in-store promotions, print ads, online advertising, and direct marketing.

Gillette's most recent global marketing effort, "The Moment," launched in 2009, is an extension of its well-recognized campaign, "The Best a Man Can Get." The campaign features everyday men as well as the Gillette Champions—baseball star Derek Jeter, tennis champion Roger Federer, and soccer great Thierry Henry—experiencing moments of doubt and Gillette's grooming products helping them gain confidence. The campaign was designed to help Gillette expand beyond razors and shaving and increase sales of its entire line of grooming products. The massive marketing effort launched around the globe and included television, print, online, and point-of-sale advertising.

Another crucial element in Gillette's marketing strategy is sports marketing. Gillette's natural fit with baseball and tradition has helped the company connect emotionally with its core audience, and its sponsorship with Major League Baseball dates to 1939. Tim Brosnan, EVP for Major League Baseball, explained, "Gillette is a sports marketing pioneer that paved the way for modern day sports sponsorship and endorsements." Gillette ads have featured baseball heroes such as Hank Aaron, Mickey Mantle, and Honus Wagner from as early as 1910.

Gillette also has ties to football. The company sponsors Gillette Stadium, home of the New England Patriots, and is a corporate sponsor of the NFL, making four of its products, Gillette, Old Spice, Head & Shoulders, and Febreze, "Official Locker Room Products of the NFL." Gillette's partnership includes sweepstakes to win NFL game tickets, Web site promotions, and ties to the NFL, such as the presence of some NFL players in its commercials. Gillette also sponsors several NASCAR races and drivers and the UK Tri-Nations rugby tournament. It even created a Zamboni at the Boston Bruins game that looked like a huge Fusion razor shaving the ice.

While sports marketing is a critical element of Gillette's marketing strategy, the brand aims to reach all men and therefore aligns itself with musicians, video games, and movies—in one James Bond film, *Goldfinger*, a Gillette razor contained a homing device.

When Procter & Gamble acquired Gillette in 2005 for $57 billion (a record five times sales), it aimed for more than sales and profit. P&G, an expert on marketing to women, wanted to learn about marketing to men on a global scale, and no one tops Gillette.

Questions

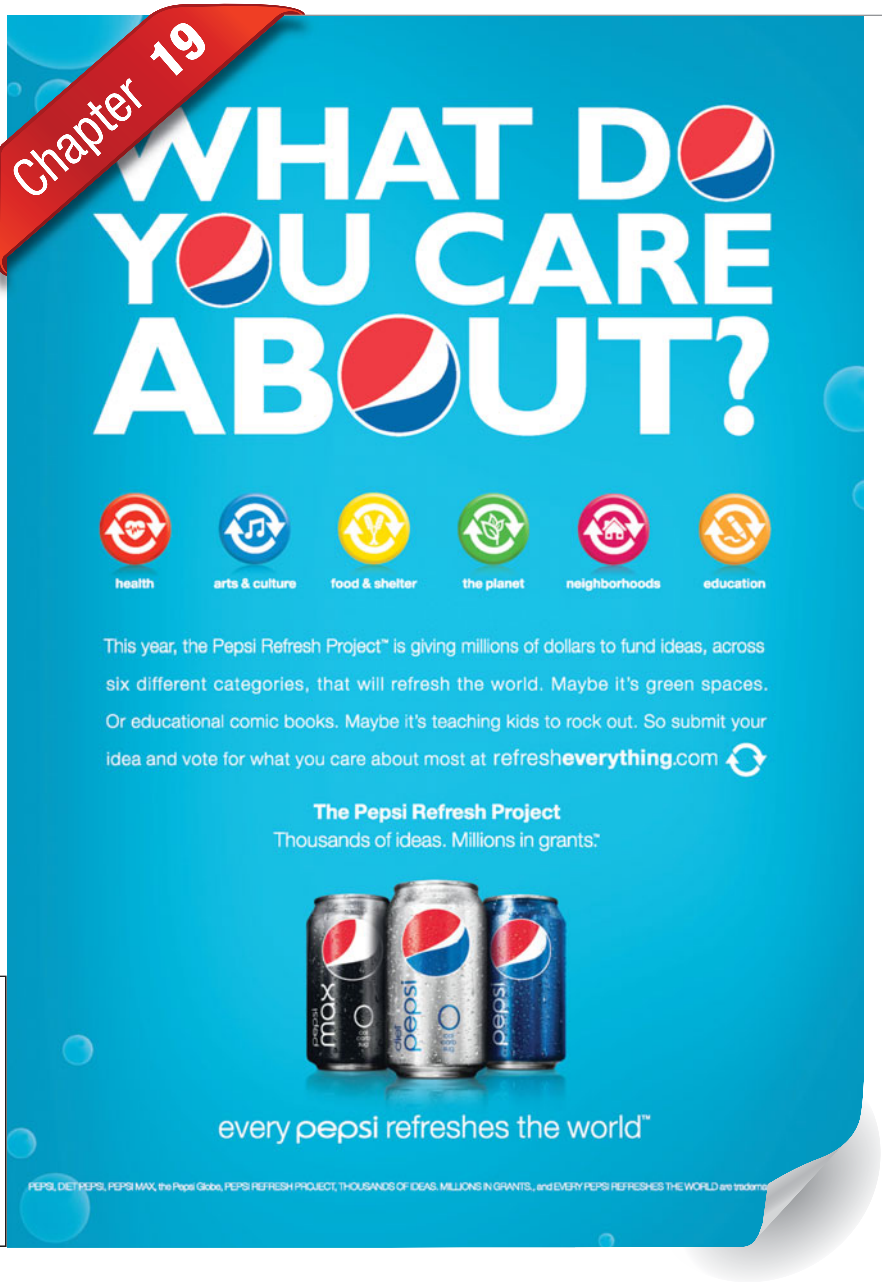
1. Gillette has successfully convinced the world that "more is better" in terms of number of blades and other razor features. Why has that worked in the past? What's next?
2. Some of Gillette's spokespeople such as Tiger Woods have run into controversy after becoming endorsers for the brand. Does this hurt Gillette's brand equity or marketing message? Explain.
3. Can Gillette ever become as successful at marketing to women? Why or why not?

Sources: Gillette press release, "Gillette Launches New Global Brand Marketing Campaign," July 1, 2009; Major League Baseball press release, "Major League Baseball Announces Extension of Historic Sponsorship with Gillette Dating Back to 1939," April 16, 2009; Gillette, *2009 Annual Report*; Jeremy Mullman and Rich Thomaselli, "Why Tiger Is Still the Best Gillette Can Get," *Advertising Age,* December 7, 2009; Louise Story, "Procter and Gillette Learn from Each Other's Marketing Ways," *New York Times,* April 12, 2007; Dan Beucke, "A Blade Too Far," *BusinessWeek,* August 14, 2006; Jenn Abelson, "And Then There Were Five," *Boston Globe*, September 15, 2005; Jack Neff, "Six-Blade Blitz," *Advertising Age*, September 19, 2005, pp. 3, 53; Editorial, "Gillette Spends Smart on Fusion," *Advertising Age*, September 26, 2005, p. 24.

Chapter 19

In This Chapter, We Will Address the Following Questions

1. How can companies conduct direct marketing for competitive advantage?
2. How can companies carry out effective interactive marketing?
3. How does word of mouth affect marketing success?
4. What decisions do companies face in designing and managing a sales force?
5. How can salespeople improve their selling, negotiating, and relationship marketing skills?



Reflecting new consumer sensibilities that focus on the good that companies do, Pepsi used the Super Bowl to launch a major new cause marketing initiative instead of its typical splashy ad campaigns.

Managing Personal Communications: Direct and Interactive Marketing, Word of Mouth, and Personal Selling

In the face of the Internet revolution, marketing communications today increasingly occur as a kind of personal dialogue between the company and its customers. Companies must ask not only "How should we reach our customers?" but also "How should our customers reach us?" and "How can our customers reach each other?" New technologies have encouraged companies to move from mass communication to more targeted, two-way communications. Consumers now play a much more participatory role in the marketing process. Consider how Pepsi has engaged the consumer in its marketing communications.[1]

For the first time in 23 years, PepsiCo chose not to advertise any of its soft drink brands during the biggest U.S. media event, the Super Bowl. Instead, it launched its ambitious Pepsi Refresh Project. With a tagline "Every Pepsi Refreshes the World," Pepsi earmarked $20 million for the program to fund ideas from anyone, anywhere, anytime to make a difference in six areas: health, arts and culture, food and shelter, the planet, neighborhoods, and education. Ideas are submitted at refresheverything.com and voted online by the general public. A significant presence on Facebook, Twitter, and other social networks is a key aspect to the program. The first grant recipients received funding for a variety of different projects, including building a community playground, providing care packages and comfort items for troops in the field or recovering from wounds at home, and conducting financial literacy sessions for teens. Pepsi also allocated an additional $1.3 million in the summer of 2010 to support communities in the Gulf of Mexico region affected by the catastrophic oil spill.

Marketers are trying to figure out the right way to be part of the consumer conversation. Personalizing communications and creating dialogues by saying and doing the right thing to the right person at the right time is critical for marketing effectiveness. In this chapter, we consider how companies personalize their marketing communications to have more impact. We begin by evaluating direct and interactive marketing, then move to word-of-mouth marketing, and finish by considering personal selling and the sales force.

Direct Marketing

Today, many marketers build long-term relationships with customers.[2] They send birthday cards, information materials, or small premiums. Airlines, hotels, and other businesses adopt frequency reward programs and club programs.[3] **Direct marketing** is the use of consumer-direct (CD) channels to reach and deliver goods and services to customers without using marketing middlemen.

Direct marketers can use a number of channels to reach individual prospects and customers: direct mail, catalog marketing, telemarketing, interactive TV, kiosks, Web sites, and mobile devices. They often seek a measurable response, typically a customer order, through **direct-order marketing**. Direct marketing has been a fast-growing avenue for serving customers, partly in response to the high and increasing costs of reaching business markets through a sales force. Sales produced through traditional direct marketing channels (catalogs, direct mail, and telemarketing) have been growing rapidly, along with direct-mail sales, which include sales to the consumer market, B2B, and fund-raising by charitable institutions.

Direct marketing has been outpacing U.S. retail sales. It accounted for almost 53 percent of total advertising spending in 2009, and companies spent more than $149 billion on direct marketing per year, accounting for 8.3 percent of GDP.[4]

The Benefits of Direct Marketing

Market demassification has resulted in an ever-increasing number of market niches. Consumers short of time and tired of traffic and parking headaches appreciate toll-free phone numbers, always-open Web sites, next-day delivery, and direct marketers' commitment to customer service. In addition, many chain stores have dropped slower-moving specialty items, creating an opportunity for direct marketers to promote these to interested buyers instead.

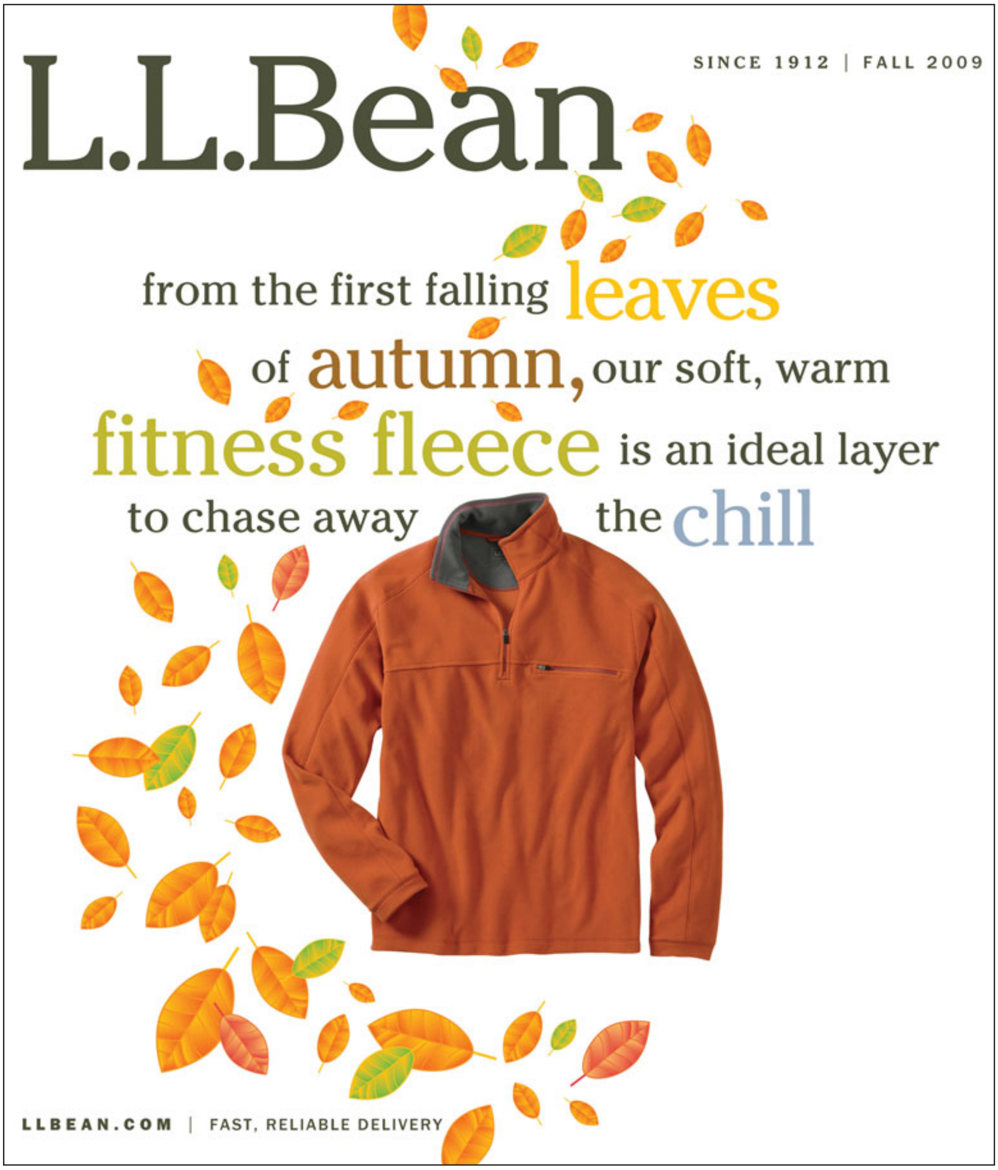
Sellers benefit from demassification as well. Direct marketers can buy a mailing list containing the names of almost any group: left-handed people, overweight people, millionaires. They can customize and personalize messages and build a continuous relationship with each customer. New parents will receive periodic mailings describing new clothes, toys, and other goods as their child grows.

Direct marketing can reach prospects at the moment they want a solicitation and therefore be noticed by more highly interested prospects. It lets marketers test alternative media and messages to find the most cost-effective approach. Direct marketing also makes the direct marketer's offer and strategy less visible to competitors. Finally, direct marketers can measure responses to their campaigns to decide which have been the most profitable. One successful direct marketer is L.L.Bean.[5]

L.L.Bean L.L.Bean's founder Leon Leonwood (L.L.) Bean returned from a Maine hunting trip in 1911 with cold, damp feet and a revolutionary idea. His Maine Hunting Shoe stitched leather uppers to workmen's rubber boots to create a comfortable, functional boot. To a mailing list of hunters, Bean sent a three-page flyer describing the benefits of the new product and backing it with a complete guarantee. The shoe, however, did not meet with initial success. Of his first 100 orders, 90 were returned when the tops and bottoms separated. True to his word, Bean refunded the purchase price and the problem was fixed. L.L.Bean quickly became known as a trusted source for reliable outdoor equipment and expert advice. The L.L.Bean guarantee of 100 percent satisfaction is still at the core of the company's business, as is the original L.L. Bean's Golden Rule, "Sell good merchandise at a reasonable profit, treat your customers like human beings, and they will always come back for more." Today, L.L.Bean is a $1.4 billion company. In 2009, it produced 49 different catalogs and received 11 million customer contacts. The company's Web site is among the top-rated e-commerce sites, and its growing number of retail stores and outlets retain the company's legendary customer service.

Direct marketing must be integrated with other communications and channel activities.[6] Direct marketing companies such as Eddie Bauer, Lands' End, and the Franklin Mint made fortunes building their brands in the direct marketing mail-order and phone-order business and then opened retail stores. They cross-promote their stores, catalogs, and Web sites, for example, by putting their Web addresses on their shopping bags.

Successful direct marketers view a customer interaction as an opportunity to up-sell, cross-sell, or just deepen a relationship. These marketers make sure they know enough about each customer to customize and personalize offers and messages and develop a plan for lifetime marketing to each valuable customer, based on their knowledge of life events and transitions. They also carefully



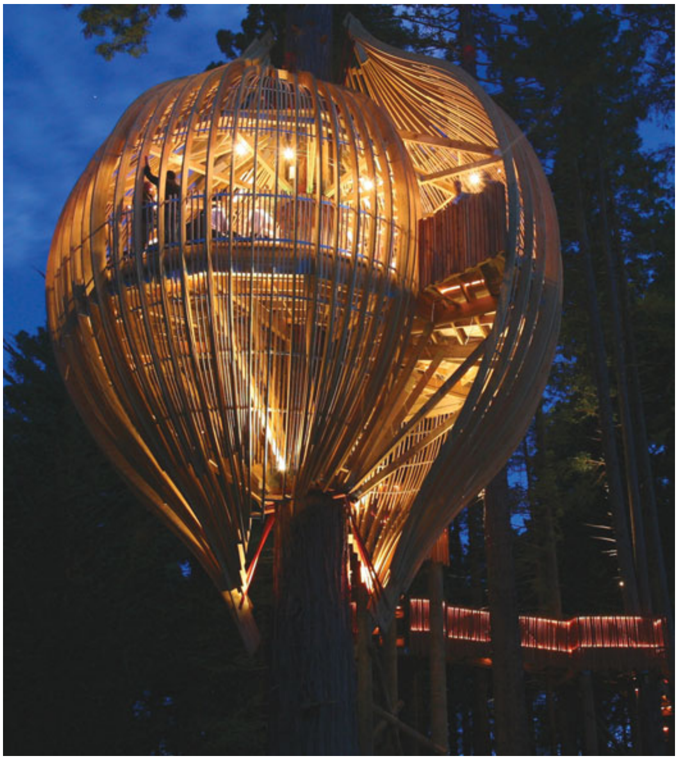
L.L.Bean has a decades-long legacy of fully satisfying customer needs—guaranteed!

orchestrate each element of their campaigns. Here is an example of an award-winning campaign that did just that.[7]

New Zealand Yellow Pages

New Zealand Yellow Pages One of the Direct Marketing Association's top ECHO award winners in 2009 was New Zealand's Yellow Pages Group. With a theme of "Job Done," the group recruited a young woman to be the focus of the campaign and gave her the task of building a restaurant 40 feet above the ground in a redwood tree, using only help found via the Yellow Pages. A TV ad, billboard, and online media launched the campaign, and a Web site provided updates. Access to the striking pod-shaped structure Treehouse was provided by an elevated treetop walkway. The restaurant actually operated from December 2008 to February 2009 as part of the campaign. Highly popular, the campaign was credited with increasing the use of Yellow Pages by 11 percent to record levels.

We next consider some of the key issues that characterize different direct marketing channels.



To dramatically demonstrate the utility of its product, the New Zealand Yellow Pages engaged a designer to build a tree-top restaurant using only help hired through the Yellow Pages.

Direct Mail

Direct-mail marketing means sending an offer, announcement, reminder, or other item to an individual consumer. Using highly selective mailing lists, direct marketers send out millions of mail pieces each year—letters, flyers, foldouts, and other "salespeople with wings." Some direct marketers mail multimedia DVDs to prospects and customers.

Direct mail is a popular medium because it permits target market selectivity, can be personalized, is flexible, and allows early testing and response measurement. Although the cost per thousand is higher than for mass media, the people reached are much better prospects. The success of direct mail, however, has also become its liability—so many marketers are sending out direct-mail pieces that mailboxes are becoming stuffed, leading some consumers to disregard the blizzard of solicitations they receive.

In constructing an effective direct-mail campaign, direct marketers must choose their objectives, target markets and prospects, offer elements, means of testing the campaign, and measures of campaign success.

OBJECTIVES Most direct marketers aim to receive an order from prospects and judge a campaign's success by the response rate. An order-response rate of 2 percent to 4 percent is normally considered good, although this number varies with product category, price, and the nature of the offering.[8] Direct mail can also produce prospect leads, strengthen customer relationships, inform and educate customers, remind customers of offers, and reinforce recent customer purchase decisions.

TARGET MARKETS AND PROSPECTS Most direct marketers apply the RFM (*recency, frequency, monetary amount*) formula to select customers according to how much time has passed since their last purchase, how many times they have purchased, and how much they have spent since becoming a customer. Suppose the company is offering a leather jacket. It might make this offer to the most attractive customers—those who made their last purchase between 30 and 60 days ago, who make three to six purchases a year, and who have spent at least $100 since becoming customers. Points are established for varying RFM levels; the more points, the more attractive the customer.[9]

Marketers also identify prospects on the basis of age, sex, income, education, previous mail-order purchases, and occasion. College freshmen will buy laptop computers, backpacks, and compact refrigerators; newlyweds look for housing, furniture, appliances, and bank loans. Another useful variable is consumer lifestyle or "passions" such as electronics, cooking, and the outdoors.

Dun & Bradstreet provides a wealth of data for B2B direct marketing. Here the prospect is often not an individual but a group or committee of both decision makers and decision influencers. Each member needs to be treated differently, and the timing, frequency, nature, and format of contact must reflect the member's status and role.

The company's best prospects are customers who have bought its products in the past. The direct marketer can also buy lists of names from list brokers, but these lists often have problems, including name duplication, incomplete data, and obsolete addresses. Better lists include overlays of demographic and psychographic information. Direct marketers typically buy and test a sample before buying more names from the same list. They can build their own lists by advertising a promotional offer and collecting responses.

OFFER ELEMENTS The offer strategy has five elements—the *product,* the *offer,* the *medium,* the *distribution method,* and the *creative strategy*.[10] Fortunately, all can be tested. The direct-mail marketer also must choose five components of the mailing itself: the outside envelope, sales letter, circular, reply form, and reply envelope. A common direct marketing strategy is to follow up direct mail with an e-mail.

TESTING ELEMENTS One of the great advantages of direct marketing is the ability to test, under real marketplace conditions, different elements of an offer strategy, such as products, product features, copy platform, mailer type, envelope, prices, or mailing lists.

Response rates typically understate a campaign's long-term impact. Suppose only 2 percent of the recipients who receive a direct-mail piece advertising Samsonite luggage place an order. A much larger percentage became aware of the product (direct mail has high readership), and some percentage may have formed an intention to buy at a later date (either by mail or at a retail outlet). Some may mention Samsonite luggage to others as a result of the direct-mail piece. To better estimate a promotion's impact, some companies measure the impact of direct marketing on awareness, intention to buy, and word of mouth.

MEASURING CAMPAIGN SUCCESS: LIFETIME VALUE By adding up the planned campaign costs, the direct marketer can determine the needed break-even response rate. This rate must be net of returned merchandise and bad debts. A specific campaign may fail to break even in the short run but can still be profitable in the long run if customer lifetime value is factored in (see Chapter 5) by calculating the average customer longevity, average customer annual expenditure, and average gross margin, minus the average cost of customer acquisition and maintenance (discounted for the opportunity cost of money).[11]

Catalog Marketing

In catalog marketing, companies may send full-line merchandise catalogs, specialty consumer catalogs, and business catalogs, usually in print form but also as DVDs or online. In 2009, three of the top B-to-C catalog sellers were Dell ($51 billion), Staples ($8.9 billion), and CDW ($8.1 billion). Three top B-to-B catalog sellers were Thermo Scientific lab and research supplies ($10.5 billion), Henry Schien dental, medical, and vet supplies ($6.4 billion), and WESCO International electrical and industry maintenance supplies ($6.1 billion). Thousands of small businesses also issue specialty catalogs.[12] Many direct marketers find combining catalogs and Web sites an effective way to sell.

Catalogs are a huge business—the Internet and catalog retailing industry includes 16,000 companies with combined annual revenue of $235 billion.[13] The success of a catalog business depends on managing customer lists carefully to avoid duplication or bad debts, controlling inventory, offering good-quality merchandise so returns are low, and projecting a distinctive image. Some companies add literary or information features, send swatches of materials, operate a special online or telephone hotline to answer questions, send gifts to their best customers, and donate a percentage of profits to good causes. Putting their entire catalog online also provides business marketers with better access to global consumers than ever before, saving printing and mailing costs.

Telemarketing

Telemarketing is the use of the telephone and call centers to attract prospects, sell to existing customers, and provide service by taking orders and answering questions. It helps companies increase revenue, reduce selling costs, and improve customer satisfaction. Companies use call centers for *inbound telemarketing*—receiving calls from customers—and *outbound telemarketing*—initiating calls to prospects and customers.

Although outbound telemarketing historically has been a major direct marketing tool, its potentially intrusive nature led the Federal Trade Commission to establish a National Do Not Call Registry in 2003. About 191 million consumers who did not want telemarketing calls at home were registered by 2009. Because only political organizations, charities, telephone surveyors, or companies with existing relationships with consumers are exempt, consumer telemarketing has lost much of its effectiveness.[14]

Business-to-business telemarketing is increasing, however. Raleigh Bicycles used telemarketing to reduce the personal selling costs of contacting its dealers. In the first year, sales force travel costs dropped 50 percent and sales in a single quarter went up 34 percent. As it improves with the use of videophones, telemarketing will increasingly replace, though never eliminate, more expensive field sales calls.

Other Media for Direct-Response Marketing

Direct marketers use all the major media. Newspapers and magazines carry ads offering books, clothing, appliances, vacations, and other goods and services that individuals can order via toll-free numbers. Radio ads present offers 24 hours a day. Some companies prepare 30- and 60-minute *infomercials* to combine the sell of television commercials with the draw of information and entertainment. Infomercials promote products that are complicated or technologically advanced, or that require a great deal of explanation (Carnival Cruises, Mercedes, Universal Studios, and even Monster.com). At-home shopping channels are dedicated to selling goods and services on a toll-free number or via the Web for delivery within 48 hours.

Public and Ethical Issues in Direct Marketing

Direct marketers and their customers usually enjoy mutually rewarding relationships. Occasionally, however, a darker side emerges:

- ***Irritation.*** Many people don't like hard-sell, direct marketing solicitations.
- ***Unfairness.*** Some direct marketers take advantage of impulsive or less sophisticated buyers or prey on the vulnerable, especially the elderly.[15]
- ***Deception and fraud.*** Some direct marketers design mailers and write copy intended to mislead or exaggerate product size, performance claims, or the "retail price." The Federal Trade Commission receives thousands of complaints each year about fraudulent investment scams and phony charities.
- ***Invasion of privacy.*** It seems that almost every time consumers order products by mail or telephone, apply for a credit card, or take out a magazine subscription, their names, addresses, and purchasing behavior may be added to several company databases. Critics worry that marketers may know too much about consumers' lives, and that they may use this knowledge to take unfair advantage.

People in the direct marketing industry know that, left unattended, such problems will lead to increasingly negative consumer attitudes, lower response rates, and calls for greater state and federal regulation. Most direct marketers want the same thing consumers want: honest and well-designed marketing offers targeted only to those who appreciate hearing about them.

Interactive Marketing

The newest and fastest-growing channels for communicating and selling directly to customers are electronic.[16] The Internet provides marketers and consumers with opportunities for much greater *interaction* and *individualization.* Soon few marketing programs will be considered complete without a meaningful online component.

Advantages and Disadvantages of Interactive Marketing

The variety of online communication options means companies can send tailored messages that engage consumers by reflecting their special interests and behavior. The Internet is also highly accountable and its effects can be easily traced by noting how many unique visitors or "UVs" click on a page or ad, how long they spend with it, and where they go afterward.[17]

Marketers can build or tap into online communities, inviting participation from consumers and creating a long-term marketing asset in the process. The Web offers the advantage of *contextual placement,* buying ads on sites related to the marketer's offerings. Marketers can also place advertising based on keywords from search engines, to reach people when they've actually started the buying process.

Using the Web also has disadvantages. Consumers can effectively screen out most messages. Marketers may think their ads are more effective than they are if bogus clicks are generated by software-powered Web sites.[18] Advertisers also lose some control over their online messages, which can be hacked or vandalized.

But many feel the pros outweigh the cons, and the Web is attracting marketers of all kinds. Beauty pioneer Estée Lauder, who said she relied on three means of communication to build her multimillion-dollar cosmetics business—"telephone, telegraph, and tell a woman"—would now have to add the Web, where the company's official site describes new and old products, announces special offers and promotions, and helps customers locate stores where they can buy Estée Lauder products.[19]

Marketers must go where the customers are, and increasingly that's online. U.S. consumers go to the Web over 25 percent of the time they spend with all media (see Figure 19.1). Customers

Online	4:13
TV and video	3:17
Music and radio	1:26
Mobile phone	1:18
Landline phone	0:36
Gaming	0:36
Reading	0:24

|Fig. 19.1|

Average Time Spent per Day with Select Media According to US Consumers, 2009 (hrs:mins)

Source: Yankee Group, "2009 Advertising Forecast Update: Less TV, More Internet," April 6, 2010.

define the rules of engagement, however, and insulate themselves with the help of agents and intermediaries if they so choose. Customers define what information they need, what offerings they're interested in, and what they're willing to pay.[20]

Online advertising continues to gain on traditional media. Total Internet ad spending is estimated to have grown to $26 billion in 2009 from $24 billion in 2008; TV advertising was estimated to have dropped to $41 billion in 2009 from $52 billion in 2008. Helping fuel online growth is the emergence of rich media ads that combine animation, video, and sound with interactive features.[21] Consider what Burger King has done online.

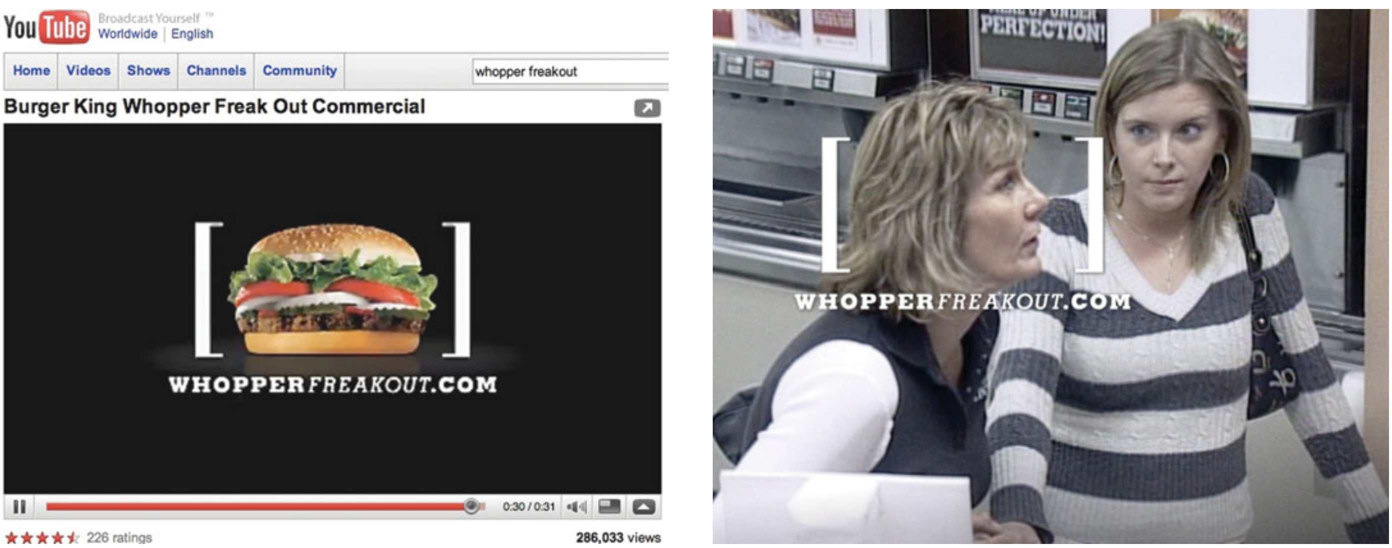
Burger King

Burger King "If you have a global brand promise, 'Have It Your Way,'" said Russ Klein, Burger King's former president for global marketing, strategy, and innovation, "it's about putting the customer in charge," even if they say "bad things" about the brand. In competing against McDonald's, with its family-friendly image, "it's more important for us to be provocative than pleasant," added Klein, especially when appealing to a market of mainly teenage boys. Burger King's brash ad campaigns—featuring its creepy bobble-head king and talking chicken—have appeared on YouTube and MySpace, so the company can take advantage of "social connectivity" as consumers react to the ads. Burger King encourages customers to build online communities around their favorite company icons and products. To celebrate the 50th anniversary of its popular Whopper hamburger, the company took over a Burger King restaurant in Las Vegas for a day and told people the Whopper had been permanently removed from the menu. Customers' outraged reactions were filmed as part of an award-winning campaign dubbed "Whopper Freakout," which served as the basis of TV ads and online videos. Over 5 million consumers watched an 8-minute streaming video, another 14 million watched it or the TV spots on YouTube, and millions more heard or read about it via PR or word of mouth.[22]

Interactive Marketing Communication Options

A company chooses which forms of interactive marketing will be most cost-effective in achieving communication and sales objectives.[23] Some of the main categories, discussed next, are: (1) Web sites, (2) search ads, (3) display ads, and (4) e-mails. After summarizing some developments in mobile marketing, we'll describe social media and word-of-mouth effects.

WEB SITES Companies must design Web sites that embody or express their purpose, history, products, and vision and that are attractive on first viewing and interesting enough to encourage repeat visits.[24] Jeffrey Rayport and Bernard Jaworski propose that effective sites feature seven design



Vividly demonstrating its customers' loyalty, Burger King's online "Whopper Freakout" videos became a viral hit.

|Fig. 19.2|

Seven Key Design Elements of an Effective Web Site

Source: Jeffrey F. Rayport and Bernard J. Jaworski, *e-commerce* (New York: McGraw-Hill, 2001), p. 116.

- *Context.* Layout and design
- *Content.* Text, pictures, sound, and video the site contains
- *Community.* How the site enables user-to-user communication
- *Customization.* Site's ability to tailor itself to different users or to allow users to personalize the site
- *Communication.* How the site enables site-to-user, user-to-site, or two-way communication
- *Connection.* Degree that the site is linked to other sites
- *Commerce.* Site's capabilities to enable commercial transactions

elements they call the 7Cs (see Figure 19.2):[25] To encourage repeat visits, companies must pay special attention to context and content factors and embrace another "C"—constant change.[26]

Visitors will judge a site's performance on ease of use and physical attractiveness.[27] *Ease of use* means: (1) The site downloads quickly, (2) the first page is easy to understand, and (3) it is easy to navigate to other pages that open quickly. *Physical attractiveness* is assured when: (1) Individual pages are clean and not crammed with content, (2) typefaces and font sizes are very readable, and (3) the site makes good use of color (and sound).

Firms such as comScore and Nielsen Online track where consumers go online through page views, unique visitors, length of visit, and so on.[28] Companies must also be sensitive to online security and privacy-protection issues.[29]

Besides their Web sites, companies may employ **microsites,** individual Web pages or clusters of pages that function as supplements to a primary site. They're particularly relevant for companies selling low-interest products. People rarely visit an insurance company's Web site, but the company can create a microsite on used-car sites that offers advice for buyers of used cars and at the same time a good insurance deal.

SEARCH ADS A hot growth area in interactive marketing is **paid search** or **pay-per-click ads**, which now account for roughly half of all online ad spending.[30] Thirty-five percent of all searches are reportedly for products or services.

In paid search, marketers bid in a continuous auction on search terms that serve as a proxy for the consumer's product or consumption interests. When a consumer searches for any of the words with Google, Yahoo!, or Bing, the marketer's ad may appear above or next to the results, depending on the amount the company bids and an algorithm the search engines use to determine an ad's relevance to a particular search.[31]

Advertisers pay only if people click on the links, but marketers believe consumers who have already expressed interest by engaging in search are prime prospects. Average click-through is about 2 percent, much more than for comparable online ads. The cost per click depends on how high the link is ranked and the popularity of the keyword. The ever-increasing popularity of paid search has increased competition among keyword bidders, significantly raising search prices and putting a premium on choosing the best possible keywords, bidding on them strategically, and monitoring the results for effectiveness and efficiency.

Search engine optimization has become a crucial part of marketing given the large amount of money being spent by marketers on search. A number of guidelines have been suggested for more effective search ads.[32] Broader search terms are useful for general brand building; more specific ones—for example, specifying a particular product model or service—are useful for generating and converting sales leads. Search terms need to be spotlighted on the appropriate pages so search engines can easily identify them. Multiple keywords are usually needed for any one product, but each keyword must be bid for according to its likely return on revenue. It also helps to have popular sites link back to the site. Data can be collected to track the effects of paid search.

DISPLAY ADS **Display ads** or **banner ads** are small, rectangular boxes containing text and perhaps a picture that companies pay to place on relevant Web sites.[33] The larger the audience, the higher the cost. Some banners are accepted on a barter basis. In the early days of the Internet, viewers clicked on 2 percent to 3 percent of the banner ads they saw, but that percentage quickly plummeted to as little as 0.25 percent and advertisers began to explore other forms of communication.

Given that Internet users spend only 5 percent of their time online actually searching for information, display ads still hold great promise compared to popular search ads. But ads need to be more attention-getting and influential, better targeted, and more closely tracked.[34]

Interstitials are advertisements, often with video or animation, which pop up between changes on a Web site. For example, ads for Johnson & Johnson's Tylenol headache reliever would pop up on brokers' Web sites whenever the stock market fell by 100 points or more. Because consumers find pop-up ads intrusive and distracting, many use software to block them.

A popular vehicle for advertising is *podcasts*, digital media files created for playback on portable MP3 players, laptops, or PCs. Sponsors pay roughly $25 per thousand listeners to run a 15- or 30-second audio ad at the beginning of the podcast. Although these rates are higher than for popular radio shows, podcasts are able to reach very specific market segments, and their popularity has grown.[35]

E-MAIL E-mail allows marketers to inform and communicate with customers at a fraction of the cost of a "d-mail," or direct mail, campaign. Consumers are besieged by e-mails, though, and many employ spam filters. Some firms are asking consumers to say whether and when they would like to receive emails. FTD, the flower retailer, allows customers to choose whether to receive e-mail reminders to send flowers for virtually any holiday as well as specific birthdays and anniversaries.[36]

E-mails must be timely, targeted, and relevant. For example, the United Way of Massachusetts Bay and Merrimack Valley used video-embedded e-mails to increase sign-ups for their events and to cut costs. Videos were made one minute in length when testing revealed that two minutes was too long but 30 seconds was too short.[37] "Marketing Memo: How to Maximize the Marketing Value of E-mails" provides some important guidelines for productive e-mail campaigns.

MOBILE MARKETING With cell phones' ubiquitous nature and marketers' ability to personalize messages based on demographics and other consumer behavior characteristics (see Chapter 15), the appeal of mobile marketing as a communication tool is obvious.[38]

With over 4.1 billion mobile subscribers in the world in 2009—there are more than twice as many mobile phones in the world as personal computers—cell phones represent a major opportunity for advertisers to reach consumers on the "third screen" (TV and the computer are first and second). Some firms are moving fast into m-space. One mobile pioneer in the banking industry is Bank of America.[39]

marketing Memo: How to Maximize the Marketing Value of E-mails

- *Give the customer a reason to respond.* Offer powerful incentives for reading e-mail pitches and online ads, such as trivia games, scavenger hunts, and instant-win sweepstakes.
- *Personalize the content of your e-mails.* Customers who agree to receive IBM's weekly iSource newsletter select "the news they choose" from topics on an interest profile.
- *Offer something the customer can't get via direct mail.* Because e-mail campaigns can be carried out quickly, they can offer time-sensitive information. Travelocity sends frequent e-mails pitching last-minute cheap airfares, and Club Med pitches unsold vacation packages at a discount.
- *Make it easy for customers to "unsubscribe."* Online customers demand a positive exit experience. Dissatisfied customers leaving on a sour note are more likely to spread the displeasure to others.
- *Combine with other communications such as social media.* Southwest Airlines found the highest number of reservations occur after an e-mail campaign followed by a social media campaign. Papa John's was able to add 45,000 fans to its Facebook page through an e-mail campaign inviting customers to participate in a "March Madness" NCAA basketball tournament contest.

To increase the effectiveness of e-mails, some researchers are employing "heat mapping," by which they can measure what people read on a computer screen by using cameras attached to a computer that track eye movements. One study showed that clickable graphic icons and buttons that linked to more details of a marketing offer increased click-through rates by 60 percent over links that used just an Internet address.

Sources: Richard Westlund, "Success Stories in eMail Marketing," *Adweek Special Advertising Section to Adweek, Brandweek, and Mediaweek*, February 16, 2010; Suzanne Vranica, "Marketers Give E-mail Another Look," *Wall Street Journal*, July 17, 2006; Seth Godin, *Permission Marketing: Turning Strangers into Friends and Friends into Customers* (New York: Simon & Schuster, 1999).

Bank of America

Bank of America Bank of America is using mobile as a communication channel and a means to provide banking solutions for the many ways its customers lead their lives. More than 2 million of its 59 million customers use mobile banking applications, which the bank credits as a significant drawing card given that 8 percent to 10 percent of these mobile users are new customers. Initially targeting a younger group of users between 18 and 30 years old—with special emphasis on college students—the bank's mobile banking services increasingly appeal to other groups such as older, higher-income users. Its smart-phone apps and traditional browser-based solutions have been praised for clean navigation, ease of use, and reach. The branch and ATM locator, for instance, is used by one in eight mobile customers. Mobile marketing is integrated all through the bank's marketing efforts: The Web site provides demos and tours of its mobile services; the TV campaigns stress the benefits of its mobile banking. With one click on a mobile banner ad, smart-phone users can download the free Bank of America app or just learn more about its mobile banking services.

- ***Mobile marketing options.*** Mobile ad spending was almost $1 billion worldwide in 2009, most of which went into SMS text messages and simple display ads. With the increased capabilities of smart phones, however, mobile ads can be more than just a display medium using static "mini-billboards."[40]

  Much recent interest has been generated in mobile apps—"bite-sized" software programs that can be loaded on to smart phones. In a short period of time, thousands were introduced by companies large and small. VW chose to launch its GTI in the United States with an iPhone app, receiving 2 million downloads in three weeks. In Europe, it launched the VW Tiguan with a mobile app as well as text messages and an interstitial Web site.[41]

  Smart phones also allow loyalty programs with which customers can track their visits and purchases at a merchant and receive rewards.[42] By tracking the location of receptive customers who opt in to receive communications, retailers can send them location-specific promotions when they are in proximity to shops or outlets. Sonic Corp. used GPS data and proximity to cell towers in Atlanta to identify when those customers who had signed up for company communications were near one of roughly 50 Sonic restaurants in the area. When that was the case, Sonic sent customers a text message with a discount offer or an ad to entice them to visit the restaurant.[43]

  With traditional coupon redemption rates declining for years, the ability of cell phones to permit more relevant and timely offers to consumers at or near the point of purchase has piqued the interest of many marketers. These new coupons can take all forms; digital in-store signs can now dispense them to smart phones.[44]
- ***Developing mobile marketing programs.*** Even with newer generation smart phones, the Web experience can be very different for users given smaller screen sizes, longer downloads, and the lack of some software capabilities (such as Adobe Flash Player on iPhones). Marketers would be wise to design simple, clear, and "clean" sites, paying even greater attention than usual to user experience and navigation.[45]

VW launched its GTI model in the United States with an iPhone app for its Real Racing game.

U.S. marketers can learn much about mobile marketing by looking overseas. In developed Asian markets such as Hong Kong, Japan, Singapore, and South Korea, mobile marketing is fast becoming a central component of customer experiences.[46] In developing markets, high cell phone penetration also makes mobile marketing attractive. A pioneer in China, Coca-Cola created a national campaign asking Beijing residents to send text messages guessing the high temperature in the city every day for just over a month, for a chance to win a one-year supply of Coke products. The campaign attracted more than 4 million messages over the course of 35 days.[47]

Although a growing population segment uses mobile phones for everything from entertainment to banking, different people have different attitudes and experiences with mobile technology. "Marketing Memo: Segmenting Tech Users" profiles the role of mobile Internet access in several groups' digital lifestyles.

marketing **Memo**

Segmenting Tech Users

Group Name	% of Adults	What You Need to Know About Them	Key Demographic Facts
Motivated by Mobility (39%)			
Digital Collaborators	8%	With the most tech assets, Digital Collaborators use them to work with and share their creations with others. They are enthusiastic about how ICTs help them connect with others and confident in how to manage digital devices and information.	Mostly male (56%), late 30s, well-educated, and well-off.
Ambivalent Networkers	7%	Ambivalent Networkers have folded mobile devices into how they run their social lives, whether through texting or social networking tools online. They also rely on ICTs for entertainment. But they also express worries about connectivity; some find that mobile devices are intrusive and many think it is good to take a break from online use.	Primarily male (60%), they are young (late 20s) and ethnically diverse.
Media Movers	7%	Media Movers have a wide range of online and mobile habits, and they are bound to find or create an information nugget, such as a digital photo, and pass it on. These social exchanges are central to this group's use of ICTs. Cyberspace, as a path to personal productivity or an outlet for creativity, is less important.	Males (56%) in their mid-30s, many with children and in middle income range.
Roving Nodes	9%	Roving Nodes are active managers of their social and work lives using their mobile device. They get the most out of basic applications with their assets such as e-mail or texting and find them great for arranging the logistics of their lives and enhancing personal productivity.	Mostly women (56%), in their late 30s, well educated and well-off.
Mobile Newbies	8%	This group rates low on tech assets, but its members really like their cell phones. Mobile Newbies, many of whom acquired a cell in the past year, like how the device helps them be more available to others. They would be hard pressed to give up the cell phone.	Mainly women (55%), about age 50, lower educational and income levels.
Stationary Media Majority (61%)			
Desktop Veterans	13%	This group of older, veteran online users is content to use a high-speed connection and a desktop computer to explore the Internet and stay in touch with friends, placing their cell phone and mobile applications in the background.	Mainly men (55%), in their mid 40s, well-educated and well-off economically.
Drifting Surfers	14%	Many have the requisite tech assets, such as broadband or a cell phone, but Drifting Surfers are infrequent online users. When they use technology, it is for basic information gathering. It wouldn't bother the typical Drifting Surfer to give up the Internet or a cell phone.	Majority women (56%), in their early 40s, middle income, and average education levels.
Information Encumbered	10%	Most people in this group suffer from information overload and think taking time off from the Internet is a good thing. The Information Encumbered are firmly rooted in old media to get information.	Two-thirds men, in their early 50s, average education, lower-middle income.
Tech Indifferent	10%	Members of this group are not heavy Internet users and although most have cell phones, they don't like their intrusiveness. The Indifferent could easily do without modern gadgets and services.	Mainly women (55%), in their late 50s, low-income and education levels.
Off the Network	14%	Members of this group have neither cell phones nor online access, and tend to be older and low-income. But a few have experience with ICTs; some used to have online access and as many as one in five used to have a cell phone.	Low-income senior women, high share of African Americans.

Source: "The Mobile Difference—Tech User Types," Pew Internet & American Life Project, March 31, 2009, www.pewinternet.org/Infographics/The-Mobile-Difference—Tech-User-Types.aspx.

Word of Mouth

Consumers use *word of mouth* to talk about dozens of brands each day, from media and entertainment products such as movies, TV shows, and publications to food products, travel services, and retail stores.[48]

Companies are acutely aware of the power of word of mouth. Hush Puppies shoes, Krispy Kreme doughnuts, the blockbuster movie *The Passion of the Christ*, and, more recently, Crocs shoes have been built through strong word of mouth, as were companies such as The Body Shop, Palm, Red Bull, Starbucks, and Amazon.com.

Positive word of mouth sometimes happens organically with little advertising, but it can also be managed and facilitated.[49] It is particularly effective for smaller businesses, with whom customers may feel a more personal relationship. Many small businesses are investing in various forms of social media at the expense of newspapers, radio, and Yellow Pages to get the word out. Southern Jewelz, started by a recent college grad, found sales doubling over six months after it began to actively use Facebook, Twitter, and e-commerce software.[50]

With the growth of social media, as Chapter 17 noted, marketers sometimes distinguish paid media from earned or free media. Although different points of view prevail, *paid media* results from press coverage of company-generated advertising, publicity, or other promotional efforts. *Earned media*—sometimes called *free media*—is all the PR benefits a firm receives without having directly paid for anything—all the news stories, blogs, social network conversations that deal with a brand. Earned media isn't literally free—the company has to invest in products, services, and their marketing to some degree to get people to pay attention and write and talk about them, but the expenses are not devoted to eliciting a media response.

We first consider how social media promotes the flow of word of mouth before delving into more detail on how word of mouth is formed and travels. To start our discussion, consider some of the different ways Intuit uses social media.[51]

Intuit

Intuit Always a marketing pioneer in the software industry, Intuit has received much recognition for its extensive social media programs. Intuit adopted a narrowcasting approach with its QuickBooks Live Community, which serves the small business market: It is available only to customers who buy QuickBooks 2009 on a PC or a Mac and is a place where customers can trade tips and ask questions, 70 percent of which are answered by other QuickBooks customers. One accountant has posted 5,600 answers on the site. The community also provides Intuit with useful product feedback. Intuit has run TurboTax contests to encourage product placement in Facebook, MySpace, and Twitter. Users with the most "original and unique" status updates related to TurboTax receive prizes. Intuit's "Love a Local Business" program awards $1,000 grants to local businesses based on the community's online votes. A variety of other social networking events help Intuit interact with small businesses. As one social media expert at the company said: "Social media is one of the key trends driving our business . . . It's about fast connections with customers and building an on-going relationship."

Social Media

Social media are a means for consumers to share text, images, audio, and video information with each other and with companies and vice versa. Social media allow marketers to establish a public voice and presence on the Web and reinforce other communication activities. Because of their day-to-day immediacy, they can also encourage companies to stay innovative and relevant.

There are three main platforms for social media: (1) online communities and forums, (2) bloggers (individuals and networks such as Sugar and Gawker), and (3) social networks (like Facebook, Twitter, and YouTube).

ONLINE COMMUNITIES AND FORUMS Online communities and forums come in all shapes and sizes. Many are created by consumers or groups of consumers with no commercial interests or company affiliations. Others are sponsored by companies whose members communicate with the company and with each other through postings, instant messaging, and chat discussions about special interests related to the company's products and brands. These online communities and forums can be a valuable resource for companies and provide multiple functions by both collecting and conveying key information.

A technology marketing pioneer, Intuit created a strong online brand community for its QuickBooks software product.

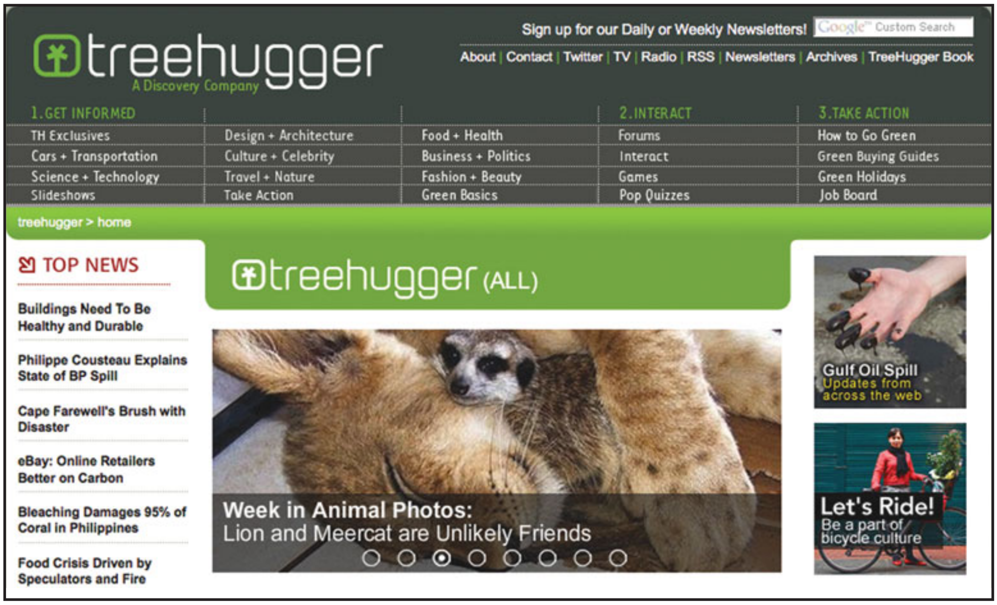
A key for success of online communities is to create individual and group activities that help form bonds among community members. The Idea Center at Kodak Gallery is an online community for exchanging ideas about how to use Kodak products to create personalized gifts and other creative products using digital photos. Kodak has found that peer-to-peer recommendations within the community led to more frequent, larger purchases.[52] Apple hosts a large number of discussion groups organized by product lines and also by consumer versus professional use. These groups are customers' primary source of product information after warranties expire.

Information flow in online communities and forums is two-way and can provide companies with useful, hard-to-get customer information and insights. When GlaxoSmithKline prepared to launch its first weight-loss drug, Alli, it sponsored a weight-loss community. The firm felt the feedback it gained was more valuable than what it could have received from traditional focus groups. Research has shown, however, that firms should avoid too much democratization of innovation. Groundbreaking ideas can be replaced by lowest-common-denominator solutions.[53]

BLOGS *Blogs*, regularly updated online journals or diaries, have become an important outlet for word of mouth. There are millions in existence and they vary widely, some personal for close friends and families, others designed to reach and influence a vast audience. One obvious appeal of blogs is bringing together people with common interests. Blog networks such as Gawker Media offer marketers a portfolio of choices. Online celebrity gossip blog PopSugar has spawned a family of breezy blogs on fashion (FabSugar), beauty (BellaSugar), and romance and culture (TrèsSugar), attracting women aged 18 to 49.[54]

Corporations are creating their own blogs and carefully monitoring those of others.[55] Blog search engines provide up-to-the-minute analysis of millions of blogs to find out what's on people's minds.[56] Popular blogs are creating influential opinion leaders. At the TreeHugger site, a team of bloggers tracks green consumer products for 3.5 million unique visitors per month, offering video and reference guides and an average of 35 daily posts.[57]

Because many consumers examine product information and reviews contained in blogs, the Federal Trade Commission has also taken steps to require bloggers to disclose their relationship with marketers whose products they endorse. At the other extreme, some consumers use blogs and videos as a means of retribution and revenge on companies for bad service and faulty products. Dell's customer-service shortcomings were splashed all over the Internet through a series of "Dell Hell" postings. AOL took some heat when a frustrated customer recorded and broadcast online a service representative's emphatic resistance to canceling his service. Comcast was embarrassed when a video surfaced of one of its technicians sleeping on a customer's couch.[58]



The TreeHugger Web site tracks blogs and Internet activity with respect to green products.

SOCIAL NETWORKS Social networks have become an important force in both business-to-consumer and business-to-business marketing.[59] Major ones include Facebook, which is the world's biggest; MySpace, which concentrates on music and entertainment; LinkedIn, which targets career-minded professionals; and Twitter, which allows members to network via 140-character messages or "tweets." Different networks offer different benefits to firms. For example, Twitter can be an early warning system that permits rapid response, whereas Facebook allows deeper dives to engage consumers in more meaningful ways.[60]

Marketers are still learning how to best tap into social networks and their huge, well-defined audiences. Given networks' noncommercial nature—users are generally there looking to connect with others—attracting attention and persuading are more challenging. Also, given that users generate their own content, ads may find themselves appearing beside inappropriate or even offensive content.[61]

Advertising is only one avenue, however. Like any individual, companies can also join the social groups and actively participate. Having a Facebook page has become a virtual prerequisite for many companies. Twitter can benefit even the smallest firm. To create interest in its products and the events it hosted, small San Francisco bakery Mission Pie began to send tweet alerts, quickly gaining 1,000 followers and a sizable up-tick in business. "Follow Me on Twitter" signs are appearing on doors and windows of more small shops.[62]

And although major social networks offer the most exposure, niche networks provide a more targeted market that may be more likely to spread the brand message, as with CafeMom.[63]

CafeMom

CafeMom Started in 2006 by parent company CMI Marketing, CafeMom has 6.7 million unique visitors per month on Cafemom.com and 18 million on boutique ad network CafeMom plus. Visitors participate in dozens of different forums for moms. When the site started a forum for discussing developmentally appropriate play activities, toymaker Playskool sent toy kits to over 5,000 members and encouraged them to share their experiences with each other, resulting in 11,600 posts at Playskool Preschool Playgroup. "The great thing is you get direct feedback from actual moms," says the director of media at Hasbro, Playskool's parent company. This kind of feedback can be invaluable in the product-development process as well. The site's sweet spot is young, middle-class women with kids who love the opportunity to make friends and seek support, spending an average of 44 minutes a day on the site.

USING SOCIAL MEDIA Social media allow consumers to become engaged with a brand at perhaps a deeper and broader level than ever before. Marketers should do everything they can to encourage willing consumers to engage productively. But as useful as they may be, social media can never become the sole source of marketing communications.

Embracing social media, harnessing word of mouth, and creating buzz requires companies to take the good with the bad. Look what happened to the marketers of Motrin at Johnson & Johnson.[64]

Motrin When marketers at J&J decided to run a slightly tongue-in-cheek online Web video for Motrin implying that young mothers carrying their babies everywhere in slings and chest packs as a means of bonding—or perhaps just to be trendy—were inadvertently risking back pain, they had no idea the pain they would in fact experience. After the ad ran online for several weeks without notice, a few vocal mothers took offense on Twitter on a Friday night, creating a weekend firestorm that stretched all over the Web. On the following Monday, marketers for Motrin quickly took to e-mail to personally apologize and replaced the video with a broader message of apology. Then they were criticized for caving in to pressure and overreacting.

The negative online response to Motrin's new ad posed a significant social media challenge to the brand.

The Motrin example shows the power and speed of social media, but also the challenges they pose to companies. The reality, however, is that whether a company chooses to engage in social media or not, the Internet will always permit scrutiny, criticism, and even "cheap shots" from consumers and organizations. By using social media and the Web in a constructive, thoughtful way, firms at least have a means to create a strong online presence and better offer credible alternative points of view if such events occur.[65]

Buzz and Viral Marketing

Some marketers highlight two particular forms of word of mouth—buzz and viral marketing.[66] *Buzz marketing* generates excitement, creates publicity, and conveys new relevant brand-related information through unexpected or even outrageous means.[67] *Viral marketing* is another form of word of mouth, or "word of mouse," that encourages consumers to pass along company-developed products and services or audio, video, or written information to others online.[68]

With user-generated content sites such as YouTube, MySpace Video, and Google Video, consumers and advertisers can upload ads and videos to be shared virally by millions of people. Online videos can be cost-effective—costing $50,000 to $200,000—and marketers can take more freedoms with them.

Blendtec Utah-based Blendtec used to be known primarily for its commercial blenders and food mills. The company wasn't really familiar to the general public until it launched a hilarious series of "Will It Blend?" online videos to promote some of its commercial products for home use. The videos feature founder and CEO Tom Dickson wearing a white lab coat and pulverizing objects ranging from golf balls and pens to beer bottles, all in a genial but deadpan manner. The genius of the videos (www.willitblend.com) is that they tie into current events. As soon as the iPhone was launched with huge media fanfare, Blendtec aired a video in which Dickson smiled and said, "I love my iPhone. It does everything. But will it blend?" After the blender crushed the iPhone to bits, Dickson lifted the lid on the small pile of black dust and said simply, "iSmoke." The clip drew more than 3.5 million downloads on YouTube. Dickson has appeared on the *Today* and other network television shows and has had a cameo in a Weezer video. One of the few items *not* to blend: A crowbar![69]

Blendtec's classic "Will It Blend?" online videos created significant brand equity for a brand that was previously fairly unknown.

Outrageousness is a two-edged sword. The Blendtec Web site clearly puts its comic videos in the "*Don't* try this at home" category and another set showing how to grind up vegetables for soup, for instance, in the "*Do* try this at home" category.

Contrary to popular opinion, products don't have to be outrageous or edgy to generate buzz. Companies can help to create buzz; and media or advertising are not always necessary for buzz to occur.[70] Some agencies have been created solely to help clients create buzz. P&G has 225,000 teens enlisted in Tremor and 600,000 mothers enrolled in Vocalpoint. Both groups are built on the premise that certain individuals want to learn about products, receive samples and coupons, share their opinions with companies, and, of course, talk up their experiences with others. P&G chooses well-connected people—the Vocalpoint moms have big social networks and generally speak to 25 to 30 other women during the day, compared to an average of 5 for other moms—and their messages carry a strong reason to share product information with a friend.[71] BzzAgent is another buzz-building firm.[72]

BzzAgent

BzzAgent Boston-based BzzAgent has assembled an international word-of-mouth media network powered by 600,000 demographically diverse—but essentially ordinary—people who volunteer to talk up any of the clients' products they deem worth promoting. The company pairs consumers with products, information, and digital tools to activate widespread opinion-sharing throughout its own social media site, called BzzScapes, and within each member's personal social circles. BzzAgent believes this unique combination of people and platform accelerates measurable word of mouth and fosters sustained brand advocacy. BzzAgent participants have spread their own personal views and opinions to nearly 100 million friends and family. Each time an agent completes an activity, he or she is expected to file a report describing the nature of the buzz and its effectiveness. The company claims the buzz is honest because the process requires just enough work that few agents enroll solely for freebies, and agents don't talk up products they don't like. Agents are also supposed to disclose they're connected to BzzAgent. The company has completed hundreds of projects, working with clients such as Levi's Dockers, Anheuser-Busch, Cadbury-Schweppes, V Guide, Bacardi, Dunkin' Donuts, Silk, Tropicana Pure, Mrs. Dash, and the publishers of *Freakonomics* and *Eats, Shoots and Leaves*, both bestsellers.

Buzz and viral marketing both try to create a splash in the marketplace to showcase a brand and its noteworthy features. Some believe these influences are driven more by the rules of entertainment than the rules of selling. Consider these examples: Quicksilver puts out surfing videos and surf-culture books for teens, Johnson & Johnson and Pampers both have popular Web sites with parenting advice for babies; Walmart places videos with money-saving tips on YouTube; Grey Goose vodka has an entire entertainment division; Mountain Dew has a record label; and Hasbro is joining forces with Discovery to create a TV channel.[73] Ultimately, however, the success of any viral or buzz campaign depends on the willingness of consumers to talk to other consumers.[74]

Opinion Leaders

Communication researchers propose a social-structure view of interpersonal communication.[75] They see society as consisting of *cliques,* small groups whose members interact frequently. Clique members are similar, and their closeness facilitates effective communication but also insulates the clique from new ideas. The challenge is to create more openness so cliques exchange information with others in society. This openness is helped along by people who function as liaisons and connect two or more cliques without belonging to either, and by *bridges,* people who belong to one clique and are linked to a person in another.

Best-selling author Malcolm Gladwell claims three factors work to ignite public interest in an idea.[76] According to the first, "The Law of the Few," three types of people help to spread an idea like an epidemic. First are *Mavens,* people knowledgeable about big and small things. Second are *Connectors,* people who know and communicate with a great number of other people. Third are *Salesmen,* who possess natural persuasive power. Any idea that catches the interest of Mavens, Connectors, and Salesmen is likely to be broadcast far and wide. The second factor is "Stickiness." An idea must be expressed so that it motivates people to act. Otherwise, "The Law of the Few" will not lead to a self-sustaining epidemic. Finally, the third factor, "The Power of Context," controls whether those spreading an idea are able to organize groups and communities around it.

Not everyone agrees with Gladwell's ideas.[77] One team of viral marketing experts caution that although influencers or "alphas" start trends, they are often too introspective and socially alienated to spread them. They advise marketers to cultivate "bees," hyperdevoted customers who are not just satisfied knowing about the next trend but live to spread the word.[78] More firms are in fact finding ways to actively engage their passionate brand evangelists. LEGO's Ambassador Program targets its most enthusiastic followers for brainstorming and feedback.[79]

Companies can stimulate personal influence channels to work on their behalf. "Marketing Memo: How to Start a Buzz Fire" describes some techniques. Companies can also trace online activity to identify more influential users who may function as opinion leaders.[80]

Consumers can resent personal communications if unsolicited. Some word-of-mouth tactics walk a fine line between acceptable and unethical. One controversial tactic, sometimes called *shill marketing* or *stealth marketing*, pays people to anonymously promote a product or service in public places without disclosing their financial relationship to the sponsoring firm. To launch its T681 mobile camera phone, Sony Ericsson hired actors dressed as tourists to approach people at tourist locations and ask to have their photo taken. Handing over the mobile phone created an opportunity to discuss its merits, but many found the deception distasteful.[81] Heineken took another tack and turned an admittedly deceptive stunt into a huge PR win.[82]

marketing **Memo**

How to Start a Buzz Fire

Although many word-of-mouth effects are beyond marketers' control, certain steps improve the likelihood of starting a positive buzz.

- *Identify influential individuals and companies and devote extra effort to them.* In technology, influencers might be large corporate customers, industry analysts and journalists, selected policy makers, and a sampling of early adopters.
- *Supply key people with product samples.* When two pediatricians launched MD Moms to market baby skin care products, they liberally sampled the product to physicians and mothers hoping for mentions on Internet message boards and parenting Web sites. The strategy worked—the company hit year one distribution goals by the end of the first month.
- *Work through community influentials such as local disk jockeys, class presidents, and presidents of women's organizations.* Ford's prelaunch "Fiesta Movement" campaign invited 100 handpicked young adults or "millennials" to live with the Fiesta car for six months. People were chosen based on their online experience with blogging and social friends and a video they submitted about their desire for adventure. After six months, the campaign had 4.3 million YouTube views, over 500,000 Flickr views, over 3 million Twitter impressions, and 50,000 potential customers, 97 percent of whom didn't already own a Ford.[83]
- *Develop word-of-mouth referral channels to build business.* Professionals will often encourage clients to recommend their services. Weight Watchers found that word-of-mouth referrals from someone in the program had a huge impact on business.
- *Provide compelling information that customers want to pass along.* Companies shouldn't communicate with customers in terms better suited for a press release. Make it easy and desirable for a customer to borrow elements from an e-mail message or blog. Information should be original and useful. Originality increases the amount of word of mouth, but usefulness determines whether it will be positive or negative.

Ford Fiesta used 100 young adult consumers to provide an online, real-life preview of its new car.

Sources: Matthew Dolan, "Ford Takes Online Gamble with New Fiesta," *Wall Street Journal*, April 8, 2009; Sarit Moldovan, Jacob Goldenberg, and Amitava Chattopadhyay, "What Drives Word of Mouth? The Roles of Product Originality and Usefulness," *MSI Report No. 06-111* (Cambridge, MA: Marketing Science Institute, 2006); Karen J. Bannan, "Online Chat Is a Grapevine That Yields Precious Fruit," *New York Times*, December 25, 2006; John Batelle, "The Net of Influence," *Business 2.0* (March 2004): 70; Ann Meyer, "Word-of-Mouth Marketing Speaks Well for Small Business," *Chicago Tribune,* July 28, 2003; Malcolm Macalister Hall, "Selling by Stealth," *Business Life* (November 2001), pp. 51–55.

Heineken

Heineken Nothing may be more important to young European adult males than soccer—which they call football. Heineken took advantage of that fact to stage a fake classical musical concert at the same time as a crucial Real Madrid versus AC Milan match, enlisting girlfriends, bosses, and professors as accomplices in the hoax. Over 1,000 passionate AC Milan fans reluctantly showed up at the theater with their companions for the performance. As the string quarter began to play and the soccer fans squirmed, words on a screen behind the musicians slowly revealed clues about the nature of the prank and then showed the game in all its big-screen glory. Over 1.5 million people watched the audience reactions on live SkySport TV, and the Heineken site devoted to the event received 5 million visitors. Subsequent PR and word of mouth made it a worldwide phenomenon.

Measuring the Effects of Word of Mouth[84]

Research and consulting firm Keller Fay notes that although 80 percent of word of mouth occurs offline, many marketers concentrate on online effects given the ease of tracking them through advertising, PR, or digital agencies.[85] Gatorade created a "Mission Control Center"—set up like a broadcast television control room—to monitor the brand on social networks around the clock.

Through demographic information or proxies and cookies, firms can monitor when customers blog, comment, post, share, link, upload, friend, stream, write on a wall, or update a profile. With these tracking tools it is possible, for example, to sell movie advertisers "1 million American women between the ages of 14 and 24 who had uploaded, blogged, rated, shared, or commented on entertainment in the previous 24 hours."[86]

DuPont employs measures of online word of mouth such as campaign scale (how far it reached), speed (how fast it spread), share of voice in that space, share of voice in that speed, whether it achieved positive lift in sentiment, whether the message was understood, whether it was relevant, whether it had sustainability (and was not a one-shot deal), and how far it moved from its source.

Other researchers focus more on characterizing the source of word of mouth. For example, one group is looking to evaluate blogs according to three dimensions: relevance, sentiment, and authority.[87]

Designing the Sales Force

The original and oldest form of direct marketing is the field sales call. To locate prospects, develop them into customers, and grow the business, most industrial companies rely heavily on a professional sales force or hire manufacturers' representatives and agents. Many consumer companies such as Allstate, Amway, Avon, Mary Kay, Merrill Lynch, and Tupperware use a direct-selling force.

U.S. firms spend over a trillion dollars annually on sales forces and sales force materials—more than on any other promotional method. Over 10 percent of the total workforce work full time in sales occupations, both nonprofit and for profit.[88] Hospitals and museums, for example, use fund-raisers to contact donors and solicit donations. For many firms, sales force performance is critical.[89]

SoBe John Bello, founder of SoBe nutritionally enhanced teas and juices, has given much credit to his sales force for the brand's successful ascent. Bello claims that the superior quality and consistent sales effort from the 150 salespeople the company had at its peak was directed toward one simple goal: "SoBe won in the street because our salespeople were there more often and in greater numbers than the competition, and they were more motivated by far." SoBe's sales force operated at every level of the distribution chain: At the distributor level, steady communication gave SoBe disproportionate focus relative to the other brands; at the trade level, with companies such as 7-Eleven, Costco, and Safeway, most senior salespeople had strong personal relationships; and at the individual store level, the SoBe team was always at work setting and restocking shelves, cutting in product, and putting up point-of-sale displays. According to Bello, bottom-line success in any entrepreneurial endeavor depends on sales execution.

An essential ingredient to SoBe's initial beverage market success was a highly motivated and skilled sales force.

Although no one debates the importance of the sales force in marketing programs, companies are sensitive to the high and rising costs of maintaining one, including salaries, commissions, bonuses, travel expenses, and benefits. Not surprisingly, companies are trying to increase sales force productivity through better selection, training, supervision, motivation, and compensation.[90]

The term *sales representative* covers six positions, ranging from the least to the most creative types of selling:[91]

1. ***Deliverer***—A salesperson whose major task is the delivery of a product (water, fuel, oil).
2. ***Order taker***—An inside order taker (standing behind the counter) or outside order taker (calling on the supermarket manager).
3. ***Missionary***—A salesperson not permitted to take an order but expected rather to build goodwill or educate the actual or potential user (the medical "detailer" representing an ethical pharmaceutical house).
4. ***Technician***—A salesperson with a high level of technical knowledge (the engineering salesperson who is primarily a consultant to client companies).
5. ***Demand creator***—A salesperson who relies on creative methods for selling tangible products (vacuum cleaners, cleaning brushes, household products) or intangibles (insurance, advertising services, or education).
6. ***Solution vendor***—A salesperson whose expertise is solving a customer's problem, often with a system of the company's products and services (for example, computer and communications systems).

Salespeople are the company's personal link to its customers. In designing the sales force, the company must develop sales force objectives, strategy, structure, size, and compensation (see Figure 19.3).

Sales Force Objectives and Strategy

The days when all the sales force did was "sell, sell, and sell" are long gone. Sales reps need to know how to diagnose a customer's problem and propose a solution that can help improve the customer's profitability.

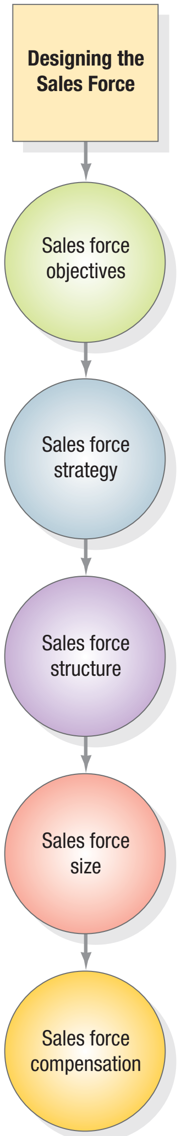
Companies need to define specific sales force objectives. For example, a company might want its sales representatives to spend 80 percent of their time with current customers and 20 percent with prospects, and 85 percent of their time on established products and 15 percent on new products. Regardless of the selling context, salespeople perform one or more specific tasks:

- ***Prospecting.*** Searching for prospects or leads
- ***Targeting.*** Deciding how to allocate their time among prospects and customers
- ***Communicating.*** Communicating information about the company's products and services
- ***Selling.*** Approaching, presenting, answering questions, overcoming objections, and closing sales
- ***Servicing.*** Providing various services to the customers—consulting on problems, rendering technical assistance, arranging financing, expediting delivery
- ***Information gathering.*** Conducting market research and doing intelligence work
- ***Allocating.*** Deciding which customers will get scarce products during product shortages

To manage costs, most companies are choosing a *leveraged sales force* that focuses reps on selling the company's more complex and customized products to large accounts and uses inside salespeople and Web ordering for low-end selling. Salespeople handle fewer accounts and are rewarded for key account growth; lead generation, proposal writing, order fulfillment, and postsale support are turned over to others. This is far different from expecting salespeople to sell to every possible account, the common weakness of geographically based sales forces.[92]

Companies must deploy sales forces strategically so they call on the right customers at the right time in the right way, acting as "account managers" who arrange fruitful contact between people in the buying and selling organizations. Selling increasingly calls for teamwork and the support of others, such as *top management,* especially when national accounts or major sales are at stake; *technical people,* who supply information and service before, during, and after product purchase; *customer service representatives,* who provide installation, maintenance, and other services; and *office staff,* consisting of sales analysts, order expediters, and assistants.[93]

To maintain a market focus, salespeople should know how to analyze sales data, measure market potential, gather market intelligence, and develop marketing strategies and plans. Especially at the higher levels of sales management, they need analytical marketing skills. Marketers believe sales forces are more effective in the long run if they understand and appreciate marketing as well as selling. Too often marketing and sales are in conflict: the sales force complains marketing isn't generating enough leads and marketers complain the sales force isn't converting them (see Figure 19.4). Improved collaboration and communication between these two can increase revenues and profits.[94]



|Fig. 19.3|

Designing a Sales Force

|Fig. 19.4|

A Hypothetical (Dysfunctional) Sales Marketing Exchange

Sales: I need leads, but marketing never sends me any good leads. How am I supposed to get new business with no good leads?

Marketing: We deliver tons of leads and they just sit in the system. Why won't sales call on any of them?

Sales: I have nothing new to sell. What is marketing doing? Why can't they figure out what customers want before they give it to us? Why don't they give me anything that's easy to sell?

Marketing: Why won't sales get out and sell my new programs? How do they expect customers to place orders without sales contacts?

Sales: My people spend too much time on administration and paperwork. I need them out selling.

Marketing: We need information to get new ideas. How long does it take to type in a few words? Don't they know their own customers?

Sales: How am I going to hit my number? Marketing is a waste of time. I'd rather have more sales reps.

Marketing: How am I going to hit my number? Sales won't help and I don't have enough people to do it myself.

Source: Based on a talk by Scott Sanderude and Jeff Standish, "Work Together, Win Together: Resolving Misconceptions between Sales and Marketing," talk given at Marketing Science Institute's *Marketing, Sales, and Customers* conference, December 7, 2005.

Once the company chooses its strategy, it can use a direct or a contractual sales force. A **direct (company) sales force** consists of full- or part-time paid employees who work exclusively for the company. Inside sales personnel conduct business from the office using the telephone and receive visits from prospective buyers, and field sales personnel travel and visit customers. A **contractual sales force** consists of manufacturers' reps, sales agents, and brokers, who earn a commission based on sales.

Sales Force Structure

The sales force strategy also has implications for its structure. A company that sells one product line to one end-using industry with customers in many locations would use a territorial structure. A company that sells many products to many types of customers might need a product or market structure. Some companies need a more complex structure. Motorola, for example, manages four types of sales forces: (1) a strategic market sales force composed of technical, applications, and quality engineers and service personnel assigned to major accounts; (2) a geographic sales force calling on thousands of customers in different territories; (3) a distributor sales force calling on and coaching Motorola distributors; and (4) an inside sales force doing telemarketing and taking orders via phone and fax.

Established companies need to revise their sales force structures as market and economic conditions change. SAS, seller of business intelligence software, reorganized its sales force into industry-specific groups such as banks, brokerages, and insurers and saw revenue soar by 14 percent.[95] "Marketing Insight: Major Account Management" discusses a specialized form of sales force structure.

Marketing Insight

Major Account Management

Marketers typically single out for attention major accounts (also called key accounts, national accounts, global accounts, or house accounts). These are important customers with multiple divisions in many locations who use uniform pricing and coordinated service for all divisions. A major account manager (MAM) usually reports to the national sales manager and supervises field reps calling on customer plants within their territories. The average company manages about 75 key accounts. If a company has several such accounts, it's likely to organize a major account management division, in which the average MAM handles nine accounts.

Large accounts are often handled by a strategic account management team with cross-functional members who integrate new-product development, technical support, supply chain, marketing activities, and multiple communication channels to cover all aspects of the relationship. Procter & Gamble has a strategic account management team of 300 staffers to work with Walmart in its Bentonville, Arkansas, headquarters, with more stationed at Walmart headquarters in Europe, Asia, and Latin America. P&G has credited this relationship with saving the company billions of dollars.

Major account management is growing. As buyer concentration increases through mergers and acquisitions, fewer buyers are accounting for a larger share of sales. Many are centralizing their purchases of certain items, gaining more bargaining power. And as products become more complex, more groups in the buyer's organization participate in the purchase process. The typical salesperson might not have the skill, authority, or coverage to sell effectively to the large buyer.

In selecting major accounts, companies look for those that purchase a high volume (especially of more profitable products), purchase centrally, require a high level of service in several geographic locations, may be price sensitive, and want a long-term partnership. Major account managers act as the single point of contact, develop and grow customer business, understand customer decision processes, identify added-value opportunities, provide competitive intelligence, negotiate sales, and orchestrate customer service.

Many major accounts look for added value more than a price advantage. They appreciate having a single point of dedicated contact; single billing; special warranties; EDI links; priority shipping; early information releases; customized products; and efficient maintenance, repair, and upgraded service. And there's the value of goodwill. Personal relationships with people who value the major account's business and have a vested interest in its success are compelling reasons for remaining a loyal customer.

Sources: Noel Capon, Dave Potter, and Fred Schindler, *Managing Global Accounts: Nine Critical Factors for a World-Class Program*, 2nd ed. (Bronxville, NY: Wessex Press, 2008); Peter Cheverton, *Global Account Management: A Complete Action Kit of Tools and Techniques for Managing Key Global Customers* (London, UK: Kogan Page, 2008); Malcolm McDonald and Diana Woodburn, *Key Account Management: The Definitive Guide*, 2nd ed. (Oxford, UK: Butterworth-Heinemann, 2007); Jack Neff, "Bentonville or Bust," *Advertising Age*, February 24, 2003. More information can be obtained from SAMA (Strategic Account Management Association) and the *Journal of Selling and Major Account Management*.

Sales Force Size

Sales representatives are one of the company's most productive and expensive assets. Increasing their number increases both sales and costs. Once the company establishes the number of customers it wants to reach, it can use a *workload approach* to establish sales force size. This method has five steps:

1. Group customers into size classes according to annual sales volume.
2. Establish desirable call frequencies (number of calls on an account per year) for each customer class.
3. Multiply the number of accounts in each size class by the corresponding call frequency to arrive at the total workload for the country, in sales calls per year.
4. Determine the average number of calls a sales representative can make per year.
5. Divide the total annual calls required by the average annual calls made by a sales representative, to arrive at the number of sales representatives needed.

Suppose the company estimates it has 1,000 A accounts and 2,000 B accounts. A accounts require 36 calls a year, and B accounts require 12, so the company needs a sales force that can make 60,000 sales calls (36,000 + 24,000) a year. If the average full-time rep can make 1,000 calls a year, the company needs 60.

Sales Force Compensation

To attract top-quality reps, the company must develop an attractive compensation package. Sales reps want income regularity, extra reward for above-average performance, and fair pay for experience and longevity. Management wants control, economy, and simplicity. Some of these objectives will conflict. No wonder compensation plans exhibit a tremendous variety from industry to industry and even within the same industry.

The company must quantify four components of sales force compensation. The *fixed amount,* a salary, satisfies the need for income stability. The *variable amount,* whether commissions, bonus, or profit sharing, serves to stimulate and reward effort. *Expense allowances* enable sales reps to meet the expenses of travel and entertaining. *Benefits,* such as paid vacations, sickness or accident benefits, pensions, and life insurance, provide security and job satisfaction.

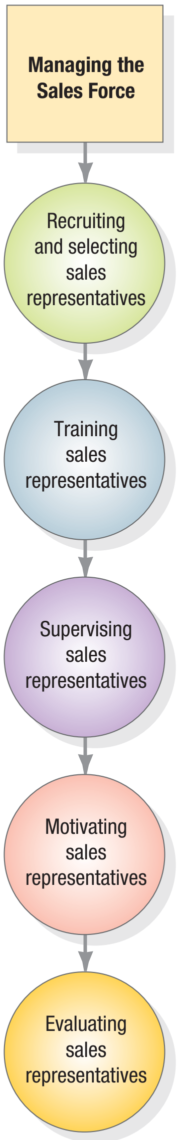
Fixed compensation is common in jobs with a high ratio of nonselling to selling duties, and jobs where the selling task is technically complex and requires teamwork. Variable compensation works best where sales are cyclical or depend on individual initiative. Fixed and variable compensation give rise to three basic types of compensation plans—straight salary, straight commission, and combination salary and commission. One survey revealed that over half of sales reps receive 40 percent or more of their compensation in variable pay.[96]

Straight-salary plans provide a secure income, encourage reps to complete nonselling activities, and reduce incentive to overstock customers. For the firm, these plans represent administrative simplicity and lower turnover. Straight-commission plans attract higher performers, provide more motivation, require less supervision, and control selling costs. On the negative side, they emphasize getting the sale over building the relationship. Combination plans feature the benefits of both plans while limiting their disadvantages.

Plans that combine fixed and variable pay link the variable portion to a wide variety of strategic goals. One current trend deemphasizes sales volume in favor of gross profitability, customer satisfaction, and customer retention. Other companies reward reps partly on sales team or even company-wide performance, motivating them to work together for the common good.

Managing the Sales Force

Various policies and procedures guide the firm in recruiting, selecting, training, supervising, motivating, and evaluating sales representatives to manage its sales force (see Figure 19.5).



|Fig. 19.5|

Managing the Sales Force

Recruiting and Selecting Representatives

At the heart of any successful sales force is a means of selecting effective representatives. One survey revealed that the top 25 percent of the sales force brought in over 52 percent of the sales. It's a great waste to hire the wrong people. The average annual turnover rate of sales reps for all industries is almost 20 percent. Sales force turnover leads to lost sales, the expense of finding and training replacements, and often pressure on existing salespeople to pick up the slack.[97]

After management develops its selection criteria, it must recruit. The human resources department solicits names from current sales representatives, uses employment agencies, places job ads, and contacts college students. Selection procedures can vary from a single informal interview to prolonged testing and interviewing.

Studies have shown little relationship between sales performance on one hand, and background and experience variables, current status, lifestyle, attitude, personality, and skills on the other. More effective predictors have been composite tests and assessment centers that simulate the working environment so applicants are assessed in an environment similar to the one in which they would work.[98] Although scores from formal tests are only one element in a set that includes personal characteristics, references, past employment history, and interviewer reactions, they have been weighted quite heavily by companies such as IBM, Prudential, and Procter & Gamble. Gillette claims tests have reduced turnover and scores correlated well with the progress of new reps.

Training and Supervising Sales Representatives

Today's customers expect salespeople to have deep product knowledge, add ideas to improve operations, and be efficient and reliable. These demands have required companies to make a much greater investment in sales training.

New reps may spend a few weeks to several months in training. The median training period is 28 weeks in industrial-products companies, 12 in service companies, and 4 in consumer-products companies. Training time varies with the complexity of the selling task and the type of recruit. For all sales, new hire "ramp up" to full effectiveness is taking longer than ever, with 27 percent taking 3 to 6 months, 38 percent taking 6 to 12 months, and 28 percent needing 12 months or more.

New methods of training are continually emerging, such as the use of audio- and videotapes, CDs and CD-ROMs, programmed learning, distance learning, and films. Some firms use role playing and sensitivity or empathy training to help reps identify with customers' situations and motives.

Reps paid mostly on commission generally receive less supervision. Those who are salaried and must cover definite accounts are likely to receive substantial supervision. With multilevel selling, such as Avon, Sara Lee, Virgin, and others use, independent distributors are also in charge of their own sales force selling company products. These independent contractors or reps are paid a commission not only on their own sales but also on the sales of people they recruit and train.[99]

Sales Rep Productivity

How many calls should a company make on a particular account each year? Some research suggests today's sales reps spend too much time selling to smaller, less profitable accounts instead of focusing on larger, more profitable accounts.[100]

NORMS FOR PROSPECT CALLS Left to their own devices, many reps will spend most of their time with current customers, who are known quantities. Reps can depend on them for some business, whereas a prospect might never deliver any. Companies therefore often specify how much time reps should spend prospecting for new accounts. Spector Freight wants its sales representatives to spend 25 percent of their time prospecting and stop after three unsuccessful calls. Some companies rely on a missionary sales force to open new accounts.

USING SALES TIME EFFICIENTLY The best sales reps manage their time efficiently. *Time-and-duty analysis* helps reps understand how they spend their time and how they might increase their productivity. In the course of a day, sales reps spend time planning, traveling, waiting, selling, and doing administrative tasks (report writing and billing; attending sales meetings; and talking to others in the company about production, delivery, billing, and sales performance). It's no wonder face-to-face selling accounts for as little as 29 percent of total working time![101]

Companies constantly try to improve sales force productivity.[102] To cut costs, reduce time demands on their outside sales force, and leverage computer and telecommunications innovations, many have increased the size and responsibilities of their inside sales force.

Inside salespeople are of three types: *Technical support people* provide technical information and answers to customers' questions. *Sales assistants* provide clerical backup for outside salespersons, call ahead to confirm appointments, run credit checks, follow up on deliveries, and answer customers' business-related questions. *Telemarketers* use the phone to find new leads, qualify them, and sell to them. Telemarketers can call up to 50 customers a day, compared to 4 for an outside salesperson.

The inside sales force frees outside reps to spend more time selling to major accounts, identifying and converting new major prospects, placing electronic ordering systems in customers' facilities, and obtaining more blanket orders and systems contracts. Inside salespeople spend more time checking inventory, following up orders, and phoning smaller accounts. Outside sales reps are paid largely on an incentive-compensation basis, and inside reps on a salary or salary-plus-bonus pay.

SALES TECHNOLOGY The salesperson today has truly gone electronic. Not only is sales and inventory information transferred much faster, but specific computer-based decision support systems have been created for sales managers and sales representatives. Using laptop computers, salespeople can access valuable product and customer information. With a few keystrokes, salespeople can prime themselves on backgrounds of clients; call up prewritten sales letters; transmit orders and resolve customer-service issues on the spot; and send samples, pamphlets, brochures, and other materials to clients.

One of the most valuable electronic tools for the sales rep is the company Web site, and one of its most useful applications is as a prospecting tool. Company Web sites can help define the firm's relationships with individual accounts and identify those whose business warrants a personal sales call. They provide an introduction to self-identified potential customers and might even receive the initial order. For more complex transactions, the site provides a way for the buyer to contact the seller. Selling over the Internet supports relationship marketing by solving problems that do not require live intervention and thus allows more time for issues best addressed face-to-face.

Motivating Sales Representatives

The majority of sales representatives require encouragement and special incentives, especially those in the field who encounter daily challenges.[103] Most marketers believe that the higher the salesperson's motivation, the greater the effort and the resulting performance, rewards, and satisfaction—all of which in turn further increase motivation.

INTRINSIC VERSUS EXTRINSIC REWARDS Marketers reinforce intrinsic and extrinsic rewards of all types. One research study found the reward with the highest value was pay, followed by promotion, personal growth, and sense of accomplishment.[104] Least valued were liking and respect, security, and recognition. In other words, salespeople are highly motivated by pay and the chance to get ahead and satisfy their intrinsic needs, and may be less motivated by compliments and security. Some firms use sales contests to increase sales effort.[105]

SALES QUOTAS Many companies set annual sales quotas, developed from the annual marketing plan, on dollar sales, unit volume, margin, selling effort or activity, or product type. Compensation is often tied to degree of quota fulfillment. The company first prepares a sales forecast that becomes the basis for planning production, workforce size, and financial requirements. Management then establishes quotas for regions and territories, which typically add up to more than the sales forecast to encourage managers and salespeople to perform at their best. Even if they fail to make their quotas, the company nevertheless may reach its sales forecast.

Each area sales manager divides the area's quota among its reps. Sometimes a rep's quotas are set high, to spur extra effort, or more modestly, to build confidence. One general view is that a salesperson's quota should be at least equal to last year's sales, plus some fraction of the difference between territory sales potential and last year's sales. The more favorably the salesperson reacts to pressure, the higher the fraction should be.

Conventional wisdom is that profits are maximized by sales reps focusing on the more important products and more profitable products. Reps are unlikely to achieve their quotas for established products when the company is launching several new products at the same time. The company will need to expand its sales force for new-product launches.

Setting sales quotas can create problems. If the company underestimates and the sales reps easily achieve their quotas, it has overpaid them. If it overestimates sales potential, the salespeople will find it very hard to reach their quotas and be frustrated or quit. Another downside is that quotas can drive reps to get as much business as possible—often ignoring the service side of the business. The company gains short-term results at the cost of long-term customer satisfaction. For these reasons, some companies are dropping quotas. Even hard-driving Oracle has changed its approach to sales compensation.

Oracle

Oracle Finding sales flagging and customers griping, Oracle, the second-largest software company in the world, decided to overhaul its sales department and practices. Its rapidly expanding capabilities, with diverse applications such as human resources, supply chain, and CRM, meant one rep could no longer be responsible for selling all Oracle products to certain customers. Reorganization let reps specialize in a few particular products. To tone down the sales force's reputation as overly aggressive, Oracle changed the commission structure from a range of 2 percent to 12 percent to a flat 4 percent to 6 percent and adopted guidelines on how to "play nice" with channels, independent software vendors (ISVs), resellers, integrators, and value-added resellers (VARs). The six principles instructed sales staff to identify and work with partners in accounts and respect their positions and the value they add, in order to address partner feedback that Oracle should be more predictable and reliable.[106]

Evaluating Sales Representatives

We have been describing the *feed-forward* aspects of sales supervision—how management communicates what the sales reps should be doing and motivates them to do it. But good feed-forward requires good *feedback,* which means getting regular information from reps to evaluate performance.

SOURCES OF INFORMATION The most important source of information about reps is sales reports. Additional information comes through personal observation, salesperson self-reports, customer letters and complaints, customer surveys, and conversations with other reps.

Sales reports are divided between *activity plans* and *write-ups of activity results.* The best example of the former is the salesperson's work plan, which reps submit a week or month in advance to describe intended calls and routing. This report forces sales reps to plan and schedule their activities and inform management of their whereabouts. It provides a basis for comparing their plans and accomplishments or their ability to "plan their work and work their plan."

Many companies require representatives to develop an annual territory-marketing plan in which they outline their program for developing new accounts and increasing business from existing accounts. Sales managers study these plans, make suggestions, and use them to develop sales quotas. Sales reps write up completed activities on *call reports.* Sales representatives also submit expense reports, new-business reports, lost-business reports, and reports on local business and economic conditions.

These reports provide raw data from which sales managers can extract key indicators of sales performance: (1) average number of sales calls per salesperson per day, (2) average sales call time per contact, (3) average revenue per sales call, (4) average cost per sales call, (5) entertainment cost per sales call, (6) percentage of orders per hundred sales calls, (7) number of new customers per period, (8) number of lost customers per period, and (9) sales force cost as a percentage of total sales.

FORMAL EVALUATION The sales force's reports along with other observations supply the raw materials for evaluation. One type of evaluation compares current to past performance. An example is shown in Table 19.1.

The sales manager can learn many things about a rep from this table. Total sales increased every year (line 3). This does not necessarily mean he is doing a better job. The product breakdown shows he has been able to push the sales of product B further than the sales of product A (lines 1 and 2). According to his quotas for the two products (lines 4 and 5), his increasing product B sales could be at the expense of product A sales. According to gross profits (lines 6 and 7), the company earns more selling A than B. The rep might be pushing the higher-volume, lower-margin product at the expense of the more profitable product. Although the rep increased total sales by $1,100 between 2009 and 2010 (line 3), gross profits on total sales actually decreased by $580 (line 8).

Sales expense (line 9) shows a steady increase, although total expense as a percentage of total sales seems to be under control (line 10). The upward trend in total dollar expense does not seem to be explained by any increase in the number of calls (line 11), although it might be related to success in

TABLE 19.1 Form for Evaluating Sales Representative's Performance

Territory: Midland Sales Representative: John Smith	2007	2008	2009	2010
1. Net sales product A	$251,300	$253,200	$270,000	$263,100
2. Net sales product B	423,200	439,200	553,900	561,900
3. Net sales total	674,500	692,400	823,900	825,000
4. Percent of quota product A	95.6	92.0	88.0	84.7
5. Percent of quota product B	120.4	122.3	134.9	130.8
6. Gross profits product A	$50,260	$50,640	$54,000	$52,620
7. Gross profits product B	42,320	43,920	55,390	56,190
8. Gross profits total	92,580	94,560	109,390	108,810
9. Sales expense	$10,200	$11,100	$11,600	$13,200
10. Sales expense to total sales (%)	1.5	1.6	1.4	1.6
11. Number of calls	1,675	1,700	1,680	1,660
12. Cost per call	$6.09	$6.53	$6.90	$7.95
13. Average number of customers	320	24	328	334
14. Number of new customers	13	14	15	20
15. Number of lost customers	8	10	11	14
16. Average sales per customer	$2,108	$2,137	$2,512	$2,470
17. Average gross profit per customer	$289	$292	$334	$326

acquiring new customers (line 14). Perhaps in prospecting for new customers, this rep is neglecting present customers, as indicated by an upward trend in the annual number of lost accounts (line 15).

The last two lines show the level and trend in sales and gross profits per customer. These figures become more meaningful when compared with overall company averages. If this rep's average gross profit per customer is lower than the company's average, he could be concentrating on the wrong customers or not spending enough time with each customer. A review of annual number of calls (line 11) shows he might be making fewer annual calls than the average salesperson. If distances in the territory are similar to those in other territories, the rep might not be putting in a full workday, is poor at sales planning and routing, or is spending too much time with certain accounts.

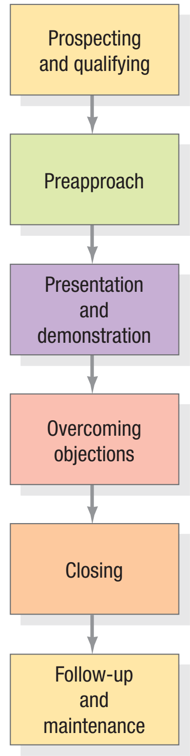
Even if effective in producing sales, the rep may not rate high with customers. Success may come because competitors' salespeople are inferior, the rep's product is better, or new customers are always found to replace those who dislike the rep. Managers can glean customer opinions of the salesperson, product, and service by mail questionnaires or telephone calls. Sales reps can analyze the success or failure of a sales call and how they would improve the odds on subsequent calls. Their performance could be related to internal factors (effort, ability, and strategy) and/or external factors (task and luck).[107]

Principles of Personal Selling

Personal selling is an ancient art. Effective salespeople today have more than instinct, however. Companies now spend hundreds of millions of dollars each year to train them in methods of analysis and customer management and to transform them from passive order takers into active order getters. Reps are taught the SPIN method to build long-term relationships, with questions such as:[108]

1. ***Situation questions***—These ask about facts or explore the buyer's present situation. For example, "What system are you using to invoice your customers?"
2. ***Problem questions***—These deal with problems, difficulties, and dissatisfactions the buyer is experiencing. For example, "What parts of the system create errors?"
3. ***Implication questions***—These ask about the consequences or effects of a buyer's problems, difficulties, or dissatisfactions. For example, "How does this problem affect your people's productivity?"
4. ***Need-payoff questions***—These ask about the value or usefulness of a proposed solution. For example, "How much would you save if our company could help reduce errors by 80 percent?"

Most sales training programs agree on the major steps in any effective sales process. We show these steps in Figure 19.6 and discuss their application to industrial selling next.[109]



|Fig. 19.6|

Major Steps in Effective Selling

The Six Steps

PROSPECTING AND QUALIFYING The first step in selling is to identify and qualify prospects. More companies are taking responsibility for finding and qualifying leads so salespeople can use their expensive time doing what they can do best: selling. Companies qualify the leads by contacting them by mail or phone to assess their level of interest and financial capacity. "Hot" prospects are turned over to the field sales force and "warm" prospects to the telemarketing unit for follow-up. Even then, it takes about four calls on a prospect to consummate a business transaction.

PREAPPROACH The salesperson needs to learn as much as possible about the prospect company (what it needs, who takes part in the purchase decision) and its buyers (personal characteristics and buying styles). How is the purchasing process conducted at the company? How is purchasing structured? Many purchasing departments in larger companies have been elevated into strategic supply departments with more professional practices. Centralized purchasing may put a premium on having larger suppliers able to meet all the company's needs. At the same time, some companies are also decentralizing purchasing for smaller items such as coffeemakers, office supplies, and other inexpensive necessities.

The sales rep must thoroughly understand the purchasing process in terms of "who, when, where, how, and why" in order to set call objectives: to qualify the prospect, gather information, or make an immediate sale. Another task is to choose the best contact approach—a personal visit, a phone call, or a letter. The right approach is crucial given that it has become harder and harder for sales reps to get into the offices of purchasing agents, physicians, and other possible time-starved and Internet-enabled customers. Finally, the salesperson should plan an overall sales strategy for the account.

PRESENTATION AND DEMONSTRATION The salesperson tells the product "story" to the buyer, using a *features, advantages, benefits,* and *value* (FABV) approach. Features describe physical characteristics of a market offering, such as chip processing speeds or memory capacity. Advantages describe why the features provide an advantage to the customer. Benefits describe the economic, technical, service, and social pluses delivered by the offering. Value describes the offering's worth (often in monetary terms). Salespeople often spend too much time on product features (a product orientation) and not enough time stressing benefits and value (a customer orientation). The pitch to a prospective client must be highly relevant, engaging, and compelling—there is always another company waiting to take that business.[110]

OVERCOMING OBJECTIONS Customers typically pose objections. *Psychological resistance* includes resistance to interference, preference for established supply sources or brands, apathy, reluctance to give up something, unpleasant associations created by the sales rep, predetermined ideas, dislike of making decisions, and neurotic attitude toward money. *Logical resistance* might be objections to the price, delivery schedule, or product or company characteristics.

To handle these objections, the salesperson maintains a positive approach, asks the buyer to clarify the objection, questions in such a way that the buyer answers his own objection, denies the validity of the objection, or turns it into a reason for buying. Although price is the most frequently negotiated issue—especially in an economic recession—others include contract completion time; quality of goods and services offered; purchase volume; responsibility for financing, risk taking, promotion, and title; and product safety.

Salespeople sometimes give in too easily when customers demand a discount. One company recognized this problem when sales revenues went up 25 percent but profit remained flat. The company decided to retrain its salespeople to "sell the price," rather than "sell through price." Salespeople were given richer information about each customer's sales history and behavior. They received training to recognize value-adding opportunities rather than price-cutting opportunities. As a result, the company's sales revenues climbed and so did its margins.[111]

CLOSING Closing signs from the buyer include physical actions, statements or comments, and questions. Reps can ask for the order, recapitulate the points of agreement, offer to help write up the order, ask whether the buyer wants A or B, get the buyer to make minor choices such as color or size, or indicate what the buyer will lose by not placing the order now. The salesperson might offer specific inducements to close, such as an additional service, an extra quantity, or a token gift.

If the client still isn't budging, perhaps the salesperson is not interacting with the right executive—a more senior person may have the necessary authority. The salesperson also may need to find other ways to reinforce the value of the offering and how it alleviates financial or other pressures the client faces.[112]

FOLLOW-UP AND MAINTENANCE Follow-up and maintenance are necessary to ensure customer satisfaction and repeat business. Immediately after closing, the salesperson should cement any necessary details about delivery time, purchase terms, and other matters important to the customer. The salesperson should schedule a follow-up call after delivery to ensure proper installation, instruction, and servicing and to detect any problems, assure the buyer of the salesperson's interest, and reduce any cognitive dissonance. The salesperson should develop a maintenance and growth plan for the account.

Relationship Marketing

The principles of personal selling and negotiation are largely transaction-oriented because their purpose is to close a specific sale. But in many cases the company seeks not an immediate sale but rather a long-term supplier–customer relationship. Today's customers prefer suppliers who can sell and deliver a coordinated set of products and services to many locations, who can quickly solve problems in different locations, and who can work closely with customer teams to improve products and processes.

Salespeople working with key customers must do more than call only when they think customers might be ready to place orders. They should call or visit at other times and make useful suggestions about the business. They should monitor key accounts, know customers' problems, and be ready to serve them in a number of ways, adapting and responding to different customer needs or situations.[113]

Relationship marketing is not effective in all situations. But when it is the right strategy and is properly implemented, the organization will focus as much on managing its customers as on managing its products.

Summary

1. Direct marketing is an interactive marketing system that uses one or more media to effect a measurable response or transaction at any location. Direct marketing, especially electronic marketing, is showing explosive growth.
2. Direct marketers plan campaigns by deciding on objectives, target markets and prospects, offers, and prices. Next, they test and establish measures to determine the campaign's success.
3. Major channels for direct marketing include face-to-face selling, direct mail, catalog marketing, telemarketing, interactive TV, kiosks, Web sites, and mobile devices.
4. Interactive marketing provides marketers with opportunities for much greater interaction and individualization through well-designed and executed Web sites, search ads, display ads, and e-mails. Mobile marketing is another growing form of interactive marketing that relies on text messages, software apps, and ads.
5. Word-of-mouth marketing finds ways to engage customers so they choose to talk with others about products, services, and brands. Increasingly, word of mouth is being driven by social media in the form of online communities and forums, blogs, and social networks such as Facebook, Twitter, and YouTube.
6. Two notable forms of word-of-mouth marketing are buzz marketing, which seeks to get people talking about a brand by ensuring that a product or service or how it is marketed is out of the ordinary, and viral marketing, which encourages people to exchange online information related to a product or service.
7. Salespeople serve as a company's link to its customers. The sales rep *is* the company to many of its customers, and it is the rep who brings back to the company much-needed information about the customer.
8. Designing the sales force requires choosing objectives, strategy, structure, size, and compensation. Objectives may include prospecting, targeting, communicating, selling, servicing, information gathering, and allocating. Determining strategy requires choosing the most effective mix of selling approaches. Choosing the sales force structure entails dividing territories by geography, product, or market (or some combination of these). To estimate how large the sales force needs to be, the firm estimates the total workload and how many sales hours (and hence salespeople) will be needed. Compensating the sales force entails determining what types of salaries, commissions, bonuses, expense accounts, and benefits to give, and how much weight customer satisfaction should have in determining total compensation.
9. There are five steps in managing the sales force: (1) recruiting and selecting sales representatives; (2) training the representatives in sales techniques and in the company's products, policies, and customer-satisfaction orientation; (3) supervising the sales force and helping

reps to use their time efficiently; (4) motivating the sales force and balancing quotas, monetary rewards, and supplementary motivators; (5) evaluating individual and group sales performance.

10. Effective salespeople are trained in the methods of analysis and customer management, as well as the art of sales professionalism. No single approach works best in all circumstances, but most trainers agree that selling is a six-step process: prospecting and qualifying customers, preapproach, presentation and demonstration, overcoming objections, closing, and follow-up and maintenance.

Applications

Marketing Debate

Are Great Salespeople Born or Made?

One debate in sales is about the impact of training versus selection in developing an effective sales force. Some observers maintain the best salespeople are born that way and are effective due to their personalities and interpersonal skills developed over a lifetime. Others contend that application of leading-edge sales techniques can make virtually anyone a sales star.

Take a position: **The key to developing an effective sales force is selection *versus* The key to developing an effective sales force is training.**

Marketing Discussion

Corporate Web Sites

Pick a company and go to its corporate Web site. How would you evaluate the Web site? How well does it score on the 7Cs of design elements: context, content, community, customization, communication, connection, and commerce?

Marketing Excellence

>>Facebook

Facebook has brought a whole new level of personal marketing to the world of business. The social networking Web site fulfills people's desire to communicate and interact with each other and uses that power to help other companies target very specific audiences with personalized messages.

Facebook was founded in 2004 by Mark Zuckerberg, who was a student at Harvard University at the time and created the first version of the Web site in his dorm room. Zuckerberg recalled, "I just thought that being able to have access to different people's profiles would be interesting. Obviously, there's no way you can get access to that stuff unless people are throwing up profiles, so I wanted to make an application that would allow people to do that, to share as much information as they wanted while having control over what they put up." From the beginning, Facebook has kept its profiles and navigation tools relatively simple in order to unify the look and feel for each individual. Within the first 24 hours the Facebook Web site was up, between 1,200 and 1,500 Harvard students had registered and become part of the Facebook community. Within the first month, half the campus had registered.

Initially, Facebook's Web site could only be viewed and used by Harvard students. The early momentum was tremendous, though, and Facebook soon expanded to include students throughout the Ivy League and other colleges. The initial decision to keep Facebook exclusive to college students was critical to its early success. It gave the social Web site a sense of privacy, unity, and exclusivity that social media competitors like MySpace did not offer. Eventually, in 2006, Facebook opened up to everyone.

Today, Facebook is the most popular social networking Web site in the world, with over 500 million active users. The site allows users to create personal profiles with information such as their hometowns, work, educational background, favorite things, and religious affiliation. It encourages them to extend their network by adding other users as friends, and many people try to see how many "friends" they can accumulate. To interact with Facebook friends, users can send messages; "poke" each other; upload and view albums, photos, games, and videos; and "tag" or label people in their photos. They can post comments on friends' "walls" and create status updates viewable to everyone. In summary, Facebook is fulfilling its mission to "give people the power to share and make the world more open and connected."

Facebook has become a critical marketing component for just about any brand for several reasons. First, companies, sports teams, musicians, and politicians can create Facebook pages—a place to communicate to and with their fans. Facebook pages offer groups and brands a way to personally interact, build awareness, communicate, and offer information to anyone who takes an interest. Companies use Facebook to introduce new products, launch videos and promotions, upload images, communicate to consumers, listen to feedback, and create an overall personal look and feel. Even politicians from around the world—from the United States to the Philippines—use Facebook to push their campaigns and communicate with supporters on a local, personalized basis.

Facebook also offers targeted advertising opportunities. Banner ads—the company's major source of income—can target individuals by demographic or keywords based on the specific information they have placed in their profiles. adidas, for example, uses Facebook to promote specific labels within the company, target consumers regionally, and give the brand a personal touch. The head of adidas's digital marketing group explained, "Wherever our fans are, we're going to use Facebook to speak to them and we're going to try to speak to them in a locally relevant way."

Facebook's growth and influence have been incredible. In one survey, college students named Facebook the second most popular thing in their undergraduate world, tied only with beer. And Facebook is not used only by undergrads. Of the 150+ million users in the United States, 29 percent are aged 35 to 54, while 25 percent are aged 18 to 24. Overall, women represent the fast-growing segment. Facebook also tends to have a more upscale, educated, desirable demographic than competitive social networks, and therefore it charges more for its advertising ads.

In 2010, Facebook surpassed Google as the top Web site in the world based on unique visitors per month and also ranked number one for number of pages viewed per month. Facebook has become an important part of consumers' everyday lives and therefore a critical component in personal marketing strategies.

Questions

1. Why is Facebook unique in the world of personal marketing?
2. Is Facebook just a passing fad or is it here to stay? What are the company's greatest strengths and risks?
3. Discuss the recent privacy issues that challenged Facebook. Will privacy restrictions limit its ability to offer personal marketing opportunities?

Sources: John Cassidy, "Me Media," *New Yorker,* May 15, 2006; "Survey: College Kids Like iPods Better Than Beer," *Associated Press,* June 8, 2006; Peter Corbett, "Facebook Demographics and Statistics Report 2010," I Strategy Labs, www.istrategylabs.com; Brian Womack, "Facebook Sees Fourfold Jump in Number of Advertisers Since 2009," *BusinessWeek,* June 2, 2010; Kermit Pattison, "How to Market Your Business with Facebook," *New York Times,* November 11, 2009; Facebook, www.facebook.com.

Marketing Excellence

>>Unilever (Axe and Dove)

Unilever—the manufacturer of several home care, food, and personal care brands—understands the importance of using personal marketing communications to target specific age groups, demographics, and lifestyles. As a result, it has developed some of the most successful brands in the world, including Axe, a male grooming brand, and Dove, a personal care brand aimed at women.

Axe is the most popular male grooming brand in the world and Unilever's best seller. The brand, which offers a wide range of personal care products from body spray to body gel, deodorant, and shampoo, was launched in 1983 and introduced in the United States in 2002. Axe targets 15- to 25-year-old males who are interested in improving their appeal to the opposite sex and "keeping a step ahead in the mating game." Most Axe ads use humor and sex and often feature skinny, average guys attracting beautiful girls by the dozen. The result: the brand is aspirational and approachable, and the lighthearted tone hits home with young men. In one recent global campaign called "Bom-chika-wah-wah" (after the pop culture phrase that mimics a guitar sound from 1970s adult movies), gorgeous women are instantly attracted to average guys through a single whiff of Axe deodorant or body spray.

Axe has won numerous advertising awards not only for its creative but also for its effective use of unconventional media channels. From edgy online videos to video games, blogs, chat rooms, and mobile apps, the Axe brand engages young adult males on their own turf. In Colombia, for example, a female Axe Patrol scopes out the bar and club scene and sprays men with Axe body sprays. Unilever Marketing Director Kevin George explained, "This is all about going beyond the 30-second TV commercial to create a deeper bond with our guy."

Axe knows where to reach its consumers. It advertises only on male-dominated networks such as MTV, ESPN, Spike, and Comedy Central. It partners with the NBA and NCAA, which draw in younger male audiences than many other sports. Print ads appear in *Playboy*, *Rolling Stone*, *GQ*, and *Maxim*. Axe's online efforts via Facebook, Twitter, chat rooms, and banner ads help drive consumers back to its Web site (www.theaxeeffect.com) where Axe continues to build brand loyalty. For example, one ad costing $200,000 featured men in a small town in Alaska who use Axe to attract women. It was viewed more than 10 million times online.

Axe also understands that it has to work hard to keep the brand fresh, relevant, and cool with its fickle young audience. So it launches a new fragrance every year and refreshes its online and advertising communications constantly. Axe's success in personal marketing has lifted the brand to become the leader in what many had thought was the mature $2.4 billion deodorant category.

On the other side of the personal marketing spectrum, Unilever's Dove brand speaks to women with a different tone and message. In 2003, Dove shifted away from it traditional advertising touting the brand's benefit of one-quarter moisturizing cream and the results experienced after the seven-day Dove test. Its "Real Beauty" campaign instead celebrates "real women" of all shapes, sizes, ages, and colors. The campaign arose from research revealing that only 2 percent of women worldwide considered themselves beautiful, and an overwhelming majority strongly agree that "the media and advertising set an unrealistic standard of beauty." Dove set out to speak personally to women about the idea that "beauty comes in all shapes and sizes."

The first phase of the "Real Beauty" campaign featured nontraditional female models and asked consumers to judge their looks online (Wrinkled? Wonderful? Oversized? Outstanding?) at www.campaignforrealbeauty.com. The personal questions shocked many but created such a grand PR buzz that Dove continued the campaign. The second phase featured candid and confident images of curvy, full-bodied women—again, smashing stereotypes and touching home with the majority of women all over the world while promoting Dove skin products such as Intensive Firming Cream, Lotion, and Body Wash. The multimedia campaign was thoroughly integrated, combining traditional TV and print ads with new forms of media, such as real-time voting for models on cell phones and tabulated displays of results on giant billboards. In addition, Dove's Web site became a crucial component for initiating dialogue between women. The third phase of the campaign, called "Pro-Age," featured older, nude women and asked questions like, "Does beauty have an age limit?" Almost instantly, the company heard positive feedback from its older consumers.

In addition, Dove released two Dove Films, one of which, *Evolution*, won both a Cyber and film Grand Prix at the International Advertising Festival. The film shows a rapid-motion view of an ordinary-looking woman transformed by makeup artists, hairdressers, lighting, and digital retouching to end up looking like a billboard supermodel. The end tagline is: "No wonder our perception of beauty is distorted." The film became an instant viral hit and has been viewed more than 15 million times online and by more than 300 million people worldwide, including in news coverage and other channels of distribution. In total, Dove's "Campaign for Real Beauty" has touched women all over the world and been mentioned in over 800 articles in leading newspapers from *Le Parisien* to *The Times* in London.

Although both campaigns have sparked much controversy and debate for different reasons, they have been credited with boosting Unilever's sales and market share all over the globe.

Questions

1. What makes personal marketing work? Why are Dove and Axe so successful at it?
2. Can personal marketing go too far in a company? Why or why not?
3. Is there a conflict of interests in the way Unilever markets to women and young men? Is it undoing all the good that might be done in the "Campaign for Real Beauty" by making women sex symbols in Axe ads? Discuss.

Sources: Jack Neff, "Dove's 'Real Beauty' Pics Could Be Big Phonies," *Advertising Age*, May 7, 2008; Catherine Holahan, "Raising the Bar on Viral Web Ads," *BusinessWeek*, July 23, 2006; Robert Berner, "How Unilever Scored with Young Guys," *BusinessWeek*, May 23, 2005; Thomas Mucha, "Spray Here. Get Girl," *Business 2.0*, June 2003; Randall Rothenberg, "Dove Effort Gives Packaged-Goods Marketers Lessons for the Future," *Advertising Age*, March 5, 2007; Theresa Howard, "Ad Campaign Tells Women to Celebrate Who They Are," *USA Today*, July 8, 2005; Jack Neff, "In Dove Ads, Normal Is the New Beautiful," *Advertising Age*, September 27, 2004; Laura Petrecca, "Amusing or Offensive, Axe Ads Show That Sexism Sells," *USA Today,* April 18, 2007; Dove, www.campaignforrealbeauty.com; Unilever, www.unilever.com.

PART 8 Creating Successful Long-term Growth

Chapter 20

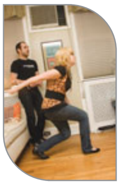
With a unique approach to video game playing, Nintendo's highly interactive and engaging Wii became a huge hit.

In This Chapter, We Will Address the Following Questions

1. What challenges does a company face in developing new products and services?
2. What organizational structures and processes do managers use to oversee new-product development?
3. What are the main stages in developing new products and services?
4. What is the best way to manage the new-product development process?
5. What factors affect the rate of diffusion and consumer adoption of newly launched products and services?

Introducing New Market Offerings

New-product development shapes the company's future. Improved or replacement products and services can maintain or build sales; new-to-the-world products and services can transform industries and companies and change lives. But the low success rate of new products and services points to the many challenges they face. Companies are doing more than just talking about innovation. They are challenging industry norms and past conventions to develop new products and services that delight and engage consumers. Nintendo's Wii is a prime example.[1]



Although Nintendo helped create the $30 billion global video game business, its U.S. sales had shrunk in half by 2006. CEO Satoru Iwata and game designer Shigeru Miyamoto decided to address two troubling trends in the industry: As players got older and acquired families and careers, they played less often, and as video game consoles got more powerful, they grew more expensive. Nintendo's solution? Redesign the game controllers and the way they interacted with the consoles. Bucking industry trends, Nintendo chose a cheaper, lower-power chip with fewer graphics capabilities, creating a totally different style of play based on physical gestures. A sleek white design and a new motion-sensitive wireless controller made it much more engaging and interactive. Nintendo's decision to embrace outside software developers meant a number of titles quickly became available. Thus Wii was born. Its collaborative nature made it a hit with nongamers drawn by its capabilities and hard-core players seeking to master its many intriguing games.

Marketers play a key role in new-product development by identifying and evaluating ideas and working with R&D and other areas in every stage of development. This chapter provides a detailed analysis of the new-product development process. Much of the discussion is equally relevant to new products, services, or business models. Chapter 21 considers how marketers can tap into global markets as another source of long-term growth.

New-Product Options

There are a variety of types of new products and ways to create them.[2]

Make or Buy

A company can add new products through acquisition or development. When acquiring, the company can buy other companies, patents from other companies, or a license or franchise from another company. Swiss food giant Nestlé has increased its presence in North America by acquiring such diverse brands as Carnation, Hills Brothers, Stouffer's, Ralston Purina, Dreyer's Ice Cream, Chef America, Jenny Craig, and Gerber.

But firms can successfully make only so many acquisitions. At some point, they need *organic growth*— the development of new products from within. Praxair, worldwide provider of industrial gases, achieved an ambitious goal of $200 million per year of double-digit new annual sales growth only through a healthy dose of organic growth and a large number of smaller but significant $5 million projects.[3]

For product development, the company can create new products in its own laboratories, or it can contract with independent researchers or new-product development firms to develop specific new products or provide new technology.[4] Firms such as Samsung, GE, Diageo, Hershey, and USB have engaged new-product consulting boutiques to provide fresh insights and points of view.

Types of New Products

New products range from new-to-the-world products that create an entirely new market to minor improvements or revisions of existing products. Most new-product activity is devoted to improving existing products. Some of the most successful recent new consumer products have been brand extensions: Tide Total Care, Gillette Venus Embrace, Bounce Extra Soft, Always Infinity, and Secret Flawless deodorant.[5] At Sony, modifications of established products account for over 80 percent of new-product activity.

It is increasingly difficult to identify blockbuster products that will transform a market, but continuous innovation can force competitors to play catch-up and also broaden the brand meaning.[6] Once a running-shoe manufacturer, Nike now competes with makers of all types of athletic shoes, clothing, and equipment. Armstrong World Industries moved from selling floor coverings to ceilings to total interior surface decoration.

Fewer than 10 percent of all new products are truly innovative and new to the world.[7] These products incur the greatest cost and risk. Although radical innovations can hurt the company's bottom line in the short run, if they succeed they can create a greater sustainable competitive advantage than ordinary products and produce significant financial rewards as a result.[8]

Companies typically must create a strong R&D and marketing partnership to pull off a radical innovation.[9] The right corporate culture is another crucial determinant; the firm must prepare to cannibalize existing products, tolerate risk, and maintain a future market orientation.[10] Few reliable techniques exist for estimating demand for radical innovations.[11] Focus groups can provide perspective on customer interest and need, but marketers may need a probe-and-learn approach based on observation and feedback of early users' experiences and other means such as online chats or product-focused blogs.

High-tech firms in telecommunications, computers, consumer electronics, biotech, and software in particular seek radical innovation.[12] They face a number of product-launch challenges: high technological uncertainty, high market uncertainty, fierce competition, high investment costs, short product life cycles, and scarce funding sources for risky projects.[13] Successes abound, however.[14] BMW is spending more than $1 billion to develop a small car for urban drivers, including an electric-powered version. Blackboard e-learning software brings new technology into the classroom to help professors manage their classes and course materials. Even consumer packaged goods makers can benefit from a healthy dose of technology. Danone uses sophisticated R&D techniques to study bacteria, coming up with billion-dollar sellers such as Activia yogurt, sold as an aid for regularity.

Challenges in New-Product Development

New-product introductions have accelerated, and in retailing, consumer goods, electronics, autos, and other industries, the time to bring a product to market has been cut in half.[15] Luxury leather-goods maker Louis Vuitton implemented a new factory format dubbed Pégase so it could ship fresh collections to its boutiques every six weeks—more than twice as frequently as in the past—giving customers more new looks to choose from.[16]

The Innovation Imperative

In an economy of rapid change, continuous innovation is a necessity. Highly innovative firms are able to identify and quickly seize new market opportunities. They create a positive attitude toward innovation and risk taking, routinize the innovation process, practice teamwork, and allow their people to experiment and even fail. One such firm is W. L. Gore.

W. L. Gore Best known for its GORE-TEX high-performance fabrics, W. L. Gore has introduced breakthrough products as diverse as guitar strings, dental floss, medical devices, and fuel cells—while constantly reinventing the uses of the polymer polytetrafluoroethylene (PTFE). Several principles guide its new-product development. First, it works with potential customers. Its thoracic graft, designed to combat heart disease, was developed in close collaboration with physicians. Second, it lets employees choose projects and appoints few product leaders and teams. Gore likes to nurture "passionate champions" who convince others a project is worth their time and commitment. Thus leaders have positions of authority because they have followers. The development of the fuel cell rallied more than 100 of Gore's 9,000 research associates. Third, Gore gives employees "dabble" time. All research associates spend 10 percent of their work hours developing their own ideas. Promising ideas are pushed forward and judged according to a "Real, Win, Worth" exercise: Is the opportunity real? Can we win? Can we make money? Fourth, Gore knows when to let go, though dead ends in one area can spark innovation in another: Elixir acoustic guitar strings were the result of a failed venture into bike cables. Even successful ventures may need to move on. Glide shred-resistant dental floss was sold to Procter & Gamble because GORE-TEX knew retailers want to deal with a company selling a whole family of health care products.[17]

W. L. Gore's thoughtful new-product development strategy has led to many successful innovations over the years, starting with its waterproof, breathable GORE-TEX fabric.

Companies that fail to develop new products leave their existing offerings vulnerable to changing customer needs and tastes, new technologies, shortened product life cycles, increased domestic and foreign competition, and especially new technologies. Kodak, long-time leader in the vanishing traditional film market, has worked hard to develop a new business model and product-development processes for a digital-photography world. Its new goal is to do for photos what Apple does for music by helping people organize and manage their personal libraries of images.

Innovation is about "creating new choices" the competition doesn't have access to, says IDEO's CEO Tim Brown. It isn't about brilliant people spontaneously generating new ideas, he argues, but about finding hidden assumptions and ignored processes that can change the way a company does business.[18]

New-Product Success

Most established companies focus on *incremental innovation*, entering new markets by tweaking products for new customers, using variations on a core product to stay one step ahead of the market, and creating interim solutions for industry-wide problems.

When Scott Paper couldn't compete with Fort Howard Paper Co. on price for the lucrative institutional toilet tissue market, it borrowed a solution from European companies: a dispenser that held bigger rolls. Scott made the larger rolls of paper and provided institutional customers with free dispensers, later doing the same thing with paper towels. Scott not only won over customers in a new market; it became less vulnerable to competitors, such as Fort Howard, which could lower prices but weren't offering the larger rolls or tailor-made dispensers.

Newer companies create *disruptive technologies* that are cheaper and more likely to alter the competitive space. Established companies can be slow to react or invest in these disruptive technologies because they threaten their investment. Then they suddenly find themselves facing formidable new competitors, and many fail.[19] To avoid this trap, incumbent firms must carefully monitor the preferences of both customers and noncustomers and uncover evolving, difficult-to-articulate customer needs.[20]

What else can a company do? In a study of industrial products, new-product specialists Cooper and Kleinschmidt found that the number one success factor is a unique, superior product. Such products succeed 98 percent of the time, compared to products with a moderate advantage (58 percent success) or minimal advantage (18 percent success). Another key factor is a well-defined product concept. The company carefully defines and assesses the target market, product requirements, and benefits before proceeding. Other success factors are technological and marketing synergy, quality of execution in all stages, and market attractiveness.[21]

Cooper and Kleinschmidt also found that products designed solely for domestic markets tend to show a high failure rate, low market share, and low growth. Those designed for the world market—or at least neighboring countries—achieve significantly more profits at home and abroad. Yet only 17 percent of the products in their study were designed with an international orientation.[22] The implication is that companies should consider adopting an international perspective in designing and developing new products, even if only to sell in their home market.

New-Product Failure

New products continue to fail at estimated rates as high as 50 percent or even 95 percent in the United States and 90 percent in Europe.[23] They fail for many reasons: ignored or misinterpreted market research; overestimates of market size; high development costs; poor design or ineffectual performance; incorrect positioning, advertising, or price; insufficient distribution support; competitors who fight back hard; and inadequate ROI or payback. Some additional drawbacks are:[24]

- ***Shortage of important ideas in certain areas.*** There may be few ways left to improve some basic products (such as steel or detergent).
- ***Fragmented markets.*** Companies must aim their new products at smaller market segments, which can mean lower sales and profits for each product.
- ***Social, economic, and governmental constraints.*** New products must satisfy consumer safety and environmental concerns. They must also be resilient if economic times are tough.
- ***Cost of development.*** A company typically must generate many ideas to find just one worthy of development and thus often faces high R&D, manufacturing, and marketing costs.
- ***Capital shortages.*** Some companies with good ideas cannot raise the funds to research and launch them.
- ***Shorter required development time.*** Companies must learn to compress development time with new techniques, strategic partners, early concept tests, and advanced marketing planning.
- ***Poor launch timing.*** New products are sometimes launched after the category has already taken off or when there is still insufficient interest.
- ***Shorter product life cycles.*** Rivals are quick to copy success. Sony used to enjoy a three-year lead on its new products. Now Matsushita can copy them within six months, barely leaving Sony time to recoup its investment.
- ***Organizational support.*** The new product may not mesh with the corporate culture or receive the financial or other support it needs.

But failure comes with the territory, and truly innovative firms accept it as part of what's needed to be successful. Silicon Valley marketing expert Seth Godin maintains: "It is not just OK to fail; it's imperative to fail."[25] Many Web companies are the result of failed earlier ventures and experience numerous failures as their services evolve. Dogster.com, a social network site for dog lovers, emerged after the spectacular demise of Pets.com.[26]

Initial failure is not always the end of the road for an idea. Recognizing that 90 percent of experimental drugs are unsuccessful, Eli Lilly looks at failure as an inevitable part of discovery. Its scientists are encouraged to find new uses for compounds that fail at any stage in a human clinical trial. Evista, a failed contraceptive, became a $1 billion-a-year drug for osteoporosis. Strattera was unsuccessful as an antidepressant, but became a top seller for attention deficit/hyperactivity disorder. One promising cardiovascular drug in development started as an asthma project.[27]

Organizational Arrangements

Many companies use *customer-driven engineering* to develop new products, incorporating customer preferences in the final design. Some rely on internal changes to develop more successful new products. Consider Johnson & Johnson.

Johnson & Johnson

Johnson & Johnson To improve the odds for new-product success in its growing medical device business, Johnson & Johnson has made a number of changes. First, it is trying to replicate the dynamic venture-capital world within the company by creating internal start-ups that seek financing from other J&J units. J&J is also pushing for greater input from doctors and insurers to provide stronger assurance that any devices it introduces will be highly desirable, feasible, and cost-effective. The Ethicon-Endo unit designed new surgical clips based on discussions with physicians about the need to make surgery less invasive. J&J also put one of its most successful scientists in the newly created position of chief science and technology officer, to encourage collaboration between J&J's different businesses and overcome barriers in its decentralized structure. One notable success: the $2.6 billion CYPHER drug-coated stent.[28]

New-product development requires senior management to define business domains, product categories, and specific criteria. One company established the following acceptance criteria:

- The product can be introduced within five years.
- The product has a market potential of at least $50 million and a 15 percent growth rate.
- The product can provide at least 30 percent return on sales and 40 percent on investment.
- The product can achieve technical or market leadership.

Budgeting for New-Product Development

R&D outcomes are so uncertain that it is difficult to use normal investment criteria when budgeting for new-product development. Some companies simply finance as many projects as possible, hoping to achieve a few winners. Other companies apply a conventional percentage-of-sales figure or spend what the competition spends. Still others decide how many successful new products they need and work backward to estimate the required investment.

Table 20.1 shows how a company might calculate the cost of new-product development. The new-products manager at a large consumer packaged-goods company reviewed 64 ideas. Sixteen passed the screening stage and cost $1,000 each to review at this point. Half those, or eight, survived the concept-testing stage, at a cost of $20,000 each. Half of these, or four, survived the product-development stage, at a cost of $200,000 each. Two did well in the test market, costing $500,000 each. When they were launched, at a cost of $5 million each, one was highly successful. Thus, this one successful idea cost the company $5,721,000 to develop, while 63 others fell by the wayside for a total development cost of $13,984,000. Unless the company can improve its pass ratios and reduce costs at each stage, it will need to budget nearly $14 million for each successful new idea it hopes to find.

Hit rates vary. Inventor Sir James Dyson claims he made 5,127 prototypes of his bagless, transparent vacuum cleaner over a 14-year period before getting it right, resulting in the best-selling vacuum cleaner by revenue in the United States with over 20 million sold and annual revenue of $1 billion. He doesn't lament his failures, though: "If you want to discover something that other people haven't, you

TABLE 20.1 Finding One Successful New Product (Starting with 64 New Ideas)

Stage	Number of Ideas	Pass Ratio	Cost per Product Idea	Total Cost
1. Idea screening	64	1:4	$ 1,000	$ 64,000
2. Concept testing	16	1:2	20,000	320,000
3. Product development	8	1:2	200,000	1,600,000
4. Test marketing	4	1:2	500,000	2,000,000
5. National launch	2	1:2	5,000,000	10,000,000
			$5,721,000	$13,984,000

Inventor Sir James Dyson is willing to endure many failed prototypes as long as he comes up with a winner, like the Air Multiplier bladeless table fan.

need to do things the wrong way... watching why that fails can take you on a completely different path." His latest successes: the Airblade, an energy-efficient hand drier for public restrooms, and the Air Multiplier, a bladeless table fan.[29]

Organizing New-Product Development

Companies handle the organizational aspect of new-product development in several ways.[30] Many assign responsibility to *product managers.* But product managers are often busy managing existing lines and may lack the skills and knowledge to develop and critique new products.

Kraft and Johnson & Johnson employ *new-product managers* who report to category managers. Westinghouse has *growth leaders*—a full-time job for its most creative and successful managers.[31] Some companies have a *high-level management committee* charged with reviewing and approving proposals. Large companies often establish a *new-product department* headed by a manager with substantial authority and access to top management whose responsibilities include generating and screening new ideas, working with the R&D department, and carrying out field testing and commercialization.

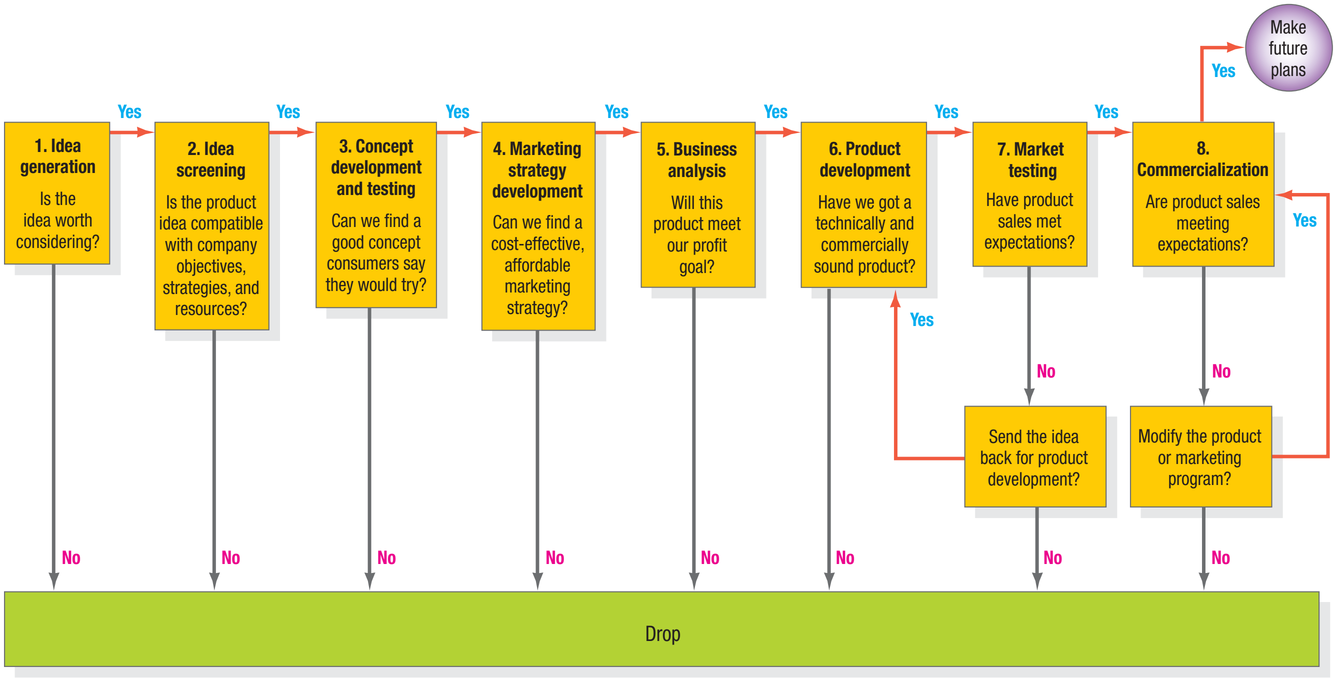
Adobe Systems Inc.

Adobe Systems Inc. Adobe Systems, a developer of graphic design and publishing software, established a task force to identify the obstacles its employees faced in trying to develop new products. The team discovered that ideas needing a new sales channel, new business model, or even new packaging failed due to the corporate hierarchy. In addition, Adobe had grown so large that ideas originating in branch offices were not getting a fair shake. As a result, Adobe established a New Business Initiatives Group that mimics the venture capital model, backing entrepreneurial people and putting employees in front of their ideas. The Group holds quarterly Idea Champion Showcases where approximately 20 product managers and other employees (except top executives who are barred from the proceedings) watch as potential employee-entrepreneurs give brief presentations and Q&A sessions. The ideas are vetted by Adobe Entrepreneurs-in-Residence and the best ideas are given a first round of funding. But even ideas that are nixed can still get a hearing on the company's brainstorming site. The event has become extremely popular within Adobe—an *American Idol*–style way for good ideas to come to the fore.[32]

CROSS-FUNCTIONAL TEAMS 3M, Dow, and General Mills have assigned new-product development to **venture teams**, cross-functional groups charged with developing a specific product or business. These "intrapreneurs" are relieved of other duties and given a budget, time frame, and "skunkworks" setting. *Skunkworks* are informal workplaces, sometimes garages, where intrapreneurial teams attempt to develop new products.

Cross-functional teams can collaborate and use concurrent new-product development to push new products to market.[33] Concurrent product development resembles a rugby match, with team members passing the new product back and forth as they head toward the goal. Using this system, Allen-Bradley Corporation (a maker of industrial controls) was able to develop a new device in just two years, down from six under its old system. Cross-functional teams help ensure that engineers are not driven to create a "better mousetrap" when potential customers don't need or want one.

STAGE-GATE SYSTEMS Many top companies use the *stage-gate system* to divide the innovation process into stages, with a gate or checkpoint at the end of each.[34] The project leader, working with a cross-functional team, must bring a set of known deliverables to each gate before the project can pass to the next stage. To move from the business plan stage into product development requires a convincing market research study of consumer needs and interest, a competitive analysis, and a technical appraisal. Senior managers review the criteria at each gate to make one of four decisions: *go*, *kill*, *hold*, or *recycle*. Stage-gate systems make the innovation process visible to all and clarify the project leader's and team's responsibilities at each stage.[35] The gates or controls should not be so rigid, however, that they inhibit learning and the development of novel products.[36]



|Fig. 20.1|

The New-Product Development Decision Process

The stages in the new-product development process are shown in Figure 20.1. Many firms have parallel sets of projects working through the process, each at a different stage.[37] Think of the process as a *funnel:* A large number of initial new-product ideas and concepts are winnowed down to a few high-potential products that are ultimately launched. But the process is not always linear. Many firms use a *spiral development process* that recognizes the value of returning to an earlier stage to make improvements before moving forward.[38]

Ansell Healthcare, the world's largest manufacturer of protective gloves and clothing, adopted a stage-gate process and found the contribution of new products to overall sales jumped from 4.5 percent to 13 percent in a little over two years. Hydro Quebec, one of the world's largest hydro-electricity utilities, implemented a stage-gate system that focused resources on the most valuable projects and reaped over $1 billion in benefits.[39]

Managing the Development Process: Ideas

Generating Ideas

The new-product development process starts with the search for ideas. Some marketing experts believe the greatest opportunities and highest leverage with new products are found by uncovering the best possible set of unmet customer needs or technological innovation.[40] New-product ideas can come from interacting with various groups and using creativity-generating techniques.[41] (See "Marketing Memo: Ten Ways to Find Great New-Product Ideas.")

Erich Joachimsthaler believes some of the best new-product opportunities are right in front of marketers' eyes. The mistake too many make, he says, is to view the world from the perspective of their own products and services and search for customers for them. His demand-first innovation

marketing Memo

Ten Ways to Find Great New-Product Ideas

1. Run informal sessions where groups of customers meet with company engineers and designers to discuss problems and needs and brainstorm potential solutions.
2. Allow time off—scouting time—for technical people to putter on their own pet projects. Google has allowed 20 percent time off; 3M 15 percent; and Rohm & Haas 10 percent.
3. Make a customer brainstorming session a standard feature of plant tours.
4. Survey your customers: Find out what they like and dislike in your and competitors' products.
5. Undertake "fly-on-the-wall" or "camping out" research with customers, as do Fluke and Hewlett-Packard.
6. Use iterative rounds: a group of customers in one room, focusing on identifying problems, and a group of your technical people in the next room, listening and brainstorming solutions. Immediately test proposed solutions with the group of customers.
7. Set up a keyword search that routinely scans trade publications in multiple countries for new-product announcements.
8. Treat trade shows as intelligence missions, where you view all that is new in your industry under one roof.
9. Have your technical and marketing people visit your suppliers' labs and spend time with their technical people—find out what's new.
10. Set up an idea vault, and make it open and easily accessed. Allow employees to review the ideas and add constructively to them.

Source: Adapted from Robert G. Cooper, *Product Leadership: Creating and Launching Superior New Products* (New York: Perseus Books, 1998). Adapted with permission from the author. See also Robert G. Cooper and Scott J. Edgett, "Ideation for Product Innovation: What are the Best Methods?: Visions," March 2008, pp. 12–17.

and growth (DIG) framework is designed to provide companies with an unbiased view and an outside-in perspective of demand opportunities. It has three parts:[42]

1. ***The demand landscape***—Use observational, anthropological, and ethnographic methods or consumer self-reports to map consumer needs, wants, and even beyond.
2. ***The opportunity space***—Use conceptual lens and structured innovative-thinking tools to achieve market perspectives from different angles.
3. ***The strategic blueprint***—Think about how the new product can fit into customers lives and how it can be distinguished from competitors.

As one DIG-type application, Joachimsthaler notes how Intel famously abandoned its highly competitive memory business to pursue more fertile opportunities with microprocessors.

INTERACTING WITH OTHERS Encouraged by the *open innovation* movement, many firms are going outside their bounds to tap external sources of new ideas, including customers, employees, scientists, engineers, channel members, marketing agencies, top management, and even competitors.[43] "Marketing Insight: P&G's New Connect-and-Develop Approach to Innovation" describes how P&G has made new-product development more externally focused.

Marketing Insight

P&G'S New Connect + Develop Approach to Innovation

In the first decade of the 21st century, one of the fastest-growing major corporations in revenue and profit was Procter & Gamble. Fueling that growth were successful new products such as Swiffer, Mr. Clean Magic Eraser, and Actonel (a prescription medication for osteoporosis). Many of these new products reflected innovation in what ex-CEO A.G. Lafley calls "the core"—core markets, categories, brands, technologies, and capabilities.

To more effectively develop its core, P&G adopted a "Connect + Develop" model that emphasizes the pursuit of outside innovation. The firm collaborates with organizations and individuals around the world, searching for proven technologies, packages, and products it can improve, scale up, and market on its own or in partnership with other companies. It has strong relationships with external designers, distributing product development around the world to increase what it calls "consumer sensing."

P&G identifies the top 10 customer needs, closely related products that could leverage or benefit from existing brand equity, and "game boards" that map the adoption of technology across different product categories. It may consult government and private labs as well as academic and other research institutions, VC firms, individual entrepreneurs, and suppliers, retailers, competitors, and development and trade partners, using online networks to reach thousands of experts worldwide.

P&G's three core requirements for a successful Connect + Develop strategy are:

1. *Never assume that "ready to go" ideas found outside are truly ready to go.* There will always be development work to do, including risky scale-up.
2. *Don't underestimate the internal resources required.* You'll need a full-time, senior executive to run any connect-and-develop initiative.
3. *Never launch without a mandate from the CEO.* Connect and develop cannot succeed if it's cordoned off in R&D. It must be a top-down, company-wide strategy.

Through Connect + Develop—and improvements in product cost, design, and marketing—P&G increased R&D productivity by nearly 60 percent during the decade. The innovation success rate more than doubled, and cost has fallen.

Sources: www.pgconnectdevelop.com A.G. Lafley and Ram Charan, *The Game Changer: How You Can Drive Revenue and Profit Growth Through Innovation* (New York: Crown Business, 2009); Robert Berner, "How P&G Pampers New Thinking," *BusinessWeek*, April 14, 2008, pp. 73–74; Steve Hamm, "Speed Demons," *BusinessWeek*, March 27, 2006, pp. 69–76; Larry Huston and Nabil Sakkab, "Connect and Develop: Inside Procter & Gamble's New Model for Innovation," *Harvard Business Review,* March 2006, pp. 58–66; Geoff Colvin, "Lafley and Immelt: In Search of Billions," *Fortune*, December 11, 2006, pp. 70–72; Rajat Gupta and Jim Wendler, "Leading Change: An Interview with the CEO of P&G," *McKinsey Quarterly* (July 2005).

Customer needs and wants are the logical place to start the search.[44] Griffin and Hauser suggest that conducting 10 to 20 in-depth experiential interviews per market segment often uncovers the vast majority of customer needs.[45] But other approaches can be profitable (see "Marketing Memo: Seven Ways to Draw New Ideas from Your Customers"). One marketer-sponsored café in Tokyo tests products of all kinds with affluent, influential young Japanese women.[46]

The traditional company-centric approach to product innovation is giving way to a world in which companies cocreate products with consumers.[47] Companies are increasingly turning to "crowdsourcing" to generate new ideas or, as we saw in the preceding chapter, to create consumer-generated marketing campaigns. *Crowdsourcing* means inviting the Internet community to help create content or software, often with prize money or a moment of glory as an incentive.[48]

This strategy has helped create new products and companies such as Wikipedia, YouTube (which was eventually purchased by Google), and iStockphoto, a "microstock" company. One recent convert to crowdsourcing is Cisco.[49]

P&G's Connect + Develop approach to innovation enabled Swiffer Dusters to make the leap to global market success.

Cisco

Cisco Cisco's I-Prize, an external innovation competition, gives a team outside the company the chance to join Cisco in heading an emerging technology business while receiving a $250,000 signing bonus and up to $10 million in funding for the first two years. Cisco's rationale for the contest—which drew 1,200 entrants from 104 countries—was simple: "In many parts of the world, you have incredibly smart people with incredibly great ideas who have absolutely no access to capital to take a great idea and turn it into a business." Judges applied five main criteria: (1) Does it address a real pain point? (2) Will it appeal to a big enough market? (3) Is the timing right? (4) If we pursue the idea, will we be good at it? and (5) Can we exploit the opportunity for the long term? The public judged the entries online, where Cisco found the detailed comments even more useful than the actual votes. The winning entry in the first competition was a plan for a sensor-enabled smart-electricity grid.

Besides producing new and better ideas, cocreation can help customers to feel closer to and more favorably toward the company and to create favorable word of mouth.[50] Getting the right customers engaged in the right way, however, is critical.[51]

Lead users can be a good source of input, even when they innovate products without the consent or knowledge of the companies that produce them. Mountain bikes developed as a result of youngsters taking their bikes to the top of a mountain and riding down. When the bikes broke, the

marketing **Memo**

Seven Ways to Draw New Ideas from Your Customers

1. ***Observe how customers are using your product.*** Medtronic, a medical device company, has salespeople and market researchers regularly observe spine surgeons who use their products and competitive products, to learn how theirs can be improved. After living with lower-middle-class families in Mexico City, Procter & Gamble researchers devised Downy Single Rinse, a fabric softener that removed an arduous step from the partly manual laundry process there.
2. ***Ask customers about their problems with your products.*** Komatsu Heavy Equipment sent a group of engineers and designers to the United States for six months to ride with equipment drivers and learn how to make products better. Procter & Gamble, recognizing consumers were frustrated that potato chips break and are difficult to save after opening the bag, designed Pringles to be uniform in size and encased in a protective tennis-ball-type can.
3. ***Ask customers about their dream products.*** Ask your customers what they want your product to do, even if the ideal sounds impossible. One 70-year-old camera user told Minolta he would like the camera to make his subjects look better and not show their wrinkles and aging. In response, Minolta produced a camera with two lenses, one for rendering softer images of the subjects.
4. ***Use a customer advisory board to comment on your company's ideas.*** Levi Strauss uses youth panels to discuss lifestyles, habits, values, and brand engagements; Cisco runs Customer Forums to improve its offerings; and Harley-Davidson solicits product ideas from its one million H.O.G. (Harley Owners Group) members.
5. ***Use Web sites for new ideas.*** Companies can use specialized search engines such as Technorati and Daypop to find blogs and postings relevant to their businesses. P&G's site has *We're Listening* and *Share Your Thoughts* sections and Advisory Feedback sessions to gain advice and feedback from customers.
6. ***Form a brand community of enthusiasts who discuss your product.*** Harley-Davidson and Apple have strong brand enthusiasts and advocates; Sony engaged in collaborative dialogues with consumers to codevelop Sony's PlayStation 2. LEGO draws on kids and influential adult enthusiasts for feedback on new-product concepts in early stages of development.
7. ***Encourage or challenge your customers to change or improve your product.*** Salesforce.com wants its users to develop and share new software applications using simple programming tools. International Flavors & Fragrances gives a toolkit to its customers to modify specific flavors, which IFF then manufactures; LSI Logic Corporation also provides customers with do-it-yourself toolkits so customers can design their own specialized chips; and BMW posted a toolkit on its Web site to let customers develop ideas using telematics and in-car online services.

Source: From an unpublished paper, Philip Kotler, "Drawing New Ideas from Your Customers," 2007.

Some of the best new-product ideas come from highly involved consumers or lead users, as was the case in the birth of the mountain bike.

youngsters began building more durable bikes and adding motorcycle brakes, improved suspension, and accessories. They, not the companies, developed these innovations.

Some companies, particularly those that want to appeal to hip young consumers, bring their lead users into their product-design process. Technical companies can learn a great deal by studying customers who make the most advanced use of the company's products and who recognize the need for improvements before other customers do.[52] In a business-to-business market, collecting information from distributors and retailers who are not in close contact can provide more diverse insights and information.[53]

Not everyone believes a customer focus helps to create better new products. As Henry Ford famously said, "If I'd asked people what they wanted, they would have said a faster horse." And some still caution that being overly focused on consumers who may not really know what they want, or what could be possible, can result in shortsighted product development and miss real potential breakthroughs.[54]

INTERACTING WITH EMPLOYEES Employees can be a source of ideas for improving production, products, and services.[55] Toyota claims its employees submit 2 million ideas annually (about 35 suggestions per employee), over 85 percent of which are implemented. Kodak, Milliken, and other firms give monetary, holiday, or recognition awards to employees who submit the best ideas. Nokia inducts engineers who file for at least 10 patents into its "Club 10," recognizing them each year in a formal awards ceremony hosted by the company's CEO.[56] A company can motivate its employees to submit new ideas to an *idea manager* whose name and contact information are widely circulated.

Top management can be another major source of ideas. Some company leaders, such as former CEO Andy Grove of Intel, take personal responsibility for technological innovation in the firm. New-product ideas can come from inventors, patent attorneys, university and commercial laboratories, industrial consultants, advertising agencies, marketing research firms, and industrial publications. However, their chances of receiving serious attention often depend on someone in the organization taking the role of product champion.

STUDYING COMPETITORS Companies can find good ideas by researching the products and services of competitors and other companies. They can find out what customers like and dislike about competitors' products. They can buy their competitors' products, take them apart, and build better ones. Company sales representatives and intermediaries are a particularly good source of ideas. These groups have firsthand exposure to customers and are often the first to learn about competitive developments. Electronic retailer Best Buy actually checks with venture capitalists to find out what start-ups are working on.

ADOPTING CREATIVITY TECHNIQUES Internal brainstorming sessions also can be quite effective—if conducted correctly. "Marketing Memo: How to Run a Successful Brainstorming Session" provides some brainstorming guidelines.

The following list is a sampling of techniques for stimulating creativity in individuals and groups.[57]

- ***Attribute listing.*** List the attributes of an object, such as a screwdriver. Then modify each attribute, such as replacing the wooden handle with plastic, providing torque power, adding different screw heads, and so on.
- ***Forced relationships.*** List several ideas and consider each in relationship to each of the others. In designing new office furniture, for example, consider a desk, bookcase, and filing cabinet as separate ideas. Then imagine a desk with a built-in bookcase or a desk with built-in files or a bookcase with built-in files.
- ***Morphological analysis.*** Start with a problem, such as "getting something from one place to another via a powered vehicle." Now think of dimensions, such as the type of platform (cart, chair, sling, bed), the medium (air, water, oil, rails), and the power source (compressed air, electric motor, magnetic fields). By listing every possible combination, you can generate many new solutions.
- ***Reverse assumption analysis.*** List all the normal assumptions about an entity and then reverse them. Instead of assuming that a restaurant has menus, charges for food, and serves food, reverse each assumption. The new restaurant may decide to serve only what the chef bought that morning and cooked; may provide some food and charge only for how long the person sits at the table; and may design an exotic atmosphere and rent out the space to people who bring their own food and beverages.

marketing Memo

How to Run a Successful Brainstorming Session

If done correctly, group brainstorming sessions can create insights, ideas, and solutions that would have been impossible without everyone's participation. If done incorrectly, they are a painful waste of time that can frustrate and antagonize participants. To ensure success, experts recommend the following guidelines:

1. A trained facilitator should guide the session.
2. Participants must feel they can express themselves freely.
3. Participants must see themselves as collaborators working toward a common goal.
4. Rules need to be set up and followed, so conversations don't get off track.
5. Participants must be given proper background preparation and materials so they can get into the task quickly.
6. Individual sessions before and after the brainstorming can be useful for thinking and learning about the topic ahead of time and for reflecting afterward on what happened.
7. Brainstorming sessions must lead to a clear plan of action and implementation, so the ideas that materialize can provide tangible value.
8. Brainstorming sessions can do more than just generate ideas—they can help build teams and leave participants better informed and energized.

Sources: Linda Tischler, "Be Creative: You Have 30 Seconds," *Fast Company,* May 2007, pp. 47–50; Michael Myser, "When Brainstorming Goes Bad," *Business 2.0*, October 2006, p. 76; Robert I. Sutton, "Eight Rules to Brilliant Brainstorming," *BusinessWeek IN Inside Innovation,* September 2006, pp. 17–21.

An example of lateral marketing, Kinder Surprise combines two product concepts—candy and toy—into one product offering.

- ***New contexts.*** Take familiar processes, such as people-helping services, and put them into a new context. Imagine helping dogs and cats instead of people with day care service, stress reduction, psychotherapy, funerals, and so on. As another example, instead of sending hotel guests to the front desk to check in, greet them at curbside and use a wireless device to register them.
- ***Mind mapping.*** Start with a thought, such as a car, write it on a piece of paper, then think of the next thought that comes up (say Mercedes), link it to car, then think of the next association (Germany), and do this with all associations that come up with each new word. Perhaps a whole new idea will materialize.

Increasingly, new-product ideas arise from *lateral marketing* that combines two product concepts or ideas to create a new offering.[58] Here are some successful examples:

- Gas station stores = gas stations + food
- Cybercafés = cafeteria + Internet
- Cereal bars = cereal + snacking
- Kinder Surprise = candy + toy
- Sony Walkman = audio + portable

Using Idea Screening

In screening ideas, the company must avoid two types of errors. A *DROP-error* occurs when the company dismisses a good idea. It is extremely easy to find fault with other people's ideas (Figure 20.2). Some companies shudder when they look back at ideas they dismissed or breathe sighs of relief when they realize how close they came to dropping what eventually became a huge success. Consider the hit television show *Friends.*

Friends

Friends

The NBC situation comedy *Friends* enjoyed a 10-year run from 1994 to 2004 as a perennial ratings powerhouse. But the show almost didn't see the light of the day. According to an internal NBC research report, the pilot episode was described as "not very entertaining, clever, or original" and was given a failing grade, scoring 41 out of 100. Ironically, the pilot for an earlier hit sitcom, *Seinfeld,* was also rated "weak," although the pilot for the medical drama *ER* scored a healthy 91. Courtney Cox's Monica was the *Friends* character who scored best with test audiences, but characters portrayed by Lisa Kudrow and Matthew Perry were deemed to have marginal appeal, and the Rachel, Ross, and Joey characters scored even lower. Adults 35 and over in the sample found the characters as a whole "smug, superficial, and self-absorbed."[59]

The purpose of screening is to drop poor ideas as early as possible. The rationale is that product-development costs rise substantially with each successive development stage. Most companies require new-product ideas to be described on a standard form for a new-product committee's review. The description states the product idea, the target market, and the competition and roughly estimates market size, product price, development time and costs, manufacturing costs, and rate of return.

The executive committee then reviews each idea against a set of criteria. Does the product meet a need? Would it offer superior value? Can it be distinctively advertised? Does the company have the necessary know-how and capital? Will the new product deliver the expected sales volume, sales growth, and profit? Consumer input may be necessary to tap into marketplace realities.[60]

Management can rate the surviving ideas using a weighted-index method like that in Table 20.2. The first column lists factors required for successful product launches, and the second column assigns importance weights. The third column scores the product idea on a scale from 0 to 1.0, with 1.0 the highest score. The final step multiplies each factor's importance by the product score to obtain an overall rating. In this example, the product idea scores 0.69, which places it in the "good idea" level. The purpose of this basic rating device is to promote systematic evaluation and discussion. It is not supposed to make the decision for management.

TABLE 20.2 Product–Idea Rating Device

Product Success Requirements	Relative Weight (a)	Product Score (b)	Product Rating (c = a × b)
Unique or superior product	.40	.8	.32
High performance-to-cost ratio	.30	.6	.18
High marketing dollar support	.20	.7	.14
Lack of strong competition	.10	.5	.05
Total	1.00		.69[a]

[a] Rating scale: .00–.30 poor; .31–.60 fair; .61–.80 good. Minimum acceptance rate: .61

As the idea moves through development, the company will need to constantly revise its estimate of the product's overall probability of success, using the following formula:

Overall probability of success	=	Probability of technical completion	×	Probability of commercialization given technical completion	×	Probability of economic success given commercialization

For example, if the three probabilities are estimated at 0.50, 0.65, and 0.74, respectively, the overall probability of success is 0.24. The company then must judge whether this probability is high enough to warrant continued development.

Managing the Development Process: Concept to Strategy

Attractive ideas must be refined into testable product concepts. A *product idea* is a possible product the company might offer to the market. A *product concept* is an elaborated version of the idea expressed in consumer terms.

Concept Development and Testing

Concept development is a necessary but not sufficient step for new product success. Marketers must also distinguish winning concepts from losers.

CONCEPT DEVELOPMENT Let us illustrate concept development with the following situation: A large food-processing company gets the idea of producing a powder to add to milk to increase its nutritional value and taste. This is a product *idea*, but consumers don't buy product ideas; they buy product *concepts.*

A product idea can be turned into several concepts. The first question is: Who will use this product? It can be aimed at infants, children, teenagers, young or middle-aged adults, or older adults. Second, what primary benefit should this product provide: Taste, nutrition, refreshment, or energy? Third, when will people consume this drink: Breakfast, midmorning, lunch, midafternoon, dinner, late evening? By answering these questions, a company can form several concepts:

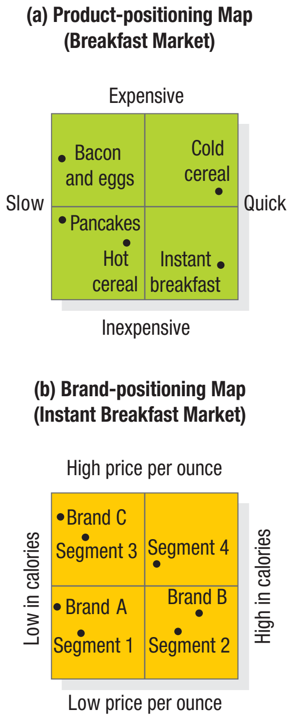
- ***Concept 1.*** An instant drink for adults who want a quick nutritious breakfast without preparation.
- ***Concept 2.*** A tasty snack for children to drink as a midday refreshment.
- ***Concept 3.*** A health supplement for older adults to drink in the late evening before they go to bed.

Each concept represents a *category concept* that defines the product's competition. An instant breakfast drink would compete against bacon and eggs, breakfast cereals, coffee and pastry, and other breakfast alternatives. A snack drink would compete against soft drinks, fruit juices, sports drinks, and other thirst quenchers.

|Fig. 20.2|

Forces Fighting New Ideas

Source: With permission of Jerold Panas, Young & Partners Inc.



|Fig. 20.3|

Product and Brand Positioning

Suppose the instant-breakfast-drink concept looks best. The next task is to show where this powdered product would stand in relationship to other breakfast products via perceptual mapping. Figure 20.3(a) uses the two dimensions of cost and preparation time to create a *product-positioning map* for the breakfast drink. An instant breakfast drink offers low cost and quick preparation. Its nearest competitor is cold cereal or breakfast bars; its most distant is bacon and eggs. These contrasts can help communicate and promote the concept to the market.

Next, the product concept becomes a *brand concept.* Figure 20.3(b) is a *brand-positioning map*, a perceptual map showing the current positions of three existing brands of instant breakfast drinks (A–C), as seen by consumers. It can also be useful to overlay consumer preferences on to the map in terms of their current or desired preferences. Figure 20.3(b) also shows four segments of consumers (1–4) whose preferences are clustered around the points on the map.

The brand-positioning map helps the company to decide how much to charge and how calorific to make its drink. Three segments (1–3) are well served by existing brands (A–C). The company would not want to position itself next to one of those existing brands, unless that brand is weak or inferior or market demand was high enough to be shared. As it turns out, the new brand would be distinctive in the medium-price, medium-calorie market or in the high-price, high-calorie market. There is also a segment of consumers (4) clustered fairly near the medium-price, medium-calorie market, suggesting that this may offer the greatest opportunity.

CONCEPT TESTING Concept testing means presenting the product concept to target consumers, physically or symbolically, and getting their reactions. The more the tested concepts resemble the final product or experience, the more dependable concept testing is. Concept testing of prototypes can help avoid costly mistakes, but it may be especially challenging with radically different, new-to-the-world products.[61] Visualization techniques can help respondents match their mental state with what might occur when they are actually evaluating or choosing the new product.[62]

In the past, creating physical prototypes was costly and time consuming, but today firms can use *rapid prototyping* to design products on a computer and then produce rough models to show potential consumers for their reactions. In response to a short-term oversupply of wine in the marketplace, the makers of Kendall-Jackson developed two new brands by using rapid prototyping to quickly bring its ideas to life, selling 100,000 cases, 10 times more than expected, for each brand in the process.[63]

Companies are also using *virtual reality* to test product concepts. Virtual reality programs use computers and sensory devices (such as gloves or goggles) to simulate reality. Supercomputers also allow for elaborate product testing to assess changes in performance and supplement consumer input. Kenworth trucks used to test new truck designs with clay models and wind tunnels. Using supercomputer analysis, it can now make more accurate estimates of how much drag and fuel use it can eliminate with new trimmed and tapered mud flaps (answer: $400 of a typical truck's annual gas bill).[64]

Concept testing presents consumers with an elaborated version of the concept. Here is the elaboration of concept 1 in our milk example:

> Our product is a powdered mixture added to milk to make an instant breakfast that gives all the day's needed nutrition along with good taste and high convenience. The product comes in three flavors (chocolate, vanilla, and strawberry) and individual packets, six to a box, at $2.49 a box.

After receiving this information, researchers measure product dimensions by having consumers respond to questions like these:

1. ***Communicability and believability***—"Are the benefits clear to you and believable?" If the scores are low, the concept must be refined or revised.
2. ***Need level***—"Do you see this product solving a problem or filling a need for you?" The stronger the need, the higher the expected consumer interest.
3. ***Gap level***—"Do other products currently meet this need and satisfy you?" The greater the gap, the higher the expected consumer interest. Marketers can multiply the need level by the gap level to produce a *need-gap score.* A high score means the consumer sees the product as filling a strong need not satisfied by available alternatives.
4. ***Perceived value***—"Is the price reasonable in relationship to value?" The higher the perceived value, the higher is expected consumer interest.

Conjoint analysis was instrumental in the design of Courtyard by Marriott.

5. ***Purchase intention***—"Would you (definitely, probably, probably not, definitely not) buy the product?" Consumers who answered the first three questions positively should answer "Definitely" here.
6. ***User targets, purchase occasions, purchasing frequency***—"Who would use this product, when, and how often?"

Respondents' answers indicate whether the concept has a broad and strong consumer appeal, what products it competes against, and which consumers are the best targets. The need-gap levels and purchase-intention levels can be checked against norms for the product category to see whether the concept appears to be a winner, a long shot, or a loser. One food manufacturer rejects any concept that draws a definitely-would-buy score lower than 40 percent.

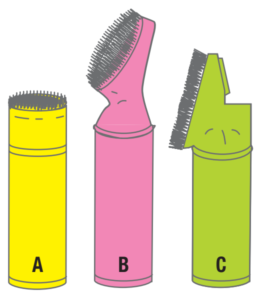
CONJOINT ANALYSIS Consumer preferences for alternative product concepts can be measured with **conjoint analysis**, a method for deriving the utility values that consumers attach to varying levels of a product's attributes.[65] Conjoint analysis has become one of the most popular concept-development and testing tools. For example, Marriott used it to design its Courtyard hotel concept.[66]

With conjoint analysis, respondents see different hypothetical offers formed by combining varying levels of the attributes, then rank the various offers. Management can identify the most appealing offer and its estimated market share and profit. In a classic illustration, academic research pioneers Green and Wind used this approach in connection with developing a new spot-removing, carpet-cleaning agent for home use.[67] Suppose the new-product marketer is considering five design elements:

- Three package designs (A, B, C—see Figure 20.4)
- Three brand names (K2R, Glory, Bissell)
- Three prices ($1.19, $1.39, $1.59)
- A possible Good Housekeeping seal (yes, no)
- A possible money-back guarantee (yes, no)

Although the researcher can form 108 possible product concepts ($3 \times 3 \times 3 \times 2 \times 2$), it would be too much to ask consumers to rank them all from most to least preferred. A sample of, say, 18 contrasting product concepts is feasible.

The marketer now uses a statistical program to derive the consumer's utility functions for each of the five attributes (see Figure 20.5). Utility ranges between zero and one; the higher the utility, the stronger the consumer's preference for that level of the attribute. Looking at packaging, package B is the most favored, followed by C and then A (A hardly has any utility). The preferred names are Bissell, K2R, and Glory, in that order. The consumer's utility varies inversely with price.

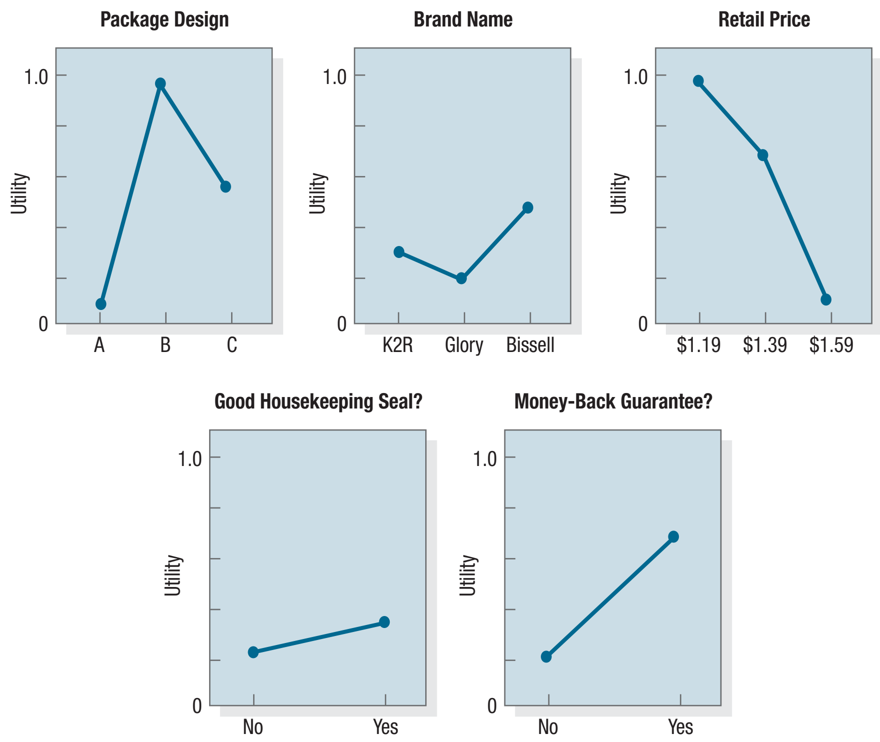


|Fig. 20.4|

Samples for Conjoint Analysis

|Fig. 20.5|

Utility Functions Based on Conjoint Analysis



A Good Housekeeping seal is preferred, but it does not add that much utility and may not be worth the effort to obtain it. A money-back guarantee is strongly preferred.

The consumer's most desired offer is package design B, brand name Bissell, priced at $1.19, with a Good Housekeeping seal and a money-back guarantee. We can also determine the relative importance of each attribute to this consumer—the difference between the highest and lowest utility level for that attribute. The greater the difference, the more important the attribute. Clearly, this consumer sees price and package design as the most important attributes, followed by money-back guarantee, brand name, and a Good Housekeeping seal.

Preference data from a sufficient sample of target consumers helps to estimate the market share any specific offer is likely to achieve, given any assumptions about competitive response. Still, the company may not launch the market offer that promises to gain the greatest market share, because of cost considerations. The most customer-appealing offer is not always the most profitable offer to make.

Under some conditions, researchers will collect the data not with a full-profile description of each offer, but by presenting two factors at a time. For example, respondents may see a table with three price levels and three package types and indicate which of the nine combinations they would like most, second-best, and so on. A further table consists of trade-offs between two other variables. The trade-off approach may be easier to use when there are many variables and possible offers. However, it is less realistic in that respondents are focusing on only two variables at a time. Adaptive conjoint analysis (ACA) is a "hybrid" data collection technique that combines self-explicated importance ratings with pair-wise trade-off tasks.

Marketing Strategy Development

Following a successful concept test, the new-product manager will develop a preliminary three-part strategy plan for introducing the new product into the market. The first part describes the target market's size, structure, and behavior; the planned product positioning; and the sales, market share, and profit goals sought in the first few years:

> The target market for the instant breakfast drink is families with children who are receptive to a new, convenient, nutritious, and inexpensive form of breakfast. The company's brand will be positioned at the higher-price, higher-quality end of the instant-breakfast-drink category. The company will aim initially to sell 500,000 cases or 10 percent of the market,

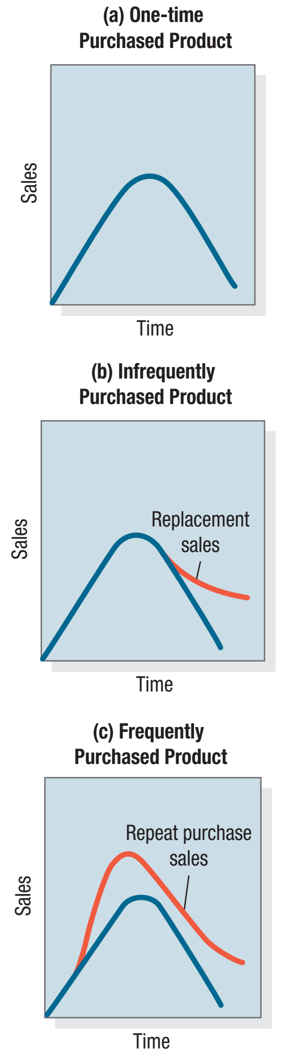
with a loss in the first year not exceeding $1.3 million. The second year will aim for 700,000 cases or 14 percent of the market, with a planned profit of $2.2 million.

The second part outlines the planned price, distribution strategy, and marketing budget for the first year:

The product will be offered in chocolate, vanilla, and strawberry, in individual packets of six to a box, at a retail price of $2.49 a box. There will be 48 boxes per case, and the case price to distributors will be $24. For the first two months, dealers will be offered one case free for every four cases bought, plus cooperative-advertising allowances. Free samples will be distributed door-to-door. Coupons for 50 cents off will appear in newspapers. The total sales promotional budget will be $2.9 million. An advertising budget of $6 million will be split 50:50 between national and local. Two-thirds will go into television and one-third into online. Advertising copy will emphasize the benefit concepts of nutrition and convenience. The advertising-execution concept will revolve around a small boy who drinks instant breakfast and grows strong. During the first year, $100,000 will be spent on marketing research to buy store audits and consumer-panel information to monitor market reaction and buying rates.

The third part of the marketing strategy plan describes the long-run sales and profit goals and marketing-mix strategy over time:

The company intends to win a 25 percent market share and realize an after-tax return on investment of 12 percent. To achieve this return, product quality will start high and be improved over time through technical research. Price will initially be set at a high level and lowered gradually to expand the market and meet competition. The total promotion budget will be boosted each year about 20 percent, with the initial advertising–sales promotion split of 65:35 evolving eventually to 50:50. Marketing research will be reduced to $60,000 per year after the first year.



|Fig. 20.6|

Product Life-Cycle Sales for Three Types of Products

Business Analysis

After management develops the product concept and marketing strategy, it can evaluate the proposal's business attractiveness. Management needs to prepare sales, cost, and profit projections to determine whether they satisfy company objectives. If they do, the concept can move to the development stage. As new information comes in, the business analysis will undergo revision and expansion.

ESTIMATING TOTAL SALES Total estimated sales are the sum of estimated first-time sales, replacement sales, and repeat sales. Sales-estimation methods depend on whether the product is purchased once (such as an engagement ring or retirement home), infrequently, or often. For one-time products, sales rise at the beginning, peak, and approach zero as the number of potential buyers is exhausted [see Figure 20.6(a)]. If new buyers keep entering the market, the curve will not go down to zero.

Infrequently purchased products—such as automobiles, toasters, and industrial equipment—exhibit replacement cycles dictated by physical wear or obsolescence associated with changing styles, features, and performance. Sales forecasting for this product category calls for estimating first-time sales and replacement sales separately [see Figure 20.6(b)].

Frequently purchased products, such as consumer and industrial nondurables, have product life-cycle sales resembling Figure 20.6(c). The number of first-time buyers initially increases and then decreases as fewer buyers are left (assuming a fixed population). Repeat purchases occur soon, providing the product satisfies some buyers. The sales curve eventually falls to a plateau representing a level of steady repeat-purchase volume; by this time, the product is no longer a new product.

In estimating sales, the manager's first task is to estimate first-time purchases of the new product in each period. To estimate replacement sales, management researches the product's *survival-age distribution*—that is, the number of units that fail in year one, two, three, and so on. The low end of the distribution indicates when the first replacement sales will take place. Because replacement sales are difficult to estimate before the product is in use, some manufacturers base the decision to launch a new product solely on their estimate of first-time sales.

For a frequently purchased new product, the seller estimates repeat sales as well as first-time sales. A high rate of repeat purchasing means customers are satisfied; sales are likely to stay high even after all first-time purchases take place. Some products and brands are bought a few times and dropped. Colgate's Wisp disposable toothbrush received much trial but repeat sales slowed considerably after that.[68]

ESTIMATING COSTS AND PROFITS Costs are estimated by the R&D, manufacturing, marketing, and finance departments. Table 20.3 illustrates a five-year projection of sales, costs, and profits for the instant breakfast drink.

Row 1 shows projected sales revenue over the five-year period. The company expects to sell $11,889,000 (approximately 500,000 cases at $24 per case) in the first year. Behind this projection is a set of assumptions about the rate of market growth, the company's market share, and the factory-realized price. *Row 2* shows the cost of goods sold, which hovers around 33 percent of sales revenue. We find this cost by estimating the average cost of labor, ingredients, and packaging per case. *Row 3* shows the expected gross margin, the difference between sales revenue and cost of goods sold.

Row 4 shows anticipated development costs of $3.5 million, including product-development cost, marketing research costs, and manufacturing development costs. *Row 5* shows the estimated marketing costs over the five-year period to cover advertising, sales promotion, and marketing research and an amount allocated for sales force coverage and marketing administration. *Row 6* shows the allocated overhead to this new product to cover its share of the cost of executive salaries, heat, light, and so on.

Row 7, the gross contribution, is gross margin minus the preceding three costs. *Row 8,* supplementary contribution, lists any change in income to other company products caused by the new-product introduction. *Dragalong income* is additional income to them, and *cannibalized income* is reduced income.[69] Table 20.3 assumes no supplementary contributions. *Row 9* shows net contribution, which in this case is the same as gross contribution. *Row 10* shows discounted contribution—that is, the present value of each future contribution discounted at 15 percent per annum. For example, the company will not receive $4,716,000 until the fifth year. This amount is worth only $2,346,000 today if the company can earn 15 percent on its money through other investments.[70]

Finally, *row 11* shows the cumulative discounted cash flow, the accumulation of the annual contributions in row 10. Two points are of central interest. First is the maximum investment exposure, the highest loss the project can create. The company will be in a maximum loss position of $4,613,000 in year 1. The second is the payback period, the time when the company recovers all its investment, including the built-in return of 15 percent. The payback period here is about three and a half years. Management must decide whether to risk a maximum investment loss of $4.6 million and a possible payback period of three and a half years. As part of their financial analysis, firms may conduct a breakeven or risk analysis.

TABLE 20.3 Projected Five-Year Cash Flow Statement (in thousands of dollars)

	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5
1. Sales revenue	$ 0	$11,889	$ 15,381	$19,654	$28,253	$ 32,491
2. Cost of goods sold	0	3,981	5,150	6,581	9,461	10,880
3. Gross margin	0	7,908	10,231	13,073	18,792	21,611
4. Development costs	–3,500	0	0	0	0	0
5. Marketing costs	0	8,000	6,460	8,255	11,866	13,646
6. Allocated overhead	0	1,189	1,538	1,965	2,825	3,249
7. Gross contribution	–3,500	–1,281	2,233	2,853	4,101	4,716
8. Supplementary contribution	0	0	0	0	0	0
9. Net contribution	–3,500	–1,281	2,233	2,853	4,101	4,716
10. Discounted contribution (15%)	–3,500	–1,113	1,691	1,877	2,343	2,346
11. Cumulative discounted cash flow	–3,500	–4,613	–2,922	–1,045	1,298	3,644

Managing the Development Process: Development to Commercialization

Up to now, the product has existed only as a word description, a drawing, or a prototype. The next step represents a jump in investment that dwarfs the costs incurred so far. The company will determine whether the product idea can translate into a technically and commercially feasible product. If not, the accumulated project cost will be lost, except for any useful information gained in the process.

Product Development

The job of translating target customer requirements into a working prototype is helped by a set of methods known as *quality function deployment* (QFD). The methodology takes the list of desired *customer attributes* (CAs) generated by market research and turns them into a list of *engineering attributes* (EAs) that engineers can use. For example, customers of a proposed truck may want a certain acceleration rate (CA). Engineers can turn this into the required horsepower and other engineering equivalents (EAs). A major contribution of QFD is improved communication between marketers, engineers, and manufacturing people.[71]

PHYSICAL PROTOTYPES The goal of the R&D department is to find a prototype that embodies the key attributes in the product-concept statement, performs safely under normal use and conditions, and can be produced within budgeted manufacturing costs. In the past, developing and manufacturing a successful prototype could take weeks or even years. Sophisticated virtual reality technology and the Web now permit more rapid prototyping and more flexible development processes. Simulations, for example, give companies the flexibility to respond to new information and resolve uncertainties by quickly exploring alternatives.

R&D must also decide how consumers will react to different colors, sizes, and weights. Historically, a yellow mouthwash supported an “antiseptic” claim (Listerine), red a “refreshing” claim (Lavoris), and green or blue a “cool” claim (Scope). Marketers need to supply R&D with information about what attributes consumers seek and how they judge whether these are present.

CUSTOMER TESTS When the prototypes are ready, they must be put through rigorous functional and customer tests before they enter the marketplace. *Alpha testing* tests the product within the firm to see how it performs in different applications. After refining the prototype further, the company moves to *beta testing* with customers.[72]

Consumer testing can bring consumers into a laboratory or give them samples to use at home. Procter & Gamble has on-site labs such as a diaper-testing center where dozens of mothers bring their babies to be studied. To develop its Cover Girl Outlast all-day lip color, P&G invited 500 women to come to its labs each morning to apply the lipstick, record their activities, and return eight hours later so it could measure remaining lip color, resulting in a product that came with a tube of glossy moisturizer that women could apply on top of their color without looking at a mirror. In-home placement tests are common for products from ice cream flavors to new appliances.

Market Testing

After management is satisfied with functional and psychological performance, the product is ready to be branded with a name, logo, and packaging and go into a market test.

Not all companies undertake market testing. A company officer at Revlon stated: “In our field—primarily higher-priced cosmetics not geared for mass distribution—it would be unnecessary for us to market test. When we develop a new product, say an improved liquid makeup, we know it’s going to sell because we’re familiar with the field. And we’ve got 1,500 demonstrators in department stores to promote it.” Many companies, however, believe market testing can yield valuable information about buyers, dealers, marketing program effectiveness, and market potential. The main issues are: How much market testing should be done, and what kind(s)?

The amount is influenced by the investment cost and risk on the one hand, and the time pressure and research cost on the other. High-investment–high-risk products, whose chance of failure

Consumer tests are typically an integral step in the new-product development process.

is high, must be market tested; the cost will be an insignificant percentage of total project cost. High-risk products that create new-product categories (first instant breakfast drink) or have novel features (first gum-strengthening toothpaste) warrant more market testing than modified products (another toothpaste brand).

CONSUMER-GOODS MARKET TESTING Consumer-products tests seek to estimate four variables: *trial*, *first repeat*, *adoption*, and *purchase frequency.* Many consumers may try the product but not rebuy it, or it might achieve high permanent adoption but low purchase frequency (like gourmet frozen foods).

Here are four major methods of consumer-goods market testing, from least to most costly.

Sales-Wave Research Consumers who initially try the product at no cost are reoffered it, or a competitor's product, at slightly reduced prices. The offer may be made as many as five times (sales waves), while the company notes how many customers select it again and their reported level of satisfaction.

Sales-wave research can be implemented quickly, conducted with a fair amount of security, and carried out without final packaging and advertising. However, because customers are preselected, it does not indicate trial rates the product would achieve with different sales incentives, nor does it indicate the brand's power to gain distribution and favorable shelf position.

Simulated Test Marketing Thirty to 40 qualified shoppers are asked about brand familiarity and preferences in a specific product category and attend a brief screening of both well-known and new TV commercials or print ads. One ad advertises the new product but is not singled out for attention. Consumers receive a small amount of money and are invited into a store where they may buy any items. The company notes how many consumers buy the new brand and competing brands. This provides a measure of the ad's relative effectiveness against competing ads in stimulating trial. Consumers are asked the reasons for their purchases or nonpurchases. Those who did not buy the new brand are given a free sample. Some weeks later, they are interviewed by phone to determine product attitudes, usage, satisfaction, and repurchase intention and are offered an opportunity to repurchase any products.

This method can give some surprisingly accurate results on advertising effectiveness and trial rates (and repeat rates if extended) in a much shorter time and at a fraction of the cost of using real test markets.[73] As media and channels grow more fragmented, however, it will become harder to truly simulate market conditions with only traditional approaches.

Controlled Test Marketing The company with the new product specifies the number of stores and geographic locations it wants to test. A research firm delivers the product to a panel of participating stores and controls shelf position, pricing, and number of facings, displays, and point-of-purchase promotions. Electronic scanners measure sales at checkout. The company can also evaluate the impact of local advertising and promotions and interview a sample of customers later to get their impressions of the product. It does not have to use its own sales force, give trade allowances, or "buy" distribution. However, controlled test marketing provides no information about how to sell the trade on carrying the new product. It also exposes the product and its features to competitors' scrutiny.

Test Markets The ultimate way to test a new consumer product is to put it into full-blown test markets. The company chooses a few representative cities and puts on a full marketing communications campaign, and the sales force tries to sell the trade on carrying the product and giving it good shelf exposure. Test marketing also measures the impact of alternative marketing plans by implementing them in different cities. A full-scale test can cost over $1 million, depending on the number of test cities, the test duration, and the amount of data the company wants to collect.

Management faces several decisions:

1. ***How many test cities?*** Most tests use two to six cities. The greater the possible loss, the number of contending marketing strategies, the regional differences, and the chance of test-market interference by competitors, the more cities management should test.
2. ***Which cities?*** Selection criteria include good media coverage, cooperative chain stores, and average competitive activity. How representative the city is of other markets must also be considered.
3. ***Length of test?*** Market tests last a few months to a year. The longer the average repurchase period, the longer the test period.
4. ***What information to collect?*** Warehouse shipment data will show gross inventory buying but will not indicate weekly sales at the retail level. Store audits will show retail sales and competitors' market shares but will not reveal buyer characteristics. Consumer panels will indicate which people are buying which brands and their loyalty and switching rates. Buyer surveys will yield in-depth information about consumer attitudes, usage, and satisfaction.
5. ***What action to take?*** If the test markets show high trial and repurchase rates, the marketer should launch the product nationally; if a high trial rate and low repurchase rate, redesign or drop the product; if a low trial rate and high repurchase rate, develop marketing communications to convince more people to try it. If trial and repurchase rates are both low, abandon the product. Many managers find it difficult to kill a project that created much effort and attention even if they should, resulting in an unfortunate (and typically unsuccessful) escalation of commitment.[74]

Despite its benefits, many companies today skip test marketing and rely on faster and more economical testing methods. General Mills prefers to launch new products in 25 percent of the country, an area too large for rivals to disrupt. Managers review retail scanner data, which tell them within days how the product is doing and what corrective fine-tuning to do. Colgate-Palmolive often launches a new product in a set of small "lead countries" and keeps rolling it out if it proves successful.

BUSINESS-GOODS MARKET TESTING Business goods can also benefit from market testing. Expensive industrial goods and new technologies will normally undergo alpha and beta testing. During beta testing, the company's technical people observe how customers use the product, a practice that often exposes unanticipated problems of safety and servicing and alerts the company to customer training and servicing requirements. The company can also observe how much value the equipment adds to the customer's operation as a clue to subsequent pricing.

Companies must interpret beta test results carefully, because only a small number of test customers are used, they are not randomly drawn, and tests are somewhat customized to each site. Another risk is that testers unimpressed with the product may leak unfavorable reports about it.

At trade shows the company can observe how much interest buyers show in the new product, how they react to various features and terms, and how many express purchase intentions or place orders. In distributor and dealer display rooms, products may stand next to the manufacturer's other products and possibly competitors' products, yielding preference and pricing information in the product's normal selling atmosphere. However, customers who come in might not represent the target market, or they might want to place early orders that cannot be filled.

Companies such as General Mills may avoid test markets to use limited-scope product launches instead.

Industrial manufacturers come close to using full test marketing when they give a limited supply of the product to the sales force to sell in a limited number of areas that receive promotion support and printed catalog sheets.

Commercialization

Commercialization incurs the company's highest costs to date.[75] The firm will need to contract for manufacture or build or rent a full-scale manufacturing facility. To introduce a major new consumer packaged good into the national market can cost $25 million to $100 million in advertising, promotion, and other communications in the first year. For new food products, marketing expenditures typically represent 57 percent of first-year sales. Most new-product campaigns rely on a sequenced mix of market communication tools.

WHEN (TIMING) Suppose a company has almost completed the development work on its new product and learns a competitor is nearing the end of its development work. The company faces three choices:

1. ***First entry***—The first firm entering a market usually enjoys the "first mover advantages" of locking up key distributors and customers and gaining leadership. But if rushed to market before it has been thoroughly debugged, the first entry can backfire.
2. ***Parallel entry***—The firm might time its entry to coincide with the competitor's entry. The market may pay more attention when two companies are advertising the new product.[76]
3. ***Late entry***—The firm might delay its launch until after the competitor has borne the cost of educating the market, and its product may reveal flaws the late entrant can avoid. The late entrant can also learn the size of the market.

If a new product replaces an older product, the company might delay until the old product's stock is drawn down. If the product is seasonal, it might wait until the season arrives; often a product waits for a "killer application" to occur. Many companies are now encountering competitive "design-arounds"—rivals are making their own versions just different enough to avoid patent infringement and royalties.[77]

WHERE (GEOGRAPHIC STRATEGY) Most companies will develop a planned market rollout over time. In choosing rollout markets, the major criteria are market potential, the company's local reputation, the cost of filling the pipeline, the cost of communication media, the influence of the area on other areas, and competitive penetration. Small companies select an attractive city and put on a blitz campaign, entering other cities one at a time. Large companies introduce their product into a whole region and then move to the next. Companies with national distribution networks, such as auto companies, launch new models nationally.

With the Web connecting far-flung parts of the globe, competition is more likely to cross national borders. Companies are increasingly rolling out new products simultaneously across the globe. However, masterminding a global launch poses challenges, and a sequential rollout across countries may still be the best option.[78]

TO WHOM (TARGET-MARKET PROSPECTS) Within the rollout markets, the company must target initial distribution and promotion to the best prospect groups. Ideally they should be early adopters, heavy users, and opinion leaders it can reach at low cost.[79] Few groups include all these, so the company should rate prospects and target the best group. The aim is to generate strong sales as soon as possible to attract further prospects.

HOW (INTRODUCTORY MARKET STRATEGY) Because new-product launches often take longer and cost more than expected, many potentially successful offerings suffer from underfunding. It's important to allocate sufficient time and resources—yet not overspend—as the new product gains traction in the marketplace.[80]

To coordinate the many tasks in launching a new product, management can use network-planning techniques such as **critical path scheduling** (**CPS**), which develops a master chart showing the simultaneous and sequential activities that must take place. By estimating how much time each activity takes, planners estimate completion time for the entire project. Any delay in any activity on the critical path—the shortest route to completion—will delay the project. If the launch must be completed sooner, the planner searches for ways to reduce time along the critical path.[81]

The Consumer-Adoption Process

Adoption is an individual's decision to become a regular user of a product and is followed by the *consumer-loyalty process*. New-product marketers typically aim at early adopters and use the theory of innovation diffusion and consumer adoption to identify them.

Stages in the Adoption Process

An **innovation** is any good, service, or idea that someone *perceives* as new, no matter how long its history. Everett Rogers defines the **innovation diffusion process** as "the spread of a new idea from its source of invention or creation to its ultimate users or adopters."[82] The *consumer-adoption process* is the mental steps through which an individual passes from first hearing about an innovation to final adoption.[83] They are:

1. ***Awareness***—The consumer becomes aware of the innovation but lacks information about it.
2. ***Interest***—The consumer is stimulated to seek information about the innovation.
3. ***Evaluation***—The consumer considers whether to try the innovation.
4. ***Trial***—The consumer tries the innovation to improve his or her estimate of its value.
5. ***Adoption***—The consumer decides to make full and regular use of the innovation.

The new-product marketer should facilitate movement through these stages. A water filtration system manufacturer might discover that many consumers are stuck in the interest stage; they do not buy because of their uncertainty and the large investment cost.[84] But these same consumers would be willing to use a water filtration system at home on a trial basis for a small monthly fee. The manufacturer should consider offering a trial-use plan with option to buy.

Factors Influencing the Adoption Process

Marketers recognize the following characteristics of the adoption process: differences in individual readiness to try new products, the effect of personal influence, differing rates of adoption, and differences in organizations' readiness to try new products. Some researchers are focusing on use-diffusion processes as a complement to adoption process models, to see how consumers actually use new products.[85]

READINESS TO TRY NEW PRODUCTS AND PERSONAL INFLUENCE Everett Rogers defines a person's level of innovativeness as "the degree to which an individual is relatively earlier in adopting new ideas than the other members of his social system." Some people are the first to adopt new clothing fashions or new appliances; some doctors are the first to prescribe new medicines.[86] See the adopter categories in Figure 20.7. After a slow start, an increasing number of people adopt the innovation, the number reaches a peak, and then it diminishes as fewer nonadopters remain. The five adopter groups differ in their value orientations and their motives for adopting or resisting the new product.[87]

- ***Innovators*** are technology enthusiasts; they are venturesome and enjoy tinkering with new products and mastering their intricacies. In return for low prices, they are happy to conduct alpha and beta testing and report on early weaknesses.
- ***Early adopters*** are opinion leaders who carefully search for new technologies that might give them a dramatic competitive advantage. They are less price sensitive and willing to adopt the product if given personalized solutions and good service support.
- ***Early majority*** are deliberate pragmatists who adopt the new technology when its benefits are proven and a lot of adoption has already taken place. They make up the mainstream market.
- ***Late majority*** are skeptical conservatives who are risk averse, technology shy, and price sensitive.
- ***Laggards*** are tradition-bound and resist the innovation until the status quo is no longer defensible.

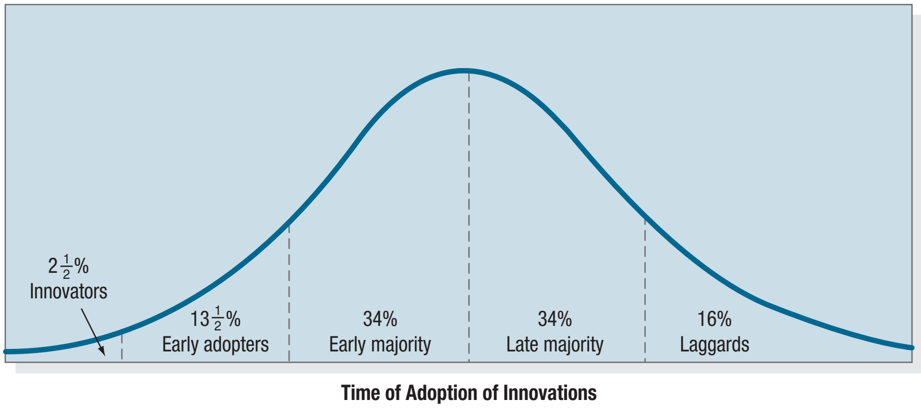
Each group requires a different type of marketing if the firm wants to move its innovation through the full product life cycle.[88]

Many innovators and early adopters were thrilled when Apple CEO Steve Jobs announced the launch of the iPad in January 2010.

|Fig. 20.7|

Adopter Categorization on the Basis of Relative Time of Adoption of Innovations

Source: Tungsten, http://en.wikipedia.ord/wiki/Everett_Rogers. Based on Rogers, E. (1962) *Diffusion of Innovations*. Free Press, London, NY, USA.



Personal influence, the effect one person has on another's attitude or purchase probability, has greater significance in some situations and for some individuals than others, and it is more important in evaluation than the other stages. It has more power over late than early adopters and in risky situations.

Companies often target innovators and early adopters with product rollouts. When Nike entered the skateboarding market, it recognized an antiestablishment, big-company bias from the target market could present a sizable challenge. To gain "street cred" with teen skaters, it sold exclusively to independent shops, advertised nowhere but skate magazines, and gained sponsorships from well-admired pro riders by engaging them in product design.[89]

CHARACTERISTICS OF THE INNOVATION Some products catch on immediately (roller blades), whereas others take a long time to gain acceptance (diesel engine autos). Five characteristics influence an innovation's rate of adoption. We consider them for digital video recorders (DVRs) for home use, as exemplified by TiVo.[90]

The first characteristic is *relative advantage*—the degree to which the innovation appears superior to existing products. The greater the perceived relative advantage of using a DVR, say, for easily recording favorite shows, pausing live TV, or skipping commercials, the more quickly it will be adopted. The second is *compatibility*—the degree to which the innovation matches the values and experiences of the individuals. DVRs are highly compatible with the preferences of avid television watchers. Third is *complexity*—the degree to which the innovation is difficult to understand or use. DVRs are somewhat complex and will therefore take a slightly longer time to penetrate into home use. Fourth is *divisibility*—the degree to which the innovation can be tried on a limited basis. This provides a sizable challenge for DVRs—sampling can occur only in a retail store or perhaps a friend's house. Fifth is *communicability*—the degree to which the benefits of use are observable or describable to others. The fact that DVRs have some clear advantages can help create interest and curiosity.

Other characteristics that influence the rate of adoption are cost, risk and uncertainty, scientific credibility, and social approval. The new-product marketer must research all these factors and give the key ones maximum attention in designing the product and marketing program.[91]

ORGANIZATIONS' READINESS TO ADOPT INNOVATIONS The creator of a new teaching method would want to identify innovative schools. The producer of a new piece of medical equipment would want to identify innovative hospitals. Adoption is associated with variables in the organization's environment (community progressiveness, community income), the organization itself (size, profits, pressure to change), and the administrators (education level, age, sophistication). Other forces come into play in trying to get a product adopted into organizations that receive the bulk of their funding from the government, such as public schools. A controversial or innovative product can be squelched by negative public opinion.

Summary

1. Once a company has segmented the market, chosen its target customer groups and identified their needs, and determined its desired market positioning, it is ready to develop and launch appropriate new products and services. Marketing should participate with other departments in every stage of new-product development.

2. Successful new-product development requires the company to establish an effective organization for managing the development process. Companies can choose to use product managers, new-product managers, new-product committees, new-product departments, or new-product venture teams. Increasingly, companies are adopting cross-functional teams, connecting to individuals and organizations outside the company, and developing multiple product concepts.
3. Eight stages take place in the new-product development process: idea generation, screening, concept development and testing, marketing strategy development, business analysis, product development, market testing, and commercialization. At each stage, the company must determine whether the idea should be dropped or moved to the next stage.
4. The consumer-adoption process is the process by which customers learn about new products, try them, and adopt or reject them. Today many marketers are targeting heavy users and early adopters of new products, because both groups can be reached by specific media and tend to be opinion leaders. The consumer-adoption process is influenced by many factors beyond the marketer's control, including consumers' and organizations' willingness to try new products, personal influences, and the characteristics of the new product or innovation.

Applications

Marketing Debate

Whom Should You Target with New Products?

Some new-products experts maintain that getting close to customers through intensive research is the only way to develop successful new products. Other experts disagree and maintain that customers can't possibly provide useful feedback on what they don't know and can't provide insights that will lead to breakthrough products.

Take a position: **Consumer research is critical to new-product development *versus* Consumer research may not be all that helpful in new-product development.**

Marketing Discussion

Product Innovativeness

Think about the last new product you bought. How do you think its success will be affected by the five characteristics of an innovation: relative advantage, compatibility, complexity, divisibility, and communicability?

Marketing Excellence

>>Apple

Over the past decade, Apple has become a world leader in innovative new product launches. The company has truly transformed the way people listen to music, play video games, talk on the phone, and even read books. Apple's evolutionary product innovations include the iPod, iMac, iPhone, and iPad and are the reason the company topped *Fortune* magazine's World's Most Admired Companies list three years in a row, from 2008 to 2010.

One of Apple's most important innovations over the past decade was the iPod MP3 player. Not only has the iPod become a cultural phenomenon; it introduced many consumers to Apple and initiated a series of monumental product innovations. The iPod exemplified Apple's innovative design skills and looked, felt, and operated like no other device. With the launch of the iTunes Music Store, a dynamic duo of legally downloadable music and cutting-edge portable music player caused iPod sales to skyrocket. To the delight of Apple (and the chagrin of competitor Sony), the iPod has become "the Walkman of the 21st century."

Beyond spurring sales, the iPod has been central in changing the way people listen to and use music. According to musician John Mayer, "People feel they're walking through musicology" when they use their iPods, leading them to listen to more music, and with more passion. The iPod has gone through a series of generations, and along the way Apple has added features like photo, video, and radio capabilities.

Apple reached its impressive market domination through a combination of shrewd product innovation and clever marketing. It defined a broad access point for its target market—music lovers who wanted *their* music, whenever and wherever. The marketing effort was designed to appeal to Mac fans as well as people who had not used Apple products in the past. This broader access required a shift in Apple's channel strategies. As a result, Apple added "mass electronic" retailers such as Best Buy and (now defunct) Circuit City to its existing channels, quadrupling its number of outlets.

Besides this enhanced "push" effort, Apple also developed memorable, creative "pull" advertising that helped drive the popularity of the iPod. The Silhouettes campaign, featuring people in silhouette listening to iPods and dancing, appeared all over the world with a message simple enough to work across cultures, portraying the iPod as cool but not beyond the reach of anyone who enjoyed music.

As the iPod's popularity grew, a halo effect helped increase Apple's market share in its other products. In fact, in 2007 Apple officially changed its name from Apple Computer Inc. to Apple Inc. to help communicate the company's focus in noncomputer products. By 2009, iPod sales had topped $8 billion, and by 2010 more than 250 million had been sold worldwide.

Apple's next-largest product launch after the iPod was the iPhone, its 2007 entry to the cell phone industry. With its touch-screen pad, virtual keyboard, and Internet and e-mail capabilities, the iPhone launched to huge consumer excitement; people lined up for hours to be among the first to buy one. But investment analysts feared Apple's two-year contract with AT&T and high initial price would hinder the iPhone's success. Seventy-four days after the product's debut, however, Apple had sold its one millionth iPhone. It had taken the iPod two years to reach the cumulative sales ($1.1 million) the iPhone had reached after its first quarter. In fact, half the iPods' buyers switched to AT&T from a different wireless carrier, incurring fees to break their contracts, just to have a chance to own an iPhone.

Over the next three years, Apple dropped the price of the iPhone significantly and added impressive picture and video capabilities, video game features, a faster processor, and hundreds of thousands of additional applications. By then, the iPhone had become a game-changing technological invention. Apple took in $13 billion in iPhone sales worldwide in 2009, and when the iPhone 4 launched in 2010, showcasing Face Time video calling, Steve Jobs declared it "the most successful product launch in Apple's history."

Also in 2010, a media frenzy helped Apple launch the iPad, a multitouch device that combines the look and feel of the iPhone with the power of a MacBook. The slick handheld device gives consumers access to music, books, movies, pictures, and work documents at the touch of a finger without mouse or keyboard. Apple's marketing campaign emphasized its appeal: "What is iPad? iPad is thin. iPad is beautiful. iPad goes anywhere and lasts all day. There is no right way or wrong way. It's crazy powerful. It's magical. You already know how to use it. It's 200,000 apps and counting . . . It's already a revolution and it's only just begun."

With $42 billion in annual revenue, Apple continues to increase its annual R&D budget each year, spending $1.3 billion in 2009 alone. The company takes creating, producing, and launching new products very seriously. With creative marketing support behind them, these products are the reason consumers and analysts alike stay on their toes awaiting Apple's latest product news.

Questions

1. Apple's product launches over the past decade have been monumental. What makes the company so good at innovation? Is anyone comparable to Apple in this respect?
2. How important was the iPod to Apple's current success? Discuss the significance of the iPhone and iPad launches to Apple's new product development strategy.
3. What's next for Apple? Should it continue to move away from computers and toward more new handheld devices?

Sources: "World's Most Admired Companies," *Fortune,* 2010; "iPhone4: The 'Most Successful Product Launch' in Apple's History," *Independent,* June 28, 2010; Joseph De Avila, "Why Some Apple Fans Won't Buy the iPhone," *Wall Street Journal*, September 12, 2007, D.3; Nick Wingfield, "Apple Businesses Fuel Each Other; Net Jumps as Mac Sales Top PC-Industry Growth Rate; iPhones, iPods Also Thrive," *Wall Street Journal*, October 23, 2007; Terril Yue Jones, "How Long Can the iPod Stay on Top?" *Los Angeles Times*, March 5, 2006; Beth Snyder Bulik, "Grab an Apple and a Bag of Chips," *Advertising Age*, May 23, 2005; Jay Parsons, "A Is for Apple on iPod," *Dallas Morning News*, October 6, 2005; Peter Burrows, "Rock On, iPod," *BusinessWeek*, June 7, 2004, pp. 130–31; Jay Lyman, "Mini iPod Moving Quickly, Apple Says," *TechNewsWorld*, February 26, 2004; Steven Levy, "iPod Nation," *Newsweek*, July 25, 2004; "Apple Computer: iPod Silhouettes," New York Marketing Association; Steven Levy, "iPod Nation," *Newsweek*, July 25, 2004; Apple, www.apple.com; Effie Worldwide, www.effie.org.

Marketing Excellence

>>Research In Motion

Research in Motion (RIM) is the company behind BlackBerry, the best-selling smart-phone brand in the United States. RIM went public in 1997 and introduced the first BlackBerry two years later—a bulky corporate paging device that ran off an AA battery to read e-mail. Today, the company is credited with launching the handheld smart-phone craze and the obsession with 24/7/365 access to e-mail and the Internet. BlackBerry eventually earned the

appropriate nickname, "CrackBerry," as consumers became addicted to their latest technological gadget.

The obsession started with RIM founder Mike Lazaridis, who used to collect business cards from bankers on Wall Street and send college kids to their offices to set them up with the first BlackBerry devices. "It was a puppy dog sale," Lazaridis says. "'Take a puppy dog home, and if you don't like it, bring it back.' They never come back." Within a few years the BlackBerry had become a Wall Street staple, and after September 11, 2001, it gained nationwide attention as a critical security and communications device for the government.

RIM continued to launch new generations of BlackBerry products that focused on high-security capabilities and essential business features, including an organizer, calendar, pager, longer-lasting battery, and improved wireless Internet access. The firm focused its push strategy on building the BlackBerry brand as the most secure, reliable, and efficient data device solution on the market.

It took five years, but in 2003 RIM sold its one millionth BlackBerry. Only one year later it sold its two millionth device, and the BlackBerry's growth exploded. In 2005, *PCWorld* named the BlackBerry 850 the 14th greatest gadget of the past 50 years, and between 2006 and 2008, *Fortune* dubbed RIM the fastest-growing company in the world.

Several factors led to RIM's explosive growth during the mid-2000s. First, it was the innovation leader at the time. The BlackBerry changed the way people communicated, worked, and lived. And unlike competitors, RIM offered an end-to-end solution; it developed and produced the hardware as well as the software and services that made BlackBerry work.

As RIM expanded, it made the strategic decision to partner with numerous carriers around the globe instead of just one. This conferred two advantages. First, consumers could easily purchase a BlackBerry device no matter what their carrier or geographical location was and not worry about breaking an existing carrier contract. Secondly, RIM started producing unique products for its different carriers and their audiences. It also licensed its architecture to third-party devices, making BlackBerry wireless solutions available to other companies. All these decisions increased revenue and subscribers around the world.

In terms of marketing, RIM successfully targeted its initial efforts at the business community, branding the BlackBerry smart phone a workforce "must have" and focusing its product and software innovations on meeting the needs of businesses. It continues to serve this market today, with solutions like its BlackBerry Enterprise Server for small and medium-sized businesses.

Finally, BlackBerry rode the coattails of the iPhone launch in 2007. Apple's iPhone sparked interest in many consumers—telling them smart phones were not just for the business community—and as a result, many consumers tried out a BlackBerry for the first time. In 2008, RIM launched its first mass advertising campaign targeting consumers, and new subscriber sales skyrocketed. Perhaps BlackBerry's biggest salesperson was President Obama, who could be seen carrying and checking his BlackBerry throughout the election year. Instantly, the BlackBerry became "cool" in the eyes of younger consumers.

Today, BlackBerry continues to compete in the smartphone category, adding more consumers than business customers each year. Recent product launches have added video, photo, and music capabilities, touch-screen pads, and instant messaging—features that attract tweens and young adults. RIM had $15 billion in sales during fiscal 2010, sold 37 million smart phones in 2010 alone, and now has over 41 million users in 175 countries. While competition has increased tremendously and remains stiff, the company's focus on generating new products and solutions is clear. Lazaridis explained, "There is great depth and breadth to what we do. It's more than just the BlackBerry. We develop silicon, operating systems, industrial design; we manufacture. We run our own network. RIM is an industry unto itself."

Questions

1. Evaluate Research In Motion's keys to success. What did the company do well and, in hindsight, what should it have done differently during its decade of extreme growth?
2. Is Research In Motion still a leader in innovation? Why or why not? What's next for the company?

Sources: Jessi Hempel, "Smartphone Wars—BlackBerry's Plan to Win," *Fortune,* August 17, 2009; Saul Hansell and Ian Austen, "BlackBerry, Upgraded, Aims to Suit Every User," *New York Times,* October 13, 2009; Michael Comeau, "Can Research In Motion's BlackBerry Regain Market Share?" *Minyanville,* July 12, 2010; "The World Masters of Innovation," *BusinessWeek*; Research In Motion, Annual Reports; RIM, www.rim.com.

India's Tata Group has a wide range of global businesses, including one that produces the remarkably priced $2,500 Tata Nano or the "People's Car."

In This Chapter, We Will Address the Following Questions

1. What factors should a company review before deciding to go abroad?
2. How can companies evaluate and select specific foreign markets to enter?
3. What are the differences between marketing in a developing and a developed market?
4. What are the major ways of entering a foreign market?
5. To what extent must the company adapt its products and marketing program to each foreign country?
6. How do marketers influence country-of-origin effects?
7. How should the company manage and organize its international activities?

Tapping into Global Markets

With ever faster communication, transportation, and financial flows, the world is rapidly shrinking. Countries are increasingly multicultural, and products and services developed in one country are finding enthusiastic acceptance in others. A German businessman may wear an Italian suit to meet an English friend at a Japanese restaurant, who later returns home to drink Russian vodka and watch a U.S. movie on a Korean TV. Emerging markets that embrace capitalism and consumerism are especially attractive targets. They are also creating marketing powerhouses all their own.[1]

Tata Group, India's biggest conglomerate, operates successful businesses that range from software, cars, and steel to phone service, tea bags, and wristwatches. Its business dealings stretch far and wide and have included purchases of South Korea's Daewoo Motors truck unit, Dutch-British steel giant Corus Group, and UK-based Tetley Tea. The proprietor of the Taj luxury hotels, Tata also owns or manages the rebranded Ritz-Carlton in Boston, the Pierre in New York City, and Camden Place in San Francisco. Tata Consultancy Services, India's largest tech-services company, collects roughly half its revenues in North America. Tata is also India's largest commercial vehicle maker and created a stir with the recent launch of its $2,500 Tata Nano, dubbed the "People's Car." Although impossibly low-priced by Western standards, at one Indian lakh the Nano's price is three times higher than India's annual per capita income. Looking somewhat like an egg on wheels, the Nano comfortably seats five while running a 33-horsepower engine that gets nearly 50 miles per gallon. Aiming to sell 250,000 units annually, Tata is targeting the 7 million Indians who buy scooters and motorcycles every year, in part because they cannot afford a car. The market potential is huge—there are just seven automobiles per 1,000 people in India. Tata is also targeting other "bottom of the pyramid" markets such as Africa and Southeast Asia and perhaps even parts of Eastern Europe and Latin America.

Companies need to be able to cross boundaries within and outside their country. Although opportunities to enter and compete in international markets are significant, the risks can also be high. Companies selling in global industries, however, have no choice but to internationalize their operations. In this chapter, we review the major decisions in expanding into global markets.

Competing on a Global Basis

Many companies have been global marketers for decades—firms like Shell, Bayer, and Toshiba have sold goods around the world for years. In luxury goods such as jewelry, watches, and handbags, where the addressable market is relatively small, a global profile is essential for firms like Prada, Gucci, and Louis Vuitton to profitably grow. But global competition is intensifying in more product categories as new firms make their mark on the international stage.[2]

The automotive market is becoming a worldwide free-for-all. In Chile, with no domestic auto manufacturers, imports are coming from all over the world, including 14 different brands of Chinese cars, trucks, and commercial vehicles.[3] In China's fast-moving mobile-phone market, Motorola found its market share cut in half over a two-year period from inroads by Nokia and Asian competitors.

Competition from developing-market firms is also heating up. Mahindra Motors' four-door, diesel-powered short-bed trucks from India are tackling Europe, Asia, and the United States, promising superior fuel economy.[4] Founded in Guatemala, Pollo Campero (Spanish for "country

Latin America's fried chicken favorite, Pollo Campero, has entered the U.S. market in part by targeting areas populated by Hispanic immigrants.

chicken') has used Latin American immigrants to launch over 50 U.S. stores, blending old favorites such as fried plantains and milky *horchata* drinks with traditional U.S. fare such as grilled chicken and mashed potatoes.[5]

Although some U.S. businesses may want to eliminate foreign competition through protective legislation, the better way to compete is to continuously improve products at home and expand into foreign markets. In a **global industry**, competitors' strategic positions in major geographic or national markets are affected by their overall global positions.[6] A **global firm** operates in more than one country and captures R&D, production, logistical, marketing, and financial advantages not available to purely domestic competitors.

Global firms plan, operate, and coordinate their activities on a worldwide basis. Otis Elevator uses door systems from France, small geared parts from Spain, electronics from Germany, and motor drives from Japan; systems integration happens in the United States. Consider the international success of Hyundai.[7]

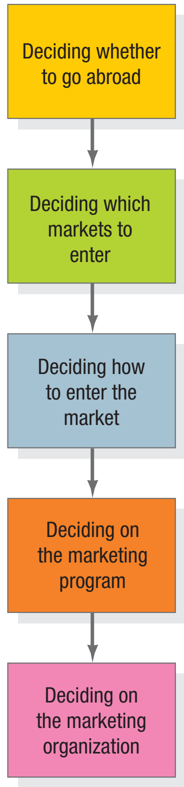
Hyundai

Hyundai Once synonymous with cheap and unreliable cars, Hyundai Motor Company has experienced a massive global transformation. In 1999, its new chairman, Mong-Koo Chung, declared that Hyundai would no longer focus on volume and market share but on quality instead. A number of changes were instituted: Hyundai began to benchmark industry leader Toyota, adopted Six Sigma processes, organized product development cross-functionally, partnered more closely with suppliers, and increased quality oversight meetings. From a place near the bottom of J.D. Power's study of U.S. new vehicle quality in 2001—32nd out of 37 brands—Hyundai zoomed to number four by 2009, surpassed only by luxury brands Lexus, Porsche, and Cadillac. Hyundai also transformed its marketing. Its "Assurance" campaign, backed by a pricey Super Bowl ad, allowed new buyers to return their cars risk-free if they lost their jobs. Other programs guaranteed customers low gas prices for a year and tax credits in advance of the government's "Cash for Clunkers" program. The U.S. market was not the only one receiving attention from Hyundai and its younger, more affordably priced brand sibling, Kia. Hyundai is the second-largest car-maker in India, it is supplying Europe with a new €1 billion factory in the Czech Republic, and a joint venture with Beijing Automotive is targeting China.

Many successful global U.S. brands have tapped into universal consumer values and needs—such as Nike with athletic performance, MTV with youth culture, and Coca-Cola with youthful optimism. These firms hire thousands of employees abroad and make sure their products and marketing activities are consistent with local sensibilities.

Global marketing extends beyond products. Services represent the fastest-growing sector of the global economy and account for two-thirds of global output, one-third of global employment, and nearly 20 percent of global trade. Although some countries have erected entry barriers or regulations, the World Trade Organization, consisting of 150 countries, continues to press for more free trade in international services and other areas.[8]

For a company of any size or any type to go global, it must make a series of decisions (see Figure 21.1). We'll examine each of these decisions here.[9]



|Fig. 21.1|

Major Decisions in International Marketing

Deciding Whether to Go Abroad

Most companies would prefer to remain domestic if their domestic market were large enough. Managers would not need to learn other languages and laws, deal with volatile currencies, face political and legal uncertainties, or redesign their products to suit different customer needs and expectations. Business would be easier and safer. Yet several factors can draw companies into the international arena:

- Some international markets present better profit opportunities than the domestic market.
- The company needs a larger customer base to achieve economies of scale.
- The company wants to reduce its dependence on any one market.
- The company decides to counterattack global competitors in their home markets.
- Customers are going abroad and require international service.

Reflecting the power of these forces, exports accounted for roughly 13 percent of U.S. GDP in 2008, almost double the figure 40 years ago.[10] Before making a decision to go abroad, the company must also weigh several risks:

- The company might not understand foreign preferences and could fail to offer a competitively attractive product.
- The company might not understand the foreign country's business culture.
- The company might underestimate foreign regulations and incur unexpected costs.
- The company might lack managers with international experience.
- The foreign country might change its commercial laws, devalue its currency, or undergo a political revolution and expropriate foreign property.

Some companies don't act until events thrust them into the international arena. The *internationalization process* typically has four stages:[11]

1. No regular export activities
2. Export via independent representatives (agents)
3. Establishment of one or more sales subsidiaries
4. Establishment of production facilities abroad

The first task is to move from stage 1 to stage 2. Most firms work with an independent agent and enter a nearby or similar country. Later, the firm establishes an export department to manage its agent relationships. Still later, it replaces agents with its own sales subsidiaries in its larger export markets. This increases investment and risk, but also earning potential. Next, to manage subsidiaries, the company replaces the export department with an international department or division. If markets are large and stable, or the host country requires local production, the company will locate production facilities there.

By this time, it's operating as a multinational and optimizing its sourcing, financing, manufacturing, and marketing as a global organization. According to some researchers, top management begins to focus on global opportunities when more than 15 percent of revenue comes from international markets.[12]

Deciding Which Markets to Enter

In deciding to go abroad, the company needs to define its marketing objectives and policies. What proportion of international to total sales will it seek? Most companies start small when they venture abroad. Some plan to stay small; others have bigger plans.

How Many Markets to Enter

The company must decide how many countries to enter and how fast to expand. Typical entry strategies are the *waterfall* approach, gradually entering countries in sequence, and the *sprinkler* approach, entering many countries simultaneously. Increasingly, firms—especially technology-intensive firms—are *born global* and market to the entire world from the outset.[13]

Matsushita, BMW, General Electric, Benetton, and The Body Shop followed the waterfall approach. It allows firms to carefully plan expansion and is less likely to strain human and financial resources. When first-mover advantage is crucial and a high degree of competitive intensity prevails, the sprinkler approach is better. Microsoft sold over 150 million copies of Windows 7 in 100 countries in fall 2009 with only minor tweaks in its marketing. The main risk is the substantial resources needed and the difficulty of planning entry strategies for many diverse markets.[14]

The company must also choose the countries to consider based on the product and on geography, income and population, and political climate.

Developed versus Developing Markets

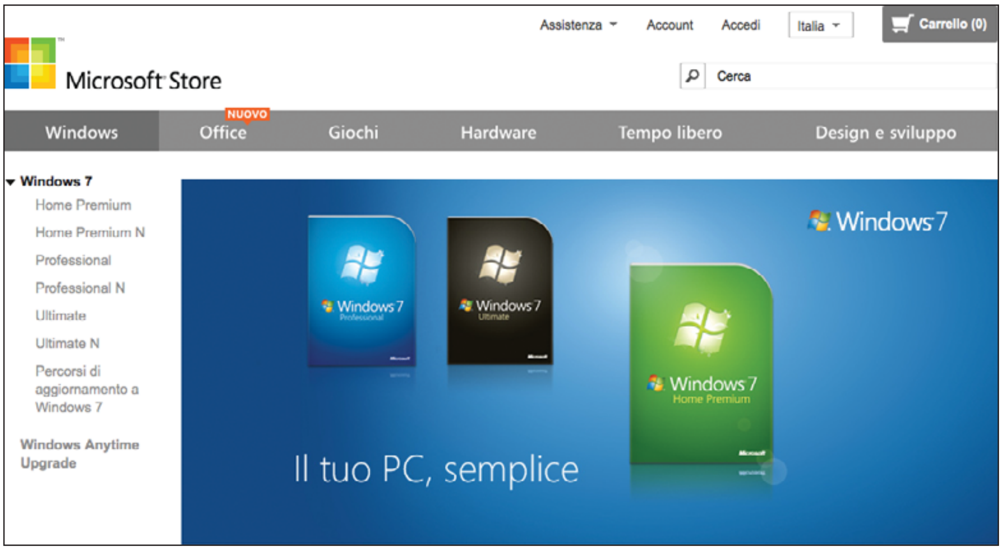
One of the sharpest distinctions in global marketing is between developed and developing or emerging markets such as Brazil, Russia, India, and China (often called "BRIC" for short: Brazil, Russia, India, and China).[15] Two other developing markets with much economic and marketing significance are Indonesia and South Africa. The unmet needs of the developing world represent huge potential markets for food, clothing, shelter, consumer electronics, appliances, and many other goods. Market leaders rely on developing markets to fuel their growth. Consider the following:

- Coca-Cola, Unilever, Colgate-Palmolive, Groupe Danone, and PepsiCo earn 5 percent to 15 percent of their total revenues from the three largest emerging markets in Asia—China, India, and Indonesia.[16]
- Developing markets make up over 25 percent of Kraft's total business, almost 40 percent of Cadbury's, and over 50 percent of Tupperware's sales.[17]
- Nestlé estimates about 1 billion consumers in emerging markets will increase their incomes enough to afford its products within the next decade. The world's largest food company gets about a third of its revenue from emerging economies and aims to lift that to 45 percent within a decade.[18]

Developed nations account for about 20 percent of the world's population. Can marketers serve the other 80 percent, which has much less purchasing power and living conditions ranging from mild deprivation to severe deficiency? This imbalance is likely to get worse, as more than 90 percent of future population growth is projected to occur in the less developed countries.[19]

Successfully entering developing markets requires a special set of skills and plans. Consider how these companies pioneered ways to serve "invisible" consumers:[20]

Microsoft launched Windows 7 with a massive global campaign.



- Grameenphone marketed cell phones to 35,000 villages in Bangladesh by hiring village women as agents who leased phone time to other villagers, one call at a time.
- Colgate-Palmolive rolled into Indian villages with video vans that showed the benefits of toothbrushing.
- Corporación GEO builds low-income housing in Mexico. The two-bedroom homes are modular and expandable.

These marketers capitalized on the potential of developing markets by changing their conventional marketing practices.[21] Selling in developing areas can't be "business as usual." Economic and cultural differences abound, a marketing infrastructure may barely exist, and local competition can be surprisingly stiff.[22]

Local Dynamos An extensive study by the Boston Consulting Group identifies 50 firms in 10 emerging economies as "local dynamos." According to BCG, a local dynamo is (1) prospering in its home market, (2) fending off multinational rivals, and (3) not focused on expanding abroad. India's Amul farmers' cooperative sells dairy products through a network of 2.8 million members supported by one of the longest-running and best-loved ad campaigns in India. Its ice-cream and chocolate milk businesses have survived the entry of Unilever and Nestlé, respectively. Brazilian budget airline Gol has targeted thrifty Brazilian consumers willing to sacrifice convenience for price; planes often depart at odd hours and make multiple stops. In Mexico, retailer Grupo Elektra [a Mexican financial and retail corporation owned by Grupo Salinas that is listed on the New York Stock Exchange (EKT), the Bolsa Mexicana de Valores (ELEKTRA), and the Spanish Stock Market Latibex (XEKT)] is selling washing machines, refrigerators, televisions, and other items on credit to people making less than $10 a day. The company's many stores double as bank branches where people can withdraw, deposit, and transmit cash, as well as get loans. According to BCG, local dynamos often combine in-depth understanding of consumer tastes with cost-effective production techniques to create a locally laser-focused business model.[23]

Grupo Elektra's retail stores in Mexico and Latin America sell appliances and offer financial services to low-income consumers.

Getting the marketing equation right in developing markets can pay big dividends:

- Smaller packaging and lower sales prices are often critical when incomes and housing spaces are limited. Unilever's 4-cent sachets of detergent and shampoo were a big hit in rural India, where 70 percent of the population still lives.[24]
- Eighty percent of consumers in emerging markets buy their products from tiny bodegas, stalls, kiosks, and mom-and-pop stores not much bigger than a closet, which Procter & Gamble calls "high-frequency stores." In India, 98 percent of food is still purchased from the 12 million neighborhood mom-and-pop outfits called kirana stores.[25]
- Nokia sends marketing, sales, and engineering staff from its entry-level phone group to spend a week in people's homes in rural China, Thailand, and Kenya to observe how they use phones. By developing rock-bottom-priced phones with just the right functionality, Nokia has become the market-share leader in Africa and Asia.[26]
- A Western image can be helpful. Coca-Cola's success against local cola brand Jianlibao in China was partly due to its symbolic values of modernity and affluence.[27]

Competition is also growing from companies based in developing markets. China has been exporting cars to Africa, Southeast Asia, and the Middle East. Tata of India, Cemex of Mexico, and Petronas of Malaysia have emerged from developing markets to become strong multinationals selling in many countries.[28]

Many firms are using lessons gleaned from marketing in developing markets to better compete in their developed markets (recall the "bottom of the pyramid" discussion from Chapter 3). John Deere's research facility in Pune, India, developed four no-frills tractors whose affordability and maneuverability also found a market in the United States and elsewhere. About half the tractors Deere makes in India are sold overseas.[29]

Product innovation has become a two-way street between developing and developed markets. The challenge is to think creatively about how marketing can fulfill the dreams of most of the world's population for a better standard of living.[30] Many companies are betting they can do that. "Marketing Insight: Spotlight on Key Developing Markets" highlights some important developments in the BRIC countries plus South Africa and Indonesia.

Marketing Insight

Spotlight on Key Developing Markets

Brazil

According to the World Bank, 25 percent of Latin Americans live on less than $2 a day; millions more earn only a few hundred dollars a month. In Brazil, the region's biggest market, low-income groups make up 87 percent of the population but earn only 53 percent of the income. Marketers are finding innovative ways to sell products and services to these poor and low-income residents. Nestlé Brazil boosted sales of Bono cookies 40 percent after shrinking the package from 200 to 140 grams and lowering the price. With illiteracy widespread, Unilever launched a brand of soap in northeast Brazil with the simple name, "Ala."

Brazil experienced some "go-go" growth years in the 1960s and 1970s, when it was the world's second-fastest-growing large economy. As a result, it now boasts large and well-developed agricultural, mining, manufacturing, and service sectors. Brazilian firms that have succeeded internationally include aircraft manufacturer Embraer, sandal maker Havaianas, and brewer and beverage producer AmBev, which merged with Interbrew to form InBev. It also differs from other emerging markets in being a full-blown democracy, unlike Russia and China, and it has no serious disputes with neighbors, unlike India.

A number of obstacles exist, however, that are popularly called *custo Brasil* ("the cost of Brazil"). The cost of transporting products eats up nearly 13 percent of Brazil's GDP, five percentage points more than in the United States. Unloading a container is twice as expensive as in India and takes three times longer than in China. Most observers see Brazil's economic, social, and political transformation as a work in process, although it emerged from the recent economic recession relatively unscathed.

Russia

The 1991 splintering of the Soviet Union transformed Russia's isolated, centrally planned economy to a globally integrated, market-based economy. Russia is the largest exporter of natural gas, the second-largest exporter of oil, and the third-largest exporter of steel and primary aluminum. Reliance on commodities has its downside, however. Russia's economy was hammered in the recent recession by plunging commodity prices and the credit crunch.

Dutch brewer Heineken, Swedish retailer IKEA, U.S. banker Citibank, and more than a dozen carmakers recently ramped up operations in Russia to target its growing middle class, now one-quarter to one-third of the population with fast-rising salaries and access to consumer credit. But the average Russian still earns only $700 a month, a fraction of the U.S. average, and many feel left behind. The economic crisis also saw a significant reduction in foreign investment in the country.

Russia has a dwindling workforce and poor infrastructure. The Organization for Economic Cooperation & Development (OECD) cautions that economic reforms have stagnated and ranks Russia as one of the most corrupt countries in the world. Many feel Vladimir Putin's government has been unpredictable and difficult to work with.

Still, companies remain optimistic. In 2006, more than 167,000 Motorola handsets were seized on arrival at Moscow airport. The interior ministry supposedly destroyed around 50,000 as smuggled or counterfeit, though some were later reported found on the black market. Eventually most were returned, but more telling was Motorola's reaction. With Russia as its third-biggest handset market in the world at the time, an unshaken Motorola stayed the course.

India

Reforms in the early 1990s that lowered trade barriers and liberalized capital markets have brought India booming investment and consumption. But it's not all about demand. With many low-cost, high-IQ, English-speaking employees, India is gaining programming and call center jobs once held by U.S. workers. Its growth has been driven largely by the manufacturing and service sectors where most of its workers reside.

India's ascent opens a larger market for U.S. and Western goods. Almost two-thirds of the population is under 35, and about 16 million, or 3 percent, are high-earning targets of youth lifestyle brands connoting status and affluence. Luxury cars and shiny motorbikes are the most sought-after status symbols, followed by clothing, food, entertainment, consumer durables, and travel.

India still struggles with poor infrastructure and public services—education, health, and water supply—and restrictive labor laws. Its 28 separate states each have their own policies and tax rules. But global firms such as Mittal, Reliance, Tata, Wipro, and Infosys all have achieved international success, and many outside firms are setting their sights there.

China

China's 1.3 billion people have marketers scrambling to gain a foothold, and competition has heated up between domestic and international firms. Its 2001 entry into the World Trade Organization eased China's manufacturing and investment rules and modernized retail and logistics industries. Greater competition in pricing, products, and channels resulted, but publishing, telecommunications, oil exploration, marketing, pharmaceuticals, banking, and insurance remained fiercely protected or off-limits to foreigners altogether. Foreign businesses complain about subsidized competition, restricted access, conflicting regulations, lack of protection for intellectual property, and opaque and seemingly arbitrary bureaucracy.

Selling in China means going beyond the big cities to the 700 million potential consumers who live in small communities in the rural interior. About half of potential PC buyers live outside major cities; only one-third of overall retail revenues come from China's 24 largest cities. Rural consumers can be challenging; they have lower incomes, are less sophisticated, and often cling to local habits. PC maker Lenovo, mobile-phone provider TCL, and appliance manufacturer Haier have thrived despite strong foreign competition. Besides their sharp grasp of Chinese tastes, they have vast distribution networks, especially in rural areas.

China's emerging urban middle class is active and discerning, demanding higher-quality products and variety. Although they number four times the U.S. population, Chinese consumers spend a fraction of what U.S. consumers spend. Luxury cars are the fastest-growing auto segment thanks to China's swelling ranks of millionaires.

Indonesia

Indonesia's reputation as a country historically struggling with natural disasters, terrorism, and economic uncertainty is quickly being replaced by a country characterized by political stability and economic growth. The fourth largest country in the world and the largest Muslim country, given all its progress, it is perhaps no surprise that Morgan Stanley suggested adding Indonesia to the four BRIC countries to make it the BRICI countries.

Indonesia has become the third fastest-growing economy in the region—behind India and China—largely on the basis of its 240 million consumers. Foreign direct investments account for only 25 percent of gross domestic product. Although half the population live on less than $2 a day, their spending and those of an active younger population is driving economic growth.

Some foreign firms are taking advantage of opportunities there. Indonesia is one of Reach In Motion's (RIM's) hottest markets, and the BlackBerry has achieved iconic status in the country. RIM has taken advantage of a mobile-friendly environment (broadband service is patchy and expensive) and has also customized its offerings with dozens of applications designed specifically for the Indonesian market. Its success is not without some downside though—it has inspired scores of knockoffs from China dubbed "Chinaberries" by locals.

Indonesia presents other challenges. An archipelago with more than 14,000 islands in a hot and humid climate, effective, efficient distribution is critical. Large importers have established extensive distribution networks which allow them to extend beyond the one-third of the population that lives in the six or seven largest cities. Like many developing countries, infrastructure can be lacking.

But the progress of Indonesia in recent years is noteworthy. As further proof, with over 20 percent of the Indonesian Internet users having a Twitter account, Indonesia is the sixth most active country on the micro-blogging site.

South Africa

Although South Africa is a developed market, it is included here in its role as an access point to the African region as well as an important market in its own right. According to the World Bank, of the 35 least business-friendly countries, 27 are in sub-Saharan Africa; 42 percent of the region's economy is informal. Bad roads, unreliable electricity, and volatile currency fluctuations add logistical and financial challenges. War, famine, AIDS, and disaster are even more significant human difficulties. Most Africans live in poverty; 60 percent still engage in agriculture for their primary income.

But a recent period of relative stability has coincided with improvements in health, education, and social services. The 2010 World Cup offered a chance to reexamine economic progress in South Africa and other African countries. Many international companies are using South Africa as a launch pad.

- Mobile phone operator Celtel invested in rural services by introducing the Me2U service, by which callers could send airtime credit to other mobile phones. Because most Africans don't have bank accounts, it became a convenient and cheap way to transfer money, even substituting for cash in some villages.
- South Africa's MTN, the region's largest mobile phone company, built its own microwave transmission backbone and power supplies in Nigeria, and the first solar pay phone in Lake Victoria, Uganda.
- South Africa's Net1 has built a customer base of 3.6 million accounts by issuing free smart cards to indigent people who lack bank accounts or credit cards, taking tiny percentages of their transactions for revenue.

The payoff for companies willing to do business in Africa is often large margins and minimal competition. SABMiller, the world's second-largest brewer, enjoys its best operating margins in Africa. Finding a local partner can add expertise and contacts. SABMiller's African operations are joint ventures with locals, some of them government. The Boston Consulting Group has dubbed eight of Africa's strongest economies the "African Lions": Algeria, Botswana, Egypt, Libya, Mauritius, Morocco, South Africa, and Tunisia.

Sources: *Brazil:* Antonio Regalado, "Marketers Pursue the Shallow Pocketed," *Wall Street Journal,* January 26, 2007; "Land of Promise," *Economist,* April 12, 2007; Melissa Campanelli, "Marketing to Latin America? Think Brazil," *DMNews,* June 20, 2006. *Russia:* Jason Bush, "Russia Economy Turns Swiftly Siberian," *BusinessWeek*, December 15, 2008, p.68; "Risk and Reward in Russia," *BusinessWeek Emerging Market Report*, October 20, 2008; "Dancing with the Bear," *Economist,* February 3, 2007, pp. 63–64; Jason Bush, "Russia: How Long Can the Fun Last?" *BusinessWeek,* December 18, 2006, pp. 50–51; Steven Lee Myers, "Business as Usual, Russian-Style," *International Herald Tribune*, June 13, 2006. *India:* Nandan Nilekani, *Imagining India: The Idea of a Renewed Nation* (New York: Penguin Press, 2009); Anil K. Gupta and Haiyan Wang, "Five Myths about India," *Economic Times*, December 29, 2009; "India on Fire," *Economist,* February 3, 2007, pp. 69–71; "16m. Young High-Earning Consumers Are Targets of High-End Lifestyle Products," *News India Times*, August 4, 2006, p. 16. *China:* Edward Wong, "China's Export Economy Begins Turning Inward, *New York Times*, June 24, 2010; Arthur Kroeber, "Five Myths about the Chinese Economy, *Washington Post*, April 11, 2010; "Impenetrable: Selling Foreign Goods in China," *Economist*, October 17, 2009;

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Regional economic integration—the creation of trading agreements between blocs of countries—has intensified in recent years. This means companies are more likely to enter entire regions at the same time. Certain countries have formed free trade zones or economic communities—groups of nations organized to work toward common goals in the regulation of international trade (see Table 21.1).

Evaluating Potential Markets

However much nations and regions integrate their trading policies and standards, each still has unique features. Its readiness for different products and services, and its attractiveness as a market, depend on its demographic, economic, sociocultural, natural, technological, and political-legal environments.

How does a company choose among potential markets to enter? Many prefer to sell to neighboring countries because they understand them better and can control their entry costs more effectively. It's not surprising that the two largest U.S. export markets are Canada and Mexico, or that Swedish companies first sold to their Scandinavian neighbors.

At other times, *psychic proximity* determines choices. Given more familiar language, laws, and culture, many U.S. firms prefer to sell in Canada, England, and Australia rather than in larger markets such as Germany and France. Companies should be careful, however, in choosing markets according to cultural distance. Besides overlooking potentially better markets, they may only superficially analyze real differences that put them at a disadvantage.[31]

TABLE 21.1 Regional Trade Areas and Agreements
The European Union Formed in 1957, the European Union set out to create a single European market by reducing barriers to the free flow of products, services, finances, and labor among member countries, and by developing trade policies with nonmember nations. Today, it's one of the world's largest single markets, with 27 member countries, a common currency—the euro—and more than 495 million consumers, accounting for 37 percent of the world's exports. Still, companies marketing in Europe face 23 different languages, 2,000 years of historical and cultural differences, and a daunting mass of local rules.
NAFTA In January 1994, the North American Free Trade Agreement (NAFTA) unified the United States, Mexico, and Canada in a single market of 440 million people who produce and consume $16 trillion worth of goods and services annually. Implemented over a 15-year period, NAFTA eliminates all trade barriers and investment restrictions among the three countries. Before NAFTA, tariffs on U.S. products entering Mexico averaged 13 percent, whereas U.S. tariffs on Mexican goods averaged 6 percent.
MERCOSUR MERCOSUR (or MERCOSUL) links Brazil, Argentina, Paraguay, Uruguay, and (soon) Venezuela to promote free trade and the fluid movement of goods, people, and currency. These five countries have 270 million citizens and collective GDP of $2.4 trillion. Bolivia, Chile, Columbia, Ecuador, and Peru are associate members and do not enjoy full voting rights or access to all the same markets. NAFTA will likely eventually merge with this and other arrangements to form an all-Americas free trade zone.
APEC Twenty-one countries, as well as the NAFTA members and Japan and China, are working to create a pan-Pacific free trade area under the auspices of the Asian Pacific Economic Cooperation (APEC) forum. These countries account for approximately 40.5 percent of the world's population, approximately 54.2 percent of world GDP, and about 43.7 percent of world trade. Heads of government of APEC members meet at an annual summit to discuss regional economy, cooperation, trade, and investment.
ASEAN Ten countries make up the Association of Southeast Asian Nations: Brunei Darussalam, Cambodia, Indonesia, Lao PDR, Malaysia, Myanmar, Philippines, Singapore, Thailand, and Viet Nam. The region is an attractive market of over 590 million people with $1.2 trillion in GDP. Member countries aim to enhance the area as a major production and export center.

Sources: www.europa.eu; "World Trade Report 2009," www.wto.org; www.naftanow.org; Council on Foreign Relations, "Mercosur: South America's Fractious Trade Bloc," www.cfr.org; www.apec.org; www.asean.org.

Busy ports, such as in Buenos Aires, Argentina, are fueling the demand for greater trade cooperation.

It often makes sense to operate in fewer countries, with a deeper commitment and penetration in each. In general, a company prefers to enter countries that have high market attractiveness and low market risk, and in which it possesses a competitive advantage. Consider how these firms have assessed market opportunities:

- Coke and Suntory are looking for energy-drink distribution opportunities outside saturated North America where Red Bull and Monster rule, focusing on less competitive markets in Western Europe and Asia. Both companies are considering using their extensive distribution networks to sell brands whose rights they have acquired, Monster and V, respectively.[32]
- Jamaica-based Digicel has conquered politically unstable developing countries such as Papua New Guinea, Haiti, and Tonga with products appealing to poor and typically overlooked consumers, whose fierce loyalty helps protect Digicel from aggressive government interventions.[33]
- Bechtel Corporation, the construction giant, does a cost-benefit analysis of overseas markets, factoring in the position of competitors, infrastructure, regulatory and trade barriers, and corporate and individual taxes. It looks for untapped needs for its products or services, a skilled labor pool, and a welcoming environment (governmental and physical).[34]

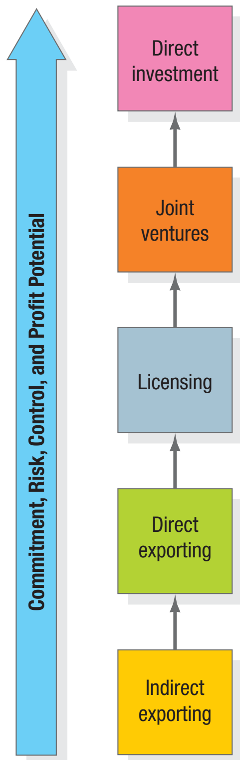
Deciding How to Enter the Market

Once a company decides to target a particular country, it must determine the best mode of entry. Its broad choices are *indirect exporting, direct exporting, licensing, joint ventures,* and *direct investment,* shown in Figure 21.2. Each succeeding strategy entails more commitment, risk, control, and profit potential.

Indirect and Direct Export

Companies typically start with export, specifically *indirect exporting*—that is, they work through independent intermediaries. *Domestic-based export merchants* buy the manufacturer's products and then sell them abroad. *Domestic-based export agents,* including trading companies, seek and negotiate foreign purchases for a commission. *Cooperative organizations* conduct exporting activities for several producers—often of primary products such as fruits or nuts—and are partly under their administrative control. *Export-management companies* agree to manage a company's export activities for a fee.

Indirect export has two advantages. First, there is less investment: The firm doesn't have to develop an export department, an overseas sales force, or a set of international contacts. Second, there's less risk: Because international marketing intermediaries bring know-how and services to the relationship, the seller will make fewer mistakes.



|Fig. 21.2|

Five Modes of Entry into Foreign Markets

Companies may eventually decide to handle their own exports.[35] The investment and risk are somewhat greater, but so is the potential return. Direct exporting happens in several ways:

- ***Domestic-based export department or division.*** A purely service function may evolve into a self-contained export department operating as its own profit center.
- ***Overseas sales branch or subsidiary.*** The sales branch handles sales and distribution and perhaps warehousing and promotion as well. It often serves as a display and customer-service center.
- ***Traveling export sales representatives.*** Home-based sales representatives travel abroad to find business.
- ***Foreign-based distributors or agents.*** These third parties can hold limited or exclusive rights to represent the company in that country.

Many companies use direct or indirect exporting to "test the waters" before building a plant and manufacturing their product overseas. A company does not necessarily have to attend international trade shows if it can effectively use the Internet to attract new customers overseas, support existing customers who live abroad, source from international suppliers, and build global brand awareness.

Successful companies adapt their Web sites to provide country-specific content and services to their highest-potential international markets, ideally in the local language. Finding free information about trade and exporting has never been easier. Here are some places to start a search:

www.trade.gov	U.S. Department of Commerce's International Trade Administration
www.exim.gov	Export-Import Bank of the United States
www.sba.gov	U.S. Small Business Administration
www.bis.doc.gov	Bureau of Industry and Security, a branch of the Commerce Department

Many states' export-promotion offices also have online resources and allow businesses to link to their sites.

Licensing

Licensing is a simple way to engage in international marketing. The licensor issues a license to a foreign company to use a manufacturing process, trademark, patent, trade secret, or other item of value for a fee or royalty. The licensor gains entry at little risk; the licensee gains production expertise or a well-known product or brand name.

The licensor, however, has less control over the licensee than over its own production and sales facilities. If the licensee is very successful, the firm has given up profits, and if and when the contract ends, it might find it has created a competitor. To prevent this, the licensor usually supplies some proprietary product ingredients or components (as Coca-Cola does). But the best strategy is to lead in innovation so the licensee will continue to depend on the licensor.

Licensing arrangements vary. Companies such as Hyatt and Marriott sell *management contracts* to owners of foreign hotels to manage these businesses for a fee. The management firm may have the option to purchase some share in the managed company within a stated period.

In *contract manufacturing,* the firm hires local manufacturers to produce the product. When Sears opened department stores in Mexico and Spain, it found qualified local manufacturers to produce many of its products. Contract manufacturing reduces the company's control over the process and risks loss of potential profits. However, it offers a chance to start faster, with the opportunity to partner with or buy out the local manufacturer later.

Finally, a company can enter a foreign market through *franchising,* a more complete form of licensing. The franchisor offers a complete brand concept and operating system. In return, the franchisee invests in and pays certain fees to the franchisor. McDonald's, Ramada, and Avis have entered scores of countries by franchising their retail concepts and making their marketing culturally relevant.[36]

KFC Corporation KFC is the world's largest fast-food chicken chain, serving more than 12 million customers at more than 5,200 restaurants in the United States and more than 15,000 units in 109 countries and territories around the world. KFC is world famous for its Original Recipe fried chicken—made with the same secret blend of

11 herbs and spices Colonel Harland Sanders perfected more than a half-century ago. Its success in Asia is instructive:

- When KFC entered the Japanese market in 1970, the Japanese saw fast food as artificial, made by mechanical means, and unhealthy. To build trust in the brand, advertising depicted Colonel Sanders's beginnings in Kentucky to convey Southern hospitality, old U.S. tradition, and authentic home cooking. The campaign was hugely successful. KFC now offers sesame and soy sauce–flavored chicken and a panko-fried salmon sandwich.
- In China, KFC is the largest, oldest, most popular, and fastest-growing quick-service restaurant chain, with over 3,400 locations in 650 towns or cities and healthy margins of 20 percent per store. Using its own supply and distribution system, it has expanded quickly into ever-smaller cities. The company has also tailored its menu to local tastes with items such as the Dragon Twister, a sandwich stuffed with chicken strips, Peking duck sauce, cucumbers, and scallions. KFC even has a Chinese mascot—a kid-friendly character named Chicky, which the company boasts has become "the Ronald McDonald of China."

By adapting its marketing to different regions of the world, KFC has met with much global success, such as with its many restaurants in Tokyo, Japan.

Joint Ventures

Historically, foreign investors have often joined local investors in a **joint venture** company in which they share ownership and control. To reach more geographic and technological markets and to diversify its investments and risk, GE Money—GE's retail lending arm—views joint ventures as one of its "most powerful strategic tools." It has formed joint ventures with financial institutions in South Korea, Spain, Turkey, and elsewhere.[37] Emerging markets, especially large, complex countries such as China and India, see much joint venture action.

A joint venture may be necessary or desirable for economic or political reasons. The foreign firm might lack the financial, physical, or managerial resources to undertake the venture alone, or the foreign government might require joint ownership as a condition for entry. Joint ownership has drawbacks. The partners might disagree over investment, marketing, or other policies. One might want to reinvest earnings for growth, the other to declare more dividends. Joint ownership can also prevent a multinational company from carrying out specific manufacturing and marketing policies on a worldwide basis.

The value of a partnership can extend far beyond increased sales or access to distribution. Good partners share "brand values" that help maintain brand consistency across markets. For example, McDonald's fierce commitment to product and service standardization is one reason its retail outlets are so similar around the world. McDonald's handpicks its global partners one by one to find "compulsive achievers" who will put forth the desired effort.

Direct Investment

The ultimate form of foreign involvement is direct ownership: the foreign company can buy part or full interest in a local company or build its own manufacturing or service facilities. Cisco had no presence in India before 2005 but opened a second headquarters in Bangalore to take advantage of opportunities in India and other locations such as Dubai.[38]

If the market is large enough, direct investment offers distinct advantages. First, the firm secures cost economies through cheaper labor or raw materials, government incentives, and freight savings. Second, the firm strengthens its image in the host country because it creates jobs. Third, the firm deepens its relationship with government, customers, local suppliers, and distributors, enabling it to better adapt its products to the local environment. Fourth, the firm retains full control over its investment and therefore can develop manufacturing and marketing policies that serve its long-term international objectives. Fifth, the firm assures itself of access to the market in case the host country insists locally purchased goods have domestic content.

The main disadvantage of direct investment is that the firm exposes a large investment to risks such as blocked or devalued currencies, worsening markets, or expropriation. If the host country requires substantial severance for employees, reducing or closing operations can be expensive.

TABLE 21.2	Globally Standardized Marketing Pros and Cons
Advantages	
Economies of scale in production and distribution	
Lower marketing costs	
Power and scope	
Consistency in brand image	
Ability to leverage good ideas quickly and efficiently	
Uniformity of marketing practices	
Disadvantages	
Ignores differences in consumer needs, wants, and usage patterns for products	
Ignores differences in consumer response to marketing programs and activities	
Ignores differences in brand and product development and the competitive environment	
Ignores differences in the legal environment	
Ignores differences in marketing institutions	
Ignores differences in administrative procedures	

Deciding on the Marketing Program

International companies must decide how much to adapt their marketing strategy to local conditions.[39] At one extreme is a *standardized marketing program* worldwide, which promises the lowest costs; Table 21.2 summarizes some pros and cons. At the other extreme is an *adapted marketing program* in which the company, consistent with the marketing concept, believes consumer needs vary and tailors marketing to each target group.

Global Similarities and Differences

The development of the Web, the spread of cable and satellite TV, and the global linking of telecommunications networks have led to a convergence of lifestyles. Increasingly common needs and wants have created global markets for more standardized products, particularly among the young middle class. Once the butt of jokes, after being acquired by VW, the Czech carmaker Skoda used its investments to upgrade its quality and image and offer an affordable option to lower-income consumers worldwide.[40]

As this Prague waiter demonstrates, many Czech people like to drink beer!

At the same time, consumers still vary across markets in significant ways.[41] The median age is about 25 in India and China, and around 43 in Japan, Germany, and Italy. When asked if they are more concerned with getting a specific brand than the best price, roughly two-thirds of U.S. consumers agreed, compared to around 80 percent in Russia and India.[42] Consider the following beverage facts.[43]

- U.S. per capita consumption of soft drinks is 760 eight-ounce servings, the highest in the world. Mexicans drink 674 servings per year, Brazilians 315, Russians 149, and the Chinese 39.
- When it comes to beer, the Czech Republic leads the pack in Europe with 81.9 liters per capita; Norway is among the lowest at 40.3 liters.
- With wine, Portugal tops Europe with 33.1 liters per capita, while Finland is among the lowest at 9.9 liters.

Consumer behavior may reflect cultural differences that can be pronounced across countries.[44] Hofstede identifies four cultural dimensions that differentiate countries:[45]

1. ***Individualism versus collectivism***—In collectivist societies, the self-worth of an individual is rooted more in the social system than in individual achievement (high collectivism: Japan; low: United States).
2. ***High versus low power distance***—High power distance cultures tend to be less egalitarian (high: Russia; low: Nordic countries).
3. ***Masculine versus feminine***—This dimension measures how much the culture is dominated by assertive males versus nurturing females (highly masculine: Japan; low: Nordic countries).
4. ***Weak versus strong uncertainty avoidance***—Uncertainty avoidance indicates how risk-aversive people are (high avoidance: Greece; low: Jamaica).

Consumer behavior differences as well as historical market factors lead marketers to position brands differently in different markets.[46]

- Heineken beer is a high-end super-premium offering in the United States but middle-of-the-road in its Dutch home market.
- Honda automobiles denote speed, youth, and energy in Japan and quality and reliability in the United States.
- The Toyota Camry is the quintessential middle-class car in the United States but is at the high end in China, though in the two markets the cars differ only in cosmetic ways.

Marketing Adaptation

Because of all these differences, most products require at least some adaptation. Even Coca-Cola is sweeter or less carbonated in certain countries. Rather than assuming it can introduce its domestic product "as is" in another country, the company should review the following elements and determine which add more revenue than cost if adapted:

- Product features
- Labeling
- Colors
- Materials
- Sales promotion
- Advertising media
- Brand name
- Packaging
- Advertising execution
- Prices
- Advertising themes

The best global brands are consistent in theme but reflect significant differences in consumer behavior, brand development, competitive forces, and the legal or political environment.[47] Oft-heard—and sometime modified—advice to marketers of global brands is to: "Think Global, Act Local." In that spirit, HSBC is even explicitly positioned as "The World's Local Bank." Take McDonald's for example.[48]

McDonald's McDonald's allows countries and regions to customize its basic layout and menu staples. In China, corn replaces fries in Happy Meals, some U.S. stores blend fruit smoothies, and Australia and France have Starbucks-like lounges. In India, the mutton-based Maharaja Mac replaces the beefy Big Mac, and cottage cheese wraps and potato patties are offered for vegetarians. In cities plagued by traffic tie-ups like Manila, Taipei, Jakarta, and Cairo, McDonald's delivers via fleets of motor scooters.

McDonald's customizes its menu offerings and even its service delivery to suit the markets to which it sells—in busy cities, it may deliver meals via scooters.

Companies must make sure their brands are relevant to consumers in every market they enter. (See "Marketing Memo: The Ten Commandments of Global Branding.")

We next consider some specific issues in developing global product, communications, pricing, and distribution strategies.

marketing **Memo**

The Ten Commandments of Global Branding

These guidelines can help a company retain the advantages of global branding while minimizing potential disadvantages:

1. *Understand the global branding landscape.* One international market is rarely identical to or completely different from another in brand development, consumer behavior, competitive activity, or legal restrictions.
2. *Avoid shortcuts in brand building.* Build from the bottom up, creating awareness before brand image (strategy) and developing the right sources of brand equity (tactics).
3. *Establish a marketing infrastructure.* Build marketing infrastructure from scratch or adapt to and modify existing infrastructure in other countries.
4. *Embrace integrated marketing communications.* Many forms of communication work in overseas markets, not just advertising.
5. *Establish brand partnerships.* Most global brands carefully choose marketing partners that help improve distribution, profitability, and added value.
6. *Balance standardization and customization.* Packaging and brand name can often be standardized, while distribution channels and communications typically require greater customization.
7. *Balance global and local control.* Companies must balance global and local control within the organization and distribute decision making between global and local managers.
8. *Establish operable guidelines.* Brand definition and guidelines let marketers everywhere know what to do and not do. The goal is to communicate and enforce rules for positioning and marketing the brand.
9. *Implement a global brand-equity measurement system.* Information from a global brand-equity system lets marketers make the best short-run tactical and long-run strategic decisions in each market.
10. *Leverage brand elements.* Proper design and implementation of brand name and trademarked identifiers can be an invaluable source of brand equity worldwide.

Source: Adapted from Kevin Lane Keller and Sanjay Sood, "The Ten Commandments of Global Branding," *Asian Journal of Marketing* 8, no. 2 (2001), pp. 97–108.

Global Product Strategies

Developing global product strategies requires knowing what types of products or services are easily standardized and appropriate adaptation strategies.

PRODUCT STANDARDIZATION Some products cross borders without adaptation better than others. While mature products have separate histories or positions in different markets, consumer knowledge about new products is generally the same everywhere because perceptions have yet to be formed. Many leading Internet brands—Google, eBay, Amazon.com—made quick progress in overseas markets.

High-end products also benefit from standardization, because quality and prestige often can be marketed similarly across countries. Food and beverage marketers find it more challenging to standardize given widely varying tastes and cultural habits. Culture and wealth factors influence how quickly a new product takes off in a country, although adoption and diffusion rates are becoming more alike across countries over time.[49]

A company may emphasize its products differently across markets. IBM takes a two-track approach for its services business: because U.S. clients often are economizing, it focuses on helping them cut costs; for developing-market clients seeking to modernize and catch up with other countries, IBM helps develop their technology infrastructure. In its medical-equipment business, Philips reserves higher-end, premium products for developed markets and emphasizes products with basic functionality and affordability in developing markets.[50]

PRODUCT ADAPTATION STRATEGIES Warren Keegan has distinguished five product and communications adaptation strategies (see Figure 21.3).[51] We review the product strategies here and the communication strategies in the next section.

Straight extension introduces the product in the foreign market without any change. Tempting because it requires no additional R&D expense, manufacturing retooling, or promotional modification, it's been successful for cameras, consumer electronics, and many machine tools. In other cases, it has been a disaster. Campbell Soup Company lost an estimated $30 million introducing condensed soups in England; consumers saw expensive small-sized cans and didn't realize water needed to be added.

Product adaptation alters the product to meet local conditions or preferences. Flexible manufacturing makes it easier to do so on several levels.

|Fig. 21.3|

Five International Product and Communication Strategies

Communications	Product: Do Not Change Product	Product: Adapt Product	Product: Develop New Product
Do Not Change Communications	Straight extension	Product adaptation	Product invention
Adapt Communications	Communication adaptation	Dual adaptation	

- A company can produce a *regional version* of its product, such as a Western European version. Finnish cellular phone superstar Nokia customized its 6100 series phone for every major market. Developers built in rudimentary voice recognition for Asia, where keyboards are a problem, and raised the ring volume to make it audible on crowded Asian streets.
- A company can produce a *country version*. Kraft blends different coffees for the British (who drink coffee with milk), the French (who drink it black), and Latin Americans (who want a chicory taste).
- A company can produce a *city version*—for instance, a beer to meet Munich's or Tokyo's tastes.
- A company can produce different *retailer versions*, such as one coffee brew for the Migros chain store and another for the Cooperative chain store, both in Switzerland.

Some companies have learned adaptation the hard way. The Euro Disney theme park, launched outside Paris in 1992, was harshly criticized as an example of U.S. cultural imperialism that ignored French customs and values, such as serving wine with meals. As one Euro Disney executive noted, "When we first launched, there was the belief that it was enough to be Disney. Now we realize our guests need to be welcomed on the basis of their own culture and travel habits." Renamed Disneyland Paris, the theme park eventually became Europe's biggest tourist attraction—even more popular than the Eiffel Tower—by implementing a number of changes and more local touches.[52]

Product invention creates something new. It can take two forms:

- **Backward invention** reintroduces earlier product forms well adapted to a foreign country's needs. The National Cash Register Company reintroduced its crank-operated cash register at half the price of a modern model and sold substantial numbers in Latin America and Africa.
- **Forward invention** creates a new product to meet a need in another country. Less-developed countries need low-cost, high-protein foods. Companies such as Quaker Oats, Swift, and Monsanto have researched their nutrition requirements, formulated new foods, and developed advertising to gain product trial and acceptance.

BRAND ELEMENT ADAPTATION When they launch products and services globally, marketers may need to change certain brand elements.[53] Even a brand name may require a choice between phonetic and semantic translations.[54] When Clairol introduced the "Mist Stick," a curling iron, in Germany, it found that *mist* is slang for *manure*. Brand slogans or ad taglines sometimes need to be changed too:[55]

- When Coors put its brand slogan "Turn it loose" into Spanish, some read it as "suffer from diarrhea."
- A laundry soap ad claiming to wash "really dirty parts" was translated in French-speaking Quebec to read "a soap for washing private parts."
- Perdue's slogan—"It takes a tough man to make a tender chicken"—was rendered into Spanish as "It takes a sexually excited man to make a chick affectionate."
- Electrolux's British ad line for its vacuum cleaners—"Nothing sucks like an Electrolux"—would certainly not lure customers in the United States!

Table 21.3 lists some other famous marketing mistakes in this area.

Disneyland Paris found greater success when it adapted more closely to the local culture and traditions in France.

TABLE 21.3 Classic Blunders in Global Marketing

- Hallmark cards failed in France, where consumers dislike syrupy sentiment and prefer writing their own cards.
- Philips became profitable in Japan only after reducing the size of its coffeemakers to fit smaller kitchens and its shavers to fit smaller hands.
- Coca-Cola withdrew its big two-liter bottle in Spain after discovering that few Spaniards owned refrigerators that could accommodate it.
- General Foods' Tang initially failed in France when positioned as a substitute for orange juice at breakfast. The French drink little orange juice and almost never at breakfast.
- Kellogg's Pop-Tarts failed in Britain because fewer homes have toasters than in the United States, and the product was too sweet for British tastes.
- The U.S. campaign for Procter & Gamble's Crest toothpaste initially failed in Mexico. Mexicans did not care as much about the decay-prevention benefit, nor did scientifically oriented advertising appeal.
- General Foods squandered millions trying to introduce packaged cake mixes to Japan, where only 3 percent of homes at the time were equipped with ovens.
- S.C. Johnson's wax floor polish initially failed in Japan. It made floors too slippery for a culture where people do not wear shoes at home.

Global Communication Strategies

Changing marketing communications for each local market is a process called **communication adaptation**. If it adapts both the product and the communications, the company engages in **dual adaptation**.

Consider the message. The company can use one message everywhere, varying only the language, name, and perhaps colors to avoid taboos in some countries.[56] Purple is associated with death in Burma and some Latin American nations, white is a mourning color in India, and in Malaysia green connotes disease.[57]

The second possibility is to use the same message and creative theme globally but adapt the execution. GE's global "Ecomagination" ad campaign substitutes creative content in Asia and the Middle East to reflect the cultural interest there. Even in the high-tech space, local adaptations may be necessary.[58]

Apple

Apple Apple Computer's highly successful "Mac vs. PC" ad campaign featured two actors bantering. One is hip (Apple), the other nerdy (PC). Apple dubbed the ads for Spain, France, Germany, and Italy but chose to reshoot and rescript for the United Kingdom and Japan—two important markets with unique advertising and comedy cultures. The UK ads followed a similar formula but used two well-known actors in character and tweaked the jokes to reflect British humor; the Japanese ads avoided direct comparisons and were more subtle in tone. Played by comedians from a local troupe called the Rahmens, the two characters were more alike and represented work (PC) vs. home (Mac).

The third approach, which Coca-Cola and Goodyear have used, consists of developing a global pool of ads from which each country selects the most appropriate. Finally, some companies allow their country managers to create country-specific ads—within guidelines, of course. The challenge is to make the message as compelling and effective as in the home market.

GLOBAL ADAPTATIONS Companies that adapt their communications wrestle with a number of challenges. They first must ensure their communications are legally and culturally acceptable. Beer, wine, and spirits cannot be advertised or sold in many Muslim countries. Tobacco products are subject to strict regulation in many places. U.S. toy makers were surprised to learn that in many countries (Norway and Sweden, for example) no TV ads may be directed at children under 12. To play it safe, McDonald's advertises itself as a family restaurant in Sweden.

Firms next must check their creative strategies and communication approaches for appropriateness. Comparative ads, although acceptable and even common in the United States and Canada, are less frequent in the United Kingdom, unacceptable in Japan, and illegal in India and Brazil. The EU seems to have a very low tolerance for comparative advertising and prohibits bashing rivals in ads.

Companies also must be prepared to vary their messages' appeal.[59] In advertising its hair care products, Helene Curtis observed that middle-class British women wash their hair frequently, Spanish women less so. Japanese women avoid overwashing for fear of removing protective oils. Language can vary too, whether the local language, another such as English, or some combination.[60]

Many messages need adjustment because the brand is at an earlier stage of development in its new market. Consumer education about the product itself may then need to accompany brand development efforts.

- In certain developing markets in Asia, consumers loved the Coca-Cola brand but had never tasted it. They needed to be advised to drink it cold.[61]
- When launching Chik shampoo in rural areas of South India, where hair is washed with soap, CavinKare showed people how to use the product through live "touch and feel" demonstrations and free sachets at fairs.[62]

Personal selling tactics may need to change too. The direct, no-nonsense approach favored in the United States ("let's get down to business" and "what's in it for me") may not work as well in Europe or Asia as an indirect, subtle approach.[63]

Global Pricing Strategies

Multinationals selling abroad must contend with price escalation and transfer prices (and dumping charges). Two particularly thorny pricing problems are gray markets and counterfeits.

PRICE ESCALATION A Gucci handbag may sell for $120 in Italy and $240 in the United States. Why? Gucci must add the cost of transportation, tariffs, importer margin, wholesaler margin, and retailer margin to its factory price. **Price escalation** from these added costs and currency-fluctuation risk might make the price two to five times as much in another country to earn the same profit for the manufacturer.

Companies have three choices for setting prices in different countries:

1. ***Set a uniform price everywhere.*** PepsiCo might want to charge 75 cents for Pepsi everywhere in the world, but then it would earn quite different profit rates in different countries. Also, this strategy would make the price too high in poor countries and not high enough in rich countries.
2. ***Set a market-based price in each country.*** PepsiCo would charge what each country could afford, but this strategy ignores differences in the actual cost from country to country. It could also motivate intermediaries in low-price countries to reship their Pepsi to high-price countries.[64]
3. ***Set a cost-based price in each country.*** Here PepsiCo would use a standard markup of its costs everywhere, but this strategy might price it out of markets where its costs are high.

When companies sell their wares over the Internet, price becomes transparent and price differentiation between countries declines. Consider an online training course. Whereas the price of a classroom-delivered day of training can vary significantly from the United States to France to Thailand, the price of an online-delivered day would be similar everywhere.

In another new global pricing challenge, countries with overcapacity, cheap currencies, and the need to export aggressively have pushed prices down and devalued their currencies. Sluggish demand and reluctance to pay higher prices make selling in these markets difficult. Here is what IKEA did to compete in China's challenging pricing market.[65]

IKEA

IKEA IKEA has used market-penetration pricing to get a lock on China's surging market for home furnishings. When the Swedish home furnishings giant opened its first store in Beijing in 2002, shops were selling copies of its designs at a fraction of IKEA's prices. The only way to lure China's frugal customers was to drastically slash prices. Western brands in China usually price products such as makeup and running shoes 20 percent to 30 percent higher than in their other markets, both to make up for China's high import taxes and to give their products added cachet. By stocking its Chinese stores with Chinese-made products, IKEA has been able to slash prices as low as 70 percent below their level outside China. Although it still contends with persistent knockoffs, IKEA maintains sizable stores in Beijing, Shanghai, Guangzhou, Chengdu, and Tianjin, opening one or two new locations each year.

TRANSFER PRICES A different problem arises when one unit charges another unit in the same company a **transfer price** for goods it ships to its foreign subsidiaries. If the company charges a subsidiary too *high* a price, it may end up paying higher tariff duties, although it may pay lower income taxes in the foreign country. If the company charges its subsidiary too *low* a price, it can be accused of **dumping**, charging either less than its costs or less than it charges at home in order to enter or win a market. Various governments are watching for abuses and often force companies to charge the **arm's-length price**—the price charged by other competitors for the same or a similar product.

When the U.S. Department of Commerce finds evidence of dumping, it can levy a dumping tariff on the guilty company. After finding that exporters and producers from China were selling off-road tires in the United States at 11 percent to 210 percent below fair market value, the U.S. Department of Commerce imposed a duty of 11 percent to 52 percent on four Chinese tire manufactures and an average duty of 25 percent on 23 other tire makers there.[66]

GRAY MARKETS Many multinationals are plagued by the **gray market**, which diverts branded products from authorized distribution channels either in-country or across international borders. Dealers in the low-price country find ways to sell some of their products in higher-price countries, thus earning more. Often a company finds some enterprising distributors buying more than they can sell in their own country and reshipping the goods to another country to take advantage of price differences.

Research suggests that gray market activity accounts for billions of dollars in revenue each year and makes up about 8 percent of total global IT sales of $725 billion. Information technology manufacturers lose about $10 billion in profits to the gray market each year.[67]

Gray markets create a free-rider problem, making legitimate distributors' investments in supporting a manufacturer's product less productive and selective distribution systems more intensive. They harm distributor relations, tarnish the manufacturer's brand equity, and undermine the integrity of the distribution channel. They can even pose risks to consumers if the seemingly brand-new product they think they are buying is damaged, remarked, obsolete, without warranty or support, or just counterfeit.

Multinationals try to prevent gray markets by policing the distributors, raising their prices to lower-cost distributors, or altering product characteristics or service warranties for different countries.[68] 3Com successfully sued several companies in Canada (for a total of $10 million) that provided written and oral misrepresentations to get deep discounts on 3Com networking equipment. The equipment, worth millions of dollars, was to be sold to a U.S. educational software company and sent to China and Australia but instead ended up back in the United States.

One research study found that gray market activity was most effectively deterred when penalties were severe, manufacturers were able to detect violations or mete out punishments in a timely fashion, or both.[69]

Counterfeit products are a major headache for luxury-goods makers.

COUNTERFEIT PRODUCTS Name a popular brand, and chances are a counterfeit version of it exists somewhere in the world.[70] Counterfeiting is estimated to cost over a trillion dollars a year. U.S. Customs and Border Protection seized $260 million worth of goods in 2009; the chief culprits were China (81 percent) and Hong Kong (10 percent), and the chief product was footwear (38 percent).[71]

Fakes take a big bite of the profits of luxury brands such as Hermès, LVMH Moët Hennessy Louis Vuitton, and Tiffany, but faulty counterfeits can literally kill people. Cell phones with counterfeit batteries, fake brake pads made of compressed grass trimmings, and counterfeit airline parts pose safety risks to consumers. Virtually every product is vulnerable. As one anticounterfeit consultant observed, "If you can make it, they can fake it." Defending against counterfeiters is a never-ending struggle; some observers estimate that a new security system can be just months old before counterfeiters start nibbling at sales again.[72]

The Web has been especially problematic. After surveying thousands of items, LVMH estimated 90 percent of Louis Vuitton and Christian Dior pieces listed on eBay were fakes, prompting the firm to sue. Manufacturers are fighting back online with Web-crawling software that detects fraud and automatically warns apparent violators without the need for any human intervention. Acushnet, maker of Titleist golf clubs and balls, shut down 75 auctions of knockoff gear in one day with just one mouse click.[73]

Web-crawling technology searches for counterfeit storefronts and sales by detecting domain names similar to legitimate brands and unauthorized Web sites that plaster brand trademarks and logos on their homepages. It also checks for keywords such as *cheap, discount, authentic,* and *factory variants,* as well as colors that products were never made in and prices that are far too low.

Global Distribution Strategies

Too many U.S. manufacturers think their job is done once the product leaves the factory. They should instead note how the product moves within the foreign country and take a whole-channel view of distributing products to final users.

CHANNEL ENTRY Figure 21.4 shows three links between the seller and the final buyer. In the first, *seller's international marketing headquarters,* the export department or international division makes decisions about channels and other marketing activities. The second link, *channels between nations,* gets the products to the borders of the foreign nation. Decisions made in this link include the types of intermediaries (agents, trading companies), type of transportation (air, sea), and financing and risk management. The third link, *channels within foreign nations,* gets products from their entry point to final buyers and users.

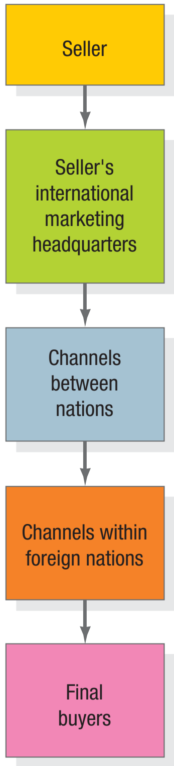
When multinationals first enter a country, they prefer to work with local distributors with good local knowledge, but friction often arises later.[74] The multinational complains that the local distributor doesn't invest in business growth, doesn't follow company policy, and doesn't share enough information. The local distributor complains of insufficient corporate support, impossible goals, and confusing policies. The multinational must choose the right distributors, invest in them, and set up performance goals to which they can agree.[75]

CHANNEL DIFFERENCES Distribution channels across countries vary considerably. To sell consumer products in Japan, companies must work through one of the most complicated distribution systems in the world. They sell to a general wholesaler, who sells to a product wholesaler, who sells to a product-specialty wholesaler, who sells to a regional wholesaler, who sells to a local wholesaler, who finally sells to retailers. All these distribution levels can make the consumer's price double or triple the importer's price. Taking these same consumer products to tropical Africa, the company might sell to an import wholesaler, who sells to several jobbers, who sell to petty traders (mostly women) working in local markets.

Another difference is the size and character of retail units abroad. Large-scale retail chains dominate the U.S. scene, but much foreign retailing is in the hands of small, independent retailers. Millions of Indian retailers operate tiny shops or sell in open markets. Markups are high, but the real price comes down through haggling. Incomes are low, most homes lack storage and refrigeration, and people shop daily for whatever they can carry home on foot or bicycle. In India, people often buy one cigarette at a time. Breaking bulk remains an important function of intermediaries and helps perpetuate long channels of distribution, a major obstacle to the expansion of large-scale retailing in developing countries.

Sometimes companies mistakenly adapt infrastructure strategies that were critical success factors, only to discover that these changes eroded the brand's competitive advantage. Dell Computer initially abandoned its direct distribution strategy in Europe for a traditional retailer network of existing channels, with poor results. Ignoring critics who claimed the direct distribution model would never work in Europe, Dell then revamped its direct approach, relaunching its personal computer line with a new management team to execute the direct model it had pioneered in the United States, finding greater success as a result.

Increasingly, retailers are moving into new global markets, offering firms the opportunity to sell across more countries and creating a challenge to local distributors and retailers.[76] France's Carrefour, Germany's Metro, and United Kingdom's Tesco have all established global positions. But some of the world's most successful retailers have had mixed success abroad. Despite concerted efforts and earlier success in Latin America and China, Walmart had to withdraw from both the German and South Korean markets.



|Fig. 21.4|

Whole-Channel Concept for International Marketing

Country-of-Origin Effects

Country-of-origin perceptions are the mental associations and beliefs triggered by a country. Government officials want to strengthen their country's image to help domestic marketers who export, and to attract foreign firms and investors. Marketers want to use positive country-of-origin perceptions to sell their products and services.

Building Country Images

Governments now recognize that the images of their cities and countries affect more than tourism and have important value in commerce. Attracting foreign business can boost the local economy, provide jobs, and improve infrastructure. Image can also help sell products. For its first global ad campaign for Infiniti luxury cars, Nissan chose to tap into its Japanese roots and association with Japanese-driven art and engineering.[77]

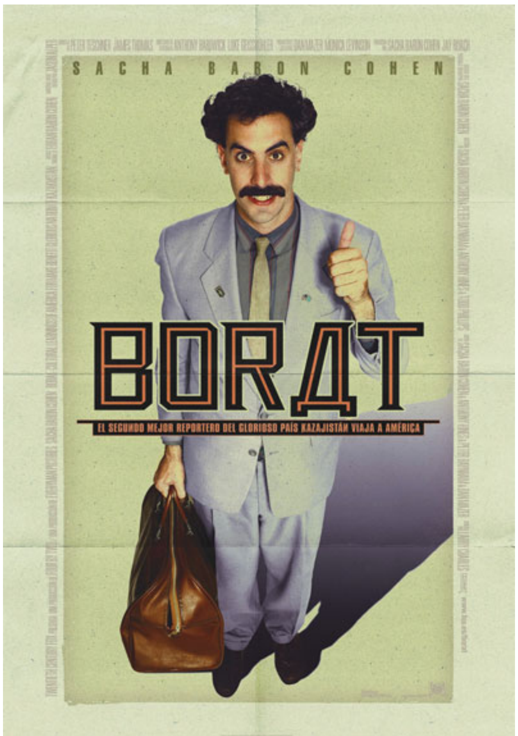
Countries are being marketed like any other brand.[78] New Zealand developed concerted marketing programs both to sell its products outside the country, via its New Zealand Way program, and to attract tourists by showing the dramatic landscapes featured in *The Lord of the Rings* film trilogy. Both efforts reinforce the image of New Zealand as fresh and pure.[79]

Another film affected the image of a country in an entirely different way. Although Kazakhstan has a positive story to tell given its huge size, rich natural resources, and rapid modernization, British comedian Sacha Baron Cohen's mock documentary *Borat* portrayed the country in a sometimes crude and vulgar light. As one government official noted, "the only fact of the movie is the geographic location of Kazakhstan." Fortunately, the tongue-in-cheek film also created awareness and interest in the country and what has been called the "Borat Bounce," an unanticipated surge in tourism.[80]

Attitudes toward countries can change over time. Before World War II, Japan had a poor image, which the success of Sony with its Trinitron TV sets and of Japanese automakers Honda and Toyota helped change. A strong company that emerges as a global player can do wonders for a country's image. Relying partly on the global success of Nokia, Finland campaigned to enhance its image as a center of high-tech innovation.[81]

Current events can also shape the image of a country. With public unrest and violent protests surrounding the austerity program to address Greece's debt crisis, tourist bookings there dropped as much as 30 percent.[82]

Although the film *Borat* poked fun at Kazakhstan, it also created much public awareness of and interest in the country.



Consumer Perceptions of Country of Origin

Global marketers know that buyers hold distinct attitudes and beliefs about brands or products from different countries.[83] These perceptions can be an attribute in decision making or influence other attributes in the process ("if it's French, it must be stylish"). The mere fact that a brand is perceived as successful on a global stage—whether it sends a quality signal, taps into cultural myths, or reinforces a sense of social responsibility—may lend credibility and respect.[84] Several studies have found the following:[85]

- People are often ethnocentric and favorably predisposed to their own country's products, unless they come from a less developed country.
- The more favorable a country's image, the more prominently the "Made in…" label should be displayed.
- The impact of country of origin varies with the type of product. Consumers want to know where a car was made, but not the lubricating oil.
- Certain countries enjoy a reputation for certain goods: Japan for automobiles and consumer electronics; the United States for high-tech innovations, soft drinks, toys, cigarettes, and jeans; France for wine, perfume, and luxury goods.
- Sometimes country-of-origin perception can encompass an entire country's products. In one study, Chinese consumers in Hong Kong perceived U.S. products as prestigious, Japanese products as innovative, and Chinese products as cheap.

Marketers must look at country-of-origin perceptions from both a domestic and a foreign perspective. In the domestic market, these perceptions may stir consumers' patriotic notions or remind them of their past. As international trade grows, consumers may view certain brands as symbolically important in their own cultural heritage and identity.

Patriotic appeals underlie marketing strategies all over the world, but they can lack uniqueness and even be overused, especially in economic or political crises. Many small businesses tap into community pride to emphasize their local roots. To be successful, these need to be clearly local and offer appealing product and service offerings.[86]

Sometimes consumers don't know where brands come from. In surveys, they routinely guess that Heineken is German and Nokia is Japanese (they are Dutch and Finnish, respectively). Few consumers know Häagen-Dazs and Estée Lauder originated in the United States.

With outsourcing and foreign manufacturing, it's hard to know what the country of origin really is anyway. Only 65 percent of the content of a Ford Mustang comes from the United States or Canada, whereas the Toyota Sienna is assembled in Indiana with 90 percent local components. Foreign automakers are pouring money into North America, investing in plants, suppliers, and dealerships as well as design, testing, and research centers. But what makes a product more "American"—having a higher percentage of North American components or creating more jobs in North America? The two measures may not lead to the same conclusion.[87]

Many brands have gone to great lengths to weave themselves into the cultural fabric of their foreign markets. One Coca-Cola executive tells of a young child visiting the United States from Japan who commented to her parents on seeing a Coca-Cola vending machine—"Look, they have Coca-Cola too!" As far as she was concerned, Coca-Cola was a Japanese brand.

Even when the United States has not been that popular, its brands typically have been. One recent study found that 70 percent of consumers in developing countries, ranging from Argentina to the United Arab Emirates, felt local products weren't as good as international brands.[88] In Saudi Arabia, Kraft packaged cheese, Lay's potato chips, and McDonald's restaurants were all viewed as top brands in their categories. As one marketer said of the study, "Regardless of all the problems we have as a country, we are still looked to as the consumer capital of the world."[89]

Companies can target niches to establish a footing in new markets. China's leading maker of refrigerators, washing machines, and air conditioners, Haier, is building a beachhead among U.S. college students who loyally buy its mini-fridges at Walmart and elsewhere. Haier's long-term plans are to introduce innovative products in other areas, such as flat-screen TV sets and wine-cooling cabinets.[90]

China's Haier has ambitious plans to sell its many different appliances in the United States and other markets.

Deciding on the Marketing Organization

Companies manage their international marketing activities in three ways: through export departments, international divisions, or a global organization.

Export Department

A firm normally gets into international marketing by simply shipping out its goods. If its international sales expand, it organizes an export department consisting of a sales manager and a few assistants. As sales increase, the export department expands to include various marketing services so the company can go after business more aggressively. If the firm moves into joint ventures or direct investment, the export department will no longer be adequate to manage international operations.

International Division

Sooner or later, companies that engage in several international markets and ventures create an international division to handle all this activity. The unit is headed by a division president who sets goals and budgets and is responsible for the company's international growth.

The international division's corporate staff consists of functional specialists who provide services to various operating units. Operating units can be *geographical organizations.* Reporting to the international-division president might be regional vice presidents for North America, Latin America, Europe, Africa, the Middle East, and the Far East. Reporting to the regional vice presidents are country managers responsible for a sales force, sales branches, distributors, and licensees in the respective countries. Or the operating units may be *world product groups,* each with an international vice president responsible for worldwide sales of each product group. The vice presidents may draw on corporate-staff area specialists for expertise on different geographical areas. Finally, operating units may be *international subsidiaries,* each headed by a president who reports to the president of the international division.

Global Organization

Several firms have become truly global organizations. Their top corporate management and staff plan worldwide manufacturing facilities, marketing policies, financial flows, and logistical systems. The global operating units report directly to the chief executive or executive committee, not to the head of an international division. The firm trains its executives in worldwide operations, recruits management from many countries, purchases components and supplies where it can obtain them at least cost, and makes investments where anticipated returns are greatest.

These companies face several organizational complexities. For example, when the firm is pricing a company's mainframe computers for a large banking system in Germany, how much influence should the headquarters product manager have? And the company's market manager for the banking sector? And the company's German country manager?

When forces for "global integration" (capital-intensive production, homogeneous demand) are strong and forces for "national responsiveness" (local standards and barriers, strong local preferences) are weak, a global strategy that treats the world as a single market can make sense (for example, with consumer electronics). When the reverse is true, a multinational strategy that treats the world as a portfolio of national opportunities can be more appropriate (such as for food or cleaning products).[91]

Korea's globally integrated LG decided to hire a number of top executives from Western firms to help transform it from "an engineering powerhouse that excelled at manufacturing and selling in different parts of the world" to a "globally efficient, trend-setting organization." The new executives were charged with standardizing the hodgepodge of processes and systems LG had developed in different markets in purchasing, the supply chain, marketing, and other areas. A single agency (London's Bartle Bogle Hegarty) was given global responsibility to sell an increasing number of higher-end products.[92]

When both forces prevail to some extent, a "glocal" strategy that standardizes certain elements and localizes others can be the way to go (for instance, with telecommunications). Many firms seek a blend of centralized global control from corporate headquarters with input from local and regional marketers. As one top marketer for global brand icon Jack Daniels described the challenges of managing the world's biggest-selling whiskey brand across 135 countries: "'Not invented' here is a good thing; 'invented here' is also a good thing; 'not invented but improved here' is the best!"[93]

Finding the balance can be tricky, though. Coca-Cola adopted a "think local, act local" philosophy, decentralizing power and responsibility for designing marketing programs and activities. Execution faltered because many local managers lacked the skills or discipline to do the job. Decidedly un-Coke-like ads appeared—such as skinny-dippers streaking down a beach in Italy—and sales stalled. The pendulum swung back, and Coke executives in Atlanta resumed a strong strategic role.[94]

Effectively transferring successful marketing ideas from one region to another is a key priority for many firms. Rather than developing global products for jointly owned Renault and Nissan, CEO Carlos Ghosn has mandated that companies design for local tastes and have the flexibility to export the design to other regions to tap into similar consumer trends. The no-frills Logan was developed by Renault for Eastern Europe and Latin America but found another home in France. When products cross a region, ideas and a way of thinking may also transfer in the process. Ghosn teamed Nissan and Renault with Bajaj Auto to sell a $3,000 car in the Indian market, in part to infuse those companies with India's low-cost design thinking: "They understand frugal engineering, which is something we aren't as good at in Europe or Japan."[95]

Summary

1. Despite shifting borders, unstable governments, foreign-exchange problems, corruption, and technological pirating, companies selling in global industries need to internationalize their operations.
2. Upon deciding to go abroad, a company needs to define its international marketing objectives and policies. It must determine whether to market in a few or many countries and rate candidate countries on three criteria: market attractiveness, risk, and competitive advantage.
3. Developing countries offer a unique set of opportunities and risks. The "BRIC" countries—Brazil, Russia, India, and China—plus other significant markets such as Indonesia and South Africa are a top priority for many firms.
4. Modes of entry are indirect exporting, direct exporting, licensing, joint ventures, and direct investment. Each succeeding strategy entails more commitment, risk, control, and profit potential.
5. In deciding how much to adapt their marketing programs at the product level, firms can pursue a strategy of straight extension, product adaptation, or product invention. At the communication level, they may choose communication adaptation or dual adaptation. At the price level, firms may encounter price escalation, dumping, gray markets, and discounted counterfeit products. At the distribution level, firms need to take a whole-channel view of distributing products to the final users. Firms must always consider the cultural, social, political, technological, environmental, and legal limitations they face in other countries.
6. Country-of-origin perceptions can affect consumers and businesses alike. Managing those perceptions to best advantage is a marketing priority.
7. Depending on their level of international involvement, companies manage international marketing activity in three ways: through export departments, international divisions, or a global organization.

Applications

Marketing Debate

Is the World Coming Closer Together?

Many social commentators maintain that youth and teens are becoming more alike across countries over time. Others, although not disputing the fact, point out that differences between cultures at even younger ages by far exceed the similarities.

Take a position: **People are becoming more and more similar *versus* The differences between people of different cultures far outweigh their similarities.**

Marketing Discussion

Country of Origin

Think of some of your favorite brands. Do you know where they come from? Where and how are they made or provided? Do you think knowing these answers would affect your perceptions of quality or satisfaction?

Marketing Excellence

>>Nokia

Nokia has made a remarkable transformation over the past two decades from an obscure Finnish conglomerate to a cell phone powerhouse. Now the world's largest manufacturer of mobile telephones, it has over 1 billion users and a global market share of 33 percent in 2010. The company sells approximately 11 cell phones every second and is the standout leader in Asia, Eastern Europe, and Africa.

Nokia's transformation started in the early 1990s with its strategic decision to divest its product portfolio and focus entirely on telecommunications. Business soon exploded, in part due to Nokia's mastery in innovating telecommunications technologies. Nokia was a key developer of new mobile technologies like GSM (Global System for Mobile Communications) that allow consumers to roam internationally and use new data services like text messaging. Although the firm has struggled in North America—in part because many networks there use a different wireless standard (CDMA) than in Europe (GSM)—its global footprint is still impressive.

Nokia's success also derives from its broad strategic view of how to build a global brand and international consumer base. The company sells a wide range of products and services in all price ranges to different types of consumers all over the world. In short, its approach is "All price points, all markets." Nokia has a practical understanding of what consumers need, value, and can afford depending on their geographical location and demographics. By providing the right products, features, and price, the firm has successfully built long-term brand value all over the world.

With the bulk of industry growth coming from developing markets, Nokia has made sure its cheapest handsets are appealing—and profitable—in markets such as China, India, and Latin America. On the flip side, to sustain its market leadership and compete in challenging markets like Europe and the United States, it has launched a range of high-end handsets with advanced features and applications. This consumer base is so critical to Nokia's growth that it has created a business division focused entirely on creating software and services for it, including music, video, games, maps, messaging, and media. Today, Nokia's products range from $30 basic models to $600 smart phones that include video editing, voice-guided navigation, and thousands of applications. Nokia's future also lies in its growing line of mobile computers, devices with the advanced capabilities of a computer that fit into the palm of your hand.

Nokia takes a broad perspective on competition as well, viewing Apple, Sony, and Canon as threats as much as traditional rivals Motorola and Samsung. Competitors' products like the iPhone, BlackBerry, and Android smart phones have all gained significant market share. Although 84 percent of its sales consist of cell phones, Nokia is focused on making its smart phones durable, reliable, and affordable to consumers in emerging markets, as it did with cell phones.

As a global leader, Nokia understands how critical it is to have a finger on the pulse of countries and cultures all over the world. With 16 different R&D factories, manufacturing plants in 10 countries, Web sites in 7 countries, and 650,000 points-of-sale—the widest distribution network in the world—Nokia strives to be a global leader but locally relevant. It forms relationships with local business partners, gets involved in the community, and works to earn consumers' trust on a local level.

In India, for example, the company has increased its local involvement by including in the Nokia Music Store a significant percentage of songs by local and regional artists, adding thousands of local customer care services, and supporting a local environmental initiative called "Planet Ke Rakwale" that encourages consumers to recycle their old phones and batteries. Nokia even added the tagline, "Made in India for India."

Today, with a value of nearly $35 billion, Nokia is the fifth most valuable global brand in the Interbrand/*BusinessWeek* ranking, surpassing Google, Samsung, Apple, and BlackBerry. The brand continues to rank well in consumers' minds as high quality, robust, easy to use, and trustworthy—a perfect combination for succeeding in both emerging and mature countries.

Questions

1. What have been the keys to Nokia's global strength?
2. What can Nokia do to gain market share in the United States and Europe where its presence is not as strong?
3. In the ever-changing world of mobile technology, what are the greatest threats to Nokia's global presence?

Sources: Jack Ewing, "Nokia: Lesson Learned, Reward Reaped," *BusinessWeek*, July 30, 2007; "Face Value," *Economist*, May 27, 2006; Oli Pekka Kalasvuo, "Brand Identity: A Delicate Balance between Image and Authenticity," *Economic Times*, August 31, 2010; Kevin J. O'Brien, "Nokia Seeks to Reconnect with the U.S. Market," *New York Times*, August 15, 2010; "Best Global Brands 2009," *Interbrand/BusinessWeek*; Nokia Capital Markets Day presentation, 2009; Nokia, www.nokia.com.

Marketing Excellence

>>L'Oréal

When it comes to globalizing beauty, no one does it better than L'Oréal. The company was founded in Paris over 100 years ago by a young chemist, Eugene Schueller, who sold his patented hair dyes to local hairdressers and salons. By the 1930s, Schueller had invented beauty products like suntan oil and the first mass-marketed shampoo. Today, the company has evolved into the world's largest beauty and cosmetics company, with distribution in 130 countries, 23 global brands, and over €17.5 billion in sales.

Much of the company's international expansion and success is credited to Sir Lindsay Owen-Jones, who transformed L'Oréal from a small French business to an international cosmetics phenomenon with strategic vision and precise brand management. During his almost 20 years as CEO and chairman, Owen-Jones divested weak brands, invested heavily in product innovation, acquired ethnically diverse brands, and expanded into markets no one had dreamed of, including China, South America, and the former Soviet Union. His quest: to achieve diversity, "meet the needs of men and women around the globe, and make beauty products available to as many people as possible."

Today, L'Oréal focuses on its five areas of expertise: skin care, hair care, makeup, hair coloring, and perfume. Its brands fall into four different groups: (1) Consumer Products (52 percent of L'Oréal's portfolio, including mass-marketed Maybelline and high-technology products sold at competitive prices through mass-market retailing chains), (2) Luxury Products (prestigious brands like Ralph Lauren perfume offered only in premium stores, department stores, or specialty stores), (3) Professional Products (brands such as Redken designed specifically for professional hair salons), and (4) Active (dermo-cosmetic products sold at pharmacies).

L'Oréal believes precise target marketing—hitting the right audience with the right product at the right place—is crucial to its global success. Owen-Jones explained, "Each brand is positioned on a very precise [market] segment, which overlaps as little as possible with the others."

The company has built its portfolio primarily by purchasing local beauty companies all over the world, revamping them with strategic direction, and expanding the brand into new areas through its powerful marketing arm. For example, L'Oréal instantly became a player (with 20 percent market share) in the growing ethnic hair care industry when it purchased and merged the U.S. companies Soft Sheen Products in 1998 and Carson Products in 2000. L'Oréal believed the competition had overlooked this category because it was previously fragmented and misunderstood. SoftSheen-Carson now derives approximately 30 percent of its annual revenues from South Africa.

L'Oréal also invests money and time in innovating at 14 research centers around the world, spending 3 percent of annual sales on R&D, more than one percentage point above the industry average. Understanding the unique beauty routines and needs of different cultures, countries, and consumers is critical to L'Oréal's global success. Hair and skin greatly differ from one part of the world to another, so L'Oréal scientists study consumers in laboratory bathrooms and in their own homes, sometimes achieving scientific beauty milestones. In Japan, for example, L'Oréal developed Wondercurl mascara specially formulated to curl Asian women's eyelashes, which are usually short and straight. The result: within three months it had become Japan's number-one selling mascara, and girls excitedly lined up in front of stores to buy it. L'Oréal continued to research the market and developed nail polish, blush, and other cosmetics aimed at this new generation of Asian girls.

Well known for its 1973 advertising tagline—"Because I'm Worth It"—L'Oréal is now a leader in beauty products around the world. As Gilles Weil, L'Oréal's head of luxury products, explained, "You have to be local and as strong as the best locals, but backed by an international image and strategy."

Questions

1. Review L'Oréal's brand portfolio. What role have target marketing, smart acquisitions, and R&D played in growing those brands?
2. Who are L'Oréal's greatest competitors? Local, global, or both? Why?
3. What has been the key to successful local product launches such as Maybelline's Wondercurl in Japan?
4. What's next for L'Oréal on a global level? If you were CEO, how would you sustain the company's global leadership?

Sources: Andrew Roberts, "L'Oréal Quarterly Sales Rise Most Since 2007 on Luxury Perfume," *Bloomberg BusinessWeek*, April 22, 2010; Richard Tomlinson, "L'Oréal's Global Makeover," *Fortune,* September 30, 2002; Doreen Carvajal, "International Business; Primping for the Cameras in the Name of Research," *New York Times,* February 7, 2006; Richard C. Morais, "The Color of Beauty," *Forbes,* November 27, 2000; L'Oréal, www.loreal.com.

In This Chapter, We Will Address the Following Questions

1. What are important trends in marketing practices?
2. What are the keys to effective internal marketing?
3. How can companies be responsible social marketers?
4. How can a company improve its marketing skills?
5. What tools are available to help companies monitor and improve their marketing activities?

Timberland's passion for the outdoors and the environment influences its choice of products to sell and the way it makes and sells those products.

Managing a Holistic Marketing Organization for the Long Run

Healthy long-term growth for a brand requires that the marketing organization be managed properly. Holistic marketers must engage in a host of carefully planned, interconnected marketing activities and satisfy an increasingly broader set of constituents and objectives. They must also consider a wider range of effects of their actions. Corporate social responsibility and sustainability have become a priority as organizations grapple with the short-term and long-term effects of their marketing. Some firms have embraced this new vision of corporate enlightenment and made it the very core of what they do. Consider Timberland.[1]

Timberland, the maker of rugged boots, shoes, clothing, and gear, has a passion for the great outdoors. The company targets individuals who live, work, and play outdoors, so it only makes sense that it wants to do whatever it takes to protect the environment. Over the past two decades, Timberland's commitment and actions have blazed trails for green companies around the world. Its revolutionary initiatives include giving its shoes a "nutrition label" that measures their "greenness"—how much energy was used in making them, what transportation and labor costs were incurred, and what portion is renewable. Timberland also introduced a new line of shoes called Earthkeepers, made of organic cotton, recycled PET, and recycled tires (for the soles). The shoes are designed to be taken apart and over 50 percent of the parts can be recycled. Timberland has attracted an online community for Earthkeepers by offering tips and information about events focused on preserving the environment. Its business accomplishments prove that socially and environmentally responsible companies can be successful. Sales topped $1.2 billion in 2009, and Timberland has won numerous awards from a steady spot on Fortune's 100 Best Companies to Work For to the Ron Brown Award for Corporate Leadership, the only Presidential Award recognizing companies for outstanding employee and community relations.

Many other brands such as Ben & Jerry's, Odwalla, Patagonia, Stonyfield Farm, Whole Foods, and Seventh Generation have embraced similar philosophies and practices. Successful holistic marketing requires effective relationship marketing, integrated marketing, internal marketing, and performance marketing. Preceding chapters addressed the first two topics and the strategy and tactics of marketing. In this chapter, we consider the latter two topics and how to conduct marketing responsibly. We look at how firms organize, implement, evaluate, and control marketing activities in a context heightened by social responsibility. We begin by examining changes in the way companies conduct marketing today.

Trends in Marketing Practices

Chapters 1 and Chapter 3 described important changes in the marketing macroenvironment, such as globalization, deregulation, market fragmentation, consumer empowerment, and environmental concerns.[2] With these and all the remarkable developments in computers, software, the Internet, and cell phones, the world has unquestionably become a very different place for marketers. In earlier chapters, we detailed the many shifts in marketing that dominated the first decade of the 21st century.[3] Table 22.1 summarizes some important ones and we briefly review a few next.

TABLE 22.1	Important Shifts in Marketing and Business Practices
•	***Reengineering.*** Appointing teams to manage customer-value-building processes and break down walls between departments
•	***Outsourcing.*** Buying more goods and services from outside domestic or foreign vendors
•	***Benchmarking.*** Studying "best practice companies" to improve performance
•	***Supplier partnering.*** Partnering with fewer but better value-adding suppliers
•	***Customer partnering.*** Working more closely with customers to add value to their operations
•	***Merging.*** Acquiring or merging with firms in the same or complementary industries to gain economies of scale and scope
•	***Globalizing.*** Increasing efforts to "think global" and "act local"
•	***Flattening.*** Reducing the number of organizational levels to get closer to the customer
•	***Focusing.*** Determining the most profitable businesses and customers and focusing on them
•	***Justifying.*** Becoming more accountable by measuring, analyzing, and documenting the effects of marketing actions
•	***Accelerating.*** Designing the organization and setting up processes to respond more quickly to changes in the environment
•	***Empowering.*** Encouraging and empowering personnel to produce more ideas and take more initiative
•	***Broadening.*** Factoring the interests of customers, employees, shareholders, and other stakeholders into the activities of the enterprise
•	***Monitoring.*** Tracking what is said online and elsewhere and studying customers, competitors, and others to improve business practices

Recently, marketers have had to operate in a slow-growth economic environment characterized by discriminating consumers, aggressive competition, and a turbulent marketplace. An era of conspicuous consumption has come to an end as many consumers cope with reduced incomes and less wealth.[4] A debt-laden consumer base penalizes companies still promoting a "buy now, pay later" sales philosophy, and consumers and companies alike are increasingly considering the environmental and social consequences of their actions.

As consumers become more disciplined in their spending and adopt a "less is more" attitude, it is incumbent on marketers to create and communicate the true value of their products and services.[5] Marketing can and should play a key role in improving standards of living and quality of life, especially in tough times. Marketers must continually seek to improve what they do.[6]

In today's highly competitive, ever-changing marketing environment, firms such as Blockbuster that do not adapt fast enough may encounter financial setbacks or even failure.

Companies can't win by standing still. Recent business problems and failures by firms such as Blockbuster, Barnes & Noble, and Kodak reflect an inability to adjust to a dramatically different marketing environment. Firms must invest instead in improving their offerings and finding big new ideas. Sometimes, like IBM, Microsoft, and Intel, they may have to fundamentally change their business models. Marketers must collaborate closely and early with product development and R&D, and later with the sales force, to develop and sell products and services that fully satisfy customer needs and wants. They must also work with finance, manufacturing, and logistics to establish a value-creation mind-set in the organization.

Emerging markets such as India and China offer enormous new sources of demand—but often only for certain types of products and at certain price points. Across all markets, marketing plans and programs will grow more localized and culturally sensitive, while strong brands that are well differentiated and continually improved will remain fundamental to marketing success. Businesses will continue to use social media more and traditional media less. The Web allows unprecedented depth and breadth in communications and distribution, and its transparency requires companies to be honest and authentic.

Marketers also face ethical dilemmas and perplexing trade-offs. Consumers may value convenience, but how to justify disposable products or elaborate packaging in a world trying to minimize waste? Increasing material aspirations can defy the need for sustainability. Given increasing consumer sensitivity and government regulation, smart companies are creatively designing with energy efficiency, carbon footprints, toxicity, and disposability in mind. Some are choosing local suppliers over distant ones. Auto companies and airlines must be particularly conscious of releasing CO_2 in the atmosphere.

Toyota Prius

Toyota Prius Some auto experts scoffed when Toyota predicted sales of 300,000 cars within five years of launching its gas-and-electric Prius hybrid sedan in 2001. But by 2004, the Prius had a six-month waiting list. Toyota's winning formula consists of a powerful electric motor and the ability to quickly switch power sources—resulting in 55 miles per gallon for city and highway driving—with the roominess and power of a family sedan and an eco-friendly design and look, for a little over $20,000. The lesson? Functionally successful products that consumers see as good for the environment can offer enticing options. Toyota is now rolling out hybrids throughout its auto lineup, and U.S. automakers have followed suit.[7]

Now more than ever, marketers must think holistically and use creative win-win solutions to balance conflicting demands. They must develop fully integrated marketing programs and meaningful relationships with a range of constituents.[8] They must do all the right things inside their company and consider the broader consequences in the marketplace, topics we turn to next.

Internal Marketing

Traditionally, marketers played the role of middleman, charged with understanding customers' needs and transmitting their voice to various functional areas.[9] But in a networked enterprise, *every* functional area can interact directly with customers. Marketing no longer has sole ownership of customer interactions; rather, it now must integrate all the customer-facing processes so customers see a single face and hear a single voice when they interact with the firm.[10]

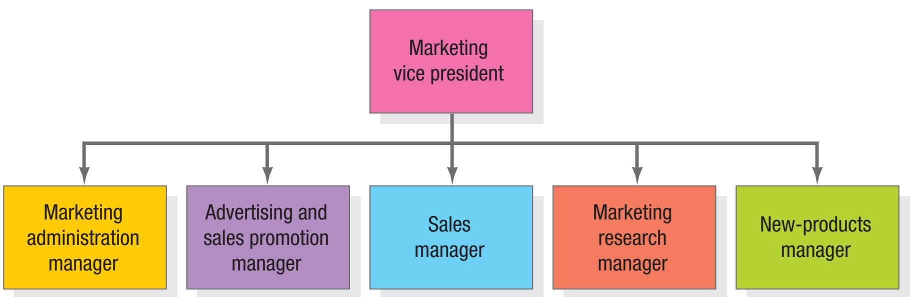
Internal marketing requires that everyone in the organization accept the concepts and goals of marketing and engage in choosing, providing, and communicating customer value. Only when *all* employees realize their job is to create, serve, and satisfy customers does the company become an effective marketer.[11] "Marketing Memo: Characteristics of Company Departments That Are Truly Customer Driven" presents a tool that evaluates which company departments are truly customer driven.

Let's look at how marketing departments are being organized, how they can work effectively with other departments, and how firms can foster a creative marketing culture across the organization.[12]

Organizing the Marketing Department

Modern marketing departments can be organized in a number of different, sometimes overlapping ways: functionally, geographically, by product or brand, by market, or in a matrix.

FUNCTIONAL ORGANIZATION In the most common form of marketing organization, functional specialists report to a marketing vice president who coordinates their activities. Figure 22.1 shows five specialists. Others might include a customer service manager,



|Fig. 22.1|

Functional Organization

marketing **Memo**

Characteristics of Company Departments That Are Truly Customer Driven

R&D	___	They spend time meeting customers and listening to their problems.
	___	They welcome the involvement of marketing, manufacturing, and other departments on each new project.
	___	They benchmark competitors' products and seek "best of class" solutions.
	___	They solicit customer reactions and suggestions as the project progresses.
	___	They continuously improve and refine the product on the basis of market feedback.
Purchasing	___	They proactively search for the best suppliers rather than choose only from those who solicit their business.
	___	They build long-term relationships with fewer but more reliable high-quality suppliers.
	___	They do not compromise quality for price savings.
Manufacturing	___	They invite customers to visit and tour their plants.
	___	They visit customer factories to see how customers use the company's products.
	___	They willingly work overtime when it is important to meet promised delivery schedules.
	___	They continuously search for ways to produce goods faster and/or at lower costs.
	___	They continuously improve product quality, aiming for zero defects.
	___	They meet customer requirements for "customization" where this can be done profitably.
Marketing	___	They study customer needs and wants in well-defined market segments.
	___	They allocate marketing effort in relationship to the long-run profit potential of the targeted segments.
	___	They develop winning offerings for each target segment.
	___	They measure company image and customer satisfaction on a continuous basis.
	___	They continuously gather and evaluate ideas for new products, product improvements, and services to meet customers' needs.
	___	They influence all company departments and employees to be customer-centered in their thinking and practice.
Sales	___	They acquire specialized knowledge of the customer's industry.
	___	They strive to give the customer "the best solution" but make only promises they can keep.
	___	They feed customers' needs and ideas back to those in charge of product development.
	___	They serve the same customers for a long period of time.
Logistics	___	They set a high standard for service delivery time and meet it consistently.
	___	They operate a knowledgeable and friendly customer service department that can answer questions, handle complaints, and resolve problems in a satisfactory and timely manner.
Accounting	___	They prepare periodic profitability reports by product, market segment, sales territory, order size, and individual customers.
	___	They prepare invoices tailored to customer needs and answer customer queries courteously and quickly.
Finance	___	They understand and support marketing investments (like image advertising) that produce long-term customer preference and loyalty.
	___	They tailor the financial package to the customers' financial requirements.
	___	They make quick decisions on customer creditworthiness.
Public Relations	___	They disseminate favorable news about the company and they handle damage control for unfavorable news.
	___	They act as an internal customer and public advocate for better company policies and practices.
Other Customer-Contact Personnel	___	They are competent, courteous, cheerful, credible, reliable, and responsive.

Some companies employ market specialists who focus on very specific regions of the country, for example, Miami-Dade County in Florida.

a marketing planning manager, a market logistics manager, a direct marketing manager, and a digital marketing manager.

The main advantage of a functional marketing organization is its administrative simplicity. It can be quite a challenge for the department to develop smooth working relationships, however. This form also can result in inadequate planning as the number of products and markets increases and each functional group vies for budget and status. The marketing vice president constantly weighs competing claims and faces a difficult coordination problem.

GEOGRAPHIC ORGANIZATION A company selling in a national market often organizes its sales force (and sometimes marketing) along geographic lines.[13] The national sales manager may supervise 4 regional sales managers, who each supervise 6 zone managers, who in turn supervise 8 district sales managers, who each supervise 10 salespeople.

Some companies are adding *area market specialists* (regional or local marketing managers) to support sales efforts in high-volume markets. One such market might be Miami-Dade County, Florida, where almost two-thirds of the households are Hispanic.[14] The Miami specialist would know Miami's customer and trade makeup, help marketing managers at headquarters adjust their marketing mix for Miami, and prepare local annual and long-range plans for selling all the company's products there. Some companies must develop different marketing programs in different parts of the country because geography alters their brand development so much.

PRODUCT- OR BRAND-MANAGEMENT ORGANIZATION Companies producing a variety of products and brands often establish a product- (or brand-) management organization. This does not replace the functional organization but serves as another layer of management. A group product manager supervises product category managers, who in turn supervise specific product and brand managers.

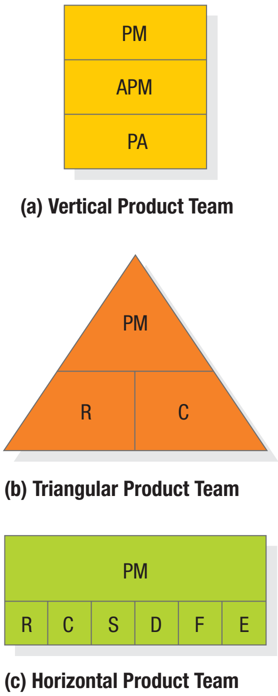
A product-management organization makes sense if the company's products are quite different or there are more than a functional organization can handle. This form is sometimes characterized as a **hub-and-spoke system**. The brand or product manager is figuratively at the center, with spokes leading to various departments representing working relationships (see Figure 22.2). The manager may:

- Develop a long-range and competitive strategy for the product.
- Prepare an annual marketing plan and sales forecast.
- Work with advertising and merchandising agencies to develop copy, programs, and campaigns.
- Increase support of the product among the sales force and distributors.
- Gather continuous intelligence about the product's performance, customer and dealer attitudes, and new problems and opportunities.
- Initiate product improvements to meet changing market needs.

The product-management organization lets the product manager concentrate on developing a cost-effective marketing program and react more quickly to new products in the

|Fig. 22.2|

The Product Manager's Interactions



PM = product manager
APM = associate product manager
PA = product assistant
R = market researcher
C = communication specialist
S = sales manager
D = distribution specialist
F = finance/accounting specialist
E = engineer

|Fig. 22.3|

Three Types of Product Teams

marketplace; it also gives the company's smaller brands a product advocate. However, it has disadvantages too:

- Product and brand managers may lack authority to carry out their responsibilities.
- They become experts in their product area but rarely achieve functional expertise.
- The system often proves costly. One person is appointed to manage each major product or brand, and soon more are appointed to manage even minor products and brands.
- Brand managers normally manage a brand for only a short time. Short-term involvement leads to short-term planning and fails to build long-term strengths.
- The fragmentation of markets makes it harder to develop a national strategy. Brand managers must please regional and local sales groups, transferring power from marketing to sales.
- Product and brand managers focus the company on building market share rather than customer relationships.

A second alternative in a product-management organization is *product teams.* There are three types: vertical, triangular, and horizontal (see Figure 22.3). The triangular and horizontal product-team approaches let each major brand be run by a **brand-asset management team (BAMT)** consisting of key representatives from functions that affect the brand's performance. The company consists of several BAMTs that periodically report to a BAMT directors committee, which itself reports to a chief branding officer. This is quite different from the way brands have traditionally been handled.

A third alternative is to eliminate product manager positions for minor products and assign two or more products to each remaining manager. This is feasible where two or more products appeal to a similar set of needs. A cosmetics company doesn't need product managers for each product because cosmetics serve one major need—beauty. A toiletries company needs different managers for headache remedies, toothpaste, soap, and shampoo because these products differ in use and appeal.

In a fourth alternative, *category management*, a company focuses on product categories to manage its brands. Procter & Gamble, a pioneer of the brand-management system, and other top packaged-goods firms have made a major shift to category management, as have firms outside the grocery channel.[15] P&G cites a number of advantages. By fostering internal competition among brand managers, the traditional brand-management system created strong incentives to excel, but also internal competition for resources and a lack of coordination. The new scheme was designed to ensure adequate resources for all categories.

Another rationale is the increasing power of the retail trade, which has thought of profitability in terms of product categories. P&G felt it only made sense to deal along similar lines. Retailers and regional grocery chains such as Walmart and Dominick's embrace category management as a means to define a particular product category's strategic role within the store and address logistics, the role of private-label products, and the trade-offs between product variety and inefficient duplication.[16]

In fact, in some packaged-goods firms, category management has evolved into aisle management and encompasses multiple related categories typically found in the same sections of supermarkets and grocery stores. General Mills' Yoplait Yogurt has served as category advisor to the dairy aisle for 24 major retailers, boosting the yogurt base footprint four to eight feet at a time and increasing sales of yogurt by 9 percent and category sales in dairy by 13 percent nationwide.[17]

Marketers of General Mills' Yoplait Yogurt used category management to help major retailers gain more profit by reorganizing their yogurt shelves.

MARKET-MANAGEMENT ORGANIZATION Canon sells fax machines to consumer, business, and government markets. Nippon Steel sells to the railroad, construction, and public utility industries. When customers fall into different user groups with distinct buying preferences and practices, a **market-management organization** is desirable. Market managers supervise several market-development managers, market specialists, or industry specialists and draw on functional services as needed. Market managers of important markets might even have functional specialists reporting to them.

Market managers are staff (not line) people, with duties like those of product managers. They develop long-range and annual plans for their markets and are judged by their market's growth and profitability. Because this system organizes marketing activity to meet the needs of distinct customer groups, it shares many advantages and disadvantages of product-management systems. Many companies are reorganizing along market lines and becoming **market-centered organizations**. Xerox converted from geographic selling to selling by industry, as did IBM and Hewlett-Packard.

When a close relationship is advantageous, such as when customers have diverse and complex requirements and buy an integrated bundle of products and services, a **customer-management organization**, which deals with individual customers rather than the mass market or even market segments, should prevail.[18] One study showed that companies organized by customer groups reported much higher accountability for the overall quality of relationships and employees' freedom to take actions to satisfy individual customers.[19]

MATRIX-MANAGEMENT ORGANIZATION Companies that produce many products for many markets may adopt a matrix organization employing both product and market managers. The rub is that it's costly and often creates conflicts. There's the cost of supporting all the managers, and questions about where authority and responsibility for marketing activities should reside—at headquarters or in the division?[20] Some corporate marketing groups assist top management with overall opportunity evaluation, provide divisions with consulting assistance on request, help divisions that have little or no marketing, and promote the marketing concept throughout the company.

Relationships with Other Departments

Under the marketing concept, all departments need to "think customer" and work together to satisfy customer needs and expectations. Yet departments define company problems and goals from their viewpoint, so conflicts of interest and communications problems are unavoidable. The marketing vice president, or the CMO, must usually work through persuasion rather than through authority to (1) coordinate the company's internal marketing activities and (2) coordinate marketing with finance, operations, and other company functions to serve the customer.[21] To help marketing and other functions jointly determine what is in the company's best interests, firms can provide joint seminars, joint committees and liaison employees, employee exchange programs, and analytical methods to determine the most profitable course of action.[22]

Many companies now focus on key processes rather than departments, because departmental organization can be a barrier to smooth performance. They appoint process leaders, who manage cross-disciplinary teams that include marketing and sales people. Marketers thus may have a solid-line responsibility to their teams and a dotted-line responsibility to the marketing department.