Key Learning Points

The purpose of this chapter is to introduce the concept of integrated marketing communications (IMC) and explain how to develop advertising strategy within an IMC program. After reading this chapter, the reader should understand:

- The basic model of communication and how technology is changing that model
- The elements of an IMC program
- Setting advertising goals and selecting target audiences
- Developing message strategies
- Key elements of media planning
- How advertising budgets are set
- Alternative approaches for evaluating advertising spending

Marketing the U.S. Army is challenging.
Source: Thomas Frey/Alamy Images

10 chapter

Communications and Advertising Strategy

Chapter Brief

Since World War I, the U.S. military has been advertising for young men (and, more recently, women) to join the services.[1] However, the marketing of the military did not begin in earnest until the draft was replaced by the all-volunteer model in 1973. This fulfilled President Richard Nixon's promise made during the Vietnam War. Advertising agencies have worked hard to enlist recruits with themes such as "Today's Army Wants to Join You," "We're Looking for a Few Good Men," "Aim High," and "Be All That You Can Be." In 2004, the U.S. government was the 25th-largest advertising spender with more than $1 billion spent for the four major services—Army, Air Force, Navy, and Marines.

Of these four services, the Army is having the most difficulty attracting recruits. This is most notably due to the war in Iraq and the increase in global terrorism—both of which make the Army a riskier proposition than it was in the 1980s and 1990s. It missed its 2005 recruiting goal by about 12,000 and the pool of those who enlist up to a year in advance is dwindling. This is in spite of spending $290 million on advertising in 2005 using the Chicago agency, Leo Burnett. The next theme was "Army of One" emphasizing personal success, but it did not seem to resonate with either the target audience (typically, high school graduates) or its influencers. The Army intends to continue to spend money on advertising and is looking to sign an advertising agency to a five-year, $1 billion contract. In late 2006, the Army replaced "Army of One" with one it hopes will pack more punch: "Army Strong."

The Army is attempting to court influencers of the young men and women in their target audience. It is trying to reach these influencers (largely parents) through advertising, sponsoring rodeos, all-star high school games, and NASCAR races. In addition, it is trying to reach the target audience directly with its "hip" Web site, www.goarmy.com. As you can see from Figure 10.1, the site shows the benefits of the service as well as digital games that can be downloaded. The Army is also attempting to provide potential recruits with a realistic view of what Army life is like. The Virtual Army Experience is a traveling exhibit providing participants a virtual test drive of the Army. It contains a computer game, rendered with state-of-the-art Army training simulation technology, that creates a life-size, networked virtual world that immerses visitors in the world of soldiering. The Army won a gold "Effie" award for this program in 2009, an award given annually to the most effective communications campaigns.

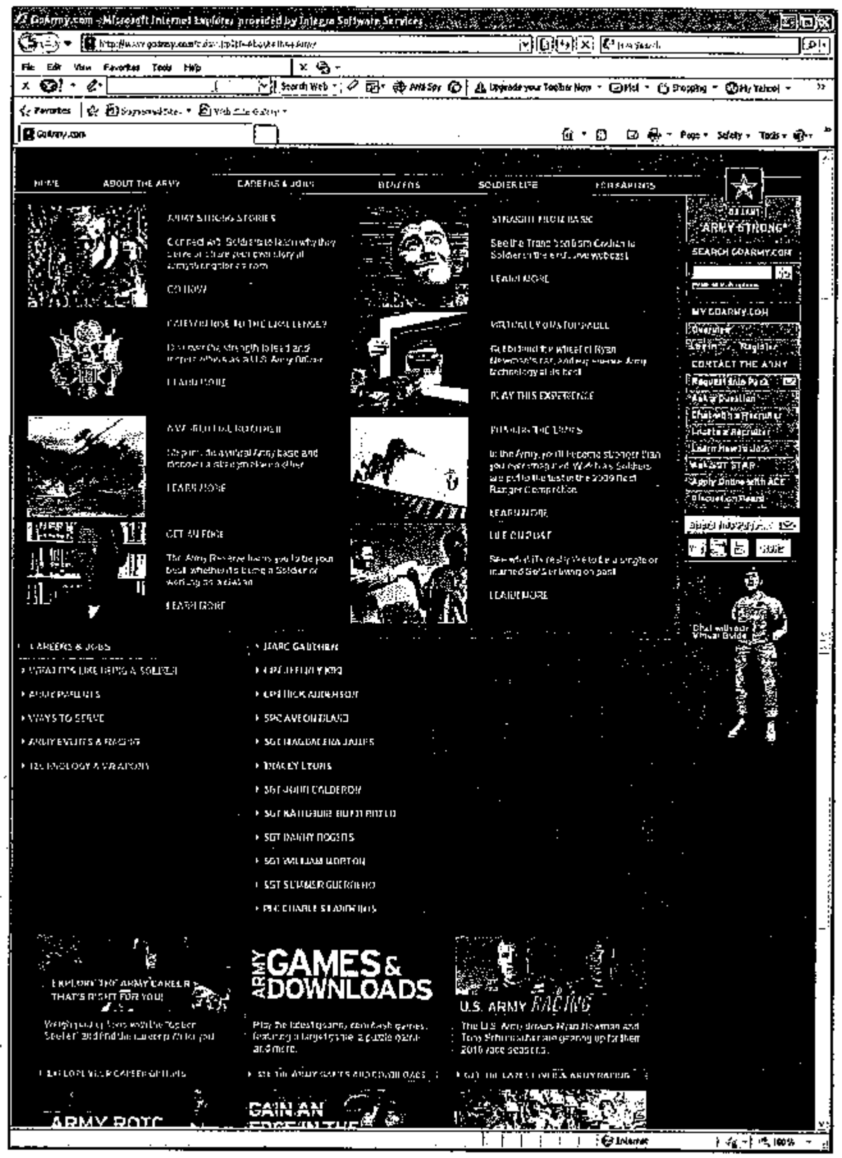
The marketing of the U.S. Army is arguably one of the most difficult marketing jobs you can undertake. In considering the adoption of an overall communications program for the Army, the marketing managers have to consider:

- Given the dramatic change in the communication environment (recall the discussion in Chapter 1), have all the possible communication activities been considered?
- Are they well integrated; that is, are they sending a consistent message to the potential recruits?

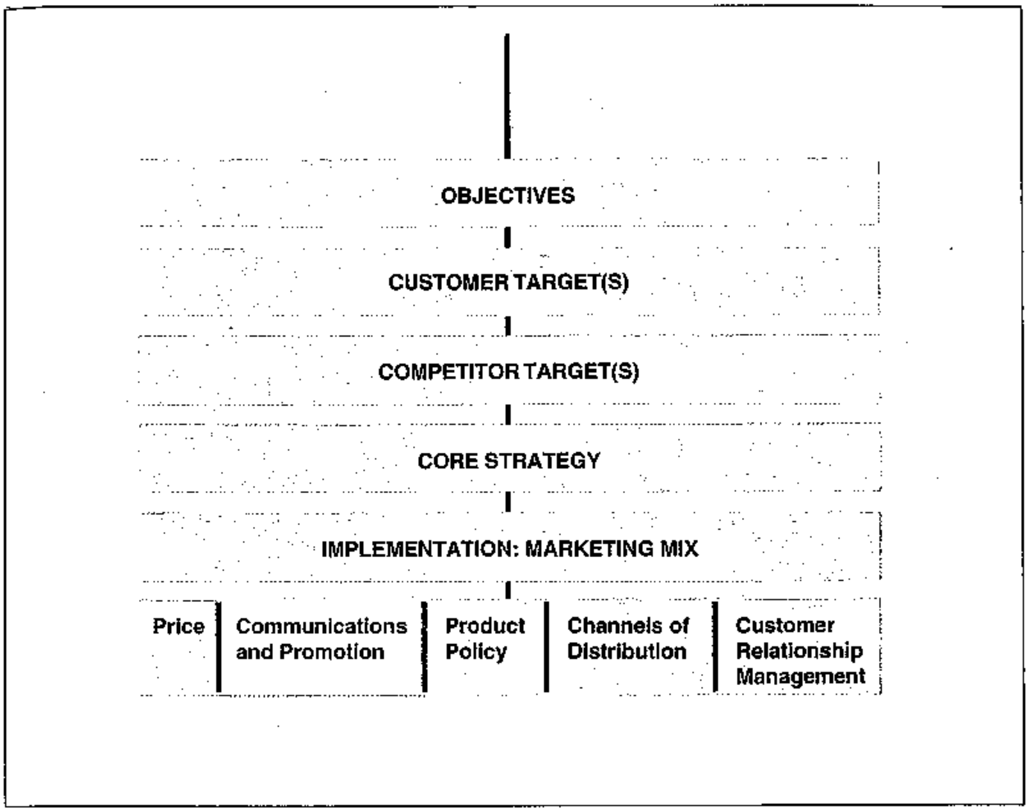
- What is the appropriate advertising strategy for the Army, and how can it break out of the advertising "clutter" for target segments' attention?
- How much money should be allocated for the various communication activities?
- How can we measure if the money is being well spent?

Figure 10.1

Army Web Site



Source: Copyright © 2010 by the U.S. Army. Reprinted with permission.



First, in the marketing strategy diagram, it can be seen that a complete marketing strategy involves a strategic part (with a selection of target segments and a core strategy involving the differential advantage and value proposition). Second, it involves a tactical or implementation part involving the marketing mix (price, advertising, channels of distribution, and promotion). In other words, you must first develop the general strategy and then make decisions about how to implement that strategy using devices that are visible to customers.

This chapter is about communications and advertising management. Although most people think only of advertising when we discuss communications, all elements of the marketing mix deliver a message to potential customers. The act of running a sales promotion may indicate to some customers that the list price is too high and so must be lowered. Some customers may interpret a promotion as a sign of lower quality. Price is also a communication tool: a high price relative to competition means something different from a discount price. The product's package delivers messages. The fact that one brand can be purchased only in exclusive outlets can also be interpreted as a sign of quality. For example, Stihl Inc., a German-owned maker of chain saws, emphasizes its aura of exclusivity by running ads for products that it doesn't sell through mass merchants such as Lowe's and Home Depot. Similarly, sponsorship of a professional golf tournament reaches a particular segment and communicates that product's or service's interests in appealing to that segment. The sales force obviously directly communicates with customers.

Therefore, before describing the details of implementing a communications strategy, we provide the reader with some background in communication theory and discuss how the decisions you make affect your target customers. Forward-looking organizations are stressing a concept called **integrated marketing communications (IMC)** in which the marketing manager does not think of all the elements of the communications mix as communicating separate messages. Instead, these messages are coordinated to reinforce what each is saying and to prevent customer confusion from conflicting messages. In other words, the decisions about the marketing mix must be made in concert, which makes developing a strategy before making implementation decisions even more important. This is because the strategy provides the value proposition, which is the basis for all communications to customers.

integrated marketing communications (IMC) the concept that all elements of the marketing mix communicate messages that must be coordinated in order to reinforce what each is saying and to avoid customer confusion

As noted in Chapter 1, the area of communications is perhaps the most dynamic in the marketing field. New approaches to advertising motivated by the difficulty in reaching many customers today have made communications decision making more complex. As a result, besides the traditional issues such as IMC, marketers are asking a number of key questions about their communications programs:

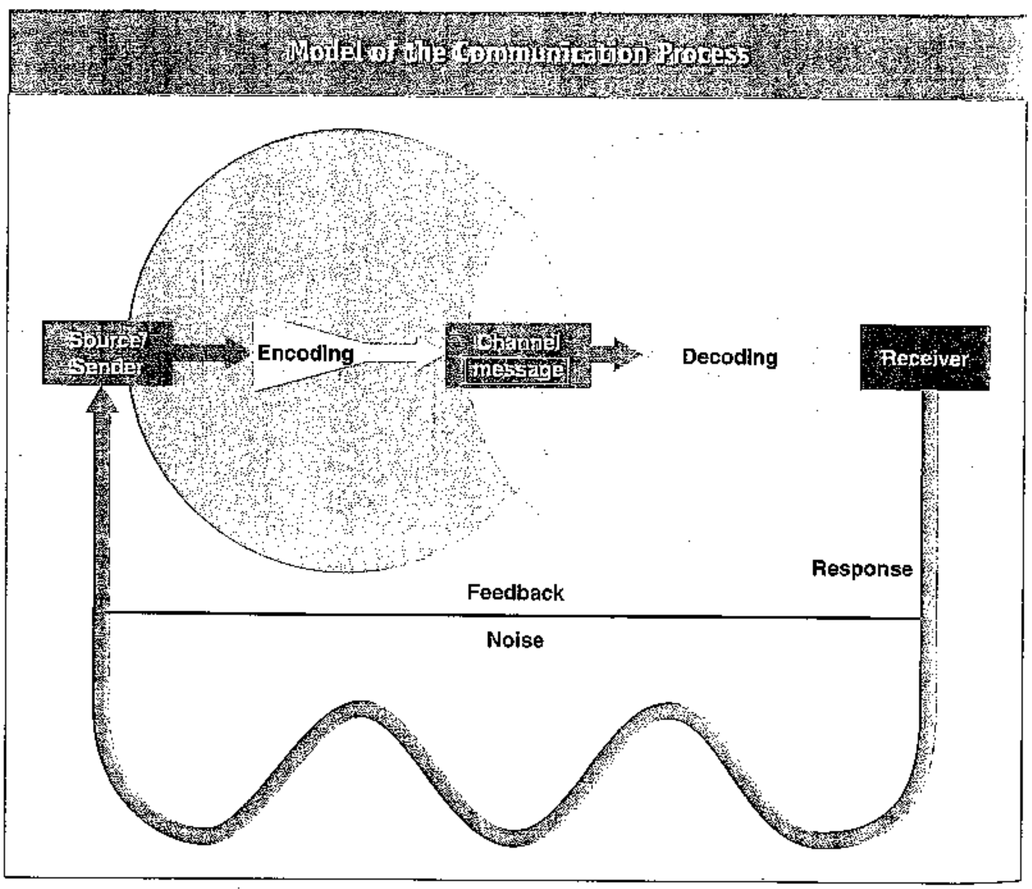
- How can I better target my customers and therefore make my communications spending more efficient?
- How do I choose among the large and increasing number of media options?
- How do I adapt my spending to the new emerging channels of communications?
- How can I determine if I am getting an acceptable return on my communications investments?

The implications of these changes will be described later in this chapter.

Communications

A basic communication model is shown in Figure 10.2.[2] The two major participants in the communication process are the *sender* (the source of the communication) and the *receiver*. In marketing, these are typically the marketer and the customer. The sender uses some kind of medium or channel to communicate the message, which is represented in the middle of the figure. The sender decides how to send the message through an encoding process, which could be the creative part of an advertisement or Web site. The receiver (customer) interprets or decodes the message and decides what an appropriate response is. The receiver may also provide feedback or information to the sender.

Figure 10.2



Source: George E. Belch and Michael A. Belch (1993), *Introduction to Advertising and Promotion* (Homewood, IL: Irwin). Reproduced with permission of the McGraw-Hill Companies.

Finally, noise may interrupt or disrupt the communication process. For example, a person watching a television commercial at home may be distracted by a crying baby.

Thus, the communication process starts when the source decides what kind of words, symbols, or pictures to use to encode the message. In some cases, the source could be the company. In others, it may be a spokesperson (e.g., Michael Jordan for Nike). The sender's objective is to encode the message in a way that resonates with the target audience. This obviously requires some marketing research to uncover the types of messages that are appropriate for the audience.

Of particular importance to the marketer are the different channels or media that can be used. A distinction can be drawn between **personal** and **nonpersonal channels of communication.** The former include direct contacts such as a sales force or salespeople in a retail channel. Personal channels also include face-to-face interactions between customers, or what is called word-of-mouth communication. Such communications are critically important for the diffusion of new products and entertainment, such as movies. It is, therefore, important to understand that customers can be attracted by messages directed to them or by an indirect approach in which opinion leaders or other buyers talk to other prospective customers. Nonpersonal channels are often called *mass media* and include television, newspapers, radio, direct mail, billboards, magazines, and the Internet.

personal channels of communication
communication channels that involve direct sales as well as face-to-face or word-of-mouth interactions between customers

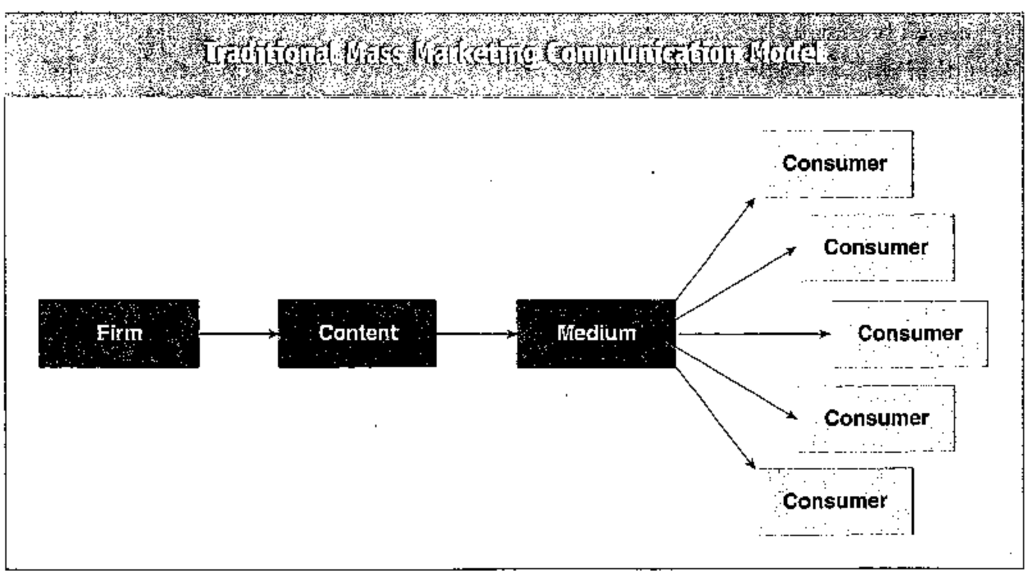
nonpersonal channels of communication
mass-media communication channels, such as television, newspapers, radio, direct mail, and the Internet

A large portion of marketing communication is focused on the mass media. Figure 10.3 shows a modified version of the general communication model shown in Figure 10.2.[3] The basic feature of this model is the one-to-many aspect of mass communication. The marketer is attempting to send persuasive communications to a large group of people. So, in this model, the firm sends content or a message through a medium to a large number of potential customers.

A notable feature of this model is that there is no interaction between customers and firms. This concept of passive customers is erroneous because customers have always participated in personal channels of communication and have given feedback to companies in the form of complaints and responses to surveys. However, these channels have traditionally been slow, making it difficult for companies to be proactive.

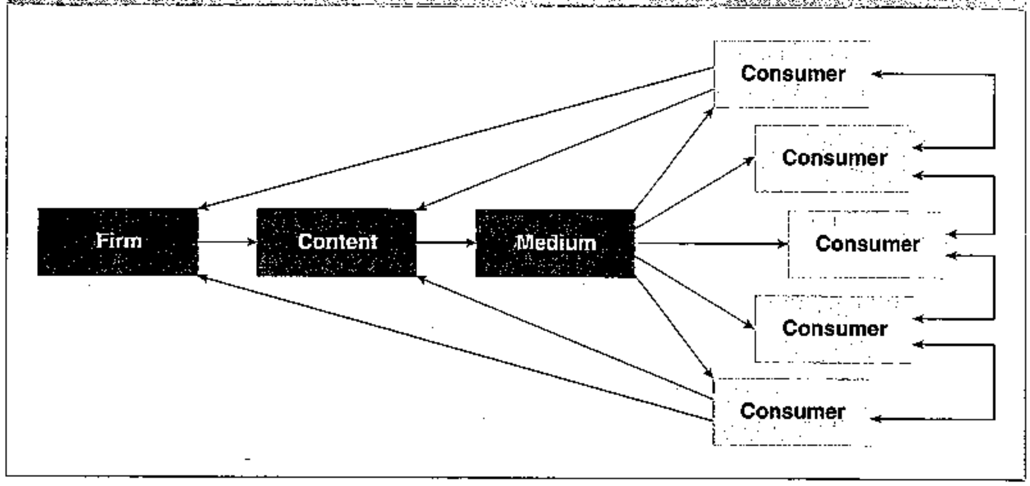
In the current electronic environment, with Internet technology, customers can communicate with each other easily and quickly. In addition, customers can provide feedback to companies in real time rather than with a substantial delay. This feedback often comes from user groups who form their own electronic clubs (called listservs), and who can form a collective opinion and quickly supply information about new or developing products. These brand communities can be active and influential. Information can also be disseminated in online forums and social media and blogs. The speed with which

Figure 10.3



Source: Used with permission from *Journal of Marketing,* published by the American Marketing Association, Donna L. Hoffman and Thomas P. Novak (1996), "Marketing in Hypermedia Computer-mediated Environments: Conceptual Foundations," *Journal of Marketing,* 60 (July), p. 52.

Figure 10.4 Modified Mass Communication Model



complaints about Tropicana Orange Juice's new packaging reached the public and the company in 2009, as well as the volume of complaints on blogs such as Digg, resulted in the company reverting to the old packaging. Recently, environmental activists have been using social media to criticize Nestlé over its purchases of palm oil for use in KitKat candy bars and other products. Protesters have posted a negative video on YouTube, on Nestlé's Facebook page, and on Twitter with claims that the company is contributing to the destruction of Indonesia's rain forest, potentially exacerbating global warming.

This kind of environment is captured by the model shown in Figure 10.4. In today's environment, marketing managers must be aware of the speed with which communications flow through the system and realize that a considerable amount of word-of-mouth can be generated in special-interest user groups. A number of interesting questions emerge from this conceptualization of marketing communications:

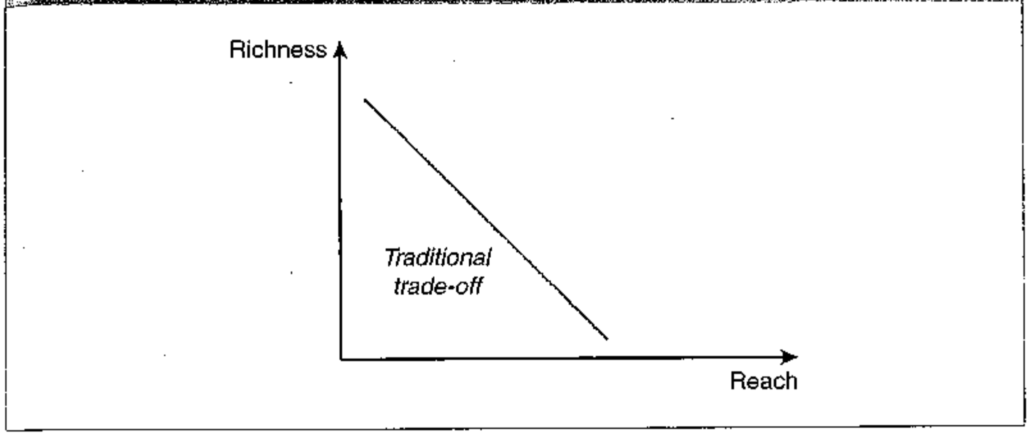
- As the marketing manager, how do you manage these brand communities? If marketing-related communications are being transmitted in these groups, it can be potentially damaging to let negative information go without a response.
- What are the ethical dimensions of these kinds of communications? For example, a competitor's employee could pose as an owner and spread unfavorable information about a brand.
- In this kind of electronic dialog, who really is the sender and who is the receiver? It is not always clear who is initiating the communications and who is marketing ideas to whom.

A final aspect of Figure 10.4 is the interaction between the customers and the content. In this kind of environment, the customer can create the content.[4] For example, at Amazon.com, users provide information about their preferences for books, CDs, and other products through their purchases. The content is then customized based on this information. Books and DVDs (among a number of products) are recommended based on the member's purchasing behavior. Thus, the interaction between the customer and the medium creates user-specific content.

Another impact of the new technological environment is shown in Figure 10.5.[5] This figure shows the traditional trade-off between the reach (the number of people reached) and the richness (e.g., bandwidth or amount of information that can be sent to a receiver, customization, interactivity) of communications. At the upper left of the line would be personal selling, where a very rich, customized message can be sent but with limited reach due to the restrictions on the number of salespeople. TV, magazine, and radio advertising would be at the lower right of the line because a large number of people can be reached but with a limited message. Today, millions of people can be reached with rich messages through customized advertisements on the Web and direct e-mails that

Figure 10.5

The Traditional Trade-off between Richness and Reach



Source: Philip Evans and Thomas S. Wurster (2000), *Blown to Bits* (Boston: Harvard Business School Press). Copyright © 2000 by the President and Fellows of Harvard College. Reprinted by permission.

can send audio, streaming video, and other communications with exciting and colorful graphics. Marketing managers today do not have to be constrained by the traditional trade-off shown in Figure 10.5.

Integrated Marketing Communications

As we noted earlier in this chapter, the objective of an integrated approach to marketing communications is to ensure that all the elements of the communications mix are coordinated with the marketing strategy, delivering the same underlying positioning and value proposition to the target segment. Although different tools are used to accomplish the overall marketing objective, the job of the marketing manager is to aid this coordination by linking the various people and agencies involved.

Elements of the communications mix are shown in Figure 10.6 and a spending breakdown of consumer (2007) versus B-to-B (business-to-business) (2008) advertising is shown in Table 10.1. Although the specific allocations may have changed since the data were collected, it is interesting to note that B-to-B companies spend a higher percentage of their communications money on print advertising and much less on mass media like TV advertising than consumer-products companies. This is logical because the percentage of TV watchers that are B-to-B purchasers is relatively low for many TV shows. Interestingly, B-to-B companies spend a little more on Internet advertising due to its ability to target industrial buyers.

Advertising

Advertising has traditionally been defined as any paid form of nonpersonal communication about an organization, product, service, or idea by an identified sponsor.[6] However,

Figure 10.6

Elements of the Communication Mix

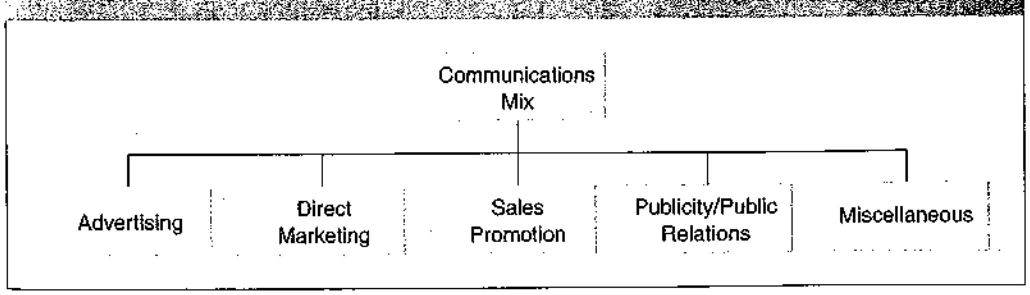


Table 10.1

Advertising Expenditures: Consumer versus Business-to-Business Products

	Percentage of the Communications Budget	
	Consumer	Business-to-Business
Television	43.3%	28.9%
Print advertising	39.3	50.7
Internet	7.6	9.5
Radio	7.2	8.0
Out-of-home media	2.7	3.5

Source: Advertising Age 100 Leading National Advertisers, June 23, 2008; "2008 B-to-B Ad Spending," *BtoB,* September 14, 2009.

direct marketing
any communication form that sends messages directly to a target market with the anticipation of an immediate or very-short-term response; also, any method of distribution that gives the customer access to the firm's products and services without any other intermediaries

telemarketing
a form of direct marketing that uses the telephone as the mechanism for reaching potential customers

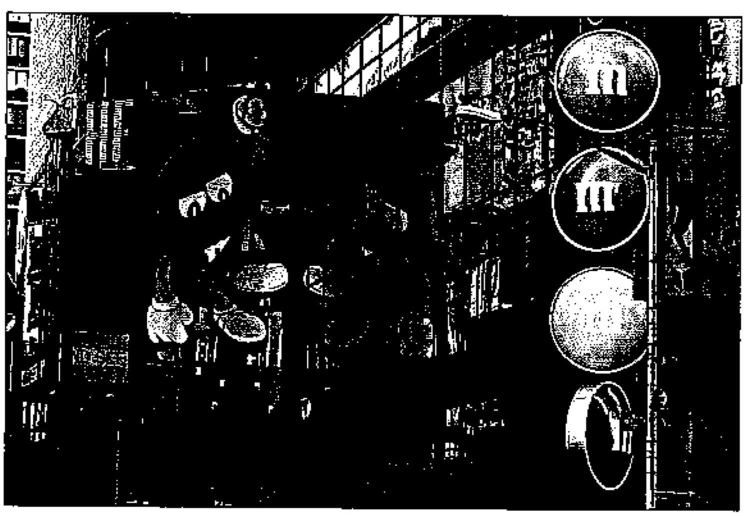
direct-mail marketing
a form of direct marketing that involves sending letters or catalogues to potential customers

direct sales
in the context of direct marketing, an approach that involves the use of friends and neighbors as the sales force in reaching potential customers

as noted earlier in this chapter, advertising is no longer nonpersonal because it can depend greatly on interactions between an individual customer and the organization.

Advertising has several important advantages over other elements of the communications mix. It offers a fair amount of control over what you can say to potential customers. Advertising can also reach a large number of customers efficiently. Although it may cost hundreds of thousands of dollars to put a spot on a national television program, that program is probably reaching millions of potential customers. No other communications program can reach so many customers so quickly and at such a low cost per customer. Advertising is also flexible in that many different kinds of images and symbols can be presented through a wide variety of media. Copy strategies can be humorous, serious, or emotional; show the product in action; and explicitly compare your product to a competitor's.

Advertising also has drawbacks. It is difficult to evaluate the effectiveness of advertising, particularly because it is usually used to build sales in the long term by achieving other intermediate objectives in the short run (e.g., awareness). Because advertising rarely results in a measurable and observable change in sales (except for direct-response advertising such as infomercials, or extended TV commercials), you often wonder what you are getting for your money. In addition, advertising, especially TV advertising, can be expensive and makes it difficult for a small company (or any company with a small budget) to make much of an impact in the market. Much advertising in mass media (e.g., TV and general-audience magazines) is wasted because it is not the best communications element for targeting a specific audience directly. Many people outside the target audience see the ads, which may not be problematic—except when products such as tobacco and alcohol (which are subject to legal age restrictions for purchase) are advertised. Advertising can be ignored or the signal disrupted by noise (Figure 10.2). Finally, customers are bombarded with ads in the United States and other Western countries, which makes it difficult for your message to get through the clutter.



Outdoor advertisements can be effective communications devices.
Source: George Rose/Getty Images, Inc—Liaison

Direct Marketing

Direct marketing is any communication form that sends messages directly to a target market with the anticipation of an immediate or short-term response.[7] There are many ways to implement direct marketing. **Telemarketing** uses the telephone to reach potential customers. **Direct-mail marketing** involves sending letters or catalogs. Some companies such as Amway, Mary Kay, and Tupperware have differentiated themselves from competition using a **direct sales** approach, in which friends and neighbors are used as the sales force. Direct marketing also uses the Internet, with some companies sending e-mails to potential customers indicating that they have a special offer. Many companies rely exclusively on direct marketing as the main form of communication, while others include it as one component of the communications mix. It is used extensively in both consumer and business-to-business marketing contexts.

The main advantage of direct marketing is clear. You can focus on your target and deliver a message intended only for that target. As a result, there is little waste in this customization process. In addition, the effectiveness of a direct-mail campaign is easy to evaluate because the response comes quickly after the date of the promotion, or not at all. In many societies, high levels of disposable income and interest in shopping convenience have made shopping through catalogs very popular.

However, many customers are put off by direct marketing efforts. Too many calls at home make customers wary of telemarketers. In many countries, the activities of such direct marketers are restricted. Since 2003, the **Do Not Call Registry** gives U.S. consumers an opportunity to limit the telemarketing calls they receive. Many people's daily mail is full of direct-mail pieces—what many people call junk mail—thus making it difficult for your message to get through the clutter. Response rates to direct marketing can be extremely low.

do not call registry gives consumers a choice about whether or not they wish to receive phone calls from particular telemarketers

Sales Promotion

Sales promotion involves communication activities that provide extra incentives to customers or the sales force to achieve a short-term objective. **Consumer-oriented promotions** include devices such as coupons, point-of-purchase savings, sweepstakes, rebates, and free samples. Many promotions are oriented toward the channels of distribution, including the sales force; these are called **trade promotions.** The objective of trade promotions—such as sales contests, quantity discounts, and training programs—is to get the channels to carry and promote the product.

The advantage of such promotions is that they can generate a measurable short-term sales response. Sales promotion is much more effective than advertising in this regard. Sampling (free sample) programs are effective for inducing trial of new products. Promotions such as coupons delivered in a magazine can complement an advertising campaign by reinforcing a brand name. They are also effective in getting customers to repeat purchase or buy a larger size. Trade promotions are essential to gaining shelf space in retail outlets.

A disadvantage of sales promotion is that it is almost always focused on price. As a result, customers can be induced to become more price-sensitive and deal-loyal (loyal to the brand that is on some kind of promotion) rather than brand-loyal. In some ways, it actually works against advertising, which is more focused on building brand equity. Customers can also begin to expect sales promotions and delay purchases until a rebate or some other special deal is offered. Finally, most studies of the effects of sales promotions show the results to be short-lived. More details about sales promotion will be covered in Chapter 11.

sales promotion communication activities that provide extra incentives to customers or the sales force to achieve a short-term objective

consumer-oriented promotions a marketing tool such as a coupon that targets consumers and is intended to generate a short-term change in a product's sales or market share

trade promotions sales promotions oriented toward the channels of distribution in an effort to get the channels to carry and promote the product, often including devices such as sales contests, quantity discounts, and training programs

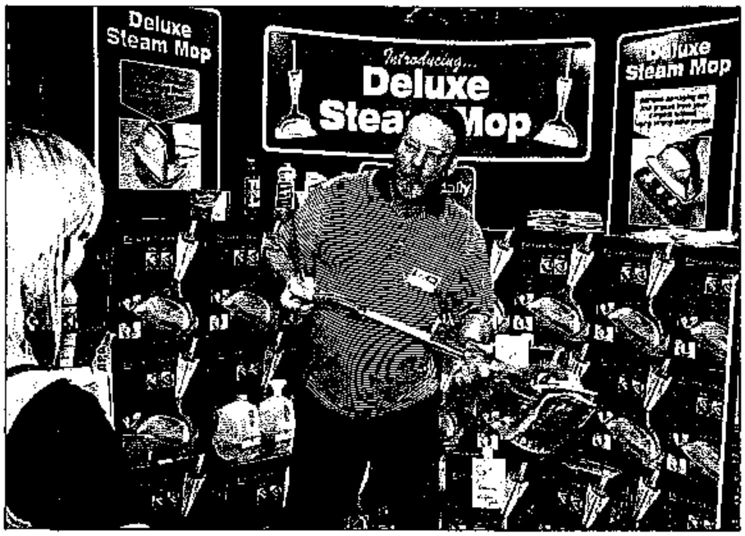
Publicity and Public Relations

Unlike advertising, **public relations (PR)** and publicity are communications for which the sponsoring organization does not pay. PR normally takes the form of an article in a magazine or newspaper or in any other form of nonpersonal news distribution. Often companies employ PR firms or agencies to make sure that articles and other news favorable to the company are placed in media to which a variety of constituents are exposed (e.g., customers, stockholders, legislators).

The main advantage of PR is that it comes from a supposedly unbiased source. Therefore, it has more credibility than advertising, which everyone knows is intended to promote the product or service. In addition, other than the cost of the PR agency, it is inexpensive. PR campaigns are often used by pharmaceutical companies in order to raise public awareness of certain disorders, such as social anxiety disorder (SAD), an extreme form of shyness in social situations.

The problem with PR is that the sponsoring company has little control over it. You cannot control the placement of the item in a publication, what is said about you, or any other aspect of PR. In addition, PR can be negative. If your company is accused of sexual discrimination in hiring and promotion practices, this is likely to damage your reputation. In these cases, PR firms usually attempt to diminish the problem by taking damage control measures, such as releasing favorable information about the company.

public relations communications for which the sponsoring organization does not pay, often in some form of news distributed in a nonpersonal form



Product demonstrations are an important part of the communications mix for many products.
Source: Jeff Greenberg/PhotoEdit Inc.

personal selling
the use of face-to-face communications between seller and buyer

Personal Selling

Personal selling is the use of face-to-face communications between seller and buyer.[8] For companies marketing business-to-business products and services, this is often the largest part of the marketing budget. Salespeople can target their messages to customers, and the personal interaction permits them to respond to customer questions on the spot. In addition, more information can be communicated through a salesperson–customer encounter than would be possible through advertising or other mass-communication approaches. This makes personal selling especially appropriate for very expensive and complex products and services.

The major drawback of personal selling is the expense. Training and compensating salespeople is expensive. In addition, even with the best training programs, it is difficult for the marketing or sales manager to control what happens in the sales encounter. For example, a training program that focuses on marketing the product on a quality basis can fall apart if the sales force sells on price instead.

Miscellaneous Communications Activities

A number of other communications activities are important parts of the communications mix. As noted in Chapter 7, a product's package can deliver a variety of messages to customers, including price, nutrition, ingredients, information about how to use it, and other recipes. In some industries, trade shows (large convocations where sellers, buyers, and suppliers congregate) are important ways to communicate with potential customers and demonstrate new products. Some companies sponsor events such as golf and tennis tournaments, which are intended to target customers who attend and watch them. Companies pay to have their brands placed in movie scenes so that millions of viewers can see them on the big screen. Product demonstrations can also be effective; a trial copy of Checkpoint Software's FireWall-1 installed live at the potential customer's site often stunned audiences as message alerts would pop up indicating that hackers were "pinging" their network.[9]

Application | Absolut Vodka

The story of Absolut goes back to 1879, when the Swedish "king of vodka" Lars Olsson Smith started making his "Absolut Rent Brännvin" using a revolutionary new distillation method called Continuous Distillation, which is still used today.[10] At first, the vodka was produced in his distillery on the island of Reimersholme, just outside of Stockholm. Today it is made in Åhus in southern Sweden, where the wheat is taken from nearby fields and the water from their own well.

In the late 1970s, the president of the company made the decision to export the vodka to global markets. The company's marketing team set about trying to develop a new positioning for Absolut Vodka. At first, the ideas centered on the product's Swedish heritage. The team went to New York to get ideas from its advertising agency, TBWA. The first signature concept was the clear bottle with silver text and no label, an idea that was later rejected. The second innovative concept was to link the bottles with art. In 1985 (six years after Absolut was introduced in the United States), Andy Warhol was commissioned to do a painting of the Absolut Vodka bottle. When the painting appeared as an advertisement, it received worldwide attention. This transitioned the brand from a popular product to an icon and a piece of pop art. So far, more than 1,200 ads have been created with the Absolut campaign and its ads remain among the most popular in the world.

The brand has maintained a strong brand equity because of its consistent positioning over time. However, the company also espouses IMC. A visit to the company's Web site, www.absolut.com/us/about/story, reinforces the pop art nature of the product. The company has also distributed knitted Absolut "cozies," like sweaters for the bottles. Not only is the cozy in the shape of the bottle, the packaging reinforces the ad copy by showing the signature bottle in a vertical position.

Application | LG Electronics

In 2009, LG Electronics MobileComm U.S.A. Inc. (LG Mobile Phones), in partnership with Twentieth Century Fox and Lightstorm Entertainment, created a multifaceted marketing campaign tied to the epic adventure film, *Avatar,* written and directed by Oscar®-winning filmmaker James Cameron (*Titanic*).[11] LG Mobile Phones created a marketing campaign that appealed to forward-thinking technology enthusiasts. The integrated marketing communications included a TV spot, an interactive micro site, www.lgexpo.com (which includes exclusive movie content), and an exclusive joint-sponsored Facebook page. To promote the film and its involvement, LG Mobile Phones created a 30-second TV spot, which featured the movie trailer for the highly anticipated film. The spot showcased a humorous interchange between co-workers who compete to be in the know about the latest and greatest in technology.

The movie-themed micro site, www.lgexpo.com, gives fans a deep, rich movie-tie in experience. The site, launched on December 3, 2009, contained exclusive content from the film. It also featured two characters—Jim and Dale—who are the ultimate Avatar and LG eXpo fans, and it gave visitors to the site an online video demonstration of LG eXpo and its advanced exclusive features, such as the Mobile Projector. The campaign also included an interactive joint-sponsored Facebook page between FOX, MTV and LG.

Clearly, LG feels that combining media with a similar theme is a powerful way of building the brand in the marketplace.

Advertising Management

Advertising is a major expense for marketing managers worldwide, and a big business. How big? Although estimates vary, about $137 billion was spent on advertising in the United States and $370 billion worldwide in 2008, with these figures expected to be flat in 2009–2010 due to the recession.[12] To give you some idea of the amount of money spent on advertising by companies, Table 10.2 provides the spending levels for the top 10 total advertisers in the United States. Table 10.3 does the same for business-to-business advertising, and Table 10.4 provides the information on the top 10 global spenders.

As these numbers on global advertising expenditures demonstrate (and as you will have noticed), advertising is a widely used communications tool around the world. The discussions earlier in this book about global marketing and positioning noted the difficulty of using the same advertising campaign globally. There are so many differences in language and culture that even a truly global advertising campaign requires some localization. For example, Taco Bell's wildly successful talking Chihuahua, Gidget, could not be used when the company expanded to Singapore, because Muslims consider it taboo to touch

Table 10.2

Top 10 U.S. Total Advertising Spenders in 2006 (millions of dollars)

Advertiser	U.S. Advertising Spending ($)
Procter & Gamble Co.	4,898.0
AT&T	3,344.7
General Motors	3,296.1
Time Warner	3,088.8
Verizon Communications	2,821.8
Ford Motor Co.	2,576.8
GlaxoSmithKline	2,444.2
Walt Disney Co.	2,320.0
Johnson & Johnson	2,290.5
Unilever	2,098.3

Source: Advertising Age (2007), June 25, p. S-10.

Table 10.3

Top B-to-B Advertising Spenders in 2006* (millions of dollars)	
Company	U.S. Advertising Spending ($)
AT&T	419.3
Verizon Communications	405.9
Sprint Nextel Corp.	277.0
IBM Corp.	236.3
Hewlett-Packard Co.	219.6
Microsoft Corp.	213.6
Monster Worldwide	155.1
FedEx Corp.	144.0
Citigroup	137.5
JPMorgan Chase & Co.	129.0

* These numbers represent the amount of money spent advertising products and services in B-to-B media.

Source: BtoB (2007), September 12, p. 26. B TO B: THE MAGAZINE FOR MARKETING AND E-COMMERCE STRATEGISTS by BtoB.

a dog.[13] In addition, there are many differences around the world in regulation of advertising and promotion. Most countries regulate advertising content; for example, comparative advertising is widely frowned upon. Muslim countries have strict guidelines about how women can be portrayed in ads. Norway, Sweden, and Switzerland do not allow advertising on TV at all. Other countries have government-owned stations that limit advertising. However, with the global explosion of cable TV, many of these regulations are being relaxed.

The continued march toward the globalization of business mentioned earlier in this book has also affected the advertising agency business. Four large agencies represent more than half of the advertising billings in the world: the Publicis Groupe based in Paris, the Omnicom and Interpublic groups based in New York, and the WPP Group of London. Driving this concentration of billings has been a similar change in their clients, who have also become larger and more global. The growth in the use of other elements of the communications mix beyond TV and print ads to include promotions and public relations, as well as other forms of advertising such as the Internet, has caused the mega-agencies to continue

Table 10.4

Top Global Advertisers in 2008 (millions of dollars)	
Company	Global Advertising Spending ($)
Procter & Gamble Co.	9,730
Unilever	5,720
L'Oreal	4,040
General Motors Co.	3,670
Toyota Motor Corp.	3,200
Coca-Cola Co.	2,670
Johnson & Johnson	2,600
Ford Motor Co.	2,450
Reckitt Benckiser	2,370
Nestlé	2,310

Source: Advertising Age (2009), November 30.

to swallow up firms specializing in these areas. It also permits the agencies to handle competing clients as each is assigned to a different agency beneath the corporate umbrella.[14]

Often, for consumer products, marketing managers think of advertising spending in the context of how much to spend on both advertising and sales promotion. For these kinds of products, advertising and promotion (television, print advertising, literature, radio, and out-of-home media) are more than 80 percent of the communications budget. In recent years, the percentage of the advertising and promotion budget spent on advertising has declined because more money has been devoted to promotion—particularly promotion oriented toward trade or distribution channels. In 1993, 52 percent of the advertising and promotion budget went to trade promotion and 28 percent to media advertising (the other 20 percent went to consumer promotions like coupons). By 2001, spending on trade promotion had jumped to 61 percent of the advertising and promotion budget and media advertising declined to 24 percent, with consumer promotions dropping to 15 percent.[15]

Advertising Decision Making

Advertising decision making has six stages often called the *6M model* for communications planning:

1. **Market.** Who is the target audience?
2. **Mission.** What is the goal of advertising?
3. **Message.** What are the specific points of communications?
4. **Media.** Which media vehicles will be used?
5. **Money.** How much is the budget?
6. **Measurement.** How will impact of advertising be measured?

Selecting the Target Audience

In general, this decision follows directly from the marketing strategy. As we showed in Chapter 2, the selection of target markets is a critical step following the statement of marketing objectives and requires an extensive analysis of the various segmentation options. The target audiences for advertising include the segments you have decided are the keys to your marketing strategy.

However, advertising could include noncustomer targets. Some advertising, particularly corporate advertising, is targeted toward potential investors, regulators, channel members, employees, or other relevant constituents. Thus, although customers are the most logical targets and the ones that should receive the most resources, you should consider other relevant audiences as well.

Setting Advertising Goals

Clearly the reason companies advertise is to increase sales and profits, if not in the short run, then in the long run. You may wonder why sales increase would not be the obvious goal of advertising.

The problem is that many factors in the environment affect sales, not just advertising. If a great new advertising campaign is adopted, sales could actually decline if the competitor lowers its price to the point at which many customers respond. Alternatively, the company may not have discovered the appropriate channels, packaging, or other elements of the marketing mix that affect customer response in the marketplace. Changes in customer purchasing habits or other kinds of behavioral shifts can also affect sales of a product. Thus, it is inappropriate to place a sales goal on advertising alone when many things a company and the competition can do (as well as changes in the environment) ultimately affect sales. The exception to this rule is direct-response advertising, in which a toll-free telephone number is given for immediate reaction by the customer. This kind of advertising is actually a hybrid of traditional advertising and direct marketing.

There is a dilemma here that creates tension between the firm and the advertising agency. The firm is interested in getting a measurable return on its investment in advertising, and the agency does not want to be held to sales as a short-term goal. The marketing manager should know that advertising can be mostly effective in building sales, but only to the extent that the complete marketing strategy is appropriate (given the competition and the environment) and that it takes time for advertising to be successful.

Therefore, although some advertising agencies are compensated for achieving sales goals, the majority are evaluated on the basis of more intermediate objectives.

These intermediate goals are based on models of how advertising creates a customer response. A few of the most popular models are shown in Figure 10.7. Although the details of the models vary, they all have three basic stages of movement from a low level to a high level of response:

1. **The lowest level of response is the cognitive stage.** This is the act of thinking about the product; no feelings toward it have been aroused. At this level of response, customers are becoming aware of the product and developing knowledge of the product's attributes and benefits.
2. **A higher level of response is the affective stage.** At this level, the customer has gone beyond mere knowledge of the product and has begun to develop attitudes, preferences, and perhaps interest (although the customer could develop negative rather than positive affect).
3. **The final stage is behavior.** This could be purchase but also other kinds of behavior, such as visiting a retailer to see a product demonstration or returning a reply card in a magazine for more information about the product.

This model is sometimes referred to as the *think–feel–do* or persuasive hierarchy model.[16]

All of the models in Figure 10.7 are hierarchical models in that they posit customers moving up a ladder of interest about the product. They are useful conceptualizations of how customers react to communications because they recognize that customers could be in various states of readiness. The models also imply a set of tasks that persuasive communications such as advertising must perform, from first informing the customers that the product exists to the point of getting the customer to move from favorable attitudes to taking some actions. There is no intended timing of the movement from stage to stage. This could occur over several years in the case of an expensive and complex product to virtually simultaneously in the case of a new product introduced in a supermarket.

Figure 10.7

Models of the Advertising Response Process

	AIDA Model	Hierarchy-of-Effects Model	Innovation Adoption Model	Information Processing Model
Cognitive Stage	Attention	Awareness Knowledge	Awareness	Presentation Attention Comprehension
Affective Stage	Interest Desire	Liking Preference Conviction	Interest Evaluation	Yielding Retention
Behavioral Stage	Action	Purchase	Trial Adoption	Behavior

Source: George E. Belch and Michael A. Belch (1993), *Introduction to Advertising and Promotion* (Homewood, IL: Irwin), p. 199. Reproduced with permission of the McGraw-Hill Companies.

Some researchers and practitioners have found that for products and services where there is relatively little information processing, consumers may move from the cognitive (awareness) stage directly to the behavioral stage and then form attitudes (affective stage) after product usage. In other words, it is cheaper to sample low-cost products and then form opinions about them than it is to process advertising and other information and then make up your mind about what to buy. This is often referred to as the "low-involvement" process. However, the components of the process are the same, as it is only the order that is changed.[17]

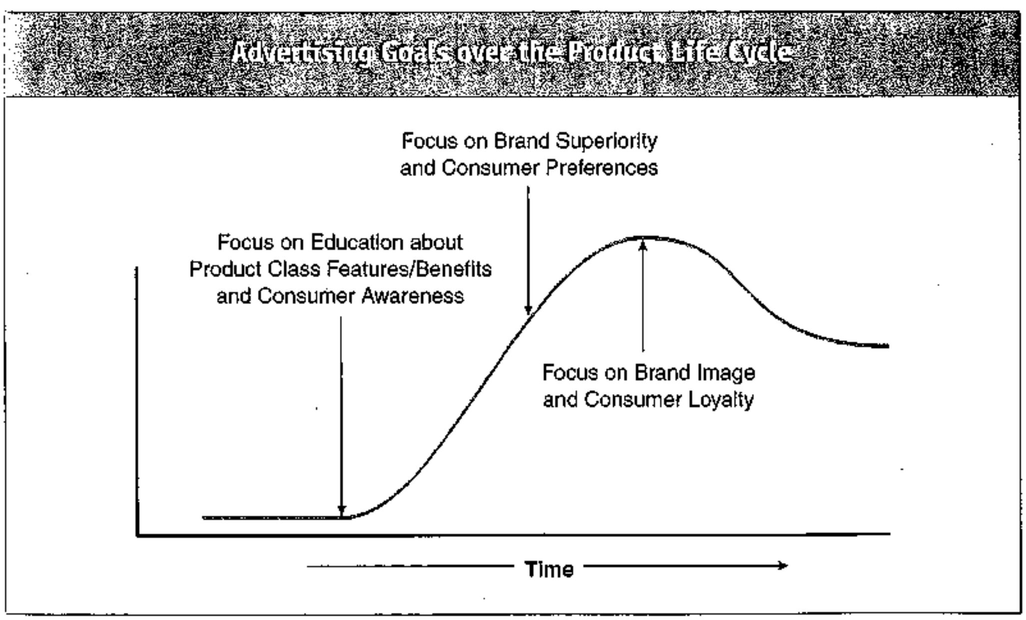
The importance of these models is that they provide some valuable objectives for advertising short of sales. An obvious objective can be simple awareness that the product exists. This is clearly a good objective for a new product (creating awareness) or one for which research has determined that the awareness level is too low (increasing awareness). If marketing research finds that awareness is high but few potential customers perceive the product favorably, you can use affective objectives such as building brand preference or positioning in ways consistent with the marketing strategy. Nonsales behavior objectives, such as trial (for new products or those with low trial rates) and repeat purchasing, are also possible.

The choice of objective can be considered in the context of the product life cycle. Figure 10.8 shows how these goals might change over time. When a product category is new, the focus is on educating customers about the features of the product and, if appropriate, its relative advantage over the product it is replacing. For example, when Procter & Gamble launched its Pampers brand of disposable diapers in 1966 (the product had been in test market since 1962), consumers had to be educated about the advantages of the product over cloth diapers and diaper services. In the early and late growth stages of the life cycle, more competition has entered, and there is a concomitant need to stress product differences and brand superiority. Thus, the advertising objectives are more likely to be affective, except for any new brands entering at this stage. Finally, at the maturity stage, competition is intense and the products are fairly similar in terms of their characteristics. At this stage, image (affective) and brand loyalty (behavior) become very important.

Developing the Message Strategy

Marketing managers should always be involved in determining the objectives of advertising. After all, they have developed the marketing strategy and are in the best position to know what communications are required to achieve the overall marketing objectives and persuasively communicate the value proposition to the target markets.

Figure 10.8



Source: George E. Belch and Michael A. Belch (1993), *Introduction to Advertising and Promotion* (Homewood, IL: Irwin), p. 199. Reproduced with permission of the McGraw-Hill Companies.

However, choosing the best way to attain advertising objectives is the creative part of advertising. This is usually the terrain of the advertising agency, which employs professionals who try to develop the art of advertising, the actual executions that customers see in the media.

Different approaches to creating advertising or appeals can be classified more specifically in the following ways.[18]

Informational or Rational Appeals

informational appeals an approach to developing advertising copy that focuses on the functional or practical aspects of the product

Informational appeals focus on the functional or practical aspects of the product. These messages emphasize facts, learning, and persuasion. The job of this kind of advertising is to persuade the target audience that the brand being advertised satisfies their needs better than the competition. This kind of advertising also may communicate to the audience the value proposition, or what some in the advertising industry call the unique selling proposition.

Informational appeals can be of several general types:

- **Feature/benefit appeals.** These appeals focus on the dominant attributes or characteristics of the product or service, or the benefits provided. These ads tend to implicitly use the multiattribute model of decision making discussed in Chapter 4.
- **Competitive advantage appeals.** This type of ad makes either a direct or indirect claim of superiority against a targeted or general class of competitors.
- **Favorable price appeal.** In these ads, price is the dominant factor. This approach would obviously not be used by the marketer who is trying to differentiate the product on the basis of a dimension other than price because, in that case, the price is likely to be higher than the competition's.
- **News appeals.** These are advertisements in which some kind of announcement about the product dominates the copy.
- **Product or service popularity appeals.** In these ads, the copy touts how popular the product is among the target audience. Because it is popular, the advertisement implies, it must follow that the product is of high quality or has outstanding value.

In some cases, informational appeals focus squarely on product attributes. Product-attribute-focused advertising can try to:

- Influence the attributes used by customers in evaluating the competitive offerings in a product category.
- Increase the awareness and/or change the perceptions of some of your product's attributes.
- Change the perceptions of some of a competitor's product's attributes.
- Increase or decrease the importance weights of the product attributes.

This kind of advertising is used in product categories in which there are real, physical differences between products that can be captured in an advertisement.

An example of this kind of advertising is shown in Figure 10.9. The ad is for the investment company T. Rowe Price. As can be seen, the attributes being emphasized include a wide selection of mutual funds in which an investor could place his or her money, low management costs, excellent historical performance, and specialized investment assistance. This ad also has a direct-response component because the phone number and Web site, where the product can be ordered, are prominently featured.

Emotional Appeals

In other cases, the advertising focuses mainly on imagery and symbols and eschews reference to product attributes. Much television advertising uses this kind of approach because images are more easily remembered in a short commercial than facts. Product categories in which it is difficult to establish tangible differential advantages often use image-oriented advertising. Also this kind of advertising can be used when a marketing manager wants to position a product or service in a certain way in the customer's mind.

Figure 10.9

T. Rowe Price Ad

Source: Copyright © 2005 T. Rowe Price Investment Services, Inc. Reprinted with permission. FlexChoice Rollover, T. Rowe Price, Invest with Confidence and Design (Bighorn Sheep) are trademarks of T. Rowe Price Group, Inc. All rights reserved.

emotional appeals
an approach to developing advertising copy that strives to tap an underlying psychological aspect of the purchase decision

Thus, as the name implies, **emotional appeals** are intended to tap an underlying psychological benefit of the purchase decision. Many advertisements for consumer products and even some business-to-business products use humor, fear, and sex to achieve their objectives. Such advertising may stimulate greater memory of the ad (known as recall) and more liking of the brand. Unilever was faced with a huge marketing and advertising challenge when the company decided to introduce its deodorant bodyspray, AXE, into the U.S. market. AXE emphasizes humor and the emotional and social benefits of smelling good that allow the brand's advertising to be among the most admired. The AXE ads on YouTube and their parodies are good examples of the sexually charged social humor that has become synonymous with the AXE brand.

Within the two broad categories of appeals, informational and emotional, are a variety of different tactical or execution approaches. These are specific approaches taken by advertisers to communicate their messages:

- Straight-sell or factual message.
- Scientific/technical evidence.
- Product demonstration.
- Comparisons.
- Testimonials.
- Slice of life, in which a customer's problem is shown and the product is given as the solution.
- Animation.
- Personality symbols.
- Fantasy.
- Dramatization.
- Humor.

Evaluating Message Copy

Normally, marketing managers are not involved with the development of the actual advertising copy. That task is delegated to in-house or agency creative specialists. However, they must be heavily involved with testing the advertising copy (or at least be aware that testing should be done) before committing a substantial amount of money to it. Many variables are usually testable (the spokesperson, the message itself, the execution, media, and other factors).

Laboratory Tests

Figure 10.10 is a classification of the different methods used for pretesting and posttesting advertising.[19] Pretests are measures taken before implementation of the campaign, and a posttest is an evaluation of the advertising after it has been developed but before it has been rolled out nationally or internationally. In laboratory tests, people are brought to a particular location, where they are shown ads and asked to respond to them. The advantage of lab tests is that the researcher can carefully control the environment without distractions to the respondent and manipulate several different aspects of the advertising. The disadvantage is that the situation is not realistic, because the respondent provides answers in an unnatural environment. Field tests provide real-world measures because they are conducted under natural viewing conditions. Their advantages and disadvantages are the mirror image of those of lab tests: the environment is realistic, but the researcher cannot absolutely control other variables that might affect response to the ad, such as a competitor's ad, noise from children, or other distractions.

Consumer Jury The most common form of testing for advertising concepts is the use of focus groups. TV advertising concepts are usually presented as storyboards, or rough pictures with captions showing the "story" that will be told in the ad (for radio ads, only words are used). For magazine or other print formats, actual executions are shown. Multimedia technology allows for the use of more realistic ads.

Portfolio tests In this approach, respondents are shown both control and test ads. After viewing the portfolio, respondents are asked what information they recall from the ads

Figure 10.10

Classification of Copy-Testing Methods

	Advertising-related test (reception or response to the message itself and its contents)	**Product-related test** (impact of message on product awareness, liking, intention to buy, or use)
Laboratory measures (respondent aware of testing and measurement process)	Cell I Pretesting procedures 1. Consumer jury 2. Portfolio tests 3. Readability tests 4. Physiological measures Eye camera Galvanic skin response Electrodermal response	Cell II Pretesting procedures 1. Theater tests 2. Trailer tests 3. Laboratory stores
Real-world measures (respondent unaware of testing and measurement process)	Cell III Pretesting procedures 1. Dummy advertising vehicles 2. Inquiry tests 3. On-the-air tests Posttesting procedures 1. Recognition tests 2. Recall tests 3. Association measures 4. Combination measures	Cell IV Pretesting and posttesting procedures 1. Pre- and posttests 2. Sales tests 3. Minimarket tests

Source: George E. Belch and Michael A. Belch (1993), *Introduction to Advertising and Promotion* (Homewood, IL: Irwin). Reproduced with permission of the McGraw-Hill Companies.

and which they liked best. The ads with the highest recall and liking are considered to be the most effective.

Readability tests Readability of the copy of a print ad can be determined by counting the number of syllables per 100 words, the length of sentences, and other structural aspects of the copy. The results provide a sense of the reading skill needed to comprehend it, which should match that of the target audience, and are then compared to norms obtained from successful ads.

Physiological methods A more scientific approach to assessing advertisements involves techniques that measure involuntary physical responses to the ad. These physiological methods include:

physiological methods
measured advertising response by taking physical measures, such as pupil dilation or eye tracking

- **Pupil dilation.** Pupilometers measure dilation (an activity related to action or arousal) and constriction (conservation of energy).
- **GSR/EDR (galvanic skin response/electrodermal response).** Response to a stimulus activates sweat glands. This activity can be measured using electrodes attached to the skin.
- **Eye tracking.** Viewers are asked to watch or read an ad while a sensor beams infrared light at their eyes. This can measure how much of an ad is being read, what part of the ad is attracting attention, and the sequence of reading and attention.

Theater tests **Theater testing** is a widely used method for pretesting TV commercials. The service is sold by companies such as Advertising Research Services and Advertising Control for Television. Participants in theater tests are recruited by phone, shopping mall intercepts, and direct mail. A television show or some other entertainment is provided in a movie theater–like facility with commercial breaks ("trailer" tests use smaller, mobile facilities near shopping malls). The show is used so that the respondents do not focus solely on the commercials. A cover story might inform them that the TV

theater tests
tests of prospective advertising copy that take place in a theater-like environment

show is a pilot for a new network or cable series. After viewing the ads, the participants are asked questions about recall, attitude, interest, and other behavioral responses.

Laboratory stores In this testing procedure, the researcher attempts to simulate a shopping environment by setting up a supermarket-like shopping shelf with real brands. Respondents are shown advertising copy and make actual brand choices. A popular supplier of this kind of testing is Research Systems Corporation, with its ARS Persuasion copy-testing system.

Real-World Measures

Dummy advertising vehicles Researchers construct dummy magazines with regular editorial matter, regular ads, and a set of test ads. The magazines are distributed to a random sample of homes in a predetermined geographic area. After being asked to read the magazine as they normally would, the consumers in the sample are interviewed on the editorial content as well as the test ads.

inquiry tests
track the number of inquiries received from a print advertisement

Inquiry tests **Inquiry tests** are also used for print ads. The marketing manager or advertising agency can track the number of inquiries generated from an ad that has a direct-response, toll-free phone number or a reader inquiry card attached. In industrial marketing, the use of "bingo" cards, response cards that have numbered holes corresponding to the numbered ads in the magazine, is common.

on-the-air/recall tests
measure advertising effectiveness through follow-up surveys after a TV advertisement is shown

On-the-air/recall tests Information Resources Inc. (IRI), Burke Marketing Research, ASI Market Research, Nielsen, and others sell **on-the-air/recall test** services. A real TV ad (one of perhaps several executions being tested) is inserted into a TV program in one or more test markets. Consumers are then contacted and asked whether they saw the ad. If so, they are asked further questions about recall of copy points, brand, and the like. The services differ somewhat in the questions asked and how the sample is recruited. Gallup & Robinson, for example, recruits subjects who are asked in advance to watch the particular show on which the test ad is being run.

Recognition tests This is the most widely used method for posttesting print ads and is closely associated with Starch INRA Hooper's through-the-book method. With this approach, a researcher interviews respondents at home or at work by first asking whether they have read a particular issue of a magazine. If so, she or he then goes through the issue to obtain information about whether the respondents have seen the ad, how much of it they have read, and how much they recall. The Starch method and the resulting Starch scores are used to track and evaluate complete campaigns.

sales/minimarket tests
advertising tests in controlled geographic areas

Sales/minimarket tests In some areas of the United States, IRI has created what it calls BehaviorScan markets, in which a city is wired with two separate TV cables. This split-cable arrangement allows advertisers to manipulate the ad copy by showing one execution on the test cable and keeping the current copy on the control cable. The programming is otherwise identical. A sample of households on both cables is enlisted to have their purchases electronically scanned at supermarkets, drug stores, discount stores, and convenience stores. By comparing the purchase rates between the two samples, an advertiser can determine whether the ad copy on the test cable stimulated more purchases than the ad shown to the control group. The **sales/minimarket test** method is limited to ads for frequently purchased consumer goods with sales objectives.

Selecting Media

Choosing the media to use for advertising is becoming more difficult with the rapid growth of alternative media beyond the traditional network (national) and spot (local) TV, radio, newspaper, print (magazine), and outdoor (billboards, where legally permitted) media. The emergence of cable television and the Web has created two new major media. Other important media have emerged such as "branded" entertainment (product placement), where brands appear in movies, on TV shows, and in videogames. In addition, numerous minor media (e.g., CD-ROMs, supermarket floors, bathroom stalls, shopping carts, autos, trucks, buses, fruit labels) are also being explored.[20]

Because of changes in marketing strategy, the need for greater efficiency, the development of new media and vehicles (e.g., new magazines and TV shows), and the constant search for better ways to target their segments, managers are shifting their budget allocations between media toward the newer media. For example, in 2005, Ford Motor Co. spent 15 percent of its $1 billion marketing budget on all "digital" forms of advertising.[21]

There are three main aspects to media planning:

1. Selecting the appropriate media for the advertising campaign.
2. Selecting specific vehicles within each medium.
3. Scheduling the advertising.

These decisions are used to create a media plan, which is a detailed document showing the precise scheduling of all the advertising over a planning horizon. Thus, given an available advertising budget, the decision is how to allocate it across media types, then within each medium, and finally, over the appropriate time period.

Media Selection

Media can be divided into "traditional" media and "new" media.

Traditional Media

Television As noted earlier in this chapter, TV can reach many people quickly and efficiently. It is also the best medium for image advertising and movie-like action. However, unless you have a large budget, the production and media costs for TV are enormous, which puts it out of the range of many companies. In addition, it is difficult to narrowly target an audience with TV because of the wide range of people who watch it. Except for extended infomercials, TV is not good for factual (informational) copy because of the speed with which data flash by the screen, combined with a general lack of attentiveness of audiences. Finally, with the increasingly high penetration rate of digital video recorders, it is easy to record a show and then fast-forward through the commercials. The newer digital recorders marketed by TiVo and Replay Networks can automatically delete commercials when recording. However, despite the predictions of TV advertising spending declining due to the lack of targetability and the increased penetration of digital recorders, TV advertising is still popular.

Magazines and newspapers (print) Print is much better for complicated messages. In addition, print has archival value because it can be stored. Consider the old magazines in doctors' offices; the ads in those magazines are still gaining exposure long after the month or week in which they were published. Magazines are better than newspapers for color reproduction. Print is better than TV for targeting specific audiences, and magazines are better than newspaper, which is more limited to specific sections (e.g., sports, entertainment). Print, like spot TV, can also reach geographically defined target segments.

Radio Radio is an excellent medium because of its low cost, attentive audience, and creative flexibility. Of course, product demonstrations are not possible. Radio, like TV, can reach audiences quickly, unlike the lag in publication dates with print (except for daily newspapers). Radio is also excellent for targeting specific audiences, because each radio station has its own marketing strategy aimed at a particular market. Also, you can thus choose to advertise on particular stations fitting your segment profiles.

Cable TV Cable is a nice hybrid of radio and television because it has the best features of both. Like radio, it is inexpensive and reaches targeted audiences. Each cable channel (e.g., MTV; WE, the women's entertainment channel; ESPN) is generally designed around a theme and an audience that can be accessed easily. It has all the creative flexibility of TV. The main drawback is that the number of viewers for many of the channels is very low because of the large number of alternatives.

Outdoor Billboards are a good medium for reminder and image advertising, but the images can be fleeting as you drive by (unless you are stuck in a traffic jam). They are obviously poor for extended messages. Outdoor advertising tends to be used by product categories for which access to other media has been legally denied (e.g., tobacco, alcohol in the United States). Most countries and geographic areas impose legal limits on the use of outdoor advertising, either through banning it entirely, limiting its locations and size, or restricting the products that can use it. For example, Australia has banned cigarette advertising on billboards. However, technology is changing the outdoor business. In 2005, Clear Channel Outdoor launched a trial in Cleveland, Ohio, with seven huge light-emitting-diode (LED) billboards with messages that can be changed dozens of times each day. Billboards are thus being changed from a fixed to a dynamic medium. Table 10.5 displays the U.S. spend on measured media advertising in 2008.

Table 10.5

U.S. Measured Media for All Advertisers in 2008 (billions of dollars)		
Media	**U.S. Advertising Spending ($)**	**%**
Magazine	28.58	20.1
Network TV	26.71	18.8
Newspaper	25.06	17.7
Cable TV networks	18.83	13.3
Spot TV	15.15	10.7
Internet	9.73	6.9
Radio	9.50	6.7
Syndicated TV	4.44	3.1
Outdoor	3.96	2.8

Source: Advertising Age (2009), June 22. Copyright 2009 by CRAIN COMMUNICATIONS INC. Reproduced with permission of CRAIN COMMUNICATIONS INC in the format Textbook via Copyright Clearance Center.

"New" Media

The Web Advertising expenditures on the Internet continue to grow dramatically, with $23 billion spent in 2009, about 9 percent of all media spending. These are expected to grow high single digits every year over the next few years. In fact, there is concern about the inventory of good Web advertising space to meet the demand.[22] While Web sites themselves act as communications vehicles, the classic Web-based ad is the banner ad, rectangular-shaped ads placed on a site above, below, or on the sides of the sites' main content with a "hot" link to the banner ad sponsor's site. Initial banner ads were static "billboards" with text and graphics. Today, using Flash and other technologies, they can be more exciting, with animated graphics and sound. Although "clickthrough" rates on banner ads are disappointing (less than 1 percent), a considerable body of research is accumulating, which shows that such ads can have significant effects on the other parts of the hierarchical model (Figure 10.7) such as awareness, attitudes, and, ultimately, brand equity.[23] Other Web advertising formats have developed that permit "pop-up" ads to appear almost at any time as well as virtually full-screen ads. These are delivered dynamically as you surf the Web, as well as through direct e-mails and instant messaging. While these ads are annoying, they are extremely effective. Jupiter Media Metrix estimated that in May 2002, the Web site for X10 Wireless Technology Inc., the maker of mini-surveillance cameras, had achieved nearly 33 percent reach, meaning that about one-third of people online that month visited the site.[24] Table 10.6 displays the U.S. online advertising spending by format for 2008 and 2009 and the projected spending for 2010.

Table 10.6

U.S. Online Advertising Spending, by Format, 2008–2010 (in millions)			
	2008	**2009**	**2010**
Search	$10,546	$10,782	$11,422
Banner ads	4,877	4,765	4,923
Classifieds	3,174	2,215	2,030
Lead generation	1,683	1,521	1,628
Rich media	1,642	1,476	1,558
Video	734	1,029	1,440
Sponsorships	387	313	316
E-mail	405	268	283
Total	23,448	22,370	23,600

Source: eMarketer (2009), December 11. Reprinted with permission from *eMarketer.*

Web advertising offers a level of interactivity that no other medium can. Some innovative uses of Web-based advertising are:

- Swedish dairy products company Fjallfil created the Milko music machine, which permits visitors to create their own videos starring a dancing cow that is the brand symbol for Milko milk. Try it at www.fjallfil.com/index_eng.html.
- BMW has created an advertising campaign using short films directed by some leading directors (Ang Lee, Guy Ritchie) that are available only on the Web (www.bmwfilms.com). Since premiering in April 2001, they have been downloaded millions of times.
- Confectionery giant Mars teamed up with Omnicom's digital shop Agency.com to create "Mix the Rainbow," a Skittles banner ad and Facebook application that allows consumers to create their own musical interpretation of the "Skittles Rainbow." Try it at http://portfolio.ny.agency.com/clients/skittles/mix_the_rainbow/swf/index_01.html.

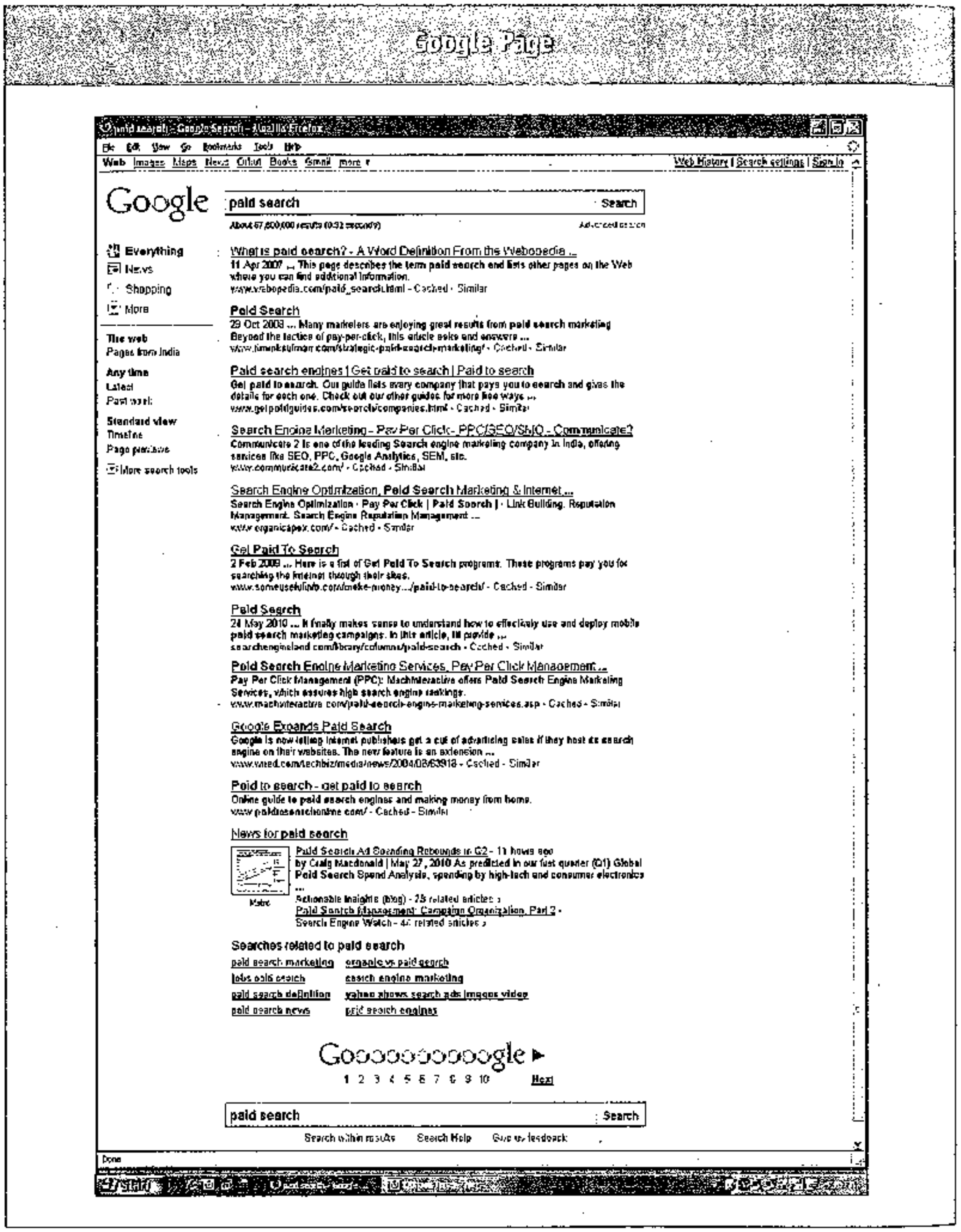
The hottest area of Internet advertising is what is called *paid* or *keyword search*. Popularized by the search engine Google, the concept is very simple. Google (or the sponsor of the Web site using paid search) gets paid every time a Web surfer clicks on a small text ad posted next to text with particular keywords. Figure 10.11 shows a Google page from the search words "paid search." Ironically, every time a visitor clicks on either of the two ads at the top (GoClick.com and pepperjamsearch.com) or the sponsored links on the right-hand side, most of which are Google competitors, Google gets paid. The amount of payment depends on how much the client is willing to pay Google per click. This business accounts for 99 percent of Google's more than $24 billion in revenues. Of course, clickthroughs do not necessarily produce sales. Thus, some companies are tinkering with a model that rewards the site host only if a product or service is purchased.

Branded entertainment A result of more ad-skipping from digital video recorders and the difficulty of reaching young adults, is a surge of spending on paying to place products and services on TV shows, in movies, and in other media. About $3 billion was spent on this kind of advertising in 2004.[25] Product placement has been around for a long time. Fifty years ago, American TV had shows like *The Colgate Comedy Hour* and *Texaco Star Theater*. However, the number of product placements since then has grown to the point where there were an estimated 100,000 placements on the six major TV networks in the 2004–2005 season. The most placed products on TV shows are shown in Table 10.7. The problems with such placements include the fact that it is difficult to measure their impact and that the quality and popularity of the particular show or movie can affect the brand either positively or negatively.

Influencing word-of-mouth Some companies spend little or nothing on conventional advertising but instead invest in activities that will spread word-of-mouth about the product or service. For example, the Internet-based phone service (known as voice over Internet protocol or VOIP) has become very popular. While one of the major competitors, Vonage, advertises heavily, the other, Skype does not advertise at all. Skype and many other companies rely either exclusively or partially on building word-of-mouth, which spreads among the user population. This kind of marketing is often referred to as *viral* marketing or, more commonly, as *buzz* marketing. While influencing users is not normally thought of as a communications medium, companies that use viral marketing do not just let it happen normally. They spend money attempting to create events and other programs to stimulate positive word-of-mouth or buzz. Skype's viral approach is to make the basic service (Skype user to Skype user, anywhere in the world) free. Note that it is not just the free part that adds customers, but that it is only free if you are talking to another Skype user. This builds additional customers through what we termed network externalities (see Chapter 4). You have to pay for Skype to non-Skype service.

Up-and-comers A number of other media are too new to evaluate in terms of their effectiveness. One of these is the use of cell phones for sending ads to users. While text advertisements have been in use for several years, video is being tested in the United Kingdom. In London's Heathrow airport, transmitters are beaming out video clips of Range Rover's new SUV, the Sport. To reduce customer annoyance and backlash against the brand being advertised, the companies behind the new advertising approach first send a text message asking if the user wants to receive the ad. A second new medium is

Figure 10.11



Source: © 2010 Google. Reprinted with permission.

videogames. They are used primarily by 18- to 34-year-old men, and this is a valuable market for many companies. Traditional games played in machines like Sony's PlayStation have product placements embedded in the games. Online games allow advertisers to place all forms of Web ads in the available space. "Advergames" are games that are downloaded from the Web and built around products. For example, in 2002, the U.S. Army created a game called "America's Army," covering basic training and different missions. By 2005, it had more than 5 million registered users. Weblogs or "blogs" are being used to disseminate product information. Social networking sites like Facebook are looking to commercialize their online community. Finally, some advertisers have begun to use MP3 devices like the iPod for "podcasts" touting their products.

Choosing the Specific Vehicles

The budget allocation decision within a specific medium is driven by two major factors: a set of statistics describing each vehicle (e.g., in terms of how many people read or watch, the cost) and the appropriateness of the vehicle for the product being advertised.

Table 10.7

Most Placed Products in TV Shows 20 September 2004–18 September 2005

Product	Total Occurrences
Coca-Cola Classic	2,900
Everlast (apparel)	1,659
Everlast (sporting equipment)	1,488
Nike (apparel)	1,464
Gatorade drinks	1,222
Chef Revival (apparel)	973
24 Hour Fitness Centers	882
Toyota autos/trucks	846
Home Depot	843
Sierra Mist soft drink	813

Source: *The New York Times* (2005), October 2, p. BU-6.

Analyzing media Trying to match target audiences to vehicles typically leads to a comparison of efficiency in reaching desirable audiences. An important number is cost-per-thousand (CPM), the ratio of the unit cost to the number of thousands of total audience. CPM is a measure of the efficiency of a vehicle; obviously, lower CPMs are better. Even more importantly, the CPM for the target segment shows the vehicle's efficiency for the important group the advertiser is trying to reach, defined by the demographics the client is targeting.

For television, a popular counting measure is the gross rating point (GRP). The number of GRPs attained by a TV schedule is the product of the reach (the percentage of the potential target audience that are tuned into the commercial) and the frequency (the number of times the commercial is aired). Therefore, a commercial shown four times on a show reaching 20 percent of the target audience would attain 80 GRPs.

Ratings and circulation data (such as Arbitron's radio audience ratings, Nielsen's TV ratings, Standard Rate and Data Services, Audit Bureau of Circulations, and Simmons's magazine audience measurements) are vital inputs to decisions and consequently are hotly contested measures. A.C. Nielsen, in particular, has come under fire by the TV networks for allegedly underestimating its audiences by changing its sampling approach to households. Smaller audience estimates mean lower advertising prices and thus decreased revenues and profits.[26] At all times, your focus should be on cost-per-thousand *relevant* readers, listeners, or viewers (i.e., the cost-per-thousand in the target market).

Despite Nielsen's problems, it is important to recognize that CPM or GRP may also overstate numbers of actual ad readers or viewers. Most people do not read the many pages of ads that fill the fronts of magazines, or study inserts in newspapers, or even stay in the room during TV ads. Hence, adjusting total audience to likely readership or viewership levels is very important. This is why Nielsen has spent millions of dollars improving its TV viewing methodology by introducing "peoplemeters" so subjects can record when they are actually in the room viewing the TV.

One important aspect of targeting spending is product use. A number of services rate media vehicles by product usage. Therefore, for strategies targeting heavy users of a product, CPM can be weighted by such usage.

Another important aspect of choosing media vehicles is regional differentiation. Not only does product usage vary by region and country, but so do features and cultural preferences. Therefore, even though regional vehicles may cost more in a CPM sense, it is often desirable to focus on certain regions (especially if your share or distribution levels vary regionally) and use somewhat different messages and media according to region or country.

Contextual fit It is important to choose vehicles that are a good fit for the product or service being marketed. Contextual fit falls into two subcategories: media fit and program and ad context. The media fit issues are fairly obvious: it is difficult to demonstrate operation of a machine on the radio, incorporate music or other sounds in print media, or provide detailed information that will be recalled in radio or TV ads.

A more subtle level of fit involves the context of the ad, including both the program and other ads. Product fit involves the interaction between the product image and the image of the vehicle. For example, even if professional wrestling delivers upscale viewers at a competitive CPM, does it make sense to advertise upscale products between matches? This issue is magnified if a vehicle airs controversial topics that can lead to a backlash or even a boycott against advertisers.

The interaction of the image of the immediate context is also relevant. For example, a humorous ad may lose its effect if placed in the context of a comedy show or a series of eight other humorous ads. In a serious vehicle, it may be perceived as tasteless. Although it is impossible to control or predict exactly which other commercials will run during a particular TV commercial break, educated guesses are both possible and recommended. Competitive effects are serious when many products in the same category advertise close together, with the result being that many consumers cannot distinguish their claims from one another.

Duplication and wearout Depending on the advertising objective, duplication (multiple exposures to the same ad) may be either desirable or undesirable. Apparently competing vehicles commonly duplicate audiences. For example, a large amount of overlap occurs among readers of *Fortune, Forbes,* and *Bloomberg Businessweek.* Multiple exposures of the same ad are usually necessary for attaining objectives. However, customers might tire of exactly the same message fairly quickly, although evidence seems to suggest that this is less a problem for complex messages than for simple ones. In contrast, some evidence suggests that varying copy slightly, though somewhat expensive, slows down ad wearout.[27] Although the number of possible combinations of vehicles makes thorough analysis difficult (though not impossible, given increased computer power), a reasonable sense can be achieved by estimating the unduplicated audience of each vehicle and, when reach is the objective, concentrating on vehicles with large unduplicated audiences.

Scheduling Advertising

After selecting the appropriate vehicles, the next decision is the actual timing or sequencing of the ads. This decision is based on how your advertising objective responds to the proposed advertising and how much decay is expected when the advertising is not present. Three basic patterns of advertising can be used over a proscribed time period:

1. Flighting, which alternates a burst of advertising with a period of no advertising.
2. A continuous pattern of advertising evenly distributed over the period.
3. Pulsing, or a basic level of advertising combined with regularly scheduled bursts of advertising.

Research has not convincingly demonstrated that one spending pattern is best in meeting all the advertising objectives that can be set. One well-known experimental study found that flighting or pulsing led to a higher temporary peak in recall, whereas a continuous pattern produced higher total recall.[28]

Another factor affecting advertising timing is the seasonality of the sales of the product or service. Timing is affected strongly by the target audience. For example, retail stores make decisions about ski equipment purchases long before consumers do. Likewise, dealers make decisions about purchasing industrial goods long before their customers do. In addition, issues of immediate relevance (which suggests advertising during the buying season) and clutter (which may argue for off-season advertising) have an impact on timing. Alternatively, for seasonal products such as cold remedies, a leading spending pattern is sometimes used that delivers messages before the major usage season (fall and winter) to get consumers to stock up on a brand.

In most cases, specialized media companies use sophisticated computer programs to place ads in the most appropriate medium, within the budget allocated, and that meet the advertiser's objectives. A new approach for TV scheduling called media optimizing takes advantage of the latest Nielsen TV viewing data based on its "peoplemeter" technology, which provides real-time information to companies and their media planners. Peoplemeters attached to TVs are turned on and off when people enter and leave the room and thus provide more accurate measures of actual TV viewing. The meters electronically deliver the viewing data instantly, thus providing the most up-to-date information possible.[29]

Budgeting

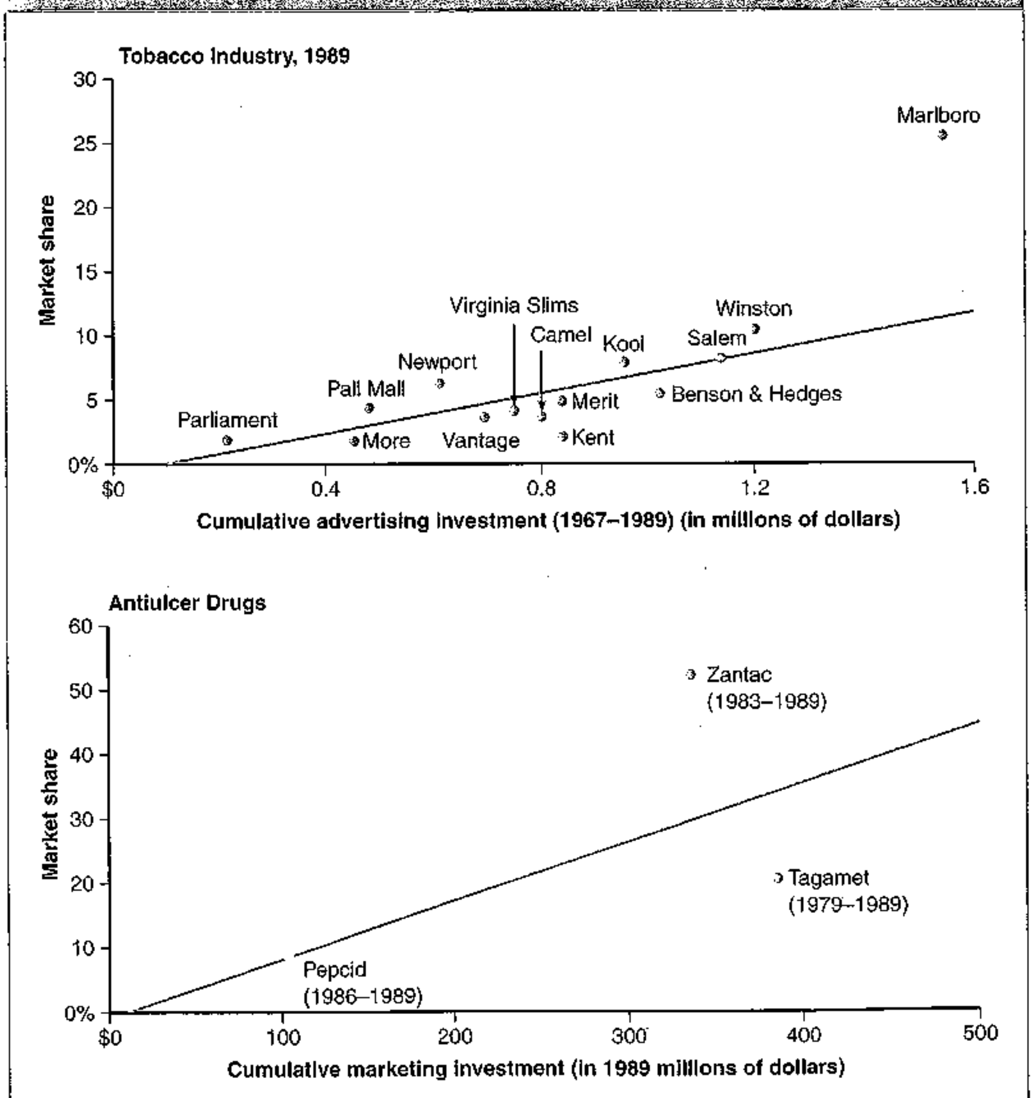
Because of the large amounts of money involved and the importance of advertising to marketers, one of the most important jobs of the marketing manager is to determine how much to spend. Setting advertising budgets has an immediate impact on costs and longer-term effects on sales. Consequently, advertising is just as much an investment as R&D and new plants and equipment. Like spending on R&D, spending on advertising has a long history and a weak record for measuring effectiveness precisely.

A crucial distinction exists between viewing advertising spending as an investment and viewing it as an expense. Investments are expected to generate returns over a long period of time. Often, when advertising is viewed as an expense, the budget is cut near the end of a quarter or fiscal year to achieve a profit target. In contrast, marketing-oriented firms view advertising as a long-term investment in the brand.

Figure 10.12 shows examples of successful investments in brands. The two graphs show a positive relationship between advertising investment (measured as cumulative

Figure 10.12

Relationship between Cumulative Advertising Spending and Market Share



Source: IMS America, Ltd., and CDI estimates.

Table 10.8 Top 5 and Bottom 5 Advertisers in Sales per Dollar of Advertising in 2004

Company	U.S. Revenues per Dollar of Advertising ($)
Best:	
Walmart	236.23
Bank of America	115.83
Kroger Co.	82.25
United Parcel Service	78.67
Albertson's	77.88
Worst:	
Visa International	1.06
Estee Lauder	2.98
MasterCard International	3.38
L'Oreal	3.51
Schering-Plough	3.77

Source: Advertising Age (2005), June 27, p. S-18. Copyright 2005 by CRAIN COMMUNICATIONS INC. Reproduced with permission of CRAIN COMMUNICATIONS INC in the format Textbook via Copyright Clearance Center.

advertising spending) and market share for the tobacco and antiulcer drug categories. Consistent investment in advertising for products can lead to a superior market position.

However, the productivity of advertising can vary widely. One measure of productivity is sales revenues per monetary unit spent on advertising. Table 10.8 shows 2004 data from the highest 100 advertising spenders on the top five and bottom five advertisers in terms of revenues per ad dollar. This ranges from a high of $236.23 for Walmart to a low of $1.06 for Visa International. A number of factors can affect productivity beyond the effectiveness of the advertising—the number of competitors, the degree to which competitors are combative, product factors such as how much and what kind of information is needed to make a purchase, the absolute level of spending which may offer economies of scale, the allocation of marketing funds across different kinds of programs, and others.

In addition, the amount spent on advertising can vary between companies within an industry. For example, in the vacuum cleaner industry, in 2004, Dyson spent $49 million on advertising; Hoover spent $47 million; Bissell spent $22 million; and Electrolux, Oreck, Eureka, and Dirt Devil spent under $10 million each.[30] Interestingly, Dyson' s spending represented a quadrupling of its ad investment from 2003, which enabled it to grab the lead in market share from Hoover. This is further support for Figure 10.12 that there often is a relationship between ad spending and market share. In general, however, intraindustry differences can reflect alternative emphases on advertising vs. promotion, marketing strategies, or financial resources. For example, Apple and Microsoft spent about the same amount of money on advertising in 2008, roughly $300 million. However, Apple spent almost all of its budget on TV while Microsoft split its budget more evenly over TV, print, and a substantial amount on the Internet.[31]

The following are the most commonly used methods for setting advertising budgets.

Objective and Task

Budgeting by advertising objectives and the tasks needed to achieve those objectives is a logically appealing approach in that the marketing manager first determines the advertising objectives to be achieved (e.g., target audience, awareness) and then chooses a media plan to reach those goals. The sum of the costs of the media vehicles needed to achieve the objectives becomes a budget. In practice, the budget that results from this process is usually used as a starting point for negotiating within the organization, as financial constraints and the needs of other products become a part of the overall budgeting process.

Percentage of Sales

The manager using the percentage-of-sales method approaches advertising as a cost to be borne and selects a percentage of sales, either past or expected, to devote to advertising. This method seems to turn normal causal thinking—that advertising causes sales—on its head. Whether based on past or expected sales, it is clear that poorly performing brands will subsequently get lower budgets, lower sales, lower budgets again, and so on if one applies this approach mindlessly, without adjusting the percentage appropriately. By using a percentage, the method views advertising almost as a variable cost, like raw materials or direct labor.

Table 10.9 shows some advertising-to-sales ratios by industry for 2001. Although this table is not meant to imply that all the companies in these industries use some kind of percentage-of-sales method for setting ad budgets, the ratio for a product's industry category or SIC code is a useful starting point for trying to assemble a budget from scratch. The range of the ratios is quite large. The highest advertising-to-sales ratio is for sugar and confectionary products (SIC 2060) at 18.1 percent; the smallest one is wholesale computers and software (SIC 5045) at 0.1 percent.

Competitive Parity

This approach to budgeting attempts to spend at levels proportional to the competition's spending. One argument for the competitive parity method is based on the efficient market hypothesis developed in finance: Firms that survive tend to be those with more optimal budgets, so the survivors' budgets may offer an estimate of the optimal level in a competitive market. In other words, a successful competitor may have a better idea of how much to spend than you do.

A useful way to implement this method is to consider share of advertising dollars spent in the product category, also known as share of voice (SOV), rather than absolute advertising dollars, and compare SOV to market share. Consequently, small-share brands must usually have higher SOVs than market shares in order to rise above the clutter and get their messages out. Conversely, large-share brands gain economies of scale with large advertising budgets, which enable them to purchase large blocks of media time or space. Therefore, they can normally have SOVs lower than their market shares. One study found that the break-even share level, at which SOV can be the same as market share, is between 19 and 21 percent. Above that market share level, you can spend proportionately less on advertising; below that level, you should spend more.[32]

Table 10.9

Top 5 and Bottom 5 Industry Advertising-to-Sales Ratios in 2001 by SIC Code

Industry	SIC*	Ad Dollars as a Percentage of Sales
Sugar and Confectionary Products	2060	18.1%
Special Clean, Polish Preparations	2842	15.7
Wine, Brandy, and Brandy Spirits	2084	15.6
Distilled and Blended Liquor	2085	15.1
Watches, Clocks, and Parts	3873	15.1
Computers and Software Wholesale	5045	0.1
Steel Works and Blast Furnaces	3312	0.2
Electronic Parts	5065	0.2
Help Supply Services	7363	0.3
Auto and Home Supply Stores	5531	0.4

*Complied before the U.S. move to the NAIC system.

Source: *Advertising Age* (2001), September 17, p. 20. Copyright 2002 by CRAIN COMMUNICATIONS INC. Reproduced with permission of CRAIN COMMUNICATIONS INC in the format Textbook via Copyright Clearance Center.

Affordability

The affordability method is the ultimate in "advertising as a cost of doing business" thinking and is similar in spirit to the percentage-of-sales method. If you use this method, you select an advertising budget that, together with projected sales, price, and other costs, results in an acceptable income statement and profit level. Unfortunately, like the percentage-of-sales method, as advertising becomes less affordable because a brand is doing poorly, the role of advertising may become more important. In addition, projected sales should be a function of the level of advertising and should, therefore, vary with different budgets.

Experimentation

With this approach, you try different levels of spending—either in different regions or in more controlled settings—and monitor the results. You then use the results to select among different advertising budgets and plans. Experimentation is increasing in popularity and represents a step toward using a more scientific approach to setting budgets.[33]

The case of the sugar substitute Equal highlights the use of experimentation for setting advertising budgets.[34] Managers for Equal used information from an IRI BehaviorScan split-cable TV market to test alternative advertising budgets rather than testing copy as described earlier in this chapter. When the brand was introduced, the marketing manager tried two levels of media spending: $3.8 million and $5.7 million (extrapolated from the BehaviorScan market to national levels). After a 20-week test, there was no significant difference between Equal purchasing rates by households on the two cables. Thus, the lower spending level was chosen as being more appropriate.

Decision Calculus

Computerized decision support systems (DSSs) such as ADBUDG help structure budget decisions systematically.[35] Managers provide subjective inputs about, for example, the sales or share impact of increasing or decreasing advertising spending by different levels (e.g., 25 percent, 50 percent, and 100 percent). A computer program then estimates likely customer response to various advertising spending levels and calculates the optimal spending amount. Although using subjective data alone produces results that may be hard to sell to others in the organization, DSSs that combine judgment with real data have facilitated decision making and promise to be more useful in the future.

Surveys of companies' advertising budgeting practices have shown varying percentages devoted to the different methods, but the top three methods used are objective and task, affordability, and percentage of anticipated sales.[36]

Measuring Advertising Effects

Given the amount of money spent on advertising, it is surprising how little effort is spent assessing whether it is meeting the stated objectives. Volumes have been written on topics such as copy-testing with focus groups and in theater settings. However, as we discussed earlier in this chapter, these two methods tend to be used for making decisions about different copy strategies rather than for post-implementation assessment.

However, given the ROI-intensive environment described in Chapter 1, companies now are holding their advertising agencies' "feet to the fire" in terms of better evaluation of the return on advertising spending. In the United States, the Association of National Advertisers, the American Association of Advertising Agencies, and the Advertising Research Foundation have joined forces to create an initiative dubbed MI4—Measurement Initiative: Advertising, Agencies, Media, and Researchers—to focus on making advertising (and marketing, more generally) more accountable. The Interpublic Group, one of the largest advertising holding groups in the world, has formed a new business unit, the Marketing Accountability Partnership, that is devoted to helping advertisers figure out the effectiveness of their spending.[37] Some of the popular approaches to doing this are described here.

Tracking Studies

Conventional tracking studies are surveys that ask respondents two kinds of questions. One type is "top of mind," or, more technically, unaided recall, in which the respondent is asked whether he or she can recall seeing an ad for the brand. For example, the respondent might be asked, "Have you seen the advertising campaign that prominently features frogs?" If the answer is *yes,* this technique follows up the question with a request to repeat the main copy points to determine comprehension. If the respondent indicates that the campaign is for Budweiser beer and features the frogs croaking "Bud-weis-er," then the campaign gets high marks. Attitudinal questions might also be asked. The second type of survey uses aided recall: "Have you seen the Budweiser beer campaign featuring frogs croaking 'Bud-weis-er'?" This method detects information not actively in memory that can be important when primed at the point-of-purchase. Not surprisingly, the numbers produced by aided recall are much larger than those produced by unaided recall.

These studies then track the responses over time, often at constant time intervals, using either the same sample of respondents (a panel) or a different, randomly selected group. The manager can then view how awareness, comprehension, or interest builds, plateaus, or never gets off the ground. Often, the percentages obtained from these studies are also compared to norms derived from previous advertising campaigns.

If the advertising objective is more behavioral in nature, tracking studies may also follow sales, inquiries, repeat purchases, or other measures over time. If the manager notes when a new campaign starts, the measures can simply be plotted and inspected for any movement. The major problem with this kind of tracking is similar to the problem with using sales as an advertising goal: it is difficult to attribute movement in sales solely to advertising, given the other aspects of the marketing mix as well as competitors' moves. In addition, except for sales, some of the variables tracked do not necessarily directly link to ROI.

Experimentation

In addition to its use in setting budgets and evaluating potential advertising copy, experimentation as a means of assessing advertising effectiveness has a long tradition in marketing. Unfortunately, field experiments—using real products in an actual setting—are costly and time-consuming because they involve manipulating different levels of marketing variables in different sales territories, in different stores, or to different groups of customers. This has to be over an extended period of time to detect any effects of the manipulated variable. Moreover, field experiments are politically difficult from an organizational perspective, for although it is easy to get a regional manager to accept an increased advertising budget (or price cut), it is hard to obtain acceptance for a decreased budget.

Most experiments focus on sales-related advertising objectives. A comprehensive analysis of 389 split-cable TV experiments found that the average elasticity for new products (26 percent) was higher than for established products (5 percent). The researchers also found that an examination of successful advertising spending tests (as opposed to copy tests) showed that about two-thirds of the original increase persisted in the year after advertising returned to normal levels and one-third persisted into the second year. They also found that most of the increase was caused by greater purchases of the product per household rather than an increase in the percentage of households that buy the product (penetration). This suggested that the advertising reminded or encouraged consumers to do something they were already inclined to do.[38]

Objective Guarantees

Some advertising agencies, in conjunction with media in which they place ads, have begun to give advertisers guarantees on achieving certain objectives. When these guarantees are not met, the advertiser gets additional advertising space for free. An example is the arrangement between the French advertising giant Publicis and the cable channel Court TV. Court TV guarantees not only a certain number of ratings points (viewers) to companies that advertise on its channel but also a minimum number of "engaged" viewers.[39] Although it is unclear what "engaged" actually means and it is not a financial guarantee, such arrangements are closer to ensuring advertisers that they are getting more for their money than just "eyeballs."

Marketing-Mix Modeling: Linking Past Sales and Advertising

An approach to evaluating advertising effectiveness is to use historical data and statistical methods to estimate the relationship between advertising spending and market response variables such as sales or market share. This is often referred to as *marketing-mix modeling.* The statistical methods used are normally regression or some other advanced econometric technique. For example, given past levels of sales and advertising, you could use the following equation:

$$\text{Sales} = a + b\text{Adv}$$

where a and b are unknown parameters that are estimated from the data. Although this postulates a very simple (and probably incorrect) linear relationship between sales and advertising, the statistical significance of b tells you whether advertising spending levels are importantly related to changes in sales over time. More sophisticated models enable you to incorporate other marketing-mix variables besides advertising, and nonlinear relationships permit the estimation of elasticities, competition, and interactions (e.g., the effects advertising might have on price sensitivity).

A number of studies done in this tradition have yielded some generalizable results.[40] Averaging across 128 studies, it appears that the average elasticity of current advertising on current sales is about 22 percent (i.e., a 100 percent increase in advertising leads to a 22 percent change in sales). The carryover effect (the elasticity of the impact of current advertising on future sales) is about 47 percent, indicating that the long-run impact is more important than its immediate effect.[41]

A number of companies have created real-time systems combining marketing mix modeling and decision calculus models. These systems take data being generated from retail sales information, have statistical model "engines" that continuously update empirical links between the sales and advertising (and other marketing) spending, and provide decision-makers with a computer interface that enables them to tinker with the advertising spending (i.e., perform "what-ifs" in a spreadsheet) to adjust spending according to sales response to advertising. An example is Marketing Management Analytics (www.mma.com).

Technology's Impact on Advertising

New technology is continuously being developed to deliver more creative and better-targeted advertising. While it is impossible to predict what will succeed and what will fail, here are a few examples of new approaches to advertising that are being tested:

- In Tokyo, Northwest Airlines (now merged with Delta Airlines) tested using billboards on the streets and in subway stations with ads containing bar codes that can be read by special readers on cell phones. These codes are unlocked by snapshots taken by the phone's camera, which then direct the phone's Web browser to coupons, games, or further information on the product.[42]
- Time-Warner Cable Inc. tested a system using the digital cable box to target different ads to different households. In fact, if a father and daughter are watching the same TV show but on different TVs, they can see different commercials.[43]
- Some companies are developing new digital technologies for showing images. Pulse (pulse3d.com) has online tools for turning a photo of any person or animal into a lip-synched talking head for ad campaigns. Zebra Imaging (zebraimaging.com) produces large promotional holograms that make images of objects or people three-dimensional, without special glasses.[44]

Executive Summary

Key learning points in this chapter include the following:

- Underlying marketing communications decisions are theories about how communications flow from sender to receiver.
- The concept of integrated marketing communications (IMC) has become central to the communications strategies of companies. The idea is that all communications activities, including advertising, promotion, and personal selling, must be coordinated in order to send a consistent message to customers.
- There are six aspects to managing advertising (6M model of communications): selecting the target audience, choosing the appropriate goals for advertising to achieve, deciding what message strategy is most appropriate for the product or service being marketed, selecting media and developing a media plan, setting the budget, and evaluating or measuring the effectiveness of the advertising.
- New communications technologies have made the decisions about which media to use much more complex.
- Advertisers are using multiple methods to better understand whether they are obtaining a good return on their communications spending.

Chapter Questions

1. Integrated marketing communications (IMC) is an important concept in marketing. What are the barriers to a marketing manager's implementation of IMC? If IMC is not achieved, what is the impact on the marketing strategy?
2. Find two different ads: one with an emotional appeal and one with a rational appeal. How would you design an advertisement for each of the two products with the opposite appeal?
3. Consider two different products: an industrial product and a consumer product. How would the media for these products differ? What would affect the advertising scheduling for these two products?
4. Suppose that a new communications program is being developed for your school. What would be the goals of this program? What information would you collect to measure the effectiveness of the program?
5. As noted in this chapter, although Web advertising spending has increased significantly, low clickthrough rates have discouraged many companies from expanding their Web advertising budgets. Go to several sites with banner ads, and pick some that you think are good and some that are not. Ignoring clickthrough, are they effective at achieving other communications goals? Why or why not?
6. Occasionally, companies will use media contrary to normal industry practice. For example, a B-to-B product might be advertised on network TV and a frequently purchased product would use no TV advertising. Under what conditions might this happen?

Key Learning Points

The purpose of this chapter is to introduce the various aspects of sales promotion decision making. Key areas of learning are:

- How sales promotion differs from advertising and other modes of communication
- The different types of sales promotions available to the marketing manager
- Differences among customer, trade, and retailer-oriented promotions
- Issues in the development of promotional strategy and objective-setting
- Allocating money between advertising and sales promotion

Automobile manufacturers such as Ford are heavy users of promotional incentives like inexpensive financing.
Source: David Zalubowski/AP Wide World Photos

chapter 11

Sales Promotion

Chapter Brief

General Motors made a dramatic turnaround in October 2000, increasing its U.S. market share from 28 percent to 30 percent.[1] Although it should have been a time for celebration, it was not. While sales increased, profits fell due to generous promotional incentives such as five years of 0 percent financing, costing the company about \$3,000 for each car sold. GM was not alone; DaimlerChrysler lost \$534 million in its third quarter due to similar incentives.

How did promotional incentives become so common in the auto industry? In the 1970s, the industry started offering them as a one-time incentive program as a reaction to consumer "sticker shock" from rising car prices. These continued unabated into the 1990s, where the rationale was to help the industry through the recession. However, by 2000, the industry recognized the hard truth. It is addicted to sales promotional incentives that lower prices. DaimlerChrysler, for example, tried to lead the industry in early 2000 by reducing such promotions, but when competitors did not follow its lead, the company lost market share.

In 2002, the trend toward rebates continued, particularly among the "Big 3" U.S. competitors: GM, DaimlerChrysler, and Ford. GM offered \$2,000 cash back on certain models, Ford offered a \$1,000 to \$1,500 loyalty "bonus" when a lease is renewed, and Chrysler was giving \$2,500 cash back on certain models. The incentives drove the companies' marketing costs out of control. Ford's marketing expenses as a percentage of sales rising to 16.7 percent in the final quarter of 2001, lead to a –5.8 percent pretax profit margin. The promotional programs are viewed as a way to keep manufacturing plants running, driving customers into car retailers and maintaining market share, albeit at a cost to the bottom line. While these programs were seen as a necessity after 9/11, when visitors to showrooms became scarce, observers were wondering if they were necessary later in 2002.

In 2005, the U.S. auto companies discovered a new kind of promotional program. Traditionally, the companies have given employees significant discounts on new cars. In 2005, Ford, General Motors, and DaimlerChrysler's Chrysler division instituted a program whereby anyone could get these employee discounts. Although the Big 3 considered eliminating these programs in favor of everyday low pricing with no discounts, the large rise in gasoline prices in late 2005 and the subsequent drop in sales in SUVs possibly meant a return to the cycle of raising sticker prices and offering significant discounts.

Fast forwarding to 2010, the U.S. auto companies are, of course, in terrible shape with Chrysler now a unit of Fiat, GM having just recently paid back its loan from the U.S. government, and Ford gamely continuing to operate independently. This is due to a combination of poor historical marketing decisions and the global recession. The average incentives offered by the major auto manufacturers for July and August 2009 are shown in Table 11.1. As you can see, GM's are in the same range (around

Table 11.1

Automobile Company Average Sales Incentives in 2009	August 2009	July 2009
Chrysler Group (Chrysler, Dodge, Jeep)	$ 3,018	$ 4,218
Ford (Ford, Lincoln, Mercury, Volvo)	$ 3,182	$ 3,311
General Motors (Buick, Cadillac, Chevrolet, GMC, Hummer, Pontiac, Saab, Saturn)	$ 3,343	$ 3,647
Honda (Acura, Honda)	$ 947	$ 1,281
Hyundai (Hyundai, Kia)	$ 2,504	$ 3,027
Nissan (Infiniti, Nissan)	$ 2,620	$ 2,608
Toyota (Lexus, Scion, Toyota)	$ 1,543	$ 1,310
Industry Average	$ 2,475	$ 2,706

Source: Reuters.com, September 1, 2009. © 2010 Edmunds.com, Inc. Reprinted with permission.

$3,500) as they were in 2000. However, the desperation level is much greater with the company's survival on the line. In addition, we had the "granddaddy" of all sales incentive programs in August 2009: the government-sponsored "cash-for-clunkers" program that was first tried in Europe. The program was so successful that the government's initial pool of funds was quickly exhausted and had to be replenished.

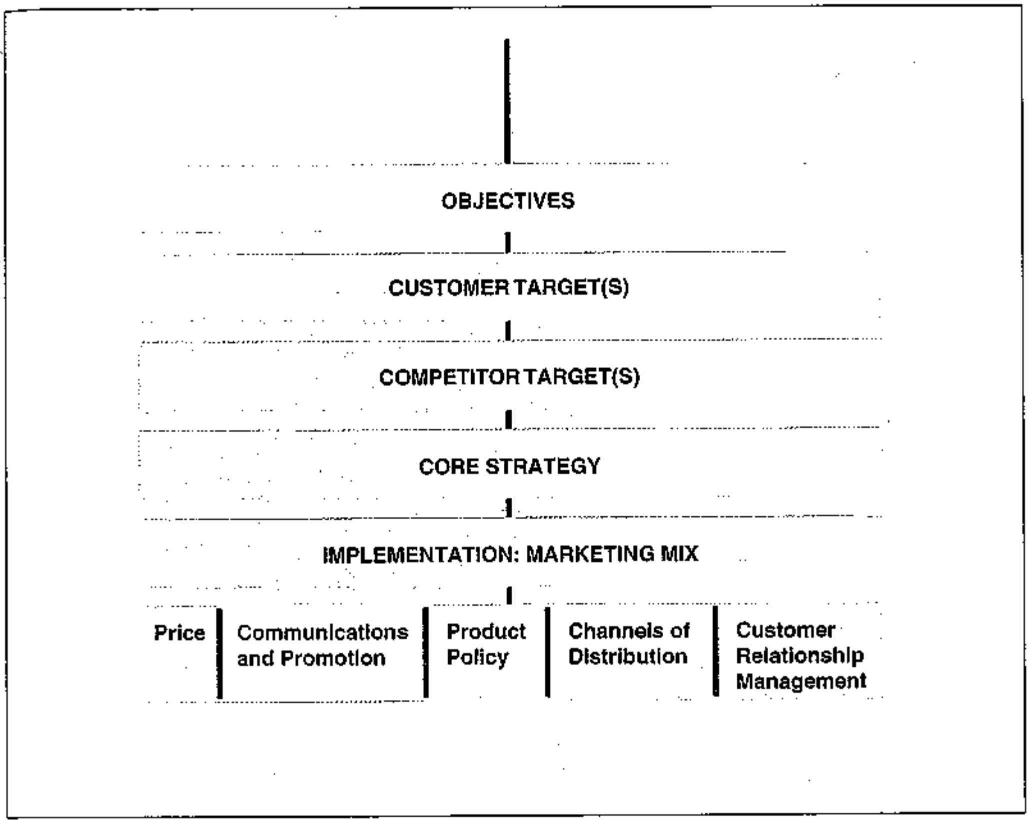
The marketing communications program most commonly involved with boosting sales in the short term is **sales promotion**, usually just called promotion. Following is a definition of promotion:[2]

sales promotion
Sales promotion is an action-focused marketing event whose purpose is to have a direct impact on the behavior of the firm's customers.
Source: Neslin, Scott A., Sales Promotion. Copyright © 2002 Marketing Science Institute. Reprinted with permission of the author.

Sales promotion is an action-focused marketing event whose purpose is to have a direct impact on the behavior of the firm's customers.

This definition can be broken down to shed some light on specific promotional activities and their purposes:

- **Sales promotions are action focused.** They are intended to get customers to purchase. This is perhaps their most distinguishing feature. In addition, they normally attempt to get customers to purchase within a limited period of time. For example, coupons are intended to encourage customers to purchase the brand by the expiration date.
- **Promotions are marketing events.** More precisely, they are discrete programs with well-defined beginning and ending dates that offer incentives to customers to purchase or use the product. A coupon campaign has a beginning or drop date as well as an expiration date. Contests and sweepstakes also run over a limited period of time. Both are considered events.
- **Sales promotions are intended to have a direct impact on behavior.** As we noted in Chapter 9, advertising usually works through a series of steps, or a hierarchy, from awareness to purchase. Promotions work directly on behavior. As a result, there is no question about how to evaluate the effectiveness of a promotional campaign or event: sales is almost always the measure of effectiveness. Although coupons do affect consumers' psychological processes, the objective is purchase or trial, not attitude change.
- **Sales promotions influence both consumers and customers.** It is important to note that customers include both end consumers and any channel members. Thus, certain promotional devices are appropriate for getting consumers to buy. Others, such as quantity discounts, are targeted toward channel members.



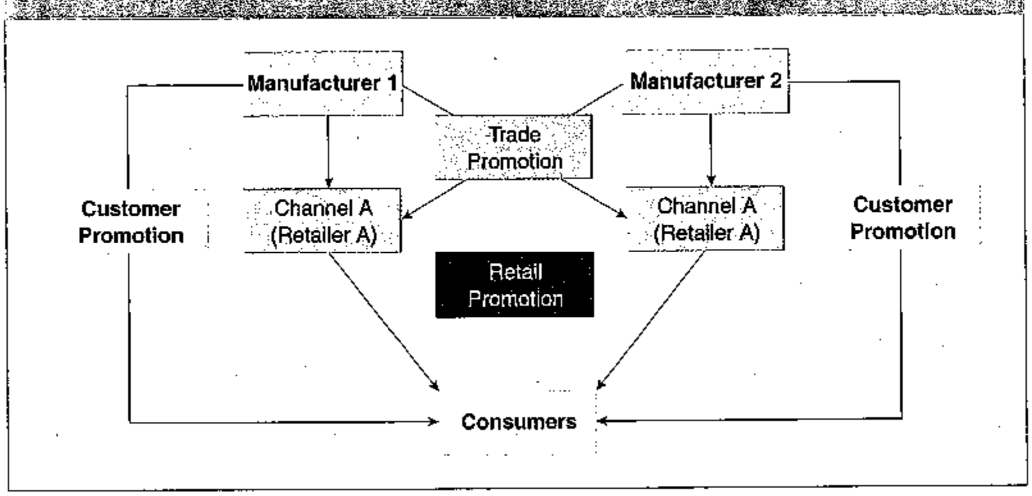
Although promotion is most closely related to price and logically follows the chapter on pricing, it is also part communications and part channels of distribution. We have already seen from the auto industry illustration how it is a pricing mechanism. Coupons, contests and sweepstakes, and other promotional devices not only have a pricing impact but they communicate information about the product as well.

To see how promotions interact with channels of distribution, Figure 11.1 shows a simplified channel structure in which the manufacturer sells to a channel (here a retailer), which in turn sells to the final customer (the consumer). In this situation, promotion falls into three categories:

1. Consumer promotion.
2. Promotion to the channels, or trade promotion.
3. Channel-originated promotion, or retailer promotion.

Figure 11.1

Simplified Channel and Promotional Structure



Customer promotion comes directly from the manufacturer. Trade promotion, in contrast, is directed at intermediate channels of distribution in an attempt to get them to stock more of a product and to commit their own efforts (e.g., sales force) to move the product through the next channel and ultimately to the consumer. Channel-originated promotion events are run by the channel itself, either to the next channel in the distribution chain or to final customers.

Therefore, sales promotion is related in an important way to the distribution channel issues we will discuss in Chapter 12, where Figure 12.1 shows the value-added chain used to develop the motivation for establishing a channel system. Promotion is used for both push and pull activities and is the primary vehicle for the former. Trade or push activities give the intermediaries incentives to carry and sell the product, whereas consumer-oriented or pull promotion gives customers a reason to come to the point of purchase and request the product.

For consumer-product companies that are the heaviest users of advertising and promotion, there has been a significant shift over time away from media advertising toward promotion. In 2008, promotion was 61 percent of the advertising/promotion budget while media advertising was only 32 percent, and these proportions have remained relatively constant over time.[3] Of the 61 percent, 24 percent was trade and 37 percent was consumer promotion. This significant proportion allocated to trade promotion is due to the increased power of the retail trade (to be discussed in Chapter 12), increased competition, and the mature state of many of these products (which increases the need for trade promotion to retain shelf space). The almost 2:1 ratio of promotion to advertising reflects the short-term, sales-volume focus that has pervaded the industry for many years.

Although sales promotion is usually associated with consumer products, B-to-B companies also spend a considerable amount of money on sales promotion activities. For example, when Microsoft launched its database software product, SQL Server 7, the company spent hundreds of millions of dollars for short-term promotions. This included a 50 percent discount to any customer that dumped IBM, Oracle, Sybase, or Informix and four months of the services of one of its database experts.[4]

Even though there is heavy spending on sales promotions for both consumer and business-to-business products and services, there is considerable debate about their effectiveness and efficiency. For example, Procter & Gamble is attempting to reduce its use of coupons because of their inefficiency (about 1 percent are redeemed) and costs of printing, distribution, and processing. Similarly, H. J. Heinz is attempting to reduce its dependence on trade-oriented promotion and make greater investments in advertising. Many companies complain about the problems of sales promotion but find it difficult to stop using it because customers have become used to the incentives. For example, when Procter & Gamble announced in January 1996 that, as a test, it would end all coupons in the upstate New York cities of Syracuse, Buffalo, and Rochester, the company encountered boycotts, public hearings, signature drives, and an antitrust suit from the state of New York accusing it of trying to get other companies to stop couponing as well. The test ended in April 1997. In addition, long-term studies of the effects of promotions show that consumers become more sensitive to price and promotions and less responsive to brand-building activities such as advertising.[5]

Types of Sales Promotion

Table 11.2 provides a list of specific retailer, channel, and consumer promotions. Figure 11.2 provides some examples of coupons that have been clipped from magazines or newspaper supplements. The one that is visible is a manufacturer coupon for savings of $1 on a purchase of two packages of the promoted product. Table 11.3 shows the kinds of consumer promotional events run in the major appliance industry. As can be seen, nearly all of the events are price oriented. These promotions are described in further detail here.

Consumer Promotions

The marketing manager can choose from three different types of consumer-oriented promotions. These are those that focus on price such as coupons, those that involve the product such as free samples, and special events such as contests.

Table 11.2

Types of Promotions

Consumer Promotions	Trade Promotions	Retail Promotions
I. Product based	I. Product based	I. Price cuts
A. Additional volume or bonus pack	A. Free goods	II. Displays
B. Samples	B. Consignment and return policy	III. Feature advertising
1. Central location (e.g., supermarkets)	II. Price based	IV. Free goods
2. Direct (e.g., mail)	A. Buying allowances	V. Retailer coupons
3. Attachment (in- or on-pack)	B. Financial terms	VI. Contests and premiums
4. Media placed (clip-and-send coupons)	III. Place based	
II. Price based	A. Slotting allowances	
A. Sales price	B. Display allowances	
B. Coupons	C. Warehousing and delivery assistance	
1. Central location (e.g., in-store)	IV. Advertising and promotion based	
2. Direct (mail)	A. Co-op advertising	
3. Attachment (in- or on-pack)	B. Selling aids	
4. In media	C. Co-op selling	
C. Refunds and rebates	V. Sales based	
D. Financing terms	A. Bonuses and incentives	
E. Frequent users	B. Contests and prizes	
III. Premiums		
IV. Place-based promotions (displays)		
V. Special events		

Figure 11.2

Sample Coupons

Source: Jim Barber/Shutterstock

Table 11.3

Typical Promotional Events Held in the Major Appliance Industry

Brand	Program	Products	Dates
Admiral	Buy & Try promotion offers 40-day money-back guarantee with appliance purchases.	Selected washers, dryers, refrigerators, and ranges.	Through December.
Frigidaire	Frigidaire Savings Spectacular offers consumer rebates of up to $100 with selected purchases. Also, Vacation Sweepstakes offers 4-day/ 3-night vacation getaways to a choice of 80 resorts with purchases.	Savings Spectacular Selected Frigidaire and Frigidaire Gallery appliances. Sweepstakes Precision Wash dishwashers.	Savings Spectacular: October 13–November 9. Sweepstakes: Through December 31.
General Electric	Bring your Kitchen To Life promo offers consumer rebates of $20 to $100 with selected purchases. Also free icemakers and water pitchers with purchases of selected refrigerators. GECAF offers no payments, no finance charges until April 1997 on appliance purchases.	Bring Your Kitchen To Life selected ranges, washers, dryers, microwave ovens, and dishwashers. Free icemakers/water pitchers. 12 refrigerators. Finance offer. Selected GE and GE Profile appliances.	Through December 1.
Kitchenaid	Cash-back offers with laundry appliance purchases, also, 6-month, zero-percent financing on selected purchases.	Cash back. Selected laundry appliances. Finance offer. Selected dishwashers and compactors.	Cash-Back: November 24–December 28. Finance offer: November 3–December 14.
Maytag	Free icemakers offered with purchases of two refrigerator models. Also, consumer rebates of $20–$100 on selected appliances.	Free icemaker. Refrigerator models RTD1900 and RTD2100. Rebate selected dishwashers and refrigerators.	Free icemaker: Through December 15. Rebate: Through September 30.
Whirlpool	Consumer rebates of $20–$30 with appliance purchases. Also, 6-month, zero-percent financing with purchases of selected cooking appliances.	Selected washers, dryers, and dishwashers. Finance offer. Selected freestanding gas and electric ranges and over-the-range microwave ovens.	Rebates: November 24–December 28. Finance offer: November 3–November 14.

Source: Twice (1996), October 7, p. 23. Used by permission, courtesy of TWICE.

Price-Oriented Promotions

couponing
a price-oriented promotion that offers a discount off the price of a product and is accompanied by a physical or electronic document indicating the amount of the discount

The dominant form of price-oriented promotion is **couponing**. The first coupon, an offer for a free glass of Coca-Cola, was distributed in the mid-1890s. In 2007, companies distributed $201 billion worth of coupons in the United States.[6] Unfortunately, as noted earlier, only 1 percent were redeemed. However, their use is widespread because 94 percent of all U.S. households report using a grocery coupon or some other coupon targeted toward supermarket products.[7] This high number has clearly been aided by the economic recession. In addition, most coupon usage is from a small percentage of U.S. households. One report indicates that 81 percent of the units purchased using manufacturer coupons came from just 19 percent of U.S. households over a six-month period in 2009.[8] As shown in Table 11.4, coupons are delivered to households in a variety of ways including mail, in newspaper and magazine advertisements, in the stores at the

Table 11.4

Where Coupons are Distributed	
Method	**Percentage**
Free-standing inserts	88.1%
Handouts	4.7
Direct mail	2.2
Magazines	2.1
Newspapers	1.2
In/On-pack	1.2
Internet	0.4

Source: Patricia Odell (2008), "Dishing Out Discounts," *Promo Mag*

point-of-purchase, on or in the packages, at the checkout counter, and electronically via the Internet. However, the largest distribution channel for coupons is by far free-standing inserts (FSIs), which accounted for 88 percent of all coupons delivered in 2008. A popular way to deliver FSIs is in Sunday newspapers. Many people just shake them out of the paper, but many others clip them religiously. The coupons shown in Figure 11.2 are from an FSI.

Although not used much yet, new coupon distribution methods are being developed based on new technologies. For example, the widespread diffusion of smartphones such as the BlackBerry and iPhone with wireless and Web capabilities have led to testing of coupon delivery via text messages. Two companies experimenting with this approach are Walmart's Sam's Club chain and JCPenney.[9] One application is to deliver a bar code which can be scanned at point-of-purchase.

With their high cost and a 1 percent redemption rate, why do marketers use coupons so heavily? There are two main reasons. First, coupons are an effective way to target discounts and other incentives to households that are particularly sensitive to price. Depending on how they are delivered, coupons permit marketing managers to price-discriminate, that is, charge different prices to different households. For example, by combining a computer database of purchase histories with a direct-mail program, marketers can target price-sensitive households. As any basic textbook in microeconomics shows, if consumer segments differ in price sensitivity, profits are maximized by charging high (regular retail) prices to price-insensitive customers and lower prices to price-sensitive customers. Second, coupons are flexible in that they can achieve different kinds of goals. Some, like the coupons shown in Figure 11.2, are simply discounts off regular price. Some discounts apply to larger sizes than the consumer normally buys. Some focus on product trial and repeat. More details about the many ways consumers obtain and use coupons are shown in Table 11.5.

E-coupons delivered through the web have become popular. People who surf the Web "clip" (print out) Web coupons from sites such as thecouponclippers.com, coolsavings.com, and coupondispatch.com. Virtual coupons have a much higher redemption rate than those delivered in the old-fashioned way, as high as 13 percent.[10] However, they are less than 1 percent of all coupons delivered. Nearly 57 percent of those who click on them or receive them via e-mail redeem them. Even using more conservative redemption estimates, the resulting promotional costs per product sold are less than half of those using offline distribution methods.[11] The four most popular product categories for e-coupons are groceries, books, health, and music.

There are also several drawbacks to coupons. First, because they are so common, there is no way to gain a competitive advantage using a coupon program. In fact, many product categories are characterized by the prisoner's dilemma described in Chapter 6. No competitor will reduce the amount of couponing for fear of a precipitous drop in market share. Second, the response rates are very low, so the expense per redemption is high. Third, there is considerable potential for fraud, ranging from counterfeiting to misredemption (merchants may intentionally or mistakenly take a coupon for the wrong

Table 11.5

Coupon Distribution and Objectives

Media distributed

Free-standing insert. A leaflet of coupons for various products that can be inserted into a (usually Sunday) newspaper.

Run-of-press (ROP) newspaper. Coupons that appear on the actual pages of newspapers rather than being inserted as a separate page or section. Often these coupons appear in an advertisement for a brand (these are called in-ad coupons).

Sunday supplements. Coupons that appear on the pages of a newspaper Sunday supplement magazine such as *Parade* and *Family Weekly*.

Magazine. Coupons that appear in magazines other than Sunday supplements, such as *Good Housekeeping*. The coupons can be actually on a page, or attached using special tip-in or pop-up cards.

Direct mail. Coupons are mailed directly to consumers using the U.S. Postal Service. One mailing usually includes several coupons from various manufacturers, although much more expensive solo mailings are possible.

Package

On-package. The coupon appears on the outside of the package and can be used for a subsequent purchase.

Instantly redeemable. The coupon is on the outside of the package and can be removed easily and used on the current purchase.

In-package. The coupon is inside the package and can be used for a subsequent purchase.

Cross-ruff. The coupon is for another brand, manufactured by the same or a different firm. The coupon itself can be in- or on-package.

Retailer distributed

Retailer coupons. Coupons distributed by the retailer rather than the manufacturer. The coupons can be distributed by ROP newspaper, included in "Best Food Day" circulars, or handed out in the store.

Coupon-dispensing machines. Manufacturer coupons are distributed by a machine located in the store. The machine displays which coupons are available and the shopper specifies which coupons he or she wants.

Direct Sales Impact	Retail Trade Related	Integrate with Advertising and Other Promotions	Use as a Strategic Tool
Attract new triers Attract brand switchers Increase category consumption Maintain or enhance repeat purchase rates Defend market share	Gain in-store promotional support Increase distribution Motivate the sales force More directly control retail price	Reinforce or enhance print media advertising Synergize with other marketing instruments	Preempt the competition Price discriminate Cushion a price increase Reach the appropriate target group Grain trial for another product

Source: Robert C. Blattberg and Scott A. Neslin (1989), "Sales Promotion: The Long and the Short of It," *Marketing Letters*, 1 (December), pp. 266, 269; with kind permission from Springer Science and Business Media.

brand). For example, the CEO of one coupon clearinghouse (companies that do the coupon redemptions for supermarkets and obtain the money from manufacturers) has been indicted on charges of cheating companies out of $250 million.[12]

Manufacturers run many other price-oriented promotions. These include price, value, or bonus packs, which may offer larger sizes for the same price as a smaller size, or two-for-one kinds of promotions in which the products are shrink-wrapped together. Refunds or money-back offers allow customers to get money back with proof of purchase. Not only automobile manufacturers but consumer durable manufacturers use these kinds of programs extensively. They are called rebates in many cases and offer substantial discounts from the normal retail price. Sometimes, these durable goods companies couch the discount in financing terms such as "no payments for 12 months" or simply lower financing rates. Even financial institutions provide such price-oriented deals to customers through special low-interest loans or reduced customer equity requirements. In-store discounts are also frequent and are promoted in end-of-aisle displays, shelf "talkers" (price signs posted on the shelf), instant pull-off coupons, and a variety of other ways.

Price-oriented promotions are obviously effective ways of motivating customers to buy your brand. However, such promotions may have negative effects on consumer behavior. First, price promotions can dilute brand equity because it is difficult to use advertising or other communications to trumpet the quality of your brand while you are discounting it. Second, product categories with frequent price promotions lead customers to be more price-sensitive. For example, 2009 data show that in the frozen bagel category, nearly 30 percent of all purchases were made using some kind of price promotion.[13] A third problem we have seen with the auto industry illustration is that customers become accustomed to manufacturer deals and time their purchases to coincide with them. The astute car buyer knows that it is only a matter of time before almost any manufacturer starts to offer incentives—instead of buying now, why not wait?

Application | Valassis

One of the largest companies behind the FSI coupon distribution method is Valassis. Its revenues during 2008 were $2.2 billion. The company derives its revenues from selling space in the FSIs to the leading packaged-goods companies (see Figure 11.2 for an example). The company's founder, George Valassis, invented FSIs in 1972, and they quickly became popular because they enabled companies to target customers with coupons by city and, eventually, by neighborhood.

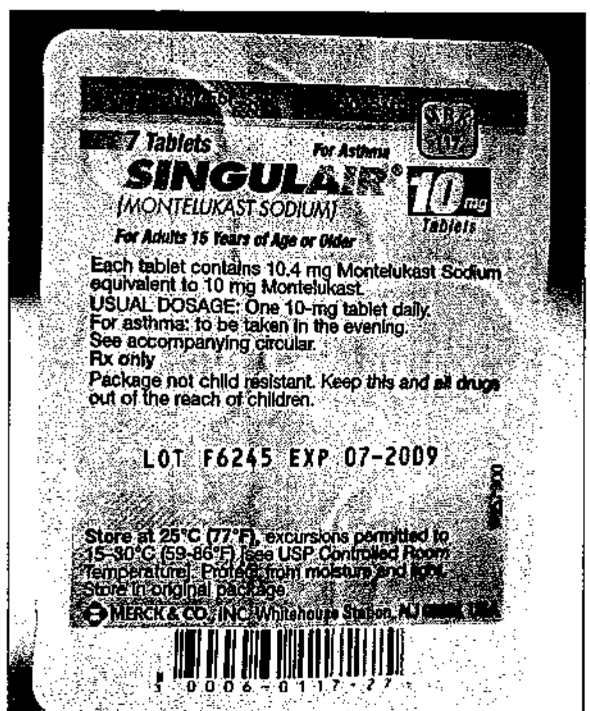
Although this seems like old-fashioned technology, the company uses modern database marketing tools to better target the ads. By capturing detailed coupon redemption and loyalty-card data from supermarkets (whose loyalty programs are managed using Valassis software), the shopping habits of 38 million households can be tracked. This allows the company to identify hot consumption areas for products and then provide manufacturers with that information so highly targeted coupon programs can be developed. Figure 11.2 provides an illustration of a Valassis-distributed FSI. In many geographic markets, Valassis is shifting from newspaper-delivered FSIs to direct mail due to the decline in circulation of many newspapers in major geographic markets like Los Angeles and Detroit.

product-oriented promotions
consumer promotions that give away the product itself or a closely related product

sampling
a product-oriented promotion in which a product is given away for free

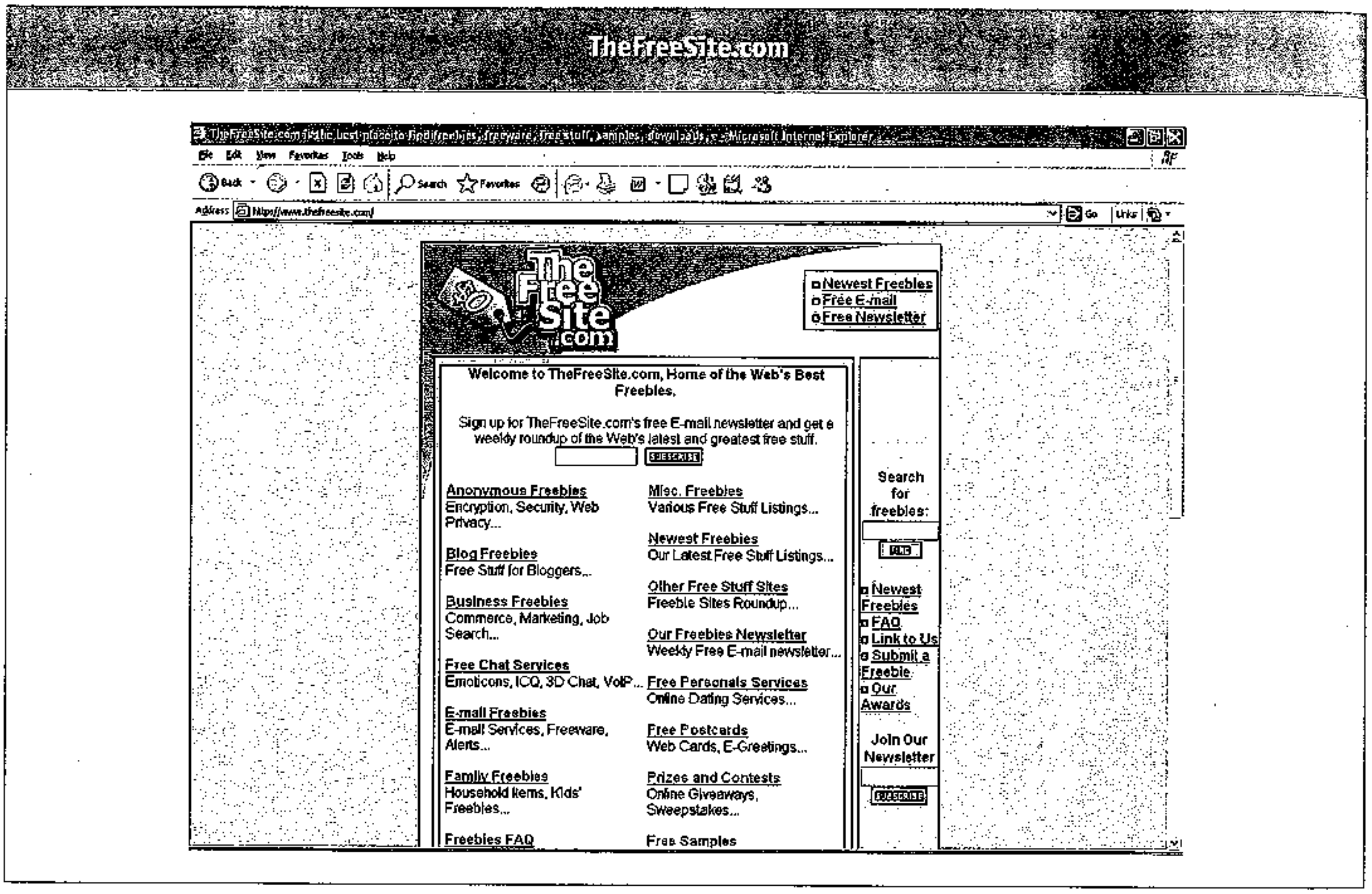
Product-Oriented Promotions

Product-oriented promotions give away either the product itself or a closely related product. Giving away the product free is called **sampling**. Sampling is clearly useful when a new product or brand is being introduced. Free samples are delivered to the home via the mail or delivery, in supermarkets, and on the street. Not only are grocery items sampled, but computer hardware and software companies often give free copies of their products to select customers as beta test sites to eliminate any bugs in the software or other product problems and stimulate early word-of-mouth. For example, Oracle was so interested in getting into the customer relationship management (CRM) business that it offered some of its sales force free contact software. Drug companies spend a substantial amount of money in free samples to physicians. In the cholesterol-reduction category in 2001, Pfizer spent $171.5 million on sampling programs for Lipitor, Merck spent $85.5 million on Zocor, and Bristol-Myers Squibb spent $76 million on Pravachol.[14] Overall, drug companies spent $18 billion on free samples to doctors in 2008. Services use sampling extensively. For example, the Web-based DVD rental company Netflix inserts free trial certificates in new DVD players. Amazon allows potential CD buyers to listen to free samples of songs. Most large consumer food companies like McDonald's, Dunkin' Donuts, Starbucks, and Coca-Cola use sampling programs extensively.



Sampling is particularly effective in gaining recommendations for new prescription drugs.
Source: Chip East/CORBIS-NY

Figure 11.3



Source: Used by permission, courtesy of www.TheFreeSite.com

Sampling has the obvious benefit of stimulating product trial because it gives the customer the opportunity to try the product free. A survey has shown that sampling is much more effective than coupons, advertising, and games or contests in helping consumers evaluate products.[15] However, it does have some serious shortcomings. First, sampling is obviously very expensive (however, small trial packs may be sold at cost to afford the company some revenue). Second, a sampling program may not target the right potential customers. People who distribute free samples are not discriminating about who receives them. This is particularly a problem for tobacco companies because trial packs could be given illegally to teenagers under 18 years old.

As is the case with coupons, free goods available as samples can be obtained through the web. Some sites that offer samples are:

- TheFreeSite.com (see Figure 11.3).
- Free-samples.com.
- Freecenter.com.

While this is fun for consumers and some paying customers could be created this way, the problems for the companies are that many people who are not in the target market for the samples are obtaining the merchandise and the kind of customer drawn to these sites does not want to pay for the product.

Application | Lcafe

The Lcafe looks like any other fashionable and trendy café in Tokyo's Shibuya district.[16] Although the usual food and drink is served, the café has a side purpose: introducing new products to affluent and influential young Japanese women.

It's called a marketing café; Sample Lab Ltd. opened the café to reach Japanese women in their 20s and 30s with information about and samples of new products. The idea is that once a woman tries and likes a new product, she will spread word-of-mouth and influence other women to buy. The women have to register via mobile phone and provide some personal information such as age and marital status. Once they are registered, the women earn tokens by purchasing food and drink. The tokens can then be redeemed at a "sample bar," where they get free samples of products such as a new vitamin-infused drink, skincare products, or a pretzel stick that comes in different flavors. While men are not prohibited, they are not allowed in the after-midnight hours (it is open until 4:30 a.m.) called "Cinderella Time." The company has plans to expand the Lcafe concept to other major Japanese cities including Yokohama, Nagoya, and Osaka and perhaps even internationally.

A second kind of product-oriented promotion is **premiums**. These might be free merchandise provided with the purchase (e.g., the toy in a Cracker Jack box) or some free or reduced-price item for which the buyer has to send proof-of-purchase, with or without money. Some of these promotions are quite elaborate. The soft-drink brand Mountain Dew sponsored a promotion focused on teenagers that offered a pager and free service for 12 months with a certain number of labels from two-liter bottles. The company then paged the customers with a number they could call for reduced prices on a variety of teen-oriented merchandise sold by other vendors. These kinds of promotional programs are popular but have low response rates and uncertain impact on sales. In addition, in a world increasingly populated by such promotional events, it is becoming more difficult to find unique concepts. Fulfillment can sometimes be a problem. Procter & Gamble ran a repeat-purchase-oriented promotion for its Pampers brand of disposable diapers, where parents obtained points from each purchase redeemable for Fisher-Price toys. Unfortunately, too many parents participated and the company ran out of the toys. This angered many customers, some of whom subsequently switched to Kimberly-Clark's Huggies. The fact that the snafu was widely publicized possibly hurt the brand more than the promotion helped.[17]

premiums
a product-oriented promotion in which free merchandise is provided with a purchase or some free or reduced-price item is made available

Application McDonald's

In April 2002, McDonald's started a promotion featuring the Madame Alexander doll, the most expensive toy in the history of the Happy Meal.[18] Little girls who ate at McDonald's received the toy, a miniature version of the eight-inch doll that sold for $50 or more at FAO Schwartz and Neiman Marcus. For $1.99, girls received a burger, fries, and a drink, plus a $4^3/_4$-inch doll that was available in eight characters including Little Red Riding Hood, Peter Pan, and others. Boys received a Matchbox class car that retailed for as little as $1.29.

What was interesting about this promotion was that the company offered a better toy in the girls' version of the Happy Meal in order to attract them over the long term. The most loyal and heaviest consuming group of McDonald's customers is young men. However, the company has had problems retaining girls. The data show that 45 percent of 6- to 8-year-old girls say McDonald's is their favorite restaurant, while only 22 percent of 9- to 11-year-olds say that. On the other hand, 47 percent of 6- to 8-year-old boys prefer McDonald's to other hamburger chains; the number drops only to 37 percent in the 9- to 11-year-old group. The doll promotion was part of an overall push by the company to target young females and include changes to the menu.

Special Events

Contests and sweepstakes fall into this category of promotions. Every year, Publishers' Clearing House runs a sweepstakes in which the product being sold is magazine subscriptions but the main enticement is the opportunity to win a million dollars. Contests involve competition among consumers (e.g., the first customer to name a song after hearing a few seconds of it on the radio wins a prize). These activities obviously create excitement and may get some new customers to try your brand. However, the response rate to these promotions is often low and they usually do not attract large numbers of entries. In addition, sweepstakes have a bad image because many consumers are suspicious about the prizes actually being awarded (by law, consumers can obtain a list of the winners) and whether they have a chance to win even if they do not buy the product (by law, they do).

Other special promotions are tie-ins to sports events and movies. Corporate sponsorships of tennis and golf tournaments, car races, and other events provide not only communications opportunities but also merchandise giveaways (i.e., sampling). Blockbuster movies are usually accompanied by merchandising involving toys at fast-food chains. Such promotions stimulate interest in the movies and sales at the retailer or restaurant.

More and more companies are using events and sampling simultaneously to create word-of-mouth or "buzz" about their brands. The companies employ people in the target audience to make contact with other targets and encourage them to talk to their peers. As an example, when Ford introduced the Focus, the company recruited some people it considered to be trendsetters in a few markets and gave them free use of the car for six months. Other than the free use of the Focus, the recruits talked up the car and handed out Focus-themed trinkets to anyone expressing an interest.[19]

Trade Promotions

trade promotions
sales promotions oriented toward the channels of distribution in an effort to get the channels to carry and promote the product, often including devices such as sales contests, quantity discounts, and training programs

Like customer-oriented promotions, **trade promotions**, or incentives offered to the members of the channel system, can also be divided into groups based on their characteristics.

Product-based promotions include free goods and generous return policies. Return policies allow the channel to return unsold merchandise for a full or partial refund, reducing the risk of carrying the product.

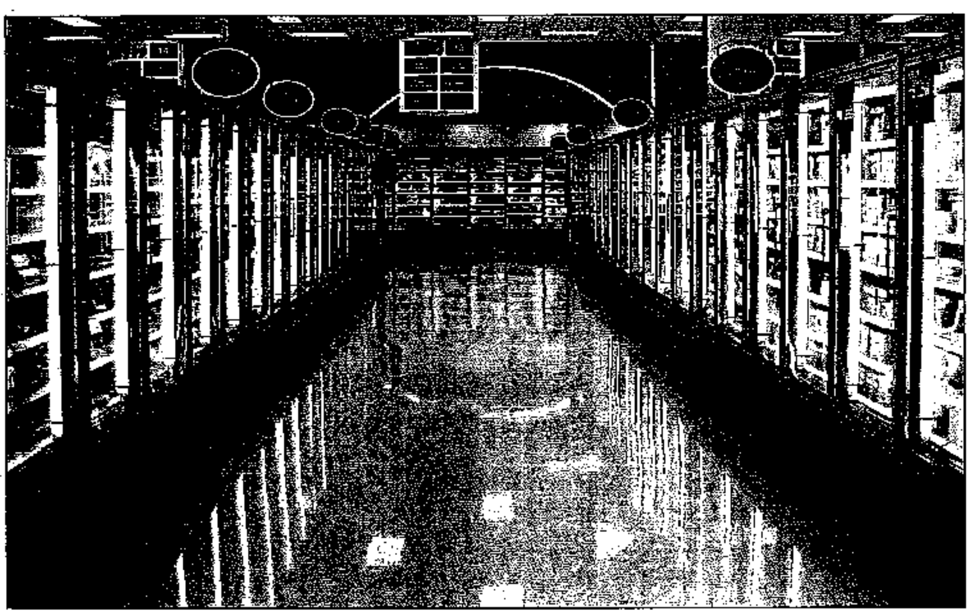
Price deals include various volume discounts and allowances, as well as financing terms such as a long period of time before payment is due or below-market interest rates. The most commonly used trade promotions are off-invoice allowances. The purpose of an off-invoice allowance is to give the channel member a discount on orders for a fixed period of time. Sometimes there is a performance requirement in which the channel member must sell a certain amount of the product during the promotion. Another variant of the allowance form of promotion is count/recount, which provides an allowance based on sales and is therefore given after the promotion period rather than before.

market development funding
any money a company spends to help channel members sell their products

Place-based allowances are especially important for consumer packaged-goods companies. Often, the money a company spends to help the channel members sell its products is called **market development funding**. Display allowances compensate retailers for prominently displaying and promoting goods. An excellent example of a very effective sales tool is the egg-shaped display for L'Eggs hosiery. Another example is the efforts by Zenith to help sell digital video disc (DVD) players. Zenith arranged a countertop merchandising display stocked with two copies of six DVD movies at cost ($199) to demonstrate the video quality of the machines.

The largest amount of market development funds is spent on slotting allowances, which are payments to store chains for placing a product on a shelf. These have become increasingly important as power has shifted from manufacturers to retailers. About $60 billion per year is spent on these promotions. Slotting fees, charged to manufacturers, have reduced the number of competitors in many product categories and have been particularly hard on small companies, for which the fees, up to $25,000 per item per chain, can become prohibitive. The retailers claim that the slotting allowances are risk payments for new products: because most new products fail, the payments compensate the retailers for their low sales.[20]

Slotting allowances are effective at gaining retail shelf space, particularly for areas like the freezer display in supermarkets, which have limited capacity.
Source: Martin Diebel/Getty Images, Inc.—Liaison



Prior to 2002, it was impossible to know how much money companies were spending on slotting allowances, because the amounts were bundled into other expenses subtracted from gross sales. However, a change in U.S. accounting practices in 2002 provided a one-time opportunity to see how much money companies were spending on slotting allowances, as they had to take a charge on earnings. The results were pretty startling. For example, Kraft spent $4.6 billion or 14 percent of sales, PepsiCo $3.4 billion or 13 percent of sales, and Kellogg $1.3 billion or 15 percent of sales on slotting allowances.[21] Unfortunately, companies have not had to permanently break out slotting fees on their financial statements, which will make it very difficult to get good numbers on how much is being spent on this type of trade promotion in the future.

Companies often provide cooperative advertising money to retailers. In this arrangement, the company and the retailer share the expense of the retailer advertising the company's products in the local market. The retailer sends the company tearsheets of the print ads or the tapes of TV and radio ads to prove that the advertising was actually run, and the company reimburses the retailer for a percentage of the expense. The most common arrangement is a 50–50 sharing and the second most common is the company paying 100 percent of the local expense. These two arrangements account for about 95 percent of all co-op contracts.[22]

Finally, there are sales-based incentives, such as bonuses to the channel for meeting or exceeding a quota. Sales incentives can also take the more controversial (and in some cases, forbidden) form of direct prizes or bonuses (sometimes called "spiffs" or "push money") to the channel's sales force. The problem with spiffs is that the salesperson's financial interests in selling a particular brand or model can outweigh the customer's needs.

Of all of the trade promotions mentioned, price-based ones carry the most risk to the company. In some cases, a company running a price-based promotion gives an incentive to the retailer to carry the product but also would like the retailer to pass some or all of the savings along to the end-customer (the amount a retailer passes along to the customer is called the pass-through). By law, the company cannot force the retailer to do this. Therefore, in many instances price-oriented promotions simply result in the retailer or distributor "forward buying," or stocking up on the product at a discount while the promotion is running and then selling the inventory at the regular price. The company gains sales at the time the promotion is run, but this bump in the sales curve is temporary because the channel must sell the inventory eventually, resulting in lower sales by the company later. Only if the promotion has long-term effects (i.e., if a customer switches because of the promotion and continues to buy the brand) will the company be better off.

Application | Clorox

Just as consumers and companies have become addicted to promotions in the automobile industry, retailers and distributors in packaged goods have grown accustomed to receiving trade promotion money and manufacturers to giving it.

The Glad family of products was purchased by Clorox from First Brands in 1998.[23] Under its former management, Glad received little media advertising support but heavy trade promotion and couponing. Clorox managers felt that the brand could be revitalized with an increased emphasis on advertising and a reduction in trade promotion. The company commissioned its advertising agency to create a new campaign that would remind consumers of the classic "Don't Get Mad, Get Glad" campaign that had been developed in the 1970s. Along with new advertising and increased spending, Clorox added new products to the Glad line, including a "Stand-and-Pour" freezer bag and an "Odor Shield" garbage bag.

In 1999 and again in early 2000, Clorox cut trade promotion dollars for Glad to compensate for rising materials costs. However, competitors did not follow its lead. As a result, retailers reacted by withdrawing merchandising support, and Glad sales dropped precipitously. By October 2000, Glad's sales were down 10.3 percent in trash bags, down 10.6 percent in food-storage bags, and down 23.2 percent in lawn and leaf bags. Clorox finally decided to restore the trade promotion and couponing money while keeping the new ad budget.

Retailer Promotions

Through **retailer promotions**, retailers often provide direct incentive to customers to buy. Most of these are simply the retail version of either the customer or channel promotions described previously. For example, a retailer can provide its own coupons or price reductions (see Figure 11.1). In addition, retailers have embraced loyalty or continuity

retailer promotions short-term financial incentives to purchase provided by retail channel members

End of aisle displays or endcaps are a popular form of retail promotion.
Source: David Young-Wolff/ PhotoEdit Inc.

point-of-purchase (POP) advertising
a form of retailer promotion that includes information related displays and other company-paid advertising inside the store

programs designed to get customers to be store loyal. For example, some price reductions are available only to holders of Price Chopper's Diamond Value Card. The customer's card is scanned in after the groceries have been scanned and the customer receives the discounts (in addition to any coupon discounts) on the spot.

Another form of retailer promotion is the special display. There are four general types of displays. End-of-aisle displays, or endcaps, are popular and may feature an accompanying price cut. Displays in the front of the store are seen as the customer enters. Some displays are in the store aisles themselves. A fourth kind is a shelf "talker," a sign hanging on the shelf with information, usually about a special price. These special displays and other company-paid advertisements inside the store (e.g., announcements for contests and sweepstakes, information about recipes, etc.) are called **point-of-purchase (POP) advertising**.

Like the price-oriented promotions run by companies, retailer promotions can be effective in getting customers to increase their purchase quantities, switch brands, and change their purchase timing. Of course, retailers are focused more on their own stores than on the company's brands, and company-distributed coupons can be redeemed at any retailer. However, these promotions have the same drawbacks as any price promotion. Although volume is generally increased, brand names can be diluted, brand loyalty eroded, and price sensitivity increased.

Although retailer promotions are effective, some grocery stores are beginning to reduce them because they are finding that busy consumers are less willing to spend time searching for deals in different stores. As a result, they are resorting to an EDLP (everyday low pricing) strategy. This is also an attempt to be more competitive with Walmart and other stores that reduced prices during the recession.

Promotion Strategy, Objectives, and Evaluation

Promotion decisions involve strategic considerations in terms of when it is and is not appropriate to use them. In addition, marketing managers should set objectives for promotional programs and, based on those objectives, evaluate whether or not the promotional program achieved the stated goals. These considerations hold for both customer and trade promotion.

Customer-Oriented Promotions

Strategic Issues

Because of the short-run nature of customer-oriented promotions and some of their problems (particularly those of price promotions), it may not be in a company's best interest to engage in heavy customer promotion spending. When a new product is being launched, customer-oriented promotions are critical to creating awareness and gaining customer trial, and are thus very valuable. Promotions for existing products have been found to have a large impact on sales and other objectives, but most evidence shows that these effects are temporary and are lost when a competitor retaliates with an in-kind promotion.

The promotion dilemma is similar to the prisoner's dilemma discussed in Chapter 6. If category sales are fixed—that is, if marketing expenditures do not increase primary demand and, in the short run, dropping expenditures does not cause demand to decrease to the benefit of other product categories—and marketing managers are interested in profits and margins rather than market share, all companies are obviously better off at a low level of expenditure. However, short of collusion (which is illegal in the United States), cooperation is risky. As a result, because each participant is wary of losing market share, category promotional expenditures remain high. As a result, managers should approach the use of price promotions with caution and an understanding of the costs as well as the benefits.

Objectives

As we noted earlier, promotion typically takes the short-run view. Even when the marketing manager has longer-term interests such as a sustained increase in market share, the operational objective of most promotions is to generate an immediate increase in sales. Table 11.6 shows some goals that are particularly relevant for promotion.

For example, if awareness is a problem, a company can run a promotion such as a game or sweepstakes designed to increase awareness of a product rather than to increase immediate sales. Similarly, a company can run a tie-in promotion (e.g., with a movie) that may improve brand image in addition to raising current sales. However, such relationship-building motives account for only a small percentage of promotion money spent.

By far the most common objective of a consumer promotion is a short-run transactional goal. The objective is usually stated in specific terms, such as "to increase sales 20 percent in the March–April time period." This statement should be qualified in two ways. First, you need to specify from what level sales should increase. Second, you must select the target customer. You can focus on getting current customers to buy more volume (expanding the market through a market penetration strategy), capturing occasional but not loyal customers (improving share of customer's wallet), or generating sales from current noncustomers (market penetration if customers are diverted from the competition or market development if they are new customers to the category). Many promotions focus on current customers, attempting to get them to buy more through a volume discount, to be more loyal (using coupons or frequent-user programs), or to accelerate their purchases and buy soon (rebate-type promotions).

Attracting occasional customers, typically through temporary price cuts such as coupons and rebates, is effective but also expensive. This expense not only produces lower margins on the sales to occasional customers, but may also lower margins on sales that would have been made in the absence of the promotion to occasional or regular customers. As a result, a major concern is how to target promotions to competitors' customers alone.[24] Promotions to noncustomers are generally used when a product is new (or "new and improved") or when there is a need to induce brand switching, as when the brand of interest has low market share. For example, Pepsi might run a promotion where consumers receive a coupon for its brand when Coke is purchased. Promotions

Table 11.6

Customer Promotion Objectives

I. Short-run (transactional)
  A. Current customers
    1. Buy more
    2. Buy more often
    3. Buy now
  B. Occasional customers (brand switchers)
    1. Capture next purchase
  C. Noncustomers
    1. Trial
II. Long-run (relationship building)
  A. Awareness enhancement
  B. Image enhancement

can be effective devices for generating such trial behavior. In a sense, targeting noncustomers implies a long-run, relationship-building objective, not the usual short-term objective. However, most marketing managers will accept a short-term gain in switching and hope that product satisfaction leads to more purchases down the road.

Evaluating Customer Promotions

As we have emphasized earlier in this book, marketing managers are becoming more accountable for their expenditures because senior managers are demanding accountability for this money in terms of return on investment. In the trade promotion area, for example, Nestlé is demanding accountability from retail stores that take $80 billion annually from all companies. The company plans to enforce new minimum-performance requirements that retailers must meet to receive promotional funds that were given away freely in the past. The move by Nestlé is similar to those made by Kraft Foods and Hershey Foods.[25]

The most appropriate way to evaluate promotions is to develop measures consistent with the objectives that they are supposed to attain. A price promotion that increases sales 30 percent but fails to attract a substantial number of new customers may be a failure, because it mainly rewarded existing customers when the goal was to obtain new ones.

The easiest approach to evaluating customer promotions is to look at the incremental results of the variable that has been set as the promotion's goal. This method provides a useful starting point, but may lead to an overestimate of the benefit of promotion as it ignores both where the sales come from and the long-run benefit of promotion.

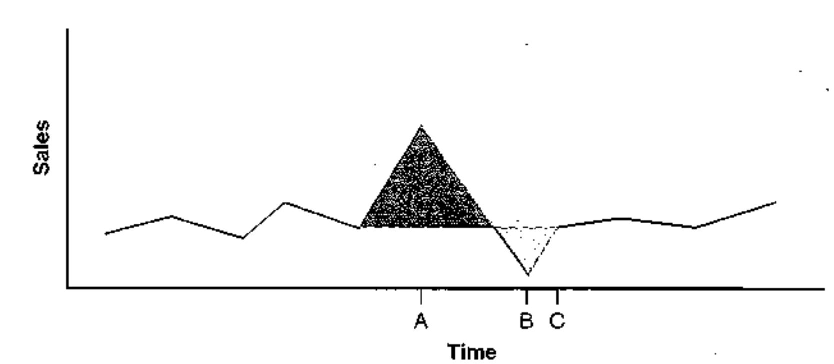
A standard approach to measuring the impact of a sales promotion is tracking the before-and-after results. Assuming a sales objective for the promotion, Figure 11.4 shows a typical tracking study, with point A on the horizontal axis representing the time when the promotion (e.g., a coupon drop) is given to end-customers. Tracking studies such as these are common because the effects of a sales promotion often show up quickly.

Unfortunately, marketing managers tend to look at the shaded area above point A in Figure 11.4 as the only measure of the impact of the promotion. This kind of simplistic analysis has several problems:

- The gain could be offset by the dip at point B, representing the possibility that consumers have merely increased their home inventories and will not need to buy again soon.
- The gain must be compared to a base amount—the amount of sales that would have been generated had the promotion not run. This baseline is difficult to calculate because it can change depending on time of year, competitive conditions, and other factors.
- The analysis does not account for other factors in the marketplace such as advertising and other promotions run simultaneously, sponsored by both the product in question and the competition.

Figure 11.4

Evaluating Sales Promotions: Tracking Studies



Thus, although the return-on-investment of promotions are easier to analyze than advertising, there are still complicating factors.

Sales increases from customer-oriented promotions may reflect accelerated purchases by loyal buyers (who would have bought the brand anyway) rather than new sales volume from brand switchers. One approach to evaluating coupon promotions, for example, looks at purchase acceleration and brand switching as well as the impact of consumer promotions on regular purchasing.[26] A coupon can have several incremental impacts in the period in which the program is launched:

- **Accelerated regular purchases.** Regular buyers of the brand simply buy sooner.
- **Accelerated captured purchases.** Purchasers who would not have bought at the time or bought the promoted brand are persuaded by the promotion to do both.
- **Unaccelerated regular purchases.** Regular buyers use the coupon as a "bonus" price cut.
- **Unaccelerated captured purchases.** Purchasers of other brands switch to the promoted brand because of the promotion.

Obviously, accelerated and unaccelerated captured purchases are pluses for the marketing manager because they are new business. However, for unaccelerated regular purchases, the amount of the coupon (plus redemption costs) comes out of revenues. Accelerated regular purchases are potentially but not necessarily negative. If subsequent sales are depressed as a result of increased inventory, there is no benefit except for a slight time value of money advantage. If most of the purchases fall in this category, it would explain the post-promotion dip found in Figure 11.4. One possible benefit of promotion is that captured buyers will remain loyal and purchase the promoted brand again later. It is also possible that purchase quantity could increase if the coupon was focused on larger package sizes. In any event, the point is that in evaluating such a program's effectiveness, it is necessary to estimate both the overall magnitude of the impact (i.e., sales) and the source of the additional sales.

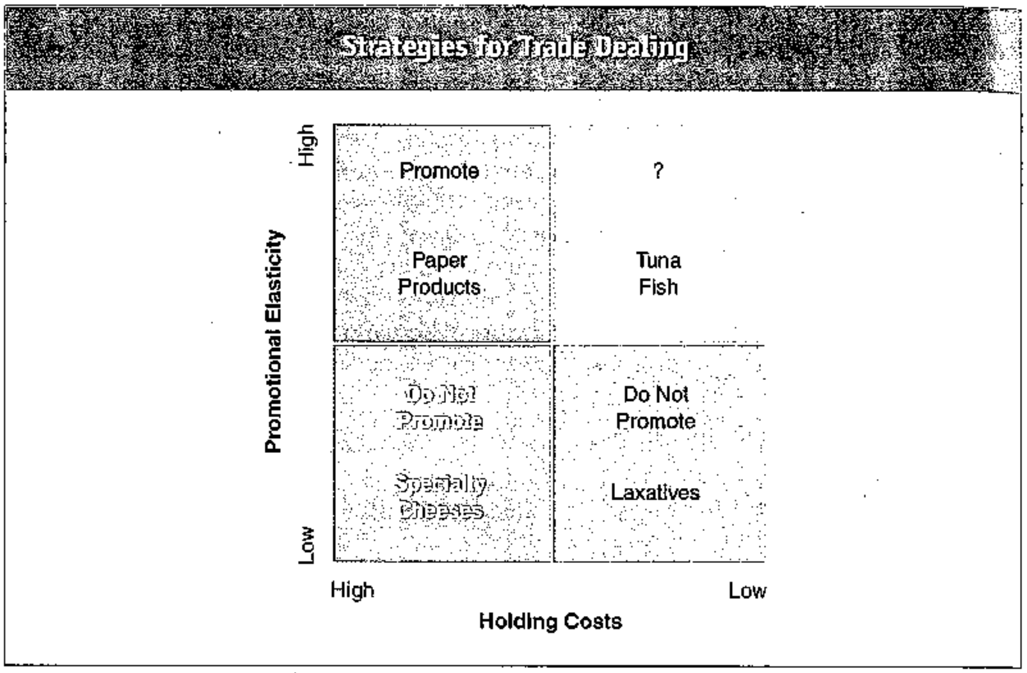
Trade Promotion

Strategic Issues

As we noted earlier in this chapter, trade promotion is the largest part of the advertising/promotion budget. Most firms feel that such promotion expense is simply a cost of doing business. However, given its high cost, it is useful to approach trade promotion from a strategic perspective, with some ideas about when it may or may not be useful.

Such a framework is shown in Figure 11.5. The two axes of the figure are the holding costs to the channel member (i.e., how much it costs the channel member to hold inventory) and the promotional elasticity of the end-customers. When holding costs and price elasticity are high, the manager should use trade deals. This is because the channel member will not want to keep a large inventory and the deal gives the member an incentive to stock the product. Given the price elasticity, the channel member will pass the savings on to customers to help clear the inventory. Paper products, soft drinks, and personal computers fit this cell. The lower-right-hand cell is straightforward. There is no incentive to trade deal when the channel member will simply forward buy to build inventory at a low cost and the customers are not interested in price promotions, so there will be no pass-through of the savings. An example of this kind of product is laxatives. Products with high holding costs and low price elasticities also should not have much trade promotion. It is clear that neither the channel member nor the company has an incentive in this cell. Produce items such as cheese, lettuce, and bakery items fit this cell. With low holding costs and high elasticities, the channel will want deals for forward buying. There is also more likely to be pass-through of the deal because price elasticity is high. In addition, even if the company does not want to use trade deals in this situation, competition will probably force it anyway. This describes canned tuna and many other supermarket items that are not bulky and have low economic value.

Figure 11.5



Source: Robert C. Blattberg and Scott A. Neslin (1990), *Sales Promotion* (Englewood Cliffs, NJ: Prentice Hall). Reproduced by permission of Pearson Education, Inc.

Objectives

Common goals for trade promotions are shown in Table 11.7. Perhaps the most important trade promotions are those that motivate the channel member to market your product through advertising, selling, or display. By taking the channel member's perspective (see Chapter 12), you can see that the channel member will be more proactive in promoting the products of companies that are giving more incentives for doing so. Recall that both push and pull activities are necessary for a successful channel system. Promotional incentives are also given to the retailer's sales force. A recommendation by such a salesperson often affects a customer's purchase decision if the customer does not have a brand name in mind when entering the store. Some retail promotions are

Table 11.7

Objectives of Trade Deals
Induce retailers to offer a price discount.
Induce retailers to display the brand.
Induce retailers to advertise the brand.
Offer incentives for the retailer's or dealer's sales force to push the brand to the customer.
Gain or maintain distribution for a model or item within the product line.
Gain or maintain distribution for the brand.
Load the retailer, dealer, or distributor with inventory to avoid out-of-stocks.
Shift inventory from the manufacturer to the channels of distribution and the consumer.
Avoid permanent price reductions.
Defend the brand against competitors.
Induce price fluctuations into the market.
Finance retailer inventories.

Source: Robert C. Blattberg and Scott A. Neslin (1989), "Sales Promotion: The Long and the Short of It," *Marketing Letters*, 1 (December), p. 314; with kind permission from Springer Science and Business Media.

intended to load the retailer or channel member with inventory. This makes out-of-stocks less likely, gives the channel member an incentive to push the product further down the channel system, may account for seasonal surges in demand, and reduces the manufacturer's holding costs.

A particularly important purpose of retail-oriented promotions is to gain or maintain distribution. When a new brand is introduced or when the product category is new, gaining distribution is critical to giving customers access to the product. When a product category is in the decline stage of the life cycle or when a brand's sales are declining, the channel member will begin to consider replacing it with a product that provides greater profit. In order to maintain the profit level of the product to the channel member and keep the product on the shelves, the marketing manager often uses price-oriented promotions to compensate for the decline in sales.

Evaluation

One approach to evaluating trade promotions is tracking before-and-after results. In this case, the baseline sales level is defined as the volume that would have been sold to the channel member in the absence of the promotion. Although it is subject to most of the same limitations of the analysis of customer promotions, one advantage in this context is that few other marketing-mix elements target the channel members, so it is not necessary to separate the effects of different programs. For example, advertising normally targets end customers, not channel members.

An important criterion for evaluating trade promotions is how often a retail promotion is run when the channel members receive some kind of deal. The company's sales force must convince retailers not to load up in inventory and pocket the discount, but to pass it along to end customers. Majers, a subsidiary of A.C. Nielsen, has a service that helps companies track pass-through from trade deals. Majers records all retail promotions in a geographic market for different consumer product categories. Reports indicating the company's share of promotion by retailer and for the total market are generated and used by the sales force to gain cooperation from retailers. These reports evaluate the performance of both the retailers and the sales force.

Application Procter & Gamble

As a result of the strategy and objectives set by the marketing manager, a promotion plan or schedule for a planning period is developed. A template for such a plan is shown in Table 11.8. It is based on a new product introduction by Procter & Gamble and it shows the range and number of kinds of promotions typically considered by a large packaged-goods company. The consumer and trade promotion options for introducing the brand include:

- **Trade allowances.** The sales force advised the brand manager that a $2.70/case trade allowance on all sizes in the first three months was necessary to stimulate initial stocking, in-store displays, and newspaper feature advertising by the channels.
- **Sampling.** P&G considered sampling, particularly through the mail, to be the most effective trial-inducing promotion device.
- **Couponing.** The brand manager could mail them directly to the target audience, deliver them through a co-op program mailed with other product coupons, place them as free-standing newspaper inserts (FSIs), put them in magazine print ads, or offer them through Best Food Day (BFD) editions of local newspapers.
- **Special pack promotions.** Four options considered were trial-size packs (small containers the consumer bought at deep discounts), prepriced packs (trial-size packs of the smallest container), price packs (discounts offered in special displays), and bonus packs (extra detergent for a smaller-package price).
- **Refunds:** The brand manager could develop a program whereby consumers received money back for multiple purchases.
- **Premiums.** These include on- or in-pack (on or in the package), near-pack (displayed on a shelf near the product), free-in-mail (merchandise offered with proofs-of-purchase), and self-liquidators (consumers send in money for a premium, which covers the costs of the promotion).
- **Sweepstakes/contests.**

In addition to the particular promotions that would be run, the brand manager has to be concerned with the timing of the promotions over the introductory year. The sales promotion plan template shown in Table 11.8 can be used to schedule the different promotions in the appropriate months and track their costs.[27]

Table 11.8

Sales Promotion Plan

	Timing														
Event	Jan.	Feb.	March	April	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Number of Weeks	Average Volume	Cost
Stocking allowance															
$/Physical case															
Trade allowance															
$/Statistical case															
Sampling															
6 oz															
3 oz															
1.5 oz															
2 × 0.75 oz															
Couponing															
Mail															
Single															
Co-op															
Extended															
FSI															
Single															
Full page co-op															
2/5 page co-op															
BFD															
Magazine															
Special pack															
Price pack															
Bonus pack															
Trial size															
Refund															
Print															
Point-of-sale															
Direct mail															
In- or on-pack															
Own brand															
Other brand															
Premium															
On- or in-pack															
Near-pack															
Free-in-mail															
Self-liquidator															
Partial liquidator															
Group promotion															

Source: John A. Quelch (1983), "Proctor & Gamble (B)," Harvard Business School case #9-584-048, p. 24.

Table 11.9

Sales Effect of Deal Discount, Feature Advertising, and Displays

	Discount			
	0%	10%	20%	30%
No merchandising	100	177	313	555
Display	113	201	356	631
Major ad	185	327	580	1028
Display and line ad	254	451	799	1414
Display and major ad	309	548	971	1719

100 = Base sales when no promotions occur.

Source: Robert C. Blattberg and Scott A. Neslin (1989), "Sales Promotion: The Long and the Short of It," *Marketing Letters*, 1 (December), p. 83; with kind permission from Springer Science and Business Media.

Retail Promotion

Because they are mostly intended for end-customers, retail promotions have the same strategic aspects, objectives, and measurement approaches as other end-customer promotions discussed earlier in this chapter. However, the focus of retail promotions is on the retail store or chain rather than a specific brand.

One unique feature of retail promotions is the impact they can have on purchasing decisions right in the store. The Point-of-Purchase Advertising Institute (POPAI) periodically studies the in-store habits of customers in mass-merchandise stores and supermarkets. Its 1995 study found that 70 percent of supermarket shoppers and 74 percent of mass retailer shoppers chose purchases in the store, in what are often called impulse purchases. The categories most sensitive to POP advertising and displays are film/photofinishing, socks and underwear, dishwashing soaps, and cookies and crackers.[28]

A particularly interesting aspect of retail promotions is how they can interact with each other and with consumer promotions to create larger effects than each one would on its own. An example of such interactions between retail promotions is shown in Table 11.9. In this case, the retailer manipulates five retail promotions: a short-term price cut or discount, a special in-store display, a major newspaper ad for the brand, a smaller line ad and a display, and a major ad with a display. As can be seen, the base case is no price cut and no promotional activity for the brand (referred to in the table as merchandising). The sales performance of the brand in this base case is set to an index of 100. Across the top row of Table 11.9, the significant impact of increasingly larger price cuts by themselves (i.e., with no accompanying nonprice promotions) can be found. The table shows that, for this brand, offering a 10 percent discount increases sales 77 percent over the base case. Down the first column (no discounts), the impact of the separate merchandising policies and two pairs can also be seen. A special display with no price cut increases sales by only 13 percent, whereas a major ad increases sales by 85 percent. The inner figures of the table show the interaction effects between price cuts and merchandising. Whereas a major ad increases sales by 85 percent over the base case and a 10 percent price cut increases sales 77 percent when they are run separately, when both are in force together, the increase in sales is a whopping 227 percent.[29]

Promotion Budgeting

Setting a budget for sales promotion generally follows the same approaches discussed for setting advertising budgets (see Chapter 10). Again, the major distinction is between analytical methods (e.g., objective and task, optimization) and convenient guidelines (e.g., percentage of sales, competitive parity). However, two questions must be considered: How much money should be spent on the total advertising and promotion budget? Of this amount, how much should be spent on promotion?

Advertising and Promotion Budget

Seven conditions have been found to affect the total budget for advertising and sales promotion for manufactured products.[30] Companies spend more on advertising and promotion relative to sales under the following conditions:

1. The product is standardized (as opposed to being produced or supplied to order).
2. There are many end-users.
3. The typical purchase amount is small.
4. Sales are made through channel intermediaries rather than directly to end-users.
5. The product is premium priced.
6. The product line has a high contribution margin.
7. The product or service has a small market share.

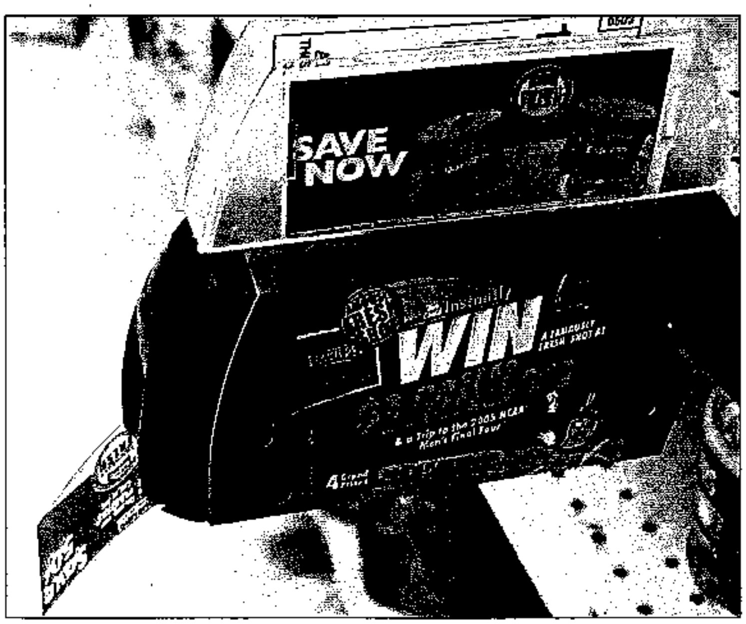
Note that the first four conditions are typical of consumer products and services. This is consistent with the fact that the marketing managers for these products spend much more money on sales promotion than do their counterparts managing business-to-business products and services.

Allocating Money Between Advertising and Promotion

The second important question is how to allocate money between advertising and sales promotion. In organizations in which the overall marketing budget is set, rather than specific amounts for advertising or promotion (or other expenditures), this may be the most important question.

Several factors affect this allocation decision. First, the total amount of resources available has a major impact. If the marketing budget is small, major media advertising is usually not worthwhile unless the target market is local and can be reached by media such as radio and newspapers. This is because advertising usually needs to meet a minimum or threshold amount to have any impact at all. Beneath the threshold value, the money is wasted. In such cases, spending the money on sales promotion results in a greater market impact than advertising.

There are a variety of coupon delivery mechanisms.
Source: Susan Van Etten/PhotoEdit Inc.



Second, customer factors affect allocation decisions. Knowing the behavior of customers can help you determine whether advertising or promotion makes more sense. One relevant aspect of customer behavior is the degree of brand loyalty. As noted earlier in this chapter, promotion money spent on a product or service exhibiting high levels of loyalty primarily rewards existing customers. Although this may be what the marketing manager wants to do, it is usually not the best way to spend the money. If customers are not loyal, the marketing manager should try to understand whether their behavior is typical of the category. If so, there may be an opportunity to attract brand switchers with promotions. However, it is also possible that the product manager has created nonloyal customers through frequent price-based promotions, and so all that happens is a temporary swapping of customers.

A second relevant aspect of consumer behavior is the type of decision required of them. If the product is complex and therefore requires a fair amount of information processing, more money should be spent on advertising because it is a better communication device. Alternatively, most sales promotion money is spent on product categories in which decision making is routine and involves little processing of information about the product.

The third factor affecting allocation decisions is whether advertising and promotion dollars highlight the unique aspects of the product, called **consumer franchise building (CFB)**.[31] CFB activities are those that build brand equity, including advertising, sampling, couponing, and product demonstrations. Non-CFB activities focus on price alone and include trade promotions, short-term price deals, and refunds. In this approach, the marketing manager must track the following ratio:

consumer franchise building (CFB)
activities that build brand equity, including advertising, sampling, couponing, and product demonstrations

$$\text{CFB ratio} = \text{CFB\$}/(\text{CFB\$} + \text{non-CFB\$})$$

The CFB ratio should stay above 50 or 55 percent for the brand to remain healthy. The concept behind CFB-based budgeting is obvious. Unless the marketing manager is careful, the funds spent on price-related activities that detract from brand equity and build price sensitivity can dominate the advertising and promotion budget.

Sales Promotion and Information Technology

As with other areas of marketing discussed in this book, the rapid improvements in information technology have had a significant impact on promotion decision making.

In-Store Information Technology

For supermarket and mass-merchandiser shoppers, the combination of universal product codes (UPCs or bar codes) and improvements in information technology has produced a number of ways to deliver promotions directly to shoppers in the store.

The best example is Catalina Marketing Corporation's Marketing Services unit, which produces red-bordered coupons (with UPC codes) right at the cash register after a customer rings up the purchases. These coupons are tied to purchases that have been scanned as part of the customer's order. A company buys time on the coupon delivery system (say, one month) when coupons for its brand are produced and competitors' coupons are not.

For example, suppose you are the marketing manager for the number-two brand of peanut butter. Some steps you might follow to increase share are:

1. For a 12-week period, every scanned purchase of the number-one brand produces a high-value (say, $1) coupon for your brand.
2. When the $1 coupon for your brand is redeemed (scanned), a repeat purchase coupon for a slightly lower value (say, $0.75) is issued. This helps build continuity or repeat purchase.
3. Simultaneously, a medium-value coupon (say, $0.50) is issued whenever a complementary product (e.g., grape jelly) is purchased.
4. A six-month Checkout Direct program is then launched in which customers who use an ATM or check are tracked for their purchase frequency of peanut butter. Customers who purchase peanut butter every six weeks are given a coupon after shopping in the fifth week between purchases (i.e., the week before their forecasted regular purchase).

Application | Vault versus Mountain Dew

Because Coke's Vault brand has only 4 percent of the citrus soft-drink segment compared to Pepsi's Mountain Dew brand, which has 80 percent, Coke launched a promotion where they gave away free samples of Vault to anyone purchasing a Mountain Dew. Coke used Catalina Marketing to distribute point-of-purchase coupons good for a 16-, 20-, or 24-ounce Vault free with any purchase of a 20-ounce Mountain Dew. The offer was billed as the "Vault Taste

Challenge." Coke was taking advantage of the fact that coupon redemption was on an upswing in 2009 as well as the fact that unlike most companies, Coke's marketing budget is sufficiently large to support such an expensive promotion.[32]

The large number of in-store promotions from both manufacturers and retailers have led to a surge in the length of cash register receipts. Store receipts now have coupons, return policies, loyalty points, advertisements, and other information. For example, a consumer shopped at a CVS pharmacy in Atlanta and paid $25.39 for two prescriptions, a beverage, and a roll of toilet paper. These purchases produced a receipt that was almost two feet long![33]

Executive Summary

Key learning points in this chapter include the following:

- Sales promotion is generally focused on the short term, with promotional devices being the main tools marketing that managers use to change customer behavior in the short run.
- There are three kinds of sales promotions: promotions run by companies targeting end-customers; promotions run by companies targeting channel members; and promotions run by channel members, usually retailers, targeting end-customers.
- Customer-focused promotions are most often price related (e.g., coupons), but may also involve the product (e.g., sampling) and special events (e.g., contests and sweepstakes). Customer promotions are incentives to buy the product, but can also increase purchase volume, induce customers to switch brands or use larger sizes, and achieve other purchase-related goals.
- Trade promotions are intended to give incentives to channel members to stock and promote the product. Like customer promotions, the vast majority are price related. However, some also give marketing assistance (e.g., co-op advertising).
- Retailer promotions involve both price and special displays and other forms of point-of-purchase (POP) advertising.
- The most popular way to evaluate the effectiveness of sales promotion is to track the goal of the promotion (e.g., sales volume) and compare the relevant data before and after the promotion is run. This approach does not control for other marketing factors that affect the data and can be confounded if multiple promotions are being run simultaneously.
- Increasing numbers of promotions are being run on the Web and delivered using information systems (e.g., point-of-purchase systems coordinated with bar-coded, scanned purchases).

Chapter Questions

1. How are advertising and sales promotion similar? Different? Which do you think is a more effective communications tool and why?
2. Are particular kinds of customer-oriented sales promotions more likely to have long-term effects on buying behavior than others?
3. Consider Figure 11.5 ("Strategies for Trade Dealing"). What other products or services would fit into the four boxes?

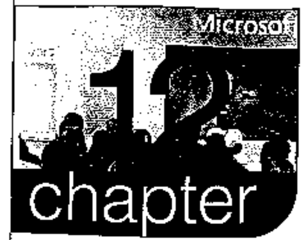
4. Summarize the factors that affect the allocation of money between advertising and promotion. Considering the consumer franchise-building approach, when would you want the CFB ratio to be below the 50 to 55 percent recommended? When might you want it to be much higher?
5. A number of new in-store coupon-delivery systems other than the Catalina system are being developed (e.g., free-standing kiosks). Compared to coupons delivered through the mail or newspapers and magazines, what kind of impact do you expect these coupons to have on consumer behavior other than simply inducing a one-time trial?
6. What are the pros and cons of trade deals from the perspectives of (a) the marketing manager, (b) the distributor, and (c) the retailer?

Key Learning Points

The purpose of this chapter is to introduce methods of distributing products and services to customers. Key learning points include:

- The functions of channels of distribution
- Key factors affecting the choice among alternative channel structures
- Channel options
- Managing channels of distribution, particularly resolving conflicts between channel members
- Special topics in channels of distribution, including the Web, changes in supermarket retailing, and multilevel marketing
- Channel decisions in global and high-tech contexts

Microsoft recently developed its first retail stores to compete with Apple.
Source: Joshua Lott/CORBIS-NY



Channels of Distribution

Chapter Brief

The Microsoft Corporation is one of the world's largest companies with more than $50 billion in revenues.[1] While the company is best known for its operating system, Windows, and its suite of office products, Office, it also markets a number of other products and services including:

- The Web browser, Internet Explorer.
- Entertainment and news services such as MSN and MSNBC.
- Hardware such as computer mice, keyboards, and servers.
- The Xbox game device.
- The Zune MP3 player.
- Software developer tools such as its .NET framework and Visual Basic.
- Educational and home software such as Money.

While this list does not fully cover the range of Microsoft offerings, suffice it to say that the company is in many product markets in most countries in the world.

Traditionally, Microsoft has used a wide variety of distribution channels to enable customers to buy its products. These include the company's Web site, Microsoft.com; independent electronics stores such as Best Buy; its own sales force; direct marketing approaches such as telemarketing and direct mail; and others.

However, Microsoft has followed the huge success that Apple has had with its own stores. By 2010, Apple had more than 200 stores that permit customers to purchase iPhones, Mac computers, and iPods in a retail "bricks-and-mortar" environment. These stores have attractive architecture, "genius" bars that give expert technical advice, and a highly trained, enthusiastic staff. Not only do the stores generate sales for Apple, they create an experience for users of Apple's products that cannot be duplicated on a Web site or in a Best Buy.

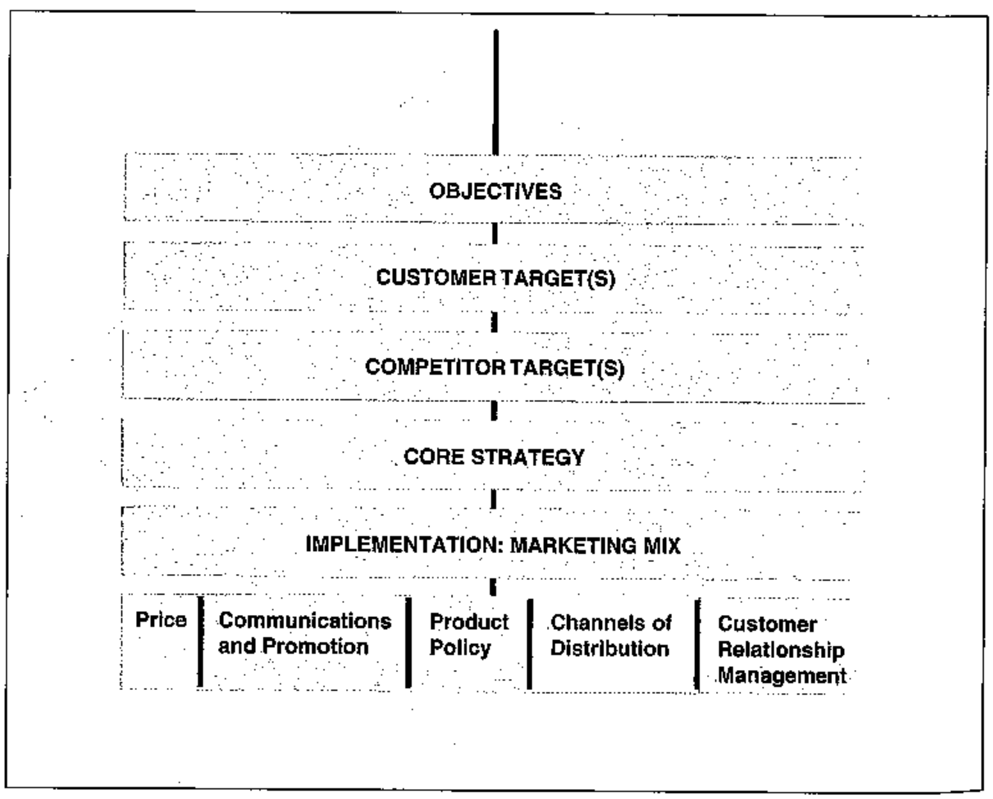
As a result of Apple's success and the damage to Microsoft's brand from the disappointing performance of its Vista operating system, in 2009, Microsoft decided to open a few stores of its own. The company hired a former executive from Walmart to oversee the operation, which began with only two stores—one in Scottsdale, Arizona, and the other in Mission Viejo, California. The stores will sell almost all Microsoft products, including the Windows software and Xbox with its compatible games. The goal is to deliver an Apple-like experience by allowing customers to touch and feel Microsoft-branded products in a company-controlled environment.

There are, of course, a number of challenges. Unlike Apple, which controls both software and hardware, Microsoft software is used on many different hardware platforms. In addition, the retail environment has become more difficult (e.g., large electronics chain Circuit City shut down in 2009). Other computer companies have failed at this; for example, Gateway closed its 188 stores in 2004 due to weak sales. Finally, how will Best Buy react to a key supplier becoming a competitor?

While the idea of opening company-owned stores presents a unique set of challenges, many of these issues facing Microsoft in managing its channels are typical. As this illustration shows, distribution is a key element of the marketing mix and an important part of the marketing strategy (see the marketing strategy diagram) because they provide customers access to a company's products and services. Key questions that must be addressed when making channel decisions are:

- Given the various functions that channel members can perform, what system of channel members works best for your product or service? Should you sell directly to customers or use intermediaries such as retailers and wholesalers?
- How can you use the channel system to perform important tasks such as physical distribution and marketing research?
- How do you manage channel members that have business and personal goals different from yours?
- How do you motivate the channel members to carry and promote your product?
- How can you use emerging channels such as the Internet and hybrid systems (combining several alternative channel structures) to capture sales when the customers are changing?
- If you use company-owned and independent channels, how do you manage channel "conflict," that is, the problems that can arise from unhappy independent channels with whom you are competing?
- What are the channel issues facing global businesses?

These questions and others are addressed in this chapter.



The Importance of Channels of Distribution

The importance of **channels of distribution** in the marketing mix is simple: customers must have access to your product or service to be able to purchase it. The purpose of a system of distribution channels is to provide an efficient means of getting your products to customers and customers to your products. All companies use channels of distribution, whether they sell directly to end customers using a sales force or use a multilevel system made up of many different entities.

channels of distribution
the system by which customers have access to a company's product or service

In many people's minds, channels imply physical distribution, or what is usually called **logistics**. They may, therefore, assume that the concept of channels does not apply to services. However, it is clear that companies that are marketing services must solve the same distribution problems as those that market tangible products. Thus, airlines use company-owned telephone systems or their own Web sites to allow customers to make reservations directly. At one time, travel agents were the most important distribution channel for airlines, but with the elimination of commissions, this will undoubtedly change. Banks have retail branches but also allow customers to bank online.

logistics
physical distribution of goods from one location to another

A useful way to think of channels of distribution is as a value-added chain. This concept is shown in Figure 12.1. The beginning of the chain consists of suppliers that provide raw materials, labor, technology, or other factors of production. The firm then uses channels or intermediaries that enable customers to gain access to the product or service. Importantly, these intermediaries are used only if they add value to the system and are compensated for the added value. In other words, Unilever, Procter & Gamble, and Colgate-Palmolive would not use wholesalers and supermarkets if it did not believe that the value of these two intermediaries' services was worth the cost.[2]

A more subtle point made by Figure 12.1 is that channels of distribution are customers, just like end-customers such as consumers. Indirect channels, those not controlled by the company, must be convinced to carry your products, just as end-customers must be convinced to buy them. The marketing manager attracts indirect channels in two ways. First, as we described in Chapter 11, you must use a variety of promotional devices to induce channels to carry your product and motivate them to sell it. Second, you must realize that channels want to distribute your product only to the extent that their customers want the product. Retailers or other distributors want to be assured that you will spend sufficient money and pay attention to persuading the customers to want your brand. These two activities draw an important distinction between two kinds of basic activities of channel management: **push** (getting channels to carry and sell the product) and **pull** (motivating customers to ask for your brand by name).

push
one of two kinds of basic activities of channel management that requires getting channels to carry and sell the product

pull
one of two kinds of basic activities of channel management that requires motivating customers to ask for your brand by name

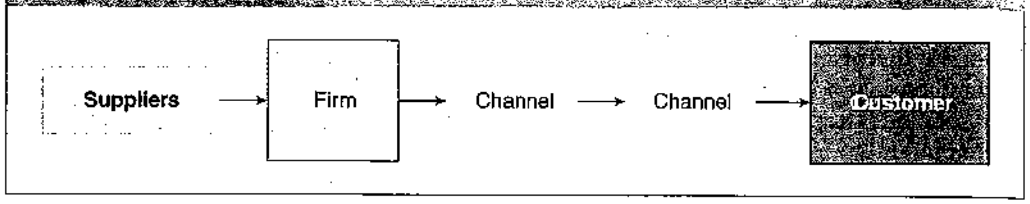
A final point made by Figure 12.1 is that channel members are an extension of the firm, but not a substitute. Particularly in the case of independent, indirect channel members, customers may associate problems in the channel with you even if they are not your fault. For example, a customer may buy a Hewlett-Packard personal computer at Best Buy and have problems setting it up or learning to use it. Much of this difficulty may stem from inadequate information provided by Best Buy (the channel). However, the image of the manufacturer, Hewlett-Packard, may be negatively affected by problems created by the retailer.

This issue relates to another common myth about channels: that the channel stops at the loading platform and what happens afterward is the buyer's responsibility. This is clearly false. It is in the best interests of the company to motivate the channels to act in both of their interests. Thus, in the Best Buy example, it is in the best interest of Hewlett-Packard to invest in training programs for Best Buy employees to ensure that end-customers are satisfied with their purchases.

The following two illustrations show how channels are critical to the success of a business and therefore must be treated like customers.

This Subway store in a Walmart demonstrates how many retailers have offered distribution opportunities for other companies.
Source: J. D. Pooley/Getty Images, Inc-Liaison

Figure 12.1



The Value-Added Chain of Distribution Channels

Application | Snapple

In 1993, Quaker Oats paid $1.7 billion for the Snapple brand, outbidding Coca-Cola and other interested parties.[3] In 1997, Quaker sold Snapple to Triarc Beverages for $300 million, a drop in value of $1.4 billion in only three years. This disaster is widely credited with costing both the chairman and president of Quaker their jobs, and it helped to end the company's independent existence, as it was later purchased by PepsiCo. Further, in October 2000, Triarc sold Snapple to Cadbury Schweppes for about $1 billion (the brand is now part of Dr Pepper Snapple). What happened during this period to cause the brand's value to diminish so significantly under Quaker's management and then rise dramatically under Triarc's?

While there are a number of reasons advanced, one of them is the problems Quaker created in the channel of distribution system. Snapple grew from a small company in the 1970s through funky promotions (e.g., sponsoring the shock jock Howard Stern) and unconventional distribution channels. The brand started through what is called the "cold" channel. Small distributors served thousands of lunch counters and delicatessens that sold single bottles from refrigerator units, which were consumed on the premises. These many distributors and retail outlets created a large business, and eventually, supermarket accounts were added. By 1994, sales were $674 million, up from just $4 million 10 years earlier.

Quaker's plan was to replicate Snapple's success with Gatorade. The idea was to use Snapple's contacts in the cold channel to help Gatorade and Gatorade's power in the supermarket channel to further help Snapple. Quaker asked Snapple's 300 distributors to give up their supermarket accounts to Quaker in exchange for the right to sell Gatorade to the cold channel. However, the distributors did not want to give up their hard-won supermarket accounts. They were so upset with Quaker that they began to lessen their support of Snapple in favor of other companies' brands. When Triarc took over, its marketing personnel sent a clear message to the distributors that they were crucial to Snapple's success and not an inefficiency to be eliminated. By gaining their trust and through other measures, Triarc resuscitated the brand.

Application | New England Confectionary Company

The New England Confectionary Company, better-known as Necco, has been making its trademark Necco Wafers since 1847, which is the oldest continuously manufactured product in unchanged form made in the United States.[4] The company also makes the "conversation hearts"—tiny candies in pastel colors stamped with brief sweet nothings—that have become identified with Valentine's Day since 1867. The company does no consumer marketing and has been privately held since 1963 by UIS Inc., an old-fashioned conglomerate that also markets Champion oil filters. Necco's annual revenues of $100 million are small by today's candy manufacturing standards set by companies like M&M Mars, Hershey's, and Nestlé.

Although old-fashioned in many respects, the company's skills lie in delivering large quantities of custom candy to retailers just the way they want it. A large retailer, Dollar Tree, asked the company to create a 4.5-ounce bag of the company's Clark bars in packages that had holes, to hang on peg boards. The company gave the retailer what it wanted at the necessary price and received an order for 800,000 bags. Another large retailer, Family Dollar Stores, likes all of its products prepriced so that its value-conscious customers know exactly what price they will pay before arriving at the cash register. Necco did that for them as well as, giving Family Dollar the product at a price point it wanted by slightly changing the package size. None of the large candy manufacturers would do that for them. Thus, without spending any money on advertising and promotion, Necco has become successful by treating its channel members—retail stores—in a way that satisfies their needs in the same way it creates products that satisfies its end-customers' needs.

Table 12.1

Major Types of Marketing Intermediaries
Middleman: an independent business concern that operates as a link between producers and ultimate consumers or industrial buyers.
Merchant middleman: a middleman who buys the goods outright and takes title to them.
Agent: a business unit that negotiates purchases or sales but does not take title to the goods in which it deals.
Wholesaler: a merchant establishment operated by a concern that is engaged primarily in buying, taking title to, usually storing and physically handling goods in large quantities, and reselling the goods (usually in smaller quantities) to retail or to industrial or business users.
Retailer: a merchant middleman who is engaged primarily in selling to ultimate consumers.
Broker: a middleman who serves as a go-between for the buyer or seller. The broker assumes no title risks, usually does not have physical custody of products, and is not seen as a permanent representative of the buyer or seller.
Manufacturers' agent: an agent who generally operates on an extended contractual basis, often sells within an exclusive territory, handles noncompeting but related lines of goods, and has limited authority with regard to prices and terms of sale.
Distributor: a wholesale middleman, especially in lines where selective or exclusive distribution is common at the wholesaler level in which the manufacturer expects strong promotional support; often a synonym for *wholesaler*.
Jobber: a middleman who buys from manufacturers and sells to retailers; a wholesaler.
Facilitating agent: a business that assists in the performance of distribution tasks other than buying, selling, and transferring title (e.g., transportation companies, warehouses).

Source: Based on Peter D. Bennett, ed. (1995), *Dictionary of Marketing Terms*, 2nd ed. (Chicago: American Marketing Association).

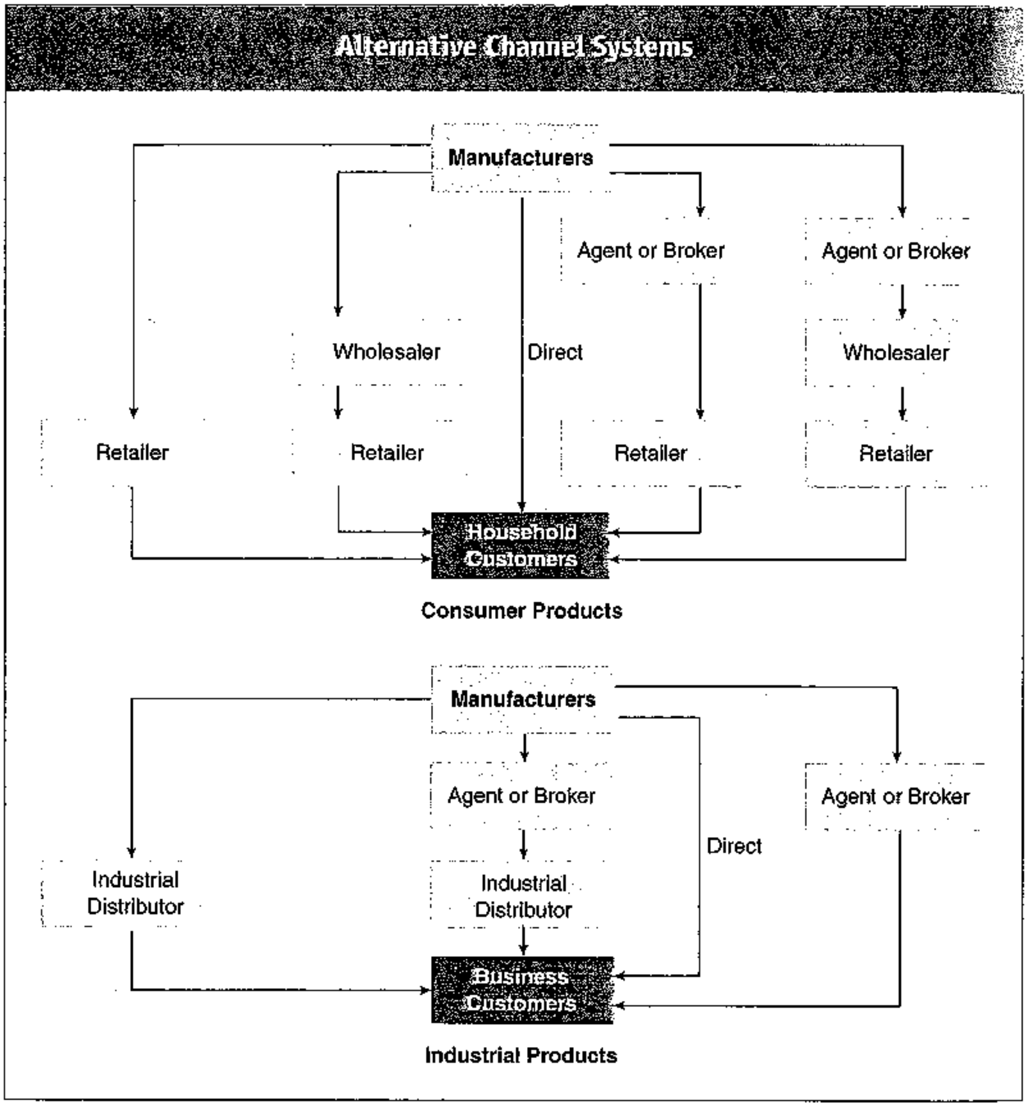
Technical definitions of marketing intermediaries are provided in Table 12.1 and some general channel structures for industrial and consumer products are shown in Figure 12.2. Note that "retailers" in the top part of Figure 12.2 could include a number of options including bricks-and-mortar retailers, Web sites, and mobile phones. Likewise, in the bottom half of Figure 12.2, the "direct" link between a manufacturer of an industrial product and its customers could also include options like the company's Web site. A more concrete example, from the food service disposable industry (e.g., paper cups, napkins), is shown in Figure 12.3. As can be seen, even without the Web channel, this particular system is complex, involving many kinds of participants:

- A direct sales force.
- Brokers or agents.
- Wholesalers.
- A company-owned distribution center.
- Industrial/institutional buyers.
- Cash-and-carry outlets (small, limited-function wholesalers that may also be open to consumers).
- Small, independent distributors.

Note that we use the term *system* to describe distribution channel networks. The marketing manager must think in terms of maximizing profits for or meeting the goals of the entire system. You become successful only if your channel members are successful. Because the ultimate goal is to get a customer to choose your brand, your job is to design and manage the system to attract customers profitably.

You can look at channel decisions from two perspectives. The natural perspective involves planning how to best design and manage a system for your products and services. Another perspective involves planning how to make money acting as a distributor for another product. Because channel members are compensated for their value-added services,

Figure 12.2



you might take advantage of access to particular market segments or other expertise. Some examples of this are:

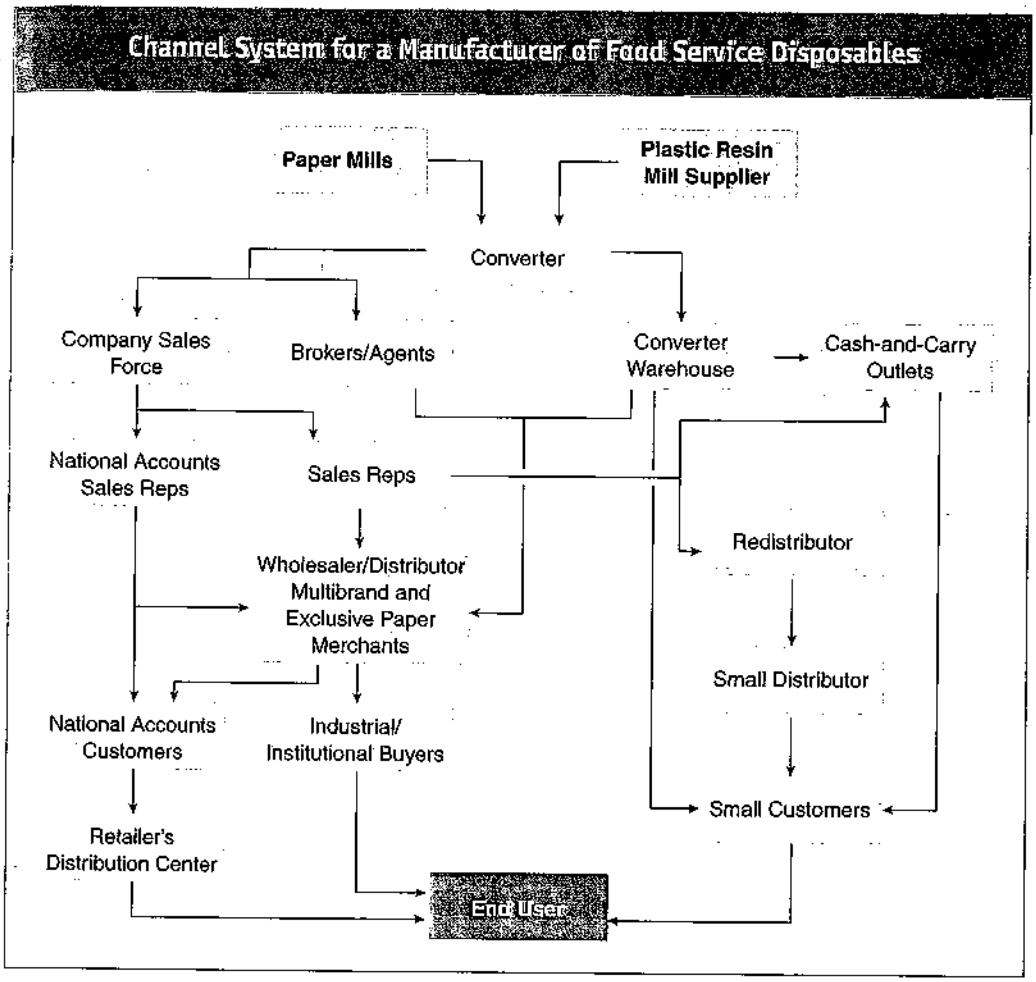
- The Safeway supermarket and drug store chain has begun to sell Intuit's TurboTax software.
- Rental car companies like Budget and Avis are putting counters in retail store chains (Walmart and Sears, respectively).
- eBay set up a store for General Motors in 2009 for the company to attempt to sell cars through its enormously popular eBay Motors.

Thus, Safeway, Walmart, Sears, and eBay added products and profit that they would not otherwise have, by using their existing capacity.

Channel Dynamics

Another common myth about channel systems is that once they are designed, the basic structure does not change (of course, individual retailers or wholesalers may). This is simply not true. Channel structures must adapt to changes in the environment. In addition, innovation in distribution can create new marketing opportunities. Microsoft, highlighted at the beginning of this chapter, is a good example of how channels of distribution can change over time, with its addition of retail stores to its set of distributors.

Figure 12.3



Source: Center for Research and Education in Wholesaling, University of North Florida, 1994.

The online retailer Amazon.com took the reverse path when it launched a hard-copy catalogue. A number of franchisors such as QuickSellIt and OrbitDrop have set up consignment stores for eBay, by extending the company's reach into bricks-and-mortar channels.

Some changes in distribution channels represent structural changes to the industry in question. The personal computer industry is a good example. Traditionally, mainframe and minicomputers have been sold through direct sales forces. These channels were used during the early days of the personal computer industry (the 1970s). However, new distribution channels also developed. Computer retailers became widespread, dominated by companies such as ComputerLand and Businessland. These retailers targeted both households and small businesses, sold hardware as well as software, and gave service and instruction to novice users.

A critical change in the market occurred in the mid-1980s: customer knowledge about PCs grew as the microprocessor and the operating system was standardized, and increased numbers of competitors made price and availability the most highly valued product attributes. The change in the market resulted in three major changes in distribution channels. First, a new channel developed, consisting of mass resellers. These companies purchase large quantities of PCs at a discount and resell them to large corporate purchasers. Second, the Internet has become a very large and important channel for some manufacturers. For example, Dell Computer expanded its highly-successful direct

Big box retailers like this Best Buy have grown significantly.
Source: B. O'Kane/Alamy Images

business model using the Internet. All of the other major PC competitors, including Hewlett-Packard, Acer, and Lenovo, also sell large quantities on the Web. Third, PCs have moved so mainstream that dedicated computer stores such as CompUSA have gone out of business and the largest retailers are more general consumer electronics stores such as Best Buy and office supply stores such as Office Depot.

Why has this happened? Although a number of factors underlie the changes in channels in this example, the key reason is that customers' buying habits have changed. In particular, as the products sold through a channel structure mature, customer knowledge of product variants, attributes, and technology also increases. Many computer buyers are now on their second, third, or fourth PC—or more. As customer knowledge increases, their information needs change and often decrease, so the need for personalized service also decreases. This change leads to an increase in sales through outlets (the Web, discount stores, superstores) that do not provide such information but do offer wide product lines and low prices. In sum, channels must evolve as the customers evolve.

An additional change, of course, is due to technology. As every reader knows, the boom period for the Internet from the Netscape initial public offering (IPO) in the middle of 1995 to the crash of early 2000 brought dramatic and permanent changes to the marketing landscape (not to mention some individuals' and venture capitalists' financial conditions). From a marketing perspective, the major uses of the Internet are as a communications medium, including advertising, promotion, and information dissemination (Chapters 10 and 11); as a vehicle for community building (Chapter 14); and, of course, for e-commerce or as a channel of distribution. In particular, as we noted in Chapter 10, the Internet facilitated the change in the tradeoff between message richness and reach by allowing a company to have the richness of a personal sales message sent to many potential customers.

A considerable amount of B-to-C (business-to-consumer) and B-to-B (business-to-business) commerce is conducted on the Web. Online retail sales in the United States were about $134 billion in 2009 or about 3.6 percent of all U.S. retail sales.[5] Much of this total is from four categories: travel, media (books, CDs), electronics, and apparel, but cosmetics, jewelry, and flowers are growing rapidly. E-commerce sales in 2010 are expected to be about $150 billion in the Asia-Pacific countries of Australia, China, India, Japan, and South Korea.[6] The B-to-B market is also strong. W.W. Grainger, one of the top B-to-B distributors of machine maintenance, repair, and operating supplies, had $1.5 billion in sales through its Web site, www.grainger.com, in 2008.[7] More will be said on this topic later in this chapter. As a result, the Internet today is considered by marketing managers to be one of the standard channel options.

Differential advantage can also be obtained through channel structure decisions that deviate from conventional wisdom. Direct-distribution consumer packaged-goods companies such as Avon in cosmetics and Amway in household cleaning products chose to avoid the conventional retail channels—supermarkets and drugstores—used by their competitors. Almost any economic analysis would show how expensive it is to sell detergents door-to-door. However, these companies found that some segments of the population enjoy their personal approach to selling these low-priced products, and they have created very large niches for themselves throughout the world.[8] In the United Kingdom, the Korean company Daewoo Group eschews traditional car dealerships and instead sells from a chain of automotive accessory stores, called Halfords. The company salespeople are in booths inside the stores and cars for test driving are in the stores' lots. Halfords handles service. This arrangement permitted Daewoo to instantly build a retail network with more than 120 outlets. Dreyer's Grand Ice Cream's differential advantage in its industry is its distribution system. It is so efficient that the company derives one-third of its revenues from competitors such as Häagen-Dazs, Ben & Jerry's, and others that use Dreyer's as a wholesaler.[9]

Application | Online Groceries

The size of the retail grocery business and the growth of the Internet naturally led companies to view the latter as a new distribution channel.[10] By 2001, online grocery services such as Webvan, Peapod, Streamline, and Homegrocer were suffering huge losses, merging to stay alive, or going bankrupt. The highest-profile failure was, of course, Webvan, which went through more than $1 billion before shutting down in July 2001. While the prevailing model in the United States is to either form a joint venture (Peapod and Stop & Shop) or for the supermarket chain to go it alone (Safeway, Albertson's), given the explosion of the Internet, there are many options today for ordering food online (e.g., see http://mashable.com/2008/06/05/online-grocery-shopping/), including the very successful New York-area company FreshDirect.

There is, however, a major exception. The most successful home grocery venture can be found in the United Kingdom. Britain's largest grocer, Tesco PLC, is profitable and expanding to other international markets. Unlike Webvan, which had its own very expensive distribution system, Tesco started its online business in the mid-1990s with a simple model that relied on its own stores. Because the company did not need to build new warehouses and distribution centers, the initial investment was a modest $56 million. When a customer placed an online order through Tesco.com, the order was forwarded to the store nearest the customer's home. A store employee called a "picker" gathered the items into special trolleys equipped with a computer that guided the trolley through the store to the location of each item ordered. Trolleys could handle up to six orders. Once the order was filled, it was stored in an area behind the store and then loaded on to a van for delivery in two-hour time slots. The company charged £5 per order.

The results have been impressive. In the first six months of 2009, Tesco.com had sales of more than £1 billion and served more than 1 million customers while expanding into e-diets, personal loans, music downloads, and clothing. Interestingly, Tesco reports that one-third of its online shoppers had never set foot in one of the physical stores. Thus, much of the business is incremental, not just cannibalizing existing sales. The total online business in the United States is around $3.5 billion and growing.

Application Movie Rentals

The movie rental industry changed channels in 1998 with the birth of Netflix.[11] Netflix took advantage of the the new video technology, DVDs, which were just beginning to replace VHS tapes. The company developed its patented ingenious delivery system, which is tailor-made for the U.S. Postal Service. By making it simple for customers to obtain the DVDs they want through the Web-based queuing system and the self-contained postage-paid return envelope, the company has grown to more than 10 million subscribers and has seriously crippled the bricks-and-mortar industry leader, Blockbuster. In 2007, Netflix changed the industry's distribution model again by permitting customers to stream videos to their PCs from the company's Web site. More than 20 percent of the company's customers use that feature of the Web site.

However, today, Netflix is facing its own serious threat from a company named redbox. Founded as a division of McDonald's in 2002, redbox delivers DVDs to customers through its distinctive red (no surprise) kiosks located in supermarkets. Now owned by Coinstar, the company has 15,000 kiosks with plans to grow that to 20,000 by 2010. The kiosks offer fairly limited choice, typically 150 to 200 DVDs, but at a very low price, $1 per night. While the idea seems fairly low-tech, it is quite the opposite. Each machine is connected to the Internet, which permits customers to browse its Web site, redbox.com, to reserve a movie and pick it up later (customers can also rent one on the spot). Each machine has a sophisticated inventory management system that determines how many copies of a movie to carry based on the rentals of similar previous films. The kiosks send the inventory orders to redbox, which then sends representatives out to stock the machines. Revenues for the first six months of 2009 were $344 million, and Coinstar claims that redbox accounts for 13 percent of the movie rental market.

Like the grocery and many other businesses, the movie rental business is dynamic and will certainly change again at some point in the future.

Channel Functions

Channel members provide a wide variety of functions and services for a firm. Although not every member of the system performs each service, the decision about what channel structure to use is based on a matching of company and customer needs, who can satisfy them best, and how much the firm is willing to pay for them.

Marketing Research

Because channel members often have direct contact with customers, it is an ideal situation for collecting information about customer and competitor behavior. Salespeople can include such information on their call report forms. Market research surveys can be distributed at retail outlets. Telemarketing representatives can not only book orders but ask additional questions such as, "Where did you first hear about us?"

Communications

An important role of the channels is to communicate information about the product or service to customers. In supermarkets, for example, end-of-aisle displays can be used to feature a brand. Sales literature and product brochures are distributed through wholesalers and retailers. In some cases, the channel may develop independent marketing programs. For example, a local hardware store may run a print ad in a newspaper featuring a particular manufacturer's lawnmower. In this case, the store would be partially or fully reimbursed for the cost of the ad through cooperative (co-op) advertising.

Contact

Some channel members seek out and interact with customers. Independent agents and wholesalers develop retail accounts for products.

Matching/Customizing

A valuable service provided by the channels is matching or attempting to tailor the product to a customer's needs. For example, automobile dealers try to match customers' desires for particular colors and option packages. Wholesalers try to deliver products to customers in lot sizes that match their needs.

Negotiation

In many cases, the channels also negotiate the final price. This is obviously true for the automobile dealers, although many dealers are moving to a one-price, no-negotiation system. An important job of a salesperson is to work with the customer and his or her superiors on the transaction price.

Physical Distribution

For physical products, channels also provide basic logistical services. For example, Unilever distributes its products through wholesalers, whose job is to supply the supermarket regional warehouses (for large chains, Unilever may ship directly to the warehouses). Ultimately, the products have to get to the supermarkets.

Financing

For durable goods such as TVs and video cameras, an advantage of using a retail system is that the burden of financing falls on the retailers rather than the manufacturers. Thus, Philips, Sony, Matsushita, and other manufacturers do not have to be concerned about how customers pay for their products. Wholesalers may establish credit programs, leasing schedules, or other means of customer financing.

Risk Taking

When the distribution system is characterized by the channel members purchasing and therefore taking title to the products, risk is shifted from the manufacturer to the channel members. This is why both push and pull programs are important. Pull programs such as customer-focused communications help to reduce channel risk. In fact, distributors usually require them before agreeing to carry the product.

Service

Channels can also provide repair service, answer customers' questions about how to use the product, and provide warranty support. Often this service supplements a company's own service operation. For example, Sony has regional service centers throughout the world. However, consumer electronics retailers also service Sony products to make it more convenient for customers and to reach geographic areas that the service centers do not.

Relationship Management

As we noted earlier, the channel is often an extension of the firm, the organization the customer sees when gaining access to the product or service. Thus, the channel member can enhance (or harm) the quality of the relationship between the selling firm and the customer. For example, a retailer can enable a customer to sign up for a loyalty program.

Product Assembly

For some products, the channel may actually be part of the manufacturing process, performing assembly or other "finishing" parts of the process. For example, when IBM was in the personal computer business, it signed a deal with its largest distributor, Inacom. Inacom had traditionally shipped finished IBM PCs to large corporate customers. However, a wholesaler who wanted to answer every customer need would have to stock 2,200 combinations of components and features. Inacom built a new $20-million plant to make PCs from IBM-supplied parts. This cut down total system time (from order to delivery) from two days to four hours and reduced the overall costs by 10 percent.[12]

Framework for Choosing among Channels

A matrix like that shown in Table 12.2 can be used to help determine which alternatives are most attractive at a given time. For example, you can assign a set of weights to the importance of the different functions provided. You then rate each channel option on, say, a 1 to 7 scale, evaluating the ability of the option to provide the function. By multiplying the importance weight of the function by the channel evaluation and adding across all the functions, you can give each channel a score. Although you should not rely solely on a mechanical scoring procedure for making important decisions such as which channels to use, the process of assigning the importance weights and assessing how the different channel options perform the functions shown in Table 12.2 is very useful.

Table 12.2 can also be used to assess the characteristics of a current channel structure. By putting your current channel members across the top of the table and then indicating which channels are doing a good job of performing the functions, you obtain a nice picture of whether the system is performing all the essential services for your product.

Table 12.2

Channel Function Analysis

Channel	Representative	Wholesaler	Retailer	Sales Force	Internal Direct: Phone, Mail, Internet
Marketing research					
Communications					
Contact					
Matching/customizing					
Negotiation					
Physical distribution					
Financing					
Risk taking					
Service					
Relationship management					
Product assembly					
Overall attractiveness					

Factors Affecting the Channel System

The channel functions noted above impact the channel system as the marketing manager should choose those channels that perform the functions in a superior way compared to competitors as well as satisfy their customers' needs. In addition, your marketing strategy and resources impact the design of the channel system. These factors are summarized in this section.

Customer Behavior

A careful analysis of customer behavior, as described in Chapters 4 and 5, leads to a better understanding of what kind of channel structure is necessary to satisfy the different segments. One question of the customer analysis, "Where do they buy?", helps in understanding current purchasing patterns. However, this does not necessarily help you redesign the channel structure because it does not indicate whether customers are satisfied with current access to your products and whether it could be improved. Electrolux, the Swedish manufacturer of vacuum cleaners, has discovered that people have become more reluctant to buy products from door-to-door salespeople. As a result, the company has introduced specialty retail stores in shopping malls. As we noted earlier in this chapter, channels must be designed with the customer in mind. Thus, understanding the other customer analysis questions (*who, why, how,* and *when*) are vital inputs to the channel structure decision.

A good example of the need to structure channels around customer needs is Coors' and Kirin's distribution systems, designed around customers' perceived need for fresh beer. By starting with a key consumer need, the two companies built their logistics to satisfy that need by relocating plants, using refrigerated delivery trucks, and working with retailers to ensure that the beer remained refrigerated and fresh.

Table 12.3 shows an analysis of primary consumer wants and needs that drove Saturn's original distribution system design (before General Motors divested the division). It is clear from the eventual design of the system that the middle section of the table, "Buying Wants and Needs," had a significant impact. Consumers surveyed wanted a fair price, a fair negotiation process, convenience, honest and courteous treatment, and inventory availability. A key shopping want or need was lack of pressure and a non-threatening environment. Thus, Saturn's No Hassle/No Haggle policy and well-known low-pressure environment fit the needs well.

The rapid growth of automated teller machines (ATMs) reflects a shift in distribution channels by banks, to account for changes in customer behavior. The increased convenience of ATMs took advantage of an increase in the number of dual-career couples and increased technological awareness of the populations around the world, along with an increase in the value of the time that had previously been spent queuing in the banks.

A channel system can also be augmented to reflect the desire to reach a new customer segment. For example, Dell Computer's traditional customers have been businesses that are either reached through the company's direct sales force or that buy through the company's Web site. However, Dell decided that it wanted to make a bigger push to reach the home PC market. As a result, the company has begun selling its PCs on the home-shopping channel QVC as well as in retailers such as Walmart. Who watches QVC? The company claims a broad and varied audience that is interested in jewelry, clothing, and sports memorabilia. Dell is not alone in using home-shopping networks as a channel. The Home Shopping Network (HSN) lists Hewlett-Packard, Acer, Toshiba, and Lenovo among its partners.

Competitors

As we noted earlier in this chapter, a key reason for picking a particular channel system is to differentiate your product or service from the competition. In this sense, the product includes service, packaging, and the place of purchase. Therefore, even though Amway's floor cleaner may not be any better than Procter & Gamble's, the personal selling approach adds a dimension to the product that differentiates it from those purchased in retail outlets.

In other words, in choosing the channel structure it is important to include the competitor's channels in the competitor analysis. These channels are part of the competitor's marketing strategy. The key decision you have to make is whether to emulate it (because that is what customers expect) or try something new and different. If the segment of

Table 12.3

Consumer Wants and Needs Driving the Saturn Distribution System
Shopping wants and needs
High-quality information
Comprehensive, including competitors
Accurate, credible, objective
Current
Easy to understand and compare
Comfortable, convenient access to information
Low pressure, nonthreatening
Evaluation assistance
Buying wants and needs
Fair price
Fair negotiation process
Free of pressure
Easy to understand, all costs clear
Free of deception, dishonesty
Convenience
Honest, courteous treatment
Inventory availability
Service wants and needs
Quality of work
Do right the first time
Use high-quality parts
Guarantee quality of work
Convenience
Timeliness
Honest, courteous treatment
Diagnose and recommend needed repairs accurately and honestly
Fair price

Source: Presentation at Northwestern University by Saturn executives in May 1992.

customers who want the "new and different" channel is too small, then it would be difficult to be profitable by changing your channels in that direction. The only way Calyx & Corolla can be successful selling flowers by mail order is if the convenience segment is large enough. Otherwise, the traditional system of flower distribution and retailing will prevail.

Competitive distribution structures can differ in the same market. In electronics distribution, the two major competitors are Hamilton-Avnet and Arrow. Hamilton believes that customers want local delivery, so it has inventory at more than 50 locations throughout the United States. Arrow takes a different path: it has a few central locations but promises to ship overnight.

The Marketing Strategy

Clearly, as a result of the customer and competitor analysis (and the environmental scan), the marketing strategy developed has a large impact on the channel structure. As we noted in Chapter 2, the value chain can be used to determine various bases for differential advantage:

- Inbound logistics.
- Operations.
- Outbound logistics.
- Marketing and sales.
- Service.

Each of these factors has implications for the channel structure. If you are the marketing manager for Steinway and you differentiate on the materials you use to make the pianos (inbound logistics), you have a high price and a few, exclusive distributors. FedEx differentiated itself by having the most efficient operation in the package delivery industry. Its distribution setup included using its own planes, so that every package stayed in its own system. Walmart sustains low prices by having the most efficient system for providing stock information to its warehouses and replenishing supply (operations and outbound logistics). Companies such as Amway, Tupperware, and Mary Kay Cosmetics differentiate on the basis of door-to-door as opposed to retail sales (outbound logistics, marketing). Lexus differentiates itself from other luxury car brands by its slavish devotion to high levels of customer service, which is manifested by the investment it makes in its retailers' facilities and parts distribution.

Although flexible and dynamic, channel systems cannot be as easily changed as a marketing strategy. Thus, the key to linking the marketing strategy to the distribution channels is through the value proposition, that is, the core or basic way you intend to differentiate your product from the competition. Normally, the value proposition does not change as often as implementation or marketing-mix issues do.

Resources

It is obviously critical for products to have distribution, because no one can buy something that is not available. However, particularly with new products or an existing product being launched in a new market domestically or overseas, the amount budgeted for channels may be lower initially. For example, when the Japanese copier company Savin entered the U.S. market, it used independent agents to sell its products rather than setting up its own direct sales force. Why would the company do this? Because agents are compensated only when they sell, based on a negotiated commission rate, the channel costs become variable costs rather than fixed. This method may be important when demand for the product is uncertain. If the product becomes successful, further investments are made in consolidating the market position. Thus, if resources invested in the product are insufficient to create a captive distribution system, you should look for lower-cost alternatives to give customers access to your products.

Clearly, resources are always a constraint. It makes little sense for every brand to invest in a fully company-owned system down to the retail level. IBM developed its own retail stores in the 1980s. However, the company quickly discovered that it is expensive to develop and market a retail network and that was not the company's strength. Apple, on the other hand, has made its retail stores a key point of difference compared to Windows-based machines due to the way the stores communicate the Apple "experience." As we noted at the beginning of the chapter, Microsoft is attempting to emulate Apple's success. At some point, most companies have to make a hard decision about how much of the channel system to own and how much of it should include indirect or noncompany components.

Changes in Technology

The rapid changes in information technology are adding channel options and broadening the set of channels from which a brand manager can choose. Besides the Internet discussed earlier, emerging technologies such as wireless mobile platforms through "smart" phones (Blackberrys, iPhones, and the like) are opening up new channel possibilities. The iPhone application RedLaser allows users to place the phone near a bar code on any product and then be transported to a variety of Web sites where the product can be purchased. A mobile service called Gifticon (http://www.mobileinkorea.com/tag/Gifticon) developed in South Korea permits users to send gifts via text messages. The receiver saves the text message and shows it to any store in Korea to obtain the gift. Although it has been in development for a number of years, interactive TV shopping is likely to be a reality soon. Someone watching a TV show will be able to highlight a product on the show using a remote device that will then take the consumer to a Web site where it can be purchased. These are only a couple of ways in which technology is rapidly increasing the number of ways companies can reach customers enabling purchasing.

Two channels that are becoming more widespread in use are free-standing kiosks and vending machines. New-generation kiosks are equipped with sophisticated technology that is faster; more reliable; and easier to maintain, administer, and upgrade. Some examples of their uses include the following:

- BestBuy has installed kiosks in a number of U.S. airports. Products include media players, unlocked cell phones, digital cameras, portable gaming devices, many varieties of chargers, flash drives and other storage, cell phone and computer accessories, headphones (important!), and Best Buy gift cards.
- Discovery Channel Stores have kiosks that allow customers to view more than 700 videos and access additional inventory of specialty gifts offered at DiscoveryStore.com.
- In the past, Kmart had in-store kiosks hooked into BlueLight.com, Kmart's e-tail Web site. Customers could order products and specify delivery from the site. The company found that 20 percent of the shoppers at BlueLight.com came from inside Kmart stores.

While there is some potential for cannibalization of sales in these latter two examples, the kiosks introduce customers to the Web sites and offer the possibility of greater sales from a combination of the retail and Web channels. Even the good old-fashioned vending machine is being used to sell some unusual products. While these machines have sold a wide variety of beverages and food items in Japan for many years (including lobsters!), it is possible to buy iPods and even Reebok sneakers now.

Channel Options

Direct and Indirect Channels

There are two broad categories of channels: **direct** and **indirect** channels. A direct channel is one where the product or service remains under the control of the company from production to customer. A company may have independent parties participate in direct channels; for example, you may outsource telemarketing activities. However, these parties are usually transparent to the customer, who perceives that it is the company marketing the product that makes the contact. Indirect channels are independent parties paid by the company to distribute the product. In this case, the channel member and not the company has direct contact with the end-customer. Specific channel institutions such as retail stores, Web sites, and a sales force can be either direct or indirect, depending on whether the company or an independent entity controls it.

direct channel
is one where the product or service remains under the control of the company from production to customer

indirect channel
is an independent party paid by a company to distribute the product; in this case, the channel member and not the company has direct contact with the end organization

Returning to our example of Microsoft, the company uses both direct and indirect channels of distribution. Its own sales force is obviously a direct channel as are the new stores. The use of business partners, such as Toys 'R' Us, Walmart, Best Buy, and other consumer electronics and toy stores (for Xbox), show how indirect channels can be useful to reach customers that the direct channels cannot.

At one time, the trade-off between the two was clear. Direct channels tended to imply a sales force. The main advantage of a sales force is that it is under your control and dedicated to your company's products. You can train the salespeople to deliver a particular message to potential customers and change that message when the marketing strategy changes. The downside to the sales force is that it is expensive to train and maintain and its reach is limited by its size. Indirect channels can reach more customers and perform functions that the sales force cannot (Table 12.2). However, as we discuss later in this chapter, they are not necessarily working exclusively for you. This loss of control is important; when you are not controlling the message given to customers, you must depend on the channel to deliver one that is consistent with your strategy.

Today, the limited reach of the direct sales channel is mitigated by the widespread use of telemarketing, direct mail, and the Internet (recall the discussion in Chapter 10 about the trade-off between richness and reach). All of these methods can reach large numbers of customers efficiently. You can control the messages as well. However, some functions that may be necessary for the product or service you are trying to market cannot be performed by these three methods.

The choice between direct and indirect channels, like any other decision, ultimately rests on the relative profitability of the two methods. How much is it worth to use distributors that give customers access to your products and services? Direct appears to be better than indirect in the following cases:

- Information needs are high because of technical complexity, or for other reasons.
- Product customization is important.
- Quality assurance matters.
- Purchase orders are large.
- Transportation and storage are complex.[13]

In contrast, the following cases tend to lead to the use of indirect channels:

- One-stop shopping for many products is important.
- Availability is important.
- After-sale service is important.

Thus, the automobile, farm equipment, and similar industries have used independent distributors for many years. However, it is also the case that companies have gained differential advantages by violating some of these general guidelines.

Another factor to consider in choosing between direct and indirect channels is the level of commitment you might expect to obtain from potential intermediaries. Channel members must be motivated to sell your product when they have multiple products to sell. Even when a significant amount of pull money has been promised, there is no guarantee about the dedication you can get from indirect channel members. From your perspective, you use multiple channels to get your product or service to customers and the focus is on your company's product alone. However, from the channel member's perspective, she or he has products from multiple companies to sell and is not necessarily focused on yours (unless the channel carries noncompeting product lines).

How do you get higher commitment from an indirect channel other than through promises of money directed at the end-customer? Of course, higher profit margins are important. Giving the channel member exclusive rights to distribute or sell the product in a particular geographic area is another approach. For example, Paul Mitchell hair products were originally sold only through beauty salons, so the company knew it would not have to compete with drug stores or other retail outlets. Providing sales training programs, promotions such as cooperative advertising plans, and sales contests are other ways to gain commitment from indirect, independent channels.

Another factor in the decision between direct and indirect channels is customer loyalty. For some kinds of products, the customer builds loyalty to the channel member rather than to the company. This loyalty can pose a long-term problem if the channel member drops the product. For example, customers are often more loyal to their stockbrokers than to the brokerage firm. As a result, if the broker leaves Merrill Lynch and joins UBS, the customer will often shift his or her business along with the broker. When Microsoft's products are distributed through "third parties" such as Radio Shack (now The Shack) or Staples, the client sees and communicates with the latter, not Microsoft.

Sometimes the choice between direct and indirect channels is based on the likelihood that the channel member will compete with your product. Most channel members are in business solely to act as an intermediary between firms and customers. However, sometimes channel members become competitors. Store brands or private labels are examples of channel–manufacturer competition, and during the early 1990s they gained share at the expense of national brands. The Gap started by selling Levi's jeans and other similar leisure wear. However, it switched to selling its own brand of jeans and eventually dropped Levi Strauss as a supplier.

Finally, advances in information technology are disrupting the channel structure of many industries. Not only are more channels being added to the channel mix as we described above, but in some circumstances, channels are being bypassed. This is referred to as **disintermediation**. A classic example is Walmart, the largest retailer in the world, which used its investments in information technology to create direct links between its own warehouses and manufacturers, thereby eliminating the need for independent wholesalers in its system.

disintermediation
the process by which companies are eliminating intermediate channels of distribution through the use of information technology

Multiple-Channel Systems

Most **multiple-channel systems**, like those shown in Figures 12.2 and 12.3, use a combination of direct and indirect channels. For example, a common approach is to use direct sales for large national or international accounts and a wholesaler for smaller accounts for which direct sales are not cost-effective. Or a company may use a direct sales force to sell to intermediaries such as wholesalers. Thus, multichannel systems take advantage of the strengths of alternatives.

multiple-channel systems a channel of distribution that uses a combination of direct and indirect channels and in which the multiple channel members serve different segments

In today's marketing environment, using multiple channels or **multichannel marketing** has become a necessity, not a choice. As we have noted, different channels have the ability to reach different segments. As we noted in Chapter 10 concerning communications, segments are becoming more difficult to target due to their widely varying behavior with respect to their daily activities (i.e., Web surfing, TV watching, playing videogames, text messaging, and other mobile activities). Thus, designing channel systems with multiple channels is the norm, not the exception. In addition, companies are encouraging customers to use multiple channels. Retailers like Eddie Bauer have stores, catalogues, a Web site, and a phone number to call to encourage customers to shop in different ways (see www.EddieBauer.com). Some research has found, in fact, that multichannel customers spend 20 to 30 percent more money on average than do single-channel customers.[14]

multichannel marketing marketing using multiple channels of distribution simultaneously

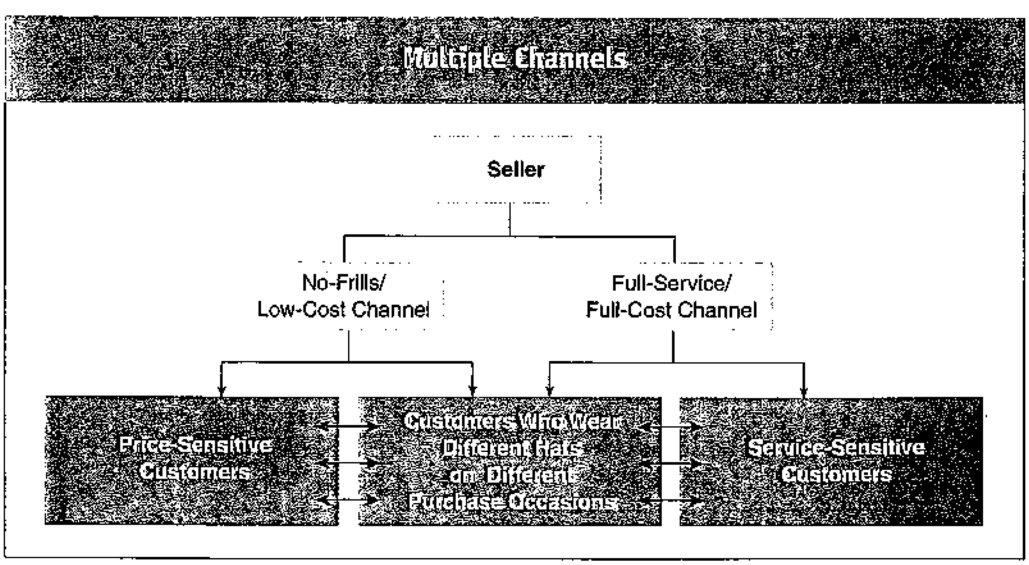
The main problems with using a variety of channels are:

- Coordination and management issues become more important. A particular problem is confusion about who should receive a commission on a sale or how it should be divided when several channel members are involved. For example, a distributor may provide a lead on a sale that is then closed by a salesperson.
- Loss of control can be frustrating. The marketing manager can exert control over direct channel members but not independent ones. For example, Microsoft cannot control what its technology partners (PC manufacturers) say about the company or the expertise with which they describe the company's products.

A particular problem occurs when a customer can buy a product at several different channels for different prices. A consumer interested in buying a camera can try out various models at a local camera shop and then purchase it from a mail-order company at a lower price. Although the channels are intended to focus on different segments of the market (service-sensitive versus price-sensitive, as we showed in Chapters 4 and 5), segments are not always so distinctly separated and there is considerable overlap and movement between them.

This problem is illustrated in Figure 12.4. The problem is the area between the price-sensitive and service-sensitive customers, those who wear different hats on different

Figure 12.4



Source: V. Kasturi Rangan (1994), "Reorienting Channels of Distribution," Harvard Business School case #9-594-118, p. 7.

purchase occasions. If the local store offers sufficient service to warrant the price, the customer will still patronize it. For example, the camera store owner may service the cameras bought in his store and provide occasional tutorials on improving photos or other specialized advice that the mail-order firm does not provide.

Application | Ingersoll-Rand

Ingersoll-Rand is one of the leading firms in the stationary air compressor industry and owns a number of other well-known industrial brands such as Trane (heating and air conditioning) (see Figure 12.5 for the company's Web site).[15] Compressed air has a wide range of applications, from powering tools and other machinery (plant air), powering and controlling pneumatic systems in certain types of equipment (special machinery), and supplying air for manufacturing processes (process air). The company markets three types of compressors: reciprocating, rotary screw, and centrifugal.

The company uses four different kinds of channels for marketing its products:

- **A direct sales force.** The sales force is responsible for sales to users of all centrifugal compressors, rotary compressors above 450 horsepower, and reciprocating compressors above 250 horsepower. The sales force sells directly to Ingersoll-Rand's largest customers.
- **Independent distributors.** These channel members sell reciprocating compressors below 250 horsepower and rotary compressors below 450 horsepower. These distributors sell mainly to smaller customers. The rationale is that these customers are more numerous and geographically dispersed, so it makes more economic sense to use independent distributors rather than the direct sales force.
- **Company-owned air centers.** These are similar to the independent distributors but have territories that do not overlap. Independent distributors and air centers sell identical Ingersoll-Rand products and accessories at identical prices. However, the former carry other manufacturers' lines, but the air centers carry only Ingersoll-Rand products.

Figure 12.5

Source: Copyright Ingersoll-Rand.

- **Manufacturers' representatives.** These people are charged with selling the do-it-yourself (DIY) products, mainly reciprocating compressors less than five horsepower. These products are sold through consumer channels such as hardware stores.

Besides the economic advantages of using channels other than direct sales, the multiple-channel design is motivated by underlying differences in segment buying behavior. Large customers such as automobile companies require a great deal of technical sophistication and coordination, and their requests for price quotations contain detailed specifications that have to be met. These customers tend to require the largest machines, have longer selling cycles requiring multiple contacts, and have large buying centers (see Chapter 5), with multiple people involved in the decision process. Customers requiring smaller machines do not require as much technical assistance and have fewer people involved with the decision, but need faster delivery and parts availability that a wider dealer network can provide. Finally, customers using air compressors for filling their tires can satisfy their needs at local retailers.

Thus, this is a good example of a company selling a large product line to multiple segments. Both economics and segment needs drove the design of the channel of distribution system.

Hybrid Systems

A modification of the multiple-channel system is the **hybrid system**.[16] In a hybrid system, rather than serving different segments, the channel members perform complementary functions, often for the same customer. Some channel members may contact the customers, for example, while others perform service functions. The purpose of a hybrid system is to permit specialization and thereby improve levels of performance for the different complementary functions. Figure 12.6 shows this kind of system.

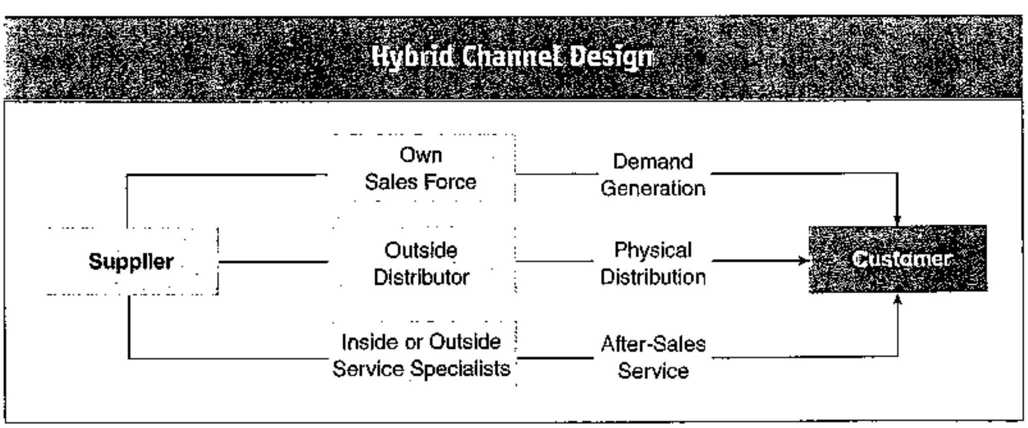
hybrid system a modification of the multiple-channel system in which members of the channel system perform complementary functions, often for the same customer, thereby allowing for specialization and better levels of performance

As shown in this figure, the key difference between hybrid and more conventional multiple-channel systems is that hybrids are more horizontal; that is, tasks are parceled out among the channel members. In a conventional system, the tasks are often vertical: as each member of the channel gets the product, it performs some function and then gives it to the next member.

A more detailed view of a hybrid system is given in Figure 12.7. The channels vary in the tasks they perform. These tasks include generating the lead, qualifying sales leads, presale marketing, closing the sale, postsale service, and account management (maintaining relations with an existing account). The various methods and channels that can be used to accomplish these tasks are listed down the side of the figure. In this example, direct mail is used to generate leads; telemarketing to qualify leads, for both presale activity and postsale service; and direct sales to close the deal and manage the account once the sale is made. The grid can also be useful for identifying points of overlap and conflict in a channel system.

Figure 12.7 omits the Internet from the channel mix. Companies use their Web sites to complement their other channels in a number of ways, such as customer service, providing timely new product information, and so on. Some companies use the Web site to enhance the customer experience in ways that the off-line presence cannot.

Figure 12.6



Source: V. Kasturi Rangan (1994), "Reorienting Channels of Distribution," Harvard Business School case #9-594-118. Copyright © 1994 by the President and Fellows of Harvard College. Reprinted by permission.

Figure 12.7

Example of a Hybrid Channel System

Marketing channels and methods	Demand-Generation Tasks: Lead Generation	Qualifying Sales	Presales	Close of Sale	Postsale Service	Account Management	
Vendor: National account management							Customer
Direct sales							
Telemarketing							
Direct mail							
Retail stores							
Distributors							
Dealers and value-added resellers							

Source: Rowland Moriarty and Ursula Moran (1990), "The Hybrid Grid: The Elements of a Hybrid Marketing System," *Harvard Business Review*, November–December.

Application JCPenney

The retailer JCPenney has three main channels of distribution: stores, catalogues, and the Internet. Until recently, the three channels had been run independently without concern for how the three can create important synergies for customers.

Within the last few years, however, management decided to treat the distribution system as one unified channel. This is a different perspective and resulted in several innovations. First, the company developed an innovative service called "Know Before You Go," which permitted customers to check the company's inventory of a particular product on the Web site before they went to a local store. Second, the company developed a service called

Figure 12.8

JCPenney In-Store Kiosk

Source: UPI Photo/Monika Graff/Newscom

"Dorm Life" targeting the parents of college students. With this service, parents could order furniture, lamps, and so forth from the JCPenney Web site or catalogue and request availability at a store near the college the student is attending for local pick up. Third, the company expanded its use of instore kiosks where customers could virtually "browse" the entire store (see Figure 12.8). Thus, JCPenney has significantly improved the coordination between its channels to upgrade its customers' experiences and benefits.

Channel Power and Management

In this chapter, we have described a variety of channel arrangements the manager can use to structure a system. However, for every channel system, a different set of problems will be encountered in managing the system and maximizing profits, market share, or whatever objective you have set.

Channel Power

Because of the many goals that exist within channels and because few marketing managers consider channel members as customers, members of a channel system are unlikely to coordinate their activities spontaneously; it usually takes a crisis to bring solutions to channel conflicts. It takes **channel power** to coordinate activities in a system:

> *Power is the ability of one channel member to get another channel member to do what it otherwise would not have done.*[17]

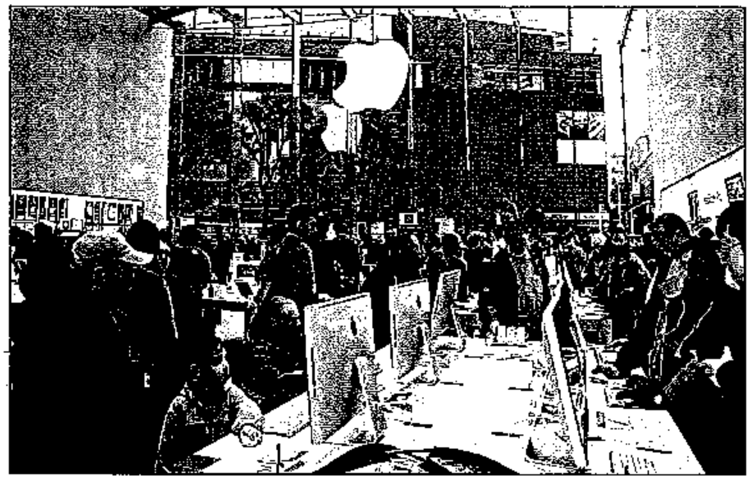
channel power
the ability of one channel member to get another channel member to do what it otherwise would not have done

What factors are in control of who has the power in a channel relationship? Channel members are likely to have significant bargaining power over the marketing manager in the following cases:

- The channel's sales volume is large relative to the product's total sales volume. In this case, channel members with high sales volumes are going to be more effective in extracting terms such as delivery and push promotions.
- The product is not well differentiated from competitors. If the product is perceived to be a commodity by customers, then channel members can play your product against others; that is, they can appear to be (or actually be) indifferent to keeping your brand on the shelf.
- The channel has low switching costs (i.e., it is easy to find an alternative to replace your product).
- The channel poses a credible threat of backward integration or competition with you. A good example is the increase in private labels sold by supermarkets in the United States and Europe. This is one reason supermarkets have increased their power in their relationships with manufacturers.
- The channel has better information than you about market conditions. This can happen when channels are good at collecting market information and using it to their advantage.

This latter point has become very important in channel relationships, particularly with the significant inroads that information technology has made in many industries. This has led to the problem of disintermediation facing many distributors, particularly "middlemen," the wholesalers and distributors "between" the manufacturer and the retailer. Other examples exist besides Walmart (mentioned earlier). If you break the windshield of your car, your insurance company will probably ask you to dial the toll-free phone number of a national network of auto glass installers. The local glass companies that are not connected are bypassed in this application of information technology. Travel, health, music, and many other industries have been dramatically affected by a shift in power between elements of the distribution system as computers and communication networks change long-standing supplier–buyer relationships. The effects have been the elimination of intermediaries, the collapse or shortening of inefficient supply chains, and allowing customers and companies to be linked directly.

Retail marketing in the United States has changed dramatically as Walmart's strategy has spawned a large number of "category killers" or "big box" retailers. These retailers sell products in a particular product category at a discount in huge stores. Examples are Home



Apple has been very successful with its own retail stores.
Source: Charles Eshelman/Getty Images, Inc-Liaison

Depot (hardware), Toys 'R' Us, Office Depot (office equipment), Best Buy (consumer electronics), PetSmart (pet products and services), and CarMax (used cars). They all rely on information-intensive operations to keep costs down and ensure the lowest prices. They also deal directly with the companies that make the products, to eliminate the intermediaries. Obviously, the category killers pose a significant threat to smaller retailers. Category killers have been so successful in changing the landscape of retailing that in some parts of the country, local retailers have enlisted the help of politicians to keep them out. The largest problem facing these mega-retailers is how to keep from competing against themselves.

On occasion, channel power is manifested in obvious hardball tactics. Dentsply International has more than 70 percent of the market for false teeth. The company demands that distributors give it exclusive coverage and do not sell any competitors' products. If a distributor violates this rule, it can be dropped by the company. The Justice Department claims that this is illegal and has filed suit under antitrust law.[18]

Channel Management

Channels need to be actively managed by the marketing manager. An important problem that can arise without sufficient attention is channel conflict, that is, situations where multiple channel systems (e.g., retailers and a company Web site) are selling your product or service. It is crucial to recognize when such problems can arise and how to resolve them.

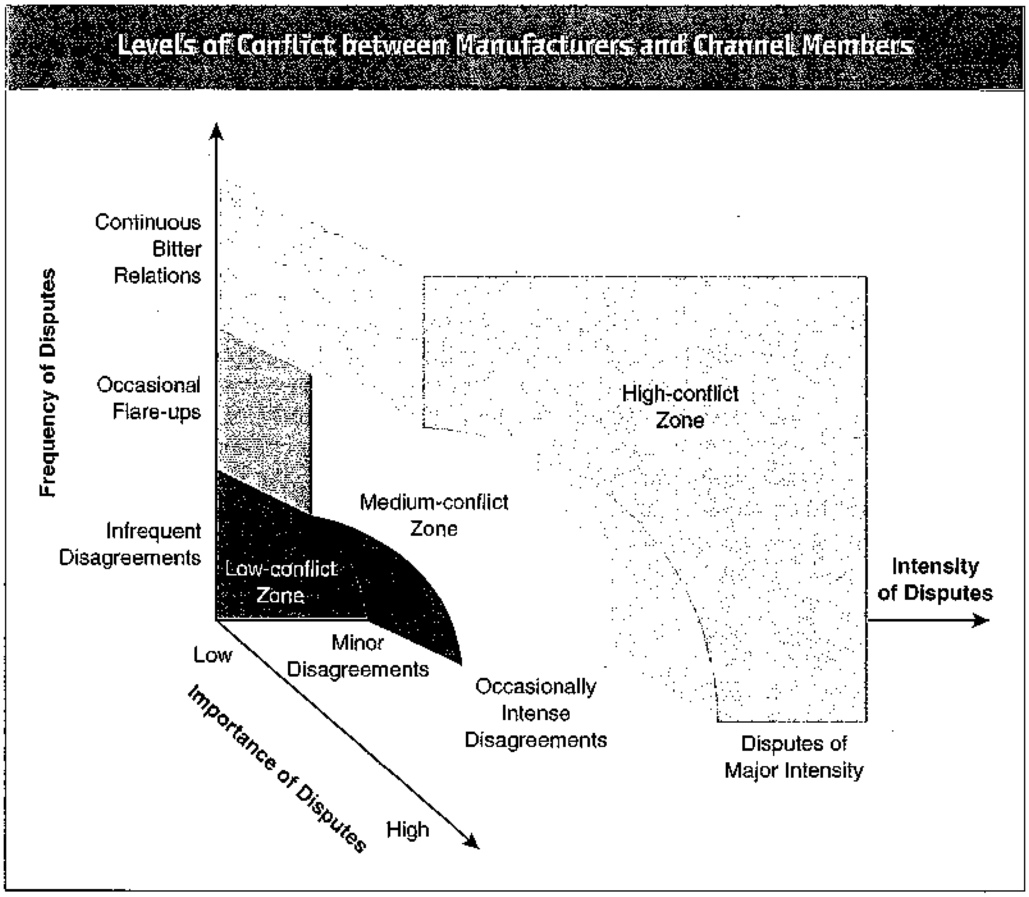
Channel Conflict

Managing a channel system usually involves resolving conflicts in which one member of the system believes that another member is impeding its ability to achieve its goals. Such conflict is characterized by the different levels of intensity, frequency, and importance of the disputes that arise. Figure 12.9 illustrates these levels of conflict and divides them into three increasingly fractious intensities.

The four major sources of conflict are:[19]

1. **Goal divergence.** Clearly, your objective and the objectives of channel members can differ. You may be rewarded on the basis of worldwide market share, but the local retailer stocking your product wants to make enough money to send her kids to college and retire comfortably. Often, the sales force is rewarded on a commission basis. It wants to sell quantity and is willing to be flexible on price, whereas your strategy is high quality, high price.
2. **Domain dissensus.** Conflict can arise when the perception of who owns a particular domain differs between channel participants. The domains can be:
   - The population to be served.
   - The territory to be covered.
   - The functions or duties to be performed.
   - The technology to be employed in marketing (e.g., who is responsible for attaching coupons to packages?).
3. **Differing perceptions of reality.** This is a basic human frailty; one side believes it has been wronged and the other believes it has acted in good faith. For example, a retailer may not think that the manufacturer's support in terms of cooperative advertising and training is sufficient while the manufacturer believes that it is offering the same level to that retailer as to others that have been successful.
4. **Misuse of power.** Supermarkets that have gained power now charge fees for stocking products, called slotting allowances. This is a nuisance for large companies, but an even larger problem for small ones trying to break into that channel. In Florida, Disney does not allow tour operators who work with rival Universal to distribute tickets to Disney World.

Figure 12.9



Source: Allen J. Magrath and Kenneth G. Hardy (1988), "A Strategic Framework for Diagnosing Manufacturer—Reseller Conflict," Marketing Science Institute report no. 88-101 (Cambridge, MA: Marketing Science Institute), p. 3.

As noted earlier in this chapter, the domain issue is particularly a problem with multiple channels. The camera retailer is upset that customers can come into his store, try the camera, obtain advice, and purchase the same model at a discount electronics store or by mail order. The retailer feels that the manufacturer is not protecting him. Similarly, Hallmark traditionally distributed its cards through specialty card shops. However, because it has lost market share to competition at discount stores, supermarkets, and drug stores, the company decided in late 1996 to sell Hallmark-branded cards to mass merchandisers such as Walmart, Kmart, and Kroger. This angered many owners of the card shops, who formerly had the exclusive right to sell Hallmark cards and other merchandise. Several years ago, Avon decided to sell its makeup and creams through Sears and JCPenney. The decision obviously made its 500,000 sales reps nervous.

The rise of the Web as a channel has only exacerbated channel conflict as many companies have decided to sell their products on the Web in potential conflict with their channel members. Apple Computer has been notorious for creating channel conflict. Not only does it sell its computers at its Web site; but, as noted at the beginning of the chapter, in 2001 the company decided to open some Apple retail stores. Many companies, however, avoid such conflict either by referring Web site visitors to retail locations or by using the Web to offer increased levels of dealer support.

Application | Goodyear Tires

In 2000, when Firestone recalled 6.5 million tires that were linked to SUV accidents, Goodyear found it relatively easy to convert many Firestone retail dealers to its brand.[20] However, many of these converted dealers switched back to Firestone within one to two years or are pushing other brands. The dealers found Goodyear difficult to deal with and were unimpressed with the quality of its tires.

Importantly, Goodyear also started selling its tires through major retailers such as Sears, Walmart, and Sam's Club. These retailers often undercut the dealers in terms of price. While other tire manufacturers have done the same thing, Goodyear's "fill rate" (the ratio of the number of tires delivered to the number ordered) has been as low as 50 percent. In addition, the larger retailers were getting bulk discounts, which resulted in some smaller dealers paying more for their tires than what Sears was charging at retail. Clearly, Goodyear did not manage this channel conflict situation very well.

Conflict Resolution

The conflict arising in channel systems can be resolved in many different ways. The basic approach is to determine where such conflict exists, then try to understand the channel members' concerns. This approach requires research on the channels (remember that they are customers). You can do this by talking to channel managers, employees, the sales force, or any other person who has contact with the channels. Understanding the channel members' concerns requires sensitivity. Once you know the locus and source of the problem, you can devise an effective remedy. Even then, however, you may make limited progress toward solving the problem.

Let's return to the Hallmark situation. There are two sources of conflict. The first is goal divergence. Hallmark wants to increase its U.S. sales and profits; the card shop owners want the same, but for their stores only, not across all possible outlets. Hallmark's original "solution" to its problem created conflict between the card shops and discounters. The company then devised a two-part solution. The first part was to launch a new product line called Expressions from Hallmark, which is priced lower and sold only in the discount stores. The card shops still get the premium Hallmark brand. The second part of the solution was to launch an expensive advertising campaign promoting its Gold Crown retail stores.

The first part of the solution—demarcating products and product variants or brands by channels—is a common one. Such a strategy makes it more difficult for the camera shopper to use the camera specialist only for information. For example, if Nikon sells its better products only through specialty stores, the information seeker cannot purchase a similar model at a discounter or through mail order. Similarly, golf club lines are usually demarcated between pro shops and sporting goods stores. Although Avon did introduce its products into Sears and JCPenney, it created a new, higher-priced line that did not conflict with what the sales representatives were selling. Goodyear also took this approach by giving a hot new product, the Assurance, only to its dealers.

Let us return to the Ingersoll-Rand illustration discussed earlier. The company uses four channels to distribute its air compressors: direct sales, independent distributors, company-owned air centers, and manufacturers' representatives. Even though the channels appear to be defined clearly, sometimes they compete directly with each other. A salesperson might submit a bid on a 400-horsepower compressor while a distributor would submit a bid to the same customer for two 200-horsepower machines. For smaller compressors, distributors and air centers compete with the manufacturers' representatives for the under-5-horsepower compressors. To reduce interchannel competition, Ingersoll-Rand introduced its Full Partner Program, in which commissions were given for referrals as well as sales. For example, if a direct salesperson refers an inquiry to a distributor or an air center, she or he will get a 1 percent commission if a sale is made and 2 percent if the salesperson actively assisted in the sale.

Finally, in 2000, Mattel began selling a wide range of toys and children's clothing at the Barbie.com Web site. Some of these overlapped with products sold at large retailers like Walmart, Kmart, and Toys 'R' Us. Mattel claimed that the purpose was to increase the visibility of the brands and not to create channel conflict. To emphasize this, the company set prices 15 percent higher than those at the retailers.[21]

Thus, from these illustrations, we have seen different ways to resolve conflict:

1. Demarcating product lines (i.e., separating product offerings by channel to help reduce domain problems).
2. Working with the channel members to develop joint solutions.
3. Putting more money into push and pull activities.
4. Developing financial arrangements such as commissions and higher margins.
5. Charging higher prices in the direct channel.

Channel power can also be used as a conflict resolution tool. If such power exists, the channel member can influence another channel member's behavior. Power sources can be converted into persuasion through:

- Threats.
- Legalistic pleas.
- Promises.
- Requests.
- Recommendations.
- Information exchange.

Of course, not all of these approaches will work; their success depends largely on how the channel member with the power chooses to exercise it.

Channels Issues in High-Tech Marketing

Marketing managers for technology-based products use all of the traditional channels of distribution: retailers, various middlemen, direct sales, telemarketing, and so on. The channel design and management issues discussed earlier in this chapter are therefore relevant to the marketing of these kinds of products and services.

What makes channel issues unique in this context is the use of two different kinds of intermediaries: original equipment manufacturers (OEMs) and value-added resellers (VARs).

OEMs

A company typically uses original equipment manufacturers when an ingredient is used in or as part of another company's products. For example, Canon is the world's largest manufacturer of the engines in laser printers (the part of the printer that produces the copies). Not only does Canon make the engines for its own brand of laser printers, but it also sells them to Hewlett-Packard as an OEM channel for its LaserJet line. Hard disk drive manufacturers such as Quantum and Seagate sell through OEM channels such as Dell, Lenovo, and other PC manufacturers. Software companies also use the PC OEM channel because many PCs come bundled with software. The Logitech illustration at the beginning of Chapter 7 is another example of a company that heavily uses the OEM channel for its computer mice. Microsoft, the subject of the introductory case in this chapter, uses PC manufacturers such as HP and Dell as an OEM for its Windows 7 operation system.

Table 12.4 highlights some of the differences between OEM and branded marketing for products such as hard disk drives. A branded product is sold on a stand-alone basis (rather than as an ingredient) to end customers. For example, as we noted earlier in this chapter, hard disk drives are sold through both OEM and regular retail (both mail order and computer store) channels.

The general characteristic of OEM marketing is that it is a technical sell, with you talking directly to engineers. The customer is interested in how your product fits into its laptop computer, printer, or other device. Thus, knowledge of technical aspects of the product is important. In addition, the sale is usually very price oriented because the customer has a good idea about your cost structure. Because your product is only an ingredient, the brand name is not generally visible ("Intel Inside" notwithstanding) and is therefore not a key selling point for obtaining a higher price. OEM selling is usually more like a traditional sales job versus the branded mass-marketing approach. Terms of supply such as delivery quantities, timing, and quality are of paramount importance to the OEM. As a result, strong negotiation skills are required.

value-added reseller (VAR) organizations that buy products from a variety of vendors, assemble them in packages, and resell the packages to specialized segments; part of the channel of distribution for technology-based products

VARs

A **value-added reseller (VAR)** is an organization that buys products from a variety of vendors, assembles them in a package, and resells the package to specialized segments,

Table 12.4

OEM versus Branded Marketing

OEM	Branded
Customer	
Heavy engineering influence	Not necessarily a technical sell
Cross-functional decision making	Individual decision makers
Multimillion-dollar account size	Thousands of customers
Horizontal market orientation	Vertical market orientation
Promotion	
Executive selling	PR activities: articles, white papers
Key industry analysts and influencers	Advertising
	Events: trade shows and seminars
Word of mouth	Channel programs
Pricing	
Usually cost based	Value based
Negotiated by each OEM	Standard price lists and discount structure
Detailed pricing schedules	
Senior executive involvement	Marketing ownership
Frequent pricing action	Periodic pricing adjustments
Product	
System component	A stand-alone product
Requirements often set by customer	Ease of use very important
Close engineering coordination with customer	Market orientation and product position determine specification
Integration testing a major element of sales cycle	Short evaluation cycle
Place	
Direct sales dominate	Mix of indirect and direct sales channels
Product fulfilled by manufacturer	
Account teams deliver service and support	Channels change with product life cycle
	Product fulfilled at several levels

OEM	Branded
Competition	
Similar product	Feature set differentiation
Overlapping customer set	Narrow product line
Business won or lost at design	Alliances common
Support and relationship key	Company and product awareness key
Cost	
Many hidden costs	Large non-product-related expenses
Significant engineering effort in cost reduction	Product positioning and feature set drive product costs
Customers often know your costs	Customers care about price, not cost
Communication	
Direct marketing and sales contact	PR and advertising play a major role
Emphases on relationship building	
Marketing effort spans several organizations	Simple, clear messages
	Marketing control
Ongoing communication	Heavy competition for end-user attention
Summary	
Great general management training	More classic marketing
Technical background a plus	Product knowledge required
Program management role	Convey market requirements internally
Strong interpersonal skills, one-on-one selling	Strong communication skills
Business creativity	Product and program creativity
Know your customer's business	Know the vertical markets for your product
Sharp negotiating skills	Channel knowledge
Execution drives success	Strategy and marketing intelligence

Source: Bill Rossi, Google.

often called vertical markets. For example, a VAR focusing on the law firm segment would purchase personal computers from a company, bundle together special software designed for client management and law firm accounting, and then sell the package as a turnkey (i.e., simply "turn the key" to start) system to customers. Similarly, a telephone company would work with companies selling local area network software (e.g., Novell) and hardware (e.g., Cisco) to design a system to install in large office buildings. This would enable the builder to buy an external and internal data and phone system as a package. In this case, the phone company is a VAR to Novell and Cisco. Cisco, in fact, differentiates its VARs as Silver, Gold, Premier, or Global according to the technical expertise of the VAR's engineering staff.

Differences between OEMs and VARs

One difference between an OEM and a VAR is the number of ingredients: an OEM normally has a much larger number of suppliers, whereas the VAR has a few discrete components to its system. Occasionally, the components of a VAR system are identified to the customer. As a result, the VAR must be particularly sensitive about who is responsible for customer service. A law firm may experience a hardware problem with its customer management and accounting system. Who is responsible: the hardware company or the VAR? This is not usually a problem with an OEM channel. If a Dell computer has a hard disk problem, the customer does not contact Seagate or Toshiba, but Dell.

Another difference between a VAR and OEM is that the former is more like a joint venture. Therefore, selling through a VAR is more like a partnership relationship than a supplier relationship. An OEM sale is usually the end of the transaction until the next supply is needed.[22] With a VAR, there are longer-term issues such as customer service and joint marketing. Companies using VARs as a key channel often spend a considerable amount of money working with the VARs to help them sell systems to customers. For example, Kana Communications works with companies selling telephone call centers to help them better sell the total CRM system to potential customers.

Finally, companies selling through VARs also have well-established markets into which they can also sell by themselves. Thus, marketing managers for products using VARs also have to have significant branded marketing skills. Although some OEM products, such as hard drives, are also sold on a stand-alone basis to end-customers, most are not. As a result, products sold through OEMs are significantly driven by derived demand; that is, their markets expand only to the extent that the markets for OEM products expand.

Global Channels Issues

One of the issues raised in Chapter 7 is the limit to true globalization, the concept that you can market a product or service around the world in the same manner.[23] The same question can be asked about distribution channels. Is it possible to have a global channel strategy? In this chapter, we discussed the fact that channel structures exist to serve the company's customers. Throughout this book, we have noted that not only do customers' habits and tastes vary around the world, but so do economic, regulatory, and other conditions. Thus, cultural and other country differences affect strategic decisions such as positioning and branding, but they also affect tactical decisions such as channels. No matter how you choose to enter a foreign market, whether through a joint venture, independent agents, or a wholly owned subsidiary, you have to consider global vagaries in retail and wholesale customs that restrict your ability to develop a truly global approach to channels.[24] Some of these country and regional differences are the following.

Western Europe

The European retailing scene today looks much like that of the United States. Increased price sensitivity has resulted in the proliferation of private label or "own" brands in the major chains such as Sainsbury, Safeway, Tesco, and Carrefours. Superstores such as Price/Costco have established footholds, as have well-known retailers such as IKEA, Toys 'R' Us, and Staples.

However, local regulations still exist and must be considered. For example, Portugal has limited the establishment of new hypermarkets to protect small retailers. Germany has a large number of retail laws. The number of hours stores can remain open is significantly restricted, although the government is experimenting with relaxing those laws.

Russia and Other Former Soviet Bloc Countries

The lack of a high-quality distribution structure, not to mention a shortfall of disposable income, has hampered the development of retail activity in these countries. In addition, a significant amount of purchasing (up to 25 percent of grocery purchases by some estimates) is done on the black market. Excise taxes can make the prices of consumer durables sold through conventional retailers (such as cars) prohibitively expensive (it is not surprising that the black market thrives). Brand loyalty is notoriously low. At the same time, foreign companies are entering major cities such as St. Petersburg, Moscow, and Warsaw. A first-time visitor to Prague or Budapest will be amazed at how "Western" the cities are (if you consider Pizza Hut and McDonald's representative of Western culture), sometimes to the detriment of their former charm.

Japan

Japan is a difficult country for foreign companies to penetrate because of its maze of importation and operational laws. For example, the Large-Scale Retail Store Law can delay a store's opening, reduce its size, force it to close early, and restrict the number of days it can be open. The retail market is extremely fragmented, with mom-and-pop operations dominating. As a result, there is little price competition. However, these barriers are dropping as discounters in a number of categories, from men's clothing to toys, are springing up.

China and Other Asian Markets

In China, foreign firms are often forbidden to set up their own distribution networks. In fact, the Chinese Army (the People's Liberation Army) has a thriving subsidiary that distributes a variety of goods throughout the country. As in Japan, the retail market is extremely fragmented, with most Chinese living in rural areas. In these areas, personal, door-to-door selling is very common. However, in the cities such as Shanghai and Beijing, the retail scene looks very familiar to Westerners.

Several examples already provided in this chapter indicate that Southeast Asia is undergoing rapid economic development. Shopping malls have sprung up in Manila, Ho Chi Minh City, Singapore, and many other cities. However, frequent currency fluctuations demonstrate how vulnerable these economies can be to short-term economic problems.

Application Procter & Gamble

Procter & Gamble has been successful in entering both Japan and China, although it has been in the former country for a long time.[25] It is instructive to read this example showing how the company used different approaches to distribution in each country by adapting to the local retail structure and consumer needs.

In 1995, P&G sold $450 million worth of shampoo and detergent, becoming the largest daily-use consumer-products company in China. China has a poor infrastructure and is years away from having a national distribution system. How did P&G get its products into the millions of small and large stores throughout the country? The company targeted the 228 Chinese cities with more than 200,000 people and determined the location of every store in those cities. Then they sent in their "ground troops," thousands of trainees whose job was to get P&G products on the shelves of every store, into every kiosk, and even into street stalls. Thus, in a switch from traditional economics, the company substituted labor for capital: the distribution system is based on human beings, not trucks or rail cars shipping vast amounts of products into warehouses. In addition, the company used an old Western distribution strategy of linking its Ariel and Tide brands with washing machine manufacturers, who pass out free products when a customer purchases a machine. Promotions such as free samples have been distributed generously.

Until 1995, P&G did not sell dish detergent in Japan. By the end of 1997, the company had Japan's best-selling brand, Joy. Not only is the market for the product mature, but there are two giant Japanese competitors, Kao and Lion. The success was driven by introducing a new, technologically advanced product (a more concentrated product requiring a smaller amount to be used) and through popular TV commercials.

However, the product was also successful in winning over Japan's notoriously difficult retailers. Not surprisingly, retailers in Japan care about the same thing that retailers everywhere are concerned about: profitability of the category. Simply put, Joy is the most profitable product on the market. The Kao and Lion products were sold in long-necked bottles that wasted space. Joy is sold in a compact cylinder that takes less space in trucks, stores, warehouses, and, importantly, on the shelves. This permits retailers to increase the number of units on the shelves, leading to lower restocking rates. That the product is sold for somewhat higher prices, giving higher margins per unit, does not hurt either.

Gray Markets

The **gray market** is where trademarked goods are sold through channels of distribution that are not authorized by the holder of the trademark. It is common that gray markets develop across country lines. This phenomenon is often called **parallel importing**. Parallel importing is most often found when there are significant currency-exchange-rate or price differences between countries that make it profitable to purchase goods in one country and then import them into another for resale. Most readers are familiar with friends from foreign countries who find some products cheaper to buy in the United States than in their home countries and who load up before returning home. Parallel importing is exactly this behavior, except that institutions are involved in the purchasing and shipping and the products are resold in the home market. For example, an automobile dealer in Europe may find it prohibitively expensive to purchase and resell BMWs by going through normal channels. However, the dealer could purchase some in the United States and ship them back for resale at a lower price than legitimate BMW dealers can. Such gray markets are initiated by intermediaries known as **diverters**. These agents either purchase products or arrange for their purchase and divert the products away from normal channels.

gray market
a market in which trademarked goods are sold through channels of distribution that are not authorized by the holder of the trademark

parallel importing
the development of gray markets across country lines, often as a result of significant currency exchange rate or price differences between countries that make it profitable to purchase goods in one country and import them into another for resale

diverters
in international marketing, middlemen who purchase products or arrange for their purchase and thereby divert the products away from normal channels

It looks like a good deal for both the manufacturer and the customer. The former sells more products and the latter enjoys lower prices. However, legitimate channel members become agitated when a significant amount of gray market goods flood their markets. This leads to decreased goodwill in the channel. In addition, warranty support is not necessarily equivalent to that of goods bought through legitimate channels. Finally, brand image and equity can be diluted by gray marketers focusing on low prices.

Some Special Topics in Channels of Distribution

Some Supermarket Issues

With the increased power retailers have obtained in the distribution channel system, particularly for grocery items, the difference between manufacturers' and retailers' perspectives is magnified. Due to industry consolidation, the five largest retailers' share of the grocery business rose from 26.5 percent in 1980 to 45 percent in 2008.[26] Retailers' scarce resource is their selling space, and they care less about how a particular brand is selling than what is happening to the sales of a product category, department, or store as a whole. Of course, the reverse is true for manufacturers.

This category perspective can be coupled with the data explosion that has given retailers, manufacturers, and data suppliers a microscope with which to analyze the performance of different product categories in different parts of the country, different parts of a state, and different areas within a city. To optimize their product mix, retailers want to offer the appropriate brands in a category, and they want the mix of brands and product varieties to be appropriate for the ethnic and socioeconomic composition of the shopping areas in which particular stores are located. In addition, manufacturers are seeking ways to move some of the channel power back in their direction.

Thus, in the early 1990s, the **category management** concept was introduced and has since been dramatically expanded. In category management, product categories are considered to be the business units that should be customized on a store-by-store basis to satisfy customer needs. Retailers have category managers, who are empowered to operate their categories as separate businesses. The idea is that retailers plan marketing and strategy for an entire group of products rather than brand by brand. The category management system has been found to increase retailers' prices and profit margins.[27]

category management
a process that considers product categories to be the business units that should be customized on a store-by-store basis in a way that satisfies customer needs

Under a category management system, manufacturers must be concerned about meeting not only their objectives but also the retailer's. Within the manufacturer's organization, the product management, sales, and marketing research organizations must work as a team because, typically, a salesperson sells a large number of a company's products, managed by an equivalently large number of product managers. Salespeople work closely with product managers, and marketing research managers and management information specialists provide information to both marketing and sales. Interestingly, in this era of category management, the salesperson is really the key person because she or he is the link between marketing managers interested mainly in their brands and retailers interested mainly in their categories. The job of the salesperson in this environment is to become intimately familiar with the needs of both the retailer and the customer, so that he or she can adapt the company's offerings to the needs of a particular store. For example, Kraft has one customer manager for each major chain in a city or region. Additionally, because grocery chains operate on slim profit margins and consumer tastes change rapidly, the chains have come to rely on manufacturers to help plan category strategies because they spend considerable sums on marketing research and have considerable marketing expertise. In turn, manufacturers and retailers rely on market research firms like A.C. Nielsen and its software Category Business Planner to take market data and make it accessible in real time to managers.

Some companies have developed their own category management systems to aid retailers. Clearly, category leaders such as Anheuser-Busch are very interested in helping the retailers manage their categories, which helps manufacturers consolidate and enhance their own positions.

Application | General Mills Yoplait Yogurt

The dairy aisle is one of the top-performing areas of the supermarket.[28] Space is at a premium due to the constraints of the refrigerated displays, and there are many new products introduced almost daily, particularly with the "natural" and "organic" trends exploding. While other areas of the store may receive more attention, the "quiet" dairy department serves 99.6 percent of households and generates 47.4 store trips per year. It is the largest aisle by dollar volume and has the highest growth trends.

General Mills and Yoplait won *Progressive Grocer*'s 2008 Category Captain award based on the work its category advisors did with 24 major retailers to increase yogurt dollar volume by 10.6 percent versus 7.9 percent at retail accounts without the new aisle strategy. The company has worked with grocers to increase the yogurt "footprint" to eight feet and has generated a 9 percent increase in yogurt volume nationwide.

To achieve these results, General Mills tried to answer several questions: (1) How should a grocer allocate space within the aisle? (2) How can grocers maximize dairy sales by placing yogurt near to other complementary dairy products? (3) What customer segments shop the dairy aisle? These are typical questions that category captains have to address. In addition, General Mills has developed virtual store technology linked with store-level sales data to permit grocery store managers to envision the impact on category sales from changing the layout of the aisle on a 30-foot long screen.

Yoplait is the category captain for the yogurt category in many supermarkets.
Source: Jim Mone/AP Wide World Photos

Another development in supermarket retailing is the increased need to control costs and operate efficiently to compete with category killers. This need to be efficient has driven category management and created two concepts initially introduced in the United States in the early 1990s: **efficient consumer response (ECR)** and the **continuous replenishment program (CRP)**. ECR is the process of reducing costs throughout the entire distribution system, resulting in lower prices and increased consumer demand. Part of this process is CRP, in which the members of the supply chain partner with supermarkets.

In CRP, retailers, wholesalers, and marketing managers work together to attempt to accurately forecast demand. These forecasts drive the electronic inventory replenishment system. When it works, CRP can reduce inventories at both the retail and warehouse levels by 15 to 60 percent. The difficult part is getting manufacturers and retailers to work together, because both must be open about their strategies and performance. When they do not work together, third-party consultants try to predict sales in particular markets by counting individual stock-keeping units (SKUs).

efficient consumer response (ECR)
a process seeking to reduce costs throughout the entire distribution system, resulting in lower prices and increased consumer demand

continuous replenishment program (CRP)
a program wherein members of a supply chain partner with supermarkets, working together to attempt to accurately forecast demand, which is then used to generate inventory replenishment data electronically

Strategies for Intermediaries

With the rapid growth of the Internet and other information technologies directly linking manufacturers and other companies with their retailers or the channel reaching the end-customer, many business observers have predicted the ultimate demise of "middlemen" and a trend toward disintermediation. These middlemen compose the vast network of largely invisible (at least to consumers) companies that move products in the channel system.

Despite the dire predictions of their ultimate fate, many of these companies are of significant size. For example, the largest food wholesaler serving supermarkets, SuperValu, had more than $43 billion in sales in 2008.[29] In fact, 6 of the top 50 private companies in the United States are involved with food wholesaling.[30] Ingram Micro, the largest distributor of information technology products, sells more than $30 billion worth every year.

How have some intermediaries remained successful? Here are some examples:

- Auto dealers are focusing on customer service to combat sales through independent Internet sites and manufacturers who use the Web to permit customers to order direct from them. Some dealers permit customers to schedule service appointments, order parts, and check inventory through their own Web sites and use their e-mail lists to send out discount coupons by e-mail.
- Information technology equipment distributors like Ingram Micro and Tech Data not only sell PCs but also offer peripherals, inventory management services, next-day delivery, financing, and technical service support.
- In health care distribution, companies like Cardinal Health offer services to both upstream suppliers and downstream customers by packaging drugs for pharmaceutical producers and offering contract manufacturing services and alternative drug-delivery formulations. It also leases automated drug dispensers to hospitals and nursing homes.

Thus, the key for middlemen is to offer services to suppliers and customers that no one else in the channel system is willing to provide and to take advantage of being in the middle rather than seeing it as a handicap.

Application | Arrow Electronics

Arrow Electronics is an $11 billion company that supplies computer chips, capacitors, and many other electronic components to 150,000 customers that make subsystems for personal computers, cell phones, and autos.[31] Its main competitor, Avnet, is about the same size. However, large contract manufacturers such as Flextronics and Solectron are buying more parts directly from manufacturers cutting out both companies.

As a result, the company is extending its business to services beyond matching suppliers with end-customers. These include financing, on-site inventory management, parts-tracking software, and chip programming. In addition, Arrow gets fees for helping parts-makers win customers, a kind of sales operation. For example, Arrow stole the audio and video equipment manufacturer AMX Corp. account from Avnet. This was achieved by offering services such as keeping three material planners on-site at AMX who handle parts flow and look for ways to substitute parts that Arrow can supply for less cost. This is a good example of how channel partners can provide additional services beyond straight distribution and how these can evolve over time.

Executive Summary

Key learning points in this chapter include the following:

- The distribution channel system gives customers access to your products and services and is a value chain in which different members of the system add value and are compensated accordingly.
- There are many different channel structures. No one channel system is appropriate for every industry, product category, or firm.
- The channel structure depends on customer and competitor behavior, the marketing strategy used, and the resources available. Channel systems can evolve over time as these elements change.
- Channel members perform a wide variety of functions for the system.
- A common decision sequence is to first choose between direct and indirect channel systems and then choose particular channel members.
- Hybrid channel systems include a number of different channel types that complement one another and perform different tasks to obtain a sale.
- Channel power enables a channel member to exert some authority to get another member to do something it would not otherwise do on its own.
- Channel management involves maintaining good relationships and resolving conflict between channel members.
- Conflict can be resolved by demarcating products between channel members, helping the channel members to achieve their goals, and offering more push and pull money.
- New channel opportunities are arising from changes in supermarket retailing (category management, efficient consumer response [ECR], and continuous replenishment programs [CRPs]), multilevel or network marketing, and changes in technology.

Chapter Questions

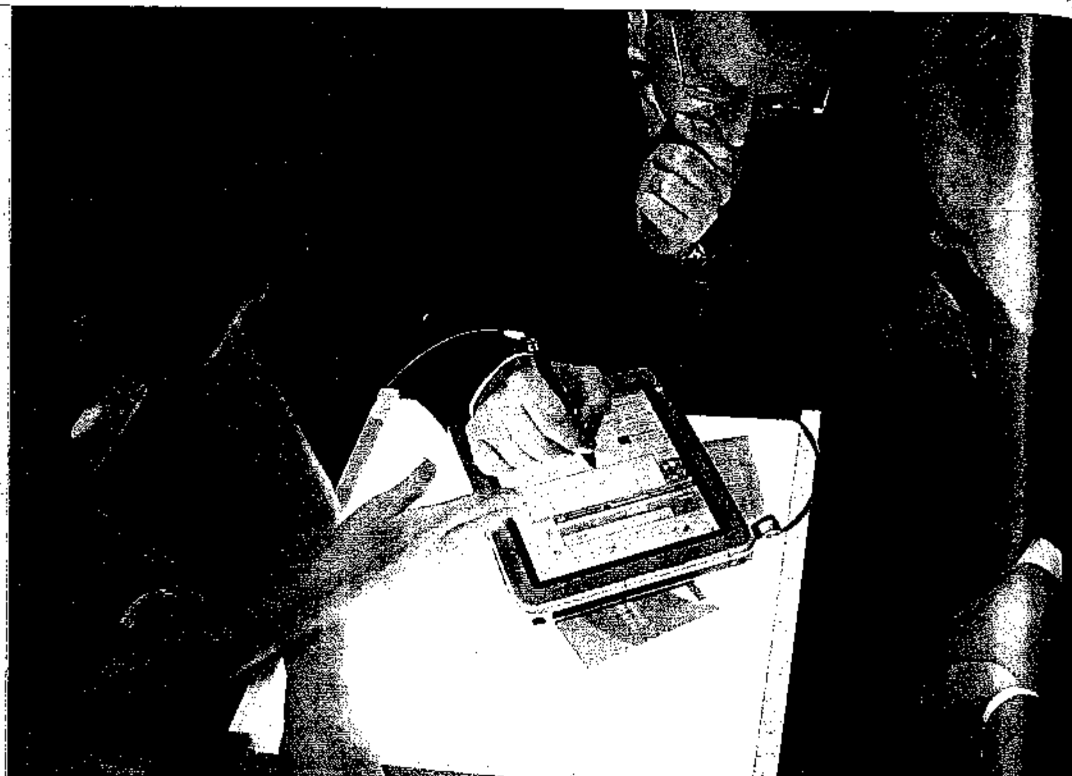
1. Develop two examples of companies that are using other companies as distributors (such as AT&T using Fry's Electronics for Internet service). What benefits are the original companies receiving in these two cases?
2. Besides the illustrations in this chapter, give an example of another industry that has witnessed substantial change in channels of distribution. What are the fundamental reasons (e.g., consumer behavior, competition) for this change?
3. An executive at a large package delivery company has complained that by shifting some of its business to independent channel members, the company has "lost control of the customer." What do you think he means by this statement? Why does he consider this to be bad for the company?

4. Levi Strauss sells the same products, Levi's and Dockers, to multiple channels of distribution, from high-image (Bloomingdale's) to low-image (Sears, Mervyns) outlets. What would you suggest as a distribution strategy so that the company can better differentiate its product by channel and not suffer brand confusion problems?
5. What are the pros and cons of using the Web as a distribution channel? Are there some situations where it should not be a part of the channel mix?
6. There can be considerable variation in how products are sold in different countries. For example, cars are sold door-to-door in Japan and in retail showrooms in most of the rest of the world. Besides institutional differences (e.g., laws), why does culture matter with respect to global channels decisions?

Key Learning Points

The purpose of this chapter is to introduce some of the issues in managing two major direct channels of distribution: personal selling and direct marketing. After reading this chapter, the student will have learned:

- How the sales force fits into the marketing organization
- The major duties of a salesperson
- Managing the sales force in terms of managing sales force performance, designing sales territories, determining sales force size, and assigning salespeople to territories
- Setting sales quotas
- Issues in sales force compensation
- The impact of technology on sales management
- The importance of direct marketing
- The major direct-marketing media



Personal selling today relies heavily on advances in information technology.
Source: kolvenbach/Alamy Images

13
chapter

Direct Channels of Distribution: Personal Selling and Direct Marketing

Chapter Brief

Cisco Systems is the dominant player in the market for computer networking equipment.[1] With sales of $35 billion in its 2009 fiscal year and a market capitalization of just over $138 billion, the company was a leading force in moving the United States into the "new" economy represented by the Internet. The company has spent the past several years positioning itself as more of a home entertainment company through the acquisitions of Linksys in 2003 (home wireless networks), Scientific-Atlanta in 2005 (set-top cable TV boxes), and Pure Digital Technologies in 2009 (the inexpensive Flip video camera).

At Cisco, the sales force has so much clout that its 14,000 members receive perks such as lengthy titles and executive assistants, usually reserved for more senior managers. The philosophy behind this approach is that the salespeople are the ones who have the closest contact with customers and therefore have the greatest potential to either make or break the company. The fact that the company is so successful is proof that the sales force is an excellent one. It was named the co-winner of the title of sales force of the year for 2000 by *Sales & Marketing Management* magazine.

One key to the success of the sales force is its use of information technology. At Cisco, 80 percent of its orders and 80 percent of customer inquiries are handled through the Web. This allows the salespeople to spend more time with customers in order to build long-term relationships through customer satisfaction. The company emphasizes continuing education for its sales force, but not through traditional classrooms—through "virtual" classrooms via text and videos on the Web. In addition, salespeople conduct all of their benefits and travel and entertainment transactions online. Each salesperson has a customized Web page so he or she has all the personal and up-to-date customer information needed to handle the job conveniently while on the road. Cisco's CEO John Chambers is passionate about the Internet and the way it has transformed his company, and this has greatly affected the sales force as well.

The company's Web site is also used to reach customers for direct marketing purposes. When visitors come to Cisco.com, they find video, "click-to-chat," and WebEx (videoconferencing) connections to speak with Cisco sales representatives. In addition, these visitors often turn into leads for the sales force.

At the same time, Cisco faces the same issues confronting any other company that has a sales force:

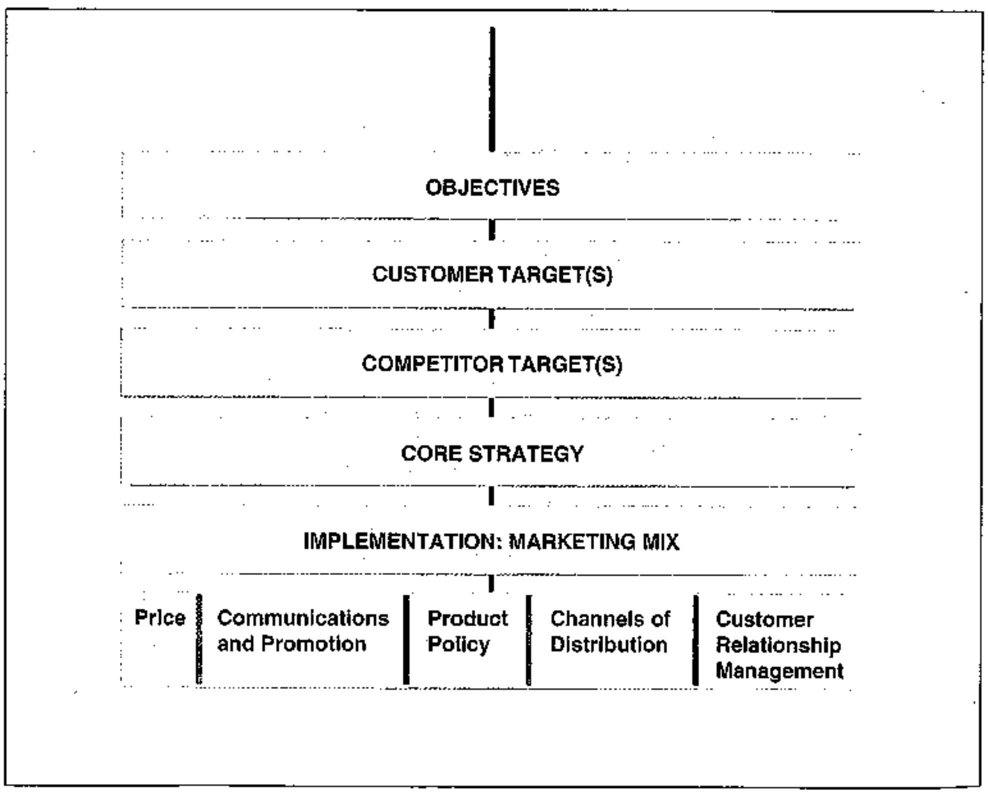
- Recruiting and selecting the sales force.
- Training, evaluating, and supervising the sales force.
- Motivating the sales force and setting quotas.
- Assigning the appropriate geographic territories and customer accounts to each salesperson.

As mentioned earlier in this book, personal selling and sales force management fulfill several important marketing tasks. First, it was noted in Chapter 10 that the sales force is part of the communications mix. The sales force must be given the tools and training to implement the marketing strategy and integrate its efforts with the rest of the communications programs. In Chapter 12, we discussed the sales force as a channel of distribution, a direct channel to the customer. Clearly, the sales force satisfies the major criterion for a channel: it gives customers access to the firm's products and services. This is such an important function that it is estimated that there are at least 20 million people involved in sales in the U.S. with a conservative estimate of $800 billion spent on sales forces each year.[2]

Another important direct channel in today's mix of channel options is direct marketing. While many consumers have a negative perception of direct marketing, perceiving direct mail as "junk" mail and expressing irritation at telemarketers, the fact is that it is a huge business.

One estimate is that direct marketing accounted for about 10 percent of U.S. gross domestic product (GDP) in 2008.[3] For example, more than $56 billion is spent on both catalogues and direct mail.[4] Although more precise statistics will be reported later in this chapter, it is interesting to note that while most people associate direct marketing with consumer products and services, nearly half of the spending was from B-to-B products and services. What makes the direct marketing field particularly relevant today is the rapid growth of direct e-mails for both communications and sales. Almost two-thirds of all companies reported using e-mail to connect with customers.[5]

Thus, in this chapter we will discuss both sales force management and direct marketing, the two most important direct channels of distribution.



The Sales Force and the Marketing Organization

As part communications and part channel, the sales force has a dual role in the implementation of the marketing strategy (see the marketing strategy diagram). The salesperson not only communicates information about the product or service and delivers the key value proposition to the customer, but also attempts to complete the transaction

Figure 13.1

Sales Force Organization in a Medium-Sized Firm

Number:	
1	Vice President of Marketing
1	National Sales Manager
2	Regional Sales Manager
8	District Sales Manager
96	Field Sales Representative

Source: Douglas J. Dalrymple and William L. Cron (1988), *Sales Management*, 6th ed. (New York: Wiley), p. 6. Copyright 1996. Reprinted with permission of John Wiley & Sons, Inc.

with the end customer (a key role of some channels). In addition, many companies spend a significant sum of money on sales force activities. Some sales forces are very large. As noted earlier in this chapter, Cisco has 14,000 salespeople. Even larger are PepsiCo's with 36,000 and Hartford Financial Services with 100,000. Avon is the largest multilevel seller direct to homes with 5.4 million sales representatives. The total number of sales representatives for drug companies has been estimated to be about 90,000.[6] The resources spent on training, motivating, and rewarding these salespeople rival or surpass the money spent on other channels and types of communications. Data indicate that depending on the size of the sales force, the cost of each sales call can range from $158 per call for a company with 20 to 49 sales reps, to $224 per call for a company with 1 to 5 reps.[7]

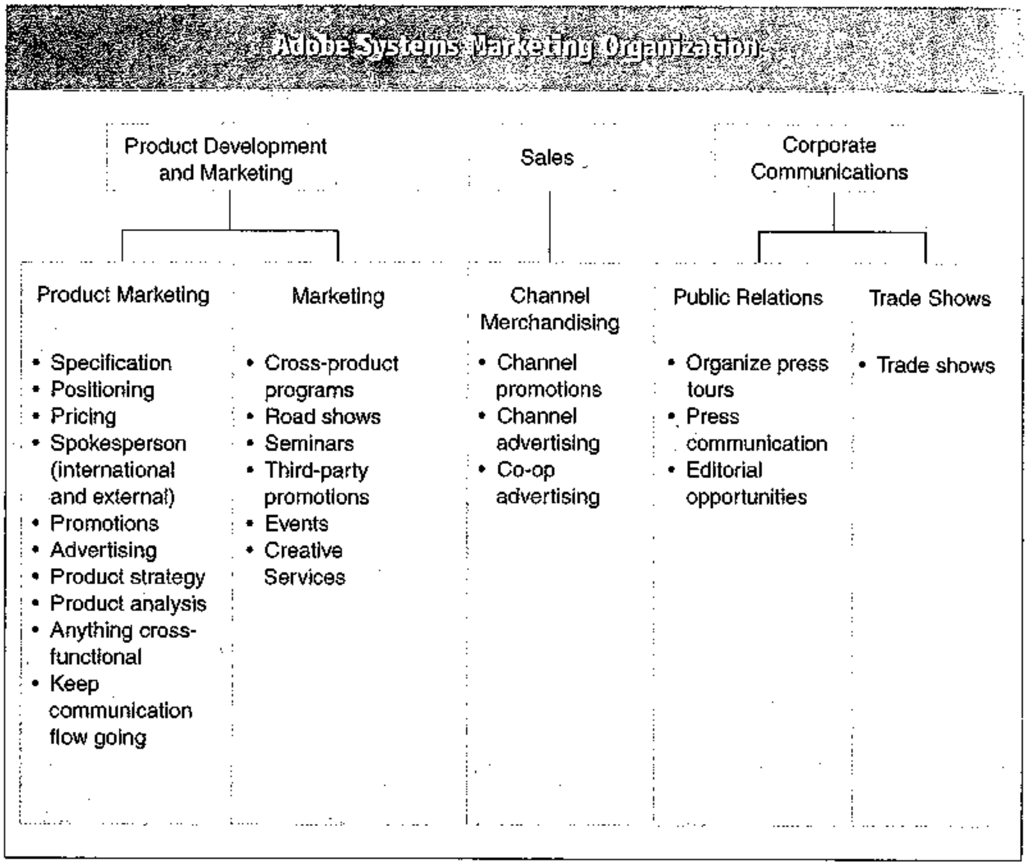
There are different titles used in sales management, depending on the level of the organization. Figure 13.1 shows the different titles typically used in a mid-sized sales organization. The vice president of marketing or sales heads the sales organization. Most of the other titles describe job responsibilities defined by the size of the geographic territory covered (national, regional, and district sales managers). The largest part of the organization is made up of the field sales representatives, or reps.

Although we will not cover all issues a particular sales manager has to deal with, this chapter should give you a good sense of the diversity of the salesperson's and sales manager's jobs. Because there are many different titles and duties assumed by the people within a sales force and because they vary across companies and industries, we will cover the general area of sales management, rather than focusing on one particular organizational level.

In Chapter 1, the marketing manager's job was defined and some aspects of marketing organizations illustrated (see Figures 1.4, 1.5, and 1.6). The relationship between sales and marketing organizations is unusual. Although you might think that the sales organization would be part of marketing because the sales force helps to implement the marketing strategy, sales organizations are often separate and powerful entities within companies. In such firms, marketing is viewed as providing a support function (advertising, selling materials, trade shows) to sales.

Figure 13.2 shows the organizational structure of Adobe Systems Inc., a computer software company. The product marketing group includes product managers responsible for putting together marketing strategies and programs for products such as Acrobat (text formatting), Photoshop (imaging), and PageMaker (desktop publishing). In this organization, product marketing is different from marketing in that the latter is more tactical in nature. That is, marketing offers support to product managers by planning promotional events, designing trade show displays, and so on. In this case, the sales organization is

Figure 13.2



separate from marketing. The sales force is responsible not only for calling on corporate customers but also for channel merchandising (handling relationships and other matters with distributors).

Types of Sales Organizations

There are three kinds of sales organization structures. One structure is organized around product lines. The product/product sales organization sells a product or product line to all markets and often coexists with a product-focused organization. A disadvantage of this structure is that a customer may be called on by several salespeople from the same company.

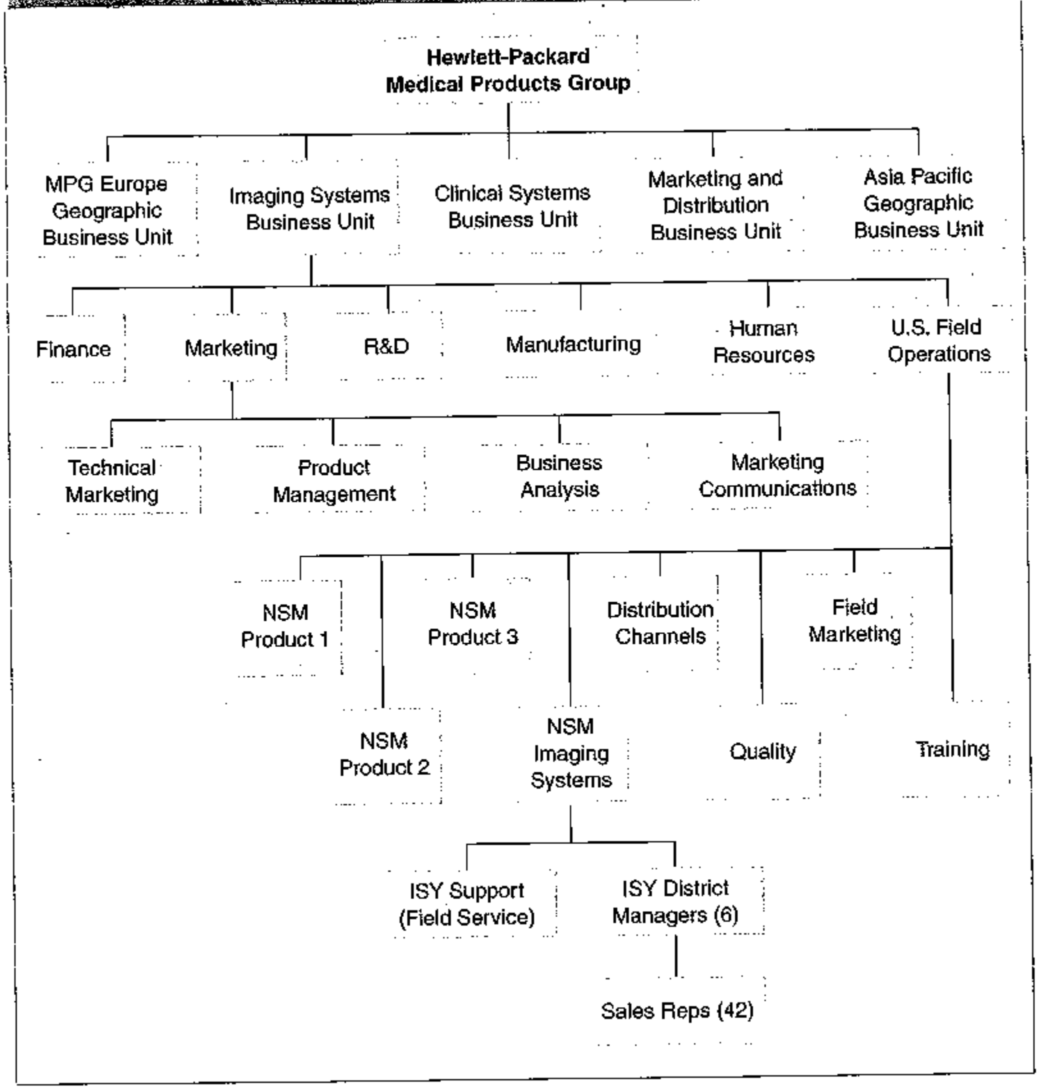
An example of the product/product structure appears in Figure 13.3, which shows the organizational structure at one time for Hewlett-Packard's Medical Products Group (MPG).[8] MPG sells a variety of products, including patient monitoring systems, operating room systems, perinatal monitoring devices, and clinical information systems. On the right side of the chart is the U.S. Field Operations, with different national sales managers (NSMs) for the different product groups within MPG. The Imaging Systems Division (ISY), which manufactures ultrasound devices for cardiologists and vascular surgeons, has its own sales force and national sales manager, as do the other three product groups. The ISY sales force only sells the products made by that division.

A second type of organization is a market/market system, in which the marketing organization is aligned by market segment, as is the sales force. In this case, the sales force sells the entire product line to customers in the segment. An illustration of this kind of organization is shown in Figure 13.4.[9] MCI's U.S. marketing operations were organized by geographic market segments (the company is now part of Verizon). In each geographic territory, the sales force is responsible for selling all telecommunications services to the customers.

A third organizational form is called product/market. In this case, the company has a product management structure but the sales force sells all products marketed by a division to a single market. An example of this kind of structure is the General Foods dessert division shown in Figure 1.4. In this case, there are individual product managers

Figure 13.3

Hewlett-Packard Medical Products Group Organization Chart, 1992



NSM = National Sales Manager

Source: Frank V. Cespedes (1994), "Hewlett-Packard Imaging Systems Division: Sonos 100 C/F Introduction," Harvard Business School case #9-593-080, p. 18. Copyright © 1992 by the President and Fellows of Harvard College. Reprinted by permission.

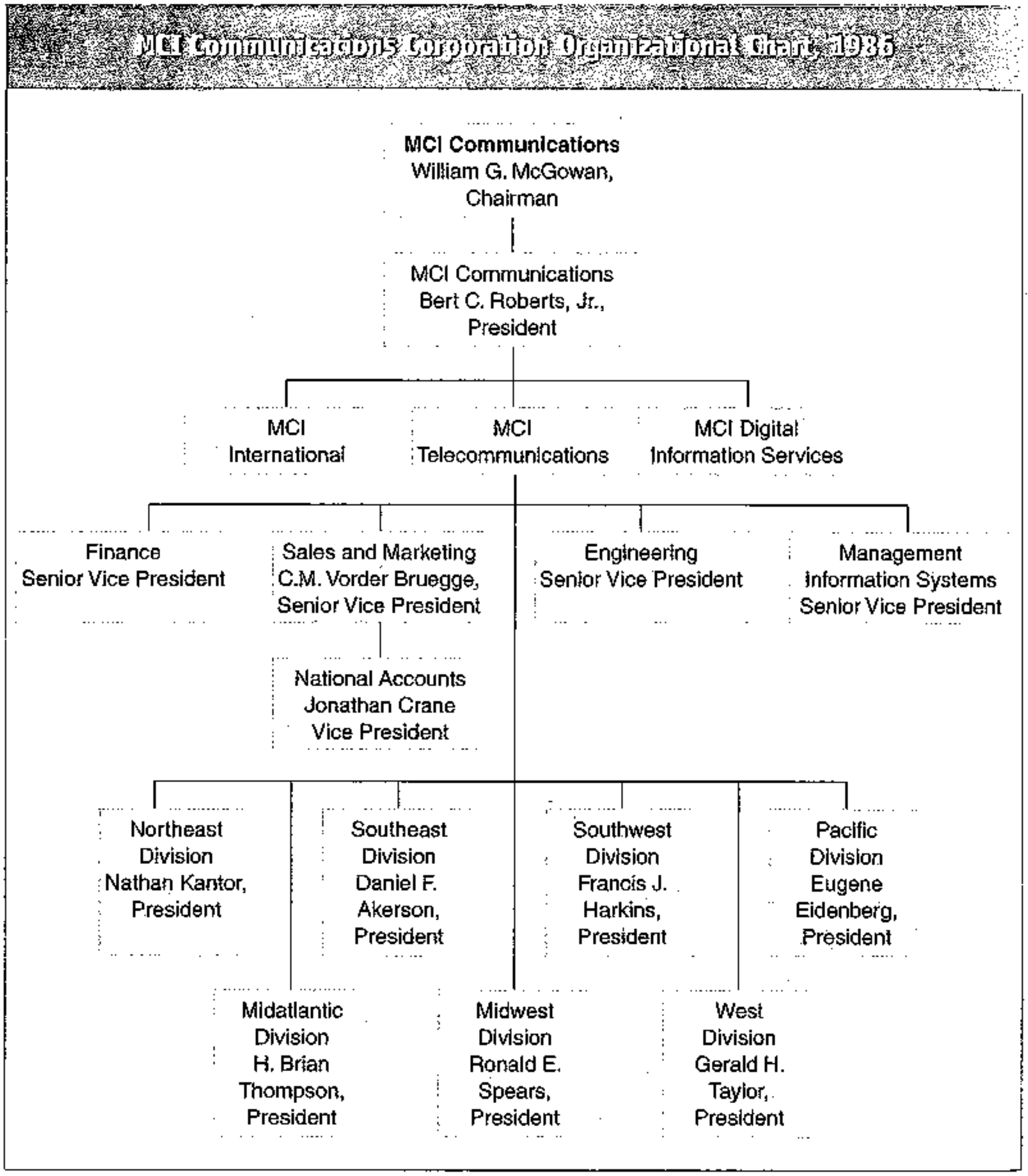
for Jell-O Gelatin, Jell-O Pudding Pops, and other products, but the sales force for the desserts division is responsible for selling all of the division's products to the national supermarket chains.

A reorganization of a sales force can have negative effects on the financial performance of a company. Xerox's financial problems in the late 1990s were generally attributed to a sales force reorganization that failed.[10] On the other hand, such organizations have to change as companies grow or customers change, or when there is a significant change in industry structure. For example, as the Internet advertising media placement company DoubleClick (now owned by Google) grew, the sales force was reorganized around six industry segments: automotive, business, entertainment and youth, technology, women and health, and travel.[11]

National/Key Accounts Organizations

Many companies have an additional layer of salespeople who deal with the largest accounts. Because in many companies a few large corporate accounts make up a large percentage of sales, a higher level of attention to their business makes good sense. For example, a national study showed that 50 percent of the sales of the firms surveyed were accounted for by only 10 percent of their customers.[12] National account personnel are

Figure 13.4



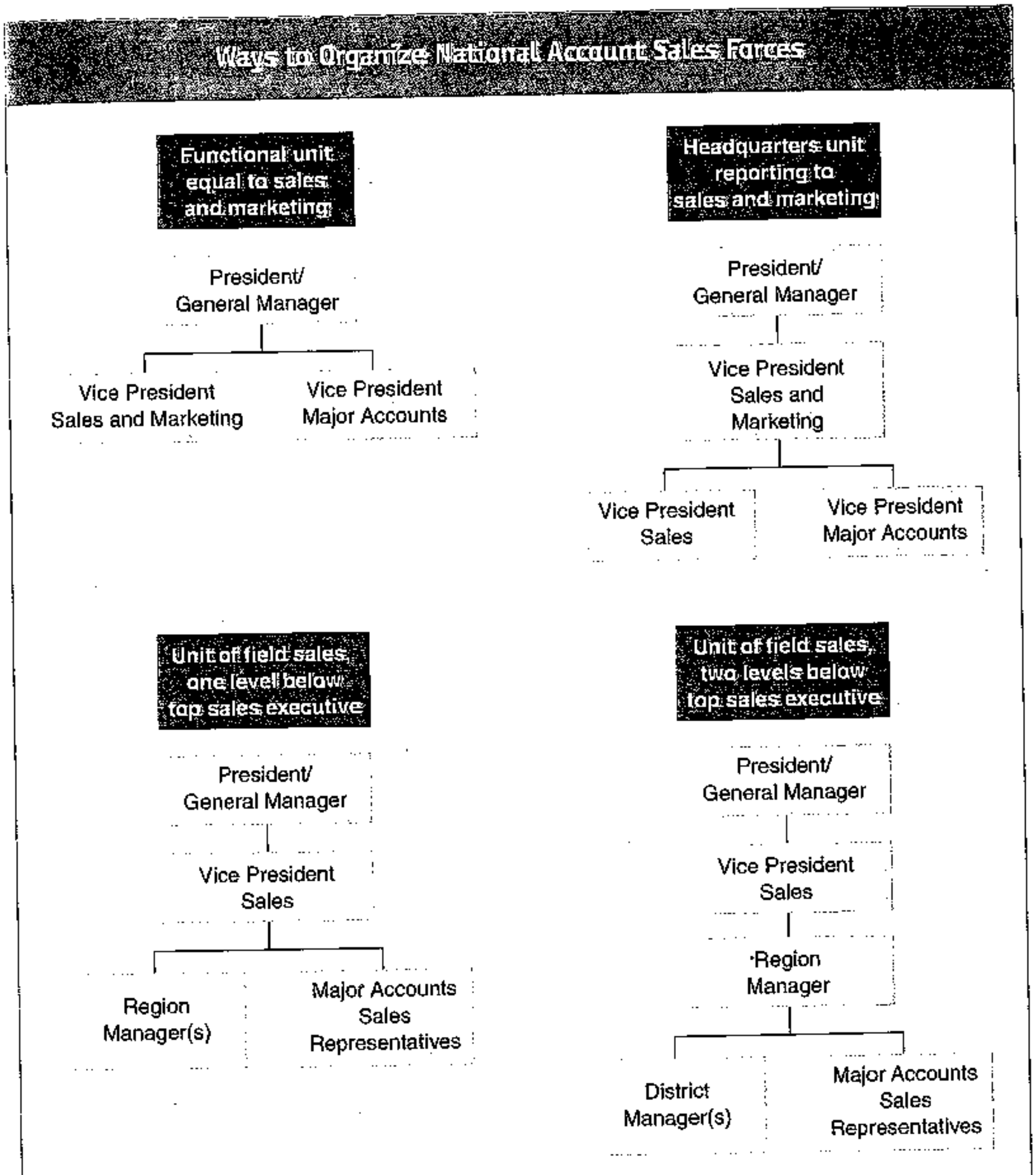
Source: MCI Communications Corporation: National Accounts Program, Harvard Business School case #9-593-044, p. 15. Copyright © 1990 by the President and Fellows of Harvard College. Reprinted by permission.

charged with developing new accounts and maintaining existing ones; the latter is particularly important for long-term relationship building. Key account managers become very familiar with customers' operations and problems and are in an excellent position to satisfy customers' needs by helping them develop a strategy for the product in question. In addition, such positions are considered plums in the company and serve as a career goal for the sales force.

It is common for companies to establish a separate organization to deal with major accounts. As shown in Figure 13.5, there are four common ways to organize the key account sales force. The most common form of organization is for the national key account sales force and the regular sales force to be on the same level organizationally and for both to report to the corporate vice president of sales.

The ways in which the national account and regional sales teams interact can vary. In some cases, the national account team calls on national or international headquarters, whereas the regional salespeople concentrate on the local offices. In others, the national account manager acts as a coordinator for the regional team. With either kind of arrangement, there are often difficulties dividing up the commissions earned from sales as it is often unclear who contributed the most to the sale.

Figure 13.5



Source: Gilbert A. Churchill, Jr., Neil M. Ford, and Orville C. Walker, Jr. (1993), *Sales Force Management*, 4th ed. (Homewood, IL: Irwin), p. 157. Reproduced with permission of the McGraw-Hill Companies.

Application Marriott Lodging

Marriott Lodging's key account managers (KAMs) handle three to six major accounts.[13] These KAMs report to the vice president of sales, who reports to the senior vice president of sales and marketing. Each KAM is the main contact point between Marriott and the customer (e.g., large corporate clients) and is responsible for developing long-term relationships with the customers assigned to him or her. The KAMs are compensated by a combination of salary (70 percent) plus bonus (30 percent). The bonus is based on a combination of revenue targets and the quality of the relationships established.

The advantage of focusing on individual customers is that the KAM assigned to an account gets to know the customer's business very well. Marriott KAMs are expected to use online newspapers and other resources to research customer financial data, industry trends, and anything related to the customer's business. The objective is to be proactive and recommend money-saving ideas to customers to help them reengineer their travel processes. Of course, these ideas include recommending a mix of Marriott hotels across the spectrum from full-service to economy. The KAM system is working so well that in many accounts, a one-percentage-point increase in Marriott's market share is worth $1 million in incremental revenue.

Multilevel Marketing

Amway, Mary Kay, Tupperware, Avon, and many other product and service lines are sold using multilevel or network marketing distribution systems. These are basically direct sales organizations. Not all products sold this way are cosmetics and plastic goods; Excel Communications (a former division of the now bankrupt VarTec Telecom) used a multilevel approach to sell more than $1 billion worth of telecommunications services. The concept behind the system is simple: people recruit other people, who recruit others, and so on, to sell the products. Part of the commission on each sale is transmitted through the system so that the person at the top of the pyramid can receive substantial income by managing the network.

The use of the term *pyramid* is unfortunate because multilevel selling has been linked to illegal pyramid schemes that have bilked people out of their money. Although legal and very successful, these systems still have image problems. One problem is that some systems force salespeople or distributors to purchase a significant amount of inventory in advance. Another is that the amount of sales that actually occur is far less than that promised (how many relatives do you have?). The riches some people have made rarely accrue to the average distributor. Thus many network marketing systems are plagued by high turnover and shattered dreams.

However, network marketing does offer individuals the opportunity to make extra money and perhaps manage their own businesses. In addition, in the past several years, the industry has tried hard to reverse its negative image. In 1992, the Direct Selling Association adopted a new ethics policy that requires members to buy inventory back from distributors for at least 90 percent of the purchase price. Many managers, displaced through corporate downsizing programs, have joined these organizations, bringing an element of professionalism that was previously missing. Courses are being taught on the subject. Perhaps most importantly, many have been very successful. A look at the *Inc.* 500 shows that many of the fastest-growing small companies in the United States use this kind of distribution system.

What Does a Salesperson Do?

Obviously, a salesperson is rewarded on her or his ability to sell, or to close orders from customers. Less obviously, salespeople are also charged with maintaining and enhancing customer satisfaction with the selling firm and are often rewarded at least partially on that basis. Today, most sales people talk about selling "solutions" to customers or, in other words, solving a customer's problem. The anecdote shown in Figure 13.6 does a good job of illustrating one General Electric (GE) salesperson's approach to solutions selling.

One of the key jobs of a salesperson is maintaining a good relationship with the customer.
Source: Jeff Greenberg/PhotoEdit Inc.

However, this general concept of solutions selling does not adequately describe the different kinds of selling that occur in business. A common way of classifying selling situations is:

- **Response selling.** In this situation, the salesperson is basically an order taker. The customer initiates the sale and gives the order to the salesperson.
- **Trade selling.** This kind of selling includes order taking, but also entails responsibilities such as making sure the stock is adequately displayed on shelves, setting up displays, providing demonstrations, and other activities sometimes called merchandising.

Figure 13.6

Solutions Selling

Lawrence Jackson, president of a major automotive supplier (with over $1 billion in sales) warmed to his topic. He had recently been promoted and loved to talk about the deals he had been working on.

"Let me tell you about three different sales pitches that I experienced over the last two months. The first was from a major chemical company that manufactures a broad line of chemicals we use in our process. This man was smooth, polished, professional. He knew the technical specs and characteristics of his products to a 'T.' He went on and on about why his products were so good.

"He was right, of course. His company makes very good products. But then, so do all of my other suppliers. His pitch was that he could be a one-stop shop. Nice concept, but it doesn't do much for me, because my other chemical suppliers have products just as good, and their delivered costs are low. What's the benefit to *me* of a single supplier of a dozen commodity products?

"The second rep was different. He sold plastics. We use a lot of plastic. He, too, was technically solid. And he was passionate about his product and his company, talking about all the new value-added programs they were developing. That was all great, but what did it mean for me? He said, it would create benefits in the future. I said, then come see me in the future.

"The third rep was from GE. Although his job was to sell plastics, he didn't tell me anything about his product. He just asked questions. How much capital do I have tied up in equipment? What are my yield losses in the plant? What are the biggest operational problems I run into at the plant, using my current materials, and process set-ups? How much capital do I have tied up in my trucks and logistical operations?

"We really got talking. As I described the operational problems we faced, we got into some very interesting issues. There were big numbers involved.

"He come back in two weeks. Showed me how GE Capital can reduce my capital intensity and my financing costs. In both plant equipment and logistics. Showed me how we could save on warehouse space. Described an approach for GE engineers to work with my plant people to make changes that would optimize my materials usage.

"Then he went on to talk about global support. We're growing like crazy internationally. He described how GE could support us in our global expansion.

"When I added it all up, he was saving my operation a lot of money. On capital, on financing, on yield losses. Of course, he got my plastics business. Almost all of it. And he's going to get it on a global basis.

"I'm not the only one who's delighted with this approach to doing business. My plant guys love it. They're used to dealing with product pushers. With GE, they're dealing with a group of people who have taken the time to learn their problems, and to help solve them. When it comes to deciding who's going to get our plastics business, it's not even close.

"Also, getting this support on a global basis makes our lives much easier. And given all the scrambling we have to do to serve our own tough customers, the automakers, that kind of support helps us out a lot."

Source: Adrian Slywotzky (1998), *The Profit Zone* (New York: Times Books), pp. 81–82.

- **Missionary selling.** In this kind of selling, the salesperson attempts to influence the decision maker rather than the user or purchasing agent. The missionary salesperson helps the buyer promote the product to internal or external customers.
- **Technical selling.** In many industries, the salesperson also acts as a technical consultant to the purchaser. For this to be successful, the salesperson must have strong technical training. For example, the Hewlett-Packard salespeople in the Imaging Systems Division must be knowledgeable about the latest developments in ultrasound and other medical imaging technologies.
- **Creative selling.** This method involves developing new customers and maintaining old ones by investing a considerable amount of time in understanding buyers' needs and wants.

A salesperson performs a wide variety of activities, including:

- **Planning the sales call.** The good salesperson spends a considerable amount of time planning the call. This planning includes using information provided by the company and past sales calls about competition (both the salesperson's and the customer's); the economic, technological, political, and social environment; and the product or service. Today, preparation also involves learning how to use the latest technology in giving presentations.
- **Traveling to the customer site and making the call.**
- **Filling out the call report.** This involves a detailed examination of what happened during the call, "win–loss" reports on new business won or customers lost, any information picked up about competition such as their prices, and any other market intelligence.
- **Post-call analysis.** The good salesperson analyzes what happened, talks with his or her supervisor, and collects feedback about the call that can be used in future efforts.
- **Communicating with the customer.** It has been said that after a sale is made, for the seller it is the end of the process, for the buyer it is only the beginning.[14] Thus, the good salesperson knows that establishing and maintaining rapport with the customer is necessary for future business. Even if no sale is made or a sale is lost, communicating with customers or potential customers is vital.

Thus, there are different kinds of sales jobs and different tasks to perform.

Managing the Sales Force Performance

What factors contribute to the success of a salesperson? Like other resources such as advertising and promotion, money spent on the sales force is expected to produce revenues and profits. As a result, companies are always interested in improving the performance of their sales forces. It is important for the marketing manager to develop a better understanding of the factors that contribute to a salesperson's success, in order to help improve one person's performance or the performance of a group of salespeople.

A number of models have been developed to help explain performance.[15] Figure 13.7 shows one such model. As can be seen, performance is a result of both internal or individual factors and external factors. We review these factors in more detail here.

Internal Factors

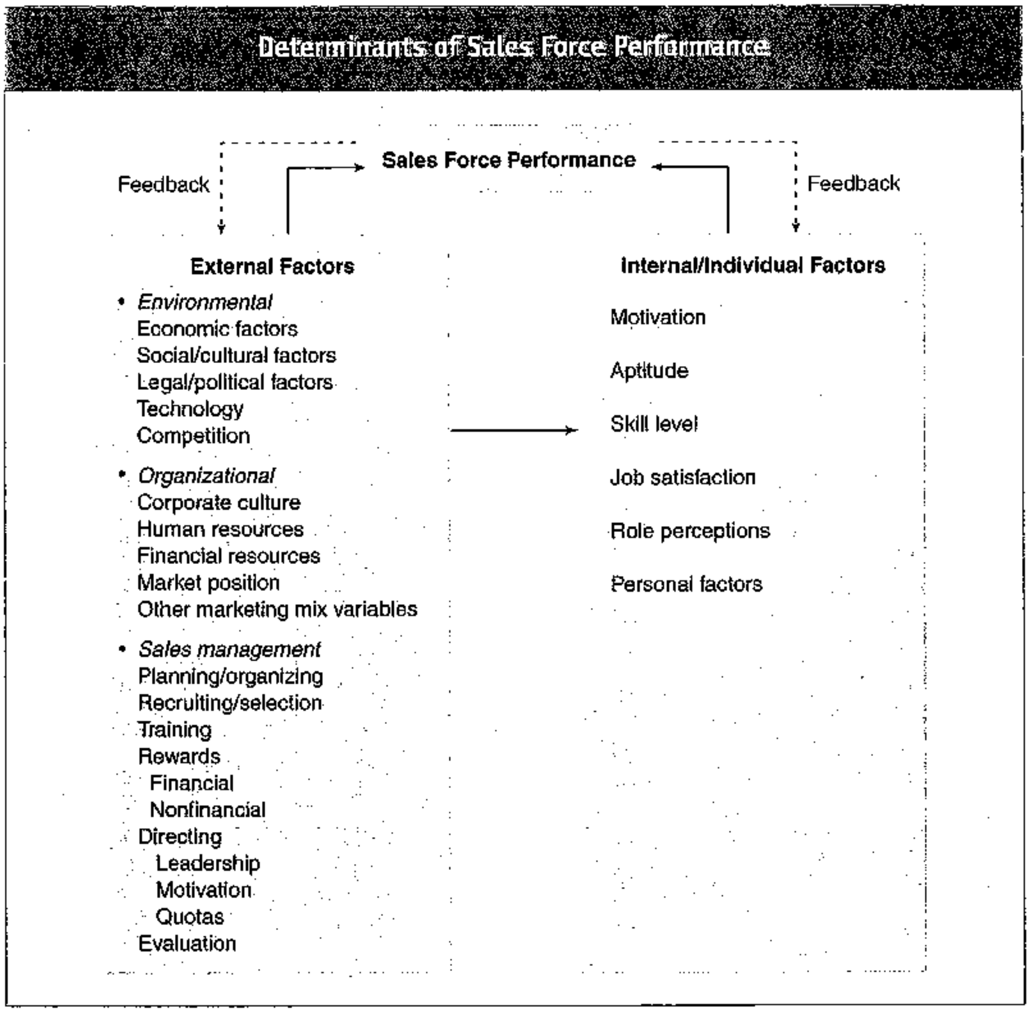
The salesperson's motivation is a basic force behind how much effort he or she devotes to the job (planning sales calls, following up on customer questions, filling out reports) and how he or she responds to different kinds of incentives. Clearly, the sales force is motivated by financial incentives such as commissions on sales, salary guarantees, and bonuses. However, salespeople can also be motivated by sales meetings and contests, education and training, and information about the company and its plans.

In a way, the marketing manager must understand what motivates his or her salespeople, just as the manager would have to know what motivates his or her customers to buy. Different salespeople are motivated by different factors. For example, a salesperson who has been with a company for many years may be more motivated to sell from company loyalty than is a younger salesperson who is looking to develop a track record for future career moves. Some salespeople (like people in general) are more motivated by money than others. Thus, it is critical to understand what motivates each salesperson on the force.

Salesperson performance is also affected by aptitude for selling, or natural ability to sell. It is generally thought that some people are born salespeople and others are not. However, this implies that selling skills cannot be taught, which is not true. At the same time, some aspects of aptitude, such as empathy and persuasiveness, cannot be taught easily and do give one person an edge over another.

Aptitude is a person's natural ability. Acquired skill is also important for a good salesperson. As we have just noted, good selling skills can be taught. There are many courses available, offered both within companies and by specialized firms. These can teach aspiring and experienced salespeople how to improve their communications, negotiation, closing, and other skills involved with personal selling. In addition, in technical selling

Figure 13.7



Source: Rolph E. Anderson, Joseph F. Hair, Jr., and Alan Bush (1992), *Professional Sales Management*, 2nd ed. (New York: McGraw-Hill). Reproduced with permission of the McGraw-Hill Companies.

situations, selling skill is enhanced by continuous updating of the scientific knowledge relevant to the product.

Not surprisingly, higher levels of job satisfaction have been found to be positively correlated with salesperson performance. Research has found that satisfaction is related to both intrinsic and extrinsic motivation. Intrinsic motivation comes from within and is related to the satisfaction a salesperson obtains from the different aspects of the job, such as being on the road and meeting people. Extrinsic satisfaction is derived from rewards such as promotions, salary increases, and sales contests.

The salesperson also needs to understand both his or her superior's expectations and the kind of selling that is necessary to be successful. This knowledge is called role perception. For example, if the sales manager expects the salesperson to spend half of his or her time taking care of the stock on the shelves and the salesperson thinks that is a minor part of the job, this mismatch in expectations will lead to lower performance.

Finally, personal attributes such as gender, attractiveness, education level, and other factors are often related to success in particular industries.

External Factors

Environmental factors have a major effect on performance. These are derived from the marketing plan described in Chapter 1. Included are:

- **Customers.** Obviously, changes in customers' tastes, buying behavior, and their own competitive conditions make the salesperson's job more difficult.
- **Competitors.** Tracking the competition is important for successful selling. This involves more than prices (the usual focus of salespeople). It also

involves changes in their strategies, financial condition, product line, and other factors.

- **The industry environment.** Changes in technology, social changes, economic shifts, regulation, and politics affect the job.

In general, the wise salesperson obtains the product or product line marketing plan and absorbs the information in the situation analysis.

A second set of external characteristics relate to the organization. The salesperson's success is affected by a number of factors internal to the company for which he or she works. For example, it is easier to sell if the products are market leaders. Conversely, the market position is affected by the sales force's efforts. Poor market position is not necessarily caused by unsuccessful marketing strategies. An important factor is the amount of financial resources a company puts into sales efforts. Sales force performance is likely to improve as more money is spent on higher salaries, better incentives, better training, and selling aids. High-quality personnel and a culture that supports personal selling efforts also help.

The quality of the sales management also directly affects the performance of the sales force. This quality is affected by the amount of resources the company spends on sales management. It is also affected by the kind of people who occupy key sales management posts. They affect the organization by selecting capable salespeople, designing effective reward systems, and motivating salespeople.

Thus, sales force performance is affected by many elements, including individual, internal, and external factors. Senior marketing management must understand these factors and optimize them.

Designing Sales Territories

sales territory
a group of present and potential customers assigned to a salesperson, often designed on a geographic basis

A **sales territory** is a group of present and potential customers assigned to a salesperson. In most cases, as the term implies, sales territories are geographic areas selected to minimize travel time between accounts and delineate clearly which person is responsible for a particular account.

Designing sales territories is an important part of sales management. Territories that are not balanced in terms of potential sales can be demoralizing to the salespeople assigned to them. An insufficient number of territories means salespeople spend too much time traveling and not enough time selling. Too many territories means lower income and salespeople fighting over the geographic boundaries. This latter problem is particularly important to Cisco Systems, because it increased the size of its sales force as the company grew. Its sales force is very aggressive and used to be rewarded with significant bonuses for exceeding their sales quotas. If territories are shrunk, reps may wonder how they will meet their ever-increasing quotas with fewer potential customers.

There are three major, interrelated decisions concerning sales territories:

1. Deciding how many salespeople to have.
2. Designing the territories.
3. Allocating selling effort to the accounts.

Determining the Size of the Sales Force

Three major methods are used to estimate the sales force needed.

Breakdown Method

breakdown method
a major method used to determine the size of the sales force that is based on the forecasted sales level divided by an assumed average sales per salesperson

The **breakdown method** is a simple method that assumes an average productivity level for each salesperson. The number of salespeople needed can be computed from the following equation:

$$n = s/p$$

where n equals the number of salespeople needed, s equals the forecasted sales, and p equals the average sales per salesperson. Therefore, a company expecting to sell $100 million worth of goods in 2010 with a sales force currently averaging $5 million per salesperson needs 20 people.

The major problem with this method is similar to using the percentage of expected sales to set advertising budgets (see Chapter 10). This formula assumes that the number of salespeople is determined by the expected sales level when, in fact, the opposite is also true. That is, in many cases sales could be increased with more salespeople.

Using the "average" salesperson does not account for other factors. These include variations in territory potential, the mix of experienced and inexperienced salespeople if there is turnover, and other factors. In addition, the number is highly dependent on an accurate forecast for sales. As we noted in Chapter 3, forecasting sales accurately is highly problematic in most cases.

Workload Method

The **workload method** is based on the ability to calculate the total amount of work necessary to serve the entire market. The number of salespeople required is the total workload calculated divided by the amount of work the average salesperson is expected to handle. Six steps are required to implement this method:

workload method
a major method used to determine the size of the sales force that is based on the ability to calculate the total amount of work necessary to serve the entire market

1. **Classify all the firm's customers into categories.** It is common to divide the set of customers into three categories, based on the amount of sales for which they account (other criteria could be used as well). For example, you might classify your customers into A, B, and C customers based on an analysis of the distribution of sales. Customers classified as A might be the top 25 percent, B the next 50 percent, and C the bottom 25 percent. Even better, the assignment could be based on sales potential rather than actual sales.
2. **Determine the frequency with which each type of account should be called upon and the necessary length of each call.** For example, based on experience and judgment, the following data might be used:

   Class A: 12 times/year × 120 minutes/call = 1,440 minutes, or 24 hours

   Class B: 6 times/year × 60 minutes/call = 360 minutes, or 6 hours

   Class C: 2 times/year × 30 minutes/call = 60 minutes, or 1 hour
3. **Calculate the workload necessary to cover the entire market.** Let us assume that there are 200 A customers, 400 B customers, and 200 C customers. Then the total workload necessary would be:

   Class A: 200 customers × 24 hours = 4,800 hours

   Class B: 400 customers × 6 hours = 2,400 hours

   Class C: 200 customers × 1 hour = 200 hours

   or a total of 7,400 hours.
4. **Determine the time available for each salesperson.** Assume for this illustration that the typical salesperson works 48 weeks each year (4 weeks of vacation) for 50 hours each week. This gives a total of 2,400 hours per year for selling.
5. **Allocate the salesperson's time by task.** As we noted earlier in this chapter, the salesperson has activities other than selling (planning, writing up call reports) that take time. Supposing that selling is only 50 percent of the salesperson's time, then this implies that 1,200 hours (50 percent × 2,400 hours) can be allocated to selling.
6. **Calculate the number of salespeople needed.** This is simply the workload of 7,400 hours divided by the 1,200 hours available or 6.17 (rounded to 7) salespeople.

This method makes intuitive sense and is more logically appealing than the breakdown method. However, it also makes several assumptions that may not hold. Different accounts within a class may require different amounts of effort. For example, a class A account that has been active for many years may require little time, whereas a new account may require a great deal. Also, different salespeople operate with varying amounts of efficiency and can allocate more or less time for traveling, planning, and other activities.

Marginal Economic Method

Basic microeconomics teaches us that we should allocate a resource up to the point where the marginal revenue obtained from an additional unit of the resource equals the marginal cost. If we recast this method in terms of profit, particularly contribution margin (the amount of revenue that goes to cover fixed costs), it is very appealing. Suppose that it costs $60,000 to hire a salesperson. Based on this approach, salespeople should be hired as long as they can sell enough to generate $60,001 in contribution margin (much more in sales, depending on the variable margin rate). The $1 in contribution generated was previously unavailable and would go toward covering fixed costs.[16]

marginal economic method
a major method used to determine the size of the sales force, based on the microeconomic concept that a resource should be allocated up to the point at which the marginal revenue obtained from an additional unit of the resource equals the marginal cost

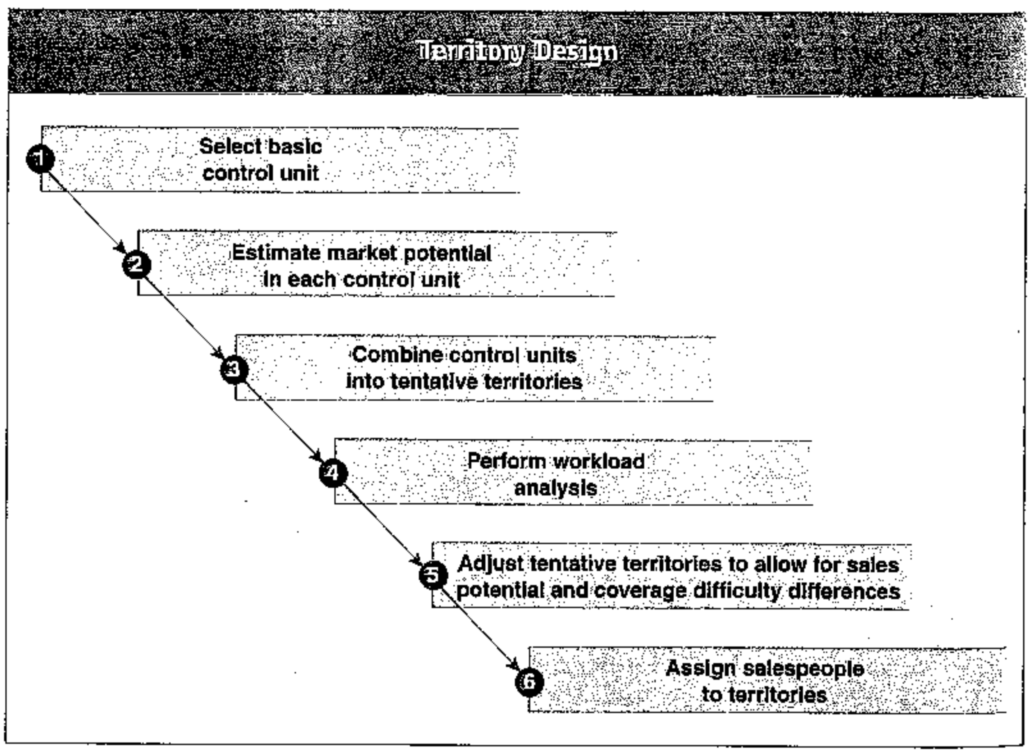
Although this **marginal economic method** sounds theoretically appealing, it is more difficult to implement than the other two because it is difficult to know what the "marginal" salesperson can generate in sales. In addition, the marginal sales volume will decrease as additional salespeople are added because the remaining customers are more difficult than those who are already buying your product or service.

Designing Sales Territories

The steps involved in designing sales territories are shown in Figure 13.8.

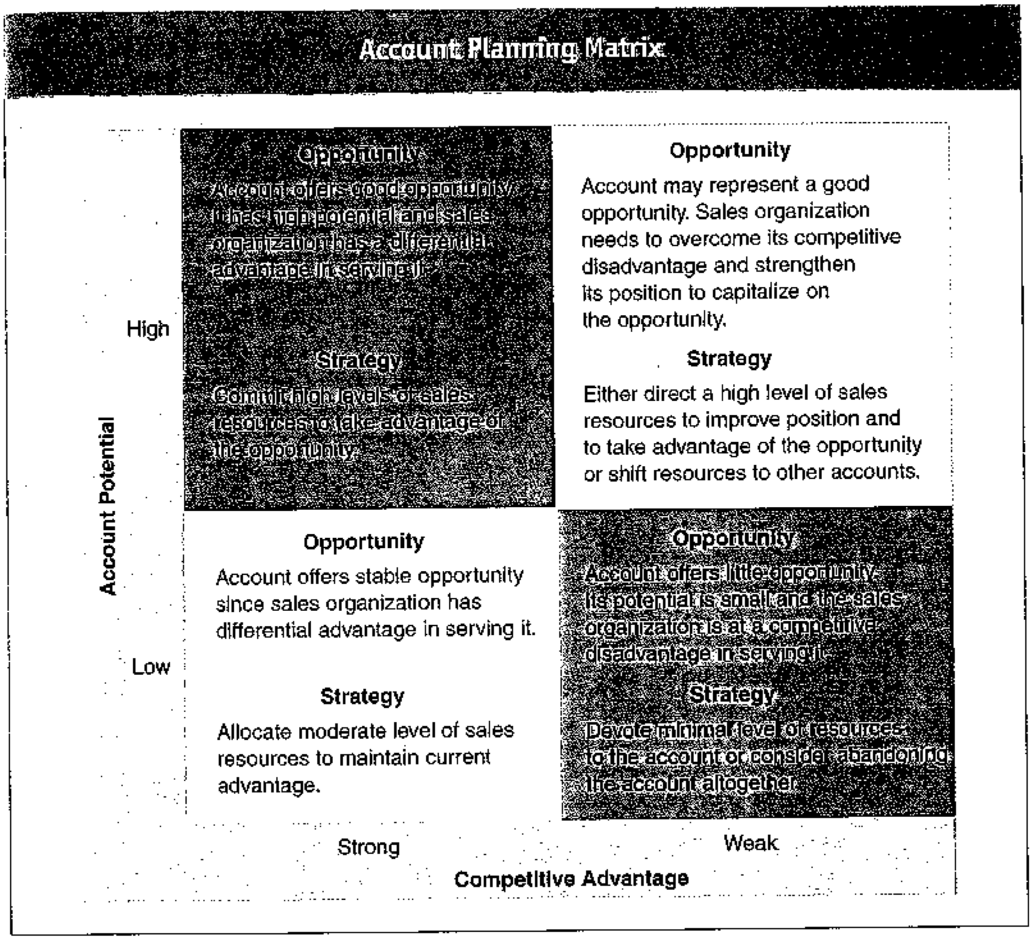
1. **Select the control unit.** This is the basic geographic unit that will be used to form the territories. The most common units are (in decreasing size) countries, states, counties, cities/standard metropolitan statistical areas (SMSAs), ZIP codes, and blocks. Obviously, the control unit varies by the kind of product or service. For a consumer product sold door-to-door, neighborhood-by-neighborhood, through Mary Kay or other multilevel selling companies, blocks would be appropriate. For nuclear power plants, countries would probably be more relevant. Of course, most products are somewhere in between those two extreme examples.
2. **Estimate the market potential in each basic geographic unit.** The methods described in Chapter 3 can be used.
3. **Form tentative territories.** To do this, contiguous geographic units should be combined so as to make the territories equal in market potential. This is only a first pass at the territory design. The number of territories should be based on calculations of the appropriate number of salespeople (note that this assumes the assignment of one salesperson per territory).
4. **Calculate the workload for each of the tentative territories.** The tentative territories formed in step 3 may be close to each other in market potential but may differ significantly in terms of workload. The first part of the workload analysis is to determine the distribution of accounts by their size (based on actual revenues, potential, or some other measure). However, in this case the analysis must be done at a micro level, that is, account by account. Subsequently, each account must be assessed for the amount of time necessary to serve it. A potential account would be allocated more time because more selling effort is needed to create a new account than to maintain an existing one. An account planning matrix like the one shown in

Figure 13.8



Source: Mark W. Johnston & Greg W. Marshall (2006), *Churchill/Ford/Walker's Sales Force Management*, 8th ed. (Boston: McGraw-Hill/Irwin), p. 160. Reproduced with permission of the Mc Graw-Hill Companies.

Figure 13.9



Source: Gilbert A. Church, Neil M. Ford Jr., and Orville C. Walker, *Sales Force Management*, 8th ed., p. 191. Reproduced with permission of the Mc Graw-Hill Companies.

Figure 13.9 could be used to prioritize the accounts and determine the effort needed to service each one. The total workload can then be computed for each territory.

5. **Adjust the tentative territories.** The workload analysis (and any other relevant information) is then used to adjust the initial solution to territory design. Again, adjustments should be contiguous so that salespeople do not waste time traveling through another salesperson's territory.
6. **Assign salespeople to territories.** This step is more difficult than it sounds. Salespeople have varying abilities and fit better with different kinds of accounts. Some are better at developing new accounts, some are better at maintaining relationships, some are better with smaller accounts, and some are better with larger accounts. There are also personal aspects that must be considered. A salesperson who was born and raised on the West Coast may not be interested in moving to the Southeast.

Application | Syntex Corporation

An approach combining management science and managerial judgment called decision calculus can be used to develop sales territories and assign salespeople to them as well as make other sales planning decisions. This approach was applied to Syntex Corporation (now owned by Hoffman-La Roche), an international life sciences company that develops, manufactures, and markets a wide range of health and personal care products.[17] Syntex Laboratories is the U.S. human pharmaceutical sales subsidiary. A main product line is anti-inflammatory drugs to treat arthritis, analgesics for pain, oral contraceptives, a variety of topical products for skin diseases, and other related products.

Syntex's major products include Naprosyn, used to treat arthritis; Anaprox, an analgesic; Lidex and Synalar, topical steroid creams for skin inflammations; Norinyl, an oral contraceptive; and Nasalide, a steroid nasal spray for treating hay fever and other allergies. The success of these drugs propelled the division to account for 46 percent of the total corporate sales.

In ethical or prescription pharmaceutical sales, often called detailing, the target customers are normally physicians who prescribe the drugs for their patients. This is a difficult job because appointments are hard to obtain and the competition is fierce. Pharmaceutical salespeople distribute samples and provide physicians with clinical information about the performance of their products. They also provide information about recommended dosage levels and thus must be a credible source of such information. As in any salesperson's job, the major decisions to make are which physicians to visit, how often to visit them, and what information to present.

At the time of this illustration, the vice president for sales at Syntex oversaw six regional and 47 district sales managers, as well as 433 general sales representatives. The major decisions he had to make were how many salespeople to have, their geographic allocation and call frequency, allocation of sales calls across physician specialties, and which products to feature during the calls. To assist in this, the company used a version of a model called CALLPLAN. The model was used to calculate the optimal amount of sales effort needed for the different products and specialties and the different contribution margin opportunities available for different sizes of the sales force. One version of the model was used to allocate sales calls to specialties, and the other was used to determine the appropriate number of sales presentations for each product.

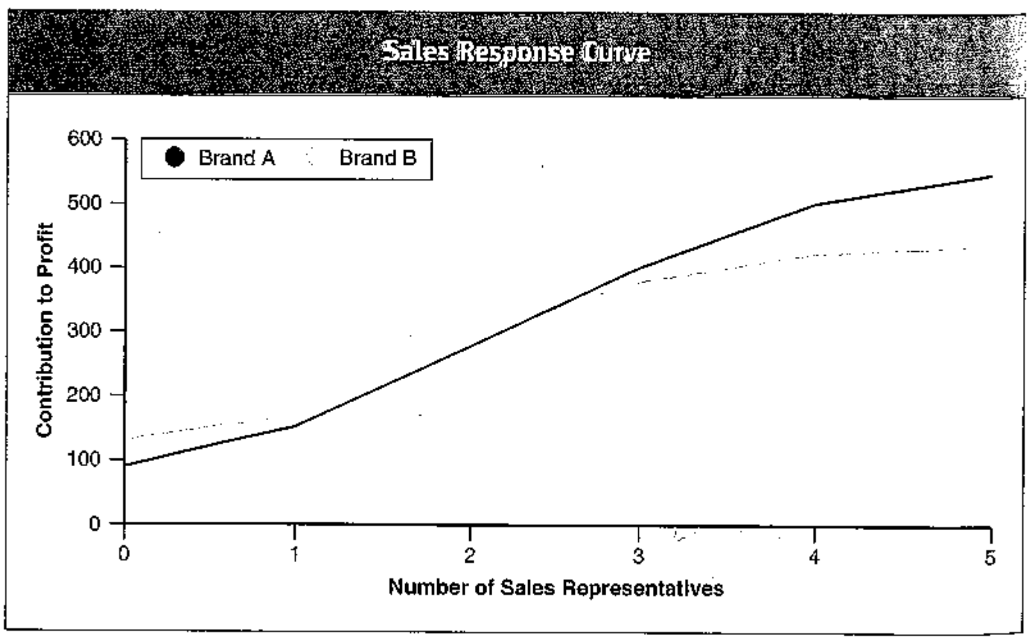
To help do this, a sales response curve was estimated for each brand. The sales force was asked to estimate the sales level that would be expected compared to the present level under the following levels of sales effort:

- No sales effort.
- One-half of the current sales effort.
- 50 percent more effort than current level.
- A saturation level of effort, a huge increase from current level.

The result was a sales response curve like that shown in Figure 13.10.

Figure 13.10 shows two hypothetical sales response curves for two brands, A and B. The basic idea comes from microeconomics. An additional salesperson should be assigned to pursue the customer that provides the greatest incremental contribution to profit. Suppose that the company has three salespeople assigned to brand A and two to B. Using Figure 13.10, to which brand should the first new rep be assigned? If the rep is assigned to A, the incremental profit is $100; if assigned to B, it is about $75. Thus, the first new rep should be assigned to A. To which brand should a second rep be assigned? The marginal contribution obtained from going from four to five reps is only about $50. Thus, the second new rep should be assigned to B. This process would continue until no incremental profit was obtained from hiring another salesperson for either product.

Figure 13.10



Source: Darral G. Clarke (1983), "Syntex Laboratories (A)," Harvard Business School case #9-584-033, p. 12. Copyright © 1983 by the President and Fellows of Harvard College. Reprinted by permission.

The application of the model to Syntex data showed that the sales force should be increased to more than 700 representatives and that this would produce more than $7 million in additional profits. The analysis is based on a combination of managerial judgment and statistical modeling. However, the company had been previously using very informal, simplified analyses.

Computer analyses for territory design and salesperson assignment are common today. These programs combine sophisticated geographic mapping capabilities with optimization algorithms. Such software is sold by TerrAlign (http://www.terralign.com). TerrAlign:

- Automatically generates optimal calling plans for the field sales force.
- Minimizes distance between calls.
- Calculates call frequency requirements for customers.
- Balances the weekly calls across customers.

Setting Sales Quotas

sales quotas specific sales goals that salespeople are required to meet

Sales quotas are specific goals that salespeople have to meet. Clearly, quotas are needed to provide an incentive and a benchmark that distinguishes between excellent and less-than-excellent performance. Quotas also help sales and other managers to evaluate the performance of individual salespeople. They are usually part of the compensation scheme; exceeding one's quota usually means some kind of bonus, either in money or some other reward (vacations, merchandise). There are four different kinds of quotas.

Sales Volume Based Quotas

The most commonly used quota is based on sales volume, in dollars or units sold. Quotas could be based on total sales volume or on individual product or product line sales. The latter criterion is particularly useful when new products are introduced because salespeople are more inclined to sell proven winners than uncertain products. Monetary quotas are easy to understand but may give extra incentives to sell higher-priced items, which may not necessarily produce the most profits.

Profit Based Quotas

These quotas normally are stated in terms of profit margins (gross or net). Such quotas steer the salespeople toward the products and services that are the most profitable to the company rather than those that are the highest priced or easiest to sell. A problem with this kind of quota is that it is more difficult for the salesperson to know where she or he stands in relation to the quota than when sales volume–based quotas are used. Profit margins can be manipulated by accounting procedures, which are a mystery to most marketing personnel.

Combination Quotas

More and more companies are basing their quotas on combinations of metrics. These quotas are based on the different activities that must be performed by a salesperson as well as sales or profits. Some of these activities include:

- Number of customers called on.
- Number of demonstrations made.
- Number of new accounts established.

Because the job of the salesperson is moving away from strictly selling to developing and managing long-term customer relationships, quotas are also changing to combinations of traditional measures plus information from customer satisfaction surveys. Before being acquired by Oracle, 40 percent of each salesperson's incentive compensation at Siebel Systems was based on customer satisfaction. Other large companies such as Nortel, eBay, and AT&T are changing their incentive schemes in a similar manner.

Compensation

commission a form of compensation based directly on a sale or some other activity

Figure 13.11 shows the different components of potential compensation and their objectives. The basic form of compensation is normally salary plus commission. A **commission** is a payment based directly on a sale or some other activity. For example,

Figure 13.11

Components and Objectives of Compensation Plans

Components	Objectives
Salary	• Motivate effort on nonselling activities • Adjust for differences in territory potential • Reward experience and competence
Commissions	• Motivate a high level of selling effort • Encourage sales success
Bonuses	• Direct effort toward strategic objectives • Provide additional rewards for top performers • Encourage sales success
Sales contests	• Stimulate additional effort targeted at specific short-term objectives
Benefits	• Satisfy salespeoples' security needs • Match competitive offers

Source: Mark W. Johnston & Greg W. Marshall (2006), *Churchill/Ford/Walker's Sales Force Management,* 8th ed. (Boston: McGraw-Hill/Irwin), p. 336. Reproduced with permission of the Mc Graw-Hill Companies.

salary
a form of compensation in which a basic amount of money is paid to a worker on a regular basis

incentive payments
monetary awards for special performance

sales contests
sales force competitions to achieve a short-term goal.

the sale of a $10,000 pump might mean a 1 percent or $100 commission to the salesperson. **Salary** is the basic amount of money paid regularly to the salesperson. Other forms of compensation are available to sales managers. **Incentive payments** are monetary awards for special performance. They are usually given in recognition of particularly outstanding sales performance, such as a President's Circle of the top 1 percent of the salespeople in a company. **Sales contests** are competitions to achieve some short-term goal (e.g., the introduction of a new product).

The most common decision to be made by a sales or senior marketing manager is what combination of salary and commission to use. A sales force could be paid on straight (100 percent) salary, straight commission, or some combination of both.

Straight Salary

This kind of compensation scheme is useful when management is more interested in long-term goals than simply selling as much volume as possible. For example, as we have noted earlier, because of the increased recognition that long-term customer relationships are more profitable than simple transactions, more time is spent on relationship-building activities than in past years. Much of the time spent in relationship building does not generate immediate revenue. In addition, other activities such as competitor analysis and market research are valuable investments of time that do not generate revenue. If management wants to encourage such activities, straight salary is more logical than commissions. Another instance in which straight salary makes sense is one in which the products and services have long selling cycles. It takes several years for Boeing salespeople to close a deal to sell airplanes to British Airways. Similarly, large construction projects, nuclear power plants, supercomputers, and other products take a long time to sell. In such cases, compensation based largely on commission would not work well. Finally, straight salary is often used for new salespeople, who are unlikely to generate substantial sales in the short run. The challenge with compensation schemes based largely on salary is to tie salary increases to performance.

Straight Commission

Clearly, commissions give salespeople incentives to sell because there is a direct relationship between income and performance. Such a scheme also rewards the best performers. Underperforming salespeople do not receive as much income. Commission schemes are also easy to manage because the payments are tied directly to visible performance. In addition, commission programs can be targeted. New products that are important to the company can be awarded higher commissions than existing products. However, in general, straight commission programs give management little control over what the sales force does because each salesperson will try to maximize his or her income in his or her own way. This usually means that activities that do not result directly in a sale are ignored. Such programs can also be discouraging during a period when the company's products are not selling well. Commission-based compensation schemes can be difficult to implement when a national accounts program overlaps with a local sales force. There are often problems allocating the commissions between the relevant parties when a sale is made. Finally, straight commission schemes produce fluctuating incomes for the sales force. In practice, there are few straight commission selling jobs. Many are found in the multilevel marketing industry (e.g., Amway, Mary Kay).

Commission plans can become complicated in multichannel systems. This is actually a channel conflict issue, which was discussed in the previous chapter. Companies are giving salespeople commissions on products even when they do not make the sale, if that sale is made with one of "their" customers but through another channel. The Ingersoll-Rand illustration from the previous chapter is one example of how this works. Additionally, Amway runs a Web site, Quixtar, where you can input a local Amway IBO's (Independent Business Owner) ID number before you make a purchase. This permits the local rep to get credit for the sale even though he or she did not make a presentation. It does not cost the customer any more money and maintains the personal relationship with the sales rep, who is usually a neighbor or relative.

Combination Plans

Most compensation schemes combine salary and additional financial incentives (commissions or bonuses). These plans provide some incentive to perform nonrevenue activities and a base, secure level of income while still rewarding the best performers above the rest.

Controlling and Evaluating the Sales Force

The sales manager must perform some kind of analysis of sales force performance given our emphasis in this book on understanding the ROI of marketing expenditures. Many objective or quantitative measures can be used in this evaluation. Table 13.1 shows some of the more typical ratios of input and output measures that can be used.

There are two types of output measures:

1. **Orders.** Of importance are the number and size of the orders obtained.
2. **Accounts.** Typically measured are the number of active, new, lost, prospective, and overdue accounts.

Table 13.1

Common Ratios Used to Evaluate Salespeople		
Expense ratios		
• Sales expense ratio	=	Expenses / Sales
• Cost per call ratio	=	Total costs / Number of calls
Account development and servicing ratios		
• Account penetration ratio	=	Accounts sold / Total accounts available
• New account conversion ratio	=	Number of new accounts / Total number of accounts
• Lost account ratio	=	Prior accounts not sold / Total number of accounts
• Sales per account ratio	=	Sales dollar volume / Total number of accounts
• Average order size ratio	=	Sales dollar volume / Total number of orders
• Order cancellation ratio	=	Number of cancelled orders / Total number of orders
Call activity or productivity		
• Calls per day ratio	=	Number of calls / Number of days worked
• Calls per account ratio	=	Number of calls / Number of accounts
• Planned call ratio	=	Number of planned calls / Total number of calls
• Order per call (hit) ratio	=	Number of orders / Total number of calls

Source: Mark W. Johnston and Greg W. Marshall (2006), *Churchill/Ford/Walker's Sales Force Management*, 8th ed. (New York: McGraw-Hill), p. 418. Reproduced with permission of the Mc Graw-Hill Companies.

There are several kinds of input measures:

- Sales calls.
- Time efficiency (how many calls per day the salesperson makes).
- Expenses.
- Time spent on nonselling activities.

Numbers are important, but they do not tell the whole story. Without further investigation, the sales or marketing manager sees the results but not the process. Understanding the process is critical to a better understanding of the results, and therefore provides a blueprint for change. As a result, subjective or qualitative measures are also used to evaluate sales force performance. An evaluator uses a rating scale to evaluate each salesperson on the following dimensions:

- **Sales.** This includes not just sales volume, which can be measured using external metrics, but how well the person is doing with different kinds of accounts and the whole product line.
- **Job knowledge.** Does the person understand the role of a salesperson in the company? Does the salesperson understand the company's policies and products?

- **Management of the sales territory.** This rates how well the salesperson manages his or her time, completes call reports, and so on.
- **Customer and company relations.** The salesperson must have good relationships with customers and internal personnel (shipping, product management).
- **Personal characteristics.**

The Changing Nature of the Sales Force: The Impact of Technology

The typical salesperson of today is not the classic Willy Loman from *Death of a Salesman*. The successful salesperson is now highly skilled in using technological tools that enable her or him to work with prospective customers in an efficient way to solve problems. These include computers, information systems, and efficient communication links from the field to the home office. Investments in such technology invariably pay off in increased sales and return on investment.

This reengineering of sales, called **virtual selling**, has occurred for several reasons:[18]

virtual selling
the reengineering of sales in the 1990s, especially the impact of sales force automation and the salesperson's educated use of technological tools in working with prospective customers in a highly efficient way

- The personal selling job has become more complex and it is getting more difficult to make a sale. This is because products in some industries have become more complex (mainly in technology-based industries). The notion of a salesperson trotting around with a product catalogue has virtually disappeared.
- Customers have become more knowledgeable about what they want, but they also need guidance and advice about what products and services would help them the most.
- Corporations are becoming increasingly flat, with fewer middle managers providing product information for more senior managers. Salespeople are thus being called on to provide more information directly to decision makers. This flattening phenomenon is also hitting sales forces.
- Intensifying global competition means more pressure at the point-of-sale as there are more companies competing for the sale.
- Demand for productivity improvements from all parts of the organization, including sales, has increased.

Ideally, the virtual selling organization would have the features shown in Table 13.2. Although these are worthwhile goals, few companies are anywhere near achieving all of them. However, many have made substantial progress toward fully automating their sales forces. Most of the features shown in Table 13.2 are available through software provided by companies such as salesforce.com and Sage Saleslogix for small companies, and Oracle for large firms. Using laptop computers, smartphones, and the Web, salespeople find new sales leads, share information with management and other salespeople, better understand their customers, customize presentations and products for customers, and make the overall selling process more efficient and effective.

Sales force automation (SFA) can also help companies deliver more value to the customer. Today, SFA is generally considered to be a component of an overall customer relationship management (CRM) strategy, which we will cover in the next chapter. For example, the sales force for a truck manufacturer asks each potential customer what kinds of jobs a new truck will do and what kinds of loads they will be hauling. On a laptop computer, a salesperson can examine maps of the truck routes and determine the grades of the hills along the routes. Based on this and other information, the salesperson can recommend the appropriate model and features on the spot and even recommend financing options. The truck company is also planning to phase out preprinted brochures and replace them with materials that can be printed out on the spot when requested.

Special-purpose computer software has also been developed to help salespeople perform standard activities. For example, contact management software tracks different kinds of information, from what happened on the last sales call with a customer to birthdays and other special events. For companies with large product lines, order configuration software keeps track of pricing structures and technical specifications so that the field salespeople are always up to date. This frees the rep from having to carry around volumes of literature or memorize large numbers of facts.

Table 13.2

The Virtual Selling Organization
• Equips salespeople with all of their leads, prospects, and contacts
• Provides the facility to track, record, and communicate all the history of an opportunity or account
• Supports team selling and workgroup collaboration
• Facilitates work flow and routing for approvals
• Provides access to all relevant information on products, price, competitors, and decision issues
• Incorporates support for unique selling methods and processes that support sales cycle tracking and analysis
• Provides salespeople with the ability to create custom presentations and on-demand, customized sales literature
• Enables the salesperson to find the best combination of products and services based on a customer's unique profile
• Empowers the salesperson to make his or her own decisions, develop custom contracts and proposals, and, acting as the customer's advocate, organize ad hoc interdepartmental company teams
• Offers online sales training on sales processes and new products and services
• Automates the administrative tasks of recording, tracking, and reporting salespeople's appointments, activities, correspondence, literature fulfillment, expenses, and forecasts
• Creates closed-loop marketing and sales systems that ensure complete traceability from marketing spending on lead generation through sales closure, product shipment, and customer support

Source: Thomas M. Siebel and Michael S. Malone (1996), *Virtual Selling* (New York: Free Press), pp. 13–14. Adapted with the permission of The Free Press, A Division of Simon & Schuster Adult Publishing Group, from *Virtual Selling: Going Beyond the Automated Sales Forces to Achieve Total Sales Quality* by Thomas Siebel and Michael Malone.

Application | Waters NuGenesis Technologies Corp.

Waters NuGenesis Technologies Corporation sells software designed to help pharmaceutical and biotech researchers capture, share, and sift through large quantities of data rapidly.[19] Although the company specialized in products that helped its customers automate its data analysis procedures, it had no sales force automation system of its own. The company's five-person sales force used Excel spreadsheets to keep records and relied on faxes from trade shows to identify potential prospects. To better penetrate multinational companies and coordinate multi–sales representative/multichannel offers to large companies like Merck, company managers knew they had to significantly upgrade their sales force's tools with modern SFA products.

The company used software from SalesLogix to outfit its sales force. Among the standard features noted earlier, the software was customized to add data fields with managers' sales forecasts to enable a comparison to each salesperson's forecast. This was used to reach agreement about which prospects would receive additional sales support from senior managers. The software also enables the sales force to send customized e-mails to 90,000 contacts tailored by industry such as biotech, genomics, or medicinal chemistry. The software also enables Waters NuGenesis to track e-mail response rates and trade-show effectiveness.

The results of adopting the SFA software were impressive. Since 1999, the company's client base grew from a small number of companies to nearly 100 in 2001, including luminaries such as 3M, Pfizer, and Genentech.

Application | Lanier Worldwide

Lanier Worldwide, a wholly owned subsidiary of Ricoh Corporation, is one of the world's largest providers of document management systems, services, and support, with revenues of more than $1 billion.[20] In 1995, Lanier managers faced a problem: the cost of getting and placing an order for any of its office equipment was averaging $27 per order, substantially higher than the figure of $3 that came from research conducted in similar firms.

Lanier managers discovered that there were three reasons for this discrepancy:

1. All orders were taken and processed manually.
2. The information on customers was often inaccurate and duplicative.
3. Because the sales force lacked modern sales tools to help generate leads and make sales, the turnover rate among the sales force was 120 percent.

The manual order entry and processing caused a high error rate and delayed the fulfillment of orders because the sales force was quoting inaccurate prices, necessitating manual correction by back-office personnel. Inaccurate records on what customers had purchased led to free service being given to customers who may not have deserved it. High turnover rates of salespeople eroded records of the customer base as they left with the index cards on which they had recorded customer data. Profitability of product lines was impossible to compute.

The new Lanier system was developed in three phases:

1. **Phase one.** The company introduced its Market Encyclopedia System to provide the sales force with the tools needed to make customer presentations. It contains the sales and marketing information Lanier used to distribute in hard copy every week, including technical specifications on all its products and services, price and performance comparisons with competitors' products, and information on trends in the industry. It also provides video clips and slides that sales representatives can use to make different types of presentations.
2. **Phase two.** The company created its Opportunity Management System, a lead qualification process. The system gives the sales force access to a list of more than 10 million names of managers at U.S. companies, with details on the companies and the types of equipment they have purchased in the past. The system also provides a checklist of steps each sales rep should take to move from the lead stage to closing the deal. When a sale is completed, an order form is generated for the customer's signature.
3. **Phase three.** The Zero Defect Order system builds and prices the system that meets the customer's needs, including all required and optional equipment and accessories. The system permits the rep to give discounts, but also indicates at what point a discount will reduce his or her sales commission.

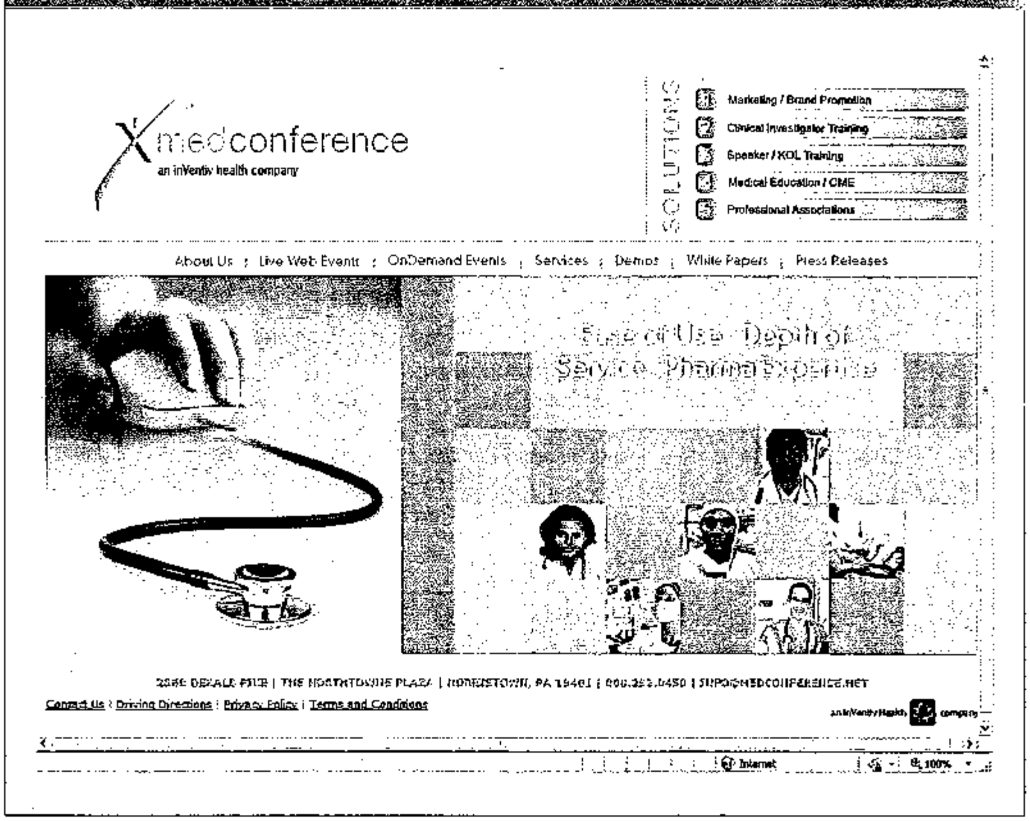
The financial benefits of the new system appeared quickly. Lanier achieved $48 million in cost savings in the first year through higher productivity because sales force turnover fell from 120 percent to 50 percent and free service was given only to customers who warranted it. In addition, the cost per order dropped from $27 to $16 to $15. The system also generated important information for the company. Lanier's managers could now perform a profitability analysis of each national account, which enabled them to tailor compensation and add or subtract resources on an account-by-account basis. In addition, the company can track profits by product segment. For example, Lanier discovered that the profit margins on its analog copier business are increasing when they thought they were decreasing.

Other Innovations

Because of its importance to many companies, sales force management is constantly being scrutinized for new approaches that can increase efficiency and effectiveness. For example, AstraZeneca, a London-based pharmaceutical company, is testing an approach that would entice doctors to initiate the sales call rather than its salespeople. Using products from a company called iPhysicianNet, the company installed computers with Internet access and videoconferencing capabilities in the offices of 7,500 physicians in the United States. In exchange for free use of the computer and Web connections for other purposes, the doctors agreed to use the system to participate in at least one video call each month with one of the eight pharmaceutical companies sharing the service. Because the call takes place at the doctor's convenience, it lasts an average of nine minutes, four times longer than a salesperson usually gets. Although the company's 6,000 salespeople were concerned that the system would replace them, many doctors requested follow-up visits, so it opened the doors to some doctors who refused to meet with any salesperson.[21] Another approach being used is to simply allow doctors to see live medical presentations on the web. Medconference (see Figure 13.12) is a service that brings experts and new findings directly to doctors through the presentation, which also allow the doctors to submit questions by voice or online chats.

Figure 13.12

Medconference website



Source: Medconference.com. Copyright © 2010 by MedConference LLC. Reprinted with permission.

Direct Marketing

direct marketing
an interactive marketing system used to generate incremental sales or revenues for any organization in any industry
Source: www.thedma.org, Power of Direct Marketing, 2009-2010 Edition, p. 59. Used by permission, courtesy of the Direct Marketing Association.

One of the strongest trends in marketing has been toward increasing use of **direct marketing**. Direct marketing is most often associated with traditional methods such as direct mail (often called junk mail) and telemarketing. However, it also includes Internet-based marketing as well as radio, TV (e.g., "infomercials" and home shopping channels), and teleconferencing. In general, direct marketing includes any method of distribution that gives the customer access to the firm's products and services without any other intermediaries (generally, direct marketing excludes the sales force) through some form of communications. Thus, like personal selling, direct marketing is a hybrid of a channel and communication device.

The definition of direct marketing is:[22]

> *Direct marketing is an interactive marketing system that uses one or more advertising media to affect a measurable response and/or transaction at any location.*

measurable response
the estimation of the effects of a marketing program such as direct marketing

Two key parts of this definition are the word **interactive** and the phrase **measurable response.** Direct marketing is a one-to-one activity and targets individual people or organizations. In addition, it is engaged to deliver a short-run response (much like sales promotion) that is easily measurable by the sponsoring organization.

In the introduction to this chapter, some overall numbers on the size of the direct-marketing business were given. Table 13.3 gives more details about the size of the market by medium and by consumer versus business-to-business. Direct marketing-driven sales represents sales within particular industries or geographic areas (nation or state) directly caused by direct marketing advertising activities. Expressed differently, direct marketing-driven sales are incremental sales to the industry or region that would not exist but for the successful use of direct marketing advertising communications. Direct marketing-driven sales excludes those sales caused by factors other than direct marketing. Direct marketing-driven sales grew 5.7 percent per year from 2003 to 2009 and are projected to grow by 5.3 percent from 2009 through 2013.

Why has there been such an increase in the use of direct response methods? Two events, occurring simultaneously, have driven this trend. First, in an era where cost control is of paramount importance, direct marketing can be used to make the channel system more efficient. For example, direct mail can be used to reach prospects that would be too expensive to reach with a sales force because of their disparate geographic locations or low purchase

Table 13.3

DM-Driven Sales by Medium and Market (Billions of Dollars)

	2003	2007	2008	2009	2013	Compound Annual Growth 2003–08	2003–13
DIRECT MAIL (NON-CATALOGUE)	**$407.2**	**$533.7**	**$547.7**	**$561.7**	**$639.1**	**6.1%**	**3.1%**
Consumer	269.7	347.8	354.9	362.0	410.7	5.6%	3.0%
Business-to-Business	137.5	185.2	192.8	199.8	228.4	7.0%	3.4%
DIRECT MAIL (CATALOGUE)	**117.4**	**149.0**	**154.7**	**158.6**	**182.5**	**5.7%**	**3.4%**
Consumer	78.0	98.4	101.9	104.2	120.5	5.5%	3.4%
Business-to-Business	39.5	50.6	52.8	54.4	62.0	6.0%	3.3%
TELEPHONE MARKETING	**372.8**	**370.7**	**363.8**	**359.4**	**366.1**	**−0.5%**	**0.1%**
Consumer	172.8	166.5	161.7	158.5	159.3	−1.3%	−0.3%
Business-to-Business	199.9	204.1	202.1	200.9	206.8	0.2%	0.5%
INTERNET MKTG(NON-EMAIL)	**197.5**	**415.5**	**481.5**	**559.0**	**903.0**	**19.5%**	**13.4%**
Consumer	93.0	199.0	230.3	270.0	452.6	19.9%	14.5%
Business-to-Business	104.5	216.5	251.2	289.0	450.4	19.2%	12.4%
COMMERCIAL EMAIL	**11.9**	**24.0**	**28.0**	**32.6**	**53.2**	**18.7%**	**13.7%**
Consumer	5.5	11.4	13.3	15.6	26.6	19.2%	14.9%
Business-to-Business	6.3	12.6	14.7	17.0	26.7	18.3%	12.7%
DR NEWSPAPER	**192.1**	**182.0**	**166.1**	**158.7**	**156.3**	**−2.9%**	**−1.2%**
Consumer	133.1	125.1	113.5	108.0	106.5	−3.1%	−1.3%
Business-to-Business	59.0	56.9	52.5	50.7	49.8	−2.3%	−1.1%
DR TELEVISION	**125.8**	**150.3**	**155.3**	**156.7**	**179.3**	**4.3%**	**2.9%**
Consumer	81.5	96.3	98.7	99.2	113.4	3.9%	2.8%
Business-to-Business	44.2	54.0	56.6	57.5	65.9	5.1%	3.1%
DR MAGAZINE	**73.0**	**89.3**	**90.2**	**91.7**	**101.1**	**4.3%**	**2.3%**
Consumer	38.5	45.9	46.1	46.7	51.4	3.7%	2.2%
Business-to-Business	34.5	43.4	44.1	45.0	49.6	5.0%	2.4%
DR RADIO	**39.5**	**40.9**	**39.4**	**39.5**	**44.8**	**−0.1%**	**2.6%**
Consumer	24.6	25.3	24.2	24.2	27.6	−0.3%	2.6%
Business-to-Business	14.9	15.6	15.2	15.3	17.3	0.4%	2.6%
INSERT MEDIA	**8.6**	**10.7**	**10.9**	**11.2**	**13.1**	**4.9%**	**3.7%**
Consumer	5.7	7.0	7.1	7.3	8.5	4.5%	3.5%
Business-to-Business	2.9	3.7	3.8	3.9	4.6	5.8%	4.0%
OHTERS	**16.8**	**19.7**	**20.2**	**20.4**	**23.3**	**3.8%**	**2.9%**
Consumer	11.5	13.4	13.7	13.7	15.6	3.4%	2.7%
Business-to-Business	5.2	6.3	6.5	6.7	7.7	4.5%	3.3%
TOTAL	**$1,562.6**	**$1,985.3**	**$2,057.8**	**$2,149.6**	**$2,662.0**	**5.7%**	**5.3%**
Consumer	914.1	1,136.3	1,165.3	1,209.4	1,492.7	5.0%	5.1%
Business-to-Business	648.5	82.1	85.6	89.0	106.2	6.6%	5.6%

DR: Direct Response

Source: Direct Marketing Association's U.S. Direct Marketing Today: Economic Impact 2010. Used by permission, courtesy of the Direct Marketing Association.

rates. As we showed earlier in Chapter 12, mail or phone also can be used to complement other channel activities in a hybrid channel system. Second, an effective direct marketing operation relies heavily on an excellent database of customer names, addresses, and phone numbers, and companies have been making significant investments in such databases for direct marketing and for building and maintaining customer relationships. Improvements in computer technology and data mining software (programs that sift through vast amounts of customer information) have made it easier to use direct marketing and have resulted in greater efficiency in this channel and higher profits.

Even though both consumers and companies are purchasing more goods through the Internet, the older direct marketing methods of telephone and "snail" mail (catalogues, letters) still work quite well as can be seen in Table 13.3. More detailed information by some demographic segments is shown in Table 13.4. As can be seen, about 30 percent of households earning more than $100,000 bought a product or service using either mail or phone during the period of the data (as of spring 2008).

The Direct Marketing Process

Developing a direct marketing campaign entails a systematic approach with the following steps:

1. **Set an objective.** Because of the measurability of direct marketing campaigns, you need to set a quantitative goal in terms of sales, number of new customers, and so on.
2. **Determine the target market.** Like the marketing strategy described in Chapter 2, a direct marketing campaign requires that you determine which customers are the targets. Most direct marketing methods are too expensive to use a "shotgun" approach.
3. **Choose the medium/media.** As noted above and in Figure 13.3, there are a variety of media from which you can select for the campaign. The pros and cons of the major types will be discussed later in this chapter.
4. **Obtain a list.** Because of the targeted nature of direct marketing, a list of members of the targeted customers is required. There are two basic sources of lists: internal lists from customer records and externally purchased lists. With respect to the latter, lists can be purchased from list brokers or companies (e.g., publishers) that sell their own customer lists. Companies such as Dun & Bradstreet and

Table 13.4

Total Population Ordering by Mail or Phone: Spring 2008

	Total U.S. (000)	Total Buyers: Mail or Phone (000)	% Any product %
Household Income: $100,000–$149,999	30,020	8,997	29.97
Household Income: $150,000–$199,999	11,636	3,456	29.70
Household Income: $200,000+	8,956	2,834	31.64
Household size: 1	31,055	7,416	23.88
Household size: 2	73,053	20,090	27.50
Household size: 3–4	81,739	17,835	21.82
Household size: 5+	36,364	6,659	18.31
No Children in Household	130,810	33,293	25.45
Children under 2 years	18,592	3,265	17.56
2–5 years	32,507	6,343	19.51
6–11 years	42,307	8,802	20.81
12–17 years	44,788	9,411	21.01
Home owned	154,672	41,389	26.76
Rent Home	64,622	10,069	15.58

Source: Spring 2008 from Direct Marketing Association, 2009 Statistical Fact Book, p. 4. Used by permission, courtesy of the Direct Marketing Association.

Donnelley (which compile lists of prospects with particular characteristics), and InfoUSA.com are sources for mail and telephone while Yesmail (a division of InfoUSA) is a source for e-mail lists. Some companies such as Yahoo! have come under fire for selling their lists to companies launching direct marketing programs without the permission of their customers or registered members. The cost of renting a mailing or e-mail list is about $110 to $125 per 1,000 names.

5. **Analyze the list.** For companies that keep sufficiently accurate internal records of customer purchasing behavior, significant effort is made to constantly analyze their lists to see who are the best prospects for the target audience. This is a major priority, particularly for catalogue companies such as Lands' End. A particularly popular model that has been used for many years is called the *R* (recency) *F* (frequency) *M* (monetary value) model. Companies using this model develop a scoring method for each customer on its internal list, with higher scores given for customers who have most recently purchased, who purchase the most often, and who spend the most.[23]
6. **Develop the offer.** The "offer" is the text of the direct marketing message. This is obviously tailored to the particular circumstances.
7. **Test the offer.** A unique characteristic of direct marketing is that it is relatively easy and inexpensive to test alternative offers. Thus, Lands' End will often experiment with different catalogues to test different layouts and product mixes. Testing the offer is particularly easy and cheap with direct e-mails.
8. **Analyze the results.** The "bottom line" is, of course, how the campaign performs relative to the objective. It is also important to measure response rate and cost per customer acquired.

Direct Marketing Methods

The marketing manager can choose from a variety of direct marketing methods that permit customer targeting at the individual level, including telemarketing (telephone), direct mail/fax, and direct e-mail. While other media allow for an immediate response from the customer (e.g., TV infomercials), they do not permit as much individual targeting as those methods previously mentioned.

Telemarketing

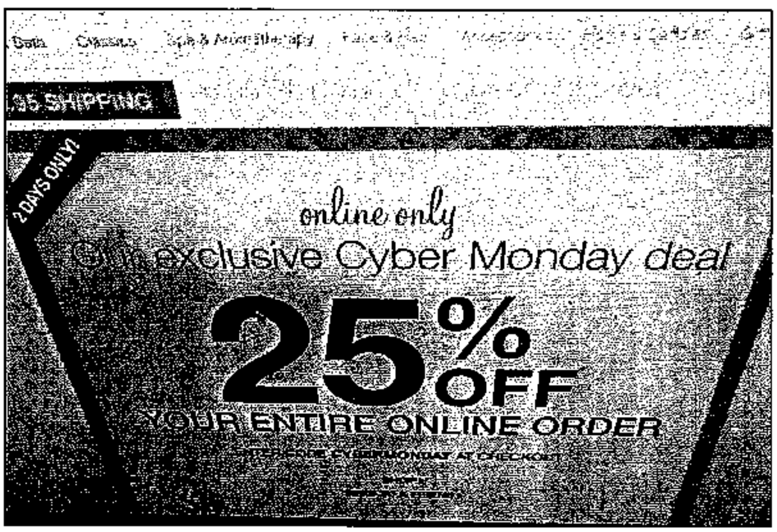
As can be seen from Table 13.3, despite what people might think, telemarketing works for many companies. In fact, in a recent survey conducted by the Direct Marketing Association, telemarketing had the highest response rate—4.4 percent for in-house lists and 2.9 percent for purchased lists—of any other direct marketing method.[24] Clearly, the human interaction aspect is a plus in that (at least in principle) the telemarketer can tailor the presentation to the customer. However, it is expensive ($1 to $3 per message) and intrusive. With respect to the latter, telemarketing engenders a considerable amount of negative publicity and bad will toward the direct marketing channel and the industry.

The three keys to successful telemarketing are:

1. **The list.** Demographic targeting, beginning with a good list of prospects, can increase the success rate by as much as 60 percent.
2. **The offer.** There must be a compelling reason for the customer to buy over the phone. The reason can be a significant discount from the normal price or, more often, the offer of a product or service that cannot be purchased elsewhere. This offer must be stated early in the conversation and communicated clearly.
3. **Integrity.** There is considerable perceived risk when buying over the phone. The telemarketer must reduce this risk through devices such as money-back guarantees or a well-known brand name.

Direct Mail

Direct mail is cheaper than telemarketing ($0.75 to $2 per message) and, despite people's complaints about too much "junk" mail, it does not generate the bad will that telemarketing does because it is less intrusive. It is, of course, easy to ignore direct mail by quick disposal and, for B-to-B markets, it is very difficult to get the mail piece to the customer target in an organization. Based on Direct Marketing Association data, the average response rate for a direct mail piece is around 2 percent.



Direct mail can be delivered both the old-fashioned way and through e-mails.
Source: Jerry Arcieri/CORBIS-NY (top); Richard Levine/Alamy Images (bottom)

For a successful direct mail effort, the following guidelines apply beyond the telemarketing guidelines listed earlier:

- **The copy.** In general, longer copy (the text of the direct mail letter) is better because it gives you the opportunity to inform and persuade. The letter should be as long as it takes to communicate your product's benefits. However, you have about four minutes to convince the reader that the offer is worth buying. Words, sentences, and paragraphs should be kept short, with a friendly tone.
- **Layout/design.** Decisions about typeface, colors, graphic elements, personalized addressing, and other visual elements should be considered carefully. Format is important because direct mail is often screened, particularly in a business-to-business context.

Application | Caterpillar

In 2007, Caterpillar, one of the world's largest construction equipment companies, designed a new industrial loader built to handle home construction projects in the U.S. Southwest and California.[25] In those areas, houses are normally built on concrete slabs that require heavy equipment designed to level rough ground and prepare it for laying concrete. The market was dominated by two major competitors, Case Construction Equipment and John Deere. The "Cat" 414E industrial loader is a $75,000 piece of equipment that was introduced after a four-year development period.

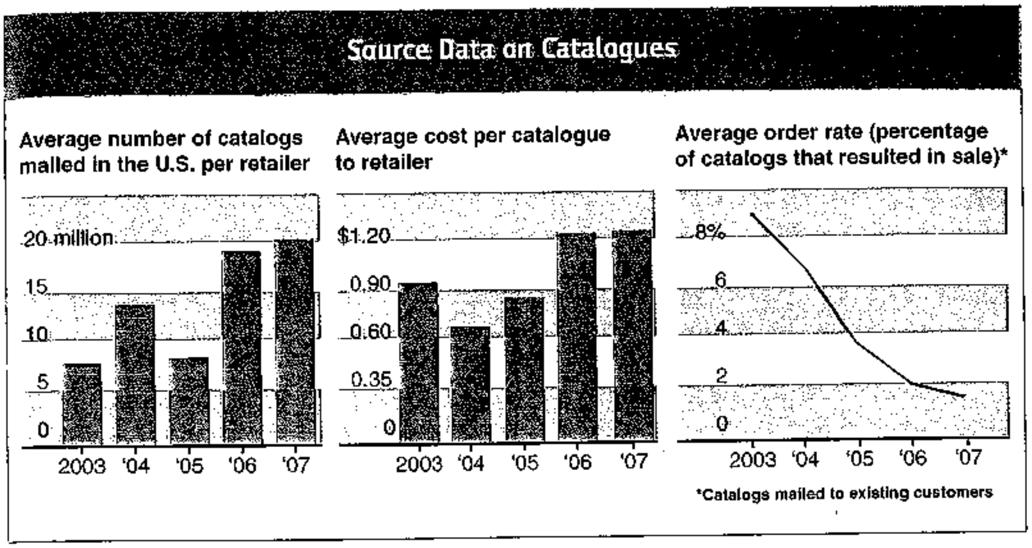
The company wanted to launch the product with considerable fanfare. The company's marketing managers, in conjunction with an advertising agency, developed the idea that the best way to introduce the 414E was to give prospective buyers a chance to try it out. As a result, they decided to build a racetrack with it, because many of their customers like racing, and to build a special event that would enable prospects to use the 414E in constructing the track.

The company first purchased a list of 1,700 names of people who had purchased an industrial loader over the past five years. They then devised a sweepstakes called "Eat My Dust" that was implemented with a direct mail campaign and allowed contractors to sign up either online or at a local Cat dealership. Winners would get a chance to help build the racetrack and then race dune buggies on the track.

The results? The response rate was 18 percent and more than 300 qualified sales leads that ultimately lead to 28 purchases of the $75,000 machine.

An important subcategory of direct mail is catalogue marketing. More than 15 billion catalogues were mailed in the United States in 2009, about 56 for every American. Catalogues account for 3 percent of the 80 million tons of paper products used in the country. Unfortunately, only 1.3 percent of the catalogues mailed result in a sale (see Figure 13.13). However, no one is predicting the demise of catalogues. Not only do they generate a lot of sales ($155 billion as shown in Table 13.3), they also drive people to Web sites, where the ultimate purchase is made. This is part of a multichannel strategy, as described in Chapter 12.[26]

Figure 13.13



Source: Jeffrey Ball (2009), "In Digital Era, Marketers Still Prefer a Paper Trail," *The Wall Street Journal*, Oct. 16, p. A13. Reprinted by permission of *The Wall Street Journal*, Copyright © 2009 Dow Jones & Company, Inc. All Rights Reserved Worldwide. License number 2365350821298.

Direct E-mail

Much of the excitement in the direct marketing field has come from the explosion in the use of e-mails as a direct marketing medium. This can be readily seen by a simple examination of your e-mail in-box every day. Companies have discovered that e-mails are inexpensive ($0.20 per message, including creative and list generation, but only $0.005 to deliver) and flexible as they can deliver text, HTML, and streaming video and audio. E-mails are also very easy to test; are highly trackable; and, unlike the other media, can be part of an overall customer relationship program due to the high level of interactivity offered by the Web. Companies like Kana Communications, Digital Impact, and others offer services to companies looking to use this direct marketing medium.

The downside of e-mail is that, like telemarketing, unsolicited or "spam" e-mails have proliferated. Various surveys report that consumers receive between 1,000 and 1,500 unwanted e-mails each year. In addition, many large Internet service providers (ISPs) like America Online are including filters with their software to reduce the spam reaching their customers. In addition, response rates are low, although not as low as you may expect. The Direct Marketing Association study reported an average response rate to an e-mail of around 2 to 3 percent, depending on format and degree of personalization.

One analysis has compared direct e-mail to FSIs (free-standing inserts), direct mail, catalogues, and telemarketing in terms of response rates, costs, revenues, and return on investment (ROI) index (the ratio of the revenue per contact to the cost). This is shown in Table 13.5. As can be seen, telemarketing has the highest ROI index because even though it has much higher costs than the others, it has the highest avenue revenue per contact which offsets the costs. However, direct e-mails and direct mail are not far behind. Trailing badly are catalogues and FSIs. Catalogues suffer not so much from the response rate but the high costs and relatively low revenues obtained per mailing.

Application Seiko

Seiko, the well-known watch brand, spends about 20 percent of its advertising budget on digital channels such as e-mail.[27] Seiko uses e-mail to communicate with three target audiences: retailers that sell its products, consumers in its loyalty program (called the Elite Group), and members of the press. The company sends tailored messages to each of these three groups every 2.5 weeks and gets a 6 to 7 percent clickthrough rate. Seiko also sends weekly e-mails to 25,000 of its 72,000 Elite Group members who have agreed to receive updates on products (i.e., they have "opted in," which is discussed in the next section). For retailers, the company provides information on popular training programs and gives product updates.

Table 13.5

The Relative Effectiveness of Direct E-mail

	Response Rate	Cost per Contact	Revenue per Contact	ROI Index
E-mail	1.12%	$0.10	$1.60	16.0
Inserts	0.45%	$0.14	$0.49	3.5
Direct mail	1.88%	$0.56	$11.36	14.9
Catalogue	2.18%	$0.69	$1.48	6.4
Telemarketing	5.78%	$2.50	$45.37	18.2
(All figures are for direct order marketing across industries)				

Source: "The DMA 2004 Response Rate Report" October, 2004. Used by permission, courtesy of the Direct Marketing Association.

Privacy Issues

Of the three direct marketing channels described in this section, telemarketing and e-mail have received the most attention from regulators, particularly the latter. In the United States, the Federal Trade Commission has established a national "do not call" registry, where consumers can supply their home phone numbers and indicate their wish not to be disturbed (www.donotcall.gov). You can also apply for this service for your cell phones. In some states, telemarketers ignoring this registry can be fined up to $11,000. Although telemarketing does provide a service that many consumers and businesses utilize, it is reasonable to permit those who do not want to receive telephone calls to be able to block them.

An interesting by-product of the do not call registry, however, is that it makes the people left for telemarketers more productive customers. The response rates for telemarketing have been increasing over the past several years, despite a shrinking base, because those left do not mind talking to people from call centers.

A livelier battle is shaping up over Internet privacy in general and, specifically, with respect to the direct e-mail industry. As noted earlier, people dislike junk mail but seem to dislike spam even more. A book titled *Permission Marketing*[28] introduced the notion that marketers would receive greater response rates to direct e-mails if they sent them only to customers who had agreed in advance to receive such contact. These are called "opt-in" programs. Although there is debate about whether permission should be obtained by customers actively checking a box that indicates they are willing to receive e-mails versus "unchecking" a prechecked box indicating such willingness ("opting out"), the current P3P—or Platform for Privacy Preferences—standard on the Internet mandates that Web sites offer either opportunity to customers. Unfortunately, despite these safeguards, most readers undoubtedly still find it much easier to get on an e-mail list than to remove themselves from it.

A potentially larger battle looms over Internet privacy. This goes beyond the e-mail issue to include the way companies assemble lists of e-mail addresses and what other information they are sharing. The largest uproar in this area occurred in February 2000, when the online advertising placement company DoubleClick (now owned by Google) announced that it was going to merge its information on the browsing habits of Internet users with offline purchasing information owned by Abacus Direct, a company in which it had a significant strategic investment. Abacus Direct was the leader in collecting information from catalogue purchases and using that data to target advertising to consumers. The company had five-year buying information on 88 million households, including name, address, phone number, credit card numbers, income, and purchases. DoubleClick realized that the value of targeted online advertising including direct e-mails would be substantially increased if information from online browsing activities was merged with these data.[29] Although DoubleClick quickly abandoned its plans, many consumer advocacy groups are concerned about how online companies are assembling their lists for direct e-mails and how much information they have about consumers. As a result, the United States is moving toward the European Union Directive on Data Protection that was established in 1998, which stipulates that:

1. A company must obtain the permission of the customer to obtain personal information and must explain its purpose.
2. It must promise not to use it for anything other than the stated purpose without consent.

Executive Summary

Key learning points in this chapter include the following:

- The sales force has a dual role in the implementation of the marketing strategy: it is part of both the communication mix and a distribution channel (i.e., a way to give customers access to the product or service).
- The sales force can be organized in a variety of ways, depending on how product or marketing management is organized. A national or key accounts organization is a layer on top of the usual sales organization that deals with the company's largest accounts.
- Both internal (e.g., motivation) and external (e.g., the competitive environment) factors affect a salesperson's performance.
- Three important decisions that must be made by the sales manager are the size of the sales force, the design of sales territories, and the assignment of salespeople to the territories.
- Sales quotas or goals provide key incentives. Quotas are based on sales volume, financial indicators such as profit margins, or activities such as the number of customer calls.
- The most common form of compensation plan for salespeople is a combination of salary and financial incentives such as bonuses or commissions.
- Technology is changing the nature of the salesperson's job, particularly in the use of laptop computers, which enable the representative to make better sales presentations and deliver more value to customers.
- Direct marketing is becoming an increasingly important direct channel of distribution for many companies.
- The two most important direct marketing media are telemarketing and direct mail; direct e-mail is becoming increasingly important.

Chapter Questions

1. It is sometimes said that salespeople should be familiar with their customers' marketing plans (e.g., understanding the customers' competitors and customers). Of what use would this information be to the salesperson?
2. Considering the different tasks a salesperson must perform, how is the job different for an automobile salesperson and a representative selling a computer system?
3. What products or services would be more appropriate for implementing the three different approaches to determining sales force size described in this chapter? Be specific.
4. Besides the criteria for assigning salespeople to territories described in this book, what other factors should be taken into account?
5. How should the increased use of technology in the salesperson's job affect companies' recruiting and hiring practices? What are the benefits of having a sales force that is sophisticated in its use of technology?
6. For what kinds of products and services would direct e-mail be appropriate? Other than sales, what goals can direct e-mail achieve?

Key Learning Points

The purpose of this chapter is to introduce concepts underlying the development and maintenance of long-term customer relationships. After reading this chapter, the student should understand:

- The economics of customer loyalty (i.e., why long-term customer relationships are good business)
- A general framework for customer relationship management
- The importance of a customer database
- Defining, measuring, and building customer satisfaction
- Loyalty or frequency marketing programs
- The growing importance of mass customization
- New metrics for measuring the success of customer relationship management

Harrah's Total Rewards loyalty program is an excellent example of a successful customer relationship management program.
Source: Jae C. Hong/AP Wide World Photos

14 chapter

Customer Relationship Management

Chapter Brief

Consider the following saga of a gambler at Harrah Entertainment's Rio Resort in Las Vegas.[1] For 10 minutes, this person fed quarters into Bally's "Deuces Wild" video poker machine until he lost $20. Then he moved on to the "Monopoly" slot game, video blackjack, and other video poker machines. After nearly two hours, he had lost $350. While he was losing, Harrah's was not only winning money but also gaining valuable information about him. Computers in Harrah's Memphis data center noted how many different machines he had played, how many separate bets had been made, his average bet, and the total amount of money that had been wagered. By the time he had left the Rio, Harrah's had enough information about him to construct a detailed profile of his gambling habits, a plan for getting him to come back, and an individual profit-and-loss forecast that would determine how much money the company would invest in trying to get him to return.

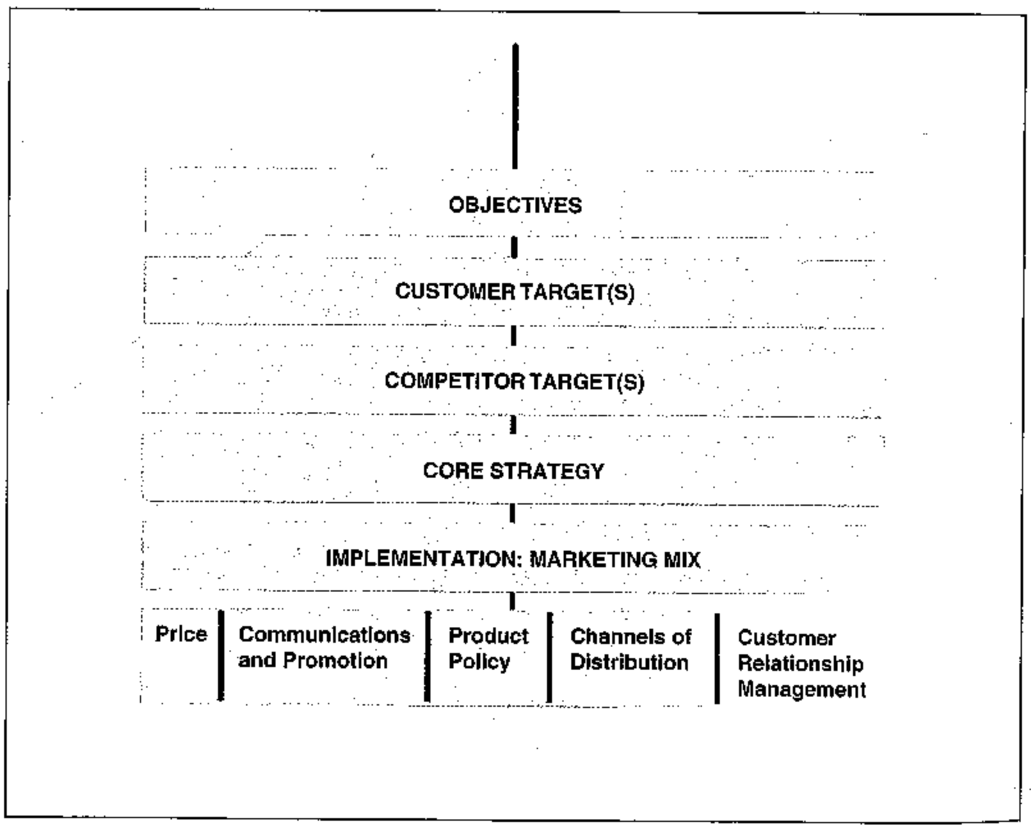
All that information comes from a plastic card that Harrah's players insert into the machines at any of its gambling facilities (including Caesar's, which Harrah's purchased in 2005). Harrah's Total Rewards loyalty program is the only such program in the gaming industry. Its 25 million members use these frequent-gambler cards to earn free trips, meals, hotel rooms, and other services while they play. In turn, Harrah's uses the data to refine its customer database and to develop 90 customer segments, each of which receives customized direct-mail incentives. In addition, the company attempts to predict how much a customer will spend and analyze gaps between the predicted and actual spending. Since the Total Rewards program began in 1999, the company calculated that it has received hundreds of millions of dollars in incremental revenue from customers who gambled at more than one Harrah's casino. In addition, half of Harrah's total revenues from its Las Vegas casinos are generated by Total Rewards cardholders. The program has been so successful that the company generated $10.8 billion in sales in fiscal year 2008 and just over $600 million in profits.

Note that the company has not necessarily increased its customers' interests in gambling. The incremental revenues and profits resulting from the Total Rewards program are simply due to the company knowing its customers better than its competitors do and finding some individualized incentives to attract them to Harrah's rather than to rival casinos. Harrah's views its relationship with its customers from a long-term perspective rather than simply as a one-time occurrence.

The company has also developed an interesting set of metrics for evaluating the effects of the program. The board of Harrah's receives regular reports on four metrics: Harrah's share of its customers' gaming dollars, percent of revenues from customers who play at more than one of the company's casinos, percent of loyalty program members advancing to higher status as a result of their higher expenditures, and customer satisfaction across the casinos. Interestingly, this latter metric has an impact on the CEO's annual bonus.

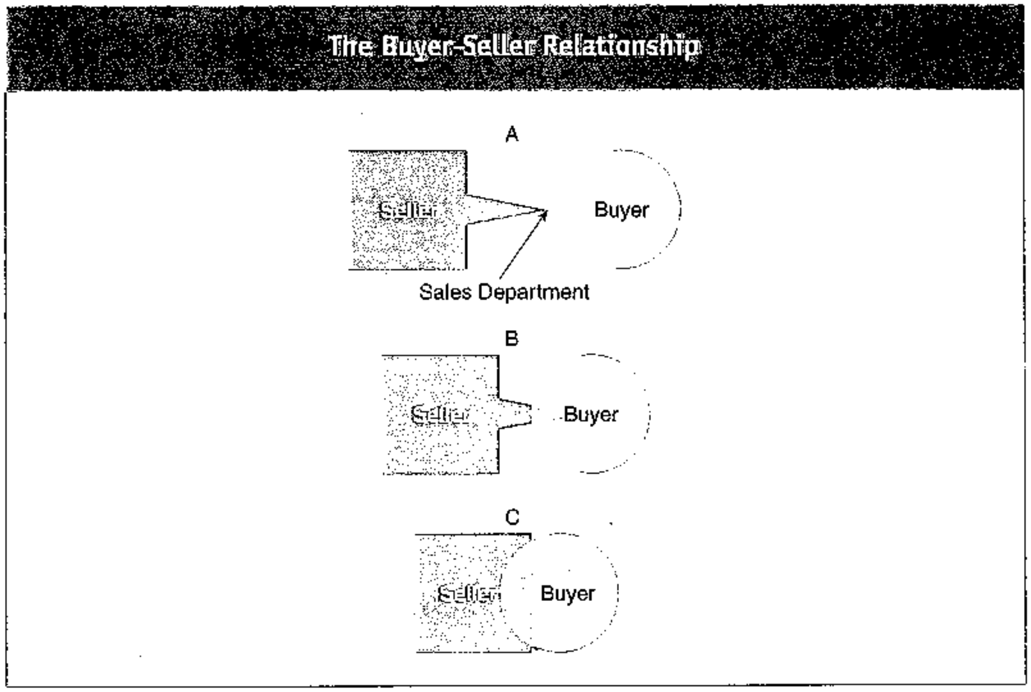
All companies face this problem of how to develop profitable long-term relationships with their customers. Providers of frequently purchased products and services such as retail gasoline, as well as less frequently purchased durable and industrial goods, have attempted to build higher levels of customer satisfaction through the development of better relationships with their customers. Many of these relationships are intended to increase repeat-purchasing rates, which increase long-term sales and profits. Some relationships are not long-term in nature. However, it is still important for a marketing manager to understand what kind of relationship the customer wishes to have with the company and its brands. This chapter discusses the necessary steps to creating programs that achieve higher customer satisfaction through this matching process.

What is the impact of high switching rates between products? The cellular phone industry is an excellent example. Consider the huge expense of getting customers to switch cellular suppliers in the United States. AT&T, Sprint Nextel, and Verizon spend considerable sums of money on direct marketing to attract switchers. Often, the switchers are customers who had been their own customers in the past. Cingular and Sprint lost nearly 3 percent of their customers in each quarter of 2003.[2] It has been estimated that it costs a cellular company $275 to $450 in discounts, promotions, and advertising expenditures to sign up each subscriber. Each percentage point increase in customer "churn" costs enough to reduce the total market value of the cellular companies by $150 million.[3]



Different perspectives on the buyer–seller relationship are shown in Figure 14.1. Panel A of Figure 14.1 is very much like the sales orientation discussed in Chapter 1. In this situation, the seller figures out a way to make the sale to the buyer. The relationship between the two is at a distance because the seller has done little to try to understand the buyer's motivations and needs. The salesperson has used his or her creativity or personality to make the sale, not an understanding of the customer.

Figure 14.1



Source: Theodore Levitt (1986), *The Marketing Imagination* (New York: Free Press), pp. 113–14. Copyright © 1986 by the President and Fellows of Harvard College. Reprinted by permission.

In panel B, the company selling the product or service has done a better job of understanding the customer by getting "into" the buyer, determining enough about his or her needs to make the sale. This is the more traditional marketing concept or customer orientation. A panel B company spends money on marketing research, segments its markets appropriately, and has developed a marketing strategy on the basis that the value proposition fairly represents what its target segment wants.

However, while both panel A and B relationships are necessary to be successful, neither concept is sufficient in today's globally competitive environment. Both can be characterized by the following:

For the seller, the sale is the end of the process; for the buyer, it's the beginning.[4]

In today's competitive environment, where long-term relationships are critical to marketing and general business success, it takes more than the execution of the marketing concept to satisfy customers over a long period of time. Panel C illustrates the new model of relationship marketing. Here, the buyer and seller have become interdependent. Each party to the relationship depends on the other in some way. The sale cannot be the end of the process for the seller anymore.

A distinction has been made between different kinds of industrial buyer–seller relationships.[5] This distinction is applicable for all kinds of goods and services. **Transaction buyers** are those who are interested only in the purchase at hand. They may not be interested in a long-term relationship at all, or the sellers in the market may not have done a good job of showing the customer the benefits of such a relationship. The former situation exists when a company sees the benefit in sharing the business among a number of suppliers. **Relationship customers** see the benefits of the interdependency shown in panel C of Figure 14.1. Both kinds of customers can be loyal, but the nature of the loyalty is different. For example, transaction buyers may buy from the same supplier each time, but their motivation to do so may be based on price and not the value of maintaining a relationship.

transaction buyers buyers who are interested only in the particular purchase at hand, rather than a long-term relationship

relationship customers customers who see the benefits of interdependency between the buyer and the seller

The previous chapters of this book focused on what might be called *customer acquisition*, or the ways marketing is normally used to obtain customers. Companies spend considerable sums acquiring customers; how much does your company, or ones that you know, spend on retaining customers? More and more companies are spending money for computer systems and marketing programs on what is called **customer relationship management**, or CRM.

customer relationship management, or CRM develops programs that match the kind of relationship the customer wants with the company, whether it is relational or transactional

CRM is often used in the context of relationships that are long term in nature. However, a true CRM strategy develops programs that match the kind of relationship the customer wants with the company, whether it is relational or transactional. In this chapter, the focus is on how to develop a CRM program for customer retention, or how to keep customers over the long term for any type of customer. This is the challenge facing many companies like Harrah's. In many ways, CRM is a throwback to old-fashioned country store-type retailing. Then the store owner knew his or her customers by name and knew their shopping habits well enough to make product recommendations. Today, we use technology to accomplish the same goal—even when a company serves millions of customers.

The Economics of Loyalty

A simple example demonstrates the economic power and importance of loyalty.

A number of years ago, a passenger flying on a British Airways (BA) flight from London to San Francisco complained about being seated near the smoking rows in the coach section. Although there is no in-flight smoking today, many readers will identify with this traveler's complaint. Being one or two rows from the smoking area on a 10-hour flight was more than annoying. The coach section was full and the dissatisfied customer was (or at least claimed to be) a regular BA customer. A simple solution would have been to move the customer to business class in an unobtrusive way (so other passengers do not get the same idea) because there were unoccupied seats in that section. Our guess is that such a move would have gained a strongly loyal customer at a very low marginal cost (for business-class food). However, the BA personnel declined to move the passenger, who very loudly indicated that he would never fly BA again.

lifetime customer value
the present value of a stream of revenue that can be produced by a customer

This example illustrates a very important concept: **lifetime customer value (LCV)**. Compare the amount of revenue and profits that would be derived from the customer to the small incremental cost of moving him to business class. When you lose a customer for life, you are actually losing the (discounted) stream of income that passenger would have produced over his lifetime. In addition, how many other potential customers will he tell about it?

Compare that illustration to Lexus's approach to customer loyalty. A CEO unexpectedly received a $200 check from Lexus after a few customers had complained that the cars' original tires wore out too soon. This impressed the CEO, who was adamant in saying that he would be a Lexus customer for life—not just because of the money, but because the company did the right thing.[6]

Clearly, no company is going to have a 100 percent loyalty rate. As noted earlier, some business customers have multiple vendors as company policy. Other customers do not want to feel any kind of obligation to purchase from the same vendor. In addition, if many customers are involved, it is impossible to satisfy all of them. However, the economic reasons for increasing the retention rate are compelling. Figure 14.2 shows the impact of a five-percentage-point increase in retention on the net present value of a customer revenue stream for a variety of industries. For example, in the advertising agency industry, increasing its client retention rate from, say, 80 to 85 percent results in an increase of 95 percent in the net present value of the average customer's billings. There are two reasons for this. First, what looks like a small difference in retention rates is greatly magnified over a long period of time. Second, retained customers are much more profitable than switchers.

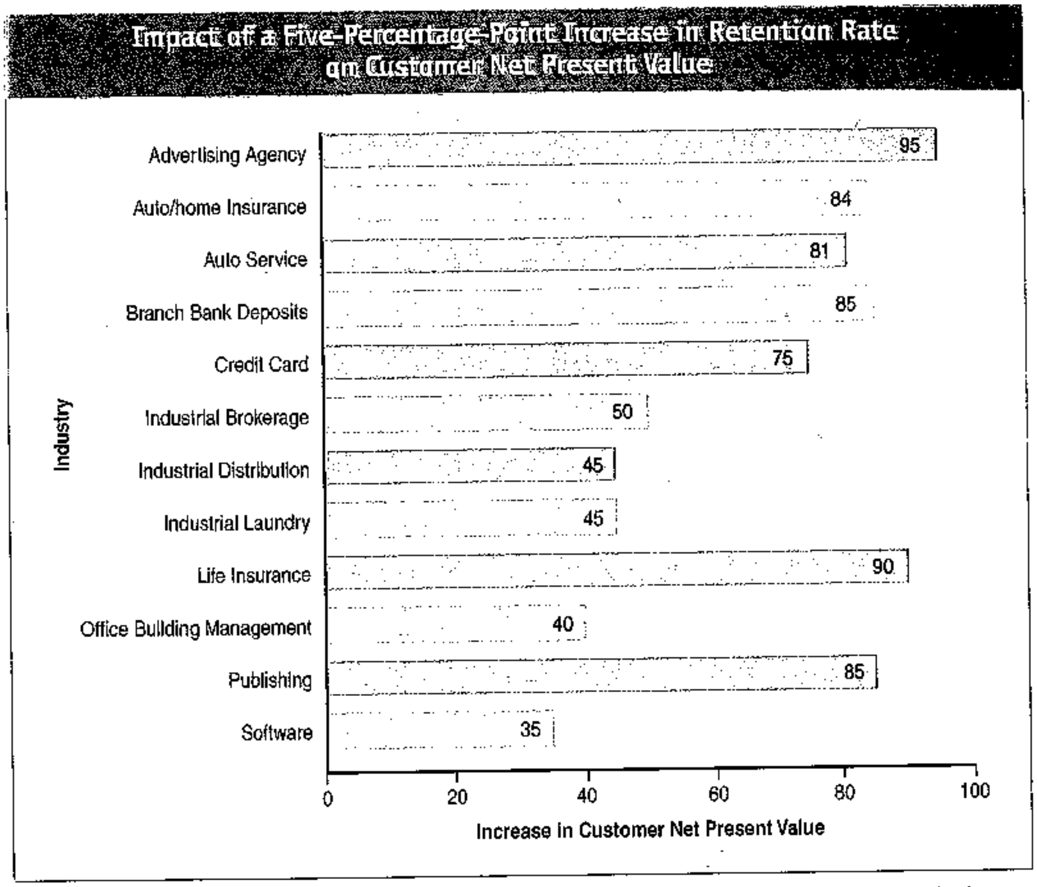
Figure 14.3 breaks down the difference in profits. Loyal customers are more profitable because they stimulate revenue growth (i.e., loyal customers buy more and buy more often), they are less expensive to serve, they refer new customers to the company, and they are often willing to pay a price premium. Let us look in more detail at the components of Figure 14.3.

Acquisition Cost

acquisition costs
the incremental costs involved in obtaining any new customer

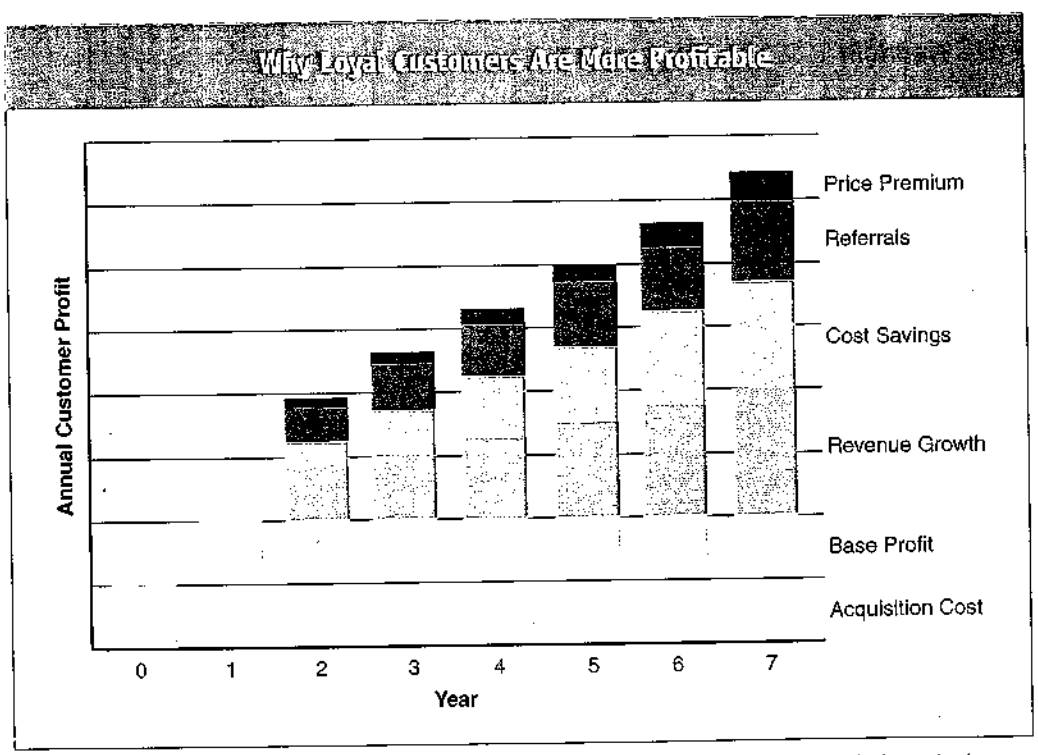
Obviously, obtaining any new customer requires some incremental costs, called **acquisition costs**. For example, American Express must send a number of direct-mail pieces or make telemarketing pitches to obtain new customers. New customers of industrial equipment require more sales calls than existing ones. Thus, acquisition costs represent an initial loss

Figure 14.2



Source: Frederick F. Reichheld (1996), *The Loyalty Effect* (Boston: Harvard Business School Press), p. 37. Copyright © 1996 by the President and Fellows of Harvard College. Reprinted by permission.

Figure 14.3



Source: Frederick F. Reichheld (1996), *The Loyalty Effect* (Boston: Harvard Business School Press), p. 39. Copyright © 1996 by the President and Fellows of Harvard College. Reprinted by permission.

on any customer. The cost of customer acquisition can be quite high—in 2009, Vonage reported that the marketing cost for acquiring a new customer averaged $309 per customer.

Base Profit

This is simply the profit margin a company earns from an average customer. The longer a customer is retained, the longer the base profit is earned.

Revenue Growth

Retained customers have been found to increase their purchase quantities over time. This is an intuitive finding. Think about a store to which you have become more loyal over a period of time. It is likely that you not only shop there regularly, but that you also buy more items there. Alternatively, you might purchase life or home insurance from the company from which you purchase auto insurance. It is important to note that, in practice, a customer may often buy from more than one manufacturer; revenue growth can happen by increasing the "share-of-wallet" or the percentage of total spending of a customer in a category that goes to a specific manufacturer. Thus, a loyal customer would provide a high share-of-wallet to a company in relation to its competitors who provide a similar offering.

Operating Costs

It has also been found that existing customers cost less to serve than new customers. The former have a better knowledge of the company's systems and procedures. For example, if you are a good customer of the direct-mail clothing company Lands' End, you undoubtedly know how to fill out the form (fewer mistakes for the company to follow up on) and how to read the product descriptions (less time on the phone for customer service representatives).

Referrals

Good customers also talk to their friends and neighbors about your company. Additional business comes from favorable word-of-mouth by satisfied customers. This is a particularly good source of new business for service companies. As we will see in the next chapter, service quality is more difficult to ascertain before purchasing, so advice from someone who has tried the service and is satisfied with it is particularly important.

Price Premium

Loyal customers are often more price-insensitive than customers who need a price inducement to switch or to become a new customer. When was the last time you checked the price of your favorite brand of toothpaste? Such loyal customers are getting significant customer value from using the product or service and are not concerned about price.

Thus, building and sustaining long-term relationships is both strategically sound and profitable.[7]

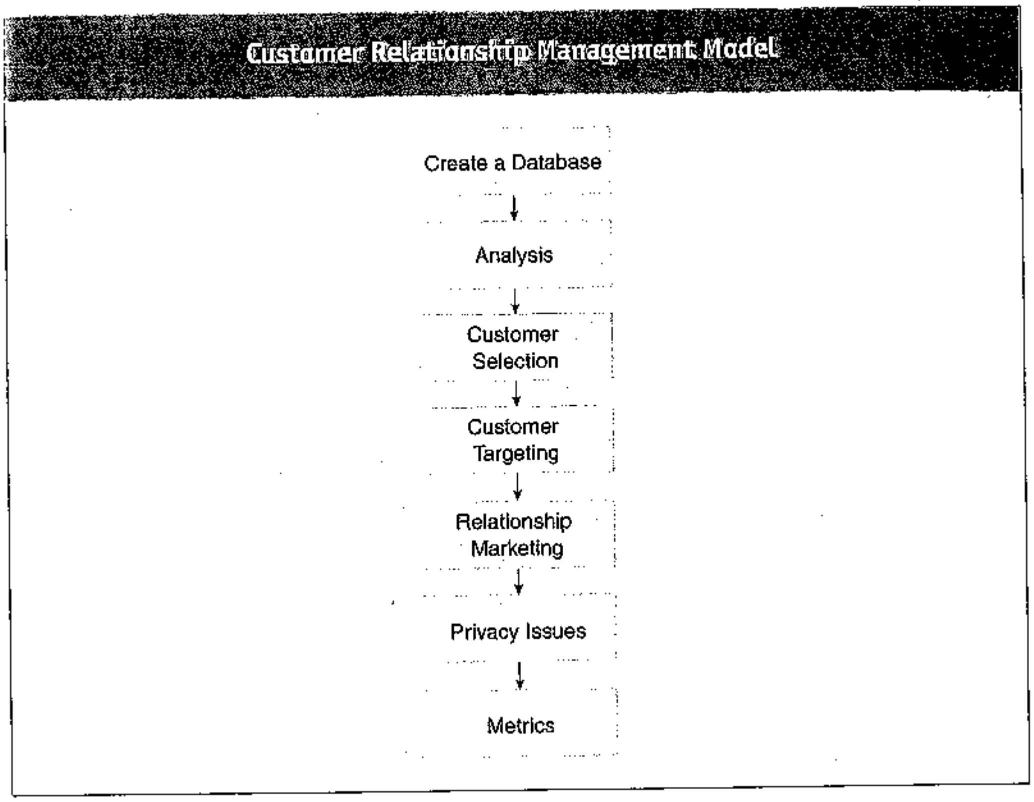
A Framework for Customer Relationship Management

CRM has come to mean different things to different people. For some managers, CRM means sales force contact software like salesforce.com (see Chapter 13). For others, it means telephone call centers for contact management. Additionally, many focus their attention on loyalty programs such as Harrah's Total Rewards program described earlier.

A systematic view of CRM that puts all of these perspectives together is shown in Figure 14.4.[8] As can be seen, major components of a complete framework are:

1. Constructing a customer database.
2. Analyzing the database.
3. Based on the analysis, selecting customers to target.
4. Targeting the selected customers.
5. Developing relationship programs with the customers in the target group(s).

Figure 14.4



6. Considering privacy issues.
7. Measuring the impact of the CRM program.

These steps in the comprehensive approach to CRM will be covered in more detail throughout the rest of this chapter.

Creating the Database

The core of a CRM program is a customer database, sometimes referred to as a **customer information file** or CIF.[9] The CIF is the repository of information about the customer and serves as the basis for identifying and targeting both current and potential customers. The basic idea behind a CRM program is to assess the value of each customer in the CIF to the firm and then develop relationship programs that will be customized both in content and intensity, depending on that value. The optimal contents of this CIF are shown in Figure 14.5.

customer information file, or CIF a customer database including information on past and current purchasing, contact, response to marketing variables, and monetary value to the company

Figure 14.5

Customer Information File

Customers	Characteristics	Purchase History	Contacts	Response	Value
1					
.					
.					
.					
.					
n					

As can be seen, there are five major areas of content in the CIF:

1. **Basic customer descriptors.** These are the kinds of variables described in Chapters 4 and 5 in terms of consumer and firm demographics and contact names and addresses.
2. **Purchase history.** Like descriptors, the customer's purchase history is considered to be a basic part of the CIF. This information should be as detailed as possible, including products bought, the channels utilized, and prices paid. If possible, the margin made on each purchase should be recorded as well.
3. **Contact history.** Part of a customer's history with you is any recordable contact that person has had through, say, customer service. For example, any time a customer calls you with questions about your product or service, this should be noted. Similarly, sales call information would be part of this area of the CIF.
4. **Response information.** Particularly valuable is information about how customers have responded to prior direct-marketing activities, promotional offers, or other traceable marketing activity.[10] This provides information about potential responsiveness to such future programs.
5. **The value of the customer.** This number is an estimate of the monetary value of the customer to the firm. It will be discussed in more detail later.

The CIF shown in Figure 14.5 appears to be two-dimensional. However, there is an important third dimension that is difficult to show—time. It is critical that the CIF contain information on these dimensions over time so that you can spot trends in terms of which customers are becoming better and those whose relationship with the firm is becoming worse.

Many companies view their CIFs as a key source of competitive advantage. For example, UPS does not want to be known as a package shipping company. The company views itself as an information technology company. From all of the information it collects about shipping, it compiles a database that is useful to its customers in terms of the products purchased, geographical locations, addresses, and other parts of the CIF. This is only part of the information UPS collects that is useful to its customers.[11]

The challenge for many companies is to create the kind of CIF shown in Figure 14.5. Figure 14.6 characterizes the ease with which the CIF can be created by conceptualizing the problem as a 2 × 2 matrix defined by the kind of interaction the company has with the customer (direct versus indirect) and the frequency of that interaction (high or often versus low or infrequent).[12] Companies in the upper-left quadrant are able to develop most of a CIF relatively easily. Banks, telecommunications firms, and retailers have direct and frequent contact with customers that results in those types of firms having generally excellent CIFs (at least in terms of customer and purchase information). However, firms with indirect customer contact have to work much harder to collect such information. For example, Clorox and BMW have to rely on their distribution networks to provide customer information back to them. This is not the most reliable way to collect accurate data. Consumer durable companies such as Sony rely mainly on warranty cards; however, their completion rate is only about 30 percent.

As a result, many companies have to create special programs or events to collect as much customer information as they can. Some of this comes through loyalty or frequent-shopper programs. Some of these special programs can be quite creative. For example, Kellogg's developed a program called "EET and ERN" (eat and earn), where the company put 15-digit encrypted codes inside of cereal boxes and a Web site URL. After going to the site, inserting the code, and registering, participants (mainly kids) can receive free toys. The idea is to create a database of the company's best customers. Professional services firms such as management consultants often host free seminars in specialized topic areas, where the goal is to develop a list of and information about prospective clients.

Another challenge to creating databases is the fact that (as we saw in Chapter 12) with the expansion in the number of possible channels or "touchpoints," where customers can have contact with the company, it is becoming increasingly difficult to track behavior. Some companies like Acxiom have developed software that is part of an overall CRM strategy, where preferences and customer purchases from brick-and-mortar stores, catalogues, and the Web are tracked and pulled into one centralized database.

Application | Harrah's

Returning to the Harrah's illustration, the company builds its Total Rewards database in two ways. First, customers can sign up in a casino. However, in addition, the company runs three annual promotions, two of which are staged regularly: Millionaire Maker, the largest slot tournament in the United States, and Total Reward Giveaway, a six-month sweepstakes culminating in a big prize awarded in a program simulcast across all of Harrah's properties. Contestants in these promotions must register for the Total Rewards program to participate.

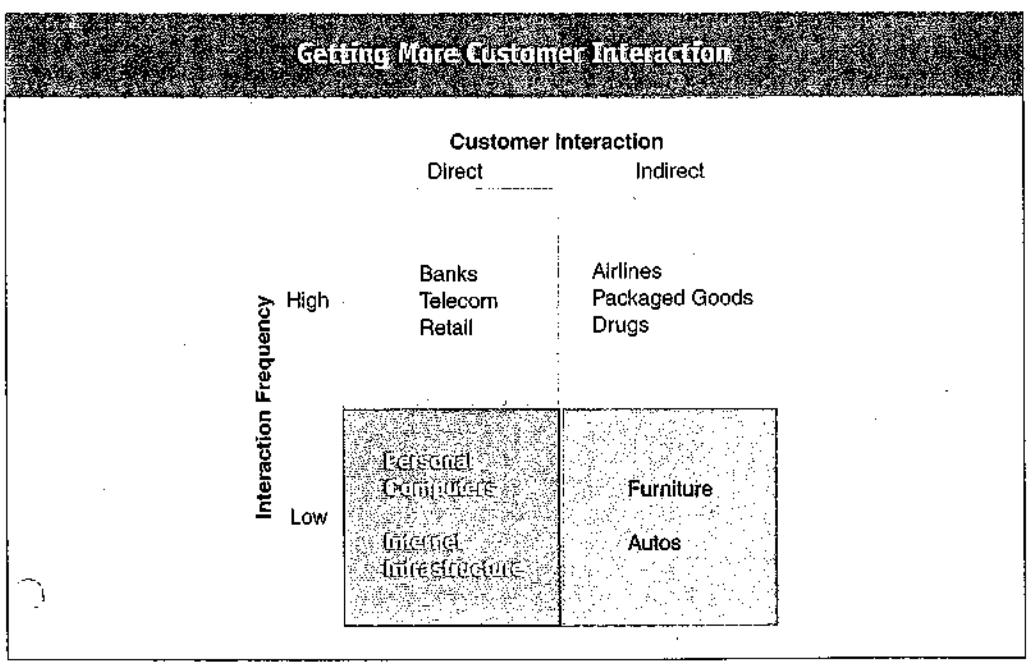
It should be noted that building the database with customer information is only part of the challenge. To fully reap the benefits of CRM, the company must collect all the information shown in Figure 14.5 and be prepared to continually update the database. Thus, it requires a considerable investment of time and money and a strong customer orientation to fully implement this stage of the process.

Application | Nestlé in Japan

Because of the difficulty Nestlé has in touching individual customers, the company decided to try something novel in Japan.[13] The company created the Together Nestlé Relationship Center in conjunction with an advertising agency, McCann Worldgroup's MRM Partners Worldwide, and a CRM consulting firm, Bellsystem24. It brings the company into direct contact with 1.4 million consumers, representing 4 percent of all households comprised of two or more people. The idea behind the relationship center is to act as a hub of every communication with consumers. All telephone calls, e-mails, and written letters from consumers are responded to by the relationship center employees. Center "members" have access to a call center hot line, a Web site with a bulletin board, and other interactive mechanisms. They are also sent a magazine and invited to special events. Call center staff attempt to build an emotional bond between the company and its consumers. The insights obtained from the consumers in the database are shared with production, sales, and marketing teams.

Thus, although the relationship center does not "touch" a large percentage of Nestlé consumers, it is a creative approach for a company that would otherwise have difficulty connecting with its customers, that is, those in the "indirect" column of Figure 14.6.

Figure 14.6



Analyzing the Database

data mining
analyzing a customer information file for the best prospects to target

There are many types of analyses that can be performed on a CIF once it has been assembled. The general name given to such analysis is **data mining**. People with significant statistical skills use computer software and large computer resources to troll through the CIF to find segments, purchasing patterns, trends, and other useful outputs.[14] Large companies such as Oracle, SSA Global, SPSS, and others provide such software to their corporate customers. Several advantages of a CIF include the following: identifying the best customers and providing them with appropriate incentives, tracking purchases made over time in order to make recommendations, and allocating marketing resources across customers in a manner that optimizes revenue growth. As can be seen from Table 14.1, frequent travelers make up only 10 percent of hotel guests but spend 44 percent of the hotel nights.

A particularly important analysis that provides the information in the last column of the CIF shown in Figure 14.5 is estimating lifetime customer value (LCV). This analysis takes the purchase information and, together with information about profit margins on each product purchased, projects the profit implications of each customer or row in the CIF. While not an exact science due to the difficulties of making projections far into the future, the goal is to ultimately place a monetary value on each customer that the firm can use to make resource allocation decisions.

While there are a number of formulas that can be used to estimate LCV,[15] one way to start is with a relatively simple formula that utilizes only the available purchase information in the CIF to calculate each customer's cumulative profitability to the present time:

$$\text{Customer profitability} = \sum_t \sum_j (P_j - C_j) - \sum_k MC_k - AC$$

where

t = the number of past and current time periods measured
j = the number of products purchased in a time period
k = the number of marketing tools used in a time period
P = price
C = cost
MC = cost of marketing tool (e.g., direct mail)
AC = cost of acquisition for the customer

Basically, the formula computes the total profits generated by a customer by taking the total margin generated by the customer ($P - C$) in each time period from all products and services purchased, subtracting off the traceable marketing costs attributable to each customer, summing over all time periods in the database, and then subtracting the initial acquisition costs.

The preceding formula is useful for purposes other than computing customer profitability. An examination of its components shows the levers for increasing individual customer profitability. Profits can be increased by:

- Increasing P and j by cross-selling (purchasing more products) and/or upselling (purchasing more expensive products). *Example:* American Express asking its members to upgrade from Gold to Platinum card and to purchase other services.

Table 14.1

U.S. Hotel Usage by Consumer Segment in 2002[a]

	Individual Guests	Share of Hotel Nights
Frequent travelers (≥23 nights a year)	10%	44%
Moderate travelers (6–22 nights a year)	40	44
Light travelers (1–5 nights a year)	50	12

[a] For U.S. population aged 21 to 74; in 2002 approximately 83 million individual guests accounted for approximately 860 million hotel nights.

Source: Travel Industry Association of America (TIA); TNS; U.S. Census Bureau; McKinsey analysis.

- Reducing the marketing costs *MC* over time as the customer loyalty is better established. *Example:* retail banks shifting their customers from visiting tellers in a bank branch to banking online or through ATM.
- Increasing the number of time periods *t* that the customer purchases. *Example:* hotels like the Four Seasons that delight their customers through excellent customer service.
- Reducing the acquisition cost for each customer. *Example:* identifying new and cheaper ways to acquire customers through new media vehicles (as discussed in Chapter 10).

To compute the LCV, you have to project the customer's generated margins and marketing costs into the future and discount back. This involves a number of heroic assumptions about the nature of a customer's purchasing pattern in the future. A back-of-the-envelope approach to calculating LCV is a margin "multiple," which can be used to multiply the current margin generated by each customer to estimate the LCV.[16] This multiple is

$$\frac{r}{(1 + i - r)}$$

In this formula, r is the retention (loyalty) rate for your product and i is the discount or cost of capital rate used by your company. Some sample multiples are shown in Table 14.2. Thus, for a product whose retention rate is 70 percent and with a discount rate of 12 percent, take the margin generated by each customer and multiply it by 1.67. This approximates the LCV for that customer.[17] If this LCV figure is multiplied by the size of the customer base, an interesting way to value the firm is produced in terms of the total present value of the lifetime stream of income produced by its customers.[18]

A different way to look at LCV is from the perspective of customer acquisition costs. Figure 14.7 is an illustration from the credit-card industry showing the increase in value of an active account over 20 years. For example, the value of a customer who stays for three years is \$98 (\$178 in profit over the three years minus the \$80 acquisition cost); if a credit card issuer can retain a customer for five years, the net profit is \$264.

An interesting question is how much you would pay today to acquire a customer, given the kind of information shown in Figure 14.7. Suppose we knew that the average account remained active for five years. You should not be willing to pay \$264 for that account today because the cash flows occur in the future and those dollars are worth less today because of the time value of money. The present value of a five-year customer, assuming a 10 percent discount rate, is $\$40/(1 + 0.10) + \$66/(1 + 0.10)^2 + \$72/(1 + 0.10)^3 + \$79/(1 + 0.10)^4 + \$87/(1 + 0.10)^5 - \$80$, or \$172.98. In other words, you should not pay more than \$173 to acquire an account that you expect to retain for five years. Another way to look at these numbers is from a retention perspective. If a credit card customer in the third year indicates that he or she is thinking about switching, the present value of the incremental profit for years 4 and 5 is $\$79/(1.10) + \$87/(1.10)^2$ (recall that we are in year 3 already) or \$143.72. This gives you an idea of how much you would spend to retain that customer (e.g., using a reduction in the interest rate on the card or adding benefits such as life insurance or lost-card protection).[19]

An advantage of the Internet is that customer movements on the Web can be tracked, stored, and analyzed in real time to form the basis of increasingly customizable offerings.

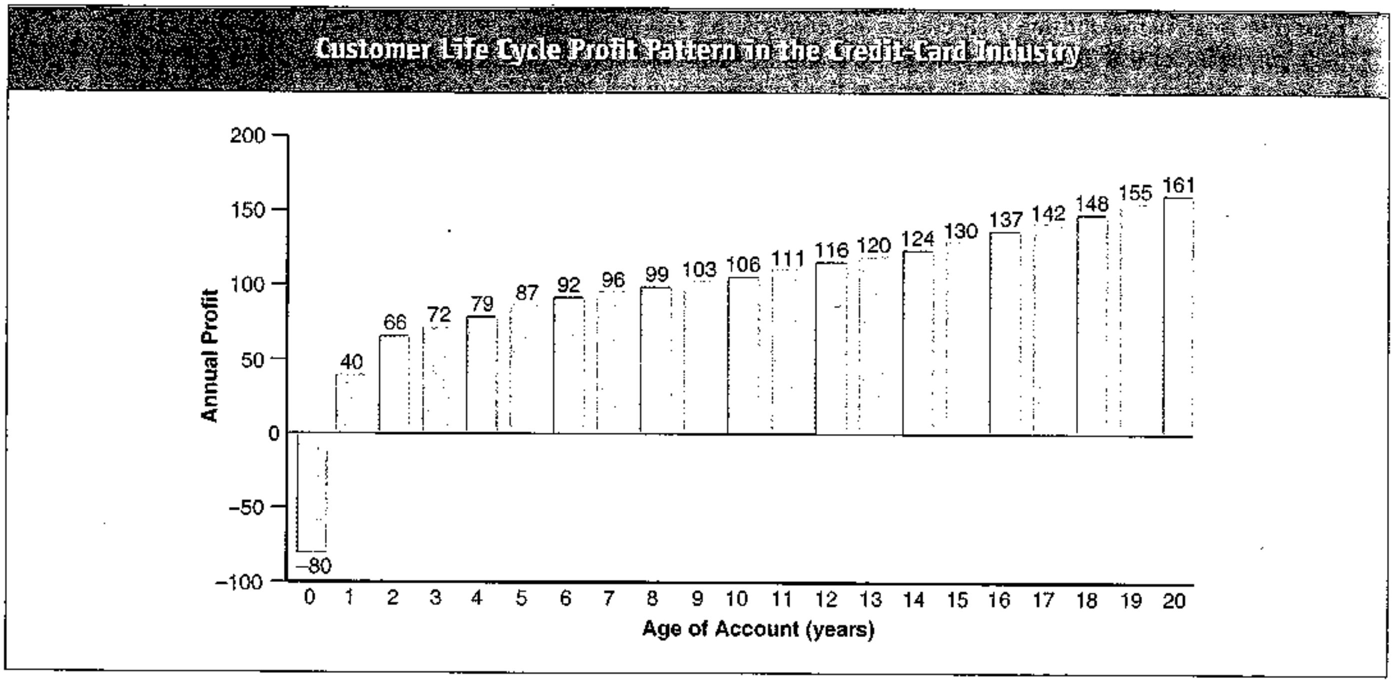
Table 14.2

Margin Multiple $\frac{r}{1 + i - r}$

Retention Rate	Discount Rate 10%	12%	14%	16%
60%	1.20	1.15	1.11	1.07
70%	1.75	1.67	1.59	1.52
80%	2.67	2.50	2.35	2.22
90%	4.50	4.09	3.75	3.46

Source: Reprinted from *Journal of Interactive Marketing*, Volume 17, Issue 1, Sunil Gupta and Donald R. Lehmann, Customers as Assets, Pages 9-24., Copyright (2003), with permission from Elsevier.

Figure 14.7



Source: Frederick F. Reichheld (1996), *The Loyalty Effect (Boston: Harvard Business School Press)*, p. 39. Copyright © 1996 by the President and Fellows of Harvard College. Reprinted by permission.

Brooks Brothers, the retailer of classic men's and women's clothing, is testing a new approach to increasing it e-commerce sales. When a visitor comes to www.brooksbrothers.com, software scans the visitor's computer for its Internet (IP) address and the user's list of previously visited sites. It then develops a profile of the visitor based on matching the information with others in its vendor's database of 100 million people. The visitors are then sorted in real time by the site's best guess on gender, marital status, and geography. Subsequently, the visitor is presented with a Web page based on that guess. As a result, a (hypothesized) single male would receive a different page than a woman and an urban male would receive a different product assortment than a rural male.[20]

Customer Selection

The customer profitability analysis just described can be used to separate the customers who will provide long-term value to the firm from those who are likely to be unprofitable. The venerable 80–20 rule in marketing often applies (if only approximately) in that 80 percent of the company's profits are provided by 20 percent of its customers. Thus, a major benefit of the LCV and profitability analyses previously described is to permit the marketing manager to make informed decisions about (1) which customers to keep (or, which to "fire"), and (2) for those kept, how much money to spend on keeping them.

Application | Best Buy

In 2004, the giant electronics retailer Best Buy decided that it wanted to separate its best customers from its worst.[21] The good customers were referred to as "angels" and the worst as "devils." The angels buy HDTVs, portable electronic products, and other goods without waiting for sales or using rebates. The devils buy products, apply for rebates, return the purchases, and then buy them back at returned-merchandise discounts. They buy "loss leaders" and then sell them at a profit on eBay. They find the lowest prices on the Web and demand that Best Buy match the price.

Best Buy estimated that as many as 20 percent of its customers fit into the "devil" category. The question was, How should the company "fire" these customers? The company examined sales records and demographic data to identify members of both groups. While it was difficult given the data available to identify individuals, the company could locate particular stores that tended to be frequented by them. Although Best Buy could not keep "devils" from entering the stores, the company cut back on promotions and enforced a restocking fee of 15 percent of the purchase price on returned merchandise. Using a similar analysis, the company found that its best customers fell into five groups: upper-income men, suburban mothers, small-business owners, young family men, and technology enthusiasts. To attract more of these "angels," the company told each store manager to analyze the demographics of his or her local market, focus on two of the groups, and then stock the appropriate merchandise. Early results from testing the new programs showed that sales gains by the pilot stores were double those of traditional stores.

Application ING Direct

ING Direct USA, a division of the Dutch bank ING Groep, is a direct-to-the-customer operation with no branches or ATMs.[22] It is an Internet-only savings bank. There are no fees, no minimum deposits, and a limited number of products. The simplicity of the business model means that its costs are low. In some parts of the business, they are one-sixth the costs of a conventional bank. This means that ING Direct can offer relatively high interest rates on deposits, often much higher than its competitors.

However, the bank rejects customers who do not play by its low-cost rules. The company "fired" more than 3,500 customers in 2004. These customers made too many calls to customer service or asked the bank to make exceptions for them too often. These high cost-to-serve customers did not fit with ING Direct's low cost model and were unprofitable.

ING Direct must be doing something right. In its first five years of operation, the bank had 2 million customers and $30 billion of assets.

An example of the result of a profitability analysis is shown in Table 14.3 and Figure 14.8.[23] This analysis was performed by a pharmaceutical company on all prescription products sold by the firm in three sales territories. The customer unit was physicians. The analysis covered 1.5 years of prescriptions, so it is profitability analysis rather than a full LCV analysis. The margins were calculated on the prescriptions written, and the marketing costs (*MC* in the preceding profit formula) included sales calls, product samples, and direct mail. As can be seen from Table 14.3, of the 834 physicians covered, the profitability was highly variable, ranging from a high of $62,407.20 to a low of –$12,814.12. Figure 14.8 provides a visual perspective on these data. There are some high-profit physicians generating more than $20,000 in profits for the firm and a large number of low-profit customers, with more than 50 who are unprofitable. Clearly, a large percentage of the profits result from a relatively small number of the doctors.[24]

As a result of analyses such as these, the marketing manager has sufficient information to select which customers to keep or "fire." Criteria would include:

- Current profitability.
- Future profitability (LCV).
- Similarity of the customer's profile to other customers who are currently profitable.

However, you should be wary of indiscriminately "firing" unprofitable customers. First, as noted earlier, LCV calculations are based on assumptions that are often difficult to validate. For example, it is difficult to know which small customers will grow into large ones. It would not have been smart for a supplier to have cut off Microsoft as a customer back in the late 1970s. In addition, some customers may be particularly vocal in the community. While it may look like a sound financial decision to cut off an unprofitable doctor

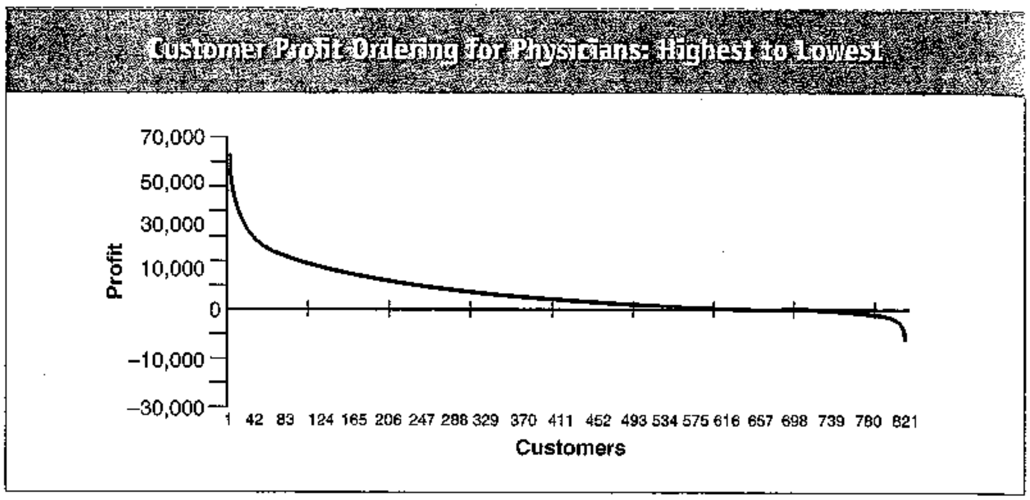
Table 14.3

Descriptive Statistics on Customer Profitability for Physicians

Number of Observations	834
Maximum	$62,407.20
Minimum	$–12,814.12
Mean	$7,026.04
Median	$3,536.68

Source: This article was published in *Journal of Interactive Marketing*, Winter, 1999, Francis J. Mulhern "Customer Profitability Analysis: Measurement, Concentration and Research Directions", pp. 25-40. Copyright © Elsevier 1999. Reprinted with permission.

Figure 14.8



Source: Frederick F. Reichheld (1996), *The Loyalty Effect* (Boston: Harvard Business School Press), p. 39.

using the data in Table 14.3 and Figure 14.8, one of those doctors could be influential in the physician community. Second, it is important to attempt to make unprofitable customers profitable before firing them, either by looking for ways to increase revenue growth or by looking for ways to decrease the costs-to-serve. For example, customers with small savings accounts become unprofitable when they visit tellers in retail branches. However, these customers can become profitable if restricted to online or ATM banking. Still, many companies continue to serve unprofitable customers simply because they lack the CIF to perform a customer-level profitability analysis.

Application | Fidelity Investments

Consider Fidelity Investments,[25] the world's largest mutual fund company. Fidelity realized that some customers were unprofitable because of the channels they used to interact with the company. When a customer who does limited business with Fidelity, and probably has limited potential, calls a service rep too frequently, the costs can easily outstrip any profits.

A few years ago, when such customers called, Fidelity's reps began teaching them how to use the company's lowest-cost channels: its automated phone lines and its Web site. It also made its site friendlier and more enticing to use. These customers could still talk to service reps, but the phone system identified their calls and routed them into longer queues, which meant the most-profitable customers could be served more quickly; for the unprofitable customers, the longer wait would be a disincentive to call.

Fidelity couldn't lose. If the unprofitable customers switched to lower-cost channels, they became profitable. If they didn't like the new experience and left, Fidelity became more profitable without them. But Fidelity found that 96 percent of those customers stayed, about the same retention rate as in the industry overall, and most of them switched to lower-cost channels. Over time, customer satisfaction actually increased for the smaller customers as they learned how to save time and get faster service through the lower-cost channels, increasing Fidelity's operating profit within 12 months.

Application | The Wireless Industry

Customer complaints about their cell phone service suppliers are widespread.[26] However, many customers are not aware that the carriers do not treat all their customers the same. In general, because the companies have good data on customers' calling habits, if you spend more, you get better service, better deals, and more extras.

Many of the cellular companies have installed data analysis software that helps them predict which of their subscribers are the most likely to move to another carrier and thus need to be treated better. The software considers how many calls you make and receive, what percentage are long distance, the duration of the calls, the kind of phone you have, and how often you have contacted customer service. The software takes these variables into consideration and then predicts how likely you are to "churn." A score from the model of 85, for example, indicates that the probability of your switching is 85 percent.

When highly profitable customers call Sprint PCS to cancel their service, they are contacted immediately by someone from the customer retention department, where operators provide special incentives to stay. If you stay within your allotted minutes and do not generate additional profits for the company, you are not given anything, that is, you are "fired." At VoiceStream Wireless, the higher your bill, the less time you will spend on hold if you call customer service. Those customers with cheap calling plans are routed to the least-experienced representatives. Those on better plans may be offered special rates or new phones.

Customer Targeting for Retention

Once the customers that you wish to target have been selected, conventional direct-marketing approaches are then used to keep them. In the context of CRM, these direct-marketing channels are often referred to as one-to-one marketing. Special promotions, prices, perks, products, and other offers are made through telemarketing, direct mail (regular "snail mail," fax, e-mail), and personal sales calls.

Application | The Royal Bank of Canada

At least once a month, analysts at the Royal Bank of Canada (based in Toronto) use data mining techniques on the bank's 10 million customers according to a number of factors:

- Their credit risk.
- Their current and future profitability.
- Their stage of the family life cycle.
- Their likelihood of leaving the bank.
- Their channel preference (call center, branch bank, or the Internet).
- Their likelihood to purchase more bank products.[27]

Consider the following hypothetical customer. Her balance is low, her credit card payments are slow, and her deposits have recently become sporadic. All of these data point to her leaving the bank. Further analysis of her CIF shows that she has been a profitable customer and that she could potentially be even more profitable based on her past banking patterns and other products she holds. The latter include a car loan, a line of credit, and a checking account. The analysts infer that she is in a phase of her life where her borrowing needs are high. They also know she likes to use the Internet to pay her bills and check her balances. They conclude that she would be a good target for a particular package of banking services. The bank has found that people with these kinds of packages stay with the bank an average of three years longer than customers who do not and that they are more profitable to the bank. With this information, the marketing managers have a personalized strategy for her.

The marketing managers then enter this information about the customer into a central database that is fed to the desktops of all its personal bankers and customer service and call center representatives. She then receives a call from a personal banker offering her the package of services. Because she does not immediately take the offer, the call is followed up by a call center representative. Her reaction to the offer is logged into her row of the CIF for future reference.

Relationship Marketing Programs

Given the preceding discussion concerning customer targeting, it is important to describe marketing programs beyond discounts and other special perks that are part of the normal arsenal of marketing managers, and that have been described elsewhere in this book. Thus, this section of the chapter describes programs that have been specifically designed for retaining customers.

Customer Satisfaction

Clearly, one of the requirements of customer retention is satisfaction. Satisfied customers are much more likely to repurchase and become good customers than dissatisfied customers. Many studies have shown a positive relationship among satisfaction, loyalty, and profitability.[28]

Spurred by the quality movement of the 1980s, the introduction of several very public competitions (such as the Malcolm Baldrige Award for Quality), and well-publicized satisfaction surveys (such as the one done by J. D. Power for automobiles), many companies around the world are investing substantial sums in measuring customer satisfaction and exploring its impact on their businesses. As a result, this has become a big business for research firms. By one estimate, up to one-third of all revenues generated by U.S. marketing research firms are from customer satisfaction surveys and analyses.

expectation confirmation/disconfirmation model a basic customer satisfaction model that presumes that levels of customer satisfaction with a product or service are determined by how well the product performs compared to what the customer expects

The basic customer satisfaction model is shown in Figure 14.9. The model is often called an **expectation confirmation/disconfirmation model** because it assumes that levels of customer satisfaction with a product or service are determined by how well the product performs relative to what the customer expected. In the center of the figure is perceived customer satisfaction or quality. The circle on the right is experienced quality, or how the product or service actually performed. To the left, the customer is presumed to form an expectation or prediction about the product's performance. This expectation is formed from a variety of sources of information, including advertising, word-of-mouth information from friends and relatives, and past experience with the product or product category. If the product meets or exceeds expectations, the customer is satisfied to different degrees. Obviously, if the product just meets expectations, satisfaction is less than if the product goes way beyond expectations. Any performance below expectations results in a dissatisfied customer.

Satisfaction can be measured in a number of ways. As in the multiattribute model shown in Chapter 4, the most common approach is to use a scale to compare satisfaction, along a number of product dimensions, with competition and expectations. Figure 14.10 shows several common scale types. FedEx has been known to use the 101-point scale, General Electric uses the 10-point scale, and most other companies use a 4- or 5-point scale. For example, a satisfaction question for an airline might look like the following:

"How satisfied were you with the food (relative to your expectations)?"
Very dissatisfied *Very satisfied*
1 2 3 4 5

After obtaining satisfaction measures on a number of attributes, the survey always contains an overall satisfaction question:

"Overall, how satisfied were you with the flight today?"
Very dissatisfied *Very satisfied*
1 2 3 4 5

Figure 14.9

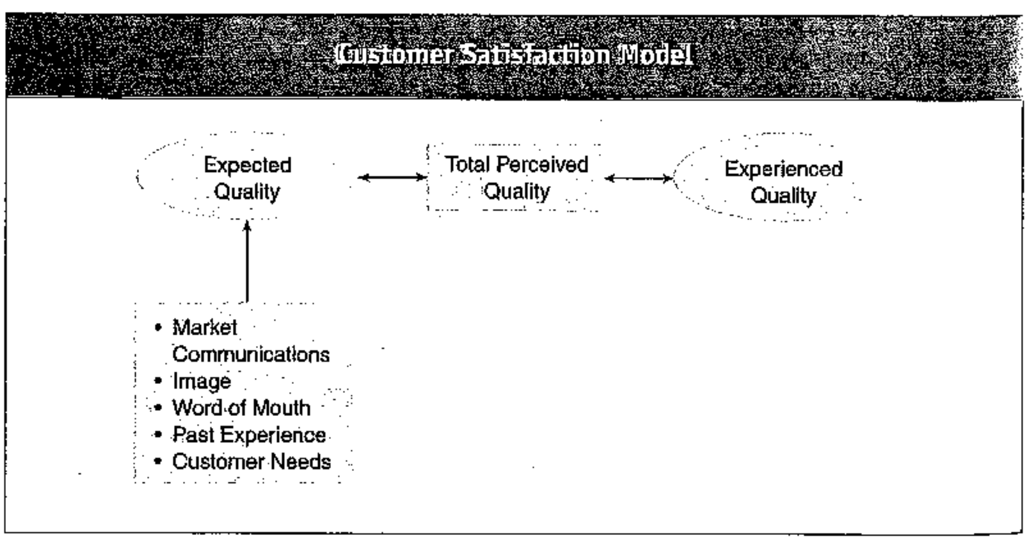
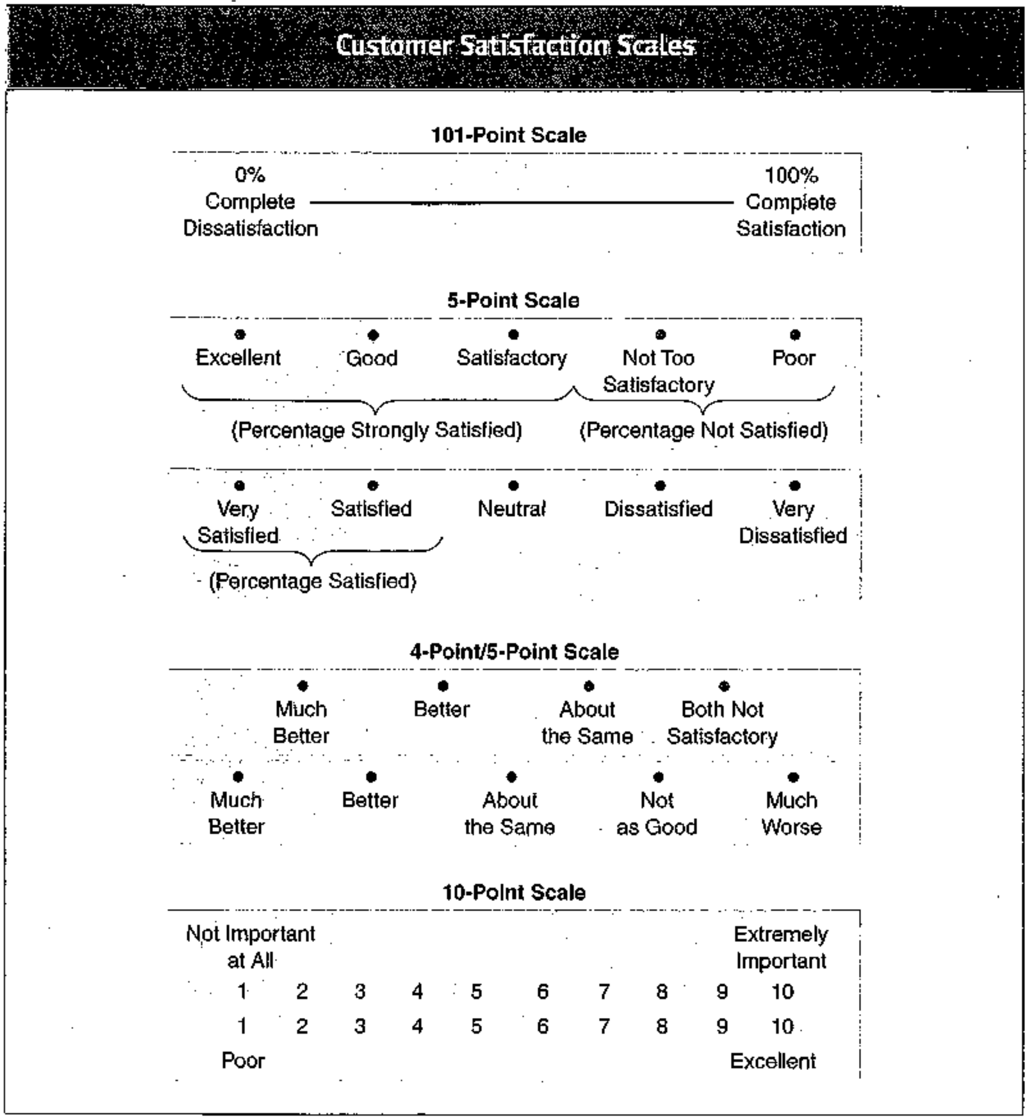


Figure 14.10



Source: AMACOM Resources for the Professional Manager in Print by Mack Hanan and Peter Karp. Copyright 1989 by AMACOM Books. Reproduced with permission of AMACOM Books in the format Textbook via Copyright Clearance Center.

Most companies track these satisfaction measures over time and relative to competition in order to determine trends in different market segments or product areas. An important trend is that more companies are using customer satisfaction data in calculating senior executive bonuses. For example, the bonus plan developed by cable TV company Charter Communications defines six customer-satisfaction metrics that are measured in each of its key market areas on a monthly basis.[29]

Customer satisfaction measures for companies and industry sectors are tracked by the National Quality Research Center at the University of Michigan. Based on an index with a maximum of 100, the scores from the airline industry (through 2009) and for specialty retail stores (through 2008) are shown in Figure 14.11.[30] As can be seen by examining the column labeled "previous year % change," there are some notable shifts in these satisfaction scores based on company investments in customer service, communications, and word-of-mouth activities, particularly in the airline industry.

Customer satisfaction surveys for products and services sold via the Web can be conducted quickly and easily using a service introduced by CustomerSat.com. The Web site operator first designs the survey using a variety of questionnaire options provided at the CustomerSat.com site. The survey is then distributed by a pop-up window at the client's Web site. The frequency of the pop-up window can be adjusted to appear to every visitor or as few as 1 out of 100 visitors for sites that have heavy traffic. Reports based on the answers to the survey questions are generated and updated in real time for the client.

Figure 14.11

Some Sample ACSI Scores

Airlines

	Baseline	96	97	98	99	00	01	02	03	04	05	06	07	08	09	Previous Year % Change
Southwest Airlines	78	76	76	74	72	70	70	74	75	73	74	74	76	79	81	2.5
All others	NM	74	70	62	67	63	64	72	74	73	74	74	75	76	77	2.7
Continental Airlines	67	66	64	66	64	62	67	68	68	67	70	67	69	62	68	9.7
Airlines	**72**	**69**	**67**	**65**	**63**	**63**	**61**	**66**	**67**	**66**	**66**	**65**	**63**	**62**	**64**	**3.2**
Delta Air Lines	77	67	69	65	68	66	61	66	67	67	65	64	59	60	64	6.7
American Airlines	70	71	62	67	64	63	62	63	67	66	64	62	60	52	60	−3.2
US Airways	72	66	68	65	61	62	60	63	64	62	57	62	61	54	59	9.3
Northwest Airlines	69	67	64	63	53	62	56	65	64	64	64	61	61	57	57	0.0
United Airlines	71	70	68	65	62	62	59	64	63	64	61	63	56	56	56	0.0

Specialty Retail Stores

	Baseline	96	97	98	99	00	01	02	03	04	05	06	07	08	09	Previous Year % Change
Barnes & Noble	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	83	83		0.0
Costco	NM	NM	NM	NM	79	77	76	79	80	79	79	81	81	83		2.5
Borders	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	81	79		−2.5
SAM'S CLUB	NM	75	72	75	78	74	78	77	77	75	76	78	77	79		2.6
All others	NM	NM	NM	NM	NM	NM	72	73	73	75	73	75	76	78		2.6
Specialty Retail Stores	NM	75	72	75	79	76	73	74	74	75	74	75	75	76		1.3
Staples	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	77	78		−1.3
Lowe's	NM	NM	NM	NM	NM	NM	75	76	77	76	78	74	75	76		1.3
Office Depot	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	78	75		−3.8
Gap	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	75	75		0.0
OfficeMax	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	76	74		−2.6
Best Buy	NM	NM	NM	NM	NM	NM	NM	NM	72	72	71	76	74	74		0.0
TJX	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	74	73		−1.4
Circuit City	NM	NM	NM	NM	NM	NM	NM	NM	73	72	70	69	71	72		1.4

Source: American Customer Satisfaction Index, www.theasci.org. Used by permission.

Interestingly, a large amount of evidence indicates that merely satisfying customers is not enough to keep them loyal to your company or product. In other words, although Figure 14.10 implies that "excellent," "good," and "satisfactory" ratings all mean "strongly satisfied," there may be a real difference between those responses. Research by Xerox showed that totally satisfied customers (i.e., those choosing 5 on a 5-point scale) were six times more likely to repurchase Xerox products over the next 18 months than those that were only satisfied (i.e., those choosing 3 or 4 on the 5-point scale).[31] The largest differences in loyalty between completely satisfied and merely satisfied customers have been found in the most highly competitive industries, such as automobiles and many services.

The importance of looking at the most and least satisfied customers has recently been proposed as being an important predictor of firm performance. Net Promoter is a customer loyalty metric introduced by Reichheld in his 2003 *Harvard Business Review* article "The One Number You Need to Grow." Based on customers' responses on a 0 to 10 rating scale—"How likely is it that you would recommend our company to a friend or colleague?"—customers are grouped into one of three groups: "promoters" (9–10 rating, extremely likely to recommend), passively satisfied (7–8 rating), and "detractors" (0–6 rating, extremely unlikely to recommend). The percentage of detractors is then subtracted from the percentage of promoters to obtain the "Net Promoter score." A score of 75 percent or above is considered quite high. The Net Promoter score also provides insights into how to get more promoters and fewer detractors. These insights can then be provided to marketers for follow-up action. The most important proposed benefits of this methodology derive from its simplicity, but it has been criticized for not being applicable to many business settings.[32]

The relationship between satisfaction and loyalty is complex. One study identified four customer types based on their levels of satisfaction and loyalty:[33]

1. **Loyalist/Apostle.** These customers are completely satisfied, have high loyalty, and are very supportive of the company. Apostles help you get new customers through referrals.
2. **Defector/Terrorist.** They tend to be dissatisfied or somewhere in the middle, switch to competitors, and are unhappy with you. Terrorists spread negative word of mouth.
3. **Mercenary.** They can have high satisfaction but high switching rates as well. Their commitment to you is low. They are usually price- and promotion-sensitive, and rarely stay with you long enough for them to be profitable.
4. **Hostage.** These customers are stuck with you. They may be dissatisfied, but they are highly loyal because there may not be a viable alternative. A good example is cable TV service. When an alternative surfaces (e.g., satellite TV), they switch.

Thus, Apostles and Mercenaries can be highly satisfied but exhibit totally different loyalty patterns. Likewise, Apostles and Hostages are both highly loyal, but for different reasons. It is therefore critical to understand the context within which you are measuring satisfaction and loyalty.[34]

customer service
service that supplements or complements the main product or service purchased

Ritz-Carlton is famous for its high level of customer service including this hotel in Moscow, Russia.
Source: Alexei Boitsov/Getty Images, Inc-Liaison

Customer Service

An important component of customer satisfaction is **customer service**. Although we will discuss the marketing of services in the next chapter, all products, whether manufactured or services, have a service component. Automobiles and computers must be repaired. Customers have questions about how to set up a DVD player. Machinists need technical advice about how to operate a new lathe. The quality of these encounters can make or break a relationship with a customer. How many times have you sworn not to return to a restaurant or not to buy a product from a company that has delivered poor customer service?

Companies that market services know that the level of customer service delivered is equivalent to product quality. However, many companies in manufacturing businesses underestimate how important these service encounters are to customer loyalty. Although it is important that a personal computer works as advertised, for some consumers it is equally important that the company provides helpful responses to questions and does not leave them waiting on the telephone to speak to a representative.

In fact, many companies are reexamining their approach to customer service. Traditionally, a company would develop a product and then "throw it over the wall" to a separate customer service department. However, much of the information gleaned from service interactions with customers was not getting back to marketing managers. As a result, the term often used today is *customer experience management* rather than customer service, implying the companies are interested in managing the customer's interaction with the company at any number of different interaction points and using the feedback to improve products and processes.[35]

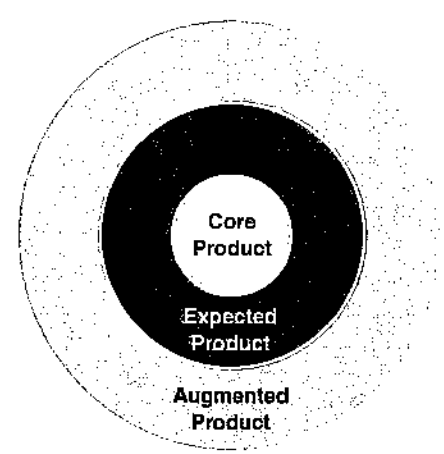
Thus, regardless of the type of product, as we noted earlier in this chapter, the relationship between buyer and seller is only beginning when the purchase is made. The points of contact between buyer and seller are not all equal in importance. Those that are critical to the relationship are called moments of truth.[36] It is important for you to understand which customer contacts are sufficiently critical to the long-term relationship to be considered moments of truth for your business.

The key to using customer service to develop these long-term relationships is to view service as a way of differentiating your product from the competition. Figure 14.12 illustrates this differentiation effort. Consider the core product to be the basic attributes of the product or service. For a manufactured product, these would be the physical characteristics. For example, for a car, color, weight, gas mileage, and similar characteristics constitute the core product. The expected product is the core product plus any expectations about the product or service held by the target segment. Thus, the expected car would also feature a certain level of reliability, service from the dealer, prestige obtained from driving it, and so on.

How, then, do you use customer service to differentiate your products? Today, whether you are in a high-tech or low-tech business, all competitors in a market either offer or have the potential to offer equivalent core products. Thus, it is difficult to achieve differentiation based on product features and attributes. Also, simply meeting expectations is insufficient for maintaining buyer loyalty over an extended period of time. To differentiate, you need to reach a third level (shown in Figure 14.12), the augmented product. In other words, you have to go beyond expectations by offering levels of customer service that competitors cannot match.

Figure 14.12

The Augmented Product



Source: Theodore Levitt (1980), "Marketing Success through Differentiation—of Anything," *Harvard Business Review*, January–February. pp. 83–91. Copyright © 1980 by the President and Fellows of Harvard College. Reprinted by permission.

Application | Rackspace

Rackspace is a San Antonio-based Web-hosting company.[37] The company manages the technology "back end" of Web sites for clients who highly value reliability (e.g., e-tailers). In an industry not particularly known for great customer service, Rackspace has developed a reputation for a fanatical dedication to its customers (see www.rackspace.com).

However, this reputation was not obtained just through advertising. Prior to the adoption of a new vision for customer service, employees had believed that, as with any technical service, as long as the system was up and running, the customer service job was done. The new approach consisted of a number of initiatives. First, criticizing a customer became a firing offense. Second, employees were organized by teams of account managers, a billing specialist, and several tech-support specialists. Each team served a group of customers. The team approach enabled the customer's problems to be solved more quickly because the problems often involved what had been separate departments. Also, the team gets to know its customers well, which gives the latter a sense of security because they get to know the team members over time. Finally, each team is treated as its own separate business with responsibility for profits and losses. Each month, employees could earn bonuses of up to 20 percent of their monthly base salaries, depending on the performances of their teams by both financial and customer-based metrics.

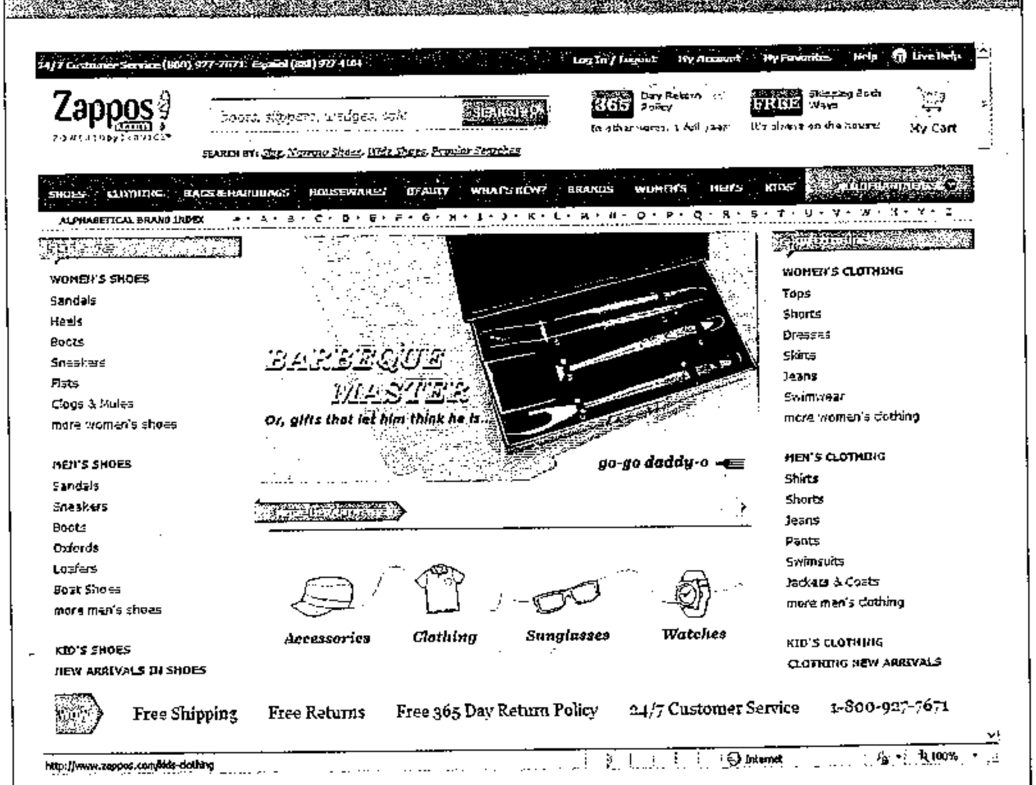
Application | Zappos

Tony Hsieh, the founder of Zappos.com, is considered one of the most innovative Internet marketers of all time.[38] Zappos started as an online shoe retailer in 1999, but the company has since expanded to selling a number of different product lines (see the company's home page in Figure 14.13) using multiple channels including catalogues and telemarketing. The company sold $1 billion worth of products in 2008.

What makes Hsieh and Zappos successful is a level of customer service that sets it apart from other Internet retailers. The basics of their service are free shipping and free returns.

Figure 14.13

Zappos Web Site



Source: © 2008 Zappos.com, Inc.

However, what really separates Zappos from the competition is the attitude of the customer service representatives. All new Zappos employees receive two weeks of classroom training. Then they spend two weeks learning how to answer customer calls. At the end of this program, each trainee is offered $2,000 to quit! Hiseh figures that this weeds out those who would probably leave soon anyway from those who will be committed to Zappos.

On the job, employees are not given scripts nor are their call times tracked like in many call centers. Customer service representatives are encouraged to make decisions on their own and are supposed to send a dozen or so personal notes to customers every day. They call it "P-E-C": Personal Emotional Connection with the customer.

The company has become so well known for its customer service that it has begun offering training programs for other companies. In 2009, the company began offering two-day, $4,000 seminars on how to recreate the Zappos corporate culture. The company is launching Zappos Insights, a Web site offering management videos and tips from its staffers at a cost of $39.95 per month.

A final illustration is shown in Figure 14.14. One of the largest complaints consumers have in the area of customer service is about automobile repairs. This figure shows how one dealer has managed to go beyond customer expectations and deliver outstanding customer service.

Figure 14.14

Illustration of Outstanding Customer Service

Last summer at a little before 4:00 P.M. on a blisteringly hot Saturday, a tow truck pulled up in front of our service area at Tasca Lincoln-Mercury.

Behind it rode a small red, well-used Mercury Tracer. In the truck was an entire family, looking despondent—their holiday on Cape Cod seemed in jeopardy. There they were, stuck in Seekonk, Massachusetts, with a broken car, and who knew for how long? The kids grew increasingly fidgety. "Can you do anything for us?" the dad asked, his tone of voice revealing his frustration and disappointment. "I know it's late in the day, but you're the only place around here open for service." His voice trailed off.

He was right; it *was* late in the day and we *were* the only place open. That was just the problem. Our guys had been working since 7:00 that morning—sometimes in the direct sunlight. The temperature had reached ninety-five degrees and hadn't dropped much yet. Only one more hour to go, and they could drive home and relax with their families and friends. The service assistant who talked with the new customers looked at his team. "Well?"

The team leader responded, "I don't know; it's pretty late in the day, and the men are all tired, and we don't even know what's wrong with it.... Okay, we'll take a look at it."

The word came back in less than twenty minutes. "Bad fuel pump—and we haven't got one in stock now. We just used the last one. Can't get more parts until Monday."

The kids really looked crestfallen now. A couple of the team members eyed them. "Hey," yelled one, "we got a used Tracer on the lot. We could cannibalize the pump."

"Let's go," yelled the team leader.

While they pushed one car and drove the other into the service bays, the service assistant explained the proposal to the family and asked for their approval to install a used part. They agreed. Twenty minutes later, their revived red Mercury Tracer sat happily idling in front of them. Time? 4:57. Time to go—for everybody.

I asked the team members later, "Would you have done it if it had taken more time?"

"Yeah," they said, "it was the look in those kids' eyes. We knew if we did it, it would make their day."

Source: Bob Tasca (1996), *You Will Be Satisfied* (New York: HarperCollins), pp. 95–96.

Some useful customer service principles are:[39]

- Service is the backbone of any business. If you do not satisfy the customer the first time, you may not get a second chance.
- Great service is measured by customer satisfaction. Profits will follow if your customers are highly satisfied.
- Compensation plans determine behavior. Thus, your compensation scheme should reward your workers for delivering high levels of service.
- Sales and service departments are complementary. Great service gives the sales department more to sell.
- The hours your service department is open sends signals about your dedication to customer satisfaction. You should be open when your customer needs you.
- Service technicians should work together to solve customers' problems.

One way to differentiate your product through customer service is with service guarantees.[40] Guarantees not only offer the customer some assurance about product quality but also reinforce the brand image at the same time. Some examples are Domino's Pizza's former promise that you will get your pizza delivered in 30 minutes or you do not have to pay for it, and Lucky Supermarkets' offer of "Three's a Crowd" service that guarantees the opening of a new checkout station when any line has more than three people. Although their effectiveness varies, such guarantees can differentiate a product from the competition.

Another way to demonstrate excellence in customer service is through service recovery. Unfortunately, products do break down and there are often tense moments as services are delivered (e.g., the waiter spills soup on your dress). Thus, a critical moment for a company is when the product or service does not perform up to expectations or fails to work properly. How you react in such situations is crucial for maintaining customer relationships.

Effective service recovery demands significant training and the right people to do the job. When service recovery is necessary, customers are typically unhappy because some aspect of the product or service has failed. The people dealing with the situation must be compassionate and good listeners, as well as effective problem solvers. In 1997, because of its highly selective screening process focusing on interpersonal and empathy skills, Southwest Airlines sorted through 105,583 job applications to fill 3,006 positions.[41]

Turning around a potential disaster can be a tremendous boost to loyalty. The British Airways anecdote earlier in this chapter was a lost opportunity. In a more positive vein, an IBM account team was having difficulty overcoming the hostility of a potential major buyer of mainframe processors. Although the potential buyer did own several IBM processors, the company was not interested in buying any more or in buying peripheral equipment such as tape and disk drives. The account team's basic strategy was to build a new level of confidence from the lower levels of the company's organization that were key influences in the buying decision. Although they were having some success with this approach, one of the breakthrough events that turned the account around was how they handled a failure of one of the installed IBM processors. A large number of IBM personnel worked around the clock to restore the system. Their efforts prompted a laudatory letter from the director of the company's information systems group and went a long way toward improving the relationship. Eventually, the team's efforts resulted in a larger order.[42]

Application | EMC Corporation

EMC is the world leader in data storage systems.[43] Along with Cisco Systems, Oracle, and Sun Microsystems (now part of Oracle), it has been referred to as one of the "four horsemen" of the Internet. In 1988, the company had 910 employees, annual sales of $123 million, and a net loss of $7.8 million. In 2009, it had 40,000 employees and annual revenues of $15 billion. While excellent products certainly helped, it is generally acknowledged that its commitment to customer service has been the driving force behind its growth. The company has an astounding customer retention rate of 99 percent.

The company's major customers are banks, phone companies, automakers, oil companies, e-commerce companies, and other companies that stand to lose millions of dollars every minute their data systems are down. As an example of their commitment to service, in the winter of 1999, a bank in Wisconsin suddenly lost access to its data-storage facility. Within minutes, customer service engineers at EMC headquarters remotely retrieved the logs of the bank's system but could not locate the problem. The next step was to re-create the bank's system in a $1 billion facility that EMC designed just to simulate its customers' setups in such emergencies. Through mirroring the customer's facility, the engineers found the problem. A second example of the company's willingness to invest in customer service came at the 1996 Olympics in Atlanta. A number of large EMC clients had computer operations in the city's center. Unfortunately, the center was snarled with traffic and people attending the games. The manager in charge of managing EMC spare parts around the world stationed bicycle messengers at two dozen locations and stocked each one with EMC spare parts. As a backup, she hired two helicopters. Although they were never used, no one in the company felt it was a waste of money.

Web-based customer service has improved substantially with the advent of live chat and other similar services. An example of a company that provides such services is LivePerson.com.[44] A visitor to a site using the LivePerson service can choose among three different modes of customer service: a telephone number, e-mail, and live chat. If you choose the live chat, the pop-up screen shown in the figure appears and the dialogue begins. One LivePerson client claims that customers who used live chat during their shopping experience are three times more likely to buy from the site and two times more likely to return back to the site within 24 hours versus those that did not chat. Also, the average order for customers who chatted was 35 percent higher than customers who purchased from the site and did not chat.

Also, the reason these numbers are so high for this retailer is that they employ LivePerson's new product, LivePerson Sales Edition. This product is different from its flagship live chat solution because it enables sales agents (much different than customer service agents) to reach out to incoming Web site visitors that LivePerson's rules-based engine deems a top prospect and engage them in a sales consultation.[45]

Besides the use of the Web, improvements in technology have been leveraged by a wide variety of industries. Two examples are:

- Rolls-Royce uses live satellite feeds displayed on video screens to continuously monitor the health of some 3,000 jet engines for 45 airline customers.[46]
- Some hotels are using "smart" networks to connect individual rooms to network servers to keep track of guests' preferences and change room conditions automatically. For example, desired room temperatures can be set and frequently dialed numbers can be loaded into its guests' phones upon check-in.

Loyalty Programs

loyalty programs
also called frequency marketing, programs that encourage repeat purchasing through a formal program enrollment process and the distribution of benefits

One of the major trends in marketing in the 1990s is the tremendous growth in **loyalty programs** or, in general, frequency marketing. These are programs like Harrah's Total Rewards, which encourage repeat purchasing through a formal program enrollment process and the distribution of benefits. The best examples of such programs are the frequent-flyer programs offered by every major airline in the world, where miles are accumulated and then exchanged for free travel or merchandise. The innovator was American Airlines, which started its AAdvantage program in 1981. A newsletter that follows loyalty programs is *Colloquy*, www.colloquy.com.

These programs have migrated to many different industries. Some examples are:

- Cracker Barrel, a restaurant chain with a country flavor, has its Cracker Barrel Old Country Store Neighborhood program, where you earn one "neighborhood" point for every dollar spent at its stores. The points are redeemable at the stores.
- The retailer Pier 1 Imports has a Preferred Card program with three levels of benefits: basic (under $500 in annual spending), Gold ($500 to $1,000), and Platinum (more than $1,000 spent annually).
- Hallmark's Gold Crown Card program is targeted toward customers of their Gold Crown retail stores. Customers receive points for money spent and greeting card purchases, which are redeemable for certificates of different monetary value. These certificates are spendable only in the Gold Crown stores.

- The British pharmacy retailer or "chemist" Boots has its Advantage card program, launched in 1997, which enables shoppers to earn points toward free goods.
- A small Spanish grocery chain, Plus, differentiates itself from other grocery chains through its loyalty card program; more than 80 percent of its customers use the card.

Technology is changing the way these programs can operate. Most of them currently involve a special-purpose membership card or a co-branded Visa or MasterCard. The magnetic strip on the back of the card forwards data from the transactions to a separate information system, which tracks behavior and issues rewards. So-called smart cards have microprocessors built into them. These cards can store points accumulated from loyalty programs, which allows for more sophisticated multiple retailer programs to be developed. For example, in the United Kingdom, Shell has a program whereby points collected at Shell service stations can be converted into free gifts, flights, or movie tickets.

These frequency or loyalty programs can have several problems:[47]

- **Making the reward too high.** Restaurant chain Chart House's program, the Aloha Club, offered free around-the-world trips to any member who ate in all 65 Chart House restaurants. Unfortunately, the company underestimated the zeal of its 300,000 members. Forty-one members qualified, costing the company a considerable sum of money. Although the value of the program to the customer should exceed the cost of being a member, the programs should also be cost-effective.
- **Ubiquity.** There are so many programs that customers are rebelling against carrying all the cards. You should target your best customers with these programs and provide a compelling reason for joining.
- **What kind of loyal customers are you actually getting?** As we have noted in this chapter, it is possible to confuse loyalty with repeat purchasing. United Airlines has many repeat-purchasing customers in the San Francisco Bay area because of its Mileage Plus frequent-flyer program. At the same time, because United is the major carrier in the region, these customers are also "hostages" and are not necessarily attitudinally loyal to the company. Compare the failure of United's shuttle services in California with Southwest Airlines' tremendous success (although Southwest's frequent-flyer program is less attractive than United's).
- **Lack of inspiration.** Many programs are simply copies of other programs. To be successful, the program must have a differential advantage over competitors' programs.
- **Lack of communication with customers.** Loyalty/frequency programs need to have a significant communication component to retain customer satisfaction.
- **Insufficient analysis of the database.** A large amount of information about customer behavior is produced from these programs. To maximize the value of these programs, these data must be mined for better market segmentation, targeting, and new-product development. This is particularly a problem for supermarkets. Only a few of the chains with frequent-shopper programs have gone beyond offering discounts at the cash register to cardholders.

For a customer loyalty program to be effective, it must leverage the brand's value proposition. For example, airline loyalty programs that provide upgrades to airline travelers are very valuable and at the same time, cost airlines very little because the upgrades are based on the unfilled seats on a plane.

Loyalty programs are not just for consumer products and services. Verizon's Business Link loyalty program offered discounts, bonuses, and special benefits to targeted business customers based on call volume. About 80 percent of the eligible business customers enrolled. The results? The account defection rate was 30 percent less for enrollees than for non-enrollees. Friedrich Grohe, a Germany-based manufacturer of kitchen and bathroom fittings, has a loyalty program with 1,500 members in Germany. Members pay $130 per year and attend product training to earn points, which can be redeemed for advertising and trade show booths designed and built by Grohe.[48]

In general, loyalty programs seem to work best under the following conditions:

- The program supports and is consistent with the brand's value proposition.
- The program adds value to the product or service.
- Lifetime customer value is high.

Mass Customization

mass customization
a new marketing process whereby a company takes a product or service that is widely marketed and develops a system for customizing it to each customer's specifications

Customer retention and loyalty are also being affected by a marketing process called **mass customization**. As noted in Chapter 7, this is a process whereby a company takes a product or service that is widely marketed and perhaps offered in many different configurations and develops a system for customizing (or nearly customizing) it to each customer's specifications. This imparts a feeling that the product was made especially for the customer, an important affective (attitudinal) component of a buyer–seller relationship.[49] Because services can be and often are tailored to each customer, most of the attention to mass customization has been in the manufacturing sector, where a combination of information and flexible manufacturing technologies has enabled companies to personalize their products for customers. In the case of Nike, NikeID allows customers to build their own shoes and select the colors for just about every area of the shoe. Lands' End offers tailored clothing on its Web site, allowing one to choose a collar, sleeve style, pocket, etc.

Community Building

A challenge for marketing managers is to create in their customers a sense of affinity for their companies and brands. Even customers that are brand loyal do not necessarily feel a sense of "belonging" to the brand, a more emotional, dedicated sense of a relationship in the human sense. In such a situation, it may not take a significant activity on the part of a competitor to induce a brand switch.

community
a group of customers who share information between themselves and the company about their experiences with the product or service

As a result, many managers seek to create not just a set of customers who purchase their product, but a **community** of customers who share information between themselves and the company about their experiences with the product or service. The concept of a community is not new. High-tech products have formed user groups for years, where groups give the company feedback and give each other tips on how to better use the product. These user groups can be sponsored by the company or formed independently. For example, many have formed around the Macintosh computer. However, it is a new concept for consumer-product companies, where there are many customers and where individual interaction is difficult (see Figure 14.6).

Particularly since the expansion of the Internet, community building is normally high on the list of goals for the construction and enhancement of a Web site for all kinds of products and services due to the ease of interacting. Successful communities on the Internet offer participants:[50]

- A forum for exchange of common interests.
- A sense of place with codes of behavior.
- The development of congenial and stimulating dialogues leading to relationships based on trust.
- Encouragement for active participation by more than an exclusive few.

Such online communities offer real opportunities for enhancing the brand and creating long-term relationships because of the increased involvement offered. Customers do not feel simply like they are buying a product—they feel they are also purchasing entry into and participation with a similar group of people. In fact, with respect to Internet behavior, a study found that the more a person uses the community features of a site, the more that person tends to visit it and make purchases there. Users who contribute product reviews or post messages remain twice as loyal and buy almost twice as often as those who do not.[51]

Some examples of successful communities are:

- Microsoft's community, for its Xbox videogame console, invites both users and game creators to participate. There is a different discussion forum for each game, and there is a code of conduct for the forum.
- Adobe Systems' Web site allows customers to congregate virtually, trade industry gossip, share practical product tips, and create a buzz around the company's products. The company tries to promote the community as not only a place where you can learn how to use its products better, but also to help your career through networking. The company does not censor any views or opinions, in order to receive honest criticism.

- Pillsbury's Web site offers menu suggestions as well as cooking hints and tips. Users are encouraged to share their own recipes on the site's bulletin board, and children are targeted through contests.
- Ace Hardware's Commercial & Industrial division created an online community so the 325 licensed dealers of its paint, construction, and hardware products could exchange sales tips while ordering products. In one case, a dealer in Arizona asked peers for advice on selling a new kind of industrial paint that bonds well on metal. The resulting discussion led to $1.7 million in new sales for the product.[52]
- A Boston-based company named Communispace operates brand communities for companies like Kraft Foods. The communities are closed to a small group of around 300 (typically) women from whom Kraft generates new product ideas and general insights about what the group is thinking.

Other Ideas

The notion of building relationships with customers is often thought of as the job of the sales force or other personnel related to marketing. From the customer's perspective, the concept of customer service does not necessarily imply marketing. In many cases, it may simply be the need to communicate with the company, to personalize it.

A successful program built on this idea was launched by Southwestern Bell Telephone Company (now AT&T) in 1995.[53] The company began the Volunteer Ambassador program in which employees volunteer to establish relationships with designated customers. The objective was to put a face on the company and to let each customer know that Southwestern Bell cares about him or her and values the business. The ambassadors were drawn from a pool of nonsales employees, and each was assigned 5 to 10 customers they were expected to visit quarterly. The program started with 1,300 volunteers and expanded to 3,500 in two years.

A good way to get information about how to improve customer loyalty is to examine customers who defect. Marketing research studies often focus on your customers or potential customers and rarely are ex-customers analyzed. However, there may be more to learn from customers who have been lost than those who are loyal. The former can provide a number of ideas on how to improve the product or service, based on actual performance levels they deemed too low for them to continue as a customer.[54]

Privacy Issues

Because of the importance of detailed customer information (the CIF in Figure 14.5) to an effective CRM strategy, the issue of privacy again becomes important. All of the issues raised at the end of Chapter 13 in the context of direct marketing are obviously relevant here.

The issue of privacy is particularly important in online communities. Not only do you have to register to join; many of the communities host chat rooms where product users communicate with each other, creating personal contact. Thus, online communities should post links to the company's privacy policies. All of the communities noted earlier explicitly list their privacy policies. In addition, both the Xbox and Adobe communities are certified by TRUSTe, an independent initiative to build user confidence in joining communities and using the Web in general.

Metrics

Traditional metrics for measuring the effectiveness of marketing programs are market share, sales volume, ROI, and similar aggregate measures. However, the whole concept of CRM is based on the idea of one-to-one customer relationships. Thus, while aggregate metrics such as sales and market share are important and should always be collected, CRM demands that customer-level measures be taken as well.

Table 14.4 is a list of some of the kinds of measures that should be obtained in a CRM-based marketing system. Besides the traditional metrics noted earlier, a large variety of customer-based metrics exist. Following the table, the primary metrics are:

- The acquisition rate and cost, retention rate (opposite of churn).
- The survival rate (the percentage of customers in group that were obtained at the same time who are still customers).
- The probability of a customer being active or purchasing in a given time frame [*P*(Active)].
- The lifetime duration (expected length of time a customer will remain active).
- Win-back rate (customers who return who had previously defected).

The "popular" metrics are:

- Share of category requirements (what percent of all purchase volume in the category is your brand).
- Size of wallet (how much is spent on the whole category).
- Share of wallet (what percent of all purchase value in the category is your brand).

These can be calculated at both the aggregate and individual consumer levels. Finally, the "strategic" metrics have already been defined in this chapter or elsewhere in this book.

Thus, the marketing manager has a large number of measures to take from the market and to follow in order to gauge the efficacy of a customer relationship-oriented marketing program.

Table 14.4

CRM-Oriented Metrics
1. Traditional marketing metrics
a. Market share
b. Sales growth
2. Primary customer-based metrics
a. Acquisition rate
b. Acquisition cost
c. Retention rate
d. Survival rate
e. *P* (Active)
f. Lifetime duration
g. Win-bank rate
3. Popular customer-based value metrics
a. Share of category requirement
b. Size of wallet
c. Share of wallet
d. Expected share of wallet
4. Strategic customer-based value metrics
a. Past customer value
b. RFM value
c. Customer lifetime value
d. Customer equity

Source: V. Kumar and Werner J. Reinartz (2006), *Customer Relationship Management* (Hoboken, NJ: John Wiley & Sons), p. 91. Reprinted with permission of John Wiley & Sons, Inc.

Executive Summary

Key learning points in this chapter include the following:

- The buyer–seller relationship does not end when a sale is made; buyers expect sellers to deliver services after the sale.
- The economic advantages of customer loyalty through long-term relationships are clear: increased profits derived from profit margins produced over the term of the relationship, increased revenues from greater purchase volume or greater purchase frequency, lower costs of serving loyal customers, referrals to new customers, and price premiums (because loyal customers tend to be more insensitive to price).
- Customer relationship management, or CRM, is a strategic activity where the purpose is to develop and manage long-term relationships on a customer-by-customer basis.
- A complete CRM program consists of building a customer database, analyzing the database, selecting which customers to pursue and allocating resources to them, developing the specific relationship marketing programs, being concerned about customer privacy, and establishing appropriate customer-based metrics for evaluating the program's success.
- A key to long-term relationships is customer satisfaction. Completely satisfied customers are produced when companies go beyond customer expectations in the relationship.
- Outstanding customer service is provided by going beyond the physical product or service attributes to the augmented product (i.e., seeing that what you are selling is not just the product itself but the product and services you can offer to differentiate your product from competition).
- A popular way to maintain loyal customers is through loyalty or frequency programs. These programs reward customers for repeat purchases.
- Long-term relationships can also be established through mass customization in which the customer sees the company as providing a product or service tailored to his or her needs.
- Building a community around a brand to stimulate customer interaction enhances the brand and helps to foster relationships with customers.

Chapter Questions

1. Think of a recent example in which you were treated poorly by a company. Assuming you choose not to buy any more of that company's products or services, approximately what is the present value of the revenue that company has lost? (Assume the only lost revenue is from your purchases and not, for example, from your negative word-of-mouth.)
2. Consider the customer satisfaction model shown in Figure 14.9. Why is it important for marketing managers to measure customer expectations as well as actual satisfaction from consumption or usage?
3. Think of a company that has provided great customer service to you recently. What did it do? How did it go beyond what you expected? What do companies have to do to get employees to deliver such service?
4. Are loyalty programs more likely to be successful for certain kinds of products and services than for others? Given the proliferation of loyalty programs, how can you differentiate your program from competitors' programs?
5. Think about two contrasting products: one with which you are involved (e.g., a hobby, cars) and one you don't think about much when you purchase it (e.g., toothpaste, milk). How would you go about building community about a brand in one of the latter categories if you were the marketing manager?
6. Continuing question 5, how would you construct a database or CIF for the brand in one of the low-involvement categories?

Key Learning Points

The purpose of this chapter is to introduce the differences in developing strategies for services versus manufactured products. Key areas of learning are:

- The nature of services and the characteristics that distinguish them from manufactured goods
- The service quality model
- Measuring the quality of services
- Developing marketing strategies for services
- Marketing-mix decision making for service businesses
- How information technology affects the marketing of services

Edward Jones is a successful retail brokerage company due to its unique marketing strategy.
Source: Used by permission, courtesy of Edward Jones

Special Topic: Strategies for Service Markets

Chapter Brief

One of the largest investment brokerage firms in the United States in terms of number of offices is Edward Jones, based in St. Louis.[1] The company initially located its offices in rural and small towns but now has offices in metropolitan areas as well. In fact, the firm has more than 11,000 offices in the United States and through its affiliates in Canada and the United Kingdom. The company is so successful and innovative that it is one of the few firms with which the late eminent consultant Peter Drucker agreed to work. It is regularly rated one of the best companies to work for in the United States.

What makes Edward Jones so successful in an industry where it is difficult to differentiate and develop a unique value proposition? The competition for investment advice is keen, ranging from full-service brokers like Merrill Lynch, discount brokers such as Charles Schwab, online brokers including TD Ameritrade, and banks such as Wells Fargo. Any broker working for any company can give clients access to a wide variety of financial instruments (e.g., mutual funds, options, commodities, stocks, and bonds). A key aspect of Edward Jones's success is its organizational structure. Each office is managed by an individual investment representative (IR) who is autonomous and can therefore be as entrepreneurial as he or she wants. Each IR can segment his or her market, develop communication programs, and determine employee work hours. In short, the IR has complete control over the operation of the office.

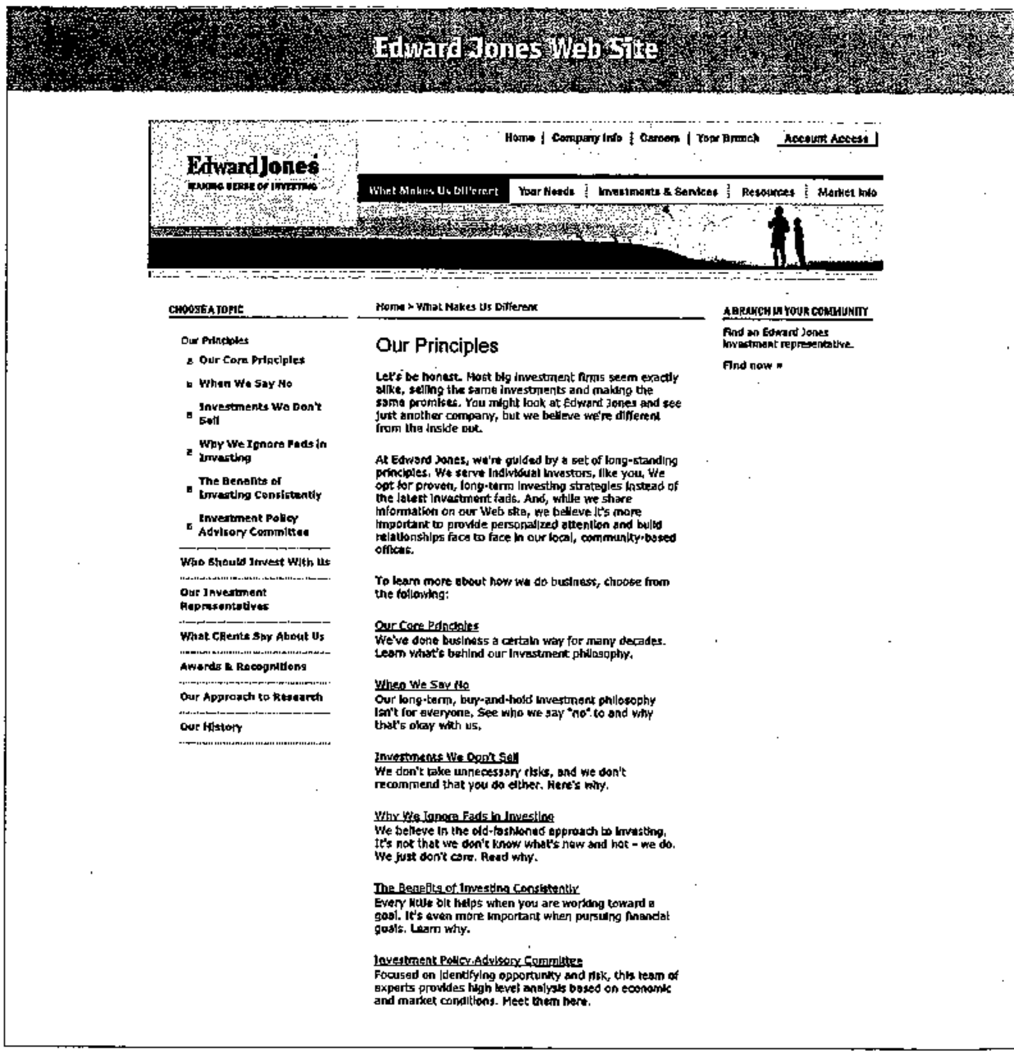
However, the key to its success is a constant focus on helping customers achieve their financial goals by asking the following questions continuously: What is our business? Who is our customer? What does the customer value? The company's IRs focus on long-term relationships and long-term investments rather than seeking high short-term returns, which carry a high level of risk. IRs do not sell their clients initial public offerings (IPOs), options, commodity futures, or penny stocks (stocks with share prices less than $1). They also do not have their own company-branded mutual funds, as other firms such as Charles Schwab do, because they believe that such funds present IRs with a potential conflict of interest.

What the company does offer clients (depending on their goals) are stocks in stable companies with high capitalization. They also recommend highly rated bonds and mutual funds with sound track records, when appropriate. The IRs are rewarded for not churning customers' accounts (buying and selling often to generate commissions) through a trailing fee, an annual 0.25 percent commission for IRs who do not move clients' funds around from investment to investment. The company believes that its investment representatives should help customers understand their investments and feel comfortable with their investment decisions rather than focus on short-term returns. As a result, the average holding period for a mutual fund bought by an investor using Edward Jones's services is 13.1 years compared to the industry average holding period of 5.1.

The company's marketing strategy is well represented by a page from its Web site, shown in Figure 15.1. This page highlights the guiding principles of the firm. As you can see, the major principles focus on a traditional, conservative style of investing that serves its customers well in the long term. The theme "Making Sense of Investing" and the text focus on reliability rather than high risk. Thus, two key elements of the Edward Jones value proposition are local investment advice and security and the close customer relationships. These principles have helped Edward Jones grow its client list to 7 million people with $350 billion under management.

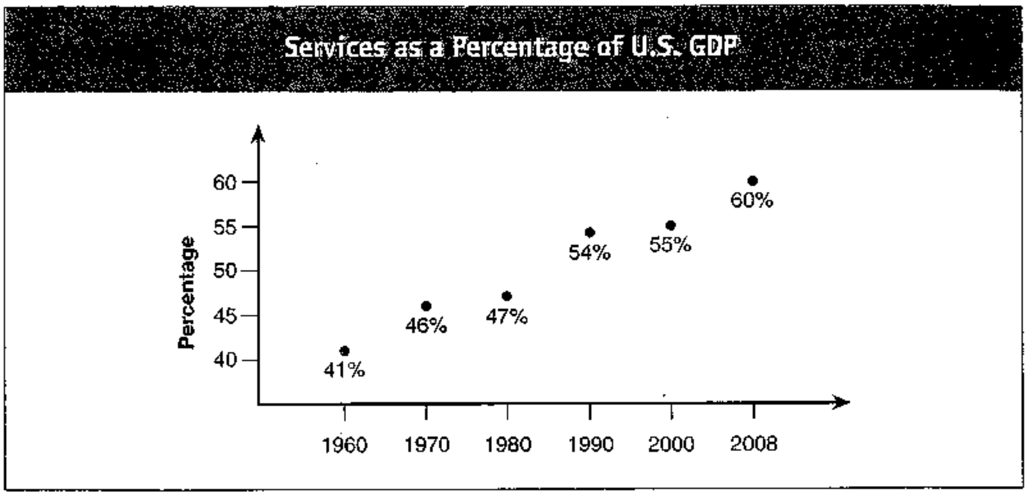
This illustration shows some of the key differences between services and manufactured products. Products such as automobiles and computers can be touched, examined, and tested by customers before they are purchased. They exist before they are sold. Services are intangible and do not exist until the customer buys them. As a result, services are marketed based on assertions of what they can do for the customer because the customer cannot usually verify that before purchasing. Image and perception are crucial components of services marketing. In addition, many services have a strong human component. Because of the customers' interaction with the delivery or production of the service, quality is a critical component of services marketing. As a result, it is easy to see why Edward Jones has been so successful. Its promise—peace of mind—resonates with its target customers and it stresses the importance of the human interactions with those customers.

Figure 15.1



Source: Used by permission, courtesy of Edward Jones.

Figure 15.2

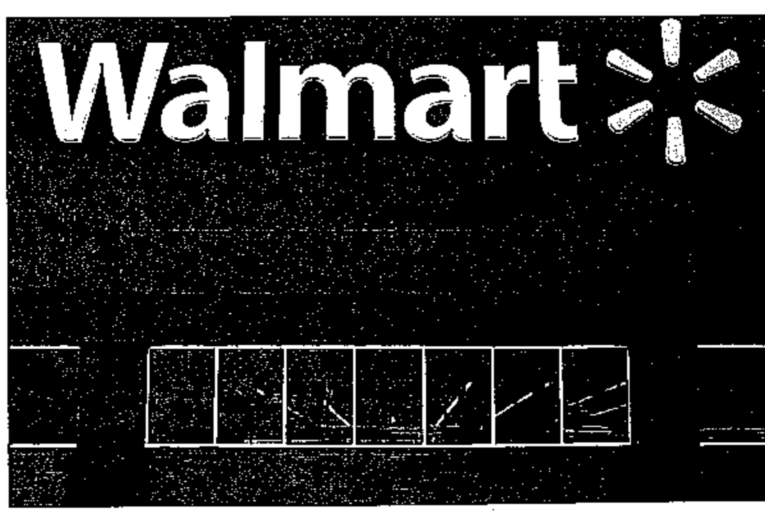


Source: Economic Report of the President, 2009, Table B-8.

Services now account for nearly 85 percent of all jobs in the United States[2] and increasing proportions of jobs in other industrialized nations. Countries like India have benefited significantly from the outsourcing of a variety of services from the United States and other English-speaking countries. Walmart, the largest company in the United States in 2009, is part of the services economy. Figure 15.2 shows the growth of services as a percentage of the U.S. gross domestic product; as of late 2008, services account for 60 percent of the GDP. Globally, services account for more than 80 percent of the GDP in Hong Kong and more than 70 percent in countries such as the United Kingdom, the Netherlands, and Australia.[3] Many companies worldwide, better known for their manufactured products, are generating serious revenues from services. For example:

- IBM, historically known for producing computers, now gets 60 percent of its revenues from services.
- The Finnish mobile phone company, Nokia, is aiming to shift its mix of products toward services such as music and maps.
- The copier company, Xerox, obtained 20 percent of its $17.6 billion in revenue in 2008 from copying consulting services showing customers (ironically) how to cut their copying costs. The company also purchased Affiliated Computer Services Inc., an information technology services company, in 2009 to get access to that company's clients for selling them printing services as well.
- Hewlett-Packard's third-quarter profit in 2009 increased by 14 percent due to an increased emphasis on technology consulting and information technology services boosted from its acquisition of Electronic Data Systems.[4]

Walmart is an important part of the U.S. service economy. *Source:* Kristoffer Tripplaar/Alamy Images



In addition, with the growth of outsourcing noted in Chapter 1, companies are now purchasing services in many instances to replace products. For example, many large companies outsource their document preparation services to other firms. Software purchases are being replaced in some instances with software that is "hosted" (the ASP, application server provider, model described in Chapter 12) by other companies who charge a monthly service fee. Although services marketing is not completely different from the marketing of manufactured goods, it is important to understand the differences.

It is interesting that there is not always a clear distinction between physical products and services. For example, some products are bundled with a service component. Purchasers of the digital video recorder TiVo pay a price for the box and a monthly service fee for programming information and other features. Likewise, if you purchase a new digital camera, you will be asked if you are interested in an extended warranty. A cellular phone is distinct from the cellular service, with two different sets of companies involved. Alternatively, some services have both hardware and service components together. If you purchase a direct subscriber line (DSL) for high-speed Internet access, it involves an ethernet card in the PC, a special modem, some cables, plus the service itself.

The Nature of Services

How are services different from manufactured products?

A Classification of Goods

Economists have developed a classification of different types of product attributes that is useful for understanding the differences between manufactured products and services.[5] The three major types of attributes are:

1. **Search attributes.** These are characteristics, the quality of which can be assessed before purchase. These are typical of manufactured products; for example, a consumer can assess the picture quality of a TV or an industrial purchaser can determine the strength of an adhesive.
2. **Experience attributes.** These are characteristics, the quality of which can be assessed only after purchase or during consumption. These are typical of services. For example, the quality of an airline's service is unknown before the customer purchases a ticket and takes a trip.
3. **Credence attributes.** These are characteristics, the quality of which may not be determined even after consumption because the customer lacks the expertise to make an evaluation. An example of such products is wine: only the most knowledgeable consumers can tell the difference between a very good and an excellent wine. Another example is auto repair services: only the mechanic knows if the oil was changed.

Figure 15.3 displays goods and services on a continuum from search to credence attributes. As can be seen, manufactured goods are normally high in search attributes, and most services are characterized by experience or credence qualities. The major implication of this typology is that services are more difficult to evaluate before purchase than manufactured products. This leads to a different evaluation process by customers and a different marketing strategy by the firm.

Many services are performed by humans resulting in quality variance over time.
Source: Rob Walls/Alamy Images

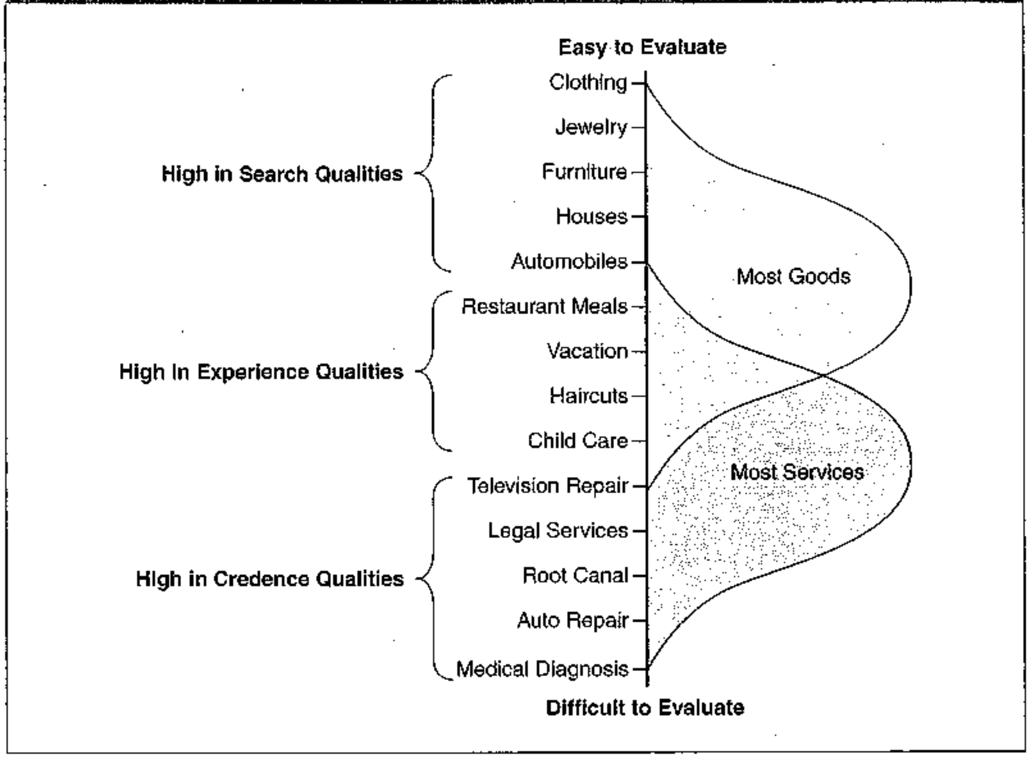
Characteristics of Services

Some of the basic characteristics of services are:

- **Intangibility.** The intangible nature of services and this impact on assessing service quality has been mentioned. A further implication of intangibility is the difficulty of inventorying services. In many cases, when a service is not performed at a particular time, the revenue is lost forever and cannot be recaptured. An example of this is when a FedEx jet takes off with unfilled capacity. Although later planes may be filled, the lost revenue from the unfilled one is gone because the space cannot be held for later purchase. A similar situation exists with unfilled seats at a baseball stadium, slack time in an auto repair facility, and underused staff in an accounting firm. With respect to physical goods, TV sets not sold one day can still be sold the next.
- **Nonstandardization.** As noted earlier, many services are performed by humans. As a result, they can vary from purchase occasion to occasion. The haircut you get from a stylist in January

Figure 15.3

Continuum of Evaluation for Different Types of Products



Source: Reprinted with permission from the American Marketing Association, published by the American Marketing Association, Valarie A. Zeithaml (1991), "How Consumer Evaluation Processes Differ between Goods and Services," in C. Lovelock (Ed.), *Services Marketing*, 2nd ed. (Englewood Cliffs, NJ: Prentice Hall), p. 40.

can differ from the haircut you get in February, even from the same person. The service on a United Airlines flight from San Francisco to Boston can vary from trip to trip. Therefore, it is much more difficult to control quality for services than for manufactured products. Compare this situation with the quality control mechanisms that exist for autos and similar products, in which there is much greater uniformity from product to product.

- **Inseparability of production and consumption.** In many cases, services are produced and consumed simultaneously; that is, the customer is part of the production process. However, it has been said that services are performed, not produced, and the customer is part of the performance. The customer's involvement in service delivery increases the difficulty of standardizing services. The service quality is determined by this interaction, not simply by the quality of the service provider's efforts. For example, the excitement of a classroom discussion varies with the preparation by both the instructor and the students. If the students or the instructor are unprepared, the quality of the service is diminished.

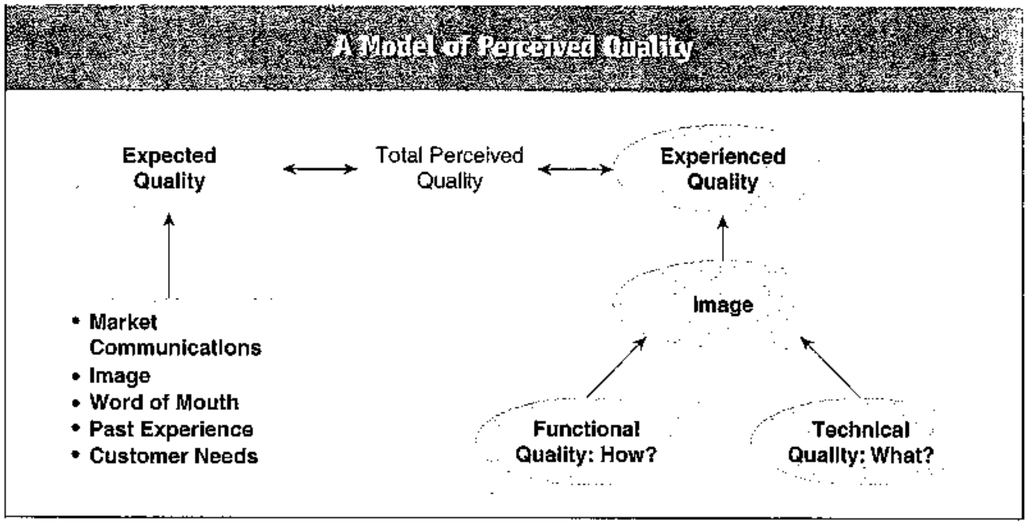
Service Quality

Because of the size of the service economy, services marketing has been one of the most heavily researched areas in marketing over the past 15 years. This research has produced a number of important findings in the area of service quality.

The Service Quality Model

How do customers determine whether they have received good service from a supplier? As noted earlier in this chapter, one characteristic of services is that because of their intangibility, perceptions play a greater role in assessing quality than they do with manufactured products. It is not an exaggeration to say that particularly with services, quality is how the customers perceive it.

Figure 15.4



Source: Christian Grönroos (1990), *Service Management and Marketing* (Lexington, MA: Lexington Books), p. 41.

A model of service quality is shown in Figure 15.4 (this is an expanded version of Figure 14.9). As we have discussed earlier in this book, quality is defined in terms of customer perceptions. A customer's perception of quality is based on a comparison of the quality actually experienced to what he or she expected to occur when the service was delivered. The right side of the figure describes the customer evaluation process during and after the service contact. The left side depicts the customer's prediction of what the service contact will be like, or the expectation.

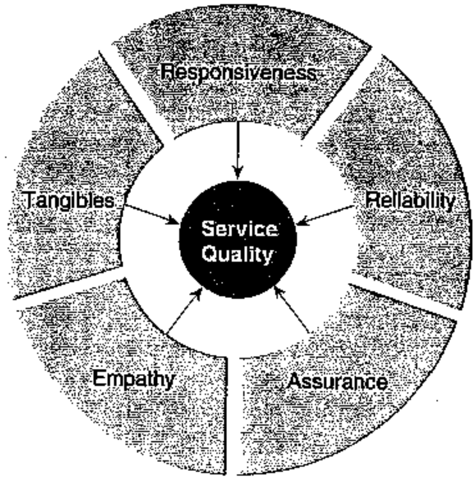
Expectations are based on a variety of information sources. A key source of information is the set of communications offered by the firm. These include advertising and brochures. Other sources of information include word-of-mouth communications from friends, relatives, suppliers, and others. Customer needs also affect expectations. If a software problem is important to the operation of a business, the customer will expect to get a quick answer. Past experience with the company plays a key role. If a customer called a toll-free telephone number to solve a problem and had to wait several hours to get through because all the lines were busy, this experience will create an expectation of a similar experience in the future. This source of information is important when the customer has had some experience with a service provider. However, because services are intangible and difficult to sample before purchasing, new customers rely more on the other sources of information to form their expectations.

The experienced quality (shown on the right side of Figure 15.4) results from an image or perception the customer forms after the service encounter. This perception of experienced quality is based on two components. The first component is the set of features or attributes of the service, or technical quality. In the computer software example, this would be the quality of the advice given. Functional quality is how the service is delivered or the quality of the actual interaction with the company. This could include the friendliness of the telephone service person, how many rings it took before someone answered, and so on. This dimension of service quality reflects the fact that customers take a broad view of the quality of a service encounter.

Let us return to the Edward Jones illustration. When a client is new, she forms an expectation of the quality of the investment advice she will receive from recommendations by friends (word-of-mouth), the image the firm has developed based on its communications, and her needs (e.g., the establishment of a retirement account). After taking the advice of a Jones broker, the client experiences a certain degree of service quality, based on the returns of the retirement fund as well as her interactions with the broker and the information she receives. The client compares her expectations with the experienced quality and forms a perception of the actual quality of the service. If the client is not new but seeking to add to her investments already managed by Jones, then the expected quality is also based on the firm's past performance.

Figure 15.5

Dimensions of Service Quality



Source: Valarie A. Zeithaml and Mary Jo Bitner (1996), *Services Marketing* (New York: McGraw-Hill), p. 119. Reproduced with permission of the McGraw-Hill Companies.

The Dimensions of Service Quality

Although there are many models of the different factors that affect service quality,[6] a parsimonious and well-known model contains the factors shown in Figure 15.5:[7]

- **Reliability.** This is the ability to perform the service dependably and accurately (i.e., deliver it as promised).
- **Assurance.** This is the service provider's employees' knowledge and courtesy and the confidence they instill.
- **Tangibles.** Services do have attributes (e.g., interest rate, price), and the quality of a service depends on customers' perceptions of these attributes. Tangibles also include facilities, written materials, and other physical evidence of the service.
- **Empathy.** This is the high level of attention given to customers.
- **Responsiveness.** This is the ability of the service provider to respond to the customer's needs on a timely basis.

This model is often referred to as the RATER model of service quality. The importance of these dimensions of service quality is that service firms can use them for the purposes of differentiation and positioning. These uses are described more fully later in this chapter.

Application | The Broadmoor Hotel

For more than 40 consecutive years, the Broadmoor Hotel and Spa in Colorado Springs, Colorado, has received five-star ratings from *The Mobil Travel Guide*.[8] How does it ensure that the 1,600 employees maintain the superior service quality required to achieve that record of success?

- **Reliability.** This is achieved through exhaustive staff training. Before ever encountering a customer, a new Broadmoor employee attends a 2½ day training session where service expectations are set. For example, employees are trained to always give an estimated time for service, whether it is room service, laundry service, or estimating how long it will take to be seated at a restaurant (note the application of the model shown in Figure 15.4). Further training includes a 90-day on-the-job program and a five-module program once they become permanent employees.

- **Assurance.** The Broadmoor conveys trust by empowering its employees. For example, in a service recovery situation when a guest has a problem, employees are given discretionary resources to either solve the problem or mollify the customer. Assurance is also provided by employees attempting to address guests by their names whenever possible.
- **Tangibles.** This is, of course, a key part of the service offering. The Broadmoor offers first-run movies, boutiques, a cigar bar, an English pub, and three championship golf courses. The world-class spa features hydrotherapies, body treatments, massage therapies, and aesthetic treatments. Of course there are tennis courts, swimming pools, and many other tangible aspects of the service.
- **Empathy.** Employees are trained to see things from the customer's perspective. Employees follow the HEART model to take care of problems: *hear* what the guest has to say, *empathize* with him or her, *apologize* for the situation, *respond* to the guest's needs, and *take action* and follow up.
- **Responsiveness.** All department managers are expected to have sufficient staff to ensure the responsiveness that the hotel guests expect to receive. Management is also responsive to staff; managers award "star" cards on-the-spot to employees who demonstrate outstanding behavior toward guests. The hotel also seeks advice from guests concerning new amenities and features that can be added, such as water slides at the pool.

Gaps in Perceptions of Quality

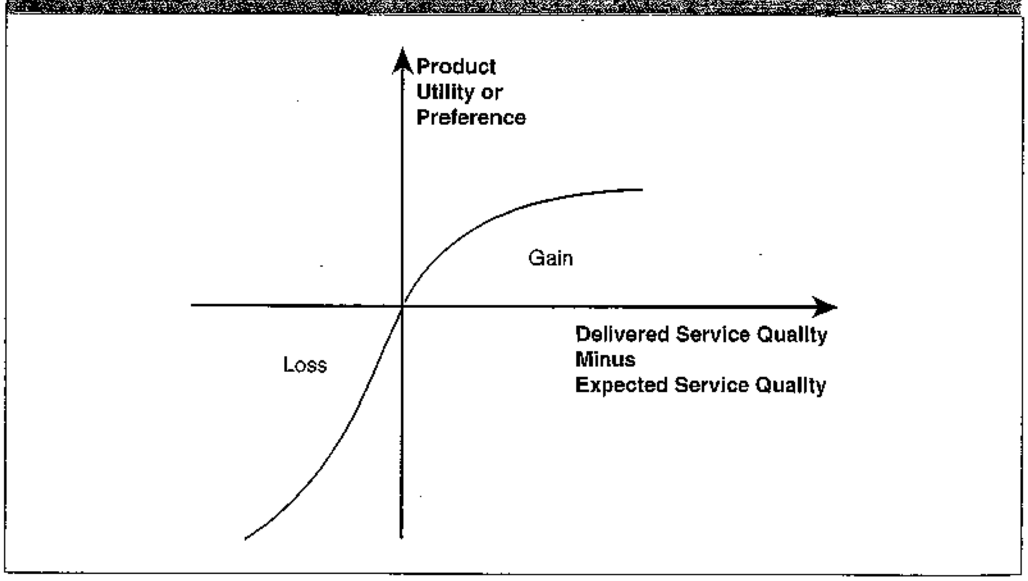
Inevitably, a discrepancy will arise between the expectations formed about the service encounter and the experienced quality. As you might expect, customers who are upset with poor service tend to talk about it. As also might be expected, they talk more about negative experiences than positive ones.

loss aversion
a psychological phenomenon characterized by customers reacting more strongly to unexpectedly poor service than to unexpectedly good service

This asymmetry of the effects of negative and positive discrepancies is theoretically justified by the well-known psychological phenomenon called **loss aversion.**[9] Figure 15.6 is a graphic representation of loss aversion. Losses are situations in which the expectations of service quality were higher than the realized quality. Gains are the opposite situation. The curve to the left of the vertical axis demonstrates that losses are more negatively valued than gains are positively valued. In other words, customers react more strongly to unexpectedly poor service than they do to unexpectedly good service.

Figure 15.6

Loss Aversion Model of Service Quality



Negative gaps in perceived service quality can be remedied in two ways. The marketing manager can either lower expectations or raise service quality through improved service features (technical quality) or higher-quality interactions (functional quality). Because expectations are difficult to manage and lowering customer expectations is not usually in the best long-term interest of the service provider, raising service quality is usually chosen. However, a good example of the former is the author's dentist, who consistently overestimates the length of time it will take for the visit. Even though patients learn to expect that he will overestimate the length of the visit, it is still a nice bonus when it actually happens. Financial services firms such as Edward Jones had to lower investors' expectations in 2008–2009, when the bull stock market that had been raging since the early 2000s began to cool down.

Positive gaps in perceived service quality can also be a problem because customers' expectations adapt over time. When a positive gap exists, the service provider must increase quality just to keep matching expectations. Consider Singapore Airlines, which has consistently been recognized as the airline with the best service in the world. Of course, this is very pleasing to the company. However, it also creates potential problems because every passenger expects an almost magical experience. When that lofty expectation is not met, customers are disappointed even though the level of the service is still very high. A similar situation exists for popular restaurants and other services that generate strong word-of-mouth. Although this is a "problem" that most managers would love to have, it is still important to understand that customer expectations do drive their ultimate evaluations of quality.

We can categorize the major discrepancies between expectations and realizations into four general types of gaps:[10]

1. **The gap between customers' expectations and management's perceptions.** One key problem is that managers often think they know the bases on which customers form expectations, but often are incorrect. Companies can remedy this problem by conducting focus groups for managers to attend and presenting them with more formal research results.
2. **The gap between management's perceptions and service quality specifications.** Even when managers have a good understanding of how customers form expectations, they can find it difficult to apply their understanding to the design of the service operation. For example, knowing that computer software customers want quick response to phone calls is not enough. Defining acceptable response time takes discussions with customers.
3. **The gap between service quality specifications and service delivery.** Even if the previous gap is closed, marketing objectives will not necessarily be met. Simply setting the appropriate response time is still different from actually meeting the targets.
4. **The gap between service delivery and external communications.** As Figure 15.4 shows, communications with customers can have a powerful effect on expectation formation. As noted earlier, some of these are traditional communications such as advertising. Others are more personal; for example, how many times has a customer service person promised that a plumber or cable TV installer would be at your home at a particular hour and the person has been late?

Measuring Service Quality

Service quality cannot be measured in the way the quality of physical goods is measured. Manufacturers can use engineering or other physical metrics to assess quality as products come off the manufacturing line. By necessity, service quality is measured using a survey instrument administered to customers.

One of the most popular approaches to measuring service quality is the SERVQUAL instrument.[11] SERVQUAL is composed of questions about the five categories of service quality shown in Figure 15.5 (tangibles, reliability, responsiveness, assurance, and empathy). Each customer surveyed completes one 22-question survey measuring expectations and then one survey for each company or product to measure actual competitor performance. The SERVQUAL score for a service is the difference between the perception of the dimension and the expectation. A company can then determine its quality of

Table 15.1

Example of SERVQUAL Survey	Strongly Disagree						Strongly Agree
1. Excellent ________ companies will have modern-looking equipment.	1	2	3	4	5	6	7
2. The physical facilities at excellent ________ companies will be visually appealing.	1	2	3	4	5	6	7
3. Employees at excellent ________ companies will be neat appearing.	1	2	3	4	5	6	7
4. Materials associated with the service (such as pamphlets or statements) will be visually appealing in an excellent ________ company.	1	2	3	4	5	6	7
5. When excellent ________ companies promise to do something by a certain time, they will do so.	1	2	3	4	5	6	7
6. When a customer has a problem, excellent companies will show a sincere interest in solving it. ________	1	2	3	4	5	6	7
7. Excellent ________ companies will perform the service right the first time.	1	2	3	4	5	6	7
8. Excellent ________ companies will provide their services at the time they promise to do so.	1	2	3	4	5	6	7

Source: Reprinted with the permission of The Free Press, a Division of Simon & Schuster, from *Delivering Quality Service: Balancing Customer Perceptions and Expectations*, by Valarie A. Zeithaml, A. Parasuraman, and Leonard L. Berry. Copyright © 1990 by The Free Press. All rights reserved.

service on each of the five dimensions by taking the average score across the questions for that dimension and calculating an overall score. A weighted SERVQUAL score can also be calculated by asking the customer to give importance weights (summing to 1) on each of the five dimensions. Table 15.1 shows four tangible and four reliability questions. Besides using SERVQUAL to calculate service quality perceptions, managers can use it to track competition, examine differences among market segments, and track internal service performance.

Of course, high scores on service quality surveys do not guarantee repeat customers. For example, in 1990 the U.S. General Accounting Office issued a report on a survey of 20 companies that had scored well in the 1988 and 1989 Baldrige quality competitions. One important result was that although responding managers said customer satisfaction levels had increased since then, customer retention remained almost unchanged.[12]

The Return on Quality

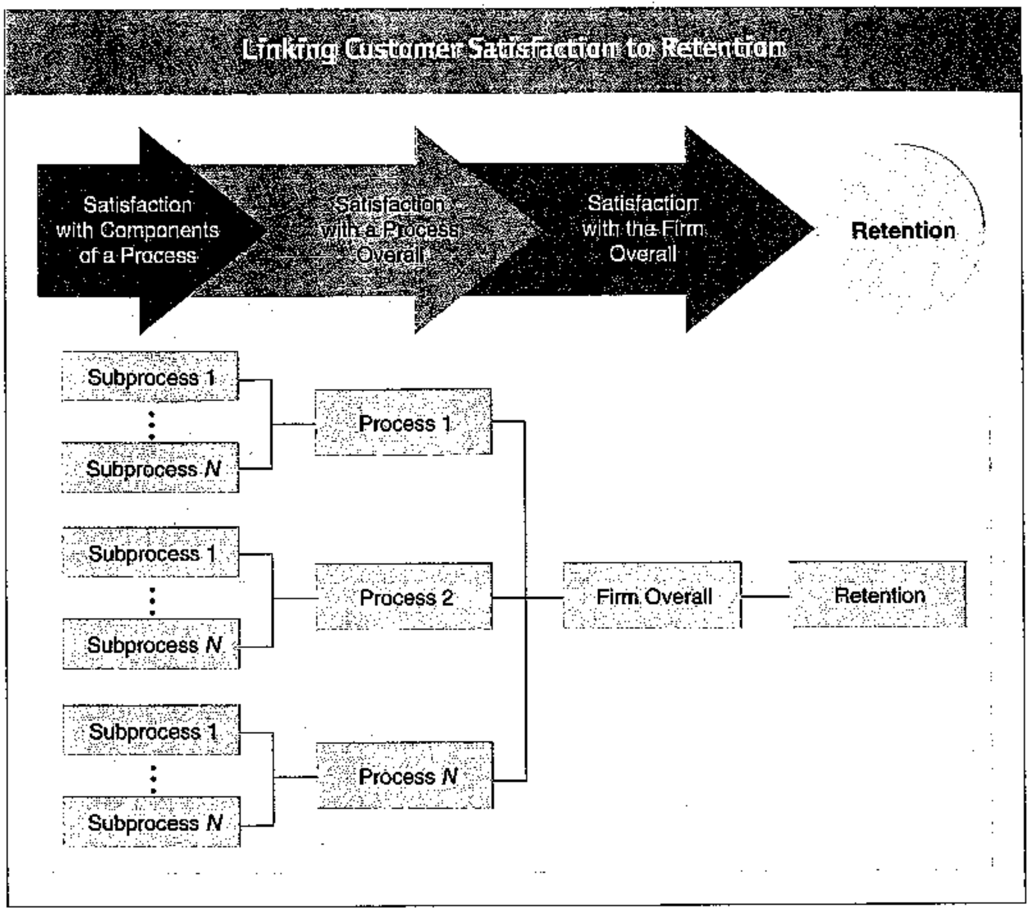
It normally takes a significant investment to improve service quality. For example, Florida Power & Light spent millions of dollars competing for Japan's prestigious Deming Prize. However, the ensuing lack of attention to controlling the costs of the quality improvements upset the state's ratepayers, causing the quality program to be dismantled.

return on quality (ROQ) an approach attempts to quantify financial returns on investments in improved service quality

As a result, several authors have developed a **return on quality (ROQ)** approach based on the following philosophy:[13]

- Quality is an investment.
- Quality improvement efforts must be financially accountable.
- It is possible to spend too much on quality.
- Not all quality expenditures are equally valid.

Figure 15.7



Source: Roland T. Rust, Anthony J. Zahorik, and Timothy L. Keiningham (1994), *Return on Quality: Measuring the Financial Impact of Your Company's Quest for Quality* (Chicago: Probus).

The basic notion behind the ROQ approach is that managers are looking for improvements in actual customer behavior, such as increased loyalty, that generate a profit. The ROQ model is shown in Figure 15.7.

The key to the approach is to break down satisfaction levels with an overall process into satisfaction levels with components of those processes. This allows a more targeted approach to investing in service quality because the company can invest in the areas that will deliver the greatest return. This ultimately leads to higher overall satisfaction and greater customer retention.

Application | Marriott

For example, Marriott found that customers at full-service Marriotts wanted five things (processes): a great breakfast, fast check-in, fast check-out, clean rooms, and friendly service.[14] Managers at the company then examined each process to see which subprocesses needed the most attention. They gave each process the greatest leverage to increase customer satisfaction with the process and, ultimately, overall customer satisfaction. To improve breakfast service, the company speeded up service by hiring runners to bring the food to the servers. This allowed servers to be more attentive to customers. To improve check-in, the company established a system of allowing customers to register and get their room keys at the door, bypassing the front desk. For quicker check-out, the bill is slipped under the room door at 4 a.m. and the customer just has to sign it.

Strategic Issues

Marketing managers need to take the special characteristics of services into consideration when developing a marketing strategy.

The Problem of Intangibility

We have noted several times in this chapter that services are intangible and, therefore, more difficult to evaluate. The challenge for a firm marketing services is to make the product tangible to the customer in order to facilitate the prepurchase evaluation and comparison to competitors.[15] Although it is possible to rely solely on image and positioning, customer reaction is more uncertain and idiosyncratic.

There are many examples of attempts to make services more tangible. Professional photographers show prospective customers books of their work. Landscape architects invite potential customers to drive by other houses for which they have constructed gardens or trimmed trees. Advertising agencies send companies from whom they are soliciting work reels or books of their ads. Cruise operators send videotapes of happy vacationers with scenes from the ship and ports of call. Anything the marketing manager can do to make the service tangible to the potential customer reduces the amount of uncertainty involved with the purchase and increases the chances that the customer will choose you rather than the competitor.

Additionally, service providers can do a better job of reminding customers of the excellent service they have received. Hotel cleaning personnel leave the strip of paper over the toilet seat, indicating that the bathroom has been sanitized. An executive at a computer company sends a letter to an information systems manager, reminding the manager of all the free consulting services (e.g., evaluation of their accounts receivable system) the company obtains over the course of the selling process. Intangibility can also mean invisibility, where the challenge is to take a service that has been provided and remind the customer of what he or she has received. Many times excellent service is taken for granted because the company has not done a good job of reminding customers of that excellent service.

One way to make a service tangible is to use sampling or other promotions to get customers to try the service at low cost or risk. New advertising agencies often send speculative creative work to companies with which they would like to develop a more permanent relationship. MBA programs usually offer prospective students the opportunity to sit in on classes to get a better feeling for the quality of the instruction and students.

The Problem of Low Barriers to Entry

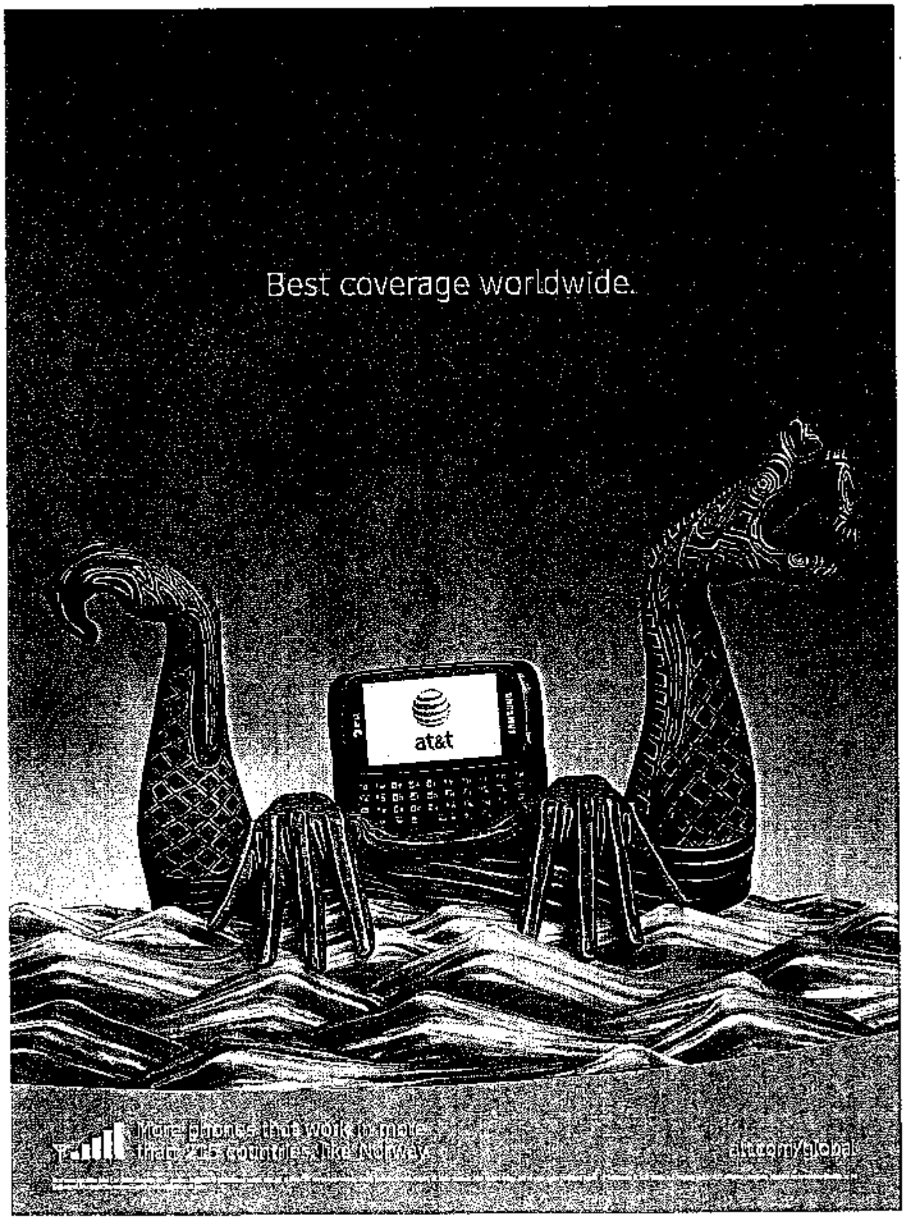
Many service industries are characterized by low barriers to entry. This is particularly characteristic of professional services. It is common for law firms, stock brokerage firms (e.g., Edward Jones), advertising agencies, consulting firms, and similar organizations to splinter, with several senior members of the original firm leaving to start their own firms. It is easy to obtain the credentials to become a travel or real estate agent and set up a business. Even telecommunications companies have started without any lines or repair personnel by merely purchasing excess capacity from existing companies and reselling long-distance and local services. New airlines often start up by renting used airplanes, purchasing landing rights at airports with unused capacity, hiring nonunion pilots and flight attendants, leasing maintenance services from other airlines, and using telephone or Internet-based reservation systems. Low barriers to entry create more competition, customer switching, employee turnover, and lower profits. The problem is exacerbated by the fact that many customers are loyal to the person in the company with whom they have had the most contact, rather than the company itself, and move with the employee to the new company.

Competition puts pressure on the company to develop a clear differential advantage and positioning in the marketplace. You can use the dimensions of service quality noted earlier in this chapter to differentiate your business from competition and effectively communicate or position the service:

- **Reliability.** An example of this positioning is shown in Figure 15.8 in the ad for AT&T. Note that tag line "Best coverage worldwide."—which implies reliable service anywhere in the world.
- **Assurance.** This aspect of service quality describes how the company inspires trust and confidence. The billboard for Charles Schwab shown in Figure 15.9 does just that by assuring you that you will save money on your taxes by investing in a Schwab financial product (an Investment Retirement Account).
- **Tangibles.** Figure 15.10 shows an ad for Embassy Suites Hotel touting a tangible difference between its service and its competitors: a complimentary cooked-to-order breakfast every morning.

Figure 15.8

AT&T Ad



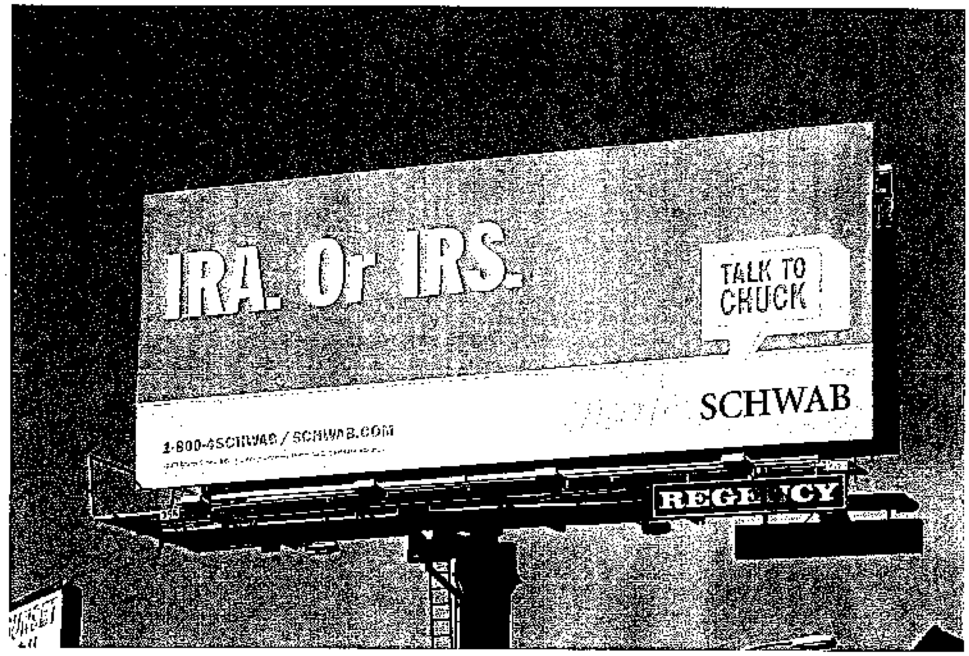
Source: Att.com.

An additional framework for thinking about differentiating services is the value chain shown in Chapter 1 in Figure 1.2. Service companies can attempt to differentiate themselves from competition by emphasizing the following value chain:

- **Inbound logistics.** In the case of services, inbound logistics focuses squarely on the quality of the employees. Because services are produced by people, product quality is directly related to staff quality and training.
- **Operations.** For service companies, the operation *is* the product. McDonald's quality is based on the extraordinary control and consistency maintained throughout its restaurants. For Edward Jones, the operation is the one-person brokerage site. FedEx's hub-and-spoke operation in Memphis is the key to its on-time record and high levels of customer satisfaction.
- **Marketing and sales.** As we have noted, because of the significant emphasis on image and positioning, strength in marketing is critical to success in service businesses. Because there are often few objective measures on which customers can

Figure 15.9

Charles Schwab Billboard



Source: Bill Aron/PhotoEdit Inc.

compare competitors (other than price), marketing success often leads to success in the marketplace.

- **Service.** Service quality brings customers back for repeat business. Marketing can gain trial, but only customer satisfaction creates repeat purchasing. As you saw in Chapter 14, a large part of service quality is customer relationship building because so much of service marketing depends on personal relationships. We discuss the topic of service quality in more detail later in this chapter.

Professional Services

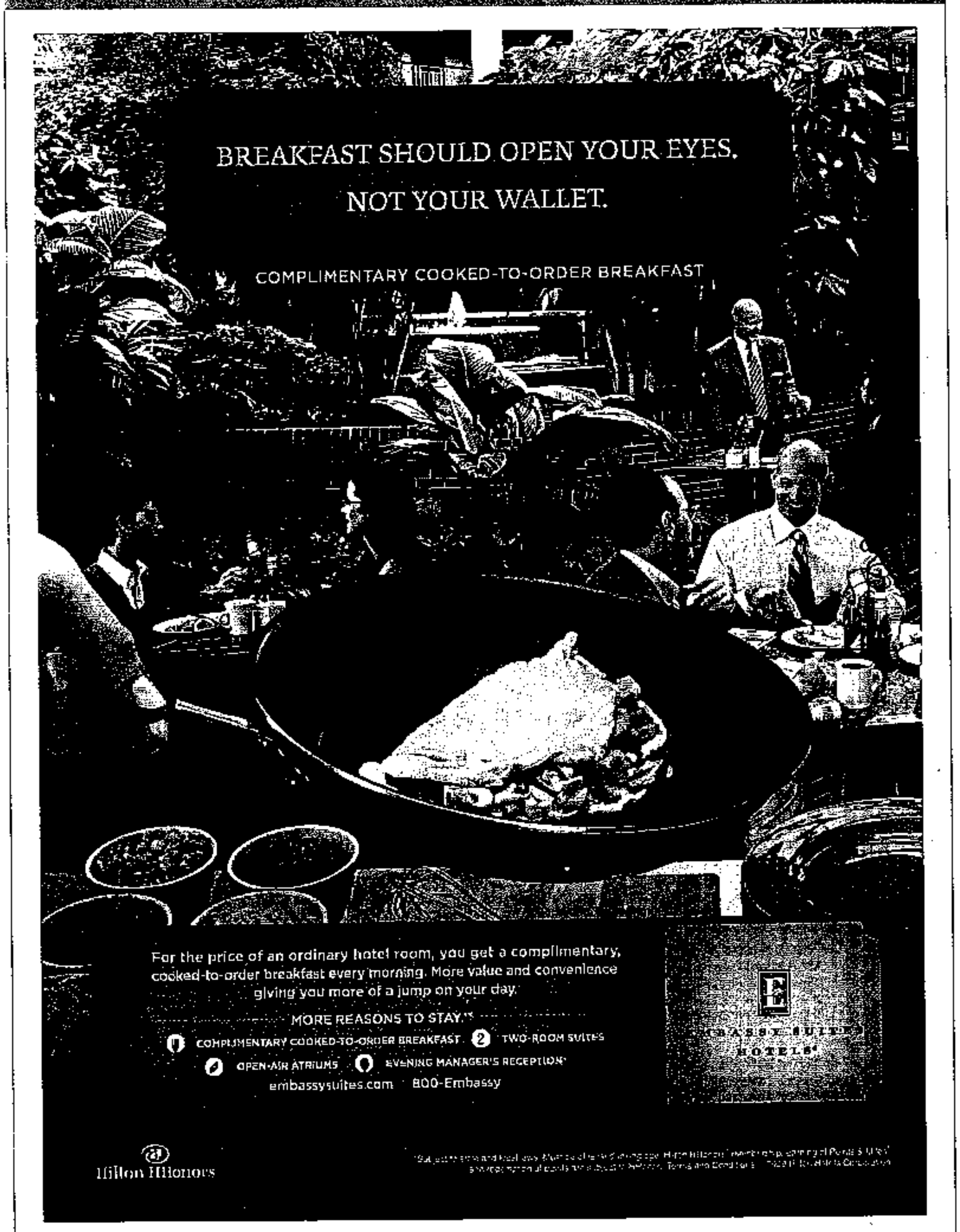
Professional services firms (e.g., law, consulting, accounting firms, advertising agencies) deliver products that are almost entirely dependent upon the quality of the employees. Unlike travel, communications, and other services, the quality of the product delivered is a combination of a number of factors—not only the people involved but the underlying technology (quality of the digital cellular connection), equipment (aircraft used), and so on. While barriers to entry are high, intangibility of the product is still a problem as is the inseparability of production and consumption, to some extent, as clients have to participate in the creation of tax returns, consulting reports, and other products of professional service firms.

A high overall level of technical expertise is a given for a competitive services firm. Key dimensions for differentiation include specialized technical expertise (e.g., an accounting firm specializing in performing audits of universities), reputation, and integrity. For professional services, reputation is the key asset because it is the basis for positive word-of-mouth and reduces the amount of uncertainty inherent in service products. Reputation is the sum effect of the RATER dimensions: reliability, assurance, tangibles (expertise), empathy, and responsiveness. Reputation can also be viewed as the sum of the competitive strategy components of excellence in employee recruiting (inbound logistics), service operations, marketing and sales, and service quality. Integrity has entered the limelight with the demise of the once-powerful Arthur Andersen accounting firm.

However, technical expertise, reputation, and integrity usually only get a professional services firm into the client's evoked set. To win the account, the challenge is to make the firm's accomplishments tangible to the prospective client. As noted earlier, advertising agencies can create portfolios and reels of their creative work. Consulting firms tout

Figure 15.10

Embassy Suites Ad



Source: Advertisement for Embassy Suites Hotels, Hilton Honors.

money saved through new processes instituted, law firms note significant cases won, and so on. In addition, expertise can be made tangible. For example, consulting firms often sponsor symposia in their areas of expertise. The usual strategy of brand-building works as well. An example of this is the consulting firm McKinsey, which is one of the most powerful brands in the world. Finally, as we discussed in Chapter 14, CRM is critical, particularly in a person-to-person business such as professional services.

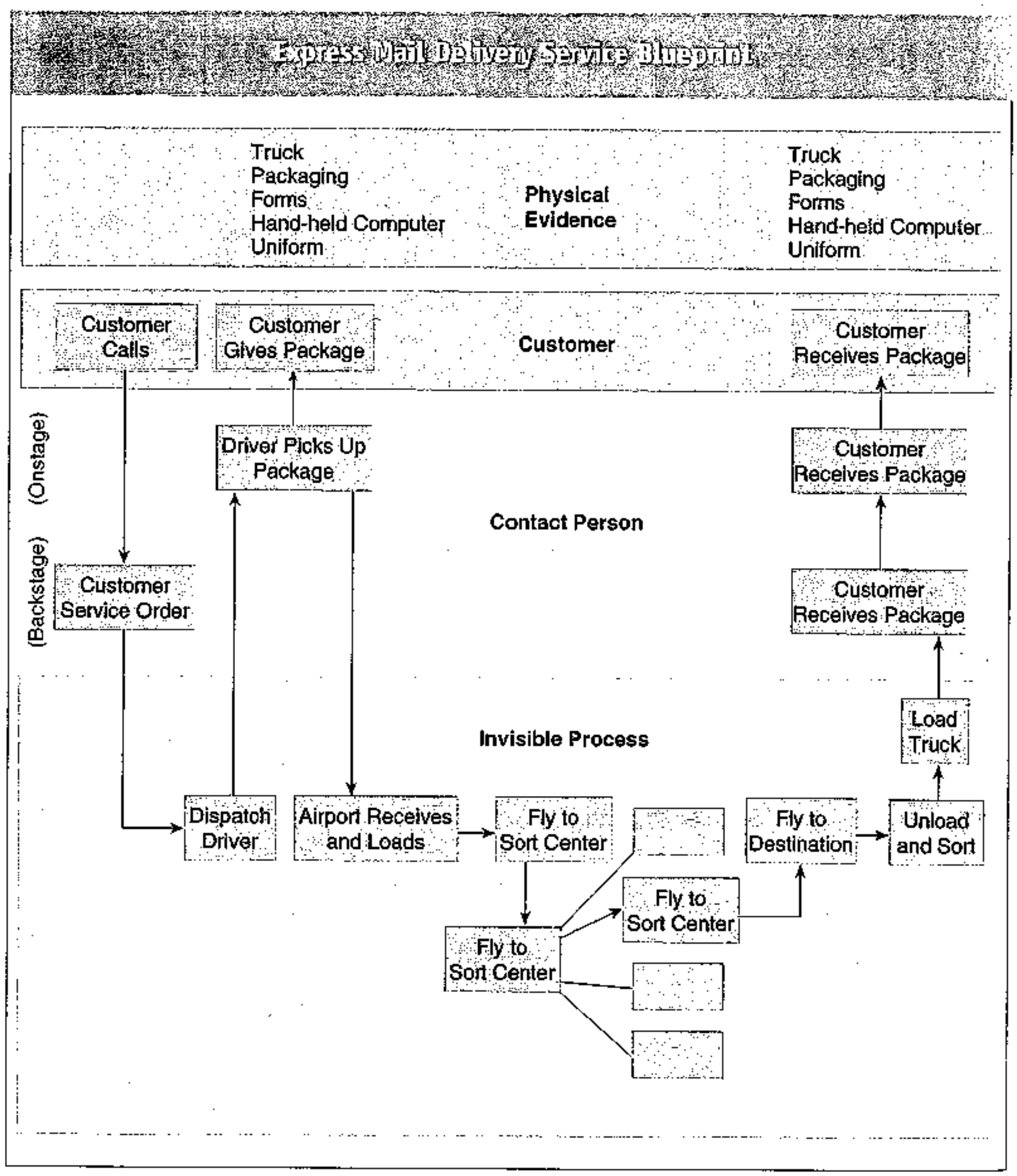
Service Design

Because services are intangible, they are difficult to describe and, therefore, to design and redesign if a new service is desired. Perhaps the best way to understand this is to think of the design of a manufactured item. Physical goods can be blueprinted; that is, either on paper or using computer software, the physical nature of the product (width, length, circuitry design, etc.) can be described. As a result, physical product attributes can be shown, communicated, and understood easily. Service blueprinting involves creating a flowchart that describes the flow of activity from the time the customer first contacts the service provider to the time the customer receives the service.[16]

An example of a service blueprint is shown in Figure 15.11, a blueprint for a mail delivery service. The process or flow of the service begins when the customer calls the firm. The customer speaks with a customer service representative and then a variety of activities occur, culminating with the arrival of the package at its destination.

What is interesting about the figure is that the activities are broken down into three types. The first type, above the top line, is the parts involving customers: calling the company, giving the package for delivery, and receiving the package. The middle two types of activities describe customer contact points (what we called "moments of truth"

Figure 15.11



Source: Valarie A. Zeithaml and Mary Jo Bitner (1996), *Services Marketing* (New York: McGraw-Hill), p. 281. Reproduced with permission of the McGraw-Hill Companies.

in Chapter 14). Some of these contact points are observable to the customer, or "onstage." These include the customer interactions with the drivers picking up and delivering the package. "Backstage" contact points are those in which the contact is not face-to-face; in this instance, this is limited to the person taking the order. If there was a problem with the delivery, a backstage contact would be with a customer service representative handling customer complaints or problems. For this service, much of the activity is below the third line, invisible to the customer.

These blueprints or flowcharts are extremely valuable to service companies. Perhaps the most valuable aspect of blueprints is simply the exercise of creating one. The act of creating a service flowchart forces you to put yourself in the shoes of the customer and thereby develop better insights about the service encounter. As a result, the moments of truth become clear. In addition, the key areas for potential service failure and thus the need for backup and recovery systems are highlighted. In Figure 15.11, it is easy to see that each arrow involves a potential service failure, creating the need to think carefully about the process. When the customer calls the service center to place an order, how is she greeted? How many phone rings are acceptable? After the order is placed, the company needs a system to give the order efficiently and quickly to the dispatcher to get a driver to pick up the package. When the driver has the order and goes to the customer's home or place of work, how is the driver dressed? Is she or he polite and knowledgeable? These kinds of questions can be extended to the other boxes and arrows in the blueprint.

As a result, blueprints are useful tools for understanding the design of the service and for redesigning it. For example, FedEx and UPS have information systems in place, so the large space in the top half of Figure 15.11 between "Customer Gives Package" and "Customer Receives Package" could have a box labeled "Customer Tracks Package." Bar coding on each package enables the companies to know where every package is at a given time. Customers can input the package ID number using PC-based software or the companies' Web sites and obtain that location information for themselves.

Application | Singapore Airlines

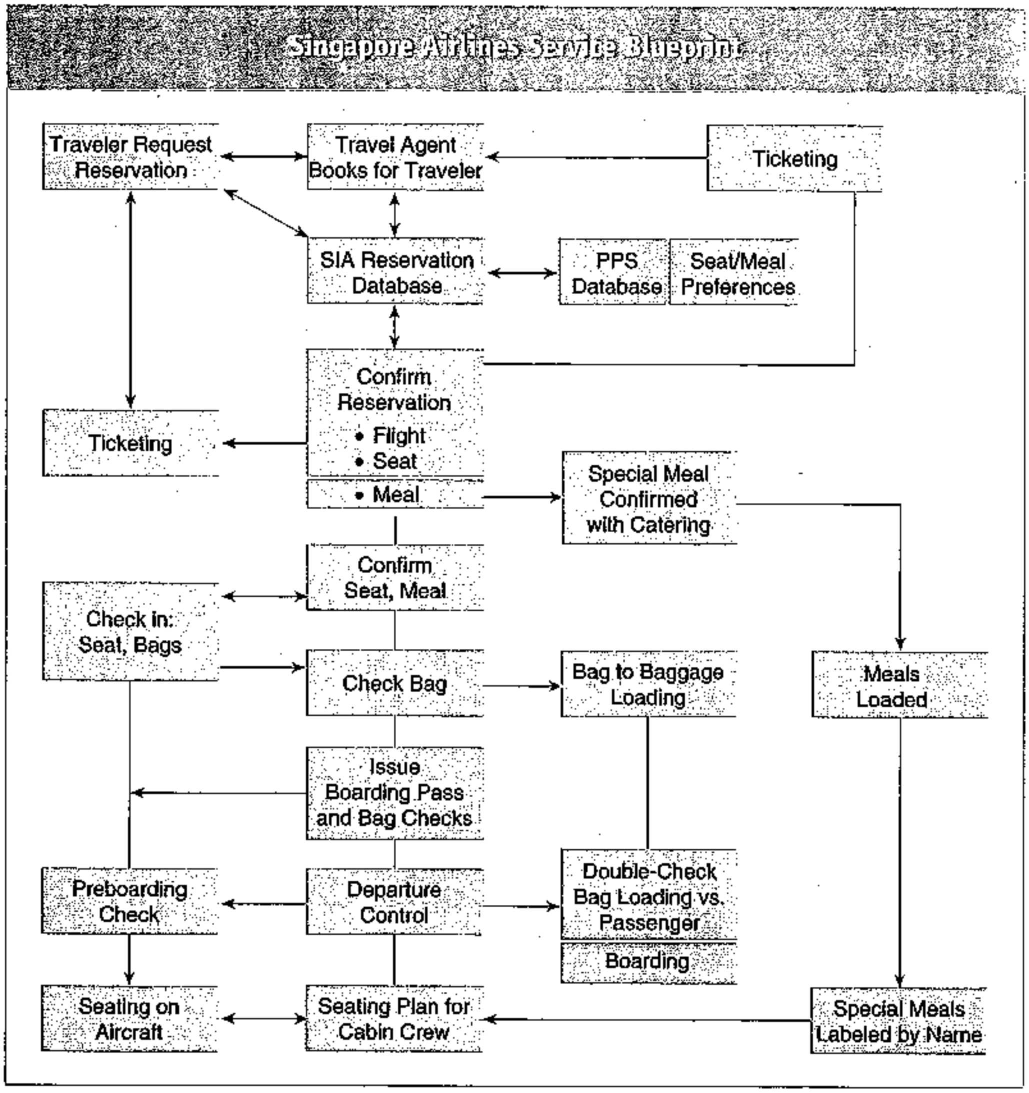
Although Singapore is only 25 percent of the size of the state of Rhode Island, Singapore Airlines is one of the world's 10 biggest airlines, as measured in international tons–kilometers of load carried.[17] The airline became successful by concentrating on marketing. The goal of the airline's management was to create an international airline with a distinctly Asian personality. At the top of the priority list was an emphasis on customer service. The company used the island's main natural resource—the natural hospitality of its people—as a competitive advantage. Through comfortable seating, free drinks and movie headsets, and the hospitality of its flight attendants, Singapore Airlines has set the world standard for international air travel quality.

In 1991, the airline was facing increased competition and improved service quality from several Western and Asian airlines, including Cathay Pacific, Japan Airlines, Thai International, and Malaysia Airlines. The challenge facing the company was how to continue to maintain its outstanding reputation for customer service and technical innovation.

To better understand customer needs, the company undertook two activities. The first was a blueprinting operation. The result is shown in Figure 15.12. Although the format is somewhat different from that of Figure 15.11, it can be seen that the parts of the service operation visible to the customer are on the left part of the figure, and the internal aspects of the operation are on the right. This flowchart goes only up to the point where the customer is seated on the aircraft. In addition, the contact people are omitted.

A more thorough analysis of customer activities is shown in Figure 15.13. Note that these activities are divided into three parts: preflight, in-flight, and postarrival. Singapore Airlines used this flowchart in two ways. First, each block in the activity sequence was separately analyzed from a customer service, moment-of-truth perspective. Second, the airline evaluated each block to see where technological enhancements could improve its customers' experiences and provide additional ways to differentiate from the competition.

Figure 15.12



Source: Sandra Vandermerwe and Christopher H. Lovelock (1991), "Singapore Airlines: Using Technology for Service Excellence," IMD case No. IMD-5-0408, p. 20. Used by permission, courtesy of International Institute for Management, Switzerland.

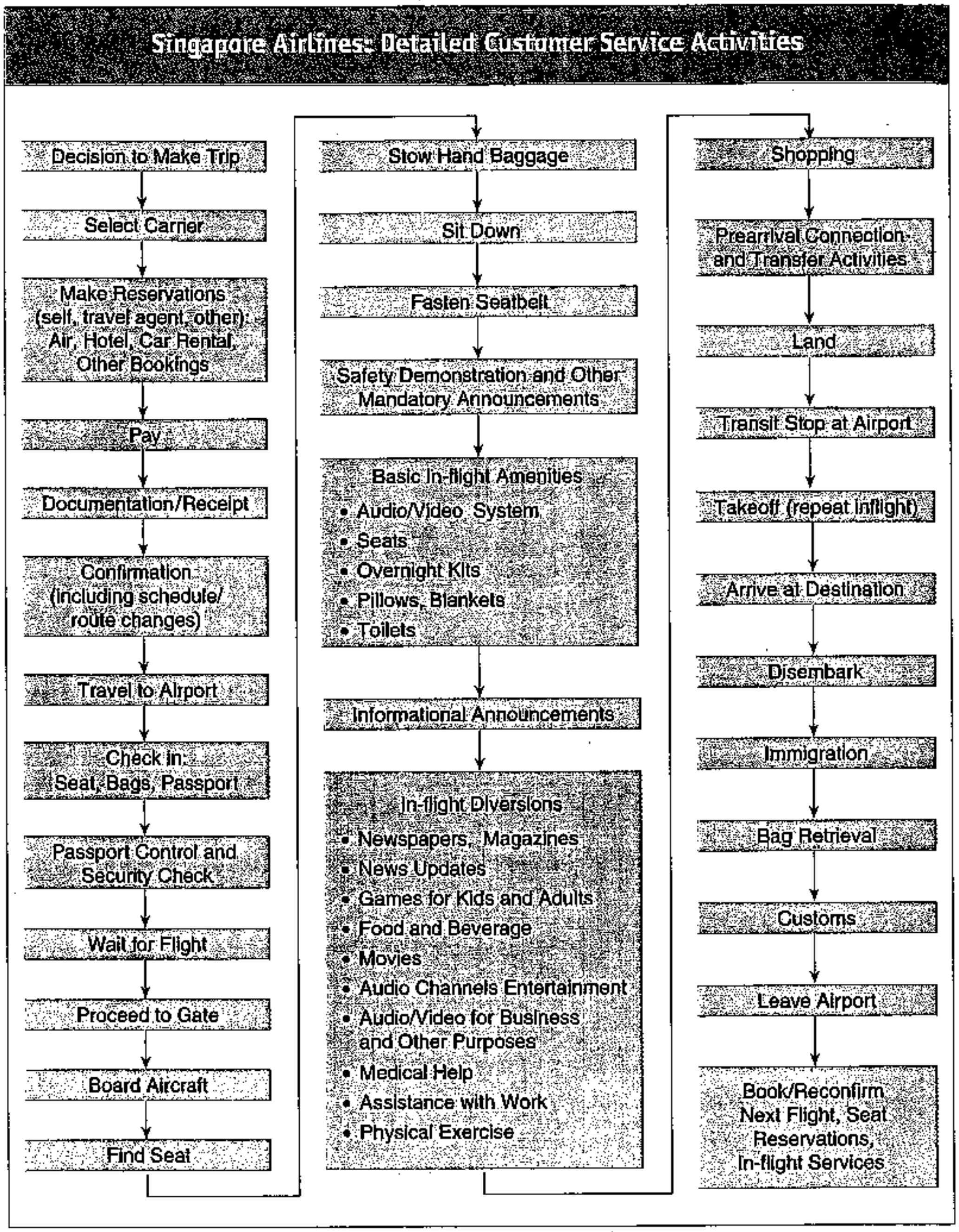
Marketing-Mix Implications of Service Marketing

In general, decisions on pricing, channels of distribution, and communications are made using the same general principles described earlier in this book, whether the product is a manufactured good or a service. However, a few subtle differences must be acknowledged.

Channels of Distribution

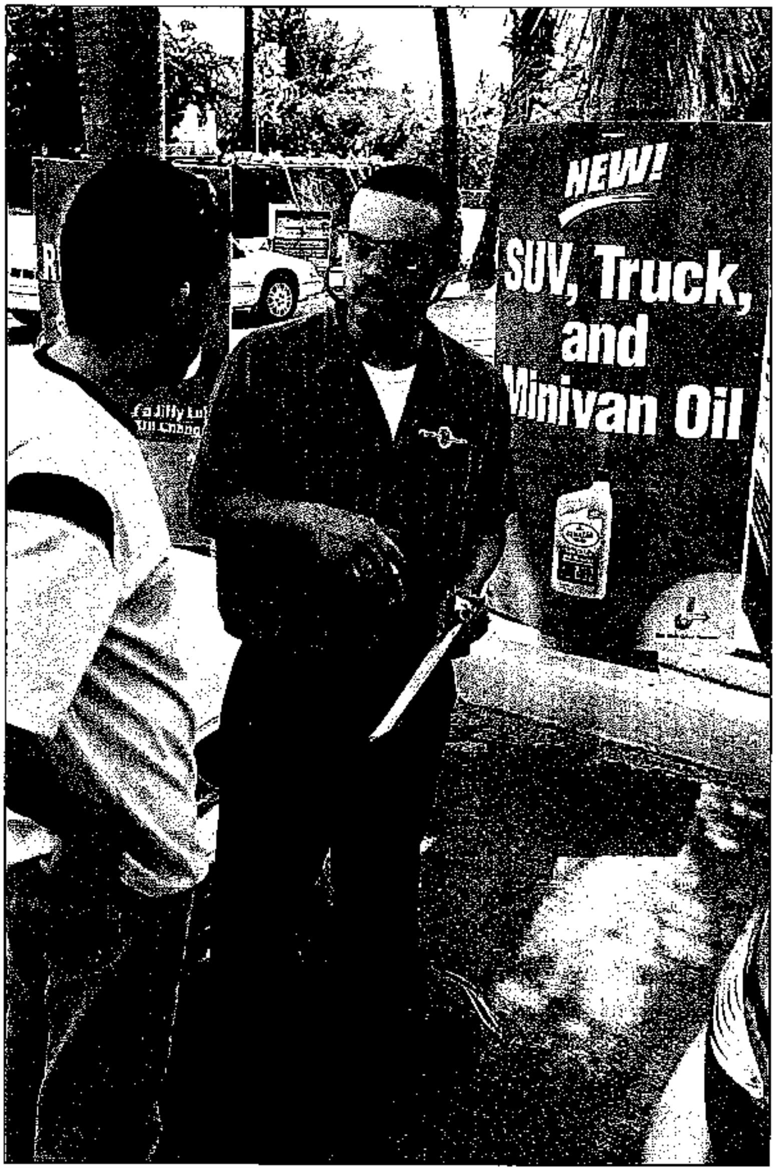
Because services are intangible, the notion of physical distribution channels does not apply. However, the general principle of channels offering customers access to the product does. Because services are characterized by the inseparability of production and consumption, service organizations must be physically present when the service is delivered or engage others to be present. Recall the comparison of direct and indirect channels in Chapter 12. Any time the product leaves the producing company's hands and is put under the control of others, there is the potential for the independent channel member to do a less effective job of marketing the product than the producer would. This is an even greater problem with services because they are often delivered by people. Nonstandardization of services increases when the service is being delivered by people who do not work for your company.

Figure 15.13



Source: Sandra Vandermerwe and Christopher H. Lovelock (1991), "Singapore Airlines: Using Technology for Service Excellence," IMDcase No. IMD-5-0408, p. 20. Used by permission, courtesy of International Institute for Management, Switzerland.

As a result, we can draw a distinction between the service principal (the company or person originating the service) and the service deliverer (the person or company that actually delivers the service to customers). As with physical goods, service deliverers or intermediaries can provide a number of benefits to the principal. Service deliverers can co-produce the service with the principal. For example, franchisees delivering automobile lubrication services (e.g., Jiffy Lube) execute the principal's concepts by operating the service centers and lubricating the cars (often other services are available as well). Service intermediaries also provide the customer with locations that make it easy to purchase services. Multiple Jiffy Lube outlets in a metropolitan area make it convenient for customers to purchase the lubricating services. These local retail outlets also promote the Jiffy Lube brand name and provide local presence for the service principal.



Channels for services must be designed to bring the customer and service provider together.
Source: Jeff Greenberg/Alamy Images

Because services are intangible, perishable, and generally not storable, services must be brought to the customer. That is, the service principal must design a channel structure that brings the customer and the provider together.

The four major approaches to service distribution are company-owned, franchising, agents and brokers, and electronic channels.

Company-Owned

Using the terminology developed in Chapters 12 and 13, these are also direct channels. Companies like Starbucks and McDonald's own some or a large portion (depending on the company) of the stores bearing their name. The large advantage of company-owned stores is that the firm controls the customer experience and, thus, the brand. The large disadvantage is the financial risk that must be borne and the resulting limitation of the number of outlets that one individual brand can have in the world.

Franchising

Franchising is an extremely popular form of retail service distribution covering a wide variety of consumer and business-to-business services. A franchise is a contractual agreement between the originator of the service concept (the franchiser) and an individual or organization that provides retail distribution for the service (the franchisee). It works particularly well when the service can be standardized across disparate geographic locations. Many McDonald's, for example, are independently owned. This permits the company to have greater geographic coverage than it would be able to have by owning all the stores as well as shared financial risk. Elements of a typical franchise agreement are:[18]

- The nature of the service to be supplied by the franchiser.
- The geographic territory within which the franchisee can market the service.
- The percentage of the revenue generated by the franchisee that must be paid to the franchiser.
- The length of the agreement.
- The up-front fee paid by the franchisee to the franchiser.
- The terms by which the franchisee agrees to operate and deliver the service.
- An agreement by the franchisee not to sell another company's services.
- The promotional support provided by the franchiser to help develop the franchisee's market.
- The administrative and technical support provided by the franchiser.
- The conditions under which the agreement can be terminated.

Agents and Brokers

Many service companies use independent agents or brokers to sell their services. Well-known examples are the insurance and travel industries. As the discussion in Chapter 12 showed, there are trade-offs with using these methods for distributing any kind of product. Major advantages include a wider distribution and the fact that agents and brokers know their local markets well. Disadvantages include the loss of control, because it is very difficult to determine what agents and brokers are doing and what they are saying about your product.

Electronic Channels

As discussed in previous chapters, the growth of the Internet has spawned many opportunities for distributing services. Travel services (e.g., Kayak, Expedia, Travelocity, Orbitz) is the largest segment of the e-commerce industry with more than $110 billion sold in 2008.[19] The financial services industry has also taken advantage of electronic channels through services such as home banking and stock brokerage. The advantage of electronic channels is their low cost and the ease of access (for those with Internet connections). For example, rather than using a large number of branch banks or automatic teller machines ("bricks and mortar"), customers of most major banks can now check their balances, move money between accounts, and pay bills using the banks' Web sites. Entertainment companies, particularly in interactive gaming and gambling, have also taken advantage of the Web. The implications of the Internet on services marketing are discussed more thoroughly later in this chapter.

Advertising

The role of communications in service delivery is shown in Figure 15.4. As we have discussed, a key element of service quality evaluation is the assessment of the service relative to expectations. Advertising plays an important role in setting customer expectations. Therefore, marketing managers for services must be careful not to promise what cannot be delivered. All communications targeted to customers should be examined in terms of how well they reflect reality. If you do not do this, the customer certainly will. The unique aspects of services discussed in this chapter have the following implications for advertising.[20]

First, service advertising should contain vivid information. Vivid information is more likely to hold the viewer's attention and excite the imagination. It also results in improved customer understanding of the service. Because service attributes are intangible, this improved understanding is critical to a customer's ability to evaluate the quality of the service and to compare it to other options. Vividness can be achieved through three different strategies: attempts to make the service tangible; concrete, specific language; and dramatization. A good example of the latter is the former series of American Express commercials featuring actor Karl Malden that demonstrated the value and security of American Express traveler's checks by showing the disasters that can befall travelers if they use a competitor's brand.

A problem faced by customers purchasing a service is developing alternatives from which to make the final choice. The reason that this can be difficult is inherent in the way services are distributed. When a service is delivered through a franchise operation, there is only one choice at a particular location, unlike the normal assortment available from retailers of physical goods. Although some (e.g., travel agents) do offer competing services, many do not. Thus, a major problem facing service companies is how to get your brand into the customer's choice set.

The relevant communications goal is to have the customer connect your brand with the product category. This can be done with repetition or through an approach called interactive imagery. Imagery involves having customers visualize a concept or relationship by integrating two items in some mutual or reciprocal action. This approach can be used to enhance vividness. The advertisement for Charles Schwab shown in Figure 15.9 is an example of this kind of imagery. In this ad, the company is attempting to provide the image of a company that provides assistance to customers who are seeking to reduce their taxes. The terse text on the billboard communicates this effectively.

Finally, service attributes are experience or credence attributes, not search attributes. Therefore, prepurchase evaluation of services is difficult. One way to approach this problem is to highlight the behind-the-scenes rules, policies, and procedures that make the service provider the best option to choose. This helps to make the service tangible to customers and gives assurance that it will be of high quality. Alternatively, a marketing manager can use the ad to show the service actually in use. The advertising for Embassy Suites in Figure 15.10 is an example of this approach. The picture of the omelette in the frying pan gives potential customers a sense of the quality of the breakfast.

Pricing

Customers find service prices difficult to determine and compare. You cannot put physical price tags on services. The fact that services can be delivered in many different configurations makes the task even more difficult. For example, try finding out a rate on a home mortgage. The combinations of terms (5, 15, 20, 30 years), amount of down payment, points you are willing to pay (percentage of the loan amount paid as a fee to the mortgage originator), and myriad other options are nearly infinite. Try the same exercise with life insurance policies. Therefore, it is important to simplify your pricing policy as much as possible to eliminate customer confusion.

More than with physical goods, price is often used as an indicator of service quality. This is because service quality is more difficult to ascertain. Thus, the pricing of services must be consistent with the overall strategy for the product. For example, if you decide to drop the price of your service but attempt to maintain a premium brand image through your communications and other elements of the service operation, customers will become confused or skeptical: if you are so good, why are you so cheap? Although consistency between the strategy and price is important for all products, in service businesses where purchasing is driven so heavily by perceptions, it is critical.

In service industries the role of the reference price is very important. As described in Chapter 9, a reference price is an internal standard against which observed prices are compared. Reference prices are based on both past experience in a product category (internal reference prices) and observed prices in the marketplace (external reference prices). Not only is price information more difficult to collect for services, but the large number of product alternatives can make price comparisons impossible. For example, for competing automobile insurance policies, the deductibles or other aspects of the policies are often slightly different, making exact price comparisons difficult. When a customer cannot use observed prices easily to make a purchase decision, internal reference price becomes more important as a way of simplifying the process.

To illustrate these two service pricing principles, several years ago, one of the authors decided to have the gutters of his house cleaned before the winter rains hit. Obtaining prices for such services is time-consuming because it entails waiting at home for the (uncertain) arrival of the service providers. Two companies gave bids, one much higher than the other. With little experience to draw upon, he calculated a reference price based simply on what seemed to be reasonable. Both bids were below this price, so they both remained in the running for the work. He then chose the higher of the two, figuring that the lower-priced company would skimp on the work somehow. Pricing policies in professional service firms have been changing in response to clients' interests in reducing their costs and risks. Advertising agencies, for example, are shifting from a fixed commission rate on advertising billings to a combination of fixed fee and incentives for achieving agreed-upon goals. Even some law firms have started to move away from the traditional model of billable hours to a more fixed-fee solution so clients have a better idea of what their total costs will be.[21]

Customer Relationship Management

While CRM is important for physical products as well as services, it is particularly critical for what are called *contractual* services where the contract or subscription must be renewed on a periodic basis. Examples of contractual services are health club memberships, cable TV and cellular phone contracts, and so forth. What makes these different is that once dropped, it is very difficult to get the customer back. The customer will have switched to another service supplier or dropped the service entirely. If it is the former, it takes a complete subscription cycle to have the opportunity to get the customer back. However, unlike the purchase decision for most services, the decision about renewing is known and visible to the service supplier. This is clearly an advantage because the company can time its renewal communications precisely.

It is crucial not to wait until the end of the subscription cycle to make the benefits of the service tangible to the customer. In addition, research has shown that customers form expectations about how much they will use a contractual service and make the renewal decision based upon a comparison of the expected to the actual. If the actual is less than expected, the probability of renewal decreases.[22] It is thus incumbent upon the contractual service provider to perform two activities during the subscription cycle:

1. Remind the customer continuously about the benefits of the service. For example, in the context of a health club, ensure that the staff comment positively to the client about the benefits of working out.
2. Track the customer's usage and develop a system to remind the customer to use the service if usage level is low. For example, low usage of a cellular phone would predict the high likelihood of nonrenewal. As a result, the service provider could develop special programs of discounts or new features to encourage additional usage.

Global Aspects of Services Marketing

As we have noted in this chapter, one feature of service businesses that distinguishes them from product manufacturers is that they involve interpersonal contact between the service provider and the customer. An implication of this is that, generally, service firms do not grow by producing more of the same service in the same place.[23] There are three basic growth strategies for service businesses:

1. **Multisite:** provision of the same service(s) in new locations.
2. **Multiservice:** provision of a new service at existing locations.
3. **Multisegment:** provision of a different class of service targeting a different market segment, at new or existing locations.

Many service and retail businesses have chosen the first option. McDonald's and Starbucks, for example, views global expansion as the key to their future growth. Most large professional service firms such as public accounting and law firms as well as advertising agencies have set up shop in different countries as their clients expand, or simply to build a global business.

Table 15.2 shows some of the difficulties in launching a service business in a different country. The two columns labeled "Target Market" and "Operating Strategy" are common to physical products as well, as we described earlier in this book. However, the "Service Concept" and "Service Delivery System" lists are unique to service products. For example, the notion of "fast food" was at one time a foreign service concept in most countries. In addition, the use of credit cards is a novel concept, because some cultures and religions dissuade people from going into debt. Also, fraud rates on credit card payments are higher in some countries than others. People have different expectations about the levels

Table 15.2

Issues Posed by Internationalization of a "Strategic Service Vision"

Target Market	Service Concept	Operating Strategy	Service Delivery System
• Culture	• Culture	• Labor market institutions	• Technology
• Industry structure	• Perceptions of value		• Premises
• Demographics	• Expectations	• Managerial practices	• Labor market norms and customs
	• Usage patterns	• Language	
	• Interactions with service providers		

Source: Gary W. Loveman (1993), "The Internationalization of Services," Harvard Business School case #9-693-103, Exhibit 2.

Quality can be difficult to maintain when service concepts are expanded globally due to cultural and institutional differences.
Source: Picture Partners/Alamy Images

and quality of service. American retail petroleum companies like Chevron need to understand that in many countries, such as Brazil, customers expect service people to fill up their gas tanks and wash their windows without paying a premium for the gas. Finally, labor markets may not provide the level of quality needed to launch a new site. Thus, when McKinsey (the consulting firm) opened its branch in Bogotà in 1994, it was staffed largely by Spanish-speaking consultants from other countries.

Application Euro Disney

The Euro Disney resort complex opened on April 12, 1992, in Marne-la-Vallee, France.[24] Disney theme parks had built their reputations not only on the quality of the product but on the service delivery as well. Standards of service, park design and operating details, and human resource policies and practices were integrated to ensure that the Disney "play" would be performed at a uniformly high level at each location. The reason behind this outstanding level of service was the establishment of "Disney University," where new employees were oriented to Disney's strict service standards, received continuous communication and training, and gathered for frequent recognition and social events. Employees were called "cast members," as they wore "costumes," not uniforms and were "cast in a role," not assigned to a job. When on the job, they were considered to be "on stage," with the highest priority given to satisfying "guests." The cast members had to meet stiff dress and grooming requirements as well.

The largest challenge to Euro Disney managers was to match this traditional level of customer service. The company encountered significant resistance in the hiring process, which was criticized by applicants, the press, and French unions. The key resistance point was the standard for grooming, including a dress code, a ban on facial hair, a ban on colored stockings, standards for neat hair and fingernails, and a policy of "appropriate" undergarments. As a result, within the first nine weeks of operation, about 1,000 employees left Euro Disney, close to half voluntarily. In addition, the general conclusion was that the experience of visiting Euro Disney fell short of what people had come to expect from Disney. While some of this was due to attributes of the park, much of it was attributed to the fact that the "cast members" were acting like "real" people rather than "Disney" people. Adapting this people-oriented entertainment product to Europe was not as easy as the company thought it would be. Although the park is the most popular tourist attraction in Europe, receiving more visitors than the Louvre and Eiffel Tower combined, Euro Disney has had trouble making a profit and has had five CEO changes in nine years.

Disney had different cultural problems with its theme park in Hong Kong, which opened in September 2005. Since it opened, the park has had difficulty connecting with consumers. Although it attracted 5 million customers during its opening year, attendance fell 20 percent in the second year. Some of the complaints were about the relatively few number of attractions compared to other Disney parks. However, it has also introduced more Chinese characters to the park to supplement Mickey and Minnie Mouse. For example, a "live" Cai Shen Ye, the bearded Chinese god of wealth, walks around the park creating photo opportunities for guests. In addition, in 2008–2009, the year of the rat, Disney's own rodents, Mickey and Minnie, wore special red Chinese New Year outfits for the "Year of the Mouse." Shanghai is up next for Disney.

The Impact of Technology on Service Marketing

The rapid improvements in and diffusion of information technology and the use of the Internet have changed marketing in general and, specifically, services marketing, for three main reasons:

1. As mentioned earlier in this chapter, the use of the Internet has created a new channel of distribution ideally suited for certain kinds of services, particularly those involving travel and financial transactions and entertainment services.

2. Recall that an important feature of services is that because they are often delivered by people, their quality is variable both at one point in time and over time (i.e., they are nonstandardized). Computerization, substituting capital for labor, provides uniform service delivery at a quality level people cannot match.
3. As in all product categories, companies are looking for new ways to differentiate their products from competitors. Information technology and the Internet have provided powerful, tangible opportunities for such differentiation.

Application | Travel Services

As noted earlier in this chapter, travel services is the largest category of e-commerce, with more than $100 billion of bookings in 2008.[25] In the United States, 46 percent of consumers report researching online for deals prior to traveling. Almost 40 percent of all airline reservations are made through the Internet. Most of the bookings are done through two kinds of sites: Internet travel companies and Web sites run by the airlines, hotels, and car rental firms themselves. Although it is cumbersome to book complicated air itineraries, fares for simple travel plans can be easily compared and, in fact, some airlines offer lower fares on the Web than through personal contact with airline or independent agents.

The major players in the online travel industry are the following:

- **Expedia.** Expedia Inc. had revenues of nearly $3 billion in 2009. It was started by Microsoft in 1996 and later sold to InterActiveCorp. In 2005, the company became a separately traded public company containing other travel companies formerly owned by InterActiveCorp such as Hotels.com, Hotwire, and TripAdvisor.
- **Travelocity.** This company is owned by Sabre Holdings. At one time, Travelocity was the number-one online travel company. However, a slowdown in innovation cost the company its lead in the market.
- **Orbitz.** Orbitz Worldwide was founded in 2001 by a group of American airlines: American, Continental, Delta, Northwest, and United. It was sold for $1.25 billion in 2004 to Cendant but has been an independent company since 2007. Its current revenues are about $800 million.
- **Priceline.** Priceline pioneered the "name your own price" format (see Chapter 9) through its reverse auction format. Revenues in 2009 were $2.2 billion. The company is famous for its long-running advertising campaign using the actor William Shatner.
- **Kayak.** Started in 2003 by the two founders of Travelocity and Orbitz, Kayak is currently the most popular travel site with more than 35 million visitors each month. It is a "mega" site, allowing users to search over all of the other travel sites. The site uses a technology called Rich Internet Application architecture (RIA), which allows it to look at more than 100 Web sites continuously. Other aggregators include Yahoo! Travel, SideStep, and Cheapflights.

However, the airlines' own sites still account for most online bookings. The discount airlines, Southwest, JetBlue, Virgin, EasyJet, and so on, do not sell through travel agents and motivate customers to use their Web sites by offering incentives such as extra credits in their loyalty programs. Southwest.com attracted more than 8 million unique visitors to its Web site in April 2005, with 14 percent of them resulting in sales. One of the advantages of Southwest's site is that a visitor does not have to go through the tedious process of registration. Most of the airlines have significantly boosted their bookings through their Web sites by moving the reservations part of the site to the home page.

Application | Car-Sharing Services

An emerging service industry utilizing Web and other technologies are car-sharing services.[26] The industry leader is Zipcar with 325,000 members who pay an annual fee of $50 and rent cars for as little as $8 per hour, gas and insurance included. Typically, users apply for membership online, providing details such as their driver's license number. Cards that electronically open and lock the cars are mailed to approved applicants. Cars are then reserved through the company's Web site, indicating what kind of car is available at different locations. Other major competitors to Zipcar include Connect by Hertz, Mint Cars On-Demand, and I-Go.

While the industry is still relatively small, the service has a number of things in its favor. First, the primary market—city dwellers—is focused and potentially quite large, particularly taking a global view. The latter is particularly important in places like Hong Kong and Singapore that have high population density and commensurate high costs of operating and maintaining a car. Second, it is a good way to save money. This is particularly important during the tight economic conditions prevailing in the 2008–2010 time period. Third, in an era where "green," environmentally friendly products have become more popular, car sharing is a particularly good way to keep more cars off the road, conserve gas, and promote less air pollution.

Executive Summary

Key learning points in this chapter include the following:

- Most services can be characterized as having experience attributes (where product quality is determined only after usage) rather than search attributes (where product quality can be ascertained before purchase).
- The main characteristics of services are intangibility (lack of physical attributes), nonstandardization (because they are usually delivered by people), and inseparability of production and consumption.
- Service quality is defined by the service provider's reliability, responsiveness, assurance, empathy, and tangibles (service features or physical aspects of the service delivery).
- Service quality is assessed negatively when there is a gap between customer expectations and experienced quality.
- Service quality can be measured through the use of survey instruments such as SERVQUAL; the financial return on investments in service quality can also be evaluated.
- Some strategic issues in services marketing are making the service tangible to customers, combating low entry barriers, and using service blueprints to design services.
- Because of the people-intensive nature of most services, globalizing a service business requires special attention to culture, labor market, customer expectations of service, and other conditions.
- New technologies in services marketing affect channels of distribution, improved standardization of service offerings, and the establishment of competitive advantage.

Chapter Questions

1. Consider the three kinds of attributes described in this chapter: search, experience, and credence. Which of these are most appropriate for services? What are the implications for marketing managers?
2. Recall the last time you had an unsatisfactory encounter with a service provider. Given the dimensions of service quality discussed in this chapter, exactly where were the negative gaps between expectations and the actual service?
3. Pick two services, one consumer and one industrial. What can a company in each industry do to make its services more tangible to customers?
4. Develop a blueprint for the course registration process at your school or university. Where are the likely service failure points? Where can the school improve its service levels?

5. Suppose you have spent the first five years of your career working for Procter & Gamble as the assistant, associate, or brand manager for Crest toothpaste. You apply for a job as a senior marketing manager for United Airlines. What have you learned at P&G that is applicable to airline marketing? What do you need to learn about airline marketing to be effective beyond the fact that airlines are different from toothpaste?
6. As the U.S. economy continues to be increasingly dominated by services, is it necessary to change our thinking about marketing and marketing strategy? Would a marketing course be different between the United States and, say, China, which is a manufacturing-dominated economy?

Notes

Chapter 1

1. This illustration is based on Chuck Salter (2002), "On the Road Again," *Fast Company*, January, pp. 50–58; Christopher Helman (2003), "The Big Tune-Up," *Forbes*, April 14, p. 99; Unmesh Kher (2006), "The Segway Riddle," *Time*, August 6, p. 48; Mark Gimen (2006), "Reinventing the Wheel, Slowly," *BusinessWeek*, September 11, p. 56; Jake Wagman (2008), "Battle Over Segway Looms," *McClatchy-Tribune Business News*, February 15; Stu Woo (2008), "Segway Glides as Gasoline Jumps," *The Wall Street Journal*, July 16, p. B2; John Reed (2009), "GM and Segway Hope Puma Joint Venture Proves to Be the Cat's Whiskers," *FT.com*, April 8; and Nicole Perlroth (2009), "Drinking Water Act," *Forbes*, August 24, p. 34.
2. For readers who would like a more formal definition of marketing, the American Marketing Association's definition is as follows (http://www.marketingpower.com/content21257.php): "Marketing is an organizational function and a set of processes for creating, communicating, and delivering value to customers and for managing customer relationships in ways that benefit the organization and its stakeholders."
3. Those with a morbid interest in failed consumer packaged goods should visit the New Products Showcase and Learning Center, part of the consulting firm, New ProductWorks (http://www.arborstrategy.com/asg/newproductworks/the-collection.html), in Ann Arbor, Michigan.
4. See Franklin Houston (1986), "The Marketing Concept: What It Is and What It Is Not," *Journal of Marketing*, 50 (April), pp. 81–87.
5. Peter F. Drucker (1954), *The Practice of Management* (New York: HarperCollins).
6. Theodore Levitt (1986), "Marketing and the Corporate Purpose," *The Marketing Imagination* (New York: Free Press).
7. Of course, this must be done within local law. For example, pubic restaurants in the United States cannot deny service to any person on the basis of race.
8. William C. Taylor (2005), "Rebels With a Cause, and a Business Plan," *The New York Times*, January 2, p. BU-5; Jena McGregor (2007), "When the Boss Goes to Work in the Call Center," *BusinessWeek*, October 22, p. 94; and Michael Steen (2008), "ING Direct Quietly Extends Global Reach," *Financial Times*, January 4, p. 14.
9. Jena McGregor (2008), "Customer Service Champs: Ace Hardware," *BusinessWeek*, March 3, p. 50.
10. Jerry Kaplan (1995), *Startup: A Silicon Valley Adventure* (Boston: Houghton Mifflin).
11. David Pringle (2005), "In Mobile Phones, Older Users Say, More Is Less," *The Wall Street Journal*, August 15, p. A9.
12. Roland T. Rust, Debora Viana Thompson, and Rebecca W. Hamilton (2006), "Defeating Feature Fatigue," *Harvard Business Review*, February, pp. 98–107.
13. See Houston, "The Marketing Concept."
14. David Leonhardt (2007), "Lessons Even Thomas Could Learn," *The New York Times*, October 24, http://www.nytimes.com/2007/10/24/business/24leonhardt.html?_r=1&oref=slogin.
15. For some history of the brand management system, see George S. Low and Ronald Fullerton (1994), "Brands, Brand Management, and the Brand Manager System: A Critical-Historical Evaluation," *Journal of Marketing Research*, 31 (May), pp. 173–190.
16. Michael E. Porter (1985), *Competitive Advantage*, (New York: The Free Press).
17. Gary Hamel and C. K. Prahalad (1994), *Competing for the Future* (Boston: Harvard Business School Press).
18. See http://en.wikipedia.org/wiki/Blu-ray_Disc.
19. See Houston, "The Marketing Concept."
20. For some history of the brand management system, see Low and Fullerton, "Brands, Brand Management, and the Brand Manager System: A Critical-Historical Evaluation."
21. For a more detailed discussion of the product manager's responsibilities and the pros and cons of different organizational forms, see Donald R. Lehmann and Russell S. Winer (2005), *Product Management*, 4th ed. (Burr Ridge, IL: McGraw-Hill), Ch.1.
22. This example is adapted from Michael Hayes (1989), "Grasse Fragrances SA," IMD case #M369.
23. Beth Snyder Bulik (2005), "Intel's New Strategy Demands New Partner," *Advertising Age*, March 14, p. 4.
24. This example is based on Beth Snyder (1998), "Digital Revolution Leaves Motorola Playing Catch-up," *Advertising Age*, October 19, pp. 32–33; David Pringle (2002), "Mobile Phones Ring Up Worst Year Ever," *The Wall Street Journal*, February 12, p. B5; Ted C. Fishman (2005), "How Ed Zander Honed Razr's Edge," *Business 2.0*, June, pp. 47–49;

and Sara Silver and Joann S. Lublin (2008), "Will Splitting Motorola in Two Help?" *The Wall Street Journal*, March 27, p. B1.

25. See Lehmann and Winer, *Product Management*; and Donald R. Lehmann and Russell S. Winer (2009), *Analysis for Marketing Planning*, 7th ed. (Burr Ridge, IL: McGraw-Hill).
26. See Thomas L. Friedman (2006), *The World Is Flat: A Brief History of the Twenty-First Century* (New York: Farrar, Straus & Giroux).
27. www.eMarketer.com.
28. See, for example, Glen L. Urban (2005), "Customer Advocacy: A New Era in Marketing?" *Journal of Public Policy & Marketing*, Spring, pp. 155–159.
29. Professor John Deighton, Harvard Business School.
30. *eMarketer* (2008), March 18.
31. Jennifer Saranow (2006), "Savvy Car Buyers Drive Bargains with Pricing Data from the Web," *The Wall Street Journal*, October 24, p. D5.
32. Alex Markels (2001), "We Can Deliver Customers on a Global Basis," *Wired*, November, pp. 190–200.
33. *Fortune* (2004), "What China Eats (and Drinks and . . .)," October 4, pp. 1510–1513.
34. Jean Halliday (2008), "GM Roars Forward into Digital Ad Channels," *Advertising Age*, March 17, p. 4.
35. David C. Court, Jonathan W. Gordon, and Jesko Perrey (2005), "Boosting Returns on Marketing Investment," *The McKinsey Quarterly*, Number 2, pp. 37–47.
36. See, for example, James D. Lenskold (2003), *Marketing ROI* (New York: McGraw-Hill); and Donald R. Lehmann and David J. Reibstein (2006), *Marketing Metrics* (Cambridge, MA: Marketing Science Institute).
37. Michael Skapinker (2008), "Virtue's Reward?" *Financial Times*, April 28, p. 8.

Chapter 2

1. This illustration is based on data from www.beveragemarketing.com, www.beerinsights.com, and *BRANDWEEK*, as well as information given to the author from private sources.
2. Miller was bought by South African Breweries PLC (SAB) from Philip Morris in 2002 and renamed SAB Miller.
3. Jeremy Mullman (2008), "Miller Genuinely Daft: Changes Message—Again," *Advertising Age*, April 7, p. 1.
4. Rodney Ho (2000), "Floturn Forgoes Fat Profits to Boost Its Market Share," *The Wall Street Journal*, January 15, p. B2.
5. Sara Silver, Cassell Bryan-Low, and Amol Sharma (2007), "Motorola Profit Warning Generates Unease Over CEO Zander's Strategy," *The Wall Street Journal*, January 6, p. A1.
6. Costs can also decrease over time with increased volume. This is the experience curve phenomenon discussed later in this chapter.
7. Pepsi actually developed a new brand, Pepsi A.M., to compete with coffee and other beverages at breakfast. If the thought of drinking cola at breakfast does not excite you, you are not alone; the product was a failure.
8. http://money.cnn.com/magazines/fortune/fortune_archive/2007/06/11/100083454/?postversion=2007053109.
9. *INC. Magazine* (2007), "Dramatic Results: Making Opera (Yes, Opera) Seem Young and Hip," October, pp. 61–62.
10. This illustration is based on John Bowen (1998), "Pardon Me: Grey Poupon Is a Niched Brand," *BrandWeek*, April 27, p. 14.
11. A good reference on country selection is Christoph Lymbersky (2008), *Market Entry Strategies* (Hamburg, Germany: Management Development Press).
12. Susan P. Douglas and C. Samuel Craig (1995), *Global Marketing Strategy* (New York: McGraw-Hill), Ch. 7.
13. Purchasing power indices account for a country's per capita income and the prices of a standard market basket of goods.
14. See, for example, Geoffrey Moore (1991), *Crossing the Chasm* (New York: HarperCollins), Ch. 6.
15. David A. Aaker (2004), *Strategic Market Management*, 7th ed. (New York: Wiley).
16. Normally, the horizontal axis is in cumulative units of production. However, because the relevant units for the two industries are different, time is used instead.
17. See for example, Michael Porter (1980), *Competitive Advantage* (New York: Free Press). However, some writers feel that differentiation on any one dimension is difficult today, and as a result, it is a preferred strategy to try to offer higher-quality products and services that meet customer needs better than competitors' offerings. See Paddy Barwise and Seán Meehan (2004), *Simply Better* (Cambridge, MA: Harvard University Press).
18. Porter, *Competitive Advantage*.
19. Gideon Lichfield (2002), "Cement Plus Heavy-Duty Networking Equals Big Profits," *Wired*, July, p. 104.
20. http://www.nytimes.com/2006/01/19/fashion/thursdaystyles/19skin.html.
21. The discussions of both perceptual mapping and branding will be expanded in Chapter 7.
22. Interestingly, *position* is both a noun and a verb. A product's position is how customers perceive it relative to competition, as show in the perceptual map in Figure 3.7. Marketing managers position products by actively choosing the appropriate dimensions, differential

advantage, and communications and other elements of the marketing mix that affect customer perceptions.

23. http://blog.futurelab.net/2008/01/clorox_aims_to_show_that_green.html.
24. Sales histories of individual brands are called *brand life cycles*.
25. William Boulding and Markus Christen (2001), "First-Mover Disadvantage," *Harvard Business Review*, October, pp. 20–21.
26. Alternative pricing approaches for the introductory phase of the PLC are discussed in more detail in Chapter 13.
27. See Peter N. Golder and Gerard J. Tellis (1993), "Pioneer Advantage: Marketing Logic or Marketing Legend?" *Journal of Marketing Research*, 30 (May), pp. 158–170.
28. See, for example, Jim Collins (2000), "Best Beats First," *Inc.*, August, pp. 48–51; and Joan Indiana Rigdon (2000), "The Second-Mover Advantage," *Red Herring*, September, pp. 462–470.
29. For more on this interesting company, see www.lansdale.com.
30. Linda Grant (1996), "Stirring It Up at Campbell," *Fortune*, May 16, pp. 80–86.
31. This figure is from Johan A. Quelch (1994), "Heineken N.V.: Global Branding and Advertising," Harvard Business School case #9-596-015.
32. Andy Webb-Vidal, Hal Weitzman, and Jenny Wiggins (2005), "SAB Miller to Raise Its Glass to Loyalty," *Financial Times*, July 25, p. 18.

Chapter 3

1. This illustration is based on Andrew Tilin (2003), "Will the Kids Buy It?" *Business 2.0*, May, pp. 95–99; Jonathan Welsh (2008), "As Car Sales Slump, What's Still Selling," *The Wall Street Journal*, June 25, p. D1; John Murphy (2008), "Toyota Slashes Sales Forecast," *The Wall Street Journal Online*, August 28; Steve Miller (2008), "Motorhead vs. Mariah Is Easy Choice for Scion," *Brandweek*, August 25, p. 11; and Claude Brodesser-Akner (2008), "Despite Cash-Strapped Target Demo, Scion Stays the Course," *Advertising Age*, November 17, p. 10.
2. Del I. Hawkins and Donald S. Tull (1994), *Essentials of Marketing Research* (New York: Macmillan).
3. A more detailed discussion of how to choose a marketing research supplier is beyond the scope of this book. However, in the United States, a good place to start is the local chapter of the American Marketing Association.
4. See Donald R. Lehmann, Sunil Gupta, and Joel H. Steckel (1998), *Marketing Research* (Reading, MA: Addison-Wesley).
5. Special issue of *Marketing Management* on qualitative research, Summer 1996, p. 5.
6. Bobby J. Calder (1977), "Focus Groups and the Nature of Qualitative Marketing Research," *Journal of Marketing Research*, August, pp. 353–364.
7. For a humorous story about how Procter & Gamble heavily uses residents of Cincinnati (where its headquarters is located) to participate in focus groups, see Emily Nelson (2002), "Focus Groupies: P&G Keeps Cincinnati Busy with All Its Studies," *The Wall Street Journal*, January 24, p. A1.
8. Natalie Zmuda (2009), "Facebook Turns Focus Group with Splenda Product-Sampling App," *Advertising Age*, July 13, p. 18.
9. Jerry Zaltman (2003), *How Consumers Think: Essential Insights into the Mind of the Market* (Cambridge, MA: Harvard Business School Press).
10. Jim Rendon (2003), "Rear Window," *Business 2.0*, August, p. 72.
11. Stephanie Rosenbloom (2010), "In Bid to Sway Sales, Cameras Track Shoppers," *The New York Times*, March 19, p. A1.
12. Russell Adams (2008), "Campbell Soup Sacks NFL's Mothers," *The Wall Street Journal*, August 27, p. B6.
13. Ilan Brat (2010), "The Emotional Quotient of Soup Shopping," *The Wall Street Journal*, February 17, p. B6.
14. Gary S. Vassana and Duane Bachman (1994), "Fax Attracts," *Marketing Research*, 6 (Spring), pp. 19–25.
15. Martin Opperman (1995), "E-mail Surveys: Potentials and Pitfalls," *Marketing Research*, 7 (Summer), pp. 29–33.
16. Timothy L. Keiningham, Bruce Cooil, Tor Wallin Andreassen, and Lerzan Aksoy (2007), "A Longitudinal Examination of Net Promoter and Firm Revenue Growth," *Journal of Marketing*, 71 (July), pp. 39–51.
17. Keith J. Winstein and Suzanne Vranica (2008), "U.S. Drug Ads Questioned," *The Wall Street Journal*, September 3, p. B7.
18. C. Samuel Craig and Susan P. Douglas (2005), *International Marketing Research* (Chichester, UK: John Wiley & Sons, Ltd.).
19. Donald R. Lehmann and Russell S. Winer (2008), *Analysis for Marketing Planning*, 7th ed. (New York: McGraw-Hill), Ch. 6.
20. From http://cadlab6.mit.edu/2.009.wiki/anchor/index.php?title=Amount_of_disposable_diapers_landfilled_each_year_in_the_US
21. For a good overview of different methods, see J. Scott Armstrong (1985), *Long-Range Forecasting: From Crystal Ball to Computer*, 2nd ed. (New York: John Wiley & Sons).

Chapter 4

1. This illustration is based on "Club Méditerranée," Harvard Business School case #9-579-061; Andrew Jack (1997), "Club Med

Turns Its Back on the Idealism of the Past," *Financial Times*, February 24, p. 19; Andrew Jack (1998), "Redefining Sun, Sand, and Sangria," *Financial Times*, January 29, p. 14; Jane L. Levere (2002), " 'Wanna Play?' That's What Club Med Asks in Its New Campaign," *New York Times*, January 31, p. C8; Mike Beirne (2004), "Club Med to Travel 'Emotional' Route," *Brandweek*, December 6, p. 9; and Jo Johnson (2004), "Out of Huts and Into Boutiques," *Financial Times*, August 4, p. 6.

2. Organizational or industrial buying behavior is examined in Chapter 5.
3. We cover this topic more fully in Chapter 14.
4. For an interesting analysis of ethnic differences in behavior and tipping behavior in particular, see Michael Lynn and Clorice Thomas-Haysbert (2003), "Ethnic Differences in Tipping: Evidence, Explanation, and Implications," *Journal of Applied Social Psychology*, August, pp. 1747–1772.
5. Eduardo Porter and Emily Nelson (2000), "P&G Reaches Out to Hispanics," *The Wall Street Journal*, October 13, p. B1.
6. For an excellent reference on psychographic and other attitudinal segmentation schemes, see Eric J. Arnould, Linda Price, and George Zinkhan (2002), *Consumers* (Boston: Irwin/McGraw-Hill).
7. A visitor to SRI's VALS Web site, http://www.strategicbusinessinsights.com/vals/surveynew.shtml, can classify himself or herself into one of the groups.
8. Paul C. Judge (1998), "Are Tech Buyers Different?" *BusinessWeek*, January 26, pp. 64–68.
9. Karen Benezra (1998), "The Fragging of the American Mind," *Brandweek*, June 15, pp. S12–S19.
10. Everett M. Rogers (1995), *Diffusion of Innovations*, 4th ed. (New York: Free Press).
11. This is a similar number to those shown in Table 4.4.
12. If you want to find out the PRIZM designation for the ZIP code in which you live, go to http://www.claritas.com/MyBestSegments/Default.jsp.
13. Another way to say this is that if the index numbers are similar across the levels of the variable, then that particular variable tells us nothing to help us discriminate between those who go to the beach and those who do not.
14. The material in this section is based on William R. Swinyard (1996), "The Hard Core and Zen Riders of Harley Davidson: A Market-Driven Segmentation Analysis," *Journal of Targeting, Measurement and Analysis for Marketing*, June, pp. 337–62.
15. Many models of how consumers make decisions have been developed. A good overview of several classic models can be found in J. A. Lunn (1974), "Consumer Decision-Process Models," in J. N. Sheth, ed., *Models of Buyer Behavior* (New York: HarperCollins), Ch. 3. An alternative approach is in James R. Bettman (1979), *An Information Processing Theory of Consumer Choice* (Reading, MA: Addison-Wesley).
16. One of the enduring controversies in marketing is that many people believe that marketers can create customer needs. This is unlikely; although marketers certainly try and do influence how a customer satisfies those needs, the basic need must be established by the customer.
17. Abraham H. Maslow (1970), *Motivation and Personality*, 2nd ed. (New York: HarperCollins).
18. See David Godes and Dina Mayzlin (2004), "Using Online Communications to Study Word-of-Mouth Communication," *Marketing Science*, 4 (Fall), pp. 545–560.
19. It should be noted that the customer could choose not to choose, that is, conclude that none of the products in the evoked set satisfy the need and postpone the purchase decision.
20. This illustration is based on David Kiley (2007), "At Hyundai, Branding Is Job 2," *BusinessWeek*, May 21.
21. There are several ways to ask this question besides the approach used in the text, and different numbers of scale points can be used.
22. The numbers in the table are fictitious and are only meant to illustrate the multiattribute model.
23. Other data combination models or rules exist. For example, using a lexicographic rule, the customer selects one attribute as the most important and then chooses the brand that is rated the highest on that attribute. See William D. Wells and David Prensky (1996), *Consumer Behavior* (New York: Wiley), Ch. 12.
24. We will see this model of expectation formation and comparison to outcomes in Chapter 8, in the discussion about customer evaluation of service quality.
25. Frank Bradley (1991), *International Marketing Strategy* (New York: Prentice Hall), Ch. 5.
26. Philip R. Cateora (1993), *International Marketing*, 8th ed. (Homewood, IL: Irwin), Ch. 5.
27. See Rogers, *Diffusion of Innovations*.
28. Gail Edmonson and Constrance Faivre (2005), "Got 5,000 Euros? Need a New Car?" *BusinessWeek*, July 4, p. 49.
29. This illustration is based on Michael J. Enright (1993), "The Japanese Facsimile Industry," Harvard Business School case #9-391-209.
30. Actually, FedEx was prescient in seeing that fax machines would ultimately be a major competitor to its document delivery service. Because fast plain-paper fax machines are very inexpensive today, fax transmissions do indeed substitute for many former FedEx shipments.

31. Itamar Simonson (1989), "Choice Based on Reasons: The Case of Attraction and Compromise Effects," *The Journal of Consumer Research*, 16 (September), pp. 158–174.
32. From *Petfood Industry*, June 11, 2009.
33. This illustration is from Catherine Arnst (2006), "Hey, You Don't Look So Good," *BusinessWeek*, May 8, pp. 30–32; Christine Bittar (2001), "The Message and the Medium," *Brandweek*, July 16, pp. 33–38; Thomas M. Burton (2002), "Reining in Drug Advertising," *The Wall Street Journal*, March 13, p. B1; and Jim Edwards (2005), "Sleep, Diet Awaken as Pharma Regroups," *Brandweek*, June 20, p. S60.
34. We discuss changes in distribution channels in more detail in Chapter 12.

Chapter 5

1. This illustration is based on Geoffrey Adamson (2001), "netCustomer: A Global Startup," Stanford University Graduate School of Business case #EC-26; and personal conversations with the company's founder, Punita Pandey.
2. Frederick E. Webster, Jr. (1979), *Industrial Marketing Strategy* (New York: Wiley).
3. This illustration is based on conversations with ATX personnel; David Pearson (2004), "Life in the Fast Lane," *The Wall Street Journal*, January 12, p. R7; the company Web site, www.atxg.com; and "In-Vehicle Text-by-Voice Application Introduced by ATX to Automotive Market," *PR Newswire*, July 21, 2009.
4. This is not true for services, of course.
5. V. Kasturi Rangan, Rowland Moriarty, and Gordon Swartz (1992), "Segmenting Customers in Mature Industrial Markets," *Journal of Marketing*, October, pp. 72–82.
6. This illustration is based on Tom Geller (2007), "A Hard-Knock Laptop," *Business 2.0*, October, 2007, p. 42; and the Toughbook Web site, http://www.panasonic.com/business/Toughbook/laptop-computers.asp.
7. This section is based on two books by Geoffrey A. Moore, *Crossing the Chasm* (1991; New York: HarperBusiness) and *Inside the Tornado* (1995; New York: HarperBusiness).
8. SGI went into bankruptcy in 2009 and was purchased by Rackable Systems Inc., which later assumed the SGI name.
9. This illustration is based on Nikhil Hutheesing (1997), "Auto-Baan," *Forbes*, October 6, pp. 109–113; and David Orenstein (2000), "Dogged by History," *Upside*, May, pp. 138–148.
10. Robert D. Hof (2005), "PayPal Spreads Its Wings," *BusinessWeek*, May 23, pp. 105–106; Hoovers Online, and http://en.wikipedia.org/wiki/PayPal.
11. Other companies producing such reports include Marketresearch.com, Mindbranch, and the Fredonia Group.
12. See Justin Fox (2002), "America's Most Admired Companies: What's So Great about GE?" *Fortune*, March 4, pp. 65–67.
13. The original research is published in Geert Hofstede (1980), *Culture's Consequences: International Differences in Work-Related Values* (Thousand Oaks, CA: Sage Publications). The second edition based on new research was published in 2001.
14. To get a better picture of how the countries compare, you would have to plot the countries by all pairs of the five dimensions.
15. We devote more space to channels of distribution in Chapter 12.
16. From the 2009 Grainger Fact Book at www.grainger.com.

Chapter 6

1. This illustration is based on Michael E. Porter (1991), "Coca-Cola versus Pepsi-Cola and the Soft Drink Industry," Harvard Business School case #9-391-179; Mark Gleason (1996), "Coke, Pepsi Repel Thrust by Alternative Beverages," *Advertising Age*, September 30, p. S18; Betsy McKay (2001), "Facing Slow Sales, Coke and Pepsi Gear Up for New Battle," *The Wall Street Journal*, April 16, p. B4; Nanette Byrnes (2004), "Gone Flat," *BusinessWeek*, December 20, pp. 76–82; Betsy McKay (2008), "Soft-Drink Sales Volume Slipped Faster Last Year," *The Wall Street Journal*, March 13, p. B6; Stuart Elliott (2008), "Pepsi Shifts to a New Ad Agency," *The New York Times*, November 18; Valerie Bauerlein (2009), "Pepsi Sweats Over Gatorade," *The Wall Street Journal*, July 23; Yahoo!Finance; and http://online.wsj.com/article/SB10001424052748704479404575087123562176374.html.
2. Pepsi's restaurants are now owned by Yum! Brands.
3. It should be noted that Coca-Cola manufactures only the concentrate or syrup; its bottlers, some of which are company-owned, assume the costs of making the soft drink and distributing it.
4. Bruce H. Clark and David B. Montgomery (1999), "Managerial Identification of Competitors," *Journal of Marketing*, July, pp. 67–83.
5. Joe S. Bain (1968), *Industrial Organization* (New York: Wiley).
6. Richard Tomkins (1997), "Coca-Cola Strives to Rival Tap Water," *Financial Times*, October 27, p. 9.
7. Sarah Ellison (2002), "Is Less Risqué Risky?" *The Wall Street Journal*, May 20, p. B1.

8. Justin Scheck and Ben Worthen (2009), "Cisco, H-P Square Off in Hunt for Revenue," *The Wall Street Journal*, July 22, p. B8.
9. Alex Kuczynki (2002), "Brek Mints: A Hot War for America's Cool Mouths," *The New York Times*, April 24, Section 9, p. 1.
10. A good source for these methods is Vithala R. Rao and Joel H. Steckel (1995), *The New Science of Marketing* (Chicago: Irwin), Ch. 4.
11. See, for example, S. Ratneshwar and Allan Shocker (1991), "Substitution in Use and the Role of Usage Context in Product Category Structures," *Journal of Marketing Research*, August, pp. 281–295.
12. Michael Fielding (2004), "Damage Control," *Marketing News*, September 15, p. 15.
13. Ted Bridis, Glenn Simpson, and Mylene Mangalindan (2000), "How Piles of Trash Became Latest Focus in Bitter Software Feud," *The Wall Street Journal*, June 29, p. A1; Andy Serwer (2001), "P&G's Cover Operation," *Fortune*, September 17, pp. 42–44; and Tamar Audi and Peter Lattman (2009), "Hilton Is Sued Over Luxury Chain," *The Wall Street Journal*, April 17.
14. "Kraft Foods Works on Improving Its Recipe for Distributing Goods," *The Wall Street Journal*, August 3, 2004, p. A9.
15. Ira Teinowitz (1995), "Marketing, Ad Woes Choking RJR Brands," *Advertising Age*, June 26, p. 3.
16. A version of this approach is described by Kevin P. Coyne and John Horn (2009), "Predicting Your Competitor's Reaction," *Harvard Business Review*, April, pp. 90–97.
17. See, for example, Pierre Wack (1985), "Scenarios: Uncharted Waters Ahead," *Harvard Business Review*, September–October, pp. 73–89.
18. Ellen Neuborne (2003), "Know Thy Enemy," *Sales & Marketing Management*, January, pp. 29–33.
19. Sarah Lacy and Jay Greene (2005), "How to Face Off Against Microsoft," *BusinessWeek*, September 5, pp. 66–68.
20. A search on Amazon.com for "competitive intelligence" titles resulted in 50 different books.
21. See Michael Peel (2007), "Data Treasures for the Taking," *Financial Times*, August 16, p. 10.
22. Dave Fedewa, Ashish Kothar, and Ananth S. Narayanan (2009), "Squeezing More Ideas from Product Teardowns," *McKinsey Quarterly*, Number 3, pp. 84–85.
23. For a perspective on how to maximize the information from plant tours, see David M. Upton and Stephen E. Macadam (1997), "Why (and How) to Take a Plant Tour," *Harvard Business Review*, May–June, pp. 97–106.
24. This illustration is based on Pui-Wing Tam (2000), "Palm Puts Up Its Fist as Microsoft Attacks Hand-Held PC Market," *The Wall Street Journal*, August 8, p. A1.
25. This section draws on K. Sridhar Moorthy (1985), "Using Game Theory to Model Competition," *Journal of Marketing Research*, 22 (August), pp. 262–282; as well as material from Professor Devavrat Purohit of Duke University.
26. Named for the famous economist John Nash, popularized by the 2001 Oscar-winning movie *A Beautiful Mind*.
27. This simultaneous solution also assumes that both firms have complete information in that they both know the payoff matrix and that it is the same for both of them. Of course, they still do not know what the other is going to do.
28. Game theory can be extended to include more than two participants and games over an extended period of time with multiple moves.
29. F. William Barnett (1995), "Making Game Theory Work in Practice," *The Wall Street Journal*, February 13, p. A14.

Chapter 7

1. This illustration is based on Adrian B. Ryans (1992), "Logitech," Richard Ivey School of Business case #92-A012, University of Western Onatario; Alan Cane (2005), "Why Logitech Has Gone from Mouse to House," *Financial Times*, April 1, p. 8; Noah Robinson (2005), "Getting Into a New Game," *Business 2.0*, April, p. 58; and "Feel the Beat: Logitech Unveils Premium Drum Controller for Guitar Hero," *Leisure & Travel Week*, August 2, 2009, p. 50.
2. David A. Aaker (1991), *Brand Equity* (New York: Free Press).
3. Aaker's model is not the only conceptualization of brand equity. For example, the advertising agency Young & Rubicam has its Brand Asset Valuator (BAV) model discussed later in this chapter.
4. Suzanne Vranica (2004), "Aflac Duck's Paddle to Stardom: Creativity on the Cheap," *The Wall Street Journal*, July 30, p. B1; and Rupal Parekh (2009), "Brand Awareness Was Only Half the Battle for Aflac," *Advertising Age*, June 22, p. 27.
5. Maria Halkias (2005), "IKEA Standing Tall Among Rivals," *Knight Ridder Tribune Business News*, July 26, p. 1; Michelle Higgins (2009), "A Cheap Date, with Child Care by Ikea," *The New York Times*, June 11; and franchisor.ikea.com.
6. David A. Aaker (1996), *Building Strong Brands* (New York: Free Press).
7. Stuart Elliott (2009), "Tropicana Discovers Some Buyers Are Passionate About Packaging," *The New York Times*, February 23.

8. Another type of extension is called a *line* extension. This is normally a new flavor or model of the existing product.
9. Kenneth Hein (2008), "BK Boxers Leads Pack of Worst Line Extensions," *Brandweek*, December 15, p. 7.
10. Amy Merrick (2005), "Once a Bellweather, Ann Talor Fights Its Stodgy Image," *The Wall Street Journal*, July 12, p. A1.
11. Ibid.
12. Kenneth Hein (2002), "Run Red Run," *Brandweek*, February 25, pp. 14–15; and Scott Leith (2004), "Drinks Try to Sustain the Buzz: Limited-time Offerings Work Well for Pepsi," *The Atlanta Constitution*, October 30, p. G1.
13. *PR Newswire*, August 19, 2008.
14. Theodore Levitt (1983), "The Globalization of Markets," *Harvard Business Review*, May–June, pp. 92–102.
15. For more background, see John Quelch (1984), "British Airways," Harvard Business School case #9-585-014.
16. See Susan P. Douglas and Yoram Wind (1987), "The Myth of Globalization," *The Columbia Journal of World Business*, 22 (Winter), pp. 19–29.
17. See Arindam K. Bhattacharya and David C. Michael (2008), "How Local Companies Keep Multinationals at Bay," *Harvard Business Review*, March, pp. 85–95.
18. Jenny Wiggins (2009), "Worlds' Next Top Brands Set to Rise in the East," *Financial Times*, July 19.
19. Dexter Roberts, Frederik Balfour, Bruce Einhorn, Michael Arndt, Michael Shari, and David Kiley (2004), "China's Power Brands," *BusinessWeek*, November 8, pp. 77–84.
20. Douglas A. Holt, John A. Quelch, and Earl L. Taylor (2004), "How Global Brands Compete," *Harvard Business Review*, September, pp. 68–75.
21. From www.interbrand.com.
22. Roberts et al., "China's Power Bands."
23. Ginny Parker (2004), "Going Global Can Hit Snags, Vodafone Finds," *The Wall Street Journal*, July 16, p. B1.
24. Jennifer Gilbert (2001), "SAP Goes All Out," *Business 2.0*, June 12, pp. 34–35.
25. Diane Anderson (2005), "Cisco Reboots Image with $150M Effort," *Brandweek*, January 10, p. 4; and Charlotte Woolard (2008), "BtoB's Best Brands," *BtoB magazine*.
26. Scott Van Camp (2005), "What Yellow Did for Them," *Brandweek*, January 10, p. 14.
27. This illustration is based on David Weinstein (1994), "Intel Inside," INSEAD case #594-038-1; Ellen McGirt (2009), "Intel Risks It All (Again)," *Fast Company*, November, pp. 87–96; and data from Yahoo! Finance.
28. Jennifer L. Aaker (1997), "Dimensions of Brand Personality," *Journal of Marketing Research*, August, pp. 347–356.
29. Karen Lundegaard and Vanessa O'Connell (2002), "Audi Moves to Create a Personality in the U.S.," *The Wall Street Journal*, February 19, p. B7.
30. Susan Fournier (1998), "Consumers and Their Brands: Developing Relationship Theory in Consumer Research," *Journal of Consumer Research*, March, pp. 343–473.
31. Beth Kowitt (2009), *Fortune*, May 11, pp. 84–91.
32. Abbey Klaassen (2008), "Consumers Become Kindle Ambassadors," *Advertising Age*, September 8.
33. Piet Levy (2009), "Marketing in Aisle 5," *Marketing News*, May 30, pp. 12–15.
34. Nirmalya Kumar and Jan-Benedict E. M. Steenkamp (2007), *Private Label Strategy* (Boston: Harvard Business School Press).
35. A "fighting" brand is a brand marketed by a large multinational company but without much marketing support.
36. James Surowiecki (2004), "The Decline of Brands," *Wired*, November, pp. 205–209.
37. Tim Ambler (2003), *Marketing and the Bottom Line*, 2nd ed. (London: Financial Times/Prentice Hall), p. 63.
38. A good description of Interbrand's methodology is in "The Top 100 Brands," *BusinessWeek*, September 29, 2008, p. 56.
39. For further details on MDS methods, the reader is referred to marketing research textbooks such as Donald R. Lehmann, Sunil Gupta, and Joel H. Steckel (1998), *Marketing Research* (Reading, MA: Addison-Wesley).
40. Eric Pfanner (2008), "Calling Off on Dubious Eco-Friendly Claims," *Advertising Age*, July 18.
41. Dana James (2002), "Skoda Is Taken from Trash to Treasure," *Marketing News*, February 18, pp. 4–5.
42. Richard Milne (2005), "A Drive to Escape the Mass Market," *Financial Times*, August 19, p. 6.
43. Mark Bergen, Shantanu Dutta, and Steven M. Shugan (1996), "Branded Variants: A Retail Perspective," *Journal of Marketing Research*, February, pp. 9–19.
44. Deborah Ball (2007), "After Buying Binge, Nestlé Goes on Diet," *The Wall Street Journal*, July 23, p. A1.
45. Adrian J. Slywotzky (2000), "The Age of the Choiceboard," *Harvard Business Review*, January–February, pp. 40–41.
46. James H. Gilmore and B. Joseph Pine II (1997), "The Four Faces of Customization," *Harvard Business Review*, January–February, pp. 91–101.
47. Itamar Simonson (2005), "Determinants of Customers' Responses to Customized Offers: Conceptual Framework and Research Propositions," *Journal of Marketing*, 69 (January), pp. 32–45.

48. This illustration is based on Stephanie Fitch (2007), "The Keg That Scored," *Fortune*, October 15, pp. 70–73; and David Kesmodel (2009), "MillerCoors Tests a Draft-Beer Box for the Fridge," *The Wall Street Journal*, July 29, p. B8.

Chapter 8

1. This illustration is based on Wendy Bounds (1996), "Camera System Is Developed but Not Delivered," *The Wall Street Journal*, August 7, p. B1; Tricia Campbell (1999), "Back in Focus," *Sales & Marketing Management*, February, pp. 56–61; "APS Update: It's Not Dead Yet," *Retailing Today*, February 25, 2002; Geoffrey Smith (2002), "This Market Just Isn't Developing," *BusinessWeek*, May 13, pp. 90–92; James Bandler (2004), "Ending an Era, Kodak Will Stop Selling Most Film Cameras," *The Wall Street Journal*, January 14, p. B1; and Robert Tomsho (2009), "Kodak to Take Kodachrome Away," *The Wall Street Journal*, June 23.
2. See www.uspto.gov/web/offices/ac/ido/oeip/taf/top05cos.htm.
3. See Ashish Sood and Gerard J. Tellis (2008), "Do Innovations Really Pay Off? Total Stock Market Returns to Innovation," Marketing Science Institute working paper number 08-106; and Barry Jaruzelski, Kevin Dehoff, and Rakesh Bordia (2005), "Money Isn't Everything," *Strategy + Business*, Winter.
4. See C. Merle Crawford and C. Anthony Di Benedetto (2005), *New Products Management*, 8th ed. (Burr Ridge, IL: McGraw-Hill).
5. Deborah Ball, Sarah Ellison, and Janet Adamy (2004), "Just What You Need!" *The Wall Street Journal*, October 28, p. B1.
6. The person best known for studies in this area is Robert G. Cooper. Two articles he has written on this topic are R. G. Cooper and E. J. Kleinschmidt (1987), "New Products: What Separates Winners from Losers?" *Journal of Product Innovation Management*, 4, pp. 169–184; and Robert G. Cooper (1996), "New Products: What Separates the Winners from the Losers," in M.D. Rosenau Jr., A. Griffin, G. A. Castellion, and N. F. Anscheutz, eds., *The PDMA Handbook of New Product Development* (New York: Wiley), Ch. 1.
7. Andrew Pollack (2009), "Nasal Vaccine Holds Promise Against Swine Flu," *The New York Times*, July 31. Interestingly, it is sometimes better to be lucky than good. It turns out that because FluMist uses a different strain for inoculating against the swine flu that is easier to produce than those delivered by conventional shots, the company is the leading producer of the vaccine for the government.
8. This concept was first introduced by Hirotaka Takeuchi and Ikujiro Nonaka (1986), "The New Product Development Game," *Harvard Business Review*, January–February, pp. 137–146.
9. See, for example, Robin Cooper and W. Bruce Chew (1996), "Control Tomorrow's Costs through Today's Designs," *Harvard Business Review*, January–February, pp. 88–97.
10. Dan Swenson, Shahid Ansari, Jan Bell, and Il-Woon Kim (2003), "Best Practices in Target Costing," *Management Accounting Quarterly*, Winter, pp. 12–17.
11. Eric Von Hippel (2005), *Democratizing Innovation* (Cambridge, MA: MIT Press).
12. Rob Walker (2004), "Risky Business," *The New York Times Sunday Magazine*, November 28, p. 68.
13. http://www.digitalpodcast.com/podcastnews/2008/04/22/social-marketing-case-study-levis-project-501/.
14. See C. K. Prahalad and Venkat Ramaswamy (2004), *The Future of Competition: Co-Creating Unique Value with Customers*.
15. For some other examples, see *Conference Summary: Innovation and Co-Creation*, Marketing Science Institute, www.msi.org.
16. Prahalad and Ramaswamy, *The Future of Competition*.
17. David Robertson and Per Hjuler (2009), "Innovating a Turnaround at LEGO," *Harvard Business Review*, September, pp. 20–21.
18. See, for example, Anthony W. Ulwick (2002), "Turn Customer Input Into Innovation," *Harvard Business Review*, January, pp. 91–97. However, some researchers disagree. A new method called *empathetic design* obtains information from customers about potential new-product ideas, not from focus groups or more traditional methods, but through observing their behavior in natural environments.
19. Desiree De Meyer (2001), "Get to Market Faster," *Smartbusinessmag.com*, October, pp. 62–71.
20. For more information about concept testing, see Crawford and Di Benedetto, *New Products Management*, Ch.9.
21. Jack Neff (2000), "Safe At Any Speed?" *Advertising Age*, January 24, p. 1.
22. Erik Brynjolfsson and Michael Schrage (2009), "The New, Faster Face of Innovation," *The Wall Street Journal*, August 17, p. R3.
23. Ely Dahan and V. Srinivasan (2000), "The Predictive Power of Internet-Based Product Concept Testing Using Visual Depiction and Animation," *Journal of Product Innovation Management*, March, pp. 99–109.
24. Paul E. Green and Yoram Wind (1975), "New Way to Measure Consumers' Judgments," *Harvard Business Review*, July–August, pp. 107–117.
25. This section is based on John R. Hauser and Don Clausing (1988), "The House of Quality," *Harvard Business Review*, May–June, pp. 63–73.

26. G. Kalyanaram and V. Krishnan (1997), "Deliberate Product Definition: Customizing the Product Definition Process," *Journal of Marketing Research*, 34 (May), pp. 276–285.
27. The product used in this phase typically is specially produced and may not match the quality of the product after it reaches a large scale of production. For example, Knorr soup product test samples were produced in Europe, whereas the actual mass-produced product was made in a new, computerized plant in Argo, Illinois, which produced a product of different quality.
28. This illustration is based on De Meyer, "Get to Market Faster,"
29. *Business Wire*, May 24, 2004 located at http://findarticles.com/p/articles/mi_m0EIN/is_2004_May_24/ai_n6040172/.
30. Suzanne Bidlake (1998), "Winner Taco Wins over Europeans Searching for Snack," *Ad Age International*, April 13, p. 19.
31. J. H. Parfitt and B. J. K. Collins (1968), "Use of Consumer Panels for Brand-Share Prediction," *Journal of Marketing Research*, May, pp. 131–145.
32. Alvin J. Silk and Glen L. Urban (1978), "Pre-Test Market Evaluation of New Packaged Goods: A Model and Measurement Methodology," *Journal of Marketing Research*, May, pp. 171–191.
33. Glen L. Urban, Bruce D. Weinberg, and John R. Hauser (1996), "Pre-market Forecasting of Really-New Products," *Journal of Marketing*, January, pp. 47–60.
34. This illustration is based on V. Kasturi Rangan (1995), "Nestlé Refrigerated Foods: Contadina Pasta & Pizza (A)," Harvard Business Schools case #9-595-035.
35. This illustration is based on Susan Fournier and Robert J. Dolan (1997), "Launching the BMW Z3 Roadster," Harvard Business School case #9-597-002; and James T. Areddy (2007), "Starbucks, PepsiCo Bring 'Subopera' to Shanghai," *The Wall Street Journal*, November 1, p. B1.
36. *ICONOCAST*, February 2, 2001.
37. Stuart Elliott (2008), "For a New Brand, Pepsi Starts the Buzz Online," *The New York Times*, March 14.
38. Christopher D. Ittner and David F. Larcker (1997), "Product Development Cycle Time and Organizational Performance," *Journal of Marketing Research*, February, pp. 13–23.
39. Nick Bunkley (2009), "Automakers Start Rush for New Models," *The New York Times*, August 7, p. B4.
40. Abbie Griffin (1997), "The Effect of Project and Process Characteristics on Product Development Cycle Time," *Journal of Marketing Research*, February, pp. 24–35.
41. Faith Keenan and Spencer E. Ante (2002), "The New Teamwork," *BusinessWeek e.biz*, February 18, pp. EB 12–16.
42. At the time of this writing, Hewlett-Packard was slated to purchase Palm Inc. but had not yet completed the acquisition.
43. Bruce Nussbaum (2004), "The Power of Design," *BusinessWeek*, May 17, pp. 73–75.
44. This section is partially based on Geoffrey A. Moore (2004), "Darwin and the Demon: Innovating Within Established Enterprises," *Harvard Business Review*, July–August, pp. 86–92.

Chapter 9

1. This illustration is based on *The Economist* (2004), "The Meaning of iPod," June 12, p. 16; Jeff Leeds (2005), "Apple, Digital Music's Angel, Earns Record Industry's Scorn," *The New York Times*, August 27, p. A1; Ethan Smith and Yukari Iwatani Kane (2009), "Apple Changes Tune on Music Pricing," *The Wall Street Journal*, January 7; and Jim Dalrymple (2009), "Strong iPhone and iPod Sales Drive Apple Profits to $1.21 Billion," *Macworld.com*, April 22.
2. As we will discuss later in this chapter, Apple's pricing policies for the iPhone have not been without controversy.
3. In fact, the famous late management consultant Peter Drucker called cost-driven pricing a "deadly sin" in Drucker (1993), "The Five Deadly Business Sins," *The Wall Street Journal*, October 21, p. A16.
4. This notion was first introduced to us by pricing consultant Daniel A. Nimer.
5. Ibid.
6. We are purposefully vague for the moment about the definition of cost; this is explained later in this chapter.
7. Joel E. Urbany (2001), "Are Your Prices Too Low?" *Harvard Business Review*, October, pp. 26–27.
8. Vishy Cvs, Alexandru M. Degeratu, and Rebecca L. Ott-Wadhawan (2002), "Bank Deposits Get Interesting," *McKinsey Quarterly*, Number 2 (March).
9. Constance Gustke (2002), "Prices and Possibilities," *Progressive Grocer*, January 1, pp. 66–67.
10. Connie Ling and Wayne Arnold (1998), "Prospective Customers Compete to Buy Nokia's New Mobile Phone," *Asian Wall Street Journal*, September 21, p. 12.
11. For another take on the economics of the music business, see David Byrne (2007), "Survival Strategies for Emerging Artists—and Megastars," *Wired*, issue 16.01, December 18.
12. Remi Trudel and June Cotte (2009), "Does It Pay to Be Good?" *Sloan Management Review*, Winter, pp. 61–68.
13. A retailer may set the price of a product or service below cost. This is usually called a *loss leader* and is intended to bring in more

customers to the store by offering a deep discount on a popular item. For example, cranberry sauce is often used as a loss leader at Thanksgiving. We assume that a manufacturer would not do this intentionally.

14. The vertical bars indicate absolute value.
15. Gerard J. Tellis (1988), "The Price Elasticity of Selective Demand: A Meta-Analysis of Econometric Models of Sales," *Journal of Marketing Research*, 25 (November), pp. 331–341.
16. For a good description of this approach, see James C. Anderson, Nirmalya Kumar, and James A. Narus (2007), *Value Merchants* (Cambridge, MA: Harvard Business School Press).
17. An alternative way to phrase the question is to ask how much the customer would have to be paid to be indifferent between the preferred brand and the other brand.
18. Robert J. Dolan and Hermann Simon (1996), *Power Pricing* (New York: The Free Press).
19. This example is drawn from Ted Kendall (1990), "And the Survey Says...," *The Marketer*, September, pp. 47–48.
20. This illustration is based on Gery Khermouch (1998), "Sticking Their Neck Out," *Brandweek*, November 9, pp. 26–38.
21. P. K. Kannan, Barbara Kline Pope, and Sanjay Jain (2009), "Pricing Digital Content Product Lines: A Model and Application for the National Academies Press," *Marketing Science*, 28 (July–August), pp. 620–636.
22. Janice Revell (2001), "The Price Is Not Always Right," *Fortune*, May 14, p. 240.
23. Kenneth Hein (2009), "Study: Value Trumps Price Among Shoppers," *Brandweek*, March 2, p. 6.
24. For the rankings by category, see http://www.brandweek.com/bw/special-reports/brand-key/2009/index.jsp.
25. Joan O. Hamilton (1990), "Genentech: A Textbook Case of Medical Marketing," *BusinessWeek*, August 13, pp. 96–97.
26. Owen Thomas (2004), "SanDisk Plays it Cards Right," *Business 2.0*, May, pp. 60–62.
27. Drucker, "The Five Deadly Sins."
28. We will refer to this $0.99 price later in the chapter as a *reference* price, that is, a price that becomes a mental standard price for a product.
29. See for example, David Carr (2007), "Steve Jobs: iCame, iSaw, iCaved," *The New York Times*, September 10; and Joseph De Avila (2007), "Why Some Apple Fans Won't Buy the iPhone," *The Wall Street Journal*, September 12, p. D3.
30. Oliver P. Heil and Kristiaan Helsen (2001), "Toward an Understanding of Price Wars: Their Nature and How They Erupt," *International Journal of Research in Marketing*, June, pp. 83–98.
31. Akshay R. Rao, Mark E. Bergen, and Scott Davis (2000), "How to Fight a Price War," *Harvard Business Review*, March–April, pp. 107–116.
32. See, for example, Gurumurthy Kalyanaram and Russell S. Winer (1995), "Empirical Generalizations from Reference Price Research," *Marketing Science*, 14, issue 3, pp. G161–G169.
33. For more information on the signaling aspect of prices, see Amna Kirmani and Akshay R. Rao (2000), "No Pain, No Gain: A Critical Review of the Literature on Signaling Unobservable Product Quality," *Journal of Marketing*, April, pp. 66–79.
34. For some background on odd prices, see Mark Stiving and Russell S. Winer (1997), "An Empirical Analysis of Price Endings with Scanner Data," *Journal of Consumer Research*, 24 (June), pp. 57–67; and Manoj Thomas and Vicki Morwitz (2005), "Penny Wise and Pound Foolish: The Left-Digit Effect in Price Cognition," *Journal of Consumer Research*, 32 (June), pp. 54–64.
35. For more information about bundling, see Stefan Stremersch and Gerard J. Tellis (2002), "Strategic Bundling of Products and Prices: A New Synthesis for Marketing," *Journal of Marketing*, January, pp. 55–72.
36. For a good discussion of the legal aspects of pricing, see Thomas T. Nagle and Reed K. Holden (2002), *The Strategies and Tactics of Pricing*, 3rd ed. (Upper Saddle River, NJ: Prentice-Hall), Chapter 14.
37. The experiment affects only 2,000 of the 41,000 seats in the stadium that are the last to sell and where there are no season ticket holders. Ken Belson (2009), "Baseball Tickets Too Much? Check Back Tomorrow," *The New York Times*, May 18, p. D2.
38. Charles King III and Das Narayandas (2000), "Coca-Cola's New Vending Machine (A): Pricing to Capture Value, or Not?" Harvard Business School case #9-500-068.
39. David Streitfeld (2000), "Amazon Flunks Its Pricing Test," *San Francisco Chronicle*, September 28, p. B4.
40. Andrew Pollack (2009), "Drug Deals Tie Prices to How Well Patients Do," *The New York Times*, April 23.
41. The survey results can be accessed at http://www.whatpricedidyouchoose.com/.
42. Greg Kot (2008), "Turn it Up," *Chicago Tribune*, October 20, blog located at http://leisureblogs.chicagotribune.com/turn_it_up/2008/10/radioheads-in-r.html; and Wendy Davis (2008), "Freeloaders Didn't Hurt Radiohead Sales," *The Daily Online Examiner*, October 16.
43. Eric Newman (2008), "As Inflation Resurfaces, So Does Package Shrink," *Brandweek*, June 9, p. 5.

44. John A. Quelch and David Harding (1996), "Brands versus Private Labels: Fighting to Win," *Harvard Business Review*, January–February, pp. 99–109.
45. For a more general discussion of consumers' interests in "free" that includes both online and offline shopping behavior, see Chris Anderson (2009), *Free* (New York: Hyperion Books).
46. Jeffry R. Brown and Austan Goolsbee (2002), "Does the Internet Make Markets More Competitive? Evidence from the Life Insurance Industry," *Journal of Political Economy*, 110, issue 3, pp. 481–507.
47. Michael D. Smith and Erik Brynjolfsson (2001), "Consumer Decision-Making at an Internet Shopbot: Brand Still Matters," *Journal of Industrial Economics*, December, pp. 541–558.
48. Walter Baker, Mike Marn, and Craig Zawada (2001), "Price Smarter on the Net," *Harvard Business Review*, February, pp. 122–127.
49. Eric J. Johnson, Wendy W. Moe, Peter S. Fader, Steven Bellman, and Gerald L. Lohse (2004), "On the Depth and Dynamics of Online Search Behavior," *Management Science*, 48 (October), pp. 1350–1368.
50. Daniel Fisher (2009), "Cheap Seats," *Forbes*, August 24, pp. 102–103.
51. Scott McNealy (2001), "Welcome to the Bazaar," *Harvard Business Review*, March, pp. 18–19.
52. Geoffrey A. Fowler (2009), "Auctions Fade as eBay Offers Wholesale Items at Fixed Prices," *The Wall Street Journal*, May 26.
53. See Margaret C. Campbell (1999), "Perceptions of Price Unfairness: Antecedents and Consequences," *Journal of Marketing Research*, May, pp. 187–199.
54. Interestingly, it has been argued that consumers are clearer and more articulate about what they perceive as unfair prices than they are about fair prices. See Lan Xia, Kent B. Monroe, and Jennifer L. Cox (2004), "The Price is Unfair! A Conceptual Framework of Price Fairness Perceptions," *Journal of Marketing*, October, pp. 1–15.

Chapter 10

1. This illustration is based on Timothy L. O'Brien (2005), "Madison Avenue Wants You," *The New York Times*, September 25, p. BU 1; and Dave Moniz (2005), "Fewer Early Sign-ups as Army Struggles to Recruit Soldiers," *USA Today*, July 27, p. A6; and www.army.mil.
2. For a classic reference in this area, see Wilbur Schram (1955), *The Process and Effects of Mass Communication* (Urbana: University of Illinois Press).
3. See E. Katz and P.F. Lazarsfeld (1955), *Personal Influence* (Glencoe, IL: Free Press).
4. Electronic environments such as those discussed are called hypermedia computer-mediated environments. See Donna L. Hoffman and Thomas P. Novak (1996), "Marketing in Hypermedia Computer-Mediated Environments: Conceptual Foundations," *Journal of Marketing*, 60 (July), pp. 50–68.
5. Philip Evans and Thomas S. Wurster (2000), *Blown to Bits* (Boston: Harvard Business School Press), Ch. 3.
6. Ralph S. Alexander, ed. (1965), *Marketing Definitions* (Chicago: American Marketing Association), p. 9.
7. Direct marketing is also often considered to be a channel of distribution because it brings the product to the customer. We consider it to be a channel in this book; see Chapter 12.
8. Like direct marketing, personal selling is often considered to be a direct channel of distribution.
9. Lea Goldman (2002), "A Fortune in Firewalls," *Forbes*, March 18, pp. 101–108.
10. This background material is from http://home.swipnet.se/~w-33318/websolut/history.htm
11. Press Release, LG dated December 7, 2009.
12. http://en-us.nielsen.com/main/news/news_releases/2009/march/u_s_ad_spending_fell.
13. Normandy Madden and Andrew Hornery (1999), "As Taco Bell Enters Singapore, Gidget Avoids the Ad Limelight," *Ad Age International*, January 11, p. 13.
14. Stuart Elliott (2002), "Advertising's Big Four: It's Their World Now," *The New York Times*, March 31, Business Section, p. 1.
15. Jack Neff (2001), "Coupons Get Clipped," *Advertising Age*, November 5, p. 1.
16. See, for example, Demetrios Vakratsas and Tim Ambler (1999), "How Advertising Works: What Do We Really Know?" *Journal of Marketing*, 63 (January), pp. 26–43.
17. See, for example, Johanna S. Ilfeld and Russell S. Winer (2002), "Generating Web Site Traffic: An Empirical Analysis of Web Site Visitation Behavior," *Journal of Advertising Research*, September–October, pp. 49–61.
18. See George E. Belch and Michael A. Belch (1993), *Introduction to Advertising and Promotion* (Burr Ridge, IL: McGraw-Hill).
19. A good reference on copy testing procedures is Rajeev Batra, John G. Myers, and David A. Aaker (1996), *Advertising Management*, 5th ed. (Upper Saddle River, NJ: Prentice Hall), Chapter 14.
20. Believe it or not, a woman sold her forehead as ad space. She had the words "GoldenPalace.com" tattooed on her forehead for $10,000.
21. Jean Halliday (2005), "Ford Ups 'Targeted' Media Spending," *Advertising Age*, p. 8.

22. Kris Oser (2005), "Online Crisis Looms as Ad Demand Surges," *Advertising Age*, September 12, p. 1.
23. See, for example, *BusinessWeek Online* (2001), "Online Advertising: It's Just the Beginning," *Special Report: Internet Advertising*, July 12.
24. Joshua Rosenbaum (2002), "Annoying...but Effective," *The Wall Street Journal Online*, April 15.
25. Lorne Manley (2005), "When the Ad Turns Into the Story Line," *The New York Times*, October 2, p. BU-1.
26. Michael Schneider (2009), "Fox Wants Answers from Nielsen," *Variety*, May 18, http://www.variety.com/article/VR11180039 24.html?categoryid=14&cs=1.
27. H. Rao Unnava and Robert E. Burnkrant (1991), "Effects of Repeating Varied Ad Executions on Brand Name Memory," *Journal of Marketing Research*, 28 (November), pp. 406–416.
28. Hubert A. Zielske (1959), "The Remembering and Forgetting of Advertising," *Journal of Marketing*, 23 (January), pp. 239–243.
29. See David Kiley (1998), "Optimum Target," *AdWeek*, May 18, pp. 39–42.
30. Mya Frazier (2005), "You Suck," *Advertising Age*, July 25, p. 1.
31. "Fighting Apple on Its Turf," *The New York Times*, August 30, 2009, P. BU6.
32. See John Philip Jones (1990), "Ad Spending: Maintaining Market Share," *Harvard Business Review*, January–February, pp. 38–43.
33. See Rita Koselka (1996), "The New Mantra: MVT," *Forbes*, March 11, pp. 114–117.
34. These data are from Darral G. Clarke (1985), "G.D. Searle & Co.: Equal Low-Calorie Sweetener (A)," Harvard Business School case #9-585-010.
35. John D.C. Little (1970), "Models and Managers: The Concept of a Decision Calculus," *Management Science*, 16, pp. B466–B485.
36. See J. Enrique Bigné (1995), "Advertising Budget Practices: A Review," *Journal of Current Issues and Research in Advertising*, 2 (Fall), pp. 17–31.
37. Brian Steinberg (2005), "Putting a Value on Marketing Dollars," *The Wall Street Journal*, July 27, p. B1.
38. Leonard M. Lodish, Magid Abraham, Stuart Kalmenson, Jeanne Livelsberger, Beth Lubetkin, Bruce Richardson, and Mary Ellen Stevens (1995), "How T.V. Advertising Works: A Meta-Analysis of 389 Real World Split Cable T.V. Advertising Experiments," *Journal of Marketing Research*, 32 (May), pp. 125–139.
39. Abbey Klaassen (2005), "Is Court TV Guarantee Birth of a New ROI Trend?" *Advertising Age*, June 13, p. 46.
40. Gert Assmus, John U. Farley, and Donald R. Lehmann (1984), "How Advertising Affects Sales: Meta-Analysis of Econometric Results," *Journal of Marketing Research*, 21 (February), pp. 65–74.
41. The vast majority of empirical research in this area has focused on consumer products and services. Thus, generalizing these findings to industrial products should be done with caution.
42. Geoffrey A. Fowler (2005), "Northwest Air Takes Japanese Ads to New Heights," *The Wall Street Journal*, October 13, p. B4.
43. David Kiley (2005), "Cable's Big Bet on Hyper Targeting," *BusinessWeek*, July 4, pp. 58–59.
44. David H. Freedman (2005), "The Future of Advertising Is Here," *Inc. Magazine*, August, pp. 70–77.

Chapter 11

1. This illustration is based on Jeremy Grant and Tim Burt (2002), "Carmakers Feel Pain Despite Incentives Drug," *Financial Times*, April 4, p. 16; Sholnn Freeman (2005), "GM, Ford Shift Gears on Pricing," *The Wall Street Journal*, August 2, p. D2; and BusinessWire report (2009), http://www.businesswire.com/news/home/20090901006373/en, September 1.
2. Scott A. Neslin (2002), *Sales Promotion* (Cambridge, MA: Marketing Science Institute). This book also has an excellent overview of research in the area.
3. www.promomagazine.com, October 2008.
4. Julie Pitta (1999), "Squeeze Play: Databases Get Ugly," *Forbes*, February 22, pp. 50–51.
5. Carl F. Mela, Sunil Gupta, and Donald R. Lehmann (1997), "The Long-Term Impact of Promotion and Advertising on Consumer Brand Choice," *Journal of Marketing Research*, 34 (May), pp. 248–261.
6. Hannah Kate Kinnersley (2008), "The Best Sites for Coupon Clipping," *The Wall Street Journal*, May 22, p. D2.
7. Bridget Goldschmidt (2009), "Economic Woes Spur Coupon Use," *Progressivegrocer.com*, September 10.
8. Kenneth Hein (2009), "Coupon Enthusiasts' Drive Up Redemption Rates," *Progressive grocer.com*, September 4.
9. Karen Talley (2009), "Sam's Club Tries Texting For Its Discount Coupons," *The Wall Street Journal*, September 30, p. B5B.
10. Timothy W. Martin (2009), "Coupons Are Hot. Clipping Is Not," *The Wall Street Journal*, February 25.
11. David Card (2001), "Online Couponing Is Cost-Effective for CPGs," Jupiter-Media Metrix Report, October 26.
12. David Kesmodel (2008), "The Coupon King," *The Wall Street Journal*, February 16.
13. Data provided by Information Resources Incorporated (IRI).

14. Private communications.
15. Gerry Khermouch (1997), "Read This. It's Free," *Brandweek*, June 16, p. 42.
16. Miho Inada (2009), "Tokyo Café Targets Trend Makers," *The Wall Street Journal*, August 24, p. B5.
17. Emily Nelson (2002), "P&G Promotion Is Too Successful, Angering Buyers," *The Wall Street Journal*, April 2, p. B1.
18. Shirley Leung (2002), "Happy Meals Angle for Little Girls' Loyalty with Well-Dressed Dolls," *The Wall Street Journal*, April 5, p. B1.
19. Gerry Khermouch and Jeff Green (2001), "Buzz-z-z-z-z Marketing," *BusinessWeek*, July 30, pp. 50–56.
20. For more information on slotting allowances, see Paul N. Bloom, Gregory T. Gundlach, and Joseph P. Cannon (1999), "Slotting Allowances and Fees: Schools of Thought and the Views of Practicing Managers," Report #99-106 (Boston: Marketing Science Institute).
21. Julie Forster (2002), "The Hidden Cost of Shelf Space," *BusinessWeek*, April 15, p. 103.
22. See Matthew G. Nagler (2006) "An Exploratory Analysis of the Determinants of Cooperative Advertising Participation Rates," *Marketing Letters*, 17:2 (April 2006), pp. 91–102.
23. This illustration is based on Jack Neff (2000), "Clorox Gives in on Glad, Hikes Trade Promotion," *Advertising Age*, November 27, p. 22.
24. The marketing manager may want to reward loyal customers and aid retention, particularly in the face of competitor promotions, by giving them a discount. However, if they would normally pay the regular price, this is a cost of the promotion.
25. Stephanie Thompson (2004), "Nestlé Warns Stores: Prove It or Lose It," *Advertising Age*, September 13, p.1.
26. Scott A. Neslin and Robert W. Shoemaker (1983), "A Model for Evaluating the Profitability of Coupon Promotions," *Marketing Science*, 2, pp. 361–88.
27. This illustration is based on John A. Quelch (1983), "Procter and Gamble (B)," Harvard Business School case #9-584-048. Note that retail promotions are omitted because such decisions are made by the retailers.
28. See also J. Jeffrey Inman, Russell S. Winer, and Resellina Ferraro (2009), "The Interplay among Category Characteristics, Customer Characteristics, and Customer Activities on In-Store Decision Making," *Journal of Marketing*, September, pp. 19–29.
29. Readers should not expect to get these kinds of results for every brand or kind of product.
30. Paule W. Farris and Robert D. Buzzell (1979), "Why Advertising and Promotional Costs Vary: Some Cross-Sectional Analyses," *Journal of Marketing*, 43 (Fall), pp. 112–122.
31. Robert M. Prentice (1977), "How to Split Your Marketing Funds between Advertising and Promotion," *Advertising Age*, January 10, p. 41.
32. Natalie Zmuda (2009), "Coke: Buy 1 Rival, Get Our Brand Free," *Advertising Age*, March 9.
33. Ilan Brat and Ann Zimmerman (2009), "Tale of the Tape: Retailers Take Receipts to Great Lengths," *The Wall Street Journal*, September 1.

Chapter 12

1. This illustration is based on Nick Wingfield (2009), "Microsoft to Open Stores, Hires Retail Hand," *The Wall Street Journal*, February 13; Karan Mehrishi (2009), "A Can of 'Windows,'" *4Ps Business and Marketing*, February 27–March 12, p. 62; and Vladisov Savov (2009), "First Two Microsoft Retail Stores Now Hiring," www.engadget.com, August 21.
2. The potential components of this value are described later in this chapter.
3. This illustration is based on John Deighton (2002), "How Snapple Got Its Juice Back," *Harvard Business Review*, January, pp. 47–53.
4. This illustration is based on Charles Fishman (2001), "Sweethearts and Wafers—and an Assortment of Nostalgic Candies—Connect Necco to Its Rich Past," *Fast Company*, February, pp. 137–145.
5. U.S. Department of Commerce, http://www.census.gov/retail/mrts/www/data/pdf/09Q4.pdf
6. eMarketer, February 6, 2008.
7. http://pressroom.grainger.com/phoenix.zhtml?c=194987&p=irol-factsheet#4
8. The companies also changed how the sales force is compensated. Their method, called multilevel selling, is covered later in this chapter.
9. Rob Wherry (2001), "Ice Cream Wars," *Forbes*, May 28, pp. 160–164.
10. This illustration is based on Haim Mendelson (2001), "Tesco Delivers," Stanford Graduate School of Business case #EC-32; Louis Lee (2003), "Online Grocers Finally Delivering the Lettuce," *BusinessWeek*, April 28, p. 67; *New Media Age* (2005), May 5, p. 17; and http://www.nomensa.com/news/industry-news/2009/10/tescos-online-sales-hit-1billion.html.
11. This illustration is based on Nick Wingfield (2009), "Netflix Boss Plots Life After the DVD," *The Wall Street Journal*, June 23; Farhad Manjoo (2009), "Box Tops," *Fast Company*, July/August, p. 57; and Rob Walker (2009), "Few Releases," *The New York Times Magazine*, October 25, p. 22.
12. John R. Hayes (1997), "Watch Out, Dell," *Forbes*, March 24, p. 84.

13. V. Kasturi Rangan, Melvyn A. J. Menezes, and E. P. Maier (1992), "Channel Selection for New Industrial Products: A Framework, Method, and Applications," *Journal of Marketing*, 56 (July), pp. 69–82.
14. Joseph B. Myers, Andrew D. Pickersgill, and Evan S. Van Metre (2004), "Steering Customers to the Right Channels," *The McKinsey Quarterly*, 4, pp. 37–43.
15. This illustration is based on V. Kasturi Rangan and E. Raymond Corey (1989), "Ingersoll-Rand (A): Managing Multiple Channels," Harvard Business School case #9-589-121; Lauren Keller Johnson (2005), "Motivating Cross-Boundary Thinking and Acting at Ingersoll-Rand," Harvard Business School Press; and www.ingersollrand.com.
16. Rowland T. Moriarty and Ursula Moran (1990), "Managing Hybrid Systems," *Harvard Business Review*, November–December, pp. 146–55.
17. Anne T. Coughlan, Erin Anderson, Louis W. Stern, and Adel I. El-Ansary (2001), *Marketing Channels*, 6th ed. (Upper Saddle River, NJ: Prentice-Hall), p. 200.
18. Pamela Sebastian Ridge (2002), "Big Tooth? Suit Says Dentsply Has a Monopoly," *The Wall Street Journal*, April 12, p. A13.
19. Coughlan, Anderson, Stern, and El-Ansary, *Marketing Channels*, Ch. 9.
20. This illustration is based on Kevin Kelleher (2004), "Giving Dealers a Raw Deal," *Business 2.0*, December, pp. 82–84.
21. Lisa Bannon (2000), "Selling Barbie Online May Pit Mattel vs. Stores," *The Wall Street Journal*, November 17, p. B1.
22. This is not always the case. An OEM channel may want a long-term relationship with a supplier because it gives the latter an incentive to invest in improving its own technology and bringing down its costs, which ultimately benefits the OEM. An OEM may also require an investment on the part of the supplier to tailor the product in some way, such as making a special adapter to fit into the product.
23. Some of the material in this section is based on Coughlan, Anderson, Stern, and El-Ansary, *Marketing Channels*.
24. For tips on how to develop channel arrangements in foreign countries, see David Arnold (2000), "7 Rules of International Distribution," *Harvard Business Review*, November–December, pp. 131–137.
25. This illustration is based on Joseph Kahn (1995), "P&G Viewed China as a National Market and Is Conquering It," *The Wall Street Journal*, September 12, p. A1; and Norihiko Shirouzu (1997), "P&G's Joy Makes an Unlikely Splash in Japan," *The Wall Street Journal*, December 10, p. B1.
26. *Progressive Grocer* (2009), May; www.ibisworld.com.
27. Suman Basuroy, Murali K. Mantrala, and Rockney G. Walters (2001), "The Impact of Category Management on Retailer Prices and Performance: Theory and Evidence," *Journal of Marketing*, October, pp. 16–32.
28. D. Gail Fleenor (2009), "Dairy Aisle Leadership: The Next Space Optimizer," *Progressive Grocer*, February 25, http://www.progressivegrocer.com/progressivegrocer/content_display/esearch/e3ia9c64386847182ff1c2991ecfc57ec13.
29. Some large supermarkets such as SuperValu, Kroger, and Walmart have their own distribution networks and do not use independent food wholesalers extensively.
30. "America's Largest Private Companies," *Forbes* November 16 (2009), pp. 146–148.
31. This illustration is based on Brett Nelson (2005), "Stuck in the Middle," *Forbes*, August 15, p. 88.

Chapter 13

1. This illustration is based on Michele Marchetti (2000), "Cisco Systems," *Sales & Marketing Management*, July, pp. 60–61; "America's 500 Largest Sales Forces," (2005), *Selling Power*, p. 64; Stephen Wildstrom (2009), "Meet Cisco, the Consumer Company," *BusinessWeek*, May 4, pp. 73–74; and *BtoB Online* (2009), October 26, interview with Susan Bostrom, Executive vice president and chief marketing officer, Cisco Systems.
2. Andris A. Zoltners, Prabhakant Sinha, and Sally E. Lorimer (2008), "Sales Force Effectiveness: A Framework for Researchers and Practitioners," *Journal of Personal Selling & Sales Management*, (Spring), pp. 115–131.
3. *DMA 2009 Statistical Fact Book* (New York: The Direct Marketing Association).
4. Natalie Zmuda (2009), "Direct Disconnect: Retailers Neglect Valuable Data Trove," *Advertising Age*, September 21, 2009.
5. *DMA 2009 Statistical Fact Book*.
6. These data are from *Selling Power* (2009), October.
7. *Sales & Marketing Management* (2000), September, p. 82.
8. Frank V. Cespedes (1994), "Hewlett-Packard Imaging Systems Division: Sonos 100 C/F Introduction," Harvard Business School case #9-593-080.
9. "MCI Communications Corporation: National Accounts Program," Harvard Business School case #9-587-116.
10. Kathleen Cholewka (2001), "Xerox's Savior?" *Sales & Marketing Management*, April, pp. 36–42.
11. "Reorganizing a Sales Force" (2000), *Sales & Marketing Management*, March, p. 90.

12. William A. O'Connell and William Keenan Jr. (1990), "The Shape of Things to Come," *Sales & Marketing Management*, January, pp. 36–41.
13. This illustration is from Sanjit Sengupta, Robert E. Krapfel, and Michael A. Pusateri (1997), "The Strategic Sales Force," *Marketing Management*, Summer, pp. 29–34.
14. Theodor Levitt (1986), "Relationship Management," in *The Marketing Imagination* (New York: The Free Press), Ch. 6.
15. In addition to the model used in this book, the interested reader can also consult Mark Johnston and Greg Marshall (2005), *Churchill-Ford-Walker's Sales Force Management*, 8th ed. (Burr Ridge, IL: McGraw-Hill).
16. Of course, the firm may have better investment opportunities that generate more than $1 in contribution margin. The method can be adjusted to set a hurdle rate for the return of a salesperson beyond a given opportunity cost of capital.
17. This illustration is based on Darral G. Clarke (1983), "Syntex Laboratories (A)," Harvard Business School case #9-584-033.
18. Thomas M. Siebel and Michael S. Malone (1996), *Virtual Selling* (New York: The Free Press). See also Dianne Ledingham, Mark Kovac, and Heidi Locke Simon (2006), "The New Science of Sales Force Productivity," *Harvard Business Review*, September, pp. 124–134.
19. This illustration is based on Todd Shapera (2001), "SFA Helps NuGenesis Customzie Relationships," *1to1*, May/June, p. 29.
20. This illustration is based on Peter Leach and Wendy Close (1999), "Card Games: How Lanier Worldwide Automated Its Sales Force," *Executive Edge*, February–March, pp. 50–54.
21. Ellen Byron (2001), "The Web @ Work: AstraZeneca," *The Wall Street Journal*, November 5, p. B6.
22. The Direct Marketing Association, www.the-dma.org.
23. For other approaches to analyzing lists, see Füsun Gönül, Byung-Do Kim, and Mengze Shi (2000), "Mailing Smarter to Catalog Customers," *Journal of Interactive Marketing*, Spring, pp. 2–16; and Nissan Levin and Jacob Zahavi (2001), "Predictive Modeling Using Segmentation," *Journal of Interactive Marketing*, Spring, pp. 2–22.
24. *The DMA 2009 Response Rate Report* (New York: The Direct Marketing Association).
25. This illustration is based on Jeff Borden (2008), "Eat My Dust," *Marketing News*, February 1, pp. 20–22.
26. The data in this paragraph are from Jeffrey Ball (2009), "In Digital Era, Marketers Still Prefer a Paper Trail," *The Wall Street Journal*, October 16, p. A13.
27. Dianna Dilworth (2009), "Strike Up the Brand with E-Mail," *DMNEWS*, March 9, p. 12.
28. Seth Godin (1999), *Permission Marketing* (New York: Simon & Schuster).
29. For more information on the DoubleClick/Abacus Direct incident, see David P. Baron (2001), "DoubleClick and Internet Privacy," Graduate School of Business, Stanford University case #P-32.

Chapter 14

1. This illustration is based on Joe Ashbrook Nickell (2002), "Welcome to Harrah's," *Business 2.0*, April, pp. 47–54; Mike Beirne (2002), "Dollars in the Desert," *Brandweek*, April 1, pp. 19–20; John Quelch (2005), "Ambidextrous Marketing," *The Wall Street Journal*, October 11, p. B-2; and data from *Yahoo! Financial* pages.
2. Matt Richtel and Andrew Ross Sorkin (2004), "AT&T Wireless for Sale as a Shakeout Starts," *The New York Times*, January 21, p. C1.
3. Andrea Petersen and Nicole Harris (2002), "Chaos, Confusion and Perks Bedevil Wireless Users," *The Wall Street Journal*, April 17, p. A1; and Matt Richtel (2004), "$41 Billion Deal, But What's in It for Consumers?" *The New York Times*, February 18, p. C1.
4. Theodore Levitt (1986), "Relationship Management," in *The Marketing Imagination* (New York: Free Press), Ch. 6.
5. Barbara Bund Jackson (1985), "Build Customer Relationships That Last," *Harvard Business Review*, November–December, pp. 120–128.
6. Chuck Pettis (1997), "A Customer's Loyalty for $200," *Marketing Computers*, September, pp. 67–70.
7. Some authors question the basic notion that long-term relationships always lead to greater profitability. See, for example, Grahame R. Dowling and Mark Uncles (1997), "Do Loyalty Programs Really Work?" *Sloan Management Review*, Summer, pp. 71–82. In addition, some authors draw a distinction between contractual (e.g., magazine subscriptions, health club memberships) and noncontractual relationships (e.g., catalogue buying) and argue that the economics of long-term customer relationships in the latter situation are not so clear. See Werner J. Reinartz and V. Kumar (2000), "On the Profitability of Long-Life Customers in a Noncontractual Setting: An Empirical Investigation and Implications for Marketing," *Journal of Marketing*, October, pp. 17–35.
8. A more comprehensive model of CRM that incorporates business strategy into the model has been developed by Adrian Payne and

Pennie Frow (2005), "A Strategic Framework for Customer Relationship Management," *Journal of Marketing*, October, pp. 167–176.

9. Rashi Glazer (1999), "Winning in Smart Markets," *Sloan Management Review*, Summer, pp. 59–69.
10. "Traceable" activity would be any marketing program in which the response can be directly related to the program. An example would be a catalogue mailing. Mass advertising would not be included, for example.
11. Erik Schonfeld (2001), "The Total Package," *Ecompany*, June, pp. 91–96.
12. This framework is due to Professor Florian Zettelmeyer.
13. Normandy Madden (2004), "Nestlé Broadens Efforts to Bond with Consumers," *Advertising Age*, May 24, p. 4.
14. See, for example, Michael J. A. Berry and Gordon S. Linoff (2000), *Mastering Data Mining* (New York: John Wiley & Sons).
15. See, for example, Paul D. Berger and Nada I. Nasr (1998), "Customer Lifetime Value: Marketing Models and Applications," *Journal of Interactive Marketing*, Winter, pp. 17–30. In addition, a good reference in this area is V. Kumar and Werner Reinartz (2006), *Customer Relationship Management* (Hoboken, NJ: John Wiley & Sons), Ch. 6.
16. Sunil Gupta and Donald R. Lehmann (2003), "Customers as Assets," *Journal of Interactive Marketing*, Winter, pp. 9–24.
17. For an examination of LCV in a channels context, see Rakesh Niraj, Mahendra Gupta, and Chakravarthi Narasimhan (2001), "Customer Profitability in a Supply Chain," *Journal of Marketing*, July, pp. 1–16.
18. This has sometimes been referred to as customer equity. See, for example, Roland T. Rust, Valarie A. Zeithaml, and Katherine N. Lemon (2000), *Driving Customer Equity* (New York: Free Press).
19. For a more detailed look at this acquisition/retention decision, see Robert C. Blattberg and John Deighton (1996), "Manage Marketing by the Customer Equity Test," *Harvard Business Review*, July–August, pp. 136–144.
20. "BrooksBrothers.com" (2000), *The Wall Street Journal*, September 24, p. R6.
21. Gary McWilliams (2004), "Analyzing Customers, Best Buy Decides Not All Are Welcome," *The Wall Street Journal*, November 8, p. A1.
22. William C. Taylor (2005), "Rebels With a Cause, and a Business Plan," *The New York Times*, January 2, p. BU-5.
23. Francis J. Mulhern (1999), "Customer Profitability Analysis: Measurement, Concentration, and Research Directions," *Journal of Interactive Marketing*, Winter, pp. 25–40.
24. For a similar result in customer profitability being concentrated among a few customers, see Niraj, Gupta, and Narasimhan, "Customer Profitability in a Supply Chain."
25. Larry Selden and Geoffrey Colvin (2002), "Will This Customer Sink Your Stock?" *Fortune*, September 30, p. 128.
26. This illustration is based on Peterson and Harris, "Chaos, Confusion and Perks Bedevil Wireless Users."
27. Meredith Levinson (2000), "Slices of Lives," *CIO Magazine*, August 15, www.cio.com/archive/081500_slices_content.html.
28. See the references in Eugene W. Anderson, Claes Fornell, and Donald R. Lehmann (1993), "Economic Consequences of Providing Quality and Customer Satisfaction," Marketing Science Institute Report #93-112 (Cambridge, MA).
29. Bhattiprolu Murti (2005), "Customer Satisfaction Figures Into Some Executives' Bonuses," *The Wall Street Journal*, October 28, p. B-3C.
30. These are from www.theacsi.org.
31. Thomas O. Jones and W. Earl Sasser Jr. (1995), "Why Satisfied Customers Defect," *Harvard Business Review*, November–December, pp. 88–99.
32. Based on Frederick F. Reichheld, "The One Number You Need to Grow" *Harvard Business Review*, December 2003.
33. Jones and Sasser, "Why Satisfied Customers Defect."
34. In addition, there are many different measures of loyalty, from survey-based measures such as purchase intentions to behavioral measures such as share-of-requirements, the percentage of all purchases of a product that are of a particular brand.
35. See, for example, Beth Snyder Bulik (2004), "Brands Spotlight Customer Experience," *Advertising Age*, April 19, p. 1.
36. Jan Carlzon (1987), *Moments of Truth* (Cambridge, MA: Ballinger).
37. Alison Overholt (2004), "Cuckoo for Customers," *Fast Company*, June, pp. 86–87.
38. This illustration is based on Jake Chessum (2009), "Get Happy," *Inc.*, May, pp. 67–73; and Christopher Palmeri (2010), "Now for Sale, The Zappos Culture," *Bloomberg Businessweek*, January 11, p. 57.
39. Bob Tasca (1996), *You Will Be Satisfied* (New York: HarperCollins).
40. James L. Heskett, W. Earl Sasser, and Christopher W. L. Hart (1990), *Service Breakthroughs: Changing the Rules of the Game* (New York: Free Press).
41. Chad Kaydo (1998), "Riding High," *Sales & Marketing Management*, July, pp. 64–69.
42. "International Business Machines (B): Applitronics Account Strategy," Harvard Business School case #9-581-052.
43. This illustration is based on Paul C. Judge (2001), "EMC Corporation," *Fast Company*, June, pp. 138–145; and data from www.emc.com.

44. Another company is netCustomer, described at the beginning of Chapter 5.
45. Peter Fuller (2002), "A Two-Way Conversation," *Brandweek*, February 25, pp. 21–27.
46. Stanley Reed (2005), "Rolls-Royce, At Your Service," *BusinessWeek*, November 14, pp. 92–95.
47. Rebecca Piirto Heath (1997), "Loyalty for Sale," *Marketing Tools*, July, pp. 40–46; see also Grahame R. Dowling and Mark Uncles (1997), "Do Customer Loyalty Programs Really Work?" *Sloan Management Review*, Summer, pp. 71–82; and Louise O'Brien and Charles Jones (1995), "Do Rewards Really Create Loyalty?" *Harvard Business Review*, May–June, pp. 75–82.
48. Laura Loro (1998), "Loyalty Programs Paying Off for B-to-B," *Business Marketing*, September, p. 49.
49. See B. Joseph Pine II (1993), *Mass Customization: The New Frontier in Business Competition* (Boston: Harvard Business School Press).
50. Gil McWilliam (2000), "Building Stronger Brands through Online Communities," *Sloan Management Review*, Spring, pp. 43–54. For additional information on building online communities, see Ruth L. Williams and Joseph Cothrel (2000), "Four Smart Ways to Run Online Communities," *Sloan Management Review*, Summer, pp. 81–91; Albert M. Muniz Jr. and Thomas C. O'Guinn (2001), "Brand Community," *Journal of Consumer Research*, March, pp. 412–432; and James H. McAlexander, John W. Schouten, and Harold F. Koenig (2002), "Building Brand Community," *Journal of Marketing*, January, pp. 38–54.
51. Shona L. Brown, Andrew Tilton, and Dennis M. Woodside (2002), "The Case for On-line Communities," *The McKinsey Quarterly*, January, www.mckinseyquarterly.com
52. Evan I. Schwartz (2001), "Real Community Is Possible," *Business 2.0*, March 6, p. 64.
53. Pat Long (1997), "Customer Loyalty, One Customer at a Time," *Marketing News*, February 3, p. 8.
54. Frederick F. Reichheld (1996), "Learning from Customer Defections," *Harvard Business Review*, March–April, pp. 56–69.

Chapter 15

1. This illustration is based on Paul Sweeney and Denise Lugo (2001), "The Choice: While Some Regionals Tout the Virtues of Merging, the Independent-Minded Still Flourish," *The Investment Dealers' Digest: IDD*, May 26, pp. 18–23; David Colis and Troy Smith (2007), "Edward Jones in 2006: Confronting Succes," Harvard Business School case #9-707-497; and www.edwardjones.com.
2. *Economic Report of the President*, 2009.
3. https://www.cia.gov/library/publications/the-world-factbook/index.html.
4. These examples are from William M. Bulkeley (2009), "Xerox Tries to Go Beyond Copiers," *The Wall Street Journal*, February 24; Richard Waters (2009), "Big Blueprint for IBM Services," *Financial Times*, March 3, p. 12; Andrew Parker and Andrew Ward (2009), "Services Hold Key to Nokia's Future," *Financial Times*, August 24, p. 13; Justin Scheck (2009), "H-P Gets a Boost From Services Unit," *The Wall Street Journal*, November 24, p. B1; and William M. Bulkeley (2009), "Print Outsourcing Gives Boost to Xerox, H-P," *The Wall Street Journal*, December 22, p. B5.
5. For some basic information on this classification scheme, see Philip Nelson (1970), "Advertising as Information," *Journal of Political Economy*, July–August, pp. 729–754.
6. See also David Garvin (1987), "Competing on the Eight Dimensions of Quality," *Harvard Business Review*, November–December, pp. 101–9; and Christian Grönroos (1990), *Service Management and Marketing* (Lexington, MA: Lexington Books).
7. A. Parsuraman, Valarie A. Zeithaml, and Leonard L. Berry (1988), "A Multiple-Item Scale for Measuring Consumer Perceptions of Service Quality," *Journal of Retailing*, 64, pp. 12–40; see also Valarie A. Zeithaml and A. Parasuraman (2004), *Service Quality* (Cambridge, MA: Marketing Science Institute).
8. Andrew J. Czaplewski, Eric M. Olson, and Stanley F. Slater (2002), "Applying the RATER Model for Service Success," *Marketing Management*, February, pp. 14–17.
9. Daniel Kahneman and Amos Tversky (1979), "Prospect Theory: An Analysis of Decision Under Risk," *Econometrica*, 47, pp. 263–291.
10. Valaria A. Zeithaml, A. Parasuraman, and Leonard L. Berry (1990), *Delivering Quality Service: Balancing Customer Perceptions and Expectations* (New York: Free Press).
11. Zeithaml, Parasuraman, and Berry, *Delivering Quality Service*, Appendix A.
12. Shelly Reese (1996), "Happiness Isn't Everything," *Marketing Tools*, May, pp. 52–58.
13. Roland T. Rust, Anthony J. Zahorik, and Timothy L. Keiningham (1994), *Return on Quality: Measuring the Financial Impact of Your Company's Quest for Quality* (Chicago: Probus).
14. Malcolm Fleschner and Gerhard Gschwandtner (1994), "The Marriott Miracle," *Personal Selling Power*, September, pp. 17–26.
15. See Theodore Levitt (1986), *The Marketing Imagination* (New York: Free Press), Ch. 5.
16. Valarie A. Zeithaml, Mary Jo Bitner, and Dwayne D. Gremler (2006), *Services Marketing*, 4th ed. (New York: McGraw-Hill), Ch. 9.

17. This illustration is based on Sandra Vandermerwe and Christopher H. Lovelock (1991), "Singapore Airlines: Using Technology for Service Excellence," IMD case #592-014-1.
18. Zeithaml, Bitner, and Gremler, *Services Marketing*, Ch. 14.
19. eMarketer (2008), "Where Have All the Online Travelers Gone?" August 25.
20. This section is based on Donna Legg and Julie Baker (1987), "Advertising Strategies for Service Firms," in C. Suprenant, ed., *Add Value to Your Service* (Chicago: American Marketing Association), pp. 163–168.
21. Simona Covel (2009), "Firms Try Alternative to Hourly Fees," *The Wall Street Journal*, April 2.
22. Katherine M. Lemon, Tiffany Barnett White, and Russell S. Winer (2002), "Dynamic Customer Relationship Management: Incorporating Future Considerations into the Service Retention Decision," *Journal of Marketing*, January, pp. 1–14.
23. This section is based on Gary W. Loveman (1993), "The Internationalization of Services," Harvard Business School case #9-693-103.
24. This illustration is based on Gary Loveman and Leonard Schlesinger (1992), "Euro Disney: The First 100 Days," Harvard Business School case #9-693-013; Alison James (2005), "Euro-Mickey Braces for Wild Ride," *Variety*, p. 22; Geoffrey A. Fowler (2008), "Main Street, H.K." *The Wall Street Journal*, January 23, P. B1; and http://en.wikipedia.org/wiki/Disneyland_Resort_Paris.
25. Sources include various Wikipedia sites, Yahoo! Finance, eMarketer, and Robert Levine (2008), "Globe Trotter," *Fast Company*, September, pp. 73–74.
26. This illustration is based on Alex Frankel (2008), "Zipcar Makes the Leap," *Fast Company*, March, pp. 48-50; Shivani Vora (2009), "Test-Driving Car-Share Services," *The Wall Street Journal*, June 11, p. D2; and Ken Belson (2009), "Car-Sharing Services Cut Cost of Ownership," *The New York Times*, October 22, p. 8.

Glossary

acquisition costs the incremental costs involved in obtaining any new customer (p. 408)

association/causal methods a sales forecasting method that tries to develop statistical models relating market factors to sales (p. 81)

B-to-B (business-to-business) marketing when a product or service is sold to an organization (p. 127)

brand equity the value of a brand name in communicating quality or other aspects of a product (p. 50)

brand positions customers' perceptions of one brand in relation to its competitors (p. 50)

brands a name, term, sign, symbol, or design (or a combination thereof) intended to identify the goods and services of a seller and differentiate them from the competition (p. 152)

breakdown method a major method used to determine the size of the sales force that is based on the forecasted sales level divided by an assumed average sales per salesperson (p. 384)

budget competition a level of competition that includes any product, related or unrelated, that could be viewed as substitutable in a budget (p. 155)

buy classes a set of descriptor variables used in industrial marketing segmentation that is based on the newness of the purchasing situation (p. 131)

buying center a group of individuals collectively involved in a purchase decision (p. 127)

cannibalization the amount of sales for a new element of a product line that is taken away from an existing element of the line (p. 200)

category management a process that considers product categories to be the business units that should be customized on a store-by-store basis in a way that satisfies customer needs (p. 367)

channel power the ability of one channel member to get another channel member to do what it otherwise would not have done (p. 359)

channels of distribution the system by which customers have access to a company's product or service (p. 341)

chasm the large gap that can exist between the early adopters of an innovation and the early majority (p. 134)

choiceboards online, interactive systems that allow individual customers to design their own products by choosing from an array of attributes, delivery options and prices (p. 202)

co-creation using people outside of the organization to help develop new product ideas (p. 222)

cohort analysis an analysis that develops age-related profiles of each generation to segment the market (p. 93)

commission a form of compensation based directly on a sale or some other activity (p. 389)

community a group of customers who share information between themselves and the company about their experiences with the product or service (p. 430)

compatibility an attribute evaluated by customers of new technologically-based innovations that refers to the compatibility of the innovation with existing systems, values, and beliefs or previously introduced ideas (p. 117)

compensatory model any model in which a low score on one attribute can be compensated for by a higher score on another (p. 114)

competitive advantage the strategic development of some basis on which customers will choose a firm's product or service over its competitors' (p. 44)

competitive pricing a pricing policy in which the objective is to maintain a competitive price by either pricing at the market average or copying a particular brand (p. 263)

competitor analysis an analysis in which the strengths and weaknesses of competitors and their current and likely future strategies are examined (p. 151)

competitor targets the brands or companies that offer the most likely competition for that customer (p. 36)

complementary pricing an approach to product line pricing that applies to products that are used together when one of the products is a consumable that must be replenished continually (p. 269)

complexity one factor of an innovation that is negatively related to its success (p. 117)

concept development making further refinements to a new product concept (p. 226)

conjoint analysis a popular marketing research method in new product development that uses theoretical profiles or concepts to determine how customers value different levels of product attributes (p. 255)

consumer franchise building (CFB) activities that build brand equity, including advertising, sampling, couponing, and product demonstrations (p. 335)

consumer-oriented promotions a marketing tool such as a coupon that targets consumers and is intended to generate a short-term change in a product's sales or market share (p. 286)

continuous replenishment program (CRP) a program wherein members of a supply chain partner with supermarkets, working together to attempt to accurately forecast demand, which is then used to generate inventory replenishment data electronically (p. 369)

control group in an experiment, a set of respondents or experimental units who receive the normal level of the manipulation and against which the experimental group is compared (p. 75)

core strategy designed by the marketing manager, a statement that communicates the reason to buy to a specific customer group (p. 36)

correlation method of forecasting an association/causal method of sales forecasting in which a correlation between two variables is used to indicate the strength of the association (p. 84)

counting methods sales forecasting methods that rely on customer data (p. 81)

couponing a price-oriented promotion that offers a discount off the price of a product and is accompanied by a physical or electronic document indicating the amount of the discount (p. 318)

cross-elasticity of demand the percentage of change in one product's sales caused by a percentage change in a marketing variable for another product (p. 156)

customer information file, or CIF a customer database including information on past and current purchasing, contact, response to marketing variables, and monetary value to the company (p. 411)

customer relationship management, or CRM develops programs that match the kind of relationship the customer wants with the company, whether it is relational or transactional (p. 407)

customer service service that supplements or complements the main product or service purchased (p. 423)

customer targets a more specific segment of customers (e.g., income over $40,000, small businesses with revenues under $10 billion), which the marketing manager wants to entice to buy the product or service (p. 36)

customer value what a product or service is worth to the customer in monetary terms; also called perceived value (p. 247)

customerization a process whereby a company takes a product or service that is widely marketed and perhaps offered in many different configurations and develops a system for customizing (or nearly customizing) it to each customer's specifications (p. 202)

data mining analyzing a customer information file for the best prospects to target (p. 414)

decline stage of the product life cycle where product category sales are decreasing (p. 55)

Delphi method of forecasting a judgment method of sales forecasting that relies on a jury of experts formed from a diverse population to provide individual estimates of forecasted sales, which then are collated and refined in order to produce a final number (p. 81)

descriptors variables that describe customers in terms of their inherent characteristics (p. 90)

differential advantage one of the three components of a core strategy, a statement of how a particular product or service is better than the competition (p. 44)

differentiation an approach to creating a competitive advantage based on obtaining an observable point of difference that customers will value and for which they will be willing to pay (p. 46)

direct channel is one where the product or service remains under the control of the company from production to customer (p. 353)

direct mail marketing a form of direct marketing that involves sending letters or catalogues to potential customers (p. 286)

direct marketing any communication form that sends messages direct to a target market with the anticipation of an immediate or very-short-term response; also, any method of distribution that gives the customer access to the firm's products and services without any other intermediaries (pp. 286, 396)

direct sales in the context of direct marketing, an approach that involves the use of friends and neighbors as the sales force in reaching potential customers (p. 286)

disintermediation the process by which companies are eliminating intermediate channels of distribution through the use of information technology (p. 354)

diverters in international marketing, middlemen who purchase products or arrange for their purchase and thereby divert the products away from normal channels (p. 367)

Do Not Call Registry gives consumers a choice about whether or not they wish to receive phone calls from particular telemarketers (p. 286)

dollarmetric method in estimating customer value, a method used in conjunction with survey-based methods that creates a scale that puts survey responses in monetary terms (p. 255)

early adopters one type of adopter in Everett Rogers's diffusion of innovations framework; buyers who are not the first to purchase an innovation but who follow innovators (p. 99)

early majority one type of adopter in Everett Rogers's diffusion of innovations framework that follows early adopters; buyers who are interested in new technology and gadgets but who wait to see whether an innovative product is just a fad (p. 100)

econometric models an association/causal method of sales forecasting that involves the use of large-scale, multiple-equation models most often used to predict the economic performance of a country or a particularly large business sector (p. 84)

economies of scale also called economies of size, the rationale that larger sales mean that fixed costs of operations can be spread over more units, which lowers average unit costs (p. 45)

efficient consumer response (ECR) a process seeking to reduce costs throughout the entire distribution system, resulting in lower prices and increased consumer demand (p. 369)

emotional appeals an approach to developing advertising copy that strives to tap an underlying psychological aspect of the purchase decision (p. 296)

ethnographic research in-depth study of consumer consumption through interviews and observing behavior (p. 71)

evoked or consideration set in consumer behavior, the set of products from which the customer will choose to purchase (p. 111)

executive opinion method of forecasting a judgment method of sales forecasting in which the marketing manager relies on his or her own opinion to predict sales, based on his or her experience and knowledge or consultations with internal or external experts (p. 81)

expectation confirmation/disconfirmation model a basic customer satisfaction model that presumes that levels of customer satisfaction with a product or service are determined by how well the product performs compared to what the customer expects (p. 420)

expectations are developed based on the information the customer has collected from the prior search activities (p. 114)

experience curve the notion that costs fall with cumulative production or delivery of a service and that, using the first few years of a product's life as a yardstick, the continued decline in costs is predictable (p. 45)

experiences the interactions that a customer has with a company (p. 26)

exponential smoothing method of forecasting a time-series method of sales forecasting that relies on historical sales data, like the moving averages method, but also uses exponentially declining weights based on past sales values (p. 83)

external validity the ability to generalize experimental results to the real world or, more generally, the target population (p. 75)

extrapolation extending a line based on existing data outside the range of the data (p. 84)

factor analysis a multivariate statistical procedure to reduce a set of variables to a smaller set called factors that retain most of the information of the original set (p. 106)

family life cycle the stages of life individuals pass through (p. 114)

field experiment an experiment that takes place in a realistic environment (pp. 76, 256)

flat-rate vs. variable-rate pricing strategy often used in services that offers customers a choice between a fixed price and a variable usage fee (p. 271)

focus group small groups of people, typically recruited through their membership in various target groups of interest, who are brought together in a room to discuss a topic chosen by the marketing manager and led by a professional moderator (p. 68)

forecast a prediction of a future quantity such as sales (p. 77)

frequency marketing also called loyalty programs, which encourage repeat purchasing through a formal program enrollment process and the distribution of benefits (p. 428)

generic competition a level of competition that includes all products or services that the customer views as fulfilling the need requiring satisfaction on a particular purchase or use occasion (p. 154)

global marketing a generic term encompassing any marketing activities outside a company's home market; also a standardization of the strategies used to market a product around the world (p. 185)

gray market a market in which trademarked goods are sold through channels of distribution that are not authorized by the holder of the trademark (p. 367)

growth phase in the product life cycle, the stage immediately following the introductory phase, in which product category sales are growing, competitors are increasing in number, and market segmentation begins to be a key issue (p. 54)

horizontal marketing marketing to different industries with the same product or service (p. 131)

house of quality a matrix used in new product development that illustrates how customer needs and engineering characteristics influence one another (p. 226)

hybrid system a modification of the multiple-channel system in which members of the channel system perform complementary functions, often for the same customer, thereby allowing for specialization and better levels of performance (p. 357)

incentive payments payments monetary awards for special performance (p. 390)

indirect channel is an independent party paid by a company to distribute the product; in this case, the channel member and not the company has direct contact with the end user or organization (p. 353)

industrial marketing marketing of a product or service to another organization, also called organizational marketing (p. 127)

industry a group of products that are close substitutes to buyers, are available to a common group of buyers, and are distant substitutes for all products not included in the industry (p. 152)

informational appeals an approach to developing advertising copy that focuses on the functional or practical aspects of the product (p. 294)

innovators one type of adopter in Everett Rogers's diffusion of innovations framework; the first buyers of an innovation (p. 99)

inquiry tests track the number of inquiries received from a print advertisement (p. 298)

integrated marketing communications (IMC) the concept that all elements of the marketing mix communicate messages that must be coordinated in order to reinforce what each is saying and to avoid customer confusion (p. 281)

internal validity the degree to which experimental results are caused by the experimental manipulation (p. 75)

introductory phase in the product life cycle, the stage in which the product or service is new; sales volume increases slowly because of a lack of marketing effort and the reluctance of customers to buy the product (p. 53)

investment pricing also called return on sales, a pricing policy that assumes you can set a price that will deliver the rate of return demanded by senior management; most often used when a product has a monopoly position (p. 262)

joint space a perceptual map that contains both brand spatial locations as well as consumer perceptions of their ideal brand (p. 195)

judgment methods sales forecasting methods that rely on pure opinion (p. 81)

laboratory experiment an experiment run in an artificial environment (p. 76)

laggards one type of adopter in Everett Rogers's diffusion of innovations framework that follows the late majority; buyers who are generally not interested in new technology and are the last customers to buy, if they ever do (p. 100)

late majority one type of adopter in Everett Rogers's diffusion of innovations framework; buyers who are conservative in terms of how much of an industry infrastructure must be built before they will buy an innovative product (p. 100)

lead users the first buyers of an innovation in industrial marketing situations; also called innovators (pp. 133, 220)

leading indicators an association/causal method of sales forecasting in which certain macroeconomics variables are used to forecast changes in the economy, based on the fact that changes in these variables occur before changes in the economy (p. 84)

lifetime customer value the present value of a stream of revenue that can be produced by a customer (p. 408)

logistics physical distribution of goods from one location to another (p. 341)

loss aversion a psychological phenomenon characterized by customers reacting more strongly to unexpectedly poor service than to unexpectedly good service (p. 442)

loyalty programs also called frequency marketing, programs that encourage repeat purchasing through a formal program enrollment process and the distribution of benefits (p. 428)

manipulation in an experiment, the marketing variable that is of central interest and is experimentally controlled by the researcher (p. 75)

marginal economic method a major method used to determine the size of the sales force, based on the macroeconomic concept that a resource should be allocated up to the point at which the marginal revenue obtained from an additional unit of the resource equals the marginal cost (p. 386)

market development funding any money a company spends to help channel members sell their products (p. 324)

market development strategy one possible strategy in segmenting the market; the decision to target customers who have not yet purchased the product or service (p. 39)

market penetration strategy one possible strategy in segmenting the market; the decision to target current customers of a product or service (p. 38)

market potential the maximum sales reasonably attainable under a given set of conditions within a specified period of time (p. 77)

market segmentation breaking mass marketing into segments that have different buying habits; also refers to the decision about which customer groups a company will pursue for a particular brand or product line (p. 89)

market share pricing also called penetration pricing, a pricing policy in which the objective is to gain as much market share as possible; often used as part of an entry strategy for a new product (p. 262)

market structure analysis an analysis in which the marketing manager seeks to better understand who the competition is and thus define the market (p. 151)

market survey method of forecasting a counting method of sales forecasting that relies on surveys to predict demand (p. 83)

market testing method of forecasting a counting method of sales forecasting that uses primary data collection methods, such as focus groups and in-depth interviews, to predict sales (p. 83)

marketing the set of activities designed to influence choice whenever an individual or organization has a choice to make (p. 4)

marketing concept the importance of having a customer focus (i.e., organizing the resources of the firm toward understanding customers' needs and wants and then offering products and services to meet those needs) (p. 6)

marketing mix the set of decisions about price, channels of distribution, product, communications, and customer relationship management that implements the marketing strategy (p. 37)

marketing plan a written document containing the guidelines for a product's marketing programs and allocations over the planning period (p. 21)

marketing research the function that links the consumer, customer, and public to the marketer through information used to identify marketing opportunities and problems, generate and evaluate marketing actions, monitor marketing performance, and improve understanding of marketing as a process (p. 60)

mass customization a new marketing process whereby a company takes a product or service that is widely marketed and develops a system for customizing it to each customer's specifications (pp. 29, 90, 202, 430)

maturity phase in the product life cycle, the stage in which the sales curve has flattened out and few new buyers are in the market (p. 55)

measurable response the estimation of the effects of a marketing program such as direct marketing (p. 396)

mission statement a general statement describing a company's major business thrusts, customer orientation, or business philosophy (p. 37)

modified rebuys a kind of purchasing situation faced by an organization in which something has changed since the last purchase (e.g., a new potential supplier or a large change in price levels) (p. 132)

moving average method of forecasting a time-series method of sales forecasting that uses the averages of historical sales figures to make a forecast (p. 83)

multiattribute model a popular model of decision making that requires information about how useful or important each attribute is to the customer making a brand choice (which involves assigning importance weights) and how customers perceive the brands in the evoked set in terms of their attributes (p. 112)

multi-channel marketing marketing using multiple channels to distribution simultaneously. (p. 355)

multidimensional scaling (MDS) develop perceptual maps based only on customer-based judgments of brand similarity (p. 196)

multiple-channel systems a channel of distribution that uses a combination of direct and indirect channels and in which the multiple channel members serve different segments (p. 355)

naïve extrapolation a judgment method of sales forecasting that takes the most current sales and adds a judgmentally determined x%, where x is the estimated percentage change in sales (p. 81)

Nash equilibrium in game theory, the most common form of equilibrium, which involves a list of strategies, one for each player, with the property that no manager wants to change its strategy unilaterally (p. 172)

network externalities the concept that, for many products and services, the value of owning them increases as the number of owners increases (p. 118)

new-task purchase a purchasing situation that is unusual or occurs infrequently in a given organization (p. 132)

new-to-the-company a product that has not been marketed by the company but has been marketed by another company (p. 213)

new-to-the-world a product that has not been marketed by any company previously (p. 213)

nonpersonal channels of communication mass-media communication channels, such as television, newspapers, radio, direct mail, and the Internet (p. 283)

objective the criterion by which the success or failure of the strategy is to be measured (p. 36)

observability the degree to which an innovation or its results are visible to others (p. 117)

on-the-air/recall tests measure advertising effectiveness through follow-up surveys after a TV advertisement is shown (p. 298)

one-to-one marketing also called mass customization, a marketing process whereby a company takes a product or service that is widely developed and develops a system for customizing it to each customer's specifications (p. 90)

organizational marketing marketing a product or service to another organization, also called industrial marketing (p. 127)

original equipment manufacturer (OEM) a channel of distribution for technology-based products; companies that purchase ingredients or components (e.g., hard disk drives) from manufacturers (p. 189)

packaging the design of the container for the product in which it is displayed in a retail environment (p. 179)

panel a set of customers enlisted to give responses to questions or to provide data repeatedly over a period of time (p. 74)

parallel importing the development of gray markets across country lines, often as a result of significant currency exchange rate or price differences between countries that make it profitable to purchase goods in one country and import them into another for resale (p. 367)

Parfitt-Collins model a simple market share forecasting model that uses an estimate of the eventual penetration rate, an estimate of the ultimate repeat rate, and an estimate of the relative product category usage rate of buyers of the new brand to determine eventual market share (p. 232)

payoff matrix in game theory, a graphic depiction of the rewards or costs to each player for each possible combination of strategies (p. 172)

penetration pricing also called market share pricing, a pricing policy intended to gain as much market share as possible; often used as part of an entry strategy for a new product (p. 262)

perceived risk in regard to their adoption of new technologies, the extent to which customers are uncertain about the consequences of an action (p. 118)

perceptual map a map, based on marketing research from customers, that measures perceptions of competing products on a variety of attributes (p. 49)

periodic discounting a pricing strategy that varies price over time in order to take advantage of particular time periods during which some customers are willing to pay a higher price (p. 271)

personal channels of communication communication channels that involve direct sales as well as face-to-face or word-of-mouth interactions between customers (p. 283)

personal selling the use of face-to-face communications between seller and buyer (p. 288)

physiological methods measured advertising response by taking physical measures, such as pupil dilation or eye tracking (p. 297)

point-of-purchase (POP) advertising a form of retailer promotion that includes information related displays and other company-paid advertising inside the store (p. 326)

position the communication of the value proposition to the customer, which differentiates the product from competition in the mind of the prospect (p. 194)

potential the maximum sales reasonably attainable under a given set of conditions within a specified period of time (p. 77)

premiums a product-oriented promotion in which free merchandise is provided with a purchase or some free or reduced-price item is made available (p. 323)

prestige pricing also called skimming, a pricing policy used when there is a strong price perceived quality relationship and the product is positioned at the high end of the market; often used when costs are not related to volume and gaining significant market share is not an objective (p. 262)

price bands or tiers price variations within a product category (p. 247)

price bundling an approach to product line pricing in which a set of products is offered to customers in a package, which is usually priced lower than the sum of the individual components (p. 268)

price discrimination the practice of charging different prices to segments of the market according to their price elasticity or sensitivity (p. 247)

price elasticity of demand the percentage change in a product's demand resulting from a 1% change in its price (p. 252)

primary information sources in market research, sources of information that are generated for the particular problem being studied by the marketing manager (p. 62)

primary needs biological or physiological needs that a person must meet in order to stay alive (p. 226)

prisoner's dilemma game a particular form of competitive game in which neither participant wants to change his or her current strategy because if one does and the competitor matches, both will be worse off (p. 173)

product features are the characteristics or attributes of a product or service (p. 179)

product category also called a product class, one particular product segment of a particular industry (p. 152)

product class or product category competition a level of competition in which products or services that have similar features and provide the same function are considered (p. 153)

product definition a stage in the new product development process in which concepts are translated into actual products for further testing based on interactions with customers (p. 226)

product design combines art, science and technology to create tangible three-dimensional goods (p. 179)

product form competition a level of competition in which only products or services of the same product type are considered (p. 153)

product life cycle (PLC) a sketch of the sales history of a product category over time; used as a strategic tool because the importance of various marketing mix elements and strategic options available to the marketing manager vary over the life cycle (p. 52)

product line a group of closely related products (p. 179)

product-line pricing a pricing strategy covering a set of related products (p. 268)

product line strategy a marketing strategy covering a set of related products (p. 199)

product-oriented promotions consumer promotions that give away the product itself or a closely related product (p. 321)

product positioning considering the alternative differentiation possibilities and determining what differential advantages are to be emphasized and communicated to the target (p. 37)

product types group of products that are functional substitutes (p. 152)

product variants also called product brands, different specific combinations of features within a specific product type (p. 152)

public relations communications for which the sponsoring organization does not pay, often in some form of news distributed in a nonpersonal form (p. 287)

pull one of two kinds of basic activities of channel management that requires motivating customers to ask for your brand by name (p. 341)

purchase set in consumer behavior, the set of products that the customer has actually chosen within a specified period of time (p. 111)

push one of two kinds of basic activities of channel management that requires getting channels to carry and sell the product (p. 341)

qualitative research market research that usually involves small samples of customers and produces information that by itself does not directly lead to decisions but is valuable as an input for further research (p. 67)

quantitative research market research that typically involves statistical analysis of data, where the intent is to provide descriptive results or explicitly test a hypothesis (p. 68)

reference price any standard of comparison against which an observed potential transaction or purchase price is compared (p. 263)

regression analysis an association/causal method of sales forecasting in which the time series extrapolation model is generalized to include independent variables other than simply time (p. 84)

relative advantage the concept that a customer will adopt an innovation only if he or she considers it to be an improvement over the current product being used to satisfy the same need (p. 116)

relationship customers customers who see the benefits of interdependency between the buyer and the seller (p. 407)

relationships meaningful relationships between an individual and his or her brand (p. 26)

repositioning seeking a new perceived advantage in order to improve on a product's current positioning (p. 50)

reservation price the maximum price someone is willing to pay for a product or the price at which the product is eliminated from the customer's budget (p. 249)

retailer promotions short-term financial incentives to purchase provided by retail channel members (p. 325)

return on quality (ROQ) an approach attempts to quantify financial returns on investments in improved service quality (p. 444)

return on sales pricing also called investment pricing, a pricing policy that assumes you can set a price that will deliver the rate of return demanded by senior management; most often used when a product has a monopoly position (p. 262)

salary a form of compensation in which a basic amount of money is paid to a worker on a regular basis (p. 390)

sales contests sales force competitions based on sales performance (p. 390)

sales force method of forecasting a judgment method of sales forecasting in which salespeople form their own forecasts of the sales in their territories and the marketing manager sums them up to provide an overall forecast (p. 81)

sales/minimarket tests advertising tests in controlled geographic areas (p. 298)

sales promotion communication activities that provide extra incentives to customers or the sales force to achieve a short-term objective; an action-focused marketing event whose purpose is to have a direct impact on the behavior of the firm's customers. (pp. 286, 314)

sales quotas specific sales goals that salespeople are required to meet (p. 389)

sales territory a group of present and potential customers assigned to a salesperson, often designed on a geographic basis (p. 384)

sampling a product-oriented promotion in which a product is given away for free (p. 321)

scanner panel a collection of supermarket/drug store purchasing data of individual households obtained from electronic scanners in the stores (p. 75)

scenario planning planning that involves asking "what-if" questions to produce forecasts of alternative outcomes based on different assumptions about advertising spending, price levels, competitor actions, and other variables (pp. 81, 167)

second market discounting selling excess production of a product at a discount to a market distinct from the main market (p. 270)

secondary information sources in market research, sources of information that already exist and were not developed for the particular problem at hand (p. 62)

secondary needs social or psychological needs that can remain unsatisfied without any immediate danger to life or health (p. 226)

skimming also called prestige pricing, a pricing policy used when there is a strong price perceived quality relationship and the product is positioned at the high end of the market; often used when costs are not related to volume and gaining significant market share is not an objective (p. 262)

solutions products or services that solve a particular customer's problem at a given point in time (p. 26)

solutions buy a purchase situation in which the organization is buying a system that solves a specific problem (p. 132)

straight rebuys routine purchases made by an organization from the same supplier used in the past (p. 131)

supply chain the organizations involved in the movement of raw materials and components that are part of a product's production process (p. 128)

target costing in new product development, an alternative approach to setting the price of a new product, in which the ideal selling price is determined, the feasibility of meeting that price is assessed, and costs are controlled in order to produce the product that can be sold at the target price (p. 213)

target market group of customers or segment on which the marketing manager has decided to focus a marketing strategy (p. 38)

telemarketing a form of direct marketing that uses the telephone as the mechanism for reaching potential customers (p. 286)

tertiary needs a type of customer need considered in new product development; the operational needs related to the engineering aspect of actually making the product (p. 226)

theater tests tests of prospective advertising copy that take place in a theater-like environment (p. 297)

time-series methods sales forecasting methods that rely on historical sales data (p. 81)

trade promotions sales promotions oriented toward the channels of distribution in an effort to get the channels to carry and promote the product, often including devices such as sales contests, quantity discounts, and training programs (pp. 286, 324)

transaction buyers buyers who are interested only in the particular purchase at hand, rather than a long-term relationship (p. 407)

trialability the ability of potential users of an innovative or new product to try it on a limited basis before adoption (p. 117)

value-added reseller (VAR) organizations that buy products from a variety of vendors, assemble them in packages, and resell the packages to specialized segments; part of the channel of distribution for technology-based products (p. 363)

value-in-use a method of estimating customer value that puts the benefits of the product in monetary terms, such as time savings, less use of materials, and less downtime (p. 247)

value pricing giving customers more value than they expect for the price paid (p. 269)

value proposition a one-paragraph summary of a product or service's differentiation strategy and positioning to each target customer group; in short, a statement of why the customer should buy that product or service rather than the competitor's (p. 37)

vertical marketing marketing to specific industries with products and services tailored to those industries (p. 131)

virtual selling the reengineering of sales in the 1990s, especially the impact of sales force automation and the salesperson's educated use of technological tools in working with prospective customers in a highly efficient way (p. 393)

virtual shopping a new technology incorporating computer graphics and three-dimensional modeling that allows marketing managers to observe how consumers choose between different brands using a virtual reality setting (p. 71)

workload method a major method used to determine the size of the sales force that is based on the ability to calculate the total amount of work necessary to serve the entire market (p. 385)

Name Index

A

Aaker, David A., 181, 463n15, 467nn2–3, 467n6, 472n19
Aaker, Jennifer L., 468n28
Abraham, Magid, 473n38
Adams, Russell, 464n12
Adamson, Geoffrey, 466n1
Adamy, Janet, 469n5
Aksoy, Lerzan, 464n16
Alexander, Ralph S., 472n6
Ambler, Tim, 468n37, 472n16
Anderson, Chris, 251, 472n45
Anderson, Diane, 468n25
Anderson, Erin, 475n17, 475n19, 475n23
Anderson, Eugene W., 477n27
Anderson, James C., 471n16
Anderson, Rolphe E., 383
Andreassen, Tor Wallin, 464n16
Ansari, Shahid, 469n10
Anscheutz, N. F., 211, 214, 215, 469n6
Ante, Spencer E., 470n41
Areddy, James T., 470n35
Armstrong, J. Scott, 464n21
Arndt, Michael, 468n19
Arnold, David, 475n24
Arnold, Wayne, 470n10
Arnould, Eric J., 465n6
Assmus, Gert, 473n40
Audi, Tamar, 467n13
Avila, Joseph De, 471n29

B

Bachman, Duane, 464n14
Bain, Alexander, 118
Bain, Joe S., 466n5
Baker, Julie, 479n20
Baker, Walter, 472n48
Balfour, Frederik, 468n19
Ball, Deborah, 468n44, 469n5
Ball, Jeffrey, 401, 476n26
Bandler, James, 469n1
Bannon, Lisa, 475n21
Barnett, F. William, 467n29
Baron, David P., 476n29
Barwise, Paddy, 463n17
Basuroy, Suman, 475n27
Batra, Rajeev, 472n19
Bauerlein, Valerie, 466n1
Beirne, Mike, 464n1
Belch, George E., 282, 292, 297, 472n18
Belch, Michael A., 282, 292, 297, 472n18
Bell, Jan, 469n10
Bellman, Steven, 472n49
Belson, Ken, 471n37, 479n26
Benezra, Karen, 465n9
Bennett, Peter D., 343
Bergen, Mark E., 468n43, 471n31
Berger, Paul D., 477n15
Berry, Leonard L., 444, 478n7, 478nn10–11
Berry, Michael J. A., 477n14
Bettman, James R., 465n15
Bhattacharya, Arindam K., 468n17
Bidlake, Suzanne, 470n30
Bigné, J. Enrique, 473n36
Bitner, Mary Jo, 441, 450, 478n16, 479n18
Blattberg, Robert C., 320, 330, 333, 477n19
Bloom, Paul N., 474n20
Borden, Jeff, 476n25
Bordia, Rakesh, 469n3
Bostrom, Susan, 475n1
Boulding, William, 464n25
Bounds, Wendy, 469n1
Bowen, John, 463n10
Bradham, Caleb, 149
Bradley, Frank, 115, 465n25
Branson, Richard, 185
Brat, Ilan, 464n13, 474n33
Bridis, Ted, 467n13
Brodesser-Akner, Claude, 464n1
Brosnan, Pierce, 237
Brown, Jeffery R., 472n46
Brown, Shona L., 478n50
Bruegge, C. M. Vorder, 378
Bryan-Low, Cassell, 463n5
Brynjolfsson, Erik, 469n22, 472n47
Bryon, Ellen, 476n21
Bulik, Beth Snyder, 462n23, 477n34
Bulkeley, William N., 478n4
Bund, Barbara, 476n5
Bunkley, Nick, 470n39
Burnkrant, Robert E., 473n27
Burt, Tim, 473n1
Bush, Alan, 383
Buzzell, Robert D., 474n30
Byrne, David, 470n11
Byrnes, Nanette, 466n1

C

Calder, Bobby J., 68, 69, 464n6
Cameron, James, 289
Camp, Scott Van, 468n26
Campbell, Margaret C., 472n53
Campbell, Tricia, 469n1
Cane, Alan, 467n1
Cannon, Joseph P., 474n20
Card, David, 473n11
Carlzon, Jan, 477n35
Carr, David, 471n29
Carter, Dennis, 189
Castellion, G. A., 211, 214, 215, 469n6
Cateora, Philip R., 465n26
Cavusgil, S. Tamur, 275
Cespedes, Frank V., 377, 475n8
Chambers, John, 373
Chessum, Jake, 477n37
Chew, W. Bruce, 220, 469n9
Cholewka, Kathleen, 475n10
Christen, Markus, 464n25
Churchill, Gilbert A., Jr., 379
Clark, Bruce H., 466n4
Clarke, Darral G., 388, 473n34, 476n17
Clausing, Don, 227, 229, 469n25
Close, Wendy, 476n20
Colis, David, 478n1
Collins, B. J. K., 470n31
Collins, Jim, 464n28
Cooil, Bruce, 464n16
Cooper, Robert G., 215, 220, 469n6
Cooper, Robin, 469n9
Coppola, Francis Ford, 60
Coppola, Roman, 60
Corey, E. Raymond, 475n15
Cothrel, Joseph, 478n49
Cotte, June, 470n12
Coughlan, Anne T., 474n17, 475n19, 475n23
Court, David C., 463m35
Covel, Simona, 479n21
Cox, Jennifer L., 472n54
Coyne, Kevin P., 467n16
Craig, C. Samuel, 463n12, 464n18
Crane, Jonathan, 378
Crawford, C. Merle, 221, 469n4, 469n20
Cron, William L., 375
Cvsa, Vishy, 470n8
Czaplewski, Andrew J., 478n8

D

Dahan, Ely, 469n23
Dalrymple, Douglas J., 375
Dalrymple, Jim, 470n1
Daniel, Jonathan, 251
Davis, Scott, 471n31
Davis, Wendy, 471n42
Day, George S., 153
Deeley, Martin, 119–120
Degeratu, Alexandru M., 470n8
Dehoff, Kevin, 469n3
Deighton, John, 463n29, 474n3, 477n19
Dell, Michael, 13
De Meyer, Desiree, 469n19, 470n28
DiBenedetto, C. Anthony, 221, 469n4, 469n20
Dilworth, Dianna, 476n27
Dolan, Robert J., 256, 470n35, 471n18
Donnely, James H., Jr., 131
Douglas, Susan P., 463n12, 464n18, 468n16
Dowling, Grahame R., 476n7, 478n46
Drucker, Peter, 6, 261, 435, 462n5, 470n3, 471n27
Dubinsky, Donna, 170
Durkin, Mike, 133
Dutta, Shantanu, 468n43

E

Eastman, George, 44
Edmonson, Gail, 465n28
Eidenberg, Eugene, 378
Einhorn, Bruce, 468n19
El-Ansary, Adel I., 475n17, 475n19, 475n23

Elliott, Stuart, 466n1, 467n7, 470n37, 472n14
Ellison, Sarah, 466n7, 469n5
Enright, Michael J., 465n29
Evans, Philip, 285, 472n5

F

Fader, Peter S., 472n49
Faivre, Constance, 465n28
Farley, John U., 473n40
Farris, Paul W., 17, 474n30
Fedewa, Dave, 467n22
Ferraro, Rosellina, 474n28
Fielding, Michael, 467n12
Fisher, Daniel, 472n50
Fishman, Charles, 474n4
Fishman, Ted C., 462n24
Fitch, Stephanie, 469n48
Flaischer, Joe, 251
Fleenor, D. Gail, 475n28
Fleschner, Malcolm, 478n14
Ford, Neil M., 379
Fornell, Claes, 477n27
Forster, Julie, 474n21
Fournier, Susan, 468n30, 470n35
Fowler, Geoffrey A., 473n42, 479n24, 492n52
Fox, Justin, 466n12
Frankel, Alex, 479n26
Frazier, Mya, 473n30
Freedman, David H., 473n44
Freeman, Sholnn, 473n1
Friedman, Thomas L., 463n26
Frowe, Pennie, 476n8
Fuller, Peter, 478n44
Fullerton, Ronald, 462n15, 462n20

G

Garvin, David, 478n6
Gates, Bill, 177
Gelb, Peter, 40
Georgoff, David M., 82
Gilbert, Jennifer, 468n24
Gilmore, James H., 468n46
Gimen, Mark, 462n1
Glazer, Rashi, 477n9
Gleason, Mark, 466n1
Godes, David, 465n18
Godin, Seth, 476n28
Goizueta, Roberto, 154
Golder, Peter N., 464n27
Goldman, Lea, 472n9
Goldschmidt, Bridget, 473n7
Gönül, Füsul F., 476n23
Goolsbee, Austan, 472n46
Gordon, Jonathan W., 463n35
Grant, Jeremy, 473n1
Grant, Linda, 464n30
Green, Jeff, 474n19
Green, Paul, 225, 226, 469n24
Greene, Jay, 467n19
Gremler, Dwayne, 478n16, 479n18
Griffin, A., 211, 214, 215, 469n6
Griffin, Abbie, 239, 470n40
Grönroos, Christian, 440, 478n6
Gschwandtner, Gerhard, 478n14
Gundlach, Gregory T., 474n20
Gupta, Mahendra, 477n17, 477n24
Gupta, Sunil, 63, 415, 464n4, 468n39, 473n5, 477n16
Gustke, Constance, 470n9

H

Hair, Joseph F., 383
Halliday, Jean, 463n34, 472n21
Hamel, Gary, 8, 14, 15, 462n17
Hamilton, Joan O., 471n25
Hamilton, Rebecca W., 462n12
Hanan, Mack, 421
Harding, David, 472n44
Hardy, Kenneth G., 361
Harkins, Francis J., 378
Harris, Nicole, 476n3, 477n25
Hart, Christopher E. L., 477n39
Hauser, John R., 227–229, 469n25, 470n33
Hawkins, Del I., 464n2
Hawkins, Jeff, 170
Hayes, John R., 474n12
Hayes, Michael, 18, 462n22
Heath, Rebecca Piirto, 478n46
Heil, Oliver P., 471n30
Hein, Kenneth, 468n9, 468n12, 471n23, 473n8
Helman, Christopher, 462n1
Helsen, Kristiaan, 471n30
Heskett, James L., 477n39
Higgins, Michelle, 467n5
Hjuler, Per, 469n17
Ho, Rodney, 463n4
Hof, Robert D., 466n10
Hoffman, Donna L., 283
Hofstede, Geert, 145–146, 466n13
Holden, Reed K., 471n36
Holt, Douglas A., 468n20
Horn, John, 467n16
Hornery, Andrew, 472n13
Houston, Franklin M., 462n4, 462n13, 462n19
Hsieh, Tony, 425–426
Hustad, Thomas P., 211, 214
Hutheesing, Nikhil, 466n9

I

Ilfeld, Johanna S., 472n17
Inada, Miho, 474n16
Inman, J. Jeffrey, 474n28
Ittner, Christopher D., 470n38

J

Jack, Andrew, 464n1
Jackson, Lawrence, 381
Jain, Sanjay, 471n21
James, Alison, 479n24
James, Dana, 468n41
Jaruzelski, Barry, 211, 469n3
Jobs, Steven, 254, 471n29
Johnson, David, 56
Johnson, Eric J., 472n49
Johnson, Jo, 464n1
Johnson, Lauren Keller, 475n15
Johnston, Mark W., 386–387, 390, 392, 476n15
Jones, Charles, 478n46
Jones, John Philip, 473n32
Jones, Thomas O., 477n30, 477n32
Jordan, Michael, 283
Judge, Paul C., 465n8, 477n42

K

Kahn, Joseph, 475n25
Kahneman, Daniel, 478n9
Kalmenson, Stuart, 473n38
Kalyanaram, Gurumurthy, 470n26, 471n32
Kane, Yukari Iwatani, 470n1
Kannan, P. K., 471n21
Kantor, Nathan, 378
Kaplan, Jerry, 9, 462n10
Karp, Peter, 421
Katz, E., 472n3
Kaydo, Chad, 477n40
Keenan, Faith, 470n41
Keenan, William, Jr., 476n12
Keiningham, Timothy L., 445, 464n16, 478n13
Kelleher, Kevin, 475n20
Keller, Kevin Lane, 91, 92, 130
Kendall, Ted, 471n19
Kesmodel, David, 473n12
Kest, Ezra, 48
Khermouch, Gerry, 471n20, 474n15, 474n19
Kiley, David, 465n20, 468n19, 473n29, 473n43
Kim, Byung-Do, 476n23
Kim, Il-Woon, 469n10
King, Charles, III, 471n38
Kinnersley, Hannah Kate, 473n6
Klaassen, Abbey, 468n32, 473n39
Kleinschmidt, E. J., 469n6
Koenig, Harold F., 478n49
Koselka, Riat, 473n33
Kot,Greg, 471n42
Kothar, Ashish, 467n22
Kotler, Philip, 91, 92, 130
Kovac, Mark, 476n18
Kowitt, Beth, 468n31
Krapfel, Robert E., 476n13
Krimani, Amna, 471n33
Krishnan, V., 470n26
Kuczynki, Alex, 467n9
Kumar, Nirmalya, 468n34, 471n16
Kumar, V., 432, 476n7, 477n15

L

Lacy, Sarah, 467n19
Lafley, A. G., 10, 25–26
Larcker, David F., 470n38
Lattman, Peter, 467n13
Lazarsfeld, P. F., 472n3
Leach, Peter, 476n20
Ledingham, Dianne, 476n18
Lee, Ang, 301
Lee, Louis, 474n10
Leeds, Jeff, 470n1
Legg, Donna, 479n20
Lehmann, Donald R., 62, 63, 415, 462n21, 463n25, 463n36, 464n4, 464n19, 468n39, 473n5, 473n40, 477n16, 477n27
Lemon, Katherine N., 477n18, 479n22

Leno, Jay, 237
Lenskold, James D., 463n36
Leonhardt, David, 462n14
Leung, Shirley, 474n18
Levere, Jane L., 464n1
Levin, Nissan, 476n23
Levine, Robert, 479n25
Levinson, Meredith, 477n26
Levitt, Theodore, 6–7, 186, 407, 424, 446n4, 462n6, 468n14, 476n14, 478n15
Levy, Piet, 468n33
Lichfield, Gideon, 463n19
Ling, Connie, 470n10
Linoff, Gordon S., 477n14
Little, John D. C., 473n35
Livelsberger, Jeanne, 473n38
Lodish, Leonard J., 473n38
Lohse, Gerald L., 472n49
Long, Pat, 478n52
Lorimer, Sally E., 474n2
Loro, Laura, 478n47
Lovelock, Christopher H., 439, 452, 453, 479n17
Loveman, Gary W., 457, 479nn23–24
Low, George S., 462n15, 462n20
Lubetkin, Beth, 473n38
Lublin, Joann S., 462n24
Lugo, Denise, 478n1
Lundegaard, Karen, 468n29
Lunn, J. A., 465n15
Lymbersky, Christoph, 463n11
Lynn, Michael, 465n4

M

Macadam, Stephen E., 467n23
Mace, Michael, 171
Madden, Normandy, 472n13, 477n13
Magrath, Allen J., 361
Maier, E. P., 475n13
Malden, Karl, 455
Malkias, Maria, 467n5
Malone, Michael S., 394, 476n18
Mangalindan, Mylene, 467n13
Manjoo, Farhad, 474n11
Manley, Lorne, 473n25
Mantrala, Murali K., 475n27
Marchetti, Michelle, 475n1
Markels, Alex, 463n32
Marn, Mike, 472n48
Marshall, Greg W., 386–387, 390, 392, 476n15
Martin, Timothy W., 473n10
Maslow, Abraham H., 109, 465n17
Mayzlin, Dina, 465n18
McAlexander, James H., 478n49
McGirt, Ellen, 468n27
McGowan, William G., 378
McGregor, Jena, 462nn8–9
McKay, Betsy, 466n1
McKay, Stephanie, 238
McNealy, Scott, 472n51
McWilliam, Gil, 478n49
McWilliams, Gary, 477n21
Meehan, Seán, 463n17
Mehrishi, Karan, 474n1
Mela, Carl F., 473n5
Mendelson, Haim, 474n10
Menezes, Melvyn A. J., 475n13
Merrick, Amy, 468n10
Michael, David C., 468n17
Millan, Cesar, 119–120
Miller, Steve, 464n1
Milne, Richard, 468n42
Moe, Wend W., 472n49
Moniz, Dave, 472n1
Monroe, Kent B., 472n54
Montgomery, David B., 466n4
Moore, Geoffrey A., 134–135, 463n14, 466n7, 470n44
Moore, Gordon, 190
Moorthy, K. Sridhar, 172, 173, 467n25
Moran, Ursula, 358, 475n16
Morgenstern, Oskar, 171
Moriarty, Rowland T., 358, 466n5, 475n16
Morita, Akio, 14
Morwitz, Vicki, 471n34
Mulhern, Francis J., 417, 477n23
Mullman, Jeremy, 463n3
Muniz, Albert M., Jr., 478n49
Murdick, Robert G., 82
Murphy, John, 464n1
Murti, Bhattiprolu, 477n28
Myers, John G., 472n19
Myers, Joseph B., 475n14

N

Nagle, Thomas T., 471n36
Nagler, Matthew G., 474n22
Nakamura, Shuji, 14
Narasimhan, Chakravarthi, 477n17, 477n24
Narayanam, Ananth S., 467n22
Narayandas, Das, 471n38
Narus, James A., 471n16
Nash, John, 467n26
Nasr, Nada I., 477n15
Neff, Jack, 469n21, 472n15, 474n23
Nelson, Brett, 475n31
Nelson, Emily, 464n7, 465n5, 474n17
Nelson, Philip, 478n5
Neslin, Scott A., 320, 330, 333, 473n2, 474n26
Neuborne, Ellen, 467n18
Neumann, John von, 171
Newman, Eric, 471n43
Nickell, Joe Ashbrook, 476n1
Nimer, Daniel A., 470n4
Niraj, 477n24
Niraj, Rakesh, 477n17
Nixon, Richard, 279
Nonaka, Ukujiro, 469n8
Novak, Thomas P., 283
Noyce, Robert, 190
Nussbaum, Bruce, 470n43

O

O'Brien, Louise, 478n46
O'Brien, Timothy L., 472n1
O'Connell, William A., 476n12
Odell, Patricia, 319
O'Guinn, Thomas C., 478n49
Olson, Eric M., 478n8
Opperman, Martin, 464n15
Orenstein, David, 466n9
Oser, Kris, 473n22
Ott-Wadhawan, Rebecca L., 470n8
Overholt, Alison, 477n36

P

Palmeri, Christopher, 477n37
Pandey, Punita, 466n1
Parasuraman, A., 444, 478n7, 478nn10–11
Parekh, Rupal, 467n4
Parfitt, J. H., 470n31
Parker, Andrew, 478n4
Parker, Ginny, 468n23
Payne, Adrian, 476n8
Pearson, David, 466n3
Peel, Michael, 467n21
Pemberton, John, 149
Perlroth, Nicole, 462n1
Perrey, Jesko, 463n35
Peter, J. Paul, 131
Petersen, Andrea, 476n3
Peterson, 477n25
Pettis, Chuck, 476n6
Pfanner, Eric, 468n40
Pickersgill, Andrew D., 475n14
Pine, B. Joseph II, 468n46, 478n48
Pitta, Julie, 473n4
Pollack, Andrew, 469n7, 471n40
Pope, Barbara Kline, 471n21
Porter, Eduardo, 465n5
Porter, Michael E., 13, 462n16, 463nn17–18, 466n1
Powers, J. D., 112
Prahalad, C. K., 8, 14, 15, 462n17, 469n14, 469n16
Prensky, David, 109, 465n23
Prentice, Robert M., 474n31
Price, Linda, 465n6
Pringle, David, 462n11, 462n24
Purohit, Devavrat, 467n25
Pusateri, Michael A., 476n13

Q

Quelch, John A., 17, 180, 332, 464n31, 468n15, 468n20, 472n44, 474n27, 476n1

R

Ramaswamy, Venkat, 469n14, 469n16
Rangan, V. Kasturi, 234–236, 355, 357, 466n5, 470n34, 475n13, 475n15
Rao, Akshay R., 471n31, 471n33
Rao, Vithala R., 467n10
Ratneshwar, S., 467n11
Reed, John, 462n1
Reed, Stanley, 478n45
Reese, Shelly, 478n12
Reibstein, David J., 463n36
Reichheld, Frederick F., 409, 416, 418, 423, 477n31, 478n53
Reinartz, Werner J., 432, 476n7, 477n15
Rendon, Jim, 464n10
Revell, Janice, 258, 471n22
Richardson, Bruce, 473n38
Richtel, Matt, 476nn2–3
Ridge, Pamela Sebastian, 475n18
Rigdon, Joan Indiana, 464n28
Ritchie, Guy, 301
Roberts, Bert C., Jr., 378
Roberts, Dexter, 468n19, 468n22

Robertson, David, 469n17
Robinson, Noah, 467n1
Rogers, Everett M., 99–100, 465n10, 465n27
Rosenau, M. D., Jr., 211, 214–215, 469n6
Rosenbaum, Joshua, 473n24
Rosenbloom, Stephanie, 464n11
Rossi, Bill, 364
Rust, Roland T., 445, 462n12, 477n18, 478n13
Ryans, Adrian B., 467n1

S

Salter, Chuck, 462n1
Saranow, Jennifer, 463n31
Sasser, W. Earl, 477n39
Sasser, W. Earl, Jr., 477n30, 477n32
Savov, Vladisov, 474n1
Scheck, Justin, 467n8
Schlesigner, Leonard, 479n24
Schneider, Michael, 473n26
Schoemaker, Paul J. H., 167
Schonfeld, Erik, 477n11
Schouten, John W., 478n49
Schrage, Michael, 469n22
Schram, Wilbur, 472n2
Schwartz, Evan I., 478n51
Sculley, John, 5
Seggev, Eli, 61
Sengupta, Sanjit, 476n13
Serwer, Andy, 467n13
Shapera, Todd, 476n19
Shapiro, Benson P., 13
Shari, Michael, 468n19
Sharma, Amol, 463n5
Shatner, William, 271, 459
Sheth, J. N., 465n15
Shi, Mengze, 476n23
Shirouzu, Norihiko, 475n25
Shocker, Allan, 467n11
Shoemaker, Robert W., 474n26
Shugan, Steven M., 468n43
Siebel, Thomas M., 394, 476n18
Silk, Alvin J., 470n32
Silver, Sara, 462n24, 463n5
Simon, Heidi Locke, 476n18
Simon, Hermann, 256, 471n18
Simonson, Itamar, 468n47
Simpson, Glenn, 467n13
Sinha, Prabhakant, 475n2
Skapinker, Michael, 463n37
Slater, Stanley F., 478n8
Slywotzky, Adrian J., 381, 468n45
Smith, Ethan, 470n1
Smith, Geoffrey, 469n1
Smith, Lars Olsson, 288
Smith, Michael D., 472n47
Smith, Troy, 478n1
Snyder, Beth, 462n24
Sood, Ashish, 469n3
Sorkin, Andrew Ross, 476n2
Spears, Ronald E., 378
Srinivasan, V., 469n23
Steckel, Joel H., 63, 464n4, 467n10, 468n39
Steen, Michael, 462n8
Steenkamp, Jan-Benedict E. M., 468n34
Steinberg, Brian, 473n37
Stern, Howard, 342
Stern, Louis W., 475n17, 475n19, 475n23
Stevens, Mary Ellen, 473n38
Stiving, Mark, 471n34
Streitfeld, David, 471n39
Stremersch, Stefan, 471n35
Surowiecki, James, 468n36
Swartz, Gordon, 466n5
Sweeney, Paul, 478n1
Swenson, Dan, 469n10
Swinyard, William R., 106, 465n14

T

Takeuchi, Hirotaka, 469n8
Talley, Karen, 473n9
Tam, Pui-Wing, 467n24
Tasca, Bob, 426, 477n38
Taylor, Earl L., 468n20
Taylor, Gerald H., 378
Taylor, William C., 462n8, 477n22
Teinowitz, Ira, 467n15
Tellis, Gerard J., 464n27, 469n3, 471n15, 471n35
Thomas, Manoj, 471n34
Thomas, Owen, 471n26
Thomas-Haysbert, Clorice, 465n4
Thompson, Debora Viana, 462n12
Thompson, H. Brian, 378
Thompson, Stephanie, 474n25
Tilin, Andrew, 464n1
Tilton, Andrew, 478n50
Tomkins, Richard, 466n6
Tomsho, Robert, 469n1
Trout, Jack, 7
Trudel, Remi, 470n12
Tull, Donald S., 464n2
Tversky, Amos, 478n9

U

Ulwick, Anthony W., 469n18
Uncles, Mark, 476n7, 478n46
Underhill, Paco, 70
Unnava, H. Rao, 473n27
Upton, David M., 467n23
Urban, Glen L., 228, 463n28, 470nn32–33
Urbany, Joel E., 470n7

V

Vakratsas, Demetrios, 472n16
Valassis, George, 321
Vandermerwe, Sandra, 452, 453, 479n17
Van Metre, Evan S., 475n14
Vassana, Gary S., 464n14
Von Hippel, Eric, 469n11
Vora, Shivani, 479n26
Vranica, Suzanne, 464n17, 467n4

W

Wack, Pierre, 467n17
Wagman, Jake, 462n1
Walker, Orville C., Jr., 379
Walker, Rob, 469n12, 474n11
Walters, Rockney G., 475n27
Ward, Andrew, 478n4
Warhol, Andy, 288
Waters, Richard, 478n4
Webb-Vidal, Andy, 464n32
Webster, Frederick E., 466n2
Weinberg, Bruce D., 470n33
Weitzman, Hal, 464n32
Wells, William D., 109, 465n23
Welsh, Jonathan, 464n1
Wherry, Rob, 474n9
Whilhite, Steve, 112
White, Tiffany Barnett, 479n22
Wiggins, Jenny, 464n32, 468n18
Wildstrom, Stephen, 475n1
Williams, Ruth L., 478n49
Wind, Yoram, 225, 226, 468n16, 469n24
Winer, Russell S., 462n21, 463n25, 464n19, 471n32, 471n34, 472n17, 474n28, 479n22
Wingfield, Nick, 474n1, 474n11
Winstein, Keith J., 464n17
Woo, Stu, 462n1
Woodside, Dennis M., 478n50
Woolard, Charlotte, 468n25
Worthen, Ben, 467n8
Wurster, Thomas S., 285, 472n5

X

Xia, Lan, 472n54

Y

Yankovic, “Weird Al,” 192

Z

Zahavi, Jacob, 476n23
Zahorik, Anthony J., 445, 478n13
Zaltman, Jerry, 70, 464n9
Zander, Ed, 20, 38, 462n24
Zawada, Craig, 472n48
Zeithaml, Valarie A., 439, 441, 444, 450, 477n18, 478n7, 478nn10–11, 478n16, 479n18
Zettelmeyer, Florian, 477n12
Zielske, Hubert A., 473n28
Zimmerman, Ann, 474n33
Zinkhan, George, 465n6
Zmuda, Natalie, 464n8, 474n32, 475n4
Zoltners, Andris A., 475n2

Subject Index

A

A. C. Nielsen, 75, 103–104, 153, 298, 303, 368
  BASES, 234–236
Abacus Direct, 402
ABI/INFORM, 65–66
Absolut Vodka, 288
Academic publications, 65
Accenture, 182
Accrue Software, 271
Ace Hardware, 9, 431
Acer, 250, 350
Achievers, 96
Acquisition costs, 408, 410
ACSI, 137
Acxiom Corporation, 231, 412–413
Adaptive customerizers, 203
Admiral, 318
Adobe Systems Inc., 54, 375–376, 430–431
Adolf Coors, 35
AdRelevance, 169
Advanced photo system (APS), 209–210, 212
Advertising, 162–163, 190, 194, 205–206
  culture and, 289–290
  DTC advertising, 76, 120
  dummy advertising vehicles, 297–298
  expenditures in, 286, 289–291, 298, 300
  flighting in, 304
  IMC and, 285–286
  medicine advertising, 305, 321
  MI4 for, 308
  models of, 292–293
  objective guarantees in, 309
  outdoor advertising, 299–300
  past sales *vs.*, 310
  POP advertising, 326, 333
  portfolio tests for, 296–297
  promotion budgeting *vs.*, 334–335
  pulsing in, 304
  sales/minimarket tests for, 297–298
  in service distribution, 440, 455–456
  theater tests of, 297–298
  timing in, 304–305
Advertising budget methods, 334–335
  affordability in, 308
  competitive parity in, 307
  decision calculus in, 308
  experimentation in, 308
  objective *vs.* tasks in, 306
  sales percentages in, 307
  success and, 305–307
Advertising copy
  Altoids, 155–156
  AT&T, 446–447
  Black & Decker SnakeLight, 206
  Embassy Suites Hotel, 446, 449
  Got Milk?, 191
  Ingersoll Rand, 356
  Intel, 190
  military, U.S., 279–280
  M&Ms, 286
  StarKist, 205
  T. Rowe Price, 295
Advertising copy evaluation
  laboratory tests for, 296–298
  on-the-air/recall tests for, 297–298
  physiological methods of, 297
  portfolio tests for, 296–297
  readability tests for, 297
  theater tests for, 297–298
Advertising management, 289–290
  budgeting in, 305–308
  decision-making in, 291
  effects measurement in, 308–309
  goals setting in, 291–293
  media selection in, 298–305
  message copy evaluation in, 296–298
  message strategy in, 293–296
  target audience selection in, 291
Advil, 97
Aflac Inc., 182
Agents, 343–345, 454–455
Agfa, 193
AIG, 182
Airbus, 90, 132
Air France, 132
Air India, 89
Airline customer satisfaction, 408, 421–422. *See also specific airlines*
Albertson's, 192
Allowances, slotting, 324–325
Allstate, 270
Almarai, 187
Alternative products, 111
Altoids, 155–156
Amazon.com, 3, 43–44, 192, 204, 270, 274, 321, 345
Amazon Price Watch, 272
AmBev, 35
AMD, 19, 190
American Airlines, 44, 428
American Customer Satisfaction Index (ACSI), 137
American Demographics, 169
American Express (AmEx), 5, 39, 195–197, 204, 408, 410, 414, 455
American Marketing Association, 4, 59
America Online, 55, 118, 237, 271, 401
Ameritrade, 158
AmEx. *See* American Express
Amgen, 76
Amperex Technology Ltd, 171
Ampex InstaVideo, 10
Amway, 350, 380, 391
AMX Corp., 370
Anheuser-Busch InBev, 35–36, 48, 368
Ann Taylor, 185
Annual reports, 168
Antecedent states, as situational influence, 119
Antiglobals, 187
Apex Digital, 192
Apostle customers, 423
Apple Computer Inc., 5, 48, 135, 137, 211, 238, 240, 306, 339–340, 352, 360, 361
  iPad, 171
  iPhone, 24, 81, 198, 245, 262, 264–265, 319, 352
  iPod, 179, 245, 268–269, 302, 353
  iTunes, 245–246, 251, 265, 268
  Newton, 9, 117, 136
  product design and, 204
Applied Biosystems, 199
Applied Materials, 127
APS. *See* Advanced photo system
Arbitron, 303
Arco, 48
Arrow, 351
Arrow Electronics, 351, 369–370
Arthur Andersen, 182, 448
Asian markets, 366
ASI Market Research, 298
Association/causal methods, of potential and forecasting, 81–82, 84
Associations
  in brands, 181
  trade associations, 64, 169
Associations dimension, 182
Astra Zeneca, 120, 395
ATMs. *See* Automated teller machines
AT&T, 9, 39–40, 121, 134, 239, 289–290, 389, 406, 431, 446–447
ATX Group, 128
Auctions, online, 274
Audi, 192, 199, 250
Australia, 145–146, 437
Automated teller machines (ATMs), 350
Automobile industry, 161–162, 227–229, 251. *See also specific companies*
Avaya, 133–134
Avnet, 369–370
Avon, 361, 375, 380

B

Baan Co., 136
Baby Boomers, 95
Bachelor state, in family life cycle, 114
Bain and Company, 74
Bang & Olufsen, 240
Bank of America, 306
Barclays, 132
Barnes&Noble.com, 274
Base profit, 410
BASES, 234–236
Baskin-Robbins, 16
BAV model. *See* Brand Asset Valuator
Bayer, 49, 133–134, 179–180
Bayer's, 49
BBDO Worldwide, 150
BDI. *See* Brand Development Index

Behavioral variables, 91–93
Believers, 96
Bell Labs, 14–15
Bellsystem24, 413
Benchmarking, 64
Ben & Jerry's, 346
Best Buy, 121, 339–340, 341, 345, 346, 353, 359, 416–417
BetaSphere, 230
Bharti Airtel, 25
Bic, 184
Bill Blass, 184
Bissell, 224–225, 306
BlackBerry, 24, 81, 137, 211, 319, 352
Black & Decker, 204, 206
Blank Label, 203
Bliss Spa, 238
Blockbuster, 121, 347
Blu-ray HD, 14–15, 266–267
BMW, 42–43, 128, 182, 192, 199, 250, 258, 301, 367, 412
  Z3 roadster, 237, 249
Boeing, 132, 136, 219
Bonus, customer satisfaction *vs.*, 421
Borders.com, 274
Boston Consulting Group (BCG), 201–202, 211
"Bracketing," 268
Brainstorming, 223, 240
Brand(s), 152. *See also* Perceived quality or brand-based differentiation
  associations, 181
  awareness, 180–182
  corporate brands, 179
  equity, 50, 180–183
  extensions, 184–185
  ingredient brands, 180
  leadership, 6, 7
  loyalty, 180–181
  personality, 191–192
  positions, 49–50
  value brands, 192
Brand Asset Valuator (BAV model), 194–195
Brand-based differentiation, 48–50
Brand Development Index (BDI), 79–80
Branded entertainment, 30, 301, 303
Branded marketing, 364
Branding
  brand equity dimensions, 180–183
  building strong brands, 183–185
  global branding, 185–188
  issues in, 191–194
  marketing ROI in, 194–195
  in product decisions, 179–194
  technology and, 188–190
Brand-person relationships, 192
Brazil, 458
Breakdown method, of sales force, 384–385
Bridgestone-Firestone, 11–12, 50, 113–114, 361
Bristol-Myers Squibb, 321
British Airways, 50, 186, 391, 408, 427
Broadcom Corp., 171
Broadmoor Hotel and Spa, 441–442
Broker, 343
Brooks Brothers, 416
Brown & Williamson, 11
B-to-B marketing. *See* Business-to-business (B-to-B) marketing
B-to-C companies. *See* Business-to-consumer (B-to-C) companies
Budget. *See* Advertising budget methods
Budget competition, 155
Budgeting
  in advertising management, 305–308
  sales promotion, 333–335
Budweiser, 35–36, 40, 53, 192, 309
Burger King, 154, 184
Burke Marketing Research, 298
Burpee Seed Company, 40
Business-to-business (B-to-B) marketing, 127, 137
Business-to-consumer (B-to-C) companies, 137
Business/trade publications, 169
Business Week magazine, 211
Buy classes, 131
Buying centers, 127, 140–142
Buying decisions, 140–142
Buying process
  postpurchase evaluation in, 144
  proposal evaluation/supplier selection in, 143–144
  RFP in, 143
  specifications in, 142
  suppliers in, 142
Buzz marketing, 30, 301

C

Cable TV, 299–300
CAD. *See* Computer-aided design
Cadbury Schweppes, 342
Cadillac, 182, 184, 251, 314
Calculating customer value, 253–257
California Pizza Kitchen, 317
California Prune Board, 197
CALLPLAN model, 388
Call reports, 63–64
Calvin Klein, 16
Calyx & Corolla, 351
Campbell Soup, 56, 71
Cannibalization, 200
Canon, 209–210, 218, 363
  patents, 211
Cardamation Company, 56
Cardinal Health, 369
Cargill, 160
Carrefours, 365
Car-sharing services, 459–460
Case Construction Equipment, 400
Cash cows, in market share, 201–202
Casio, 9, 152
Catalina Marketing Corporation, 39, 335
Catalogue marketing, 400–401, 402
Category Development Index (CDI), 79–80
Category management, 153, 367–368
Caterpillar, 47, 219, 400
CCITT. *See* Consultative Committee on Telegraph and Telephone
CDI. *See* Category Development Index
Cellphones, 24–25, 80–81, 83–84, 117, 245, 250, 256, 262, 264–265, 301, 352, 406, 418–419
Cemex, 47
Central Intelligence Agency (CIA), 158
Ceteris paribus ("all else remaining equal"), 77
Chanel, 186
Channel power, 359–360
Channels of distribution, 341. *See also* Distribution channels
Channel system, game theory and, 174
Charles Schwab, 158, 435
Charter Communications, 421
Chart House, 429
Chasm, 133–136
Chef Revival, 303
Chemical Bank, 134
Chevron, 48, 458
Chicken of the Sea, 193
China, 12, 27–28, 366
China National Offshore Oil Corporation, 28
Choiceboards, 203
Chrysler, 23, 199, 219, 239, 313–314
CI. *See* Competitive intelligence (CI) certification programs
CIA. *See* Central Intelligence Agency
CIF. *See* Customer information file
Cigna, 271
Cingular, 406
Circuit City, 192, 340
Cirrus Logic Inc., 171
Cisco Systems, 16, 127, 155, 189, 364, 373, 375, 384, 427
Citibank, 7
Citigroup, 290
Claritas, 103–104
Clear Channel Outdoor, 299
Cloning, 190
Clorox, 51, 179, 193, 325, 412
Club Méditerranée (Club Med), 87–88, 92, 104, 112
Cluster analysis, 106–107
Co-brands, 180
Coca-Cola, 42, 44, 60, 149, 152, 154, 192, 255, 270, 290, 321, 327, 342
  Coke Classic, 150, 303
  Coke Light, 187
  Coke Zero, 241
  Diet Coke, 5, 11, 89, 153, 185, 187–188
  Diet Vanilla Coke, 184
  New Coke, 5, 15, 150, 184
  Powerade, 150
  Vanilla Coke, 184, 212
  Vault, 335–336
Co-creation, 221–222
Code Red, 185, 199
Cohort analysis, 93–94
Coinstar, 347
Colgate-Palmolive, 341
  Total toothpaste, 98, 212
Collaborative customerizers, 203
Combination quotas, 389
Commission, 389–390
Communication(s), 26, 29–30, 158, 163, 348, 364, 376
  communications mix in, 285
  IMC, 281, 285–289
  model of, 282–284
  nonpersonal channels of, 283

Communication(s) (*continued*)
personal/nonpersonal channels of, 283
reach *vs.* richness in, 284–285
Communispace, 431
Community building, 430–431
Company-owned channels, of service distribution, 454
Compaq, 199, 363
Compatibility, 117
Compensation, 389–391
Compensatory model, 114
Competition, 364
exchange rate fluctuations and, 275
pricing and, 259–260, 263
against private labels, 272
Competitive advantage, 44–46
Competitive intelligence (CI) certification programs, 158
Competitive Intelligence Guide, 169
Competitive parity, 307
Competitive pricing, 259–260, 263
Competitive strategy, game theory in, 171–174
Competitors, 19–20, 350–351
costs of, 259–260
strengths/weaknesses of, 164–166
targets of, 36–37, 38–41, 88, 160–161
Competitor analysis, 151, 158
competitor strategies in, 160
core strategies in, 162–163
customer/competitor targets in, 160–161
expected future strategies in, 166–168
key objectives in, 159–160
product features in, 161–162
strengths/weaknesses in, 164–166
supporting marketing mix in, 163
Competitor analysis/market structure, 149–151
competitive strategy/game theory, 171–174
information sources for, 168–171
market structure analysis, 152–158
Complementarity, in brand extensions, 184
Complementary pricing, 269
Complexity, 117
Compromise effect, 119
CompUSA, 121, 346
CompuServe, 168
Computer-aided design (CAD), 239
comScore Media Metrix, 75
Concept development, 226–229
Congestion pricing, 270
Conjoint analysis, 224–226, 255
Conservatives, 134–135
Consideration set, 111–114
Consultants, 169
Consultative Committee on Telegraph and Telephone (CCITT), 118
Consumers, 87–89, 350
buying behavior, 109–110
purchase influences, 114–119, 144
Consumer convergence, 186
Consumer franchise building, 335
Consumer jury, 296
Consumer marketing
data collection and, 100–104
demographic variables and, 90–95
distribution channels and, 120–121
purchase decisions and, 110–120
segmentation variables and, 90–98
target markets and, 104–108
Consumer-oriented promotions, 287
Consumer promotions, 318–321, 324
premiums, 317, 323, 331
Consumer Reports, 113–114, 247, 251
Consumers, 350
Contadina, 234–235
Context effects, 119
Continuous replenishment program (CRP), 369
Contractual services, 456
Control group, 75
Coors, 36, 192, 350
Core strategy, 45–46, 88
product positioning in, 36, 37, 50–51
value proposition in, 36–37, 43–44
Corona, 35–36
Corporate brands, 179
Corporate parent brands, 179–180
Correlation, 82, 84
Cosmetic customerizers, 203
Cost(s), 54, 163, 219–220, 249–251, 364, 408, 410
of competitors, 259–260
development costs, 260
direct fixed costs, 261
interactive marketing and, 26
market share *vs.*, 259–260
of market testing, 231
overhead costs, 260–261
pricing and, 246, 260–261
of product line additions, 200
services *vs.*, 456
variable costs, 261
Cost- or price-based competitive advantage, 45–46
Cost-per-thousand (CPM), 303
Cost reductions, 213
Cott Corporation, 193
Counting methods of forecasting, 81–83
Country of origin, pricing and, 275
Coupons, 316–320, 329, 331
CPM. *See* Cost-per-thousand
Cracker Barrel, 428
Cray, 47, 53
Creative selling, 381
Credence attributes, of products, 438–439
Credence goods, 265
Crest toothpaste, 213, 224, 268
CRM. *See* Customer relationship management
Cross-elasticity of demand, 156
CRP. *See* Continuous replenishment program
Crushpad, 222
Cultural convergence, 186
Culture, 115–116, 144–146, 289–290, 458
Customers, 160–161
for competitor information, 170
fiscal years and, 146
for new-product concepts, 220–222
in organizational buying behavior, 129–138
purchasing decisions of, 138–139
transaction *vs.* relationship with, 28–29
Customer experience management, 424
Customer information file (CIF), 411–419
Customerization, 202–204
Customer-orientation, 9, 14
achievement of, 12–13
products *vs.*, 11–13
safety and, 11–12
value chain *vs.*, 13
Customer-oriented promotions, 326
evaluating, 328–329
objectives in, 327–328
Customer relationship management (CRM), 321, 393, 405–406
customer selection and, 416–419
customer targeting for retention and, 419
database analysis for, 414–416
database creation for, 411–413
economics of loyalty and, 407–410
framework for, 410–411
marketing programs for, 419–431
metrics in, 431–432
privacy issues in, 431
service markets and, 456–457
CustomerSat.com, 421
Customer satisfaction, 29, 137, 420–421
Customer selection, 416–419
Customer service, 423–424
EMC Corporation, 427–428
guarantees in, 427
live chat for, 428
principles of, 427
Rackspace, 425
service recovery in, 427–428
Tasca Lincoln-Mercury, 426
Zappos.com, 425–426
Customer targets, 36–37, 38–41, 88, 160–161, 419
Customer value, 246
calculating, 253–257
conjoint analysis for, 255
dollarmetric method for, 255
field experiment and, 256–257
framework in, 252
LCV, 28–29, 408–411, 414–416
perceived value and, 249–259
price/cost and, 249–251
price elasticity in, 252–253
price reductions and, 250
surveys and, 254–255
using, 257–259
value-in-use and, 253–254
Cyrix, 190

D

Daewoo Group, 346
D'Agostino's, 250
DaimlerChrysler, 313
Database analysis, 414–416
Database marketing, 29
Data collection, 100–104
external, 64–67
in industrial marketing, 137–138
internal, 63–64
primary sources for, 68–77, 112, 170, 224
Data mining, 414–416, 419
DeBeers, 39
Decider, 140
Decision support systems (DSSs), 308
Decline, of nuclear family, 186

Decline phase, of PLC, 55–57
Deere & Co., 239
Defector customers, 423
Dell Computer, 5, 13, 16, 125, 177–178, 250, 273, 345–346, 350, 363, 365
Delphi method of forecasting, 82–83
Delta Airlines, 310, 459
Demand-based methods, for defining competition, 152–154, 155
Demographic convergence, 136
Demographics
  in consumer marketing, 90–95
  in industrial marketing, 129–130
  marketing manager and, 19–20
Demonstrations, for new products, 224
Depraz, 177
Descriptors, 90–93
Development costs, 260
DHL, 12, 44
Diet Coke, 5, 11, 89, 153, 185, 187–188
Diet Pepsi, 5, 89, 149, 153
Diet Vanilla Coke, 184
Differential advantage, 44–45
Differential pricing, 269–272
Differentiation, 181, 200, 264–265
  brand-based, 48–50
  in core strategy, 44–46
  definition of, 46
  quality-based, 46–48
Digg, 284
Digital Entertainment Group, 14
Digital Impact, 401
Direct channels, 353–354
Direct fixed costs, 261
Direct mail, 399–400, 402
Direct-mail marketing, 286
Direct marketing, 286–287, 373–374
  medium/markets for, 396–397
  methods of, 399–402
  privacy issues *vs.*, 402–403
  process of, 398–399
Direct Marketing Association, 399, 401
Direct sales, 286
Direct Selling Association, 380
Direct-to-consumer (DTC) advertising, 76, 120
DirectTV, 230
Dirt Devil, 306
Discounting, 270–271
Discover Card, 195, 197
Discovery Channel Stores, 353
Disintermediation, 146, 354
Disney, 188, 289, 458
Disney-Pixar, 182
Disposable diapers, 78–79
Distinct product brands, 180
Distribution, 163
Distribution channels, 120–121, 339–340
  conflict in, 360–363
  dynamics of, 344–347
  factors affecting, 350–353
  functions of, 347–349
  global issues in, 365–367
  for high-tech marketing, 363–365
  importance of, 341–344
  interactive marketing and, 26
  management of, 360–363
  options for, 353–358
  power and, 359–360
  services and, 348, 452–456
  special topics on, 367–370
Distributor, 343
Diverters, 367
Dogs (low relative share), 201–202
Dolby, 180, 189
Dollarmetric method, 255
Dollar Tree, 342
Domino's Pizza, 427
Do not call registry, 287
DoubleClick, 377, 402
Dr. Pepper, 255
Dreyer's, 346
DSSs. *See* Decision support systems
DTC. *See* Direct-to-consumer (DTC) advertising
Dummy advertising vehicles, 297–298
Dun & Bradstreet, 168, 169, 398–399
Dunkin' Donuts, 40, 321
Dunlop, 113–114
DuPont, 56, 265–266
  Gore-Tex, 180
  Kevlar, 131, 138
Dyson, 306

E

Early adopters, 99–100, 134, 262
Early majority, 99–100
EasyJet, 45
eBay, 274, 345, 389, 416
  PayPal, 137
ECNs. *See* Electronic communications networks
e-Commerce, 257, 272–274. *See also* Internet
Econometric models, 82, 84
Economies of scale, 45
ECR. *See* Efficient consumer response
Eddie Bauer, 355
Edward Jones, 158, 435–436, 440, 443, 447
Efficient consumer response (ECR), 369
Electrolux, 306, 350
Electronic channels, of service distribution, 455
Electronic communications networks (ECNs), 158
Electronic data services, for information, 169
Electronic Data Systems, 437
Eli Lilly, 16
e-mail, direct, 401–402
Embassy Suites Hotel, 446, 449
EMC Corporation, 427–428
Emerson Electric, 6
Emery, 12
Emotional appeals, 294, 296
Employees, 170
  service quality and, 441–442, 458
Empty nest, in family life cycle, 115
Enron, 50, 182
Enterprise Rent-A-Car, 98
Envirosell, 70
Equity brands, 50, 180–183
ESPN, 184
Ethics, pricing *vs.*, 252, 276
Ethnographic research, 70–71
eToys, 272
Eureka, 306
Euro Disney, 458
Evaluation, 143–144, 296–298, 331–333, 391–393
Everlast, 303
Evoked or consideration set, 111
Excel Communications, 380
Exchange rates, 274–275
Executive opinion method of forecasting, 82
Expectation confirmation/disconfirmation model, 420
Expectations, 114
Expedia, 274
Expedia.com, 459
Experience attributes, of products, 438–439
Experience curve, 45–46
Experience goods, 265
Experiencers, 96
Experiences, 26
Experimentation, 75–76, 256–257
  in advertising budget methods, 308
  in measuring advertising effects, 309
External data sources
  academic publications, 65
  business publications, 64–66
  government publications, 65
  Internet discussion groups, 65
  Internet searches, 66
  trade associations, 64, 169
  trade publications, 64
  Web sites, 66–67
External validity, 75
Extrapolation, 82–84
Exxon Mobil, 48

F

Facebook, 23, 284, 289, 301, 302
  Splenda and, 70
Facilitating agent, 343
Factor analysis, 106–107
Fairfield Inns, 199
Fame, 70
Family Dollar Stores, 342
Family life cycle, 90–95, 114–115
FAO Schwartz, 323
Fast Forwards, 98
Fax machines, 118
Feature fatigue, 10
Federal Express (FedEx), 12, 44, 47, 254, 290, 420, 438, 451
  ZapMail, 118
Federal Trade Commission, 402
FedEx. *See* Federal Express
FedEx Mobile, 198
Feeding America, 71
Femininity *vs.* masculinity, in cultural differences, 145
Fiat, 23, 160
Fidelity Investments, 418
Field experiment, 76
  customer value and, 256–257
Financing, 348
  by competitors, 164–165
Firestone tires, 11–12, 50, 113–114, 361
First-mover advantage, 54
Fjallfil, 301
Flat-rate pricing, 271
Flextronics International, 16, 240, 369

Flighting, in advertising, 304
Florida Power & Light, 444
Floturn Inc., 38
FluMist, 215
fMRI. *See* Functional magnetic resonance imaging
Focus groups, 68–70, 224
Food and Drug Administration, 120, 212
Food Lion, 74
Ford Motor Co., 59, 171, 211, 289–290, 298, 313–314
  Focus, 324
Forecasting, 77, 80–81. *See also* Potential and forecasting
Forecasting demand. *See also* Potential and forecasting
  market tests in, 230–231
  product launch in, 236–238
  product use tests in, 229–230
  sales forecasting in, 231–236
Foreign markets
  country characteristics of, 41–42
  management objectives of, 42–43
  marketing strategy for, 41–43
  product market characteristics of, 42–43
  purchasing power of, 41–43
  trade barriers/government regulations and, 42–43
Forrester Research, 84, 98
Fortune magazine, 192
Four Seasons, 415
Franchising, 454
Free-standing inserts (FSIs), 319, 321, 331, 401
French's Mustard, 204
Frequency marketing, 428–429
Fresca, 255
Friedrich Grohe, 429
Frigidaire, 318
Frito-Lay, 212
FSIs. *See* Free-standing inserts
Fuji Photo Film Company, 27, 40, 209–210
Fuji-Xerox, 218, 239
Functional magnetic resonance imaging (fMRI), 71

G

Gallup & Robinson, 298
Games, U.S. Army and, 279
GameStop, 121
Game theory, 171–174
Gap Inc., 10, 154, 354
Garmin, 247–248
Gartner Dataquest, 137
Gartner Group, 82
Gatorade, 150, 152, 303, 342
GDP. *See* Gross domestic product
GEICO, 182
Genentech, 258–259, 394
General economic cycles, 146
General Electric, 6, 74, 144, 179, 188, 239, 254, 318, 380–381, 420
  electric knife from, 15–16
General Foods Corporations, 376–377
  organizational chart of, 17
General Mills, 253, 368
General Motors, 4, 28, 30, 59, 211, 254, 289, 290, 313–314, 350–351
  OnStar, 128
Generation X, 95
Generation Y, 95
Generic competition, 154
Generics, 53, 193
Geographic variables, 90–91
GE Plastics, 197
Gifticon, 352
GI generation, 94–95
Gillette, 48
Glad, 325
GlaxoSmithKline, 211, 289
Global agnostics, 187
Global branding, 185–188
Global citizens, 187
Global dreamers, 187
Global issues, 289–290
Globalization
  Latin America and, 27
  new markets from, 26–27
  9/11 and, 27
Global marketing, 185–188
Global positioning system (GPS), 25, 247–248
GO, 9
GoIndustry DoveBid, 274
Gold Association, U.S., 39
Good Housekeeping seal, 225–226
Goods, classification of, 438–439
Goodyear Tires, 110, 113–114, 361–362
Google, 170, 177–178, 187–188, 211, 224, 238, 301–302, 377, 402
Gore-Tex, 180
Government sources, for information, 168–169
GPS. *See* Global positioning system
Grainger, 146, 167
Grasse Fragrances SA, 17–18
Gray market, 367
"Greenwashing," 198
Grey Goose, 204
Grey Poupon, 41, 47
Gross domestic product (GDP), 210, 374
  services in, 437
Gross rating point (GRP), 303
Groupe Danone, 66–67
Growth phase, in PLC, 54–55, 57
Growth PLC strategies, 57
  product position in, 54–55
Growth share matrix, 201–202
GRP. *See* Gross rating point

H

H. J. Heinz, 316
Häagen-Dazs, 180, 346
Haier, 28, 187
Hallmark, 184, 361, 362, 428
Hamilton-Avnet, 351
Hand-Shakers, 98
Handspring, 16
Harley-Davidson, 40, 105–108, 192
Harrah Entertainment, 405
Harrah's, 224, 413, 428
Hartford Financial Services, 375
Harvard Medical School, 76
Hasbro, 127
HD DVD, 266–267
Heineken, 35, 179
  DraughtKeg, 204–205
Heinz, 179, 193
Help wanted ads, 169
Hershey Foods, 155, 200, 317, 328, 342
Hertz, 98, 460
Hewlett-Packard, 5, 22, 54, 135–137, 142, 144, 177–178, 181, 189, 199, 210, 239, 250, 290, 341, 346, 350, 363, 376–377, 381, 437
  complementary pricing by, 269
  field experiment by, 256
  HP LaserJet series, 180
  patents, 211
  recycling, 198
  telepresence market and, 155
High-tech. *See* Technology
Hilton Hotels, 158
Hoffman-La Roche, 387
@home, 117
Home Depot, 9, 281, 303
Home Shopping Network, 350
Honda, 105, 239, 314
Honeywell, 239
Hong Kong, 437
Hoover, 306
Hoover's Online, 169
Horizontal marketing, 131
Hormel, 179
Hostage customers, 423
House of quality, 227–229
HSBC Bank, 132–133
Hybrid systems, 357–358
Hyundai, 59, 112–113, 314

I

IBIS*World*, 137
IBM, 28, 47, 125, 132–134, 136, 145, 158, 177–179, 184, 188, 190, 211, 239, 254, 290, 316, 349, 352, 427, 437
  BladeCenter HS22, 189
  patents, 211
IDEO, 240
iFixit Inc., 171
IKEA, 46, 183, 365
IMC. *See* Integrated marketing communications
Implementation, in design process, 240
InBev, 35–36
Inbound logistics, 447
Incentive payments, 390
India, 28, 42, 44
  netCustomer, 125–127
Indirect channels, 353–354
Individualism *vs.* collectivism, in cultural differences, 145–146
Industrial marketing, 127
  buyer-seller interdependence in, 128
  buying process complexity in, 128–129
  data collection in, 137–138
  demographics, 129–130
  derived demand in, 127–128
  marketing research in, 137–138
  product complexity in, 128
  segmentation variables in, 129–138
Industry, 152
Inert set, 112
Influencers, 119, 140
Infor Global Solutions, 136
Informational appeals, 294
Information Resources Inc. (IRI), 48, 75, 298, 308

Information sources, 231
primary, 62, 170–171
secondary, 62, 168–169
Information technology (IT), 125. *See also* Technology
in-store, sales promotion and, 335–336
InfoUSA.com, 399
ING Direct USA, 7–8, 417
Ingersol Rand, 239, 356–357, 362, 391
ING Groep, 8, 417
Ingram Micro, 369
Ingredient brands, 180
Initiator, 119, 140
Innerscope Research, 71
Innovators, 95, 99, 133, 262
Inquiry tests, 298
Inseparability, of production and consumption, 439
In-store information technology, 335–336
In-store video monitoring, 70
Intangibility, of services, 438, 446
Integrated marketing communications (IMC), 281, 289
advertising and, 285–286
direct marketing and, 286–287
miscellaneous communications activities in, 288
personal selling and, 288
publicity/public relations and, 287
sales promotion and, 287
Integrators, 203
Intel Corporation, 44, 55, 158, 180, 184, 188–189, 240, 363
brand management at, 19
Centrino, 19
Intel Inside, 189–190
Pentium, 19
Interbrew SA, 35
Intermediaries, 343
strategies for, 369–370
Internal data collection, 63–64
Internal sources, for information, 168
Internal validity, 75–76
Internet, 346, 438. *See also* Web; *specific companies*
brand communities on, 283–284
community building and, 430–431
customer power and, 25–26
customer satisfaction and, 421
distribution and, 455
interactive marketing and, 26
log files from, 64
online groceries, 346–347
price experiments, 257
pricing and, 272–274
for purchasing, 120–121
research on, 65–67
television *vs.*, 29–30
Internet newsgroups/blogs, for competitor information, 170
Interpublic, 290
Introductory PLC phase, 57
first-mover advantage in, 54
generic product in, 53
network effects in, 54
penetration in, 54
skimming in, 54
switching costs in, 54
Intuit Inc., 74
QuickBooks, 168
Quicken, 55
Investment pricing, 262–263
Iomega, Zip and Jaz drives, 117
iPad, 171
iPhone, 24, 81, 198, 245, 262, 264–265, 319, 352
iPhysicianNet, 395
iPod, 179, 245, 268–269, 302, 353
IRI. *See* Information Resources Inc.
IT. *See* Information technology
iTunes, 245–246, 251, 265, 268

J

J. Crew, 154, 258
J. D. Power & Associates, 26, 420
Japan, 366–367, 444
J-Phone, 188
Java Jones, 252
JCPenny, 319, 358, 361, 362
JetBlue, 45
Jiffy Lube International, 46, 453
Jim Beam Brands Worldwide, 223
John Deere, 400
Johnson & Johnson, 6, 55, 211, 289–290
Joint space, 195
Jollibee, 187
Jos. A. Bank, 273
J-Phone Co., 188
JPMorgan Chase, 179, 290
Juan Valdez Café, 187
Judgmental methods, of potential and forecasting, 81–83
Juniper, 125
Jupiter/Media Metrix, 84, 300

K

Kahlua, 198
KAMs. *See* Key account managers
Kana Communications, 365, 401
Kao, 5
Kayak, 459
Kellogg, 158, 325, 412
Kentucky Fried Chicken, 150
Kevlar, 131, 138
Key account managers (KAMs), 379
Keynote, 169
KhiMetrics, 270
Kia, 59
Kimberly-Clark, 30, 94–95, 193
King Arthur, 47
Kiosks, 352–353
Kirin, 350
Kitchenaid, 318
Kitsune, 60
Kleiner Perkins Caufield & Byers, 3
Kmart, 5, 192, 353, 361, 362
Kodak, 39, 40, 44, 209–210
Advantix, 213, 214
APS, 212
Kohlberg, Kravis, and Roberts, 11, 160
Kola Real, 187
Konica, 210
Korex, 16
Kraft Foods, 325, 328, 368, 431
Kraft Foods China, 159
Kraft General Foods, 10, 41, 155
Kroger's, 193, 306

L

Labatt USA, 257
Laboratory stores, 297–298
Laboratory tests, of advertising copy evaluation, 296–298
Laggards, 99–100
Lambert's Pasta & Cheese, 234
Lands' End, 90, 399, 410, 430
Lanier Worldwide, 394–395
Lansdale Semiconductor, 55–56
Late majority, 99–100
La-Z-Boy, 51
LBO. *See* Leveraged buyout
Lcafe, 322–323
LCV. *See* Lifetime customer value
Leader-follower, game theory and, 173–174
Leadership, brand, 6, 7
Leading indicators, 82, 84
Lead users, 133
L'Eggs, 204, 324
Lego, 22, 222
Lehman Brothers, 23
Lenovo, 28, 179, 350
Leo Burnett, 183, 279
LevePerson.com, 428
Leveraged buyout (LBO), 160
Levi Strauss, 179, 184, 354
Original Spin, 204
Project 501, 221–222
Lexus, 59, 113, 200, 314, 408
LG Electronics MobileComm U.S.A. Inc., 289
Lifetime customer value (LCV), 28–29, 408–411, 414–416
Lightstorm Entertainment, 289
Line extensions, as new products, 213
Linksys, 373
Living standards, higher, 186
Lloyds TSB, 132
Loblaw's, 193
Log files, 64
Logistics, 341
Logitech, 177–178, 184, 186, 199, 200, 363
Logos, 193–194
Long-term orientation, in cultural differences, 145
L'Oréal, 28, 94–95, 188, 290, 306
Los Angeles Dodgers, 270
Loss aversion, 442
Low entry barriers, in services, 446–448
Lowe's, 9, 281
Loyalist customers, 423
Loyalty
brand loyalty, 180–181
economics of, 407–410
revenue growth and, 410
Loyalty programs, 428–429
Lucent Technologies, 133–134
Lucky Supermarket, 427

M

M (restaurant brand), 188
Magazines (print), 192, 211, 299–300
Magellan, 248
Mail orders, 398
direct e-mail, 401–402
direct mail, 399–400, 402
direct mail marketing, 286

Makers, 97
Management. *See also specific types of management*
by competitors, 165–166
of distribution channels, 360–363
Manipulation, 75
Manischewitz, 40
M/A/R/C Research, 233
Marginal economic method, of sales force, 385–386
Market, 201
Market development, target, 104–108
Market development funding, 324–325
Market development strategy, 39
Market forecast, 77. *See also* Forecasting demand; Potential and forecasting
Market growth, 201–202
Marketing. *See also specific types of marketing*
alternative perspective on, 14–16
brand leadership in, 6, 7
changing nature of, 23–31
China and, 27–28
choices and, 5
communications environment and, 29–30
by competitors, 164–165
customer base and, 28–29
customer orientation and, 11–13
customer power and, 25–26
customer satisfaction and, 29
database marketing, 29
definition of, 4–5
difficulties in, 5–6
finances for, 30–31
globalization and, 26–27
GPS for, 25
India and, 28
interactive marketing, 26
marketing concept in, 6–8
marketing philosophies for, 6–16
mass customization in, 29
mobile technology diffusion and, 24–25
organizational philosophies of, 8–11
outsourcing and, 16
R&D and, 241–242
ROI and, 30–31, 194–195
skepticism about, 30
sustainable marketing practices and, 31
as value-adding activity, 16
Marketing concept, 6–8
Marketing intermediaries, 343
Marketing manager
competitors and, 19–20
customers' needs and, 19–20
demographics and, 19–20
economics and, 19–20
internal *vs.* external interactions of, 19–21
job of, 16–23
marketing plan of, 21–23, 63
political factors and, 19–20
social factors and, 19–20
technology and, 19–20
Marketing mix, 36, 37, 88, 163, 452–456
as 4Ps, 51
segment-focused strategy and, 51–52
Marketing-mix modeling, 310
Marketing plan, 63
definition of, 21
hierarchy in, 21–22
outline for, 22–23
purpose of, 23
sequence of, 22
Marketing research, 347–348
data sources in, 62–77
definition of, 60
in industrial marketing, 137–138
monitoring current programs in, 60–61
potential and forecasting in, 77–84
primary data sources in, 67–77, 112, 170, 224
primary information sources in, 62, 170–171
purposes of, 61
research process in, 61–63
risk assessment in, 60–61
scanning for opportunities/threats, 60–61
secondary data sources in, 63–67
secondary information sources, 62, 168–169
target markets and, 138
Marketing strategy
"3Cs" of, 51, 56
core strategy in, 36, 43–45, 50–51
cost-/price-based competitive advantage in, 45–46
customer/competitor targets in, 36–37, 38–41
distribution channels and, 351–352
foreign markets and, 41–43
marketing mix in, 36, 37, 51–52
mission statement for, 37
objectives in, 36–38
over PLC, 52–57
perceived quality or brand-based differentiation in, 48–50
in pricing, 247–249
quality-based differentiation in, 46–48
Market penetration strategy, 38–39
Market potential, 77
estimation of, 78–79
Market segmentation, 51–52, 89–100
in industrial marketing, 129–138
Market share, 38, 201–202, 259–260
Market share pricing, 262
Market structure analysis, 151
definitions in, 152
demand-based methods, 152–157
supply-based methods, 157–158
Market testing, 82, 83, 230–231
MarkSearch, 168
Marks & Spencer, 48
Marlboro Friday, 250
Marriott Corporation, 60, 199, 445
Marriott Lodging, 379
Mars, 200, 301
Mary Kay, 380, 391
Mass communication models, 282–284
Mass customization, 29, 90, 202–204, 430
Mass media, 283. *See also* Media selection; "New" media
MasterCard, 5, 186, 195–197, 429
MasterCard International, 306
Matching/customizing, 348
Matrox, 189
Matsushita, 10, 118
patents, 211
Mattel, 12, 362
Mature market, 39–40
Maturity phase, of PLC, 55, 57
Maytag, 28, 183, 318
Mazda Miata, 180, 249–250
McCann Worldgroup, 413
McDonald's, 6, 27, 40, 47, 48, 51, 154, 187, 193, 198, 321, 323, 347, 366, 447, 454, 457
Chicken Selects, 212
Happy Meal, 268
MCI, 376, 378
McKinsey & Company, 274, 449
MDS. *See* Multidimensional scaling
Measurable response, 396
Measurement Initiative: Advertising, Agencies, Media, and Researchers (MI4), 308
Mecca Cola, 187
Medconference, 395–396
Media Junkies, 98
Mediamark Research Inc. (MRI), 78, 100–103, 161
Media selection, 298
advertising scheduling in, 298–305
contextual fit in, 303–304
duplication/wearout in, 304
"new" media for, 300–302
specific vehicle choices in, 302–304
traditional media for, 299–300
Medicine advertising, 49, 120, 133–134, 179–180, 271, 305, 321
Medimmune, 215
Mercedes-Benz, 42–43, 50, 128, 186, 187, 199, 250, 256
Mercenary customers, 423
Merck, 271, 321
Vioxx, 120
Merrill Lynch, 158, 354, 435
Merwyn Research Inc., 224
Metrics, 82, 84, 255, 405, 431–432
Metropolitan Opera, 40
MI4. *See* Measurement Initiative: Advertising, Agencies, Media, and Researchers
Michelin, 113–114, 184
MicroPatent, 168
Microprocessors, 53
Microsoft, 40, 54–55, 135, 158, 168, 178, 188, 211, 290, 306, 316, 344, 352–355, 363, 417, 430
distribution for, 339–340
Pocket PC, 170–171
Vista, 192
Windows XP, 177
Xbox, 240, 263, 430, 431
Middleman, 343
Military, U.S., 132, 302
advertising, 279–280
Millennials, 59–60, 94–95
Miller Brewing Co., 35–36, 38, 40, 51–52, 53
MillerCoors, 205
Millward Brown, 82, 137
Minnetonka, 54
Minolta, 209–210
Missionary selling, 381
Mission statement, 37
M&M Mars, 155–156, 342

M&Ms, 180, 184, 203, 286
Modified rebuys, 131–132
Mondavi, 201
Moore's Law, 260
Mosaic, 54–55, 55
Motorola, 9, 16, 20–21, 24, 38, 81, 83, 239
Mountain Dew, 149, 185, 192, 199, 323, 335–336
Mouse Potatoes, 98
MRI. *See* Mediamark Research Inc.
MRM Partners Worldwide, 413
MTV, 53, 238, 289, 299
Multiattribute model, 112–114, 195–196
Multichannel marketing, 355
Multidimensional scaling (MDS), 195–196
Multilearning, 218
Multilevel marketing, 380
Multiple-channel systems, 355–357
mySimon, 272
MySpace, 23

N

Nabisco, 212
NAIC. *See* North American Industrial Classification
NAICS 32221, 137
Naïve extrapolation, 81–82
Name your own price (NYOP), 271–272, 274, 459
Nash equilibrium, in game theory, 172
National Academies Press, 257
National brands, 192
National Center for Health Statistics, 78
National Football League, 40, 71
National Quality Research Center, 421
National sales force, 377–379
National sales managers (NSMs), 376
National Semiconductor, 141–142
NCR, 239
NDS/Equifax's MicroVision, 104
Necco, 342
Needs, of customers, 19–20, 226–228
Negotiation, 348
Neiman Marcus, 323
Nestlé, 6, 50, 119–120, 180, 200, 284, 290, 328, 342, 413
Nestlé Refrigerated Food Company (NFRC), 234–235
netCustomer, 125–127, 140, 143–144, 271
Netflix, 121, 321, 347
Net Promoter, 74
Netscape, 55
NetScreen, 125
Network effects, 54
Network externalities, 118–119
Networks, ECNs as, 158
New Age Nurturers, 98
New-category entries, 213
New Coke, 5, 15, 150, 184
New England Confectionary Company (Necco), 342
Newly married couples, in family life cycle, 114
"New" media
  branded entertainment, 30, 301, 303
  cellphone texting, 301
  videogames, 302
  the Web, 300–302
  word-of-mouth, 111, 301
New-product development, 209–212
  approaches to, 216–219
  marketing/R&D integration in, 241–242
  over PLC, 241
  product design in, 240
  shorter cycles in, 238–240
  success in, 213–215
  topics in, 238–242
New-product development steps
  concept generation in, 220–223
  concept screening in, 223–226
  forecasting demand in, 229–238
  product definition/concept development in, 226–229
NewsDirectory's 24-Hour Newsstand, 169
Newspapers (print), 299–300
New-task purchase, 131–132
Newton, 9, 117, 136
New-to-the-company, 213
New-to-the-world, 213
New York Mets, 270
NFO WorldGroup, 224
NFO Worldwide, 75
NFRC. *See* Nestlé Refrigerated Food Company
Nike, 50, 90, 184, 193, 213, 258, 276, 283, 303, 430
Nikon, 209–210
Nintendo, 40, 211
Nissan, 42–43, 113, 314
Nokia, 20, 25, 81, 171, 188, 211, 250, 437
Nonpersonal channels, of communication, 283
Nonstandardization, of services, 438–439
Nordstrom, 47
Nortel, 389
North American Industrial Classification (NAIC), 157–158
North American Industrial Classification codes, 65
Northwest Airlines, 310, 459
Norton, 189
Novartis, 76
Novell, 364
NSMs. *See* National sales managers
NTT, 43
Nuprin, 97
NYOP. *See* Name your own price

O

Oakley, 182
Objectives, 36–38
  in advertising, 309
  in competitor analysis, 159–160
  in customer-oriented promotions, 327–328
  foreign markets and, 42–43
  in sales promotion, 326–333
  tasks *vs.*, 306
  in trade promotions, 330–331
Observability, 117
Observation, in design process, 240
OEM. *See* Original equipment manufacturer
Office Depot, 121, 346, 359
Olympus, 210
Omnicom, 290, 301
Once Famous, 70
One-to-one marketing, 90
On-the-air/recall tests, 298
Operating costs, customer loyalty and, 410
Operating variables, 129–131
Operations, 447
Oracle, 9, 125, 133–134, 136, 158, 270, 316, 321, 389, 393, 427
Oral-B, 48, 187
Orbitz, 274, 455, 459
Oreck, 306
Organizational buying behavior
  customer buying decisions and, 138–146
  customer identification and, 129–138
  industrial *vs.* consumer marketing, 127–129
Organizational marketing, 127
Organizational philosophies
  marketing driven, 10–11
  R&D focus as, 9–10
  sales driven, 8–9
Organizational structure
  market-based structure as, 18–19
  product-based structure as, 17–18
Original equipment manufacturer (OEM), 189–190, 363–364
Outdoor advertising, 299–300
Outsourcing, 254
  India and, 28
  marketing and, 16
Overhead costs, 260–261

P

P3P. *See* Platform for Privacy Preferences
Packaged Facts, 119–120
Packaging, 179, 204–205
Palm Inc., 136, 170–171, 240
  Palm Pilot, 9–10, 136
Pan American Airlines, 5
Panasonic, 132
Panels, 74–75
Parallel importing, 367
Parfitt-Collins model, 232–233
Parsimony, 104
Patchi, 187
Patent and Trademark Office, U.S. (USPTO), 210–211
Patent/trademark filings, for information, 168
Paul Mitchell, 354
Payoff matrix, in game theory, 172
PayPal, 136–137
PayPerClip, 268
PDAs. *See* Personal digital assistants
PDF, hard-copy publications *vs.*, 257
PDMA. *See* Product Development and Management Association
Penetration, 38–39, 54
Penetration pricing, 262
Pentax, 210
People magazine, 192
PeopleSoft, 125, 136
PepsiCo., 39, 194, 255, 325, 327, 375
  Code Red, 185, 199
  Diet Pepsi, 5, 89, 149, 153
  Gatorade, 150, 152, 303, 342
  Mountain Dew, 149, 185, 192, 199, 323, 335–336
  Tava, 238
  Tropicana Orange Juice, 183, 197, 283–284
  Voltage, 185

Perceived fairness, 276
Perceived quality or brand-based
differentiation, 48, 181, 264–265
brand equity for, 50
brand positions for, 49–50
perceptual map for, 49–50
Perceived risk, 118–119
Perceived value. *See* Customer value
Perceptual map, 49–50
Periodic discounting, 271
Perkin Elmer Applied Biosystems
Division, 48
Permission Marketing, 402
Personal characteristics, in industrial
marketing, 130
Personal digital assistants (PDAs), 9–10,
136, 227
Personal selling/direct marketing,
284–285, 288, 373
compensation in, 389–391
designing sales territories
in, 384–389
direct marketing in, 396–403
sales force control and evaluation in,
391–393
sales force/marketing organization in,
374–380
sales force performance management in,
382–384
salespersons in, 380–382
setting sales quotas in, 389
technology in, 393–396
PetSmart, 359
Peugeot, 160
Pfizer, 155, 211, 321, 394
Listerine PocketPaks, 156
P&G, 94–95
PGMs. *See* Product group managers
Pharmaceuticals, 120
Philip Morris, 11, 35, 160, 250
Phone orders, 398
Physical surroundings, as situational
influence, 119
Physiological methods, of advertising
copy evaluation, 297
Pier 1, 428
Pillsbury, 431
Pioneer, 346
Pioneer Hi-Bred, 239
Pizza Hut, 150, 366
Plant tours, for competitor
information, 170
Platform for Privacy Preferences
(P3P), 402
Playtex Products, 155
PLC. *See* Product life cycle
Plus, 429
PMs. *See* Product managers
Point-of-purchase (POP) advertising, 326,
333
Point-of Purchase Advertising Institute
(POPAI), 333
Polaroid, 240
POP. *See* Point-of-purchase (POP)
advertising
POPAI. *See* Point-of Purchase Advertising
Institute
Populations, static, 186
Porsche, 113, 199, 250
Portfolio approach, 201–202
Portfolio tests, for advertising, 296–297
Port Import Export Reporting Service
(PIERS), 169
Position, 195. *See also* Product
positioning
Postal Service, U.S., 12
Postpurchase evaluation, 144
Postpurchasing behavior, 114
Potential and forecasting
association/causal methods of,
81–82, 84
basic calculations in, 77–79
correlation in, 84
counting methods of, 81–83
econometric models in, 84
executive opinion method in, 82
exponential smoothing method in, 83
extrapolation in, 83–84
forecasting in, 77, 80–81
judgmental methods of, 81–83
leading indicators in, 84
in marketing research, 77–84
market potential in, 77–79
market surveys in, 83
market testing in, 82, 83
moving average method in, 83
naïve extrapolation in, 81–82
regression analysis in, 84
sales force method in, 81–82
sales potential in, 77, 79–80
scenario planning in, 81
time-series methods of, 81–84
tip on, 84
Powerade, 150
Power distance, in cultural differences,
145–146
PPG Industries, 254
Pragmatists, 134–135
Premier Industrial Corporation, 47
Premiums, 317, 323, 331
Prestige pricing (skimming), 262
Price. *See* Cost(s)
Price bands/price tiers, 247–248
Price discrimination, 247, 269–270
Price elasticity of demand, 252–253
PriceGrabber, 272–273
Priceline, 271, 274, 459
Price points, psychology and, 265
Price premium, customer loyalty
and, 410
PriceSCAN, 272
Price unbundling, 268
Price war, 263
Pricing, 245, 364
buyer/supplier power and, 266
competition and, 259–260
competitive pricing, 263
costs and, 246, 260–261
differential pricing, 269–272
ethics *vs.*, 252, 276
export strategies and, 275
factors in, 261
global pricing issues, 274–275
industry conditions *vs.*, 266–267
Internet and, 272–274
marketing strategy in, 247–249
market share pricing, 262
market share *vs.*, 259–260
new entrants and, 266
online auctions and, 274
of online music, 245–246, 251
penetration pricing, 262
perceived quality *vs.*, 264–265
perceived value and, 249–259
PLC and, 265–267
prestige pricing/skimming, 262
psychology *vs.*, 263–265
reference price, 263–264
return on sales pricing/investment
pricing, 262–263
rivalry and, 266
for stability, 263
strategic pricing gap *vs.*, 261–267
substitutes pressure and, 266–267
tactics for, 268–272
3Cs of, 246
unused capacity and, 267
Pricing to value, 249, 269
Primary data sources
experiments, 75–76
focus groups as, 68–70, 224
global considerations, 76–77
informal, 67
in-store video monitoring as, 70
models and simulations, 76
observations/ethnographic research,
70–71
panels, 74–75
purchase set and, 112
qualitative research, 67–70
sales force as, 170
sampling considerations, 72–73
surveys, 72–74, 83, 224, 254–255
survey types, 73–74
Primary information sources, 62,
170–171
Primary needs, 226–227
Prisoner's dilemma game, 173
Prius, 12, 59
Privacy issues
in CRM, 431
direct marketing *vs.*, 402–403
Private labels, 193
Private labels, competition against, 272
Privatization, 160
PRIZM, 103–104
Problem children, in market share,
201–202
Procter & Gamble, 5–6, 10, 16, 25–26, 28,
48, 54, 94–95, 158, 179–180, 187,
204, 212, 239–240, 258, 289, 293,
316, 341, 350, 366–367
Crest toothpaste, 213, 224, 268
product management system from, 17
Tide Basic, 89, 268
trade promotions in, 331–332
Product assembly, in distribution
channels, 349
Product category, 152
Product category competition, 153
Product class, 152, 153
influences, 116–119
Product decisions
branding in, 179–194
branding/marketing ROI in, 194–195
mass customization in, 202–204
packaging/product design in, 204–206

product feature decision in, 199
product line in, 199–202
product positioning in, 195–198
Product definition, 226–229
Product design, 179, 204–206
by competitors, 164–165
Product Development and Management Association (PDMA), 213–214
Product feature decision, 199
Product features, 179
Product form competition, 153
Product group managers (PGMs), 17
Production, 439
by competitors, 164–165
Product life cycle (PLC), 198
advertising message strategy *vs.*, 293
decline strategies in, 55–57
definition of, 52
global aspects of, 56–57
growth phase in, 54–55, 57
introductory phase of, 53–54, 57
marketing strategies over, 52–57
maturity strategies in, 55, 57
pricing and, 265–267
use of, 56
Product line, 179
decisions on, 199–202
differentiation in, 200
number in, 200
resource allocation in, 200–202
Product-line pricing, 268–269
Product line strategy, 199–200
Product managers (PMs), 17
Product-oriented promotions, 321
Product placement, 30
Product portfolio, 202
Product positioning, 36, 37, 50–51
attribute-based methods for, 195–196
decisions of, 196–198
determination of, 195–196
MDS for, 195–196
multiple positions in, 198
in product decisions, 195–198
repositioning in, 50–51, 197–198
Product types, 152
Product variants, 152
Professional services, 448–449
Profitability
base profit, 410
marketing concept and, 7–8
price cuts *vs.*, 257–259
Profit based quotas, 389
Profitlogic, 270
Progressive, 270
Progressive Grocer, 100
Promotion, 364
Promotion budgeting, 333
advertising *vs.*, 334–335
Pronto, 134
PSA Peugeot Citroën Maybach, 128
Psychographic variables, 90–91
Publicis, 309
Publicis Groupe, 290
Publicity/public relations, 287
Public relations, 287
Publishers' Clearing House, 323
Pull, 341
Pulse, 310
Pulsing, in advertising, 304
Purchase decisions
buying process in, 142–144
buying roles, 119–120
consumer marketing and, 110–120
cultural effects on, 144–146
external/internal influences on, 144
how in, 140–146
options, 111–112
postpurchasing behavior, 114
search for alternatives, 111
when to buy, 121–122, 146
where to buy, 120–121, 146
why in, 138–140
Purchase influences, 144
compatibility as, 117
complexibility as, 117
culture as, 115–116
group influences as, 114–116
network externalities as, 118–119
observability as, 117
product class influences as, 116–119
relative advantage as, 116–117
situational influences as, 119
social class as, 115
trialability as, 117
Purchasers, 119, 140
Purchase set, 111
Purchasing approaches, 120–121, 129–130, 138
Pure Digital Technologies, 373
Push, 341
Pyramid, 380

Q

QFD. *See* Quality function deployment
Qibla Cola, 187
Quaker Oats, 152, 342
Snapple, 342
Qualcomm, 20
Qualitative research, 67–70
Quality. *See also* Perceived quality or brand-based differentiation
of service, 439–445, 458
TQM, 8
Quality-based differentiation, 46–48
Quality function deployment (QFD), 227–228
Quantitative research, 68
Quantum, 363
QVC, 350

R

Race, consumption *vs.*, 94–96
Rackspace, 425
Radio, 299–300
Radiohead, 271–272
Radio Shack, 121, 354
Range Rover, 301
Rapid prototyping, 239
RBS, 132
RC2 Corporation, 12
RCA, 10, 134–135
R&D. *See* Research and development
Readability tests, 297
Recognition tests, 298
redbox, 347
Red Bull, 150
Reebok, 353
Reference price, 263–264
Referrals, 410
Regional Bell, 18–19
Regional brands, 192
Regression analysis, 82, 84
Relationship customers, 28–29, 407. *See also* Customer relationship management
Relative advantage, 116–117
Relative share, 201–202
Renaissance, 199
Renault, 117
Repeat rates, for new products, 232–236
Replay Networks, 299
ReplayTV, 198, 230
Repositioning, 50–51, 197–198
Reputation, in professional services, 448
Request for proposals (RFP), 143
Research and development (R&D), 9
Blu-ray HD discs, 14–15
marketing and, 241–242
performance *vs.*, 211
revenue for, 210–212
Research in Motion, 137, 211
Reservation price, 249
Residence Inns, 199
Resource allocation
for distribution channels, 352
in product line, 200–202
Response selling, 380
Retail branding issues, 192–194
Retailer promotions, 317, 325–326, 333
Retail store customer satisfaction, 422
Return, on service quality, 444–445
Return on investment (ROI), 24, 125–126, 133
marketing and, 30–31, 194–195
Return on quality (ROQ), 444–445
Return on sales pricing (investment pricing), 262–263
Revenue growth, loyalty and, 410
Reverse engineering, 64
for competitor information, 170
Revionics, 270
Revlon, 28
RFP. *See* Request for proposals
Ricoh Corporation, 177, 394
Risk taking, in distribution channels, 348
Ritz-Carlton, 90, 423
R.J. Reynolds, 11
RJR Nabisco, 160
Roche, 211
Rockwell Collins, 168, 170
ROI. *See* Return on investment
Rolex, 265
Rolls-Royce, 128, 182, 428
ROQ. *See* Return on quality
Ross Controls, 203
Round Table Pizza, 192
Royal Bank of Canada, 419
Russia, 42, 365–366
Ryanair, 45

S

Saatchi & Saatchi, 186
SAB, 35
Safeway, 192, 193, 365

Salary, 390–391
Sales contests, 390
Sales force, 81–82, 170, 356. *See also* Personal selling/direct marketing
breakdown method of, 384–385
control and evaluation of, 391–393
marginal economic method of, 385–386
marketing organization and, 374–380
multilevel marketing and, 380
national/key accounts organizations and, 377–379
performance management of, 382–384
sales organization types and, 376–377
workload method of, 385
Sales force automation (SFA), 393
Sales incentives, 325
Sales/minimarket tests, for advertising, 297–298
Sales percentages, 307
Salespersons, 380–382
Sales potential/forecast, 77, 79–80
Sales promotion, 287, 313–315, 332
budgeting, 333–335
IT in-store and, 335–336
strategy/objectives/evaluation in, 326–333
types of, 316–326
Sales quotas, 389
Sales territory, 384–385
design of, 386–389
Sales volume based quotas, 389
Sample Lab Ltd, 322–323
Samples, 322–323
Sampling, 72–73, 321–323, 331
of competitors' products, 170
Sam's Club, 319, 362
Samsung, 20, 171, 211
Samuel Adams, 16
SanDisk, 260
San Francisco Giants, 270
SAP, 117, 136, 189, 270
Sara Lee Corporation, 154, 263
SBC Corporation, 132
SBU. *See* Strategic business unit
Scanner panel, 75
Scenario planning, 81, 167
Schering-Plough, 55, 76, 306
Scientific-Atlanta, 373
Scion, 59–60, 77, 241, 314
SCIP. *See* Society of Competitive Intelligence Professionals
Seagate, 189, 363, 365
Search attributes, of products, 438–439
Sears, 121, 182, 193, 361–362
Secondary data sources
external, 64–67
internal, 63–64
Secondary information sources, 62, 168–169
Secondary needs, 226–228
Second-market discounting, 270–271
Segmentation, 51–52, 129–132, 138
target market development and, 104–108
technology and, 99–100, 133–137
Segmentation schemes, 130–131
Segmentation variables
in consumer marketing, 90–98
in industrial marketing, 129–138
Segway, 3–4, 21
Seiko, 401
Service(s). *See also* Customer service
characteristics of, 438–439
cost *vs.*, 456
distribution channels and, 348, 452–456
in GDP, 437
low entry barriers in, 446–448
professional, 448–449
quality of, 439–445, 458
service design, 449–451
Service markets, 435–437
CRM and, 456–457
global aspects of, 457–458
marketing-mix implications of, 452–456
nature of services in, 438–439
service quality in, 439–445, 458
strategic issues in, 445–452
technology and, 458–460
Service quality, 458
dimensions of, 441–442
employees and, 441–442, 458
measuring, 443–444
model of, 439–440
perception gaps of, 442–443
return on, 444–445
SERVQUAL, 443–444
SES. *See* Socioeconomic status
7-Up, 255
SFA. *See* Sales force automation
SGI. *See* Silicon Graphics
The Shack, 121
Share of voice (SOV), 307
Shell, 48, 429
Shopper.com, 272
SIC code, 307
Siebel, 133–134, 143–144
Sierra Club, 51
Silent generation, 95
Silicon Graphics (SGI), 136
Singapore Airlines, 50, 51, 443, 451–453, 455–456
Situational factors, 130–132
Situational influences, as purchase influence, 119
Skeptics, 134–135
Skimming, 54, 262
SKUs. *See* Stock-keeping units
Skype, 118, 301
Slotting allowances, 324–325
Smart cards, 429
SmithKline Beecham, 16, 212
Snap-on Tools, 48, 180
Snapple, 342
Social class, as purchase influence, 115
Social surroundings, as situational influence, 119
Society of Competitive Intelligence Professionals (SCIP), 158
Socioeconomic status (SES), 115
Solectron, 16, 369
Solitary survivor, in family life cycle, 115
Solutions, 26
Solutions buy, 132
Sony, 9, 14, 40, 48, 100, 125, 140, 171, 192–193, 199
Betamax, 10
LCD HDTV, 199
PlayStation, 180, 302
PlayStation 2, 177, 263
Qualia, 200
U-matic, 10
Sony BMG, 245
Southwest Airlines, 40, 45–46, 144, 267, 427, 429, 459
Southwestern Bell Telephone Company, 431
SOV. *See* Share of voice
Soviet countries, former, 365–366
Splenda, 70
Sprint Nextel, 290, 406
Sprint PCS, 419
SRDS Media Solutions, 162
SRI International, 95
Staples, 121, 354, 365
Starbucks, 40, 186, 321, 454, 457
Starch INRA Hooper, 298
StarKist, 204–205
Stars, in market share, 201–202
Starwood Hotel, 158
Static populations, 186
Steinway, 184
Stihl Inc., 281
Stock-keeping units (SKUs), 64, 179, 369
Storm Technology Inc., 54
Straight commission, 391
Straight rebuys, 131–132
Straight salary, 390–391
Strategic Business Insights, 95–98
Strategic Business Insight's GeoVALS, 104
Strategic business unit (SBU), 21–22
Strategic Mappings, 104
Strategy. *See also* Core strategy; Marketing strategy
competitive strategy, 171–174
market development strategy, 39
market penetration strategy, 38–39
product line strategy, 199–200
in sales promotion, 326–333
segment-focused strategy, 51–52
Strategy Software, 169
Strengths, weaknesses, opportunities, and threats (SWOT) analysis, 166
Strivers, 96–97
Techno-Strivers, 98
Sub-brands, 180
Substitutability, 153–154
cross-elasticity of demand and, 156
in use, 156–157
Subway, 341
Success
advertising budget methods and, 305–307
in new-product development, 213–215
Sun, 136
Sundance Film Festival, 238
Sun Microsystems, 47, 274, 427
SuperValu, 369
Suppliers, 170
in buying process, 142
power of, 266
selection and, 143–144
Supply-based methods, 157–158
Supply chain, 128
Surveys, 72–73, 224
customer value and, 254–255
market surveys, 83
technologies for, 74

Survivors, 97
Swatch, 152
Swissair, 179
Swiss Timing Ltd., 177
Switching costs, 54
SWOT. *See* Strengths, weaknesses, opportunities, and threats (SWOT) analysis
Symantec, 74, 189
Symbol transferability, in brand extensions, 184–185
Synectics, 223
Syntex Corporation, 387–389

T

T. Rowe Price, 294–295, 295
Taco Bell, 150, 269, 289–290
Taeus International, 170
Tandem Computers, 135–136
Target audience, 291
Target costing, 219–220
Target markets, 38–41
  developing, 104–108
  marketing research and, 138
Targets, 121
  of competitors, 36–37, 38–41, 88, 160–161
  customer targets, 36–37, 38–41, 88, 160–161, 419
Task definition factors, as situational influence, 119
Tata, 28
Tattoo Marketing Inc., 71
Tava, 238
TBWA, 288
TD Ameritrade, 435
Tech customers, 98–100
Tech Data, 369
Technical selling, 381
Technographics, 98
Technology, 19–20, 32, 54, 74, 310
  branding and, 188–190
  cellphones, 24–25, 80–81, 83–84, 117, 245, 250, 256, 262, 264–265, 301, 352, 406, 418–419
  distribution channels and, 352–353
  DVD players, 117, 266–267
  fax machines, 118
  fMRI, 71
  focus groups and, 69–70
  Garmin, 247–248
  global considerations and, 56–57
  mobile technology diffusion, 24–25
  MP3 players, 117, 179, 245, 268–269, 302, 353
  personal computer industry, 339–340, 345–346, 349, 363–364
  in personal selling/direct marketing, 393–396
  satellite TV dishes, 117
  segmentation and, 99–100, 133–137
  service markets and, 458–460
  software/hardware learning curves, 46
  for surveys, 74
  videocamera, 116
  videocassette recorders, 53, 117, 266–267
  virtual shopping, 71
  word processors, 116
Techno-Strivers, 98
Techron, 48
Telemarketing, 286, 399, 401, 402
Telepresence market, 155
Television, 299–301, 303, 309
  high-definition, 14–15, 199, 266–267
  Internet *vs.*, 29–30
  TiVo, 99, 198, 230, 299, 437–438
Temporal factors, as situational influence, 119
TerrAlign, 389
Terrorist customers, 423
Tertiary needs, 226–228
Tesco PLC, 347, 365
Texas Instruments, 171, 218
Theater tests, of advertising, 297–298
Thinkers, 95
Think-feel-do, in advertising goals, 292
Thomas J. Lipton, 60
3Com, 5, 6, 170
3M, 56, 394
Thums Up, 44, 187
Tide, 193
Tide Basic, 89, 268
Time-series methods of forecasting, 81–84
Time Warner, 289
TIme-Warner Cable Inc., 310
Timex, 152
Timing, in advertising, 304–305
TiVo, 99, 198, 230, 299, 437–438
Tobacco advertising, 305
Tom's of Maine, 184
TomTom, 248
Toshiba, 5, 14, 350, 365
Total quality management (TQM), 8
Total toothpaste, 98, 212
TownePlace Suites, 199
Toyota Corolla, 180
Toyota Motor Corporation, 42–43, 113, 211, 290, 303
  Lexus, 59, 113, 200, 314, 408
  Prius, 12, 59
  safety questions for, 12
  Scion, 59–60, 77, 241, 314
  Toyota Corolla, 180
Toys 'R' Us, 353, 359, 362, 365
TQM. *See* Total quality management
Tracking studies, 308–309
Trade associations, 64, 169
Trade barriers, 42–43
Trademark filings, 168
Trade promotions, 287, 317, 324–325
  evaluating, 331–332
  objectives in, 330–331
  strategic issues in, 329–330
Trade publications, 169
Trade selling, 380
Trade shows, 170
Traditionalists, 98
Transaction buyers, 407
Transferability, in brand extensions, 184
Transparent customerizers, 203
Travel data, 100–103
Travelocity, 274, 459
Travel services, 459
Triac Beverages, 342
Trial, in forecasting, 232
Trialability, 117
Tropicana Orange Juice, 183, 197, 283–284
Tsingtao, 187
Tums, 122
Tupperware, 380
TV. *See* Television
Twentieth Century Fox, 289
Twitter, 23, 183, 284

U

UBM TechInsights, 171
UBS, 354
UIS Inc., 342
Unaccelerated captured purchases, 329
Unaccelerated regular purchases, 329
Unbundling, 268
Uncertainty avoidance, in cultural differences, 145
Unilever, 54, 200, 212, 231, 289–290, 296, 341
United Airlines, 429, 439, 459
Unocal, 28
UPS, 12, 44, 129, 306, 412, 451
Usage rate, in forecasting, 232
Users, 119, 140
User similarity, 184
USPTO. *See* Patent and Trademark Office, U.S.

V

Valassis, 321
VALS™ system, 95–98
Value. *See* Customer value
Value-added reseller (VAR), 363–365
Value brands, 192
Value-in-use, 253–254
Value pricing, 249, 269
Value proposition, 36–37, 43–44
Vanguard Group, 46
Vanilla Coke, 184, 212
VAR. *See* Value-added reseller
Variable costs, 261
Variable pricing, 269–270
Vendors, 125
Venezuela, 145–146
Verizon, 39–40, 121, 289–290, 376, 406, 429
Vertical marketing, 131
VF Corporation, 154
Victoria's Secret, 154
Videocassette recorders, 53, 117, 266–267
Viral marketing, 301
Virgin Atlantic Airways, 185, 459
Virgin Mobile, 221–222
Virtual selling, 393–394
Virtual shopping, 71
Visa, 5, 195–197, 274, 429
Visa International, 306
Visionaries, 134
VOC. *See* Voice-of-the-customer (VOC) approach
Vodafone, 10
Vodafone Group PLC, 188
Voice-of-the-customer (VOC) approach, 226–227
VoiceStream Wireless, 419
Volkswagen, 182, 184, 197, 198
Voltage, 185

Volvo, 199, 237, 314
Vonage, 118, 301, 410

W

Walmart, 31, 46, 51, 121, 192–194, 198, 211, 224, 306, 319, 326, 339, 341, 350, 353–354, 359, 361–362, 437
Walt Disney Co., 289
Wang, 116
Warner, 239, 245
Waste Management, 127
Waters NuGenesis Technologies Corporation, 394
Web, 66–67, 300–302, 319
  coupons from, 319
Websites
  Amazon.com, 3, 43–44, 192, 204, 270, 274, 321, 345
  Barnes&Noble.com, 274
  Borders.com, 274
  BrooksBrothers.com, 204
  claritas.com, 103–104
  converse.com, 203
  CustomerSat.com, 421
  dell.com, 203–204
  dialog.com, 169
  Edmunds.com, 161–162
  Expedia.com, 459
  FinallyColorIsLess.com, 162
  fuld.com, 169
  heinekendraughtkeg.com, 204
  InfoUSA.com, 399
  ingdirect.com, 8
  keynote.com, 169
  LevePerson.com, 428
  logitech.com, 200
  MarketResearch.com, 169
  mymms.com, 203
  netpromoter.com, 74
  Nikeid.com, 90
  nikeid.com, 203
  Reflect.com, 204
  Shopper.com, 272
  srds.com, 162
  Stamps.com, 203
  strategysoftware.com, 169
  walmartstores.com, 194
  Zappos.com, 425–426
Webvan, 5, 346–347
Wells Fargo Bank, 193, 435
Western Europe, 365
Whirlpool, 240, 318
Whole Foods, 252
Wholesalers, 343–345
Wii, 40
Wired magazine, 162
Wm. Wrigley Jr. Company, 200
WOM. *See* Word-of-mouth
Women
  changing role of, 186
  samples for, 322–323
Word-of-mouth (WOM), 111, 301
Workload method, of sales force, 385
WPP Group, 290
Wrigley, 155, 272
W.W. Grainger, 346
Wyeth, 215

X

Xbox, 240, 263, 430, 431
XCel Mold, 28
Xerox, 27, 199, 218, 239, 377, 423, 437
  ColorQube printer, 162–163
  Telecopier, 118

Y

Yahoo!, 27, 224, 459
Yankelovich, 30
Yonghe King, 187
Yoplait, 368
Young & Rubicam, 194–195
YouTube, 23, 25, 183, 284, 296
Yugo, 251

Z

Zaltman metaphor elicitation technique (ZMET), 70
Zappos, 425–426
Zebra Imaging, 310
Zenith, 324
Zipcar, 459–460
ZMET. *See* Zaltman metaphor elicitation technique