Marketing: Common Body of Knowledge Review

Part 1

Theme 1: What really is marketing anyway? – Someone once said that “marketing is about making it easy for the customer to buy.” Others say it’s all about “building customer value.” A practitioner’s perspective might be “getting the customer to buy your stuff rather than the other guy’s, and be glad they did so.” Although it sounds simple, the ramifications of these relatively simplistic phrases can be imagined by employing the popular conceptual framework known as the marketing plan, which includes practically everything from marketing research of an astounding list of variables to sales projections. And within the marketing plan, perhaps nothing is more challenging and productive than the optimal crafting/selection of the marketing mix in support of the exchange relationship between buyers and sellers. The marketing mix variables, also known as the “4 Ps,” are: product, price, promotion, and place (think distribution, or marketing channels for place) as well as the additional “3 Ps” of service: people, physical evidence, and processes. As the ultimate success of a marketing mix (7 “Ps”) will come down to an organization’s ability to create synergy among the variables (and thereby a “whole greater than the sum of its parts”), answering the following questions would be helpful for just about any marketer:

1) **Product**: Is your product (good, service, and/or idea) or product line a commodity or unique? If there is more than one product, and value is the issue, is your product mix known primarily for price or for product features and benefits? How is your product or product mix positioned in relation to competitors in the marketplace? Are you adding new products? In summation, what are your products’ unique selling propositions?

2) **Price**: Will you sell at a premium price? Or will you match or undercut competitors as a chief pricing strategy? How will price be subject to external factors outside your control? What are your contingencies? Can you add value to your product to increase price or margin?

3) **Promotion**: What are your integrated marketing communication objectives? What is your message? How can you reach your target audiences effectively and efficiently? What media avenues and promotion timing best suit the needs of your organization and those of your publics? Moreover, can you explain how synergy results from your selections of (a) media (or more accurately, promotional tool), (b) message, and (c) timing, i.e., where the “whole” of your overall communication result is far greater than the sum of your selected “parts?”

4) **Place**: How will you make your product available to the market? Will it be direct to your B2B or B2C customer, say, online? If not, then what will your distribution channels include? Are there channel members you rely on? What are the exchange relationships with each of these?

If you represent a service organization (services making up as much as 90% of advanced, developed economies), add three more marketing mix variables:

5) **People**: If you are providing a service, rather than selling a tangible good, your people will take on even greater significance in the overall picture. The quality of personal relationships between organization and clients becomes vital. The quality of new staff becomes a priority. Consider the costs. Your marketing plan should include strategies and tactics for recruiting, training, and safeguarding exchange relationships. Are you prepared to hire and retain the best people in support of your organization’s marketing goals and objectives?

One of the challenges facing managers, both in marketing and operations, is frequently the “people” most responsible for delivering a positive customer experience are those on the front line. Ironically, these are often the least trained and lowest-paid members of the staff. Consider a grocery store – your impression of that store (and likelihood to return) is far more a result of the stockperson who helps you find dried apricots than is the store manager. Yet further removed from the customer experience is the marketing manager who is building a brand image around the service model, hoping to make shopping “a pleasure”. This “front
line” service model requires that we ask ourselves “is our staff trained and empowered to provide the best possible service experience?”

6) Physical evidence: Is the ambiance of the service delivery location attractive? How is the landscaping, the appearance of buildings or Website? How are the service establishment’s lighting, cleanliness, and use of space? Are these all inviting and user-friendly?

7) Processes: Are the internal service processes effective, efficient, and provide a competitive edge? Are the service processes more designed to accommodate the needs of customers or to more accommodate service providers? What innovative systems could be employed to create differences in the marketplace? Can technology be introduced to enhance customer value?

It should be clear at this point that marketing dwarfs the mere notions of “selling” or “advertising” which the layman is likely to first think of when the term “marketing” is spoken or read. Moreover, it is the synergy among the selection and execution of the many highly interrelated marketing variables (think of trees) in a marketing plan (think of the forest) that often means the difference between an organization’s success and failure.

Theme 2: Perhaps the single most important marketing issue is utility. – The word denotes a customer’s happiness, satisfaction, comfort, and joy with the use, ownership, and purchase of a product (which we will consider to be any tangible good, service, or even idea). Marketers have every right to be pleased with, and proud of, their work. Marketers make decisions intended to bring happiness to their customers as well as to their organizations. That is, marketers research, critically think about, and ultimately act to instill the optimal utility in the marketing mix for customers while at the same time looking out for the interests of their organizations, whether it be profitability and/or growth and/or simply break-even. The interests of the customer and provider are not mutually exclusive. Indeed, it’s important to point out that only organizations that provide utility will survive let alone flourish. Equally, only surviving organizations can offer utility. So, it is in the best interest of all concerned that exchange, a vital element of marketing, be mutually beneficial to the consumer as well as to the provider of products. Therefore, the type of economic system that facilitates such exchanges is vital. Consider the success of economies weighted more toward ease of exchange versus those in which exchange is more difficult, due to onerous regulations, taxes, political agreements, theocratic indulgences, and more.

As we learn more regarding how and why consumers select one product over another it becomes increasingly clear that a crucial part of utility is the consumer’s perception of what is “useful.” Further, marketers recognize that this perception of utility may vary greatly between consumer segments. The feature that one segment values highly may be utterly unimportant to another segment, resulting in widely differing views of the product’s utility.

Take Nike as an example of vastly different views of a product’s perceived value. To a teenage buyer, the status, self-esteem, and prestige that come packaged with his new shoes is perhaps, in his perception, the single most important part of the product’s utility, even if he refuses to acknowledge it as such. To his mom, shelling out $150 for the shoes, this perception means little – she is far more concerned that the shoes last the school year. Fortunately for Nike, mom recognizes how important this perceived utility is to her son and is willing to indulge the $150 purchase.

Theme 3: The Marketing Concept – Marketing has changed with the times. The culture of producing something and expecting that someone will “beat a path to your door” has passed, if it ever existed at all. Similarly, the idea that an organization can “continue to make what it always has, but just sell harder” is lingering at best, and is nearly dead. As the world becomes a much smaller place, and as competition increases for customers’ patronage, the marketing concept has become a fact of life. While it may seem obvious that (a) customer satisfaction, (b) a total company effort, and (c) long-term profitability are necessary commitments for every organization, old habits like protecting departmental turf are hard to break. For instance, sales can’t afford to “blame production” for problems; and production can’t afford to “blame sales.” Such scapegoating is counterproductive; it limits what can and must be done to address
deficits in the overall marketing mix. It is not only commercial organizations that rely on the marketing concept to manage these days; non-profits and governmental organizations do as well.

Closely associated with the marketing concept is incorporating social, ethical, and consumer issues. You may choose to ignore them, but your competitors probably won’t ignore them. Instead, competitors will likely differentiate themselves from your organization by leveraging attention to these issues.

Firms are increasingly recognizing consumers care about the ethics of firms they patronize. As noted above, traditionally many firms took the “Field of Dreams” attitude of “build it and they will come” and that what they did in the process of building it was of little interest to the consumer. Further, managers viewed the firm’s investors as their primary responsibility and, as an extension of that, profits and stock value. This perspective is often called the economic or shareholder view of corporate responsibility. A more enlightened, and increasingly common, view is that of the social or stakeholder theory of corporate responsibility which holds that firms are obligated to be good citizens of their communities, even (or especially) if those communities are global in nature.

We might think of this emerging attitude as the “do well by doing good” school of marketing.

**Theme 4: Crafting the Marketing Mix** – The four Ps of marketing, including product (and everything about its development), price, promotion, and place (often called marketing channels, or simply distribution), are arguably the chief focus of marketing management. While it’s obvious that the fundamental goal of marketers is to craft a “marketing mix” of these four variables to provide the optimal utility to customers while achieving organizational goals, such as profit, accomplishing this task is very much harder than it appears. Think of the puzzle called Rubik’s Cube. By manipulating rotating colored squares of a plastic cube, the goal is to configure the game such that each side is a solid color. What makes the game so frustrating is that one invariably compromises the solid color of one side while trying to produce a solid color on another side.

Another feature of the marketing mix is that it exists within a dynamic environment. For example, changes in tastes, competition, regulatory environments, and countless other “moving targets” render the job even more difficult. Alternatively, think of a juggler of four balls, each representing a marketing mix variable. Imagine trying to switch out one or more of the balls in favor of different shaped or different sized balls, all without missing a beat. Now you have some idea why so many companies ultimately fail, and why marketers earn such high compensation when successful. Capable marketers, especially those with successful track records, are in enormous demand.

**Theme 5: Marketing Plans as a Means to an End** – So, how does the novice or even the experienced marketer proceed? There is no substitute for the aforementioned marketing plan. Suffice it to say that a substantial marketing research effort is required to satisfactorily answer each heading. Remember, if any aspect of the marketing mix is flawed, it is likely that the whole juggling act will come crashing down in a spectacular failure and result in the loss of much investment of time, energy, and money. A marketing plan is a living document that deserves revisiting on a continual basis. Out-of-date marketing plans can be useless, and arguably dangerous, to your organization’s mission, vision, and values. Revision control is a necessity. What’s the best way to do this? Arguably it is best to have the latest document available to authorized officials at one designated location on the organization’s intranet. There are lots of revision control software products that show who made changes and when.

**Theme 6: The emergence of Customer Centric Marketing and the Four Cs** – As the focus of the marketing concept evolved from product and sales to the consumer, the discipline experienced a corresponding change in the way we viewed the four, seven or whatever “P”s. Think about Harley Davidson. A traditional view of marketing the firm would have resulted in a product-centered brand image, focusing on speed, reliability, or other product attributes, an image relatively easy to compete against. A more progressive approach focuses on the relationship between HD and their customers and the benefits that come with that relationship, most notably being part of the Harley “family”. This results in a far more secure market position, and in turn greater brand loyalty.
This evolution resulted in a different vision of the Ps. Kotler and Armstrong (Principles of Marketing, 2010) suggesting that the traditional 4 Ps are centered on the seller and not the buyer, and marketers would be better served by viewing them as the 4 Cs, as follows:

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<th>Old</th>
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<td>Product</td>
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<td>Price</td>
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<td>Place</td>
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<td>Promotion</td>
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This perspective might lead us to conclude that HD is truly not in the business of manufacturing motorcycles, but rather in that of riders, rallies, and relationships. This question, “what business are we really in?”, is one of the more profound changes resulting from the evolution of the marketing concept.

Part 2

**Theme 1: Market Segmentation ABCs** – The importance of adequately segmenting the overall population and distilling an organization’s target market(s) cannot be overstated. All organizations are encouraged to “put a face” on their target market(s). Only then can one adequately address the associated marketing framework variables. For instance, attempting to juggle the marketing mix variables of product, price, promotion, and place (distribution) without first segmenting markets is a difficult task and often wasteful of resources, and would be akin to a miracle if decent positioning actually emerged.

**Theme 2: Competitive Advantage, Differentiation, and Positioning** – Perhaps the most important segmentation angle in addressing the characteristics of a new product offering is that of (1) studying your organization’s principle competitive advantage(s), (2) differentiating your offering(s) as a consequence of building upon these competitive advantages, and then (3) positioning your organization’s product to reflect (1) and (2), and moreover, positioning the product so that your customer is very clear about who you are, what you stand for, and why your product is a good buy.

New students of marketing, and indeed many new entrepreneurs, often make the error of inadequately segmenting potential markets. This oversight may be a result of one’s acute familiarity with the ubiquitous mass medium of television, which is ideal for delivering marketing communications to a vast and seemingly undifferentiated audience. While television advertising is a suitable promotional option for many companies and for many products, the vast majority of organizations are better served by tailoring their products, prices, promotion, and marketing channels to a narrowly defined target market, one better addressed in a narrowly prescribed set of integrated marketing communications, namely, promotion.

To understand positioning consider the hospitality industry, specifically hotels and motels. Think of positioning as a continuum containing all the hotel brands. At one end is the extremely budget conscious Motel 6 and at the other end is the Ritz Carlton. Sitting somewhere in the middle is Days Inn, a chain positioned as affordable, clean, and family-friendly with amenities such as pools and cable TV. Days Inn’s tagline is “best value under the sun”, a positioning that claims not the cheapest rooms or the fanciest, but rather the best family value. Each of these three brands is positioned for a specific type of traveler and uses a mix of media and messaging accordingly.

**Theme 3: Environmental Variables** – Environmental variables include the economic environment, the technological environment, the political environment, the social environment, the cultural environment, and so on. They are uncontrollable, but alas, must be planned for and dealt with. The example of the impact of the Internet is one that readily comes to mind. Another example that comes to mind is the economic environment as a consequence of the practices of the U.S. Federal Reserve, which impacts everyone, everywhere as it manipulates quantities of the world’s reserve currency, the US dollar, which happens to be the denomination of most world trade/exchange.
As if attempting to manage all these domestic environmental variables weren’t enough, consider the difficulty the typical MNC (Multinational Corporation) faces. What changes in worldwide consumption are anticipated as an outcome of terrorism? How will changes in laws, for a variety of reasons, impact consumerism? Describe the recent fluctuations in currency exchange rates and give examples of how these impact the process of marketing. How have these currency fluctuations impacted your employer’s offerings? Are there any other environmental variables especially impacting your employers where marketing is concerned?

An easy way to remember the forces impacting your environmental analysis and the resulting marketing mix is the mnemonic PESTEL, which stands for:

P - political
E - economic
S - social
T - technological
E - environmental
L - legal

**Theme 4: Gauging the Customer** – Marketers make decisions designed to make people happy. Specifically, marketers target a set or sets of people who have something in common. Two dimensions used to discriminate between potential target markets are demographic and behavioral. Demographic dimensions provide marketing managers with critical information about the size, location, and characteristics of target markets. Generally speaking, the world is becoming more urbanized. Urban centers are generally wealthier compared to rural areas. Marketers have tended to concentrate their marketing efforts on residents of these urban centers, often to the exclusion of the rural areas. Nevertheless, marketing gurus such as the late Dr. Prahalad, point out the value of targeting the 4 billion at the bottom of the socioeconomic pyramid, and hence his now famous designation, B2-4B."

Many of these consumers can be found in emerging markets. While there are perhaps dozens of countries entering the global consumer market, among the most important are Brazil, Russia, India, and China, often referred to as BRIC. While each of these is important in their own right, India and China stand out by having the two fastest expanding middle classes in the world. Middle class segments are of vital interest to marketers as they represent the majority of consumer spending, especially for highly profitable (and competitive) lines such as soft drinks, snack foods, personal care items, and household products.

**Theme 5: Markets are commonly segmented using a combination of four variables:**

- Geographic – where the consumer lives or works, the climate, and urban or rural setting
- Demographic – variables which can be quantified, such as gender, age, income, race, and education
- Psychographic – also known as lifestyle variables, this includes hobbies and interests, social class, and organizational affiliations such as religion or political party
- Behavioristic – user rates, user benefits, occasion-driven use (holidays), and brand loyalty

**Theme Six: SWOT** – A common method, with which you may already be familiar, for analyzing environmental variables is SWOT, often used as part of strategic analysis and planning. It is particularly useful because it allows us to compare our firm’s resources and capabilities, or the lack thereof, to both our internal and external environments. More simply – by using our collective experience and knowledge we can figure out where we shine and where we are lacking.

The initials stand for:
**S – strengths**: These are things a firm does well and which provide a competitive advantage. Strengths are also things that allow the firm to meet their objectives or goals, both short and long term. For example, Apple enjoys strong brand loyalty.

**W – weaknesses**: Think about these in two ways. A weakness might be an area in which the firm simply lacks strength, in other words it is not “bad” at something, just mediocre. It might also be, and often is, truly something the firm does badly. Sometimes a weakness is the opposite of a firm’s strength. For example, a company might have a very large and loyal customer base, which is a strength. That same large base could make it hard to introduce change in the firm’s products and services.

**O – opportunities**: These are things which, in most cases, we are not currently doing but represent new areas of revenue growth, expansion, or enhanced customer service. When analyzing opportunities, it is helpful to think about all the things that a firm might do to reach its goals and objectives, but is not currently exploiting. An example of this might be a firm which has not marketed its services to a group of prospective customers that have an unmet need.

**T – threats**: These are things that may prevent us from achieving our objectives or things that will cause damage to the firm. Common threats are new competitors and changes in governmental regulations. It is important to know that threats can often be turned into opportunities. For example, the government may change a regulation, thus prohibiting a given chemical that a firm routinely uses. The firm has little control over Congress enacting this threatening law. However, if the firm responds quickly it can become an opportunity.

An important part of any successful business analysis is understanding that some issues are internal to the firm, while others are external. In the case of SWOT we divide the four characteristics into two groups.

**Strengths and Weaknesses** are considered to be *internal issues*, meaning that the firm is largely responsible for them and as such, can take act on them independently. An easy way to think about this is to decide if the issue in question is something we are doing to ourselves OR something that is being done to us. If it is something that we are doing to ourselves, then it is an internal issue.

**Opportunities and Threats** are *external issues*. These are things that the firm did not implement or create itself and, in most cases, over which it has little control. This lack of control should not be confused with an inability to take action on the issues.

**Part 3**

**Theme 1: The Business and/or Organizational Buyer** – Marketers must disabuse themselves of the mindset that all consumers are end consumers, perhaps the only consumption role with which many of us have experience. Rather, step into the shoes of the *organizational buyer* and think what it might be like to purchase for a commercial, non-profit, or governmental organization. It’s important for the student of marketing to do this because more purchases (and resulting revenues) are made by business and other organizations than by end consumers (B2B > B2C). This fact surprises many. Organizational buyers are purchasing goods and services used in the process of creating products for the final consumer. These are sometimes called *intermediate goods*.

Think about the environment in which a “purchasing agent,” “materials manager,” or “procurement specialist” does his/her job. Put yourself in those shoes. Think about the people you would serve, such as the rest of your *buying center* (team of individuals responsible for the organizational purchase decision). Think about the many fiduciary responsibilities that you have as an organizational buyer. Most of us are used to buying for ourselves, not for others. How might the fact that organizational buyers purchase using other people’s money impact how careful they are in making purchases, or entering into contracts to make multiple purchases? What are the considerations regarding “turf” for them? That is, what are the politics that drive the management of the organization that they buy for? Do politics affect the decisions you make in purchasing for your organization? Are they part of a committee that makes such decisions?
Or do they purchase alone? Do they have to accommodate the interests and desires of one person or many? Are there rules, codes of conduct, or other guidelines for “doing the right thing” as a purchasing agent in an organization? How has the development of supply chains restricted or enhanced what organizational buyers will do?

These questions are designed to help the marketer contrast the end consumer and organizational consumer buying behaviors. The cognitive (thinking) elements of the buying decisions may seem similar. But much is different; and what of the affective or emotional elements? For instance, is buying a car (or fleet of cars) for a business the same experience as buying a car for you or your family? How are these two experiences different? Think of the consequences of organizational buying versus personal buying. If you make a poor purchasing decision for end use, who is inconvenienced? You are. But if you make a poor purchasing decision for an organization, it has wide-ranging and sometimes dramatic ramifications for others. This is especially true in the case of health and safety; think hospitals, emergency equipment, and supplies.

While organizational buying behaviors can be quite different than those of individual consumers, an important concept that B2B salespeople should learn early is that of interpersonal buying. Simply put, buyers buy from people, not companies. While there is no question that the firm and its product must meet the specifications in the request for proposal (RFP), the final purchase decision may have as much to do with football as with finances or functionality. This reality underscores the need for salespeople and marketers to understand organizational buying behaviors and the importance of relationship selling.

Theme 2: Buyer-Seller Relationships in Business Markets – How might the buyer-seller relationship in organizational markets compare and contrast with that of the consumer market? There are many variables to discuss. Businesses tend to demand certain safeguards such as ISO 9000 certification, volume discounts, special considerations for the international purchase, buying centers, and a good deal of vendor-analysis. Much has been written of late about companies limiting the number of suppliers while building tighter, more lasting exchange relationships with a select few.

Again, how will supply chain management as witnessed in the aerospace and hotel industries, just to mention two, change these relationships? Naturally, as famed CEO Emeritus of General Electric Jack Welch argues, if there are a prescribed set of suppliers with which your industry and company do business, and all their systems are linked electronically, the days of salespeople sitting in an outer office waiting to see the buyer has been radically altered. Instead, a technician will sit down at a keyboard in an office and make millions of dollars worth of purchases in minutes. The customer service is unmatched since everyone in the system knows precisely where the products are at all times. They are scanned, either by bar code or RFID (radio frequency identification) at each stage of delivery for the benefit of anyone who has access to the database. Mitsui and other large trading firms have semiconductor chips (RFID) embedded in their seagoing vessels as well as product pallets making real time tracking of them standard practice.

Theme 3: The Government Market – Three levels of government in the United States are federal, state, and local (including county, borough, municipality, and others). Each has its peculiarities where procuring goods and services are concerned and requires a variety of marketing approaches. Most governments enjoy multiyear purchasing contracts with many vendors. There are often highly prescribed rules governing the purchase of goods and services by these bodies. The United States federal government favors minority-owned vendor companies for example, and strongly prefers to deal with General Services Administration (GSA) contracted companies. Although corporations will occasionally put a product out to bid, governments more commonly employ this practice. Vendors who serve a customer base largely consisting of governments will generally employ staffs that are experienced in composing and submitting bids.

Theme 4: Marketing Information – The marketing concept we’ve been discussing so far can be summarized as follows:

1. Examine the needs and desires of potential customers,
2. Take stock of your organization’s strengths leading to opportunities,
3. Root out your competitor’s weaknesses,
4. Segment and thereby distill a target market,
5. Differentiate and position your marketing mix (4 Ps),
6. Execute your education/promotion strategy, and finally
7. Monitor the execution and effectiveness of your plan.

However, in order to perform each of these steps (and numerous subordinated steps) successfully, a team of skilled individuals requires a great deal of reliable and valid marketing information. Accurate, timely, and pertinent information about potential customers, competitors, and even your own company, is not as readily available as you might think.

1. Customers often won’t tell you what they want or need, and often don’t even know for sure themselves! Hence, there is a genuine need and desire for consultative selling.
2. Management, especially executive management, is often the last to know about the competencies and advanced (and advancing) capabilities of many of their employees and/or processes (even if they had helped to pay for such advancement through tuition reimbursement and other human resource policies). Equally, management is often blasé about the potential threats to the organization as well.
3. If managers are unclear about the strengths and weaknesses of their own company, how much do you think they know about a competitor? Usually, it’s not very much.
4. Without adequate information, marketers often do a poor job of segmenting markets. As a consequence, potential markets are targeted too broadly, leading to inefficient and/or wholly ineffectual marketing results.
5. Bereft of the proper information, marketing managers often err in positioning their products, especially their image/branding.

Hopefully, the value of marketing information is now evident.

Theme 5: Management Information Systems (MIS) – According to Kotler & Armstrong (2008), the systematic design, collection, analysis, and reporting of data relevant to a specific marketing situation facing an organization is called market research. A reasoned approach to supplying valid and reliable marketing information is MIS, i.e., an organized way of continually gathering, accessing, and analyzing information that marketing managers need to make decisions. Marketing research to test hypotheses about cause-and-effect relationships is sometimes termed causal research. MIS can mine troves of data in search of such causal relationships.

Increasingly, firms are leveraging the power and scope of their MIS and database mining systems by sharing information between non-competing firms. These firms may have a formal, structured relationship similar to those of the Japanese keiretsu, or a far more casual alliance. In the case of the former, the firms not only share information and market intelligence, but also support one another’s marketing efforts. In the latter, the firms may contribute data and intelligence to common databases or research firms. As firms continue the trend toward consolidation, mergers, and globalization we should expect see more sharing of marketing information and mutually supportive marketing plans.

For more on this phenomenon see the information in Module 5 on strategic alliances.

Theme 6: Market Research Failures - One of the most common market research failures occurs because the marketing research staff (or more likely their supervisor) trivialized the effort by including investigations of “interesting” information rather than solely “vital” information. Trust in the argument that the vital information is task enough. A closely related market research failure is defining the wrong marketing research problem. For instance, a car company could dedicate itself to countering a competitor’s existing line of products, rather than competing on the basis of the developing line of products. For hockey fans, it’s like playing the puck where it was rather than where you think it will be.
One more common failure of marketing research is to infer cause-and-effect where no such relationship exists. Humans are already inclined to make such inferences. News organizations and journalists exacerbate this troubling behavior by invoking the phrase “at risk for.” Increasingly sensationalist broadcast and print media editors have found that they can accurately report the coincidence of variables using this phrase without explicitly stating that they have no reliable evidence that one variable actually caused the other. Yet, audiences invariably and mistakenly read cause-and-effect into the message. Marketers must be vigilant.

Market researchers make two additional common errors.

First, they fail to identify the managerial problem the research intends to solve. Early in the research design the team should be able to clearly articulate what problem(s) they want to solve for the management team. These might be issues such as “consumers are dissatisfied with our customer service” or “the competition has a far better brand image then we do”. The rest of the research design cascades from these management problems.

Second, similar to cause-and-effect, the study group research issues for which there is no actionable outcome. In short, they research the wrong things. To be truly valuable, the resulting data from a research project should in some way be actionable. Using one of the examples above, our researchers are attempting to discern why their competitor’s image is superior to their own. In designing the survey or focus group, it is inadequate merely to find out why this is the case, the answers must provide the management team information that will result in actionable marketing activities.

Theme 7: Gathering Primary Data on your Target Market

Focus Groups – Major legal firms routinely conduct a bizarre, if very real, application of this successful market research technique. Lawyers, or their proxies, can gauge the opinions of various demographic groups in advance of courtroom action by carefully impaneling focus groups, thereby assisting courtroom attorneys in subsequent in-court decisions to eject individual jury members whose demographics are generally found to be antagonistic to their client’s position(s). The focus group is a powerful and not so expensive technique for gathering vital primary marketing data.

Surveys – These are the most common, and most commonly misused, marketing research method. Although there are a number of methods for deploying a survey, such as intercept interviews (those annoying people in the malls) and bulk mail, the most common current practices are email and Internet. Response rates vary widely, depending on several factors including the target sample and if incentives are offered for participation. Surveys, if executed correctly, can provide a wealth of useful information and lend themselves to quantitative analysis. However, they are also prone to design and implementation error. Among the most common of these are (1) asking too many questions (the patience factor) (2) poor sampling techniques (asking the wrong people) (3) biased question design (getting the results you want rather than what the respondent really thinks) and (4) poor analysis.

Observation – The design of this technique can vary considerably and participants may, in some cases, know they are being observed (although they may not know the exact reason or hypotheses). Observation ranges from watching which toys kids prefer to reviewing videos of shoppers in retail stores. In the case of the latter, an anecdotal story suggests that if retailers play lively, fast music (think the Rolling Stones) as opposed to slower, mellower music (John Denver) shoppers will move down aisles more quickly, spend less time browsing and thus usually spend less money. Regrettably, this means we are more apt to get John than Mick.

Part 4

Theme 1: Product Lines: Goods AND Services – When marketers use the word product, the term is often meant to include all offerings,
1. **Tangible goods,**
2. **Services,** and even
3. **Ideas.**

The *product line* is a grouping of goods and services that serve a categorical function. Customers, both industrial consumer and end consumer, view each product as a *bundle of attributes,* typically examining features such as size, color, shape, design, aroma, and so on. From these features customers derive *benefits,* which are closely allied with *utility.* For example, hunting apparel is often bright orange in color, a *feature.* Bright orange hunting apparel makes it less likely to be mistaken for a moose, hence, is safer, a *benefit.* Basic personal selling is about identifying features and benefits of the company’s products, and acquiring the skill to communicate them.

The important thing to remember is that customers buy benefits, NOT features even when they display interest in the feature. This is true not only of personal selling, but also of the rest of the promotional mix. Consequently, in many cases our advertising and sales collateral should focus on the benefits of our products rather than features.

**Theme 2: Which is more important to you as a customer, the product or how it is sold?** – If we haven’t already put to bed the notion that “to market” is merely “to sell,” let’s do it now. *New product ideas,* *new product formulation,* and *new product development* are marketing tasks. These vital duties cannot be left strictly to the engineers. Indeed, successful product development teams are often staffed by members possessing a variety of competencies, and as such represent a variety of departments within an organization. Members of a product development team can quickly disqualify “company busters,” products with features that simply don’t work for the proposed target market.

**Theme 3: Organizing Product Development** – Once the product development team has been selected in your organization, consider the product class that it’s aiming for. Keep in mind where your company wants to go, especially what you’re trying to accomplish with *product positioning* and your company’s overall *brand,* image, etc. Consider how the new product is to fit within existing *product lines.* Next, project a *product life cycle* estimating actual total sales and contributions to profits. Consider the dynamics of the environment; companies come and go. Competitive benchmarks and the character of markets shift over time.

**Theme 4: Product Life Cycle as a Means of Studying How Products are Created and Managed** – A major film studio once declared that it will only produce sequels and remakes. Why do you suppose this is? What kind of *product life cycle* would various sequels represent? Clearly, offering “modifications” is cheaper and a good deal less risky when compared to “major innovations.” Name a film that is an example of the introduction stage of the product life cycle. What film represents the *growth stage* of the product life cycle? Which films represent the *maturity stage* and the *decline stage* of product life cycles? Can you think of examples of products that fall into the category of “self-fulfilling prophecy,” whereby falling sales are predicted and then ensured by a reduction in or removing of marketing support? What are some (a) *industrial companies* and (b) *consumer products companies* that have routinely managed new product development in a way that maximizes shareholder value? Are there some lessons to be learned as to the ratio of investment in *pure research* versus *applied research?* It’s a question not only for executive corporate management; it applies to public policy as well.

**Theme 5: Why New Products Fail** – It is common knowledge that new products routinely fail. That statement is worded in a way that points a finger at elements of product features and benefits. As we’ve discovered, however, it takes an alignment of the entire *marketing mix* to make a *marketing plan* successful. It is easy to blame the product for the failure of the plan.

**Theme 6: Stages of New-Product Planning** – So, researching the needs and/or wants of the consumer is vital. It should be the first step, the single most important step, and therefore the step that warrants the greatest budgeting of time and money. Once this is accomplished, a comprehensive and balanced perspective must be adopted. This may seem like stating the obvious. But have you ever found yourself assigned to group work where one or more members bring up extravagant and thereby unworkable
ideas? A balanced perspective from the outset of a product development effort will limit much of this wasted effort.

**Theme 7: Characteristics of Services** – Services have four distinctive characteristics that greatly affect the design of marketing programs. They are intangibility, inseparability, variability, and perishability. According to Kotler and Keller (2006), unlike physical products, services cannot be seen, tasted, felt, heard, or smelled before they are bought. **Intangibility** requires service providers to manage surrogate variables to help the customer establish value. As services are typically produced and consumed simultaneously, the service provider is only half the equation. The customer must also be "designed into" the service offering. Because services depend on who provides them, they are highly variable (Kotler & Keller, 2006, p. 406). The importance of recruiting, hiring, and training human resources to reduce **variability** is discussed above. Finally, **perishability** is a challenge for service providers. That is, the service cannot be inventoried for a later date and time. Once the commercial aircraft has left the gate, empty seats are sunk and cannot be recouped.

**Theme 8: Which is Your Product - Tangible vs. Intangible?** – As noted in Themes 1 and 7, products can be tangible (things) or intangible (services) and if they are the latter, then they have some unique characteristics. Some products seem obvious – most of what we buy in the grocery store are tangible products possessing little in the way of service qualities (although the grocery store itself is a service business, or at least should be). However, in many cases the distinction is far less evident.

Let’s consider a high-end restaurant. Although the food is important and is probably what we’ll talk about when asked how the date went, it is more likely service that made the evening memorable. In this case the service is not just the servers, but also the ambiance, décor, music, and table settings. As the marketing director for the restaurant, is your product tangible (the food) or intangible (all the other stuff)? The answer, of course, is both are important to you and to creating a brand your customers find memorable.

As our culture becomes ever more conscious of service standards marketers will need to become more sensitive to the intangible features of their products and how to promote those features as product benefits. Simply because your product has physical attributes, do not assume you are in the tangibles business.

**Part 5**

**Theme 1: Technology is Changing Logistics** – The marketing mix variable called **Place** is about making goods and services available in the right quantities and locations—when customers want them. Yes, all that this entails is marketing! By now you’re probably wondering what in business is NOT included in marketing. The advent of online shopping has meant dramatic changes for many brick and mortar wholesalers and retailers.

Let’s look at this in more detail and in a broader scope. In Module 3, we discussed organizational buyers and how supply chain management was changing the way in which they do business and the ways in which we market to them.

The notion of the Place P has changed in recent years as both the technology and scope of logistics has changed. Logistics, often thought of as getting products into the customer’s shopping cart, is increasingly considered in the broader scope called supply chain management (SCM). SCM extends the scope of logistics to include all the activities that supply, manufacture, transport, warehouse and shelve consumer products. It might include everything from the political implications of sourcing metals in war torn African nations to the shelf space that Macy’s allows us.

To illustrate this, let’s order a Big Mac. And, yes – I’ll have fries with that. To make the Mac, I’ll need a cow, which in turn needs grain, a processing plant, some transportation, and refrigerated storage. I’ll also need some buns (grain, processing, and storage), sesame seeds, pickles (cukes and vinegar), and
whatever frightening stuff goes into the secret sauce. Look at how many steps and materials are required to make something as simple as a Big Mac and we haven't even started on the fries.

Now, consider a car – something far more complicated than our Big Mac. How successful can an auto manufacturer be without state of the art SCM?

Supply chain management is the art and science of making sure that everything we need to run our McDonald's is there when we need it. This is even more critical in our global hyper-competitive economy.

**Theme 2: Researching Wholesalers and Retailers** – The United States Census Bureau publishes detailed data concerning marketing channel participants. As one reviews the list of business categories, it's easy to speculate which types of products would best fit the direct marketing model and which best fit the brick-and-mortar variety. The latter provide valuable services that few expect to disappear any time soon. Brick and mortar wholesalers, for example, will perform valuable *materials handling* as they *accumulate*, *bulk-break*, *sort*, *grade*, and ultimately *transport* tangible goods. They'll perform vital selling functions to retailers as well as provide financing in many instances. *Distributor salespeople* and/or *delivery drivers* are often the ones who erect point of purchase (POP, often known as point-of-sale, POS) materials in preparation for a big retail-selling event. For example, the beer distributor may be responsible for constructing and stocking the *end-of-aisle display* in major supermarkets in advance of holiday weekends.

Another important function of brick-and-mortar distributors is the training provided for retailers. This is especially true in technical product lines such as software, machinery, chemicals, and electronics.

**Theme 3: Transporting Adds Value** – If marketing is about building customer value as has been discussed, then *transportation* is a key marketing variable. With the cost of transporting goods and passengers rising, increased value is seen not only in digital meetings (rather than transporting people), but also digital distribution of products such as movies.

Another method of reducing costs and increasing efficiencies in the supply chain is just-in-time inventory. Conventional inventory control is based on a combination of lead time (how long does it take the product to get to me), how much of the product I use and required reserves (how much of a safety net I need), often resulting in either large quantities of product sitting in a warehouse or outages, either of which can be very costly. Just-in-time inventory control, often considered to be the brainchild of Toyota and a common part of lean management, relies on three factors: (1) accurate computerized forecasting of need, (2) placing the inventory where it is needed rather than a long-term warehouse, and (3) sharing information with suppliers such that 1 and 2 occur seamlessly. While very complex in practice, the philosophy is very simple and amounts to right stuff, right quantity, right time, and right place.

**Theme 4: Strategic Alliances are Changing All Marketing, Including SCM:** Firms are increasingly recognizing that they cannot be all things to all markets and that by sharing expertise and market presence both firms gain a differential advantage. This cooperation between firms to achieve organizational objectives is often referred to as a strategic alliance.

Alliances can be successful for both parties, as in the case of the joint cereal venture between General Mills and Nestlé’s. General Mills, home to American standards such as Cheerios and Shredded Wheat, lacked brand recognition and distribution, also faced challenges for shelf space in Europe. Conversely, Nestlé’s had little experience in manufacturing cereal or in promotion targeting children. A joint venture, Cereal Partners Worldwide, formed in 1990 to manufacture and market cereal in Europe emphasized the sharing of mutual expertise and now enjoys a 25 percent market share and revenues in excess of €1.75 billion. Perhaps more importantly, the “green banner” boxes have become a trusted and recognized brand in EU supermarkets.

**Part 6**
Theme 1: Variety of Marketing Communications – The marketing manager’s primary promotional task is to communicate to target customers that the right Product is available at the right Price and in the right Place. So far, we’ve focused a great deal of attention on “the right Product in the right Place.” Now it’s time to explore the message. Revisit the adage, “The whole is greater than the sum of its parts.” The goal of IMC, integrated marketing communications, is to achieve a synergy of communication through a variety of means with the intent of crystallizing the meaning of a product and/or a brand for potential buyers. If you do this, the consumer is often primed to buy. Of course, it rarely hurts to craft and communicate an incentive to buy right away instead of next week, next month, or next year. The means of communication described in IMC can include (1) personal selling, for which there is often no promotional substitute, especially for industrial sales and sales of complex consumer products (including higher education), (2) mass selling, including advertising, (3) publicity, otherwise known as public relations or PR, (4) direct marketing, and (5) sales promotion (Don’t be confused with the wording of this last category. It is a grab bag of paid communications, many of which are designed to get the consumer to buy promptly.)

Theme 2: The Nuts and Bolts of IMC – It is worth repeating that, the goal of IMC is to achieve a synergy of communication through a variety of means with the intent of crystallizing the meaning of a product and/or brand for potential buyers. A product in the mind of buyers MEANS something. A brand in the mind of buyers MEANS something. The latter connotes a great many things about the entire marketing mix. For instance, and just one of many, many things, is that a brand connotes a level of quality. Note, however, that extreme quality is not necessarily the level of quality that we want or need to buy everyday, or even once in a while.

Branding adds value for buyers, primarily through the totality of the meaning that it conveys. Branding allows for quicker recognition of function, level of quality, pricing, and much, much more. Crystallizing the brand in the mind of consumers through meaningful communications is a vital element of the comprehensive mix of marketing variables. Astute students of marketing have asked a very good question in the past. Does the image of a brand come first, and then the careful crafting of the marketing mix to embody the image? Or, should one make an attempt at offering a marketing mix first and, by trial and error, arrive at the best brand? The answer is usually, BOTH. The fact remains that arriving at an ideal brand is frequently an iterative process. That is, a marketing team should alternate its focus and attention between (1) an abstract image and (2) the practical function of the marketing mix variables, the Ps of the marketing mix. With the proper attention, brands are nurtured, crafted, and shaped while reciprocally honing the marketing mix variables to enhance the brand. The brand and the marketing mix variables are cultivated to deliver delight to a specified target market. Succinctly stated, promotional communication is intended to inform, persuade, remind, and to ultimately facilitate an exchange.

Much like many marketing concepts, the term “brand image” defies a simple, or single, definition. A firm’s brand image can be volatile and change dramatically in a matter of days, as we have seen in the case of BP. The image is usually perceptual and may vary considerably from one consumer segment to another. Just ask a health food advocate how she views McDonalds, the world’s most popular restaurant chain.

To simplify the concept of brand image, look at it as having two components. The first of these is the tangible things we can identify with our senses, such as logos, sounds, taglines, scents, colors, and mascots, among others. Think of these as brand clues.

The second half of the image, and the far more important component, is what happens in the mind of the consumer when s/he sees or hears those clues. What associations are triggered? What associations, positive and negative, come to mind?

Think of it this way... Joe and Jane Consumer with their 2.3 kids are driving down I-75 on their way from Ohio to Disney. On a huge sign pole they see the famous Golden Arches and immediately know what this means – there is a McDonalds at the next exit. That is the clue part. But what happens in their minds is the critical part of the firm’s brand image. While for some consumers these images may be negative and thus harmful to the firm, for most Americans those arches signal associations such as family friendly, affordable, safe, predictable, clean, and reliable – all positive things for Joe and Jane. This second part – the associations that are formed – is what makes branding a crucial success factor for consumer products.
Theme 3: To Whom are you Communicating? Marketing Channel? End Consumer? – As economists are fond of pointing out, there is a scarcity of resources to allocate among competing ends. This is never truer than for the promotion manager who must allocate scarce promotional funds among practically inexhaustible avenues of marketing communication. One could spend literally billions of dollars on advertising alone and still not accomplish the goals set for one’s marketing communications. The key is to craft a promotional mix such that, when it is combined with other Ps in the marketing mix, produces a brand about which the target customer is delighted.

Tangible goods for sale to end consumers arrive through marketing channels. How should promotional dollars be spent to maximize exchange? Should the majority be allocated to a push strategy, i.e., one of pushing (often through personal selling) the product through the wholesale and retail pipeline? Or would a pull strategy, appealing directly (often with advertising) to the end consumer to pull the product through the pipeline, be better? Often, a mix of both is the most appropriate. In orchestrating a concerted effort, you’re less likely to make someone unhappy. For instance, if you elect to just implement a pull strategy, retailers are going to be unhappy with you that you didn’t enlighten them of the need to have product available. Retailers will contact their wholesalers who also may be unnecessarily surprised. It is common for the marketing experts of Procter & Gamble (P&G) to push the product with incentives while simultaneously coordinating the pull through marketing channels with marketing communications aimed at the end consumer. By the way, P&G routinely ranks as the largest consumer product advertiser in the world.

Theme 4: Advertising – Advertising is often the first thing that leaps to mind when the word “marketing” is used. We’ve established, however, that marketing is so much, much more. Advertising is just one of many forms of promotion, which is itself but one of the marketing mix variables. There are many advertising media, such as broadcast advertising (TV and radio), print advertising, outdoor advertising, Internet advertising, and more. Please think of these within the framework already discussed, that is, the importance of an integrated marketing communications campaign. The selection of media may in some cases appear to be obvious. For example, Microsoft makes sure that its advertising strategy includes exposure on the Internet, where many of its customers spend time.

Theme 5: Advertising on the Internet – Advertising on the Internet has become quite a challenge, especially for traditional advertising agencies. Who would have thought that Web banner ads would turn out to be so ineffective? Studies show that the most effective form of Internet advertising is sent by e-mail. Social media and migration to mobile devices, such as mobile (cell) phones and such, will greatly influence advertising resource allocation.

Theme 6: Public Relations, the Painless Advertising Alternative – Anita Roddick, founder and CEO of The Body Shop International, had a somewhat unique take on advertising, and preferred to milk the public relations (PR) angle instead. The late Ms. Roddick had stated in her ultra-enthusiastic fashion that advertising is rather rude. “It's one-way communication AT your customer than WITH your customer,” she has argued. Roddick argued that a well-trained personal selling staff in the stores (either franchise or company-owned) has the overall responsibility for representing the company’s products by engaging in a one-to-one dialogue. Clearly, the PR Ms. Roddick leveraged over the years with environmental themes and the like must amount to the equivalent of many millions of dollars in advertising.

Theme 7: Sales Promotion – The distinguishing feature of sales promotion is that it is designed to spur action on the part of the consumer, a channel member and/or the end user. That is, there are (1) trade promotions aimed at the wholesalers, other distributors, and retailers and (2) consumer promotions intended to bring about action now, rather than tomorrow, next week, or next month. Beer breweries are constantly offering incentives, financing, spiffs, and a whole host of other incentives to their middlemen to move more beer. End users are bombarded by gimmick after gimmick to them to purchase within a specified timeframe. The problem, and often the criticism, is that sales promotions erode brand loyalty (or even the brand itself). What does it mean to middlemen and end users that a company seems to “need” to employ incentives to persuade customers to carry and buy the product? Phrased another way, do such activities serve to cheapen the product in the minds of middlemen selling it, or end users buying it?
A whole set of other problems develop with contests, sweepstakes, and the like. The potential for disasters that can ultimately undermine the good name of the company is enormous. There are many examples. The McDonald’s contest debacle of 2001 where someone cracked the code and attempted to cash in using friends and family is well publicized. And then there’s the whole controversy surrounding sweepstakes of late. In particular, the promise by magazine sweepstakes that “You’re a Winner!” has led to myriad problems, legal and PR both.

What are your perceptions of sales promotions? For instance, how effective are POS (point-of-sale) a.k.a. POP (point-of-purchase) materials such as end-of-aisle merchandising in getting you to buy right away? Space is scarce in many countries, however. An integrated marketing communications campaign in the U.S. may look quite different when reconfigured to meet the buying behavior typical of overseas markets.

Some forms of sales promotion continue to have a strong following among consumers and popularity with advertisers. Rebates and in-store samples remain popular and in the case of rebates, provide marketers with potentially valuable research data. Perhaps no form of sales promotion enjoys as much popularity as coupons. Spurred in part by the recession, coupons have moved beyond “clipping”, assuming a new social dynamic. Not only are there numerous manufacturer based Web sites devoted to distributing coupons, there are social networking sites for sharing coupons and other money saving tips, many of which target specific segments such as Christians or stay-at-home parents. Marketers are learning how to use these sites for more than just coupons, including new product introductions and marketing intelligence.

**Theme 8: Timing** – How can the timing of PR enhance the impact of advertising and vice versa? Can you think of some examples of well-timed, integrated marketing communications (IMC)? Can you think of some examples of poorly-timed IMC? How should Saint Leo University leverage the PR outlets and when? What should be the sequence and timing of the various promotional communications?

**Theme 9: Monitoring/Evaluating Success** – It is a surprise to many in this age of Total Quality Management that so little is done to gauge the (a) efficiency and (b) effectiveness of advertising and public relations. Some may argue that they are costly to measure. One could argue, alternatively, that it is costly not to measure. The key variables to get right in the measuring are (a) reliability and (b) validity. How good is your information? Does it measure what you intended to measure? Is it an accurate gauge of what you’re trying to measure? Who should be responsible for measuring efficiency and effectiveness? Should it be the same people who propose and administer the promotional budget, staff, and methods?

**Theme 10: Emerging Forms of IMC** – As technology and audiences change, so do the media comprising the promotional mix. Nearly as quickly as new mediums appear and are adopted by advertisers, consumers learn how to ignore the ads or move on to another medium. As noted above, many forms of Net advertising, once considered the next great marketing frontier, are already passé. The four mediums discussed below are all relatively new, as compared to the traditional outlets, and still have room for exploration and innovation.

**Wireless** – perhaps no media offers so much potential or is as controversial as advertising on your personal wireless device. This may take a number of forms, however two promising models are advertising linked to content such as sports news and reduced rates for Net access in exchange for ads. Both of these promise to be significant revenue streams for content and broadband providers.

**Social Networking** – This is not limited to the major sites such as Facebook and YouTube. In fact, some of the more promising sites may be the smaller, special interest sites which offer a more targeted audience and lower cost per exposure.

**Viral marketing** – This method has been in use for several years, but still has broad potential, especially when combined with wireless technologies. The success of a viral campaign relies on the content being passed virally from user to user, something at which wireless users excel. The trick is, and always has been, creating content deemed worthy of sharing.
Brand Ambassadors – Yet another method that has been with us for a few years but still has a good deal of potential. Based on the premise that consumers, especially students, will respond more favorably to one of their own than to almost any other form of advertising, ambassadors may be the ultimate grassroots marketing.

Part 7

Theme 1: The Importance of Personal Selling? – If you’re thinking that personal selling doesn’t apply to you, please reconsider. First, personal selling is often a company’s largest single operating expense. Secondly, be reminded that (a) the B2B market > B2C market and (b) the preferred promotional method in B2B is personal selling. If you are the CEO, or even the COO or CFO of a company, you will be ever so conscious of the costs associated with personal selling. Furthermore, it is largely these employees, salespeople, who are responsible for your company’s top line (revenue) growth. Salespeople are often the “face of the company in the eyes of customer.” How these individuals are recruited, hired, trained, motivated, and compensated is paramount, especially since salesperson productivity is so important to the organization’s success and even its survival. It is common in economic downturns for American CFOs to be fired for poor company performance. Yes, even the finance and accounting people have been held responsible for sales, or more precisely, the lack thereof. It bears repeating: don’t make the mistake of overlooking the importance of sales and salespeople. By the way, if you’re ambitious and want the top job, be advised that the best and most successful salesperson in the company is often the CEO. Historically, s/he got there because of selling, and remained there because of selling. You may be interested to know that becoming a partner in a law or accounting firm has more to do with the ability to sign big clients, thus personal selling, than it does practicing law or accounting!

Theme 2: The Personal Selling Numbers – It is estimated that one person out of every ten in the U.S. labor force is involved in sales work. By comparison, that’s about 20 times more people than are employed in advertising. It’s a wonder that Sales Management isn’t a required course for all business majors. Perhaps it will be one day. Most texts and many other publications view sales and sales management in a very traditional way. Unfortunately, that traditional way is a failure. The direct costs of recruiting, hiring, and training new salespeople amounts to tens of billions of dollars each year. The indirect costs to companies, their customers, and to the lives of salespeople and their families are incalculable. Sales force turnover is arguably the single most expensive marketing problem and has, not surprisingly, been the subject of academic research for nearly 100 years. Consider that it takes anywhere from a year to two years for the typical order-getter salesperson to begin to fill the pipeline with sales. Often, the salesperson hired to fill a vacant sales territory doesn’t even make it to the second year. S/he often quits or is fired. These outcomes are due largely to a lack of training or other mismanagement. But there is a practical solution in reorganizing 8-10 salespeople into self-managed work teams (SMWT).

Theme 4: Moving Up the Value Ladder is an Important Part of Marketing In Sales-Driven Firms - For many years, sales and marketing managers in sales-driven, B2B firms have looked for the best way to design and implement marketing plans that will move them, and their products, up what is known as the value ladder. Simply put, as a firm moves up the value ladder they increase the extent to which they are an integral part of their customer’s business. As an extension of this, the selling firm is also able to charge more for their products and services, thus capturing more of the value they create for their customer. Think of the value ladder as having five steps, as follows:

<table>
<thead>
<tr>
<th>Level</th>
<th>Value Provided</th>
<th>Value Captured</th>
</tr>
</thead>
<tbody>
<tr>
<td>Seller</td>
<td>A simple retail-like transaction. Little insight required</td>
<td>Low</td>
</tr>
<tr>
<td>Provider</td>
<td>You sell the product, but provide little in the way of value adds. True of many distributors and jobbers.</td>
<td>Low</td>
</tr>
<tr>
<td>Fixer</td>
<td>You provide a solution to a problem but often only in an “instructional” manner. You can be easily replaced by a firm with similar knowledge. Susceptible to price challenges.</td>
<td>Medium</td>
</tr>
<tr>
<td>Partner</td>
<td>You are viewed as a partner, but have no special or irreplaceable value. You have no figurative “stake” in the firm. Less vulnerable than a fixer, but not truly secure either.</td>
<td>Medium High</td>
</tr>
<tr>
<td>--------</td>
<td>-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------</td>
<td>------------</td>
</tr>
<tr>
<td>Insider</td>
<td>Because you provide “value-added” services that enhance the operations and profitability of the business you are viewed as “part” of the firm. More than a partner, you are integral to the success of the firm and share in that success.</td>
<td>High</td>
</tr>
</tbody>
</table>

Although there are a number of ways to move your firm up the value ladder, among the most effective is focusing your marketing and sales efforts on value added services that impact the customer beyond the products being sold. For example, if the firm sells machine tools to medium-size businesses, the value added services may be training in front office operations and marketing, two areas in which the business owner may have limited expertise. By training the owner and his staff, the machine tool firm becomes an “insider” and difficult to replace by a competitor.

**Part 8**

**Theme 1: Pricing Strategy** – *Pricing strategy* depends upon a great many variables. Just a few are discussed here.

- First of all, who are you? Do you represent a commercial organization, a nonprofit organization, or a governmental organization? Each provides something: tangible goods, services, and ideas and often charges a price for these in exchange. Each has a set of consuming publics, each with its own *consumer behaviors*.

- Secondly, what is your mission? Possibly a *NEGATIVE price* is the best approach for a nonprofit organization. For instance, the local healthcare consortium may find that it fulfills its primary mission best by PAYING women $5 to be screened for breast cancer rather than charging money for such diagnostic care. This example of goodwill to the community may turn out to be more than be made up for with donations from wealthy benefactors, i.e., a nonprofit target market with a “need” to contribute. Moreover, a *profit maximization* strategy may not be appropriate for a nonprofit organization, but pricing for a modest operating “surplus,” or at least *break-even*, might be.

- Thirdly, what are your short, medium, and long-term goals? For example, large companies in Japan (called *daikigyo*) are known for charging a *penetration price* around the globe. These companies far more often view market share as the immediate goal instead of profits. It is believed in Japan that if the focus is on gaining market share, profits will follow. Contrarily, many Western public companies (those in N. America for instance) find the Wall Street game irresistible, and chase short-term (quarter-to-quarter) profits in order to satisfy stock analysts, traders, and others.

**Theme 2: International Pricing** – As if pricing for domestic markets weren’t hard enough, what with the dynamics of competition and economic cycles just to name two, consider trying to do business in 40 currencies! Multinational corporations, all the big names that you know, must do so. A marketing team can painstakingly forecast revenues and profit only to be blind-sided by dramatic fluctuations in the exchange rate. Even a smaller global industrial company like the Gates Rubber Co. employs two full-time currency traders in an to attempt to minimize the impact of *currency fluctuations*. This practice is known as *hedging* and involves the buying and selling of *forward currency contracts*. For instance, one contract may involve a promise to deliver a specified sum of dollars in exchange for a specified sum of a particular foreign currency. In this way, firms can lock in *exchange rates* and, in turn, be able to make better business decisions.
You can find a McDonald’s across the street from Red Square, Pizza Hut is one of India’s most admired brands, and Wal-mart is one of China’s most popular shopping destinations (live turtles for sale in the seafood section). American consumer goods, from fast food to diapers, are taken for granted in places that ten years ago would have been surprising. One of the challenges this presents is pricing the products based not on American standards, but on what local consumers can afford, introducing the concept of relative buying power, or more technically “Purchasing Power Parity” (PPP). Although there are some economic concepts involving equilibrium between currency exchange rates, a more practical approach to this idea suggests that consumer goods firms may need to consider what portion of the consumer’s disposable income they must spend to buy the product. This is often denominated in “work-hours,” in other words how long the average consumer must work to make the purchase.

A common example of this is a Big Mac. Each year The Economist Magazine publishes a guide that lists, country by country, how long the average working woman needs to work to buy a Big Mac. While the typical worker in Vietnam may not buy many Big Macs, this figure is very helpful to marketers trying to determine if it is practical to introduce a given product into the country, and if so, at what price. As emerging markets become increasingly attractive to consumer goods firms, understanding this relative measurement will become more and more important.

**Theme 3: Administered Price versus Bid Pricing** – Speaking of global marketing, doing business overseas often means working with national, provincial, and/or local governments. Most of the time business is conducted with bureaucracies of national governments. Many citizens of the nations on the continent of Africa, for example, rely heavily on the governmental sector for basic goods and services. Companies wishing to do business in these countries are often asked to bid on governmental projects. Rarely will these countries accept the administered price (list price, or even discount price) that might be paid by a commercial customer in an industrialized country. Consider pharmaceutical prices. As a consequence, strategic as well as ROI (return on investment) and other objectives need to be balanced in ways not wholly considered when dealing with companies in industrialized countries.

**Theme 4: More Pricing Terminology** – The following pricing terms are used by industry every day and deserve further explanation. The free on board (F.O.B.) point is vital in calculating the offered price. CIF refers to cost, insurance, and freight. The customer will surely pay for the “cost” (of the product). But the next bit is often tricky, and depends on who in the negotiations blinks first. Some of the best salespeople get the customer to pick up the insurance and freight (F.O.B. factory door). If the manufacturer is in a squeeze, and needs to book orders in advance of the end of the quarter or fiscal year, hurried and often reckless negotiation follows. The manufacturer’s sales reps will often entice purchasing agents, materials managers, contracting people (or whatever title the organizational purchaser wishes to hold) to cut a purchase order on the spot in exchange for the manufacturer’s picking up the insurance and freight (F.O.B. customer’s dock). Extended warranties, supplemental materials, and a lot of other add-ons will dictate pricing strategy. With the F.O.B. discussion in mind, especially the bit about frantically rounding up orders prior to end-of-quarter and end-of-year, it’s hard for companies in any industry, and at any time, to possess the pricing power to result in a predetermined ROI. This leads to a comment about the rule of thumb for maximizing profits, i.e., produce until MC=MR, marginal cost equals marginal revenue. That is, continue to run the production line until the marginal cost of an additional unit just equals the marginal revenue that one would receive from the unit. Prices are always changing because the markets for products are dynamic, i.e., always changing. Consider the price of oil, the price of which is out of the control of any single organization, even the government of Saudi Arabia. In summary, stating goals about price markups, ROI, marginal analysis, and profit maximization is all well and good, but at the end of the day they may not account for very much.

One final comment has to do with pricing of services. Since there is often confusion among potential customers about what a service should cost, and therefore the price point to be paid, customers will often look to price as a proxy for quality; “the higher the price, the higher the quality.” It is recommended that service organizations communicate a higher price at the outset with the understanding that discounting is always an option.

There are three additional pricing strategies you should know:
Price skimming — firms using this strategy price their products, often newly introduced, at or near the top of the scale in order to maximize profit per unit. This allows them to “skim” the profits off the top of the market even though unit sales may suffer. Eventually, they have sold all the product the premium market will support, and they begin to lower prices. In the case of certain luxury goods, say Louis Vuitton handbags, the price may never drop and the firm will keep both prices and availability artificially controlled.

Captive pricing – all those that believe HP is making any significant profits on an “all-in-one” printer at around a $100, please raise your hands. The profit in this product line is not in the product itself but in the collateral sales that follow, in this case ink cartridges. Firms using this strategy sell consumers the core product near cost in order to sell you supplies for years. The razor folks have this one all figured out.

Psychological pricing – this is actually a family of pricing strategies and might include loss-leader, bundled, and reference pricing methods. However, the poster child for psychological pricing is using the price itself to make a statement about the product. Take wine – a winery may bottle a nearly identical product under two different brands and place them side by side on the shelf. One of these is their “premier” brand and the other the everyday stuff. To a novice buyer who knows little or nothing about the brands, there is a product line assumption that the more expensive brand is superior. The price itself suggests quality. Note this is not true of all product lines – were this milk, we would assume that one is simply more expensive than the other, but not necessarily superior.

Theme 5: The myth of cost-based pricing – there is a common assumption that cost should factor into pricing decision. In retailing we are taught that you start with cost and build in some pre-determined factor depending on your industry sector and the products you sell. Groceries have a small mark-up while furniture and women’s fashion have huge mark-ups. There is validity to this method as it is important to understand costs so you can accurately project profits.

However, your costs actually have little to do with your pricing strategy. The logic behind this is simple – the consumer is utterly indifferent to our costs. They could care less. What they care about is the value they have assigned to your product. Fortunately, this works both ways. If you can control your costs and still charge the same, or more, than the competition then you get to pocket the extra.

Let’s take Nike shoes as an example. The cost to manufacture those shoes is fairly small as the labor in Vietnam or Brazil is cheap, and the materials are mass-produced for a couple of bucks. Yet, they sell for $100 or more. If Nike used cost-based pricing, then the shoes would be a fraction of their usual retail. Conversely, let’s pretend that the cost of beef skyrockets, and McDs has a cost of $10 for a Big Mac. In our minds, we have assigned a value to a Big Mac, and it certainly is not $10 plus mark-up. We don’t care what the firm has to pay for beef – we are not going to pay $10. Thus, McDs has several choices, but none of them is using cost-based pricing for the Big Mac.

This concludes the marketing review materials.

References
