Summary Principles of Marketing - Philip Kotler, Gary Armstrong

Marketing Fundamentals (University of New South Wales)

Summary
Principles of Marketing

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15th Edition

Contents

1. Marketing – creating and capturing value

Marketing is the process by which companies create value for customers and build strong customer relationships in order to capture value from customers in return. The marketing process involves five steps. The core marketplace concepts are needs, wants, and demands; market offerings (products, services, and experiences); value and satisfaction; exchange and relationships; and markets. Wants are the form taken by human needs when shaped by culture and individual personality. To design a winning marketing strategy, the company must first decide whom it will serve. It does this by dividing the market into segments of customers (market segmentation) and selecting which segments it will cultivate (target marketing). Next, the company must decide how it will serve targeted customers (how it will differentiate and position itself in the marketplace).Today, marketers of all kinds are taking advantage of new opportunities for building relationships with their customers, their marketing partners, and the world around them.

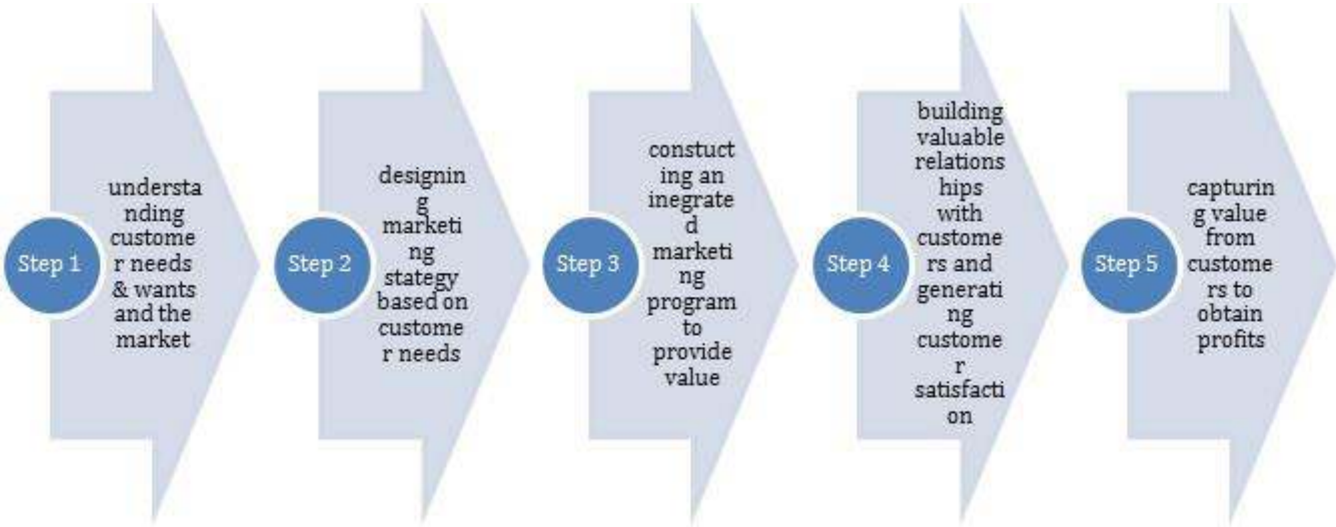
Example Amazon: its success lies in being customer needs driven. Even in company meeting attention is always paid to the customers' voice. Such customer focus leads to taking risks and innovating differently from other companies and focusing not just on products, but *how* they are sold. The latter makes customers' experiences more personal through collaborative filtering ("recommendations for you" feature). Lastly, Amazon allows for a discovery experience with its huge product variety attracting more customers (by offering products of competing retailers as well as used items).

Objective 1: Definition of marketing and steps in marketing process

Marketing – (simple definition) – managing valuable customer relationships. 2 goals of marketing: (1) attract new customers by greater value and (2) maintain and expand current customers by providing satisfaction.

Nowadays marketing includes not only "telling and selling", but fulfilling customer needs. Marketing mix includes tools that are combined to satisfy consumers' needs and manager relationships with customers.

Marketing is the "process by which companies create value for customers and build strong customer relationships in order to capture value from customers in return".



Marketing process consists of 5 steps, in 4 of which companies create value for their customers, whereas in the last step they capture the value from the customers. The figure below summarizes the process.

Objective 2: Understanding marketplace and customer needs (five core marketplace concepts)

Step 1: consists of 5 core customer and market concepts - (1) needs, wants, and demands; (2) market offerings (products, services, and experiences); (3) value and satisfaction; (4) exchanges and relationships; and (5) markets.

Needs – are states of deprivation of humans; they include physical (e.g. food, warmth), social (e.g. affection), and individual (e.g. knowledge). **Wants** – are needs that have been shaped by culture and personality; they can be described by an objects that is able to satisfy them (need for food can be satisfied with *pizza*). When wants are supported by buying power they turn into **demands**. Companies analyse customer data and perform marketing research to find out more about needs, wants and demands of their customers.

Market offerings – are combinations of products (physical), services (e.g. banking), information (e.g. ideas) or experiences that fulfil customers' needs and wants. **Marketing myopia** occurs when sellers suffer from paying more attention to products than to benefits and experiences provided by them to the customers. It occurs when companies think that customer *needs* their product instead of the actual need of what the product provides (e.g. customer needs a hole in the wall, not a drill). Needs stay the same, whereas products change. Brand experiences can be created by combining several service and products to satisfy the needs.

Customers choose and buy based on formed **expectations** about value and satisfaction provided by market offerings. Marketers should carefully adjust levels of expectation as low levels fail to attract new buyers, whereas high ones disappoint.

Exchange involves obtaining something (satisfying needs) by offering something else in return. Marketing includes actions that help create, maintain and expand exchange relationships with target segments.

Markets grow from exchange and include actual and potential buyers of product or service. Marketing involves managing markets, searching for customers and their needs, designing and pricing market offerings, promoting and delivering them. Furthermore, in modern days customers are empowered by technology and marketers need to manage customer-managed relationships, allowing customers to reach companies. Companies' success in building valuable relationships depends on the marketing system which includes suppliers, competitors, marketing intermediaries and consumers.

Objective 3: Designing marketing strategy and integrated marketing plan

Customer-driven marketing strategy can be designed once consumers' needs and markets are understood. Marketing management consists of "choosing target markets and building profitable relationships with them". For a successful strategy 2 questions need to be answered: (1) what is the target market and (2) how will it be served/what is the value proposition?

Selecting customers to serve: the company needs to segment the market and choose target segments, customers the can be served well and bring most profit when their demand is managed.

Choosing value proposition: this involves deciding on how to differentiate and position the company; value proposition is the benefit the company promises to customers to fulfil their needs helping to differentiate and giving advantage in target markets.

Marketing management orientations: 5 concepts around which organizations can create and implements their marketing strategies.

1. Production concept: if consumers prefer products that are available and affordable, company improves production and distribution efficiency (can lead to marketing myopia).
2. Product concept: if consumers prefer innovative products of high quality, and superior performance, company focuses on continuous product improvement (can lead to marketing myopia).
3. Selling concept: consumers will not buy the products unless the company launches a selling and promotion effort (e.g. insurance, donations); this is a risky concept as it aims at creating sales (profits through sales volume), not high quality relationships with customers.
4. Marketing concept: the outside-in perspective (opposite of inside-out perspective of selling concept) where achieving company objectives depends on identifying the needs and wants of consumers to fulfil them in a better manner than competitors. In many cases consumers do not know what they want and what is possible; then such consumer-driven marketing may even allow understanding the consumers better than they do themselves.
5. Societal marketing concept: considers possible conflicts between short-run wants and long-run welfare. It suggests that value should be provided to

customers to improve their own and *society's* well-being. Sustainable marketing is included in the concept and involves socially and environmentally responsible strategies while considering ability of future generations to meet the same needs. Shared value recognizes societal needs and not only economic ones. Companies should balance human welfare, want satisfaction and profits.

Integrated marketing program outlines how value will be delivered to target consumers. It involves transforming marketing strategy into action with the marketing mix tools. The latter are grouped into 4 Ps: product, price, place and promotion. These are integrated into marketing program.

Objective 4: CRM and creating & capturing value

Customer Relationship Management - the "process of building and maintaining profitable customer relationships by delivering superior customer value and satisfaction".

Relationship Building Blocks: customer value and satisfaction

Customer value: highest customer-perceived value, evaluation of benefits and costs that are judged *subjectively*, leads to a customer buying from the company.

Customer satisfaction: this depends on whether the bought product meets expectations. More satisfied customers are more loyal leading to better company performance. Smart companies deliver even more than they promise to delight customer, who in turn buy again and spread the word. However, the goal is not to maximize customer satisfaction, but to generate customer value profitability.

Customer relationship levels and tools: companies with low margin customers develop basic relationships through brand building ads, websites and etc. companies with high margin customers create full partnerships though personal approach. Other tools include: frequency marketing programs to reward those who buy often, club marketing programs that benefit members and create communities.

Changing nature of customer relationships – important trends in relationships:

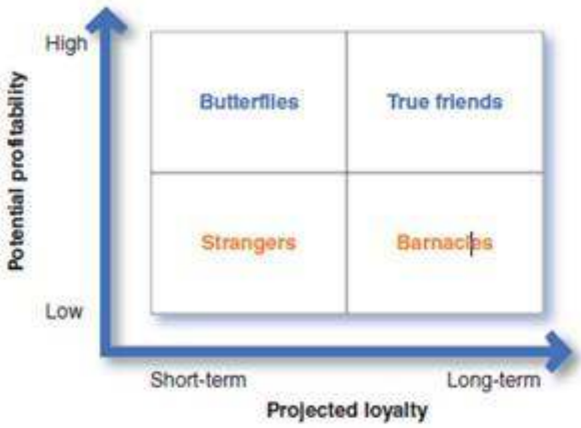
1. Relating with more carefully selected customers: important customers are identified and targeted for pampering (e.g. potentially unprofitable customers are preselected and weeded out).
2. Relating more deeply and interactively:
    a. New technology allows relating in multiple ways, with deeper customer involvement and sense of community. The challenge is to be able to manage with great power, control and informedness of customers. *Customer-managed relationships* allow customers to interact with each other and brands shaping their relationships. Therefore, marketing should practice attraction, involving customers in market offerings. When using social media, companies should find ways to join social conversations and provide relevant and engaging brand information.

b. *Consumer-generated marketing* is created by the consumers where they influence, intendedly or unintendedly, their own and others' experiences with the brand by using blogs, sharing videos, reviewing. Some companies make use of this by inviting consumers to participants in marketing efforts by collecting new ideas or generating ads. The danger of this is the high costs and difficulty in identifying good solutions.

Partner relationship management - involves close collaboration with partners inside and outside to generate more value for the consumers. Internally, firms must connect all departments with a customer-focus objective. Additionally, close links are required outside, along the whole supply chain, as the success of delivering greater value is dependent on all partners.
Capturing value from customers (outcomes of creating customer value)

- **Creating customer loyalty and retention:** good CRM leads to satisfaction of customers, making them loyal and generating retention. Therefore, this adds to the customer lifetime value, all the purchases a customer makes over a lifetime of patronage.
- **Growing share of customer:** the share a company gets of the customer's purchasing of the offered products can be increased with good CRM and by offering a variety of products
- **Building customer equity:** this is the ultimate goal of CRM; customer equity is the combined customer lifetime values of potential and current customers creating a measure for the future customer base.

Building the right relationships with the right customers:



Not all customers are good investments for the company. The customers can be separated according to their potential profitability and loyalty and the relationships with them can be managed accordingly. Nothing should be invested into stranger as there is no fit between company' offerings and their needs. The opposite good fit is true for butterflies, however, the company should invest in them in the short time of their interest. True friends are profitable and loyal, company should nurture the relationship and constantly invest into it, turning the group into true believers who purchase regularly and spread the word. Barnacles are most problematic and the company can true to raise their profitability, however, if that does not work, investments into them should be ceased.

Objective 5: Trends and forces in marketing landscape

- **Changing economic environment:** in the uncertain economic times, brand value needs to be balanced with long-term equity and market share should be build strengthening customer relationships.
- **Digital age:** Internets provides new ways to access customer information and communicate, leading to growth of online marketing.
- **Growth of not-for-profit marketing:** marketing helps museums, zoos, hospitals attract funds and members. Additionally, government employs social marketing to discourage smoking and increase concern for environment.
- **Rapid globalization:** managers are increasingly focused not only on local, but global views of processes in organizations.
- **Call for more ethics and social responsibility:** social responsibility and environmental concerns place increasingly stricter demands on organizations; marketing aims at profiting from serving current needs with a long-term outlook.

2. Strategy – partnering to build customer relationships

Strategic planning sets the stage for the rest of the company's planning. Marketing contributes to strategic planning, and the overall plan defines marketing's role in the company. Guided by the company's mission statement and objectives, management plans its business portfolio, or the collection of businesses and products that make up the company. Under the strategic plan, the major functional departments—marketing, finance, accounting, purchasing, operations, information systems, human resources, and others—must work together to accomplish strategic objectives. Customer value and relationships are at the centre of marketing strategy and programs. To find the best strategy and mix and to put them into action, the company engages in marketing analysis, planning, implementation, and control.

Example McDonalds: to adapt to the changing tastes and needs McDonalds changed its strategy to being the customers' favourite restaurant, taking care of them. This helped the restaurant to change the overall direction, rediscover new opportunities and menu, as well as increase sales.
Objective 1: 4 steps of company-wide strategic planning
Strategic planning – the process of "developing and maintaining a strategic fit between the organization's goals and capabilities and its changing marketing opportunities". Strategic planning occurs on 2 levels: corporate level and business unit, product and market level.
The first step is to define the **mission**, which describes the purpose of the organization and its goals in broader environment and it meant to guide the member of the organization. Mission statements should be oriented towards the market, focused on customers and described in terms of fulfilling consumers' needs.
The second step is to set company **objectives** and goals, dedicating responsibility to management to achieve them. Such goals are to become marketing objectives.
Objective 2: Designing the business portfolio
The third step is to use the mission and objectives to develop a **business portfolio** for the company containing its businesses and products. It needs to fit the strengths and weaknesses of the company considering environmental threats and opportunities. To plan a portfolio 2 steps need to be taken: current business portfolio should be analysed and balanced, and the future portfolio needs to be developed aiming at growth and downsizing.

In *portfolio analysis* (evaluating products and businesses that the company consists of) the first step is to identify strategic business units (SBU). A widely used portfolio planning method was developed by BCG and uses a growth-share matrix to classify the SBU. Market growth share measures market attractiveness, and relative market share – the company strength in the market. *Stars* require investments for growth and eventually turn into cash cows. *Cash cows* are established and successful and need less investment; they provide cash for bills and other investments. *Question marks* require a lot of cash, and management needs to choose some that they can turn into stars. *Dogs* may provide enough revenue to sustain themselves but are not large sources.
4 strategies can be pursued after classifying:

- Build share by investing
- Hold share by investing just enough
- Harvest by focusing on short-term cash flow
- Divest by selling and using resources elsewhere

Problems with matrix approaches: limited, difficult, time-consuming, costly, little advice for future; thus customized approaches are favoured.

Strategies for growth and downsizing (future)
Product market expansion grid – identifies company's growth opportunities through 4 following categories. Market penetration involves growth by increasing current product sales to current market (no change). Market development includes identifying

and developing new market segments for current products. Product development complies of offering new products to current segments. Diversification includes beginning or acquiring completely new businesses.
Downsizing may be useful when it lack experience in new areas, environment changes making SKUs unprofitable, and some products or businesses may just die out.
Objective 3: Planning marketing
Marketing affects strategic planning in the following ways:

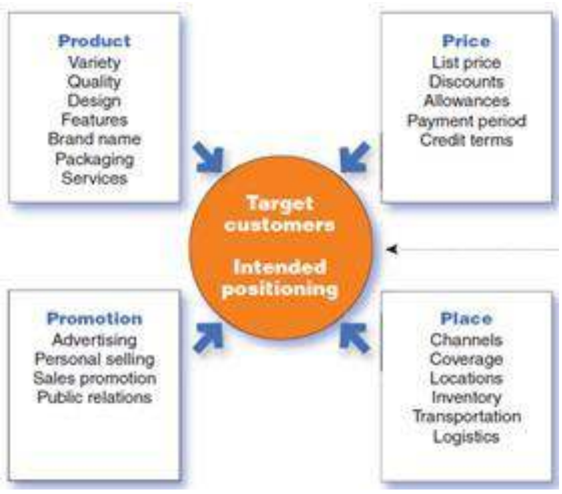
- It provides a guiding philosophy for the strategy
- It gives input about potentially attractive markets
- In individual SBU marketing designs strategies reaching objectives

Across the value chain ("the series of internal departments that carry out value-creating activities") all employees and departments need to understand marketing and creating customer value as well as remain customer focused.
However, nowadays companies need to look beyond their internal value chains. The can create networks with suppliers, distributors, and customers to improve the entire system and increase create value through partnership (value delivery network).
Objective 4: Marketing strategy and mix

Marketing strategy: the logic which the company uses to create value and profitable relationships. It consists of the company deciding who (segmentation and targeting) and how (differentiation and positioning) it will serve. Marketing analysis, planning, implementation and control are used to design an integrated marketing mix.
Customer-driven marketing strategy

- **Market segmentation:** encompasses dividing the market into separate groups of buyers with diverse needs, characteristics, or behaviours, and necessitate different products or marketing. Each segment represents a group of consumers responding in a similar way to particular marketing efforts.

- **Market targeting:** includes evaluating how attractive each segment is to select ones to enter.
- **Market differentiation and positioning:** each product occupies a *position* relative to the competitors; positioning involves arranging for a clear and desirable position relative to competitors to distinguish the product and gain competitive advantage. Differentiation helps to position by adding value to the marketing offering.



Developing an integrated marketing mix (4Ps): (needs to occur after determing marketing strategy and tactical marketing tools are to be used for this)

1. Product: Goods and Services Company provide to target market.
2. Price: money customers pay to obtain the product.
3. Place: activities that make product available to customers.
4. Promotion: activities that communicate advantages of the product and convince to buy.

The concern with 4Ps is that it only takes the perspective of the seller, not the buyer. Customers may be interested in more than just the Ps (customer solution, cost, convenience, communication).

Objective 5: Managing marketing effort and ROI

Managing marketing process involves 4 marketing functions: analysis, planning, implementation, and control.

Analysis of a complete situation can be completed using SWOT framework (internal strengths and weaknesses, external opportunities and threats). Opportunities and threats are identified, whereas strengths and weaknesses help determine which opportunities to pursue and how to deal with threats.
Planning helps decided what to do with each SBU and what marketing strategies to use for achieving strategic objectives. The plan includes assessments, goals and recommendations in terms of strategy and marketing mix.
Marketing implementation is the process of turning plans into action, addressing who, where, when and how and is often more difficult than strategizing.
Marketing department organization needs to correspond to the needs for carrying our plans and strategies. Different arrangements exist:

- Functional organization where marketing activities are headed by functional specialists.
- Geographic organization where sales and marketing employees are assigned to specific regions.
- Product management organization where a product manager is responsible for the complete strategy.
- Customer/market management organization where managers are responsible for specific markets and customers.
- Some companies may use a combination of all of the above.

Marketing control involves measuring and evaluating results of marketing effort and adjusting them when necessary to achieve the objectives.
Measuring return on marketing investment: this is necessary to ensure the money is well spent. An important measure is marketing ROI, the net return from marketing investment divided by the costs of the marketing investment. MROI can be difficult because return on, for example, advertisement or brand-building are difficult to put into tangible figures. Some companies use marketing dashboards which are sets of marketing performance measures assembled together to monitor performance. Also customer-centred measures are used a lot, like customer equity or retention.

3. Analysing the marketing environment

The company's microenvironment consists of actors close to the company that combine to form its value delivery network or that affect its ability to serve its customers. The macro environment consists of larger societal forces that affect the entire microenvironment. Demography is the study of the characteristics of human populations. The economic environment consists of factors that affect buying power and patterns. The natural environment shows three major trends: shortages of certain raw materials, higher pollution levels, and more government intervention in natural resource management. The political environment consists of laws, agencies, and groups that influence or limit marketing actions. The cultural environment consists of institutions and forces that affect a society's values, perceptions, preferences, and behaviours. Whenever possible, companies should try to be proactive rather than reactive.

Example YouTube: YouTube has been successfully navigating through change in the past years and setting new trends in video content generating more than $1 billion revenue from ads. YouTube thrives to create new content in changing environment distributing the videos through various channels. The company is attempting to provide an alternative for television engaging viewer for longer. It also continues to innovate the ways to monetize its content.
Objective 1: Environmental forces that affect companies
Marketing environment - the players and forces outside marketing that affect marketing management's ability to build and maintain successful relationships with target customers. Carefully considering and adapting strategies to the environment can help meet new challenges and discover opportunities.
Marketing environment consists of:

- **Microenvironment** - the players close to the company that affect its ability to serve its customers – the company, suppliers, marketing intermediaries, customer markets, competitors and publics.
- **Macro environment -** the larger societal forces that affect the microenvironment – demographic, economic, natural, technological, political and cultural forces.

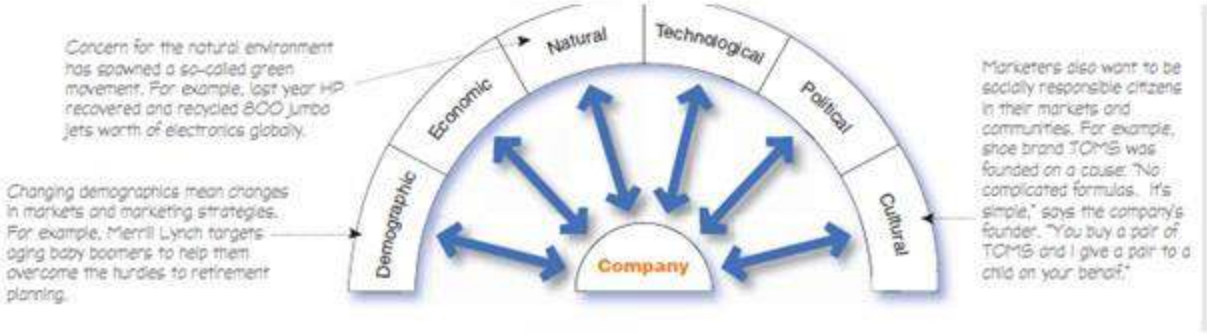
Microenvironment:

For marketing success marketers need to build relationships across the value delivery network.

- The company: all departments share responsibility for understanding customer needs and creating value.
- Suppliers: supply availability and cost are important to look after and can harm sales; suppliers are to be treated as partners.
- Marketing intermediaries: companies that help your company promote sell and distribute its goods to final buyers; they are an important component of the value network; partnering effectively is required for optimization of system.
- Competitors: marketers need to no simply satisfy needs, but also position the company against competitors to gain strategic advantages.
- Publics: any group that has an actual or potential interest in or impact on an organization's ability to achieve its objectives; financial publics, media publics, government publics, citizen-action publics, local publics, general publics and internal publics; company can prepare marketing plan for these public and make the offer attractive to them.
- Customers: five types of customer markets can be targeted by the company:
    - Consumer markets – individuals and households buying goods for personal consumption
    - Business markets – use goods and services in their production process
    - Reseller markets – buy goods and service to resell for profit
    - Government markets – governmental agencies that buy goods or services to produce public service or supply them to the needed
    - International markets – comprise of these buyers in other countries

Objective 2: Effects of demographic and economic environments on marketing
Macro environment:

Even the most dominant and largest companies can be vulnerable to turbulences in the macro environment, as they are hard to control and foresee.



- Demographic: involves people who make up markets; (demography **-** study of human populations in terms of size, density, location, age, gender, race, occupation and other statistics); changing age structure is an important demographic trend nowadays; the population consists of three generations:
  - Baby boomers - the 78 million people born during years following World War 2 and lasting until 1964; rethinking purpose and values; wealthiest generation hit by the recession -> spending more carefully, but not phasing out, have lust for adventure and remaining young.
  - Generation x - the 45 million people born between 1965 and 1976 in the 'birth death' following the baby boom; less materialistic and prize experience; family comes first; quality over quantity and negative attitude towards convention; embrace technology.
  - Millennials - the 83 million children of the baby boomers, born between 1977 and 2000; most financially strapped generation; comfort with digital technology; engage with brands in a new way; seek out info and engage in two-way conversations.
  - Marketers need to form precise age specific segments, but segmenting by birth date is less effective than by life style or common values.
- Changes in family constitution need to be considered. Traditional picture of two-child family shifted to singles, couples without children and single parents. Also in many families women are becoming the main source of income.
- Population has also been shifting geographically as many migrate across and within countries. Many people move closer to big cities, telecommute and have different needs.
- The population is becoming better educated and the work force is becoming more white-collar.
- The diversity of countries is increasing as they vary with ethnic and racial make-up. Moreover, companies are operating internationally, therefore, marketers are able to target various segments based on such characteristics as ethnicity, sexual orientation, and consumers with disabilities.

Economic environment - economic factors that affect consumer purchasing power and spending patterns. Distribution of income varies across countries and marketers need to watch out for it. The following factors need to be considered in economic environment:

- Changes in consumer spending occurred after the recent recession. As a result consumers are becoming more careful in spending and are looking for greater value for lower price.
- Income distribution and income levels are important for marketers. These factors create a tiered market and provide basis for segmentation. Marketers can forecast such changes in trends and prepare businesses to adapt to the situations.

Objective 3: Major trends in natural and technological environments of firm's
Natural environment - natural resources that are needed as inputs by marketers or that are affected by marketing activities. Anything from weather to natural disasters can affect companies and contingency plans should be prepared for such. The following are trends in the natural environment marketers should be aware of:

- There is a growing shortage of raw materials that need to be taken into consideration, especially by the firms that use such.
- Increased pollution comes from industrial waste.
- Increased government intervention in natural resource management is occurring due to concerns for sustainability.
- Environmental sustainability - developing strategies and practices that create a world economy that the planet can support indefinitely.
- Many brands are doing everything to reduce their environmental footprints.

Technological environment - forces that create new technologies creating new product and market opportunities. It is characterized by rapid change where new technologies replace old ones. All new products need to be tested for safety and meet certain standards which marketer should be aware of.
Objective 4: Changes in political and cultural environments
Political environment - laws, government agencies and pressure groups that influence and limit various organizations and individuals in a given society.

- Legislation regulating business: governments develop public policy to guide commerce. It is often difficult to understand public policy implications for marketing activities and it has been increasing over the years. Marketers must keep up with all the changes.
- The following are the reasons for enacting business legislation:
    - Protecting companies from each other, preventing unfair competition
    - Protecting consumers from unfair business practices

    - Protecting interest of society against unrestrained business behaviour making forms take responsibility for the social costs
- Business is also governed by social codes and professional ethics such as the following:
    - Socially responsible behaviour: "doing the right thing" and protecting long-run interests of consumers and environment; internet marketing is creating new social and ethical issues especially with availability of personal data and private information; some worry that companies know too much when tracking consumers' activities and digital data can be used unfairly.
    - Cause-related marketing: many companies link themselves to worthwhile causes to show social responsibility; it has become the primary form of corporate giving, but also stirred some controversy as some use it to improve image and sales.

Cultural environment - institutions and other forces that affect society's basic values, perceptions, preferences and behaviours. The following cultural characteristics affect marketing decisions:

- Persistence of cultural values: core belief and values of societies have high persistence and shape specific attitudes and behaviours. Core beliefs and values are passed on from parents and reinforced by institutions, whereas secondary ones area open to change and can be affected by marketers.
- Shifts in secondary cultural values: this is something marketers want to predict and consist of the following:
    - People's views of themselves: people differ in their emphasis of serving themselves or others. This affects their purchases that also tend to match the views.
    - People's views of others: these tend to shift overtime and have been affected by the internet causing mass mingling where people interact more than ever but online. This also affects how companies should communicate with their consumers.
    - People's views of organizations: people are willing to work for organizations and expect society work in return; overall, there has been a decline in loyalty and confidence due to scandals and layoffs, whereas work is regarded as source of income not satisfaction.
    - People's views of society: this influences people's consumption patterns and attitudes, marketers must be careful when addressing national emotions of consumers.
    - People's views of nature: people are more and more aware of fragility of nature and are willing to consume organic products more often, constituting a growing segment.

- People's views of universe: many people are moving away from religion differing in their attitudes; however, they share some permanent values and shift to spirituality that affects their choices.

Objective 5: Reacting to marketing environments
Some companies are passive in terms of their marketing environment and see it as uncontrollable flow of things they need to adapt to taking advantage of opportunities only once they arise. Others are more proactive and develop strategies to change the environment affecting public and forces. This helps overcome some events that may seem irrepressible. Such proactive approach is recommended whenever possible.

4. Managing marketing information

The marketing process starts with a complete understanding of the marketplace and consumer needs and wants. The marketing information system (MIS) consists of people and procedures for assessing information needs, developing the needed information, and helping decision makers use the information to generate and validate actionable customer and marketing insights. Marketing information has no value until it is used to make better marketing decisions. All organizations need to act responsibly concerning major public policy and ethical issues surrounding marketing research, including issues of intrusions on consumer privacy and misuse of research findings.

Example Domino's Pizza: Domino's experienced declining revenues for five years until it had a marketing breakthrough. It listened to the feedback of consumers by conducting marketing research and reinvented the product through Pizza Turnaround promotion campaign. The transparent ads and messages led to increasing revenues and satisfied customers.

Objective 1: Marketing information and customer insights

To create meaningful relationships with customers marketers must gain insights into their needs and wants. However, they can be difficult to obtain, as often customers do not know what they want. Marketing information from a wide range of sources needs to be effectively managed to gain insights. With uptake of information technologies both companies and consumers generate tons of marketing information. Therefore, most marketing managers are overloaded by information and are looking for better info and ways to make better use of the large quantities of it. **Customer insights** – comprise the real value of marketing info – they are fresh understandings of customers and the marketplace derived from marketing information that become the basis for creating customer value and relationships.

Objective 2: Marketing information system

Companies must design effective marketing information systems to provide managers with right info and help them use it to create customer value. **Marketing information system (MIS)** consists of people and procedures dedicated to assessing information needs, developing the needed information, and helping decision makers to use the information to generate and validate actionable customer and market insights.

MIS serves company's managers, but also external partners as info provider. A well-constructed MIS provides a balance of information users would like to obtain against what they really need and is feasible to deliver. MIS should help avoid having too much or too little info and provide decision makers with what they need to improve understanding of consumers. Lastly, the company needs to carefully consider the costs of obtaining, storing and analysing the info versus the value it provides. Marketing information can be developed from the following sources:

- **Internal databases -** electronic collections of customer and market information obtained from data sources within the company network providing powerful insights and competitive advantage. They can be accessed faster and cost less than other sources, but info may be incomplete or wrong (when collected for other purposes), such data quickly becomes old and complex techniques are required to update and manage such large amounts of info.
- **Collective marketing intelligence -** the systematic collection and analysis of publicly available information about consumers, competitors and developments in the marketing environment. The goal of the technique is to improve strategic decision making by continuously assessing opportunities and threats. It can help gain knowledge about how consumers talk about and connect to the brand. Chief listening officers are responsible for reading through customer online chatter about brand and providing the info to decision makers. Intelligence about competitors is collected from people inside the company as well as partners, consumers and online databases. However, some techniques may involve questionable ethics, thus legitimate sources should be used to avoid this.

Objective 3: Marketing research

Marketing research - the systematic design, collection, analysis and reporting of data relevant to a specific marketing situation facing an organization. This includes formal studies that provide customer and market insight for specific situations. Some companies have their own departments, whereas others hire external consultants for marketing research. The following figure underlines the 4 steps of marketing research process:

1. **Defining the problem and objectives:** managers who understand the decision that requires info and researchers that know how to best obtain it must work together. after the problem has been identified, one of the 3 types of objectives needs to be set:
    a. Objective of **exploratory research -** marketing research to gather preliminary information that will help define problems and suggest hypotheses.
    b. Objective of **descriptive research** - marketing research to better describe marketing problems, situation or markets, such as the market potential for a product or the demographics and attitudes of consumers.
    c. Objective of **casual research -** marketing research to test hypotheses about cause-and-effect relationships.
2. **Developing research plan:** the researchers must determine what exact information is needed and compile a plan for gathering it. Such a plan includes sources, approaches, methods and instruments that are to be used. The research objectives identified earlier are to be transformed into specific needs for info. The plan should be presented as a written proposal especially for large and complex projects. The research plan should include gathering both:
    a. **Secondary data -** information that already exists somewhere and has been collected for another purpose.
    b. **Primary data -** information collected for the specific purpose at hand.
3. **Implementing the plan:** this step involves collecting, processing and analysing all the information, checking data for accuracy and completeness.

- Gathering **secondary** data: this is usually the starting point with the company's internal database and many other external information sources such as outside suppliers, commercial online databases, internet search engines. Secondary data can be obtained faster, is cheaper than primary and can include data that company would not be able to collect on its own. However, secondary data is almost always incomplete, some information may not be usable, and therefore it needs evaluation of relevance, accuracy, up-to-date status and impartiality.
- **Primary** data collection: this step requires a number of decisions on the following factors:
    i. **Research approaches:**

- **Observational research -** gathering primary data by observing relevant people, actions and situations. Observation is used when the data cannot be obtained by simply asking the customer. Also the info gained is sometimes more insightful than that gathered with formal and structured research (listening to online conversations). **Ethnographic research -** a form of observational research that involves sending trained observers (psychologists and anthropologists) to watch and interact with consumers in their 'natural environment'. Nowadays, many researchers also use ethnography which involves observing customers on the Internet. This helps identify online and offline buying motives. Such methods yield details that cannot be gathered from traditional approaches, like unexpressed needs and unconscious actions. However, attitudes and private as well as long-term behaviour are often difficult to observe and the gathered data may be hard to interpret. Thus, such research is used with other methods.

- **Survey research -** gathering primary data by asking people questions about their knowledge, attitudes, preferences and buying behaviour. This method is suited for gathering descriptive data and is most widely used. This approach is flexible as it can be used for different kinds of info in different situations. However, the major problems with this approach are subjective, dishonest answers, or even lack thereof provided by respondents.
- **Experimental research -** gathering primary data by selecting matched groups of subjects, giving them different treatments, controlling, related factors and checking for differences in group responses. This works best for exploratory research and tries to explain cause-and-effect relationships.

    i. **Contact methods:**

	Mail	Telephone	Personal	Online
Flexibility	Poor	Good	Excellent	Good
Quantity of data that can be collected	Good	Fair	Excellent	Good
Control of interviewer effects	Excellent	Fair	Poor	Fair
Control of sample	Fair	Excellent	Good	Excellent
Speed of data collection	Poor	Excellent	Good	Excellent
Response rate	Poor	Poor	Good	Good
Cost	Good	Fair	Poor	Excellent

- **Mail, telephone, personal interviewing –** the following table presents an overview of strengths and weaknesses of the contact methods.
- An important approach here is **focus group interviewing -** personal interviewing that involves inviting six to ten people to gather for a few hours with a trained moderator to talk about a product, service or organization. The moderator focuses the discussion on important issues encouraging a free and easy discussion. The researchers observe from behind a one-way mirror or recordings to draw conclusions. Focus groups help gain insights into

consumers' thoughts and feelings, allowing researchers to not only gather verbal feedback, but also body movements, expressions and gestures. Some challenges include high costs and thus low number for generalization, danger of having dishonest or bias participants. To overcome these, some companies use immersion groups where consumers interact directly with product designers, or researchers change environment of focus groups.

- **Online marketing research -** collecting primary data online through internet surveys, online focus groups, web-based experiments or tracking consumers' online behaviour. Online research can take many forms, from online discussions to following click streams, and is especially suitable for quantitative research. It also has many advantages to traditional phone and personal approaches such as speed of distribution and lower costs independent of sample size, as well as better targeting. Internet surveys are more interactive, easier to complete and less intrusive allowing to reach customers that usually would not respond. Internet also allows gathering qualitative info through blogs, social networks and focus groups. **Online focus groups –** is the primary qualitative data gathering approach where a small group of people online with a trained moderator to chat about a product, service or organization helping gain qualitative insights about consumer attitudes and behaviours. Some drawbacks of internet research include controlling who is in the sample. Companies develop own social network or use existing panels to improve that.

i. **Sampling plan:**

- **Sample -** a segment of the population selected for marketing research to represent the population as a whole. Ideally, the sample should provide opportunity for researcher to make estimates about the whole target population. When the sample is designed, 3 decisions need to be made: who is to be studied, what is the sample size, and how the participants should be chosen. The following table provides an overview of the types of samples:

Probability Sample	
Simple random sample	Every member of the population has a known and equal chance of selection.
Stratified random sample	The population is divided into mutually exclusive groups (such as age groups), and random samples are drawn from each group.
Cluster (area) sample	The population is divided into mutually exclusive groups (such as blocks), and the researcher draws a sample of the groups to interview.
Nonprobability Sample	
Convenience sample	The researcher selects the easiest population members from which to obtain information.
Judgment sample	The researcher uses his or her judgment to select population members who are good prospects for accurate information.
Quota sample	The researcher finds and interviews a prescribed number of people in each of several categories.

i. **Research instruments:**

- **Questionnaires –** most common and flexible instrument that can be administered over different channels. It can consist of close- and open-end questions. The former provide good answers for quantitative research that are easy to record and interpret, whereas the latter are best for exploratory research trying to find out what people think, not how many think in a certain way. When putting together a questionnaire, researchers should take care of wording and ordering of the questions.

- **Mechanical instruments –** can be used to monitor consumer behaviour. It could be recording purchases, or who is watching a certain program, or using neuromarketing to track brain activity measuring involvement and emotional responses to find out how consumers react to brand and what is related to purchasing behaviours.

1. **Interpreting and reporting the findings:** this includes drawing conclusions and reporting them to management focusing on important findings and useful insights for the given situation. Marketing managers should also contribute to interpretations to broaden its scope.

Objective 4: Analysis and use marketing information

There are problems with how to best analyse and use customer data that arise from capturing info at every touch point with customer but having it scattered across the organization. To overcome such an issue, companies use **customer relationship management (CRM) -** managing detailed information about individual customers and carefully managing customer touch points to maximize customer loyalty. It consists of complex software tools that integrate customer information from all sources. CRM analysts use this info to create data warehouses and employ data mining techniques to unveil and interpret customer info stored there leading to uncovering marketing opportunities. The purpose of such warehouse is not only to store the information but have a central accessible location for it. CRM helps develop and maintain deeper relations with customers serving their needs more effectively and being able to employ better targeting. However, CRM can be expensive and risky, and should not be viewed as panacea for relationships, but marketer should focus on building them with the help of the software.

Distributing and using marketing information needs to be taken care of by providing regular reports and updates, entering it into a database to have a quick and user-friendly way to access it anytime. Many companies use intranet and internal CRM to facilitate the process. Additionally, companies allow supplier, customer and etc. access to company data through extranet for purposes such as updating accounts or checking inventories.

Objective 5: Marketing information issues

Marketing research in small businesses and non-profit organizations: many of the techniques discussed above can be used by small businesses and there is no need to always engage professionals. Secondary data, observation, survey and experiments can be used with organizations with small budgets. However, it is important to plan

and conduct them carefully.
International marketing research: researchers face different problems as markets are diverse in different countries. It can be difficult to obtain reliable secondary data, and gathering primary data may also be challenging due to differences in socioeconomic sources. In some countries relying on mail, telephone and internet is not possible due to poorer infrastructure. Additionally, language is an obstacle, as well as differences in attitudes and cultures.
Public policy and ethics in marketing research: misuse of marketing can harm and annoy customers.

- **Intrusions on consumer privacy:** increasing privacy concern are a problem for marketing research, as companies find valuable but potentially private information and need to maintain consumer trust. Additionally, shoppers what to receive personalized products which contradicts privacy concerns. Many companies appoint privacy officers to safeguard the consumers' privacy, as well as outline codes of conduct.
- **Misuse of research findings:** survey results can be abused and misinterpreted. Therefore, there are codes of conduct from several organizations, but researcher need to be aware that they bear responsibility for policing conduct and reporting of the findings to protect consumers.

5. Consumer markets and buyer behaviour

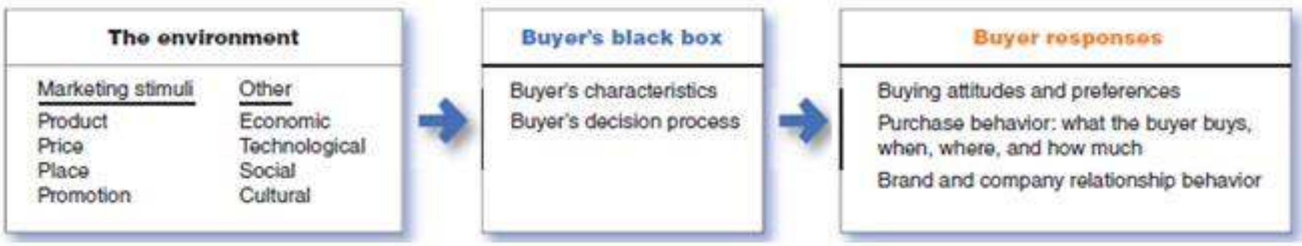
The consumer market consists of all the individuals and households that buy or acquire goods and services for personal consumption. Consumer buyer behaviour is influenced by four key sets of buyer characteristics: cultural, social, personal, and psychological. Buying behaviour may vary greatly across different types of products and buying decisions.

Example GoPro: GoPro engages that customers to become dedicated to the brand and encourages video sharing. This leads to very fast growth of the company. The cameras offered by GoPro combine great quality and attractive price. The company focuses on what the cameras allow the customers do in terms of capturing experiences. GoPro's success is based on understanding customers' needs and motivations and turning them into loyalty and enthusiasm by allowing sharing emotions.

Objective 1: Consumer market and model of consumer behaviour

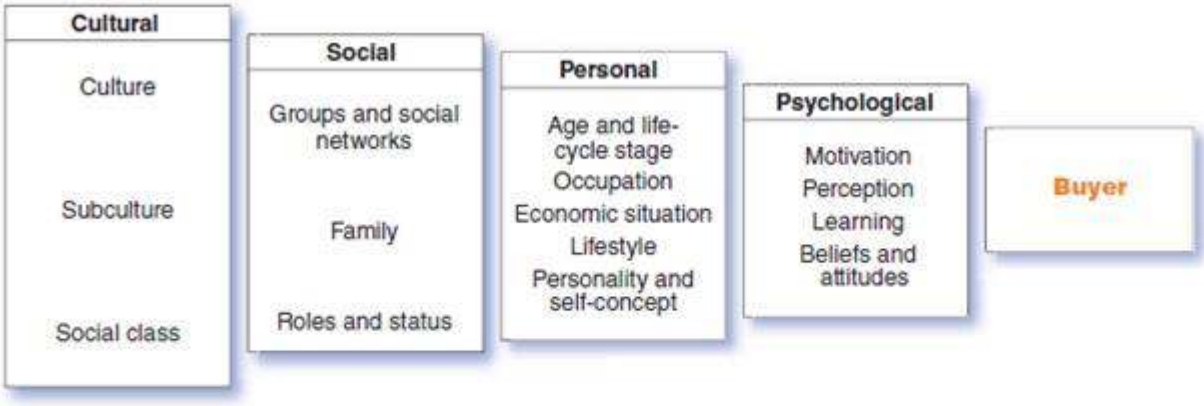
Consumer buyer behaviour - the buying behaviour of final consumers – individuals and households that buy goods and services for personal consumption. All the individuals and households that buy or acquire goods and services for personal consumption constitute a **consumer market**. It is important to examine factors that affect consumer behaviour.

Model of consumer behaviour:



Marketers try to study why consumers buy, which can be difficult as sometimes it is unexplainable by consumers themselves. Therefore, the central question described by the model is how consumers respond to various stimuli used in the company's marketing. Marketers want to find out how the stimuli are processes into responses.

Objective 2: 4 characteristics that affect consumer behavior



1. **Cultural factors:** they have a deep influence on consumer behaviour.
   - **Culture** - the set of basic values, perceptions, wants and behaviours learned by a member of society from family and other important institutions. Cultural influences vary greatly across and within countries. Marketers aim at discovering cultural shifts to create new products that may be wanted.
   - **Subculture** - a group of people with shared value systems based on common life experiences and situations. Subcultures include nationalities, religions, racial groups and geographic regions.
     - Hispanic American consumers: deeply family oriented, loyal, price sensitive, shop groceries more often.
     - African American consumers: brand, quality and selection are important.
     - Asian American consumers: very diverse, shop frequently and are brand conscious.
     - Cross-cultural marketing: including ethnic themes and cross-cultural perspectives into mainstream marketing.

- **Social class** - relatively permanent and ordered divisions in a society whose members share similar values, interests and behaviours. It is measured by a combination of income, occupation, education, wealth and etc. Social classes show distinct product and brand preferences.
  1. **Social factors:**
     - **Group** - two or more people who interact to accomplish individual or mutual goals. Reference groups serve as direct point of comparisons and have an influence on persons' behaviour and attitudes. Marketers try to identify these.
     - **Word of mouth influence** – the influence of personal words and recommendations of trusted friends, associates, and other consumers on buying behaviour.

- **Opinion leaders** - people within a reference group who, because of special skills, knowledge, personality or other characteristics, exerts social influence on others. Marketers try to identify and direct their efforts towards them. Buzz marketing involves enlisting or even creating opinion leaders to spread the word about products.
- **Online social networks** - online social communities – blogs, social networking websites, and virtual worlds – where people socialize or exchange information and opinions. These are used by marketers to promote products and build customer relationships. Although most brands have a social media presence, this requires marketers to be careful as they are hard to measure and control.
- **Family –** members can influence each other's buying behaviour and marketers are interested in their internal roles. Moreover the typical roles of husbands and wives are shifting and marketers need to adapt. In addition, children have a strong influence on all family decisions.
- **Occupation –** this affects the goods and services that are bought, allowing marketers to identify and specialize in such.
- **Economic situation –** income, interest rates, savings have an effect on choices and during recession many companies have been forces to redesign and reposition their offerings.
- **Lifestyle** - person's pattern of living as expressed in his or her activities, interest and opinions. It profiles the whole pattern of interactions with the world. It can help observe changes in values and buying behaviours.
- **Personality** - the unique psychological characteristics that distinguish a person or group.it can be useful in analysing behaviour for particular product or brand choices. Brands are also supposed to have personalities attributed to them by marketing and consumers are likely to choose those that match their own. To understand consumer actions marketers must understand relationship between consumers' self-image and possessions.

2. **Psychological factors:**
   - **Motive** - need that is sufficiently pressing to direct the person to seek satisfaction of the need. There are 2 most popular theories of human motivation. (1) Freud suggested that people are unconscious about the forces that shape their behaviour and cannot understand them. Motivation researcher use techniques to search for consumers'' hidden needs. (2) Maslow suggested that human needs are organized in a hierarchy (psychological, safety, social, esteem and self-actualization needs). Person

attempts to satisfy the most basic needs first, moving to the next steps once the previous is finished.

- **Perception** - process by which people select, organize and interpret information to from a meaningful picture of the world. This influences a person in different ways as perceptions are diverse because of the following perceptive processes. **Selective distortion** - tendency of people to interpret information in a way that will support what they already believe. Selective retention means that consumers are more likely to memorize positive characteristics of their favoured brand, and forget such of a competing brand. Therefore, marketers worry whether consumers will at all perceive their offers. Consumers are worried whether they are affected by marketing messages without knowing it – subliminal advertising - as there are so many out there.
- **Learning** - changes in an individual's behaviour arising from experience. Drive describes an internal stimulus calling for action and it turns into a motive once directed at stimulus object. Cues determine when, where and how a person responds influencing response in interest to buy the product.
- **Belief** - descriptive thought that a person holds about something based on knowledge, opinion and faith and can make up brand and product images. **Attitude** - person's consistently favourable or unfavourable evaluations, feelings and tendencies toward an object or idea. They are hard to change and thus, companies try to fit their products into existing ones.

Objective 3: Types of buying decision behaviour and the buyer decision process
Types of buying decision behaviour:

1. **Complex buying behaviour** - consumer buying behaviour in situations characterized by high consumer involvement (expensive, risky, rare product) in a purchase and significant perceived differences among brands. Buyer goes through a learning process developing attitudes and beliefs toward products.
2. **Dissonance-reducing buying behaviour** - Consumer buying behaviour in situations characterized by high involvement but few perceived difference among brands. Customers may respond to price and convenience. Post-purchase dissonance may occur afterwards as disadvantages are uncovered and hear favourable things about competitors' products.
3. **Habitual buying behaviour** - consumer buying behaviour in situations characterized by low consumer involvement (low-cost, frequently bought

products) and few significantly perceived brand differences. No extensive search occurs, and buyers are not highly committed to any brands.

4. **Variety-seeking buyer behaviour** - consumer buyer behaviour in situations characterized by low consumer involvement but significant perceived brand differences. Consumers switch brands often and try something different. In such situations marketing strategy of leaders and minors differs.

	High involvement	Low involvement
Significant differences between brands	Complex buying behavior	Variety-seeking buying behavior
Few differences between brands	Dissonance-reducing buying behavior	Habitual buying behavior

The buyer decision process:

Speed of passing through the stages may differ, and some stages may be skipped with routine purchases.

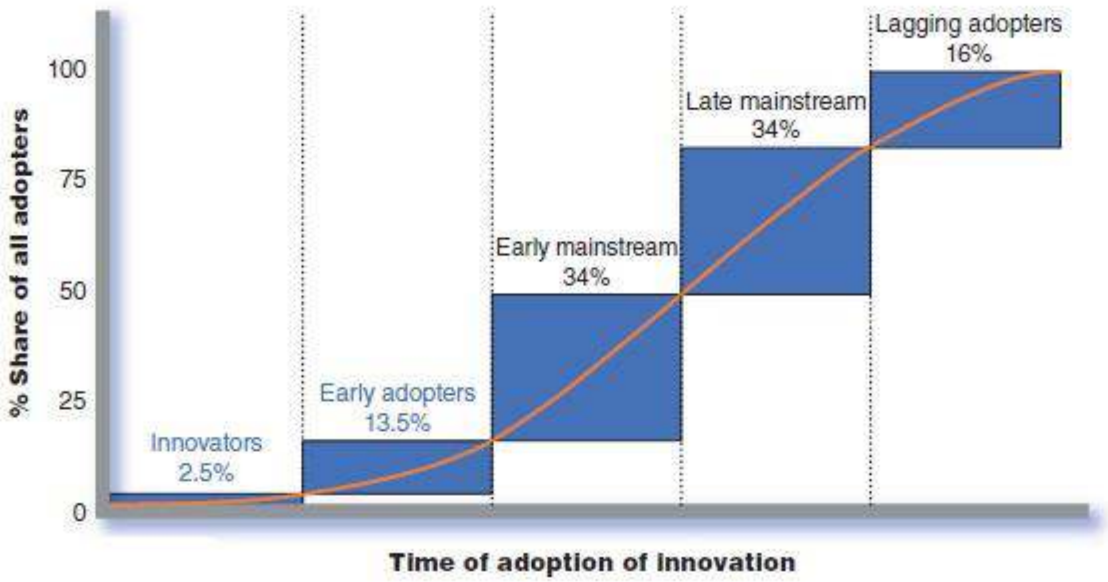
1. **Need recognition** - the first stage of the buyer decision process, in which the consumer recognizes a problem or need, triggered by either internal or external stimuli. Marketer should research what needs arise and what lead to products.
2. **Information search** - the stage of the buyer decision process in which the consumer is aroused to search for more information the consumer may simply have heightened attention or may go into an active information search. Information search will not occur if consumer's drive is strong and a suitable product is near. Info is obtained from several sources: personal, commercial, public, experiential. Personal are the most effective sources as they evaluate product for the buyer, although most info is received commercially. Companies should make information available so that consumers are able to gain knowledge about the brand.
3. **Evaluation of alternatives** - the stage in which the consumer uses information to evaluate alternative brands in the choice set. Several evaluation processes are involved and marketers need to study buyers and attributes of products to identify how evaluative processes occur and how decisions can be affected.
4. **Purchase decision** - the buyer's decision about which brand to purchase. 2 factors can come between purchase decision and intention: attitudes of others and unexpected situational factors.

5. **Post-purchase behaviour** - the stage in which the consumer takes further action after purchase based on their satisfaction or dissatisfaction with a purchase. Satisfaction is determined by expectations and perceived performance of the product. Most of purchases result in cognitive dissonance – buyer's discomfort caused by post purchase conflict. Marketers should try to satisfy customers and can go beyond that by delighting them.
6. By studying the whole process marketers are able to help consumers go through it.

Objective 4: Adoption and diffusion process for new products
New product - good, service or idea that is perceived by some potential customers as new. **Adoption process** - the mental process through which an individual passes from first hearing about an innovation to final adoption. Adoption is when one begins to regularly use the product.
Stages in adoption process:

1. *Awareness* of new product, but lack of info
2. *Interest* in seeking info about product
3. *Evaluation* of the product
4. *Trial* of the new product on a small scale
5. *Adoption* in terms of decision to make full and regular use of the product

Marketers should help consumers move through these stages.



Individual differences in innovativeness: some are consumption pioneers or early adopters, whereas others lag adoption. This suggests that innovative companies should identify characteristics of innovators and early adopters and target them with marketing.

Influence of product characteristics on rate of adoption: 5 characteristics are especially important in influencing the rate. They are the following.

1. Relative advantage: whether innovation is superior compared to existing products
2. Compatibility: whether innovation fits existing values and experiences of potential consumers
3. Complexity: whether innovation is difficult to understand/use
4. Divisibility: whether innovation may be tried on limited basis
5. Communicability: whether results of using it can be described or observed by others

6. Business markets and buyer behaviour

The business market comprises all organizations that buy goods and services for use in the production of other products and services or for the purpose of reselling or renting them to others at a profit. As compared to consumer markets, business markets usually have fewer but larger buyers. Business buyers make decisions that vary with the three types of buying situations: straight rebuys, modified rebuys, and new tasks. The business buying decision process itself can be quite involved, with eight basic stages. The institutional markets consists of schools, hospitals, prisons, and other institutions that provide goods and services to people in their care.

Example KarmSolar: KarmSolar faced challenges of convincing customer that solar energy is cheaper than alternatives and competing with heavily governmentally subsidized conventional energy sources. The company provides B2B unique solutions meeting precise clients' needs and strives to stay ahead of the competition. It built long lasting relationships with clients and providing them with comprehensive solutions and personal approach providing not only energy but solutions and explanations.

Objective 1: Business markets

Business buyer behaviour - the buying behaviour of organizations that buy goods and services for use in the production of other products and services that are sold, rented or supplied to others. **Business buying process** - the decision process by which business buyers determine which products and services their organizations need to purchase and then find, evaluate and choose among alternative suppliers and brands. B2B marketers attempt to understand the concepts and build profitable relationships with business buyers.

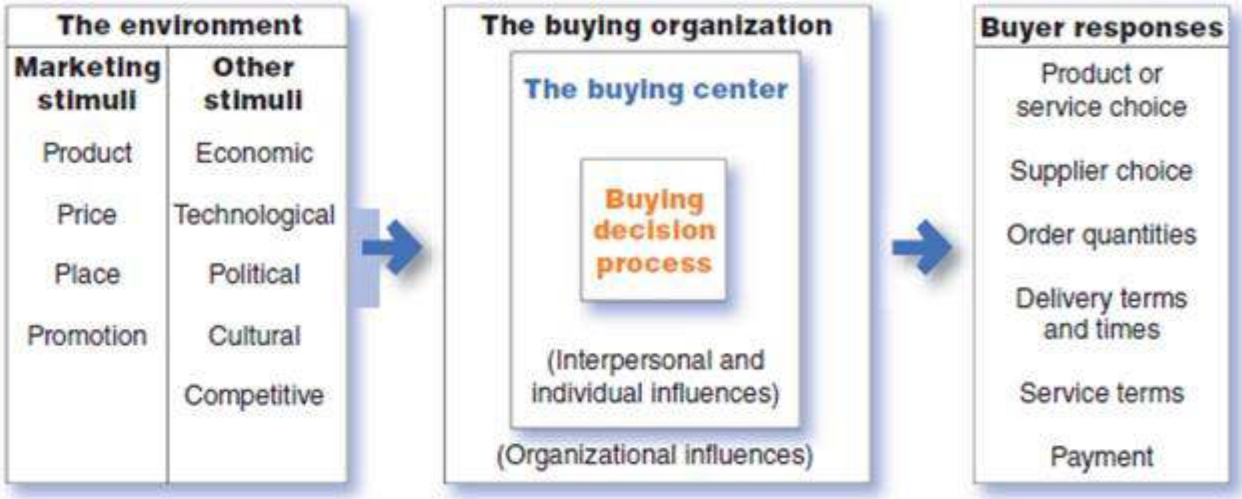
The following provides an overview of the **differences of business markets** compared to consumer markets.

- **Market structure and demand:** Business marketers are involved with fewer and larger buyers. **Derived demand** is the demand that ultimately comes from (derives from) the demand for consumer goods and constitutes business demand. Business markets display unrealistic and fluctuating demand that changes quicker and more.
- **Nature of buying unit:** business purchasing comprises of more decision participants and professional purchasing effort.
    - **Types of decisions and processes:** decisions tend to be more complex making the process more formalized and longer where buyer and seller depend on each other. Many customer companies practice **supplier development** - systematic development of networks of supplier-

partners to ensure an appropriate and dependable supply of products and materials for use in making products or reselling them to others.

Objective 2: Business buyer behaviour

Model of business buyer behaviour:



In organizations buying comprises of buying centre and buying decision process.

Major types of buying situations:

1. **Straight rebuy** - a business buying situation in which the buy routinely reorders something without any modifications.
2. **Modified rebuy** - a business buying situation in which the buyer wants to modify the product specifications, prices terms or suppliers.
3. **New task** - a business buying situation in which the buyer purchases a product or service for the first time.

- Buyers make most decisions in new task as marketer provides help and as much info as possible, and least in straight rebuy.

Systems selling (or solutions selling) - buying a packaged solution to a problem from a single seller, thus avoiding all the separate decisions involved in a complex buying situation.

Participants in the business buying process:

Buying centre - all the individuals and units that play a role in the purchase decision making process comprise the decision making unit of a buying organization. The centre is not fixed and formally identified, but is flexible and roles can be fulfilled by different people. The center includes the following roles:

1. **Users** - members of the buying organization, who will actually use the purchased product or service.

2. **Influencers** - people in an organization's buying centre, who affect the buying decision: they often help define specifications and also provide information for evaluating alternatives.
3. **Buyers** - people in an organization's buying centre, who actually make the purchase.
4. **Deciders** - People in an organization's buying centre, who have formal or informal power to select or approve the final suppliers.
5. **Gatekeepers** - People in an organization's buying centre, who control the flow of information to others.

The buying centre concept is a challenge for marketing, as marketers need to learn who participates in the process and what the extent of their power is. Some participants are formal and some are informal and less obvious.
Influences on business buyers:

- **Environmental factors:** business buyers are heavily influenced by economic environment, and factors such as demand, cost of money, and outlook; supply of key materials affects buying as scarce materials are keenly held in inventory; culture and customs influence reactions too especially in international environments.
- **Organizational factors:** these include questions about strategy, objective, structure, procedures of the buying organization.
- **Interpersonal factors:** these matter as the buying centre includes participants that influence each other; it is difficult to assess them and determine who has the most influence.
- **Individual factors:** these include personal motives, perceptions and preferences.

Objective 3: Business buying process and e-procurement
Buying business process:

1. **Problem recognition –** when someone in the company recognizes a problem or a need that can be met by acquiring a good or a service. In advertising business marketers make potential customers aware of advantages of products and services.
2. **General need description** - A buyer describes the general characteristics and quantity of a needed item, often by working with other departments.
3. **Product specification** - the buying organization decides on and specifies the best technical product characteristics for a needed item. Product value analysis can be used to reduce costs by studying how components can be redesigned or standardized.

4. **Supplier search** - the buyer tries to find the best vendors by putting together a list through directory or internet search and contacting companies.
5. **Proposal solicitation** - the buyer invites qualified suppliers to submit proposals.
6. **Supplier selection** - the buyer reviews proposals and selects a supplier or suppliers based on a variety of qualities such as reputation, on-time delivery, prices, ethics etc.
7. **Order-routine specification** - the buyer writes the final order with the chosen suppliers, listing the technical specifications, quantity needed, and expected time of delivery, return policies and warranties. Many buyers use vendor-managed inventory, where ordering and inventory becomes responsibility of suppliers.
8. **Performance review** - the buyer assesses the performance of the supplier and decides to continue, modify or drop the arrangement.

E-procurement - purchasing through electronic connections between buyers and sellers – usually online. Is gives buyers access to more suppliers, lower costs and makes ordering easier. Marketers can connect customers online and maintain relationships. Companies do e-procurement in the following ways:

- **Reverse auctions:** requests are put online and suppliers are invited to bid.
- **Trading exchanges:** companies work collectively to facilitate trading.
- **Company buying sites:** set up by companies.
- **Extranet links:** created for key suppliers.
- **Digital and social marketing** are becoming the new tools for engaging business customers.

E-procurement yields many benefits, such as reducing transaction costs, increasing efficiency, eliminating paperwork and freeing purchasers from spending time doing it. The problems with e-procurement include buyers using internet to turn suppliers against each other and hunt better deals, security concerns are related to confidential transactions occurring outside of the company's network.

Objective 4: Institutional and government markets

Institutional markets are school, hospitals, nursing homes, prisons and other institutions that provide goods and services to people in their care. Each institutions needs different resources, has limited budgets and captive patrons. Separate divisions are often set up to market products for institutions.

Government markets are governmental units – federal, state and local – that purchase or rent goods and services for carrying out the main functions of the government. IN many countries they are major buyers of goods and services. Governments often require suppliers to submit bids and pay on negotiate contract basis. Domestic suppliers are usually favoured. Governments are affected by the same factors, and additionally require more paperwork as they are subject to public view.

Often noneconomic criteria play a role in government buying favouring depressed or small businesses. Government selling requires less marketing efforts as spending is determined by elected officials where price is emphasized and differentiation is not that important.

7. Customer-driven marketing strategy

There are 4 major elements of customer-driven marketing strategy: segmentation, tapering, differentiation, and positioning. There are multiple ways to segment the market which can be used together. Target market is a set of buyers sharing common needs or characteristic that the company decides to serve. Target marketing can be carried out on 4 levels and best strategy depends on resources. A position of a product consists of a sophisticated set of perceptions, impressions and feelings of consumers for the products compared to a competing one. The company's marketing mix should support the positing strategy.

Example AirAsia: AirAsia started as the first Asian budget airline. The company has been cutting costs through more seats on the planes, secondary airports and not frequent flyer programs. Best possible service is provided to customers over the internet. The company has been successful so far; however, it is facing challenges due to rising operational costs.

Objective 1: Customer-driven marketing strategy

Most companies have moved away from mass marketing and use target marketing: developing products and services tailored to one of the specific identified market segments, focusing on consumers who have the greatest interest in the values company can deliver best.

4 steps in deigning customer driven marketing strategy:

Market segmentation - dividing a market into smaller segments with distinct needs, characteristics or behaviour that might require separate marketing strategies or mixes.

Market targeting - the process of evaluating each market segment's attractiveness and selecting one or more segments to enter.

Differentiation - differentiating the market offering to create superior customer value.

Positioning - Arranging for a market offering to occupy a clear, distinctive and desirable place relative to competing products in the minds of target consumers.

Objective 2: Market segmentation

Geographic segmentation - dividing a market into different geographical units, such as nations, states, regions, counties, cities or even neighbourhoods. Many companies

choose to localize their effort to fit individual needs.
Demographic segmentation - dividing the market into segments based upon variables such as age, gender, family size, life cycle, income, occupation, education, religion, race, generation and nationality. These factors are the most popular segmentation basis because they are close to needs and wants and easy to measure.

- **Age and life cycle segmentation** - dividing a market into different age and life cycle groups.
- **Gender segmentation** - dividing a market into different segments based on gender (often used in toiletries, clothing, cosmetics, and magazines).
- **Income segmentation** - dividing a market into different income segments (clothing, cosmetics, travel, financial services).

Psychographic segmentation - dividing a market into different segments based on social class, lifestyle or personality characteristics. People may be in the same demographic group but have different psychographic characteristics.
Behavioral segmentation - dividing a market into segments based on consumer knowledge, attitudes, uses or responses to a product.

- **Occasion segmentation** - segments according to occasions when buyers get the idea to buy, actually make their purchase or use the purchased item. It can help firms increase product usage.
- **Benefit segmentation** - segments according to the different benefits that consumer seek from the product.
- **User status** – markets can be divided into non-users, ex-users, potential users, first-time users, regular users.
- **Usage rate** – markets can be split into light, medium and heavy users.
- **Loyalty status –** the segmentation can be done based on degree of user loyalty.

Multiple segmentation bases are often used to identify better-defined, smaller target customer groups. **PRIZM** is a tool by the Nielsen Company to classify households based on demographic, behavioural and lifestyle factors. Such tools help identify and understand key segments and reach them more efficiently adjusting offering to their wants and needs.
Segmenting international markets can be done by combining several variables based on for instance, geographic location, and economic, political and legal factors. Intermarket segmentation (cross-market segmentation) can be used, forming segments of consumers who have similar needs and buying behaviour even though they are located in different countries.
Requirements for effective segmentation:

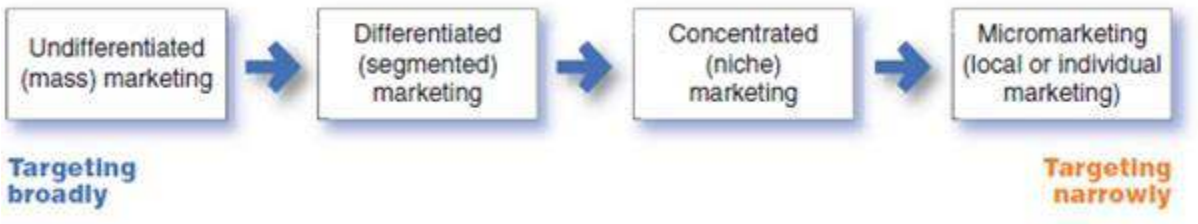
- **Measurable**: size, purchasing power, and profiles can be measured.
- **Accessible**: segments can be successfully reached and served.

- **Substantial**: market segments are big / lucrative enough to serve.
- **Differentiable**: segments are conceptually distinct and respond diversely to various marketing mix elements and programs.
- **Actionable**: effective programs can be created for appealing to and serving the segments.

Objective 3: Market targeting

Evaluating market segments: 3 factors need to be taken into consideration – size and growth, structural attractiveness, and company objectives and resources. The company should evaluate threats of competition, new entrants and substitute products, as well as power of buyers and suppliers. The segments the company enters have to provide potential to create superior value for the customers and become better than competitors.

Selecting target market segments:



Target market is a set of buyers sharing common needs or characteristic that the company decides to serve. Target marketing can be carried out on the following levels:

- **Undifferentiated marketing** - a market-coverage strategy in which a firm decides to ignore market segment differences and go after the whole market with one offer. It is difficult to ensure the product satisfies all the customers and is able to compete with focused firms.
- **Differentiated marketing** - a market-coverage strategy in which a firm decides to target several market segments and designs separate offers for each. By offering such variation companies aim at higher sales and stronger market position. However, it can also increase costs of conducting business.
- **Concentrated (niche) marketing** - a market-coverage strategy in which a firm goes after a large share of one or a few segments or niches. The firm achieves string market position as its knowledge of needs deepens and reputation improves. Limited resources can be targeted at reaching deep niches and companies can become highly profitable. However, such firm also bear higher risks of competition and loss of segment.
- **Micromarketing** - tailoring products and marketing programs to the needs and want of specific individuals and local customer segments.
    - **Local marketing** - tailoring brands and promotions to the needs and wants of local customer segments – cities, neighbourhoods and even

specific stores. Advances in technology enable highly localized marketing where consumers can be engaged locally via their GPS, for example. Such marketing drives up costs and reduces economies of scale.

- **Individual marketing** - tailoring products and marketing programs to the needs and preferences of individual customers – also called one-to-one marketing, customized marketing and markets-of-one marketing. In this case relationships with customers become most important.

Choosing targeting strategy: best strategy depends on company's resources. When they are limited concentrated marketing is the most suitable. Undifferentiated marketing is better for uniform products, and those that vary in design work better with differentiation and concentration. Life cycle stage of product should also be considered. New products should use undifferentiated or concentrated marketing. With low market variability (buyers with same tastes) undifferentiated marketing work best. Finally, the opposite of competitors' strategies provides better competitive advantage.

Socially responsible target marketing: targeting can generate controversy and concerns if vulnerable or disadvantaged customers are targeted with potentially harmful products. Also problems may appear when marketing of adult products also move onto children. Especially internet allows for targeting most vulnerable with questionable products. Socially responsible marketing call for targeting with consideration of consumers' interests and focusing on how and for what they are targeted.

Objective 4: Differentiation and positioning

Product position - the way the product is defined by consumers on important attributes – the place the product occupies in consumers' minds relative to competing products. A position of a product consists of a sophisticated set of perceptions, impressions and feelings of consumers for the products compared to a competing one.

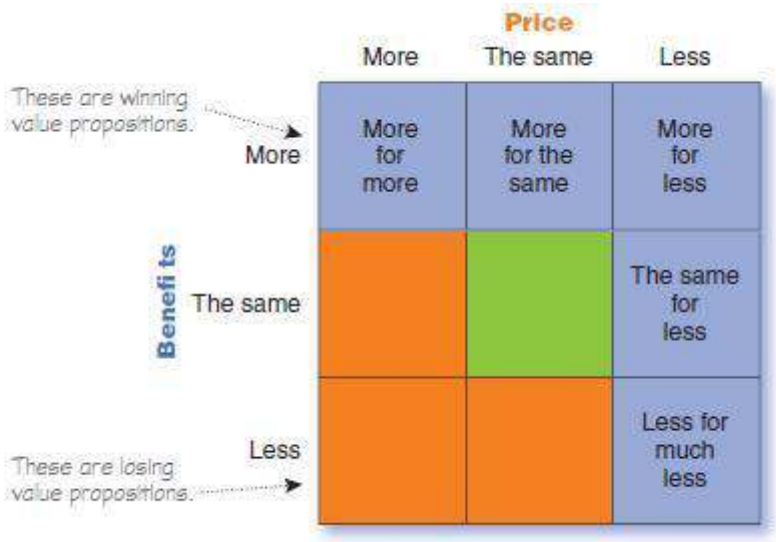
Positioning maps show consumer perceptions of brands versus competitors.

Choosing differentiation and positioning strategy: the strategy must serve the needs to identified target segment. The task consists of 3 steps:

1. To identify a set of differentiating competitive advantages on which to build position marketers must understand needs and deliver value and gain **competitive advantage** - an advantage over competitors gained by offering greater customer value, either by having lower prices or providing more benefits that justify higher prices. The company needs to definitely deliver what it offers in the position. Companies can differentiate themselves along the lines of:
    - Product – features, performance, style and design.
    - Services – speedy, convenient, careful delivery.

- Channels – coverage, expertise, performance.
- People – hiring and training better.
- Image – conveying distinctive benefits and positioning.

2. Choosing the right competitive advantages entails deciding how many differences to promote and which ones:
    - How many differences to promote: one opinion is that company should develop a unique selling proposition and focus on one difference and become number one brand in it. The other is that companies should use more than one differentiator to avoid situations where more than one firm claims to be the best in the attribute.
    - Which differences to promote: not all differences are meaningful. A worthwhile difference should fit the following criteria:
        - Important: difference brings a highly valued advantage to target buyers.
        - Distinctive: competitors do not provide the difference, or the company can supply it in a more distinctive way.
        - Superior: difference is superior compared to ways to gain the same benefit.
        - Communicable: difference is communicable and visible.
        - Pre-emptive: competitors cannot easily copy difference.
        - Affordable: it is cheap enough for buyers to pay.
        - Profitable: company can use it profitably.
3. Selecting an overall positioning strategy leads to establishing **value proposition** - the full propositioning of a brand – the full mix of benefits on which it is positioned. There are 5 winning value propositions:
    - **More for more:** providing superior product or service for a higher price; it gives prestige to buyer and provide higher quality symbolizing status; it can be a vulnerable strategy, as imitators can provide the same at lower price.
    - **More for the same:** firms can attack more for more positioning by providing comparable quality for lower price.
    - **The same for less:** offer the same brands or initiative brands for a lower price
    - **Less for much less:** not everyone can afford the very best, thus lower performance and quality requirements can be met for lower price.
    - **More for less:** in the long-run this strategy is difficult to sustain.



Developing a positioning statement: a statement that summarizes company or brand positioning.
Communicating and delivering the chosen position: the company's marketing mix should support the positing strategy. Company needs to deliver the position it describes and design marketing mix accordingly. The pitfall is that it is easier to come up with a good strategy than implement and maintain it. The position needs to be monitored closely and adapted to the changing market environment to remain sustainable.

8. Products, services and brands

Products are key part of market offering as marketing mix planning starts with creating an offering for customer value delivery which becomes the basis for profitable relationships. Often the offering consists of both products and services. There are various product attributes and service characteristics. Sometimes brands are defined as major enduring assets of companies outliving specific products and services. Companies must carefully manage brands and ensure brands are maintained by customer experiences by managing all touch points with customers.

Example Nike: Nike revolutionized marketing in the 80s by building a strong brand image, using endorsements and big budget ads. In the 90s they outdid competitors by adding lots of new products and sports. However, by the end of 90s their success cooled down and the brand became common. So to change the situation Nike turned to heavy focus on customers and new products, and began using digital and social media creative marketing. Such deep relationships with customers that Nike created gave the company a unique competitive advantage providing customers with not just the product, but an experience.

Objective 1: Product and major classification of products and services

Product is anything that can be offered to a market for attention, acquisition, use or consumption that might satisfy a want or need, including services, events, places, etc.

Service is given special attention to as it is activity, benefit or satisfaction offered for sale that is essentially intangible and does not result in the ownership of anything (e.g. banking, travel, retail, etc.).

Products, Services, and Experiences: products are key part of market offering as marketing mix planning starts with creating an offering for customer value delivery which becomes the basis for profitable relationships. Often the offering consists of both products and services. Sometimes it includes pure tangible goods or pure services. To differentiate the offering firms provide both and deliver experiences, and customers buy what company's offers do for them.

Three levels of products and services: (each adds more value for customer)

1. Core customer value: defining core benefits that consumers seek.
2. Actual product: what the core value is turned to, developing features, design, brand, packaging, etc.
3. Augmented product: additional service and benefits, creating most value and brand experience (e.g. aftersales service, warranty, product support, etc.).

Product and service classifications: (1) consumer products and (2) industrial products.

Consumer products:

- Bought by final consumers for a personal consumption, classified based on based on how consumers buy them.
- Convenience product - a consumer product that customers usually buy frequently, immediately and with minimal comparison and buying effort.
- Shopping product - a consumer product that the customer, in the process of selecting and purchasing, usually compares in such attributes, such as suitability, quality, price and style.
- Specialty product - a consumer product with unique characteristics or brand identification for which a significant group of buyers is willing to make a special purchasing effort.
- Unsought product - a consumer product that the consumer does not know about or knows about but does not normally consider buying.

	Type of Consumer Product			
Marketing Considerations	**Convenience**	**Shopping**	**Specialty**	**Unsought**
Customer buying behavior	Frequent purchase; little planning, little comparison or shopping effort; low customer involvement	Less frequent purchase; much planning and shopping effort; comparison of brands on price, quality, and style	Strong brand preference and loyalty; special purchase effort; little comparison of brands; low price sensitivity	Little product awareness or knowledge (or, if aware, little or even negative interest)
Price	Low price	Higher price	High price	Varies
Distribution	Widespread distribution; convenient locations	Selective distribution in fewer outlets	Exclusive distribution in only one or a few outlets per market area	Varies
Promotion	Mass promotion by the producer	Advertising and personal selling by both the producer and resellers	More carefully targeted promotion by both the producer and resellers	Aggressive advertising and personal selling by the producer and resellers
Examples	Toothpaste, magazines, and laundry detergent	Major appliances, televisions, furniture, and clothing	Luxury goods, such as Rolex watches or fine crystal	Life insurance and Red Cross blood donations

Industrial products:

- bought by individuals and organizations for further processing or for use in conducting a business; the distinction between consumer and industrial is based upon their purpose, the same product can be both depending on what situation the customer decides to use it in.
- Materials and parts – these consist of raw and manufactured materials and parts sold directly to industrial users with price and service as major marketing factors.
- Capital items – assist buyers in production or operations (e.g. installations and accessory equipment).
- Supplies and services – such as operating supplies and repair and maintenance items.

Organizations, Persons, Places, and Ideas: these are also products included to broaden the concept. There are marketing activities to 'sell' the organization such as:

- Organization marketing – activities to create, maintain and change attitudes and behaviours towards the organizations of targeted consumers.
- Corporate image marketing – is used to polish company images.
- Person marketing - activities to create, maintain and change attitudes and behaviours towards specific persons.
- Place marketing - activities to create, maintain and change attitudes and behaviours towards specific places.
- Ideas can also be marketed; social marketing is using commercial marketing concepts and tools in programs designed to influence individuals' behaviour to improve their well-being and that of society, meaning marketing social ideas.

Objective 2: Product and service decisions
Product and service attributes: (these decisions define benefits of the offering)

- **Product quality** – is the major positioning tool defining characteristics of product or service that bear on its ability to satisfy stated or implied customer needs. Some companies use total quality management, constantly improving quality of products, service and business processes, often taking a return on quality approach viewing quality as investment. Quality has 2 dimensions: level (performance quality as ability to perform the functions) and consistency (conformance quality as freedom from defects and consistency of delivery).
- **Product features –** product can be offered to customers with different features.
- **Product style and design –** is another way to add customer value and make it distinct; style describes appearance, design contributes to usefulness and looks.

Branding:

- name, term, sign, symbol, design or a combination of these that identifies the products or services of one seller or group of sellers and differentiates them from those of competitors, customers add meaning to brands and develop relationships with them. Brands can help buyers identify products and their benefits, providing legal protection to sellers and helping them to segment the markets.

Packaging:

- Activities of designing and producing the container or wrapper for a product, and is an important marketing tool to communicate position and attract buyers apart from holding and protecting it. Over packaging raises concern about the environment, whereas innovative packaging can provide competitive advantage.

Labeling:

- This includes tags attached to products as part of packaging; they identify products, describe its contents, and promote the brand; labels can become the essential element of brand-customer connection, as well as cause legal concerns since sellers need to ensure to include all the required info.

Product support service:

- Customer service is part of brand experience, its value to customers' needs to be assessed and various digital technologies can be used to provide the support.

Product line decisions: product line is a group of products that are closely related because they function in a similar manner, are sold to the same customer groups, are marketed through the same types of outlets, or fall within given price ranges. One of the most important product line decisions is its length in terms of the number of items. The line can be expanded by filling (adding items within the present range) or stretching (lengthening beyond the current range). Companies can stretch lines downward (to plug a market hole) and upward (to add prestige to current products).
Product mix decisions: product mix (or portfolio) is the set of all product lines and items that a particular seller offers for sale. It has 4 dimensions that help define product strategy and provide ways to increase business:

- width (number of various product lines)
- length (number of items within the product lines)
- depth (number of versions of each product in the line)
- consistency (how closely related the product lines are)

Objective 3: Services marketing
Services are growing very fast and service industries vary from governments to private non-profit organizations to business organizations.
Service characteristics:

1. Service intangibility - services cannot be seen, tasted, felt, heard or smelled before they are bought. Buyers search for signals of quality to reduce uncertainty.
2. Service inseparability - services are produced and consumed at the same time and cannot be separated from their providers, having employee being part of

the service making provider-customer interaction a special feature of service marketing.

3. Service variability - the quality of services may vary greatly depending on who provides them and when, where and how.
4. Service perishability - services cannot be stored for later sale or use, which may become a problem when demand is fluctuating.

Marketing strategies for service firms:

- **Service profit chain** - the chain that links service firm profits with employee and customer satisfaction. It consists of 5 links:
    - **Internal service quality**: (superior employees training and selecting good work environment and support leading to …)
    - **Satisfied and productive service employees**: (loyal and hardworking employees leading to …)
    - **Greater service value**: (increased effectiveness and efficiency of customer value creation resulting in…)
    - **Healthy service profits and growth**: (superior service performance).
- **Internal marketing** - orienting and motivating customer-contact employees and supporting service people to work as a team to provide customer satisfaction; it involves making everyone customer-centred and comes before external marketing.
- **Interactive marketing -** training service employees in the fine art of interacting with customers to satisfy their needs.

Service companies marketing tasks:

- **Managing service differentiation:** to become distinct from competitors, a differentiated offer, image and delivery should be developed. Offer includes feature that will set company apart from competitors' products. Differentiating by delivery includes having more reliable customer-contact employees or designing a superior delivery process. Images can be differentiated through symbols and branding.
- **Managing service quality:** service can be differentiated by providing higher quality to consumers than competitors, and most companies employ customer-driven quality technique. However, this characteristic is harder to define and judge, with customer retention as perhaps the best measure. Service quality will always vary depending on the interaction, leading to importance of service recovery to win over angry customers.
- **Managing service productivity:** as costs rise, it is important to increase service productivity, which can be done in 3 ways:
    - By training current employees or hiring more skilful ones

- By increasing quantity of service by giving up some quality, which although efficient in the short-run, can reduce ability innovate, maintain quality and responsiveness to customer needs.
- By harnessing the power of technology

Objective 4: Branding strategy
Sometimes brands are defined as major enduring assets of companies outliving specific products and services.
Brand equity:

- Brands are key elements to customer relationships, representing their emotions and perceptions about products.
- Brand equity is the differential effect that knowing the brand name has on customer response to the product or its marketing; it is a measure of ability of capturing preference and loyalty.
- Brand Asset valuator uses 4 dimensions to assess brands' strength:
  - Differentiation (what makes brand distinct)
  - Relevance (consumers perception on brand fulfilling their needs)
  - Knowledge (how much is known by consumers about it)
  - Esteem (whether consumers respect the brand)
- Positive equity increases connections with a brand and can be a valuable asset. Brand valuation is a measure which estimates the total financial value of a brand. Powerful brands have many competitive advantages such as high loyalty and awareness, more leverage when negotiating with resellers, increased credibility, and defence against price competition.
- Customer equity underlines brand equity. The former is the value of the customer relationships created by the brand, leading to companies thinking of themselves as portfolios of customers.

Building strong brands: this involves strategy decisions in 4 major areas:

1. Brand positioning: brands can be positioned on 3 levels: on product attributes (is dangerous, as attributes can be copied and so not interest consumers as such), on desirable benefit, and on strong beliefs and values. Successful brands engage customers on deep emotional level, establishing a mission and vision for a brand.
2. Brand name selection: the process begins with reviewing benefits, target customers and proposed strategies. Desirable names should include the following:
   - Suggest something about the product's benefits
   - Be easy to pronounce, recognize and remember
   - Be distinctive
   - Be extendable

- Be easily translated into different languages
- Be capable of registration and legal procedures

3. Brand sponsorship: products can be launched as national or store bands. **Store brands** (or private brands) are created and owned by a reseller of a product or service. Nowadays store brands are growing much faster than national brands; they offer wide selection and high quality. Additionally, retailers have advantages in this battle of brands as they can choose which brands to stock and how to price they own brands. National brands in turn improve their value propositions and offer discounts and promotions.
   a. **Licensing** is a practice of using names, symbols such a celebrities to market the brands for a fee.
   b. **Co-branding** is a practice of using the established brand names of two different companies on the same product allowing to expand brands into directions which may be otherwise hard to enter taking advantage of complementary strengths of 2 brands. The limitation of this practice is complex legal agreements and need to trust the partners.
4. Brand development: the following are the major strategies for development:
   . **Line extension** - extending an existing brand name to new forms, colours, sizes, ingredients or flavours of an existing product category. The danger is that such development can cannibalize existing items.
   a. **Brand extension** - extending an existing brand name to new product categories, giving the product instant recognition and faster acceptance saving some advertising costs. However, it the extension fails, it may harm other products too and existing brand names may not be fitting.
   b. **Multiband –** this includes marketing many different brands in a given product category and offers ways to establish different features for different segments, lock up more resellers and gain more market share. The drawback is that each product may obtain only a small market share.
   c. **New brands –** involves creating an entirely new brand name, when for instance entering a new product category.

Managing brands: companies must carefully manage brands and ensure brands are maintained by customer experiences by managing all touch points with customers. Workers need to be trained to be customer centred, and distributors and dealers can also be discovered to add to the experience. Lastly, brands strengths and weaknesses need to be audited periodically.

9. New product development

There are 2 ways to obtain new products: through acquisition of companies, patents, or licenses and through new-product development. Companies must set up a clear customer driven new-product development process. Managing new product development requires customer-centred, team based, systematic effort to be successful. Product life cycle (PLC) is the course of a product's sale and profits over its lifetime and is used to ensure consistent profit earning from the product. It involves five distinct stages. Marketers should consider public policy issues and regulations regarding acquiring or dropping products.

Example Samsung: Samsung was not very well known 20 years ago and was far from cutting-edge. However, in 1993 the company decided to move away from its copycat strategy and overtake the major rival Sony by innovation. The company hired new designers and managers who were young and unleashed many new products. The company also put customers at core and began working to provide customer experiences. Nowadays Samsung invests heavily into R&D to maintain its competitive advantage and it continuing to wow the consumers with new products.

Objective 1: New-product development strategy

There are 2 ways to obtain new products:

- Through **acquisition** of companies, patents, or licenses.
- Through **new-product development** of original products, product improvements, product modifications and new brands through the firm's own product development efforts. These bring new solutions to customers and are key for company growth.
- Innovation can be risky and expensive. Many ideas fail because market size is overestimated, designs are poor, products are positioned wrongly, and costs of development may be higher than expected, etc.

Objective 2: New-product development process and management

Companies must set up a clear customer driven new-product development process consisting of the following 8 steps:

1. **Idea generation** - the systematic search for new-product ideas. Internal idea sources include R&D departments at companies, as well as other employees from executives to salespeople through for instance internal social networks and intrapreneural programs. External idea sources are distributors and suppliers as they are close to markets and new concepts and techniques; competitors who also introduce new products; customers as they pose questions and complaints, and are able to share suggestions. **Crowdsourcing** is

used by many companies to develop new ideas by inviting broad communities or people – customers, employees, independent scientists, researchers, public at large – into the new-product innovation process allowing to produce unexpected new ideas.

2. **Idea screening** - screening new product ideas to spot good ideas and drop poor ones as soon as possible reducing the number of ideas from previous stage and going forward with only the profitable ones. The R-W-W framework can be used to screen ideas where 3 questions are asked: is it **real**, can we **win** and is it **worth** doing.
3. **Concept development and testing –** is when attractive ideas are developed into a **product concept** - a detailed version of the new product idea stated in meaningful consumer terms. Marketers tend to develop a variety of concepts for a new product to identify the one that appeals to customers most. Concept testing involves testing the proposed concepts with groups of target customers and presenting them symbolically or physically. Potential customers are exposed to the concept and then asked to answer questions about it.
4. **Marketing strategy development** - designing an initial marketing strategy for a new product based on the product concept. Marketing strategy statement has 3 parts: (1) description of target market, planned value proposition, and sales, market share, and profit growth for next years; (2) outline of planned price, distribution, and marketing budget for year 1; and (3) description of long-run sales, profit goals and marketing mix.
5. **Business analysis** - a review of the sales, costs and profit projections for a new product (by looking at history of similar ones and conducting surveys) to find out whether these factors satisfy the company's objectives and assess the risks.
6. **Product development** - developing the product concept into a physical product to ensure that the product idea can be turned into a workable market offering and is usually done by the R&D department and includes testing with actual consumers (to ensure presence of required functional and psychological characteristics).
7. **Test marketing** - the stage of new-product development in which the product and its proposed marketing program are tested in realistic market settings to give the marketer experience and test marketing program before spending on full introduction. Test marketing can be expensive and often companies do not perform it for simple line extensions of low production costs. However, when required investment or risks are high, a lot of test marketing can be done. As an alternative companies may use controlled or simulated test markets, where products are either tested on a controlled panel of shoppers in stores or on shopper in laboratory stores or simulated online environments.
8. **Commercialization** - introducing a new product into the market associated with high costs. Launching a new products, company must decide on timing (from as

soon as possible to be first-movers to later due to current weak economy) and on where to launch the product (from single location to international market).

Managing new product development: requires customer-centred, team based, systematic effort to be successful.
Customer-centered new-product development:

- Customer-centred new-product development focuses on finding new ways to solve customer problems and create more customer-satisfying experiences by understanding and involving customers in the process.

Team-based new-product development:

- Team-based new-product development is an approach to developing new products in which various company departments work closely together, overlapping the steps in the product development process to save time and increase effectiveness. It requires a complete company cross-functional effort. Team-based approach however, may lead to organizational tension and confusion.

Systematic new-product development:

- New-product development should be holistic and systematic with commitment from the whole firm, and not compartmentalized and precarious. To ensure this, companies can install innovation management systems to collect, review, evaluate and manage new product ideas. This helps create innovation-focused company culture and generate more new product ideas.

New-product development in turbulent times:

- In difficult financial times cutting back on new product may not be the best idea, as it makes the company less competitive. On the contrary, tough times may require even more new-product development, as innovation makes the company more competitive and positions it better for the future. .

Objective 3: Product life-cycle strategies
Product life cycle (PLC) - the course of a product's sale and profits over its lifetime and is used to ensure consistent profit earning from the product. It involves five distinct stages:

1. Product development: begins when the idea is found, remains when sales are zero and investments costs are rising.

2. Introduction: sales begin to grow as the product enters market, but profits do not exist due to high costs of this stage.
3. Growth: market accepts the product and profits begin to increase.
4. Maturity: sales slowdown, profits decrease as investments are made into defending product from competitors.
5. Decline: sales and profits drop.

- Not all products go through all stages; PLC can apply to product classes, forms and brands. It can also be applied to styles - a basic and distinctive mode of expression with several periods of renewed interest, fashion - a currently accepted or popular style in a given field with slow growth and decline, and fads - a temporary period of unusually high sales driven by consumer enthusiasm and immediate product or brand popularity.
- PLC can help in developing marketing strategies, but is problematic for forecasting product performance. Marketers should not follow the lifecycle blindly, but continuously reposition the product to rescue mature or declining products.

Strategies for lifecycle stages:
Introduction stage - the PLC stage in which a new product is first distributed and made available for purchase. At this stage costs and investments are high. Chosen strategy must be consistent with intended product positioning, realizing that it is merely the first step to a grander marketing strategy.
Growth stage - the PLC stage in which a product's sales start climbing quickly, buyers will continue to buy, but competitors will be attracted to the new opportunities. To sustain rapid market growth as long as possible, firm should continuously improve quality and add new features, enter new segments and look for new distribution channels, shift advertising from building awareness to building conviction and purchase and lower prices at right time.
Maturity stage - PLC stage in which a product sales growth slows or levels off. It lasts longer than others and poses more challenges. Such slowdown leads to overcapacity and greater competition. Most successful producers at this stage are evolving to meet new demands and needs. By modifying the market, the company will try to increase sales by looking for new users and segments or increasing it among current ones. The company can try modifying the product by changing its characteristics, quality, features, etc. It can also modify the marketing mix which involves improving sales by changing marketing mix elements.
Decline stage - PLC stage in which a product's sales decline. Sales decline for various reasons from technological advances to shifts in tastes and increased competition. Carrying weak product can be very costly, thus, companies should identify declining products and decide whether to maintain (by repositioning and moving back to growth), harvest (by reducing costs and hoping for sales to remain) or drop them (by

selling or liquidating them).

Objective 4: Additional product and service considerations

Product decisions and social responsibility: marketers should consider public policy issues and regulations regarding acquiring or dropping products. Governments may prevent companies from acquisitions because of competition regulations, or dropping may entail legal obligations, whereas manufacturers must comply quality and safety laws. Companies must also ensure no consumers are harmed by products as they can be sued in case this happens.

International product and services marketing: internationally, marketers face challenges of figuring out where to introduce the products, and how much to standardize and adopts them. On one hand, there is the choice of standardization to make use of economies of scale, and on the other, there are great difference between consumers worldwide. Service marketer need to be especially careful when going global due to globalization of firms they serve and other factors.

10. Pricing

Price is one of the most important elements to establish company's market share and profitability and is the most flexible and the only one of the marketing mix that generates revenue, whereas others entail costs. Before deciding on the price the company needs to create overall marketing strategy for the product. Sometimes the strategy can be built around price and value. Management has to consider who within the company should set the prices. Marketers should comprehend the relationship between the price and demand for the product. Economic conditions have an impact on pricing, as they affect customers' perceptions and spending.

Example Air Arabia: Air Arabia is a budget airline that revolutionized flying in the Middle East and North Africa with a different way of doing business. It customized operations to local preferences and sets itself apart with reputation and operational excellence. The customer interface is based on pricing structure on the website and the company offers competitive prices throughout the year to enable customers to fly affordably. The company continues to expand into high-growth markets with affordable air travel.

Objective 1: What is price?

Price - the amount of money charged for a product or service. It is the sum of all values customers give up to obtain the benefits of using the product. Price is one of the most important elements to establish company's market share and profitability and is the most flexible and the only one of the marketing mix that generates revenue, whereas others entail costs.

Objective 2: Major pricing strategies

The following shows major considerations when setting the price:

There are 3 major pricing strategies:

1. **Customer value-based pricing** - setting price based on buyers' perceptions of value rather than on the seller's cost. Value-based pricing occurs when the marketer sets the price before setting marketing program. The price is set according to target customers' needs and perceptions of value. However, it can be hard to measure the value perceived by customers as it is variable and subjective. There are 2 types of value-based pricing:
    - Good-value pricing - offering the right combination of quality and good service at a fair price. Often it involves offering cheaper versions of brand-name products or redesigning existing brands to offer more quality for the same price or same for less. An important element of this is everyday low pricing (EDLP), which involves always charging a low price with few temporary price discounts.
    - Value-added pricing - attaching value-added features and services to differentiate a company's offers and charging higher prices

2. **Cost-based pricing** - setting prices based on the costs for producing, distributing and selling the product plus a fair rate of return for effort and risk. Companies with lower costs can set lower prices, and although their margins are low, sales and profits are high. Other companies pay higher costs claiming higher prices due to more value and have higher margins.

- **Types of costs:**

- Fixed costs (overhead) - costs that do not vary with production or sales level.
- Variable costs - costs that vary directly with the level of production
- Total costs - the sum of the fixed and variable costs for any given level of production.

- **Costs at different levels of production:** management needs to establish how costs vary at different levels of production. The production costs may depend on capacity and size of the plant.
- **Costs as a function of production experience:** Experience curve (learning curve) - the drop in the average per-unit production costs that comes with accumulated production experience. This creates an opportunity for the company to reduce production costs by manufacturing and selling in a given

period. However, there are dangers with blindly exploiting the experience curve such as cheap product image and lower-cost competitors.

- **Cost-plus pricing** (mark-up pricing) – is the simplest method and entails adding a standard mark-up to the cost of a product. Mark-up does not produce the best price as it does not take into consideration demand and competitor pricing. But it is popular because: sellers are more sure of costs, than of demand; if all firm in an industry use such pricing, price competition is minimized; it may be perceived as fairer to buyers and sellers.
- **Break-even pricing (target return pricing)** - setting price to break even on the costs of making and marketing a product or setting price to make a target return. Different prices should be considered to estimate volumes, demands and profits.

1. **Competition-based pricing** - setting prices based on competitors' strategies, prices, costs and market offerings. No matter what price is charged in this case, the company needs to make sure it provides customers with superior value.

Objective 3: Internal and external considerations affecting price decisions
Overall marketing strategy, objectives and mix: before deciding on the price the company needs to create overall marketing strategy for the product. Sometimes the strategy can be built around price and value. If the company established its target market and positioning well, marketing mix strategy including price should be easy to develop. Price can help accomplish various company objectives, such as attracting new customers, preventing competition, keep loyalty or resellers and avoid government intervention. Sometimes firms position their products based on price and use **target costing**, pricing that start with an ideal selling price and then targets costs that will ensure that the price is met. Other companies do not focus on price and use other marketing mix elements to create **non-price positions**, often making the product worth a higher price. Sometimes, products are positioned on high prices making it part of their prestigious image.
Organizational considerations: management has to consider who within the company should set the prices. It can be departments from top management to special pricing departments.
The market and demand: before setting the price, marketers should comprehend the relationship between the price and demand for the product.

- **Pricing different types of markets:** 4 types of market are identified with different pricing challenges:
    - **Pure competition:** many buyers and sellers trading in a uniform commodity, without spending much time on marketing strategy.

- **Monopolistic competition:** many buyers and sellers trading over a range of prices with differentiated offers, using pricing and other marketing tools to set their products apart.
- **Oligopolistic markets:** only a few large sellers alert to changes in competitors' price.
- **Pure monopoly:** market dominated by one seller.

- **Analysing price-demand relationship:** demand curve - a curve that shows the number of units the market will buy in a given time period, at different prices that might be charged. The companies measure demand curves by estimating demand at different prices.
- **Price elasticity of demand:** a measure of the sensitivity of demand to changes in price. If demand changes little or is inelastic, sellers may lower prices.

The economy: economic conditions have an impact on pricing, as they affect customers' perceptions and spending. It is important to consider that even in difficult economic times, customers do not buy only based on price, but care about value.
Other external factors: the company must consider the impact the prices will have on external parties in the environment, such as government, reseller, those with social considerations.

11. Pricing strategies

Product mix pricing strategies should help firm set prices that maximize profits on total product mix. Price-adjustment strategies are used to adjust basic prices to various customer differences and situations. When initiating price changes the company needs to anticipate buyer and competitors reactions. Price competition is essential for a free-market economy and there are laws and regulations to govern rules of fair play in pricing.

Example Panera Bread: Panera Bread understands that even in tough times, low prices do not mean best value. Panera is a bakery-café that provides a full-value dining experience for what customers pay. Panera does not only provide tasty food and outstanding service, it also makes the restaurants so inviting the customers do not want to leave. Therefore, without offering low prices the company is a great success.

Objective 1: New-product pricing strategies

Market-skimming pricing (price skimming) - setting a high price for a new product to skim maximum revenues layer by layer from the segments willing to pay the high price; the company makes fewer but more profitable sales. This strategy only makes sense when the product's quality and image support the price and customers want the product for the price, when the costs of producing less of the product do not exceed the benefits of charging more, and when competitors are not able to easily enter and undercut prices.

Market-penetration pricing - setting a low price for a new product to attract a large number of buyers and a large market share. For the low-price strategy to function, low price should stimulate market growth and market should be sensitive to prices, the company should be able to make use of economies of scale and low price must keep away the competition.

Objective 2: Product mix pricing strategies

Product mix pricing strategies should help firm set prices that maximize profits on total product mix.

- **Product line pricing** - setting the price steps between various products in a product line based on cost differences between the products, customer evaluations of different features and competitors' prices.
- **Optional product pricing** - the pricing of optional or accessory products along with a main product; companies must decide what to include in the base price and what to offer as an option.

- **Captive product pricing** - setting a price for products that must be used along with a main product, such as blades for a razor and games for a videogame console. Companies that use this strategy must be cautious in finding the right balance between product and captives. Customers forced to buy expensive captive may begin resenting the brand. With service, captive pricing is known as two-part pricing and is broken down into a fixed fee and variable usage rate.
- **By-product pricing** - setting a price for by-products to make the main product's price more competitive.
- **Product bundle pricing** - combining several products and offering the bundle at a reduced price. This can help promote products customer would otherwise not buy.

Objective 3: Price-adjustment strategies
Price-adjustment strategies are used to adjust basic prices to various customer differences and situations.

- **Discount** - a straight reduction in price on purchases during a stated period of time or of larger quantities.
- **Allowance** - promotional money paid by manufacturers to retailers in return for an agreement to feature the manufacturer's products in some way.
- **Segmented pricing** - selling a product or service at two or more prices, where the difference in prices is not based on differences in costs. There are different forms of this strategy such as customer-segment, product-form, location-based and time-based (by season). For this strategy to work, the market must be segmentable and segments should show different demands, the costs of reaching the segments should not exceed additional revenue obtained, and the segmented pricing should be legal. Importantly, prices should reflect differences in customer perceived value.
- **Psychological pricing** - pricing that considers the psychology of prices, not simply the economics; the price says something about the product. Reference pricing is an aspect of psychological, it is prices that buyers carry in their minds and refer to when they look at a given product. Customers often rely on certain signals and cues to determine the height of the price.
- **Promotional pricing** - temporarily pricing products below the list price and sometimes even below cost, to increase short-run sales. It can be in form of discounts, special-event prices, and limited-time offers. Manufacturers may offer cash rebates, low interest financing or free maintenance. Promotional pricing may have negative effects such as bargain wars or create customers that only buy on sale. Some marketers may abuse promotions as an easy way to avoid developing longer-term strategies.
- **Geographical pricing** - setting prices for customers located in different parts of the country or world.

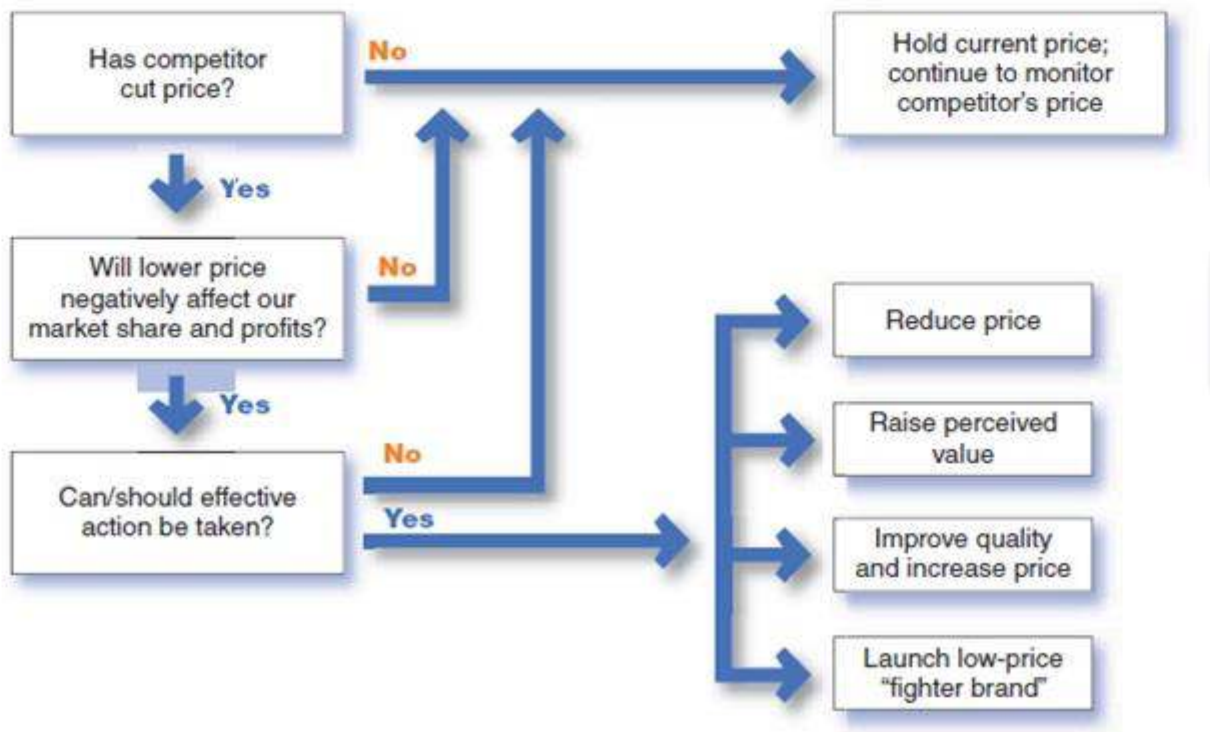
- FOB-origin pricing - a geographical pricing strategy in which goods are placed free on board a carrier, the customer pays the freight from the factory to the destination.
- Uniform-delivered pricing - geographical pricing strategy in which the company charges the same price plus freight to all customers, regardless of their destination.
- Zone pricing - geographical pricing strategy in which the company sets up two or more zones. All customers within a zone pay the same total price. The more distant zone pays more.
- Basing-point pricing - geographical pricing strategy in which the seller designates some city as a basing point and charges all customers the freight cost from that city to the customer.
- Freight-absorption pricing - geographical strategy in which the seller absorbs all or part of the freight charges to get the desired business for market penetration and to stay in increasingly competitive markets.

- **Dynamic pricing** - adjusting prices continually to meet the characteristics and needs of individual customers and situations. It is especially predominant online, where sellers can customize their offers and prices based on behaviours of individual customers. Dynamic pricing is legal as long as no discrimination is involved and marketers are careful not to take advantage of customer groups. Customers are enabled to easily compare prices on the internet and many retailers suffer from showrooming when consumers use stores as showrooms and then buy products online.
- **International pricing**: companies must decide what prices to charge in different countries, adjusting them to local market conditions, cost considerations, consumers' perceptions and preferences.

Objective 4: Price changes
Initiating price changes: when doing so the company needs to anticipate buyer and competitors reactions.

- **Initiating price cuts:** excess capacity, falling demand from strong competition or weak economy, and attempts to dominate the market may lead to price cuts.
- **Initiating price increases:** a successful increase can help grow profits. Cost inflation and over-demand are significant factors of price increase. When doing so, the company has to evade being seen as price gouger by maintaining sense of fairness with communication. When possible companies should consider ways to deal with higher costs or demand without increasing prices.
- **Buyer reactions to price changes:** price increase may lower sales, but have positive meaning for buyers. Price cuts can be associated with lowering quality or changing product image.

- **Competitor reactions to price changes:** competitors will react in case few firms are involved, product is uniform or when buyers are well-informed. Competitors can interpret actions in different ways.



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- **Responding to price changes:** there are 4 responses a company can produce if it decides to take action to competitor's price cut:
    - Reduce the price in case it decides the market is price sensitive and too much share will be lost.
    - Raise the perceived value to differentiate from the lower-priced competitor.
    - Improving quality and raising price changes positioning, created greater customer value and raises margin.
    - Launching a lower-price fighter brand by adding a new item to the line or a separate brand is a good strategy when the market is price sensitive and will not be responsive to better quality. However, there is a danger of cannibalization with this strategy.

Objective 5: Public policy and marketing

Price competition is essential for a free-market economy and there are laws and regulations to govern rules of fair play in pricing.

Pricing within channel levels: federal legislation states that price-fixing only allows sellers to set prices without talking to competitors. Sellers are not allowed to use predatory pricing which involves selling below cost with the intention of exhausting a competitor or acquisition of higher long-run profits by putting players out of business.

Pricing across channel levels: unfair price discrimination is prevented by ensuring that sellers provide the same price terms to customers at a given level of trade (such as providing different qualities of the same product to different buyers). Retail price maintenance is also not allowed when manufacturer cannot demand from dealers to change specified retail price. Deceptive pricing is prohibited and involves a seller stating prices or savings that mislead consumers and are not actually available.

12. Marketing channels

Building relationships with buyers, suppliers and resellers or upstream and downstream partners that make up the supply chain is necessary to deliver value to the customers. Using intermediaries enables producers to deliver goods to end customers more efficiently. The number of intermediary levels defines the length of the channel. Each channel member depends on the others as firm's partner for a common goal with a specialized role per member. Ideally companies should work together towards common channel goals, but they often do not match the individual organizations' goals. In channel decisions manufacturers struggle between what is ideal and what is practical. Companies are free to develop any kinds of relationships they want and have mutual rights and duties.

Example Netflix: Netflix made its way to be one of the most powerful video entertainment distributors by using innovation. It moved away from traditional DVDs to pure digital video streaming, losing many customers at first. However, it did not take long for the company to replace lost subscribers and increase revenues again. Nowadays competitions continues to attack at many companies offer video streaming as delivery mode by Netflix remains ahead by providing content on demand for any device and producing its own content too.

Objective 1: Value delivery network and marketing channels

Building relationships with buyers, suppliers and resellers or upstream and downstream partners that make up the supply chain is necessary to deliver value to the customers. This makes up the **value delivery network** - a network composed of the company, suppliers, distributors and customer who partner with each other to improve the performance of the entire system in delivering customer values.

Marketing channel (distribution channel) - a set of interdependent organizations that help make a product or service available for use of consumption by the consumer or business user. Such channel decisions have a direct effect on marketing decisions. Distribution channels can damage the profits if they are not paid attention too. However, they can also be used innovatively to gain competitive advantage. Since distribution channels involve long-term partnerships, they need to be designed with an outlook for future.

How channel members add value: using intermediaries enables producers to deliver goods to end customers more efficiently. Economically, marketing intermediaries are there to transform the assortments of products of manufacturers into those wanted by customers. They buy larger quantities from producers, and offer consumers to buy smaller ones. Channel intermediaries add value by closing the gap in time, place and possession between goods and consumers. They assist with the following transactions:

- Information: gathering and distributing the info
- Promotion: developing and spreading persuasive communications
- Contact: finding prospective buyers
- Matching: shaping offers to match needs
- Negotiation: reaching agreements
- Physical distribution: transporting and storing
- Financing: acquiring funds
- Risk taking: assuming the risks
- All these need to be performed, and when this is done by the producers, production costs increase. However, work can be divided across the channel in such way that members can add most value for the cost.

Number of channel levels: channel level is a layer of intermediaries that performs some work in bringing the product and its ownership closer to the final buyer. The number of intermediary levels defines the length of the channel. There are several common distribution channels:

- **Direct marketing channel** - a marketing channel that has no intermediary levels.
- **Indirect marketing channel** - channel containing one or more intermediary levels.

Business distribution channels vary and greater number of channels gives less control to producers and makes channels more complex. All institutions in the channels are connected with different types of flows, such as physical flow of products, the flow of ownership, the payment flow, the information flow, and the promotion flow.

Objective 2: Channel behaviour and organization

Each channel member depends on the others as firm's partner for a common goal with a specialized role per member. Ideally companies should work together towards common channel goals, but they often do not match the individual organizations' goals. **Channel conflict** occurs as disagreement among marketing channel members on goals, roles and rewards – that should do what and for what rewards. Horizontal conflict occurs among forms at the same level of the channel. Vertical conflict occurs between different levels of the same channel and is more common. Often conflict in the channel leads to healthy competition which makes the channel more active and innovative.

Vertical marketing systems: conventional distribution channel is a channel consisting of one or more independent producers, wholesalers and retailers, each a separate business seeking to maximize its own profits, even at the expense of profits for the system as a whole. On the contrary, **vertical marketing system (VMS)** is a distribution channel structure in which producers, wholesalers and retailers act as a unified system. One channel member owns the others, has contracts with them or has so much power that they all cooperate. There are 3 major types of VMSs:

- **Corporate VMS** - vertical marketing system that combines successive stages of production and distribution under single ownership – channel leadership is established through common ownership.
- **Contractual VMS** - vertical marketing system in which independent firms at different levels of production and distribution join together through contracts. **Franchise organization** is a contractual vertical marketing system in which a channel member, called a franchisor, links several stages in the production-distribution process. There are 3 types of franchises:
  - Manufacturer-sponsored retailer franchise system
  - Manufacturer-sponsored wholesaler franchise system
  - Service-firm-sponsored retailer franchise system
- **Administered VMS** - vertical marketing system that coordinates successive stages of production and distribution through the size and power of one of the parties.

Horizontal marketing system: this is a channel arrangement in which two or more companies at one level join together to follow a new marketing opportunity combining their financial, production, or marketing resources to achieve more than one company could have done on its own.
Multichannel distribution system: this is a distribution system in which a single firm sets up two or more marketing channels to reach one or more customer segments. There are many advantages of such multichannel systems such as expanding sales and market coverage, as well as tailor products better to more different segments. However, such systems are more difficult to control and may generate conflict.
Changing channel organization: nature and design of marketing channels is influenced by changes in technology and growth of direct online marketing. A major trend is towards **disintermediation** - the cutting out of marketing channel intermediaries by product or service producers or the displacement of traditional resellers by radical new types of intermediaries. Channel innovators look for ways to add value and displace resellers, whereas intermediaries in turn innovate to avoid being shifted. Developing new channel opportunities can lead to new direct competition with established channels.
Objective 3: Channel design decisions
In such decisions manufacturers struggle between what is ideal and what is practical. **Marketing channel design** involves designing effective marketing channels by analysing customer needs, setting channel objectives, identifying major channel alternatives and evaluating those alternatives.
Analysing customer needs: designing the channel involves finding out what customers want from the channel. It is important to provide fast delivery, great assortment, and

most services for greater service level; however, it may not be practical, due to lack of resources or skills and increased costs.
Setting channel objectives: companies should set marketing channel objectives in terms of targeted levels of customer service, deciding which segments to serve and the best channels to use for each to minimize costs and meet customer requirements. The nature of the company, its competition and environmental factors affect channel design.
Identifying major alternatives: the company should identify channel alternatives after setting objectives in terms of the following:

- **Types of intermediaries:** there are many choices of intermediaries, and using many types of reseller may provide benefits such as addressing more different buyers, as well as drawbacks such as difficulty of controlling and managing channels.
- **Number of intermediaries:** 3 strategies are available for this:
    - Intensive distribution - stocking the product in as many outlets as possible.
    - Exclusive distribution - giving a limited number of dealers the exclusive right to distribute the company's products in their territories, which is often done with luxury brands.
    - Selective distribution - the use of more than one but fewer than all intermediaries who are willing to carry the company's product; this is often done with furniture and home appliances for example.
- **Responsibilities of channel members:** producer and intermediaries should agree on terms and responsibilities such as price policies, conditions of sale, territory rights and specific services, especially in franchise and exclusive channels.

Evaluating major alternatives: to identify the best alternative to satisfy long-run objectives they should be evaluated against economic (sales, costs, profits), control and adaptability (long-term commitments vs. flexibility) criteria.
Designing international distribution channels: countries have many additional complexities in designing distribution channels and systems can vary from country to country. They can vary from being complex and hard to penetrate to being scattered and inefficient.
Objective 4: Channel management, public policy and distribution decisions
Marketing channel management - selecting, managing and motivating individual channel members and evaluating their performance over time.
Selecting channel members: producers vary in being able to draw competent marketing intermediaries. When selecting them, a company should consider characteristics that distinguish better ones evaluating criteria such as location, growth record, cooperativeness, etc.

Managing and motivating channel members: the company needs to sell to and with intermediaries building strong partner relationships with them. The company needs to convince suppliers and distributors that more value can be achieved as part of value delivery system. Partnership relationship management PRM and supply chain management (SCM) software is used by many companies (similarly to CRM) to help recruit, train, organize, manage, motivate, and evaluate relationships with channel partners.
Evaluating channel members: member performance must be controlled against standards, and well performing intermediaries should be recognized. Companies should also assist those that perform poorly and pay attention to the needs of channel partners.
Public policy and distribution decisions: Companies are free to develop any kinds of relationships they want and have mutual rights and duties. When the seller allows only certain outlets to carry its products, this strategy is called exclusive distribution. When the seller requires that these dealers not handle competitors' products, its strategy is called exclusive dealing. In exclusive arrangement, seller receives loyal and dependable outlets and dealers get a steady source of supply. However, producers are excluded from selling to others. Exclusive territorial agreements often occur when the producer may agree not to sell to other dealers in a given area, or the buyer may agree to sell only in its own territory. Producers of a strong brand sometimes employ full-line forcing and agree to sell to dealers only if they will take some or all of the rest of its line. Generally, dealers can only be dropped for a cause.
Objective 5: Marketing logistics and supply chain management
Nature and importance of marketing logistics: marketing logistics entails planning, implementing and controlling the physical flow of materials, final goods and related information from points of origin to point of consumption to meet customer requirements at a profit. Nowadays, logistics is customer-centred starting with marketplace and moving backwards towards the factory. Marketing logistics includes outbound logistics (moving products from the factory to resellers), inbound logistics (moving materials from suppliers to the factory) and reverse logistics (dealing with excess products). **Supply chain management** is managing upstream and downstream value-added flows of materials, final goods and related information among suppliers, the company, resellers and final consumers. Logistics manager coordinates activities of suppliers, purchasers, marketer, other channel members and customers.
Companies are increasing their emphasis on logistics because improving it provides competitive advantage, it can save costs
Distribution centre - a large, highly automated warehouse designed to receive goods from various plants and suppliers and deliver goods to customers, assist increasing product variety often through information technology, and improve company's environmental footprint.
Goals of the logistics system: no logistics system can both maximize customer service and minimize distribution costs. Thus, the goal of the system should be provide

targeted level of customer service at the least cost maximizing profits, not sales.
Major logistics functions:

- **Warehousing:** how many and what types of warehouses are needed and where they will be located has to be decided by the company. The company can use either storage warehouses or distribution centres. **Storage warehouses** store goods for moderate to long periods. Distribution centres are large, highly automated warehouses designed to obtain goods from different factories and supplier, take orders, fill them efficiently, and deliver to customers as fast as possible.
- **Inventory management:** managers need to balance between costs of too little and too much inventory to satisfy customers. Companies reduce their inventories and related costs through just in time logistics systems, having producers and retailers carry only small inventories of parts or merchandise, often enough for only a few days of operations. New stock arrives exactly when needed and such system requires accurate forecasting and delivery. Other companies use RFID to know exactly when and where each product is located allowing reordering automatically.
- **Transportation:** this affects pricing, delivery and condition of goods upon arrival. Companies can choose between truck, rail, water, pipeline and air, and possibly the internet. Trucks are flexible in routing and time schedules and they are usually faster than railroads. They are efficient for short hauls of high volumes. Railroads are one of the most cost-effective when it comes to large amounts of bulk products. Water carriers transport large amounts of non-perishable goods and are the slowest mode. Pipelines are specialized means for petroleum, natural gas and etc. Air carriers are very important, although costly and rarely used. They are used for perishable products, high value and small bulks. The internet is used for carrying digital products. **Intermodal transportation** can also be used to provide advantages that cannot be delivered by single modes and entails combining two or more modes of transportation. Piggyback describes the use of rail and trucks; fishy back, water and trucks; trainship, water and rail; and air truck, air and trucks.
- **Logistics information management:** supply chains are managed through information and companies require simple, accessible, fast and accurate processes for capturing, processing and sharing information. Electronic data interchange (EDI) is the digital exchange of data between organizations, which primarily is transmitted via the Internet. In vendor-managed inventory (VMI) systems or continuous inventory replenishment systems the customer shares real-time data on sales and inventory with the supplier. The supplier takes full accountability for managing inventories and deliveries.

Integrated logistics management: this is a logistics concept that emphasizes teamwork – inside the company and among all the channel organizations – to maximize the performance of the entire distribution system.
Cross-functional teamwork inside the company: responsibility for logistics activities can be assigned to different departments. The goal of integrated supply chain management is to balance all of the company's decisions. Close relationships in work of different departments can be achieved through permanent logistics committees, creating supply chain manager positions, and employing complex system wide supply chain management software.
Building logistics partnerships: whole-channel distribution needs to be improved. Many companies create cross-functional cross-company teams, whereas others use shared projects.
Third party logistics: third-party logistics (3PL) provider is an independent logistics provider that performs any or all the functions required to get a client's product to the market. They are used by companies as they are more efficient and cheaper, they allow the company to focus on its core business, and they can better understand complex logistics environments.

13. Retailing and wholesaling

Retailing includes all the activities involved in selling products or services directly to final consumers for their personal, no business use. Many marketers are now embracing the concept of shopper marketing, using point-of-purchase promotions and advertising to extend brand equity to the last mile and encourage favourable point-of-purchase decisions. It is becoming increasingly difficult for retailers to differentiate as assortments are becoming more and more similar and services are easy to copy. The product assortment should differentiate the retailer from competitors. The services mix can help differentiate, while the store's atmosphere is another unique element to distinguish the retailer. In current times, retailers are dealing with changing lifestyles and fierce competition for customer expenditure. The economic downturn provides a challenge for a lot of retailers.

Example BEKO: BEKO has become one of the top ten home appliances brands in the world in the past years and is continuing to grow with a rich product range. BEKO is attempting to prove that Turkish engineering can reach high standards. The company puts human resources in the centre of its strategy, it greatly respects the customers relies heavily on innovation, as well as spreads its philosophy onto the suppliers. The company is a source of cultural price in Turkey and with its improved image it also strongly relies on internal demand.

Objective 1: Retailing

Retailing includes all the activities involved in selling products or services directly to final consumers for their personal, no business use. Many institutions—manufacturers, wholesalers, and retailers—do retailing. But most retailing is done by **retailers**, businesses whose sales come primarily from retailing.

Many marketers are now embracing the concept of **shopper marketing,** using point-of-purchase promotions and advertising to extend brand equity to the last mile and encourage favourable point-of-purchase decisions. It involves focusing the entire marketing process—from product and brand development to logistics, promotion, and merchandising—toward turning shoppers into buyers at the point of sale. The dramatic growth of digital shopping, or combined digital and in-store shopping, has added a new dimension to shopper marketing. The "last mile" or "first moment of truth" no longer takes place only in stores.

Types of retailers:

- Retailers may differ by **amount of service** provided:
    - Self-service retailers serve customers who are willing to perform part of the service.

- Limited-service retailers provide some assistance in the service process.
- Full-service retailers assist customers in every step of the buying process.

- **Product line** is also a characteristic that classifies retailers.

Type	Description
Specialty store	A store that carries a narrow product line with a deep assortment, such as apparel stores, sporting-goods stores, furniture stores, florists, and bookstores.
Department store	A store that carries several product lines—typically clothing, home furnishings, and household goods—with each line operated as a separate department managed by specialist buyers or merchandisers.
Supermarket	A relatively large, low-cost, low-margin, high-volume, self-service operation designed to serve the consumer's total needs for grocery and household products.
Convenience store	A relatively small store located near residential areas, open long hours seven days a week, and carrying a limited line of high-turnover convenience products at slightly higher prices.
Discount store	A store that carries standard merchandise sold at lower prices with lower margins and higher volumes.
Off-price retailer	A store that sells merchandise bought at less-than-regular wholesale prices and sold at less than retail. These include *factory outlets* owned and operated by manufacturers; *independent off-price retailers* owned and run by entrepreneurs or by divisions of larger retail corporations; and *warehouse (or wholesale) clubs* selling a limited selection of goods at deep discounts to consumers who pay membership fees.
Superstore	A very large store that meets consumers' total needs for routinely purchased food and nonfood items. This includes *supercenters*, combined supermarket and discount stores, and *category killers*, which carry a deep assortment in a particular category.

- Category killer: a giant specialty store that carries a very deep assortment of a particular line and is staffed by knowledgeable employees.
- Service retailers: a retailer whose product line is actually a service.

- **Relative prices** (classification according to the price the is charged for goods and services)
  - Discount stores - a retail operation that sells standard merchandise at lower prices by accepting lower margins and selling at higher volume.
  - Off-price retailers - retailers that buy at less-than-regular wholesale price and sell at less than retail.
    - Independent off-price retailers - off-price retailers who are either independently owned or is a division of a larger retail corporation.
    - Factory outlets - an off-price retailing operation that is owned and operated by a manufacturer and normally carries the manufacturer's surplus discontinued or irregular goods.

- Warehouse clubs - an off-price retailer that sells a limited selection of brand name grocery items, appliances, clothing and a hodgepodge of other goods at deep discounts to members who pay annual membership fees.

- **Organizational approach**

Type	Description
Corporate chain	Two or more outlets that are commonly owned and controlled. Corporate chains appear in all types of retailing but they are strongest in department stores, discount stores, food stores, drugstores, and restaurants.
Voluntary chain	Wholesaler-sponsored group of independent retailers engaged in group buying and merchandising.
Retailer cooperative	Group of independent retailers who jointly establish a central buying organization and conduct joint promotion efforts.
Franchise organization	Contractual association between a franchisor (a manufacturer, wholesaler, or service organization) and franchisees (independent businesspeople who buy the right to own and operate one or more units in the franchise system).

Objective 2: Retailer market decisions

It is becoming increasingly difficult for retailers to differentiate as assortments are becoming more and more similar and services are easy to copy.

Segmentation, targeting, differentiation, and positioning decisions: retailers must first segment and define their target market, before deciding upon how to differentiate and position themselves in these target markets. Successful retailers position themselves strongly and clearly define their target markets.

Product assortment and services decisions: retailers must decide upon 3 major product variables:

- Product assortment
- Services mix
- Store atmosphere

The product assortment should differentiate the retailer from competitors. The services mix can help differentiate, while the store's atmosphere is another unique element to distinguish the retailer. Retail stores try to carefully arrange every aspect of store experience. Such experiential retailing suggests that retailers are a lot more than just assortments of goods. They are environments and communities experienced by consumers.

Price decision: the prices a retailer sets must correspond to the target market and position of the retailer. Most retailers need to decide between high mark-ups on lower volume or low mark-ups on higher volume. Additionally they should decide on using sales and price promotions, competing either on such or service quality. Some retailers practice everyday low pricing, others employ high-low pricing.

Promotion decision: retailers can use all of the five promotion tools to reach their customers, namely: advertising, personal selling, sales promotion, public relations and direct marketing.

Place decision: the place for products, or location, is essential for retail success and needs to be accessible for target audience and consistent with the position of the retailer. A **shopping centre** is a group of retail businesses built on a site that is planned, developed, owned and managed as a unit. A **regional shopping centre** is large, containing more than 50 to 100 stores. A **community shopping centre** contains between 15 and 50 retailers. A **neighbourhood shopping centre** or strip mall generally holds 5 to 15 stores. **Power centres** are huge unenclosed shopping centres consisting of long strips of retail stores. A **lifestyle centre** is a smaller open-air mall with upmarket stores.

Objective 3: Retailing trends and developments

In current times, retailers are dealing with changing lifestyles and fierce competition for customer expenditure. The economic downturn provides a challenge for a lot of retailers.

Tighter consumer spending: the recession led to decrease of many retailers' fortunes. Some low-price retailers are able to benefit from the weakened economy. However, most are experiencing tough times and use cost-cutting, price promotions and add new value pitches. They need to ensure being careful with short-term actions and avoid damaging long-term image and position.

New retail forms, shortening lifecycles and retail convergence: new situations and consumer needs lead to emergence of new retail forms whose lifecycle is becoming shorter. The **wheel-of-retailing concept** states that new types of retailers usually begin as low-margin, low-price, and low-status operations, but later evolve into higher priced, higher-service operations, eventually becoming like the conventional retailers they replaced. Retail convergence is a term which describes merging of consumers, products, prices and retailer, which also suggests greater competition and difficulty in differentiating the product assortment.

The rise of mega-retailers: this trend also has its influence on the environment, squeezing out small competitors as vertical marketing systems are formed. Mega-retailers also shift the power between retailers and producers due to their size and number of consumers.

Growth of direct and online retailing: growth of non-store retailing via advanced technologies also provides new opportunities and challenges. Customers merge store, online and mobile outlets into one single process. Thus, all retailers use direct and online channels. A lot of the growth goes to the multichannel retailers as they merge virtual and physical worlds.

Growing importance of retail technology: retailing technologies have become important competitive tools. Advanced IT and software systems to improve their operations. The most notable advances are concerned with the ways in which retailers connect with customers. For instance, many retailers bring online technologies to their stores. The future is predicted to belong to retailers that will be able to combine online and offline successfully.

Green retailing: there is also a trend of green retailing, where retailers are adopting environmentally sustainable practices. They make the stores environmentally friendly, green up their product assortments, educate consumers and together with suppliers and distributors create more sustainable packaging and products.

Global expansion of major retailers: unique retailers and those with strong brand move to other countries escaping saturated home markets. When going global, retailers need to understand and satisfy the needs of the local markets.

Objective 4: Wholesaling

Wholesaling includes all the activities involved in selling goods and services to those buying for resale or business use. A **wholesaler** is a firm engaged primarily in wholesaling activities. Wholesalers add value by performing one or multiple of the following channel functions:

- Selling and promoting and thereby reaching many small customers.
- Buying and assortment building.
- Bulk breaking by buying in large quantities.
- Warehousing and holding stock.
- Transportation.
- Financing of customers and suppliers.
- Risk bearing.
- Providing market information.
- The management of services and giving advice.

Wholesalers fall into three major groups:

1. **Merchants:** wholesalers that are independently owned wholesale businesses that take title to the merchandise it handles. They include full-service wholesalers, who provide a full set of services and limited-service wholesalers who offer less services to their customers. Industrial distributors sell to manufacturers, while wholesale merchants sell primarily to retailers. Cash-and-carry wholesalers carry a limited line of fast moving goods. Drop shippers never carry stock, but select manufacturers who ship the product upon order.
2. **Brokers and agents:** A broker is a wholesaler who does not take title to goods and whose function is to bring buyers and sellers together and assist in negotiation. An agent is a wholesaler who represents buyers or sellers on a relatively permanent basis, performs only a few functions and does not take title to goods. Selling agents have contractual authority to sell a manufacturer's

entire output. Purchasing agents often have long-term relationships with buyers and make purchases for them.

3. **Manufacturers' sales branches and offices:** wholesaling by seller or buyers themselves rather than through independent wholesalers.

Wholesaler marketing decisions: wholesalers must decide upon the product, prices, promotion and place of their services, as well as segmentation, targeting, differentiation and positioning. Today's wholesalers are facing challenges in the need for greater efficiency and changing needs of customers.

Segmentation, targeting, differentiation and positioning decisions: like with retailers, wholesalers need to make these decisions. They can identify more profitable customers, design stronger offers and build relationships.

Marketing mix decisions: wholesalers add value through products and services they offer. Wholesalers today decrease the lines they offer and stick with more profitable ones. Key for success is finding the mix of services most valued by the target customers. Price is an important decision as wholesaler mark up costs of goods. Promotion can be essential for success but is often underestimated. Wholesalers must choose locations carefully as this can help decrease costs. Wholesalers are also investing into automated warehouses and IT systems as they provide competitive advantages.

Trends in wholesaling: wholesalers are facing a lot of challenges with a vulnerable industry and demand for lower prices. It is important to build value-adding customer relationships for success. So wholesalers are increasing service they provide to retailers, although this squeezes their profits. Fortunately, digital technologies increase their efficiency.

14. Communicating customer value

The promotion mix (marketing communication mix) is the specific blend of promotion tools that the company uses to persuasively communicate customer value and build customer relationships. But marketing goes beyond the promotional tools, as all features of the product communicate something to consumers. The changes come together in a need for integrated marketing communications (IMC) which involves carefully integrating and coordinating the company's many communications channels to deliver a clear, consistent and compelling message about an organization and its products. Marketers are moving to viewing communications as managing customer relations over time. Communications process can start with evaluating potential touch points target customers have with company and its brands. The promotion mix consists of five tools that have unique characteristics and costs.

Example Tesco: Tesco is number one supermarket in the UK and uses a brilliant communications strategy by carefully integrating and coordinating its communication channels. Its strapline Every Little Helps helps communicate firm's brand and unique value proposition. As economic environment becomes increasingly challenging, Tesco is reviewing its marketing strategies critically and focusing on communications.

Objective 1: Promotion mix

The promotion mix (marketing communication mix) is the specific blend of promotion tools that the company uses to persuasively communicate customer value and build customer relationships. It consists of five major promotion tools:

1. **Advertising:** any paid form of non-personal presentation and promotion of ideas, goods or services by an identified sponsor.
2. **Sales promotion:** short-term incentives to encourage the purchase or sale of a product or a service.
3. **Personal selling:** personal representation by the firm's sales force for the purpose of making sales and building customer relationships.
4. **Public relations:** building good relations with the company's various public by obtaining favourable publicity: building up a good corporate image and handling or heading off unfavourable rumours, stories and events.
5. **Direct marketing:** direct connections with carefully targeted individual consumers to both obtain an immediate response and cultivate lasting customer relationships.

For each category specific promotional tools can be used to communicate with consumers. But marketing goes beyond the promotional tools, as all features of the product communicate something to consumers.

Objective 2: Integrated marketing communications

New marketing communications model: several factors are changing today's marketing communication. First, **consumers** are changing: they are better informed and more empowered. Also, **marketing strategies** are shifting away from traditional mass marketing. Finally, **communications technology** is changing the way companies and customers communicate with each other. Some companies are doing more narrowcasting, and less broadcasting by personalizing products. Some even predict that old mass-media models are to become obsolete. Some marketers even skip traditional marketing completely. However, mostly there is a blend between new and traditional media, and the goal is to integrate in such way that the message is communicated most clearly.

The need for integrated marketing communications: the changes come together in a need for **integrated marketing communications (IMC)** which involves carefully integrating and coordinating the company's many communications channels to deliver a clear, consistent and compelling message about an organization and its products. IMC recognizes all touch points where the company and customers meet and puts together all messages. Many companies appoint marketing communications directors to place responsibility for unifying company's image in someone's hands.

Objective 3: Communication process and developing effective marketing communication

Marketers are moving to viewing communications as managing customer relations over time. Communications process can start with evaluating potential touch points target customers have with company and its brands.

In order to develop marketing communications, a marketer needs to understand the communication process which involves 9 elements.

1. **Sender**: party sending the message to another party
2. **Encoding**: process of putting thought into symbolic form
3. **Message**: set of symbols that the sender transmits
4. **Media**: communication channels through which the message moves from the sender to the receiver
5. **Decoding**: process by which the receiver assigns meaning to the symbols encoded by the sender
6. **Receiver**: party receiving the message sent by another party
7. **Response**: The reactions of the receiver after being exposed to the message
8. **Feedback**: The part of the receiver's response communicated back to the sender
9. **Noise**: The unplanned static or distortion during the communication process, which results in the receiver getting a different message than the one the sender sent

For high effectiveness of the message, sender's encoding process must network with the receiver's decoding. Best messages include words and symbols familiar to the receiver. Senders also need to know the audiences they want to reach and responses they want to achieve. They have to be good at encoding messages and consider how they will be decoded. They have to use channels that can reach target receivers and develop feedback channels as well as become good receivers of messages with new media.

Steps in developing effective marketing communication:

1. **Identifying the target audience:** the target audience affects communicator's decisions.
2. **Determining the communication objectives:** once audience is defined, marketers must determine desired response. Target audience can be in any one of 6 stages of the buyer-readiness stages. The buyer-readiness stages are the stages consumers normally pass through on their way to a purchase, including awareness, knowledge, liking, preference, conviction and finally the actual purchase. A goal of a marketer is to move target customers through the buying process.
3. **Designing the message:** the message should get attention, hold interest, arouse desire and obtain action. Attention, interest, desire and action come together as the AIDA model.
    - The marketer determines the content of the message. Rational appeals relate to the audience self-interest and their benefits. Emotional appeals attempt to stir up emotions that can motivate purchase. Moral appeals are directed to the audience's sense of what is right and proper.
    - Marketers must also decide the message structure. There are 3 issues with this: deciding on whether to draw conclusion or leave it to the audience, whether to present strongest arguments first or last, and whether to present one-sided argument or a two-sided one.
    - Marketers must also decide the message format. In print ads, this involves deciding on headline, copy, illustration and colours, whereas in message on packaging it is texture, scent, colour, size and shape.
4. **Choosing media:** there are two broad types:
    - **Personal communication channels** are channels through which two or more people communicate directly with each other, including face to face, on the phone, via e-mail or even through Internet chat. Personal communication channels include **word-of-mouth influence**: personal communications about a product between target buyers and neighbours, friends, family members and associates. Personal influence is influential especially for products that are expensive, risky, or highly visible. **Buzz marketing** is cultivating opinion leaders and getting them to spread information about a product or a service to others in their communities.

- **Non-personal communication channels** are media that carry messages without personal contact or feedback, including major media, atmospheres and events. Atmospheres are designed environments that create the buyer's leanings toward buying a product. Such communication affects buyers directly as well as indirectly in case mass media causes more personal communication.

5. **Selecting the message source:** the effect depends on how target audience views the communicators. Highly credible sources are more persuasive. When using celebrity endorsement, marketers need to be careful as choosing wrong spokesmen leads to embarrassment and destroyed company image.
6. **Collecting feedback:** the marketer must research the effect on the target audience to suggest changes in the promotion program or the product offer.

Objective 4: Setting the total promotion budget and mix & socially responsible marketing communication
Setting the total promotion budget: there are 4 common methods that can be used:

1. **Affordable method:** setting the promotion budget at the level management thinks the company can afford. Small businesses often use this method. This method ignores effects of promotion on sales. It results in uncertain annual promotion budget.
2. **Percentage-of-sales method:** setting the promotion budget at a certain percentage of current or forecasted sales or as a percentage of the unit sales prices. It is easy to use and helps think about relationships between promotion spending, selling price, and profit. However, it wrongly views sales as cause of promotion rather than result. Thus, it's based on availability of funds and not opportunities.
3. **Competitive-parity method:** setting the promotion budget to match competitor's outlays. Competitors' budgets represent collective wisdom of industry and spending what they spend prevents promotion wars. But competition might not have a better idea what to spend and companies differ in promotion needs. There is also no evidence for fewer promotion wars.
4. **Objective-and-task method:** developing the promotion budget by (1) defining specific promotion objectives, (2) determining the tasks needed to achieve these objectives and (3) estimating the cost of performing these tasks. The sum of these costs is the proposed promotion budget. The advantage of the method is the it forces management vocalize the assumption between spending and promotion results. But it is also the most difficult method to use.

Shaping the overall promotion mix:
The promotion mix consists of five tools that have unique characteristics and costs.

- **Advertising** can reach masses of geographically dispersed buyers at a low cost, says something positive about seller's size, popularity and success, but it cannot be as persuasive as people and lacks personal touch. It can be used to build up long-term image and can trigger quick sales. Advertising can be very costly.
- **Personal selling** is the most effective in certain stages of the buying process (building up buyers' preferences, convictions, and actions). Persons can observe needs and characteristics to make adjustments, personal selling allows a variety of customers and forces the buyer to listen and respond. However, it is most costly out of all tools.
- **Sales promotion** includes coupons, contests, discounts and etc. and attracts the customer's attention, but the effect is often short lived.
- **Public relations (PR)** is believable including stories, features, sponsorships, etc., but is often underused.
- **Direct marketing** is less public involving catalogues, online or mobile marketing, etc., and is delivered to a certain person. It is immediate and customized, as well as interactive.

Promotion mix strategies: marketers can choose from two basic promotion mix strategies. A **push strategy** calls for using the sales force and trade promotion to push a product through channels. A producer promotes a particular product to channel members, who in turn promote it to final consumers. A **pull strategy** calls for spending a lot on consumer advertising and promotion to induce final consumers to buy a particular product, creating a demand vacuum that "pulls" a product through the channel.

15. Advertising and public relations

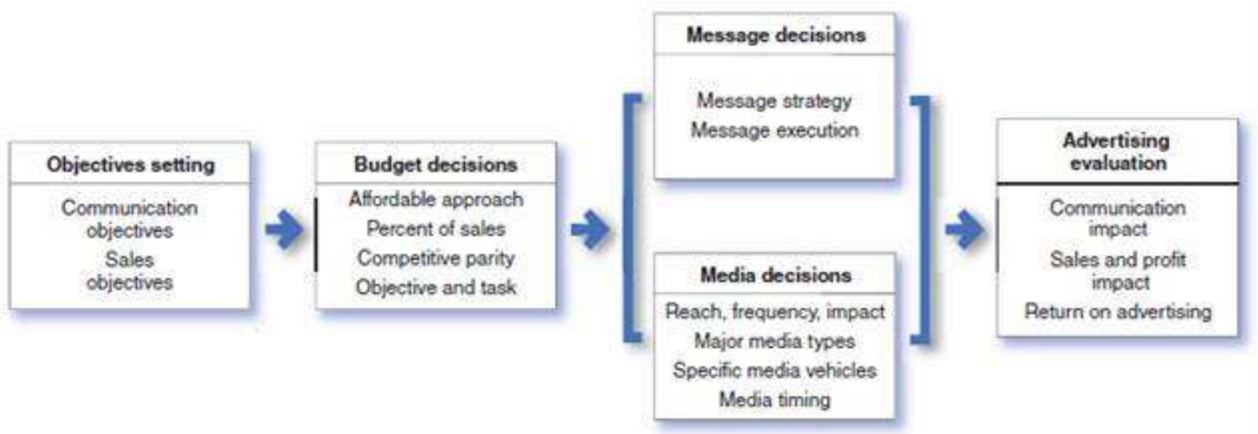
Advertising is any paid form of non-personal presentation and promotion of ideas, goods or services by an identified sponsor. Advertising media are the vehicles through which advertising messages are delivered to their intended audiences. Measuring advertising effectiveness and the return on advertising are becoming important, especially in the complex economic environment. Public relations (PR) means building good relations with the company's various publics by obtaining favourable publicity, building up a good corporate image and heading off unfavourable rumours, stories and events.

Example Allstate: Allstate positions its brand as superior to price-oriented competitors by using creative, award-winning advertising. In the past decade the spending on advertising by insurance companies more than doubled. The campaign introduced by Allstate has been raising brand awareness and increasing spending. The company expanded it to target other customer segments and it helps emphasize the provided higher customer value.

Objective 1: Advertising

Advertising is any paid form of non-personal presentation and promotion of ideas, goods or services by an identified sponsor.

Objective 2: Developing an advertising program



1. **Setting advertising objectives:** this is done based on past decisions on the target market, positioning and the marketing mix. **Advertising objective** is a specific communication task to be accomplished with a specific target audience during a specific period of time. Objectives are classified by primary purpose into 3 categories:

   - **Informative** advertising is often used when introducing a new product when the objective is to build primary demand.
   - **Persuasive** advertising is more used when competition is increasing and helps building selective demand. It can become comparative advertising in which the company directly or indirectly compares the brand to competition. It should be used with caution, as it can result in advertising war.
   - **Reminder** advertising is relevant for mature products and is used to maintain customer relationships. Its major goal is to help move customers through the buying process by for instance moving them to immediate action or changing the way they think.
2. **Setting the advertising budget**: **advertising budget** is the money and other resources allocated to a product or a company advertising program. The budget is dependent on various factors, such as the stage in the product life cycle, market share and the number of competitors in the market. There are dangers of under- and overspending when setting the budget.
3. **Developing an advertising strategy:** the strategy by which the company accomplishes its advertising objectives. It consists of two major elements:

Creating advertising messages:

- Advertising can only be successful if it generates attention and communicates well. For a powerful advertising message, it needs to break through the clutter. Considering on demand digital technologies, the message needs to be better planned, creative, entertaining, and emotionally engaging. A way to do this is merging advertising and entertainment. The aim of “advertainment” is to make ads entertaining enough, so that people actually want to watch them. **Branded entertainment**, or brand integrations, involves making the brand an inseparable part of some form of entertainment.
- **Message strategy** is the general message that will be communicated to consumers which begins with identifying customer benefits to be used as advertising appeals. Next the **creative concept** needs to be developed which is the compelling “big idea” that will bring the advertising message strategy to life in a distinctive and memorable way. It will guide the choice of advertising appeals for the campaign. Advertising appeals should have three characteristics: they should be meaningful, believable and distinctive.
- After that, message execution needs to take place capturing market’s attention and interest. The marketer has to establish the approach, style, tone, words and format used for executing an advertising message. The following are examples of execution styles:
   - Slice of life: typical people using a product in a normal setting.
   - Lifestyle: shows how a product fits within a certain lifestyle.

    - Fantasy: creates a fantasy around the product.
    - Mood or image: builds a mood or certain image around the product.
    - Musical: singing about the product.
    - Personality symbol: creates a character that represents the product.
    - Technical expertise: shows company's expertise in making the product.
    - Scientific evidence: scientifically proving the brand is better.
    - Testimonial evidence or endorsement: features a highly believable or likable source.
- The marketer must also decide upon the **tone and format** of the advertisement. The illustration is the first thing noticed, whereas the headline must entice the right people to read to advertisement. The copy (main block of text in the ad) must be simple, strong and convincing All of the elements must work together in order to persuade the customer.
- Consumer-generated messages can also be effectively used by companies considering today's interactive technologies. They can give the brand messages consumers' voice and generate greater brand involvement.

Selecting advertising media: advertising media are the vehicles through which advertising messages are delivered to their intended audiences. There are 4 major steps to select one:

- **Determining reach, frequency and impact:** Reach is a measure of the percentage of people reached in the target market, while frequency is a measure to show how many times the average person is exposed to the message. An advertiser will want to reach the desired media impact: the qualitative value of the message exposure. Generally, the media should help engage the customers, not just reach them, as engaged customers are more likely to act upon brand messages and share them.
- **Choosing among major media types:** advertisers must choose media that can effectively and efficiently transmit message to target customers. Moreover, a mix of media should be chosen and blended to create an integrated communication campaign. Nowadays, marketers aim at mixing paid, owned, earned and shared media delivering involving content. Alternative media can be used as a tool to save money and reach more customers, but can also be irritating to consumers. Media multi-taskers affect the choice as well as they absorb more than one type.

Medium	Advantages	Limitations
Television	Good mass-marketing coverage; low cost per exposure; combines sight, sound, and motion; appealing to the senses	High absolute costs; high clutter; fleeting exposure; less audience selectivity
The Internet	High selectivity; low cost; immediacy; interactive capabilities	Potentially low impact; the audience controls exposure
Newspapers	Flexibility; timeliness; good local market coverage; broad acceptability; high believability	Short life; poor reproduction quality; small pass-along audience
Direct mail	High audience selectivity; flexibility; no ad competition within the same medium; allows personalization	Relatively high cost per exposure; "junk mail" image
Magazines	High geographic and demographic selectivity; credibility and prestige; high-quality reproduction; long life and good pass-along readership	Long ad purchase lead time; high cost; no guarantee of position
Radio	Good local acceptance; high geographic and demographic selectivity; low cost	Audio only; fleeting exposure; low attention ("the half-heard" medium); fragmented audiences
Outdoor	Flexibility; high repeat exposure; low cost; low message competition; good positional selectivity	Little audience selectivity; creative limitations

- **Selecting specific media vehicles:** media vehicles are specific media within each general media type. Media planners have to compute the cost per number of persons reached by such vehicle. Furthermore, they need to evaluate costs against such factors as audience quality, audience engagement and editorial quality. Some media sources are more believable than others.
- **Deciding on the media timing:** marketer must decide on scheduling over the year and pattern for the ads. Continuity means scheduling ads evenly within a given period, while pulsing means scheduling ads unevenly over a given time period.

Evaluating advertising effectiveness and ROAI: Measuring advertising effectiveness and the return on advertising are becoming important, especially in the complex economic environment. Return on advertising investment is the net return on advertising investment divided by the costs of the advertising investment. There are two types of advertising results:

- Communication effects: they tell whether the ad message is communicated well.
- Sales and profit effects: these are affected by many factors and are harder to measure. One way is to compare past sales and profits with past ad expenditures. Another way is through experiments.

Other advertising considerations:

- Organizing for advertising: advertising is organized differently in different companies. It ranges from someone handling it in the sales department, to advertising departments and advertising agencies. **Advertising agencies** are marketing services firm that assists companies in planning, preparing, implementing and evaluating all or portions of their advertising programs.

- **International advertising decisions:** the most basic challenge is the degree to which global advertising should be adapted to the unique characteristics of country markets. Global online presence for large brands leads to advertising standardization, where at least web sites are coordinated globally. Standardization produces such benefits as lower costs, greater global coordination, and more consistent image; however, it ignores the great differences between country markets. There are also difficulties generated by media costs and availability as well as regulations of advertising practices.

Objective 3: Public relations and its role and impact

Public relations (PR) means building good relations with the company's various publics by obtaining favourable publicity, building up a good corporate image and heading off unfavourable rumours, stories and events. PR departments may perform any of the following activities: press relations, product publicity, public affairs, and lobbying and managing investor relations. PR can have a strong impact on public awareness at lower costs than advertising, especially in the digital age. However, often PR departments are limited or scattered in their work, thus effectiveness is restricted.

Objective 4: Major public relations tools

Some of the most important tools of PR are the news (found or created by PR about the company, products or people), special events (designed to reach and interested target audiences), written materials (to reach and influence target markets), audio-visual materials (as communication tools), corporate identity materials (make the image attractive, distinctive, and memorable), and public services activities (improving public goodwill).

16. Personal selling and sales promotion

Personal selling involves personal presentations by the firm's sales force for the purpose of making sales and building customer relationships. Sales force management entails analysing, planning, implementing and controlling sales force activities. The selling process consists of the steps that salespeople follow when selling. Sales promotion is short-term incentives to encourage the purchase or sale of product or service. Sales promotions tools are used by most companies and can be consumer promotions (for final buyers), trade promotions (for retailers and wholesalers), business promotions (for business customers) and sales force promotions (for members of the salesforce). Marketers need to make several decisions in designing promotion program such as determining size of incentive, setting conditions for participating, determining how to promote and distribute the promotion, length of the promotion, and evaluation.

Example IBM: IBM has prospered for almost 100 years. Over the time, what the company sells has changed dramatically; however, how it is done has remained unchanged. IBM sales people are customer relationship developers and solution providers.

Objective 1: Personal selling

Personal selling: personal selling involves personal presentations by the firm's sales force for the purpose of making sales and building customer relationships.

A **salesperson** is an individual representing a company to customers by performing one or more of the following activities: prospecting, communicating, selling, services, information gathering and relationship building.

Role of the sales force: personal selling is an interpersonal part of the promotion mix. The sales force is a link between the company and its customers and involves interpersonal interactions. Personal selling can be more effective than advertising in more complex selling situations, where sales people can learn about customers' problems and adjust the offer to fit special needs.

Liking the company with its customers: sales people represent the company to customers approaching them and maintaining contact, but at the same time they represent customers to a particular company being the direct link between customer needs and the firm. To some customers, salespeople are the company and salesperson owned loyalty concept suggests that customers build strong relationships with the salespeople and stay loyal to them.

Coordinating marketing and sales: the sales force should work closely with other marketing functions in order to create value for its customers, but often sales and marketing are treated as different functions. When this happens, neither group will value the others' contributions, which can damage customer relationships and firm performance. To bring the two closer together, companies can increase communication between them, create joint objectives and reward systems, appoint marketing-sales liaisons and high-level marketing executives to oversee both marketing and sales.

Objective 2: Managing the sales force

Sales force management entails analysing, planning, implementing and controlling sales force activities. There are six major steps in the sales force management process:

1. **Designing the sales force structure and strategy:**
    - The sales force **structure** can have different shapes. **Territorial sales force structure** is a sales force organization that assigns each salesperson to an exclusive geographic territory in which that salesperson sells the company's full line. Territory sales representatives report to territory managers, who are under the supervision of regional managers, who in turn report to a director of sales. It is suitable when the company sells one product line to one industry with customers in many locations.
    - **Product sales force structure** is a sales force organization in which salespersons specialize in selling only a portion of the company's products or lines. This suits companies with numerous and complex products. However, it might lead to trouble when customers buy multiple products of the same company and could lead to double work.
    - **Customer or market sales force structure** is a sales force organization in which salespeople specialize in selling only to certain customers or industries. This can help a company build closer relationships with meaningful customers.
    - When a company sells a lot of different products to a wide variety of customers in different locations combinations of sales force structures are possible, leading to **complex sales force structure**.
    - Once the structure is set, the **sales force size** must be determined. The workload approach, where the number or salespersons are based on the amount of effort desired for different classes of work, can be used to set sales force size.
    - Sales management must also determine who will be involved in the sales force. **Outside sales force** (field sales force) are salespeople who travel to call on customers in the field. **Inside sales force** are salespeople who conduct business from their offices via telephone, the Internet or visits from prospective buyers. Inside sales people may support outside sales force allowing them to spend more time with major customers or finding new ones: technical sales support provide info and answers to customers' questions, sales assistants provide administrative backup. Telemarketers and internet sellers find new leads and qualify prospects

or sell and service customers directly over the phone or internet. These approaches are especially popular after the recession when many companies reduced their personal customer visits. **Team selling** means using a team of people from sales, marketing, engineering, finance, technical support an even upper management to service large, complex accounts where one expert cannot service customer needs. The pitfalls of team selling include competitive nature of sales force and thus trouble trusting team members, confusing for customers, difficulty evaluating individuals and thus compensations issues.

2. **Recruiting salespeople:**
    - The success of a sales force operations depends on the skills of salespeople and thus recruiting and selecting them. Typically, top 30% of sales force will bring 60% of the sales showing how important selection can be. Poor selection can also result in costly turnover leading to loss of productivity and customer relationships. Good sales people are motivated, disciplined, have skills and knowledge and a great understanding of customer needs. Proven sales people need less training and can be productive immediately. Selection procedures may differ from interviews and tests.
3. **Training salespeople:**
    - Salespeople go through initial training for few weeks to several months. Afterwards, most companies provide continuous sales training. Training programs aim at teaching salespeople what they need to know about their customers and building relationships with them, as well as teach about company's objectives, organization, products, and competitors' strategies. Many companies use e-learning for sales training to cut travel and other costs, as well as save time.
4. **Compensating salespeople:**
    - To attract good salespeople, they need to be well compensated. Compensation consists of 4 elements: a fixed amount, a variable amount, expenses and fringe benefits. The fixed amount, a salary, provides stable income. The variable amount, which may consist of commission or bonuses, rewards for greater effort and success. Management need to determine the right mix of the elements for specific sales jobs. Different combinations give rise to 4 basic types of compensation plans: straight salary, straight commission, salary plus bonus, and salary plus commission. A compensation plan can motivate workers and direct their activities. Many companies are moving away from high commission plans that focus on short-term goals, to shift to long-term relationships.
5. **Supervising and motivating salespeople:**

- **Supervision:** the goal of supervision is to help salespeople work smart, by doing the right things the right way. Supervising salespeople can be done by period call plans, which specify how much time to spend on activities which customers or prospects to call and which activities to carry out, and time-and-duty analysis, which specifies how much time to spend selling, as well as travelling, waiting, taking breaks and doing administrative chores. Many firms adopted sales force automation systems, computerized, digitalized sales force operations that let sales people work more effectively anytime, anywhere.
- **Selling and the internet:** internet is the fastest growing sales technology. Companies use it to enhance sales effectiveness and save time and money. Internet gives sales people a new vehicle for selling and servicing accounts, allowing closely connecting with customers. Additionally, social media is gaining popularity among sales departments. However, some drawbacks of technologies include their high price, intimidation of low-tech customers or salespeople, and presence of things that require personal interactions.
- **Motivation:** it helps salespeople to work hard to reach the sales force goals. Beyond directing, sales managers must also motivate salespeople as they for various reasons need special encouragement to achieve their best. Salesforce can be motivated through organizational climate, the feeling that salespeople have about their opportunities, value, rewards for a good performance. Salespeople can be motivated by setting **sales quotas,** standards that state the amount a salesperson should sell and how sales should be divided among the company's products. Compensation is often related to quotas, whereas positive incentives can be used to increase sales efforts. Sales meetings provide occasions to air feelings, break the routine and talk to the company. Companies can sponsor sales contests to provide motivation for more effort.

6. **Evaluating salespeople:**
    - The last step in the process is evaluating the salespeople. Information can be gathered by management in several ways: via sales reports, call reports and expense reports. Additional info comes from personal observation, customer surveys, and talks with colleagues. Formal evaluation brings management to establish clear standards for judging performance, and provide salespeople with constructive feedback.

Objective 3: Personal selling process

The selling process consists of the steps that salespeople follow when selling, which include the following 7:

1. **Prospecting**: a salesperson or company identifies qualified potential customers. Approaching the right customer is vital for success, and the best source for leads is referrals. Sales people need to be aware of how to qualify leads – recognize good ones and drop poor ones. This is done by looking at prospects' financial ability, volume of business, location and possibilities for growth.
2. **Pre-approaching**: a salesperson learns as much as possible about a prospective customer before making a sales call. It involves research and preparation. The salesperson needs to set call objectives, determine best approach and overall sales strategy.
3. **Approaching**: a salesperson meets the customer for the first time. It involves getting the relationship to a good start with positive opening lines, questions about customer needs, and listening to customer.
4. **Presentation and demonstration**: a salesperson tells the "value story" to the buyers, showing how the company's offer solves the customer's problems. Customer-solution approach is fitting for relationship marketing. The approach calls for listening and applying problem-solving skills to develop solutions to present. Lastly, salespeople need to plan their presentation methods, employing advanced presentation technologies.
5. **Handling objections**: a salesperson needs to use positive approach to seek out, clarify and overcome customers' objections to buying turning them into reasons for buying. Training is necessary to gain skills in handling objectives.
6. **Closing**: salespeople need to know how to recognize closing signals from the buyer and can use several closing techniques such as asking for the order, review points of agreement, offer help to write up the order, ask which model the buyer wants, or note the buyer will lose out if the order is not placed immediately.
7. **Following up**: a salesperson follows up after the sale to ensure customer satisfaction and repeat business.

Personal selling and managing customer relationships: the steps in the selling process can be described as transaction oriented: they aim at closing sale with a customer. But in most cases, the long-term goals are to develop a mutually profitable relationship. Most companies aim at having sales people that practice value selling – demonstrating and delivering superior customer value and capturing return on that value. However, sometimes sales people cut prices instead of selling value to close sales, therefore managers must promote the right approach.

Objective 4: Sales promotion

Sales promotion - short-term incentives to encourage the purchase or sale of product or service.

Rapid growth of sales promotion: sales promotions tools are used by most companies and can be consumer promotions (for final buyers), trade promotions (for retailers and wholesalers), business promotions (for business customers) and sales force promotions (for members of the salesforce). Such rapid growth of promotion comes from pressures to increase short-run sales, from need to differentiate, from declining advertising efficiency, and from deal-oriented consumers. This growing use of sales promotion leads to promotion clutter, which manufacturers try to overcome with larger coupon values, more dramatic point-of-purchase displays, using new and interactive media.

Sales promotion objectives: they can vary widely and are dependent of promotion mix tools.

Major sales promotion tools:

Consumer promotions are sales promotion tools used to boost short-term customer buying and involvement or enhance long-term customer relationships. They include:

- Samples (trial products) are the most effective, but also most expensive as a way to introduce new products or boost popularity of existing one.
- Coupons (saving certificates) are loved by consumers and can help promote new brand or stimulate sales of existing one, but lead to coupon clutter.
- Cash refunds are similar to coupons but price reduction occurs after purchase.
- Price packs (money-off deals) offer consumers reduced prices directly on the package and are most effective in stimulating short term sales.
- Premiums (goods offered at low cost) are incentives to buy a product.
- Promotional products are items imprinted with brand name, logo or message and given for free to consumers.
- Point-of-sales (POS) promotions (displays and demonstrations) offered by manufacturers to retailers
- Contests and games give chances to win something to consumers.
- Event marketing (event sponsorship) means creating a brand-marketing event or serving as a sole or participating sponsor of events created by others. This is considered the fastest growing area in promotion linking events and sponsorship to brand value proposition.

Trade promotions are sales promotion tools used to persuade resellers to carry a brand, give it shelf space, promote it in advertising and push it to consumers. Due to scarce shelf space manufacturers often offer price-offs, allowances, buy-back guarantees, or free goods. Several promotion tools can be used such as discounts, allowances, free goods, push money or free specialty advertising items.

Business promotions are sales promotion tools used to generate business leads, stimulate purchases, reward customers and motivate salespeople. These include many of the same tools as for consumer or trade promotion. Often companies and trade associations organize conventions or trade shows to promote products and reach prospects. Also sales contests can be organized for salespeople or dealers to motivate them to raise their sales performance over a period of time.

Developing sales promotion program: marketers need to make several decisions in designing promotion program such as determining size of incentive, setting conditions for participating, determining how to promote and distribute the promotion, length of the promotion, and evaluation. Marketers need to measure returns on sales promotion investments, which can be done by comparing sales before, after and during promotion.

17. Direct and online marketing

Direct marketing is defined as connecting directly with carefully targeted segments of individual consumers, often on a one-to-one, interactive basis. For most companies, direct marketing is a supplemental channel, but for others it is a complete model for doing business. There are several major forms of direct marketing. Online marketing are efforts to market products and service and build customer relationships over the internet. The internet has fundamentally changed customers' notions of convenience, speed, price, product info and service. The direct-marketing industry has been facing some privacy concerns and cases of unfair practices.

Example Facebook: Facebook is gigantic and has a huge impact on the Internet from connections between users. Facebook has a great potential in online marketing, and it showed companies value of networks. Nowadays Facebook allows companies place advertising targeting them based on user profile data. Moreover, Facebook makes money by selling entertainment such as games. It also introduced Facebook payments. Thus, the company is expanding and using its potential as a marketing company.

Objective 1: Model, growth, benefits, customer databases of direct marketing

Direct marketing is defined as connecting directly with carefully targeted segments of individual consumers, often on a one-to-one, interactive basis. For most companies, direct marketing is a supplemental channel, but for others it is a complete model for doing business.

Growth and benefits of direct marketing: direct marketing is growing fast. It has become internet based and internet-marketing is fastest growing component of marketing spending.

Benefits to buyers: direct marketing is convenient, private, easy and private. Customers can shop anything anywhere and anytime. Direct marketing gives access to a huge variety of products as well as comparative information. It also is immediate and interactive giving consumers more control.

Benefits to sellers: direct marketing is a helpful tool for building customer relationships giving companies an opportunity to interact with customers. It is a low-cost, fast and efficient way of reaching target markets, handling of channel and logistic functions. It also provides an opportunity for greater flexibility in making adjustments to price and programs. Digital environment provides tools for building close personalized interactive customer relationships, giving access to buyers that would otherwise not be reached.

Customer databases and direct marketing: customer database is an organized collection of comprehensive data about individual customers or prospects, including geographic, demographic, psychographic and behavioural data. In B2B customer database would contain past purchases, volumes and prices, key contacts, competing suppliers, current contracts, estimated future spending, etc. Companies can use this database to located potential customers, to fine-tune offering, to learn about their customers and to build stringer relationships with them.

Objective 2: Forms of direct marketing

There are several major forms of direct marketing:

- **Direct-mail marketing:** direct marketing by sending an offer, announcement, reminder or other item to a person at a particular physical or virtual address. It is to be used well for direct one-to-one communication as it is flexible, can be personalized and allows for high target market selectivity and easy measurement of results. Although digital direct marketing forms are gaining popularity, traditional mail marketing remains used as it provides something tangible for consumers. It can be used as a component of integrated marketing campaign. However, it can be resented as "junk mail" by those not interested.
- **Catalogue marketing:** direct marketing through print, video or digital catalogues that are mailed to select customers, made available in stores, or presented online. Digital catalogues are gaining popularity and eliminate printing and mailing costs as well as can offer unlimited merchandise. They also offer more presentation formats and allow real-time merchandising. However, printed catalogues are still thriving as they create an emotional connection and drive online sales.
- **Telemarketing:** it entails using the telephone to sell directly to customers and to business customers. Companies use outbound telemarketing to sell directly and inbound to receive orders. The benefits of telemarketing include purchasing convenience, increased product and service info. However, consumers have been annoyed by telemarketing and the government introduced do-not-call law which has been hurting the telemarketing industry. However, inbound consumer telemarketing and outbound B2B telemarketing have been growing. Considering the new law, many companies are using it to their advantage and developing opt-in calling systems inviting customers to contact them.
- **Direct-response television (DRTV) marketing:** direct marketing via television, including direct-response television advertising (or infomercials) and home shopping channels. They can drive up sales. Home-shopping channels are television programs or channels dedicated to selling goods and services, whereas infomercials are 30 minute advertising programs. A new form of television marketing is interactive TV which allows viewers interact with TV programming and advertising.

- **Kiosk marketing:** is marketing via information and ordering machines that are located everywhere these days and can be wireless enabled with modern technologies.

Objective 3: Online marketing
Online marketing are efforts to market products and service and build customer relationships over the internet.
Marketing and the Internet: Internet is a vast public web of computer networks that connects users of all types around the world to each other and an amazingly large information repository. The internet has fundamentally changed customers' notions of convenience, speed, price, product info and service. **Click-only companies** are the so-called dot-coms, which operate only online and have no brick-and-mortar market presence. They include search engines and portals, transaction sites, content sites, and online social networks. **Click-and-mortar companies** are traditional brick-and-mortar companies that have added online marketing to their operations. They are having even more success than click-only competitors.
There are four major **online marketing domains:**

1. **Business-to-consumer (B-to-C)** online marketing: businesses selling goods and services online to final consumers. There is growing number of consumers using smartphones to shop. In contrast to offline shopping, in online exchange customers have more control and initiate contact, requiring marketing approaches.
2. **Business-to-business (B-to-B)** online marketing: businesses using online marketing to reach new business customers serve current customers more effectively and obtain buying efficiencies and better prices. Businesses use Internet to build stronger relationships with business customers, as well as offer product information, customer purchasing and customer support services online.
3. **Consumer-to-consumer (C-to-C)** online marketing: online exchanges of goods and information between final consumers which is facilitated by the internet. In some cases C2C involves exchanges of info through forum appealing to special-interest groups. Blogs are online journal where people post their thoughts, usually on a narrowly defined topic. Marketers are beginning to use blogs to reach targeted consumers by setting up their own blogs, advertising on blogs and influencing content there. Blogs offer fresh, original, personal, and cheap way to enter consumer online conversations. However, the disadvantage is that the blogosphere is cluttered and hard to control. Companies need to at least listen and monitor the C2C conversations if not participate in them.
4. **Consumer-to-business (C-to-B)** online marketing: online exchanges in which consumers search out sellers, learn about their offers and initiate purchases, sometimes even driving transaction terms. Internet allows easy consumers to

easily communicate with companies. Consumers can drive online transactions with businesses, ask questions, offer suggestions and deliver complaints or compliments.

Objective 4: Setting up online marketing presence

Most companies exist online. The following outlines the ways to conduct online marketing:

Creating web sites: corporate (brand) websites are websites designed to build customer goodwill, collect customer feedback and supplement other sales channels rather than sell the company's products directly. A website provides a lot of information and other features to answer questions, build closer customer relationships, and generate excitement about the brand. **Marketing website** is a website that engages consumers in interactions that will move them closer to a direct purchase or other marketing outcome. However, creating a website is not enough, sites must be visited and therefore a website must be promoted. Companies need to create sufficient value and excitement for customer to stay and keep coming back to the site. It should be easy to use, professional looking, and attractive, as well as useful. Effective websites contain deep info, interactive tools that help find and evaluate products, links to related sites, promotional offers and entertaining features.

Placing ads and promotions online: online advertising is advertising that appears while consumers are browsing the Web. Some forms of it include display ads, search-related ads, online classifieds and other forms. Rich media allow animation, sound, video and interactivity. The largest form of online advertising is search-related ads (or contextual advertising). The advertisers buy search items from the search sites and pay if consumers click through to their sites. Content sponsorships allow companies to gain name exposure on the web by sponsoring special content. **Viral marketing** is the Internet version of word-of-mouth marketing: websites, videos, email messages or other marketing events that are so infectious that customers will want to pass them along to friends. It is a cheap form of advertisement and is more likely to be viewed. However, marketers have little control over the fate of viral messages.

Creating or participating in online social networks: online social communities, blogs, social networking websites or even virtual worlds, where people socialize or exchange information and opinions. Marketers can engage in online social communities by participating in existing Web networks or establishing their own. The former seems to be the easiest option, as some of the existing social networks are huge. However, this also presents challenges such as not knowing how to use them effectively and measure success, becoming value part of networks that are user controlled. To avoid these challenges companies create their own online communities.

Sending e-mail: email marketing is an important and growing online marketing tool and it can be the ultimate marketing medium. Marketers can use email to send highly targeted, personalized, relationship building messages at low cost. However, the explosion of spam (unsolicited, unwanted commercial e-mail messages) can lead to customer irritation. Thus, nowadays most marketers use permission-based email marketing, sending emails only to customers who opt-in.

Using mobile marketing: mobile marketing is marketing to on-the-go consumers through mobile phones, smartphones, tablets, and other mobile communication devices. It is used to interact with customers anywhere anytime during the buying and relationship-building processes. A mobile marketing campaign may involve placing search ads, display ads or videos on relevant mobile internet sites and online communities. It gives companies an opportunity to engage customers with immediate info, incentives and choices at the exact moment when they are interest or consider buying the brand. Mobile ads can create impact and involvement. However, marketers also run the risk of irritating consumers. To avoid this they need to ensure useful info is provided so that customers opt-in.

Objective 5: Public policy issues in direct marketing

The direct-marketing industry has been facing some privacy concerns and cases of unfair practices.

Irritation, unfairness, deception, and fraud: direct marketing can sometimes annoy customers. Online marketers have also been accused of taking advantage of impulsive or less clever buyers. Internet fraud has also become a serious problem. Phishing is a type of online identity theft uses deceptive emails to fool users into divulging their personal data. Customers also worry about online security and that their personal information will be stolen. Another concern is access by vulnerable or unauthorized groups such as minors.

Consumer privacy: although customers harvest the benefits of database marketing as many online marketers have become skilled at obtaining detailed consumer information, they also worry that this information can be used to take advantage of them.

Need for action: because of these challenges, various governments are putting up legislation to protect customers, regulating how internet and mobile operators obtain and use consumer information. There concerns also call for marketers to monitor and prevent abuses before legislators step in. Companies and the direct marketing industry are responding to consumer privacy and security concerns. Marketers understand that direct marketing abuses can lead to negative consumer attitudes, low response rates and calls for increase regulations. Thus, they also want to use direct marketing on only those who are interested, as direct marketing is too expensive to waste on the wrong audience.

18. Creating competitive advantage

Competitive advantage is an advantage over competitors gained by offering consumers greater value than competitors do. Competitive marketing strategies exist of competitor analysis and developing competitive marketing strategies. Competitor analysis is the process of identifying key competitors, assessing their objectives, strategies, strengths and weaknesses and reaction patterns, and selecting which competitors to attack or avoid. Gathering competitive intelligence can be costly, so the company must design a cost-effective competitive intelligence system. Competitive strategies differ for every company and so does their development process (from formal to informal).

Example Four Seasons: Four Seasons employs customer intimacy strategy though high quality staff. It superior customer-service is rooted in company culture. Employees receive extensive training and are treated as important guests. This leads to a very low annual turnover and everyone contributing to the value creation and following competitive strategy.

Objective 1: Competitor analysis

Competitive advantage is an advantage over competitors gained by offering consumers greater value than competitors do. Competitive marketing strategies exist of competitor analysis and developing competitive marketing strategies. **Competitive marketing strategies** are strategies that strongly position the company against competitors and give the company the strongest possible strategic advantage. **Competitor analysis** is the process of identifying key competitors, assessing their objectives, strategies, strengths and weaknesses and reaction patterns, and selecting which competitors to attack or avoid. It includes three steps:

1. **Identifying competitors:** this might seem easy, but companies face a lot more competitors than can be identified at first sight. At the narrowest level, company's competitors are those offering the same product or service to the same customers at similar places. The company can also define competitors as those with the same class of products, or companies that make products that help supply the service, or companies that compete for the same consumer dollars. Companies must avoid competitor myopia as they are most likely to be overtaken by latent competition. Competitors can be identified from an industry point or a market point of view.
2. **Assessing competitors**:
    - **Determining competitors' objectives**: each competitor has a mix of objectives, and company want to find out their relative importance as it suggests what reactions competitors may have to company's actions.

The company also needs to continuously monitor competitors' objectives for various segments.

- **Identifying competitors' strategies**: **strategic group** is a group of firms in an industry following the same or a similar strategy. Competitors can be sorted into such groups and competition is the most intense within groups. However, there is also rivalry among groups, as they may be overlapping customer segments, customers may not see big differences between groups' offers, and members of each group can expand into new segments. The company needs to examine all dimensions that identify strategic groups within industry understanding how each competitor delivers value to customers.
- **Assessing competitors' strengths and weaknesses:** firms assess the strengths and weakness of competitors learning what they can do through secondary data, personal expertise and word of mouth, as well as primary research and online sites. The firm can also benchmark. Benchmarking is the process of comparing one company's products and processes to those of competitors or leading firms in other industries to identify best practices and find ways to improve quality and performance.
- **Estimating competitors' reactions:** the company wants to anticipate competitors' reactions as they can differ according to their objectives and strategies.

3. **Selecting which competitors to attack and avoid**:
    - **Strong or weak competitors**: most companies prefer to compete against weak competitors as it requires less time and fewer resources, but may lead to little gain. A useful tool for assessing competitor's strengths and weaknesses is the **customer value analysis**: an analysis conducted to determine what benefits target customer's value and how they rate the relative value of various competitors' offers. First company identifies attributes that customer's value and then it uses them to assess its performance against competitors. The key to gaining competitive advantage is to take each segment and examine how the company's offer compares to that of competitors. The company should place itself in a segment where it meets customers' needs in a way that competitors cannot.
    - **Close or distant competitors**: most companies compete with close competitors, but they will also have distant competitors. The company may also want to avoid trying to destroy close competitors.
    - **Good or bad competitors**: firms also benefit from having competitors, they share the costs of market and product development and help legitimize new technologies. Competitors may serve less attractive segments and create product differentiation and they can help increase

total demand. Good competitors play by the rules of industry, whereas bad competitors break them.

- **Finding uncontested market spaces**: instead of competing with established companies, the firm should search for positions uncontested segments.

Designing a competitive intelligence system: gathering competitive intelligence can be costly, so the company must design a cost-effective competitive intelligence system. The system first identifies vital types of information needed and best sources for it. Then it continuously collects information, and checks it for validity and reliability, interpreting and organizing it. Lastly, it sends out relevant info to decision makers and responds to inquiries. It helps managers obtain timely intelligence about competitors as well as interpret it. Small companies that cannot afford such systems can appoint managers to become expert on certain competitors.

Objective 2: Completive marketing strategies

Competitive strategies differ for every company and so does their development process (from formal to informal).

Approaches to marketing strategy often pass through three stages:

1. **Entrepreneurial marketing:** most companies are started by individuals who have no explicit strategy.
2. **Formulated marketing:** as small companies are more successful, they move to more formulated strategies.
3. **Intrepreneurial marketing:** many large companies get stuck in formulated marketing and should re-establish their entrepreneurial spirit that made them successful in the beginning.

There are many approaches to developing effective marketing strategies and there will always be tension between the formal and creative sides.

Basic competitive strategies: Porter is famous for his competitive positioning strategies: three winning ones and one losing one. The three winning strategies are:

- **Cost leadership:** the firm has the lowest production costs and can therefore ask the lowest prices.
- **Differentiation:** the firm creates a highly differentiated product line and marketing program and comes across as class leader.
- **Focus strategy:** the firm focuses on a small niche market segment.

The losing strategy is the "middle of the roaders" and applies to firms with no clear strategy, as they try to be good at everything and end up not being very good at anything.

Companies can pursue any of three customer-centred value disciplines for delivering superior customer value (each value discipline defines a specific way to build lasting customer relationships):

- **Operational excellence:** the firm provides superior value by leading in the industry in price and convenience. It attempts to reduce costs and create lean efficient value delivery system for customers who want reliable, good-quality products cheaply and easily.
- **Customer intimacy:** the firm provides superior value by precisely segmenting the market and tailoring its products to match the needs of their customers. It specializes in satisfying unique needs quickly and intimately for a premium. They build customer loyalty and capture lifetime value.
- **Product leadership:** the firm provides superior value by offering a continuous stream of superior products. These companies serve customers who want state-of-art products regardless of cost.

Some companies can pursue multiple values at the same time, but this has the same pitfall as 'middle of the roaders' strategy. Most successful companies design the entire value delivery network to support one chosen strategy.
Competitive positions: competing firms differ in their objectives and resources and there are multiple competitive positions in a given market for them:

1. **Market leader:** the firm in an industry with the largest market share. The leader has the largest market share and usually sets the pace in the market. Market leaders can encourage users to usage their products more. Leaders must be constantly prepared for other firms challenging its strengths. Sometimes attack is the best defence, and market leaders should continuously innovate. The following are proposed strategies for market leaders:
    a. **Expanding total demand:** this is when the leading firm gains most. It can be achieved by finding new users or untapped segments, discovering and promoting new uses and encouraging more usage of products.
    b. **Protecting market share:** the current business needs to be protected against competitors. This can be done by preventing weaknesses, fulfilling value promise, keeping relationships with valued customers. The best response is using continuous innovation to increase competitive effectiveness and value to customers.
    c. **Expanding market share:** this helps increase profitability. However, profitability increases as a business gains share relative to competitors in its served market. Sometimes cost of buying higher market share may exceed the returns.
2. **Market challenger:** a runner-up firm that is fighting hard to increase market share in an industry. The runner-up can either challenge the market leader or play along with competitors and not "rock the boat". Market challenger must

first define which competitors to challenge and the strategic objectives. Challengers may have second-mover advantages imitating and improving the ideas of previous leaders. It can attack the leader by a full frontal attack, by matching leader's product, advertising, price and distribution and attacking his strengths, but also by an indirect attack by attacking the leader's weaknesses.

3. **Market follower:** a runner-up firm that wants to hold its share in an industry without rocking the boat. Followers can learn from the leader who bears the costs of innovation. A follower may not overtake the leader, but can be just as profitable with less investment. Runner-up must know how to current customers and win new ones as well as find the right balance between following closely and avoiding retaliation. It needs to keep costs and prices low or quality and service high.
4. **Market niches:** a firm that serves small segments that the other firms in an industry overlook or ignore. By focusing on such a specific segment, the firms are often good in exactly matching the product to customer needs. Mass marketer achieves high volumes, whereas the niches – high margins. The key idea is specialization on, for instance, specific customers, geographic markets, quality-price ratio, and service. However, niching is risky, as niches may dry up, or attract larger competitors. To avoid these pitfalls many companies practice multiple niching.

Balancing customer and competitor orientations: competitor-centred company is the one that spends most of its time tracking competitors' moves and market shares trying to find strategies to counter them. On the positive side, the company becomes a fighter and cautious of its own weaknesses, whereas on the negative side, it becomes too reactive forgetting to seek innovative solutions. **Customer-centred company** focuses on customer developments in designing strategies. It is a good position to identify new opportunities and set long-term strategies, as well as focusing on delivering superior value. **Market-centred companies** watch for both competitors and competition, which is the most balanced strategy.

19. Global marketplace

The world is becoming smaller with faster communication, transportation and financial flows. Global firm is a firm that, by operating in more than one country, gains R&D, production, marketing and financial advantages in its costs and reputation that are not available to purely domestic competitors. A company faces six major decisions in international marketing. Once a company has decided upon entering a country, it needs to choose mode of entry. There are two extremes when deciding on adapting the marketing strategy. Companies can either adopt the home market communication strategy or change it for the local market. However, even in highly standardized campaigns, culture and language differences need to be taken into consideration. Once companies become global organizations, they stop thinking as national firms that sell abroad coordinating worldwide operations.

Example Coca-Cola in Africa: Coca-Cola is an iconic brand that recently decided to tackle the African market. It has been in the market for decades; however, there is a lot of room for growth there. Marketing in Africa is very different and the company needs to conduct street-by-street campaigns in small shops to win drinkers. They support shops with merchandise and effective network of distributors. The aim is to get products cold and close and so far it has been successful.

Objective 1: Effects of international trade system and environments on company's international marketing decisions

The world is becoming smaller with faster communication, transportation and financial flows. As global trade grows, global marketing also intensifies, and so does the competition. Foreign firms are aggressively entering international markets. Domestic companies loose chances to enter new markets and risk being taken over by international competitors. However, the risks of going abroad are also increasing due to the unstable and complex economic, political and legal conditions.

Global firm is a firm that, by operating in more than one country, gains R&D, production, marketing and financial advantages in its costs and reputation that are not available to purely domestic competitors.

A company faces **six major decisions** in international marketing.

1. **Looking at the global marketing environment:** companies must understand the international trade system that is affected by the following factors:
    - **International trade system:** international trade system includes restrictions on trade between nations, such as government tariffs in terms of taxes on imported products, quotas and limits on the amount of foreign import, nontariff trade barriers, such as biases against foreign

companies. However, there are also forces that help trade between nations. The GATT is a treaty to promote word trade by reducing trade barriers. The World Trade Organization was created to enforce the GATT rules. Free trade zones or economic communities are groups of nations organized to work toward common goals in the regulation of international trade, such as the EU.

- **Economic environment:** international marketers have to pay attention to the economic environment. 2 economic factors show country's attractiveness as a market: industrial structure and income distribution. The four types of industrial structures exist:
  - **Subsistence economies:** the vast majority of people engage in simple agriculture, output of which they consume themselves, presenting little opportunities.
  - **Raw material exporting economies:** economies are rich in one or more natural resources, but poor in other ways. Revenue comes from exporting these resources.
  - **Emerging economies:** are industrializing economies with rapid growth in manufacturing and economy needing imported raw materials. Industrialization leads to new rich class and growing middle class, demanding imported goods.
  - **Industrial economies:** are major exporters of manufactured goods. They trade with each other and export to other economies and are rich markets for all kinds of goods.
  - Besides the industrial structure, the income distribution is also of importance. Companies need to identify which levels of income consumers to target.
- **Political and legal environment:** international marketers must also consider political/legal environment, such as international buying, government bureaucracy, political stability and monetary regulations. Some countries are more accommodating to foreign firms than others. Monetary regulations need to be considered due to currency limitations. Some countries do not have enough currency to pay for the goods, thus barter occurs when goods are paid for with other items.
- **Cultural environment:** culture can have a big impact on consumer reactions.
  - **Impact of culture on marketing strategy:** producers must understand ways in which customers think about and use products before developing a marketing program. Ignoring cultural norms and differences can lead to expensive and embarrassing mistakes. Moreover, companies that understand cultural differences can use them to their advantage for international opportunities.

- **Impact of marketing strategy on cultures:** stakeholders may worry about impact of marketing on cultures because globalization may lead to loosing countries' identities. However, globalization goes both ways, countries exchange cultural influence.

1. **Deciding whether to go global:** not all companies have to dive into international markets to survive. Remaining domestic is easier and safer. Local businesses only need to be present in their local marketplace. However, companies that operate in global industries often are strongly affected by global positions. There are some factors that may attract the company to international arena, such as competitors attacking the company's home market or better opportunities for growth are found abroad. However, before going global, the company should weigh the risks and reconsider its abilities to operate globally.
2. **Deciding which markets to enter:** before going abroad, the company should define their international marketing objectives and policies and what volume of sales it wants from abroad. Most companies start small when they go abroad. Firms need to choose how many countries and the types of countries to enter based on various considerations. The company must carefully evaluate possible markets and rank them on various factors, such as market size, growth, costs, competitive advantage and risk.

Objective 2: Deciding how to enter the market
Once a company has decided upon entering a country, it needs to choose mode of entry. The following are the available strategies:

1. **Exporting** is entering a foreign market by selling goods produced in a company's home country, often with little modification. The company may sometimes export surpluses or actively commit to expanding exports. Indirect exporting is done at the beginning and involves working with independent international marketing intermediaries bearing fewer risks. Direct exporting is moved on to later and involves handling own exports, with higher risks but also higher returns.
2. **Joint venturing** is entering foreign markets by joining with foreign companies to produce or market a product or services. There are 4 types of joint ventures:
    - **Licensing** is a method of entering a foreign market in which a company enters into an agreement with a licensee in a foreign market. The licensee buys the rights to produce and sell company's products, enabling the company to enter the market at little risk. The disadvantages to it are losing control over licensee's operations and giving up profits as well as creating a potential competitor.

- **Contract manufacturing** is a joint venture in which a company contracts with manufacturers in a foreign market to produce a product or provide a service. The drawbacks include loss of control and profits from manufacturing. The benefits include a faster start, less risk and opportunity to form a partnership later.
- **Management contracting**: a joint venture in which a domestic firm supplies the management know-how to a foreign company that supplies the capital, the domestic firm exports management services rather than products. This is a low-risk method, however, it is not sensible it the resources can be used better in another way or by undertaking the whole venture.
- **Joint ownership** is a joint venture in which a company joins investors in a foreign market to create local business in which a company shares joint ownership and control. Companies often join complementary strengths for such strategies. The drawbacks include possible disagreements over investment, marketing and other policies.

3. **Direct investment** means entering a foreign market by developing foreign-based assembly or manufacturing facilities. The major global marketing decision is how much a firm should adapt is marketing strategy to local markets. The advantage is that firms may have lower costs, government incentives, and freight savings, as well as improve its image in host country and develop a relationship with the local stakeholders. The disadvantage is many economic, political and legal risks.

Objective 3: Deciding on the global marketing program
There are two extremes when deciding on adapting the marketing strategy. At one extreme there is **standardized global marketing**: an international marketing strategy that basically uses the same marketing strategy and mix in all of a company's international markets. On the other there is **adapted global marketing**: an international marketing strategy that adjusts the marketing strategy and mix elements to each international target market, bearing more costs but hoping for a larger market share and return. The company needs to decide whether to adapt or standardize the marketing. Global branding and standardization may result in greater brand power and reduced costs, however, products tailored to specific needs may be more effective. However, the strategy is not black and white, and degree of standardization can vary. The companies should think globally and act locally, balancing between standardization and adaptation.
Product: there are five strategies that allow for adapting product and marketing communication strategies to a global market. 3 of them apply to the product, whereas the other 2 are communication strategies.

- **Straight product extension** means marketing a product in a foreign market without any change. It involves no additional product development costs, manufacturing changes, or new promotion. However, it can be costly if products fail to satisfy consumers.
- **Product adaption** means adapting a product to meet local conditions or wants in foreign markets.
- **Product invention** means creating new products or services for foreign markets.

Promotion: companies can either adopt the home market communication strategy or change it for the local market. However, even in highly standardized campaigns, culture and language differences need to be taken into consideration.

- **Dual adaption** involves adjusting both the product and the communication strategy.
- **Communication adaption** means a global communication strategy of fully adapting advertising messages to local markets. The media also needs to be adjusted as its availability and regulations vary from country to country.

Price: companies need to consider many factors concerning international prices. No matter the decision, the prices abroad will be higher than domestic ones. To overcome this, companies make simpler versions of their products for developing countries or introduce more affordable brands abroad. Economic and technological advances have had an impact on global pricing, as consumers are more informed about prices internationally and are able to choose between sellers forcing companies to standardize prices.

Distribution channels: international companies must take a whole-channel view of the problem of distributing products. **Whole-channel view** means designing international channels that take into account the entire global supply chain and marketing channel, forging an effective global value delivery network. It connects sellers with final buyers via channels between nations and channels within nations. To compete internationally the company must design and manage an entire global value delivery network. Channels of distribution vary across countries in numbers and types of intermediaries and infrastructure.

Objective 4: Deciding on the global marketing organization

Companies manage their international marketing activities in three ways: first they organize an export department with a sales manager and a few assistants when international sales expand, then create an international divisions or subsidiaries as international activity increases, and finally become a global organization. Export departments become redundant if a firm moves into joint ventures or direct investments. International divisions can be geographical organizations, world product groups or international subsidiaries. They can also be world product groups responsible for sales of product groups. Lastly, they can be international subsidiaries, responsible for their own sales and profits.

Once companies become global organizations, they stop thinking as national firms that sell abroad coordinating worldwide operations. Today, major companies must become more global if they hope to compete.

20. Sustainable marketing

Sustainable marketing is socially and environmentally responsible marketing that meets the present needs of consumers and business while also preserving or enhancing the ability of future generations to meet their needs. Marketing receives much criticism, some of which is justified. In today's world, environmental issues are high on the awareness list, but environmental policies still vary widely from country to country. Marketers must take responsibility for sustainable marketing. Sustainable marketing calls for products that are not only pleasing, but also beneficial. Sustainability goes beyond the needs of today's customers, but means having concern for tomorrow's customers as well.

Example Sustainability at Unilever: Unilever introduced the Sustainable Living Plan to take capitalism to the next level. It is meant to set sustainability goals across the entire value chain. Apart from creating responsible supply and distribution channels, Unilever also improves social and environmental impact of the products. Sustainability saves money minimizing waste and energy use. It also fuels innovation, and creates new market opportunities.

Objective 1: Sustainable marketing

Sustainable marketing is socially and environmentally responsible marketing that meets the present needs of consumers and business while also preserving or enhancing the ability of future generations to meet their needs. Marketing concept identifies that companies thrive to determine the current needs and wants of target customers and fulfil them more effectively and efficiently than the competitors. However, only satisfying consumers' immediate needs, does not always serve the future best interest of either customers or the business. The sustainable marketing concepts consider both strategic planning and societal marketing, calling for responsible actions to meet current and future needs. Sustainable marketing requires a smooth-functioning marketing system in which consumers, companies, public policy makers and others work together to ensure responsible marketing.

Objective 2: Social criticisms of marketing

Marketing receives much criticism, some of which is justified.

Marketing impact on individual consumers: consumers hold mixed and slightly unfavourable attitudes towards marketing practices.

- **High prices:** many critics say that marketing causes prices to be higher, because of the following reasons:

    - **High costs of distribution** in the distribution channel lead to price increases as marketing channel members market up prices beyond value of their services and there are too many intermediaries. Resellers argue that mark-ups reflect service wanted by consumers and that competition keeps margins low.
    - **High advertising and promotion costs** is said to increase prices and add little value to products. Markets argue that advertising adds value by providing information to buyers about the products and offering psychological benefits.
    - **Excessive mark-ups** are also criticized. However, marketers claim that businesses try to deal fairly with consumers and there may be reasons for high mark-ups beyond customer understanding. Moreover, those companies that take advantage of vulnerable consumers need to be reported to the authorities.
- **Deceptive practices:** they lead consumers to believe they will receive more value than they really do. These fall into 3 groups: deceptive pricing (practices such as falsely advertising factory pries or reductions from a phony retail price), deceptive promotion (misinterpreting product features or performance) and deceptive packaging (exaggerating package contents though subtle design, using misleading labelling or describing size in misleading terms). Deceptive practices have led to legislation and other consumer protection actions. The most difficult problem is defining what is deceptive. Companies claim to avoid deceptive practices, as they harm the companies in the long-run. Value and trust help build profitable relationships.
- **High-pressure selling:** salespeople are sometimes accused of high-pressure selling, because they persuade people to buy goods these consumers did not really wanted before. Marketers however have little benefits from high-pressure selling, as it does not build long-term customer relationships.
- **Shoddy, harmful, or unsafe products:** another criticism concerns poor product quality or function. There are also concerns about product safety and products delivering little benefits. Producing poor quality goods leads to damaging conflicts with customers and regulators.
- **Planned obsolescence:** some companies have been accused of planned obsolescence, causing their products to become obsolete on purpose, so that they need replacement. Perceived obsolescence is also an issue as companies continually change consumers' concepts of acceptable styles to encourage more and timely buying. However, marketers say consumers like style changes and want innovations, whereas products are not designed to break but companies constantly seek improvements.
- **Poor service to disadvantaged customers:** a final piece of criticism is that of poor service to disadvantaged consumers. For example, major retailers are accused of redlining, avoiding disadvantaged neighbourhoods. Better marketing

systems need to be put in place to serve disadvantaged customers, and often governments need to step in and take care of this.

Marketing also has an impact on society as a whole: marketing is said to add some evils to the society.

- **False wants and too much materialism:** critics state that marketing is the cause of creating false wants and materialism in terms of too much interest in possessions, of which the industry benefits, but not so much the customers. Marketing's purpose is to promote consumption and when successful it leads to over-consumption. However, marketers say that businesses do not have that much power to create needs. Marketing is most successful what it appeals to existing needs and consumers are well informed. Lastly, there is a high failure rate of new products that proves the opposite of the criticism. Moreover, consumption is influenced by the societal and economic factors.
- **Too few social goods:** businesses have also been accused of overselling private goods at the expense of public goods. There must be a balance between private and public goods, thus either the producers need to bear all social costs or consumers should pay them.
- **Cultural pollution:** Marketing also supposedly led to the creation of cultural pollution. Because of constant advertising, people's minds are polluted with these messages. Marketers say that the ads are targeted at certain audiences, they keep the costs of media low, and consumers have alternatives.

Marketing's impact on business: marketing also has an impact on other businesses and can harm companies and reduce competition. There are three big problems involved:

- Acquisition of competitors
- Marketing practices that create barriers to entry
- Unfair competitive marketing practices.

Objective 3: Consumer actions to promote sustainable marketing
Consumerism is an organized movement of citizens and government agencies to improve the rights and power of buyers in relation to sellers. Traditional seller rights include:

- The right to introduce any product.
- The right to charge any price for a product provided there is no discrimination.
- The right to send any amount on promotion, if it is not unfair.
- The right to use any product message provided it is not misleading.
- The right to use buying incentive programs, if they are not misleading.
- Traditional buyers rights include:

- The right not buy a product that is offered for sale.
- The right to expect the product to be safe.
- The right to expect the product to perform as claimed.

Consumer advocates also call for additional consumer rights:

- The right to be well informed.
- The right to be protected against questionable products.
- The right to influence products and marketing practices in ways that improve quality of life.
- The right to consume in a way that will preserve the world for future generations.

Each proposed right has led to more specific proposal by consumerists. However, consumers do not only have the right, but also responsibility to protect themselves and make good choices.

Environmentalism is an organized movement of concerned citizens and government agencies to protect and improve people's current and future living environment. Modern environmentalists are not against marketing, but just want people and organizations to operate with more care for the environment. Environmental sustainability is a management approach that involves developing strategies that both sustain the environment and produce profits for the company. Environmental sustainability involves preserving the natural environment, while marketing sustainability involves both the natural and social environments. There are generally four forms of environmental sustainability.

1. Pollution prevention: eliminating or reducing waste before creation.
2. Product stewardship: minimizing environmental impact throughout the entire life cycle process.
3. New clean technology: developing new sets of environmental skills and capabilities.
4. Sustainability vision: creating a strategic framework for future sustainability.

Objective 4: Business actions toward sustainable marketing

In today's world, environmental issues are high on the awareness list, but environmental policies still vary widely from country to country. Marketers must take responsibility for sustainable marketing.

There are five sustainable marketing principles:

1. Consumer-oriented marketing: a principle of sustainable marketing that holds a company should view and organize its marketing activities from the consumer's point of view.
2. Customer value marketing: a principle of sustainable marketing that holds a company should put most of its resources into consumer value building marketing investments.
3. Innovative marketing: a principle of sustainable marketing that requires a company

to seek real product and marketing improvements.
4. Sense-of-mission marketing: a principle of sustainable that holds a company should define its mission in broad social terms rather than narrow products terms.
5. Societal marketing: a principle of sustainable marketing that holds a company should make marketing decisions by considering consumers' want, the company's requirements, consumer's long-term interests and society's long term interests.

Objective 5: Marketing ethics and sustainable companies

Sustainable marketing calls for products that are not only pleasing, but also beneficial. Products can be classified according to their degree of satisfaction and long term benefit. Deficient products are products that have neither immediate appeal, nor long term benefits. Pleasing products are products that give high immediate satisfaction, but may damage the consumer in the long term. Salutary products are products that have low appeal but may benefit the consumers in the long term. Desirable products are products that give both high immediate satisfaction and high long-term benefits.
Good ethics is important in sustainable marketing. Companies are responding to need for guidelines of marketing ethics. Guidelines are not able to solve all the ethical issues that firms face, but there are some general principles that can be applied. Ethical norms for marketers include "do not harm", "foster trust in the marketing system" and "embrace ethical values". Ethical values include honesty, responsibility, fairness, respect, transparency and citizenship.
The core of marketing is that firms will fulfil the needs of their customers. Sustainability goes beyond the needs of today's customers, but means having concern for tomorrow's customers as well.