organic tissue, this kind of connection—or relationship—is always growing or dying. It can never be in a steady state. And like tissue paper, this kind of connection is fragile. Customer relationships, even long-standing ones, are contingent on the last event that happened.

Tracing the evolution of the various definitions of marketing proposed during the last thirty years reveals two trends: 1) expansion of the application of marketing to non-profit and non-business institutions; e.g., charities, education, or health care; and 2) expansion of the responsibilities of marketing beyond the personal survival of the individual firm, to include the betterment of society as a whole. These two factors are reflected in the official American Marketing Association definition published in 1988.

"Marketing is the process of planning and executing the conception, pricing, promotion, and distribution of ideas, goods, and services to create exchanges that satisfy individual (customer) and organizational objectives."

While this definition can help us better comprehend the parameters of marketing, it does not provide a full picture. Definitions of marketing cannot flesh out specific transactions and other relationships among these elements. The following propositions are offered to supplement this definition and better position marketing within the firm:

1. The overall directive for any organization is the mission statement or some equivalent statement of organizational goals. It reflects the inherent business philosophy of the organization.

2. Every organization has a set of functional areas (e.g., accounting, production, finance, data processing, marketing) in which tasks that are necessary for the success of the organization are performed. These functional areas must be managed if they are to achieve maximum performance.

3. Every functional area is guided by a philosophy (derived from the mission statement or company goals) that governs its approach toward its ultimate set of tasks.

4. Marketing differs from the other functional areas in that its primary concern is with exchanges that take place in markets, outside the organization (called a transaction).

5. Marketing is most successful when the philosophy, tasks, and manner of implementing available technology are coordinated and complementary.

Perhaps an example will clarify these propositions: L.L. Bean is an extremely successful mail order company. The organization bases much of its success on its long-standing and straightforward mission statement: "Customer Satisfaction: An L.L. Bean Tradition" (Proposition 1). The philosophy permeates every level of the organization and is reflected in high quality products, fair pricing, convenience, a 100% satisfaction policy and above all dedication to customer service (Proposition 2). This philosophy has necessitated a very high standard of production, efficient billing systems, extensive and responsive communication networks, computerization, innovative cost controls, and so forth. Moreover, it has meant that all of these functional areas have to be in constant communication, must be totally coordinated, and must exhibit a level of harmony and mutual respect that creates a positive environment in order to reach shared goals (Proposition 3). The L.L. Bean marketing philosophy is in close harmony with its mission statement. Everything the marketing department does must reinforce and make real the abstract concept of "consumer satisfaction" (Proposition 4). The price-product-quality relationship must be fair. The product must advertise in media that reflects true high quality. Consequently, L.L. Bean adver-
and nonbusiness institutions is growing. Churches, museums, the United Way, the U.S. Armed Forces, politicians, and others are hiring individuals with marketing expertise. This has opened up thousands of new job opportunities for those with a working knowledge of marketing.

Even if you are not getting a degree in marketing, knowing about marketing will pay off in a variety of careers. Consider the following individuals:

- Paul Moore, an engineer specializing in earth moving equipment, constantly works with product development and sales personnel in order to create superior products.
- Christy Wood, a CPA, is a top tax specialist who spends much of her time maintaining customer relationships, and at least three days a month seeking new customers.
- Steve Jacobson, a systems analyst and expert programmer, understands that his skills must be used to find the right combination of hardware and software for every one of his customers.
- Doris Kelly, a personnel manager, must be skilled at finding, hiring, and training individuals to facilitate her organization's marketing efforts.
- Craig Roberts, an ex-Microsoft engineer, has recently started a dot-com company and is in the process of raising capital.

There are two final factors that justify the study of marketing for nearly every citizen. First of all, we are all consumers and active participants in the marketing network. Understanding the rudiments of marketing will make us better consumers, which in turn will force businesses to do their jobs better. Second, marketing has an impact on society as a whole. Concepts such as trade deficit, embargo, devaluation of a foreign currency, price fixing, deceptive advertising, and product safety take on a whole new meaning when we view them in a marketing context. This knowledge should make you a more enlightened citizen who understands what such social and political issues mean to you and to our society.

Marketing capsules summarize the information throughout this text.

**Characteristics of a Marketing Organization**

As noted earlier, the application of marketing in a particular organization varies tremendously, ranging from common-sense marketing to marketing departments with thousands of staff members and multimillion-dollar budgets. Yet both may have a great deal in common in respect to how they view the activity called marketing. We refer to these common characteristics as the Cs of Marketing. They are your clues that a business understands marketing.

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**MARKETING CAPSULE 1.**

1. The purpose of marketing is to help find and keep customers by creating a competitive advantage.
2. Marketing, one of several functions operating in an organization, is directed by the mission statement of the organization and provides certain tools to reach objectives.
3. The value of marketing must be kept in perspective: it must contribute to the growth of the firm.
4. The primary reasons for studying marketing are:
   a. It is important to assess the role marketing should play in the firm.
   b. Marketing offers growing career opportunities.
   c. Marketing enhances our chances of becoming more effective consumers and citizens.
Finally, the media (editors and reporters working for newspapers, TV and radio stations, and magazines) looms as one of the greatest communication hurdles faced by marketers. In a large marketing organization, the responsibility of communicating with the media is assigned to a public relations staff. Public relations people write press release stories about their organization that they hope the media will use. If the press releases are not used, the marketer attempts to ensure that whatever the media says about the organization is accurate and as complementary as possible. For smaller companies, dealing with the media becomes everyone's responsibility. Many businesses now face a new media, the Internet: chat rooms, websites, and propaganda campaigns intended to destroy a business have become commonplace. Companies that are willing to focus on communication as a means of doing business engage in **relationship marketing**—a type of marketing that builds long-standing positive relationships with customers and other important stakeholder groups. Relationship marketing identifies “high value” customers and prospects and bonds them to the brand through personal attention.

**Competition**

We have already mentioned the importance that competition plays in a marketing organization. At a minimum, marketing companies must thoroughly understand their competitors' strengths and weaknesses. This means more than making sweeping generalizations about the competitors. It means basing marketing decisions on facts about how competitors operate and determining how best to respond. Often the identification of competitors is fairly straightforward. It is the supermarket on the next block, or the three other companies that manufacture replacement windshield wipers. There are instances, however, when the identification of a competitor is not clear. Marketing expert Theodore Levitt coined the term “marketing myopia” several years ago to describe companies that mis-identify their competition. Levitt argued, for example, that the mistake made by the passenger train industry was to restrict their competition to other railroads instead of all mass transit transportation alternatives, including automobiles, airlines, and buses. Today we see the same mistake being made by companies in the entertainment industry (movie theaters, restaurants, and resorts), who assume that their only competition is like-titled organizations.

Since practically no marketer operates as a monopoly, most of the strategy issues considered by a marketer relate to competition. Visualize a marketing strategy as a huge chess game where one player is constantly making his or her moves contingent on what the other player does. Some partners, like Coke and Pepsi, McDonald’s and Burger King, and Ford and General Motors, have been playing the game so long that a stalemate is often the result. In fact, the relative market share owned by Coke and Pepsi hasn’t changed by more than a percentage or two despite the billions of dollars spent by each on marketing.

The desire of companies to accurately gauge competitors has led to the growing popularity of a separate **discipline-competitive intelligence**. This field involves gathering as much information about competitors through any means possible, usually short of breaking the law. More is said about this process in the Integrated Marketing (IM) box that follows.

**Cross-Functional Contact**

One of the first mistakes an organization might make is to allow the various functional areas to become proprietary. Whenever a marketing department considers itself most important to the success of the organization and self-sufficient without need for accounting, manufacturing, or human resources, it ceases to be a reliable marketing group. True marketers know that they cannot be any better than their weakest link. Lack of understanding and trust between marketing and manufacturing, for instance, could mean that a product sold by mar-
AD 1.3 Hot dogs are goods products and, as such, are marketed differently.

AD 1.3

Waste not, want not.

- Individually wrapped - use what you want and the rest stay fresh with no waste.
- Quick, easy meal - 30 seconds in the microwave or easy on the stove.
- Big, juicy taste - simply the best.

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Save $0.50 on any ballpark singles

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to standardize because they require human labor, and may require the customer to participate in the creation of the service product.

Goods products tend to be just the opposite in terms of these criteria. Consequently, marketers of service products usually employ a marketing strategy quite different from that of goods marketers. For example, a local family physician creates tangibility by providing an environment, waiting room, examination rooms, diplomas on the walls, that convinces patients that they are receiving good health care. Conversely, coffee producers create intangibility in order to appear different from competitors. This is done through colorful pack-

**Questions:**

1. Identify the ways in which Harley-Davidson exhibits the propositions discussed in this chapter.
2. Would you consider Harley to be a marketing organization? Why or why not?

**REFERENCES**

Silas Myers is a new millennium African-American. He's 31, holds an MBA from Harvard University, works as an investment analyst for money manager Hotchko & Wiley, and pulls in a salary close to six figures. And he spends about 10 hours a week online, buying everything from a JVC portable radio to Arm & Hammer deodorant. "Maybe I'm nuts," he says, "but shopping online is so much easier to me."

Millions of African-Americans are online. They're younger, more affluent, and better educated than their offline kin. And they're not tiptoeing onto the Net. They're right at home. Five million blacks now cruise through cyberspace, nearly equaling the combined number of Hispanic, Asian, and Native American surfers, according to researcher Cyber Dialogue.

True, Net use among African-Americans continues to lag behind the online white population: 28% of blacks as opposed to 37% for whites. But it's time to take a closer look at the digital divide. While those who don't have Net access tend to be poor and undereducated, there's a large group of African-Americans who are spending aggressively on the Web. "We're looking at a tidal wave coming of African-American-focused content and online consumers," says Omar J. Wasow, executive director of BlackPlanet.com, a black-oriented online community. "You ignore it at your peril."

With good reason, African-Americans have become smitten with the ability to compare prices and find bargains online. Melvin Crenshaw, manager of Kidpreneurs magazine, recently used the Travelocity Web site to save $300 on a ski trip to Denver. "I really liked the value," he says.

It's a shame, then, that so few sites market to such an attractive group. Almost every bookstore on the street has a section in African-American or ethnic literature. So it's shocking that e-commerce giants like Amazon.com don't have ethnic book sections. The solution is easy. Web merchants can create what the National Urban League's B. Keith Fulton calls "micro bundles"-Web categories within a site's merchandise that resemble the inner-city black bookstore or clothing store. "You want blacks to click on a button and feel like they're in virtual Africa or virtual Harlem," says Fulton, the Urban League's director of Technology programs and policy. To attract blacks, he recommends decorating that comer of the site in kinte cloth patterns.


instance, may be the most relevant criteria for segmenting airline consumers. The same may be true for products such as long-distance calling or the purchase of snack foods. The second basis is user status. It seems apparent that communication strategies must differ if they are directed at different use patterns, such as nonusers versus ex-users, or one-time users versus regular users. New car producers have become very sensitive to the need to provide new car buyers with a great deal of supportive information after the sale in order to minimize unhappiness after the purchase. However, determining how long this information is necessary or effective is still anybody's guess. The third basis is loyalty. This approach places consumers into loyalty categories based on their purchase patterns of particular brands. A key category is the brand-loyal consumer. Companies have assumed that if they can identify individuals who are brand loyal to their brand, and then delineate other characteristics these people have in common, they will locate the ideal target market. There is still a great deal of uncertainty as to how to correctly measure brand loyalty. The final characteristic is stage of readiness. It is proposed that potential customers can be segmented as follows: unaware, aware, informed, interested, desirous, and intend to buy. Thus if a marketing manager is aware of where the specific segment of potential customers is, he/she can design the appropriate market strategy to move them through the various stages of readiness. Again, these stages of readiness are rather vague and difficult to accurately measure.

Psychological Segments Research results show that the concept of segmentation should recognize psychological as well as demographic influences. For example, Phillip
The Standard Industrial Classification (SIC) is a second industrial segmentation approach employing the Standard Industrial Classification (SIC) codes published by the U.S. Government. The SIC classifies businesses by the main product or service provided. Firms are classified into one of ten basic SIC industries. Within each classification, the major groups of industries can be identified by the first two numbers of the SIC code. For example, SIC number 22 are textile mills, SIC number 34 are manufacturers of fabricated metals, and so on. An industrial producer would attempt to identify the manufacturing groups that represent potential users of the products it produces and sells. Figure 2.4 takes the two-digit classification and converts it to three-, four-, five-, and seven-digit codes. As you can see in Figure 2.4, use of the SIC code allows the industrial manufacturer to identify the organizations whose principal request is, in this case, pliers.

Based upon this list of construction machinery and equipment products, it is possible to determine what products are produced by what manufacturers by consulting one of the following sources:

1. Dun’s Market Identifiers—computer-based records of three million United States and Canadian business establishments by four-digit SIC.
2. Metalworking Directory—a comprehensive list of metalworking plants with 20 or more employees, as well as metal distributors by four-digit SIC.
3. Thomas Register of American Manufacturers—a directory of manufacturers, classified by products, enabling the researcher to identify most or all of the manufacturers of a given product.
4. Survey of Industrial Purchasing Power—an annual survey of manufacturing activity in the United States by geographic areas and four-digit SIC industry groups; reports the number of plants with 20 or more and 100 or more employees, as well as total shipment value.

End uses Sometimes industrial marketers segment markets by looking at how a product is used in different situations. When employing end-use segmentation, the industrial marketer typically conducts a cost-benefit analysis for each end-use application. The manufacturer must ask: What benefits does the customer want from this product? For example, an electric motor manufacturer learned that customers operated motors at different speeds. After making field visits to gain insight into the situation, he divided the market into slow-speed and high-speed segments. In the slow-speed segment, the manufacturer emphasized a competitively priced product with a maintenance advantage, while in the high-speed market product, superiority was stressed.
IN PRACTICE
What is the market? It depends on your product but, generally, all markets possess similar, basic characteristics. The market is people, either individuals or groups, businesses or institutions. The market is also a place, as in marketplace, where transactions take place. Finally, the market is an economic entity, influenced by financial pressures and government regulations.

In order to sell a product, marketers must know their market and know it well. Four primary markets exist, but they are not mutually exclusive. Consumer, industrial, institutional, and reseller markets all have characteristics specific to their consumers, but they also overlap in some instances. As a result, most successful companies know about their markets. By segmenting markets, a company can match the needs and wants of consumers to its product.

Print magazines and their online counterparts are excellent examples of market segmenting. The Interactive Journal targets the business community, while Outside Magazine (www.outsidemag.com) clearly targets outdoor enthusiasts.

You are able to customize the Interactive Journal to your personal preferences. On the Front Section, click on Personal Journal on the main menu. From here you will be directed to the Setup Center. Here, you can create folders in three separate areas:

1. News
2. Favorites
3. Portfolio

In the News section, you can search for news items in the Interactive Journal using key words, company names, and industry type. Articles meeting the criteria you specify will be listed automatically on a daily basis. Set up your own News folder now.

In the Favorites section, you can track regularly running columns and features in the major sections such as Marketplace and Tech Center. Create your own Favorites folder now.

In the Portfolio section, you can track your purchases and sales of specific stocks.

DELIVERABLE
Identify three to five companies with segmented markets. Visit their websites for specific information about the companies and their products. Also search the Interactive Journal for more information about the companies you have identified. For each company, identify the segmented market and list specific characteristics about that market.

DISCUSSION QUESTIONS
1. What are the advantages of identifying and selling to segmented markets versus broader, general markets?
2. How do companies identify the market most likely to buy their products?
3. Describe why market segmenting helps the companies you identified in your Deliverable sell their products.
4. How can you use the Interactive Journal to learn more about markets?
SUMMARY

The concept of a market was examined in this chapter. It was defined from three perspectives: people, place, and economic activity. In addition, the four types of markets were discussed. The bulk of this chapter dealt with the two general marketing approaches toward the market: undifferentiated (aggregated) and segmental. The former was defined as the assumption that the market is homogeneous and developing separate strategies is unnecessary. The latter was defined as the acknowledgement that markets contain submarkets known as segments, which must be evaluated as potential target markets. The remainder of the chapter highlighted various bases for segmenting markets and delineating the criteria employed in assessing the value of a segment.

MARKETER'S VOCABULARY

Market aggregation (undifferentiated marketing) Treating an entire market uniformly, making little or no attempt to differentiate marketing effort.

Product differentiation A marketing strategy that emphasizes distinctive product features without recognizing diversity of consumer needs.

Market segmentation Dividing a total market into several submarkets or segments, each of which is homogeneous in all significant aspects, for the purpose of selecting one or more target markets on which to concentrate marketing effort.

Concentration strategy Used by an organization that chooses to focus its marketing efforts on only one market segment.

Multisegment strategy Used by an organization that chooses to focus its marketing effort on two or more distinct segments.

Ultimate user An individual or organization that buys and/or uses products or services for their own personal consumption.

Industrial user An organization that buys products or services for use in their own businesses, or to make other products.

Demographic characteristics Statistical characteristics of a population often used to segment markets, such as age, sex, family lifecycle, income, or education.

Usage rate A segmentation base that identifies customers on the basis of the frequency of use of a product.

Purchase occasion A segmentation base that identifies when they use the product.

User status A segmentation base that identifies customers on the basis of patterns of use, such as one-time or regular use.

Loyalty A segmentation base that identifies customers on the basis of purchase patterns of particular brands.

Stage of readiness A segmentation base that identifies customers on the basis of how ready a customer is to buy.

Psychological segmentation The use of attitudes, personality, motives, and lifestyle to identify customers.

Attitude A predisposition to behave in a certain way to a given stimuli.

Personality All the traits of a person that make him/her unique.
Marketing information undertaken to help management solve marketing problems. There is often hearty disagreement over the answer to the question of whether marketing research is a science. One's answer depends on the employed definition of "science." To be specific, a research activity should use the scientific method. In this method, hypotheses (tentative statements of relationships or of solutions to problems) are drawn from informal observations. These hypotheses are then tested. Ultimately, the hypothesis is accepted, rejected, or modified according to the results of the test. In a true science, verified hypotheses become the generalizations upon which management develops its marketing programs. (To simplify our discussion, we will use "questions" as a synonym of "hypothesis.")

The mechanics of marketing research must be controlled so that the right facts are obtained in the answer to the correct problem. The control of fact-finding is the responsibility of the research director, who must correctly design the research and carefully supervise its execution to ensure that it goes according to plan. Maintaining control in marketing research is often difficult because of the distance that separates the researcher and the market and because the services of outsiders are often required to complete a research project.

An easy, and truthful, answer to this question is "Everything." There is no aspect of marketing to which research cannot be applied. Every concept presented in this marketing text and every element involved in the marketing management process can be subjected to a great deal of careful marketing research. One convenient way to focus attention on those matters that especially need researching is to consider the elements involved in marketing management. Many important questions relating to the consumer can be raised. Some are:

- Who is/are the customer(s)?
- What does he/she desire in the way of satisfaction?
- Where does he/she choose to purchase?
- Why does he/she buy, or not buy?
- When does he/she purchase?
- How does he/she go about seeking satisfaction in the market?

Another area where research is critical is profits. Two elements are involved. First, there is the need to forecast sales and related costs—resulting in profits. Second, there is the necessity to plan a competitive marketing program that will produce the desired level of sales at an appropriate cost. Sales forecasting is the principal tool used in implementing the profit-direction element in the marketing management concept. Of course, the analysis of past sales and interpretation of cost information are important in evaluation of performance and provide useful facts for future planning.

A great deal of marketing research is directed toward rather specialized areas of management. These activities are broken down into five major areas of marketing research. Briefly, these activities are:

1. Research on markets—market trends, market share, market potentials, market characteristics, completion, and other market intelligence.
2. Research on sales—sales analysis, sales forecasting, quota-setting, sales territory design, sales performance measurement, trade channels, distribution costs, and inventories.
Considering the relatively short span of time in which marketing research has developed since the 1930s, it is quite remarkable that so sophisticated and thorough a collection of procedures and techniques should have been developed. In many respects, marketing research has advanced faster than any other specialized area in marketing management. In view of the highly specialized nature of marketing research, it is not possible in this discussion to present more than an outline of the basic procedures and techniques.

It is important for a marketing manager to be familiar with the basic procedures and techniques of marketing research. It is true that many businesspeople will never have occasion to engage personally in marketing research. However, it is quite likely that they will be faced with a need either to supervise an internal marketing research activity or to work with an outside marketing research firm. The manager who understands the research function is in a position to judge intelligently the proposals made by research specialists and to evaluate their findings and recommendations. Occasionally, the manager herself will have to seek solutions to marketing problems. It may not be possible to obtain the services of marketing research specialists. The manager familiar with the basic procedures of fact-finding in marketing should be able to supervise a reasonably satisfactory search for the information required.

There is no single set of steps in a market research procedure that is accepted by all. Indeed, each marketing research problem requires, to some degree, its own peculiar procedure. However, there is general agreement that four major activities should be performed in a thorough marketing research project. These are: (1) making a preliminary investigation; (2) creating the research design; (3) conducting the investigation; and (4) processing the data/reporting results (see Figure 3.3).

**Making a Preliminary Investigation**

There are two phases of activity in the preliminary investigation. The first of these involves the determination of the purpose and scope of the research. The second involves an investigation into the marketing environment called the informal assessment.

**Determining the Purpose and Scope of the Research**

The basic and critical problem in marketing research is seldom the problem that appears on the surface. It is therefore necessary to explore beneath the surface to ascertain the nature and size of the problem. This is the vital first step and must be done correctly, since every subsequent phase of the project is directed at solving the basic problem. For the research...
also have been tested using a slightly different method. For example, the effect of television advertising on the purchase of Dr. Pepper might have been studied by inspecting purchases in two or more cities that are in the same general area of the country (such as the Southwest) but in which different levels of television advertising had been used.

The second approach is the historical. In this approach, reliance is placed on past experiences in seeking solutions to marketing problems. Historical marketing facts are relevant only to the degree that they can be projected into the future. Fortunately, in many areas of marketing, this can be done with a good deal of confidence. Certain types of changes, such as populations and income distribution, come about rather slowly. The day-to-day effect of these changes on marketiJlg is almost imperceptible. Projections of future population, gross national product, and consumer purchasing power are practically foolproof. Historical analyses of such factors as consumer behavior, competitive selling tactics, and distributors' buying practices tend also to be fairly reliable indicators of future behavior by these same marketing components. Often, it is possible to trace the experience of organizations similar to yours and assess how they dealt with similar problems. There are literally hundreds of case studies on companies such as Microsoft that are useful to many business functions. Learning from the mistakes of others makes good business sense.

The third approach that can be used in designing a marketing research plan is the survey approach. In the survey approach, marketing information is collected either from observation or by questionnaire or interview. In contrast to the experimental and historical methods, in which the data are more or less directly related to the problem, the survey approach necessarily involves an element of subjectivity and interpretation on the part of the researcher. Simply asking a customer why he made a purchase of a new TV reveals something about his motives: simply asking him why he is buying one is much better. Drawing conclusions from either observations of behavior or the opinions offered by a respondent create important insights. The survey method is flexible. It can be adapted to almost any type of research design. For this reason, and because of the difficulties in creating marketing experiments and in collecting pertinent historical data, the survey approach is the most often used in marketing research.

Determining the Types of Data Needed Three types of data are used: facts, opinions, and motivational information. The types of data required are partly identified by the nature of the problem to be solved. For instance, if the problem relates to production and inventory scheduling, the facts that are needed relate to market and sales potential. On the other hand, if the problem revolves around the choice between two new products, the opinions of potential customers are important considerations. Finally, if a problem involves the choice of an appropriate selling appeal, buyers' motivations are probably the most important. Facts are quantitative or descriptive information that can be verified. Opinions are ideas relating to a problem that are expressed by people involved in the solution. Motivations are basic reasons, recognized or unrecognized, that explain action. They are extremely difficult to discover.

Locating the Sources of Data There are two general sources of data, secondary sources and primary sources.

Secondary source information has been previously published and can be either internal or external. Company records and previously prepared marketing research reports are typical of internal secondary source material. External secondary sources are widely available and can be found outside the organization. Excellent bibliographies of secondary data sources are available, especially online. There are eight primary sources of secondary market information:
frequently purchased, such as bread, the buying process is typically quick and routinized. A decision concerning a new car is quite different. The extent to which a decision is considered complex or simple depends on (1) whether the decision is novel or routine, and on (2) the extent of the customers' involvement with the decision. A great deal of discussion has revolved around this issue of involvement. *High-involvement decisions* are those that are important to the buyer. Such decisions are closely tied to the consumer's ego and self-image. They also involve some risk to the consumer; financial risk (highly priced items),

Now you can get rid of annoying commercials and your annoying cable company at the same time.

*AD 4.1 Ordering DishPVR is a high-involvement decision.*
Family  One of the most important reference groups for an individual is the family. A consumer's family has a major impact on attitude and behavior. The interaction between husband and wife and the number and ages of children in the family can have a significant effect on buying behavior.

One facet in understanding the family's impact on consumer behavior is identifying the decision maker for the purchase in question. In some cases, the husband is typically dominant, in others the wife or children, and still others, a joint decision is made. The store choice for food and household items is most often the wife's. With purchases that involve a larger sum of money, such as a refrigerator, a joint decision is usually made. The decision on clothing purchases for teenagers may be greatly influenced by the teenagers themselves. Thus, marketers need to identify the key family decision maker for the product or service in question.

Another aspect of understanding the impact of the family on buying behavior is the family lifecycle. Most families pass through an orderly sequence of stages. These stages can be defined by a combination of factors such as age, marital status, and parenthood. The typical stages are:

1. The bachelor state; young, single people.
2. Newly married couples; young, no children.
3. The full nest I and II; young married couples with dependent children:  
   a. Youngest child under six (Full nest I)  
   b. Youngest child over six (Full nest II)
4. The full nest III; older married couples with dependent children.
5. The empty nest I and II; older married couples with no children living with them:  
   a. Adults in labor force (Empty nest I)  
   b. Adults retired (Empty nest II)
6. The solitary survivors; older single people:  
   a. In labor force  
   b. Retired

Each of these stages is characterized by different buying behaviors. For example, a children's clothing manufacturer would target its efforts primarily at the full nest I families. Thus, the family cycle can be helpful in defining the target customers.

Internal Influences
Each customer is to some degree a unique problem solving unit. Although they can be grouped into meaningful segments, in order to fully appreciate the totality of the buying process, a marketer needs to examine the internal forces that influence consumers. They are learning/socialization, motivation and personality, and lifestyle.

Learning and Socialization  As a factor influencing a person's perceptions, learning may be defined as changes in behavior resulting from previous experiences. However, learning does not include behavior changes attributable to instinctive responses, growth, or temporary states of the organism, such as hunger, fatigue, or sleep. It is clear that learning is an ongoing process that is dynamic, adaptive, and subject to change. Also, learning is an experience and practice that actually brings about changes in behavior. For example, in order to learn how to play tennis, you might participate in it to gain experience, be exposed to the different skills required, the rules, and so forth. However, the experience does not have to be an actual, physical one. It could be a conceptualization of a potential experience.
DISCUSSION QUESTIONS

1. Discuss several reasons why marketers continue to have a hard time understanding, predicting, and explaining consumer behavior.

2. Based on your understanding of motives, develop some general guidelines or directives for practicing marketing.

3. How can marketers influence a person's motivation to take action? How can they facilitate learning?

4. Define an attitude. Discuss the components of an attitude. What are the implications for marketing?

5. Distinguish between high-involvement and low-involvement decision making.

6. Present a diagram of the consumer decision process. What is the role of marketing in each stage of this process?

7. What are the differences between the consumer decision-making process and the organizational decision-making process?

8. Assume that you are training a salesperson to sell industrial products. Although this salesperson has a strong track record, she has been selling consumer products. What would you emphasize during training?

9. Explain how the complexity of the product influences the buying decision process.

10. Why are opinion leaders so important to marketers? Discuss how marketers could use this type of individual in prompting a decision.

PROJECT

Locate an individual who has purchased a new automobile during the last year. Using the six-step decision-making process, ask this person to indicate how he or she accomplished each step.

CASE APPLICATION

CUSTOMER SATISFACTION STILL MATTERS

To many American travelers, airline quality is an oxymoron. Ted J. Kredir, director of hobby sales for Dallas-based trading card company, Pinnacle Brands, Inc., complains of frequent flight cancellations, late arrivals, and lousy food. To the surprise of skeptical passengers, the gripes aren’t falling on deaf ears. After years of focusing on paring expenses, such major airlines as American, Delta, and Continental are stepping up their quality efforts. Cost-cutting "diverted our attention from the nuts and bolts of our business," concedes American Airlines Chief Executive Robert L. Crandall. "Our customers have noticed."

American, which once dubbed itself the "on-time machine;' placed a dismal ninth among 10 carriers in on-time rankings for the third quarter of 1996. So Crandall told managers at the next meeting that leading all industry-quality ratings is their top job for 1997. An American spokesperson won’t provide specifics, but says: "We’re talking about a lot of operational things like customer comfort onboard airplanes."

At Delta Air Lines, Inc., customer complaints have nearly doubled since 1994; CEO Ronald W. Allen blames the pursuit of lower costs. "In some cases we did cut too deeply," he says. Trans World Airlines, Inc., now in the cellar for on-time and customer complaint rankings by the Transportation
was that competition intensified, prices were lowered (sometimes below cost), and many once-stable organizations suffered huge financial losses.

As deregulation unfolded—new competition was permitted, rate regulation was loosened or abandoned—the vicious cycle began to reverse itself. For example, AT&T had been slow to adopt fiber-optic cable. In 1985, there were only 136,000 miles of it in AT&T's system. Sprint and MCI had more. AT&T responded. By 1994, it had 1.3 million miles of fiber cable (slightly more than MCI and Sprint). Airlines, freed of the CAB's routine restrictions, organized "hub and spoke" systems—routing passengers via major transfer points—that provided more connections. In 1978, about 14% of all passengers had to change airlines to reach their destination; by 1995, this number fell to about 1.4%

**Consumer Protection**

Since the beginning of the twentieth century, there has been a concerted effort to protect the consumer. For example, the *Food, Drug, and Cosmetic Act (1938)* was aimed principally at preventing the adulteration or misbranding of the three categories of products. The various federal consumer protection laws include more than 30 amendments and separate laws relating to food, drugs, and cosmetics, such as the *Infant Formula Act (1980)* and the *Nutritional Labeling and Education Act (1990)*. Perhaps the most significant period in consumer protection was the 1960s, with the emergence of *consumerism*. This was a grassroots movement intended to increase the influence, power, and rights of consumers in dealing with the institutions. The *Consumer Product Safety Act (1972)* established the Consumer Product Safety Commission.

**Ethics**

Ethics is generally referred to as the set of moral principles or values that guide behavior. There is a general recognition that many, if not most, business decisions involve some ethical judgment. Consider the following dilemma. An athletic shoe company is considering whether to manufacture shoes in a country with a very poor record on human rights. The new facility will improve the company's competitive position, but the host government will also make a considerable profit, a profit that will be enjoyed by the ruling elite, not by the people of the country who will be employed at meager wages. Will the firm support a corrupt government in order to make higher profits?

Firms hope that a consideration of ethical issues during the decision-making process will be helpful in preventing or at least decreasing the frequency of unethical behavior. Having a corporate ethics policy also seems to facilitate the process of recovery after an ethical scandal—although firms may wish otherwise, unethical acts do occur and do not often go unnoticed. The lack of respect many people feel towards business today, the press's propensity for investigative reporting, and the willingness of many insiders to blow the whistle on unethical corporate behavior increase the likelihood that such behaviors will eventually be discovered. See Figure 5.2.

**Ethical problems faced by marketing professionals stem from conflicts and disagreements.** They tend to be relationship problems. Each party in a marketing transaction brings a set of expectations regarding how the business relationship will exist and how transactions should be conducted. For example, when you as a consumer wish to purchase something from a retailer, you bring the following expectations about the transaction: (1) you want to be treated fairly by the salesperson, (2) you want to pay a reasonable price, (3) you want the product to be available as advertising says it will and in the indicated condition, and (4) you want it to perform as promised. Unfortunately, your expectations might not be in agreement with those of the retailer. The retail salesperson may not "have time for you," or the retailer's notion of a "reasonable" price may be higher than yours, or the advertising for the product may be misleading. A summary of ethical issues related to marketing is shown in Table 5.3.
Business Week/Harris Poll

Survey of 1035 adults conducted Aug. 25-29, 2000, 1009 adults conducted June 29-July 5, 2000, 1010 adults conducted Dec. 9-12, 1999, and 1004 adults on Feb. 23-26, 1996. Results should be accurate within 3 percentage points. Results for 2000 are from June unless otherwise noted.

CORPORATE AMERICA: SOME CREDIT, MORE BLAME

American business should be given most of the credit for the prosperity that has prevailed during most of the 1990s.

<table>
<thead>
<tr>
<th></th>
<th>AGREE STRONGLY</th>
<th>AGREE</th>
<th>SOMewhat DISAGREE</th>
<th>DISAGREE STRONGLY</th>
<th>NOT SURE!</th>
<th>NO ANSWER</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>26%</td>
<td>.42%</td>
<td>19%</td>
<td>10%</td>
<td>2%</td>
<td></td>
</tr>
<tr>
<td>1996</td>
<td>55%*</td>
<td>44%*</td>
<td></td>
<td></td>
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</tbody>
</table>

Business has gained too much power over too many aspects of American life.

<table>
<thead>
<tr>
<th></th>
<th>AGREE STRONGLY</th>
<th>AGREE</th>
<th>SOMewhat DISAGREE</th>
<th>DISAGREE STRONGLY</th>
<th>NOT SURE!</th>
<th>NO ANSWER</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000 (Aug.)</td>
<td>.40%</td>
<td>32%</td>
<td>15%</td>
<td>9%</td>
<td>.4%</td>
<td></td>
</tr>
<tr>
<td>2000 (June)</td>
<td>52%</td>
<td>30%</td>
<td>12%</td>
<td>.4%</td>
<td>2%</td>
<td></td>
</tr>
<tr>
<td>1996</td>
<td>71%*</td>
<td>28%*</td>
<td></td>
<td></td>
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</tbody>
</table>

In general, what is good for business is good for most Americans.

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<thead>
<tr>
<th></th>
<th>AGREE STRONGLY</th>
<th>AGREE</th>
<th>SOMewhat DISAGREE</th>
<th>DISAGREE STRONGLY</th>
<th>NOT SURE!</th>
<th>NO ANSWER</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000 (Aug.)</td>
<td>.14%</td>
<td>33%</td>
<td>27%</td>
<td>9%</td>
<td>.4%</td>
<td></td>
</tr>
<tr>
<td>2000 (June)</td>
<td>17%</td>
<td>35%</td>
<td>23%</td>
<td>21%</td>
<td>1%</td>
<td></td>
</tr>
<tr>
<td>1996</td>
<td>32%</td>
<td>39%</td>
<td>20%</td>
<td>8%</td>
<td>1%</td>
<td></td>
</tr>
</tbody>
</table>

How much confidence do you have in those running big business?

<table>
<thead>
<tr>
<th></th>
<th>2000</th>
<th>1999</th>
</tr>
</thead>
<tbody>
<tr>
<td>Great deal</td>
<td>19%</td>
<td>15%</td>
</tr>
<tr>
<td>Only some</td>
<td>58%</td>
<td>69%</td>
</tr>
<tr>
<td>Hardly any</td>
<td>17%</td>
<td>13%</td>
</tr>
<tr>
<td>Not sure/No answer</td>
<td>5%</td>
<td>3%</td>
</tr>
</tbody>
</table>

Having large profits is more important to big business than developing safe, reliable, quality products for consumers.

<table>
<thead>
<tr>
<th></th>
<th>AGREE STRONGLY</th>
<th>AGREE</th>
<th>SOMewhat DISAGREE</th>
<th>DISAGREE STRONGLY</th>
<th>NOT SURE!</th>
<th>NO ANSWER</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000 (Aug.)</td>
<td>.38%</td>
<td>.28%</td>
<td>.14%</td>
<td>17%</td>
<td></td>
<td>3%</td>
</tr>
</tbody>
</table>

*Question asked only agree or disagree

GORE'S BIG SCORE

At the recent Democratic convention, Vice-President Al Gore criticized a wide range of large corporations, including "big tobacco, big oil, the big polluters, the pharmaceutical companies, the HMOs." Do you agree or disagree with Gore's sentiments?

<table>
<thead>
<tr>
<th></th>
<th>Strongly agree</th>
<th>Somewhat agree</th>
<th>Somewhat disagree</th>
<th>Strongly disagree</th>
<th>Don't Know/No answer</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>39%</td>
<td>35%</td>
<td>9%</td>
<td>13%</td>
<td></td>
</tr>
<tr>
<td>1996</td>
<td>14%</td>
<td>.44%</td>
<td>33%</td>
<td>9%</td>
<td></td>
</tr>
</tbody>
</table>

SECTOR BY SECTOR

LOW MARKS FROM CONSUMERS

How would you rate these industries in serving their consumers?

<table>
<thead>
<tr>
<th>Industry</th>
<th>ONLY POOR</th>
<th>PRETTY</th>
<th>GOOD</th>
<th>EXCELLENT</th>
<th>DON'T KNOW/NO ANSWER</th>
</tr>
</thead>
<tbody>
<tr>
<td>HMOs</td>
<td>43%</td>
<td>28%</td>
<td>15%</td>
<td>3%</td>
<td>11%</td>
</tr>
<tr>
<td>Tobacco</td>
<td>43%</td>
<td>30%</td>
<td>14%</td>
<td>5%</td>
<td>8%</td>
</tr>
<tr>
<td>Oil companies</td>
<td>39%</td>
<td>35%</td>
<td>16%</td>
<td>3%</td>
<td>2%</td>
</tr>
<tr>
<td>Insurance</td>
<td>32%</td>
<td>.41%</td>
<td>21%</td>
<td>.4%</td>
<td>.3%</td>
</tr>
</tbody>
</table>

43% think HMOs serve customers POORLY

Pharmaceutical companies 27% 37% 26% 5% 5%
Airlines 22% 41% 25% 3% 9%
Telephone companies 20% 42% 31% 6% 1%
News organizations 18% 38% 33% 6% 5%
Hospitals 15% 35% 38% 9% 3%
Entertainment companies 14% 33% 38% 9% 6%
Automobile companies 12% 42% 37% 6% 3%
Financial services firms ... 12% ... 40% ... 34% ... 5% ... 9%
Computer companies 4% 30% 40% 10% 16%

GOOD PRODUCTS, POOR PRACTICES

WHAT CORPORATIONS DO WELL-AND NOT SO WELL

How would you rate large U.S. companies on each of the following?

Making good products and competing in a global economy

<table>
<thead>
<tr>
<th>Industry</th>
<th>EXCELLENT</th>
<th>PRETTY</th>
<th>ONLY FAIR</th>
<th>POOR</th>
<th>DON'T KNOW/NO ANSWER</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>18%</td>
<td>50%</td>
<td>26%</td>
<td>5%</td>
<td>1%</td>
</tr>
<tr>
<td>1996</td>
<td>14%</td>
<td>.44%</td>
<td>33%</td>
<td>9%</td>
<td></td>
</tr>
</tbody>
</table>
Sales of these alternative beverages are still growing, reaching a level of $5.36 billion in 1999. In that same year, the soft drink industry had total sales of about $51 billion.

Some industry experts are predicting an industry shakeout. Their reasoning is that New Age beverage sales are driven by trendy young consumers who are constantly seeking the latest drink. Tapping into this young generation, over 100 companies introduced a New Age beverage into the marketplace.

Questions:

1. Describe the external factors that have an impact on the soft drink industry.
2. How would you assess the competitive situation in the soft drink industry?
3. What marketing strategies might be appropriate for soft drink marketers in order to improve sales of New Age beverages?

REFERENCES

International marketing involves the firm in making one or more marketing decisions across national boundaries.

The debate between standardization versus customization of the international marketing strategy is unsettled; best to consider on a case-by-case basis.

There are many reasons to enter an international market led by large market size and diversification.

There are also several reasons to avoid entering international markets, including too much red tape, trade barriers, and transposition difficulties.

The stages of going international are as follows: exporting, licensing, joint ventures, direct investment, U.S. commercial centers, trade intermediaries, and alliances.

Trade Intermediaries

Small manufacturers who are interested in building their foreign sales are turning to trade intermediaries to assist them in the sale and distribution of their products. These entrepreneurial middlemen typically buy U.S.-produced goods at 15% below a manufacturer's best discount and then resell the products in overseas markets. These trade intermediaries account for about 10% of all U.S. exports. The trade intermediary provides a valuable service to small businesses, which often do not have the resources or expertise to market their products overseas. Trade intermediaries have developed relationships with foreign countries; these relationships are time-consuming and expensive to develop.

Alliances

Heineken, the premium Dutch beer, is consumed by more people in more countries than any other beer. It is also the number-one imported beer in America. Miller and Budweiser, the two largest American beer producers, have entered into global competition with Heineken, partly because the American beer market has been flat. They are doing so by forming alliances with global breweries such as Molson, Corona, and Dos Equis. Heineken has responded to the challenge, heavily promoting products such as Amstel Light and Murphy’s Irish Stout. Heineken has also begun developing an alliance with Asia Pacific Breweries, the maker of Tiger Beer.

The International Marketing Plan

It should be apparent by now that companies and organizations planning to compete effectively in world markets need a clear and well-focused international marketing plan that is based on a thorough understanding of the markets in which the company is introducing its products. The challenge, then, of international marketing is to ensure that any international strategy has the discipline of thorough research, and an understanding and accurate evaluation of what is required to achieve the competitive advantage. As such, the decision sequence in international marketing (see Figure 6.1) is much larger than that of domestic markets. As noted in the next Integrated Marketing box, it is also more complicated.
IN PRACTICE

International markets offer organizations market expansion and profit opportunities. However, entering international markets poses risks and valid reasons to avoid entering these markets exist. International marketing plans must identify the benefits and risks involved with international expansion, and detail the options for entry into the foreign market.

Deciding whether or not to adjust its domestic marketing program is a critical issue for any organization planning to expand internationally. Organizations must understand the various environmental factors affecting international marketing to determine whether a standardized or customized marketing mix will be the best strategy.

The Interactive Journal provides extensive information about world business. On the Front Section, select World-Wide from the main page.

World-Wide focuses on international news and events. You’ll find information about trade agreements, international governing organizations, and regional conflicts in this section. Under the Asia, Europe, and The Americas headings, you’ll find information specific to these regions. General news stories, financial markets activity, and technology issues are all discussed as they pertain to the specific region. For country specific information, page down to Country News in any of the regional sections. Using the drop down menu, you’ll find links to recent news and business articles.

In the Economy section, you’ll find an International Calendar of Economic Events. On the Front Section, select Economy from the left menu. In this section you’ll also find articles about noteworthy economic developments in various countries.

Travel news is found in the Business Fare section of Marketplace. Here you’ll find a Currency Converter as well as travel related business articles.

DELIVERABLE

Select one major headline in the Asia, Europe, and The Americas sections. Use the Country News menu to select the specific countries discussed and look for additional information about the articles you’ve chosen. Review the articles and write a one-paragraph synopsis of each.

DISCUSSION QUESTIONS

1. How can an organization determine its best option for entering an international market?
2. What impact do international trade agreements such as NAFTA and international governing organizations such as the World Trade Organization have on decisions to expand internationally?
3. Other than the Interactive Journal, what other sources provide relevant information to organizations facing international marketing decisions?
4. What changes do you anticipate in international marketing? What countries will influence international trade?
While this discussion implies that service products are marketed differently than goods products, it is important to remember that all products, whether they are goods, services, blankets, diapers, or plate glass, possess peculiarities that require adjustments in the marketing effort. However, "pure" goods products and "pure" service products (i.e., those on the extreme ends of the continuum) tend to reflect characteristics and responses from customers that suggest opposite marketing strategies. Admittedly, offering an exceptional product at the right price, through the most accessible channels, promoted extensively and accurately, should work for any type of product. The goods/services classification provides the same useful insights provided by the consumer/industrial classification discussed earlier.

**PRODUCT PLANNING AND STRATEGY FORMULATION**

The ultimate purpose of this chapter is to introduce the idea that products are planned, and that a whole series of decisions go into this planning process—from the moment the product idea is first conceptualized to the day it is finally deleted. The particular label placed on the company's plan for marketing its product is the product strategy. It is part of the marketing strategy and should harmonize with it. Like the marketing strategy, it contains three important elements. (1) the determination of product objectives, (2) the development of product plans that will help reach these objectives, and (3) the development of strategies appropriate for the introduction and management of products.

**The Determination of Product Objectives**

There are a great many objectives that relate to the product management effort. Rather than attempting to provide a complete list, a discussion of the most common product objectives will provide an adequate illustration.

It is safe to conclude that a universal objective is growth in sales as a result of the introduction of a new product or the improvement of an existing product. Certainly, there is little need to engage in either product activity unless this objective is present.

An objective related to growth in sales is finding new uses for established products. Since this process is generally easier than developing new products, the search for new uses of older products goes on endlessly. For example, Texas Instruments has found numerous uses for their basic product, the semiconductor.

Using excess capacity is another commonly stated product objective. This objective is prompted by the rapid turnover of products and the resulting changes in market share. Of course, such utilization is always a short-run consideration. In the long run, only those products that can generate a continuing level of profitability should be retained, regardless of the problem of excess capacity.

Maintaining or improving market share may also be an objective shared by many companies. In such cases, the emphasis of the firm is on their competitive position rather than attaining a target level of profits. Creating product differentiation is often the primary strategy employed to reach this objective.

Developing a full line of products is another typical objective. A company with a partial product line may well consider the objective of rounding out its product offerings. Often, the sales force provides the impetus for this objective in that they may need a more complete product line to offer their customers, or the resellers themselves may request a greater assortment.

Expanding a product's appeal to new market segments is a common objective. John Deere is attempting to increase its small share of the consumer power products market by
a product decision could create conflict within the channel of distribution. In the computer example just described, this company may have entered the software business over the strong objection of their long-term supplier of software. If their venture into the software business fails, re-establishing a positive relationship with this supplier could be quite difficult.

A line extension strategy should only be considered when the producer is certain that the capability exists to efficiently manufacture a product that compares well with the base product. The producer should also be sure of profitable competition in this new market.

Line-filling strategies occur when a void in the existing product line has not been filled or a new void has developed due to the activities of competitors or the request of consumers. Before considering such a strategy several key questions should be answered:

- Can the new product support itself?
- Will it cannibalize existing products?
- Will existing outlets be willing to stock it?
- Will competitors fill the gap if we don’t?
- What will happen if we don’t act?

Assuming that we decide to fill out our product line further, there are several ways of implementing this decision. Three are most common:

1. **Product proliferation**: the introduction of new varieties of the initial product or products that are similar (e.g., a ketchup manufacturer introduces hickory-flavored and pizza-flavored barbecue sauce and a special hot dog sauce).

2. **Brand extension**: strong brand preference allows the company to introduce the related products under the brand umbrella (e.g., Jell-O introduces pie filling and diet desserts under the Jell-O brand name).

3. **Private branding**: producing and distributing a related product under the brand of a distributor or other producers (e.g., Firestone producing a less expensive tire for K-Mart).

In addition to the demand of consumers or pressures from competitors, there are other legitimate reasons to engage in these tactics. First, the additional products may have a greater appeal and serve a greater customer base than did the original product. Second, the additional product or brand can create excitement both for the manufacturer and distributor. Third, shelf space taken by the new product means it cannot be used by competitors. Finally, the danger of the original product becoming outmoded is hedged. Yet, there is serious risk that must be considered as well: unless there are markets for the proliferations that will expand the brand’s share, the newer forms will cannibalize the original product and depress profits.

Line-pruning strategies involve the process of getting rid of products that no longer contribute to company profits. A simple fact of marketing is that sooner or later a product will decline in demand and require pruning. Timex has stopped selling home computers. Hallmark has stopped selling talking cards. A great many of the components used in the latest automobile have replaced far more expensive parts, due to the increased costs in other areas of the process, e.g., labor costs. Using modern robotics technology has halved the manufacturing costs of several products. Through such implementation, Keebler Cookies moved from packaging their cookies totally by hand to 70% automation. Other possible ways a company might become more efficient are by replacing antiquated machinery, moving production closer to the point of sale, subcontracting out part of the manufacturing process, or hiring more productive employees.
Jerry Walsh. Nor do all marketers require a multimillion dollar national advertising campaign in order to reach objectives. All marketers, however, must learn to communicate their strategy to their target market.

The concept of Integrated Marketing Communication (IMC) is offered as a general framework, which can be employed by marketers in order to design a comprehensive and effective program of communication. It acknowledges the inherent differences between marketers and builds upon the reality that "every company is cast in the role of communicator." Ultimately, it is the choice of each company whether this communication process will be performed in a haphazard, unplanned way, or whether it will be guided by stated objectives and implemented through effective strategies.

This chapter introduces the concept of IMC, a framework for organizing the persuasive communication efforts of the business. Because of its visibility, many consumers feel that they already know a great deal about IMC, or at least about advertising. Most hold either a somewhat positive or negative attitude toward advertising, aggressive salespeople, coupons, and so forth. This is a case when a little bit of information can be a dangerous thing.

This chapter also provides a discussion of four of the IMC mix elements—advertising, sales promotion, public relations, and personal selling. We begin our discussion with an explanation of the role IMC plays in the marketing strategy.

THE ROLE OF IMC

The heart of every transactional exchange is communication between parties. The buyer seeks certain basic information about product features, price, quality, support service, reputation of the seller, and so forth. All this information is intended to assess how close each alternative is to meeting desired needs and wants. We seek information to reduce possible risk associated with the transaction. Presumably, the more solid the information we have, the more secure we feel in our decision. The seller also desires information. The seller wants to know whether you qualify as a buyer (i.e., do you really need the product and can you pay for it), which product features are important to you, what other choices you are considering, are you ready to buy, how much do you know about my product, and so forth. Therefore, all the parties enter a transaction with a whole set of questions they want answers to. Some of these questions are quite explicit: "How much does it cost?" Others are quite vague and may almost be subconscious: "Will this product make me feel better about myself?" All these decisions relate to the marketer's ability to integrate marketing communications (IMC).

The primary role of IMC is to systematically evaluate the communication needs and wants of the buyer and, based on that information, design a communication strategy that will (1) provide answers to primary questions of the target audience, (2) facilitate the customer's ability to make correct decisions, and (3) increase the probability that the choice they make most often will be the brand of the information provider, i.e., the sponsor or marketer. Marketers know that if they learn to fulfill this role, a lasting relationship with the customer can be established.

Primary Tasks

If the marketer is to consistently and effectively communicate with consumers, three preliminary tasks must be acknowledged and achieved. First, there must be a mechanism for collecting, storing, analyzing, and disseminating relevant information. This includes information about customers (past, present, potential), competitors, the environment, trends in
are users and potential users of the product, the target audience may encompass a much larger or smaller group of people. More specifically, the target audience includes all individuals, groups, and institutions that receive the marketing message and employ this information either as a basis for making a product decision or in some way employ it to evaluate the sponsoring business. Thus, the target market for E.P.T. pregnancy tests might be women between the ages of 18-34, with a college education; the target audience might also include parents of the youngest of these women, who either approve or disapprove of this product based on advertising messages, government agencies who assess the truthfulness of the product claims, and potential stockholders who determine the future success of the firm based on the perceived quality of the messages. IMC must identify all members of the target audience and must consider how the communication strategy must change in response to this membership.

In the end, the role of IMC is to communicate with target audiences in a manner that accurately and convincingly relays the marketing strategy of the firm.

**Integrated Marketing Communication**

Instead of a functional approach, IMC attempts to integrate these functions into a collective strategy. If conducted properly, IMC results in a more effective achievement of an organization’s communications objectives. Although difficult to determine exactly what prompted the move to IMC, experts speculate as to several possible interrelated causes. Historically, mass media has been characterized because of its general inability to measure its results, especially, more recently, the availability of consumer information (especially purchase patterns) through single-source technology such as store scanners and other related technology meant that mass media is able to correlate promotional activities with consumer behavior. During this same period, companies have been downsizing their operations and task expectations have been expanded. This greater expectation has carried over into the client-advertising agency relationship. Agency employees can no longer remain specialists. Rather, they must understand all the functions performed for the client, as well as their own. In reality, IMC appears to be much the same as a promotional strategy, a concept that has been around for several years. Perhaps the term “IMC” has emerged due to the confusion with the term “sales promotion” and the failure of promotion to be adopted by the advertising industry. Only time will tell whether IMC will become a salient part of marketing communication. (More was said about IMC in the previous Integrated Marketing box.)

**THE MEANING OF MARKETING COMMUNICATION**

Defining the concept of marketing communication (MC) is not an easy task, because in a real sense, everything the company does has communication potential. The price placed on a product communicates something very specific about the product. A company that chooses to distribute their products strictly through discount stores tells the consumer a great deal. Yet if all of these things are considered communication, the following definition is offered:

Marketing communication includes all the identifiable efforts on the part of the seller that are intended to help persuade buyers to accept the seller's message and store it in retrievable form.

Note that the central theme of the communication process is persuasion. Communication is most definitely goal-directed. It is not intended to be an arbitrary, haphazard activity. Each of the tools used in marketing communication has specific potentialities and complexities
on the part of competitors means that a company that did not exhibit a strong MC program would appear dull and unconvincing to the customer. Thus, MC is employed as both a defensive and offensive weapon.

The final objective of MC is to convince. Although this goal is most often ascribed to MC, it is the most questionable. "Convince" and "persuade" are not synonymous terms. Realistically, MC does extremely well if it presents ideas in a manner that is so convincing that the consumer will be led to take the desired action. These ideas, along with a host of other factors, will help persuade the consumer to make a particular decision. Therefore, the ability of MC to present information in a convincing manner is critical. It is also necessary to reconvince many consumers and customers. Just because a person buys a particular brand once or a dozen times, or even for a dozen years, there is no guarantee that they won't stop using the product if not constantly reminded of the product's unique benefits. Ultimately, MC objectives can be broken down into very specific tasks. The point is all MC must be guided by objectives.

In conclusion, effective marketing communication should present useful ideas (information) in a manner that makes them clearly understood (communicate), cause the consumer to believe the message is true (convince), and is as appealing or more appealing than the message delivered by competitors (compete).

**How We Communicate**

Because communication is such an integral part of effective marketing, it is important that we provide a basic understanding of the process. Our starting point is a basic definition of human communication: a process in which two or more persons attempt to consciously or unconsciously influence each other through the use of symbols or words in order to satisfy their respective needs.

**Basic Elements of Communication**

The basic elements within any communication system are depicted in Figure 8.1. It includes two or more people or organizations called communicators. The underlying assumption of this model is that all communications (dialogue) are continuous. This factor suggests that we are constantly and simultaneously in the role of communicator and receiver. Each communicator is composed of a series of subsystems (i.e., inputs, outputs, processing). The input subsystem permits the communicator to receive messages and stimulus from outside as well as from the other communicator. It involves the reception of light, temperature, touch, sound and, odors via our eyes, skin, ears, nose, and tastebuds. These stimuli are intimately evaluated through a process called perception. Thus, we input and perceive advertising messages, a 50 cents-off coupon, the appearance and words of a salesperson, and so forth.

The processing subsystem of a communicator includes all thought processes. As we process, we generate, organize, and reflect on ideas in response to the stimuli received. This entire process is determined not only by the stimuli just received, but also by all stimuli ever received, such as past experiences, education, health, genetics, and all other factors in our environment. Some people clearly process the humor in the Pepsi-Cola ads better than others.

The output subsystem includes the messages and other behaviors produced by the communicator. These include nonverbal messages, verbal messages, and other physical behaviors. All of these become input (feedback) for other people and can have both intentional and unintentional effects on them.
While all communication includes the same basic components depicted in Figure 8.1, marketing communication differs somewhat in two respects. First, the intent of marketing communications is to present a persuasive message, which reinforces the total offer made by the marketer. Essentially, all marketing communication attempts to create uniqueness in the mind of the target audience.

Second, marketing communication can be divided into two flows (i.e., internal and external), which are directed at different target audiences. This necessitates different communication strategies, which, nevertheless, must be compatible. A company cannot be telling a customer one story and stockholders another. The flow of marketing communication is depicted in Figure 8.2.

**DESIGNING AN IMC STRATEGY**

The design of an effective IMC strategy is a very difficult and time-consuming process that requires the efforts of many members of the marketing staff. Although there has been a great deal of variety in designing this process, the steps depicted in Figure 8.3 are most common.

As is the case with most marketing activities, IMC is guided by a set of objectives. There are numerous responses that the manager may desire from his IMC effort. Although the ultimate buyer behavior desired is product purchase, several intermediate responses may prove important as well. Examples of these intermediate responses are shown in Figure 8.4.

If there is a marketing opportunity, there must also be a communication opportunity. Although the role of IMC is de-emphasized in certain marketing programs, there will also be some communicative, motivational, or competitive tasks to be performed. Whether or
not the marketing programs should rely heavily on its communication ingredient to perform such tasks depends upon the nature and extent of the opportunity. There are several conditions which, if they exist, indicate a favorable opportunity to communicate: for example, it is always easier to communicate effectively when moving with the current consumer demand rather than against it. Companies such as IBM have been actively promoting their business computers, which are increasing in popularity, rather than home computers, which are not doing as well.

The third consideration is selecting the target audience for the IMC. This is undoubtedly the most important factor in the IMC strategy, yet it is probably the issue that many companies slight or overlook entirely. Marketing messages must be directed at the specific target for which the overall marketing program is being designed. However, very seldom is there a single group of consumers at which to direct promotion. Many individuals affect the buying process, and the IMC program must be designed to reach all of them. In addition to the primary purchasers and users of the product, individuals who influence the purchase decision must also be considered. For example, consumers usually rely heavily upon the assistance and advice of others in purchasing such products as automobiles, interior decorating, major appliances, and physicians, to name but a few. Similarly, industrial buyers consider the advice of engineers, technicians, and even competitors. Thus it is extremely important in resolving the communication issue to identify accurately not only those who consume and buy the product but also those who influence its purchase.

Determining exactly what to say to the relevant audience is the fourth consideration. The heart of IMC is the transmission of ideas of marketing significance to the seller. Whether these ideas are received and perceived as intended depends in large part on the skill used in developing the communication appeal. It also depends upon the vehicle used to deliver

FIGURE 8.3 IMC Strategy
for Fort Washington, PA-based CDNow provides consumers with a sample of dynamically updated content housed on the music retailer's site. When the consumer clicks an arrow on the ad, it expands to show the top 10 songs in CDNow's top 100 Billboard Charts

SALES PROMOTION AND PUBLIC RELATIONS

For several years, sales promotion and public relations have been often misunderstood, mis-measured, and misused by a great many marketers. Unlike advertising and personal selling that can claim formal structures and point to obvious accomplishments, sales promotion and PR have neither. Although this situation is changing somewhat, there is still a great deal of room for improvement. In the case of sales promotion, there exists some confusion as to which activities actually fall under this heading. Are packaging, couponing, and point-of-purchase displays all sales promotion? Because the answer to this question varies from organization to organization and across situations, sales promotion is often viewed as a catch-all category that includes everything that an organization does not label advertising or public relations.

Public relations, too, is difficult to define as it deals with the ultimate intangible—creating a positive image of the company. Not only is this difficult to accomplish, but it is also virtually impossible to ascertain whether or to what extent. An organization, for instance, might sponsor a free barbecue for a Fourth of July celebration and never really know if the money spent produced additional business. Management has a difficult time appreciating an activity that produces indirect results.

Sales Promotion: A Little Bit of Everything

As the newest member of the promotional team, sales promotion has suffered from a serious identity crisis. For example, initially the American Marketing Association defines sales promotion as, "marketing activities, other than personal selling, advertising, and publicity, that stimulate consumer purchasing and dealer effectiveness, such as displays, shows and exhibitions, demonstrations, and various non-recurrent selling efforts not in the ordinary routine." In the AMA view, sales promotion supplements both personal selling and advertising, coordinates them, and helps make them more effective. However, this does not provide an accurate portrayal of the role played by sales promotion. A simple way of viewing sales promotion is to say that it means special offers: special in the sense that they are extra as well as specific in time or place; offers in the sense that they are direct propositions, the acceptance of which forms a deal. Simply, it increases the perceived value of the product.

As in most aspects of marketing, the rationale of sales promotion is to provide a direct stimulus to produce a desired response by customers. It is not always clear, however, what the distinctions are between sales promotion and advertising, personal selling and public relations. For example, suppose that Pillsbury decides to tape three cans of their buttermilk canned biscuits together and sell them for a price slightly cheaper than the three sold individually. Is that a branded multipack special offer and therefore promotional? Or is it just an example of a giant-sized economy pack, and therefore a product or packaging tactic? In order to sort out which it is, the question has to be asked, is it intended to be a permanent feature of the manufacturer's product policy to have the family pack as a component of the product? If it is not, it is a sales promotion scheme.

The same sort of problem comes up when studying strategies run by firms in service industries. If a hotel offers cut-price accommodations at off-peak times of the year, is it a feature of the hotel management's pricing policy or is it a promotional tactic? If the
It's the second largest state in America. And every resident is struggling to get out.

It's bigger than Texas, Florida or New York - but you won't find it on any map. It holds more people than Connecticut, Kentucky, Maryland, Michigan, New Jersey and Nevada combined - but it's a state of bitter uncertainty. It's home to one out of every eleven families in America. It's home to one out of every six children in America. It's home to more than 32 million desperate people trapped within its cruel boundaries. It's the state of poverty in America. And if you were poor, you'd be home by now.

AD 8.5 The Catholic Campaign for Human Development is hoping to convey the message that one in nine Americans lives below the poverty line.

There is, of course, interaction between internal and external publics. Yet it cannot be assumed that good relations with insiders will ever be translated to outsiders without effort. An employee who is quite happy on the job may be much more interested in bowl-
Prospecting  

Prospecting is defined as the seller’s search for, and identification of, qualified potential buyers of a product or service. Prospecting can be thought of as a two-stage process: (1) identifying the individuals and/or the organizations that might be prospects, and (2) evaluating potential prospects against evaluative qualifying criteria. Potential prospects that compare favorably to the evaluative criteria can then be classified as qualified prospects.

Preapproach  

After the prospect has been qualified, the salesperson continues to gather information about the prospect. This process is called the preapproach. The preapproach can be defined as obtaining as much relevant information as possible regarding the prospect prior to making a sales presentation. The knowledge gained during the preapproach allows the tailoring of the sales presentation to the particular prospect. In many cases, salespeople make a preliminary call on the prospect for the purpose of conducting the preapproach. This is perfectly acceptable, and most professional buyers understand that such a call may be necessary before a sales presentation can be made.

Planning the Presentation  

Regardless of the sales situation, some planning should be done before the sales presentation is attempted. The amount of planning that will be necessary and the nature of the planning depend on many factors, including: (1) the objective or objectives of the presentation, (2) how much knowledge the salesperson has regarding the buyer, buyer needs, and the buying situation, (3) the type of presentation to be planned and delivered, and (4) the involvement of other people assisting the salesperson in the sales presentation. Careful planning offers advantages for both the salesperson and the buyer. By carefully planning the presentation, salespeople can: (1) focus on important customer needs and communicate the relevant benefits to the buyer, (2) address potential problem areas prior to the sales presentation, and (3) enjoy self-confidence, which generally increases with the amount of planning done by the salesperson. In planning the presentation, the salesperson must select the relevant parts of their knowledge base and integrate the selected parts into a unified sales message. For any given sales situation, some of the facts concerning the salesperson’s company, product, and market will be irrelevant. The challenge to the salesperson is in the task of distilling relevant facts from the total knowledge base. The key question
3. When the buyer indicates an interest in the product by giving a closing signal, such as a nod of the head.

Follow-up To ensure customer satisfaction and maximize long-term sales volume, salespeople often engage in sales follow-up activities and the provision for post-sale service. If a sale is not made, a follow-up may eventually lead to a sale.

Strengths and Weaknesses of Personal Selling

Personal selling has several important advantages and disadvantages compared with the other elements of marketing communication mix (see Figure 8.5). Undoubtedly, the most significant strength of personal selling is its flexibility. Salespeople can tailor their presentations to fit the needs, motives, and behavior of individual customers. As salespeople see the prospect's reaction to a sales approach, they can immediately adjust as needed.

Personal selling also minimizes waste effort. Advertisers typically expend time and money to send a mass message about a product to many people outside the target market. In personal selling, the sales force pinpoints the target market, makes a contact, and expends effort that has a strong probability of leading to a sale.

Consequently, an additional strength of personal selling is that measuring effectiveness and determining a return on investment are far more straightforward for personal selling than for other marketing communication tools, where recall or attitude change is the only measurable effect.

Another benefit of personal selling is that a salesperson is in an excellent position to encourage a customer to act. The one-on-one interaction of personal selling means that a salesperson can effectively respond to and overcome objections (customers’ concerns or reservations about the product) so that the customer is more likely to buy. Salespeople can also offer many specific reasons to persuade a customer to buy, in contrast to the general reasons that an ad may urge customers to take immediate action.

A final strength of personal selling is the multiple tasks the sales force can perform. For instance, in addition to selling, a salesperson can collect payment service or repair products, return products, and collect product and marketing information. In fact, salespeople are often best at disseminating negative and positive word-of-mouth product information.

High cost is the primary disadvantage of personal selling. With increased competition, higher travel and lodging costs, and higher salaries, the cost per sales contract continues to increase. Many companies try to control sales costs by compensating sales representatives based on commission only, thereby guaranteeing that salespeople get paid only if they generate sales. However, commission-only salespeople may become risk-averse and only call on clients who have the highest potential return. These salespeople, then, may miss opportunities to develop a broad base of potential customers that could generate higher sales revenues in the long run.

Companies can also reduce sales costs by using complementary techniques, such as telemarketing, direct mail, toll-free numbers for interested customers, and online communication with qualified prospects. Telemarketing and online communication can further reduce costs by serving as an actual selling vehicle. Both technologies can deliver sales messages, respond to questions, take payment, and follow up.

Another disadvantage of personal selling is the problem of finding and retaining high-quality people. First, experienced salespeople sometimes realize that the only way their income can outpace their cost-of-living increase is to change jobs. Second, because of the push for profitability, businesses try to hire experienced salespeople away from competitors rather
than hiring college graduates, who take three to five years to reach the level of productivity of more experienced salespeople. These two staffing issues have caused high turnover in many sales forces.

Another weakness of personal selling is message inconsistency. Many salespeople view themselves as independent from the organization, so they design their own sales techniques, use their own message strategies, and engage in questionable ploys to create a sale. Consequently, it is difficult to find a unified company or product message within a sales force, or between the sales force and the rest of the marketing communication mix.

A final weakness is that sales force members have different levels of motivation. Salespeople may vary in their willingness to make the desired sales calls each day; to make service calls that do not lead directly to sales; or to use new technology, such as a laptop, e-mail, or the company’s Web site. Finally, overzealous sales representatives may tread a thin line between ethical and unethical sales techniques. The difference between a friendly lunch and commercial bribery is sometimes blurred.

The Sales Force of the Future

What will the sales force of the year 2020 look like? Will it still consist of dependent operators who are assigned a territory or a quota? Will the high cost of competing in a global marketplace change the traditional salesperson? Although we can speculate about dramatic changes in the nature of personal selling, the traditional salesperson figure will likely remain intact for several decades. Why? Many products will still need to be sold personally. Each knowledgeable, trustworthy person who is willing to resolve problems at any hour is essential.

Still, major changes in personal selling will occur, in large part due to technology. Though technology has increased selling efficiency, it has also resulted in more complex products, so that more sales calls are required per order in many industries. Also, because of the trend toward business decentralization, sales representatives now have more small or mid-sized accounts to service. Currently, companies such as Hewlett-Packard and Fina Oil and Chemical as well as many smaller companies provide laptop computers to all salespeople. Computer-based sales tracking and follow-up systems allow salespeople to track customers. This technology means that salespeople can assess customer-buying patterns, profitability, and changing needs more rapidly. Accessing this information via computer saves the salesperson time and allows customization of the sales presentation.

Sales teams will continue to gain in popularity because customers are looking to buy more than a product. They are looking for sophisticated design, sales, education, and service support. A sales team includes several individuals who possess unique expertise and can coordinate their efforts to help meet the needs of the particular prospect in every way possible. The salesperson acts as a team quarterback, ensuring that the account relationship is managed properly and that the customer has access to the proper support personnel.

Procter & Gamble is one company that has adopted the team approach. P&G has 22 sales executives who coordinate the sales effort of various P&G divisions in their assigned market areas. Each manager coordinates key account teams composed of sales executives from P&G’s grocery division. As many as three key account teams may sell in each market. The marketing manager supervises a logistics team composed primarily of computer systems and distribution executives. The team works closely with retailers to develop mutually compatible electronic data and distribution systems. P&G hopes the team approach will reduce the pressure for trade promotions because the team provides greater service to resellers.

Salespeople of the future will have to adjust to new forms of competition. With the increased capabilities and greater use of direct marketing, for example, salespeople must...
suggests that the results of price manipulation are predictable. The latter role for price acknowledgment that man's response to price is sometimes unpredictable and pretesting price manipulation is a necessary task. Let's discuss each briefly.

**Rational Man Pricing: An Economic Perspective**

Basically, economics assumes that the consumer is a rational decision maker and has perfect information. Therefore, if a price for a particular product goes up and the customer is aware of all relevant information, demand will be reduced for that product. Should price decline, demand would increase. That is, the quantity demanded typically rises causing a downward sloping demand curve.

A demand curve shows the quantity demanded at various price levels (see Figure 9.2). As a seller changes the price requested to a lower level, the product or service may become an attractive use of financial resources to a larger number of buyers, thus expanding the total market for the item. This total market demand by all buyers for a product type (not just for the company's own brand name) is called primary demand. Additionally, a lower price may cause buyers to shift purchases from competitors, assuming that competitors do not meet the lower price. If primary demand does not expand and competitors meet the lower price the result will be lower total revenue for all sellers.

Since, in the U.S., we operate as a free market economy, there are few instances when someone outside the organization controls a product's price. Commodity-like products such as air travel, gasoline, and telecommunications, now determine their own prices. Because large companies have economists on staff and buy into the assumptions of economic theory as it relates to pricing, the classic price-demand relationship dictates the economic health of most nations. Alan Greenspan, Chairman of the U.S. Federal Reserve, determines interest rates charged by banks as well as the money supply, thereby directly affecting price (especially of stocks and bonds). He is considered by many to be the most influential person in the world.

![Figure 9.2 Price and demand](image-url)
**PRICE LINES**

You are already familiar with price lines. Ties may be priced at $15, $17, $20, and $22.50; blue jeans may be priced at $30, $32.95, $37.95, and $45. Each price must be far enough apart so that buyers can see definite quality differences among products. Price lines tend to be associated with consumer shopping goods such as apparel, appliances, and carpeting rather than product lines such as groceries. Customers do very little comparison-shopping on the latter.

*Price lining* serves several purposes that benefit both buyers and sellers. Customers want and expect a wide assortment of goods, particularly shopping goods. Many small price differences for a given item can be confusing. If ties were priced at $15, $15.35, $15.75, and so on, selection would be more difficult; the customer could not judge quality differences as reflected by such small increments in price. So, having relatively few prices reduces the confusion.

From the seller's point of view, price lining holds several benefits. First, it is simpler and more efficient to use relatively fewer prices. The product/service mix can then be tailored to selected price points. *Price points* are simply the different prices that make up the line. Second, it can result in a smaller inventory than it would otherwise be the case. It might increase stock turnover and make inventory control simpler. Third, as costs change, either increasing or decreasing the price points maintain the same, the quality in the line can be changed. For example, you may have bought a $20 tie ten years ago. You can buy a $20 tie today, but it is unlikely that today's $20 tie is of the same fine quality as it was in the past. While customers are likely to be aware of the differences, they are nevertheless still able to purchase a $20 tie. During inflationary periods the quality/price point relationship changes. From the point of view of salespeople, offering price lines will make selling easier. Salespeople can easily learn a small number of prices. This reduces the likelihood that they will misquote prices or make other pricing errors. Their selling effort is therefore more relaxed, and this atmosphere will influence customers positively. It also gives the salesperson flexibility. If a customer can't afford a $2,800 Gateway system, the $2,200 system is suggested.

**PRICE FLEXIBILITY**

Another pricing decision relates to the extent of *price flexibility*. A flexible pricing policy means that the price is bid or negotiated separately for each exchange. This is a common practice when selling to organizational markets where each transaction is typically quite large. In such cases, the buyer may initiate the process by asking for bidding on a product or service that meets certain specifications. Alternatively, a buyer may select a supplier and attempt to negotiate the best possible price. Marketing effectiveness in many industrial markets requires a certain amount of price flexibility.

**Discounts and Allowances**

In addition to decisions related to the base price of products and services, marketing managers must also set policies related to the use of discounts and allowances. There are many different types of price reductions—each designed to accomplish a specific purpose.

*Quantity discounts* are reductions in base price given as the result of a buyer purchasing some predetermined quantity of merchandise. A noncumulative quantity discount applies
CONNECT NOW: GET A $100 REBATE ON A PALM VIIx HANDHELD.
Now if you commit to a year's service; you can get a $100 credit on the wireless Palm VIIx handheld. Discover how easy it is to get connected to work with applications beyond email, like Travelocity, Fidelity and MapQuest.com. Customize your favorite wireless web content with the MyPalm portal. Stop by a retailer today to find out how you can take the Internet almost anywhere. All for a new low price. Simply amazing.

AD 9.2 A rebate can be a very effective price discount.

to each purchase and is intended to encourage buyers to make larger purchases. This means that the buyer holds the excess merchandise until it is used, possibly cutting the inventory cost of the seller and preventing the buyer from switching to a competitor at least until the stock is used. A cumulative quantity discount applies to the total bought over a period of time. The buyer adds to the potential discount with each additional purchase. Such a policy helps to build repeat purchases. Building material dealers, for example, find such a policy quite useful in encouraging builders to concentrate their purchase with one dealer and
to continue with the same dealer over time. It should be noted that such cumulative quantity discounts are extremely difficult to defend if attacked in the courts.

Seasonal discounts are price reductions given or out-of-season merchandise. An example would be a discount on snowmobiles during the summer. The intention of such discounts is to spread demand over the year. This can allow fuller use of production facilities and improved cash flow during the year. Electric power companies use the logic of seasonal discounts to encourage customers to shift consumption to off-peak periods. Since these companies must have production capacity to meet peak demands, the lowering of the peak can lessen the generating capacity required.

Cash discounts are reductions on base price given to customers for paying cash or within some short time period. For example, a two-percent discount on bills paid within ten days is a cash discount. The purpose is generally to accelerate the cash flow of the organization.

Trade discounts are price reductions given to middlemen (e.g., wholesalers, industrial distributors, retailers) to encourage them to stock and give preferred treatment to an organization's products. For example, a consumer goods company may give a retailer a 10% discount to place a larger order for soap. Such a discount might also be used to gain shelf space or a preferred position in the store.

Personal allowances are similar devices aimed at middlemen. Their purpose is to encourage middlemen to aggressively promote the organization's products. For example, a furniture manufacturer may offer to pay some specified amount toward a retailer's advertising expenses if the retailer agrees to include the manufacturer's brand name in the ads.

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**BEAM ME UP, SCOITYI**

You remember William Shatner, a.k.a. Captain James T. Kirk. As Kirk, he represented the epitome of integrity and professionalism. Death was better than compromise. Yet, here he is doing rather strange TV ads for Priceline.com Inc. Why? Probably because he's being paid a ton of money, and he's having fun. Working for an apparent winner is also exciting.

We say "apparent" because transferring Priceline's patented "name your own price" system of selling airline tickets, groceries, cars, gasoline, telephone minutes, and a raft of other products is proving quite difficult. Complicating matters, several airlines and hotels are studying whether to launch Web services that could cut the legs out from under Priceline's established travel businesses.

Priceline could soon face stiff competition from its own suppliers. Hyatt, Marriott, Starwood, and Cendant—most of which sell excess hotel rooms through Priceline—are having serious discussions about starting their own company to distribute over the Internet. Essentially, these chains worry that by handing sales to Priceline, they could lose control of their customers. Several airlines have the same concerns.

To stay one step ahead, Priceline has decided to introduce 18 new products. Initially, Priceline generated 90% of its revenues from airline tickets, rental cars, and hotel rooms. By 2003, Priceline estimates that only 50% of revenues will come from these sources.

By June 2000, users were able to name their price for long-distance phone service, gasoline, and cruises. At the end of 2000, Priceline.com started selling blocks of long-distance phone time to small companies. Later, it will offer them ad space, freight services, and office equipment. New joint ventures are in the works with companies in Hong Kong, Australia, Japan, Europe, and Latin America.

Execs at Priceline say they're on the right track and that they're building a broad-based discounting powerhouse.

Some manufacturers or wholesalers also give prize money called *spijfs* for retailers to pass on to the retailer's sales clerks for aggressively selling certain items. This is especially common in the electronics and clothing industries, where it is used primarily with new products, slow movers, or high margin items.

*Trade-in allowances also* reduce the base price of a product or service. These are often used to allow the seller to negotiate the best price with a buyer. The trade-in may, of course, be of value if it can be resold. Accepting trade-ins is necessary in marketing many *types* of products. A construction company with a used grader worth $70,000 would not likely buy a new model from an equipment company that did not accept trade-ins, particularly when other companies do accept them.

**PRICE BUNDLING**

A very popular pricing strategy, *price bundling*, is to group similar or complementary products and to charge a total price that is lower if they were sold separately. Dell Computers and Gateway Computers follow this strategy by combining different components for a set price. Customers assume that these computer experts are putting together an effective product package and they are paying less. The underlying assumption of this pricing strategy is that the increased sales generated will more than compensate for a lower profit margin. It may also be a way of selling a less popular product by grouping it with popular ones. Clearly, industries such as financial services and telecommunications are big users of this.

**PSYCHOLOGICAL ASPECTS OF PRICING**

Price, as is the case with certain other elements in the marketing mix, appears to have meaning to many buyers that goes beyond a simple utilitarian statement. Such meaning is often referred to as the *psychological aspect* of pricing. Inferring quality from price is a common example of the psychological aspect. A buyer may assume that a suit priced at $500 is of higher quality than one priced at $300. From a cost-of-production, raw material, or workmanship perspective, this may or may not be the case. The seller may be able to secure the higher price by nonprice means such as offering alterations and credit or the benefit to the buyer may be in meeting some psychological need such as ego enhancement. In some situations, the higher price may be paid simply due to lack of information or lack of comparative shopping skills. For some products or services, the quantity demanded may actually rise to some extent as price is increased. This might be the case with an item such as a fur coat. Such a pricing strategy is called *prestige pricing*.

Products and services frequently have customay prices in the minds of consumers. A customary price is one that customers identify with particular items. For example, for many decades a five-stick package of chewing gum cost five cents and a six-ounce bottle of Coca-Cola cost five cents. Candy bars now cost 60 cents or more, a customary price for a standard-sized bar. Manufacturers tend to adjust their wholesale prices to permit retailers in using customary pricing. However, as we have witnessed during the past decade, prices have changed so often that customary prices are weakened.

Another manifestation of the psychological aspects of pricing is the use of *odd prices*. We call prices that end in such digits as 5, 7, 8, and 9 "odd prices" (e.g., $2.95, $15.98, or $299.99). Even prices are $3, $16, or $300. For a long time marketing people have attempted to explain why odd prices are used. It seems to make little difference whether one pays $29.95 or $30 for an item. Perhaps one of the most often heard explanations concerns the
Winning an award is a psychological aspect of price. The psychological impact of odd prices on customers. The explanation is that customers perceive even prices such as $5 or $10 as regular prices. Odd prices, on the other hand, appear to represent bargains or savings and therefore encourage buying. There seems to be some movement toward even pricing; however, odd pricing is still very common. A somewhat related pricing strategy is combination pricing. Examples are two-for-one, buy-one-get-one-free. Consumers tend to react very positively to these pricing techniques.
There are several reasons why expressing mark-up as a percentage of selling price is preferred to expressing it as a percentage of cost. One is that many other ratios are expressed as a percentage of sales. For instance, selling expenses are expressed as a percentage of sales. If selling costs are 8%, this means that for each $100,000 in net sales, the cost of selling the merchandise is $8,000. Advertising expenses, operating expenses, and other types of expenses are quoted in the same way. Thus, there is a consistency when making comparisons in expressing all expenses and costs, including mark-up, as a percentage of sales (selling price).

Middlemen receive merchandise daily and make sales daily. As new shipments are received, the goods are marked and put into stock. Cumulative mark-up is the term applied to the difference between total dollar delivered cost of all merchandise and the total dollar price of the goods put into stock for a specified period of time. The original mark-up at which individual items are put into stock is referred to as the initial mark-up.

Maintained mark-up is another important concept. The maintained mark-up percentage is an essential figure in estimating operating profits. It also provides an indication of efficiency. Maintained mark-up, sometimes called gross cost of goods, is the difference between the actual price for which all of the merchandise is sold and the total dollar delivery cost of the goods exclusive of deductions. The maintained mark-up is typically less than the initial mark-up due to mark-downs and stock shrinkages from breakage, and the like. Maintained mark-up is particularly important for seasonal merchandise that will likely be marked-down substantially at the end of the season.

Although this pricing approach may seem overly simplified, it has definite merit. The problem facing managers of certain types of businesses such as retail food stores is that they must price a very large number of items and change many of those prices frequently. The standard mark-up usually reflects historically profitable margins and provides a good guideline for pricing.

To illustrate the cost-based process of pricing, let’s look at the case of Johnnie Walker Black Label Scotch Whiskey. This product sells for about $30 in most liquor stores. How was this price derived?

- $5.00 production, distillation, maturation + $2.50 advertising + $3.11 distribution + $4.39 taxes + $7.50 mark-up (retailer) + $7.50 net margin (manufacturer)

Certainly costs are an important component of pricing. No firm can make a profit until it covers its costs. However, the process of determining costs and then setting a price based on costs does not take into consideration what the customer is willing to pay at the marketplace. As a result, many companies that have set out to develop a product have fallen victim to the desire to continuously add features to the product, thus adding cost. When the product is finished, these companies add some percentage to the cost and expect customers to pay the resulting price. These companies are often disappointed, as customers are not willing to pay this cost-based price.

**Break-Even Analysis**

A somewhat more sophisticated approach to cost-based pricing is the break-even analysis. The information required for the formula for break-even analysis is available from the accounting records in most firms. The break-even price is the price that will produce enough revenue to cover all costs at a given level of production. Total cost can be divided into fixed and variable (total cost = fixed cost + variable cost). Recall that fixed cost does not change as the level of production goes up or down. The rent paid for the building to house the operation might be an example. No cost is fixed in the long run, but in the short run, many expenses cannot realistically be changed. Variable cost does change as production is increased or
decreased. For example, the cost of raw material to make the product will vary with production.

A second shortcoming of break-even analysis is it assumes that variable costs are constant. However, wages will increase with overtime and shipping discounts will be obtained. Third, break-even assumes that all costs can be neatly categorized as fixed or variable. Where advertising expenses are entered, break-even analysis will have a significant impact on the resulting break-even price and volume.

Target Rates of Return

Break-even pricing is a reasonable approach when there is a limit on the quantity which a firm can provide and particularly when a target return objective is sought. Assume, for example, that the firm with the costs illustrated in the previous example determines that it can provide no more than 10,000 units of the product in the next period of operation. Furthermore, the firm has set a target for profit of 20% above total costs. Referring again to internal accounting records and the changing cost of production at near capacity levels, a new total cost curve is calculated. From the cost curve profile, management sets the desirable level of production at 80% of capacity or 8,000 units. Upon the total cost curve, it is determined that the cost for producing 8,000 units is $18,000, twenty percent of $18,000 is $3,600. Adding this to the total cost at 8,000 units yields the point at that quantity through which the total revenue curve must pass. Finally, $21,600 divided by 8,000 units yields the price of $2.70 per unit, with the $3,600 in profit would be realized. The obvious shortcoming of the target return approach to pricing is the absence of any information concerning the demand for the product at the desired price. It is assumed that all of the units will be sold at the price which provides the desired return.

It would be necessary, therefore, to determine whether the desired price is in fact attractive to potential customers in the marketplace. If break-even pricing is to be used, it should be supplemented by additional information concerning customer perceptions of the relevant range of prices for the product. The source of this information would most commonly be survey research, as well as a thorough review of pricing practices by competitors in the industry. In spite of their shortcomings, break-even pricing and target return pricing are very common business practices.

Demand-Oriented Pricing

Demand-oriented pricing focuses on the nature of the demand curve for the product or service being priced. The nature of the demand curve is influenced largely by the structure of the industry in which a firm competes. That is, if a firm operates in an industry that is extremely competitive, price may be used to some strategic advantage in acquiring and maintaining market share. On the other hand, if the firm operates in an environment with a few dominant players, the range in which price can vary may be minimal.

Value-Based Pricing

If we consider the three approaches to setting price, cost-based is focused entirely on the perspective of the company with very little concern for the customer; demand-based is focused on the customer, but only as a predictor of sales; and value-based focuses entirely on the customer as a determinant of the total price/value package. Marketers who employ value-based pricing might use the following definition: “It is what you think your product is worth to that customer at that time.” Moreover, it acknowledges several marketing/price truths:
• To the customer, price is the only unpleasant part of buying.
• Price is the easiest marketing tool to copy.
• Price represents everything about the product.

Still, value-based pricing is not altruistic. It asks and answers two questions: (1) what is the highest price I can charge and still make the sale? and (2) am I willing to sell at that price? The first question must take two primary factors into account: customers and competitors. The second question is influenced by two more: costs and constraints. Let's discuss each briefly.

Many customer-related factors are important in value-based pricing. For example, it is critical to understand the customer buying process. How important is price? When is it considered? How is it used? Another factor is the cost of switching. Have you ever watched the TV program "The Price is Right"? If you have, you know that most consumers have poor price knowledge. Moreover, their knowledge of comparable prices within a product category—e.g., ketchup—is typically worse. So price knowledge is a relevant factor. Finally, the marketer must assess the customers' price expectations. How much do you expect to pay for a large pizza? Color TV? DVD? Newspaper? Swimming pool? These expectations create a phenomenon called "sticker shock" as exhibited by gasoline, automobiles, and ATM fees.

A second factor influencing value-based pricing is competitors. As noted in earlier chapters, defining competition is not always easy. Of course, there are like-category competitors such as Toyota and Nissan. We have already discussed the notion of pricing above, below, and at the same level of these direct competitors. However, there are also indirect competitors that consumers may use to base price comparisons. For instance, we may use the price of a vacation package for buying vacation clothes. The cost of eating out is compared to the cost of groceries. There are also instances when a competitor, especially a market leader, dictates the price for everyone else. Weyerhauser determines the price for lumber. Kellogg establishes the price for cereal.

If you're building a picnic table, it is fairly easy to add up your receipts and calculate costs. For a global corporation, determining costs is a great deal more complex. For example, calculating incremental costs and identifying avoidable costs are valuable tasks. Incremental cost is the cost of producing each additional unit. If the incremental cost begins to exceed the incremental revenue, it is a clear sign to quit producing. Avoidable costs are those that are unnecessary or can be passed onto some other institution in the marketing channel. Adding costly features to a product that the customer cannot use is an example of the former. As to the latter, the banking industry has been passing certain costs onto customers. 

Another consideration is opportunity costs. Because the company spent money on store remodeling, they are not able to take advantage of a discounted product purchase. Finally, costs vary from market-to-market as well as quantities sold. Research should be conducted to assess these differences.

Although it would be nice to assume that a business has the freedom to set any price it chooses, this is not always the case. There are a variety of constraints that prohibit such freedom. Some constraints are formal, such as government restrictions in respect to strategies like collusion and price-fixing. This occurs when two or more companies agree to charge the same or very similar prices. Other constraints tend to be informal. Examples include matching the price of competitors, a traditional price charged for a particular product, and charging a price that covers expected costs.

Ultimately, value-based pricing offers the following three tactical recommendations:

• Employ a segmented approach toward price, based on such criteria as customer type, location, and order size.
units at prices from $1,500 to $2,500, Cowing was adamant that none of these systems gave as bright a picture as UT's. He estimated that about 10,000 large screen systems were sold in 1996.

Cowing expected about 50% of the suggested retail-selling price to go for wholesaler and retailer margins. He expected that UT's direct manufacturing costs would vary depending on the volume produced. He expected direct labor costs to fall at higher production volumes due to the increased automation of the process and improved worker skills.

Material costs were expected to fall due to less waste due to automation. The equipment costs necessary to automate the process were $70,000 to produce in the 0-5,000 unit range; an additional $50,000 to produce in the 5,001-10,000 unit range; and an additional $40,000 to produce in the 10,001-20,000 unit range. The useful life of this equipment was put at five years. Cowing was sure that production costs were substantially below those of current competitors including Sony. Such was the magnitude of UT's technological breakthrough. Cowing was unwilling to produce over 20,000 units a year in the first few years due to the limited cash resources of the company to support inventories and so on.

Cowing wanted to establish a position in the consumer market for his product. He felt that the long-run potential was greater there than in the commercial market. With this end in mind, he hired a small economic research-consulting firm to undertake a consumer study to determine the likely reaction to alternative retail prices for the system. These consultants took extensive pricing histories of competitive products. They concluded that, "UT's video screen system would be highly price-elastic across a range of prices from $500 to '5,000 but especially primary and secondary demand sense." They went on to estimate the price elasticity to be in this range to be between 4.0 and 6.5.

Mr. Cowing was considering a number of alternative suggested retail prices. "I can see arguments for pricing anywhere from above Advent's to substantially below Muntz's lowest price," he said. A decision on pricing was needed soon.

Questions:
1. Should penetration pricing be used or would skimming be better?
2. What should be the base price for the new product?

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customers. In short, organizations attempt to get their products to their customers in the most effective ways. Further, as households find their needs satisfied by an increased quantity and variety of goods, the mechanism of exchange—i.e., the channel—increases in importance.

THE EVOLUTION OF THE MARKETING CHANNEL

As consumers, we have clearly taken for granted that when we go to a supermarket the shelves will be filled with products we want; when we are thirsty there will be a Coke machine or bar around the corner; and, when we don’t have time to shop, we can pick-up the telephone and order from the J.e. Penney catalog or through the Internet. Of course, if we give it some thought, we realize that this magic is not a given, and that hundreds of thousands of people plan, organize, and labor long hours so that this modern convenience is available to you, the consumer. It hasn’t always been this way, and it is still not this way in many other countries. Perhaps a little anthropological discussion will help our understanding.

The channel structure in a primitive culture is virtually nonexistent. The family or tribal group is almost entirely self-sufficient. The group is composed of individuals who are both communal producers and consumers of whatever goods and services can be made available. As economies evolve, people become specialized in some aspect of economic activity. They engage in farming, hunting, or fishing, or some other basic craft. Eventually, this specialized skill produces excess products, which they exchange or trade for needed goods that have been produced by others. This exchange process or barter marks the beginning of formal channels of distribution. These early channels involve a series of exchanges between the parties who are producers of one product and consumers of the other.

With the growth of specialization, particularly industrial specialization, and with improvements in methods of transportation and communication, channels of distribution become longer and more complex. Thus, corn grown in Illinois may be processed into corn chips in West Texas, which are then distributed throughout the United States. Or, turkeys grown in Virginia are sent to New York so that they can be shipped to supermarkets in Virginia. Channels don’t always make sense.

The channel mechanism also operates for service products. In the case of medical care, the channel mechanism may consist of a local physician, specialists, hospitals, ambulances, laboratories, insurance companies, physical therapists, home care professionals, and so forth. All of these individuals are interdependent, and could not operate successfully without the cooperation and capabilities of all the others.

Based on this relationship, we define a **marketing channel** as "sets of interdependent organizations involved in the process of making a product or service available for use or consumption, as well as providing a payment mechanism for the provider."

This definition implies several important characteristics of the channel. First, the channel consists of **institutions**, some under the control of the producer and some outside the producer’s control. Yet all must be recognized, selected, and integrated into an efficient channel arrangement.

Second, the channel management **process** is continuous and requires constant monitoring and reappraisal. The channel operates 24 hours a day and exists in an environment where change is the norm.

Finally, channels should have certain distribution **objectives** guiding their activities. The structure and management of the marketing channel is thus in part a function of a firm's distribution objective. It is also a part of the marketing objectives, especially the need to make an acceptable profit. Channels usually represent the largest costs in marketing a product.
persuasive communication in the form of advertising, personal selling, sales promotion, and public relations.

FUNCTIONS OF THE CHANNEL

The primary purpose of any channel of distribution is to bridge the gap between the producer of a product and the user of it, whether the parties are located in the same community or in different countries thousands of miles apart. The channel is composed of different institutions that facilitate the transaction and the physical exchange. Institutions in channels fall into three categories: (1) the producer of the product—a craftsman, manufacturer, farmer, or other extractive industry producer; (2) the user of the product—an individual, household, business buyer, institution, or government; and (3) certain middlemen at the wholesale and/or retail level. Not all channel members perform the same function.

Heskett suggests that a channel performs three important functions:

1. Transactional junctions-buying, selling, and risk assumption.
2. Logistical junctions-assembly, storage, sorting, and transportation.
3. Facilitating junctions-post-purchase service and maintenance, financing, information dissemination, and channel coordination or leadership.

These functions are necessary for the effective flow of product and title to the customer and payment back to the producer. Certain functions are implied in every channel. First, although you can eliminate or substitute channel institutions, the functions that these institutions perform cannot be transferred. Typically, if a wholesaler or a retailer is removed from the channel, the function they perform will be either shifted forward to a retailer or the consumer, or shifted backward to a wholesaler or the manufacturer. For example, a producer of custom hunting knives might decide to sell through direct mail instead of retail outlets. The producer absorbs the mailing, storage, and risk functions; the post office absorbs the transportation function; and the consumer assumes more risk in not being able to touch or try the product before purchase.

Second, all channel institutional members are part of many channel transactions at any given point in time. As a result, the complexity may be quite overwhelming. Consider for the moment how many different products you purchase in a single year, and the vast number of channel mechanisms you use.

Third, the fact that you are able to complete all these transactions to your satisfaction, as well as to the satisfaction of the other channel members, is due to the routinization benefits provided through the channel. Routinization means that the right products are most always found in places (catalogues or stores) where the consumer expects to find them, comparisons are possible, prices are marked, and methods of payment are available. Routinization aids the producer as well as the consumer, in that the producer knows what to make, when to make it, and how many units to make.

Fourth, there are instances when the best channel arrangement is direct, from the producer to the ultimate user. This is particularly true when available middlemen are incompetent, unavailable, or the producer feels he can perform the tasks better. Similarly, it may be important for the producer to maintain direct contact with customers so that quick and accurate adjustments can be made. Direct-to-user channels are common in industrial settings, as are door-to-door selling and catalogue sales. Indirect channels are more typical and result, for the most part, because producers are not able to perform the tasks provided by middlemen. (See Figure 10.3.)

Finally, although the notion of a channel of distribution may sound unlikely for a service product, such as health care or air travel, service marketers also face the problem of
threat has been the rapid growth of franchising. Franchising is not a new development. The major oil companies such as Mobil have long enfranchised its dealers, who only sell the products of the franchiser (the oil companies). Automobile manufacturers also enfranchise their dealers, who sell a stipulated make of car (e.g., Chevrolet) and operate their business to some extent as the manufacturer wishes.

**Planned Shopping Centers/Malls**  
After World War II, the United States underwent many changes. Among those most influential on retailing were the growth of the population and of the economy. New highway construction enabled people to leave the congested central cities and move to newly developed suburban residential communities. This movement to the suburbs established the need for new centers of retailing to serve the exploding populations. By 1960 there were 4,500 such centers with both chains and nonchains vying for locations.

Such regional shopping centers are successful because they provide customers with a wide assortment of products. If you want to buy a suit or a dress, a regional shopping center provides many alternatives in one location. **Regional centers** are those larger centers that typically have one or more department stores as major tenants. **Community centers** are moderately sized with perhaps a junior department store. **Neighborhood centers** are small, with the key store usually a specialty store. **Local clusters** are shopping districts that have simply grown over time around key intersections, courthouses, and the like. **Street locations** are along major traffic routes, while isolated locations are freestanding sites not necessarily in heavy traffic areas. Stores in isolated locations must use promotion or some other aspect of their marketing to attract shoppers. Still, as indicated in the next Newsline, malls are facing serious problems.

**NEWSLINE: THE MALL: A THING OF THE PAST?**

She was born into retail royalty, a double-decker shrine to capitalism that seduced cool customers and wild-eyed shopaholics alike to roam her exhausting mix of 200 stores. Her funky, W-shaped design was pure 1960s, as if dreamed up by that era's noted architectural whiz, Mike Brady. When her doors opened the first morning, a brass band serenaded the arriving mob.

Cinderella City, once the biggest covered mall on the planet, was a very big deal — for about six years, until the next gleaming mall came along in 1974. That's when the music stopped at Cinderella City. Soon the patrons grew scarce, the concrete began crumbling and graffiti stained some of the walls. It's not pretty, but that's the cold law of the consumer jungle. One minute you're luring shoppers from miles around to chug an Orange Julius or grab a snack at the Pretzel Hut; a few years go by, and they're planting you in the dreaded mall graveyard.

Back then, people made a day out of wandering the massive concourses and lunching in the food courts. Today, with less free time available for many people, shopping is seen as a necessity. Spending time with your family and at home is more important than spending time in a store.

The newest malls reflect the modern need for shopping speed. Covered shopping centers now come equipped with dozens of doors to the outside instead of two main entrances that usher crowds in and out.
such cases, these companies may establish a temporary or quasi-permanent relationship in order to work with each other, and create the channel mechanism required to reach their target markets. This arrangement has been labeled a horizontal channel system. For example, two small manufacturers might combine their shipments to common markets in order to gain full carload transportation rates that each could not obtain separately. Another common scenario is for a large retailer to buyout several competing small retailers in order to gain entry into certain markets or with certain customers.

THE CHANNEL MANAGEMENT PROCESS

Evidence suggests that a channel should be managed just like the product, promotion, and pricing functions. This channel management process contains five steps.

Analyze the Consumer

We begin the process of channel management by answering two questions: To whom shall we sell this merchandise immediately? Second, who are our ultimate users and buyers? Depending upon a host of factors, including the type of product, functions performed in the channel, and location in the channel, the immediate and ultimate customers may be identical or they may be quite separate. In both cases, some fundamental questions would apply. There is a need to know what the customer needs, when they buy, why they buy, who they buy from, where they buy, and how they buy.

It is best that we first identify the traits of the ultimate user, since the results of this evaluation might determine the other channel institutions we would use to meet these needs. For example, the buying characteristics of the purchaser of a high-quality VCR might be as follows:

1. Purchased only from a well-established, reputable dealer.
2. Purchased only after considerable shopping to compare prices and merchandise characteristics.
3. Purchaser willing to go to some inconvenience (time and distance) to locate the most acceptable brand.
4. Purchased only after extended conversations involving all interested parties, including dealer, users, and purchasers.
5. Purchase may be postponed.
6. Purchased only from a dealer equipped to render prompt and reasonable product service.

These buying specifications illustrate the kinds of requirements that the manufacturer must discover. In most cases, purchase specifications are fairly obvious and can be discovered without great difficulty. On the other hand, some are difficult to determine. For example, certain consumers will not dine at restaurants that serve alcohol; others will patronize only supermarkets that exhibit definite ethnic characteristics in their merchandising. Nonetheless, by careful and imaginative research, most of the critical factors that bear on consumer buying specifications can be determined.

Knowing the buying specifications of consumers, the channel planner can decide on the type or types of wholesaler and/or retailer through which a product should be sold. This requires that a manufacturer contemplating distribution through particular types of retailers become intimately familiar with the precise location and performance characteristics of those he is considering.
The complex mechanism of connecting the producer with the consumer is referred to as the channel of distribution. This chapter has looked at the evolution of the channel, as well as theoretical explanations for the distribution channel phenomenon. Five "flows" are suggested that reflect the ties of channel members with other agencies in the distribution of goods and services. A channel performs three important functions: (1) transactional functions, (2) logistical functions, and (3) facilitating functions. Channel strategies are evident for service products as well as for physical products. Options available for organizing the channel structure include: (1) conventional channels, (2) vertical marketing systems, (3) horizontal channel systems, and (4) multiple channel networks. Designing the optimal distribution channel depends on the objectives of the firm and the characteristics of available channel options.

The primary members of distribution channels are manufacturers, Wholesalers, and retailers. Retailing is all activities required to market goods and services to the ultimate consumer. This makes retailers who perform such activities an important link in the channel of distribution for many consumer products. Wholesaling involves all activities required to market goods and services to businesses, institutions, or industrial users who are motivated to buy for resale or to produce and market other products and services. Wholesalers provide a linkage between producers and retailers or industrial users.

Physical distribution management involves the movement of a change of materials, parts, and finished inventory from suppliers, between middlemen, and to customers. Physical distribution activities are undertaken to facilitate exchange between marketers and customers. The basic objective of physical distribution is to provide an acceptable level of customer service at the lowest possible cost. This is done using the total cost concept, which requires that all the costs of each alternative distribution system be considered when a firm is attempting to provide a level of customer service.

Channels exhibit behavior, as do people, and this behavior needs to be coordinated and managed in order to reach desired objectives. The four dimensions of behavior examined are role, communication, conflict, and power. Strategies for effective channel management include: (1) analyze the consumer, (2) establish channel objectives, (3) specify the channel tasks, (4) select the appropriate channel from available alternatives, and (5) evaluate the results. The chapter concludes with a discussion of the legal factor's impact on channels.

**MARKETER'S VOCABULARY**

**Exchange function**  Sales of the product to the various members of the channel of distribution.

**Physical distribution function**  Moves the product through the exchange channel, along with title and ownership.

**Marketing channel**  Sets of independent organizations involved in the process of making a product or service available for use or consumption as well as providing a payment mechanism for the provider.

**Routinization**  The right products are most always found in places where the consumer expects to find them, comparisons are possible, prices are marked, and methods of payment are available.

**Retailing**  Involves all activities required to market consumer goods and services to ultimate consumers.

**Nonstore retailing**  Sales made to ultimate consumers outside a traditional retail store setting.

**Wholesaling**  Includes all activities required to market goods and services to businesses, institutions, or industrial users.

**Conventional channel**  A group of independent businesses, each motivated by profit, and having little concern about any other member of the distribution sequence.
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