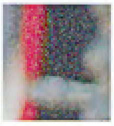


IN THIS CHAPTER, WE WILL ADDRESS THE FOLLOWING QUESTIONS:

1. How do consumer characteristics influence buying behavior?
2. What major psychological processes influence consumer responses to the marketing program?
3. How do consumers make purchasing decisions?
4. How do marketers analyze consumer decision making?

CHAPTER 6 ::: ANALYZING CONSUMER MARKETS

The aim of marketing is to meet and satisfy target customers' needs and wants better than competitors. **Consumer behavior** is the study of how individuals, groups, and organizations select, buy, use, and dispose of goods, services, ideas, or experiences to satisfy their needs and wants. Studying consumers provides clues for improving or introducing products or services, setting prices, devising channels, crafting messages, and developing other marketing activities. Marketers are always looking for emerging trends that suggest new marketing opportunities. The metrosexual is one:

In the summer of 2003, some marketing pundits proclaimed the existence of a new male market—the "metrosexual"—which was defined as straight urban men who enjoy such things as shopping and using grooming products and services. English soccer star David Beckham, with his carefully crafted fashion look, has been touted as the quintessential metrosexual icon. He's not afraid to wear either nail polish or sarongs (off the field, that is). One researcher estimated that 30 to 35 percent of young American men exhibited metrosexual tendencies, as evidenced in part by their purchase of products such as skin care cream and fragrances. Another study found "an emerging wave of men who chafe against the restrictions of traditional male roles and do what they want, buy what they want, enjoy what they want—regardless of whether some people might consider them unmanly." The emergence of this market has been a boon for >>>

British soccer star David Beckham is as well known for his style as he is for his playing.

men's grooming products, fueling the success of brands such as Unilever's Axe, a fragrant all-over body spray, The Body Shop's "For Men" line, and U.K. drugstore chain Boots' newly opened Men's Zones.[1]

Successful marketing requires that companies fully connect with their customers. Adopting a holistic marketing orientation means understanding consumers—gaining a 360-degree view of both their daily lives and the changes that occur during their lifetimes. Gaining a thorough, in-depth consumer understanding helps to ensure that the right products are marketed to the right consumers in the right way. This chapter explores individual consumer buying dynamics; the next chapter explores the buying dynamics of business buyers.

::: What Influences Consumer Behavior?

Marketers must fully understand both the theory and reality of consumer behavior. Table 6.1 includes some interesting facts about the American consumer in 2001, and "Marketing Insight: Consumer Trends for the Future" gives an idea of what marketers can expect to encounter in the year 2025.

A consumer's buying behavior is influenced by cultural, social, and personal factors. Cultural factors exert the broadest and deepest influence.

Cultural Factors

Culture, subculture, and social class are particularly important influences on consumer buying behavior. **Culture** is the fundamental determinant of a person's wants and behavior. The growing child acquires a set of values, perceptions, preferences, and behaviors through his or her family and other key institutions. A child growing up in the United States is exposed to the following values: achievement and success, activity, efficiency and practicality, progress, material comfort, individualism, freedom, external comfort, humanitarianism, and youthfulness.[2]

Each culture consists of smaller **subcultures** that provide more specific identification and socialization for their members. Subcultures include nationalities, religions, racial groups, and geographic regions. When subcultures grow large and affluent enough, companies often design specialized marketing programs to serve them. *Multicultural marketing* grew out of careful marketing research, which revealed that different ethnic and demographic niches did not always respond favorably to mass-market advertising.

Companies have capitalized on well-thought-out multicultural marketing strategies in recent years (see "Marketing Insight: Marketing to Cultural Market Segments"). For instance, many banks and life insurance companies are focusing on Hispanic Americans because although their income level is rising, the 40 million Hispanic Americans living in the United States have not yet become big consumers of financial services:

GE FINANCIAL

GE Financial has taken slow and careful steps to woo the Hispanic market. It spent more than two years researching and planning its Hispanic initiative, working closely with key people in the Hispanic community. It set up a Spanish-language call center, launched a Web site and tapped bilingual agents in key cities to sell GE products. It drafted financial commentator Julie Stav, a Latino personal finance guru, to make a series of information spots that run in English on GE's NBC station in Miami and in Spanish on Telemundo.[3]

TABLE 6.1

American Consumer Almanac

Personal Care
Amount spent per consumer unit on personal care products and services in 1999: **$408**
Food
Average annual expenditure on all food per household in 1999: **$5,031**
Number of eggs consumed per capita in 2000: **258**
Pounds of coffee (bean equivalent) consumed per capital 1999: **10**
Eating Out
Percentage of adults who eat out on a typical day: **44%**
Most popular month and day of the week to eat out: **August; Saturday**
Gum, Chocolate, and Candy
The average American chews **300** sticks of gum a year.
Wine (gallons per capita wine consumption)
France: **16.1** United States: **2.1**
Cars and Light Trucks
Median age of vehicles in operation in the U.S. in 2000: **Cars 8.3 years; Trucks 6.9 years**
Estimated percentage of U.S. households with three or more vehicles in 2000: **21%**
With 2 vehicles: **42%** With 1 vehicle: **31%** With no vehicles: **6%**
Travel and Lodging
Average annual number of trips per person of more than 100 miles: **3.9**
The number of nights the average traveler spends in a hotel, motel, or bed and breakfast annually: **3.3**
Leisure Time
Average number of times a U.S. adult goes out to a movie annually: **9**
Average number of times a U.S. adult attends a sporting event annually: **7**
Percentage of U.S. adults who visit an art museum, historical park, or monument or arts/crafts fair annually: **66%**
Consumer Electronics (percentage of household penetration)
VCR: **93%** Personal computer: **61%**
Wireless Phones
Percentage of U.S. drivers who usually have some type of wireless phone in their vehicle: **54%**
Percentage of U.S. households with cellular phones: **59%**
Of *those*, the percentage who report using their wireless phone while driving: **73%**

Virtually all human societies exhibit *social stratification.* Stratification sometimes takes the form of a caste system where the members of different castes are reared for certain roles and cannot change their caste membership. More frequently, it takes the form of **social classes**, relatively homogeneous and enduring divisions in a society, which are hierarchically ordered and whose members share similar values, interests, and behavior. One classic depiction of social classes in the United States defined seven ascending levels, as follows: (1) lower lowers, (2) upper lowers, (3) working class, (4) middle class, (5) upper middles, (6) lower uppers, and (7) upper uppers.[4]

Social classes have several characteristics. First, those within each class tend to behave more alike than persons from two different social classes. Social classes differ in dress, speech patterns, recreational preferences, and many other characteristics. Second, persons are perceived as occupying inferior or superior positions according to social class. Third,

MARKETING INSIGHT | CONSUMER TRENDS FOR THE FUTURE

What fundamental demographic trends will shape the consumer market over the next 25 years? To help answer that question, *American Demographics* teamed up with MapInfo, a Troy, New York–based market research firm, to create population projections to 2025. They found that the trends most likely to influence the business agendas of tomorrow are already gaining momentum today, and the smartest marketers have started developing strategies for the three largest and most likely demographic trends that will shape the marketplace of tomorrow:

America the Crowded

- More opportunity, more niche markets
- Environmental concerns moving front and center

By the year 2025, the U.S. population is expected to exceed 350 million people—an increase of about 70 million and a boost of 25 percent. Expect record-shattering growth to continue, as Americans live longer, birth rates hold steady, and immigration continues apace. However, this massive market does not herald a return to the mass market. As the population increases, niche markets may become unwieldy for businesses to target with a single marketing strategy. As a result, the niche market of today, such as Hispanic Americans, will become a mass market in its own right, segmented not only by nationality (i.e., Mexican, Guatemalan), but also by spending behavior and other psychographic characteristics. Of course, population growth will present some challenges. Natural resources will be stretched, so we can expect to see escalating conflicts at the local level over the use of land, water, and power. Products and services will be scrutinized more closely for their environmental impact.

The Mighty Mature Market

- The senior market gaining new allure
- Creating ageless, multigenerational brands

By 2025, as baby boomers age and life expectancy continues to increase, the number of seniors will double to more than 70 million people. The graying of America means that companies will have to do more than pay lip service to the idea of marketing to older people. Yet, businesses are not going to suddenly lose all interest in the 18 to 34 demographic. Instead, companies will have to learn to establish brands that attract older consumers without alienating younger ones. One example: A recent Pepsi commercial features a teenage boy in the middle of a mosh pit at a rock concert. He turns around to discover his father rocking out nearby. People at 50 aren't considered over the hill anymore. Smart marketers will capitalize on this knowledge and create the image of an ageless society where people define themselves more by the activities they're involved in than by their age. For instance, college students can be 20, 30, or 60 years old.

The Consumer Kaleidoscope

- Devising campaigns that appeal to many demographic segments
- Figuring out how to address the shrinking white majority

By 2025, the term "minority," as it's currently used, will be virtually obsolete. As the share of non-Hispanic whites falls to 60 percent from 70 percent today, the Hispanic population will almost double and the number of Asians in the United States will also double. As one executive at a trends consulting firm said, companies that have not yet developed a multicultural marketing strategy have to "wake up and smell the Thai tacos." Yet it's hard to know whether tomorrow's multicultural marketing strategies will continue to be segmented by race or whether an increasingly multicultural population prefers inclusive "fusion" strategies that attempt to encompass many different nationalities or racial identities in one campaign. Think Benetton and GAP for this latter strategy. To figure this out, companies will have to rely more heavily on ethnographic research. And yet, they can't ignore the dwindling white majority. If the current gap in wealth and income between white and nonwhite consumers holds for the next 25 years, businesses will have ample reason to target the nation's 210 million non-Hispanic white consumers.

Source: Adapted from Alison Stein Wellner, "The Next 25 Years," *American Demographics* (April 2003): 24–27.

social class is indicated by a cluster of variables—for example, occupation, income, wealth, education, and value orientation—rather than by any single variable. Fourth, individuals can move up or down the social-class ladder during their lifetimes. The extent of this mobility varies according to how rigid the social stratification is in a given society.

Social classes show distinct product and brand preferences in many areas, including clothing, home furnishings, leisure activities, and automobiles. Social classes differ in media preferences, with upper-class consumers often preferring magazines and books and lower-class consumers often preferring television. Even within a media category such as TV, upper-class consumers tend to prefer news and drama, and lower-class consumers tend to prefer soap operas and sports programs. There are also language differences among the social classes. Advertising copy and dialogue must ring true to the targeted social class.

Social Factors

In addition to cultural factors, a consumer's behavior is influenced by such social factors as reference groups, family, and social roles and statuses.

REFERENCE GROUPS A person's **reference groups** consist of all the groups that have a direct (face-to-face) or indirect influence on his/her attitudes or behavior. Groups having a direct influence on a person are called **membership groups**. Some membership groups are **primary groups**, such as family, friends, neighbors, and co-workers, those with whom the person interacts fairly continuously and informally. People also belong to **secondary groups**, such as religious, professional, and trade-union groups, which tend to be more formal and require less continuous interaction.

People are significantly influenced by their reference groups in at least three ways. Reference groups expose an individual to new behaviors and lifestyles, and influence attitudes and self-concept; they create pressures for conformity that may affect actual product and brand choices. People are also influenced by groups to which they do not belong. **Aspirational groups** are those a person hopes to join; **dissociative groups** are those whose values or behavior an individual rejects.

Manufacturers of products and brands where group influence is strong must determine how to reach and influence opinion leaders in these reference groups. An **opinion leader** is the person in informal, product-related communications who offers advice or information about a specific product or product category, such as which of several brands is best or how a particular product may be used.[5] Marketers try to reach opinion leaders by identifying demographic and psychographic characteristics associated with opinion leadership, identifying the media read by opinion leaders, and directing messages at opinion leaders.

NESTLÉ

Prior to the launch of its KitKat Kubes, a variant of the popular KitKat brand, Nestlé hired an agency to create a buzz among opinion leaders in the age 16 to 25 market. A database of about 20,000 was sent text messages and then this database was whittled down to 100 opinion leaders by a phone questionnaire. The opinion leaders were then sent a large box of KitKat Kubes. As one project manager at Nestlé Rowntree said: "It only takes 50 people to make a craze." But of course, it has to be the right fifty people.[6]

In Japan, high school girls have often been credited with creating the buzz that makes products such as Shiseido's Neuve nail polish a big hit.[7] In the United States, the hottest trends in teenage music, language, and fashion often start in the inner cities. Clothing companies like Hot Topic, which hope to appeal to the fickle and fashion-conscious youth market, have made a concerted effort to monitor urban opinion leaders' style and behavior.

HOT TOPIC

With 494 stores in malls in 49 states and Puerto Rico, Hot Topic has been hugely successful at using anti-establishment style in its fashions. Hot Topic's tagline, "everything about the music," reflects its operating premise: Music is the primary influence on teen fashion. Whether a teen is into rock, pop-punk, emo, acid rap, rave, or rockabilly—or even more obscure musical tastes—Hot Topic has the T-shirt for him or her. T-shirts featuring bands are the company's bread and butter. In order to keep up with music trends, all Hot Topic staffers, from the CEO to the lowliest store employee, regularly attend concerts by up-and-coming and established bands to scout who's wearing what. It's a perk for store clerks because they get reimbursed for concert tickets if they turn in a fashion write-up later. Hot Topic uses customer input too. Store managers keep comment cards near the till for shoppers to fill out. Hot Topic's Web site solicits e-mailed suggestions, and the CEO reads more than 1,000 customer comment cards and e-mails a month.[8]

FAMILY The family is the most important consumer buying organization in society, and family members constitute the most influential primary reference group.[9] We can distinguish between two families in the buyer's life. The **family of orientation** consists of parents and siblings. From parents a person acquires an orientation toward religion, politics, and economics, and a sense of personal ambition, self-worth, and love.[10] Even if the buyer no longer interacts very much with his or her parents, their influence on behavior can be significant. In countries where parents live with grown children, their influence can be substantial. A more direct influence on everyday buying behavior is the **family of procreation**—namely, one's spouse and children.

The makeup of the American family, however, has changed dramatically.[11] The U.S. Census Bureau's newest numbers show that married-couple households—the dominant

MARKETING INSIGHT | MARKETING TO CULTURAL MARKET SEGMENTS

Hispanic Americans

Expected to account for a quarter of the U.S. population by 2050, Hispanic Americans are the fastest-growing minority, and soon will be the largest minority in the country. Already with a population the same size as Canada, annual Hispanic American purchasing power in 2002 was $646 billion (total consumer spending by white Americans was $6.3 trillion). The Hispanic American segment can be difficult for marketers. Roughly two dozen nationalities can be classified as "Hispanic American," including Cuban, Mexican, Puerto Rican, Dominican, and other Central and South American groups. The Hispanic American group contains a mix of cultures, physical types, racial backgrounds, and aspirations.

Nickelodeon has been hugely successful in creating a "Pan-Latina" character, Dora the Explorer, that appeals to the increasing Hispanic preschool population in all these groups. The character is bilingual and the show displays aspects of many different Hispanic cultures. Dora's creators enlisted the help of a team of consultants with Latin American backgrounds. As a result, kids might see Dora up in the Andes or with a cocky, a frog that's an important part of Puerto Rican folklore. The research has paid off; the show is the most watched preschool show on commercial television, not only by Hispanic Americans but also by all preschoolers.

Yet despite their differences, Hispanic Americans often share strong family values, a need for respect, brand loyalty, and a strong interest in product quality. Marketers are reaching out to Hispanic Americans with targeted promotions, ads, or Web sites, but need to be careful to capture the nuances of cultural and market trends. For example, recognizing the fact that Hispanic consumers make twice as many trips to the grocery store per week and are less likely to eat out, Goya Foods has captured whole sections of large supermarkets, offering all the different goods Hispanic consumers might want. Other food companies have also introduced products targeting Hispanics, such as Frito-Lay with a lineup of spicy snacks sold in a rack emblazoned with the slogan "A Todo Sabor" (roughly, In Full Flavor).

African Americans

The purchasing power of the country's 34 million African Americans exploded during the prosperous 1990s. Based on survey findings, African Americans are the most fashion-conscious of all racial and ethnic groups. They also tend to be strongly motivated by quality and selection, and shop more at neighborhood stores. A telling testament to the growing power of African American consumers is their influence on white consumers, particularly those ages 12 to 34. Often fashion, dining, entertainment, sports, and music tastes emerge first from African American communities and make their way to the mainstream suburban mall. Think of rap- and hip-hop–inspired clothing, for instance.

Many companies have been successful at tailoring products to meet the needs of African Americans. In 1987, Hallmark Cards, Inc., launched its Afrocentric brand, Mahogany, with only 16 cards; it offers 800 cards today. Other companies offer more inclusive product lines within the same brand. Sara Lee Corporation's L'eggs discontinued its separate line of pantyhose for black women and now offers shades and styles popular among black women as half of the company's general-focus sub-brands. Finally, America's biggest packaged goods marketer, the Procter & Gamble Company, is teaming up its ad agencies specializing in campaigns aimed at African Americans with their general-market counterparts. By taking what used to be separate efforts through ethnic agencies and making them part of the company's core marketing effort, Procter & Gamble is moving the African American market from being largely an afterthought to being the name of the game.

Asian Americans

According to the U.S. Census Bureau, "Asian" refers to people having origins in any of the original peoples of the Far East, Southeast Asia, or the Indian subcontinent. Six countries represent 79 percent of the Asian U.S. population: China (21%), the Philippines (18%), India (11%), Vietnam (10%), Korea (10%), and Japan (9%).

Asian Americans tend to be more brand conscious than other minority groups, but yet are the least loyal to particular brands. Compared to other minority groups, they also tend to care more about what others think (e.g., whether their neighbors will approve). Asian Americans are the most wired and computer literate group too, and are more likely to use the Internet on a daily basis. Asian Americans often live with a larger extended family and may resonate to those types of depictions in advertising. Bank of America prospered by targeting Asians in San Francisco with separate TV campaigns aimed at Chinese, Korean, and Vietnamese consumers.

Sources: Rebecca Gardyn and John Fetto "The Way We Shop," *American Demographics* (February 2003): 33–34; Leon E. Wynter, "Business & Race: Hispanic Buying Habits Become More Diverse," *Wall Street Journal*, January 8, 1997, p. B1; Lisa A. Yorgey, "Hispanic Americans," *Target Marketing* (February 1998): 67; Carole Radice, "Hispanic Consumers: Understanding a Changing Market," *Progressive Grocer* (February 1997): 109–114; Alejandro Bianchi and Gabriel Sama, "Goya Foods Leads an Ethnic Sales Trend," *Wall Street Journal*, July 9, 2002, p. B2; Eduardo Porter and Betsy Mckay, "Frito-Lay Adds Spanish Accent to Snacks," *Wall Street Journal*, May 22, 2002, p. B3; Valerie Lynn Gray, "Going After Our Dollars," *Black Enterprise* (July 1997): 68–78; David Kiley, "Black Surfing," *Brandweek*, November 17, 1997, p. 36; Dana Canedy, "The Courtship of Black Consumers," *New York Times*, August 11, 1998, p. D1; Paula Lyon Andrus, "Mass Appeal: 'Dora' Translates Well," *Marketing News*, October 13, 2003, p. 8. Mindy Charski, "Old Navy to Tailor Message to Hispanics," *Adweek*, August 4, 2003, p. 9.

cohort since the country's founding—have slipped from nearly 80 percent in the 1950s to roughly 50 percent today. That means that the United States' 86 million single adults could soon define the new majority. Already, unmarrieds make up 42 percent of the workforce, 40 percent of homebuyers, 35 percent of voters, and one of the most powerful consumer groups on record. Marketers will have to pay attention not only to the buying habits of "singletons" who have delayed marriage, but also to families once considered on the fringe: cohabiting partners, divorced parents who share custody, single parents by choice, and same-sex couples who may or may not have children.

Marketers are interested in the roles and relative influence of family members in the purchase of a large variety of products and services. In the United States, husband–wife involvement has traditionally varied widely by product category. The wife has usually acted as the family's main purchasing agent, especially for food, sundries, and staple-clothing items. Now traditional purchasing roles are changing, and marketers would be wise to see both men and women as possible targets.

With expensive products and services like cars, vacations, or housing, the vast majority of husbands and wives engage in more joint decision making.[12] Given women's increasing wealth and income-generating ability, financial service firms such as Citigroup, Charles Schwab, and Merrill Lynch have expanded their efforts to attract women investors and business owners.[13] And marketers are realizing that men aren't the main buyers of high-tech gizmos and gadgets these days. Women actually buy more technology than men do, but consumer electronics stores have been slow to catch on to this fact. Some savvy electronics stores are starting to heed women's complaints of being ignored, patronized, or offended by salespeople. RadioShack Corp., a 7,000-store chain, began actively recruiting female store managers so that now a woman manages about one out of every seven stores.[14]

Nevertheless, men and women may respond differently to marketing messages.[15] One study showed that women valued connections and relationships with family and friends and placed a high priority on people. Men, on the other hand, related more to competition and placed a high priority on action. Marketers are taking more direct aim at women with new products such as Quaker's Nutrition for Women cereals and Crest Rejuvenating Effects toothpaste. Gillette Co. researched psychological issues specific to women and came out with an ergonomically designed razor, Venus, that fit more easily in a woman's hand. Sherwin-Williams recently designed a Dutch Boy easy-to-use "Twist and Pour" paint can targeted specifically at women.

Another shift in buying patterns is an increase in the amount of dollars spent and the direct and indirect influence wielded by children and teens.[16] Direct influence describes children's hints, requests, and demands—"I want to go to McDonald's." Direct influence of kids between the ages of 4 and 12 totaled around $275 billion in 1999. Their indirect influence on parental spending accounted for another $312 billion of household purchases.[17] Indirect influence means that parents know the brands, product choices, and preferences of their children without hints or outright requests. One research study showed that teenagers were playing a more active role than before in helping parents choose a car, audio/video equipment, or a vacation spot.[18]

Marketers use every possible channel of communication to reach kids, especially such popular media as Nickelodeon, Cartoon Network, or the Disney Channel on TV and magazines such as *Nickelodeon, Sports Illustrated for Kids,* and *Disney Adventures.*

DISNEY CHANNEL

After being considered an unprofitable stepchild of the Disney empire, the Disney Channel has become the company's cash cow solely from its ability to reach the underserved "tween market"—the 29 million 8 to 14-year-olds—and leverage its success through Disney's other divisions. In 2000, on the lookout for hip programming that would appeal to both tweens and their parents, the Disney Channel cast a then-obscure 12-year-old in the title role of a new weekly series, Lizzie McGuire. This sitcom about an everyday middle-schooler became a huge hit, and a year later Disney began running it on Saturday mornings on ABC, another Disney property. Then, in 2002, Disney unleashed a continuous stream of Lizzie spinoffs: Disney Press began publishing Lizzie books; its Buena Vista Music Group released the soundtrack for the series, which went platinum the following July; and Lizzie began airing every single day on the Disney Channel. That same year Disney's consumer products division began marketing everything from Lizzie dolls and sleeping bags to Lizzie pencils and notebooks. The Lizzie franchise has probably earned Disney about $100 million.[19]

Marketers are focusing more closely on women and their needs: This Dutch Boy "Twist and Pour" ad, which features a new, easy to use paint container, is targeted specifically at women.

The Lizzie McGuire juggernaut demonstrates how powerful television can be in reaching children, and marketers are using television to target children at younger ages than ever before. By the time children are around 2 years old, they can often recognize characters, logos, and specific brands. Marketers are tapping into that audience with product tie-ins, placed at a child's eye level, on just about everything—from Scooby Doo vitamins to Elmo juice and cookies.[20]

Today companies are also likely to use the Internet to show products to children and solicit marketing information from them. Millions of kids under the age of 17 are online. Marketers have jumped online with them, offering freebies in exchange for personal information. Many have come under fire for this practice and for not clearly differentiating ads from games or entertainment.

ROLES AND STATUSES A person participates in many groups—family, clubs, organizations. The person's position in each group can be defined in terms of role and status. A **role** consists of the activities a person is expected to perform. Each role carries a **status**. A senior vice president of marketing has more status than a sales manager, and a sales manager has more status than an office clerk. People choose products that reflect and communicate their role and actual or desired status in society. Company presidents often drive Mercedes, wear expensive suits, and drink expensive wines. Marketers must be aware of the status symbol potential of products and brands.

Personal Factors

A buyer's decisions are also influenced by personal characteristics. These include the buyer's age and stage in the life cycle; occupation and economic circumstances; personality and self-concept; and lifestyle and values. Because many of these characteristics have a very

MARKETING MEMO | THE AVERAGE AMERICAN CONSUMER QUIZ

Statements	Percent of consumers agreeing	
	% Men	% Women
1. A store's brand is usually a better buy than a nationally advertised brand.	______	______
2. I went fishing at least once in the past 12 months.	______	______
3. I am a homebody.	______	______
4. Information from advertising helps me make better buying decisions.	______	______
5. I like to pay cash for everything I buy.	______	______
6. A woman's place is in the home.	______	______
7. I am interested in spices and seasonings.	______	______
8. The father should be the boss in the house.	______	______
9. You have to use disinfectants to get things really clean.	______	______
10. I believe beings from other planets have visited Earth.	______	______

Note: Listed above are a series of statements that have been used in attitude surveys of American consumers. Only *married* U.S. men and women participated in these surveys. The people were selected because they were representative of a broad cross section of American consumers. The survey respondents were selected through a quota sample, balanced on age, income, geographical area, and population density. Consumers were asked whether they agreed or disagreed with each statement. For each statement, please estimate what percent of *married* American men and women agreed with each statement in 2004. Write a number between 0% and 100% in the columns to the right to indicate the percentage agreement. The correct answers can be found in the following footnote.*

* 1. M=57%, W=57%; 2. M=34%, W=24%; 3. M=64%, W=66%; 4. M=57%, W=61%; 5. M=60%, W=58%; 6. M=25%, W=23%; 7. M=70%, W=77%; 8. M=47%, W=29%; 9. M=58%, W=62%; 10. M=40%, W=35%. These numbers are based on DDB Life Style Study™. For an interesting application and analysis of the quiz, see Stephen J. Hoch, "Who Do We Know: Predicting the Interests and Opinions of the American Consumer," *Journal of Consumer Research*, 15 (December 1998): 315–324.

direct impact on consumer behavior, it is important for marketers to follow them closely. See how well you do with "Marketing Memo: The Average American Consumer Quiz."

AGE AND STAGE IN THE LIFE CYCLE People buy different goods and services over a lifetime. Taste in food, clothes, furniture, and recreation is often age related. Consumption is also shaped by the *family life cycle* and the number, age, and gender of people in the household at any point in time. American households are increasingly fragmented—the traditional family of four with a husband, wife, and two kids makes up a much smaller percentage of total households than it once did. In addition, *psychological* life-cycle stages may matter. Adults experience certain "passages" or "transformations" as they go through life.[21]

Marketers should also consider *critical life events or transitions*—marriage, childbirth, illness, relocation, divorce, career change, widowhood—as giving rise to new needs. These should alert service providers—banks, lawyers, and marriage, employment, and bereavement counselors—to ways they can help.[22]

BANK OF AMERICA (BOA)

BOA is using "event-based triggers" to help its premier customers. BOA, using NCR's "Relationship Optimizer" solution, monitors large deposits, withdrawals, insufficient funds, and other events that deviate from a customer's normal behavior. Client managers are alerted to these events and phone the client to see if they can be of any assistance. For example, if a client has withdrawn a large sum of money to buy a home, the client manager offers to help the client find the best mortgage.

OCCUPATION AND ECONOMIC CIRCUMSTANCES Occupation also influences consumption patterns. A blue-collar worker will buy work clothes, work shoes, and lunchboxes. A company president will buy dress suits, air travel, and country club memberships. Marketers try to identify the occupational groups that have above-average interest in their products and services. A company can even tailor its products for certain occupational groups: Computer software companies, for example, design different products for brand managers, engineers, lawyers, and physicians.

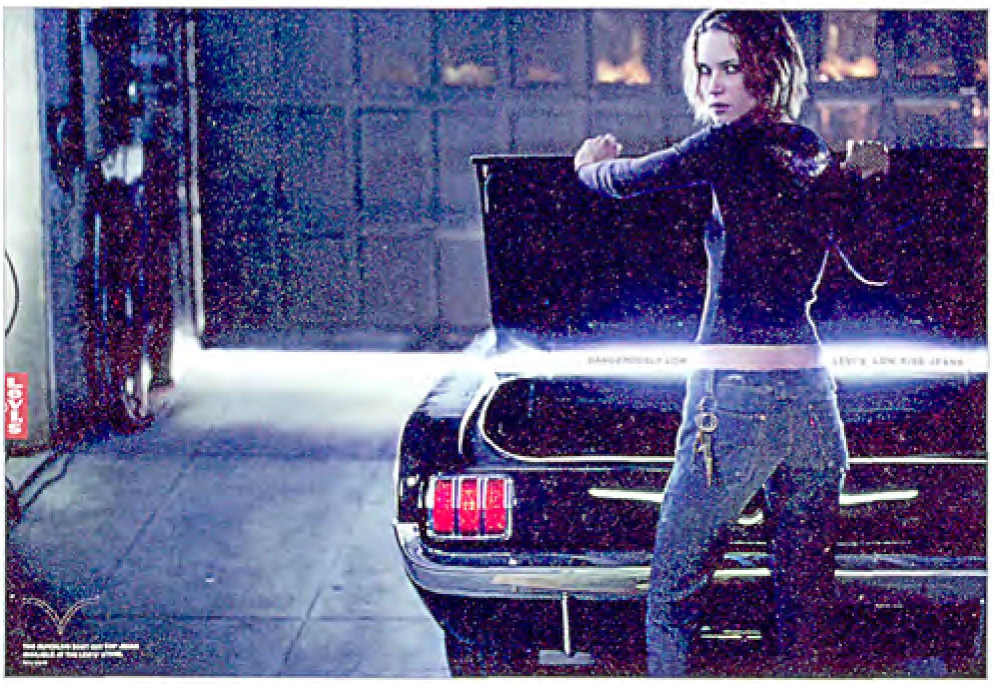
Product choice is greatly affected by economic circumstances: spendable income (level, stability, and time pattern), savings and assets (including the percentage that is liquid), debts, borrowing power, and attitudes toward spending and saving. Luxury-goods makers such as Gucci, Prada, and Burberry can be vulnerable to an economic downturn. If economic indicators point to a recession, marketers can take steps to redesign, reposition, and reprice their products or introduce or increase the emphasis on discount brands so that they can continue to offer value to target customers.

PERSONALITY AND SELF-CONCEPT Each person has personality characteristics that influence his or her buying behavior. By **personality**, we mean a set of distinguishing human psychological traits that lead to relatively consistent and enduring responses to environmental stimuli. Personality is often described in terms of such traits as self-confidence, dominance, autonomy, deference, sociability, defensiveness, and adaptability.[23] Personality can be a useful variable in analyzing consumer brand choices. The idea is that brands also have personalities, and consumers are likely to choose brands whose personalities match their own. We define **brand personality** as the specific mix of human traits that may be attributed to a particular brand.

Stanford's Jennifer Aaker conducted research into brand personalities and identified the following five traits:[24]

1. Sincerity (down-to-earth, honest, wholesome, and cheerful)
2. Excitement (daring, spirited, imaginative, and up-to-date)
3. Competence (reliable, intelligent, and successful)
4. Sophistication (upper-class and charming)
5. Ruggedness (outdoorsy and tough)

She proceeded to analyze some well-known brands and found that a number of them tended to be strong on one particular trait: Levi's with "ruggedness"; MTV with "excitement"; CNN with "competence"; and Campbell's with "sincerity." The implication is that these brands will attract persons who are high on the same personality traits. A brand personality may have several attributes: Levi's suggests a personality that is also youthful, rebellious, authentic, and American. The company utilizes product features, services, and image making to transmit the product's personality.



A Levi's ad expresses the brand personality: youthful, rebellious, authentic, American.

Consumers often choose and use brands that have a brand personality consistent with their own *actual self-concept* (how one views oneself), although in some cases the match may be based on the consumer's *ideal self-concept* (how one would like to view oneself) or even *others' self-concept* (how one thinks others see one) rather than actual self-image.[25] These effects may also be more pronounced for publicly consumed products as compared to privately consumed goods.[26] On the other hand, consumers who are high "self-monitors"—that is, sensitive to how others see them—are more likely to choose brands whose personalities fit the consumption situation.[27]

LIFESTYLE AND VALUES People from the same subculture, social class, and occupation may lead quite different lifestyles. A **lifestyle** is a person's pattern of living in the world as expressed in activities, interests, and opinions. Lifestyle portrays the "whole person" interacting with his or her environment. Marketers search for relationships between their products and lifestyle groups. For example, a computer manufacturer might find that most computer buyers are achievement-oriented. The marketer may then aim the brand more clearly at the achiever lifestyle. Marketers are always uncovering new trends in consumer lifestyles. Here's an example of one of the latest lifestyle trends businesses are currently targeting:

LOHAS

Consumers who worry about the environment, want products to be produced in a sustainable way, and spend money to advance their personal development and potential have been named "LOHAS." The name is an acronym standing for *lifestyles of health and sustainability.* The market for LOHAS products encompasses things like organic foods, energy-efficient appliances and sonar panels, as well as alternative medicine, yoga tapes, and ecotourism. Taken together, they accounted for a $230 billion market in 2000. Rather than looking at discrete product categories like cars or organic foods, it is more important to look at the common factors linking these product groups—for example, at cars, or energy and household products that are perceived as better for the environment and society.[28]

Lifestyles are shaped partly by whether consumers are *money-constrained* or *time-constrained.* Companies aiming to serve money-constrained consumers will create lower-cost products and services. By appealing to the money-constrained, Wal-Mart has become the largest company in the world. Its "everyday low prices" have wrung tens of billions of dollars out of the retail supply chain, passing the larger part of savings along to shoppers with rock-bottom bargain prices.[29]

Consumers who experience time famine are prone to **multitasking**, that is, doing two or more things at the same time. They will phone or eat while driving, or bicycle to work to get exercise. They will also pay others to perform tasks because time is more important than money. They may prefer bagels to breakfast cereals because they are quicker. Companies aiming to serve them will create convenient products and services for this group. Much of the wireless revolution is fueled by the multitasking trend. Texas Instruments recently unveiled a product design called WANDA, short for Wireless Any Network Digital Assistant, that allows users to talk on a cell phone while Web browsing over Wi-fi while conducting business via Bluetooth.

In some categories, notably food processing, companies targeting time-constrained consumers need to be aware that these very same consumers seek the illusion that they are not operating within time constraints. The food processing industry has a name for those who seek both convenience and some involvement in the cooking process: the "convenience involvement segment."[30]

HAMBURGER HELPER

Launched in 1971 in response to tough economic times, the inexpensive pasta-and-powdered mix Hamburger Helper was designed to quickly and inexpensively stretch a pound of meat into a family meal. With an estimated 44 percent of evening meals prepared in under 30 minutes and strong competition from fast-food drive-through windows, restaurant deliveries, and precooked grocery store dishes, Hamburger Helper's days of prosperity might seem numbered. Market researchers found, however, that some consumers do not necessarily want the fastest microwaveable meal solution possible—they also want to feel good about how they prepare a meal. In fact, on average, they would prefer to use at least one pot or pan and 15 minutes of time. To remain attractive to the segment who want to spend less time in the kitchen without totally abandoning their traditional roles as family mealmakers, marketers of Hamburger Helper are always introducing new flavors to tap into the latest consumer taste trends.[31]

Consumer decisions are also influenced by **core values**, the belief systems that underlie consumer attitudes and behaviors. Core values go much deeper than behavior or attitude, and determine, at a basic level, people's choices and desires over the long term. Marketers who target consumers on the basis of their values believe that by appealing to people's inner selves, it is possible to influence their outer selves—their purchase behavior.

::: Key Psychological Processes

The starting point for understanding consumer behavior is the stimulus-response model shown in Figure 6.1. Marketing and environmental stimuli enter the consumer's consciousness. A set of psychological processes combine with certain consumer characteristics to result in decision processes and purchase decisions. The marketer's task is to understand what happens in the consumer's consciousness between the arrival of the outside marketing stimuli and the ultimate purchase decisions. Four key psychological processes—motivation, perception, learning, and memory—fundamentally influence consumer responses to the various marketing stimuli.

Motivation: Freud, Maslow, Herzberg

A person has many needs at any given time. Some needs are *biogenic;* they arise from physiological states of tension such as hunger, thirst, or discomfort. Other needs are *psychogenic;* they arise from psychological states of tension such as the need for recognition, esteem, or belonging. A need becomes a motive when it is aroused to a sufficient level of intensity. A **motive** is a need that is sufficiently pressing to drive the person to act.

Three of the best-known theories of human motivation—those of Sigmund Freud, Abraham Maslow, and Frederick Herzberg—carry quite different implications for consumer analysis and marketing strategy.

FREUD'S THEORY Sigmund Freud assumed that the psychological forces shaping people's behavior are largely unconscious, and that a person cannot fully understand his or her own motivations. When a person examines specific brands, he or she will react not only to their stated capabilities, but also to other, less conscious cues. Shape, size, weight, material, color, and brand name can all trigger certain associations and emotions. A technique called *laddering* can be used to trace a person's motivations from the stated instrumental ones to the more terminal ones. Then the marketer can decide at what level to develop the message and appeal.[32]

Motivation researchers often collect "in-depth interviews" with a few dozen consumers to uncover deeper motives triggered by a product. They use various *projective techniques* such as word association, sentence completion, picture interpretation, and role playing. Many of these techniques were pioneered by Ernest Dichter, a Viennese psychologist who settled in America.[33]

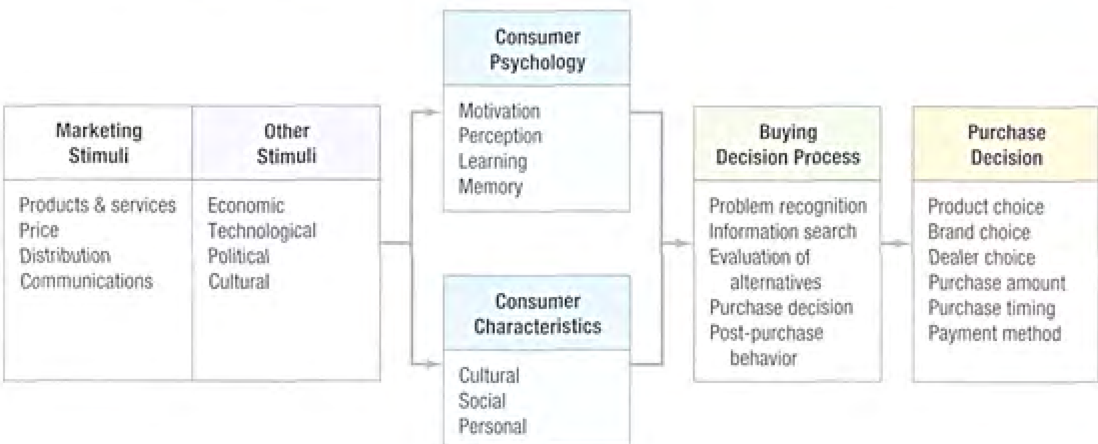


FIG. 6.1 Model of Consumer Behavior

Today motivational researchers continue the tradition of Freudian interpretation. Jan Callebaut identifies different motives a product can satisfy. For example, whisky can meet the need for social relaxation, status, or fun. Different whisky brands need to be motivationally positioned in one of these three appeals.[34] Another motivation researcher, Clotaire Rapaille, works on breaking the "code" behind a lot of product behavior. Research analyzing paper towels, according to Rapaille, revealed that its appeal to mothers is in how cleanliness plays into their instinctive desire to have their genes survive. "You are not just cleaning the table. You are saving the whole family," asserts the researcher.[35]

MASLOW'S THEORY Abraham Maslow sought to explain why people are driven by particular needs at particular times.[36] Why does one person spend considerable time and energy on personal safety and another on pursuing the high opinion of others? Maslow's answer is that human needs are arranged in a hierarchy, from the most pressing to the least pressing. In order of importance, they are physiological needs, safety needs, social needs, esteem needs, and self-actualization needs (see Figure 6.2). People will try to satisfy their most important needs first. When a person succeeds in satisfying an important need, he or she will then try to satisfy the next-most-important need. For example, a starving man (need 1) will not take an interest in the latest happenings in the art world (need 5), nor in how he is viewed by others (need 3 or 4), nor even in whether he is breathing clean air (need 2); but when he has enough food and water, the next-most-important need will become salient.

Maslow's theory helps marketers understand how various products fit into the plans, goals, and lives of consumers.

HERZBERG'S THEORY Frederick Herzberg developed a two-factor theory that distinguishes *dissatisfiers* (factors that cause dissatisfaction) and *satisfiers* (factors that cause satisfaction).[37] The absence of dissatisfiers is not enough; satisfiers must be present to motivate a purchase. For example, a computer that does not come with a warranty would be a dissatisfier. Yet the presence of a product warranty would not act as a satisfier or motivator of a purchase, because it is not a source of intrinsic satisfaction. Ease of use would be a satisfier.

Herzberg's theory has two implications. First, sellers should do their best to avoid dissatisfiers (for example, a poor training manual or a poor service policy). Although these things will not sell a product, they might easily unsell it. Second, the seller should identify the major satisfiers or motivators of purchase in the market and then supply them. These satisfiers will make the major difference as to which brand the customer buys.

Perception

A motivated person is ready to act. How the motivated person actually acts is influenced by his or her view or perception of the situation. **Perception** is the process by which an individual selects, organizes, and interprets information inputs to create a meaningful picture of

FIG. 6.2

Maslow's Hierarchy of Needs

Source: Motivation and Personality, 2nd ed., by A. H. Maslow, 1970. Reprinted by permission of Prentice Hall, Inc., Upper Saddle River, New Jersey.

the world.[38] Perception depends not only on the physical stimuli, but also on the stimuli's relation to the surrounding field and on conditions within the individual. The key point is that perceptions can vary widely among individuals exposed to the same reality. One person might perceive a fast-talking salesperson as aggressive and insincere; another, as intelligent and helpful. Each will respond differently to the salesperson.

In marketing, perceptions are more important than the reality, as it is perceptions that will affect consumers' actual behavior. People can emerge with different perceptions of the same object because of three perceptual processes: selective attention, selective distortion, and selective retention.

SELECTIVE ATTENTION It has been estimated that the average person may be exposed to over 1,500 ads or brand communications a day. Because a person cannot possibly attend to all of these, most stimuli will be screened out—a process called **selective attention**. Selective attention means that marketers have to work hard to attract consumers' notice. The real challenge is to explain which stimuli people will notice. Here are some findings:

1. ***People are more likely to notice stimuli that relate to a current need.*** A person who is motivated to buy a computer will notice computer ads; he or she will be less likely to notice DVD ads.
2. ***People are more likely to notice stimuli that they anticipate.*** You are more likely to notice computers than radios in a computer store because you do not expect the store to carry radios.
3. ***People are more likely to notice stimuli whose deviations are large in relation to the normal size of the stimuli.*** You are more likely to notice an ad offering $100 off the list price of a computer than one offering $5 off.

Although people screen out much of the surrounding stimuli, they are influenced by unexpected stimuli, such as sudden offers in the mail, over the phone, or from a salesperson. Marketers may attempt to promote their offers intrusively to bypass selective attention filters.

SELECTIVE DISTORTION Even noticed stimuli do not always come across in the way the senders intended. **Selective distortion** is the tendency to interpret information in a way that will fit our preconceptions. Consumers will often distort information to be consistent with prior brand and product beliefs.[39]

A stark demonstration of the power of consumer brand beliefs is the typical result of product sampling tests. In "blind" taste tests, one group of consumers samples a product without knowing which brand it is, whereas another group of consumers samples the product knowing which brand it is. Invariably, differences arise in the opinions of the two groups despite the fact that the two groups are *literally consuming exactly the same product*!

When consumers report different opinions between branded and unbranded versions of identical products, it must be the case that the brand and product beliefs, created by whatever means (e.g., past experiences, marketing activity for the brand, etc.), have somehow changed their product perceptions. Examples of branded differences can be found with virtually every type of product. For example, one study found that consumers were equally split in their preference for Diet Coke versus Diet Pepsi when tasting both on a blind basis.[40] When tasting the branded versions, however, consumers preferred Diet Coke by 65 percent and Diet Pepsi by only 23 percent (with the remainder seeing no difference).

Selective distortion can work to the advantage of marketers with strong brands when consumers distort neutral or ambiguous brand information to make it more positive. In other words, beer may seem to taste better, a car may seem to drive more smoothly, the wait in a bank line may seem shorter, and so on, depending on the particular brands involved.

SELECTIVE RETENTION People will fail to register much information to which they are exposed in memory, but will tend to retain information that supports their attitudes and beliefs. Because of **selective retention**, we are likely to remember good points about a product we like and forget good points about competing products. Selective retention again works to the advantage of strong brands. It also explains why marketers need to use repetition in sending messages to their target market—to make sure their message is not overlooked.

A Pepsi Challenge taste test in New York's Central Park. Companies like Pepsi often do taste tests of their products against other branded products to see if brand really makes a difference in customer preferences.

SUBLIMINAL PERCEPTION The selective perception mechanisms require active engagement and thought by consumers. A topic that has fascinated armchair marketers for ages is **subliminal perception.** The argument is that marketers embed covert, subliminal messages in ads or packages. Consumers are not consciously aware of these messages, but yet they affect their behavior. Although it is clear many subtle subconscious effects can exist with consumer processing,[41] no evidence supports the notion that marketers can systematically control consumers at that level.[42]

Learning

When people act, they learn. **Learning** involves changes in an individual's behavior arising from experience. Most human behavior is learned. Learning theorists believe that learning is produced through the interplay of drives, stimuli, cues, responses, and reinforcement.

A **drive** is a strong internal stimulus impelling action. **Cues** are minor stimuli that determine when, where, and how a person responds. Suppose you buy a Dell computer. If your experience is rewarding, your response to computers and Dell will be positively reinforced. Later on, when you want to buy a printer, you may assume that because Dell makes good computers, Dell also makes good printers. In other words, you *generalize* your response to similar stimuli. A countertendency to generalization is discrimination. **Discrimination** means that the person has learned to recognize differences in sets of similar stimuli and can adjust responses accordingly.

Learning theory teaches marketers that they can build demand for a product by associating it with strong drives, using motivating cues, and providing positive reinforcement. A new company can enter the market by appealing to the same drives that competitors use and by providing similar cue configurations, because buyers are more likely to transfer loyalty to similar brands (generalization); or the company might design its brand to appeal to a different set of drives and offer strong cue inducements to switch (discrimination).

Memory

All the information and experiences individuals encounter as they go through life can end up in their long-term memory. Cognitive psychologists distinguish between **short-term memory (STM)**—a temporary repository of information—and **long-term memory (LTM)**—a more permanent repository.

Most widely accepted views of long-term memory structure involve some kind of associative model formulation.[43] For example, the **associative network memory model** views LTM as consisting of a set of nodes and links. *Nodes* are stored information connected by *links* that vary in strength. Any type of information can be stored in the memory network, including information that is verbal, visual, abstract, or contextual. A spreading activation process from node to node determines the extent of retrieval and what information can actually be recalled in any given situation. When a node becomes activated because external information is being encoded (e.g., when a person reads or hears a word or phrase) or internal information is retrieved from LTM (e.g., when a person thinks about some concept), other nodes are also activated if they are sufficiently strongly associated with that node.

Consistent with the associative network memory model, consumer brand knowledge in memory can be conceptualized as consisting of a brand node in memory with a variety of linked associations. The strength and organization of these associations will be important determinants of the information that can be recalled about the brand. **Brand associations** consist of all brand-related thoughts, feelings, perceptions, images, experiences, beliefs, attitudes, and so on that become linked to the brand node.

Marketing can be seen as making sure that consumers have the right types of product and service experiences such that the right brand knowledge structures are created and maintained in memory.

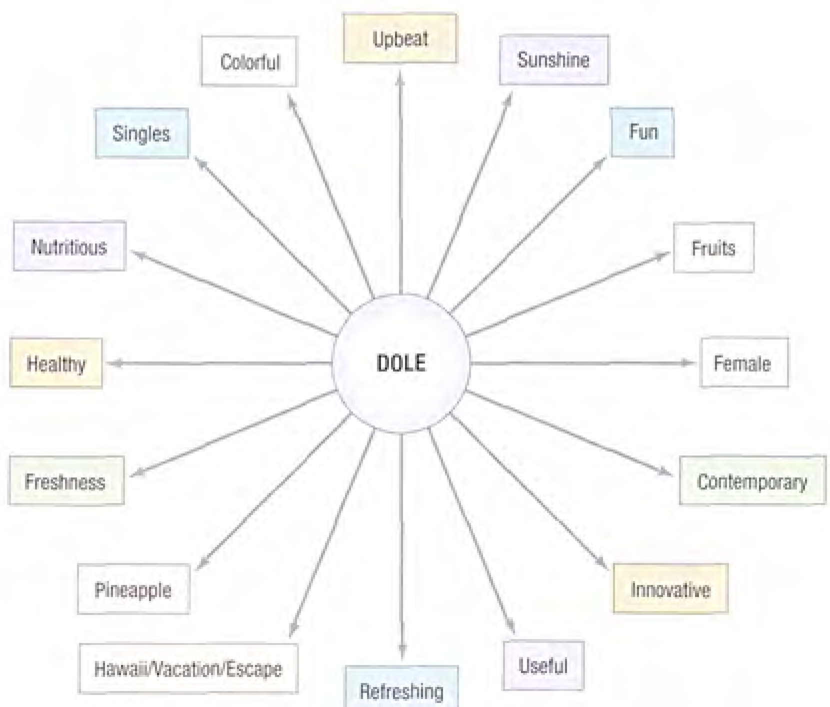
GODIVA CHOCOLATIER

Godiva Chocolatier's success is based on the appeal of emotional brand associations. In 1994, when the recession slowed sales of super premium goods, such as chocolates that sold for as much as $45 a pound, Godiva underwent a marketing makeover in its retail stores. The idea was to define, through store design, what the experience of eating chocolate felt like—sensual, indulgent, even sinful. In its multimillion-dollar redesign Godiva created elegant Art Noveau–style stores with bleached wood floors and wood and glass display cases. Customers were able to sample chocolates and find price lists instead of having to ask the salesperson the prices (which they might have found embarrassing). As redesigned "test" stores began to post significantly higher sales, Godiva rolled out the whole redesign and now the brand's associations of luxurious indulgence and sensuality have become ingrained in consumers' minds.[44]

Companies such as Procter & Gamble like to create mental maps of consumers that depict their knowledge of a particular brand in terms of the key associations that are likely to

FIG. 6.3

Hypothetical Dole Mental Map



be triggered in a marketing setting and their relative strength, favorability, and uniqueness to consumers. Figure 6.3 displays a very simple mental map highlighting brand beliefs for a hypothetical consumer for the Dole brand.

MEMORY PROCESSES: ENCODING **Memory encoding** refers to how and where information gets into memory. Memory encoding can be characterized according to the amount or quantity of processing that information receives at encoding (i.e., how much a person thinks about the information) and the nature or quality of processing that information receives at encoding (i.e., the manner in which a person thinks about the information). The quantity and quality of processing will be an important determinant of the strength of an association.[45]

In general, the more attention placed on the meaning of information during encoding, the stronger the resulting associations in memory will be.[46] When a consumer actively thinks about and "elaborates" on the significance of product or service information, stronger associations are created in memory. Another key determinant of the strength of a newly formed association will be the content, organization, and strength of existing brand associations in memory. It will be easier for consumers to create an association to new information when extensive, relevant knowledge structures already exist in memory. One reason why personal experiences create such strong brand associations is that information about the product is likely to be related to existing knowledge.

Consider the brand associations that might be created by a new TV ad campaign, employing a popular celebrity endorser, designed to create a new benefit association for a well-known brand. For example, assume Bruce Springsteen and his classic songs "Born in the USA" and "Born to Run" were jointly used to promote the "American heritage" and "Patriotic appeal" of New Balance athletic shoes, a Massachusetts-based company that

A Buick ad campaign features a popular celebrity endorser, the golfer Tiger Woods. Buick wants to appeal to younger drivers with a campaign designed to create a new benefit association for this well-known brand.

still manufactures in its local area. A number of different scenarios characterize how consumers might process such an ad:

1. Some consumers may barely notice the ads so that the amount of processing devoted to the ads is extremely low, resulting in weak to nonexistent brand associations.
2. The ads may catch the attention of other consumers, resulting in sufficient processing, but these consumers may devote most of the time during the ads thinking about the song and wondering why Springsteen decided to endorse New Balance (and whether he actually wore them), resulting in strong associations to Springsteen, but not to New Balance.
3. Another group of consumers may not only notice the ads but may think of how they had a wrong impression of New Balance and that it is "different" from the way they thought and that they would feel good about wearing the shoe. The endorsement by Springsteen in this case helped to transfer and create positive associations.

In addition to congruency or consistency with existing knowledge, the ease with which new information can be integrated into established knowledge structures clearly depends on the nature of that information, in terms of characteristics such as simplicity, vividness, and concreteness.

Repeated exposures to information provide greater opportunity for processing and thus the potential for stronger associations. Recent advertising research in a field setting, however, suggests that qualitative considerations and the manner or style of consumer processing engendered by an ad are generally more important than the cumulative total of ad exposures.[47] In other words, high levels of repetition for an uninvolving, unpersuasive ad is unlikely to have as much sales impact as lower levels of repetition for an involving, persuasive ad.

MEMORY PROCESSES: RETRIEVAL **Memory retrieval** refers to how information gets out of memory. According to the associative network memory model, the strength of a brand association increases both the likelihood that that information will be accessible and the ease with which it can be recalled by "spreading activation." Successful recall of brand information by consumers does not depend only on the initial strength of that information in memory. Three factors are particularly important.

First, the presence of *other* product information in memory can produce interference effects. It may cause the information to be either overlooked or confused. One challenge in a category crowded with many competitors—for example, airlines, financial services, and insurance companies—is that consumers may mix up brands.

TABLE 6.2

Understanding Consumer Behavior

Who buys our product or service?
Who makes the decision to buy the product?
Who influences the decision to buy the product?
How is the purchase decision made? Who assumes what role?
What does the customer buy? What needs must be satisfied?
Why do customers buy a particular brand?
Where do they go or look to buy the product or service?
When do they buy? Any seasonality factors?
How is our product perceived by customers?
What are customers' attitudes toward our product?
What social factors might influence the purchase decision?
Do customers' lifestyles influence their decisions?
How do personal or demographic factors influence the purchase decision?

Source: Based on list from George Belch and Michael Belch, *Advertising and Communication Management*, 6th ed. (Homewood, IL: Irwin, 2003).

Second, the time since exposure to information at encoding affects the strength of a new association—the longer the time delay, the weaker the association. The time elapsed since the last exposure opportunity, however, has been shown generally to produce only gradual decay. Cognitive psychologists believe that memory is extremely durable, so that once information becomes stored in memory, its strength of association decays very slowly.[48]

Third, information may be "available" in memory (i.e., potentially recallable) but may not be "accessible" (i.e., unable to be recalled) without the proper retrieval cues or reminders. The particular associations for a brand that "come to mind" depend on the context in which the brand is considered. The more cues linked to a piece of information, however, the greater the likelihood that the information can be recalled. The effectiveness of retrieval cues is one reason why marketing *inside* a supermarket or any retail store is so critical—in terms of the actual product packaging, the use of in-store mini-billboard displays, and so on. The information they contain and the reminders they provide of advertising or other information already conveyed outside the store will be prime determinants of consumer decision making.

FIG. 6.4

Five-Stage Model of the Consumer Buying Process

::: The Buying Decision Process: The Five-Stage Model

These basic psychological processes play an important role in understanding how consumers actually make their buying decisions. Marketers must understand every facet of consumer behavior. Table 6.2 provides a list of some key consumer behavior questions in terms of "who, what, when, where, how, and why." Smart companies try to fully understand the customers' buying decision process—all their experiences in learning, choosing, using, and even disposing of a product.[49]

Honda engineers took videos of shoppers loading groceries into car trunks to observe their frustrations and generate possible design solutions. Intuit, the maker of Quicken financial software, watched first-time buyers try to learn Quicken to sense their problems in learning how to use the product. Bissel developed its Steam n' Clean vacuum cleaner based on the product trial experiences of a local PTA group near corporate headquarters in Grand Rapids, Michigan. The result was a name change, color-coded attachments, and an infomercial highlighting its special features.[50]

Marketing scholars have developed a "stage model" of the buying decision process (see Figure 6.4). The consumer passes through five stages: problem recognition, information search, evaluation of alternatives, purchase decision, and postpurchase behavior. Clearly, the buying process starts long before the actual purchase and has consequences long afterward.[51]

But consumers do not always pass through all five stages in buying a product. They may skip or reverse some stages. A woman buying her regular brand of toothpaste goes directly from the need for toothpaste to the purchase decision, skipping information search and evaluation. The model in Figure 6.4 provides a good frame of reference, however, because it captures the full range of considerations that arise when a consumer faces a highly involving new purchase.[52]

Problem Recognition

The buying process starts when the buyer recognizes a problem or need. The need can be triggered by internal or external stimuli. With an internal stimulus, one of the person's normal needs—hunger, thirst, sex—rises to a threshold level and becomes a drive; or a need can be aroused by an external stimulus. A person may admire a neighbor's new car or see a television ad for a Hawaiian vacation, which triggers thoughts about the possibility of making a purchase. A believer in "retail theater," Krispy Kreme lights a neon "HOT NOW" sign to get attention—and purchase interest—each time a new batch of doughnuts is baked.

Marketers need to identify the circumstances that trigger a particular need by gathering information from a number of consumers. They can then develop marketing strategies that trigger consumer interest. This is particularly important with discretionary purchases such as luxury goods, vacation packages, and entertainment options. Consumer motivation may need to be increased so that a potential purchase is even given serious consideration.

Information Search

An aroused consumer will be inclined to search for more information. We can distinguish between two levels of arousal. The milder search state is called *heightened attention*. At this level a person simply becomes more receptive to information about a product. At the next

Triggering need: The "HOT NOW" sign is lit at this new Krispy Kreme store at Harrod's in London to signal the arrival of a batch of freshly baked doughnuts.

level, the person may enter an *active information search:* looking for reading material, phoning friends, going online, and visiting stores to learn about the product.

Of key interest to the marketer are the major information sources to which the consumer will turn and the relative influence each will have on the subsequent purchase decision. These information sources fall into four groups:

- ***Personal.*** Family, friends, neighbors, acquaintances
- ***Commercial.*** Advertising, Web sites, salespersons, dealers, packaging, displays
- ***Public.*** Mass media, consumer-rating organizations
- ***Experiential.*** Handling, examining, using the product

The relative amount and influence of these sources vary with the product category and the buyer's characteristics. Generally speaking, the consumer receives the most information about a product from commercial sources—that is, marketer-dominated sources. However, the most effective information often comes from personal sources or public sources that are independent authorities. More than 40 percent of all car shoppers consult *Consumer Reports*, making it the biggest single source of information.[53] Each information source performs a different function in influencing the buying decision. Commercial sources normally perform an information function, whereas personal sources perform a legitimizing or evaluation function. For example, physicians often learn of new drugs from commercial sources but turn to other doctors for evaluations.

The Internet has changed the process of information search. Today's marketplace is made up of traditional consumers (who do not shop online), cyber-consumers (who mostly shop online), and hybrid consumers (who do both).[54] Most consumers are hybrid: They shop in grocery stores but occasionally order from Peapod; they shop for books in Barnes & Noble bookstores but also sometimes order books from bn.com. People still like to squeeze the tomatoes, touch the fabric, smell the perfume, and interact with salespeople. They are motivated by more than shopping efficiency. Most companies will need a presence both offline and online to cater to these hybrid consumers.

ZAGAT

Based on the principle of organized word of mouth, husband and wife team Tim and Nina Zagat have recruited thousands of reviewers to rate restaurants in the world's top cities. These surveys were compiled into guidebooks that have sold millions. Now they have expanded their scope to include hotels, resorts, spas, and other services. Zagat's Web site has created an online community of reviewers, who are motivated in part by award prizes for the wittiest comments. Providing content online has actually helped sales of guidebooks offline. The New York guide has remained the number-one book sold in the city (with sales surpassing the Bible).[55]

Through gathering information, the consumer learns about competing brands and their features. The first box in Figure 6.5 shows the *total set* of brands available to the consumer. The individual consumer will come to know only a subset of these brands (*awareness set*). Some brands will meet initial buying criteria (*consideration set*). As the consumer gathers more information, only a few will remain as strong contenders (*choice set*). The consumer makes a final choice from this set.[56]

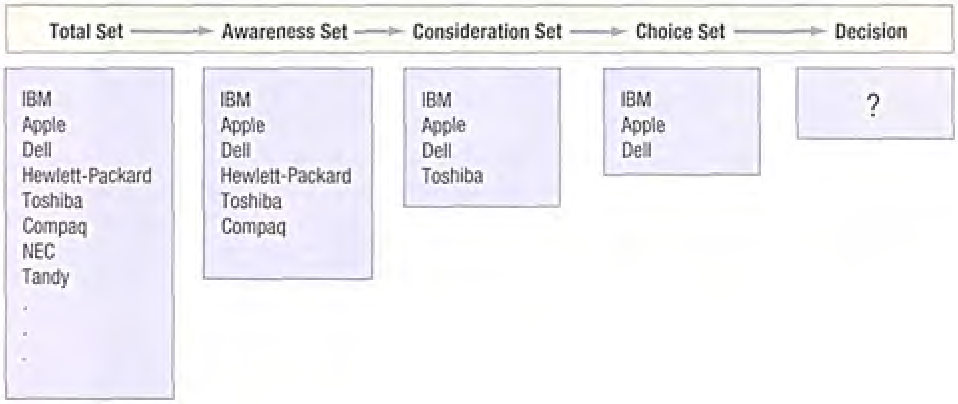


FIG. 6.5

Successive Sets Involved in Consumer Decision Making

Figure 6.5 makes it clear that a company must strategize to get its brand into the prospect's awareness set, consideration set, and choice set. Food companies might work with supermarkets, for instance, in changing the way they display products. If a storeowner arranges yogurt first by brand (like Dannon and Yoplait) and then by flavor within each brand, consumers will tend to select their flavors from the same brand. However, if the products had been displayed with all the strawberry yogurts together, then all the vanilla yogurts and so forth, consumers would probably choose which flavors they wanted first, and then choose which brand name they would most like for that particular flavor. Australian supermarkets arrange meats by the way they might be cooked, and stores use more descriptive labels, like "a 10-minute herbed beef roast." The result is that Australians buy a greater variety of meats than Americans, who choose from meats laid out by animal type—beef, chicken, pork, and so on.[57]

The company must also identify the other brands in the consumer's choice set so that it can plan the appropriate competitive appeals. In addition, the company should identify the consumer's information sources and evaluate their relative importance. Consumers should be asked how they first heard about the brand, what information came later, and the relative importance of the different sources. The answers will help the company prepare effective communications for the target market.

Evaluation of Alternatives

How does the consumer process competitive brand information and make a final value judgment? No single process is used by all consumers or by one consumer in all buying situations. There are several processes, the most current models of which see the process as cognitively oriented. That is, they see the consumer as forming judgments largely on a conscious and rational basis.

Some basic concepts will help us understand consumer evaluation processes: First, the consumer is trying to satisfy a need. Second, the consumer is looking for certain benefits from the product solution. Third, the consumer sees each product as a bundle of attributes with varying abilities for delivering the benefits sought to satisfy this need. The attributes of interest to buyers vary by product—for example:

1. ***Cameras.*** Picture sharpness, camera speeds, camera size, price
2. ***Hotels.*** Location, cleanliness, atmosphere, price
3. ***Mouthwash.*** Color, effectiveness, germ-killing capacity, price, taste/flavor
4. ***Tires.*** Safety, tread life, ride quality, price

Consumers will pay the most attention to attributes that deliver the sought-after benefits. The market for a product can often be segmented according to attributes that are important to different consumer groups.

BELIEFS AND ATTITUDES Evaluations often reflect beliefs and attitudes. Through experience and learning, people acquire beliefs and attitudes. These in turn influence buying behavior. A **belief** is a descriptive thought that a person holds about something. People's beliefs about the attributes and benefits of a product or brand influence their buying decisions. Just as important as beliefs are attitudes. An **attitude** is a person's enduring favorable or unfavorable evaluation, emotional feeling, and action tendencies toward some object or idea.[58] People have attitudes toward almost everything: religion, politics, clothes, music, food.

Attitudes put people into a frame of mind: liking or disliking an object, moving toward or away from it. Attitudes lead people to behave in a fairly consistent way toward similar objects. Because attitudes economize on energy and thought, they can be very difficult to change. A company is well-advised to fit its product into existing attitudes rather than to try to change attitudes. Here is an example of an organization that used ad campaigns to remind consumers of their attitudes, with handsome results:

CALIFORNIA MILK PROCESSOR BOARD

After a 20-year decline in milk consumption among Californians, in 1993 milk processors from across the state formed the California Milk Processor Board (CMPB) with one goal in mind: to get people to drink more milk. The ad agency commissioned by the CMPB developed a novel approach to pitching milk's benefits. Research had shown that most consumers already believed milk was good for them. So the campaign would remind consumers of the inconvenience and annoyance of running out of milk, which became known as "milk deprivation." The "Got Milk?" tagline served to remind consumers to make sure they had milk in their refrigerators. In the year prior to the campaign's launch, California milk processors experienced a decline in sales volume of 1.67 percent. A year after the launch, sales volume increased 1.07 percent. In 1995, the "Got Milk?" campaign was licensed to the National Dairy Board. In 1998, the National Fluid Milk Processor Education Program, which had been using the "milk mustache" campaign since 1994 to boost sales, bought the rights to the "Got Milk?" tagline. The "Got Milk?" campaign continues to pay strong dividends. For 2002 and the first half of 2003, milk sales in California, where the ad campaign is centered, increased roughly 1.5 percent, whereas sales in the rest of the country remained flat.[59]

EXPECTANCY-VALUE MODEL The consumer arrives at attitudes (judgments, preferences) toward various brands through an attribute evaluation procedure.[60] He or she develops a set of beliefs about where each brand stands on each attribute. The **expectancy-value model** of attitude formation posits that consumers evaluate products and services by combining their brand beliefs—the positives and negatives—according to importance.

Suppose Linda Brown has narrowed her choice set to four laptop computers (A, B, C, D). Assume that she is interested in four attributes: memory capacity, graphics capability, size and weight, and price. Table 6.3 shows her beliefs about how each brand rates on the four attributes. If one computer dominated the others on all the criteria, we could predict that Linda would choose it. But, as is often the case, her choice set consists of brands that vary in their appeal. If Linda wants the best memory capacity, she should buy A; if she wants the best graphics capability, she should buy C; and so on.

TABLE 6.3

A Consumer's Brand Beliefs about Computers

Computer	Attribute			
	Memory Capacity	Graphics Capability	Size and Weight	Price
A	10	8	6	4
B	8	9	8	3
C	6	8	10	5
D	4	3	7	8

Note: Each attribute is rated from 0 to 10, where 10 represents the highest level on that attribute. Price, however, is indexed in a reverse manner, with a 10 representing the lowest price, because a consumer prefers a low price to a high price.

A "Got Milk" ad from the very successful campaign features Hong Kong star Zhang Ziyi from the film "Crouching Tiger, Hidden Dragon."

Most buyers consider several attributes in their purchase decision. If we knew the weights that Linda Brown attaches to the four attributes, we could more reliably predict her computer choice. Suppose Linda assigned 40 percent of the importance to the computer's memory capacity, 30 percent to graphics capability, 20 percent to size and weight, and 10 percent to price. To find Linda's perceived value for each computer, according to the expectancy-value model, we multiply her weights by her beliefs about each computer's attributes. This computation leads to the following perceived values:

Computer A $= 0.4(8) + 0.3(9) + 0.2(6) + 0.1(9) = 8.0$

Computer B $= 0.4(7) + 0.3(7) + 0.2(7) + 0.1(7) = 7.0$

Computer C $= 0.4(10) + 0.3(4) + 0.2(3) + 0.1(2) = 6.0$

Computer D $= 0.4(5) + 0.3(3) + 0.2(8) + 0.1(5) = 5.0$

An expectancy-model formulation would predict that Linda will favor computer A, which (at 8.0) has the highest perceived value.[61]

Suppose most computer buyers form their preferences the same way. Knowing this, a computer manufacturer can do a number of things to influence buyer decisions. The marketer of computer B, for example, could apply the following strategies to stimulate greater interest in brand B:

- ***Redesign the computer.*** This technique is called real repositioning.
- ***Alter beliefs about the brand.*** Attempting to alter beliefs about the brand is called psychological repositioning.
- ***Alter beliefs about competitors' brands.*** This strategy, called competitive depositioning, makes sense when buyers mistakenly believe a competitor's brand has more quality than it actually has.

MARKETING MEMO | APPLYING CUSTOMER VALUE ANALYSIS

A useful technique to gain consumer insight is customer value analysis. *Customer value analysis* assumes that customers choose between competitive brand offerings on the basis of which delivers the most customer value. Customer value is given by:

Customer Value = Customer Benefits − Customer Costs

Customer benefits include *product benefits, service benefits, personnel benefits,* and *image benefits.* Assume customers can judge the relative benefit level or worth of different brands. Suppose a customer is considering three brands, A, B, and C, and judges the customer benefits to be worth $150, $140, and $135, respectively. If the customer costs are the same, the customer would clearly choose brand A.

However, the costs are rarely the same. In addition to *purchase price,* costs include *acquisition costs, usage costs, maintenance costs, ownership costs,* and *disposal costs.* Often a customer will buy a more expensive brand because that particular brand will impose lower costs of other kinds. Consider Table 6.4. A, the highest-priced brand, also involves a lower total cost than lower-priced brands B and C. Clearly, supplier A has done a good job of reducing customers' other costs. Now we can compare the customer value of the three brands:

Customer value of A = $150 − $130 = $20
Customer value of B = $140 − $135 = $5
Customer value of C = $135 − $140 = −$5

The customer will prefer brand A both because the benefit level is higher and because the customer costs are lower, but this does not have to be the case. Suppose A decided to charge $120 instead of $100 to take advantage of its higher perceived benefit level. Then A's customer cost would have been $150 instead of $130 and just offset its higher perceived benefit. Brand A, because of its greed, would lose the sale to brand B.

Very often, managers conduct a **customer value analysis** to reveal the company's strengths and weaknesses relative to various competitors. The major steps in such an analysis are:

TABLE 6.4 | Customer Costs of Three Brands

	A	B	C
Price	$100	$ 90	$ 80
Acquisition costs	15	25	30
Usage costs	4	7	10
Maintenance costs	2	3	7
Ownership costs	3	3	5
Disposal costs	6	5	8
Total Cost	$130	$135	$140

1. ***Identify the major attributes customers value.*** Customers are asked what attributes and performance levels they look for in choosing a product and vendors.
2. ***Assess the quantitative importance of the different attributes.*** Customers are asked to rate the importance of the different attributes. If the customers diverge too much in their ratings, they should be clustered into different segments.
3. ***Assess the company's and competitors' performances on the different customer values against their rated importance.*** Customers describe where they see the company's and competitors' performances on each attribute.
4. ***Examine how customers in a specific segment rate the company's performance against a specific major competitor on an attribute-by-attribute basis.*** If the company's offer exceeds the competitor's offer on all important attributes, the company can charge a higher price (thereby earning higher profits), or it can charge the same price and gain more market share.
5. ***Monitor customer values over time.*** The company must periodically redo its studies of customer values and competitors' standings as the economy, technology, and features change.

- ***Alter the importance weights.*** The marketer could try to persuade buyers to attach more importance to the attributes in which the brand excels.
- ***Call attention to neglected attributes.*** The marketer could draw buyers' attention to neglected attributes, such as styling or processing speed.
- ***Shift the buyer's ideals.*** The marketer could try to persuade buyers to change their ideal levels for one or more attributes.[62]

"Marketing Memo: Applying Customer Value Analysis" describes a cost–benefit technique that provides additional insight into consumer decision making in a competitive setting.

Purchase Decisions

In the evaluation stage, the consumer forms preferences among the brands in the choice set. The consumer may also form an intention to buy the most preferred brand. In executing a purchase intention, the consumer may make up to five sub-decisions: *brand* (brand

A), *dealer* (dealer 2), *quantity* (one computer), *timing* (weekend), and *payment method* (credit card). Purchases of everyday products involve fewer decisions and less deliberation. For example, in buying sugar, a consumer gives little thought to vendor or payment method.

In some cases, consumers may decide not to formally evaluate each and every brand; in other cases, intervening factors may affect the final decision.

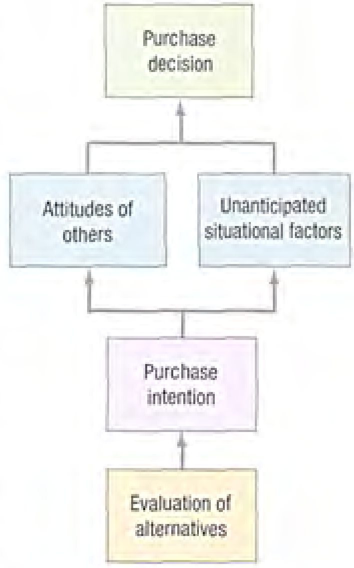


FIG. 6.6

Steps Between Evaluation of Alternatives and a Purchase Decision

NONCOMPENSATORY MODELS OF CONSUMER CHOICE The expectancy-value model is a compensatory model in that perceived good things for a product can help to overcome perceived bad things. But consumers may not want to invest so much time and energy to evaluate brands. They often take "mental shortcuts" that involve various simplifying *choice heuristics.*

With **noncompensatory models** of consumer choice, positive and negative attribute considerations do not necessarily net out. Evaluating attributes more in isolation makes decision making easier for a consumer, but also increases the likelihood that the person would have made a different choice if he or she had deliberated in greater detail. We highlight three such choice heuristics here.

1. With the **conjunctive heuristic**, the consumer sets a minimum acceptable cutoff level for each attribute and chooses the first alternative that meets the minimum standard for all attributes. For example, if Linda Brown decided that all attributes had to be rated at least a 7, she would choose computer B.
2. With the **lexicographic heuristic**, the consumer chooses the best brand on the basis of its perceived most important attribute. With this decision rule, Linda Brown would choose computer C.
3. With the **elimination-by-aspects heuristic**, the consumer compares brands on an attribute selected probabilistically—where the probability of choosing an attribute is positively related to its importance—and brands are eliminated if they do not meet minimum acceptable cutoff levels.

Characteristics of the person (e.g., brand or product knowledge), the purchase decision task and setting (e.g., number and similarity of brand choices and time pressure involved), and social context (e.g., need for justification to a peer or boss) all may affect if and how choice heuristics are used.[63]

Consumers do not necessarily adopt only one type of choice rule in making purchase decisions. In some cases, they adopt a phased decision strategy that combines two or more decision rules. For example, they might use a noncompensatory decision rule such as the conjunctive heuristic to reduce the number of brand choices to a more manageable number and then evaluate the remaining brands. Understanding if and how consumers screen brands can be critical. One reason for the runaway success of the Intel Inside campaign in the 1990s was that it made the brand the first cutoff for many consumers—they would only buy a PC which had an Intel microprocessor. PC makers such as IBM, Dell, and Gateway had no choice but to support Intel's marketing efforts.

INTERVENING FACTORS Even if consumers form brand evaluations, two general factors can intervene between the purchase intention and the purchase decision (Figure 6.6).[64] The first factor is the *attitudes of others*. The extent to which another person's attitude reduces the preference for an alternative depends on two things: (1) the intensity of the other person's negative attitude toward the consumer's preferred alternative and (2) the consumer's motivation to comply with the other person's wishes.[65] The more intense the other person's negativism and the closer the other person is to the consumer, the more the consumer will adjust his or her purchase intention. The converse is also true: A buyer's preference for a brand will increase if someone he or she respects favors the same brand strongly.

Related to the attitudes of others is the role played by infomediaries who publish their evaluations. Examples include *Consumer Reports*, which provides unbiased expert reviews of all types of products and services; J.D. Powers, which provides consumer-based ratings of cars, financial services, and travel products and services; professional movie, book, and music reviewers; customer reviews of books and music on Amazon.com; and the increasing number of chat rooms where people discuss products, services, and companies. Consumers are undoubtedly influenced by these evaluations, as evidenced by the success of a small-budget movie like *My Big Fat Greek Wedding*, which received a slew of favorable reviews by moviegoers on many Web sites.

The second factor is *unanticipated situational factors* that may erupt to change the purchase intention. Linda Brown might lose her job, some other purchase might become more urgent, or a store salesperson may turn her off. Preferences and even purchase intentions are not completely reliable predictors of purchase behavior.

A consumer's decision to modify, postpone, or avoid a purchase decision is heavily influenced by *perceived risk*.[66] There are many different types of risks that consumers may perceive in buying and consuming a product:

1. ***Functional risk*** – the product does not perform up to expectations.
2. ***Physical risk*** – the product poses a threat to the physical well-being or health of the user or others.
3. ***Financial risk*** – the product is not worth the price paid.
4. ***Social risk*** – the product results in embarrassment from others.
5. ***Psychological risk*** – the product affects the mental well-being of the user.
6. ***Time risk*** – the failure of the product results in an opportunity cost of finding another satisfactory product.

The amount of perceived risk varies with the amount of money at stake, the amount of attribute uncertainty, and the amount of consumer self-confidence. Consumers develop routines for reducing risk, such as decision avoidance, information gathering from friends, and preference for national brand names and warranties. Marketers must understand the factors that provoke a feeling of risk in consumers and provide information and support to reduce perceived risk.

Postpurchase Behavior

After the purchase, the consumer might experience dissonance that stems from noticing certain disquieting features or hearing favorable things about other brands, and will be alert to information that supports his or her decision. Marketing communications should supply beliefs and evaluations that reinforce the consumer's choice and help him or her feel good about the brand.

The marketer's job therefore does not end with the purchase. Marketers must monitor postpurchase satisfaction, postpurchase actions, and postpurchase product uses.

POSTPURCHASE SATISFACTION What determines customer satisfaction with a purchase? Satisfaction is a function of the closeness between expectations and the product's perceived performance.[67] If performance falls short of expectations, the consumer is *disappointed;* if it meets expectations, the consumer is *satisfied;* if it exceeds expectations, the consumer is *delighted.* These feelings make a difference in whether the customer buys the product again and talks favorably or unfavorably about it to others.

Consumers form their expectations on the basis of messages received from sellers, friends, and other information sources. The larger the gap between expectations and performance, the greater the dissatisfaction. Here the consumer's coping style comes into play. Some consumers magnify the gap when the product is not perfect, and they are highly dissatisfied; others minimize the gap and are less dissatisfied.[68]

The importance of postpurchase satisfaction suggests that product claims must truthfully represent the product's likely performance. Some sellers might even understate performance levels so that consumers experience higher-than-expected satisfaction with the product.

POSTPURCHASE ACTIONS Satisfaction or dissatisfaction with the product will influence subsequent behavior. If the consumer is satisfied, he or she will exhibit a higher probability of purchasing the product again. For example, data on automobile brand choice show a high correlation between being highly satisfied with the last brand bought and intention to buy the brand again. One survey showed that 75 percent of Toyota buyers were highly satisfied and about 75 percent intended to buy a Toyota again; 35 percent of Chevrolet buyers were highly satisfied and about 35 percent intended to buy a Chevrolet again. The satisfied customer will also tend to say good things about the brand to others. Marketers say: "Our best advertisement is a satisfied customer."[69]

Dissatisfied consumers may abandon or return the product. They may seek information that confirms its high value. They may take public action by complaining to the company, going to a lawyer, or complaining to other groups (such as business, private, or government

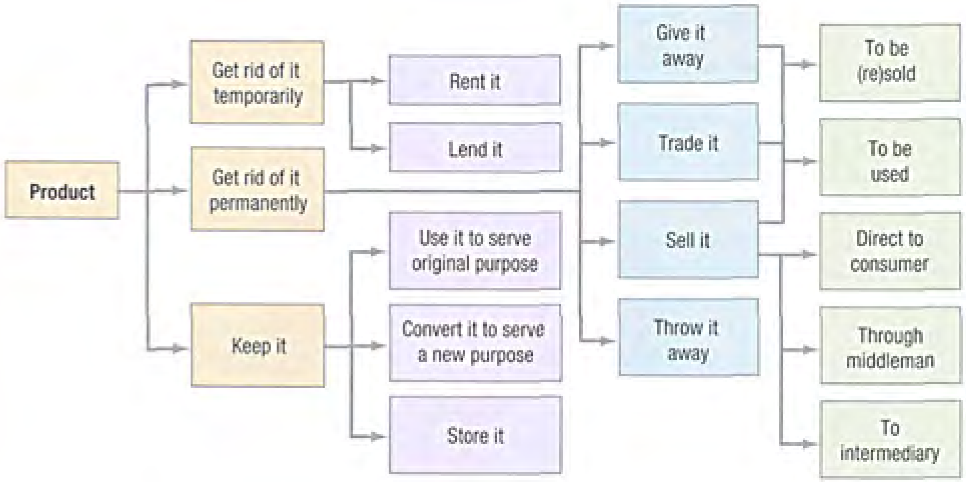


FIG. 6.7

How Customers Use or Dispose of Products

Source: From Jacob Jacoby, Carol K. Berning, and Thomas F. Dietvorst, "What about Disposition?" *Journal of Marketing* (July 1977): 23. Reprinted with permission of the American Marketing Association.

agencies). Private actions include making a decision to stop buying the product (*exit option*) or warning friends (*voice option*).[70] In all these cases, the seller has done a poor job of satisfying the customer.[71]

Chapter 5 described CRM programs designed to build long-term brand loyalty. Postpurchase communications to buyers have been shown to result in fewer product returns and order cancellations.[72] Computer companies, for example, can send a letter to new owners congratulating them on having selected a fine computer. They can place ads showing satisfied brand owners. They can solicit customer suggestions for improvements and list the location of available services. They can write intelligible instruction booklets. They can send owners a magazine containing articles describing new computer applications. In addition, they can provide good channels for speedy redress of customer grievances.

POSTPURCHASE USE AND DISPOSAL Marketers should also monitor how buyers use and dispose of the product (Figure 6.7). A key driver of sales frequency is product consumption rate—the more quickly buyers consume a product, the sooner they may be back in the market to repurchase it.

One potential opportunity to increase frequency of product use is when consumers' perceptions of their usage differ from the reality. Consumers may fail to replace products with relatively short life spans in a timely manner because of a tendency to underestimate product life.[73] One strategy to speed up replacement is to tie the act of replacing the product to a certain holiday, event, or time of year.

For example, several brands have run promotions tied in with the springtime switch to daylight savings time (e.g., Oral-B toothbrushes). Another strategy might be to provide consumers with better information as to either: (1) when the product was first used or would need to be replaced or (2) the current level of performance. For example, batteries offer built-in gauges that show how much power they have left; toothbrushes have color indicators on their bristles to indicate when they are too worn; and so on. Perhaps the simplest way to increase usage is when actual usage of a product is less than optimal or recommended. In this case, consumers must be persuaded of the merits of more regular usage, and potential hurdles to increased usage must be overcome.

If consumers throw the product away, the marketer needs to know how they dispose of it, especially if it can damage the environment (as in the case with batteries, beverage containers, and disposable diapers). Increased public awareness of recycling and ecological concerns as well as consumer complaints about having to throw away beautiful bottles led French perfume maker Rochas to think about introducing a refillable fragrance line.

::: Other Theories of Consumer Decision Making

The consumer decision process may not always develop in a carefully planned fashion. It is important to understand other theories and approaches to how consumers make decisions and when they might apply.

Level of Consumer Involvement

The expectancy-value model assumes a high level of involvement on the part of the consumer. **Consumer involvement** can be defined in terms of the level of engagement and active processing undertaken by the consumer in responding to a marketing stimulus (e.g., from viewing an ad or evaluating a product or service).

ELABORATION LIKELIHOOD MODEL Richard Petty and John Cacioppo's *elaboration likelihood model*, an influential model of attitude formation and change, describes how consumers make evaluations in both low- and high-involvement circumstances.[74] There are two means of persuasion with their model: The central route, where attitude formation or change involves much thought and is based on a diligent, rational consideration of the most important product or service information; and the peripheral route, where attitude formation or change involves comparatively much less thought and is a consequence of the association of a brand with either positive or negative peripheral cues. Examples of peripheral cues for consumers might be a celebrity endorsement, a credible source, or any object that engendered positive feelings.

Consumers follow the central route only if they possess sufficient *motivation, ability*, and *opportunity*. In other words, consumers must want to evaluate a brand in detail, must have the necessary brand and product or service knowledge in memory, and must be given sufficient time and the proper setting to actually do so. If any one of those three factors is lacking, consumers will tend to follow the peripheral route and consider less central, more extrinsic factors in their decisions.

LOW-INVOLVEMENT MARKETING STRATEGIES Many products are bought under conditions of low involvement and the absence of significant brand differences. Consider salt. Consumers have little involvement in this product category. They go to the store and reach for the brand. If they keep reaching for the same brand, it is out of habit, not strong brand loyalty. There is good evidence that consumers have low involvement with most low-cost, frequently purchased products.

Marketers use four techniques to try to convert a low-involvement product into one of higher involvement. First, they can link the product to some involving issue, as when Crest toothpaste is linked to avoiding cavities. Second, they can link the product to some involving personal situation—for example, fruit juice makers began to include vitamins such as calcium to fortify their drinks. Third, they might design advertising to trigger strong emotions related to personal values or ego defense, as when cereal makers began to advertise the heart-healthy nature of cereals to adults and the importance of living a long time to enjoy family life. Fourth, they might add an important feature—for example, when GE light bulbs introduced "Soft White" versions. These strategies at best raise consumer involvement from a low to a moderate level; they do not necessarily propel the consumer into highly involved buying behavior.

If, regardless of what the marketer can do, consumers will have low involvement with a purchase decision, they are likely to follow the peripheral route. Marketers must pay special attention to giving consumers one or more positive cues that they can use to justify their brand choice. Brand familiarity can be important if consumers decide to just buy the brand about which they have heard or seen the most. Frequent ad repetition, visible sponsorships, and vigorous PR are all ways to enhance brand familiarity. Other peripheral cues can also be used. A beloved celebrity endorser, attractive packaging, or an appealing promotion all might tip the balance in favor of the brand.[75]

VARIETY-SEEKING BUYING BEHAVIOR Some buying situations are characterized by low involvement but significant brand differences. Here consumers often do a lot of brand switching. Think about cookies. The consumer has some beliefs about cookies, chooses a brand of cookies without much evaluation, and evaluates the product during consumption. Next time, the consumer may reach for another brand out of a wish for a different taste. Brand switching occurs for the sake of variety rather than dissatisfaction.

The market leader and the minor brands in this product category have different marketing strategies. The market leader will try to encourage habitual buying behavior by dominating the shelf space with a variety of related but different product versions, avoiding out-of-stock conditions, and sponsoring frequent reminder advertising. Challenger firms will encourage variety seeking by offering lower prices, deals, coupons, free samples, and advertising that tries to break the consumer's purchase and consumption cycle and presents reasons for trying something new.

Converting a low-involvement product to a higher-involvement product: Kellogg's now advertises its products as "healthy heart cereals" to make consumers aware that which cereal you eat matters.

Decision Heuristics and Biases

As the low-involvement and noncompensatory model discussions suggest, consumers do not always process information or make decisions in a deliberate, rational manner. Behavioral decision theory is a thriving area in consumer research. Behavioral decision theorists have identified many different heuristics and biases in everyday consumer decision making. **Heuristics** are rules of thumb or mental shortcuts in the decision process.

Heuristics can come into play when consumers forecast the likelihood of future outcomes or events.[76]

1. The **availability heuristic**: Consumers base their predictions on the quickness and ease with which a particular example of an outcome comes to mind. If an example comes to mind too easily, consumers might overestimate the likelihood of the outcome or event happening. For example, a recent product failure may lead a consumer to inflate the likelihood of a future product failure and make him or her more inclined to purchase a product warranty.
2. The **representativeness heuristic**: Consumers base their predictions on how representative or similar the outcome is to other examples. One reason that package appearances may be so similar for different brands in the same product category is that they want to be seen as representative of the category as a whole.
3. The **anchoring and adjustment heuristic**: Consumers arrive at an initial judgment and then make adjustments of that first impression based on additional information. For services marketers, it is critical to make a strong first impression to establish a favorable anchor so that subsequent experiences are interpreted in a more favorable light.

MARKETING MEMO | DECISION TRAPS

In *Decision Traps,* Jay Russo and Paul Schoemaker reveal the 10 most common mistakes managers make in their decisions.

1. ***Plunging In***—Beginning to gather information and reach conclusions without taking a few minutes to think about the crux of the issue you're facing or to think through how you believe decisions like this one should be made.
2. ***Frame Blindness***—Setting out to solve the wrong problem because you've created a mental framework for your decision, with little thought, that causes you to overlook the best options or lose sight of important objectives.
3. ***Lack of Frame Control***—Failing to consciously define the problem in more ways than one or being unduly influenced by the frames of others.
4. ***Overconfidence in Your Judgment***—Failing to collect key factual information because you are too sure of your assumptions and opinions.
5. ***Shortsighted Shortcuts***—Relying inappropriately on "rules of thumb" such as implicitly trusting the most readily available information or anchoring too much on convenient facts.
6. ***Shooting from the Hip***—Believing you can keep straight in your head all the information you've discovered, and therefore "winging it" rather than following a systematic procedure when making the final choice.
7. ***Group Failure***—Assuming that with many smart people involved, good choices will follow automatically, and therefore failing to manage the group decision-making process.
8. ***Fooling Yourself About Feedback***—Failing to interpret the evidence from past outcomes for what it really says, either because you are protecting your ego or because you are tricked by hindsight effects.
9. ***Not Keeping Track***—Assuming that experience will make its lessons available automatically, and therefore failing to keep systematic records to track the results of your decisions and failing to analyze these results in ways that reveal their key lessons.
10. ***Failure to Audit Your Decision Process***—Failing to create an organized approach to understanding your own decision making, so you remain constantly exposed to all the other nine decision traps.

Sources: J. Edward Russo and Paul J. H. Schoemaker, *Decision Traps: Ten Barriers to Brilliant Decision-Making and How to Overcome Them* (New York: Doubleday, 1990); see also, J. Edward Russo and Paul J. H. Schoemaker, *Winning Decisions: Getting It Right the First Time* (New York: Doubleday, 2001).

Note that marketing managers also may use heuristics and be subject to biases in their decision making. "Marketing Memo: Decision Traps" reveals 10 common mistakes managers make in their decisions.

Mental Accounting

Researchers have found that consumers use mental accounting when they handle their money.[77] **Mental accounting** refers to the manner by which consumers code, categorize, and evaluate financial outcomes of choices. Formally, it has been defined in terms of, "The tendency to categorize *funds* or items of value even though there is no logical *basis* for the categorization, e.g., individuals often segregate their savings into separate accounts to meet different goals even though funds from any of the accounts can be applied to any of the goals."[78]

For example, assume you spend $50 to buy a ticket to see a concert.[79] As you arrive at the show, you realize you've lost your ticket. You may be unsure about purchasing another ticket for $50. Assume, on the other hand, that you realized you had lost $50 on the way to buy the ticket. You might be much more likely to go ahead and buy the ticket anyway. Although the amount lost in each case was the same—$50—the reactions were very different. In the first case, you may have mentally allocated $50 for going to a concert. Buying another ticket would therefore exceed your mental concert budget. In the second case, the money that was lost did not belong to any account, so the mental concert budget had not yet been exceeded.

According to Chicago's Richard Thaler, mental accounting is based on a set of key core principles:

1. Consumers tend to *segregate gains.* When a seller has a product with more than one positive dimension, it is desirable to have each dimension evaluated separately. Listing multiple benefits of a large industrial product, for example, can make the sum of the parts seem greater than the whole.
2. Consumers tend to *integrate losses.* Marketers have a distinct advantage in selling something if its cost can be added to another large purchase. House buyers are more inclined to view additional expenditures favorably given the high price of buying a house.

3. Consumers tend to *integrate smaller losses with larger gains.* The "cancellation" principle might explain why withholding taxes taken from monthly paychecks are less aversive than large, lump-sum tax payments—they are more likely to be absorbed by the larger pay amount.
4. Consumers tend to *segregate small gains from large losses.* The "silver lining" principle might explain the popularity of rebates on big-ticket purchases such as cars.

The principles of mental accounting are derived in part from prospect theory. **Prospect theory** maintains that consumers frame decision alternatives in terms of gains and losses according to a value function. Consumers are generally loss averse. They tend to overweight very low probabilities and underweight very high probabilities.

Profiling the Customer Buying Decision Process

How can marketers learn about the stages in the buying process for their product? They can think about how they themselves would act (*introspective method*). They can interview a small number of recent purchasers, asking them to recall the events leading to their purchase (*retrospective method*). They can locate consumers who plan to buy the product and ask them to think out loud about going through the buying process (*prospective method*); or they can ask consumers to describe the ideal way to buy the product (*prescriptive method*). Each method yields a picture of the steps in the process.

Trying to understand the customer's behavior in connection with a product has been called mapping the customer's *consumption system*,[80] *customer activity cycle*,[81] or *customer scenario*.[82] This can be done for such activity clusters as doing laundry, preparing for a wedding, or buying a car. Buying a car, for example, involves a whole cluster of activities, including choosing the car, financing the purchase, buying insurance, buying accessories, and so on.

SUMMARY :::

1. Consumer behavior is influenced by three factors: cultural (culture, subculture, and social class); social (reference groups, family, and social roles and statuses); and personal (age, stage in the life cycle, occupation, economic circumstances, lifestyle, personality, and self-concept). Research into all these factors can provide marketers with clues to reach and serve consumers more effectively.
2. Four main psychological processes affect consumer behavior: motivation, perception, learning, and memory.
3. To understand how consumers actually make buying decisions, marketers must identify who makes and has input into the buying decision; people can be initiators, influencers, deciders, buyers, or users. Different marketing campaigns might be targeted to each type of person.
4. The typical buying process consists of the following sequence of events: problem recognition, information search, evaluation of alternatives, purchase decision, and postpurchase behavior. The marketers' job is to understand the behavior at each stage. The attitudes of others, unanticipated situational factors, and perceived risk may all affect the decision to buy, as will consumers' levels of postpurchase satisfaction and postpurchase actions on the part of the company.

APPLICATIONS :::

Marketing Debate Is Target Marketing Ever Bad?

As marketers increasingly develop marketing programs tailored to certain target market segments, some critics have denounced these efforts as exploitative. For example, the preponderance of billboards advertising cigarettes, alcohol, and other vices in low-income urban areas is seen as taking advantage of a vulnerable market segment. Critics can be especially harsh in evaluating marketing programs that target African Americans and other minority groups, claiming that they often employ clichéd stereotypes and inappropriate depictions. Others counter with the point of view that targeting and positioning is critical to marketing and that these marketing programs are an attempt to be relevant to a certain consumer group.

Take a position: Targeting minorities is exploitative versus Targeting minorities is a sound business practice.

Marketing Discussion What Are Your Mental Accounts?

What mental accounts do you have in your mind about purchasing products or services? Do you have any rules you employ in spending money? Are they different from what other people do? Do you follow Thaler's four principles in reacting to gains and losses?

MARKETING SPOTLIGHT | DISNEY

The Walt Disney Company, a $27 billion-a-year global entertainment giant, recognizes what its customers value in the Disney brand: a fun experience and homespun entertainment based on old-fashioned family values. Disney responds to these consumer preferences by leveraging the brand across different consumer markets. Say a family goes to see a Disney movie together. They have a great time. They want to continue the experience. Disney Consumer Products, a division of the Walt Disney Company, lets them do just that through product lines aimed at specific age groups.

Take the 2004 *Home on the Range* movie. In addition to the movie, Disney created an accompanying soundtrack album, a line of toys and kids' clothing featuring the heroine, a theme park attraction, and a series of books. Similarly, Disney's 2003 *Pirates of the Caribbean* had a theme park ride, merchandising program, video game, TV series, and comic books. Disney's strategy is to build consumer segments around each of its characters, from classics like Mickey Mouse and Snow White to new hits like Kim Possible. Each brand is created for a special age group and distribution channel. Baby Mickey & Co. and Disney Babies both target infants, but the former is sold through department stores and specialty gift stores whereas the latter is a lower-priced option sold through mass-market channels. Disney's Mickey's Stuff for Kids targets boys and girls, while Mickey Unlimited targets teens and adults.

On TV, the Disney Channel is the top primetime destination for kids age 6 to 14, and Playhouse Disney is Disney's preschool programming targeting kids age 2 to 6. Other products, like Disney's co-branded Visa card, target adults. Cardholders earn one Disney "dollar" for every $100 charged to the card, up to $75,000 annually, then redeem the earnings for Disney merchandise or services, including Disney's theme parks and resorts, Disney Stores, Walt Disney Studios, and Disney stage productions. Disney is even in Home Depot, with a line of licensed kids'-room paint colors with paint swatches in the signature mouse-and-ears shape.

Disney also has licensed food products with character brand tie-ins. For example, Disney Yo-Pals Yogurt features Winnie the Pooh and Friends. The four-ounce yogurt cups are aimed at preschoolers and have an illustrated short story under each lid that encourages reading and discovery. Keebler Disney Holiday Magic Middles are vanilla sandwich cookies that have an individual image of Mickey, Donald Duck, and Goofy imprinted in each cookie.

The integration of all the consumer product lines can be seen with Disney's "Kim Possible" TV program. The series follows the action-adventures of a typical high school girl who, in her spare time, saves the world from evil villains. The number-one-rated cable program in its time slot has spawned a variety of merchandise offered by the seven Disney Consumer Products divisions. The merchandise includes:

- Disney Hardlines—stationery, lunchboxes, food products, room decor.
- Disney Softlines—sportswear, sleepwear, daywear, accessories.
- Disney Toys—action figures, wigglers, beanbags, plush, fashion dolls, poseables.
- Disney Publishing—diaries, junior novels, comic books.
- Walt Disney Records—Kim Possible soundtrack.
- Buena Vista Home Entertainment—DVD/video.
- Buena Vista Games—GameBoy Advance.

"The success of Kim Possible is driven by action-packed storylines which translate well into merchandise in many categories," said Andy Mooney, chairman, Disney Consumer Products Worldwide. Rich Ross, president of entertainment, Disney Channel, added: "Today's kids want a deeper experience with their favorite television characters, like Kim Possible. This line of products extends our viewers' experience with Kim, Rufus, Ron and other show characters, allowing [kids] to touch, see and live the Kim Possible experience.

Walt Disney created Mickey Mouse in 1928 (Walt wanted to call his creation Mortimer until his wife convinced him Mickey Mouse was better). Disney's first feature-length musical animation, Snow White and the Seven Dwarfs, debuted in 1937. Today, the pervasiveness of Disney product offerings is staggering—all in all, there are over 3 billion entertainment-based impressions of Mickey Mouse received by children every year. But as Walt Disney said: "I only hope that we don't lose sight of one thing—that it was all started by a mouse."

Discussion Questions

1. What have been the key success factors for Disney?
2. Where is Disney vulnerable? What should it watch out for?
3. What recommendations would you make to their senior marketing executives going forward? What should it be sure to do with its marketing?

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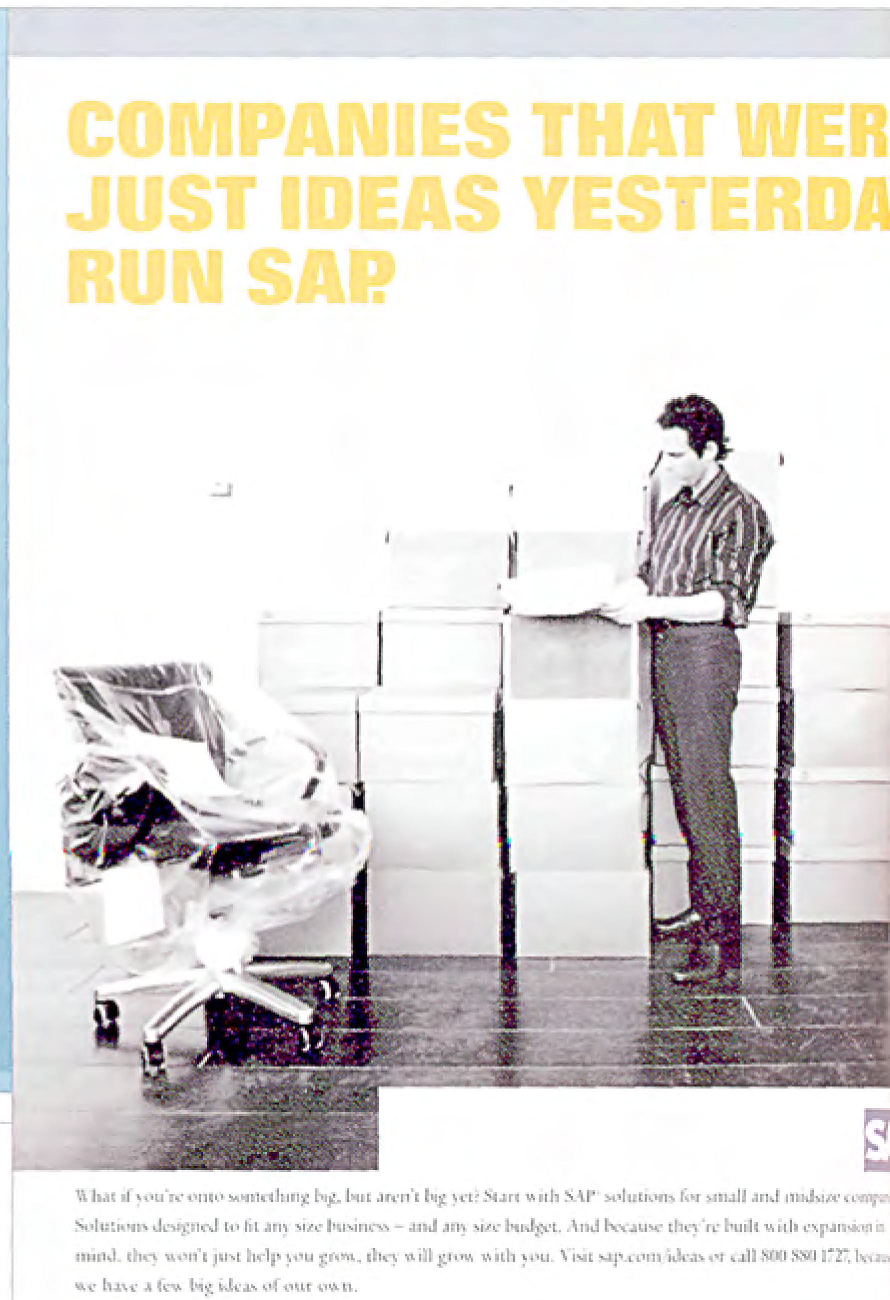
IN THIS CHAPTER, WE WILL ADDRESS THE FOLLOWING QUESTIONS:

1. What is the business market, and how does it differ from the consumer market?
2. What buying situations do organizational buyers face?
3. Who participates in the business-to-business buying process?
4. How do business buyers make their decisions?
5. How can companies build strong relationships with business customers?
6. How do institutional buyers and government agencies do their buying?



CHAPTER 7 ::: ANALYZING BUSINESS MARKETS

Business organizations do not only sell; they also buy vast quantities of raw materials, manufactured components, plant and equipment, supplies, and business services. There are over 13 million buying organizations in the United States alone. To create and capture value, sellers need to understand these organizations' needs, resources, policies, and buying procedures.

German software company SAP has become a leading seller to the business market by specializing in software to automate business functions, such as finance and factory management. It owns over half the market. SAP's leadership strategy is to focus carefully on what customers want, and show them how SAP's software applications can improve profits, raise revenue, or reduce costs. Partly through acquisitions, SAP offers IT customers one-stop shopping to standardize business processes.[1]

Some of the world's most valuable brands belong to business marketers: ABB, Caterpillar, DuPont, FedEx, GE, Hewlett-Packard, IBM, Intel, and Siemens. Much of basic marketing also applies to business marketers. They need to embrace holistic marketing principles, such as building strong relationships with their customers, just like any marketer. But there are some unique considerations in selling to other businesses.[2] In this chapter, we will highlight some of the crucial differences for marketing in business markets.

"The best run businesses run SAP": SAP's software helps businesses standardize processes and automate functions.

::: What Is Organizational Buying?

Webster and Wind define **organizational buying** as the decision-making process by which formal organizations establish the need for purchased products and services and identify, evaluate, and choose among alternative brands and suppliers.[3]

The Business Market Versus the Consumer Market

The **business market** consists of all the organizations that acquire goods and services used in the production of other products or services that are sold, rented, or supplied to others. The major industries making up the business market are agriculture, forestry, and fisheries; mining; manufacturing; construction; transportation; communication; public utilities; banking, finance, and insurance; distribution; and services.

More dollars and items are involved in sales to business buyers than to consumers. Consider the process of producing and selling a simple pair of shoes. Hide dealers must sell hides to tanners, who sell leather to shoe manufacturers, who sell shoes to wholesalers, who sell shoes to retailers, who finally sell them to consumers. Each party in the supply chain also has to buy many other goods and services.

Business markets have several characteristics that contrast sharply with those of consumer markets:

- ***Fewer, larger buyers.*** The business marketer normally deals with far fewer, much larger buyers than the consumer marketer does. The fate of Goodyear Tire Company and other

MARKETING **INSIGHT** | BIG SALES TO SMALL BUSINESS

Like millions of Americans, Ken Kantor likes to shop on eBay. However, he isn't looking for collectible Barbies, Batman cards, or gently used roller blades. Co-owner of a small audio design company, Intelligent Audio Systems, Kantor bids on business equipment, and he was pleased as punch to purchase some nearly new testing meters for $100 each, which would have easily gone for $4,700 retail.

Business owners like Kantor represent not only a sweet spot for eBay but also for behemoths such as IBM, American Express, and Microsoft. According to the Small Business Administration's Office of Advocacy, 550,000 small businesses opened in the United States in 2002. Those new ventures need capital equipment, technology, supplies, and services. Look beyond the United States to new ventures around the world and you have a huge new B2B growth market. Here's how some companies are reaching it:

- With its new suite of run-your-business software, **Microsoft** is counting on sales to 45 million small to midsize businesses worldwide to add $10 billion to annual revenue by 2010. Yet even with all its cash, Microsoft can't afford to send reps to all of them. Instead, Microsoft is unleashing an army of independent computer consulting companies—24,000 in all—known as value-added resellers. It has also added 300 sales managers to help educate and support both resellers and customers.
- **IBM** counts small to midsize businesses as 20 percent of its business and has launched Express, a line of hardware, software services, and financing, for this market. IBM sells through regional reps as well as independent software vendors and resellers, and it supports its small-midsize push with millions of dollars in advertising annually. Ads include TV spots and print ads in publications such as *American Banker* and *Inc.* The company also directly targets gay business owners with ads in *The Advocate* and *Out.* To reach other minority segments, such as African Americans and Hispanics, IBM partners with nonprofits.
- **American Express** has been steadily adding new features to its credit card for small business, which some small companies use to cover hundreds of thousands of dollars a month in cash needs. In addition to its credit card, American Express has been expanding its leading operations for small business. It has created a small business network called OPEN (www.openamericanexpress.com) to bring together various services, Web tools, and discount programs with other giants like ExxonMobil, Dell, FedEx, and Staples. With OPEN, American Express not only allows customers to save money on common expenses; it also encourages them to do much of their recordkeeping on its Web site.

Yet while small to midsize businesses present a huge opportunity, they also present huge challenges. The market is large and fragmented by industry, size, and number of years in operation. And once you reach them, it's hard to persuade them to buy. Small business owners are notably averse to long-range planning and have an "I'll buy it when I need it" decision-making style. Fortunately, however, those new to this market can tap into the growing body of experience from the likes of IBM, Microsoft, Hewlett-Packard, American Express, and others who have honed their small business marketing strategies.

Sources: Based on Barnaby J. Feder, "When Goliath Comes Knocking on David's Door," *New York Times*, May 6, 2003, p. G13; Jay Greene, "Small Biz: Microsoft's Next Big Thing?" *BusinessWeek*, April 21, 2003, pp. 72–73; Jennifer Gilbert, "Small but Mighty," *Sales& Marketing Management* (January 2004): 30–35; Verne Kopytoff, "Businesses Click on eBay," *San Francisco Chronicle*, July 28, 2003, p. E1; Matt Krantz, "Firms Jump on the eBay Wagon," *USA Today*, May 3, 2004, pp. 1B, 2B.

automotive part suppliers depends on getting contracts from a few major automakers. A few large buyers do most of the purchasing in such industries as aircraft engines and defense weapons. Although it should be noted that as a slowing economy has put a stranglehold on large corporations' purchasing departments, the small and midsize business market is offering new opportunities for suppliers.[4] See "Marketing Insight: Big Sales to Small Business," for more on this promising new B2B market, and see "Marketing Memo: Guidelines for Selling to Small Business" for some "do's and don'ts."

- ***Close supplier–customer relationship.*** Because of the smaller customer base and the importance and power of the larger customers, suppliers are frequently expected to customize their offerings to individual business customer needs. Business buyers often select suppliers who also buy from them. An example would be a paper manufacturer that buys chemicals from a chemical company that buys a considerable amount of its paper.

- ***Professional purchasing.*** Business goods are often purchased by trained purchasing agents, who must follow their organizations' purchasing policies, constraints, and requirements. Many of the buying instruments—for example, requests for quotations, proposals, and purchase contracts—are not typically found in consumer buying. Professional buyers spend their careers learning how to buy better. Many belong to the National Association of Purchasing Managers (NAPM), which seeks to improve professional buyers' effectiveness and status. This means that business marketers have to provide greater technical data about their product and its advantages over competitors' products.

- ***Several buying influences.*** More people typically influence business buying decisions. Buying committees consisting of technical experts and even senior management are common in the purchase of major goods. Business marketers have to send well-trained sales representatives and sales teams to deal with the well-trained buyers.

- ***Multiple sales calls.*** Because more people are involved in the selling process, it takes multiple sales calls to win most business orders, and some sales cycles can take years. A study by McGraw-Hill found that it takes four to four and a half calls to close an average industrial sale. In the case of capital equipment sales for large projects, it may take multiple attempts to fund a project, and the sales cycle—between quoting a job and delivering the product—is often measured in years.[5]

- ***Derived demand.*** The demand for business goods is ultimately derived from the demand for consumer goods. For this reason, the business marketer must closely monitor the buying patterns of ultimate consumers. For instance, the Big Three automakers in Detroit have been driving the boom in demand for steel-bar products. Much of that demand is derived from consumers' continued love affair with minivans and other light trucks, which consume far more steel than cars. Business buyers must also pay close attention to current and expected economic factors, such as the level of production, investment, consumer spending, and the interest rate. In a recession, business buyers reduce their investment in plant, equipment, and inventories. Business marketers can do little to stimulate total demand in this environment. They can only fight harder to increase or maintain their share of demand.

- ***Inelastic demand.*** The total demand for many business goods and services is inelastic—that is, not much affected by price changes. Shoe manufacturers are not going to buy much more leather if the price of leather falls, nor will they buy much less leather if the price rises, unless they can find satisfactory substitutes. Demand is especially inelastic in the short run because producers cannot make quick changes in production methods. Demand is also inelastic for business goods that represent a small percentage of the item's total cost, such as shoelaces.

- ***Fluctuating demand.*** The demand for business goods and services tends to be more volatile than the demand for consumer goods and services. A given percentage increase in consumer demand can lead to a much larger percentage increase in the demand for plant and equipment necessary to produce the additional output. Economists refer to this as the *acceleration effect*. Sometimes a rise of only 10 percent in consumer demand can cause as much as a 200 percent rise in business demand for products in the next period; a 10 percent fall in consumer demand may cause a complete collapse in business demand.

- ***Geographically concentrated buyers.*** More than half of U.S. business buyers are concentrated in seven states: New York, California, Pennsylvania, Illinois, Ohio, New Jersey, and Michigan. The geographical concentration of producers helps to reduce selling costs. At the same time, business marketers need to monitor regional shifts of certain industries.

- ***Direct purchasing.*** Business buyers often buy directly from manufacturers rather than through intermediaries, especially items that are technically complex or expensive (such as mainframes or aircraft).

Buying Situations

The business buyer faces many decisions in making a purchase. The number of decisions depends on the buying situation: complexity of the problem being solved, newness of the buying requirement, number of people involved, and time required. Patrick Robinson and others distinguish three types of buying situations: the straight rebuy, modified rebuy, and new task.[6]

STRAIGHT REBUY The purchasing department reorders on a routine basis (e.g., office supplies, bulk chemicals) and chooses from suppliers on an "approved list." The suppliers make an effort to maintain product and service quality and often propose automatic reordering systems to save time. "Out-suppliers" attempt to offer something new or to exploit dissatisfaction with a current supplier. Out-suppliers try to get a small order and then enlarge their purchase share over time.

MODIFIED REBUY The buyer wants to modify product specifications, prices, delivery requirements, or other terms. The modified rebuy usually involves additional participants on both sides. The in-suppliers become nervous and have to protect the account. The out-suppliers see an opportunity to propose a better offer to gain some business.

NEW TASK A purchaser buys a product or service for the first time (e.g., office building, new security system). The greater the cost or risk, the larger the number of participants and the greater their information gathering—and therefore the longer the time to a decision.[7]

MARKETING MEMO — GUIDELINES FOR SELLING TO SMALL BUSINESS

- ***Don't lump small and midsize businesses together.*** There's a big gap between $1 million in revenue and $50 million or between a start-up with 10 employees and a more mature business with 100. IBM customizes its small and midsize business portal (www-ibm.com/businesscenter/us) with call-me or text-chat buttons that are connected to products for different market segments.
- ***Don't waste their time.*** That means no cold calls, entertaining sales shows, or sales pitches over long, boozy lunches.
- ***Do keep it simple.*** This could be a corollary to "don't waste their time." Simplicity means one point of contact with a supplier for all service problems or one single bill for all services and products. AT&T corporation, which serves 3.9 million businesses with fewer than 100 employees, bundles data management, networking, and other abilities into convenient single packages for this market.
- ***Do use the Internet.*** In its research on buying patterns of small business owners, Hewlett-Packard found that these time-strapped decision makers prefer to buy, or at least research, products and services online. To that end, HP has designed a site targeted to small and midsize businesses and pulls business owners to the site through extensive advertising, direct mail, e-mail campaigns, catalogs, and events. IBM prospects via eBay by selling refurbished or phased-out equipment on its new B2B site. About 80 percent of IBM's equipment is sold to small businesses that are new to IBM—half of which have agreed to receive calls with other offers.
- ***Don't forget about direct contact.*** Even if a small business owner's first point of contact is via the Internet, you still need to offer phone or face time. Sprint connects with small businesses through its Sprint Experience Centers. Located in major metropolitan areas, these centers bring Sprint's products to life and serve as a place where Sprint reps or dealer reps can invite prospects and let them interact with the technologies.
- ***Do provide support after the sale.*** Small businesses want partners, not pitchmen. When The DeWitt Company, a 100-employee landscaping products business, purchased a large piece of machinery from Moeller, a German company, the company's president paid DeWitt's CEO a personal visit and stayed until the machine was up and running properly.
- ***Do your homework.*** The realities of small or midsize business management are different from those of a large corporation. Microsoft created a small, fictional executive research firm, Southridge, and baseball-style trading cards of its key decision makers in order to help Microsoft employees tie sales strategies to small business realities.

Sources: Based on Barnaby J. Feder, "When Goliath Comes Knocking on David's Door," *New York Times*, May 6, 2003, p. G13; Jay Greene, "Small Biz: Microsoft's Next Big Thing?" *BusinessWeek*, April 21, 2003, pp. 72–73; Jennifer Gilbert, "Small but Mighty," *Sales& Marketing Management* (January 2004): 30–35; Verne Kopytoff, "Businesses Click on eBay," *San Francisco Chronicle*, July 28, 2003, p. E1.

The business buyer makes the fewest decisions in the straight rebuy situation and the most in the new-task situation. Over time, new-buy situations become straight rebuys and routine purchase behavior. New-task buying passes through several stages: awareness, interest, evaluation, trial, and adoption.[8] The effectiveness of communication tools varies at each stage. Mass media are most important during the initial awareness stage; salespeople have their greatest impact at the interest stage; and technical sources are the most important during the evaluation stage.

In the new-task situation, the buyer has to determine product specifications, price limits, delivery terms and times, service terms, payment terms, order quantities, acceptable suppliers, and the selected supplier. Different participants influence each decision, and the order in which these decisions are made varies. This situation is the marketer's greatest opportunity and challenge. Because of the complicated selling involved, many companies use a *missionary sales force* consisting of their most effective salespeople. The brand promise and the manufacturer's brand name recognition will be important in establishing trust and the customer's willingness to consider change. The marketer also tries to reach as many key participants as possible and provide helpful information and assistance.

Once a customer is acquired, in-suppliers are continually seeking ways to add value to their market offer to facilitate rebuys. Often they do this by giving customers customized information:

ORICA LTD.

Orica Ltd., formerly ICI Australia, competes in the cutthroat commercial explosives business. Its customers are quarries that use explosives to blast solid rock face into aggregate of a specified size. Orica is constantly trying to minimize the cost of explosives. As a supplier, Orica realized it could create significant value by improving the efficiency of the blast. To do this, it established over 20 parameters that influenced the success of the blast and began collecting data from customers on the input parameters as well as the outcomes of individual blasts. By collating the data, Orica engineers came to understand the conditions that produced different outcomes. It then could offer customers a contract for "broken rock" that would almost guarantee the desired outcome. The success of Orica's approach—of managing the entire blast for the quarry rather than simply selling explosives—entrenched the company as the world's leading supplier of commercial explosives.[9]

Customers considering dropping six or seven figures on one transaction for big-ticket goods and services want all the information they can get. One way to entice new buyers is to create a customer reference program in which satisfied existing customers act in concert with the company's sales and marketing department by agreeing to serve as references. Companies that have such programs are Siebel Systems, J.D. Edwards, and Sun Microsystems:

J.D. EDWARDS

Denver-based software developer J.D. Edwards invites customers with a story that's "relevant to new customers" to join its reference program and specify the level at which they would like to participate. Customers might agree to take phone calls from potential customers, host a site visit, or simply lend their names or blurbs to press releases and other copy. J.D. Edwards' corporate communications director says that hearing other customers' stories is crucial for prospective buyers. The company evaluates the benefit of those customer references by tracking sales generated in the earlier stages of the prospect's contact with the program. For a seven-month period in 2002–2003, the reference program helped generate more than $35 million in software licensing fees.

Systems Buying and Selling

Many business buyers prefer to buy a total solution to a problem from one seller. Called *systems buying*, this practice originated with government purchases of major weapons and communications systems. The government would solicit bids from *prime contractors*, who assembled the package or system. The contractor who was awarded the contract would be responsible for bidding out and assembling the system's subcomponents from *second-tier contractors*. The prime contractor would thus provide a turnkey solution, so-called because the buyer simply had to turn one key to get the job done.

FORD

Ford has transformed itself from being mainly a car manufacturer to being mainly a car assembler. Ford relies primarily on a few major systems suppliers to provide seating systems, braking systems, door systems, and other major assemblies. In designing a new automobile, Ford works closely with (say) its seat manufacturer and creates a *black box specification* of the basic seat dimensions and performance that it needs, and then waits for the seat supplier to propose the most cost-effective design. When they agree, the seat supplier subcontracts with parts suppliers to produce and deliver the needed components.

Sellers have increasingly recognized that buyers like to purchase in this way, and many have adopted systems selling as a marketing tool. One variant of systems selling is *systems contracting*, where a single supplier provides the buyer with his or her entire requirement of MRO (maintenance, repair, operating) supplies. During the contract period, the supplier manages the customer's inventory. For example, Shell Oil manages the oil inventory of many of its business customers and knows when it requires replenishment. The customer benefits from reduced procurement and management costs and from price protection over the term of the contract. The seller benefits from lower operating costs because of a steady demand and reduced paperwork.

Systems selling is a key industrial marketing strategy in bidding to build large-scale industrial projects, such as dams, steel factories, irrigation systems, sanitation systems, pipelines, utilities, and even new towns. Project engineering firms must compete on price, quality, reliability, and other attributes to win contracts. Consider the following example.

JAPAN AND INDONESIA

The Indonesian government requested bids to build a cement factory near Jakarta. A U.S. firm made a proposal that included choosing the site, designing the cement factory, hiring the construction crews, assembling the materials and equipment, and turning over the finished factory to the Indonesian government. A Japanese firm, in outlining its proposal, included all of these services, plus hiring and training the workers to run the factory, exporting the cement through its trading companies, and using the cement to build roads and new office buildings in Jakarta. Although the Japanese proposal involved more money, it won the contract. Clearly, the Japanese viewed the problem not just as one of building a cement factory (the narrow view of systems selling) but as one of contributing to Indonesia's economic development. They took the broadest view of the customer's needs. This is true systems selling.

::: Participants in the Business Buying Process

Who buys the trillions of dollars' worth of goods and services needed by business organizations? Purchasing agents are influential in straight-rebuy and modified-rebuy situations, whereas other department personnel are more influential in new-buy situations. Engineering personnel usually have a major influence in selecting product components, and purchasing agents dominate in selecting suppliers.[10]

The Buying Center

Webster and Wind call the decision-making unit of a buying organization *the buying center*. It is composed of "all those individuals and groups who participate in the purchasing decision-making process, who share some common goals and the risks arising from the decisions."[11] The buying center includes all members of the organization who play any of seven roles in the purchase decision process.[12]

1. ***Initiators.*** Those who request that something be purchased. They may be users or others in the organization.
2. ***Users.*** Those who will use the product or service. In many cases, the users initiate the buying proposal and help define the product requirements.
3. ***Influencers.*** People who influence the buying decision. They often help define specifications and also provide information for evaluating alternatives. Technical personnel are particularly important influencers.
4. ***Deciders.*** People who decide on product requirements or on suppliers.
5. ***Approvers.*** People who authorize the proposed actions of deciders or buyers.

6. ***Buyers.*** People who have formal authority to select the supplier and arrange the purchase terms. Buyers may help shape product specifications, but they play their major role in selecting vendors and negotiating. In more complex purchases, the buyers might include high-level managers.
7. ***Gatekeepers.*** People who have the power to prevent sellers or information from reaching members of the buying center. For example, purchasing agents, receptionists, and telephone operators may prevent salespersons from contacting users or deciders.

Ford assembly line in action: Worker assembling autos at Ford Motor Company's St. Thomas Auto Plant in Ontario, Canada.

Several individuals can occupy a given role (e.g., there may be many users or influencers), and the individual may occupy multiple roles.[13] A purchasing manager, for example, often occupies the roles of buyer, influencer, and gatekeeper simultaneously: he or she can determine which sales reps can call on other people in the organization; what budget and other constraints to place on the purchase; and which firm will actually get the business, even though others (deciders) might select two or more potential vendors who can meet the company's requirements.

The typical buying center has a minimum of five or six members and often has dozens. The buying center may include people outside the target customer organization, such as government officials, consultants, technical advisors, and other members of the marketing channel.

Buying Center Influences

Buying centers usually include several participants with differing interests, authority, status, and persuasiveness. Each member of the buying center is likely to give priority to very different decision criteria. For example, engineering personnel may be concerned primarily with maximizing the actual performance of the product; production personnel may be concerned mainly with ease of use and reliability of supply; financial personnel may focus on the economics of the purchase; purchasing may be concerned with operating and replacement costs; union officials may emphasize safety issues, and so on.

Business buyers also respond to many influences when they make their decisions. Each buyer has personal motivations, perceptions, and preferences, which are influenced by the buyer's age, income, education, job position, personality, attitudes toward risk, and culture. Buyers definitely exhibit different buying styles. There are "keep-it-simple" buyers, "own-expert" buyers, "want-the-best" buyers, and "want-everything-done" buyers. Some younger, highly educated buyers are computer experts who conduct rigorous analyses of competitive proposals before choosing a supplier. Other buyers are "toughies" from the old school and pit the competing sellers against one another.

Webster cautions that ultimately, individuals, not organizations, make purchasing decisions.[14] Individuals are motivated by their own needs and perceptions in attempting to maximize the rewards (pay, advancement, recognition, and feelings of achievement) offered by the organization. Personal needs "motivate" the behavior of individuals but organizational needs "legitimate" the buying decision process and its outcomes. People are not buying "products." They are buying solutions to two problems: the organization's economic and strategic problem and their own personal "problem" of obtaining individual achievement and reward. In this sense, industrial buying decisions are both "rational" and "emotional," as they serve both the organization's and the individual's needs.[15]

Buying Center Targeting

To target their efforts properly, business marketers have to figure out: Who are the major decision participants? What decisions do they influence? What is their level of influence? What evaluation criteria do they use? Consider the following example:

A company sells nonwoven disposable surgical gowns to hospitals. The hospital personnel who participate in this buying decision include the vice president of purchasing, the operating-room administrator, and the surgeons. The vice president of purchasing analyzes whether the hospital should buy disposable gowns or reusable gowns. If the findings favor disposable gowns, then the operating-room administrator compares various competitors' products and prices and makes a choice. This administrator considers absorbency, antiseptic quality, design, and cost, and normally buys the brand that meets the functional requirements at the lowest cost. Surgeons influence the decision retroactively by reporting their satisfaction with the particular brand.

The business marketer is not likely to know exactly what kind of group dynamics take place during the decision process, although whatever information he or she can obtain about personalities and interpersonal factors is useful.

Small sellers concentrate on reaching the *key buying influencers*. Larger sellers go for *multilevel in-depth selling* to reach as many participants as possible. Their salespeople virtually "live" with high-volume customers. Companies will have to rely more heavily on their communications programs to reach hidden buying influences and keep current customers informed.[16]

SYMANTEC CORPORATION

Internet security provider Symantec Corporation has moved from being primarily a provider of consumer software (under the Norton name) to a provider of enterprise security solutions for financial services, health care, and utilities industries, as well as key accounts for the U.S. Department of Defense. To reach these new markets, Symantec had to restructure its sales force to develop high-level relationships. So Symantec launched the Executive Sponsorship Program in 2003. The 13 Symantec executives enrolled in the program are paired with vice presidents or C-level executives within 19 key customer organizations in industries ranging from banking to telecommunications and manufacturing. The goal of the program is to foster better understanding of Symantec's customers and their business concerns. So far the program has enabled Symantec to be seen as a valued partner and enabled the Symantec executives to gain insights into how they can develop products that fit customers' needs.[17]

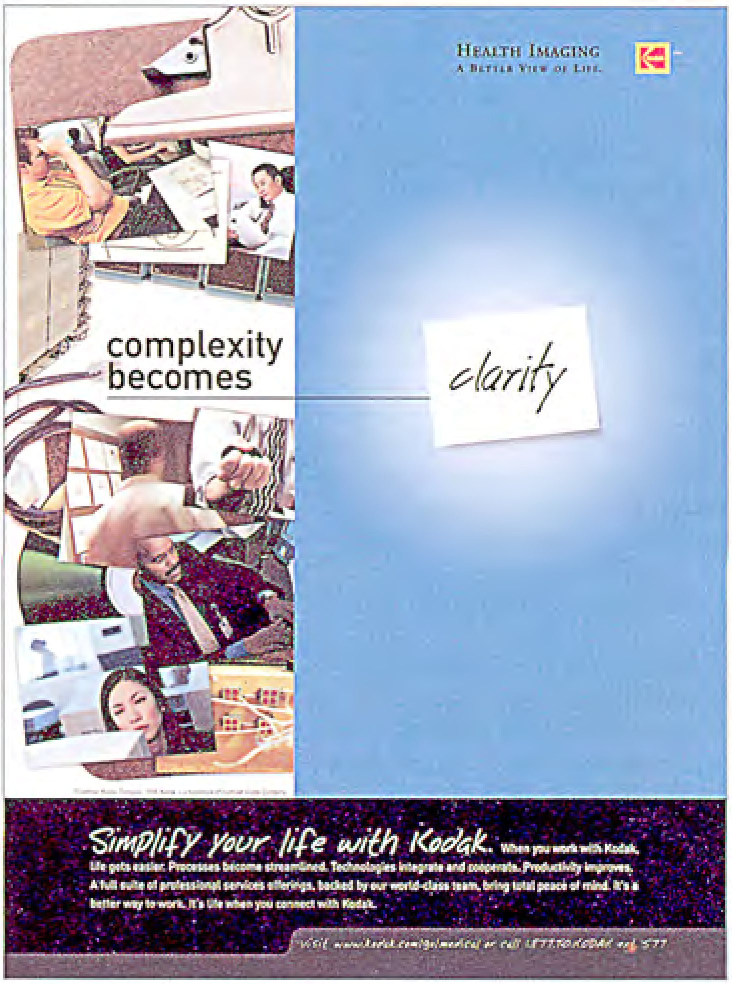
Business marketers must periodically review their assumptions about buying center participants. For years, Kodak sold X-ray film to hospital lab technicians. Kodak research indicated that professional administrators were increasingly making purchasing decisions. As a result, Kodak revised its marketing strategy and developed new advertising to reach out to these decision makers.

In defining target segments, four types of business customers can often be identified, with corresponding marketing implications.

1. ***Price-oriented customers*** (transactional selling). Price is everything.
2. ***Solution-oriented customers*** (consultative selling). They want low prices but will respond to arguments about lower total cost or more dependable supply or service.
3. ***Gold-standard customers*** (quality selling). They want the best performance in terms of product quality, assistance, reliable delivery, and so on.
4. ***Strategic-value customers*** (enterprise selling). They want a fairly permanent sole-supplier relationship with your company.

Some companies are willing to handle price-oriented buyers by setting a lower price, but establishing restrictive conditions: (1) limiting the quantity that can be purchased; (2) no refunds; (3) no adjustments; and (4) no services.[18]

- *Cardinal Health* set up a bonus dollars scheme at one time and gave points according to how much the business customer purchased. The points could be turned in for extra goods or free consulting.
- *GE* is installing diagnostic sensors in its airline engines and railroad engines. It is now compensated for hours of flight or railroad travel.
- *IBM* is now more of a service company aided by products than a product company aided by services. It may offer to sell computer power on demand (like video on demand) as an alternative to selling computers.



Kodak ad that targets hospital administrators by offering services that streamline processes, integrate technologies, and improve productivity.

Risk and gain sharing can be used to offset requested price reductions from customers. For example, say Medline, a hospital supplier, signs an agreement with Highland Park Hospital promising $350,000 in savings over the first 18 months in exchange for a tenfold increase in the hospitals' share of supplies. If Medline achieves less than this promised savings, it will make up the difference. If Medline achieves substantially more than this promise, it participates in the extra savings. To make such arrangements work, the supplier must be willing to help the customer to build a historical database, reach an agreement for measuring benefits and costs, and devise a dispute resolution mechanism.

Solution selling can also alleviate price pressure and comes in different forms. Here are three examples.[19]

- ***Solutions to Enhance Customer Revenues.*** Hendrix Voeders used its sales consultants to help farmers deliver an incremental animal weight gain of 5 to 10 percent over competitors.
- ***Solutions to Decrease Customer Risks.*** ICI Explosives formulated a safer way to ship explosives for quarries.
- ***Solutions to Reduce Customer Costs.*** W.W. Grainger employees work at large customer facilities to reduce materials-management costs.

::: The Purchasing/Procurement Process

Every organization has specific purchasing objectives, policies, procedures, organizational structures, and systems. In principle, business buyers seek to obtain the highest benefit package (economic, technical, service, and social) in relation to a market offering's costs. A business buyer's incentive to purchase will be greater in proportion to the ratio of perceived benefits to costs. The marketer's task is to construct a profitable offering that delivers superior customer value to the target buyers.

Purchasing Orientations

In the past, purchasing departments occupied a low position in the management hierarchy, in spite of often managing more than half the company's costs. Recent competitive pressures have led many companies to upgrade their purchasing departments and elevate administrators to vice presidential rank. Today's purchasing departments are staffed with MBAs who aspire to be CEOs—like Thomas Stallkamp, Chrysler's former executive vice president of procurement and supply, who cut costs and streamlined the automaker's manufacturing processes.[20]

These new, more strategically oriented purchasing departments have a mission to seek the best value from fewer and better suppliers. Some multinationals have even elevated them to "strategic supply departments" with responsibility for global sourcing and partnering. At Caterpillar, for example, purchasing, inventory control, production scheduling, and traffic have been combined into one department. Lockheed Martin is another firm that has improved its business buying practices.

LOCKHEED MARTIN

Defense contractor Lockheed Martin, which spends $13.2 billion annually, created a Strategic Sourcing Solutions Group to centralize the company's purchasing functions across divisions and consolidate redundancies. The group is comprised of 52 employees with cross-functional experience, and their mission is "to be an integrated, leading edge team that provides industry-recognized supply chain intelligence and innovative sourcing strategies, while fully optimizing customer value." As an example of the group's strategic focus, Lockheed Martin found it was spending roughly 25 to 40 percent more than it should on machining. A machining council was assigned to look into driving down the number of suppliers and consolidating among the preferred ones. The supply base was reduced by a combination of driving more business to preferred suppliers, increasing the frequency of negotiating, and introducing reverse auctions where appropriate.[21]

The upgrading of purchasing means that business marketers must upgrade their sales personnel to match the higher caliber of the business buyers. Formally, we can distinguish three company purchasing orientations:[22]

- ***Buying Orientation.*** The purchaser's focus is short term and tactical. Buyers are rewarded on their ability to obtain the lowest price from suppliers for the given level of quality and availability. Buyers use two tactics: *commoditization*, where they imply that the product is a commodity and care only about price; and *multisourcing*, where they use several sources and make them compete for shares of the company's purchases.
- ***Procurement Orientation.*** Here buyers simultaneously seek quality improvements and cost reductions. Buyers develop collaborative relationships with major suppliers and seek savings through better management of acquisition, conversion, and disposal costs. They encourage early supplier involvement in materials handling, inventory levels, just-in-time management, and even product design. They negotiate long-term contracts with major suppliers to ensure the timely flow of materials. They work closely with their manufacturing group on materials requirement planning (MRP) to make sure supplies arrive on time.
- ***Supply Chain Management Orientation.*** Here purchasing's role is further broadened to become a more strategic, value-adding operation. Purchasing executives at the firm work with marketing and other company executives to build a seamless supply chain management system from the purchase of raw materials to the on-time arrival of finished goods to the end users.

Types of Purchasing Processes

Marketers need to understand how business purchasing departments work. These departments purchase many types of products, and the purchasing process will vary depending on the types of products involved. Peter Kraljic distinguished four product-related purchasing processes:[23]

1. ***Routine products.*** These products have low value and cost to the customer and involve little risk (e.g., office supplies). Customers will seek the lowest price and emphasize routine ordering. Suppliers will offer to standardize and consolidate orders.
2. ***Leverage products.*** These products have high value and cost to the customer but involve little risk of supply (e.g., engine pistons) because many companies make them. The supplier knows that the customer will compare market offerings and costs, and it needs to show that its offering minimizes the customer's total cost.
3. ***Strategic products.*** These products have high value and cost to the customer and also involve high risk (e.g., mainframe computers). The customer will want a well-known and trusted supplier and be willing to pay more than the average price. The supplier should seek strategic alliances that take the form of early supplier involvement, co-development programs, and co-investment.
4. ***Bottleneck products.*** These products have low value and cost to the customer but they involve some risk (e.g., spare parts). The customer will want a supplier who can guarantee a steady supply of reliable products. The supplier should propose standard parts and offer a tracking system, delivery on demand, and a help desk.

Purchasing Organization and Administration

Most purchasing professionals describe their jobs as more strategic, technical, team-oriented, and involving more responsibility than ever before. "Purchasing is doing more cross-functional work than it did in the past," says David Duprey, a buyer for Anaren Microwave, Inc. Sixty-one percent of buyers surveyed said the buying group was more involved in new-product design and development than it was five years ago; and more than half of the buyers participate in cross-functional teams, with suppliers well represented.[24]

In multidivisional companies, most purchasing is carried out by separate divisions. Some companies, however, have started to centralize purchasing. Headquarters identifies materials purchased by several divisions and buys them centrally, thereby gaining more purchasing clout. The individual divisions can buy from another source if they can get a better deal, but in general, centralized purchasing produces substantial savings. For the business marketer, this development means dealing with fewer and higher-level buyers and using a national account sales group to deal with large corporate buyers.

At the same time, companies are decentralizing some purchasing operations by empowering employees to purchase small-ticket items such as special binders, coffeemakers, or Christmas trees. This has come about through the availability of corporate purchasing cards issued by credit card organizations. Companies distribute the cards to foremen, clerks, and secretaries; the cards incorporate codes that set credit limits and restrict where they can be used. National Semiconductor's purchasing chief has noted that the cards have cut processing costs from $30 an order to a few cents. The additional benefit is that buyers and suppliers now spend less time on paperwork.

::: Stages in the Buying Process

At this point we are ready to describe the general stages in the business buying decision process. Robinson and Associates have identified eight stages and called them *buyphases*.[25] The stages are shown in Table 7.1. This model is called the *buygrid* framework.

Table 7.1 describes the buying stages involved in a new-task buying situation. In modified-rebuy or straight-rebuy situations, some stages are compressed or bypassed. For example, in a straight-rebuy situation, the buyer normally has a favorite supplier or a ranked list of suppliers. Thus the supplier search and proposal solicitation stages would be skipped.

The eight-stage buyphase model describes the major steps in the business buying process. Tracing out a buyflow map can provide many clues to the business marketer. A buyflow map for the purchase of a packaging machine in Japan is shown in Figure 7.1. The numbers within the icons are defined at the right. The italicized numbers between icons show the flow of events. Over 20 people in the purchasing company were involved, including the production

TABLE 7.1

Buygrid Framework: Major Stages (Buyphases) of the Industrial Buying Process in Relation to Major Buying Situations (Buyclasses)

		Buyclasses		
		New Task	Modified Rebuy	Straight Rebuy
	1. Problem recognition	Yes	Maybe	No
	2. General need description	Yes	Maybe	No
	3. Product specification	Yes	Yes	Yes
BUYPHASES	4. Supplier search	Yes	Maybe	No
	5. Proposal solicitation	Yes	Maybe	No
	6. Supplier selection	Yes	Maybe	No
	7. Order-routine specification	Yes	Maybe	No
	8. Performance review	Yes	Yes	Yes

manager and staff, new-product committee, company laboratory, marketing department, and the department for market development. The entire decision-making process took 121 days. There are important considerations in each of the eight stages.

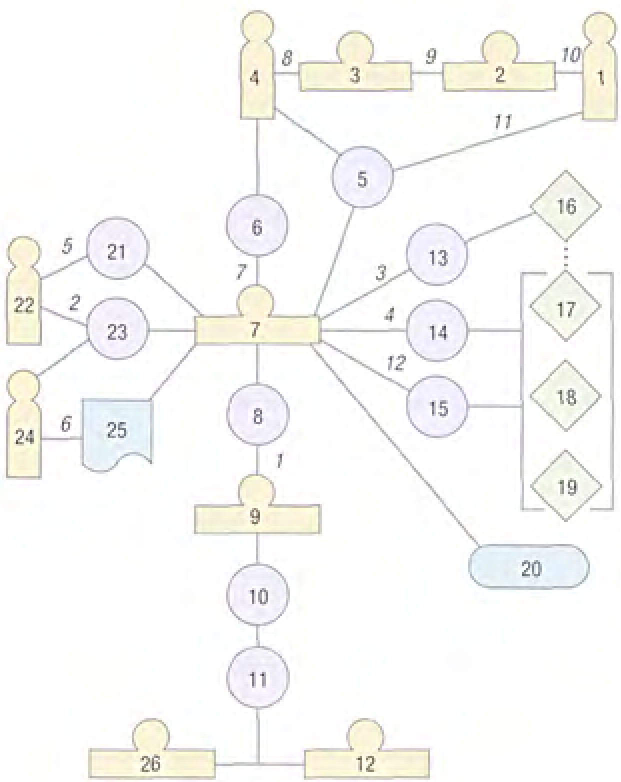
Problem Recognition

The buying process begins when someone in the company recognizes a problem or need that can be met by acquiring a good or service. The recognition can be triggered by internal or external stimuli. Internally, some common events lead to problem recognition. The company decides to develop a new product and needs new equipment and materials. A machine breaks down and requires new parts. Purchased material turns out to be unsatisfactory, and

FIG. 7.1

Organizational Buying Behavior in Japan: Packaging-Machine Purchase Process

Source: "Japanese Firms Use Unique Buying Behavior," *The Japan Economic Journal*, December 23, 1980, p. 29. Reprinted by permission.



1 President
2 Financial department
3 Sales headquarters
4 Production chief
5 Decision
6 Discussion of production and sales plans
7 Production department
8 Production of packing process plan
9 New products development committee
10 Request for consultation
11 Production of new product marketing plan
12 Product development department
13 Discussion of design of prototype machines
14 Prototype machine
15 Placement of orders
16 Makers design and technical staff
17 Supplier A
18 Supplier B
19 Supplier C
20 Overseas machine exhibitions
21 Request for testing of prototype machines
22 Research staff
23 Production of basic design
24 Foreman
25 Production of draft plans
26 Marketing department

the company searches for another supplier. A purchasing manager senses an opportunity to obtain lower prices or better quality. Externally, the buyer may get new ideas at a trade show, see an ad, or receive a call from a sales representative who offers a better product or a lower price. Business marketers can stimulate problem recognition by direct mail, telemarketing, and calling on prospects.

General Need Description and Product Specification

Next, the buyer determines the needed item's general characteristics and required quantity. For standard items, this is simple. For complex items, the buyer will work with others—engineers, users—to define characteristics like reliability, durability, or price. Business marketers can help by describing how their products meet or even exceed the buyer's needs. Here is an example of how a supplier is using value-added services to gain a competitive edge.

HEWLETT-PACKARD

Hewlett-Packard's marketing division has developed a concept called "trusted advisor." The marketers felt HP needed to move beyond selling systems to selling itself as an advisor and offering specific solutions to unique problems. What HP discovered is that some companies want a partner and others simply want a product that works. HP assumes an advisory role when it sells complex products like a network computer system. HP estimates that the new way of selling has contributed to a 60 percent growth of the high-end computer business. The company has increased its consulting business and is working on enterprise-wide projects through a series of partnerships with systems integrators and software companies.[26]

One of a series of Hewlett Packard ads with the theme "+ hp = everything is possible" that focus on its consulting and advisory capabilities. Through a joint venture with the Hong Kong Special Administrative Region government, hp created a Web portal that gives Hong Kong's citizens 24-hour access to government services.

The buying organization now develops the item's technical specifications. Often, the company will assign a product-value-analysis engineering team to the project. *Product value analysis (PVA)* is an approach to cost reduction in which components are studied to determine if they can be redesigned or standardized or made by cheaper methods of production. The PVA team will examine the high-cost components in a given product. The team will also identify overdesigned components that last longer than the product itself. Tightly written specifications will allow the buyer to refuse components that are too expensive or that fail to meet specified standards. Suppliers can use product value analysis as a tool for positioning themselves to win an account.

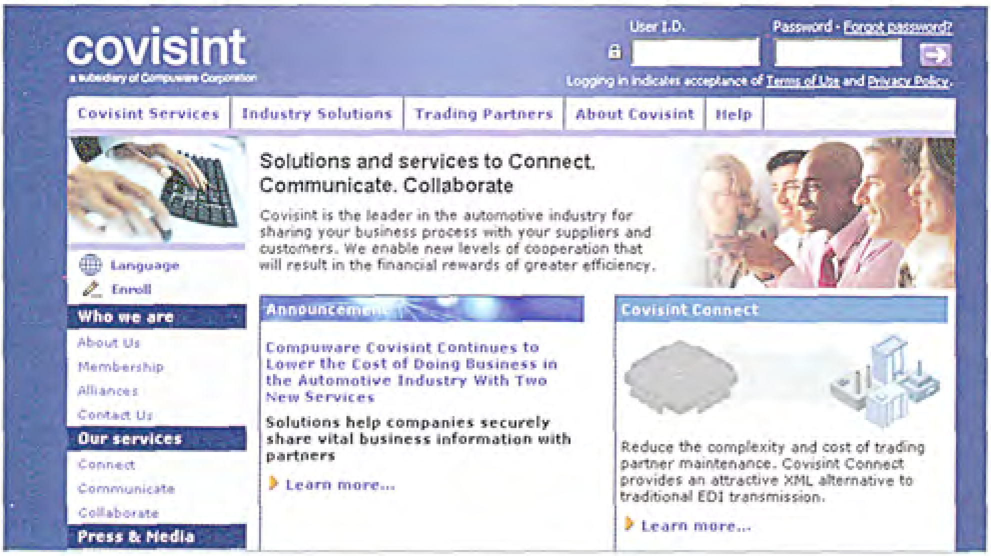
Supplier Search

The buyer next tries to identify the most appropriate suppliers through trade directories, contacts with other companies, trade advertisements, and trade shows. Business marketers also put products, prices, and other information on the Internet.[27] While B2B electronic commerce has not delivered on its early promise, it still far outstrips B2C commerce. According to market research firm eMarketer, U.S. businesses spent about $482 billion on online transactions with other businesses in 2002—up 242 percent from $141 billion spent two years earlier. By comparison, consumers spent only $71 billion on goods and services online in 2002.[28] The move to Internet purchasing has far-reaching implications for suppliers and will change the shape of purchasing for years to come. (See "Marketing Insight: The Business-to-Business Cyberbuying Bazaar.")

E-Procurement

Web sites are organized around two types of e-hubs: *vertical hubs* centered on industries (plastics, steel, chemicals, paper) and *functional hubs* (logistics, media buying, advertising, energy management). In addition to using these Web sites, companies can do e-procurement in other ways:

- ***Direct extranet links to major suppliers.*** A company can set up extranet links to its major suppliers. For example, it can set up a direct e-procurement account at Dell or Office Depot, and its employees can make their purchases this way.
- ***Buying alliances.*** Coca-Cola, Sara Lee, Kraft, PepsiCo, Gillette, P&G, and several other companies joined forces to form a buying alliance called Transora to use their combined leverage to obtain lower prices for raw materials. Transora members also share data on less expensive ways to ship products and track inventory. Several auto companies (GM, Ford, DaimlerChrysler) formed Covisint for the same reason. They believe they can save as much as $1,200 per car.



Covisint's home page: "Solutions and services to . . . Connect. Communicate. Collaborate."

MARKETING INSIGHT | THE BUSINESS-TO-BUSINESS (B2B) CYBERBUYING BAZAAR

With the growth of consumer online shopping, it is easy to lose sight of one of the most significant trends in e-commerce: the growth of business-to-business e-procurement. In addition to posting their own Web pages on the Internet, companies have established intranets for employees to communicate with one another, and extranets to link a company's communications and data with regular suppliers and distributors.

So far, most of the products that businesses are buying electronically are MRO materials (maintenance, repair, and operations) and travel and entertainment services. MRO materials make up 30 percent of business purchases, and the transaction costs for order processing are high, which means there is a huge incentive to streamline the process. Here are some examples: Los Angeles County purchases everything from chickens to condoms over the Internet. National Semiconductor has automated almost all of the company's 3,500 monthly requisitions to buy materials ranging from the sterile booties worn in its fabrication plants to state-of-the-art software. GE buys not only general operating supplies, but also industrial supplies online. Now that GE Information Services (GEIS) has opened its buying site to other companies, the company is well on its way to creating a vast electronic clearinghouse. Hundreds of thousands of firms will exchange trillions of dollars of industrial inputs—with GEIS running the show.

Many brick-and-mortar companies have expanded their online presence by building their business-to-business operations and targeting small businesses, which account for 98 percent of all U.S. employers. The 54 percent of companies that now purchase over the Internet are utilizing electronic marketplaces that are popping up in several forms:

- ***Catalog sites.*** Companies can order thousands of items through electronic catalogs distributed by e-procurement software, such as Grainger's.
- ***Vertical markets.*** Companies buying industrial products such as plastics, steel, or chemicals, or services such as logistics or media can go to specialized Web sites (called e-hubs). For example, Plastics.com allows plastics buyers to search for the best prices from the thousands of plastics sellers.
- ***"Pure Play" auction sites.*** These are online marketplaces such as eBay and Freemarkets.com that could not have been realized without the Internet and for which no business model existed before their formation. Freemarkets.com provides online auctions for buyers and sellers of industrial parts, raw materials, commodities, and services in over 50 product categories, and has facilitated over $40 billion worth of commerce since 1995.
- ***Spot (or exchange) markets.*** On spot electronic markets, prices change by the minute. ChemConnect.com is an exchange for buyers and sellers of bulk chemicals such as benzine and is a B2B success in an arena littered with failed online exchanges. First to market, it is now the biggest online exchange for chemical trading, with volume of $8.8 billion in 2002. Customers like Vanguard Petroleum Corp. in Houston conduct about 15 percent of their spot purchases and sales of natural gas liquids on ChemConnect's commodities trading site.
- ***Private exchanges.*** Hewlett-Packard, IBM, and Wal-Mart operate private exchanges to link with specially invited groups of suppliers and partners over the Web.
- ***Barter markets.*** *In these markets, participants offer to trade goods or services.*
- ***Buying alliances.*** Several companies buying the same goods join together to form purchasing consortia and gain deeper discounts on volume purchases (Transora, Covisint).

Online business buying offers several advantages: It shaves transaction costs for both buyers and suppliers, reduces time between order and delivery, consolidates purchasing systems, and forges more intimate relationships between partners and buyers. On the downside, it may help to erode supplier–buyer loyalty and create potential security problems. Businesses also face a technological dilemma because no single system yet dominates.

Sources: Robert Yoegel, "The Evolution of B-to-B Selling on the 'Net,'" *Target Marketing* (August 1998): 34; Andy Reinhardt, "Extranets: Log On, Link Up, Save Big," *BusinessWeek*, June 22, 1998, p. 134; "To Byte the Hand that Feeds," *The Economist*, June 17, 1998, pp. 61–62; John Evan Frook, "Buying Behemoth—By Shifting $5B in Spending to Extranets, GE Could Ignite a Development Frenzy," *Internetweek*, August 17, 1998, p. 1; Nicole Harris, "'Private Exchanges' May Allow B-to-B Commerce to Thrive After All," *Wall Street Journal*, March 16, 2001, pp. B1, B4; Olga Kharif, "B2B, Take 2," *BusinessWeek*, November 25, 2003; George S. Day, Adam J. Fein, and Gregg Ruppersberger, "Shakeouts in Digital Markets: Lessons from B2B Exchanges," *California Management Review* 45, no. 2 (Winter 2003): 131–151; Julia Angwin, "Top Online Chemical Exchange Is Unlikely Success Story," *Wall Street Journal*, January 8, 2004, p. A15.

- ***Company buying sites.*** General Electric formed the Trading Process Network (TPN) where it posts *requests for proposals (RFPs)*, negotiates terms, and places orders.

Moving into e-procurement involves more than acquiring software; it requires changing purchasing strategy and structure. However, the benefits are many: Aggregating purchasing across multiple departments gains larger, centrally negotiated volume discounts. There is less buying of substandard goods from outside the approved list of suppliers, and a smaller purchasing staff is required.

OWENS-CORNING

In 2001, the Owens-Corning purchasing organization set a goal of wiping out 80 percent of its paper invoices by the end of 2004. The strategic objectives underlying this goal were cost reduction, supply chain visibility, business process integration, and a common standardized process for all suppliers. To accomplish these objectives, Owens-Corning signed on with Advanced Data Exchange (ADX), an outsourced provider of EDI and XML, which takes whatever suppliers have to work with and effectively translates it into a usable electronic format for Owens-Corning. The electronic invoicing initiative worked with the company's use of e-auctions. Starting in 2004, all suppliers participating in e-auctions were told that as part of online auction bids they must agree to exchange invoices and purchase orders electronically if they are awarded the contract. With a $3 billion annual spending budget, Owens-Corning has the kind of clout to ensure suppliers get online.[29]

The supplier's task is to get listed in major online catalogs or services, develop a strong advertising and promotion program, and build a good reputation in the marketplace. This often means creating a well-designed and easy-to-use Web site.

HEWLETT-PACKARD

In 2003, Hewlett-Packard Co. was named number one in *BtoB* magazine's annual ranking of the top B-to-B Web sites. The site (www.hp.com) was launched after HP's merger with Compaq Computer and has 2.5 million pages and roughly 1,900 site areas. The challenge for HP was to integrate this enormous amount of information and present it coherently. Upon entering the site, users can click directly into their customer segment and search for information by product or by solution or click into a product category. The site allows companies to create customized catalogs for frequently purchased products, set up automatic approval routing for orders, and conduct end-to-end transaction processing. To further build relationships with customers, HP.com features Flash demos that show how to use the site, e-newsletters, live chats with sales reps, online classes, and real-time customer support. HP's Web efforts are paying off big: roughly 55 percent of the company's total sales come from the Web site.[30]

Suppliers who lack the required production capacity or suffer from a poor reputation will be rejected. Those who qualify may be visited by the buyer's agents, who will examine the suppliers' manufacturing facilities and meet their personnel. After evaluating each company, the buyer will end up with a short list of qualified suppliers. Many professional buyers have forced suppliers to change their marketing to increase their likelihood of making the cut.

CUTLER-HAMMER

Pittsburgh-based Cutler-Hammer supplies circuit breakers, motor starters, and other electrical equipment to industrial manufacturers such as Ford Motor Company. In response to the growing complexity and proliferation of its products, C-H developed "pods" of salespeople focused on a particular geographic region, industry, or market concentration. Each person brings a degree of expertise about a product or service. Now the salespeople can leverage the knowledge of co-workers to sell to increasingly sophisticated buying teams instead of working in isolation.[31]

Proposal Solicitation

The buyer invites qualified suppliers to submit proposals. If the item is complex or expensive, the buyer will require a detailed written proposal from each qualified supplier. After evaluating the proposals, the buyer will invite a few suppliers to make formal presentations.

Business marketers must be skilled in researching, writing, and presenting proposals. Written proposals should be marketing documents that describe value and benefits in customer terms. Oral presentations should inspire confidence, and position the company's capabilities and resources so that they stand out from the competition.

Consider the hurdles that Xerox has set up in qualifying suppliers.

XEROX

Xerox qualifies only suppliers who meet the ISO 9000 quality standards, but to win the company's top award—certification status—a supplier must first complete the Xerox Multinational Supplier Quality Survey. The survey requires the supplier to issue a quality assurance manual, to adhere to continuous improvement principles, and to demonstrate effective systems implementation. Once qualified, a supplier must participate in Xerox's Continuous Supplier Involvement process: The two companies work together to create specifications for quality, cost, delivery times, and process capability. The final step toward certification requires a supplier to undergo additional, rigorous quality training and an evaluation based on the same criteria as the Malcolm Baldridge National Quality Award. Not surprisingly, only 176 suppliers worldwide have achieved the 95 percent rating required for certification as a Xerox supplier.[32]

Supplier Selection

Before selecting a supplier, the buying center will specify desired supplier attributes and indicate their relative importance. To rate and identify the most attractive suppliers, buying centers often use a supplier-evaluation model such as the one shown in Table 7.2.

Business marketers need to do a better job of understanding how business buyers arrive at their valuations.[33] Anderson, Jain, and Chintagunta conducted a study of the main methods business marketers use to assess customer value and found eight different *customer value assessment (CVA)* methods. Companies tended to use the simpler methods, although the more sophisticated ones promise to produce a more accurate picture of customer perceived value. (See "Marketing Memo: Methods of Assessing Customer Value.")

The choice and importance of different attributes varies with the type of buying situation.[34] Delivery reliability, price, and supplier reputation are important for routine-order products. For procedural-problem products, such as a copying machine, the three most important attributes are technical service, supplier flexibility, and product reliability. For political-problem products that stir rivalries in the organization (such as the choice of a computer system), the most important attributes are price, supplier reputation, product reliability, service reliability, and supplier flexibility.

TABLE 7.2

An Example of Vendor Analysis

Attributes	Rating Scale				
	Importance Weights	Poor (1)	Fair (2)	Good (3)	Excellent (4)
Price	.30				x
Supplier reputation	.20			x	
Product reliability	.30				x
Service reliability	.10		x		
Supplier flexibility	.10			x	
Total score: .30(4) + .20(3) + .30(4) + .10(2) + .10(3) = 3.5					

MARKETING **MEMO** | METHODS OF ASSESSING CUSTOMER VALUE

1. ***Internal engineering assessment.*** Company engineers use laboratory tests to estimate the product's performance characteristics. Weakness: Ignores the fact that in different applications, the product will have different economic value.
2. ***Field value-in-use assessment.*** Customers are interviewed about cost elements associated with using the new-product offering compared to an incumbent product. The task is to *assess how much each element is worth to the buyer.*
3. ***Focus-group value assessment.*** Customers in a focus group are asked what value they would put on potential market offerings.
4. ***Direct survey questions.*** Customers are asked to place a direct dollar value on one or more changes in the market offering.
5. ***Conjoint analysis.*** Customers are asked to rank their preference for alternative market offerings or concepts. Statistical analysis is used to estimate the implicit value placed on each attribute.
6. ***Benchmarks.*** Customers are shown a "benchmark" offering and then a new-market offering. They are asked how much more they would pay for the new offering or how much less they would pay if certain features were removed from the benchmark offering.
7. ***Compositional approach.*** Customers are asked to attach a monetary value to each of three alternative levels of a given attribute. This is repeated for other attributes. The values are then added together for any offer configuration.
8. ***Importance ratings.*** Customers are asked to rate the importance of different attributes and the supplier firms' performance on these attributes.

Source: James C. Anderson, Dipak C. Jain, and Pradeep K. Chintagunta, "A Customer Value Assessment in Business Markets: A State-of-Practice Study," *Journal of Business-to-Business Marketing* 1, no. 1 (1993): 3–29.

The buying center may attempt to negotiate with preferred suppliers for better prices and terms before making the final selection. Despite moves toward strategic sourcing, partnering, and participation in cross-functional teams, buyers still spend a large chunk of their time haggling with suppliers on price. In 1998, 92 percent of buyers responding to a *Purchasing* magazine survey cited negotiating price as one of their top responsibilities. Nearly as many respondents said price remains a key criterion they use to select suppliers.[35]

Marketers can counter the request for a lower price in a number of ways. They may be able to show evidence that the "total cost of ownership," that is, the "life-cycle cost" of using their product is lower than that of competitors' products. They can also cite the value of the services the buyer now receives, especially if those services are superior to those offered by competitors.

Other approaches may also be used to counter intense price pressure. Consider the following example.

LINCOLN ELECTRIC

Lincoln Electric has a decades-long tradition of working with its customers to reduce costs through its Guaranteed Cost Reduction Program. When a customer insists that a Lincoln distributor lower prices to match Lincoln's competitors, the company and the particular distributor may guarantee that, during the coming year, they will find cost reductions in the customer's plant that meet or exceed the price difference between Lincoln's products and the competition's. If an independent audit at the end of the year does not reveal the promised cost savings, Lincoln Electric and the distributor compensate the customer for the difference. In all the years the program has been in existence, Lincoln has only had to write a check once or twice.[36]

As part of the buyer selection process, buying centers must decide how many suppliers to use. Companies are increasingly reducing the number of suppliers. Ford, Motorola, and Honeywell have cut the number of suppliers by anywhere from 20 to 80 percent. These companies want their chosen suppliers to be responsible for a larger component system; they want them to achieve continuous quality and performance improvement and at the same time lower the supply price each year by a given percentage. These companies expect their suppliers to work closely with them during product development, and they value their suggestions. There is even a trend toward single sourcing.

Companies that use multiple sources often cite the threat of a labor strike as the biggest deterrent to single sourcing. Another reason companies may be reluctant to use a single source is that they fear they will become too comfortable in the relationship and lose their competitive edge.

Order-Routine Specification

After selecting suppliers, the buyer negotiates the final order, listing the technical specifications, the quantity needed, the expected time of delivery, return policies, warranties, and so on. Many industrial buyers lease heavy equipment like machinery and trucks. The lessee gains a number of advantages: conserving capital, getting the latest products, receiving better service, and some tax advantages. The lessor often ends up with a larger net income and the chance to sell to customers who could not afford outright purchase.

In the case of maintenance, repair, and operating items, buyers are moving toward blanket contracts rather than periodic purchase orders. A blanket contract establishes a long-term relationship in which the supplier promises to resupply the buyer as needed, at agreed-upon prices, over a specified period of time. Because the stock is held by the seller, blanket contracts are sometimes called *stockless purchase plans.* The buyer's computer automatically sends an order to the seller when stock is needed. This system locks suppliers in tighter with the buyer and makes it difficult for out-suppliers to break in unless the buyer becomes dissatisfied with the in-supplier's prices, quality, or service.

Companies that fear a shortage of key materials are willing to buy and hold large inventories. They will sign long-term contracts with suppliers to ensure a steady flow of materials. DuPont, Ford, and several other major companies regard long-term supply planning as a major responsibility of their purchasing managers. For example, General Motors wants to buy from fewer suppliers who are willing to locate close to its plants and produce high-quality components. In addition, business marketers are using the Internet to set up extranets with important customers to facilitate and lower the cost of transactions. The customers enter orders directly on the computer, and these orders are automatically transmitted to the supplier. Some companies go further and shift the ordering responsibility to their suppliers in systems called *vendor-managed inventory.* These suppliers are privy to the customer's inventory levels and take responsibility to replenish it automatically through *continuous replenishment programs.*

"OTIFNE" is a term that summarizes three desirable outcomes of a B-to-B transaction:

- OT—deliver on time
- IF—in full
- NE—no error

All three matter. If a supplier achieves on-time compliance of only 80 percent, in-full compliance of 90 percent, and no error compliance of 70 percent, overall performance computes at 80% × 90% × 70%—only 50%!

Performance Review

The buyer periodically reviews the performance of the chosen supplier(s). Three methods are commonly used. The buyer may contact the end users and ask for their evaluations; the buyer may rate the supplier on several criteria using a weighted score method; or the buyer might aggregate the cost of poor performance to come up with adjusted costs of purchase, including price. The performance review may lead the buyer to continue, modify, or end a supplier relationship.

Many companies have set up incentive systems to reward purchasing managers for good buying performance, in much the same way that sales personnel receive bonuses for good selling performance. These systems are leading purchasing managers to increase pressure on sellers for the best terms.

MARKETING INSIGHT | ESTABLISHING CORPORATE TRUST AND CREDIBILITY

Strong bonds and relationships between firms depend on their perceived credibility. *Corporate credibility* refers to the extent to which customers believe that a firm can design and deliver products and services that satisfy their needs and wants. Corporate credibility relates to the reputation that a firm has achieved in the marketplace and is the foundation for a strong relationship. It is difficult for a firm to develop strong ties with another firm unless it is seen as highly credible.

Corporate credibility, in turn, depends on three factors:

- ***Corporate expertise***—the extent to which a company is seen as able to make and sell products or conduct services.
- ***Corporate trustworthiness***—the extent to which a company is seen as motivated to be honest, dependable, and sensitive to customer needs.
- ***Corporate likability***—the extent to which a company is seen as likable, attractive, prestigious, dynamic, and so on.

In other words, a credible firm is seen as being good at what it does; it keeps its customers' best interests in mind and is enjoyable to work with.

Trust is a particularly important determinant of credibility and a firm's relationships with other firms. Trust is reflected in the willingness and confidence of a firm to rely on a business partner. A number of interpersonal and interorganizational factors affect trust in a business-to-business relationship, such as the perceived competence, integrity, honesty, and benevolence of the firm. Trust will be affected by personal interactions between employees of a firm as well as opinions about the company as a whole, and perceptions of trust will evolve with more experience with a company.

Trust can be especially tricky in online settings, and firms often impose more stringent requirements on their online business partners. Business buyers worry that they won't get products of the right quality delivered to the right place at the right time. Sellers worry about getting paid on time—or at all—and how much credit they should extend. Some firms, such as transportation and supply chain management company Ryder System, are using tools such as automated credit-checking applications and online trust services to help determine the credibility of trading partners.

Sources: Robert M. Morgan and Shelby D. Hunt, "The Commitment–Trust Theory of Relationship Marketing," *Journal of Marketing* 58, no. 3 (1994): 20–38; Christine Moorman, Rohit Deshpande, and Gerald Zaltman, "Factors Affecting Trust in Market Research Relationships," *Journal of Marketing* 57 (January 1993): 81–101; Kevin Lane Keller and David A. Aaker, "Corporate-Level Marketing: The Impact of Credibility on a Company's Brand Extensions," *Corporate Reputation Review* 1 (August 1998): 356–378; Bob Violino, "Building B2B Trust," *Computerworld*, June 17, 2002, p. 32; Richard E. Plank, David A. Reid, and Ellen Bolman Pullins, "Perceived Trust in Business-to-Business Sales: A New Measure," *Journal of Personal Selling and Sales Management* 19, no. 3 (Summer 1999): 61–72.

::: Managing Business-to-Business Customer Relationships

To improve effectiveness and efficiency, business suppliers and customers are exploring different ways to manage their relationships. Closer relationships are driven in part by trends related to supply chain management, early supplier involvement, purchasing alliances, and so on.[37] Cultivating the right relationships with business is paramount with any holistic marketing program.

The Benefits of Vertical Coordination

Much research has advocated greater vertical coordination between buying partners and sellers so that they transcend mere transactions to engage in activities that create more value for both parties. Building trust between parties is often seen as one prerequisite to healthy long-term relationships.[38] "Marketing Insight: Establishing Corporate Trust and Credibility" identifies some key dimensions of those concepts. Consider the mutual benefits from the following arrangement.

MOTOMAN INC. AND STILLWATER TECHNOLOGIES

Motoman Inc., a leading supplier of industry robotic systems, and Stillwater Technologies, a contract tooling and machinery company and a key supplier to Motoman, are tightly integrated. Not only do they occupy office and manufacturing space in the same facility, but their telephone and computer systems are linked, and they share a common lobby, conference room, and employee cafeteria. Philip V. Morrison, chairman and

CEO of Motoman, says it is like "a joint venture without the paperwork." Short delivery distances are just one benefit of the unusual partnership. Also key is the fact that employees of both companies have ready access to one another and can share ideas on improving quality and reducing costs. This close relationship has opened the door to new opportunities. Both companies had been doing work for Honda Motor Company, and Honda suggested that they work together on systems projects. The integration makes the two bigger than they are individually.[39]

One historical study of four very different business-to-business relationships found that several factors, by affecting partner interdependence and/or environmental uncertainty, influenced the development of a relationship between business partners.[40] The relationship between advertising agencies and clients illustrates these findings:

1. ***In the relationship formation stage, one partner experienced substantial market growth.*** Manufacturers capitalizing on mass-production techniques developed national brands, which increased the importance and amount of mass-media advertising.
2. ***Information asymmetry between partners was such that a partnership would generate more profits than if the partner attempted to invade the other firm's area.*** Advertising agencies had specialized knowledge that their clients would have had difficulty obtaining.
3. ***At least one partner had high barriers to entry that would prevent the other partner from entering the business.*** Advertising agencies could not easily become national manufacturers, and for years, manufacturers were not eligible to receive media commissions.
4. ***Dependence asymmetry existed such that one partner was more able to control or influence the other's conduct.*** Advertising agencies had control over media access.
5. ***One partner benefited from economies of scale related to the relationship.*** Ad agencies gained by providing the same market information to multiple clients.

Cannon and Perreault found that buyer–supplier relationships differed according to four factors: availability of alternatives; importance of supply; complexity of supply; and supply market dynamism. Based on these four factors, they classified buyer–supplier relationships into eight different categories:[41]

1. ***Basic buying and selling*** – relatively simple, routine exchanges with moderately high levels of cooperation and information exchange.
2. ***Bare bones*** – similar to basic buying and selling but more adaptation by the seller and less cooperation and information exchange.
3. ***Contractual transaction*** – generally low levels of trust, cooperation, and interaction; exchange is defined by formal contract.
4. ***Customer supply*** – traditional custom supply situation where competition rather than cooperation is the dominant form of governance.
5. ***Cooperative systems*** – although coupled closely in operational ways, neither party demonstrates structural commitment through legal means or adaptation approaches.
6. ***Collaborative*** – much trust and commitment leading to true partnership.
7. ***Mutually adaptive*** – much relationship-specific adaptation for buyer and seller, but without necessarily strong trust or cooperation.
8. ***Customer is king*** – although bonded by a close, cooperative relationship, the seller adapts to meet the customer's needs without expecting much adaptation or change on the part of the customer in exchange.

Some firms find that their needs can be satisfied with fairly basic supplier performance. They do not want or require a close relationship with a supplier. Alternatively, some suppliers may not find it worth their while to invest in customers with limited growth potential. One study found that the closest relationships between customers and suppliers arose when the supply was important to the customer and when there were procurement obstacles such as complex purchase requirements and few alternative suppliers.[42] Another study suggested that greater vertical coordination between buyer and seller through information exchange and planning is usually necessary only when high environmental uncertainty exists and specific investments are modest.[43]

Business Relationships: Risks and Opportunism

Buvik and John note that in establishing a customer–supplier relationship, there is tension between safeguarding and adaptation. Vertical coordination can facilitate stronger customer–seller ties but at the same time may increase the risk to the customer's and supplier's specific investments. *Specific investments* are those expenditures tailored to a particular company and value chain partner (e.g., investments in company-specific training, equipment, and operating procedures or systems).[44] Specific investments help firms grow profits and achieve their positioning.[45] For example, Xerox has worked closely with its suppliers to develop customized processes and components that reduced its copier-manufacturing costs by 30 to 40 percent. In return, suppliers received sales and volume guarantees, an enhanced understanding of their customer needs, and a strong position with Xerox for future sales.[46]

Specific investments, however, also entail considerable risk to both customer and supplier. Transaction theory from economics maintains that because these investments are partially sunk, they lock in the firms that make the investments to a particular relationship. Sensitive cost and process information may need to be exchanged. A buyer may be vulnerable to holdup because of switching costs; a supplier may be more vulnerable to holdup in future contracts because of dedicated assets and/or expropriation of technology/knowledge. In terms of the latter risk, consider the following example.[47]

An automobile component manufacturer wins a contract to supply an under-hood component to an original equipment manufacturer (OEM). A one-year, sole-source contract safeguards the supplier's OEM-specific investments in a dedicated production line. However, the supplier may also be obliged to work (noncontractually) as a partner with the OEM's internal engineering staff (using linked computing facilities) to exchange detailed engineering information and coordinate frequent design and manufacturing changes over the term of the contract. These interactions could reduce costs and/or increase quality by improving the firm's responsiveness to marketplace changes. Such interactions could also potentially magnify the threat to the supplier's intellectual property.

When buyers cannot easily monitor supplier performance, the supplier might shirk or cheat and not deliver the expected value. *Opportunism* can be thought of as "some form of cheating or undersupply relative to an implicit or explicit contract."[48] It may involve blatant self-interest and deliberate misrepresentation that violates contractual agreements. In creating the 1996 version of the Ford Taurus, Ford Corporation chose to outsource the whole process to one supplier, Lear Corporation. Lear committed to a contract that, for various reasons, it knew it was unable to fulfill. According to Ford, Lear missed deadlines, failed to meet weight and price objectives, and furnished parts that did not work.[49] A more passive form of opportunism might involve a refusal or unwillingness to adapt to changing circumstances.

Opportunism is a concern because firms must devote resources to control and monitoring that otherwise could be allocated to more productive purposes. Contracts may become inadequate to govern supplier transactions when supplier opportunism becomes difficult to detect; as firms make specific investments in assets that cannot be used elsewhere; and as contingencies are harder to anticipate. Customers and suppliers are more likely to form a joint venture (versus a simple contract) when the supplier's degree of asset specificity is high, monitoring the supplier's behavior is difficult, and the supplier has a poor reputation.[50] When a supplier has a good reputation, for example, it is more likely to avoid opportunism to protect this valuable intangible asset.

The presence of a significant future time horizon and/or strong solidarity norms so that customers and suppliers are willing to strive for joint benefits can cause a shift in the effect of specific investments, from expropriation (increased opportunism on the receiver's part) to bonding (reduced opportunism).[51]

::: Institutional and Government Markets

Our discussion has concentrated largely on the buying behavior of profit-seeking companies. Much of what we have said also applies to the buying practices of institutional and government organizations. However, we want to highlight certain special features of these markets.

The **institutional market** consists of schools, hospitals, nursing homes, prisons, and other institutions that must provide goods and services to people in their care. Many of these organizations are characterized by low budgets and captive clienteles. For example, hospitals have to decide what quality of food to buy for patients. The buying objective here is not profit, because the food is provided as part of the total service package; nor is cost minimization the sole objective, because poor food will cause patients to complain and hurt the hospital's reputation. The hospital purchasing agent has to search for institutional-food vendors whose quality meets or exceeds a certain minimum standard and whose prices are low. In fact, many food vendors set up a separate division to sell to institutional buyers because of these buyers' special needs and characteristics. Heinz produces, packages, and prices its ketchup differently to meet the requirements of hospitals, colleges, and prisons. Aramark Corp., has a competitive advantage when it comes to providing food for the nation's prisons, a direct result of refining its purchasing practices and its supply chain management:

ARAMARK CORP.

Where Aramark once merely selected products from lists provided by potential suppliers, it now collaborates with suppliers to develop products that Aramark customizes to meet the needs of individual segments. In the corrections segment, quality has historically been sacrificed to meet food costs operators outside that market would find impossible to work with. "When you go after business in the corrections field, you are making bids that are measured in hundredths of a cent," says John Zillmer, president of Aramark's Food & Support Services, "So any edge we can gain on the purchasing side is extremely valuable." Aramark took a series of protein products and sourced them with unique partners at price points it never could have imagined before. It was able to drive costs down by working with partners who understood the chemistry of proteins and knew how to do things to lower the price but which could still create a product very acceptable to Aramark's customers. Then Aramark replicated this process with 163 different items formulated exclusively for corrections. Rather than reduce food costs by increments of a penny or so a meal, which was the previous norm for this market, Aramark succeeded in taking 5 to 9 cents off a meal—while maintaining or even improving quality.[52]

Being a supplier of choice for the nation's schools or hospitals means big business:

CARDINAL HEALTH

A spinoff of Baxter Healthcare Corporation, Cardinal Health has become the largest supplier of medical, surgical, and laboratory products in the United States. The company's stockless inventory program, known as ValueLink, was cited as a "best practice" by Arthur Andersen's business consulting practice. Currently in service at over 150 acute-care hospitals in the United States, this program supplies hospital personnel with the products they need when and where they need them. An integrated system meets the needs of customers who deal with life-and-death situations every minute. In the old system, an 18-wheeler simply dropped off a week's or a month's worth of supplies at the back door of a hospital. It inevitably turned out that the items most in demand were the ones in short supply, whereas the ones the hospital never used were available in great number. Cardinal Health estimates that its ValueLink system saves customers an average of $500,000 or more each year.[53]

In most countries, government organizations are a major buyer of goods and services. Government organizations typically require suppliers to submit bids, and normally they award the contract to the lowest bidder. In some cases, the government unit will make allowance for the supplier's superior quality or reputation for completing contracts on time. Governments will also buy on a negotiated contract basis, primarily in the case of complex projects involving major R&D costs and risks and in cases where there is little competition. Government organizations tend to favor domestic suppliers. A major complaint of multinationals operating in Europe was that each country showed favoritism toward its nationals in spite of superior offers available from foreign firms. The European Union is removing this bias.

Because their spending decisions are subject to public review, government organizations require considerable paperwork from suppliers, who often complain about excessive paperwork, bureaucracy, regulations, decision-making delays, and frequent shifts in procurement personnel. Given all the red tape, why would any firm want to do business

Cardinal Health ad directed to pharmacists that focuses on its ability to partner with customers to help them manage inventory, drug utilization, and medication safety issues.

with the U.S. government? Here is how Paul E. Goulding, a Washington, DC–based consultant who has helped clients obtain more than $30 billion in government contracts, answers that question:[54]

> When I hear that question, I tell the story of the businessman who buys a hardware store after moving to a small town. He asks his new employees who the biggest hardware customer in town is. He is surprised to learn that the customer isn't doing business with his store. When the owner asks why not, his employees say the customer is difficult to do business with and requires that a lot of forms be filled out. I point out that the same customer is probably very wealthy, doesn't bounce his checks, and usually does repeat business when satisfied. That's the type of customer the federal government can be.

The U.S. government buys goods and services valued at $200 billion. That makes Uncle Sam the largest customer in the world. It is not just the dollar figure that is large, but the number of individual acquisitions. According to the General Sources Administration Procurement Data Center, over 20 million individual contract actions are processed every year. Although most items purchased are between $2,500 and $25,000, the government also makes purchases in the billions, many of them in technology. But government decision makers often think that technology vendors have not done their homework. In addition, vendors do not pay enough attention to cost justification, which is a major activity for government procurement professionals. Companies hoping to be government contractors need to help government agencies see the bottom-line impact of products.

Just as companies provide government agencies with guidelines on how best to purchase and use their products, governments provide would-be suppliers with detailed guidelines describing how to sell to the government. Not following the guidelines properly and filling out forms and contracts incorrectly can create a legal nightmare.[55] Suppliers have to master the system and try to find ways to cut through the red tape. Goulding says that it requires an investment of time, money, and resources not unlike what is required for entering a new market overseas.

ADI TECHNOLOGY

The federal government has always been ADI Technology Corporation's most important client: Federal contracts account for about 90 percent of its nearly $6 million in annual revenues. Yet managers at this professional services company often shake their heads at all the work that goes into winning the coveted government contracts. A comprehensive bid proposal will run from 500 to 700 pages because of federal paperwork requirements. The company's president estimates that the firm has spent as much as $20,000, mostly in worker hours, to prepare a single bid proposal.

Fortunately for businesses of all sizes, the federal government has been trying to simplify the contracting procedure and make bidding more attractive. Some reforms place more emphasis on buying commercial off-the-shelf items instead of items built to the government's specs; online communication with vendors to eliminate the massive paperwork; and a "debriefing" from the appropriate government agency for vendors who lose a bid, enabling them to increase their chances of winning the next time around.[56] The government's goal is to get all purchases online. To do this, the government is likely to bet on Web-based forms, digital signatures, and electronic procurement cards (P-cards).[57]

Several federal agencies that act as purchasing agents for the rest of the government have launched Web-based catalogs that allow authorized defense and civilian agencies to buy everything from medical and office supplies to clothing online. "Marketing Memo: Selling Tech to the Government" provides some tips for attacking that multibillion-dollar market. The General Services Administration, for example, not only sells stocked merchandise through its Web site, but also creates direct links between buyers and contract suppliers.

In spite of these reforms, for a number of reasons many companies that sell to the government have not used a marketing orientation. The government's procurement policies have traditionally emphasized price, leading suppliers to invest considerable effort in bringing costs down. Where product characteristics are carefully specified, product differentia-

MARKETING MEMO | SELLING TECH TO THE GOVERNMENT

The U.S. government is projected to spend $65.9 billion on IT in fiscal year 2006. A large chunk of this U.S. government business, however, isn't contracted out at all. Through the General Services Administration (GSA) and other government organizations, companies can sell directly to agencies without having to go to formal bidding. Here are three tips for how to tap into that market.

1. ***Get in the Government IT Catalog.*** The GSA runs an online catalog of goods and services for government agencies. About 28 percent of federal spending flows through the catalog's Schedule 70, which includes more than 2000 tech vendors. Getting a business listed can be important. Applications can be done electronically. Remember to spell out pricing structure carefully.
2. ***Work Your Way In.*** Small businesses—especially those owned by women and minorities—are often needed by large businesses to satisfy small business set-asides. To maximize that probability:
   - ***Make sure contractors can find you.*** Get listed on the Small Business Administration's Subcontracting Network (wed.sba.gov/subnet) or use the U.S. Chamber of Commerce Web site.
   - ***Stay on top of key contracts.*** Several Web sites provide updates for the latest deals that might provide opportunities (www.fedbizopps.gov; www.dodbusopps.com; prod.nais.nasa.gov/pub/fedproc/home.hml).
   - ***Work the angles.*** Meet with prospective bidders and explain your qualifications.
3. ***Network Actively.*** Attend one of the large trade shows, such as FOSE, GSA Expo, or E-Gov.

Source: Owen Thomas, "How to Sell Tech to the Feds," *Business 2.0*, March 2003, pp. 111–112.

tion is not a marketing factor; nor are advertising and personal selling of much consequence in winning bids. Some companies have pursued government business by establishing separate government marketing departments.

Companies such as Gateway, Rockwell, Kodak, and Goodyear anticipate government needs and projects, participate in the product specification phase, gather competitive intelligence, prepare bids carefully, and produce strong communications to describe and enhance their companies' reputations.

SUMMARY :::

1. Organizational buying is the decision-making process by which formal organizations establish the need for purchased products and services, then identify, evaluate, and choose among alternative brands and suppliers. The business market consists of all the organizations that acquire goods and services used in the production of other products or services that are sold, rented, or supplied to others.
2. Compared to consumer markets, business markets generally have fewer and larger buyers, a closer customer–supplier relationship, and more geographically concentrated buyers. Demand in the business market is derived from demand in the consumer market and fluctuates with the business cycle. Nonetheless, the total demand for many business goods and services is quite price-inelastic. Business marketers need to be aware of the role of professional purchasers and their influencers, the need for multiple sales calls, and the importance of direct purchasing, reciprocity, and leasing.
3. The buying center is the decision-making unit of a buying organization. It consists of initiators, users, influencers, deciders, approvers, buyers, and gatekeepers. To influence these parties, marketers must be aware of environmental, organizational, interpersonal, and individual factors.
4. The buying process consists of eight stages called buyphases: (1) problem recognition, (2) general need description, (3) product specification, (4) supplier search, (5) proposal solicitation, (6) supplier selection, (7) order-routine specification, and (8) performance review.
5. Business marketers must form strong bonds and relationships with their customers and provide them added value. Some customers, however, may prefer more of a transactional relationship.
6. The institutional market consists of schools, hospitals, nursing homes, prisons, and other institutions that provide goods and services to people in their care. Buyers for government organizations tend to require a great deal of paperwork from their vendors and to favor open bidding and domestic companies. Suppliers must be prepared to adapt their offers to the special needs and procedures found in institutional and government markets.

APPLICATIONS :::

Marketing Debate How Different is Business-to-Business Marketing?

Many business-to-business marketing executives lament the challenges of business-to-business marketing, maintaining that many traditional marketing concepts and principles do not apply. For a number of reasons, they assert that selling products and services to a company is fundamentally different from selling to individuals. Others disagree, claiming that marketing theory is still valid and only involves some adaptation in the marketing tactics.

Take a position: Business-to-business marketing requires a special, unique set of marketing concepts and principles versus Business-to-business marketing is really not that different and the basic marketing concepts and principles apply.

Marketing Discussion

Consider some of the consumer behavior topics from Chapter 6. How might you apply them to business-to-business settings? For example, how might noncompensatory models of choice work?

MARKETING **SPOTLIGHT** | GENERAL ELECTRIC

GE is an amazingly large company made up of 11 major divisions that operate in areas as diverse as home appliances, jet engines, security systems, wind turbines, and financial services. The company is so large (2003 revenues of $134 billion) that even if each of its 11 business units were ranked separately, all would appear on the *Fortune* 500 list. If GE were its own country, it would be one of the 50 largest and would rank ahead of Finland, Israel, and Ireland.

GE became the acknowledged pioneer in business-to-business marketing in the 1950s and 1960s. Back then, GE's tagline was "Live Better Electrically." As the company diversified its product lines, it created new campaigns, including "Progress for People" and "We bring good things to life."

In 2003, the company faced a new challenge: how to promote its brand globally with a unified message. GE launched a major new campaign, "Imagination at Work," which earned it the 2003 B2B Best Award for a top integrated campaign. The purpose of the campaign was not simply to create warm feelings for the company, but to achieve real business results. The campaign promoted GE's B2B units such as GE Aircraft Engines, GE Medical Systems, and GE Plastics. The goal was to unify these divisions under the GE brand while giving them a voice. The new campaign highlights the breadth of GE's product offerings.

GE spends some $150 million on corporate advertising—a large sum, but a sum that gains efficiencies by focusing on the core GE brand. The challenge with creating a unified message was that each GE business had to fit with that brand image. GE chose "Imagination at Work" because it portrayed the innovation inherent in all its wide-ranging products.

The new integrated campaign got results. "Research indicates GE is now being associated with attributes such as being high-tech, leading-edge, innovative, contemporary and creative," said Judy Hu, GE's general manager for global advertising and branding. Just as encouraging, market research found that respondents still associate GE with some of its traditional attributes, such as being trustworthy and reliable.

"We believe 'Imagination at Work' has proven to be a strong global message for us," said GE's chief marketing officer Beth Comstock. "Our goal is to be more present around the world and more consistent. To do it more broadly and faster. Going forward, you'll see medical and health care as the face of GE."

While the campaign unites all the GE business units, GE's success rests on its ability to understand the business market and the business buying process. GE puts itself in the shoes of its business customers. Consider, for example, its approach to pricing its aircraft engines. One would expect GE to charge a particular price for a particular engine type. But GE is aware that for the customer, purchasing an aircraft engine is a multimillion-dollar expenditure ($21 million for each large engine). And the expenditure doesn't end with the purchase of the engine—customers (airlines) face substantial maintenance costs to meet FAA guidelines and ensure the reliability of engines. So in 1999, GE pioneered a new pricing option. The concept, called "Power by the Hour," gives its customers an opportunity to pay a fixed fee each time they run the engine. In return, GE performs all of the maintenance and guarantees the reliability of the engine. GE gives its customers a lower cost of ownership of the GE aircraft engine.

Business buyers value this option because it shifts risk away from them. In times of uncertain air travel, buying new jet engines for new airliners is a major financial risk. "Power by the Hour" lets the airlines pay only when they use the engine. Moreover, airlines do not have to worry about unexpected high maintenance costs. Buyers are assured a low, predictable cost of ownership through the preset pricing.

This kind of B2B savvy has helped GE cement its top position in the *Financial Times* World's Most Respected Companies survey. Chief executives from 20 countries have given GE the top spot in the survey for 6 years.

GE's understanding of the business markets, its way of doing business, and its brand marketing have kept GE's brand equity growing. Indeed, its brand equity was valued at $53.6 billion by Corebrand in the fourth quarter of 2003.

"The GE brand is what connects us all and makes us so much better than the parts," Chief Marketing Officer Comstock said.

Discussion Questions

1. What have been the key success factors for GE?
2. Where is GE vulnerable? What should it watch out for?
3. What recommendations would you make to senior marketing executives going forward? What should they be sure to do with its marketing?

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IN THIS CHAPTER, WE WILL ADDRESS THE FOLLOWING QUESTIONS:

1. What are the different levels of market segmentation?
2. How can a company divide a market into segments?
3. How should a company choose the most attractive target markets?
4. What are the requirements for effective segmentation?

CHAPTER 8 ::: IDENTIFYING MARKET SEGMENTS AND TARGETS

Markets are not homogeneous. A company cannot connect with all customers in large, broad, or diverse markets. Consumers vary on many dimensions and often can be grouped according to one or more characteristics. A company needs to identify which market segments it can serve effectively. Such decisions require a keen understanding of consumer behavior and careful strategic thinking. Marketers sometimes mistakenly pursue the same market segment as many other firms and overlook some potentially more lucrative segments.

The magnitude and wealth of older consumers, for example, should be important to many different marketers.[1] The population of mature consumers, those 50 and older, will swell to 115 million in the next 25 years. Yet, not only have youth-obsessed marketers traditionally neglected this huge market, they have also turned them off with stereotypes of grandmas and grandpas living on fixed incomes.[2] "To young product managers, everyone over 45 is lumped into a category called old," says Lori Bitter, partner at J. Walter Thompson's Mature Marketing Group. "They want to put swing music in the background of an ad targeted at 50-year-olds. We have to say, 'No, let's try Sting'." Seniors, particularly boomers-turned-seniors, often make buying decisions based on lifestyle, not age. But don't expect them to remain loyal once they've made a decision. Although highly brand-conscious and brand-aware, baby boomers are not necessarily as brand loyal as traditionally was the case >>>

A rapidly growing target market: Mature consumers who live active lives and who make buying decisions based not on age, but on lifestyle.

with older consumers.[3] With their allegiances potentially up for grabs, astute markets would be wise to keep their eyes on them.[4]

To compete more effectively, many companies are now embracing target marketing. Instead of scattering their marketing effort (a "shotgun" approach), they focus on those consumers they have the greatest chance of satisfying (a "rifle" approach).

Effective target marketing requires that marketers:

1. Identify and profile distinct groups of buyers who differ in their needs and preferences (market segmentation).
2. Select one or more market segments to enter (market targeting).
3. For each target segment, establish and communicate the distinctive benefit(s) of the company's market offering (market positioning).

This chapter will focus on the first two steps. Chapter 10 discusses brand and market positioning.

::: Levels of Market Segmentation

The starting point for discussing segmentation is **mass marketing**. In mass marketing, the seller engages in the mass production, mass distribution, and mass promotion of one product for all buyers. Henry Ford epitomized this strategy when he offered the Model-T Ford in one color, black. Coca-Cola also practiced mass marketing when it sold only one kind of Coke in a 6.5-ounce bottle.

The argument for mass marketing is that it creates the largest potential market, which leads to the lowest costs, which in turn can lead to lower prices or higher margins. However, many critics point to the increasing splintering of the market, which makes mass marketing more difficult. The proliferation of advertising media and distribution channels is making it difficult and increasingly expensive to reach a mass audience. Some claim that mass marketing is dying. Most companies are turning to *micromarketing* at one of four levels: segments, niches, local areas, and individuals.

Segment Marketing

A market segment consists of a group of customers who share a similar set of needs and wants. Thus we distinguish between car buyers who are primarily seeking low-cost basic transportation, those seeking a luxurious driving experience, and those seeking driving thrills and performance. We must be careful not to confuse a *segment* and a *sector*. A car company might say that it will target young, middle-income car buyers. The problem is that young, middle-income car buyers will differ about what they want in a car. Some will want a low-cost car and others will want an expensive car. Young, middle-income car buyers are a sector, not a segment.

The marketer does not create the segments; the marketer's task is to identify the segments and decide which one(s) to target. Segment marketing offers key benefits over mass marketing. The company can presumably better design, price, disclose and deliver the product or service to satisfy the target market. The company also can fine-tune the marketing program and activities to better reflect competitors' marketing.

The Model T: Henry Ford was the first to mass-market automobiles. Ford mass-produced by assembly line, mass-distributed through dealers, and mass-promoted one product for all buyers in ads like these.

However, even a segment is partly a fiction, in that not everyone wants exactly the same thing. Anderson and Narus have urged marketers to present flexible market offerings to all members of a segment.[5]

A **flexible market offering** consists of two parts: a *naked solution* containing the product and service elements that all segment members value, and *discretionary options* that some segment members value. Each option might carry an additional charge. For example, Delta Airlines offers all economy passengers a seat and soft drinks. It charges economy passengers extra for alcoholic beverages. Siemens Electrical Apparatus Division sells metal-clad boxes to small manufacturers whose price includes free delivery and a warranty, but also offers installation, tests, and communication peripherals as extra-cost options.

Market segments can be defined in many different ways. One way to carve up a market is to identify *preference segments*. Suppose ice cream buyers are asked how much they value sweetness and creaminess as two product attributes. Three different patterns can emerge.

1. ***Homogeneous preferences*** – Figure 8.1(a) shows a market where all the consumers have roughly the same preferences. The market shows no natural segments. We would predict that existing brands would be similar and cluster around the middle of the scale in both sweetness and creaminess.
2. ***Diffused preferences*** – At the other extreme, consumer preferences may be scattered throughout the space (Figure 8.1[b]), indicating that consumers vary greatly in their preferences. The first brand to enter the market is likely to position itself to appeal to the most people. A second competitor could locate next to the first brand and fight for market share, or it could locate in a corner to attract a customer group that was not satisfied with the center brand. If several brands are in the market, they are likely to position themselves throughout the space and show real differences to match differences in consumer preference.

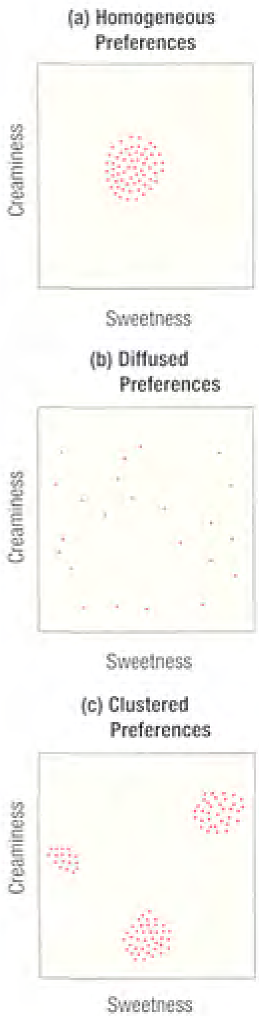


FIG. 8.1

Basic Market-Preference Patterns

3. ***Clustered preferences*** – The market might reveal distinct preference clusters, called *natural market segments* (Figure 8.1[c]). The first firm in this market has three options. It might position in the center, hoping to appeal to all groups. It might position in the largest market segment (*concentrated marketing*). It might develop several brands, each positioned in a different segment. If the first firm developed only one brand, competitors would enter and introduce brands in the other segments.

Later in this chapter, we will consider various ways to segment and compete in a market.

Niche Marketing

A niche is a more narrowly defined customer group seeking a distinctive mix of benefits. Marketers usually identify niches by dividing a segment into subsegments. For example, Progressive, a Cleveland auto insurer, sells "nonstandard" auto insurance to risky drivers with a record of auto accidents, charges a high price for coverage and makes a lot of money in the process.

An attractive niche is characterized as follows: The customers in the niche have a distinct set of needs; they will pay a premium to the firm that best satisfies their needs; the niche is not likely to attract other competitors; the nicher gains certain economies through specialization; and the niche has size, profit, and growth potential. Whereas segments are fairly large and normally attract several competitors, niches are fairly small and normally attract only one or two.

ENTERPRISE

Enterprise Rent-A-Car has challenged Hertz's supremacy in the rental car market by tailoring its marketing program to a relatively neglected target market.[6] While Hertz, Avis, Alamo, and others specialize in airport rental cars for business and leisure travelers, Enterprise has attacked the low-budget, insurance-replacement market by primarily renting to customers whose cars have been wrecked or stolen. Enterprise charges low rental rates by avoiding expensive airport and downtown locations, by only opening for daylight hours, and by holding on to its fleet of cars for a longer period of time before replacing them. Enterprise also distinguishes itself, in part, by offering to pick up customers. Enterprise has a limited advertising budget, relying more on a grassroots marketing push based on referrals from insurance agents and adjusters, car dealers, body shops, and garages. By creating unique associations to low cost and convenience in an overlooked niche market, Enterprise has been highly profitable.

Larger companies, such as IBM, have lost pieces of their market to nichers: This confrontation has been labeled "guerrillas against gorillas."[7] Some large companies have even turned to niche marketing. Hallmark commands a 55 percent share of the $7.8 billion global greeting card market by rigorously segmenting its greeting card business. In addition to popular sub-branded card lines like the humorous Shoebox Greetings, Hallmark has introduced lines targeting specific market segments. Fresh Ink targets 18- to 39-year-old women, Hallmark En Espanol targets Hispanic card givers, and Out of the Blue targets those who want inexpensive cards that can be sent for no reason.[8]

Niche marketers presumably understand their customers' needs so well that the customers willingly pay a premium. Tom's of Maine all-natural personal care products sometimes commands a 30 percent premium on its toothpaste because its unique, environmentally friendly products and charitable donation programs appeal to consumers who have been turned off by big businesses.[9] As marketing efficiency increases, niches that were seemingly too small may become more profitable.[10]

In the world of pharmaceuticals, biotech company Genentech stands out for developing drugs that target tiny niche markets instead of going after blockbusters like Pfizer's Lipitor or Merck's Zocor, cholesterol medications that rack up billions of dollars in sales:

GENENTECH

San Francisco–based Genentech pursues "targeted therapies," drugs aimed at relatively small subsets of patients. The drugs produce the same kind of dramatic benefit doctors get when they identify the specific type of bacteria causing an infection and slam it with the right antibiotic. A few years ago, the company launched the first highly targeted therapy—Herceptin, a breast-cancer drug that is prescribed only to the

Niche marketer Tom's of Maine makes environmentally friendly products and participates in a number of environmental action programs, like the Tom's of Maine National Rivers Awareness Program™

25 percent or so of patients whose tumors harbor a particular genetic quirk—and it hasn't looked back. Genentech's targeted therapies make economic sense because the company is small, doesn't need to sell billions of dollars of drugs each year to support an army of sales reps or marketing executives, and can charge premium prices because its anti-cancer drugs really work. Genentech's revenues were $3.3 billion in 2003, up 24 percent from 2001.[11]

Globalization has facilitated niche marketing. For example, the German economy has more than 300,000 small and midsize companies (known as *the Mittelstand*). Many enjoy over 50 percent market share in well-defined global niches. Hermann Simon dubbed these global niche leaders "hidden champions."[12] Here are some examples:

- Tetra Food supplies 80 percent of the food for feeding pet tropical fish.
- Hohner has 85 percent of the world harmonica market.
- Becher has 50 percent of the world's oversized umbrella market.
- Steiner Optical has 80 percent of the world's military field glasses market.

These hidden champions tend to be found in stable markets, are typically family owned or closely held, and are long lived. They are dedicated to their customers and offer superior performance, responsive service, and punctual delivery (rather than low price) as well as customer intimacy. Senior management emphasizes continuous innovation and stays in direct and regular contact with top customers.

The low cost of setting up shop on the Internet has also led to many small business start-ups aimed at niches. The recipe for Internet niching success: Choose a hard-to-find product that customers do not need to see and touch. This "Webpreneur" followed the recipe with astonishing results:[13]

OSTRICHESONLINE.COM

Whereas Internet giants like Amazon.com struggled to realize a profit, Steve Warrington is earning a six-figure income selling ostriches—and every product derived from them—online (www.ostrichesonline.com). Since the site was launched for next to nothing in 1996, Warrington's business has sold to over 20,000 clients in over 125 countries from a catalog of more than 17,500 ostrich-related products. Visitors to the site can buy ostrich meat, feathers, leather jackets, videos, eggshells, and subscribe to a newsletter devoted to ostriches.[14]

Local Marketing

Target marketing is leading to marketing programs tailored to the needs and wants of local customer groups (trading areas, neighborhoods, even individual stores). Citibank provides different mixes of banking services in its branches, depending on neighborhood demographics. Kraft helps supermarket chains identify the cheese assortment and shelf positioning that will optimize cheese sales in low-, middle-, and high-income stores, and in different ethnic neighborhoods.

AMERICAN DRUG

American Drug, one of the largest U.S. drugstore retailers, had its marketing team assess shopping patterns at hundreds of its Osco and Sav-on Drug Stores on a market-by-market basis. Using scanned data, the company fine-tuned the stores' product mix, revamped store layout, and refocused marketing efforts to more closely align with local consumer demand. Depending on the local demographics, each store unit varies the amount and type of merchandise in such categories as hardware, electrical supplies, automotive supplies, cookware, over-the-counter drugs, and convenience goods.[15]

Local marketing reflects a growing trend called grassroots marketing. Marketing activities concentrate on getting as close and personally relevant to individual customers as possible. Much of Nike's initial success has been attributed to the ability to engage target consumers through grassroots marketing such as sponsorship of local school teams, expert-conducted clinics, and provision of shoes, clothing, and equipment.

A large part of local, grassroots marketing is experiential marketing, which promotes a product or service not just by communicating its features and benefits, but by also connecting it with unique and interesting experiences. One marketing commentator describes experiential marketing this way: "The idea is not to sell something, but to demonstrate how a brand can enrich a customer's life."[16] "Marketing Insight: Experiential Marketing" describes the concept of Customer Experience Management.

Holiday Inn Hotels and Resorts is trying to recharge its faded brand image through experiential marketing aimed not only at creating new customer experiences, but also at getting customers to kindle nostalgia for their own childhood experiences with the brand:

HOLIDAY INN HOTELS AND RESORTS

The chain that grew up with the Interstate System and defined the overnight roadside experience is trying to push itself back into Americans' consciousness. The marketing push is geared at evoking the good old days when its popularity was reflected in stolen towels—the chain claims it still loses 560,000 towels annually. So in 2003, Holiday Inn designated August 28 as "National Towel Amnesty Day." Extending through Labor Day weekend, each Holiday Inn distributed 50 limited edition towels that read, "100 percent cotton, 100 percent guilt-free, 100 percent yours." In addition, the chain created an Internet site at www.holiday-inn.com/towels where visitors could share towel stories. For each story collected, $1 was donated to a charity benefiting children with life-threatening diseases who wish to visit central Florida attractions. By getting customers involved in swapping stories, the hotel chain hopes to play up the emotional connection many Americans still have with its simple, dependable, white-bread image.[17]

Pine and Gilmore, who are pioneers on the topic, have argued that we are on the threshold of the "Experience Economy," a new economic era in which all businesses must orchestrate memorable events for their customers.[18] They assert:

- If you charge for stuff, then you are in the *commodity business.*
- If you charge for tangible things, then you are in the *goods business.*
- If you charge for the activities you perform, then you are in the *service business.*
- If you charge for the time customers spend with you, then and only then are you in the *experience* business.

Citing examples of a range of companies from Disney to AOL, they maintain that salable experiences come in four varieties: entertainment, education, esthetic, and escapist. VANS, which pioneered slip-on sneakers for skateboarding, has succeeded in that market with an offbeat marketing mix of events, sponsorships, and even a documentary film, all celebrating the skateboard culture.[19] VANS' CEO Gary Schoenfeld proclaims, "Our vision is not to hit our

MARKETING INSIGHT | EXPERIENTIAL MARKETING

Through several books and papers, Columbia University's Bernd Schmitt has developed the concept of *Customer Experience Management (CEM)*—the process of strategically managing a customer's entire experience with a product or company. According to Schmitt, brands can help to create five different types of experiences: (1) Sense, (2) Feel, (3) Think, (4) Act, (5) Relate. In each case, Schmitt distinguishes between hard-wired and acquired experiential response levels. He maintains that marketers can provide experiences for customers through a set of experience providers.

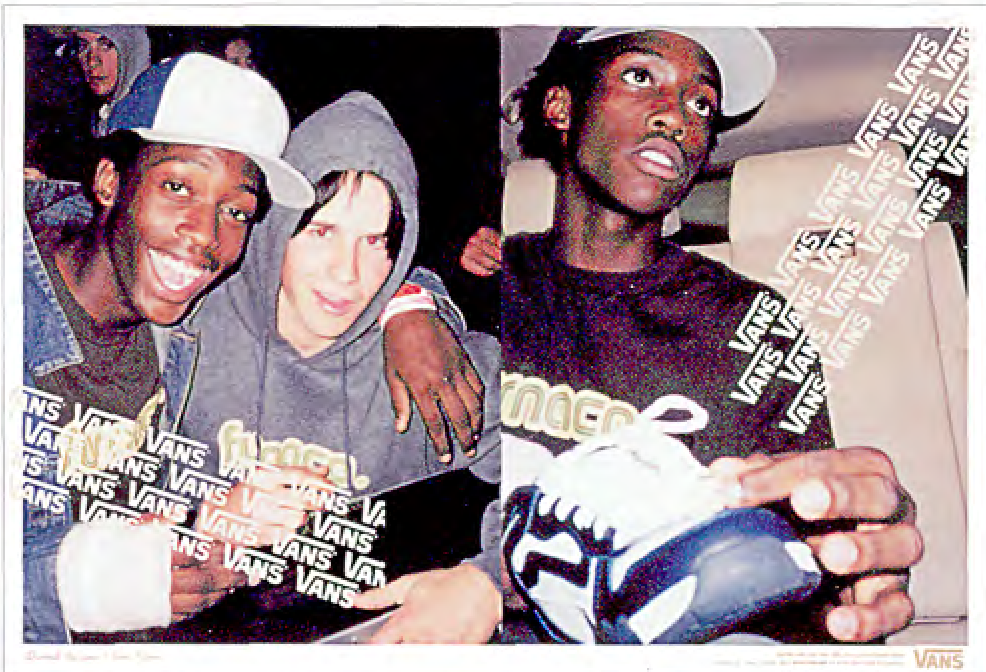
1. ***Communications:*** advertising, public relations, annual reports, brochures, newsletters, and magalogs.
2. ***Visual/verbal identity:*** names, logos, signage, and transportation vehicles.
3. ***Product presence:*** product design, packaging, and point-of-sale displays.
4. ***Co-branding:*** event marketing and sponsorships, alliances and partnerships, licensing, and product placement in movies or TV.
5. ***Environments:*** retail and public spaces, trade booths, corporate buildings, office interiors, and factories.
6. ***Web sites and electronic media:*** corporate sites, product or service sites, CD-ROMs, automated e-mails, online advertising, and intranets.
7. ***People:*** salespeople, customer service representatives, technical support or repair providers, company spokepersons, and CEOs and other executives.

The CEM framework is made up of five basic steps:

1. ***Analyzing the experiential world of the customer:*** gaining insights into the sociocultural context of consumers or the business context of business customers.
2. ***Building the experiential platform:*** developing a strategy that includes the positioning for the kind of experience the brand stands for ("what"), the value proposition of what relevant experience to deliver ("why"), and the overall implementation theme that will be communicated ("how").
3. ***Designing the brand experience:*** implementing their experiential platform in the look and feel of logos and signage, packaging, and retail spaces, in advertising, collaterals, and online.
4. ***Structuring the customer interface:*** implementing the experiential platform in the dynamic and interactive interfaces including face-to-face, in stores, during sales visits, at the check-in desk of a hotel, or the e-commerce engine of a Web site.
5. ***Engaging in continuous innovation:*** implementing the experiential platform in new-product development, creative marketing events for customers, and fine-tuning the experience at every point of contact.

Schmitt cites Pret A Manger, the U.K.-based sandwich company, as an example of a company that provides an attractive brand experience, customer interface, and ongoing innovation: "The Pret A Manger brand is about great tasting, handmade, natural products served by amazing people who are passionate about their work. The sandwiches and stores look appealing and attractive. The company hires only 5% of those who apply and only after they have worked for a day in the shop. This process ensures good fit and good teamwork." He also offers Singapore Airlines, Starbucks, and Amazon.com as outstanding providers of customer experiences.

Sources: www.exgroup.com; Bernd Schmitt, *Customer Experience Management: A Revolutionary Approach to Connecting with Your Customers* (New York: John Wiley and Sons, 2003); Bernd Schmitt, David L. Rogers, and Karen Vrotsos, *There's No Business That's Not Show Business: Marketing in an Experience Culture* (Upper Saddle River, NJ: Prentice Hall, 2003); Bernd Schmitt, *Experiential Marketing: How to Get Companies to Sense, Feel, Think, Act, and Relate to Your Company and Brands* (New York: Free Press, 1999); Bernd Schmitt and Alex Simonson, *Marketing Aesthetics: The Strategic Management of Brands, Identity and Image* (New York: Free Press, 1997).



Pro skateboarders Darrell Stanton and Scott Kane in a VANS ad. Both Stanton and Kane are part of a VANS-sponsored team.

target audience over the head with our ads, but to integrate ourselves into the places they are most likely to be."

Those who favor localized marketing see national advertising as wasteful because it is too "arm's length" and fails to address local needs. Those against local marketing argue that it drives up manufacturing and marketing costs by reducing economies of scale. Logistical problems are magnified. A brand's overall image might be diluted if the product and message are different in different localities.

Customerization

The ultimate level of segmentation leads to "segments of one," "customized marketing," or "one-to-one marketing."[20]

Today customers are taking more individual initiative in determining what and how to buy. They log onto the Internet; look up information and evaluations of product or service offers; dialogue with suppliers, users, and product critics; and in many cases, design the product they want. More online companies today are offering customers a Choiceboard, an interactive online system that allows individual customers to design their own products and services by choosing from a menu of attributes, components, prices, and delivery options. The customer's selections send signals to the supplier's manufacturing system that set in motion the wheels of procurement, assembly, and delivery.[21]

Wind and Rangaswamy see the Choiceboard as a movement toward "customerizing" the firm.[22] **Customerization** combines operationally driven mass customization with customized marketing in a way that empowers consumers to design the product and service offering of their choice. The firm no longer requires prior information about the customer, nor does the firm need to own manufacturing. The firm provides a platform and tools and "rents" out to customers the means to design their own products. A company is customerized when it is able to respond to individual customers by customizing its products, services, and messages on a one-to-one basis.[23]

Each business unit will have to decide whether it would gain more by designing its business system to create offerings for *segments* or for *individuals*. Companies that favor segmentation see it as more efficient, as requiring less customer information, and as permitting more standardization of market offerings. Those who favor individual marketing claim that segments are a fiction, that individuals within so-called segments differ greatly, and that marketers can achieve much more precision and effectiveness by addressing individual needs.

Customization is certainly not for every company: It may be very difficult to implement for complex products such as automobiles. Customization can raise the cost of goods by

Acumins Internet-based vitamin company Acumins blends vitamins, herbs, and minerals according to a customer's instructions, compressing up to 95 ingredients into three to five "personalized pills." The Acumins premise is simple and attractive: Why swallow dozens of pills when you can take three pills with dozens of ingredients of your choosing?

Paris Miki The Japanese company Paris Miki, one of the largest eyeglass retailers in the world, uses a design tool that takes a digital picture of the customer's face. The customer describes the style he or she wants—sports, elegant, traditional—and the system displays alternatives on the computerized photograph. After selecting the frame, the customer also chooses nosepieces, hinges, and arms. The glasses are ready within an hour.

DeBeers With DeBeers' Design Your Own Ring program, customers can design their own diamond rings by choosing from any of 189 unique combinations of center stone and side stone shapes and weights and band metal, as well as connect with a local jeweler who can help them buy it.

Andersen Windows Andersen Windows of Bayport, Minnesota, the home-building industry's leading window and patio door manufacturer, has developed an interactive computer version of its catalogs for distributors and retailers that is linked directly to the factory. With this system, now in 650 showrooms, salespeople can help customers customize each window, check the design for structural soundness, and generate a price quote. From there Andersen went on to develop a "batch of one" manufacturing process in which every window and door part is made to order, thus reducing its finished parts inventory (a major cost to the company).

ChemStation Based in Dayton, Ohio, ChemStation offers customized soap formulas to its industrial customers, who range from car washes to the U.S. Air Force. What cleans a car will not clean an airplane or equipment in a mine shaft. Salespeople visit customer sites to gather information. All the data from the company's chemical lab and its field studies are kept in a central database called Tank Management System (TMS). TMS is linked directly to both the lab and the company's 40 plants across the country, where computer-operated machines mix each customer's special formula.

FIG. 8.2

Examples of Marketing Customization

Sources: "Creating Greater Customer Value May Require a Lot of Changes," *Organizational Dynamics* (Summer 1998): 26; Erick Schonfeld, "The Customized, Digitized, Have-It-Your-Way Economy," *Fortune*, September 28, 1998, pp. 115–124; Jim Barlow, "Individualizing Mass Production," *Houston Chronicle*, April 13, 1997, p. E1; Sarah Schafer, "Have It Your Way," *Inc.*, November 18, 1997, pp. 56–64; Jim Christie, "Mass Customization: The New Assembly Line?" *Investor's Daily*, February 25, 2000.

more than the customer is willing to pay. Some customers do not know what they want until they see actual products. Customers cannot cancel the order after the company has started to work on the product. The product may be hard to repair and have little sales value. In spite of this, customization has worked well for some products. Figure 8.2 shows examples of companies that employ customization.

::: Segmenting Consumer Markets

Two broad groups of variables are used to segment consumer markets. Some researchers try to form segments by looking at descriptive characteristics: geographic, demographic, and psychographic. Then they examine whether these customer segments exhibit different needs or product responses. For example, they might examine the differing attitudes of "professionals," "blue collars," and other groups toward, say, "safety" as a car benefit.

Other researchers try to form segments by looking at "behavioral" considerations, such as consumer responses to benefits, use occasions, or brands. Once the segments are formed, the researcher sees whether different characteristics are associated with each consumer-response segment. For example, the researcher might examine whether people who want "quality" rather than "low price" in buying an automobile differ in their geographic, demographic, and psychographic makeup.

Regardless of which type of segmentation scheme is employed, the key is that the marketing program can be profitably adjusted to recognize customer differences. The major segmentation variables—geographic, demographic, psychographic, and behavioral segmentation—are summarized in Table 8.1.

Geographic Segmentation

Geographic segmentation calls for dividing the market into different geographical units such as nations, states, regions, counties, cities, or neighborhoods. The company can operate in one or a few areas, or operate in all but pay attention to local variations. For example, Hilton Hotels customizes rooms and lobbies according to location. Northeastern hotels are sleeker and more cosmopolitan. Southwestern hotels are more rustic. Major retailers such as Wal-Mart, Sears, Roebuck & Co., and Kmart all allow local managers to stock products that suit the local community.[24]

TABLE 8.1

Major Segmentation Variables for Consumer Markets

Geographic region	Pacific, Mountain, West North Central, West South Central, East North Central, East South Central, South Atlantic, Middle Atlantic, New England
City or metro size	Under 5,000; 5,000–20,000; 20,000–50,000; 50,000–100,000; 100,000–250,000; 250,000–500,000; 500,000–1,000,000; 1,000,000–4,000,000; 4,000,000 or over
Density	Urban, suburban, rural
Climate	Northern, southern
Demographic age	Under 6, 6–11, 12–19, 20–34, 35–49, 50–64, 65+
Family size	1-2, 3-4, 5+
Family life cycle	Young, single; young, married, no children; young, married, youngest child under 6; young, married, youngest child 6 or over; older, married, with children; older, married, no children under 18; older, single; other
Gender	Male, female
Income	Under \$10,000; \$10,000–\$15,000; \$15,000–\$20,000; \$20,000–\$30,000; \$30,000–\$50,000; \$50,000–\$100,000; \$100,000 and over
Occupation	Professional and technical; managers, officials, and proprietors; clerical sales; craftspeople; forepersons; operatives; farmers; retired; students; homemakers; unemployed
Education	Grade school or less; some high school; high school graduate; some college; college graduate
Religion	Catholic, Protestant, Jewish, Muslim, Hindu, other
Race	White, Black, Asian, Hispanic
Generation	Baby boomers, Generation Xers
Nationality	North American, South American, British, French, German, Italian, Japanese
Social class	Lower lowers, upper lowers, working class, middle class, upper middles, lower uppers, upper uppers
Psychographic lifestyle	Culture-oriented, sports-oriented, outdoor-oriented
Personality	Compulsive, gregarious, authoritarian, ambitious
Behavioral occasions	Regular occasion, special occasion
Benefits	Quality, service, economy, speed
User status	Nonuser, ex-user, potential user, first-time user, regular user
Usage rate	Light user, medium user, heavy user
Loyalty status	None, medium, strong, absolute
Readiness stage	Unaware, aware, informed, interested, desirous, intending to buy
Attitude toward product	Enthusiastic, positive, indifferent, negative, hostile

BED BATH & BEYOND

Home furnishing retailer Bed Bath & Beyond's ability to cater to local tastes has fueled its phenomenal growth. Bed Bath & Beyond's managers pick 70 percent of their own merchandise, and this fierce local focus has helped the chain evolve from one that began selling little more than bed linens to the "beyond" part—products ranging from picture frames and pot holders to imported olive oil and designer door mats. In Manhattan stores, for instance, managers are beginning to stock wall paint. You won't find paint in suburban stores where customers can go to Home Depot or Lowe's. One Bed Bath manager says that several customers have been surprised when they found out that the store is part of a national chain and not a mom-and-pop operation. That's the ultimate compliment.[25]

More and more, regional marketing means marketing right down to a specific zip code.[26] Many companies use mapping software to show the geographic locations of their customers. The software may show a retailer that most of his customers are within only a 10-mile radius of his store, and further concentrated with certain zip+4 areas. By mapping the densest areas, the retailer can resort to *customer cloning*, assuming that the best prospects live where most of his customers come from.

Some approaches combine geographic data with demographic data to yield even richer descriptions of consumers and neighborhoods. Claritas, Inc., has developed a geoclustering approach called PRIZM (Potential Rating Index by Zip Markets) that classifies over half a million U.S. residential neighborhoods into 15 distinct groups and 66 distinct lifestyle segments called PRIZM Clusters.[27] The groupings take into consideration 39 factors in 5 broad categories: (1) education and affluence, (2) family life cycle, (3) urbanization, (4) race and ethnicity, and (5) mobility. The neighborhoods are broken down by zip code, zip+4, or census tract and block group. The clusters have descriptive titles such as *Blue Blood Estates, Winner's Circle, Hometown Retired, Latino America, Shotguns and Pickups,* and *Back Country Folks.* The inhabitants in a cluster tend to lead similar lives, drive similar cars, have similar jobs, and read similar magazines. Here are four new PRIZM clusters:[28]

- ***Young Digerati.*** Couples or single-headed households, most of them with kids, who have decided to stay in urban centers rather than flee to the suburbs. This sector includes a high proportion of affluent, tech-savvy, 20-somethings, who tend to hold master's degrees and live in fashionable neighborhoods on the urban fringe. They are staking out territory in once-forgotten neighborhoods in cities such as New York, Chicago, and Atlanta.
- ***Beltway Boomers.*** Now in their forties and fifties, these college-educated, upper-middle-class homeowners married late and are still raising children. They live in comfortable suburban subdivisions and are still pursuing kid-centered lifestyles.
- ***The Cosmopolitans.*** Continued gentrification of the nation's cities has resulted in the emergence of this segment, concentrated in America's fast-growing metro areas such as Las Vegas, Miami, and Albuquerque. These households feature older homeowners, empty nesters, and college graduates who enjoy leisure-intensive lifestyles.
- ***Old Milltowns.*** Just as America's once thriving factory towns have aged, so have their residents. Old Milltowns reflects the decline of these small, once-industrial communities, now filled with retired singles and couples living quietly on fixed incomes. These home-centered residents make up one of the top segments for daytime television.

Marketers can use PRIZM to answer such questions as these: Which geographic areas (neighborhoods or zip codes) contain our most valuable customers? How deeply have we already penetrated these segments? Which distribution channels and promotional media work best in reaching our target clusters in each area? Geoclustering captures the increasing diversity of the American population. Upscale sportswear retailer Eddie Bauer has used geoclustering information to better locate stores and serve customers. Based on a successful pilot with *Veggie Tales* concerts, Clear Channel Communications is using geoclustering information to send targeted e-mails to prospects for national tours in all entertainment venues.[29] Marketing to microsegments has become accessible even to small organizations as database costs decline, PCs proliferate, software becomes easier to use, data integration increases, and the Internet grows.[30]

Demographic Segmentation

In demographic segmentation, the market is divided into groups on the basis of variables such as age, family size, family life cycle, gender, income, occupation, education, religion, race, generation, nationality, and social class. There are several reasons for the popularity of demographic variables to distinguish customer groups. One reason is that consumer needs, wants, and usage rates and product and brand preferences are often associated with demographic variables. Another is that demographic variables are easier to measure. Even when the target market is described in nondemographic terms (say, a personality type), the link back to demographic characteristics may be needed in order to estimate the size of the market and the media that should be used to reach it efficiently.

Here is how certain demographic variables have been used to segment markets.

AGE AND LIFE-CYCLE STAGE Consumer wants and abilities change with age. Toothpaste brands such as Crest and Colgate offer three main lines of products to target kids, adults, and older consumers. Age segmentation can be even more refined. Pampers divides its market into prenatal, newborn (0–1 month), infant (2–5 months), cruiser (6–12 months), toddler (13–18 months), explorer (19–23 months), and preschooler (24 months+).

Nevertheless, age and life cycle can be tricky variables.[31] In some cases, the target market for products may be the psychologically young. For example, Honda tried to target 21-year-olds with its boxy Element, which company officials described as a "dorm room on wheels." So many baby boomers were attracted to the car's ads depicting sexy college kids partying near the car at a beach, however, that the average age of buyers turned out to be 42! Nostalgia can also play a role. Chrysler had a young target market in mind for the PT Cruiser, but found that lots of older consumers were reminded of hot rods from their youth. Toyota has been more successful with its younger pitch for Scion.[32]

SCION

Named for wealthy offspring, Scion is an attempt by Toyota to attract the Gen Y audience, which might see Toyota as their parents' brand. The Scion has a hip look and feel—and an industrial strength stereo—and is sold in chrome and black showrooms tucked inside Toyota dealerships. Priced at under $15,000 and sold on a fixed price basis (no haggling), the marketing strategy is to go underground and link the brand to up-and-coming entertainment and events, allowing the youthful target to "discover" the brand.

LIFE STAGE Persons in the same part of the life cycle may differ in their life stage. **Life stage** defines a person's major concern, such as going through a divorce, going into a second marriage, taking care of an older parent, deciding to cohabit with another person, deciding to buy a new home, and so on. These life stages present opportunities for marketers who can help people cope with their major concerns.

NEWLYWEDS

It has been estimated that newlyweds in the United States spend a total of $70 billion on their households in the first year after marriage—and they buy more in the first six months of marriage than an established household does in five years! Marketers know that marriage often means that two sets of shopping habits and brand preferences have to be blended into one. Companies such as Procter & Gamble, Clorox, and Colgate-Palmolive include their products in "Newlywed Kits" that are distributed when couples apply for their marriage license. JC Penney has identified "Starting Outs" as one of its two major customer groups. Marketers pay companies a premium for name lists to assist their direct marketing because, as one marketer noted, newlywed names "are like gold."[33]

GENDER Men and women tend to have different attitudinal and behavioral orientations, based partly on genetic makeup and partly on socialization. For example, women tend to be more communal-minded and men tend to be more self-expressive and goal-directed; women tend to take in more of the data in their immediate environment; men tend to focus on the part of the environment that helps them achieve a goal. A research study examining how men and women shop found that men often need to be invited to touch a product, while women are likely to pick it up without prompting. Men often like to read product information; women may relate to a product on a more personal level.[34]

Gender differentiation has long been applied in clothing, hairstyling, cosmetics, and magazines. Avon has built a $6 billion-plus business selling beauty products to women. Some products have been positioned as more masculine or feminine. Gillette's Venus is the most successful female shaving line ever, with over 70 percent of the market, and has appropriate product design, packaging, and advertising cues to reinforce a female image; Camel Cigarettes emphasizes men and surrounds the brand with more masculine, rugged cues.

Media have emerged to facilitate gender targeting. Women can be more easily reached on Lifetime, Oxygen, and WE television networks and through scores of women's magazines; men are more likely to be found at ESPN, Comedy Central, Fuel, and Spike TV channels, and reading magazines such as *Maxim* and *Men's Health*.[35]

Some traditionally more male-oriented markets, such as the automobile industry, are beginning to recognize gender segmentation, and are changing how they design and sell cars. For example, armed with research suggesting that 80 percent of home improvement projects are now initiated by women, Lowe's designed its stores with wider aisles—to make it easier for shopping carts to get around—and to include more big-ticket appliances and high-margin home furnishings. Half of its clientele is now female, forcing its more traditional competitor, Home Depot, to introduce "Ladies Night at the Depot" to appeal to women.[36] Many others are recognizing the opportunities to target women.

An ad for financial services firm Paine Webber features a picture of two women: one clearly the mother, the other her 20-something-year-old daughter. The copy reads, "You're psyched about the future. You're full of new ideas. You're looking to start a business. You're the one on the right." The one on the right is the older woman. Paine Webber is one of a handful of companies—including Chico's, the hugely successful women's clothing chain, and New Balance sneakers—that are targeting one of the biggest, richest, most lucrative and most ignored markets: boomer women. Women control or influence 80 percent of both consumer and business goods and services. They have sole or joint ownership of 87 percent of homes and account for over 60 percent of all home improvement, home computer, and health care services purchases. And they start 70 percent of all new businesses. In short, women are spending the money and boomer women have more of it to spend.

INCOME Income segmentation is a long-standing practice in such product and service categories as automobiles, clothing, cosmetics, financial services, and travel.

WACHOVIA CORP.

Like many banks, Wachovia is trying to determine who its "sweet spot" clients are and deliver specialized services for those individuals. Wachovia's wealth management unit has determined that executives and professionals with between $2.5 million and $15 million of assets are the bank's most attractive customers. These customers are not the affluent or "ultra-wealthy" and, by and large, did not inherit their wealth. The bank plans to become extremely focused on this segment, with the idea of helping them move from creating wealth to leveraging that wealth and then, finally, to preserving it.[37]

However, income does not always predict the best customers for a given product. Blue-collar workers were among the first purchasers of color television sets; it was cheaper for them to buy these sets than to go to movies and restaurants.

Increasingly, companies are finding that their markets are "hourglass-shaped" as middle-market Americans migrate toward more premium products.[38] When Whirlpool launched a pricey Duet washer line, sales doubled forecasts in a weak economy, due primarily to middle-class shoppers who traded up. Michael Silverstein, a senior vice president and director for the Boston Consulting Group, and former BCG partner Neil Fiske have been studying this phenomenon, which they call "trading up." Their new book, *Trading Up: The New American Luxury*, documents their investigation into the forces driving the trend and points out companies that have cracked the code for success in this market:[39]

PANERA BREAD

While lunch at Panera's bakery cafés costs twice as much as at Burger King, customers don't mind paying because the cafés deliver all three benefits that Silverstein and Fiske say are common to successful new-luxury goods: *technical benefits* (how a product is engineered), *functional benefits* (the experience it provides the customer), and *emotional benefits* (how it makes the customer feel). Getting a smoked turkey breast with chipotle mayonnaise on Asiago cheese focaccia and a chai latte in a pleasing café atmosphere is the kind of satisfying experience "trading-up" customers crave. And being able to deliver that experience quickly and relatively inexpensively has spurred the growth of Panera and others in the so-called "fast casual" dining segment.

According to Silverstein and Fiske, companies that make a concerted effort to reinvent their products and come up with something genuinely better will find a huge potential market. The trading-up universe generally begins with households earning at least $50,000. In the United States, more than 47 million households have that kind of spending power. Of course, if companies miss out on this new market, they risk being "trapped in the middle" and seeing their market share steadily decline. General Motors was caught in the middle, between highly engineered German imports in the luxury market and high-value Japanese and Korean models in the economy class.[40]

GENERATION Each generation is profoundly influenced by the times in which it grows up—the music, movies, politics, and defining events of that period. Demographers call these groups *cohorts*. Members of a cohort share the same major cultural, political, and economic

FIG. 8.3

Profiling American Generations

Source: Bonnie Tsui, "Generation Next," *Advertising Age*, January 15, 2001, pp. 14–16.

GI generation (16 million people)
Born 1901–1924
Shaped by hard times and the Great Depression, financial security is one of their core values. Conservative spenders and civic-minded, they are team-oriented and patriotic.

Silent Generation (35 million people)
Born 1925–1945
Trusting conformists who value stability, they are now involved in civic life and extended families.

Baby Boomers (78 million people)
Born 1946–1964
Great acquisitors, they are value- and cause-driven despite indulgences and hedonism.

Generation X (57 million people)
Born 1965–1977
Cynical and media-savvy, they are more alienated and individualistic.

Generation Y (60 million)
Born 1978–1994
Edgy, focused on urban style, they are more idealistic than Generation X.

Millennials (42 million people)
Born 1995–2002
Multicultural, they will be tech-savvy, educated, grow up in affluent society, and have big spending power.

experiences. They have similar outlooks and values. Marketers often advertise to a cohort group by using the icons and images prominent in their experiences. Figure 8.3 depicts six well-established cohort groups. "Marketing Insight: Marketing to Generation Y" provides insight into that key age cohort. "Marketing Memo: Cheat Sheet for 21-Year-Olds" provides insights into a key part of Gen Y.

Yet, while distinctions can be made between different cohorts, generational cohorts also influence each other. For instance, because so many members of Generation Y—"Echo Boomers"—are living with their boomer parents, the parents are being influenced and exhibiting what demographers are calling a "boom-boom effect." The same products that appeal to 21-year-olds are appealing to youth-obsessed baby boomers. Boomer parents are watching MTV's *The Osbournes*, the reality show based on heavy-metal rocker Ozzy Osbourne and his family, right alongside their children.

Meredith, Schewe, and Karlovich developed a framework called The Lifestage Analytic Matrix, which combines information on cohorts, life stages, physiographics, emotional effects, and socioeconomics in analyzing a segment or individual.[41] For example, two individuals from the same cohort may differ in their *life stages* (having a divorce, getting remarried), *physiographics* (coping with hair loss, menopause, arthritis, or osteoporosis), *emotional effects* (nostalgia for the past, wanting experiences instead of things), or *socioeconomics* (losing a job, receiving an inheritance). The authors believe this analysis will lead to more efficient targeting and messages.

SOCIAL CLASS Social class has a strong influence on preference in cars, clothing, home furnishings, leisure activities, reading habits, and retailers. Many companies design products and services for specific social classes. The tastes of social classes change with the years. The 1990s were about greed and ostentation for the upper classes. Affluent tastes now run more conservatively, although luxury goods makers such as Coach, Tiffany, Burberry, TAG Heuer, and Louis Vuitton still successfully sell to those seeking the good life.[42]

Psychographic Segmentation

Psychographics is the science of using psychology and demographics to better understand consumers. In *psychographic segmentation*, buyers are divided into different groups on the basis of psychological/personality traits, lifestyle, or values. People within the same demographic group can exhibit very different psychographic profiles.

One of the most popular commercially available classification systems based on psychographic measurements is SRI Consulting Business Intelligence's (SRIC-BI) VALS™ framework. VALS classifies U.S. adults into eight primary groups based on personality traits and key demographics. The segmentation system is based on responses to a questionnaire featuring 4 demographic and 35 attitudinal questions. The VALS system is continually updated with new data from more than 80,000 surveys per year (see Figure 8.4).[43]

MARKETING INSIGHT | MARKETING TO GENERATION Y

They're dubbed "Echo Boomers" or "Generation Y." They grew up during times of economic abundance followed by years of economic recession. Their world was defined by long years of national calm and peace disrupted by events like Columbine and 9/11. They have been "wired" almost from birth—playing computer games, navigating the World Wide Web, downloading music, connecting with friends via instant messaging and mobile phones. They have a sense of entitlement and abundance from having grown up during the economic boom and being pampered by their boomer parents. They are selective, confident, and also impatient. They "want what they want when they want it"—and they often get it by using plastic. The average 21-year-old is carrying almost $3,000 in credit card debt (see "Marketing Memo: A Cheat Sheet for 21-Year-Olds" for more fast facts about 21-year-olds within the Gen Y cohort).

The influences that have shaped the Gen Y cohort are incredibly important to marketers because Generation Y is the force that will shape consumer and business markets for years to come. Born between 1977 and 1994, Generation Y is three times the size of Generation X. Roughly 78 million Americans belong to this group, the largest generational cohort in American history. Their spending power is estimated at $187 billion annually. If you take that $187 billion, factor in career growth, household and family formation, and multiply by another 53 years of life expectancy, you're in the $10 trillion range in consumer spending over the life span of today's 21-year-olds.

It's not surprising, then, that market researchers and advertisers are racing to get a bead on Gen Y's buying behavior. Because they are often turned off by overt branding practices and a "hard sell," marketers have tried many different approaches to reach and persuade Generation Y.[70]

1. ***Online buzz***—Rock band Foo Fighters created a digital street team that sends targeted e-mail blasts to members who "get the latest news, exclusive audio/video sneak previews, tons of chances to win great Foo Fighters prizes, and become part of the Foo Fighters Family."
2. ***Student ambassadors***—Red Bull enlists college students as Red Bull Student Brand Managers to distribute samples, research drinking trends, design on-campus marketing initiatives, and write stories for student newspapers.
3. ***Unconventional sports***—Dodge automobiles sponsors the World Dodgeball Association, which is taking the sport "to a new level by emphasizing teamwork, strategy, and skill."
4. ***Cool events***—The U.S. Open of Surfing attracted sponsors such as Honda, Philips Electronics and, of course, O'Neill Clothing, originators of the first wet suit. Spring break in Florida has been the place for the launch of such products as Old Spice Cool Contact Refreshment Towels and Calvin Klein's CK swimwear line.
5. ***Computer games***—Product placement is not restricted to movies or TV: Mountain Dew, Oakley, and Harley-Davidson all made deals to put logos on Tony Hawk's Pro Skater 3 from Activision.
6. ***Videos***—Burton snowboards ensures that its boards and riders are clearly visible in any videos that are shot.
7. ***Street teams***—As part of an anti-smoking crusade, The American Legacy hires teens as the "Truth Squad" to hand out T-shirts, bandanas, and dog tags at teen-targeted events

Sources: J. M. Lawrence, "Trends: X-ed Out: Gen Y Takes Over," *Boston Herald*, February 2, 1999, p. 243; Martha Irvine, "Labels Don't Fit Us, Gen Y Insists," *Denver Post*, April 19, 2001, p. A9; Anonymous, "Gen Y and the Future of Mall Retailing," *American Demographics* (December 2002/January 2003): J1–J4; Michael J. Weiss, "To Be about to Be," *American Demographics* (September 2003): 28–36; John Leo, "The Good-News Generation," *U.S. News & World Report*, November 3, 2003, p. 60; Kelly Pate, "Not 'X,' but 'Y' Marks the Spot: Young Generation a Marketing Target," *Denver Post*, August 17, 2003, p. K1; Bruce Horovitz, "Gen Y: A Tough Crowd to Sell," *USA Today*, April 22, 2002, pp. 1B–2B; Bruce Horovitz, "Marketers Revel with Spring Breakers," *USA Today*, March 12, 2002, p. 3B.

MARKETING MEMO | CHEAT SHEET FOR 21-YEAR-OLDS

In 2003, 4.1 million Americans turned 21. Here are some facts you need to know about them.

41%—Share of 21-year-olds who currently live with mom and/or dad.

60%—Share of college students who plan to move back home after graduation.

1-in-4—Odds that a 21-year-old was raised by a single parent.

70%—Share of 21-year-olds who have a full- or part-time job.

47%—Share of 21-year-olds who own a mobile phone.

23 million—Number of ad impressions received thus far by the average 21-year-old.

$2,241,141—Amount the average 21-year-old will spend between now and the end of his or her life.

$3,000—Credit card debt of the average 21-year-old.

5.8—Years until the average 21-year-old man marries for the first time.

4.1—Years until the average 21-year-old woman marries for the first time.

10—Years until the average 21-year-old buys his or her first vacation home.

43%—Share of 21-year-olds who have a tattoo or a body piercing.

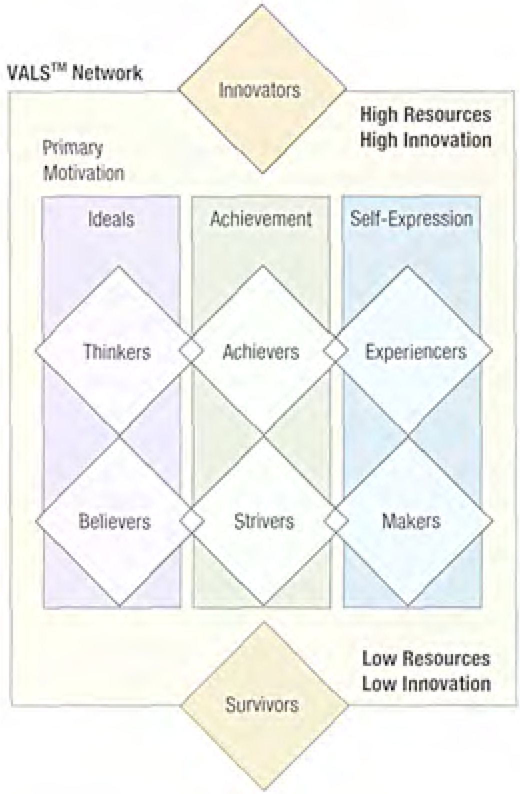
62%—Share of 21-year-olds who are non-Hispanic whites.

Source: John Fetto, "Twenty-One, and Counting . . . ," *American Demographics* (September 2003): 48.

FIG. 8.4

The VALS Segmentation System: An 8-Part Typology

Source: © 2004 by SRI Consulting Business Intelligence. All rights reserved. Printed by permission.



The major tendencies of the four groups with higher resources are:

1. ***Innovators*** – Successful, sophisticated, active, "take-charge" people with high self-esteem. Purchases often reflect cultivated tastes for relatively upscale, niche-oriented products and services.
2. ***Thinkers*** – Mature, satisfied, and reflective people who are motivated by ideals and value order, knowledge, and responsibility. Favor durability, functionality, and value in products.
3. ***Achievers*** – Successful goal-oriented people who focus on career and family. Favor premium products that demonstrate success to their peers.
4. ***Experiencers*** – Young, enthusiastic, impulsive people who seek variety and excitement. Spend a comparatively high proportion of income on fashion, entertainment, and socializing.

The major tendencies of the four groups with lower resources are:

1. ***Believers*** – Conservative, conventional, and traditional people with concrete beliefs. Favor familiar, American products and are loyal to established brands.
2. ***Strivers*** – Trendy and fun-loving people who are resource-constrained. Favor stylish products that emulate the purchases of those with greater material wealth.
3. ***Makers*** – Practical, down-to-earth, self-sufficient people who like to work with their hands. Favor American-made products with a practical or functional purpose.
4. ***Survivors*** – Elderly, passive people who are concerned about change. Loyal to their favorite brands.

You can find out which VALS type you are by going to SRIC-BI's Web site (www.sric-bi.com).

Psychographic segmentation schemes are often customized by culture. The Japanese version of VALS, Japan VALS™, divides society into 10 consumer segments on the basis of two key consumer concepts: life orientation (traditional ways, occupations, innovation, and self-expression) and attitudes to social change (sustaining, pragmatic, adapting, and innovating).

Behavioral Segmentation

In behavioral segmentation, buyers are divided into groups on the basis of their knowledge of, attitude toward, use of, or response to a product.

Once cranberries were used only for holiday dinner at Thanksgiving and Christmas. Ocean Spray cranberry-based juice drinks have given the company a year-round market for its product.

DECISION ROLES It is easy to identify the buyer for many products. In the United States, men normally choose their shaving equipment, and women choose their pantyhose; but even here marketers must be careful in making their targeting decisions, because buying roles change. When ICI, the giant British chemical company, discovered that women made 60 percent of the decisions on the brand of household paint, it decided to advertise its DuLux brand to women.

People play five roles in a buying decision: *Initiator, Influencer, Decider, Buyer, User.* For example, assume a wife initiates a purchase by requesting a new treadmill for her birthday. The husband may then seek information from many sources, including his best friend who has a treadmill and is a key influencer in what models to consider. After presenting the alternative choices to his wife, he then purchases her preferred model which, as it turns out, ends up being used by the entire family. Different people are playing different roles, but all are crucial in the decision process and ultimate consumer satisfaction.

BEHAVIORAL VARIABLES Many marketers believe that behavioral variables—occasions, benefits, user status, usage rate, loyalty status, buyer-readiness stage, and attitude—are the best starting points for constructing market segments.

Occasions Occasions can be defined in terms of the time of day, week, month, year, or in terms of other well-defined temporal aspects of a consumer's life. Buyers can be distinguished according to the occasions when they develop a need, purchase a product, or use a product. For example, air travel is triggered by occasions related to business, vacation, or family. Occasion segmentation can help firms expand product usage. For example, the Florida Citrus Growers ran an ad campaign—"Orange Juice. It's Not Just For Breakfast Anymore"— to expand its usage to other day parts. During the 1960s and 1970s, Ocean Spray Cranberries, Inc., was essentially a single-purpose, single-usage product: Consumption of cranberries was almost entirely confined to the serving of cranberry sauce as a side dish with Thanksgiving and Christmas holiday dinners. After a pesticide scare one Thanksgiving drastically cut sales and almost put growers out of business, the cooperative embarked on a program to diversify and create a year-round market by producing cranberry-based juice drinks and other products.[44]

Marketers also can try to extend activities associated with certain holidays to other times of the year. For instance, while Christmas, Mother's Day, and Valentine's Day are the three major gift-giving holidays, these and other holidays account for just over half of the gifters' budgets. That leaves the rest available throughout the year for occasion-driven gift-giving: birthdays, weddings, anniversaries, housewarming, and new babies.[45]

Benefits Buyers can be classified according to the benefits they seek. Even car drivers who want to stop for gas may seek different benefits. Through its research, Mobil identified five different benefit segments and their sizes:

1. ***Road Warriors*** – premium products and quality service. (16%)
2. ***Generation F*** – fast fuel, fast service, and fast food. (27%)
3. ***True Blues*** – branded products and reliable service. (16%)
4. ***Home Bodies*** – convenience. (21%)
5. ***Price Shoppers*** – low price. (20%)

Surprisingly, although gasoline is largely a commodity, price shoppers constituted only 20 percent of the buyers. Mobil decided to focus on the less price-sensitive segments, and rolled out *Friendly Serve:* cleaner property, bathrooms, better lighting, well-stocked stores, and friendlier personnel. Although Mobil charged 2 cents per gallon more than its competitors, sales increased by 20 to 25 percent.[46]

User Status Markets can be segmented into nonusers, ex-users, potential users, first-time users, and regular users of a product. Blood banks cannot rely only on regular donors to supply blood; they must also recruit new first-time donors and contact ex-donors. Each will require a different marketing strategy. Included in the potential user group are consumers who will become users in connection with some life stage or life event. Mothers-to-be are potential users who will turn into heavy users. Producers of infant products and services learn their names and shower them with products and ads to capture a share of their future purchases. Market-share leaders tend to focus on attracting potential users because they have the most to gain. Smaller firms focus on trying to attract current users away from the market leader.

Usage Rate Markets can be segmented into light, medium, and heavy product users. Heavy users are often a small percentage of the market but account for a high percentage of total consumption. For example, heavy beer drinkers account for 87 percent of the beer consumed—almost seven times as much as the light beer drinkers. Marketers would rather attract one heavy user than several light users. A potential problem, however, is that heavy users often either are extremely loyal to one brand, or never stay loyal to a brand and are always looking for the lowest price.

Buyer-Readiness Stage A market consists of people in different stages of readiness to buy a product. Some are unaware of the product, some are aware, some are informed, some are interested, some desire the product, and some intend to buy. The relative numbers make a big difference in designing the marketing program. Suppose a health agency wants to encourage women to have an annual Pap test to detect possible cervical cancer. At the beginning, most women may be unaware of the Pap test. The marketing effort should go into awareness-building advertising using a simple message. Later, the advertising should dramatize the benefits of the Pap test and the risks of not taking it. A special offer of a free health examination might motivate women to actually sign up for the test.

Loyalty Status Buyers can be divided into four groups according to brand loyalty status:

1. ***Hard-core loyals*** – Consumers who buy only one brand all the time.
2. ***Split loyals*** – Consumers who are loyal to two or three brands.

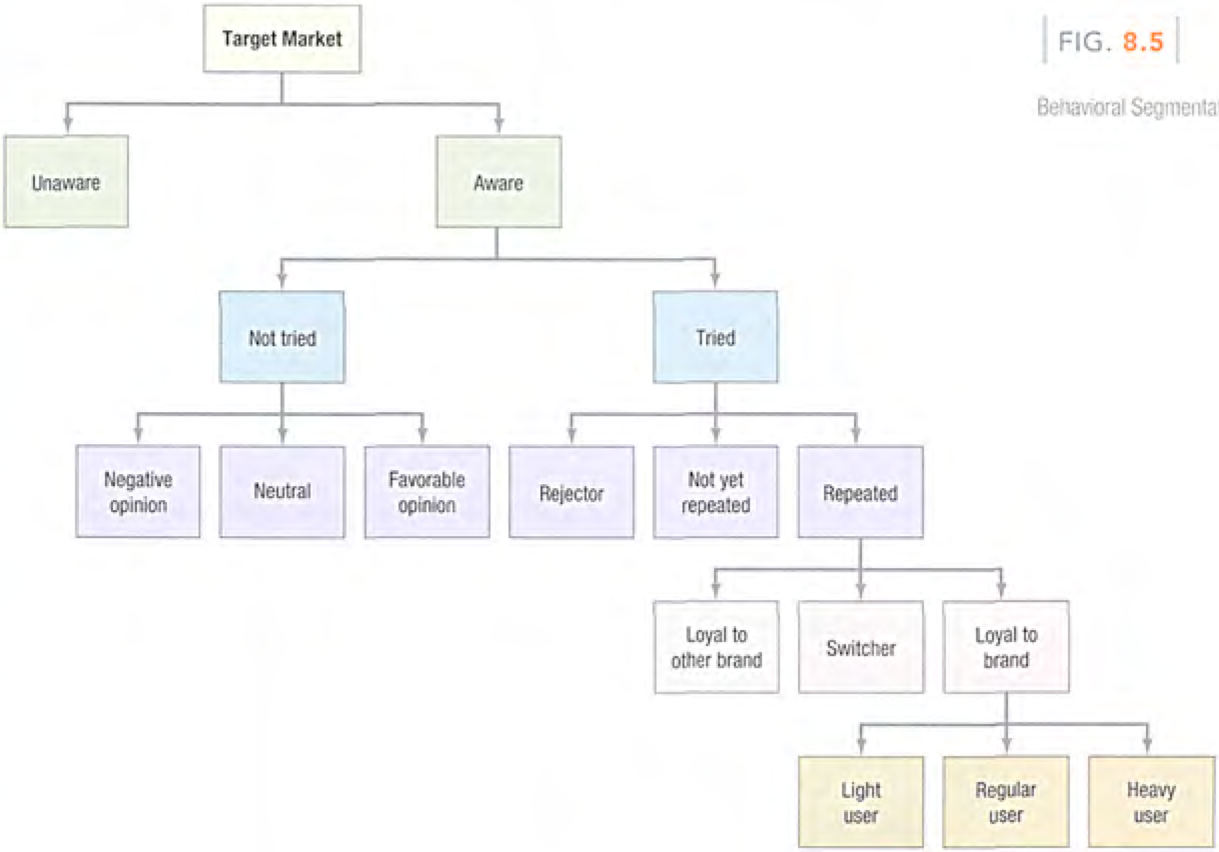


FIG. 8.5

Behavioral Segmentation Breakdown

3. ***Shifting loyals*** – Consumers who shift loyalty from one brand to another.
4. ***Switchers*** – Consumers who show no loyalty to any brand.[47]

A company can learn a great deal by analyzing the degrees of brand loyalty: (1) By studying its hard-core loyals, the company can identify its products' strengths. (2) By studying its split loyals, the company can pinpoint which brands are most competitive with its own. (3) By looking at customers who are shifting away from its brand, the company can learn about its marketing weaknesses and attempt to correct them.

Companies selling in a market dominated by switchers may have to rely more on price-cutting. If mistreated, they can also turn on the company. One caution: What appear to be brand-loyal purchase patterns may reflect habit, indifference, a low price, a high switching cost, or the nonavailability of other brands.

Attitude Five attitude groups can be found in a market: enthusiastic, positive, indifferent, negative, and hostile. Door-to-door workers in a political campaign use voter attitude to determine how much time to spend with that voter. They thank enthusiastic voters and remind them to vote; they reinforce those who are positively disposed; they try to win the votes of indifferent voters; they spend no time trying to change the attitudes of negative and hostile voters.

Combining different behavioral bases can help to provide a more comprehensive and cohesive view of a market and its segments. Figure 8.5 depicts one possible way to break down a target market by various behavioral segmentation bases.

THE CONVERSION MODEL The Conversion Model has been developed to measure the strength of the psychological commitment between brands and consumers and their openness to change.[48] To determine the ease with which a consumer can be converted to another choice, the model assesses commitment based on factors such as consumer attitudes toward and satisfaction with current brand choices in a category and the importance of the decision to select a brand in the category.[49]

The model segments *users* of a brand into four groups based on strength of commitment, from low to high, as follows:

1. Convertible (users who are most likely to defect).
2. Shallow (consumers who are uncommitted to the brand and could switch—some are actively considering alternatives).
3. Average (consumers who are also committed to the brand they are using, but not as strongly—they are unlikely to switch brands in the short term).
4. Entrenched (consumers who are strongly committed to the brand they are currently using—they are highly unlikely to switch brands in the foreseeable future).

The model also classifies *nonusers* of a brand into four other groups based on their "balance of disposition" and openness to trying the brand, from low to high, as follows:

1. Strongly Unavailable (nonusers who are unlikely to switch to the brand—their preference lies strongly with their current brands).
2. Weakly Unavailable (nonusers who are not available to the brand because their preference lies with their current brand, although not strongly).
3. Ambivalent (nonusers who are as attracted to the brand as they are to their current brands).
4. Available (nonusers of the brand who are most likely to be acquired in the short run).

In an application of the Conversion Model, Lloyds TSB bank discovered that the profitability of its clients who had been identified as "least committed" had fallen by 14 percent in a 12-month period, whereas those that were "most committed" had increased by 9 percent. Those who were "committed" were 20 percent more likely to increase the number of products they held during the 12-month period. As a result, the bank took action to attract and retain high-value committed customers, which resulted in increased profitability.

::: Bases for Segmenting Business Markets

Business markets can be segmented with some of the same variables used in consumer market segmentation, such as geography, benefits sought, and usage rate, but business marketers also use other variables. Bonoma and Shapiro proposed segmenting the business market with the variables shown in Table 8.2. The demographic variables are the most important, followed by the operating variables—down to the personal characteristics of the buyer.

The table lists major questions that business marketers should ask in determining which segments and customers to serve. A rubber-tire company should first decide which industries it wants to serve. It can sell tires to manufacturers of automobiles, trucks, farm tractors, forklift trucks, or aircraft. Within a chosen target industry, a company can further segment by company size. The company might set up separate operations for selling to large and small customers. Consider how Dell is organized.

DELL

Dell is divided into two direct sales divisions: One sells to consumers and small businesses; another manages the company's corporate accounts. Three key segments are included under the corporate accounts umbrella: the enterprise group (*Fortune* 500 companies), large corporate accounts (multinational companies in what would be the *Fortune* 501 to 2000 range), and preferred accounts (medium businesses with 200 to 2,000 employees).

Marketing to Small Businesses

Small businesses, in particular, have become a Holy Grail for business marketers.[50] In the United States, small businesses are now responsible for 50 percent of the gross national product, according to the U.S. Small Business Administration, and this segment is growing at 11 percent annually, three percentage points higher than the growth of large companies. Here are two examples of companies focusing on small businesses.

TABLE 8.2

Major Segmentation Variables for Business Markets

Demographic

1. *Industry:* Which industries should we serve?
2. *Company size:* What size companies should we serve?
3. *Location:* What geographical areas should we serve?

Operating Variables

4. *Technology:* What customer technologies should we focus on?
5. *User or nonuser status:* Should we serve heavy users, medium users, light users, or nonusers?
6. *Customer capabilities:* Should we serve customers needing many or few services?

Purchasing Approaches

7. *Purchasing-function organization:* Should we serve companies with highly centralized or decentralized purchasing organizations?
8. *Power structure:* Should we serve companies that are engineering dominated, financially dominated, and so on?
9. *Nature of existing relationships:* Should we serve companies with which we have strong relationships or simply go after the most desirable companies?
10. *General purchase policies:* Should we serve companies that prefer leasing? Service contracts? Systems purchases? Sealed bidding?
11. *Purchasing criteria:* Should we serve companies that are seeking quality? Service? Price?

Situational Factors

12. *Urgency:* Should we serve companies that need quick and sudden delivery or service?
13. *Specific application:* Should we focus on certain applications of our product rather than all applications?
14. *Size of order:* Should we focus on large or small orders?

Personal Characteristics

15. *Buyer-seller similarity:* Should we serve companies whose people and values are similar to ours?
16. *Attitudes toward risk:* Should we serve risk-taking or risk-avoiding customers?
17. *Loyalty:* Should we serve companies that show high loyalty to their suppliers?

Source: Adapted from Thomas V. Bonoma and Benson P. Shapiro, *Segmenting the Industrial Market* (Lexington, MA: Lexington Books, 1983).

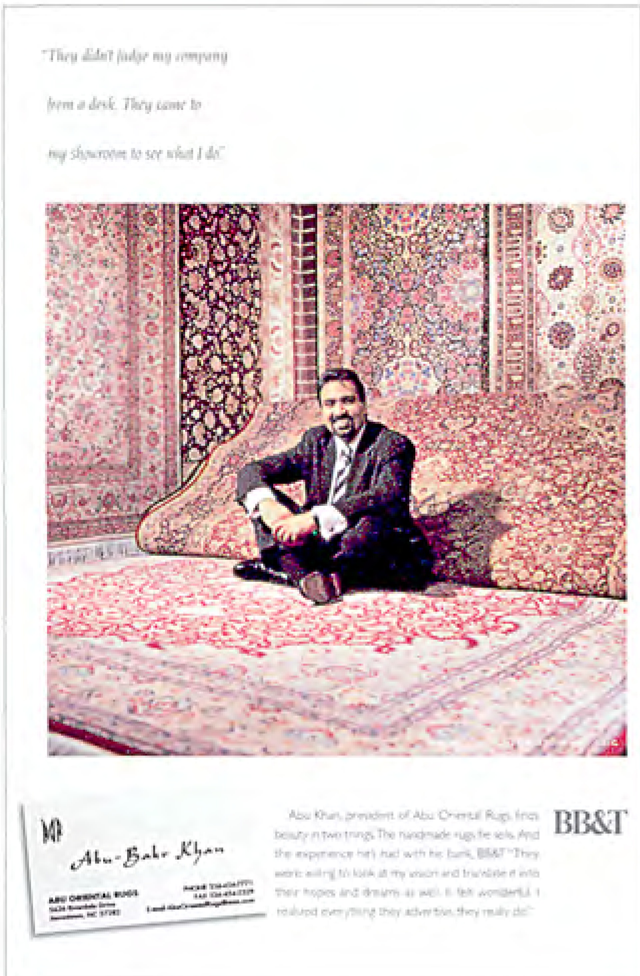
BB&T

BB&T Corporation, headquartered in Winston-Salem, North Carolina, is positioning itself as a powerful local bank with a down-home approach. It launched a business-to-business (B2B) advertising campaign depicting various Carolina businesses and their owners. Each entrepreneur is a BB&T small business customer, and the ads reinforce the bank's commitment to small business.[51]

PENN NATIONAL INSURANCE

With 82 percent of its commercial business coming from small businesses, Penn National Insurance decided it needed to identify the different classes of business that offer the greatest opportunity for profit. Working with a commercial insurance database, the company was able to categorize such key information as exposure data, growth, and employment information by business classification, size, and location. Beyond making it easier for agents to pinpoint prospects, the segmentation scheme also helped Penn National diversify beyond its concentration in the construction business. Overall, some 244 small business segments (based on SIC codes) were identified.[52]

One of North Carolina BB&T bank's B to B ads featuring local businesses and their owners: "They didn't judge my company from a desk. They came to my showroom to see what I do."



Within a given target industry and customer size, a company can segment by purchase criteria. For example, government laboratories need low prices and service contracts for scientific equipment; university laboratories need equipment that requires little service; and industrial laboratories need equipment that is highly reliable and accurate.

Sequential Segmentation

Business marketers generally identify segments through a sequential process. Consider an aluminum company: The company first undertook macrosegmentation. It looked at which end-use market to serve: automobile, residential, or beverage containers. It chose the residential market, and needed to determine the most attractive product application: semifinished material, building components, or aluminum mobile homes. Deciding to focus on building components, it considered the best customer size and chose large customers. The second stage consisted of microsegmentation. The company distinguished among customers buying on price, service, or quality. Because the aluminum company had a high-service profile, it decided to concentrate on the service-motivated segment of the market.

Business buyers seek different benefit bundles based on their stage in the purchase decision process:[53]

1. ***First-time prospects*** – Customers who have not yet purchased but want to buy from a vendor who understands their business, who explains things well, and whom they can trust.
2. ***Novices*** – Customers who are starting their purchasing relationship want easy-to-read manuals, hot lines, a high level of training, and knowledgeable sales reps.
3. ***Sophisticates*** – Established customers want speed in maintenance and repair, product customization, and high technical support.

These segments may also have different channel preferences. First-time prospects would prefer to deal with a company salesperson instead of a catalog or direct-mail channel, because the latter provides too little information. Sophisticates, on the other hand, may want to conduct more of their buying over electronic channels.

One proposed segmentation scheme classifies business buyers into three groups, each warranting a different type of selling:[54]

- ***Price-oriented customers (transactional selling).*** They want value through lowest price.
- ***Solution-oriented customers (consultative selling).*** They want value through more benefits and advice.
- ***Strategic-value customers (enterprise selling).*** They want value through the supplier co-investing and participating in the customer's business.

The authors cite several cases of mismanagement by companies that did not understand the business buyer:

- A packaging manufacturer decided to upgrade and rename sales reps as packaging consultants at a cost of $10 million, but 90 percent of its customers bought transactionally. The company failed and was acquired by a major competitor who reintroduced a transactional selling effort.
- A consulting firm replaced its long-term consultants with salespeople to sell quick consulting projects. They acquired many new clients but lost most of their old clients, who wanted consultative selling.
- A container manufacturer selling consultatively to a major food company was asked to join in some risk and gain sharing involving co-development of radically new packaging approaches. It refused and lost the account.

::: Market Targeting

Once the firm has identified its market-segment opportunities, it has to decide how many and which ones to target. Marketers are increasingly combining several variables in an effort to identify smaller, better-defined target groups. Thus, a bank may not only identify a group of wealthy retired adults, but within that group distinguish several segments depending on current income, assets, savings, and risk preferences. This has led some market researchers to advocate a *needs-based market segmentation approach.* Roger Best proposed the seven-step approach shown in Table 8.3.

TABLE 8.3

Steps in the Segmentation Process

	Description
1. Needs-Based Segmentation	Group customers into segments based on similar needs and benefits sought by customer in solving a particular consumption problem.
2. Segment Identification	For each needs-based segment, determine which demographics, lifestyles, and usage behaviors make the segment distinct and identifiable (actionable).
3. Segment Attractiveness	Using predetermined segment attractiveness criteria (such as market growth, competitive intensity, and market access), determine the overall attractiveness of each segment.
4. Segment Profitability	Determine segment profitability.
5. Segment Positioning	For each segment, create a "value proposition" and product-price positioning strategy based on that segment's unique customer needs and characteristics.
6. Segment "Acid Test"	Create "segment storyboards" to test the attractiveness of each segment's positioning strategy.
7. Marketing-Mix Strategy	Expand segment positioning strategy to include all aspects of the marketing mix: product, price, promotion, and place.

Source: Adapted from Robert J. Best, *Market-Based Management* (Upper Saddle River, NJ: Prentice Hall, 2000).

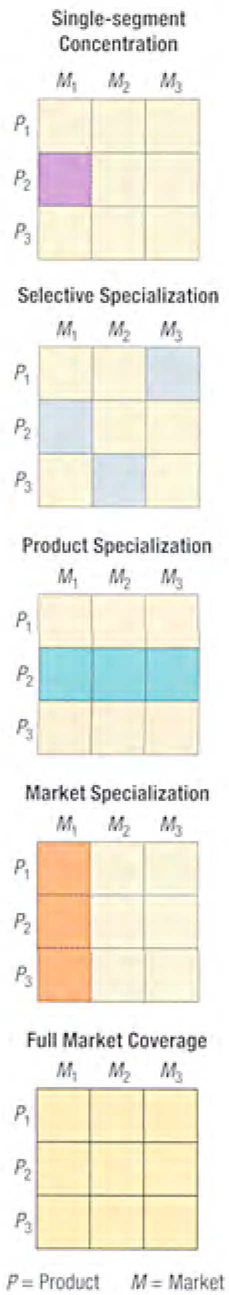


FIG. 8.6

Five Patterns of Target Market Selection

Source: Adapted from Derek F. Abell, *Defining the Business: The Starting Point of Strategic Planning* (Upper Saddle River, NJ: Prentice Hall, 1980), ch. 8, pp. 192–196.

Effective Segmentation Criteria

Not all segmentation schemes are useful. For example, table salt buyers could be divided into blond and brunette customers, but hair color is undoubtedly irrelevant to the purchase of salt. Furthermore, if all salt buyers buy the same amount of salt each month, believe all salt is the same, and would pay only one price for salt, this market would be minimally segmentable from a marketing point of view.

To be useful, market segments must rate favorably on five key criteria:

- ***Measurable.*** The size, purchasing power, and characteristics of the segments can be measured.
- ***Substantial.*** The segments are large and profitable enough to serve. A segment should be the largest possible homogeneous group worth going after with a tailored marketing program. It would not pay, for example, for an automobile manufacturer to develop cars for people who are under four feet tall.
- ***Accessible.*** The segments can be effectively reached and served.
- ***Differentiable.*** The segments are conceptually distinguishable and respond differently to different marketing-mix elements and programs. If married and unmarried women respond similarly to a sale on perfume, they do not constitute separate segments.
- ***Actionable.*** Effective programs can be formulated for attracting and serving the segments.

Evaluating and Selecting the Market Segments

In evaluating different market segments, the firm must look at two factors: the segment's overall attractiveness and the company's objectives and resources. How well does a potential segment score on the five criteria? Does a potential segment have characteristics that make it generally attractive, such as size, growth, profitability, scale economies, and low risk? Does investing in the segment make sense given the firm's objectives, competencies, and resources? Some attractive segments may not mesh with the company's long-run objectives, or the company may lack one or more necessary competencies to offer superior value.

After evaluating different segments, the company can consider five patterns of target market selection, shown in Figure 8.6.

SINGLE-SEGMENT CONCENTRATION Volkswagen concentrates on the small-car market and Porsche on the sports car market. Through concentrated marketing, the firm gains a strong knowledge of the segment's needs and achieves a strong market presence. Furthermore, the firm enjoys operating economies through specializing its production, distribution, and promotion. If it captures segment leadership, the firm can earn a high return on its investment.

However, there are risks. A particular market segment can turn sour or a competitor may invade the segment: When digital camera technology took off, Polaroid's earnings fell sharply. For these reasons, many companies prefer to operate in more than one segment. If selecting more than one segment to serve, a company should pay close attention to segment interrelationships on the cost, performance, and technology side. A company carrying fixed costs (sales force, store outlets) can add products to absorb and share some costs. The sales force will sell additional products, and a fast-food outlet will offer additional menu items. Economies of scope can be just as important as economies of scale.

Companies can try to operate in supersegments rather than in isolated segments. A **supersegment** is a set of segments sharing some exploitable similarity. For example, many symphony orchestras target people who have broad cultural interests, rather than only those who regularly attend concerts.

SELECTIVE SPECIALIZATION A firm selects a number of segments, each objectively attractive and appropriate. There may be little or no synergy among the segments, but each promises to be a moneymaker. This multisegment strategy has the advantage of diversifying the firm's risk. When Procter & Gamble launched Crest Whitestrips, initial target segments included newly engaged women and brides-to-be as well as gay males.

PRODUCT SPECIALIZATION The firm makes a certain product that it sells to several different market segments. An example would be a microscope manufacturer who sells to university, government, and commercial laboratories. The firm makes different microscopes for the different customer groups and builds a strong reputation in the specific product area. The downside risk is that the product may be supplanted by an entirely new technology.

MARKET SPECIALIZATION The firm concentrates on serving many needs of a particular customer group. An example would be a firm that sells an assortment of products only to university laboratories. The firm gains a strong reputation in serving this customer group and becomes a channel for additional products the customer group can use. The downside risk is that the customer group may suffer budget cuts or shrink in size.

FULL MARKET COVERAGE The firm attempts to serve all customer groups with all the products they might need. Only very large firms such as IBM (computer market), General Motors (vehicle market), and Coca-Cola (nonalcoholic beverage market) can undertake a full market coverage strategy. Large firms can cover a whole market in two broad ways: through undifferentiated marketing or differentiated marketing.

In *undifferentiated marketing*, the firm ignores segment differences and goes after the whole market with one offer. It designs a product and a marketing program that will appeal to the broadest number of buyers. It relies on mass distribution and advertising. It aims to endow the product with a superior image. Undifferentiated marketing is "the marketing counterpart to standardization and mass production in manufacturing."[55] The narrow product line keeps down costs of research and development, production, inventory, transportation, marketing research, advertising, and product management. The undifferentiated advertising program keeps down advertising costs. Presumably, the company can turn its lower costs into lower prices to win the price-sensitive segment of the market.

In *differentiated marketing*, the firm operates in several market segments and designs different products for each segment. Cosmetics firm Estée Lauder markets brands that appeal to women (and men) of different tastes: The flagship brand, the original Estée Lauder, appeals to older consumers; Clinique caters to middle-aged women; M.A.C. to youthful hipsters; Aveda to aromatherapy enthusiasts; and Origins to ecoconscious consumers who want cosmetics made from natural ingredients.[56]

EMMIS BROADCASTING

Emmis Communications owns three different radio stations in New York with three different distinct targets and positions: WQHT-FM ("Hot 97") proclaims that it plays "blazin' hip-hop (urban street music) and R&B," and is popular with listeners in the under-25 crowd. WRKS-FM (98.7 KISS-FM) describes itself as "offering the best variety of old school and today's R&B [rhythm and blues]," and appeals to older listeners. WQCD-FM (CD 101.9) is the country's largest smooth jazz radio station and targets adults age 25 to 54, who want a radio station to relax to and to listen to at work.[57] If one of the formats falls out of fashion, the fact that the other stations tap into different market segments provides a potential buffer to ratings and sales.

MANAGING MULTIPLE SEGMENTS The best way to manage multiple segments is to appoint segment managers with sufficient authority and responsibility for building the segment's business. At the same time, segment managers should not be so focused as to resist cooperating with other groups in the company. Consider the following situation.

BAXTER

Baxter operates several divisions selling different products and services to hospitals. Each division sends out its own invoices. Some hospitals complain about receiving as many as seven different Baxter invoices each month. Baxter's marketers finally convinced the separate divisions to send the invoices to headquarters so that Baxter could send one invoice a month to its customers.

Differentiated marketing: Emmis Broadcasting's WRKS (98.7 KISS-FM) appeals to older listeners with old school and today's R&B; its other stations in the New York market target under-25s with hip-hop (WQHT-FM) and adults 25-54 with smooth jazz (CD 101.9).

DIFFERENTIATED MARKETING COSTS Differentiated marketing typically creates more total sales than undifferentiated marketing. However, it also increases the costs of doing business. The following costs are likely to be higher:

- ***Product modification costs.*** Modifying a product to meet different market-segment requirements usually involves R&D, engineering, and special tooling costs.
- ***Manufacturing costs.*** It is usually more expensive to produce 10 units of 10 different products than 100 units of one product. The longer the production setup time and the smaller the sales volume of each product, the more expensive the product becomes. However, if each model is sold in sufficiently large volume, the higher setup costs may be quite small per unit.
- ***Administrative costs.*** The company has to develop separate marketing plans for each market segment. This requires extra marketing research, forecasting, sales analysis, promotion, planning, and channel management.
- ***Inventory costs.*** It is more costly to manage inventories containing many products.
- ***Promotion costs.*** The company has to reach different market segments with different promotion programs. The result is increased promotion-planning costs and media costs.

Because differentiated marketing leads to both higher sales and higher costs, nothing general can be said regarding the profitability of this strategy. Companies should be cautious about oversegmenting their markets. If this happens, they may want to turn to *countersegmentation* to broaden the customer base. For example, Johnson & Johnson broadened its target market for its baby shampoo to include adults. Smith Kline Beecham launched its Aquafresh toothpaste to attract three benefit segments simultaneously: those seeking fresh breath, whiter teeth, and cavity protection.

Additional Considerations

Three other considerations must be taken into account in evaluating and selecting segments: segment-by-segment invasion plans, updating segmentation schemes, and ethical choice of market targets.

SEGMENT-BY-SEGMENT INVASION PLANS A company would be wise to enter one segment at a time. Competitors must not know to what segment(s) the firm will move next.

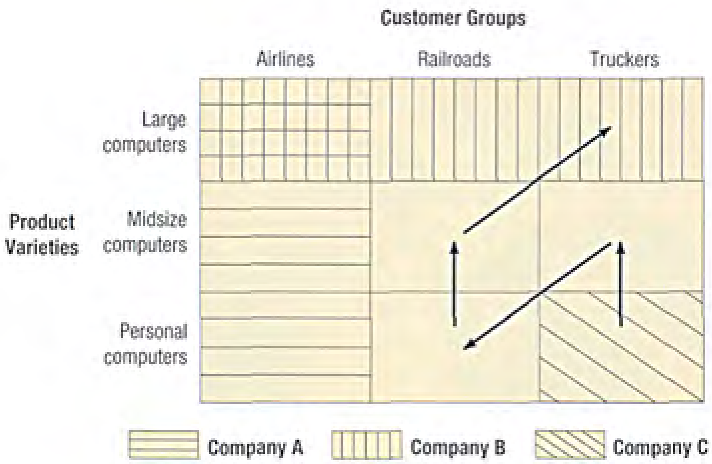


FIG. 8.7

Segment-by-Segment Invasion Plan

Segment-by-segment invasion plans are illustrated in Figure 8.7. Three firms, A, B, and C, have specialized in adapting computer systems to the needs of airlines, railroads, and trucking companies. Company A meets all the computer needs of airlines. Company B sells large computer systems to all three transportation sectors. Company C sells personal computers to trucking companies.

Where should company C move next? Arrows have been added to the chart to show the planned sequence of segment invasions. Company C will next offer midsize computers to trucking companies. Then, to allay company B's concern about losing some large computer business with trucking companies, C's next move will be to sell personal computers to railroads. Later, C will offer midsize computers to railroads. Finally, it may launch a full-scale attack on company B's large computer position in trucking companies. Of course, C's hidden planned moves are provisional in that much depends on competitors' segment moves and responses.

Unfortunately, too many companies fail to develop a long-term invasion plan. PepsiCo is an exception. It first attacked Coca-Cola in the grocery market, then in the vending-machine market, then in the fast-food market, and so on. Japanese firms also plot their invasion sequence. They first gain a foothold in a market, then enter new segments with products. Toyota began by introducing small cars (Tercel, Corolla), then expanded into midsize cars (Camry, Avalon), and finally into luxury cars (Lexus).

A company's invasion plans can be thwarted when it confronts blocked markets. The invader must then figure out a way to break in. The problem of entering blocked markets calls for a megamarketing approach. **Megamarketing** is the strategic coordination of economic, psychological, political, and public relations skills, to gain the cooperation of a number of parties in order to enter or operate in a given market. Pepsi used megamarketing to enter the Indian market.

PEPSICO

After Coca-Cola left India, Pepsi worked with an Indian business group to gain government approval for its entry, over the objections of domestic soft drink companies and anti-multinational legislators. Pepsi offered to help India export some agricultural products in a volume that would more than cover the cost of importing soft-drink concentrate. Pepsi also promised to help rural areas in their economic development. It further offered to transfer food-processing, packaging, and water-treatment technology to India. Pepsi's bundle of benefits won the support of various Indian interest groups.

Once in, a multinational must be on its best behavior. This calls for well-thought-out *civic positioning.*

A Pepsi ad from India. To enter the Indian market, Pepsi used megamarketing: With the aid of an Indian business group, it offered a package of benefits that gained it acceptance.

HEWLETT-PACKARD

Hewlett-Packard positions itself as a company implementing "e-inclusion,"— the attempt to help bring the benefits of technology to the poor. Toward that end, HP has begun a three-year project designed to create jobs, improve education, and provide better access to government services in the Indian state of Kuppam. Working with the local government, as well as a branch of HP Labs based in India, the company is helping to provide the rural poor with access to government records, schools, health information, crop prices, and so forth. Its hope is to stimulate small, tech-based businesses. Not only does this build goodwill and the HP brand in India, but it will also help the company discover new, profitable lines of business.[58]

UPDATING SEGMENTATION SCHEMES Market segmentation analysis must be done periodically because segments change. At one time the personal computer industry segmented its products purely on speed and power. Later, PC marketers recognized an emerging "Soho" market, named for "small office and home office." Mail-order companies such as Dell and Gateway appealed to this market's requirement for high performance coupled with low price and user-friendliness. Shortly thereafter, PC makers began to see Soho as comprised of smaller segments. "Small-office needs might be very different from home-office needs," says one Dell executive.[59]

One way to discover new segments is to investigate the hierarchy of attributes consumers examine in choosing a brand if they use phased decision strategies. This process is called **market partitioning**. Years ago, most car buyers first decided on the manufacturer and then on one of its car divisions (*brand-dominant hierarchy*). A buyer might favor General Motors cars and, within this set, Pontiac. Today, many buyers decide first on the nation from which they want to buy a car (*nation-dominant hierarchy*). Buyers may first decide they want to buy a Japanese car, then Toyota, and then the Corolla model of Toyota. Companies must monitor potential shifts in consumers' hierarchy of attributes and adjust to changing priorities.

The hierarchy of attributes can reveal customer segments. Buyers who first decide on price are price dominant; those who first decide on the type of car (e.g., sports, passenger, station wagon) are type dominant; those who first decide on the car brand are brand dominant. Those who are type/price/brand dominant make up a segment; those who are quality/service/type dominant make up another segment. Each segment may have distinct demographics, psychographics, and mediagraphics.[60]

ETHICAL CHOICE OF MARKET TARGETS Market targeting sometimes generates public controversy.[61] The public is concerned when marketers take unfair advantage of vulnerable groups (such as children) or disadvantaged groups (such as inner-city poor people), or promote potentially harmful products. The cereal industry has been heavily criticized for marketing efforts directed toward children. Critics worry that high-powered appeals presented through the mouths of lovable animated characters will overwhelm children's defenses and lead them to want sugared cereals or poorly balanced breakfasts. Toy marketers have been similarly criticized. McDonald's and other chains have drawn criticism for pitching their high-fat, salt-laden fare to low-income, inner-city residents.

Internal documents from R. J. Reynolds and Brown & Williamson Tobacco Corporation (marketer of the Kool brand) have revealed the extent to which these companies targeted black youths age 16 to 25, particularly with their menthol brands.[62] G. Heileman Brewing drew fire when it extended its Colt 45 malt liquor line with Powermaster, a new high-test malt (5.9 alcohol). Malt liquor is consumed primarily by blacks, and by targeting blacks extensively Heileman was itself targeted by federal officials, industry leaders, black activists, and the media.[63]

Not all attempts to target children, minorities, or other special segments draw criticism. Colgate-Palmolive's Colgate Junior toothpaste has special features designed to get children to brush longer and more often. Other companies are responding to the special needs of minority segments. Black-owned ICE theaters noticed that although moviegoing by blacks has surged, there were few inner-city theaters. Starting in Chicago, ICE partnered with the black communities in which it operates theaters, using local radio stations to promote films and featuring favorite food items at concession stands.[64] Thus the issue is not who is targeted, but rather, how and for what. Socially responsible marketing calls for targeting that serves not only the company's interests, but also the interests of those targeted.

Socially responsible marketing: Colgate Junior Toothpaste ads promote special features designed to get children to brush more often.

This is the case being made by many companies marketing to the nation's preschoolers. With nearly 4 million youngsters attending some kind of organized child care, the potential market—including both kids and parents—is too great to pass up. So in addition to stocking the usual standards like art easels, gerbil cages, and blocks, the nation's preschools are likely to have Care Bear worksheets, Pizza Hut reading programs, and Nickelodeon magazines.

NICKELODEON, PIZZA HUT, FORD MOTOR CORP.

Cable TV station Nickelodeon was one of the first companies to capitalize on the preschool market when it launched *Nick Jr.* family magazine in 1999. It distributes half of the magazine's 1 million copies to preschools free and makes no bones about the fact that it is trying to sell parents on Nickelodeon shows and licensed products. In contrast, other corporations insist that their preschool products are designed purely to meet a social need. Pizza Hut is one. Its preschool program offers each student a certificate for a personal pizza if his or her teacher spends at least 60 minutes a week reading to the class for four consecutive weeks. In 2002, 1.6 million preschoolers in 33,800 child-care facilities participated. Likewise, automaker Ford says it sends posters to 100,000 preschools, child-care centers, and kindergarten classes to encourage children ages 2 to 5 to think about safety. The poster is an alphabet of safety tips with, not surprisingly, A for automobile (but no F for Ford).

Teachers and parents are divided in their feelings about the ethics of this increasing preschool marketing push. Some side with groups like Stop Commercial Exploitation of Children who feel that preschoolers are incredibly susceptible to advertising and that schools' endorsements of products make children believe the product is good for them—no matter what it is. Yet, many preschools and day care centers operating on tight budgets welcome the free resources.[65]

SUMMARY

1. Target marketing involves three activities: market segmentation, market targeting, and market positioning.
2. Markets can be targeted at four levels: segments, niches, local areas, and individuals. Market segments are large, identifiable groups within a market. A niche is a more narrowly defined group. Marketers appeal to local markets through grassroots marketing for trading areas, neighborhoods, and even individual stores.
3. More companies now practice individual and mass customization. The future is likely to see more self-marketing, a form of marketing in which individual consumers take the initiative in designing products and brands.
4. There are two bases for segmenting consumer markets: consumer characteristics and consumer responses. The major segmentation variables for consumer markets are geographic, demographic, psychographic, and behavioral. These variables can be used singly or in combination.
5. Business marketers use all these variables along with operating variables, purchasing approaches, and situational factors.
6. To be useful, market segments must be measurable, substantial, accessible, differentiable, and actionable.
7. A firm has to evaluate the various segments and decide how many and which ones to target: a single segment, several segments, a specific product, a specific market, or the full market. If it serves the full market, it must choose between differentiated and undifferentiated marketing. Firms must also monitor segment relationships, and seek economies of scope and the potential for marketing to supersegments. They should develop segment-by-segment invasion plans.
8. Marketers must choose target markets in a socially responsible manner.

APPLICATIONS

Marketing Debate Is Mass Marketing Dead?

With marketers increasingly adopting more and more refined market segmentation schemes—fueled by the Internet and other customization efforts—some critics claim that mass marketing is dead. Others counter that there will always be room for large brands that employ marketing programs targeting the mass market.

Take a position: Mass marketing is dead versus Mass marketing is still a viable way to build a profitable brand.

Marketing Discussion

Descriptive versus Behavioral Market Segmentation Schemes Think of various product categories. How would you classify yourself in terms of the various segmentation schemes? How would marketing be more or less effective for you depending on the segment involved? How would you contrast demographic versus behavioral segment schemes? Which ones do you think would be most effective for marketers trying to sell to you?

MARKETING **SPOTLIGHT** | HSBC

HSBC is known as the "world's local bank." Originally called the Hong Kong and Shanghai Banking Corporation Limited, HSBC was established in 1865 to finance the growing trade between China and the United Kingdom. HSBC is now the second-largest bank in the world, serving 100 million customers through 9,500 branches in 79 countries. The company is organized by business line (personal financial services; consumer finance; commercial banking; corporate investment banking and markets; private banking), as well as by geographic segment (Asia-Pacific, U.K./Eurozone, North America/NAFTA, South America, Middle East).

Despite operating in 79 different countries, the bank works hard to maintain a local feel and local knowledge in each area. HSBC's fundamental operating strategy is to remain close to its customers. As HSBC chairman Sir John Bond said in November 2003, "Our position as the world's local bank enables us to approach each country uniquely, blending local knowledge with a world-wide operating platform."

For example, consider HSBC's local marketing efforts in New York City. To prove to jaded New Yorkers that the London-based financial behemoth was "the world's local bank," HSBC held a "New York City's Most Knowledgeable Cabbie" contest. The winning cabbie gets paid to drive full-time for HSBC for the year, and HSBC customers win, too. Any customer showing an HSBC bankcard, checkbook, or bank statement can get a free ride in the HSBC-branded Bankcab. The campaign demonstrates HSBC's local knowledge. "In order to make New Yorkers believe you're local, you have to act local," said Renegade Marketing Group's CEO Drew Neisser.

Across the world in Hong Kong, HSBC undertook a different campaign. In the region hit hard by the Severe Acute Respiratory Syndrome (SARS) outbreak, HSBC launched a program to revitalize the local economy. HSBC "plowed back interest payments" to customers who worked in industries most affected by SARS (cinemas, hotels, restaurants, and travel agencies). The program eased its customers' financial burden. The bank also promoted Hong Kong's commercial sector by offering discounts and rebates for customers who use an HSBC credit card when shopping and dining out, to help businesses affected by the downturn. More than 1,500 local merchants participated in the promotion.

In addition to local marketing, HSBC does niche marketing. For example, it found a little-known product area that was growing at 125 percent a year: pet insurance. In December 2003 it announced that it will distribute nationwide pet insurance through its HSBC Insurance agency, making the insurance available to its depositors.

HSBC also segments demographically. In the United States, the bank will target the immigrant population, particularly Hispanics, now that it has acquired Bital in Mexico, where many migrants to the United States deposit money.

Overall, the bank has been consciously pulling together its worldwide businesses under a single global brand with the "world's local bank" slogan. The aim is to link its international size with close relationships in each of the countries in which it operates. The company spends $600 million annually on global marketing and will likely consolidate and use fewer ad agencies. HSBC will decide who gets the account by giving each agency a "brand-strategy exercise." Agencies will be vying for the account by improving on HSBC's number 37 global brand ranking.

Discussion Questions

1. What have been the key success factors for HSBC?
2. Where is HSBC vulnerable? What should it watch out for?
3. What recommendations would you make to senior marketing executives going forward? What should they be sure to do with its marketing?

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PART

4

BUILDING STRONG BRANDS

IN THIS CHAPTER, WE WILL ADDRESS THE FOLLOWING QUESTIONS:

1. What is a brand and how does *branding work*?
2. What is brand equity?
3. How is brand equity built, measured, and managed?
4. What are the important decisions in developing a branding strategy?

CHAPTER 9 ::: CREATING BRAND EQUITY

Building a strong brand requires careful planning and a great deal of long-term investment. At the heart of a successful brand is a great product or service, backed by creatively designed and executed marketing. One of the hottest brands around is Google:

Founded in 1998 by two Stanford University Ph.D. students, search engine Google's name is a play on the word googol—the number represented by a 1 followed by 100 zeroes—a reference to the huge amount of data online. With 200 million search requests daily, the company has turned a profit by focusing on searches alone and not adding other services, as was the case with many other portals. By focusing on plain text, avoiding ads, and using sophisticated search algorithms, Google provides fast and reliable service. Google makes money from paid listings relevant to a searcher's query, and by licensing its technology to firms such as AOL and the Washington Post. In perhaps the ultimate sign of success, the brand is now often used as a verb—"to google" is to search online. Based on a public poll of the brand that had made the most impact in their lives, Google was named "Brand of the Year" in 2002 by Interbrand branding consultants. This success has not gone unnoticed, however, and has led to strong competitive responses from industry giants Yahoo! and Microsoft.[1]

>>>

Google founders Larry Page and Sergey Brin.

Perhaps the most distinctive skill of professional marketers is their ability to create, maintain, enhance, and protect brands. Branding has become a marketing priority. Successful brands such as Starbucks, Sony, and Nike command a price premium and elicit much loyalty. New brands such as Krispy Kreme, Red Bull, and JetBlue capture the imagination of consumers and the financial community alike. Marketers of successful twenty-first-century brands must excel at the strategic brand management process. *Strategic brand management* involves the design and implementation of marketing activities and programs to build, measure, and manage brands to maximize their value. The strategic brand management process involves four main steps:

- Identifying and establishing brand positioning.
- Planning and implementing brand marketing.
- Measuring and interpreting brand performance.
- Growing and sustaining brand value.

Chapter 10 deals with brand positioning. The remaining topics are discussed in this chapter. Chapter 11 reviews important concepts dealing with competition.

::: What Is Brand Equity?

The American Marketing Association defines a **brand** as "a name, term, sign, symbol, or design, or a combination of them, intended to identify the goods or services of one seller or group of sellers and to differentiate them from those of competitors." A brand is thus a product or service that adds dimensions that differentiate it in some way from other products or services designed to satisfy the same need. These differences may be functional, rational, or tangible—related to product performance of the brand. They may also be more symbolic, emotional or intangible—related to what the brand represents.

Branding has been around for centuries as a means to distinguish the goods of one producer from those of another.[2] The earliest signs of branding in Europe were the medieval guilds' requirement that craftspeople put trademarks on their products to protect themselves and consumers against inferior quality. In the fine arts, branding began with artists signing their works. Brands today play a number of important roles that improve consumers' lives and enhance the financial value of firms.

The Role of Brands

Brands identify the source or maker of a product and allow consumers—either individuals or organizations—to assign responsibility to a particular manufacturer or distributor. Consumers may evaluate the identical product differently depending on how it is branded. Consumers learn about brands through past experiences with the product and its marketing program. They find out which brands satisfy their needs and which ones do not. As consumers' lives become more complicated, rushed, and time-starved, the ability of a brand to simplify decision making and reduce risk is invaluable.[3]

Brands also perform valuable functions for firms.[4] First, they simplify product handling or tracing. Brands help to organize inventory and accounting records. A brand also offers the firm legal protection for unique features or aspects of the product.[5] The brand name can be protected through registered trademarks; manufacturing processes can be protected through patents; and packaging can be protected through copyrights and designs. These intellectual property rights ensure that the firm can safely invest in the brand and reap the benefits of a valuable asset.

MARKETING MEMO | THE BRAND REPORT CARD

The world's strongest brands share 10 attributes:

1. ***The brand excels at delivering the benefits consumers truly desire.*** Do you focus relentlessly on maximizing customers' product and service experiences?
2. ***The brand stays relevant.*** Are you in touch with your customers' tastes, current market conditions, and trends?
3. ***The pricing strategy is based on consumer perceptions of value.*** Have you optimized price, cost, and quality to meet or exceed customer expectations?
4. ***The brand is properly positioned.*** Have you established necessary and competitive points of parity with competitors? Have you established desirable and deliverable points of difference?
5. ***The brand is consistent.*** Are you sure that your marketing programs are not sending conflicting messages?
6. ***The brand portfolio and hierarchy makes sense.*** Can the corporate brand create a seamless umbrella for all the brands in the portfolio? Do you have a brand hierarchy that is well thought out and well understood?
7. ***The brand makes use of and coordinates a full repertoire of marketing activities to build equity.*** Have you capitalized on the unique capabilities of each communication option while ensuring that the meaning of the brand is consistently represented?
8. ***The brand's managers understand what the brand means to consumers.*** Do you know what customers like and do not like about your brand? Have you created detailed, research-driven portraits of your target customers?
9. ***The brand is given proper, sustained support.*** Are the successes or failures of marketing programs fully understood before they are changed? Is the brand given sufficient R&D support?
10. ***The company monitors sources of brand equity.*** Have you created a brand charter that defines the meaning and equity of the brand and how it should be treated? Have you assigned explicit responsibility for monitoring and preserving brand equity?

Source: Adapted from Kevin Lane Keller, "The Brand Report Card," *Harvard Business Review* (January 1, 2000): 147–157

Brands can signal a certain level of quality so that satisfied buyers can easily choose the product again.[6] Brand loyalty provides predictability and security of demand for the firm and creates barriers to entry that make it difficult for other firms to enter the market. Loyalty also can translate into a willingness to pay a higher price—often 20 to 25 percent more.[7] Although competitors may easily duplicate manufacturing processes and product designs, they cannot easily match lasting impressions in the minds of individuals and organizations from years of marketing activity and product experience. In this sense, branding can be seen as a powerful means to secure a competitive advantage.[8]

To firms, brands thus represent enormously valuable pieces of legal property that can influence consumer behavior, be bought and sold, and provide the security of sustained future revenues to their owner.[9] Large earning multiples have been paid for brands in mergers or acquisitions, starting with the boom years of the mid-1980s. The price premium is often justified on the basis of assumptions of the extra profits that could be extracted and sustained from the brands, as well as the tremendous difficulty and expense of creating similar brands from scratch. Wall Street believes that strong brands result in better earnings and profit performance for firms, which, in turn, creates greater value for shareholders. Much of the recent interest in brands by senior management has been a result of these bottom-line financial considerations. "Marketing Memo: The Brand Report Card" lists 10 key characteristics based on a review of the world's strongest brands.[10]

The Scope of Branding

How then do you "brand" a product? Although firms provide the impetus to brand creation through marketing programs and other activities, ultimately a brand is something that resides in the minds of consumers. A brand is a perceptual entity that is rooted in reality but reflects the perceptions and perhaps even the idiosyncrasies of consumers.

Branding is endowing products and services with the power of a brand. Branding is all about creating differences. To brand a product, it is necessary to teach consumers "who" the product is—by giving it a name and using other brand elements to help identify it—as well as "what" the product does and "why" consumers should care. Branding involves creating mental structures and helping consumers organize their knowledge about products and services in a way that clarifies their decision making and, in the process, provides value to the firm.

For branding strategies to be successful and brand value to be created, consumers must be convinced that there are meaningful differences among brands in the product or service category. The key to branding is that consumers must not think that all brands in the category are the same.

Brand differences often are related to attributes or benefits of the product itself. Gillette, Merck, Sony, 3M, and others have been leaders in their product categories for decades due, in part, to continual innovation. Other brands create competitive advantages through non-product-related means. Coca-Cola, Calvin Klein, Gucci, Tommy Hilfiger, Marlboro, and others have become leaders in their product categories by understanding consumer motivations and desires and creating relevant and appealing images around their products.

Branding can be applied virtually anywhere a consumer has a choice. It is possible to brand a physical good (Campbell's soup, Pantene shampoo, or Ford Mustang automobiles), a service (Singapore Airlines, Bank of America, or BlueCross/BlueShield medical insurance), a store (Nordstrom department store, Foot Locker specialty store, or Safeway supermarket), a person (Tom Clancy, Britney Spears, or Andre Agassi), a place (the city of Sydney, state of Texas, or country of Spain), an organization (UNICEF, American Automobile Association, or The Rolling Stones), or an idea (abortion rights, free trade, or freedom of speech).

Defining Brand Equity

Brand equity is the added value endowed to products and services. This value may be reflected in how consumers think, feel, and act with respect to the brand, as well as the prices, market share, and profitability that the brand commands for the firm. Brand equity is an important intangible asset that has psychological and financial value to the firm.

Marketers and researchers use various perspectives to study brand equity.[11] Customer-based approaches view brand equity from the perspective of the consumer—either an individual or an organization.[12] The premise of customer-based brand equity models is that the power of a brand lies in what customers have seen, read, heard, learned, thought, and felt about the brand over time. In other words, the power of a brand lies in the minds of existing or potential customers and what they have experienced directly and indirectly about the brand.[13]

Branding a place: ad for Australia tourism focusing on the city of Sydney with its signature opera house.

Customer-based brand equity can be defined as the differential effect that brand knowledge has on consumer response to the marketing of that brand.[14] A brand is said to have positive customer-based brand equity when consumers react more favorably to a product and the way it is marketed when the brand is identified as compared to when it is not. A brand is said to have negative customer-based brand equity if consumers react less favorably to marketing activity for the brand under the same circumstances.

There are three key ingredients to this definition. First, brand equity arises from differences in consumer response. If no differences occur, then the brand name product can essentially be classified as a commodity or generic version of the product. Competition would then probably be based on price.

Second, these differences in response are a result of consumer's knowledge about the brand. **Brand knowledge** consists of all the thoughts, feelings, images, experiences, beliefs, and so on that become associated with the brand. In particular, brands must create strong, favorable, and unique brand associations with customers, as has been the case with Volvo (*safety*), Hallmark (*caring*), and Harley-Davidson (*adventure*). Third, the differential response by consumers that makes up the brand equity is reflected in perceptions, preferences, and behavior related to all aspects of the marketing of a brand. Table 9.1 summarizes some of these key benefits of brand equity.

The challenge for marketers in building a strong brand is therefore ensuring that customers have the right type of experiences with products and services and their marketing programs to create the desired brand knowledge structures for the brand.

APPLE COMPUTER

Apple Computer is recognized as a master at building a strong brand that resonates with customers across generations and national boundaries. Named "2003 Marketer of the Year" by *Advertising Age* magazine, Apple achieves incredible brand loyalty largely by delivering on its mission as defined by CEO Steven Jobs: "To create great things that change people's lives." It has created an army of Apple evangelists not just because of its great advertising but also because it focuses on the consumer in everything it does. Some of its biggest buzz campaigns don't even originate with the company: In a trendy club in Manhattan's meatpacking district, two DJs host Tuesday night "Open iPod DJ Parties." Yet, the company doesn't rely on customers to do its marketing. Apple spent $293 million to create 73 retail stores to fuel excitement for the brand, including a store in New York's SoHo that drew over 14 million visitors in 2003. The rationale behind the move to retail is that the more people can see and touch Apple products—and see what Apple can do for them—the more likely Apple is to increase its market share, which is still a tiny slice of the PC market.[15]

Consumer knowledge is what drives the differences that manifest themselves in brand equity. In an abstract sense, brand equity can be seen as providing marketers with a vital strategic "bridge" from their past to their future.

TABLE 9.1

Marketing Advantages of Strong Brands

Improved Perceptions of Product Performance
Greater Loyalty
Less Vulnerability to Competitive Marketing Actions
Less Vulnerability to Marketing Crises
Larger Margins
More Inelastic Consumer Response to Price Increases
More Elastic Consumer Response to Price Decreases
Greater Trade Cooperation and Support
Increased Marketing Communications Effectiveness
Possible Licensing Opportunities
Additional Brand Extension Opportunities

Brand Equity as a Bridge

From the perspective of brand equity, all the marketing dollars spent each year on products and services should be thought of as investments in consumer brand knowledge. The *quality* of the investment in brand building is the critical factor, not necessarily the *quantity*, beyond some minimal threshold amount.

It is actually possible to "overspend" on brand building if money is not spent wisely. In the beverage category, brands such as Michelob, Miller Lite, and 7Up saw sales decline in the 1990s despite sizable marketing support, arguably because of poorly targeted and delivered marketing campaigns. And there are numerous examples of brands that amass a great deal of brand equity by spending on marketing activities that create valuable, enduring memory traces in the consumers' minds. Despite being outspent by such beverage brand giants as Coca-Cola, Pepsi, and Budweiser, the California Milk Processor Board was able to reverse a decades-long decline in consumption of milk in California partly through its well-designed and executed "Got Milk?" campaign.

At the same time, the brand knowledge created by these marketing investments dictates appropriate future directions for the brand. Consumers will decide, based on what they think and feel about the brand, where (and how) they believe the brand should go and grant permission (or not) to any marketing action or program. New products such as Crystal Pepsi, Levi's Tailored Classic suits, Fruit of the Loom laundry detergent, and Cracker Jack cereal failed because consumers found them inappropriate.

A brand is essentially a marketer's promise to deliver predictable product or service performance. A **brand promise** is the marketer's vision of what the brand must be and do for consumers. At the end of the day, the true value and future prospects of a brand rest with consumers, their knowledge about the brand, and their likely response to marketing activity as a result of this knowledge. Understanding consumer brand knowledge—all the different things that become linked to the brand in the minds of consumers—is thus of paramount importance because it is the foundation of brand equity.

Virgin, the brainchild of England's flamboyant Richard Branson, vividly illustrates the power enjoyed and responsibility assumed by a strong brand.[16]

VIRGIN

Starting with Virgin Music, Branson's Virgin Group Ltd., now spans three continents and 200 businesses, including Virgin Atlantic Airways, Virgin Mobile (cell phones), Virgin Energy, Virgin Rail, Virgin Direct (insurance, mortgages, and investment funds), and Virgin Hotels. Clearly, Branson can create interest in almost any business he wants by simply attaching the name "Virgin" to it. Virgin Mobile exemplifies this strategy. Branson supplies the brand, a small initial investment, and takes a majority control while big-name partners come up with the cash. Some marketing and financial critics point out that he is diluting the brand, that it covers too many businesses. Branson has had some fumbles: Virgin Cola, Virgin Cosmetics, and Virgin Vodka have all but disappeared. But Branson replies: "We have a strategy of using the credibility of our brand to challenge the dominant players in a range of industries where we believe the consumer is not getting value for money. . . . If the consumer benefits, I see no reason why we should be frightened about launching new products." One of Branson's newest ventures: He's jumping into the fiercely competitive discount airline business in the United States with Virgin USA in 2005.

Brand Equity Models

Although there is agreement about basic principles, a number of models of brand equity offer some different perspectives. Here we briefly highlight four of the more established ones.

BRAND ASSET VALUATOR Advertising agency Young and Rubicam (Y&R) developed a model of brand equity called Brand Asset Valuator (BAV). Based on research with almost 200,000 consumers in 40 countries, BAV provides comparative measures of the brand equity of thousands of brands across hundreds of different categories. There are four key components—or pillars—of brand equity, according to BAV:

- ***Differentiation*** measures the degree to which a brand is seen as different from others.
- ***Relevance*** measures the breadth of a brand's appeal.

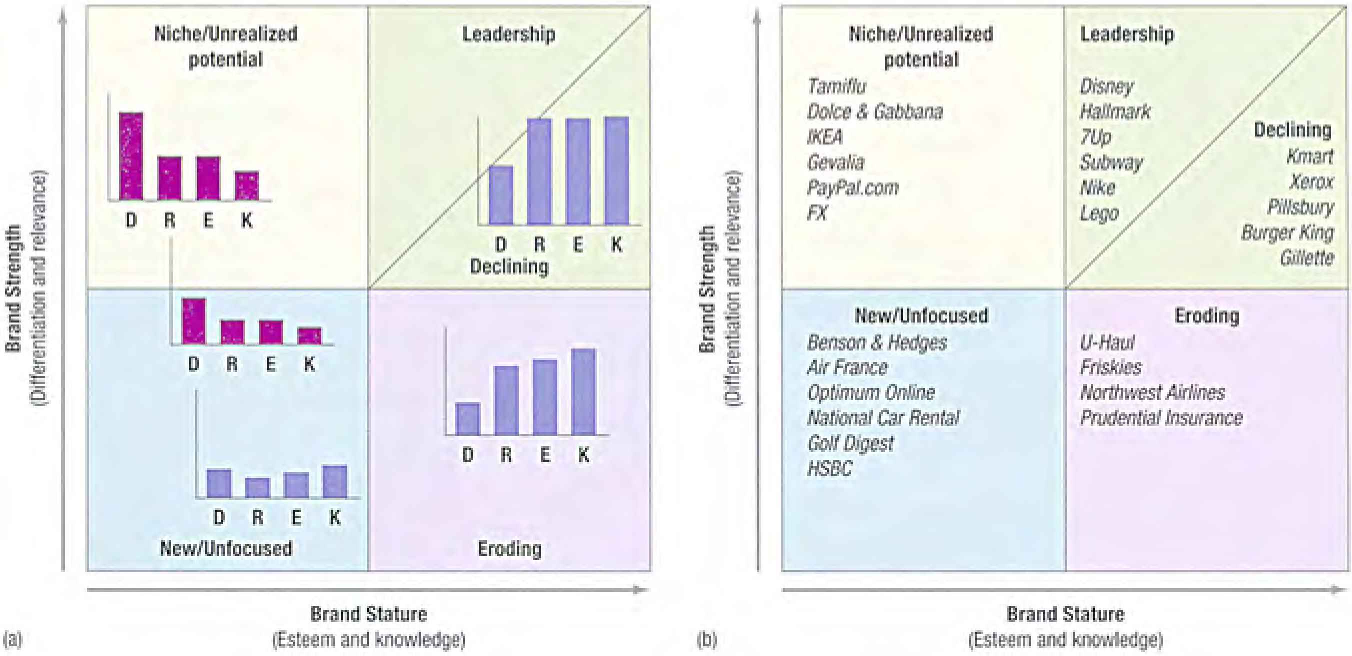


FIG. 9.1

BAV Power Grid

- ***Esteem*** measures how well the brand is regarded and respected.
- ***Knowledge*** measures how familiar and intimate consumers are with the brand.

Differentiation and Relevance combine to determine *Brand Strength*. These two pillars point to the brand's future value, rather than just reflecting its past. Esteem and Knowledge together create *Brand Stature*, which is more of a "report card" on past performance.

Examining the relationships among these four dimensions—a brand's "pillar pattern"—reveals much about its current and future status. Brand Strength and Brand Stature can be combined to form a Power Grid that depicts the stages in the cycle of brand development—each with its characteristic pillar patterns—in successive quadrants (see Figure 9.1). New brands, just after they are launched, show low levels on all four pillars. Strong new brands tend to show higher levels of Differentiation than Relevance, while both Esteem and Knowledge are lower still. Leadership brands show high levels on all four pillars. Finally, declining brands show high Knowledge—evidence of past performance—relative to a lower level of Esteem, and even lower Relevance and Differentiation.

AAKER MODEL Former UC-Berkeley marketing professor David Aaker views brand equity as a set of five categories of brand assets and liabilities linked to a brand that add to or subtract from the value provided by a product or service to a firm and/or to that firm's customers. These categories of brand assets are: (1) brand loyalty, (2) brand awareness, (3) perceived quality, (4) brand associations, and (5) other proprietary assets such as patents, trademarks, and channel relationships.

According to Aaker, a particularly important concept for building brand equity is *brand identity*—the unique set of brand associations that represent what the brand stands for and promises to customers.[17] Aaker sees brand identity as consisting of 12 dimensions organized around 4 perspectives: *brand-as-product* (product scope, product attributes, quality/value, uses, users, country of origin); *brand-as-organization* (organizational attributes, local versus global); *brand-as-person* (brand personality, brand–customer relationships); and *brand-as-symbol* (visual imagery/metaphors and brand heritage).

Aaker also conceptualizes brand identity as including a core and an extended identity. The core identity—the central, timeless essence of the brand—is most likely to remain constant as the brand travels to new markets and products. The extended identity includes various brand identity elements, organized into cohesive and meaningful groups. If we apply this approach to Saturn, the newest General Motors car division might yield the following:[18]

- ***Core Identity.*** A world-class car with employees who treat customers with respect and as friends.
- ***Extended Identity.*** U.S. subcompact with Spring Hill, Tennessee, plant; no pressure, no haggling, informative retail experience; thoughtful, friendly, down-to-earth, youthful and lively personality; committed employees and loyal users.

BRANDZ Marketing research consultants Millward Brown and WPP have developed the BRANDZ model of brand strength, at the heart of which is the BrandDynamics pyramid. According to this model, brand building involves a sequential series of steps, where each step is contingent upon successfully accomplishing the previous step. The objectives at each step, in ascending order, are as follows:

- ***Presence.*** Do I know about it?
- ***Relevance.*** Does it offer me something?
- ***Performance.*** Can it deliver?
- ***Advantage.*** Does it offer something better than others?
- ***Bonding.*** Nothing else beats it.

Research has shown that bonded consumers, those at the top level of the pyramid, build stronger relationships with the brand and spend more of their category expenditures on the brand than those at lower levels of the pyramid. More consumers, however, will be found at the lower levels. The challenge for marketers is to develop activities and programs that help consumers move up the pyramid.

BRAND RESONANCE The brand resonance model also views brand building as an ascending, sequential series of steps, from bottom to top: (1) ensuring identification of the brand with customers and an association of the brand in customers' minds with a specific product class or customer need; (2) firmly establishing the totality of brand meaning in the minds of customers by strategically linking a host of tangible and intangible brand associations; (3) eliciting the proper customer responses in terms of brand-related judgment and feelings; and (4) converting brand response to create an intense, active loyalty relationship between customers and the brand. According to this model, enacting the four steps involves establishing six "brand building blocks" with customers. These brand building blocks can be assembled in terms of a brand pyramid, as illustrated in Figure 9.2. The model emphasizes the duality of brands—the rational route to brand building is the left-hand side of the pyramid, whereas the emotional route is the right-hand side.[19]

MasterCard is an example of a brand with duality, as it emphasizes both the rational advantage to the credit card, through its acceptance at establishments worldwide, and the emotional advantage through its award-winning "priceless" advertising campaign, which shows people buying items to reach a certain goal. The goal itself—a feeling, an accomplishment, or other intangible—is "priceless" ("There are some things money can't buy, for everything else, there's MasterCard.").

The creation of significant brand equity involves reaching the top or pinnacle of the brand pyramid, and will occur only if the right building blocks are put into place.

- ***Brand salience*** relates to how often and easily the brand is evoked under various purchase or consumption situations.
- ***Brand performance*** relates to how the product or service meets customers' functional needs.
- ***Brand imagery*** deals with the extrinsic properties of the product or service, including the ways in which the brand attempts to meet customers' psychological or social needs.
- ***Brand judgments*** focus on customers' own personal opinions and evaluations.
- ***Brand feelings*** are customers' emotional responses and reactions with respect to the brand.
- ***Brand resonance*** refers to the nature of the relationship that customers have with the brand and the extent to which customers feel that they are "in sync" with the brand.

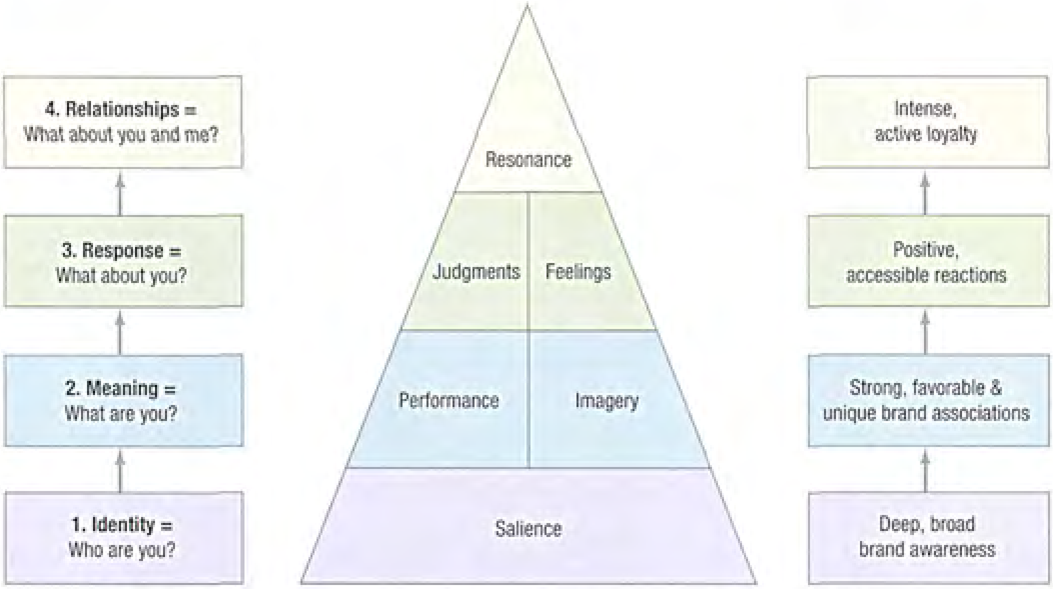


FIG. 9.2 Brand Resonance Pyramid

Resonance is characterized in terms of the intensity or depth of the psychological bond customers have with the brand, as well as the level of activity engendered by this loyalty. Examples of brands with high resonance include Harley-Davidson, Apple, and eBay.

::: Building Brand Equity

Marketers build brand equity by creating the right brand knowledge structures with the right consumers. This process depends on *all* brand-related contacts—whether marketer-initiated or not. From a marketing management perspective, however, there are three main sets of *brand equity drivers:*

1. ***The initial choices for the brand elements or identities making up the brand (e.g., brand names, URLs, logos, symbols, characters, spokespeople, slogans, jingles, packages, and signage).*** Old Spice uses bright-red packaging and its familiar ocean schooner to reinforce its nautical theme while also launching deodorant and antiperspirant extensions adding the High Endurance and Red Zone brand names.[20]
2. ***The product and service and all accompanying marketing activities and supporting marketing programs.*** Joe Boxer made its name selling colorful underwear with its signature yellow smiley face, Mr. Licky, in a hip, fun way. The company spent almost zero on advertising; clever stunts and events garnered publicity and word of mouth. An exclusive deal with Kmart has generated strong retail support.[21]
3. ***Other associations indirectly transferred to the brand by linking it to some other entity (e.g., a person, place, or thing).*** Subaru used the rugged Australian Outback and actor Paul Hogan of *Crocodile Dundee* movie fame in ads to help craft the brand image of the Subaru Outback line of sports utility wagons.

Choosing Brand Elements

Brand elements are those trademarkable devices that serve to identify and differentiate the brand. Most strong brands employ multiple brand elements. Nike has the distinctive "swoosh" logo, the empowering "Just Do It" slogan, and the mythological "Nike" name based on the winged goddess of victory.

Brand elements can be chosen to build as much brand equity as possible. The test of the brand-building ability of these elements is what consumers would think or feel about the product *if* they only knew about the brand element. A brand element that provides a positive contribution to brand equity, for example, would be one where consumers assumed or inferred certain valued associations or responses. Based on its name alone, a consumer might expect ColorStay lipsticks to be long-lasting and SnackWell to be healthful snack foods.

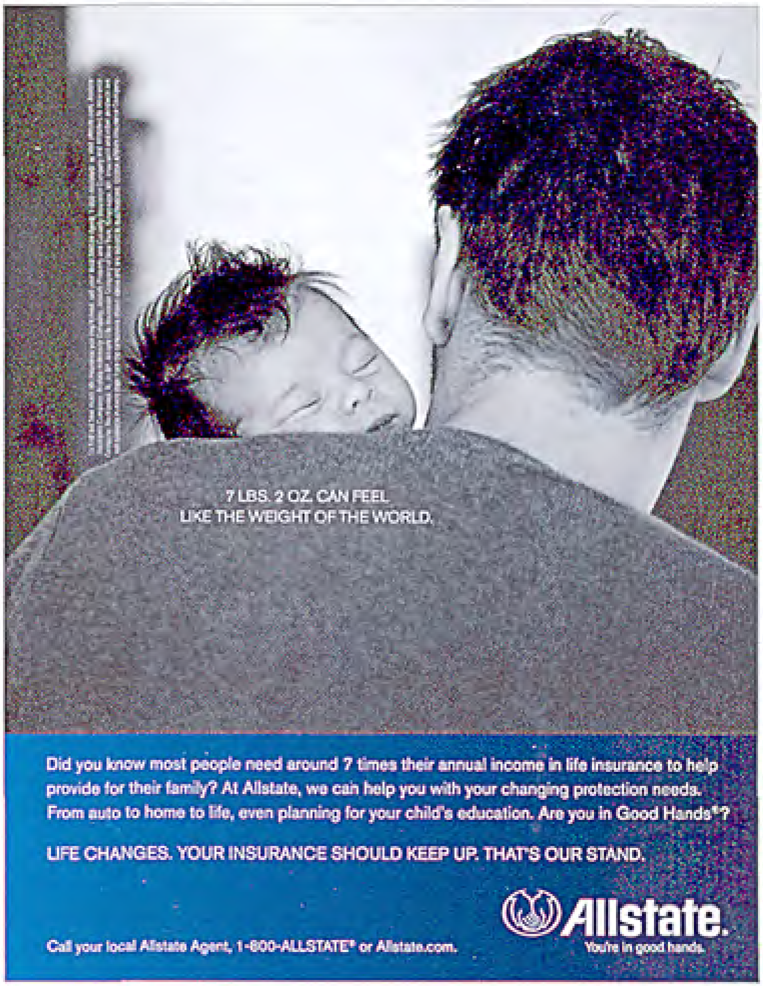
BRAND ELEMENT CHOICE CRITERIA There are six criteria in choosing brand elements (as well as more specific choice considerations in each case). The first three (memorable, meaningful, and likable) can be characterized as "brand building" in terms of how brand equity can be built through the judicious choice of a brand element. The latter three (protectable, adaptable, and transferable) are more "defensive" and are concerned with how the brand equity contained in a brand element can be leveraged and preserved in the face of different opportunities and constraints.

1. ***Memorable.*** How easily is the brand element recalled? How easily recognized? Is this true at both purchase and consumption? Short brand names such as Tide, Crest, and Puffs can help.
2. ***Meaningful.*** To what extent is the brand element credible and suggestive of the corresponding category? Does it suggest something about a product ingredient or the type of person who might use the brand? Consider the inherent meaning in names such as DieHard auto batteries, Mop & Glo floor wax, and Lean Cuisine low-calorie frozen entrees.
3. ***Likeability.*** How aesthetically appealing do consumers find the brand element? Is it inherently likable visually, verbally, and in other ways? Concrete brand names such as Sunkist, Spic and Span, and Firebird evoke much imagery.
4. ***Transferable.*** Can the brand element be used to introduce new products in the same or different categories? To what extent does the brand element add to brand equity across geographic boundaries and market segments? Volkswagen chose to name its new SUV, Touareg, after a tribe of colorful Saharan nomads. Unfortunately, historically they were also notorious slave owners, which created a negative press backlash in the United States.[22]
5. ***Adaptable.*** How adaptable and updatable is the brand element? Betty Crocker has received over eight makeovers through the years—although she is over 75 years old, she doesn't look a day over 35!
6. ***Protectible.*** How legally protectible is the brand element? How competitively protectible? Can it be easily copied? It is important that names that become synonymous with product categories—such as Kleenex, Kitty Litter, Jell-O, Scotch Tape, Xerox, and Fiberglass—retain their trademark rights and not become generic.

DEVELOPING BRAND ELEMENTS In creating a brand, marketers have many choices of brand elements to identify their products. Before, companies chose brand names by generating a list of possible names, debating their merits, eliminating all but a few, testing them with target consumers, and making a final choice.[23] Today, many companies hire a marketing research firm to develop and test names. These companies use human brainstorming sessions and vast computer databases, cataloged by association, sounds, and other qualities. Name-research procedures include *association tests* (What images come to mind?), *learning tests* (How easily is the name pronounced?), *memory tests* (How well is the name remembered?), and *preference tests* (Which names are preferred?). Of course, the firm must also conduct searches to make sure the chosen name has not already been registered.

Brand elements can play a number of brand-building roles. If consumers do not examine much information in making their product decisions, brand elements should be easily recognized and recalled and inherently descriptive and persuasive. Memorable or meaningful brand elements can reduce the burden on marketing communications to build awareness and link brand associations. The different associations that arise from the likeability and appeal of brand elements may also play a critical role in the equity of a brand. The Keebler elves reinforce home-style baking quality and a sense of magic and fun for their line of cookies. Ads featuring the Buddy Lee doll character for Lee's Jeans helped to make the brand popular with a younger audience that had not yet connected to the brand.

Brand names are not the only important brand element. Often, the less concrete brand benefits are, the more important it is that brand elements capture the brand's intangible



Building a brand with elements that capture the brand's intangible characteristics: An Allstate ad, with the graphic symbol of cupped hands and the tagline, "You're in good hands."

characteristics. Many insurance firms use symbols of strength (the Rock of Gibraltar for Prudential and the stag for Hartford), security (the "good hands" of Allstate, Traveller's umbrella, and the hard hat of Fireman's Fund), or some combination of the two (the castle for Fortis).

A powerful—but sometimes overlooked—brand element is slogans. Like brand names, slogans are an extremely efficient means to build brand equity. Slogans can function as useful "hooks" or "handles" to help consumers grasp what the brand is and what makes it special. They are an indispensable means of summarizing and translating the intent of a marketing program. Think of the inherent brand meaning in slogans such as, "Like a Good Neighbor, State Farm is There," "Nothing Runs Like a Deere," and "Help is Just Around the Corner. Tru Value Hardware."

AVIS GROUP HOLDINGS INC.

A classic case of a company using a slogan to build brand equity is that of Avis's 41-year-old "We Try Harder" ad campaign. In 1963, when the campaign was developed, Avis was losing money and widely considered the number-two car rental company next to market leader Hertz. When account executives from DDB ad agency met with Avis managers, they asked: "What can you do that we can say you do better than your competitors?" An Avis manager replied, "We try harder because we have to." Someone at DDB wrote this down and it became the heart of the campaign. Avis was hesitant to air the campaign because of its blunt, break-the-rules honesty, but also because the company had to deliver on that promise. Yet, by creating buy-in on "We Try Harder" from all Avis employees, especially its front-line employees at the rental desks, the company was able to create a company culture and brand image from an advertising slogan.[24]

Designing Holistic Marketing Activities

Although the judicious choice of brand elements and secondary associations can make important contributions to building brand equity, the primary input comes from the product or service and supporting marketing activities.

Brands are not built by advertising alone. Customers come to know a brand through a range of contacts and touch points: personal observation and use, word of mouth, interactions with company personnel, online or telephone experiences, and payment transactions. A **brand contact** can be defined as any information-bearing experience a customer or prospect has with the brand, the product category, or the market that relates to the marketer's product or service.[25] Any of these experiences can be positive or negative. The company must put as much effort into managing these experiences as it does in producing its ads.[26]

The strategy and tactics behind marketing programs have changed dramatically in recent years.[27] Marketers are creating brand contacts and building brand equity through many avenues, such as clubs and consumer communities, trade shows, event marketing, sponsorship, factory visits, public relations and press releases, and social cause marketing. To market its cereals, General Mills supplemented traditional advertising and promotion with, among other things, a family-themed, entertainment-based retail destination, Cereal Adventure, inside Minneapolis's Mall of America, the world's largest shopping mall.[28] Chupa Chups has developed an extensive marketing program.

CHUPA CHUPS

Who says lollipops are just for kids? Not Spanish Chupa Chups, the world's largest maker of lollipops. In order to extend the Chupa Chups brand beyond children, Chupa Chups is taking a truly holistic approach, which includes savvy—and totally free—product placement, fresh marketing ideas, and even its own line of retail boutiques. An internal task force, dubbed 4C for Chupa Chups Corporate Communications, is charged with raising brand awareness among fashion-conscious and media-saturated teens and youth. One example: When he learned that the coach of Barcelona's soccer team was struggling to quit smoking, a 4C sports fan sent him a complimentary box of Chupa Chups. For the rest of the season, the coach was rarely seen on the sidelines without a lollipop in his mouth. Chupa Chups sales in soccer-crazed Catalonia doubled that year. The company also gains visibility at high-profile awards ceremonies. When A-list stars come out at such events as the Venice Film Festival or the Grammys, a scantily clad "Chupa Chick" in a lollipop-studded bra top is there to greet them. So far Chupa's "celebrity suckers"—those caught on camera sucking a Chupa Chups—include Jerry Seinfeld, Elton John, Georgio Armani, Sheryl Crow, and Magic Johnson. Once Chupa Chups has caught teens' attention via these "nonendorser endorsers," they can point them to Chupa Chups packed in makeup kits or to clothing, eyewear, motorcycle helmets, and other items bearing the brand name.[29]

Regardless of the particular tools or approaches they choose, holistic marketers emphasize three important new themes in designing brand-building marketing programs: personalization, integration, and internalization.

PERSONALIZATION The rapid expansion of the Internet has created opportunities to personalize marketing.[30] Marketers are increasingly abandoning the mass-market practices that built brand powerhouses in the 1950s, 1960s, and 1970s for new approaches that are in fact a throwback to marketing practices from a century ago, when merchants literally knew their customers by name. To adapt to the increased consumer desire for personalization, marketers have embraced concepts such as experiential marketing, one-to-one marketing, and permission marketing. Chapter 5 summarized some of these concepts; "Marketing Insight: Applying Permission Marketing" highlights key principles with that particular approach.

From a branding point of view, these concepts are about getting consumers more actively involved with a brand by creating an intense, active relationship. *Personalizing marketing* is about making sure that the brand and its marketing are as relevant as possible to as many customers as possible—a challenge, given that no two customers are identical.

JONES SODA

Peter van Stolk founded Jones Soda on the premise that Gen Y consumers would be more accepting of a new soft-drink brand if they felt they discovered it themselves. Jones Soda initially was sold only in shops that sell surfboards, snowboards, and skateboards. The Jones Soda Web site encourages fans to send in personal photos for possible use on Jones Soda labels. Although only maybe 40 or so are picked annually from the tens of thousands of entries, the approach helps to create relevance and an emotional connection.[31]

INTEGRATION One implication of these new marketing approaches is that the traditional "marketing-mix" concept and the notion of the "4 Ps" may not adequately describe modern marketing programs. **Integrating marketing** is about mixing and matching marketing activities to maximize their individual and collective effects.[32] As part of integrated marketing, marketers need a variety of different marketing activities that reinforce the brand promise. The Olive Garden has become the second-largest casual dining restaurant chain in the United States, with $2 billion in sales and over 500 restaurants, in part through a fully integrated marketing program.

THE OLIVE GARDEN

The Olive Garden brand promise is "the idealized Italian family meal" characterized by "fresh, simple delicious Italian food," "complimented by a great glass of wine," "welcomed by people who treat you like family," "in a comfortable home-like setting." To live up to that brand promise, The Olive Garden sends select managers and servers on cultural immersion trips to Italy; launched the Culinary Institute of Tuscany in Italy to inspire new dishes; conducts wine training workshops for employees and in-restaurant wine sampling for customers; and remodeled restaurants to give them a Tuscan farmhouse look. Communications include in-store, employee, and mass-media messages that all reinforce the brand promise and ad slogan, "When You're Here, You're Family."[33]

MARKETING INSIGHT | APPLYING PERMISSION MARKETING

Permission marketing, the practice of marketing to consumers only after gaining their express permission, is a tool companies can use to break through clutter and build customer loyalty. With the help of large databases and advanced software, companies can store gigabytes of customer data and send targeted, personalized marketing messages to customers.

Seth Godin, a pioneer in the technique, estimates that each American receives about 3,000 marketing messages daily. He maintains that marketers can no longer use "interruption marketing" via mass-media campaigns. Marketers can develop stronger consumer relationships by respecting consumers' wishes and sending messages only when they express a willingness to become more involved with the brand. According to Godin, effective permission marketing works because it is "anticipated, personal, and relevant."

Godin identifies five steps to effective permission marketing:

1. Offer the prospect an incentive to volunteer (e.g., free sample, sales promotion, or contest).
2. Offer the interested prospect a curriculum over time that teaches the consumer about the product or service.
3. Reinforce the incentive to guarantee that the prospect maintains the permission.
4. Offer additional incentives to get more permission from the consumer.
5. Over time, leverage the permission to change consumer behavior toward profits.

Permission marketing does have drawbacks. One is that it presumes consumers to some extent "know what they want." But in many cases, consumers have undefined, ambiguous, or conflicting preferences. In applying permission marketing, consumers may need to be given assistance in forming and conveying their preferences. "Participatory marketing" may be a more appropriate concept because marketers and consumers need to work together to find out how the firm can best satisfy consumers.

Sources: Seth Godin, *Permission Marketing: Turning Strangers into Friends, and Friends into Customers* (New York: Simon & Schuster, 1999); Susan Fournier, Susan Dobscha, and David Mick, "Preventing the Premature Death of Relationship Marketing," *Harvard Business Review* (January–February, 1998): 42–51.

The Olive Garden's integrated marketing program includes sending managers and servers to Italy on cultural immersion trips. Part of the trip is training classes at the Olive Garden's Culinary Institute of Tuscany. In this photo, they are learning about pasta.

Integration is especially critical with marketing communications. From the perspective of brand building, all communication options should be evaluated in terms of ability to affect brand equity. Each communication option can be judged in terms of the effectiveness and efficiency with which it affects brand awareness and with which it creates, maintains, or strengthens brand image. **Brand awareness** is consumers' ability to identify the brand under different conditions, as reflected by their brand recognition or recall performance. **Brand image** is the *perceptions and beliefs held by consumers*, as reflected in the associations held in consumer memory.

As we discuss in Chapter 17, different communication options have different strengths and can accomplish different objectives. It is important to employ a mix of different communication options, each of which plays a specific role in building or maintaining brand equity. Although Michelin may invest in R&D and engage in advertising, promotions, and other communications to reinforce the tires' "safety" association, it may also choose to sponsor events to make sure Michelin is seen as *contemporary and up-to-date. The marketing communication program should be put* together so that the whole is greater than the sum of the parts. In other words, as much as possible, there should be a match among certain communication options so that the effects of any one option are enhanced by the presence of another.

INTERNALIZATION Marketers must now "walk the walk" to deliver the brand promise. They must adopt an *internal* perspective to consider what steps to take to be sure employees and marketing partners appreciate and understand basic branding notions, and how they can help—or hurt—brand equity.[34] **Internal branding** is activities and processes that help to inform and inspire employees.[35] It is critical for service companies and retailers that all employees have an up-to-date, deep understanding of the brand and its promise.

Brand bonding occurs when customers experience the company as delivering on its brand promise. All of the customers' contacts with company employees and company communications must be positive. *The brand promise will not be delivered unless everyone in the company lives the brand.* One of the most potent influences on brand perception is the experience customers have with company personnel.

ELI LILLY

In 2000, Eli Lilly launched a new brand-building initiative with the slogan, "Answers that Matter." The aim was to establish Eli Lilly as a pharmaceutical firm that could give doctors, patients, hospitals, HMOs, and government trustworthy answers to questions of concern to them. To make sure that everyone at Eli Lilly had the knowledge to be able to deliver the right answers, Lilly developed a comprehensive Brand-to-Action training program.[36]

Companies need to engage in continual open dialogue with employees. Some firms have pushed "B2E" (business-to-employee) programs through corporate intranets and other means. *Disney is so successful at internal branding and having employees support its brand* that it even holds seminars at the Disney Institute on the "Disney Style" for employees from other companies.

Holistic marketers must go even further and train and encourage distributors and dealers to serve their customers well. Poorly trained dealers can ruin the best efforts to build a strong brand image.

Leveraging Secondary Associations

The third and final way to build brand equity is, in effect, to "borrow" it. That is, brand associations may themselves be linked to other entities that have their own associations, creating "secondary" brand associations. In other words, brand equity may be created by linking the brand to other information in memory that conveys meaning to consumers (see Figure 9.3).

The brand may be linked to certain source factors, such as the company (through branding strategies), countries or other geographical regions (through identification of product origin), and channels of distribution (through channel strategy); as well as to other brands (through ingredient or co-branding), characters (through licensing), spokespeople (through endorsements), sporting or cultural events (through sponsorship), or some other third-party sources (through awards or reviews).

For example, assume Burton—makers of snowboards as well as ski boots, bindings, clothing, and outerwear—decided to introduce a new surfboard called "The Dominator." Burton has gained over a third of the snowboard market by closely aligning itself with top professional riders and creating a strong amateur snowboarder community around the country. In creating the marketing program to support the new Dominator surfboard, Burton could attempt to leverage secondary brand knowledge in a number of different ways:

- Burton could leverage associations to the corporate brand by "sub-branding" the product, calling it "Dominator by Burton." Consumers' evaluations of the new product would be influenced by how they felt about Burton and how they felt that such knowledge predicted the quality of a Burton surfboard.
- Burton could try to rely on its rural New England origins, but such a geographical location would seem to have little relevance to surfing.

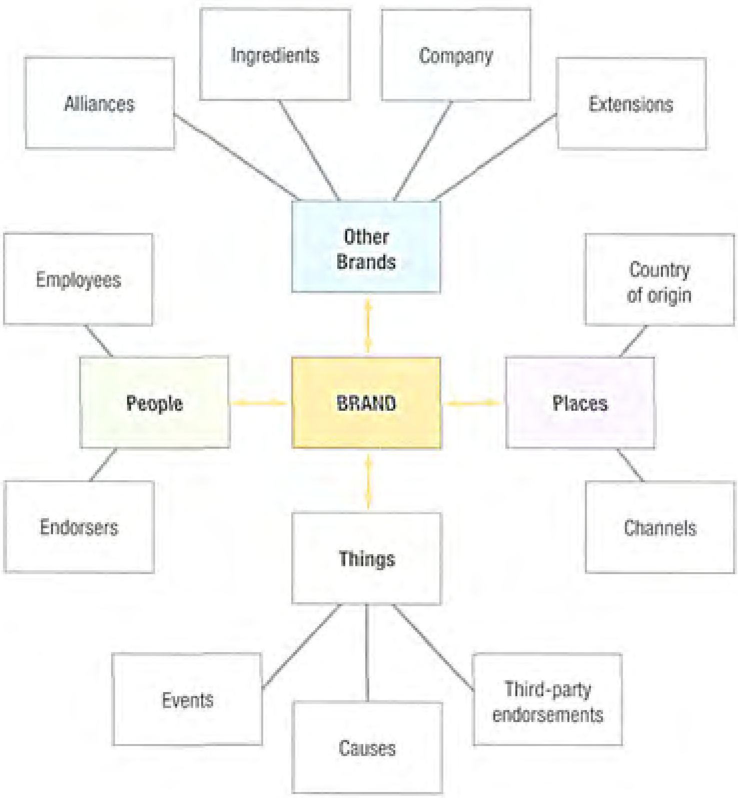


FIG. 9.3

Secondary Sources of Brand Knowledge

- Burton could also try to sell through popular surf shops in a hope that its credibility would "rub off" on the Dominator brand.
- Burton could attempt to co-brand by identifying a strong ingredient brand for its foam or fiberglass materials (as Wilson did by incorporating Goodyear tire rubber on the soles of its ProStaff Classic tennis shoes).
- Burton could attempt to find one or more top professional surfers to endorse the surfboard or choose to become a sponsor of a surfing competition or even the entire Association of Surfing Professionals (ASP) World Tour.
- Burton could attempt to secure and publicize favorable ratings from third-party sources like *Surfer* or *Surfing* magazine.

Thus, independent of the associations created by the surfboard itself, its brand name, or any other aspects of the marketing program, Burton may be able to build equity by linking the brand to these other entities.

::: Measuring Brand Equity

Given that the power of a brand resides in the minds of consumers and how it changes their response to marketing, there are two basic approaches to measuring brand equity. An *indirect* approach assesses potential sources of brand equity by identifying and tracking consumer brand knowledge structures. A *direct* approach assesses the actual impact of brand knowledge on consumer response to different aspects of the marketing. "Marketing Insight: The Brand Value Chain" shows how the two measurement approaches can be linked.

MARKETING INSIGHT | THE BRAND VALUE CHAIN

The **brand value chain** is a structured approach to assessing the sources and outcomes of brand equity and the manner in which marketing activities create brand value. The brand value chain is based on several basic premises.

The brand value creation process begins when the firm invests in a marketing program targeting actual or potential customers. Any marketing program investment that can be attributed to brand value development, either intentional or not, falls into this category—product research, development, and design; trade or intermediary support; and marketing communications.

The marketing activity associated with the program affects the customer "mind-set" with respect to the brand. The issue is, in what ways have customers been changed as a result of the marketing program? This mind-set, across a broad group of customers, then results in certain outcomes for the brand in terms of how it performs in the marketplace. This is the collective impact of individual customer actions regarding how much and when they purchase, the price that they pay, and so on. Finally, the investment community considers market performance and other factors such as replacement cost and purchase price in acquisitions to arrive at an assessment of shareholder value in general and the value of a brand in particular.

The model also assumes that a number of linking factors intervene between these stages and determine the extent to which value created at one stage transfers to the next stage. Three sets of multipliers moderate the transfer between the marketing program and the subsequent three value stages—the program multiplier, the customer multiplier, and the market multiplier. The *program multiplier* determines the ability of the marketing program to affect the customer mind-set and is a function of the quality of the program investment. The *customer multiplier* determines the extent to which value created in the minds of customers affects market performance. This result depends on contextual factors external to the customer. Three such factors are competitive superiority (how effective is the quantity and quality of the marketing investment of other competing brands), channel and other intermediary support (how much brand reinforcement and selling effort is being put forth by various marketing partners), and customer size and profile (how many and what types of customers, profitable or not, are attracted to the brand). The *market multiplier* determines the extent to which the value shown by the market performance of a brand is manifested in shareholder value. It depends, in part, on the actions of financial analysts and investors.

Sources: Kevin Lane Keller and Don Lehmann, "How Do Brands Create Value," *Marketing Management* (May/June 2003): 27–31. See also, Rajendra K. Srivastava, Tasadduq A. Shervani, and Liam Fahey, "Market-Based Assets and Shareholder Value," *Journal of Marketing* 62, no. 1 (1998): 2–18, and M. J. Epstein and R. A. Westbrook, "Linking Actions to Profits in Strategic Decision Making," *MIT Sloan Management Review* (Spring 2001): 39–49. In terms of related empirical insights, see Manoj K. Agrawal and Vithala Rao "An Empirical Comparison of Consumer-Based Measures of Brand Equity," *Marketing Letters* 7, no. 3 (1996): 237–247, and Walfried Lassar, Banwari Mittal, and Arun Sharma, "Measuring Customer-Based Brand Equity," *Journal of Consumer Marketing* 12, no. 4 (1995): 11–19.

The two general approaches are complementary, and marketers can employ both. In other words, for brand equity to perform a useful strategic function and guide marketing decisions, it is important for marketers to (1) fully understand the sources of brand equity and how they affect outcomes of interest, as well as (2) how these sources and outcomes change, if at all, over time. Brand audits are important for the former; brand tracking is important for the latter.

Brand Audits

To better understand their brands, marketers often need to conduct brand audits. A **brand audit** is a consumer-focused exercise that involves a series of procedures to assess the health of the brand, uncover its sources of brand equity, and suggest ways to improve and leverage its equity.

The brand audit can be used to set strategic direction for the brand. Are the current sources of brand equity satisfactory? Do certain brand associations need to be strengthened? Does the brand lack uniqueness? What brand opportunities exist and what potential challenges exist for brand equity? As a result of this strategic analysis, the marketer can develop a marketing program to maximize long-term brand equity.

Marketers should conduct a brand audit whenever they consider important shifts in strategic direction. With newspapers experiencing declining circulation as more people rely on radio, TV, and the Internet for their news, some publishers are now commissioning brand audits and attempting to redesign newspapers to be contemporary, relevant, and interesting to readers. Conducting brand audits on a regular basis (e.g., annually) allows marketers to keep their fingers on the pulse of their brands so that they can manage them more proactively and responsively. Audits are particularly useful background for managers as they set up their marketing plans.

Brand audits can have profound implications for strategic direction and brands' resulting performance.[37]

POLAROID

The results of a brand audit in Western Europe led Polaroid to decide to try to change its conventional photography image there to emphasize the "fun side" of its cameras. Polaroid gave one group of consumers 35 mm cameras and another group Polaroid cameras. Both groups went to a wedding and were told to shoot a roll of film. The 35 mm photos were typical wedding fare—posed and proper. The Polaroid photos were completely different—spontaneous and spirited. Those consumers with the Polaroids began to tell stories of the amusing antics that happened when the camera appeared. Polaroid learned from this research that its cameras could be a social stimulant and catalyst, bringing fun into people's lives, a theme that was picked up in advertising and that suggested new distribution strategies.

A brand audit requires the understanding of sources of brand equity from the perspective of both the firm and the consumer.[38] From the perspective of the firm, it is necessary to understand exactly what products and services are currently being offered to consumers and how they are being marketed and branded. From the perspective of the consumer, it is necessary to uncover the true meaning of brands and products to the consumer. Brand audits consist of two steps: the brand inventory and the brand exploratory.

BRAND INVENTORY The purpose of the *brand inventory* is to provide a current, comprehensive profile of how all the products and services sold by a company are marketed and branded. Profiling each product or service requires identifying all associated brand elements as well as the supporting marketing program. This information should be accurate, comprehensive, and timely, and summarized in both visual and verbal form. As part of the brand inventory, it is also advisable to profile competitive brands, in as much detail as possible, in terms of their branding and marketing efforts.

The brand inventory helps to suggest what consumers' current perceptions *may* be based on. Although the brand inventory is primarily a descriptive exercise, some useful analysis can be conducted too. For example, marketers can assess the consistency of all the different products or services sharing a brand name. Are the different brand elements used in a consistent way or are there many different variations and versions—perhaps for no obvious reason—depending on geographical market, market segment, and so on? Similarly, are the supporting marketing programs logical and consistent across related brands?

BRAND EXPLORATORY The *brand exploratory* is research activity conducted to understand what consumers think and feel about the brand and its corresponding product category to identify sources of brand equity.

Several preliminary activities are useful for the brand exploratory. A number of prior research studies may be relevant. It is also useful to interview company personnel to gain an understanding of their beliefs about consumer perceptions. The diversity of opinion that typically emerges from these internal interviews serves several functions: It increases the likelihood that useful insights or ideas will be generated; it also points out any internal inconsistencies or misconceptions

Although these preliminary activities may yield useful findings and suggest certain hypotheses, they are often incomplete. Additional research may be required to better understand how customers shop for and use products and services and what they think of various brands. To allow a broad range of issues to be covered and to permit certain issues to be pursued in greater depth, the brand exploratory often employs qualitative research techniques, such as word associations, projective techniques, visualization, brand personification, and laddering (see Chapter 4).

Many firms are now using ethnography to supplement traditional focus groups. They study consumers in their everyday habitats at home, at work, at play, or shopping. Based on ethnographic research, Duracell, for example, learned that people had trouble removing a tab from its hearing aid batteries. The result was the introduction of a new product, Easy Tab. Whirlpool learned that people didn't want to wait for their dishwashers to fill up before running the machine, so its Kitchen Aid unit introduced a smaller version called Briva.

E! NETWORK

E! Network's sister station, The Style Network, has recently undergone a metamorphosis as a result of a brand audit. The Style Network was once known for its emphasis on haute couture, but a brand audit revealed that Style viewers wanted to watch shows that were more applicable to their lives. In response, Style phased in makeover shows with new twists. For instance, in "Guess Who's Coming to Decorate?" the contestant chooses between, say, his mother, a friend, or a designer for an interior overhaul. To tout Style's own "makeover," there's a $10 million ad campaign with the tagline "Where life gets a new look."[39]

Brand Tracking

Tracking studies collect information from consumers on a routine basis over time. Tracking studies typically employ quantitative measures to provide marketers with current information as to how their brands and marketing programs are performing on the basis of a number of key dimensions. Tracking studies are a means of understanding where, how much, and in what ways brand value is being created.

These studies perform an important function for managers by providing consistent baseline information to facilitate day-to-day decision making. As more varied marketing activity surrounds the brand, it becomes difficult and expensive to research each individual marketing action. Tracking studies provide valuable diagnostic insights into the collective effects of a host of marketing activities. Regardless of how few or many changes are made in the marketing program over time, it is important to monitor the health of the brand and its equity so that proper adjustments can be made.

Brand Valuation

Brand equity needs to be distinguished from **brand valuation**, which is the job of estimating the total financial value of the brand. Certain companies base their growth on acquiring and building rich brand portfolios. Nestlé has acquired Rowntree (U.K.), Carnation (U.S.), Stouffer (U.S.), Buitoni-Perugina (Italy), and Perrier (France), making it the world's largest food company.

Table 9.2 displays the world's most valuable brands in 2004 according to one ranking.[40] With these well-known companies, brand value is typically over one-half of the total company market capitalization. John Stuart, co-founder of Quaker Oats, said: "If this business were split up, I would give you the land and bricks and mortar, and I would take the brands

TABLE 9.2

The World's 10 Most Valuable Brands

Rank	Brand	2004 Brand Value (Billions)
1	Coca-Cola	$67.39
2	Microsoft	$61.37
3	IBM	$53.79
4	GE	$44.11
5	Intel	$33.50
6	Disney	$27.11
7	McDonald's	$25.00
8	Nokia	$24.04
9	Toyota	$22.67
10	Marlboro	$22.13

and trade marks, and I would fare better than you." U.S. companies do not list brand equity on their balance sheets because of the arbitrariness of the estimate. However, brand equity is given a value by some companies in the United Kingdom, Hong Kong, and Australia. "Marketing Insight: What Is a Brand Worth?" reviews one popular valuation approach, based in part on the price premium the brand commands times the extra volume it moves over an average brand.[41]

::: Managing Brand Equity

Effective brand management requires a long-term view of marketing decisions. Because consumer responses to marketing activity depend on what they know and remember about a brand, short-term marketing actions, by changing brand knowledge, necessarily increase or decrease the success of future marketing actions. Additionally, a long-term view results in proactive strategies designed to maintain and enhance customer-based brand equity over time in the face of external changes in the marketing environment and internal changes in a firm's marketing goals and programs.

Brand Reinforcement

As a company's major enduring asset, a brand needs to be carefully managed so that its value does not depreciate. Many brand leaders of 70 years ago are still today's brand leaders: Kodak, Wrigley's, Coca-Cola, Heinz, and Campbell Soup, but only by constantly striving to improve their products, services, and marketing. "Marketing Memo: Twenty-First-Century Branding" offers some contemporary perspectives on enduring brand leadership.

Brand equity is reinforced by marketing actions that consistently convey the meaning of the brand to consumers in terms of: (1) What products the brand represents; what core benefits it supplies; and what needs it satisfies; as well as (2) how the brand makes those products superior and which strong, favorable, and unique brand associations should exist in the minds of consumers. Nivea, one of Europe's strongest brands, has expanded its scope from a skin-cream brand to a skin-care and personal-care brand through carefully designed and implemented brand extensions reinforcing the Nivea brand promise of "mild," "gentle," and "caring" in a broader arena.

Reinforcing brand equity requires innovation and relevance throughout the marketing program. Marketers must introduce new products and conduct new marketing activities that truly satisfy their target markets. The brand must always be moving forward—but moving forward in the right direction. Marketing must always find new and compelling offerings and ways to market them. Brands that fail to do so—such as Kmart, Levi Strauss, Montgomery Ward, Oldsmobile, and Polaroid—find that their market leadership dwindles or even disappears.

MARKETING INSIGHT | WHAT IS A BRAND WORTH?

According to top brand valuation firm Interbrand, brand valuation is based on an assessment of what the value is today of the earnings or cash flow the brand can be expected to generate in the future. To estimate brand value, it is necessary to: (1) identify the true earnings that can be attributed strictly to the brand and (2) capitalize the earnings by applying a multiple to historic earnings as a discount rate to future cash flow.

Brand earnings. Interbrand maintains that not all of a brand's profitability can necessarily be applied to the valuation of that brand. A brand may essentially be a commodity or derive much of its profitability from non-brand-related considerations (like its distribution system). Elements of profitability that do not result from the brand's identity must therefore be excluded. Because the valuation may be adversely affected by using a single year's profit, Interbrand uses a three-year weighted average of historical profit.

Brand earnings are calculated by subtracting a number of items from brand sales: (1) costs of brand sales, (2) marketing costs, (3) variable and fixed overheads including depreciation and central overhead allocation, (4) remuneration of capital charge (a 5%–10% rental charge on the replacement value of the capital employed in the line of production), and (5) taxation.

Brand strength. To adjust these earnings, Interbrand conducts an in-depth assessment of brand strength. The assessment involves a detailed review of the brand, its positioning, the market in which it operates, competition, past performance, future plans, and risks to the brand. Interbrand administers a detailed questionnaire to collect the information from managers and customers. It also examines annual reports and other printed materials, and even conducts inspection visits to distributors and retail outlets.

Brand strength is a composite of seven weighted factors, each of which is scored according to established guidelines (see below). The resulting total, known as the *brand strength score,* is expressed as a percentage. This score is converted to an earnings multiple to be used against the brand-related profits. Certain adjustments are made to create a weighted average of post-tax brand profitability against which the brand multiplier is applied. Interbrand makes the comparison between the reciprocal of these multipliers and typical discount rates (or interest rates): A so-called perfect brand with a brand strength score of 100 would have a discount rate of 5 percent (1 over 20), which would be the typical return on a fairly low risk investment; a weaker brand with a lower multiplier would have a higher discount rate to reflect the greater risk.

Interbrand Brand Strength Formula (Weights in Parentheses)

1. ***Leadership*** (25%)—The brand's ability to influence its market and be a dominant force with a strong market share such that it can set price points, command distribution, and resist competitive invasions. A brand that leads its market or market sector is a more stable and valuable property than a brand lower down the order.
2. ***Stability*** (15%)—The ability of the brand to survive over a long period of time based on consumer loyalty and past history. Long-established brands that have become part of the "fabric" of their markets are particularly valuable.
3. ***Market*** (10%)—The brand's trading environment in terms of growth prospects, volatility, and barriers to entry. Brands in markets such as foods, drinks, and publishing are intrinsically more valuable than brands in, for example, high-tech or clothing areas, as the latter markets are more vulnerable to technological or fashion changes.
4. ***Geographic Spread*** (25%)—The ability of the brand to cross geographic and cultural borders. Brands that are international are inherently more valuable than national or regional brands, due in part to their economies of scale.
5. ***Trend*** (10%)—The ongoing direction and ability of the brand to remain contemporary and relevant to consumers.
6. ***Support*** (10%)—The amount and consistency of marketing and communication activity. Those brand names that have received consistent investment and focused support must be regarded as more valuable than those that have not. While the amount spent in supporting a brand is important, the quality of this support is equally significant.
7. ***Protection*** (5%)—The brand owner's legal titles. A registered trademark is a statutory monopoly in a name, device, or in a combination of these two. Other protection may exist in common law, at least in certain countries. The strength and breadth of the brand's protection is critical in assessing its worth.

Sources: Michael Birkin, "Assessing Brand Value," in *Brand Power,* edited by Paul Sobart (New York: Macmillan); Simon Mottram, "The Power of the Brand," ARF Brand Equity Conference, February 15–16, 1994; John Murphy, *Brand Valuation* (London: Hutchinson Business Books, 1989); Jean-Noel Kapferer, *Strategic Brand Management* (London: Kogan Page Limited, 1992); Noel Penrose and Martin Moorhouse, "The Valuation of Brands," *Trademark World,* no. 17 (February 1989); Tom Blackett, "The Role of Brand Valuation in Marketing Strategy," *Marketing Research Today* 17, no. 4 (November 1989): 245–248.

KELLOGG

After experiencing falling market share and profits through the 1990s, Kellogg was able to reestablish market leadership in the cereal business by getting consumers to pay more for their high-profit brands. The secret? Adding new features to old favorites such as Special K Red Berries cereal with freeze-dried berries, priced at nearly double the price of Raisin Bran cereal, or putting toys and computer CDs inside boxes of kids' cereals.[42]

An important consideration in reinforcing brands is the consistency of the marketing support the brand receives, in terms of both amount and kind. Consistency does not mean uniformity and no changes: Many tactical changes may be necessary to maintain the strate-

Campbell's Soup continually updates its marketing and its ads: This ad for its new "Soup at Hand" product features Bucky Lasek, a top pro skateboarder.

gic thrust and direction of the brand. Unless there is some change in the marketing environment, however, there is little need to deviate from a successful positioning. In such cases, sources of brand equity should be vigorously preserved and defended.

VOLVO

In an attempt to woo a different audience, Volvo drifted away from its heritage of safety in the late 1990s to push driving fun, speed, and performance. Purchased by Ford in 1999, the company dropped its ReVOLVOlution-themed ad campaign for the brand and went back to its roots in an attempt to revive sagging sales. Volvo's positioning was updated, however, to convey "active safety" to transcend the brand's boxy, sturdy "passive safety" image. With product introductions that maximized safety but that still encompassed style, performance, and luxury, Volvo's sales set records in 2003.[43]

In managing brand equity, it is important to recognize the trade-offs between those marketing activities that fortify the brand and reinforce its meaning and those that attempt to leverage or borrow from existing brand equity to reap some financial benefit.[44] At some point, failure to reinforce the brand will diminish brand awareness and weaken brand image.

THE HOME DEPOT

Since The Home Depot opened its first store in 1978 in Atlanta, the company has emphasized exemplary customer service. Its sales staff is trained to offer on-the-spot lessons in laying tile, electrical installations, and other

MARKETING **MEMO** | TWENTY-FIRST-CENTURY BRANDING

One of the most successful marketers of the last fifteen years, Scott Bedbury played a key role in the rise of both Nike and Starbucks. In his insightful book, *A New Brand World*, he offers the following branding principles:

1. ***Relying on brand awareness has become marketing fool's gold***—Smart brands are more concerned with brand relevance and brand resonance.
2. ***You have to know it before you can grow it***—Most brands don't know who they are, where they've been, and where they're going.
3. ***Always remember the Spandex rule of brand expansion***—Just because you can doesn't mean you should.
4. ***Great brands establish enduring customer relationships***—They have more to do with emotions and trust than with footwear cushioning or the way a coffee bean is roasted.
5. ***Everything matters***—Even your restroom.
6. ***All brands need good parents***—Unfortunately, most brands come from troubled homes.
7. ***Big is no excuse for being bad***—Truly great brands use their superhuman powers for good and place people and principles before profits.
8. ***Relevance, simplicity, and humanity***—Rather than technology—will distinguish brands in the future.

Source: Scott Bedbury, *A New Brand World* (New York: Viking Press, 2002).

projects; they are experienced tradespersons—plumbers, electricians, and carpenters. In recent years, however, there were customer complaints about clutter in the aisles and salespeople stocking items instead of providing service. Starting in 2001, The Home Depot gave its stores a makeover called Service Performance Improvement (SPI). SPI limits restocking to off-peak hours and prohibits forklifts in store aisles during the day. The program resulted in up to a 70 percent increase in employee interactions with customers. Before SPI was introduced, employees spent as little as 40 percent of their time with customers.

Brand Revitalization

Changes in consumer tastes and preferences, the emergence of new competitors or new technology, or any new development in the marketing environment could potentially affect the fortunes of a brand. In virtually every product category, there are examples of once prominent and admired brands—such as Smith Corona, Zenith, and TWA—that have fallen on hard times or, in some cases, disappeared.[45] Nevertheless, a number of these brands have managed to make impressive comebacks in recent years, as marketers have breathed new life into their customer franchises. Brands such as Breck, Dr. Scholl's and Fanta have all seen their brand fortunes successfully turned around to varying degrees.

Reversing a fading brand's fortunes requires either that it "returns to its roots" and lost sources of brand equity are restored, or that new sources of brand equity are established. Regardless of which approach is taken, brands on the comeback trail have to make more "revolutionary" changes than the "evolutionary" changes.

Often, the first thing to do in turning around the fortunes of a brand is to understand what the sources of brand equity were to begin with. Are positive associations losing their strength or uniqueness? Have negative associations become linked to the brand? Decisions must then be made as to whether to retain the same positioning or create a new positioning, and, if so, which positioning to adopt. Sometimes the positioning is still appropriate; it's the actual marketing program that is the source of the problem because it is failing to deliver on the brand promise. In those instances, a "back to basics" strategy may make sense, as was the case with Harley-Davidson.

HARLEY-DAVIDSON

Founded in 1903 in Milwaukee, WI, Harley-Davidson has twice narrowly escaped bankruptcy but is today one of the most-recognized motor vehicle brands in the world. In dire financial straits in the 1980s, it desperately licensed its name for such ill-advised ventures as Harley-Davidson cigarettes and wine coolers.

Although consumers loved the brand, sales were depressed by product quality problems. Harley's return to greatness was begun by improving manufacturing processes. Harley also developed a strong brand community in the form of an owners' club, called the Harley Owners Group (HOG), which sponsors bike rallies, charity rides, and other motorcycle events. Harley-Davidson has continued to promote its brand with grassroots marketing efforts and finds itself in the enviable position of having consumer demand exceed what it can supply.

In other cases, however, the old positioning is just no longer viable and a "reinvention" strategy is necessary. Mountain Dew completely overhauled its brand image to become a soft-drink powerhouse. As its history reveals, it is often easiest to revive a brand that is around, but has just more or less been forgotten.

MOUNTAIN DEW

Pepsi initially introduced Mountain Dew in 1969 and marketed it with the countrified tagline "Yahoo Mountain Dew! It'll Tickle Your Innards." By the 1990s, the brand was languishing on store shelves despite an attempt to evolve the image with outdoor action scenes. To turn the brand around, Mountain Dew updated the packaging and launched ads featuring a group of anonymous young males—the "Dew Dudes"—participating in extreme sports such as bungee jumping, skydiving, and snowboarding while consuming Mountain Dew. The brand slogan became "Do the Dew." The brand's successful pursuit of young soda drinkers led to Mountain Dew challenging Diet Coke to become the number-three selling soft drink in terms of market share by 2000.

There is obviously a continuum involved with revitalization strategies, with pure "back to basics" at one end and pure "reinvention" at the other end. Many revitalizations combine elements of both strategies. To refresh old sources of brand equity or create new sources, two main approaches are possible:

1. Expand the depth and/or breadth of brand awareness by improving consumer recall and recognition of the brand during purchase or consumption settings.
2. Improve the strength, favorability, and uniqueness of brand associations making up the brand image. This approach may involve programs directed at existing or new brand associations.

Brand revitalizations of almost any kind start with the product. General Motors' turnaround with its fading Cadillac brand was fueled by new model designs that redefined the Cadillac look and styling, such as with the CTS sedan, XLR roadster, and ESV sport utility vehicle.[46]

Brand Crisis

Marketing managers must assume that at some point in time, some kind of brand crisis will arise. Diverse brands such as Jack in the Box restaurants, Firestone tires, Exxon oil, Suzuki Samurai sport utility vehicles, and Martha Stewart have all experienced a serious, potentially crippling brand crisis. In general, the more that brand equity and a strong corporate image has been established—especially with respect to corporate credibility and trustworthiness—the more likely it is that the firm can weather the storm. Careful preparation and a well-managed crisis management program, however, are also critical. As Johnson & Johnson's nearly flawless handling of the Tylenol product-tampering incident suggests, the key to managing a crisis is that consumers see the response by the firm as both *swift* and *sincere*.

In terms of swiftness, the longer it takes a firm to respond to a marketing crisis, the more likely it is that consumers can form negative impressions as a result of unfavorable media coverage or word of mouth. Perhaps even worse, consumers may find out that they do not really like the brand that much after all and permanently switch to alternative brands or products.

PERRIER

Perrier was forced to halt production worldwide and recall all of its existing bottles in February 1994, when traces of benzene, a known carcinogen, were found in excessive quantities in the bottled water. Over the course of the next few weeks, several explanations were offered as to how the contamination occurred, creating confusion and skepticism. Perhaps even more damaging, the product itself was off the shelves until May 1994.

Despite an expensive relaunch featuring ads and promotions, the brand struggled to regain lost market share, and a full year later found sales less than half of what they once had been. Part of the problem was that during the time the product was unavailable, consumers and retailers found satisfactory substitutes. With its key "purity" association tarnished—the brand had been advertised as the "Earth's First Soft Drink" and "It's Perfect. It's Perrier."—the brand had no other compelling points-of-difference over these competitors.[47] Eventually, the company was taken over by Nestlé SA.

Second, swift actions must also come across as sincere. The more sincere the response by the firm—in terms of public acknowledgment of the severity of the impact on consumers and a willingness of the firm to take whatever steps are necessary and feasible to solve the crisis—the less likely it is that consumers will form negative attributions.

GERBER

Although Gerber had established a strong image of trust with consumers, baby food is a product category characterized by an extremely high level of involvement and need for reassurance. When consumers reported finding shards of glass in some jars of its baby food, Gerber tried to reassure the public that there were no problems in its manufacturing plants. But the company adamantly refused to have its baby food withdrawn from food stores. Some consumers clearly found Gerber's response unsatisfactory: Its market share slumped from 66 percent to 52 percent within a couple of months. As one company official admits, "Not pulling our baby food off the shelf gave the appearance that we aren't a caring company."[48]

::: Devising a Branding Strategy

The **branding strategy** for a firm reflects the number and nature of common and distinctive brand elements applied to the different products sold by the firm. In other words, devising a branding strategy involves deciding the nature of new and existing brand elements to be applied to new and existing products.

The decision as to how to brand new products is especially critical. When a firm introduces a new product, it has three main choices:

1. It can develop new brand elements for the new product.
2. It can apply some of its existing brand elements.
3. It can use a combination of new and existing brand elements.

When a firm uses an established brand to introduce a new product, it is called a **brand extension**. When a new brand is combined with an existing brand, the brand extension can also be called a **sub-brand**, as with Hershey Kisses candy, Adobe Acrobat software, Toyota Camry automobiles, and American Express Blue cards. An existing brand that gives birth to a brand extension is referred to as the **parent brand**. If the parent brand is already associated with multiple products through brand extensions, then it may also be called a **family brand**.

Brand extensions can be broadly classified into two general categories:[49] In a **line extension**, the parent brand is used to brand a new product that targets a new market segment within a product category currently served by the parent brand, such as through new flavors, forms, colors, added ingredients, and package sizes. Dannon has introduced several types of Dannon yogurt line extensions through the years—Fruit on the Bottom, Natural Flavors, Fruit Blends, and Whipped. In a **category extension**, the parent brand is used to enter a different product category from that currently served by the parent brand, such as Swiss Army watches. Honda has used its company name to cover such different products as automobiles, motorcycles, snowblowers, lawnmowers, marine engines, and snowmobiles. This allows Honda to advertise that it can fit "six Hondas in a two-car garage."

A **brand line** consists of all products—original as well as line and category extensions—sold under a particular brand. A **brand mix** (or brand assortment) is the set of all brand lines that a particular seller makes available to buyers. Many companies are now introducing **branded variants**, which are specific brand lines supplied to specific retailers or distribution channels. They result from the pressure retailers put on manufacturers to provide distinctive offerings. A camera company may supply its low-end cameras to mass merchandisers while limiting its higher-priced items to specialty camera shops. Valentino may design and supply different lines of suits and jackets to different department stores.[50]

A **licensed product** is one whose brand name has been licensed to other manufacturers who actually make the product. Corporations have seized on licensing to push the company name and image across a wide range of products—from bedding to shoes—making it a $35 billion business.[51] Jeep's licensing program added up to $400 million in global sales in 2002 and included everything from strollers (built for a father's longer arms) to apparel (with teflon in the denim)—as long they fit the brand's positioning of "Life Without Limits."[52]

Branding Decision: To Brand or Not to Brand?

The first branding strategy decision is whether to develop a brand name for a product. Today, branding is such a strong force that hardly anything goes unbranded. So-called commodities do not have to remain commodities. A *commodity* is a product presumably so basic that it cannot be physically differentiated in the minds of consumers. Over the years, a number of products that at one time were seen as essentially commodities have become highly differentiated as strong brands have emerged in the category.[53] Some notable examples (with brand pioneers in parentheses) are: coffee (Maxwell House), bath soap (Ivory), flour (Gold Medal), beer (Budweiser), oatmeal (Quaker), pickles (Vlasic), bananas (Chiquita), pineapples (Dole), and even salt (Morton).

Assuming a firm decides to brand its products or services, it must then choose which brand names to use. Four general strategies are often used:

- ***Individual names.*** This policy is followed by General Mills (Bisquick, Gold Medal flour, Nature Valley granola bars, Old El Paso Mexican foods, Pop Secret popcorn, Wheaties cereal, and Yoplait yogurt). A major advantage of an individual-names strategy is that the company does not tie its reputation to the product's. If the product fails or appears to have low quality, the company's name or image is not hurt. Companies often use different brand names for different quality lines within the same product class. Delta branded its low-fare air carrier Song in part to protect the equity of its Delta Airlines brand.[54]
- ***Blanket family names.*** This policy is followed by Heinz and General Electric. A blanket family name also has advantages. Development cost is less because there is no need for "name" research or heavy advertising expenditures to create brand-name recognition. Furthermore, sales of the new product are likely to be strong if the manufacturer's name is good. Campbell's introduces new soups under its brand name with extreme simplicity and achieves instant recognition.
- ***Separate family names for all products.*** This policy is followed by Sears (Kenmore for appliances, Craftsman for tools, and Homart for major home installations). If a company produces quite different products, it is not desirable to use one blanket family name. Swift and Company developed separate family names for its hams (Premium) and fertilizers (Vigoro).
- ***Corporate name combined with individual product names.*** This sub-branding policy is followed by Kellogg (Kellogg's Rice Krispies, Kellogg's Raisin Bran, and Kellogg's Corn Flakes), as well as Honda, Sony, and Hewlett-Packard. The company name legitimizes, and the individual name individualizes, the new product.

The first two strategies are sometimes referred to as a "house of brands" and a "branded house," respectively, and can be seen as representing two ends of a brand relationship continuum, with the latter two strategies as being in between and combinations of the two. Although firms rarely adopt a pure example of any of the four strategies, deciding which general strategy to emphasize depends on several factors, as evidenced by Table 9.3.

Two key components of virtually any branding strategy are brand extensions and brand portfolios.

Brand Extensions

Recognizing that one of their most valuable assets is their brands, many firms have decided to leverage that asset by introducing a host of new products under some of their strongest brand names. Most new products are in fact line extensions—typically 80 to 90% in any one year. Moreover, many of the most successful new products, as rated by various sources, are extensions (e.g., Microsoft Xbox video game system, Apple iPod digital music player, and Nokia 6800 cell phone). Nevertheless, many new products are introduced each year as new brands (e.g., Zyprexa mood stabilizer drug, TiVo digital video recorders, and Mini automobile).

TABLE 9.3

Selecting a Brand Relationship Spectrum Position

Toward a Branded House	Toward a House of Brands
Does the parent brand contribute to the offering by adding:	**Is there a compelling need for a separate brand because it will:**
—Associations enhancing the value proposition?	—Create and own an association?
—Credibility through organizational associations?	—Represent a new, different offering?
—Visibility?	—Retain/capture customer/brand bond?
—Communication efficiencies?	—Deal with channel conflict?
Will the master brand be strengthened by associating with the new offering?	***Will the business support a new brand name?***

Source: Adapted from David A. Aaker and Erich Joachimsthaler, *Brand Leadership* (New York: Free Press, 2000), Figure 4-6, p. 120.

ADVANTAGES OF BRAND EXTENSIONS Two main advantages of brand extensions are that they can facilitate new-product acceptance, as well as provide positive feedback to the parent brand and company.

New-Product Success Brand extensions improve the odds of new-product success in a number of ways. With a brand extension, consumers can make inferences and form expectations as to the likely composition and performance of a new product based on what they already know about the parent brand itself and the extent to which they feel this information is relevant to the new product.[55] For example, when Sony introduced a new personal computer tailored for multimedia applications, Vaio, consumers may have been more likely to feel comfortable with its anticipated performance because of their experience with and knowledge of other Sony products.

By setting up positive expectations, extensions reduce risk.[56] Because of the potentially increased consumer demand resulting from introducing a new product as an extension, it also may be easier to convince retailers to stock and promote a brand extension. From a marketing communications perspective, an introductory campaign for an extension does not have to create awareness of both the brand and the new product but instead can concentrate on the new product itself.[57]

Extensions can thus result in reduced costs of the introductory launch campaign, important given that establishing a new brand name in the U.S. marketplace for a mass-consumer-packaged good can cost $100 million! They also can avoid the difficulty—and expense—of coming up with a new name. Extensions allow for packaging and labeling efficiencies. Similar or virtually identical packages and labels for extensions can result in lower production costs and, if coordinated properly, more prominence in the retail store by creating a "billboard" effect. For example, Stouffers offers a variety of frozen entrees with identical orange packaging that increases their visibility when they are stocked together in the freezer. By offering consumers a portfolio of brand variants within a product category, consumers who need a change—because of boredom, satiation, or whatever—can switch to a different product type without having to leave the brand family.

SUAVE

The low-priced family brand, Suave, sold by Helene-Curtis, includes a variety of personal-care products such as shampoo and conditioners, baby products, skin lotions, antiperspirants and deodorants, and so on. Given the amount of brand switching and the large number of personal care product brands kept by consumers in general—and of shampoos in particular—the ability of Suave to offer a full product line is a competitive advantage. By continually line extending, Suave keeps up with any new market trend or shift in consumer demand.[58]

Positive Feedback Effects Besides facilitating acceptance of new products, brand extensions can also provide feedback benefits.[59] They can help to clarify the meaning of a brand and its core brand values or improve consumer perceptions of the credibility of the company behind the extension. Thus, through brand extensions, Crayola means

Brand extensions allow for packaging and labeling efficiency: Stouffer's distinctive orange packaging lets consumers switch to a different product without leaving the brand.

"colorful crafts for kids," Aunt Jemima means "breakfast foods," and Weight Watchers means "weight loss and maintenance."

Line extensions can renew interest and liking for the brand and benefit the parent brand by expanding market coverage. Kimberly-Clark's Kleenex unit has a goal of having facial tissue in every room of the home. This philosophy has led to a wide variety of Kleenex facial tissues and packaging, including scented, ultra-soft and lotion-impregnated tissues; boxes with drawings of dinosaurs and dogs for children's rooms, or colorful, stylish designs to match room décor; and a "man-sized" box with tissues 50 percent larger than regular Kleenex. One benefit of a successful extension is that it may also serve as the basis for subsequent extensions. During the 1970s and 1980s, Billabong established its brand credibility with the young surfing community as a designer and producer of quality surf apparel. This success permitted it to extend into other youth-oriented areas, such as snowboarding and skateboarding.

DISADVANTAGES OF BRAND EXTENSIONS On the downside, line extensions may cause the brand name to not be as strongly identified with any one product.[60] Ries and Trout call this the "line-extension trap."[61] By linking its brand to mainstream food products such as mashed potatoes, powdered milk, soups, and beverages, Cadbury ran the risk of losing its more specific meaning as a chocolates and candy brand.[62] **Brand dilution** occurs when consumers no longer associate a brand with a specific product or highly similar products and start thinking less of the brand.

If a firm launches extensions consumers deem inappropriate, they may question the integrity and competence of the brand. Different varieties of line extensions may confuse and perhaps even frustrate consumers: Which version of the product is the "right one" for them? As a result, they may reject new extensions for "tried-and-true" favorites or all-purpose versions. Retailers have to reject many new products and brands because they do not have the shelf or display space for them.

The worst possible scenario with an extension is that not only does it fail, but it harms the parent brand image in the process. Fortunately, such events are rare. "Marketing failures," where insufficient consumers were attracted to a brand, are typically much less damaging than "product failures," where the brand fundamentally fails to live up to its promise. Even then, product failures dilute brand equity only when the extension is seen as very similar to the parent brand. The Audi 5000 car suffered from a tidal wave of negative publicity and word of mouth in the mid-1980s when it was alleged to have a "sudden acceleration" problem. The adverse publicity also spilled over to the 4000 model. But the Quattro was relatively more insulated from negative repercussions, because it was distanced from the 5000 by its more distinct branding and advertising strategy.[63]

Even if sales of a brand extension are high and meet targets, it is possible that this revenue may have resulted from consumers switching to the extension from existing product offerings of the parent brand—in effect *cannibalizing* the parent brand. Intrabrand shifts in sales may not necessarily be so undesirable, as they can be thought of as a form of *preemptive cannibalization*. In other words, consumers might have switched to a competing brand instead of the line extension if it had not been introduced into the category. Tide laundry detergent maintains the same market share now compared as it did 50 years ago because of the sales contributions of the various line extensions (scented and unscented powder, tablet, liquid, and other forms).

Crest White Strips leverages the strong reputation of Crest in dental care.

One easily overlooked disadvantage to brand extensions is that by introducing a new product as a brand extension, the firm forgoes the chance to create a new brand with its own unique image and equity. Consider the advantages to Disney of having introduced more adult-oriented Touchstone films; to Levi's of having introduced casual Dockers pants; and to Black and Decker of having introduced high-end Dewalt power tools.

SUCCESS CHARACTERISTICS A potential new-product extension for a brand must be judged by how effectively it leverages existing brand equity from the parent brand to the new product, as well as how effectively the extension, in turn, contributes to the equity of the parent brand.[64] Crest White Strips leveraged the strong reputation of Crest and dental care to provide reassurance in the teeth-whitening arena, while also reinforcing its dental authority image. The most important consideration with extensions is that there is "fit" in the mind of the consumer. Consumers may see a basis of fit for an extension in many ways—common physical attributes, usage situations, or user types.

One major mistake in evaluating extension opportunities is failing to take *all* of consumers' brand knowledge structures into account. Often marketers mistakenly focus on one or perhaps a few brand associations as a potential basis of fit and ignore other, possibly more important, associations in the process.

BIC

The French company Societe Bic, by emphasizing inexpensive, disposable products, was able to create markets for nonrefillable ball-point pens in the late 1950s; disposable cigarette lighters in the early 1970s; and disposable razors in the early 1980s. It unsuccessfully tried the same strategy in marketing Bic perfumes in the

United States and Europe in 1989. The perfumes—two for women ("Nuit" and "Jour") and two for men ("Bic for Men" and "Bic Sport for Men")—were packaged in quarter-ounce glass spray bottles that looked like fat cigarette lighters and sold for $5 each. The products were displayed on racks at checkout counters throughout Bic's extensive distribution channels. At the time, a Bic spokeswoman described the new products as extensions of the Bic heritage—"high quality at affordable prices, convenient to purchase, and convenient to use." The brand extension was launched with a $20 million advertising and promotion campaign containing images of stylish people enjoying themselves with the perfume and using the tagline "Paris In Your Pocket." Nevertheless, Bic was unable to overcome its lack of cachet and negative image associations, and the extension was a failure.[65]

"Marketing Memo: Research Insights on Brand Extensions" outlines a number of academic research findings on brand extensions.

Brand Portfolios

All brands have boundaries—a brand can only be stretched so far. Multiple brands are often necessary to pursue multiple market segments. Any one brand is not viewed equally favorably by all the different market segments that the firm would like to target. Some other reasons for introducing multiple brands in a category include:[66]

1. To increase shelf presence and retailer dependence in the store;
2. To attract consumers seeking variety who may otherwise have switched to another brand;
3. To increase internal competition within the firm; and
4. To yield economies of scale in advertising, sales, merchandising, and physical distribution.

The **brand portfolio** is the set of all brands and brand lines a particular firm offers for sale to buyers in a particular category. Different brands may be designed and marketed to appeal to different market segments.

MARKETING MEMO | RESEARCH INSIGHTS ON BRAND EXTENSIONS

Academics have studied brand extensions closely. Here is a summary of some of their key research findings.

- Successful brand extensions occur when the parent brand is seen as having favorable associations and there is a perception of fit between the parent brand and the extension product.
- There are many bases of fit: product-related attributes and benefits, as well as non-product-related attributes and benefits related to common usage situations or user types.
- Depending on consumer knowledge of the categories, perceptions of fit may be based on technical or manufacturing commonalties or more surface considerations such as necessary or situational complementarity.
- High-quality brands stretch farther than average-quality brands, although both types of brands have boundaries.
- A brand that is seen as prototypical of a product category can be difficult to extend outside the category.
- Concrete attribute associations tend to be more difficult to extend than abstract benefit associations.
- Consumers may transfer associations that are positive in the original product class but become negative in the extension context.
- Consumers may infer negative associations about an extension, perhaps even based on other inferred positive associations.
- It can be difficult to extend into a product class that is seen as easy to make.
- A successful extension can not only contribute to the parent brand image but also enable a brand to be extended even farther.
- An unsuccessful extension hurts the parent brand only when there is a strong basis of fit between the two.
- An unsuccessful extension does not prevent a firm from "backtracking" and introducing a more similar extension.
- Vertical extensions can be difficult and often require sub-branding strategies.
- The most effective advertising strategy for an extension emphasizes information about the extension (rather than reminders about the parent brand).

Source: Kevin Lane Keller, *Strategic Brand Management*, 2nd ed. (Upper Saddle River, NJ: Prentice Hall, 2003).

GAP

Founded in 1969 and named after the "generation gap," retail clothing manufacturer GAP grew by selling colorful GAP-branded clothing positioned as casual, functional, and "basic with attitude." GAP expanded beyond its flagship stores though acquisitions and extensions. GAPKids is a highly successful extension that was introduced in 1986. GAP bought Banana Republic and its unique travel and safari-themed stores and catalogs in 1983, and reformulated the clothing to reflect more urban tastes. In March 1994, GAP introduced Old Navy clothing stores to sell GAP-like men's, women's, and children's apparel at lower prices in large, warehouse-style outlets.

A brand portfolio must be judged by its ability to maximize brand equity. The optimal brand portfolio is one where each brand maximizes equity in combination with all other brands in the portfolio. In designing the optimal brand portfolio, marketers generally need to trade off market coverage and these other considerations with costs and profitability. If profits can be increased by dropping brands a portfolio is too big; if profits can be increased by adding brands, a portfolio is not big enough. In general, the basic principle in designing a brand portfolio is to *maximize market coverage,* so that no potential customers are being ignored, but to *minimize brand overlap,* so brands are not competing to gain customer approval. Each brand should be clearly differentiated and appealing to a sizable enough marketing segment to justify its marketing and production costs.[67]

Brand portfolios need to be carefully monitored over time to identify weak brands and kill unprofitable ones.[68]

ELECTROLUX

In the late 1990s, consumer durables manufacturer Electrolux offered a range of professional food service equipment in Western Europe. By 1996, the company had 15 brands in the professional food service equipment market, but only one, Zanussi, was sold in more than one country in Europe. By moving from a segmentation scheme based on price—low, medium, and high—to one based on consumer needs—from basic solutions to prestige gourmet—Electrolux was able to go from 15 local brands to having four pan-European brands. The resulting economies of scale and scope helped turn Electrolux's fortunes around, so even though it deleted many brands, its professional kitchenware division's sales never dwindled and it was finally able to turn a profit in 2001.

Brand lines with poorly differentiated brands are likely to be characterized by much cannibalization and require pruning.[69] Kellogg's Eggo waffles come in 16 flavors. Investors can choose among 8,000 mutual funds. Students can choose among hundreds of business schools. For the seller, this may spell hypercompetition. For the buyer, this may spell too much choice.

Besides these considerations, there are a number of specific roles brands can play as part of a brand portfolio.

FLANKERS Flanker or "fighter" brands are positioned with respect to competitors' brands so that more important (and more profitable) *flagship brands* can retain their desired positioning. Procter & Gamble markets Luvs diapers in a way that flanks the more premium positioned Pampers. In designing these fighter brands, marketers must walk a fine line. Fighter brands must not be so attractive that they take sales away from their higher-priced comparison brands or referents. At the same time, if fighter brands are seen as connected to other brands in the portfolio in any way (e.g., by virtue of a common branding strategy), then fighter brands must not be designed so cheaply that they reflect poorly on these other brands.

CASH COWS Some brands may be kept around despite dwindling sales because they still manage to hold on to a sufficient number of customers and maintain their profitability with virtually no marketing support. These "cash cow" brands can be effectively "milked" by capitalizing on their reservoir of existing brand equity. For example, despite the fact that technological advances have moved much of its market to the newer Mach III brand of razors, Gillette still sells the older Trac II, Atra, and Sensor brands. Because withdrawing these brands may not necessarily result in customers switching to another Gillette brand, it may be more profitable for Gillette to keep them in its brand portfolio for razor blades.

LOW-END ENTRY-LEVEL The role of a relatively low-priced brand in the brand portfolio often may be to attract customers to the brand franchise. Retailers like to feature these "traffic builders" because they are able to "trade up" customers to a higher-priced brand. For example, BMW introduced certain models into its 3-series automobiles in part as a means of bringing new customers into the brand franchise with the hope of later "moving them up" to higher-priced models when they later decided to trade in their cars.

HIGH-END PRESTIGE The role of a relatively high-priced brand in the brand family often is to add prestige and credibility to the entire portfolio. For example, one analyst argued that the real value of its Corvette high performance sports car to Chevrolet was in "its ability to lure curious customers into showrooms and at the same time help improve the image of other Chevrolet cars. It does not mean a hell of a lot for GM profitability, but there is no question that it is a traffic builder."[70] Corvette's technological image and prestige were meant to cast a halo over the entire Chevrolet line.

SUMMARY :::

1. A brand is a name, term, sign, symbol, or design, or some combination of these elements, intended to identify the goods and services of one seller or group of sellers and to differentiate them from those of competitors. The different components of a brand—brand names, logos, symbols, package designs, and so on—are brand elements.
2. Brands offer a number of benefits to customers and firms. Brands are valuable intangible assets that need to be managed carefully. The key to branding is that consumers perceive differences among brands in a product category.
3. Brand equity should be defined in terms of marketing effects uniquely attributable to a brand. That is, brand equity relates to the fact that different outcomes result in the marketing of a product or service because of its brand, as compared to the results if that same product or service was not identified by that brand.
4. Building brand equity depends on three main factors: (1) The initial choices for the brand elements or identities making up the brand; (2) the way the brand is integrated into the supporting marketing program; and (3) the associations indirectly transferred to the brand by linking the brand to some other entity (e.g., the company, country of origin, channel of distribution, or another brand).
5. Brand equity needs to be measured in order to be managed well. Brand audits are in-depth examinations of the health of a brand and can be used to set strategic direction for the brand. Tracking studies involve information collected from consumers on a routine basis over time and provide valuable tactical insights into the short-term effectiveness of marketing programs and activities. Brand audits measure "where the brand has been," and tracking studies measure "where the brand is now" and whether marketing programs are having the intended effects.
6. A branding strategy for a firm identifies which brand elements a firm chooses to apply across the various products it sells. In a brand extension, a firm uses an established brand name to introduce a new product. Potential extensions must be judged by how effectively they leverage existing brand equity to a new product, as well as how effectively the extension, in turn, contributes to the equity of the existing parent brand.
7. Brands can play a number of different roles within the brand portfolio. Brands may expand coverage, provide protection, extend an image, or fulfill a variety of other roles for the firm. Each brand name product must have a well-defined positioning. In that way, brands can maximize coverage and minimize overlap and thus optimize the portfolio.

APPLICATIONS :::

Marketing Debate Are Brand Extensions Good or Bad?

Some critics vigorously denounce the practice of brand extensions, as they feel that too often companies lose focus and consumers become confused. Other experts maintain that brand extensions are a critical growth strategy and source of revenue for the firm.

Take a position: Brand extensions can endanger brands versus brand extensions are an important brand-growth strategy.

Marketing Discussion

How can you relate the different models of brand equity presented in this chapter? How are they similar? How are they different? Can you construct a brand equity model that incorporates the best aspects of each model?

MARKETING SPOTLIGHT | PROCTER & GAMBLE

Procter & Gamble (P&G) is one of the most skilled marketers of consumer packaged goods. It markets the leading brand in 19 of the 39 categories in which it competes. Its average market share is close to 25 percent. Its market leadership rests on several principles:

- ***Customer knowledge:*** P&G studies its customers—both final consumers and the trade—through continuous marketing research and intelligence gathering. It prints its toll-free 800 number on every product.
- ***Long-term outlook:*** P&G takes the time to analyze each opportunity carefully and prepare the best product, then commits itself to making this product a success. It struggled with Pringles potato chips for almost a decade before achieving market success.
- ***Product innovation:*** P&G is an active product innovator, devoting $1.7 billion (4 percent of sales) to research and development, an impressively high amount for a packaged-goods company. Part of its innovation process is developing brands that offer new consumer benefits. Recent examples include Febreze, an odor-eliminating fabric spray; Dryel, a product that allows consumers to clean and freshen "dry clean only" clothes at home; and Swiffer, a new cleaning system that more effectively removes dust, dirt, and hair from floors and other hard surfaces.
- ***Quality strategy:*** P&G designs products of above-average quality and continuously improves them. When P&G announces "new and improved," it means it. Recent examples include Tide and Ariel compact detergents that remove stains and sanitize laundry while protecting original fabric colors; and Pampers Rash Guard, the only diaper designed to treat and prevent diaper rash.
- ***Line-extension strategy:*** P&G produces its brands in several sizes and forms. This strategy gains more shelf space and prevents competitors from moving in to satisfy unmet market needs.
- ***Category-extension strategy:*** P&G often uses its strong brand names to launch new products. The Ivory brand has been extended from a soap to include a liquid soap, a dishwashing detergent, and a shampoo. Old Spice was successfully extended from men's fragrances to deodorant. Launching a new product under a strong existing brand name gives the new brand instant recognition and credibility with much less advertising outlay.
- ***Multibrand strategy:*** P&G markets several brands in the same product category. Each brand meets a different consumer want and competes against specific competitors' brands. Each brand manager competes for company resources. More recently, P&G has begun to reduce its vast array of products, sizes, flavors, and varieties to bring down costs.
- ***Heavy advertising and media pioneer:*** P&G is the nation's second-largest consumer-packaged-goods advertiser, spending over $3 billion a year on advertising. A pioneer in using the power of television to create strong consumer awareness and preference, P&G is now taking a leading role in building its brand on the Web.
- ***Aggressive sales force:*** In 1998, P&G's sales force was named one of the top 25 sales forces by *Sales & Marketing Management* magazine. A key to P&G's success is the close ties its sales force forms with retailers, notably Wal-Mart. The 150-person team that serves the retail giant works closely with Wal-Mart to improve both the products that go to the stores and the process by which they get there.
- ***Effective sales promotion:*** P&G's sales promotion department counsels its brand managers on the most effective promotions to achieve particular objectives. The department develops an expert sense of these deals' effectiveness under varying circumstances. At the same time, P&G tries to minimize the use of sales promotion and move toward "everyday low prices."
- ***Competitive toughness:*** P&G carries a big stick when it comes to aggressors. It is willing to spend large sums of money to outpromote new competitive brands and prevent them from gaining a foothold.
- ***Manufacturing efficiency and cost cutting:*** P&G's reputation as a great marketing company is matched by its excellence as a manufacturing company. P&G spends large sums developing and improving production operations to keep its costs among the lowest in the industry; and P&G has recently begun slashing its costs even further, allowing it to reduce the premium prices at which some of its goods sell.
- ***Brand-management system:*** P&G originated the brand-management system, in which one executive is responsible for each brand. The system has been copied by many competitors but frequently without P&G's success. Recently, P&G modified its general management structure so that each brand category is now run by a category manager with volume and profit responsibility. Although this new organization does not replace the brand-management system, it helps to sharpen strategic focus on key consumer needs and competition in the category.

Thus P&G's market leadership is not based on doing one thing well, but on the successful orchestration of myriad factors that contribute to market leadership.

Discussion Questions

1. What have been the key success factors for Procter & Gamble?
2. Where is Procter & Gamble vulnerable? What should it watch out for?
3. What recommendations would you make to senior marketing executives going forward? What should they be sure to do with its marketing?

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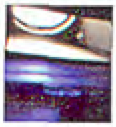

IN THIS CHAPTER, WE WILL ADDRESS THE FOLLOWING QUESTIONS:

1. How can a firm choose and communicate an effective positioning in the market?
2. How are brands differentiated?
3. What marketing strategies are appropriate at each stage of the product life cycle?
4. What are the implications of market evolution for marketing strategies?

CHAPTER 10 ::: CRAFTING THE BRAND POSITIONING

ten

No company can win if its products and offerings resemble every other product and offering. Companies must pursue relevant positioning and differentiation. As part of the strategic brand management process, each company and offering must represent a distinctive big idea in the mind of the target market.

The Public Broadcasting Service finds its brand in a difficult position. The average nightly prime-time ratings for public television's 349 stations declined 23 percent from 1993 to 2002. During that same period, cable networks such as Discovery Channel, History Channel, A&E, and Fox News siphoned off PBS viewers and experienced a 122 percent growth. PBS's loyal audience is aging—the average age of a prime-time PBS viewer is the mid-fifties. The challenge is to attract new, younger viewers while still maintaining the quality programming that is its mission. PBS's identity crisis caused CEO Pat Mitchell to proclaim in 2002: "For public broadcasting to be vital and viable, we are going to have to embrace some changes."[1]

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A recent PBS fund drive on New York's Channel Thirteen. Channel Thirteen is adjusting its programming to attract a more diverse audience.

As the plight of PBS demonstrates, even when a company succeeds in distinguishing itself, differences can be short-lived. Companies normally reformulate their marketing strategies and offerings several times. Economic conditions change, competitors launch new assaults, and products pass through new stages of buyer interest and requirements. Marketers must develop strategies for each stage in the product's life cycle. The goal is to extend the product's life and profitability, keeping in mind that products do not last forever. This chapter explores specific ways a company can effectively position and differentiate its offerings to achieve a competitive advantage throughout the life cycle of a product or an offering.

::: Developing and Communicating a Positioning Strategy

All marketing strategy is built on STP—Segmentation, Targeting, and Positioning. A company discovers different needs and groups in the marketplace, targets those needs and groups that it can satisfy in a superior way, and then positions its offering so that the target market recognizes the company's distinctive offering and image. If a company does a poor job of positioning, the market will be confused. This happened when National Car Company and Alamo Rent-a-Car were combined by their former parent, ANC Rental Corp., following its Chapter 11 bankruptcy court filing in 2001.

NATIONAL CAR RENTAL AND ALAMO RENT-A-CAR

Premium brand National traditionally catered to business travelers, whereas Alamo Rent-a-Car has been getting 90 percent of its business from leisure travelers. After the two merged, the dual Alamo/National logos were plastered on everything from airport shuttle buses to workers' polo shirts. Customers of both Alamo and National had problems distinguishing between the brands, even though National's cars typically rent for 10 to 20 percent more than Alamo's. After all, the customers had to stand in the same line behind the same airport counter, receive service from the same rental agents, ride the same shuttle buses, and drive cars from the same fleet. National was most hurt by the lack of differentiation at these key touchpoints, and its market share fell 5 to 10 percent. Interestingly, after consolidation of the brands, shuttle bus frequency improved 38 percent and business travelers were given even more options to bypass the rental counter entirely. Still, in surveys, National renters *perceived* the buses to be slower, the lines longer, and customer service poorer. The clear implication was that in order for the two brands to maintain their integrity and their positioning with their respective market segments, they had to be separated.[2]

If a company does an excellent job of positioning, then it can work out the rest of its marketing planning and differentiation from its positioning strategy. We define positioning as follows: **Positioning** is the act of designing the company's offering and image to occupy a distinctive place in the mind of the target market. The goal is to locate the brand in the minds of consumers to maximize the potential benefit to the firm. A good brand positioning helps guide marketing strategy by clarifying the brand's essence, what goals it helps the consumer achieve, and how it does so in a unique way. The result of positioning is the successful creation of a *customer-focused value proposition*, a cogent reason why the target market should buy the product. Table 10.1 shows how three companies—Perdue, Volvo, and Domino's—defined their value proposition given their target customers, benefits, and prices.

The word "positioning" was popularized by two advertising executives, Al Ries and Jack Trout. They see positioning as a creative exercise done with an existing product:

TABLE 10.1 | Examples of Value Propositions Demand States and Marketing Tasks

Company and Product	Target Customers	Benefits	Price	Value Proposition
Perdue (chicken)	Quality-conscious consumers of chicken	Tenderness	10% premium	More tender golden chicken at a moderate premium price
Volvo (station wagon)	Safety-conscious "upscale" families	Durability and safety	20% premium	The safest, most durable wagon in which your family can ride
Domino's (pizza)	Convenience-minded pizza lovers	Delivery speed and good quality	15% premium	A good hot pizza, delivered to your door within 30 minutes of ordering, at a moderate price

> Positioning starts with a product. A piece of merchandise, a service, a company, an institution, or even a person. . . . But positioning is not what you do to a product. Positioning is what you do to the mind of the prospect. That is, you position the product in the mind of the prospect.[3]

"Marketing Insight: Value Disciplines Positioning" offers another point of view about positioning. According to virtually all approaches, positioning requires that similarities and differences between brands be defined and communicated. Specifically, deciding on a positioning requires determining a frame of reference by identifying the target market and the competition, and identifying the ideal points-of-parity and points-of-difference brand associations.

Competitive Frame of Reference

A starting point in defining a competitive frame of reference for a brand positioning is to determine **category membership**—the products or sets of products with which a brand competes and which function as close substitutes. As we discuss in Chapter 11, competitive analysis will consider a whole host of factors—including the resources, capabilities, and likely intentions of various other firms—in choosing those markets where consumers can be profitably serviced.

Target market decisions are often a key determinant of the competitive frame of reference. Deciding to target a certain type of consumer can define the nature of competition because certain firms have decided to target that segment in the past (or plan to do so in the

MARKETING INSIGHT | VALUE DISCIPLINES POSITIONING

Two consultants, Michael Treacy and Fred Wiersema, proposed a positioning framework called *value disciplines*. Within its industry, a firm could aspire to be the *product leader*, the *operationally excellent firm*, or the *customer-intimate firm*. This framework is based on the notion that in every market there is a mix of three types of customers. Some customers favor the firm that is on the technological frontier (product leadership); other customers want highly reliable performance (operational excellence); and still others want high responsiveness in meeting their individual needs (customer intimacy).

A firm cannot normally be best in all three ways, or even in two ways. Each value discipline requires different managerial mind-sets and investments that often conflict. Thus McDonald's excels at operational excellence, but could not afford to slow down its service to prepare hamburgers differently for each customer. Nor could McDonald's lead in new products because each addition would disrupt the smooth functioning of normal operations. Even within a large company, such as GE, each division might follow a different value discipline: GE's major appliance division pursues operational excellence, its engineered plastics division pursues customer intimacy, and its jet engine division pursues product leadership.

Treacy and Wiersema propose that a business should follow four rules for success:

1. Become best at one of the three value disciplines.
2. Achieve an adequate performance level in the other two disciplines.
3. Keep improving one's superior position in the chosen discipline so as not to lose out to a competitor.
4. Keep becoming more adequate in the other two disciplines, because competitors keep raising customers' expectations.

Source: Michael Treacy and Fred Wiersema, *The Disciplines of Market Leaders* (Reading, MA: Addison-Wesley, 1994).

"It's not delivery, it's DiGiorno." DiGiorno print ad that carries through on the delivered pizza positioning, which helped make it the frozen pizza leader.

future), or consumers in that segment already may look to certain brands in their purchase decisions. Determining the proper competitive frame of reference requires understanding consumer behavior and the consideration sets consumers use in making brand choices. In the United Kingdom, for example, the Automobile Association has positioned itself as the fourth "emergency service"—along with police, fire, and ambulance—to convey greater credibility and urgency. And look at how DiGiorno's positioned itself:

DIGIORNO'S PIZZA

DiGiorno's is a frozen pizza whose crust rises when the pizza is heated. Instead of putting it in the frozen pizza category, the marketers positioned it in the delivered pizza category. One of their ads shows party guests asking which pizza delivery service the host used. Then he says: "It's not delivery, its DiGiorno!" This helped highlight DiGiorno's fresh quality and superior taste. Through this clever positioning, DiGiorno's sales went from essentially nothing in 1995 to $382 million in 2002, making it the frozen pizza leader.[4]

Points-of-Parity and Points-of-Difference

Once the competitive frame of reference for positioning has been fixed by defining the customer target market and nature of competition, marketers can define the appropriate points-of-difference and points-of-parity associations.[5]

POINTS-OF-DIFFERENCE Points-of-difference (PODs) are attributes or benefits consumers strongly associate with a brand, positively evaluate, and believe that they could not find to the same extent with a competitive brand. Strong, favorable, and unique brand associations that make up points-of-difference may be based on virtually any type of attribute or benefit. Examples are FedEx (*guaranteed overnight delivery*), Nike (*performance*), and Lexus (*quality*).

Creating strong, favorable, and unique associations as points-of-difference is a real challenge, but essential in terms of competitive brand positioning. Consider the success of IKEA.

IKEA

Swedish retailer IKEA took a luxury product—home furnishings and furniture—and made it a reasonably priced alternative for the mass market. IKEA supports its low prices by having customers self-serve, deliver, and assemble the products themselves. IKEA also gains a point-of-difference through its product offerings. As one commentator noted, "IKEA built its reputation on the notion that Sweden produces good, safe, well-built things for the masses. It has some of the most innovative designs at the lowest cost out there." It also operates an excellent restaurant in each store (rare among furniture stores); offers child-care services while the parents shop; offers a membership program entitling members to special discounts on their purchases beyond the normal low price; and mails out millions of catalogs featuring the latest furniture.[6]

POINTS-OF-PARITY Points-of-parity (POPs), on the other hand, are associations that are not necessarily unique to the brand but may in fact be shared with other brands. These types of associations come in two basic forms: category and competitive.

Category points-of-parity are associations consumers view as essential to be a legitimate and credible offering within a certain product or service category. In other words, they represent necessary—but not necessarily sufficient—conditions for brand choice. Consumers might not consider a travel agency truly a travel agency unless it is able to make air and hotel reservations, provide advice about leisure packages, and offer various ticket payment and delivery options. Category points-of-parity may change over time due to technological advances, legal developments, or consumer trends, but they are the "greens fees" to play the marketing game.

Competitive points-of-parity are associations designed to negate competitors' points-of-difference. If, in the eyes of consumers, the brand association designed to be the competitor's point-of-difference is as strong for a brand as for competitors *and* the brand is able to establish another association as strong, favorable, and unique as part of its point-of-difference, then the brand should be in a superior competitive position. In other words, if a brand can "break even" in those areas where the competitors are trying to find an advantage *and* can achieve advantages in other areas, the brand should be in a strong—and perhaps unbeatable—competitive position. While other luxury-goods makers slumped in 2000, Coach saw its sales zoom ahead by adding style and fashion to its legendary rugged bags and briefcases.[7] As another example, consider the introduction of Miller Lite beer.[8]

MILLER LITE

The initial advertising strategy for Miller Lite beer had two goals—assuring parity with key competitors in the category by stating that it "tastes great," while at the same time creating a point-of-difference: It contained one-third less calories and was thus "less filling" than regular, full-strength beers. As is often the case, the point-of-parity and point-of-difference were somewhat conflicting, as consumers tend to equate taste with calories. To overcome potential resistance, Miller employed credible spokespeople, primarily popular former professional athletes, who would presumably not drink a beer unless it tasted good. These ex-jocks humorously debated which of the two product benefits—"tastes great" or "less filling"—was more descriptive of the beer. The ads ended with the clever tagline "Everything You've Always Wanted In a Beer . . . And Less."

POINTS-OF-PARITY VERSUS POINTS-OF-DIFFERENCE To achieve a point-of-parity (POP) on a particular attribute or benefit, a sufficient number of consumers must believe that the brand is "good enough" on that dimension. There is a "zone" or "range of tolerance or acceptance" with points-of-parity. The brand does not literally have to be seen as equal to competitors, but consumers must feel that the brand does well enough on that particular attribute or benefit. If consumers feel that way, they may be willing to base their evaluations and decisions on other factors potentially more favorable to the brand. A light beer presumably would never taste as good as a full-strength beer, but it would have to taste close enough to be able to effectively compete. With points-of-difference, however, the brand must demonstrate clear superiority. Consumers must be convinced that Louis Vuitton has the most stylish handbags, Energizer is the longest-lasting battery, and Merrill Lynch offers the best financial advice and planning.

Often, the key to positioning is not so much in achieving a point-of-difference (POD) as in achieving points-of-parity!

VISA VERSUS AMERICAN EXPRESS

Visa's POD in the credit card category is that it is the most widely available card, which underscores the category's main benefit of convenience. American Express, on the other hand, has built the equity of its brand by highlighting the prestige associated with the use of its card. Having established their PODs, Visa and American Express now compete by attempting to blunt each others' advantage to create POPs. Visa offers gold and platinum cards to enhance the prestige of its brand and advertises, "It's Everywhere You Want to Be" in settings that reinforce exclusivity and acceptability. American Express has substantially increased the number of vendors that accept its cards and created other value enhancements through its "Make Life Rewarding" program.

Establishing Category Membership

Target customers are aware that Maybelline is a leading brand of cosmetics, Cheerios is a leading brand of cereal, Accenture is a leading consulting firm, and so on. Often, however, marketers must inform consumers of a brand's category membership. Perhaps the most obvious situation is the introduction of new products, especially when the category membership is not apparent. This uncertainty can be a special problem for high-tech products. There are also situations where consumers know a brand's category membership, but may not be convinced that the brand is a valid member of the category. For example, consumers may be aware that Hewlett-Packard produces digital cameras, but they may not be certain whether Hewlett-Packard cameras are in the same class as Sony, Olympus, Kodak, and Nikon. In this instance, HP might find it useful to reinforce category membership.

Brands are sometimes affiliated with categories in which they do not hold membership. This approach is one way to highlight a brand's point-of-difference, providing that consumers know the brand's actual membership. With this approach, however, it is important that consumers understand what the brand stands for, and not just what it is *not*. It is important to not be trapped between categories. The Konica e-mini M digital camera and MP3 player was marketed as the "four-in-one entertainment solution," but suffered from functional deficiencies in each of its product applications and languished in the marketplace.[9]

The preferred approach to positioning is to inform consumers of a brand's membership before stating its point-of-difference. Presumably, consumers need to know what a product is and what function it serves before deciding whether it dominates the brands against which it competes. For new products, initial advertising often concentrates on creating brand awareness and subsequent advertising attempts to craft the brand image.

Occasionally, a company will try to straddle two frames of reference:

BMW

When BMW first made a strong competitive push into the U.S. market in the early 1980s, it positioned the brand as being the only automobile that offered both luxury *and* performance. At that time, American luxury cars were seen by many as lacking performance, and American performance cars were seen as lacking luxury. By relying on the design of its cars, its German heritage, and other aspects of a well-conceived marketing program, BMW was able to simultaneously achieve: (1) a point-of-difference on luxury and a point-of-parity on performance with respect to performance cars and (2) a point-of-difference on performance and a point-of-parity on luxury with respect to luxury cars. The clever slogan "The Ultimate Driving Machine" effectively captured the newly created umbrella category—luxury performance cars.

While a straddle positioning often is attractive as a means of reconciling potentially conflicting consumer goals, it also carries an extra burden. If the points-of-parity and points-of-difference with respect to both categories are not credible, the brand may not be viewed as a legitimate player in either category. Many early PDAs that unsuccessfully tried to straddle categories ranging from pagers to laptop computers provide a vivid illustration of this risk.

There are three main ways to convey a brand's category membership:

1. ***Announcing category benefits.*** To reassure consumers that a brand will deliver on the fundamental reason for using a category, benefits are frequently used to announce category membership. Thus, industrial tools might claim to have durability and antacids might announce their efficacy. A brownie mix might attain membership in the baked desserts category by claiming the benefit of great taste and support this benefit claim by possessing high-quality ingredients (performance) or by showing users delighting in its consumption (imagery).
2. ***Comparing to exemplars.*** Well-known, noteworthy brands in a category can also be used to specify category membership. When Tommy Hilfiger was an unknown, advertising announced his membership as a great American designer by associating him with Geoffrey Beene, Stanley Blacker, Calvin Klein, and Perry Ellis, who were recognized members of that category.
3. ***Relying on the product descriptor.*** The product descriptor that follows the brand name is often a concise means of conveying category origin. Ford Motor Co., invested more than $1 billion on a radical new 2004 model called the X-Trainer, which combines the attributes of an SUV, a minivan, and a station wagon. To communicate its unique position—and to avoid association with its Explorer and Country Squire models—the vehicle is designated a "sports wagon."[10]

Choosing POPs and PODs

Points-of-parity are driven by the needs of category membership (to create category POPs) and the necessity of negating competitors' PODs (to create competitive POPs). In choosing points-of-difference, two important considerations are that consumers find the POD desirable and that the firm has the capabilities to deliver on the POD.

There are three key consumer desirability criteria for PODs.

1. ***Relevance.*** Target consumers must find the POD personally relevant and important. The Westin Stamford hotel in Singapore advertised that it was the world's tallest hotel, but a hotel's height is not important to many tourists.
2. ***Distinctiveness.*** Target consumers must find the POD distinctive and superior. When entering a category where there are established brands, the challenge is to find a viable basis for differentiation. Splenda sugar substitute overtook Equal and Sweet 'n Low to become the leader in its category in 2003 by differentiating itself on its authenticity as a product derived from sugar, without any of the associated drawbacks.[11]
3. ***Believability.*** Target consumers must find the POD believable and credible. A brand must offer a compelling reason for choosing it over the other options. Mountain Dew may argue that it is more energizing than other soft drinks and support this claim by noting that it has a higher level of caffeine. Chanel No. 5 perfume may claim to be the quintessential elegant French perfume and support this claim by noting the long association between Chanel and haute couture.

There are three key deliverability criteria.

1. ***Feasibility.*** The firm must be able to actually create the POD. The product design and marketing offering must support the desired association. Does communicating the desired association involve real changes to the product itself, or just perceptual ones as to how the consumer thinks of the product or brand? It is obviously easier to convince consumers of some fact about the brand that they were unaware of and may have overlooked than to make changes in the product *and* convince consumers of these changes. General Motors has had to work to overcome public perceptions that Cadillac is not a youthful, contemporary brand.
2. ***Communicability.*** It is very difficult to create an association that is not consistent with existing consumer knowledge or that consumers, for whatever reason, have trouble believing. Consumers must be given a compelling reason and understandable rationale as to why the brand can deliver the desired benefit. What factual, verifiable evidence or "proof points" can be given as support so that consumers will actually believe in the brand and its desired associations? Substantiators often come in the form of patented, branded ingredients, such as Nivea Wrinkle Control Crème with Q10 co-enzyme or Herbal Essences hair conditioner with Hawafena.

3. ***Sustainability.*** Is the positioning preemptive, defensible, and difficult to attack? Can the favorability of a brand association be reinforced and strengthened over time? If yes, the positioning is likely to be enduring. Sustainability will depend on internal commitment and use of resources as well as external market forces. It is generally easier for market leaders such as Gillette, Intel, and Microsoft, whose positioning is based in part on demonstrable product performance, to sustain their positioning than for market leaders such as Gucci, Prada, and Hermes, whose positioning is based on fashion and is thus subject to the whims of a more fickle market.

Marketers must decide at which level(s) to anchor the brand's points-of-differences. At the lowest level are the *brand attributes,* at the next level are the *brand's benefits,* and at the top are the *brand's values.* Thus marketers of Dove soap can talk about its attribute of one-quarter cleansing cream; or its benefit of softer skin; or its value, being more attractive. Attributes are typically the least desirable level to position. First, the buyer is more interested in benefits. Second, competitors can easily copy attributes. Third, the current attributes may become less desirable.

Research has shown, however, that brands can sometimes be successfully differentiated on seemingly irrelevant attributes *if* consumers infer the proper benefit.[12] Procter & Gamble differentiates its Folger's instant coffee by its "flaked coffee crystals," created through a "unique patented process." In reality, the shape of the coffee particles is irrelevant because the crystals immediately dissolve in the hot water. Saying that a brand of coffee is "mountain grown" is irrelevant because most coffee is mountain grown. "Marketing Memo: Writing a Positioning Statement" outlines how positioning can be expressed formally.

Creating POPs and PODs

One common difficulty in creating a strong, competitive brand positioning is that many of the attributes or benefits that make up the points-of-parity and points-of-difference are negatively correlated. If consumers rate the brand highly on one particular attribute or benefit, they also rate it poorly on another important attribute. For example, it might be difficult to position a brand as "inexpensive" and at the same time assert that it is "of the highest quality." Table 10.2 displays some other examples of negatively correlated attributes and benefits. Moreover, individual attributes and benefits often have positive *and* negative aspects. For example, consider a long-lived brand that is seen as having a great deal of heritage. Heritage could suggest experience, wisdom, and expertise. On the other hand, it could also easily be seen as a negative: It might imply being old-fashioned and not up-to-date.

MARKETING MEMO — WRITING A POSITIONING STATEMENT

To communicate a company or brand positioning, marketing plans often include a *positioning statement.* The statement should follow the form: To *(target group and need)* our *(Brand)* is *(concept)* that *(point-of-difference).* For example: "To *busy professionals who need to stay organized, Palm Pilot* is *an electronic organizer* that *allows you to back up files on your PC more easily and reliably than competitive products.*" Sometimes the positioning statement is more detailed:

> *Mountain Dew:* To young, active soft-drink consumers who have little time for sleep, Mountain Dew is the soft drink that gives you more energy than any other brand because it has the highest level of caffeine. With Mountain Dew, you can stay alert and keep going even when you haven't been able to get a good night's sleep.

Note that the positioning first states the product's membership in a category (e.g., Mountain Dew is a soft drink) and then shows its point-of-difference from other members of the group (e.g., has more caffeine). The product's membership in the category suggests the points-of-parity that it might have with other products in the category, but the case for the product rests on its points-of-difference. Sometimes the marketer will put the product in a surprisingly different category before indicating the points of difference.

Sources: Bobby J. Calder and Steven J. Reagan, "Brand Design," in *Kellogg on Marketing,* edited by Dawn Iacobucci (New York: John Wiley & Sons, 2001), p. 61; Alice M. Tybout and Brian Sternthal, "Brand Positioning," in *Kellogg on Marketing,* edited by Dawn Iacobucci (New York: John Wiley & Sons, 2001), p. 54.

TABLE 10.2

Examples of Negatively Correlated Attributes and Benefits

Low Price vs. High Quality	Powerful vs. Safe
Taste vs. Low Calories	Strong vs. Refined
Nutritious vs. Good Tasting	Ubiquitous vs. Exclusive
Efficacious vs. Mild	Varied vs. Simple

BROOKS BROTHERS

In the late 1990s, Brooks Brothers found its heritage to be a deficit rather than a plus. The American retailer's starched shirts and pinstriped suits seemed an anachronism in a world of jeans, khakis, polo tops, and casual Fridays. The company tried to downplay its heritage by stocking trendier sweaters and slacks. The move both alienated loyal customers and failed to attract new ones, and the company lost share. In 2001, Italian-born Claudio Del Vecchio bought the company for $225 million, and began using the Brooks Brothers heritage as a positive point-of-difference. The look is more sophisticated, quality is back, and prices are higher. For now, Brooks Brothers is focused on wooing its traditional customers. The store has published a book chronicling its history. It is inviting select customers to a series of 185th anniversary events and reintroducing pieces from its past, including the Shetland sweater introduced in 1904 and the sack suit JFK loved. As a sign that the beleaguered company must be doing something right, other stores are copying it by mining their own heritage: Coach is bringing back its bucket-shaped "feed bag" purse, Eddie Bauer is reintroducing the 1936 quilted Skyliner jacket, and J. Crew is making its classic tweed jacket and roll-neck sweater again.[13]

Unfortunately, consumers typically want to maximize *both* attributes and benefits. Much of the art and science of marketing is dealing with trade-offs, and positioning is no different. The best approach clearly is to develop a product or service that performs well on both dimensions. BMW was able to establish its "luxury and performance" straddle positioning due in large part to product design and the fact that the car was seen as both luxurious and high performance. Gore-Tex was able to overcome the seemingly conflicting product image of "breathable" and "waterproof" through technological advances. There are additional ways to address the problem of negatively correlated POPs and PODs.

PRESENT SEPARATELY An expensive but sometimes effective approach to addressing negatively correlated attributes and benefits is to launch two different marketing campaigns, each one devoted to a different brand attribute or benefit. These campaigns may run together at one point in time or sequentially over time. Head & Shoulders shampoo met success in Europe with a dual campaign where one campaign emphasized its dandruff removal efficacy while another emphasized the appearance and beauty of hair after its use. The hope is that consumers will be less critical when judging the POP and POD benefits in isolation. The downside with such an approach is that you need two strong campaigns. Moreover, if marketers do not address the negative correlation head-on, consumers may not develop the desired positive associations.

LEVERAGE EQUITY OF ANOTHER ENTITY In the Miller Lite example above, the brand "borrowed" or leveraged the equity of well-known and well-liked celebrities to lend credibility to a negatively correlated benefit. Brands can potentially link themselves to any kind of entity that possesses the right kind of equity as a means to establish an attribute or benefit as a POP or POD. Branded ingredients may also lend some credibility to a questionable attribute in consumers' minds. Borrowing equity, however, is not riskless. Personal computer manufacturers such as IBM and Compaq found that the Intel Inside co-op advertising program, which gave Intel exposure in the PC makers' ad, resulted in consumers seeking Intel-based computers.

REDEFINE THE RELATIONSHIP Another potentially powerful but often difficult way to address the negative relationship between attributes and benefits is to convince consumers that in fact the relationship is positive. This redefinition can be accomplished by providing consumers with a different perspective and suggesting that they may be overlooking or ignoring certain considerations.

APPLE COMPUTERS

When Apple Computers launched MacIntosh, its key point-of-difference was "user friendly." Many consumers valued ease of use, especially those who bought personal computers for the home. One drawback with a "user-friendly" association was that customers who bought personal computers for business applications thought that if a personal computer was easy to use, then it must not be very powerful. Recognizing this potential problem, Apple ran a clever ad campaign with the tag line "The Power to Be Your Best." The strategy behind the ads was that because Apple was easy to use, people in fact did just that—they used it!—a simple but important indication of "power." In other words, the most powerful computers were ones people actually used.

::: Differentiation Strategies

To avoid the commodity trap, marketers must start with the belief that you can differentiate anything. (See "Marketing Memo: How to Derive Fresh Consumer Insights to Differentiate Products and Services.") Brands can be differentiated on the basis of many variables. Southwest Airlines has differentiated itself in several different ways.

SOUTHWEST AIRLINES

The Dallas-based airline carved its niche in short-haul flights with low prices, reliable service, and a healthy sense of humor. Southwest keeps costs low by offering only basic in-flight service (no meals, no movies) and rapid turnaround at the gates to keep the planes in the air. Southwest knew that it could not differentiate on price alone because competitors could try to muscle into the market with their own cheaper versions. The airline has also distinguished itself as a "fun" airline, noted for humorous in-flight commentary from pilots and cabin crew members. Another popular feature of Southwest flights is the first-come, first-served open seating: Passengers are given numbered cards based on when they arrive at the gate. Southwest is now the nation's sixth-largest airline in revenue, and holds the distinction of being the only low-fare airline to achieve long-term success.[14]

MARKETING MEMO | HOW TO DERIVE FRESH CONSUMER INSIGHTS TO DIFFERENTIATE PRODUCTS AND SERVICES

In "Discovering New Points of Differentiation," Ian C. MacMillan and Rita Gunther McGrath argue that if companies examine customers' entire experience with a product or service—the consumption chain—they can uncover opportunities to position their offerings in ways that neither they nor their competitors thought possible. MacMillan and McGrath list a set of questions marketers can use to help them identify new, consumer-based points of differentiation.

- How do people become aware of their need for your product and service?
- How do consumers find your offering?
- How do consumers make their final selection?
- How do consumers order and purchase your product or service?
- What happens when your product or service is delivered?
- How is your product installed?
- How is your product or service paid for?
- How is your product stored?
- How is your product moved around?
- What is the consumer really using your product for?
- What do consumers need help with when they use your product?
- What about returns or exchanges?
- How is your product repaired or serviced?
- What happens when your product is disposed of or no longer used?

Source: Ian C. MacMillan and Rita Gunther McGrath, "Discovering New Points of Differentiation," *Harvard Business Review* (July–August 1997): 133–145.

The obvious means of differentiation, and often most compelling ones to consumers, relate to aspects of the product and service. Swatch offers colorful, fashionable watches. Subway differentiates itself in terms of healthy sandwiches as an alternative to fast food. Method built a $10 million business in a year by creating a line of nontoxic household cleaning products with bright colors and sleek designs totally unique to the category.[15] In competitive markets, however, firms may need to go beyond these. Among the other dimensions a company can use to differentiate its market offering are personnel, channel, and image. This section highlights these four different differentiation strategies.

Product Differentiation

As Chapter 12 describes, brands can be differentiated on the basis of a number of different product or service dimensions: product form, features, performance, conformance, durability, reliability, repairability, style, and design, as well as such service dimensions as ordering ease, delivery, installation, customer training, customer consulting, and maintenance and repair.

Besides these specific concerns, one more general positioning for brands is as "best quality." How important is a high-quality product positioning? The Strategic Planning Institute studied the impact of higher relative product quality and found a significantly positive correlation between relative product quality and return on investment (ROI).[16] High-quality business units earned more because premium quality allowed them to charge a premium price; they benefited from more repeat purchase, consumer loyalty, and positive word of mouth; and the costs of delivering more quality were not much higher than for business units producing low quality.

Quality will depend on actual product performance, but it is also communicated by choosing physical signs and cues. Here are some examples:

- A lawnmower manufacturer that claims its lawnmower is "powerful" has given it a noisy motor because buyers think noisy lawnmowers are more powerful.
- A truck manufacturer undercoats the chassis not because it needs undercoating but because undercoating suggests concern for quality.
- A car manufacturer makes sure its car doors make a solid sound when they slam shut because many buyers slam the doors in the showroom to test how well the car is built.
- Ritz Carlton hotels signal high quality by training employees to answer calls within three rings, to answer with a genuine "smile" in their voices, and to be extremely knowledgeable about all hotel services.

Quality is also communicated through other marketing elements. A high price usually signals premium quality. Quality image is also affected by packaging, distribution, advertising, and promotion. Here are some cases where a brand's quality image was hurt:

- A well-known frozen-food brand lost its prestige image by being on sale too often.
- A premium beer's image was hurt when it switched from bottles to cans.
- A highly regarded television receiver lost its quality image when mass-merchandise outlets began to carry it.

A manufacturer's reputation also contributes to the perception of quality. Certain companies are sticklers for quality; consumers expect Nestlé and IBM products to be well made. Smart companies communicate quality to buyers and guarantee "customer satisfaction or your money back."

Becoming a Singapore Airlines flight attendant is not easy: company requirements are strict. But Singapore Airlines has a worldwide reputation for excellent service, built largely on the customer relations skills of its flight attendants.

Personnel Differentiation

Companies can gain a strong competitive advantage through having better-trained people. Singapore Airlines enjoys an excellent reputation in large part because of its flight attendants.

McDonald's people are courteous, IBM people are professional, and Disney people are upbeat. The sales forces of such companies as General Electric, Cisco, Frito-Lay, Northwestern Mutual Life, and Pfizer enjoy an excellent reputation.[17] Better-trained personnel exhibit six characteristics: *Competence*: They possess the required skill and knowledge; *courtesy*: They are friendly, respectful, and considerate; *credibility*: They are trustworthy; *reliability*: They perform the service consistently and accurately; *responsiveness*: They respond quickly to customers' requests and problems; and *communication*: They make an effort to understand the customer and communicate clearly.[18] Retailers, in particular, are likely to use their front-line employees as a means of differentiating and positioning their brand. This is certainly true of large chain bookstores like Barnes & Noble and Borders:[19]

BARNES & NOBLE AND BORDERS

Barnes & Noble and Borders superstores certainly look eerily similar: large comfy chairs, mahogany bookshelves, tasteful décor, and the scent of fresh-brewed coffee. However, the stores have very different business philosophies and both use their employees as "missionaries" for widely different inventory and business models. Borders, which has 32,000 employees and 445 U.S. superstores, focuses on offering the widest assortment of titles and tailoring its inventory to each store's location. Barnes & Noble, which has 40,000 employees in 800 U.S. stores, attracts customers with low prices and the most popular books. While both companies say that "passion" is the most important quality in their booksellers, that passion is expressed in different ways. Barnes & Noble hires people with a passion for customer service and a general love of books. They are clean cut and wear collared shirts. Putting the book in the customer's hand and fast cashiering are their mandates. Borders employees are likely to be tattooed or have multiple body piercings. The company prides itself on the diversity of its employees and hires people who radiate excitement about particular books and music, relying on them to suggest topics and titles rather than simply find a book for a customer.

Channel Differentiation

Companies can achieve competitive advantage through the way they design their distribution channels' *coverage*, *expertise*, and *performance*. Caterpillar's success in the construction-equipment industry is based partly on superior channel development. Its dealers are found in more locations than competitors' dealers, and they are typically better trained and perform more reliably. Dell in computers and Avon in cosmetics distinguish themselves by developing and managing high-quality direct-marketing channels. Back in 1946, pet food was cheap, not too nutritious, and sold exclusively in supermarkets and the occasional feed store: Dayton, Ohio–based Iams found success selling premium pet food through regional veterinarians, breeders, and pet stores.

APOLLO GROUP INC.

Apollo Group Inc., has turned conventional higher education on its head by launching an online university geared toward the neglected market of working adults. University of Phoenix Online is one of Apollo's most successful ventures, with 50,000 students, and in the past year UOP's enrollment surged by 70 percent. In addition to differentiating based on delivering education through a different channel—online classes—Apollo charges only $10,000 for yearly tuition, 55 percent of what a typical private college charges.[20]

Image Differentiation

Buyers respond differently to company and brand images. The primary way to account for Marlboro's extraordinary worldwide market share (around 30 percent) is that Marlboro's "macho cowboy" image has struck a responsive chord with much of the cigarette-smoking public. Wine and liquor companies also work hard to develop distinctive images for their brands.

Image differentiation: The world-famous "Marlboro Man" image is instantly recognizable on billboards and in print ads.

Identity and image need to be distinguished. *Identity* is the way a company aims to identify or position itself or its product. *Image* is the way the public perceives the company or its products. An effective identity does three things: It establishes the product's character and value proposition. It conveys this character in a distinctive way. It delivers emotional power beyond a mental image. For the identity to work, it must be conveyed through every available communication vehicle and brand contact. It should be diffused in ads, annual reports, brochures, catalogs, packaging, company stationery, and business cards. If "IBM means service," this message must be expressed in symbols, colors and slogans, atmosphere, events, and employee behavior.

Even a seller's physical space can be a powerful image generator. Hyatt Regency hotels developed a distinctive image through its atrium lobbies. Companies can create a strong image by inviting prospects and customers to visit their headquarters and factories. Boeing, Ben & Jerry's, Hershey's, Saturn, and Crayola all sponsor excellent company tours that draw millions of visitors a year.[21] Companies such as Hallmark and Kohler have built corporate museums at their headquarters that display their history and the drama of producing and marketing their products.

"Marketing Memo: Exceeding Customer Expectations" describes one systematic approach to developing a differentiated, customer-oriented offering.

::: Product Life-Cycle Marketing Strategies

A company's positioning and differentiation strategy must change as the product, market, and competitors change over the *product life cycle* (PLC). To say that a product has a life cycle is to assert four things:

1. Products have a limited life.
2. Product sales pass through distinct stages, each posing different challenges, opportunities, and problems to the seller.

MARKETING **MEMO** | EXCEEDING CUSTOMER EXPECTATIONS

Crego and Schiffrin have proposed that customer-centered organizations should study what customers value and then prepare an offering that exceeds their expectations. They see this as a three-step process:

1. ***Defining the customer value model:*** The company first lists all the product and service factors that might influence the target customers' perception of value.
2. ***Building the customer value hierarchy:*** The company now assigns each factor to one of four groups: basic, expected, desired, and unanticipated. Consider the set of factors at a fine restaurant:
   - ***Basic:*** The food is edible and delivered in a timely fashion. (If this is all the restaurant does right, the customer would normally not be satisfied.)
   - ***Expected:*** There is good china and tableware, a linen tablecloth and napkin, flowers, discreet service, and well-prepared food. (These factors make the offering acceptable, but not exceptional.)
   - ***Desired:*** The restaurant is pleasant and quiet, and the food is especially good and interesting.
   - ***Unanticipated:*** The restaurant serves a complimentary sorbet between the courses and places candy on the table after the last course is served.
3. ***Deciding on the customer value package:*** Now the company chooses that combination of tangible and intangible items, experiences, and outcomes designed to outperform competitors and win the customers' delight and loyalty.

Sources: Edwin T. Crego Jr. and Peter D. Schiffrin, *Customer Centered Reengineering* (Homewood, IL: Irwin, 1995).

3. Profits rise and fall at different stages of the product life cycle.
4. Products require different marketing, financial, manufacturing, purchasing, and human resource strategies in each life-cycle stage.

Product Life Cycles

Most product life-cycle curves are portrayed as bell-shaped (see Figure 10.1). This curve is typically divided into four stages: introduction, growth, maturity, and decline.[22]

1. ***Introduction*** – A period of slow sales growth as the product is introduced in the market. *Profits are nonexistent because of the heavy expenses of product introduction.*
2. ***Growth*** – A period of rapid market acceptance and substantial profit improvement.
3. ***Maturity*** – A slowdown in sales growth because the product has achieved acceptance by most potential buyers. Profits stabilize or decline because of increased competition.
4. ***Decline*** – Sales show a downward drift and profits erode.

The PLC concept can be used to analyze a product category (liquor), a product form (white liquor), a product (vodka), or a brand (Smirnoff). Not all products exhibit a bell-shaped PLC.[23] Three common alternate patterns are shown in Figure 10.2.

FIG. 10.1

Sales and Profit Life Cycles

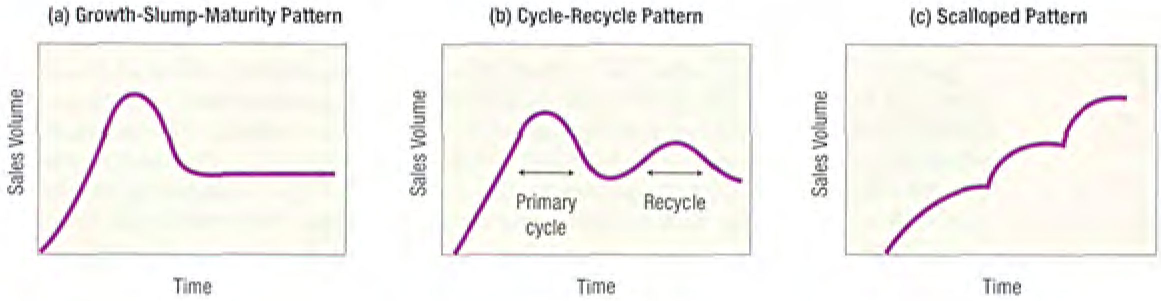

FIG. 10.2 | Common Product Life-Cycle Patterns

Figure 10.2(a) shows a *growth-slump-maturity pattern*, often characteristic of small kitchen appliances such as handheld mixers and bread makers. Sales grow rapidly when the product is first introduced and then fall to a "petrified" level that is sustained by late adopters buying the product for the first time and early adopters replacing the product.

The *cycle-recycle pattern* in Figure 10.2(b) often describes the sales of new drugs. The pharmaceutical company aggressively promotes its new drug, and this produces the first cycle. Later, sales start declining and the company gives the drug another promotion push, which produces a second cycle (usually of smaller magnitude and duration).[24]

Another common pattern is the *scalloped PLC* in Figure 10.2(c). Here sales pass through a succession of life cycles based on the discovery of new-product characteristics, uses, or users. The sales of nylon, for example, show a scalloped pattern because of the many new uses—parachutes, hosiery, shirts, carpeting, boat sails, automobile tires—that continue to be discovered over time.[25]

Style, Fashion, and Fad Life Cycles

We need to distinguish three special categories of product life cycles—styles, fashions, and fads (Figure 10.3). A style is a basic and distinctive mode of expression appearing in a field of human endeavor. Styles appear in homes (colonial, ranch, Cape Cod); clothing (formal, casual, funky); and art (realistic, surrealistic, abstract). A style can last for generations, and go in and out of vogue. A fashion is a currently accepted or popular style in a given field. Fashions pass through four stages: distinctiveness, emulation, mass fashion, and decline.[26]

The length of a fashion cycle is hard to predict. One point of view is that fashions end because they represent a purchase compromise, and consumers start looking for missing attributes.[27] For example, as automobiles become smaller, they become less comfortable, and then a growing number of buyers start wanting larger cars. Furthermore, too many consumers adopt the fashion, thus turning others away. Another observation is that the length of a particular fashion cycle depends on the extent to which the fashion meets a genuine

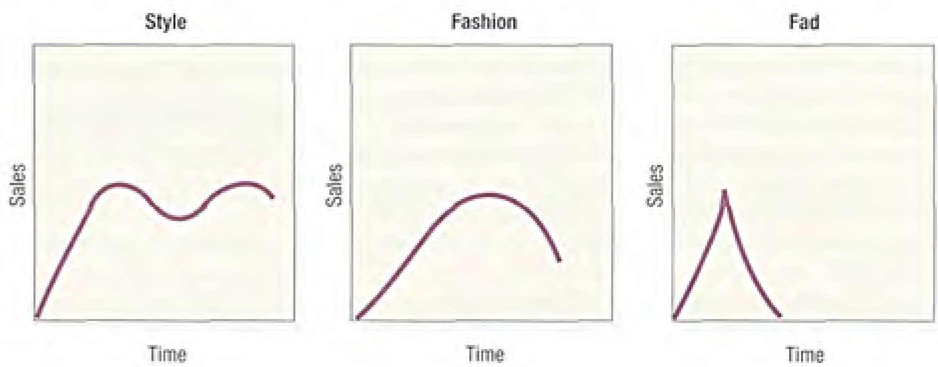

FIG. 10.3 | Style, Fashion, and Fad Life Cycles

need, is consistent with other trends in the society, satisfies societal norms and values, and does not exceed technological limits as it develops.[28]

Fads are fashions that come quickly into public view, are adopted with great zeal, peak early, and decline very fast. Their acceptance cycle is short, and they tend to attract only a limited following of those who are searching for excitement or want to distinguish themselves from others. Fads do not survive because they do not normally satisfy a strong need. The marketing winners are those who recognize fads early and leverage them into products with staying power. Here is a success story of a company that managed to extend a fad's life span:

TRIVIAL PURSUIT

Since its debut at the International Toy Fair in 1982, Trivial Pursuit has sold 65 million copies in 18 languages in 32 countries, and it remains one of the best-selling adult games. Parker Brothers has kept the product's popularity going by making a new game with updated questions every year. It also keeps creating offshoots—travel packs, a children's version, Trivial Pursuit Genus IV, and an interactive CD-ROM from Virgin Entertainment Interactive. The game has its own Web site (www.trivialpursuit.com), which received 100,000 visitors in its initial two-month test period. If you are having trouble making dinner conversation on a date—no problem: NTN Entertainment Network has put Trivial Pursuit in about 3,000 restaurants.[29]

Marketing Strategies: Introduction Stage and the Pioneer Advantage

Because it takes time to roll out a new product, work out the technical problems, fill dealer pipelines, and gain consumer acceptance, sales growth tends to be slow at this stage.[30] Sales of expensive new products such as high-definition TV are slowed by additional factors such as product complexity and fewer potential buyers.

Profits are negative or low in the introduction stage. Promotional expenditures are at their highest ratio to sales because of the need to (1) inform potential consumers, (2) induce product trial, and (3) secure distribution in retail outlets.[31] Firms focus on those buyers who are the most ready to buy, usually higher-income groups. Prices tend to be high because costs are high.

Companies that plan to introduce a new product must decide when to enter the market. To be first can be rewarding, but risky and expensive. To come in later makes sense if the firm can bring superior technology, quality, or brand strength.

Speeding up innovation time is essential in an age of shortening product life cycles. Being early can pay off. One study found that products that came out six months late—but on budget—earned an average of 33 percent less profit in their first five years; products that came out on time but 50 percent over budget cut their profits by only 4 percent.

Most studies indicate that the market pioneer gains the most advantage. Companies like Campbell, Coca-Cola, Hallmark, and Amazon.com developed sustained market dominance.[32] Carpenter and Nakamoto found that 19 out of 25 companies who were market leaders in 1923 were still the market leaders in 1983, 60 years later.[33] Robinson and Min found that in a sample of industrial-goods businesses, 66 percent of pioneers survived at least 10 years, versus 48 percent of the early followers.[34]

What are the sources of the pioneer's advantage?[35] Early users will recall the pioneer's brand name if the product satisfies them. The pioneer's brand also establishes the attributes the product class should possess. The pioneer's brand normally aims at the middle of the market and so captures more users. Customer inertia also plays a role; and there are producer advantages: economies of scale, technological leadership, patents, ownership of scarce assets, and other barriers to entry. Pioneers can have more effective marketing spending and enjoy higher rates of consumer repeat purchases. An alert pioneer can maintain its leadership indefinitely by pursuing various strategies.[36]

The pioneer advantage, however, is not inevitable.[37] Look at the fate of Bowmar (hand calculators), Apple's Newton (personal digital assistant), Netscape (Web browser), Reynolds (ballpoint pens), and Osborne (portable computers), market pioneers who were overtaken by later entrants. Steven Schnaars studied 28 industries where the imitators surpassed the innovators.[38] He found several weaknesses among the failing pioneers, including new products that were too crude, were improperly positioned, or appeared before there was strong demand; product-development costs that exhausted the innovator's resources; a lack of resources to compete against entering larger firms; and managerial incompetence or unhealthy complacency. Successful imitators thrived by offering lower prices, improving the product more continuously, or using brute market power to overtake the pioneer. None of the companies that now dominate in the manufacture of personal computers—including Dell, Gateway, and Compaq—were first movers.[39]

Golder and Tellis raise further doubts about the pioneer advantage.[40] They distinguish between an *inventor* (first to develop patents in a new-product category), a *product pioneer* (first to develop a working model), and a *market pioneer* (first to sell in the new-product category). They also include nonsurviving pioneers in their sample. They conclude that although pioneers may still have an advantage, a larger number of market pioneers fail than has been reported and a larger number of early market leaders (though not pioneers) succeed. Examples of later entrants overtaking market pioneers are IBM over Sperry in mainframe computers, Matsushita over Sony in VCRs, and GE over EMI in CAT scan equipment. In a more recent study, Tellis and Golder identify the following five factors as underpinning long-term market leadership: vision of a mass market, persistence, relentless innovation, financial commitment, and asset leverage.[41]

The pioneer should visualize the various product markets it could initially enter, knowing that it cannot enter all of them at once. Suppose market-segmentation analysis reveals the product market segments shown in Figure 10.4. The pioneer should analyze the profit potential of each product market singly and in combination and decide on a market expansion path. Thus the pioneer in Figure 10.4 plans first to enter product market P_1M_1, then move the product into a second market (P_1M_2), then surprise the competition by developing a second product for the second market (P_2M_2), then take the second product back into the first market (P_2M_1), and then launch a third product for the first market (P_3M_1). If this game plan works, the pioneer firm will own a good part of the first two segments and serve them with two or three products.

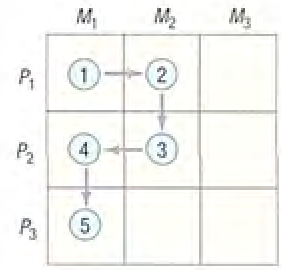

FIG. 10.4

Long-Range Product Market Expansion Strategy (P_i = product i; M_j = Market j)

Marketing Strategies: Growth Stage

The growth stage is marked by a rapid climb in sales. Early adopters like the product, and additional consumers start buying it. New competitors enter, attracted by the opportunities. They introduce new product features and expand distribution.

Prices remain where they are or fall slightly, depending on how fast demand increases. Companies maintain their promotional expenditures at the same or at a slightly increased level to meet competition and to continue to educate the market. Sales rise much faster than promotional expenditures, causing a welcome decline in the promotion-sales ratio. Profits increase during this stage as promotion costs are spread over a larger volume and unit manufacturing costs fall faster than price declines owing to the producer learning effect. Firms have to watch for a change from an accelerating to a decelerating rate of growth in order to prepare new strategies.

During this stage, the firm uses several strategies to sustain rapid market growth:

- It improves product quality and adds new product features and improved styling.
- It adds new models and flanker products (i.e., products of different sizes, flavors, and so forth that protect the main product).
- It enters new market segments.
- It increases its distribution coverage and enters new distribution channels.
- It shifts from product-awareness advertising to product-preference advertising.
- It lowers prices to attract the next layer of price-sensitive buyers.

These market expansion strategies strengthen the firm's competitive position. Consider how Yahoo! has fueled growth.

YAHOO!

Founded in 1994 by Web-surfing Stanford University grad students, Yahoo! has become the number-one place to be on the Web, averaging 120 million visitors in a month. The company grew into more than just a search engine; it became a portal, offering a full-blown package of information and services, from e-mail to online shopping malls. Yahoo!'s revenues, which exceeded $1.3 billion in 2003, come from a number of sources—banner ads, paid search, subscriptions for services such as personals, and a broadband partnership with SBC Communications. Yahoo!'s $1.6 billion acquisition of Overture Services, a key paid search competitor of Google, helped strengthen its claim as a one-stop shop for advertisers. Yahoo! also continued to grow globally with strong emphasis on Europe and Asia.[42]

A firm in the growth stage faces a trade-off between high market share and high current profit. By spending money on product improvement, promotion, and distribution, it can capture a dominant position. It forgoes maximum current profit in the hope of making even greater profits in the next stage.

Marketing Strategies: Maturity Stage

At some point, the rate of sales growth will slow, and the product will enter a stage of relative maturity. This stage normally lasts longer than the previous stages and poses big challenges to marketing management. *Most products are in the maturity stage of the life cycle, and most marketing managers cope with the problem of marketing the mature product.*

The maturity stage divides into three phases: growth, stable, and decaying maturity. In the first phase, the sales growth rate starts to decline. There are no new distribution channels to fill. In the second phase, sales flatten on a per capita basis because of market saturation. Most potential consumers have tried the product, and future sales are governed by population growth and replacement demand. In the third phase, decaying maturity, the absolute level of sales starts to decline, and customers begin switching to other products.

The sales slowdown creates overcapacity in the industry, which leads to intensified competition. Competitors scramble to find niches. They engage in frequent markdowns. They increase advertising and trade and consumer promotion. They increase R&D budgets to develop product improvements and line extensions. They make deals to supply private brands. A shakeout begins, and weaker competitors withdraw. The industry eventually consists of well-entrenched competitors whose basic drive is to gain or maintain market share.

Sustaining rapid market growth by adding new models and flanker products: the Snapple product line.

Dominating the industry are a few giant firms—perhaps a quality leader, a service leader, and a cost leader—that serve the whole market and make their profits mainly through high volume and lower costs. Surrounding these dominant firms is a multitude of market nichers, including market specialists, product specialists, and customizing firms. The issue facing a firm in a mature market is whether to struggle to become one of the "big three" and achieve profits through high volume and low cost or to pursue a niching strategy and achieve profits through low volume and a high margin.

Some companies abandon weaker products and concentrate on more profitable products and on new products. Yet they may be ignoring the high potential many mature markets and old products still have. Industries widely thought to be mature—autos, motorcycles, television, watches, cameras—were proved otherwise by the Japanese, who found ways to offer new value to customers. Seemingly moribund brands like

RCA, Jell-O, and Ovaltine have achieved sales revivals through the exercise of marketing imagination.[43] The resurgence in Hush Puppies' popularity in the footwear category is a case study in reviving an old, nearly forgotten brand.

HUSH PUPPIES

Hush Puppies' suede shoes, symbolized by the cuddly, rumpled, droopy-eyed dog, were a kid's favorite in the 1950s and 1960s. Changes in fashion trends and a series of marketing mishaps eventually resulted in an out-of-date image and diminished sales. Wolverine World Wide, makers of Hush Puppies, made a number of marketing changes in the early 1990s to reverse the sales slide. New product designs and numerous offbeat color combinations, such as powder blue, lime green, and electric orange, enhanced the brand's fashion appeal. Popular designers began to use the shoes in their fashion shows. Wolverine also jacked the price up from $40 to $70, and showered free shoes on Hollywood celebrities. Once the shoes had garnered enough buzz, the company made them more widely available by distributing them to better department stores. Hush Puppies sales rose from 30,000 pairs in 1994 to more than 1.7 million pairs in 1996. When fashions shifted a few years later, Hush Puppies expanded into sandals and walking shoes, and new international markets, and experienced an all-time sales high in 2002.[44]

MARKET MODIFICATION A company might try to expand the market for its mature brand by working with the two factors that make up sales volume:

Volume = number of brand users × usage rate per user

It can try to expand the number of brand users by *converting nonusers*. The key to the growth of air freight service is the constant search for new users to whom air carriers can demonstrate the benefits of using air freight rather than ground transportation.

DENTAL FLOSS

Despite the fact that the Academy of General Dentistry touts brushing and flossing as the best methods for fighting tooth decay, only 24 percent of households use floss. Several oral care marketers see this as a golden opportunity to convert the floss-averse. Aquafresh, owned by GlaxoSmithKline, has created Aquafresh Floss 'N' Cap which combines toothpaste and floss with a cap that doubles as a built-in floss dispenser. Johnson & Johnson, the market leader in this category, has developed a special handheld flosser called the Reach Access Daily Flosser. Glide, newly acquired by Procter & Gamble and the most recommended brand by dentists, perhaps has the easiest job convincing people to floss; the company got a boost when hygiene-obsessed Jerry Seinfeld used Glide on his hugely popular TV show.[45]

It can also try to expand the number of brand users by *entering new market segments*. When Goodyear decided to sell its tires via Wal-Mart, Sears, and Discount Tire, it boosted market share from 14 to 16 percent in the first year.[46] In recent years AARP has tried the tack of reaching out to new market segments:[47]

AARP

AARP, the American Association for Retired Persons, is a mature brand in more ways than one. The $625 million, 35-million-member organization serves people age 50 and over by offering advocacy efforts, products, services, and benefits. Yet, the organization has been dogged by the perception that it is only for elderly people living in retirement communities. With the boomer population expected to double in the next 30 years, AARP is repositioning itself to appeal to people in their late fifties who still have an active lifestyle. AARP's goal is to recruit 50 percent of people age 50 and over by 2003 and to that end it is hosting a number of activities. These include triathlons in several cities to promote fitness, a touring exhibit of Grandma Moses' art to inspire creativity, and an education campaign to prevent predatory mortgage lending and home improvement fraud. The challenge for AARP, however, is creating a single brand that not only attracts new members but also continues to appeal to those in the age 65 and over segment. As part of that effort, AARP is publishing several editions of its newly titled *AARP: The Magazine* (formerly called *Modern Maturity*): one for 50 to 59-year-old boomers, an edition for 60 to 69-year-olds, and one for those 70 and older.

Feature improvement: Vlasic Hamburger Stackers.

A third way to expand the number of brand users is *winning competitors' customers*. Examples of this approach abound. Marketers of Puffs facial tissues are always wooing Kleenex customers. Volume can also be increased by convincing current users to increase their brand usage: (1) *Use the product on more occasions*. Serve Campbell's soup for a snack. Use Heinz vinegar to clean windows. Take Kodak pictures of your pets. (2) *Use more of the product on each occasion*. Drink a larger glass of orange juice. (3) *Use the product in new ways*. Use Tums antacid as a calcium supplement.[48]

PRODUCT MODIFICATION Managers also try to stimulate sales by modifying the product's characteristics through quality improvement, feature improvement, or style improvement.

Quality improvement aims at increasing the product's functional performance. A manufacturer can often overtake its competition by launching a "new and improved" product. Grocery manufacturers call this a "plus launch" and promote a new additive or advertise something as "stronger," "bigger," or "better." This strategy is effective to the extent that the quality is improved, buyers accept the claim of improved quality, and a sufficient number of buyers will pay for higher quality. In the case of the canned coffee industry, manufacturers are using "freshness" to better position their brands in the face of fierce competition from premium rivals, such as store brands where customers grind their own beans in the store. Kraft's Maxwell House will tout coffee sold in its new Fresh Seal packaging and P&G's Folger's ads will show how its AromaSeal canisters—plastic, peel-top, resealable and easy-grip packages—will make its ground beans fresher.[49]

However, customers are not always willing to accept an "improved" product, as the classic tale of New Coke illustrates.

COCA-COLA

Battered by competition from the sweeter Pepsi-Cola, Coca-Cola decided in 1985 to replace its old formula with a sweeter variation, dubbed the New Coke. Coca-Cola spent $4 million on market research. Blind taste tests showed that Coke drinkers preferred the new, sweeter formula, but the launch of New Coke provoked a national uproar. Market researchers had measured the taste but had failed to measure the emotional attachment consumers had to Coca-Cola. There were angry letters, formal protests, and even lawsuit threats, to force the retention of "The Real Thing." Ten weeks later, the company withdrew New Coke and reintroduced its century-old formula as "Classic Coke," giving the old formula even stronger status in the marketplace.

Feature improvement aims at adding new features (for example, size, weight, materials, additives, accessories) that expand the product's performance, versatility, safety, or convenience. In 1998, after years of research and development, Vlasic created a cucumber 10 times larger than the traditional pickle cucumber. The chips, sold as "Hamburger Stackers," are large enough to cover the entire surface of a hamburger and are stacked a dozen high in jars.[50]

Pfizer also embarked on feature improvement for its Listerine brand.

PFIZER INC.

"Obviously it's very difficult for people to walk down the street with a bottle of Listerine, take a swig and spit it out," says Dermot Boden, vice president for global oral care at Pfizer Inc., which owns the Listerine brand. This is the rationale behind Cool Mint Listerine's PocketPak, oral care strips which dissolve instantly in the mouth, allowing for oral care on the go. Six years in the making, this new, convenient form of Listerine not only enabled the brand to reach younger consumers, but it also generated a hefty $120 million in less than a year after its release.[51]

This strategy has several advantages. New features build the company's image as an innovator and win the loyalty of market segments that value these features. They provide an opportunity for free publicity and they generate sales force and distributor enthusiasm. The chief disadvantage is that feature improvements are easily imitated; unless there is a permanent gain from being first, the feature improvement might not pay off in the long run.[52]

Style improvement aims at increasing the product's esthetic appeal. The periodic introduction of new car models is largely about style competition, as is the introduction of new packaging for consumer products. A style strategy might give the product a unique market identity. Yet style competition has problems. First, it is difficult to predict whether people—and which people—will like a new style. Second, a style change usually requires discontinuing the old style, and the company risks losing customers.

MARKETING PROGRAM MODIFICATION Product managers might also try to stimulate sales by modifying other marketing program elements. They should ask the following questions:

- ***Prices.*** Would a price cut attract new buyers? If so, should the list price be lowered, or should prices be lowered through price specials, volume or early purchase discounts, freight cost absorption, or easier credit terms? Or would it be better to raise the price to signal higher quality?
- ***Distribution.*** Can the company obtain more product support and display in existing outlets? Can more outlets be penetrated? Can the company introduce the product into new distribution channels?
- ***Advertising.*** Should advertising expenditures be increased? Should the message or copy be changed? Should the media mix be changed? Should the timing, frequency, or size of ads be changed?
- ***Sales promotion.*** Should the company step up sales promotion—trade deals, cents-off coupons, rebates, warranties, gifts, and contests?
- ***Personal selling.*** Should the number or quality of salespeople be increased? Should the basis for sales force specialization be changed? Should sales territories be revised? Should sales force incentives be revised? Can sales-call planning be improved?
- ***Services.*** Can the company speed up delivery? Can it extend more technical assistance to customers? Can it extend more credit?

Marketers often debate which tools are most effective in the mature stage. For example, would the company gain more by increasing its advertising or its sales promotion budget? Sales promotion has more impact at this stage because consumers have reached an equilibrium in their buying habits and preferences, and psychological persuasion (advertising) is not as effective as financial persuasion (sales promotion deals). Many consumer-packaged-goods companies now spend over 60 percent of their total promotion budget on sales promotion to support mature products. Other marketers argue that brands should be managed as capital assets and supported by advertising. Advertising expenditures should be treated as a capital investment. Brand managers use sales promotion because its effects are quicker and more visible to their superiors; but excessive sales promotion activity can hurt the brand's image and long-run profit performance.

Marketing Strategies: Decline Stage

Sales decline for a number of reasons, including technological advances, shifts in consumer tastes, and increased domestic and foreign competition. All lead to overcapacity, increased price-cutting, and profit erosion. The decline might be slow, as in the case of sewing machines; or rapid, as in the case of the 5.25 floppy disks. Sales may plunge to zero, or they may petrify at a low level.

As sales and profits decline, some firms withdraw from the market. Those remaining may reduce the number of products they offer. They may withdraw from smaller market segments and weaker trade channels, and they may cut their promotion budgets and reduce prices further. Unfortunately, most companies have not developed a policy for handling aging products.

Unless strong reasons for retention exist, carrying a weak product is very costly to the firm—and not just by the amount of uncovered overhead and profit: There are many hidden costs. Weak products often consume a disproportionate amount of management's time; require frequent price and inventory adjustments; generally involve short production runs in spite of expensive setup times; require both advertising and sales force attention that might be better used to make the healthy products more profitable; and can cast a shadow on the company's image. The biggest cost might well lie in the future. Failing to eliminate weak products delays the aggressive search for replacement products. The weak products create a lopsided product mix, long on yesterday's breadwinners and short on tomorrow's.

In handling aging products, a company faces a number of tasks and decisions. The first task is to establish a system for identifying weak products. Many companies appoint a product-review committee with representatives from marketing, R&D, manufacturing, and finance. The controller's office supplies data for each product showing trends in market size, market share, prices, costs, and profits. A computer program then analyzes this information. The managers responsible for dubious products fill out rating forms showing where they think sales and profits will go, with and without any changes in marketing strategy. The product-review committee makes a recommendation for each product—leave it alone, modify its marketing strategy, or drop it.[53]

Some firms abandon declining markets earlier than others. Much depends on the presence and height of exit barriers in the industry.[54] The lower the exit barriers, the easier it is for firms to leave the industry, and the more tempting it is for the remaining firms to stay and attract the withdrawing firms' customers. For example, Procter & Gamble stayed in the declining liquid-soap business and improved its profits as others withdrew.

According to one study of company strategies in declining industries, five strategies are available to the firm:

1. Increasing the firm's investment (to dominate the market or strengthen its competitive position).
2. Maintaining the firm's investment level until the uncertainties about the industry are resolved.
3. Decreasing the firm's investment level selectively, by dropping unprofitable customer groups, while simultaneously strengthening the firm's investment in lucrative niches.
4. Harvesting ("milking") the firm's investment to recover cash quickly.
5. Divesting the business quickly by disposing of its assets as advantageously as possible.[55]

The appropriate strategy depends on the industry's relative attractiveness and the company's competitive strength in that industry. A company that is in an unattractive industry but possesses competitive strength should consider shrinking selectively. A company that is in an attractive industry and has competitive strength should consider strengthening its investment. Look what Quaker Oats has done with oatmeal.

QUAKER OATS

After being banished to the cupboard for years, instant oatmeal has staged a comeback with campaigns emphasizing health (for all) and fun (for kids) as oatmeal sales shot up in the late 1990s. The category turnaround began in January 1997 when the FDA permitted manufacturers to state that "diets low in saturated fat and cholesterol that include soluble fiber from oatmeal may reduce the risk of heart disease." Quaker Oats, which owns almost two-thirds of the category, capitalized on the opportunity to target kids by infusing fun with nutrition through new oatmeal products such as Sea Adventures and Dinosaur Eggs.[56]

If the company were choosing between harvesting and divesting, its strategies would be quite different. *Harvesting* calls for gradually reducing a product or business's costs while trying to maintain sales. The first step is to cut R&D costs and plant and equipment investment. The company might also reduce product quality, sales force size, marginal services, and advertising expenditures. It would try to cut these costs without letting customers, competitors, and employees know what is happening. Harvesting is difficult to execute. Yet many mature products warrant this strategy. Harvesting can substantially increase the company's current cash flow.[57]

Companies that successfully restage or rejuvenate a mature product often do so by adding value to the original product. Consider the experience of Pitney Bowes, the dominant producer of postage meters.

PITNEY BOWES

In 1996, critics, and even Pitney Bowes insiders, predicted that faxes would kill regular mail, on which Pitney's business relies. Then they predicted that e-mail would kill faxes and that all these technological advances combined would kill Pitney's profits. As it happens, the surge in direct mail and Internet-related bills has generated more mail, not less, but the Internet also enabled new companies such as e-Stamps and stamps.com to enter Pitney's territory by offering a way to download stamps over the Internet. Pitney recast itself as a messaging company—its slogan became "Engineering the Flow of Communication." It developed software products that let customers track incoming materials and outgoing products, convert bills and print files to fax or e-mail, and track when a document has been acted upon. Pitney also provides electronic billing services for e-commerce companies and even added an electronic-stamp business to compete with the stamp start-ups. Pitney's view: The Internet is not the enemy; rather, it is a vehicle for becoming a broad-based messaging company.[58]

When a company decides to drop a product, it faces further decisions. If the product has strong distribution and residual goodwill, the company can probably sell it to another firm. If the company can't find any buyers, it must decide whether to liquidate the brand quickly or slowly. It must also decide on how much inventory and service to maintain for past customers.

The Product Life-Cycle Concept: Critique

The PLC concept helps marketers interpret product and market dynamics. It can be used for planning and control, although it is useful as a forecasting tool. PLC theory has its share of critics. They claim that life-cycle patterns are too variable in shape and duration. Critics charge that marketers can seldom tell what stage the product is in. A product may appear to be mature when actually it has reached a plateau prior to another upsurge. They charge that the PLC pattern is the result of marketing strategies rather than an inevitable course that sales must follow:

> Suppose a brand is acceptable to consumers but has a few bad years because of other factors—for instance, poor advertising, delisting by a major chain, or entry of a "me-too" competitive product backed by massive sampling. Instead of thinking in terms of corrective measures, management begins to feel that its brand has entered a declining stage. It therefore withdraws funds from the promotion budget to finance R&D on new items. The next year the brand does even worse, panic increases. . . . Clearly, the PLC is a dependent variable which is determined by marketing actions; it is not an independent variable to which companies should adapt their marketing programs.[59]

Table 10.3 summarizes the characteristics, marketing objectives, and marketing strategies of the four stages of the PLC.

::: Market Evolution

Because the PLC focuses on what is happening to a particular product or brand rather than on what is happening to the overall market, it yields a product-oriented picture rather than a market-oriented picture. Firms need to visualize a *market's* evolutionary path as it is affected by new needs, competitors, technology, channels, and other developments.[60]

In the course of a product's or brand's existence, its positioning must change to keep pace with market developments. Consider the case of Lego.

TABLE 10.3 Summary of Product Life-Cycle Characteristics, Objectives, and Strategies

	Introduction	Growth	Maturity	Decline
Characteristics				
Sales	Low sales	Rapidly rising sales	Peak sales	Declining sales
Costs	High cost per customer	Average cost per customer	Low cost per customer	Low cost per customer
Profits	Negative	Rising profits	High profits	Declining profits
Customers	Innovators	Early adopters	Middle majority	Laggards
Competitors	Few	Growing number	Stable number beginning to decline	Declining number
Marketing Objectives				
	Create product awareness and trial	Maximize market share	Maximize profit while defending market share	Reduce expenditure and milk the brand
Strategies				
Product	Offer a basic product	Offer product extensions, service, warranty	Diversify brands and items models	Phase out weak
Price	Charge cost-plus	Price to penetrate market	Price to match or best competitors'	Cut price
Distribution	Build selective distribution	Build intensive distribution	Build more intensive distribution	Go selective: phase out unprofitable outlets
Advertising	Build product awareness among early adopters and dealers	Build awareness and interest in the mass market	Stress brand differences and benefits	Reduce to level needed to retain hard-core loyals
Sales Promotion	Use heavy sales promotion to entice trial	Reduce to take advantage of heavy consumer demand	Increase to encourage brand switching	Reduce to minimal level

Sources: Chester R. Wasson, *Dynamic Competitive Strategy and Product Life Cycles* (Austin, TX: Austin Press, 1978); John A. Weber, "Planning Corporate Growth with Inverted Product Life Cycles," *Long Range Planning* (October 1976): 12–29; Peter Doyle, "The Realities of the Product Life Cycle," *Quarterly Review of Marketing* (Summer 1976).

LEGO GROUP

LEGO Group, the Danish toy company, enjoyed a 72 percent global market share of the construction-toy market; but children were spending more of their spare time with video games, computers, and television and less time with traditional toys. Lego recognized the need to change or expand its market space. It redefined its market space as "family edutainment," which included toys, education, interactive technology, software, computers, and consumer electronics. All involved exercising the mind and having fun. Part of LEGO Group's plan is to capture an increasing share of customer spending as children become young adults and then parents.

Like products, markets evolve through four stages: emergence, growth, maturity, and decline.

EMERGENCE Before a market materializes, it exists as a latent market. For example, for centuries people have wanted faster means of calculation. The market satisfied this need with abacuses, slide rules, and large adding machines. Suppose an entrepreneur recognizes

An ad to the trade for the LEGO 2004 product line. LEGO is redefining its market space as "family edutainment," not just children's construction toys.

this need and imagines a technological solution in the form of a small, handheld electronic calculator. He now has to determine the product attributes, including physical size and number of mathematical functions. Because he is market-oriented, he interviews potential buyers and finds that target customers vary greatly in their preferences. Some want a four-function calculator (adding, subtracting, multiplying, and dividing) and others want more functions (calculating percentages, square roots, and logs). Some want a small hand calculator and others want a large one. This type of market, in which buyer preferences scatter evenly, is called a *diffused-preference market.*

The entrepreneur's problem is to design an optimal product for this market. He or she has three options:

1. The new product can be designed to meet the preferences of one of the corners of the market (*a single-niche strategy*).
2. Two or more products can be simultaneously launched to capture two or more parts of the market (*a multiple-niche strategy*).
3. The new product can be designed for the middle of the market (*a mass-market strategy*).

For small firms, a single-niche market strategy makes the most sense. A small firm does not have the resources for capturing and holding the mass market. A large firm might go after the mass market by designing a product that is medium in size and number of functions. Assume that the pioneer firm is large and designs its product for the mass market. On launching the product, the *emergence* stage begins.[61]

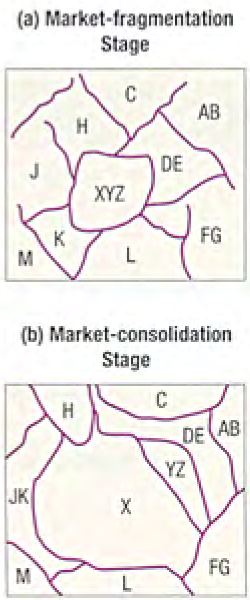

FIG. 10.5

Market-Fragmentation and Market-Consolidation Strategies

GROWTH If the new product sells well, new firms will enter the market, ushering in a *market-growth stage*. Where will a second firm enter the market, assuming that the first firm established itself in the center? If the second firm is small, it is likely to avoid head-on competition with the pioneer and to launch its brand in one of the market corners. If the second firm is large, it might launch its brand in the center against the pioneer. The two firms can easily end up sharing the mass market. Or a large second firm can implement a multiple-niche strategy and surround and box in the pioneer.

MATURITY Eventually, the competitors cover and serve all the major market segments and the market enters the *maturity stage*. In fact, they go further and invade each others' segments, reducing everyone's profits in the process. As market growth slows down, the market splits into finer segments and high *market fragmentation* occurs. This situation is illustrated in Figure 10.5(a) where the letters represent different companies supplying various segments. Note that two segments are unserved because they are too small to yield a profit.

Market fragmentation is often followed by a *market consolidation* caused by the emergence of a new attribute that has strong appeal. This situation is illustrated in Figure 10.5(b) and the expansive size of the X territory.

"Marketing Insight: Dynamics of Attribute Competition" discusses how new attributes emerge in a market. However, even a consolidated market condition will not last. Other companies will copy a successful brand, and the market will eventually splinter again. Mature markets swing between fragmentation and consolidation. The fragmentation is brought about by competition, and the consolidation is brought about by innovation. Consider the evolution of the paper towel market.

MARKETING INSIGHT | DYNAMICS OF ATTRIBUTE COMPETITION

Competition produces a continuous round of new product attributes. If a new attribute succeeds, several competitors soon offer it. To the extent that oil companies all offer credit card payment at gas station pumps, payment methods are no longer a basis for choosing a gas station. *Customer expectations are progressive.* This fact underlines the strategic importance of maintaining the lead in introducing new attributes. Each new attribute, if successful, creates a competitive advantage for the firm, leading to temporarily higher-than-average market share and profits. The market leader must learn to routinize the innovation process.

Can a firm look ahead and anticipate the succession of attributes that are likely to win favor and be technologically feasible? How can the firm discover new attributes? There are four approaches.

1. ***A customer-survey process:*** The company asks consumers what benefits they would like added to the product and their desire level for each. The firm also examines the cost of developing each new attribute and likely competitive responses.
2. ***An intuitive process:*** Entrepreneurs get hunches and undertake product development without much marketing research. Natural selection determines winners and losers. If a manufacturer has intuited an attribute that the market wants, that manufacturer is considered smart or lucky.
3. ***A dialectical process:*** Innovators should not march with the crowd. Thus blue jeans, which began as an inexpensive article of clothing, over time became fashionable and more expensive. This unidirectional movement, however, contains the seeds of its own destruction. Eventually, the price falls again or some manufacturer introduces another cheap material for pants.
4. ***A needs-hierarchy process:*** (See Maslow's theory in Chapter 6.) We would predict that the first automobiles would provide basic transportation and be designed for safety. Later, automobiles would start appealing to social acceptance and status needs. Still later, automobiles would be designed to help people "fulfill" themselves. The innovator's task is to assess when the market is ready to satisfy a higher-order need.

The actual unfolding of new attributes in a market is more complex than simple theories suggest. We should not underestimate the role of technology and societal processes. For example, the strong consumer wish for portable computers remained unmet until miniaturization technology was sufficiently developed. Developments such as inflation, shortages, environmentalism, consumerism, and new lifestyles lead consumers to reevaluate product attributes. Inflation increases the desire for a smaller car, and a desire for car safety increases the desire for a heavier car. The innovator must use marketing research to gauge the strength of different attributes to determine the company's best move.

Source: Marnik G. Dekimpe and Dominique M. Hanssens, "Empirical Generalizations about Market Evolution and Stationarity," *Marketing Science* 14, no. 3, pt. 1 (1995): G109–121.

PAPER TOWELS

Originally, homemakers used cotton and linen dishcloths and towels in their kitchens. A paper company, looking for new markets, developed paper towels. This development crystallized a latent market. Other manufacturers entered the market. The number of brands grew and created market fragmentation. Industry overcapacity led manufacturers to search for new features. One manufacturer, hearing consumers complain that paper towels were not absorbent, introduced "absorbent" towels and increased its market share. This market consolidation did not last long because competitors came out with their own versions of absorbent paper towels. The market fragmented again. Then another manufacturer introduced a "superstrength" towel. It was soon copied. Another manufacturer introduced a "lint-free" paper towel, which was subsequently copied. Thus paper towels evolved from a single product to one with various absorbencies, strengths, and applications. Market evolution was driven by the forces of innovation and competition.

DECLINE Eventually, demand for the present products will begin to decrease, and the market will enter the *decline stage.* Either society's total need level declines or a new technology replaces the old. For example, shifts in tradition and a trend toward cremation have caused casket makers and funeral homes to reconsider how to conduct their business.[62]

SUMMARY :::

1. Deciding on positioning requires the determination of a frame of reference—by identifying the target market and the nature of the competition—and the ideal points-of-parity and points-of-difference brand associations. To determine the proper competitive frame of reference, one must understand consumer behavior and the considerations consumers use in making brand choices.
2. Points-of-difference are those associations unique to the brand that are also strongly held and favorably evaluated by consumers. Points-of-parity are those associations not necessarily unique to the brand but perhaps shared with other brands. Category point-of-parity associations are associations consumers view as being necessary to a legitimate and credible product offering within a certain category. Competitive point-of-parity associations are those associations designed to negate competitors' points-of-difference.
3. The key to competitive advantage is product differentiation. A market offering can be differentiated along five dimensions: product (form, features, performance quality, conformance quality, durability, reliability, repairability, style, design); services (order ease, delivery, installation, customer training, customer consulting, maintenance and repair, miscellaneous services); personnel, channel, or image (symbols, media, atmosphere, and events).
4. Because economic conditions change and competitive activity varies, companies normally find it necessary to reformulate their marketing strategy several times during a product's life cycle. Technologies, product forms, and brands also exhibit life cycles with distinct stages. The general sequence of stages in any life cycle is introduction, growth, maturity, and decline. The majority of products today are in the maturity stage.
5. Each stage of the product life cycle calls for different marketing strategies. The introduction stage is marked by slow growth and minimal profits. If successful, the product enters a growth stage marked by rapid sales growth and increasing profits. There follows a maturity stage in which sales growth slows and profits stabilize. Finally, the product enters a decline stage. The company's task is to identify the truly weak products; develop a strategy for each one; and phase out weak products in a way that minimizes the hardship to company profits, employees, and customers.
6. Like products, markets evolve through four stages: emergence, growth, maturity, and decline.

APPLICATIONS :::

Marketing Debate Do Brands Have Finite Lives?

Often, after a brand begins to slip in the marketplace or disappears altogether, commentators observe, "all brands have their day." Their rationale is that all brands, in some sense, have a finite life and cannot be expected to be leaders forever. Other experts contend, however, that brands can live forever, and their long-term success depends on the skill and insight of the marketers involved.

Take a position: Brands cannot be expected to last forever versus There is no reason for a brand to ever become obsolete.

Marketing Discussion

Identify other negatively correlated attributes and benefits not included in Table 10.2. What strategies do firms use to try to position themselves on the basis of pairs of attributes and benefits?

MARKETING SPOTLIGHT | KRISPY KREME

Krispy Kreme makes 2.7 billion donuts a year. But it took more than fresh, hot donuts to earn Krispy Kreme the title of "hottest brand in America" in 2003. Krispy Kreme's stock price quadrupled in the three years following its IPO in 2000, and the entire chain now generates a billion dollars in annual revenues across more than 300 outlets.

How did Krispy Kreme turn donuts into dollars? Careful brand positioning and local marketing tell the story. "We have a humble brand and product," says Krispy Kreme CEO Scott Livengood. "It's not flashy." The company is not new—it was founded in 1937—and part of its brand image is an old-fashioned feel. The plain red, green, and white colors and retro graphics evoke the squeaky-clean *Happy Days* of the 1950s, as do the Formica-filled, kid-friendly shops. "We want every customer experience to be associated with good times and warm memories," Livengood says.

The company's brand image also rests on its fresh, hot donuts—a freshness that's measured in hours. In a world of processed, prepackaged food, nothing beats a fresh, hot donut. The company's marketing is grassroots local. Krispy Kreme has no traditional media advertising budget. Rather, local "community marketing managers" enlist the aid of local groups and charities. For example, the company helps charities raise money by selling them donuts at half price which they can re-sell at full price. Local bake sales become a promotional tool for Krispy Kreme.

Another tactic is giving away free donuts to TV, newspapers, and radio stations before entering a market. Krispy Kreme scored a publicity coup in 1996 when it opened its first store in New York City. The company delivered boxes of donuts to the *Today Show,* garnering millions of dollars worth of national exposure for the price of a few donuts. Even the day of the IPO relied on the buzz from free Krispy Kreme donuts on the floor of the stock exchange.

Each local outlet is an emissary for the brand, and Krispy Kreme's signature Doughnut Theater defines the brand image. A multisensory experience, Doughnut Theater occurs several times a day at each shop. When the store flicks on its "Hot Doughnuts Now" sign, the performance is about to begin. A large plate glass wall lets customers watch the whole process.

The Doughnut Theater experience works on three levels. On a direct level, the performance entertains customers and draws them into the donut-making experience. On an indirect level, it shows that the products are freshly made in a clean environment. On a subliminal level, as CEO Livengood describes it, "The movement of the products on the conveyor through our proofbox has this relaxing, almost mesmerizing effect. The only other thing like it is standing on the oceanfront and watching the tide come in. It has that same consistent, relaxing motion that is really positive to people." People flock to the store to see wave after wave of donuts emerge hot and deliciously fresh. They happily stand in long lines around newly opened outlets to get the aroma of the donuts being made, the sight of the vanilla glaze waterfall, and the warmth of the hot donut that "just melts in your mouth and tastes so good," Livengood says.

Doughnut Theater is a bit of show business that draws customers into the baking experience and makes them feel like they are a part of the process. Another aspect of show business is product placements on hit shows like *The Sopranos* and *Will & Grace* and movies like *Bruce Almighty.* Finally, international expansion is fueled by celebrities like Dick Clark, Hank Aaron, and Jimmy Buffet, who clamored for Krispy Kreme franchises of their own. Krispy Kreme doesn't just grant franchise rights to anyone.

Krispy Kreme makes 65 percent of its revenue selling donuts directly to the public through its 106 company-owned stores. Another 31 percent comes from selling flour mix, donut-making machines, and donut supplies to its 186 franchised stores. The final 4 percent of revenue comes from franchisee licenses and fees.

Krispy Kreme is now expanding and selling donuts through convenience stores. Will this hurt the brand? Stan Parker, Krispy Kreme's senior vice president of marketing, says it won't because the company continues to emphasize freshness. It replenishes the packaged donuts daily from the local Krispy Kreme store and removes any unsold packages. The donuts' presence in convenience stores will help remind people of the taste of a fresh, hot Krispy Kreme donut, and that brings them back into a Krispy Kreme shop.

The success of Krispy Kreme has been a wake-up call for competitor Dunkin' Donuts, which had become complacent. The one-two punch of Krispy Kreme in donuts and Starbucks in coffee led Dunkin' Donuts to revamp its menu and its stores, neither of which had changed in years. Rather than innovate, Dunkin' Donuts looked at what customers were already eating elsewhere. It brought in basic products like bagels, low-fat muffins, and breakfast sandwiches. Dunkin Donuts still dwarfs Krispy Kreme in size, with 2003 revenues of $3 billion, but it must work to find new ways of creating excitement that builds customer pride, because one thing is sure: Krispy Kreme refuses to be dull.

Discussion Questions

1. What have been the key success factors for Krispy Kreme?
2. Where is Krispy Kreme vulnerable? What should it watch out for?
3. What recommendations would you make to senior marketing executives going forward? What should they be sure to do with its marketing?

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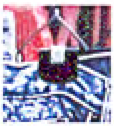


IN THIS CHAPTER, WE WILL ADDRESS THE FOLLOWING QUESTIONS:

1. How do marketers identify primary competitors?
2. How should we analyze competitors' strategies, objectives, strengths, and weaknesses?
3. How can market leaders expand the total market and defend market share?
4. How should market challengers attack market leaders?
5. How can market followers or nichers compete effectively?

CHAPTER 11 ::: DEALING WITH COMPETITION

Building strong brands requires a keen understanding of competition, and competition grows more intense every year. New competition is coming from all directions—from global competitors eager to grow sales in new markets; from online competitors seeking cost-efficient ways to expand distribution; from private label and store brands designed to provide low-price alternatives; and from brand extensions from strong megabrands leveraging their strengths to move into new categories. Consider how competition has intensified in the jeans market.

Levi Strauss has seen its sales plummet from a peak of $7.1 billion in 1996 to about $4 billion in 2003 in part because of fierce competition. Its jeans brands, exemplified by the classic 501, are being hit from all sides: above, from trendy, high-end designer lines such as Calvin Klein, Tommy Hilfiger, and GAP; below, from popular, lower-priced private labels such as JC Penney's Arizona and Sears' Canyon River Blues; from one side by traditional, entrenched brands such as the western Wranglers and urban Lee's; and from another other side by hip, youthful lines such as American Eagle, Bugle Boy, JNCO, Lucky, and Diesel. Levi's is being hit from so many directions, it is hard for the company to know in which direction to turn! To better compete, it recently introduced the Signature line to be sold at discount stores such as Wal-Mart and the more expensive Premium Red >>>

Levi's competition: Some of the many brands and styles of jeans.

Tab line to be sold at upscale department stores such as Nordstrom and Neiman Marcus. Many marketing pundits wondered, however, whether it was too little too late, and if the brand could ever reclaim its lofty position.[1]

To effectively devise and implement the best possible brand positioning strategies, companies must pay keen attention to their competitors.[2] Markets have become too competitive to just focus on the consumer alone. This chapter examines the role competition plays and how marketers can best manage their brands, depending on their market position.

::: Competitive Forces

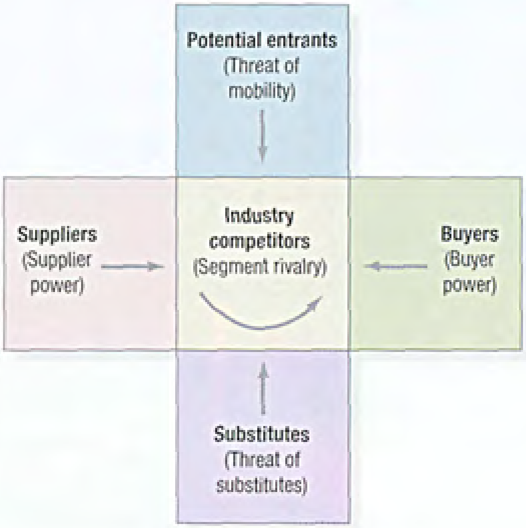
Michael Porter has identified five forces that determine the intrinsic long-run attractiveness of a market or market segment: industry competitors, potential entrants, substitutes, buyers, and suppliers. His model is shown in Figure 11.1. The threats these forces pose are as follows:

1. ***Threat of intense segment rivalry*** – A segment is unattractive if it already contains numerous, strong, or aggressive competitors. It is even more unattractive if it is stable or declining, if plant capacity additions are done in large increments, if fixed costs are high, if exit barriers are high, or if competitors have high stakes in staying in the segment. These conditions will lead to frequent price wars, advertising battles, and new-product introductions, and will make it expensive to compete. The cellular phone market has seen fierce competition due to segment rivalry.
2. ***Threat of new entrants*** – A segment's attractiveness varies with the height of its entry and exit barriers.[3] The most attractive segment is one in which entry barriers are high and exit barriers are low. Few new firms can enter the industry, and poor-performing firms can easily exit. When both entry and exit barriers are high, profit potential is high, but firms face more risk because poorer-performing firms stay in and fight it out. When both entry and exit barriers are low, firms easily enter and leave the industry, and the returns are stable and low. The worst case is when entry barriers are low and exit barriers are high: Here firms enter during good times but find it hard to leave during bad times.

FIG. 11.1

Five Forces Determining Segment Structural Attractiveness

Source: Reprinted with the permission of the Free Press, an imprint of Simon & Schuster, from Michael E. Porter, *Competitive Advantage: Creating and Sustaining Superior Performance.* Copyright 1985 by Michael E. Porter.



The result is chronic overcapacity and depressed earnings for all. The airline industry has low entry barriers but high exit barriers, leaving all the companies struggling during economic downturns.

3. ***Threat of substitute products*** – A segment is unattractive when there are actual or potential substitutes for the product. Substitutes place a limit on prices and on profits. The company has to monitor price trends closely. If technology advances or competition increases in these substitute industries, prices and profits in the segment are likely to fall. Greyhound buses and Amtrak trains have seen profitability threatened by the rise of air travel.
4. ***Threat of buyers' growing bargaining power*** – A segment is unattractive if buyers possess strong or growing bargaining power. The rise of retail giants such as Wal-Mart has led some analysts to conclude that the potential profitability of packaged-goods companies will become curtailed. Buyers' bargaining power grows when they become more concentrated or organized, when the product represents a significant fraction of the buyers' costs, when the product is undifferentiated, when the buyers' switching costs are low, when buyers are price sensitive because of low profits, or when buyers can integrate upstream. To protect themselves, sellers might select buyers who have the least power to negotiate or switch suppliers. A better defense consists of developing superior offers that strong buyers cannot refuse.
5. ***Threat of suppliers' growing bargaining power*** – A segment is unattractive if the company's suppliers are able to raise prices or reduce quantity supplied. Oil companies such as ExxonMobil, Shell, BP, and Chevron-Texaco are at the mercy of the amount of oil reserves and the actions of oil supplying cartels like OPEC. Suppliers tend to be powerful when they are concentrated or organized, when there are few substitutes, when the supplied product is an important input, when the costs of switching suppliers are high, and when the suppliers can integrate downstream. The best defenses are to build win–win relations with suppliers or use multiple supply sources.

::: Identifying Competitors

It would seem a simple task for a company to identify its competitors. PepsiCo knows that Coca-Cola's Dasani is the major bottled water competitor for its Aquafina brand; Citigroup knows that Bank of America is a major banking competitor; and PetSmart.com knows that its major online competitor for pet food and supplies is Petco.com. However, the range of a company's actual and potential competitors can be much broader. And a company is more likely to be hurt by emerging competitors or new technologies than by current competitors. This certainly has been true for Toys "R" Us and other major toy retailers:

TOYS "R" US AND KB TOYS

Pricing pressure from discounters Wal-Mart, Target, and even electronics vendors such as Best Buy and Circuit City has pummeled the toy chains and sent some of them into bankruptcy. During the 2004 holiday season, Wal-Mart made its most aggressive move yet into the toy business, drastically reducing prices and undercutting Toys "R" Us and KB Toys by 20 percent. At Wal-Mart, one of the season's hottest toys, Hokey-Pokey Elmo, sold for \$19.46, whereas at KB Toys it cost \$24.99. With their bare bones prices, the discounters have higher sales, more locations, and the flexibility, if necessary, to break even or even lose money in areas such as toys while falling back on other product revenue. In response, some chains, such as venerable FAO Schwartz, have filed for bankruptcy, while others, such as Toys "R" Us, are contracting. The company closed 182 freestanding Kids "R" Us stores as well as its Imaginarium chain. KB Toys may try specializing in order to survive and become a niche provider.[4]

Many businesses failed to look to the Internet for their most formidable competitors. Web sites that offer jobs, real estate listings, and automobiles online threaten newspapers, which derive a huge portion of their revenue from classified ads. The businesses with the most to fear from Internet technology are the world's middlemen. A few years back, Barnes & Noble and Borders bookstore chains were competing to see who could build the most megastores, where book browsers could sink into comfortable couches and sip cappuccino. While they were deciding which products to stock, Jeffrey Bezos was building an online empire called Amazon.com. Bezos's cyber-bookstore had the advantage of offering an almost unlimited selection of books without the expense of stocking inventory. Now both Barnes & Noble and Borders are playing catch-up in building their own online stores. "Competitor myopia"—a focus on current competitors rather than latent ones—has rendered some businesses extinct:[5]

ENCYCLOPAEDIA BRITANNICA

In 1996, 230-year-old Encyclopaedia Britannica dismissed its entire home sales force after the arrival of its $5-per-month subscription Internet site made the idea of owning a 32-volume set of books for $1,250 less appealing to parents. Britannica decided to create an online site after realizing that computer-savvy kids most often sought information online or on CD-ROMs such as Microsoft's Encarta, which sold for $50. What really smarts is that Britannica had the opportunity to partner with Microsoft in providing content for Encarta but refused. Britannica now sells print sets and offers online access to premium subscribers on its Web site.[6]

We can examine competition from both an industry and a marketing point of view.[7]

Industry Concept of Competition

What exactly is an industry? An **industry** is a group of firms that offer a product or class of products that are close substitutes for one another. Industries are classified according to number of sellers; degree of product differentiation; presence or absence of entry, mobility, and exit barriers; cost structure; degree of vertical integration; and degree of globalization.

NUMBER OF SELLERS AND DEGREE OF DIFFERENTIATION The starting point for describing an industry is to specify the number of sellers and whether the product is homogeneous or highly differentiated. These characteristics give rise to four industry structure types:

1. ***Pure monopoly*** – Only one firm provides a certain product or service in a certain country or area (a local water or cable company). An unregulated monopolist might charge a high price, do little or no advertising, and offer minimal service. If partial substitutes are available and there is some danger of competition, the monopolist might invest in more service and technology. A regulated monopolist is required to charge a lower price and provide more service as a matter of public interest.
2. ***Oligopoly*** – A small number of (usually) large firms produce products that range from highly differentiated to standardized. *Pure oligopoly* consists of a few companies producing essentially the same commodity (oil, steel). Such companies would find it hard to charge anything more than the going price. If competitors match on price and services, the only way to gain a competitive advantage is through lower costs. *Differentiated oligopoly* consists of a few companies producing products (autos, cameras) partially differentiated along lines of quality, features, styling, or services. Each competitor may seek leadership in one of these major attributes, attract the customers favoring that attribute, and charge a price premium for that attribute.
3. ***Monopolistic competition*** – Many competitors are able to differentiate their offers in whole or in part (restaurants, beauty shops). Competitors focus on market segments where they can meet customer needs in a superior way and command a price premium.
4. ***Pure competition*** – Many competitors offer the same product and service (stock market, commodity market). Because there is no basis for differentiation, competitors' prices will be the same. No competitor will advertise unless advertising can create psychological differentiation (cigarettes, beer), in which case it would be more proper to describe the industry as monopolistically competitive.

An industry's competitive structure can change over time. For instance, the media industry has continued to consolidate, turning from monopolistic into a differentiated oligopoly:

MEDIA INDUSTRY

For more than a decade, the media business has been steadily consolidating to the point that four media empires can now vertically integrate content with distribution: Rupert Murdoch's $30 billion News Corp., Time Warner at $39.9 billion, $26.6 billion Viacom and, the smallest, $6.9 billion NBC. Combining the studios that produce pro-

Shell Oil is a vertically integrated firm that is also today becoming an environmentally friendly firm. This ad is one of a series in a campaign to spotlight Shell's sustainable development program.

gramming with cable and broadcasting units that distribute content saves money and benefits shareholders. However, consumers are concerned by the effects of dwindling competition. With fewer people deciding on programming, quality and variety could suffer, and less competition may mean higher prices for cable and satellite subscribers. Also, most important, if a few media giants control content and distribution, smaller, more innovative programs could be squeezed out.[8]

ENTRY, MOBILITY, AND EXIT BARRIERS Industries differ greatly in ease of entry. It is easy to open a new restaurant but difficult to enter the aircraft industry. Major *entry barriers* include high capital requirements; economies of scale; patents and licensing requirements; scarce locations, raw materials, or distributors; and reputation requirements. Even after a firm enters an industry, it might face *mobility barriers* when it tries to enter more attractive market segments.

Firms often face *exit barriers,* such as legal or moral obligations to customers, creditors, and employees; government restrictions; low asset-salvage value due to overspecialization or obsolescence; lack of alternative opportunities; high vertical integration; and emotional barriers.[9] Many firms stay in an industry as long as they cover their variable costs and some or all of their fixed costs. Their continued presence, however, dampens profits for everyone. Even if some firms do not want to exit the industry, they might decrease their size. Companies can try to reduce shrinkage barriers to help ailing competitors get smaller gracefully.[10]

COST STRUCTURE Each industry has a certain cost burden that shapes much of its strategic conduct. For example, steelmaking involves heavy manufacturing and raw material costs; toy manufacturing involves heavy distribution and marketing costs. Firms strive to reduce their largest costs. The integrated steel company with the most cost-efficient plant will have a great advantage over other integrated steel companies; but even it has higher costs than the new steel mini-mills.

DEGREE OF VERTICAL INTEGRATION Companies find it advantageous to integrate backward or forward (**vertical integration**). Major oil producers carry on oil exploration, oil drilling, oil refining, chemical manufacture, and service-station operation. Vertical integration often lowers costs, and the company gains a larger share of the value-added stream. In addition, vertically integrated firms can manipulate prices and costs in different parts of the value chain to earn profits where taxes are lowest. There can be disadvantages, such as high costs in certain parts of the value chain and a lack of flexibility. Companies are increasingly questioning how vertical they should be. Many are outsourcing more activities, especially those that can be done better and more cheaply by specialist firms.

DEGREE OF GLOBALIZATION Some industries are highly local (such as lawn care); others are global (such as oil, aircraft engines, cameras). Companies in global industries need to compete on a global basis if they are to achieve economies of scale and keep up with the latest advances in technology.[11]

Market Concept of Competition

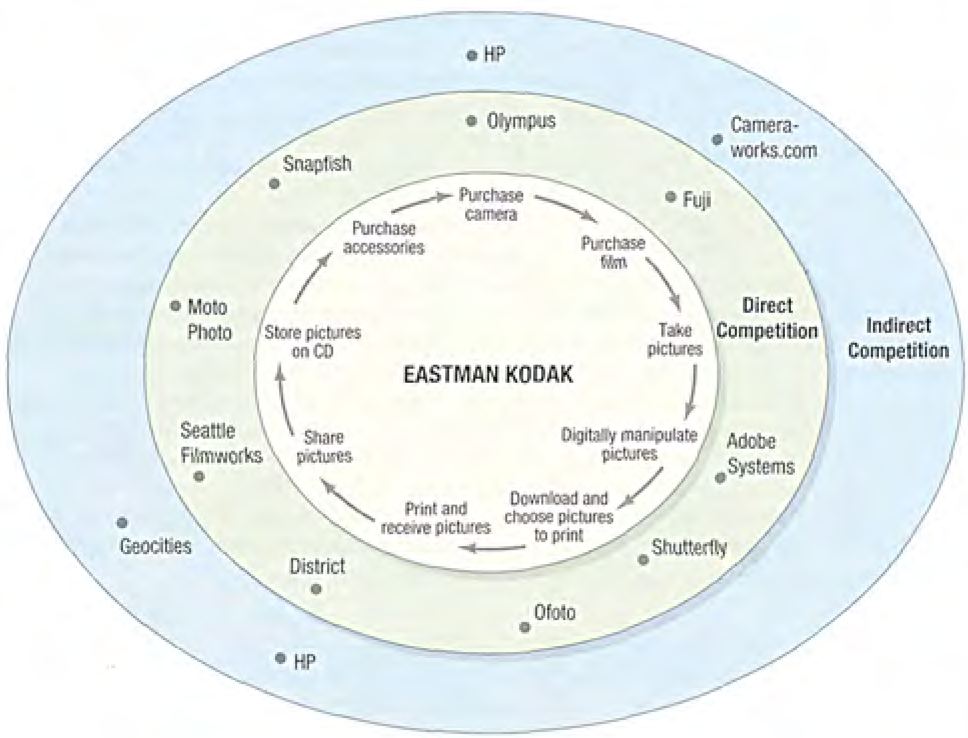
Using the market approach, competitors are companies that satisfy the same customer need. For example, a customer who buys a word-processing package really wants "writing ability"—a need that can also be satisfied by pencils, pens, or typewriters. Marketers must overcome "marketing myopia" and stop defining competition in traditional category terms.[12] Coca-Cola, focused on its soft-drink business, missed seeing the market for coffee bars and fresh-fruit-juice bars that eventually impinged on its soft-drink business.

The market concept of competition reveals a broader set of actual and potential competitors. Rayport and Jaworski suggest profiling a company's direct and indirect competitors by mapping the buyer's steps in obtaining and using the product. Figure 11.2 illustrates their *competitor map* of Eastman Kodak in the film business. In the center is a listing of consumer activities: buying a camera, buying film, taking pictures, and so on. The first outer ring lists Kodak's main competitors with respect to each consumer activity:

FIG. 11.2

Competitor Map—Eastman Kodak

Source: Jeffrey F. Rayport and Bernard J. Jaworski, *e-Commerce* (New York: McGraw-Hill, 2001), p. 53.



Olympus for buying a camera, Fuji for purchasing film, and so on. The second outer ring lists indirect competitors—HP, Intel, cameraworks.com—who in Kodak's case are increasingly becoming direct competitors. This type of analysis highlights both the opportunities and the challenges a company faces.[13]

::: Analyzing Competitors

Once a company identifies its primary competitors, it must ascertain their strategies, objectives, strengths, and weaknesses.

Strategies

A group of firms following the same strategy in a given target market is called a **strategic group**.[14] Suppose a company wants to enter the major appliance industry. What is its strategic group? It develops the chart shown in Figure 11.3 and discovers four strategic groups based on product quality and level of vertical integration. Group A has one competitor (Maytag); group B has three (General Electric, Whirlpool, and Sears); group C has four; and group D has two. Important insights emerge from this exercise. First, the height of the entry barriers differs for each group. Second, if the company successfully enters a group, the members of that group become its key competitors.

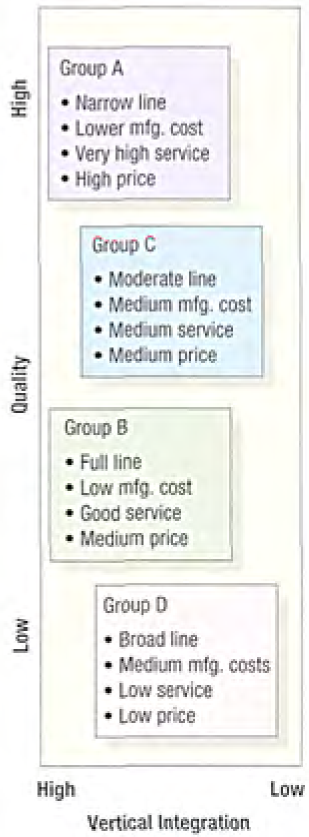


FIG. 11.3

Strategic Groups in the Major Appliance Industry

Objectives

Once a company has identified its main competitors and their strategies, it must ask: What is each competitor seeking in the marketplace? What drives each competitor's behavior? Many factors shape a competitor's objectives, including size, history, current management, and financial situation. If the competitor is a division of a larger company, it is important to know whether the parent company is running it for growth, profits, or milking it.[15]

One useful initial assumption is that competitors strive to maximize profits. However, companies differ in the emphasis they put on short-term versus long-term profits. Many U.S. firms have been criticized for operating on a short-run model, largely because current performance is judged by stockholders who might lose confidence, sell their stock, and cause the company's cost of capital to rise. Japanese firms operate largely on a market-share-maximization model. They receive much of their funds from banks at a lower interest rate and in the past have readily accepted lower profits. An alternative assumption is that each competitor pursues some mix of objectives: current profitability, market share growth, cash flow, technological leadership, or service leadership.

Finally, a company must monitor competitors' expansion plans. Figure 11.4 shows a product-market battlefield map for the personal computer industry. Dell, which started out as a strong force in selling personal computers to individual users, is now a major force in the commercial and industrial market. Other incumbents may try to set up mobility barriers to Dell's further expansion.

Strengths and Weaknesses

A company needs to gather information on each competitor's strengths and weaknesses. Table 11.1 shows the results of a company survey that asked customers to rate its three competitors, A, B, and C, on five attributes. Competitor A turns out to be well known and

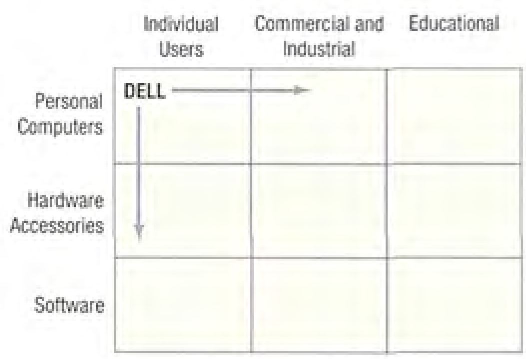


FIG. 11.4

A Competitor's Expansion Plans

TABLE 11.1

Customers' Ratings of Competitors on Key Success Factors

	Customer Awareness	Product Quality	Product Availability	Technical Assistance	Selling Staff
Competitor A	E	E	P	P	G
Competitor B	G	G	E	G	E
Competitor C	F	P	G	F	F

Note: E = excellent, G = good, F = fair, P = poor.

respected for producing high-quality products sold by a good sales force. Competitor A is poor at providing product availability and technical assistance. Competitor B is good across the board and excellent in product availability and sales force. Competitor C rates poor to fair on most attributes. This suggests that the company could attack Competitor A on product availability and technical assistance and Competitor C on almost anything, but should not attack B, which has no glaring weaknesses.

In general, a company should monitor three variables when analyzing competitors:

1. ***Share of market*** – The competitor's share of the target market.
2. ***Share of mind*** – The percentage of customers who named the competitor in responding to the statement, "Name the first company that comes to mind in this industry."
3. ***Share of heart*** – The percentage of customers who named the competitor in responding to the statement, "Name the company from which you would prefer to buy the product."

There is an interesting relationship among these three measures. Table 11.2 shows the numbers for these three measures for the three competitors listed in Table 11.1. Competitor A enjoys the highest market share but is slipping. Its mind share and heart share are also slipping, probably because it is not providing good product availability and technical assistance. Competitor B is steadily gaining market share, probably due to strategies that are increasing its mind share and heart share. Competitor C seems to be stuck at a low level of market share, mind share, and heart share, probably because of its poor product and marketing attributes. We could generalize as follows: *Companies that make steady gains in mind share and heart share will inevitably make gains in market share and profitability.*

To improve market share, many companies benchmark their most successful competitors, as well as world-class performers. The technique and its benefits are described in "Marketing Memo: Benchmarking To Improve Competitive Performance."

Selecting Competitors

After the company has conducted customer value analysis and examined competitors carefully, it can focus its attack on one of the following classes of competitors: strong versus weak, close versus distant, and "good" versus "bad."

- ***Strong versus Weak.*** Most companies aim their shots at weak competitors, because this requires fewer resources per share point gained. Yet, the firm should also compete with strong competitors to keep up with the best. Even strong competitors have some weaknesses.
- ***Close versus Distant.*** Most companies compete with competitors who resemble them the most. Chevrolet competes with Ford, not with Ferrari. Yet companies should also recognize distant competitors. Coca-Cola states that its number-one competitor is tap water, not

TABLE 11.2

Market Share, Mind Share, and Heart Share

	Market Share			Mind Share			Heart Share		
	2000	2001	2002	2000	2001	2002	2000	2001	2002
Competitor A	50%	47%	44%	60%	58%	54%	45%	42%	39%
Competitor B	30	34	37	30	31	35	44	47	53
Competitor C	20	19	19	10	11	11	11	11	8

Pepsi. U.S. Steel worries more about plastic and aluminum than about Bethlehem Steel; museums now worry about theme parks and malls.

- *"Good" versus "Bad".* Every industry contains "good" and "bad" competitors.[16] A company should support its good competitors and attack its bad competitors. Good competitors play by the industry's rules; they make realistic assumptions about the industry's growth potential; they set prices in reasonable relation to costs; they favor a healthy industry; they limit themselves to a portion or segment of the industry; they motivate others to lower costs or improve differentiation; and they accept the general level of their share and profits. Bad competitors try to buy share rather than earn it; they take large risks; they invest in overcapacity; and they upset industrial equilibrium.

FIG. 11.5

Hypothetical Market Structure

Competitive Strategies for Market Leaders

We can gain further insight by classifying firms by the roles they play in the target market: leader, challenger, follower, or nicher. Suppose a market is occupied by the firms shown in Figure 11.5. Forty percent of the market is in the hands of a *market leader;* another 30 percent is in the hands of a *market challenger;* another 20 percent is in the hands of a *market follower,* a firm that is willing to maintain its market share and not rock the boat. The remaining 10 percent is in the hands of *market nichers,* firms that serve small market segments not being served by larger firms.

Many industries contain one firm that is the acknowledged market leader. This firm has the largest market share in the relevant product market, and usually leads the other firms in price changes, new-product introductions, distribution coverage, and promotional intensity. Some well-known market leaders are Microsoft (computer software), Intel (microprocessors), Gatorade (sports drinks), Best Buy (retail electronics), McDonald's (fast food), Gillette (razor blades), UnitedHealth (health insurance), and Visa (credit cards).

Ries and Trout argue that well-known products generally hold a distinctive position in consumers' minds. Nevertheless, unless a dominant firm enjoys a legal monopoly, its life is not altogether easy. It must maintain constant vigilance. A product innovation may come along and hurt the leader (Nokia's and Ericsson's digital cell phones took over from Motorola's analog models). The leader might spend conservatively whereas a challenger spends liberally (Montgomery Ward's lost its retail dominance to Sears after World War II). The leader might misjudge its competition and find itself left behind (as Sears did when it underestimated Kmart and later Wal-Mart). The dominant firm might look old-fashioned against new and peppier rivals (Pepsi has attempted to take share from Coke by portraying itself as the more youthful brand). The dominant firm's costs might rise excessively and

MARKETING MEMO — BENCHMARKING TO IMPROVE COMPETITIVE PERFORMANCE

Benchmarking is the art of learning from companies that perform certain tasks better than other companies. There can be as much as a tenfold difference between the quality, speed, and cost performance of a world-class company and an average company. The aim of benchmarking is to copy or improve on "best practices," either within an industry or across industries. Benchmarking involves seven steps:

1. Determine which functions to benchmark;
2. Identify the key performance variables to measure;
3. Identify the best-in-class companies;
4. Measure performance of best-in-class companies;
5. Measure the company's performance;
6. Specify programs and actions to close the gap; and
7. Implement and monitor results.

How can companies identify best-practice companies? A good starting point is asking customers, suppliers, and distributors whom they rate as doing the best job.

Sources: Robert C. Camp, *Benchmarking: The Search for Industry-Best Practices that Lead to Superior Performance* (White Plains, NY: Quality Resources, 1989); Michael J. Spendolini, *The Benchmarking Book* (New York: Amacom, 1992); Stanley Brown, "Don't Innovate—Imitate!" *Sales & Marketing Management* (January 1995): 24–25; Tom Stemerg, "Spies Like Us," *Inc.* (August 1998): 45–49. See also, <www.benchmarking.org>; Michael Hope, "Contrast and Compare," *Marketing*, August 28, 1997, pp. 11–13; Robert Hiebeler, Thomas B. Kelly, and Charles Ketteman, *Best Practices: Building Your Business with Customer-Focused Solutions* (New York: Arthur Andersen/Simon & Schuster, 1998).

hurt its profits, or a discount competitor can undercut prices. "Marketing Insight: When Your Competitor Delivers More for Less" describes how leaders can respond to an aggressive competitive price discounter.

Consider how hard Hershey is working to maintain its leadership position in the U.S. chocolate candy market.[17]

HERSHEY

Under constant pressure from fast-growing snack makers of all kinds, Hershey Foods Corp., has found that domination of the U.S. chocolate candy business is not enough. Increasingly, consumers are passing up Hershey's candies for chips, sports bars, cereal bars, or granola bars. To maintain profit targets, Hershey has cut costs, dropped weak product lines such as Luden's throat lozenges, cut hundreds of slow-selling package sizes, improved distribution by increasing high-margin convenience store presence, and introduced extensions of its strongest brands such as Reese's Inside Out Cups. To more broadly compete and sustain growth, however, Hershey's is even considering other new snack products.

Remaining number one calls for action on three fronts. First, the firm must find ways to expand total market demand. Second, the firm must protect its current market share through good defensive and offensive actions. Third, the firm can try to increase its market share, even if market size remains constant.

Expanding the Total Market

The dominant firm normally gains the most when the total market expands. If Americans increase their consumption of ketchup, Heinz stands to gain the most because it sells almost two-thirds of the country's ketchup. If Heinz can convince more Americans to use ketchup, or to use ketchup with more meals, or to use more ketchup on each occasion, Heinz will benefit considerably. In general, the market leader should look for new customers or more usage from existing customers.

NEW CUSTOMERS Every product class has the potential of attracting buyers who are unaware of the product or who are resisting it because of price or lack of certain features. A company can search for new users among three groups: those who might use it but do not *(market-penetration strategy)*, those who have never used it *(new-market segment strategy)*, or those who live elsewhere *(geographical-expansion strategy)*.

Starbucks Coffee is one of the best-known brands in the world. Starbucks is able to sell a cup of coffee for $3 while the store next door can only get $1. And if you want the popular café latte, it's $4. Starbucks has more than 7,200 locations throughout North America, the Pacific Rim, Europe, and the Middle East, and its annual revenue for 2002 topped $3.3 billion. Its corporate Web site gives a peek into its multipronged approach to growth.[18]

> Starbucks purchases and roasts high-quality whole bean coffees and sells them along with fresh, rich-brewed, Italian style espresso beverages, a variety of pastries and confections, and coffee-related accessories and equipment—primarily through its company-operated retail stores. In addition, Starbucks sells whole bean coffees through a specialty sales group and supermarkets. Additionally, Starbucks produces and sells bottled Frappuccino® coffee drinks and a line of premium ice creams through its joint venture partnerships and offers a line of innovative premium teas produced by its wholly owned subsidiary, Tazo Tea Company. The company's objective is to establish Starbucks as the most recognized and respected brand in the world. To achieve this goal, the company plans to continue to rapidly expand its retail operations, grow its specialty sales and other operations, and selectively pursue opportunities to leverage the Starbucks brand through the introduction of new products and the development of new distribution channels.

MORE USAGE Usage can be increased by increasing the *level* or *quantity* of consumption or increasing the *frequency* of consumption.

MARKETING INSIGHT | WHEN YOUR COMPETITOR DELIVERS MORE FOR LESS

Companies offering the powerful combination of low prices and high quality are capturing the hearts and wallets of consumers in Europe and the United States, where more than half of the population now shops weekly at mass merchants like Wal-Mart and Target, up from 25 percent in 1996. These and similar value players, such as Aldi, ASDA, Dell, E*TRADE Financial, JetBlue Airways, Ryanair, and Southwest Airlines, are transforming the way consumers of nearly every age and income purchase groceries, apparel, airline tickets, financial services, and computers.

The market share gains of value-based players give their higher-priced rivals definite cause for alarm. After years of near-exclusive sway over all but the most discount-minded consumers, many mainstream companies now face steep cost disadvantages and lack the product and service superiority that once set them apart from low-priced competitors. Today, as value-driven companies in a growing number of industries move from competing solely on price to catching up on attributes such as quality, service, and convenience, traditional players are right to feel threatened.

To compete with value-based rivals, mainstream companies must reconsider the perennial routes to business success: keeping costs in line, finding sources of differentiation, and managing prices effectively. To succeed in value-based markets, companies are required to infuse these timeless strategies with greater intensity and focus and then execute them flawlessly. Differentiation, for example, becomes less about the abstract goal of rising above competitive clutter and more about identifying opportunities left open by the value players' business models. Effective pricing means waging a transaction-by-transaction perception battle to win over those consumers who are predisposed to believe that value-oriented competitors are always cheaper.

Competitive outcomes will be determined, as always, on the ground—in product aisles, merchandising displays, process rethinks, and pricing stickers. When it comes to value-based competition, traditional players can't afford to drop a stitch. Value-driven competitors have changed the expectations of consumers about the trade-off between quality and price. This shift is gathering momentum, placing a new premium on—and adding new twists to—the old imperatives of differentiation and execution.

Differentiation

To counter value-based players, it will be necessary to focus on areas where their business models give other companies room to maneuver. Instead of trying to compete with Wal-Mart and other value retailers on price, for example, Walgreens emphasizes convenience across all elements of its business. It has expanded rapidly to make its stores ubiquitous, meanwhile ensuring that most of them are on corner locations with easy parking. In addition, Walgreens has overhauled its in-store layouts to speed consumers in and out, placing key categories such as convenience foods and one-hour photo services near the front. To protect pharmacy sales, the company has implemented a simple telephone and online preordering system, made it easy to transfer prescriptions between locations around the country, and installed drive-through windows at most freestanding stores. These steps helped Walgreens double its revenue from 1998 to 2002—to over $32 billion, from $15 billion.

Execution

Value-based markets also place a premium on execution, particularly in prices and costs. Kmart's disastrous experience in trying to compete head-on with Wal-Mart highlights the difficulty of challenging value leaders on their own terms. Matching or even beating a value player's prices—as Kmart briefly did—won't necessarily win the battle of consumer perceptions against companies with reputations for the lowest prices. Value players tend to price frequently purchased, easy-to-compare products and services aggressively and to make up for lost margins by charging more for higher-end offerings. Focused advertising to showcase "special buys" and the use of simple, prominent signage enable retailers to get credit for the value they offer and will probably become an ever-more-visible feature of the competitive landscape.

Ultimately, of course, the ability to offer even selectively competitive prices depends on keeping costs in line. Continual improvement is necessary, suggesting an increasing role, in a variety of industries, for Toyota's lean-manufacturing methods, which aim to reduce costs and improve quality constantly and simultaneously. In financial services, for example, banks have used lean techniques to speed check processing and mortgage approvals and to improve call-center performance. Lean operations will probably emerge in more industries. Companies have no choice—those that fail to constantly take out costs may perish.

Source: Adapted from Robert J. Frank, Jeffrey P. George, and Laxman Narasimhan, "When Your Competitor Delivers More for Less," *McKinsey Quarterly* (Winter 2004): 48–59.

The amount of consumption can sometimes be increased through packaging or product design. Larger package sizes have been shown to increase the amount of product that consumers use at one time.[19] The usage of "impulse" consumption products such as soft drinks and snacks increases when the product is made more available.

Increasing frequency of use, on the other hand, involves identifying additional opportunities to use the brand in the same basic way or identifying completely new and different ways to use the brand. In some cases, the product may be seen as useful only in certain places and at certain times, especially if it has strong brand associations to particular usage situations or user types.

To generate additional usage opportunities, a marketing program can communicate the appropriateness and advantages of using the brand more frequently in new or existing situations and/or remind consumers to actually use the brand as close as possible to those situations. The wine industry launched a number of initiatives in the late 1990s to attract Gen-Xers and convince them wine was a "casual, every day libation to be drunk like bottled water, beer or soda."[20]

Another potential opportunity to increase frequency of use is when consumers' perceptions of their usage differs from the reality of their usage. For many products with relatively short life spans, consumers may fail to replace the product when they should because of a tendency to overestimate the length of productive usage.[21] One strategy to speed up product replacement is to tie the act of replacing the product to a certain holiday, event, or time of year. Another strategy might be to provide consumers with better information as to either: (1) when the product was first used or would need to be replaced or (2) the current level of product performance. Each Gillette Mach3 cartridge features a blue stripe that slowly fades with repeated use. After about a dozen shaves, it fades away, signaling the user to move on to the next cartridge.

The second approach is to identify completely new and different applications. For example, food product companies have long advertised new recipes that use their branded products in entirely different ways. Given that the average American eats dry breakfast cereal three mornings a week, cereal manufacturers would gain if they could promote cereal eating on other occasions—perhaps as a snack.

ARM & HAMMER

After discovering that consumers used Arm & Hammer baking soda brand as a refrigerator deodorant, a heavy promotion campaign was launched focusing on this single use. After succeeding in getting half of the homes in America to place an open box of baking soda in the refrigerator, the brand was then extended into a variety of new product categories, such as toothpaste, antiperspirant, and laundry detergent.

Product development can spur new uses. Chewing gum manufacturers are exploring ways to make "nutracuetical" products as a cheap, effective delivery mechanism for medicine. The majority of Adam's chewing gums (number two in the world) claim health benefits. Aquafresh and Arm & Hammer are two dental gums that both achieved some success.[22]

Defending Market Share

While trying to expand total market size, the dominant firm must continuously defend its current business. The leader is like a large elephant being attacked by a swarm of bees. Tropicana must constantly guard against Minute Maid orange juice; Duracell against Energizer batteries; Hertz against Avis rental cars; Kodak against Fuji film.[23] Sometimes the competitor is domestic; sometimes it is foreign.

What can the market leader do to defend its terrain? The most constructive response is *continuous innovation*. The leader leads the industry in developing new product and customer services, distribution effectiveness, and cost cutting. It keeps increasing its competitive strength and value to customers.

Consider how Caterpillar has become dominant in the construction-equipment industry despite charging a premium price and being challenged by a number of able competitors, including John Deere, J. I. Case, Komatsu, and Hitachi. Several policies combine to explain Caterpillar's success:[24]

- ***Premium performance.*** Caterpillar produces high-quality equipment known for its reliability and durability—key buyer considerations in the choice of heavy industrial equipment.
- ***Extensive and efficient dealership system.*** Caterpillar maintains the largest number of independent construction-equipment dealers in the industry, all of whom carry a complete line of Caterpillar equipment.
- ***Superior service.*** Caterpillar has built a worldwide parts and service system second to none in the industry.

- ***Full-line strategy.*** Caterpillar produces a full line of construction equipment to enable customers to do one-stop buying.
- ***Good financing.*** Caterpillar provides a wide range of financial terms for customers who buy its equipment.

Akio Morita and an early Walkman. Morita refused to abandon his idea for a portable cassette player, saying Sony doesn't serve markets, Sony creates markets. And he was certainly right: by the twentieth anniversary of the Walkman, Sony had sold over 250 million units.

In satisfying customer needs, a distinction can be drawn between responsive marketing, anticipative marketing, and creative marketing. A *responsive* marketer finds a stated need and fills it. An *anticipative* marketer looks ahead into what needs customers may have in the near future. A *creative* marketer discovers and produces solutions customers did not ask for but to which they enthusiastically respond.

Sony exemplifies creative marketing. It has introduced many successful new products that customers never asked for or even thought were possible: Walkmans, VCRs, videocameras, CDs. Sony is a *market-driving firm*, not just a market-driven firm. Akio Morita, its founder, once proclaimed that Sony doesn't serve markets; Sony creates markets.[25] The Walkman is a classic example: In the late 1970s, Akio Morita was working on a pet project that would revolutionize the way people listened to music: a portable cassette player he called the Walkman. Engineers at the company insisted there was little demand for such a product, but Morita refused to part with his vision. By the twentieth anniversary of the Walkman, Sony had sold over 250 million in nearly 100 different models.[26]

Even when it does not launch offensives, the market leader must not leave any major flanks exposed. It must consider carefully which terrains are important to defend, even at a loss, and which can be surrendered.[27] The aim of defensive strategy is to reduce the probability of attack, divert attacks to less threatening areas, and lessen their intensity. The defender's speed of response can make an important difference in the profit consequences. A dominant firm can use the six defense strategies summarized in Figure 11.6.[28]

POSITION DEFENSE Position defense involves occupying the most desirable market space in the minds of the consumers, making the brand almost impregnable, like Tide laundry detergent with cleaning; Crest toothpaste with cavity prevention; and Pampers diapers with dryness.

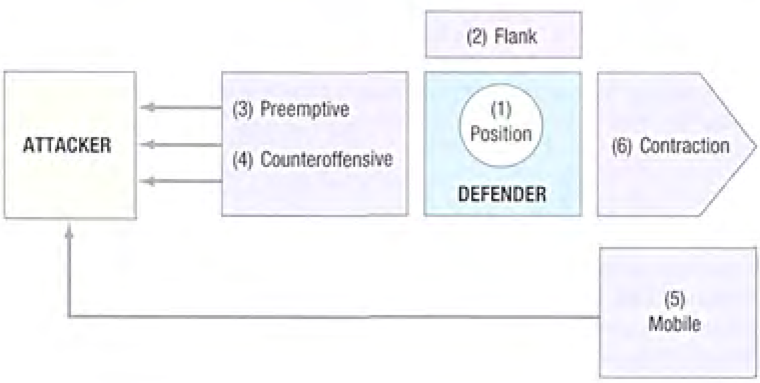


FIG. 11.6

Six Types of Defense Strategies

FLANK DEFENSE Although position defense is important, the market leader should also erect outposts to protect a weak front or possibly serve as an invasion base for counterattack. When Heublein's brand Smirnoff, which had 23 percent of the U.S. vodka market, was attacked by low-priced competitor Wolfschmidt, Heublein actually *raised* the price and put the increased revenue into advertising. At the same time, Heublein introduced another brand, Relska, to compete with Wolfschmidt and still another, Popov, to sell for less than Wolfschmidt. This strategy effectively bracketed Wolfschmidt and protected Smirnoff's flanks.

PREEMPTIVE DEFENSE A more aggressive maneuver is to attack *before* the enemy starts its offense. A company can launch a preemptive defense in several ways. It can wage guerrilla action across the market—hitting one competitor here, another there—and keep everyone off balance; or it can try to achieve a grand market envelopment. Bank of America's 13,000 ATMs and 4,500 branches nationwide now provide steep competition to local and regional banks. It can send out market signals to dissuade competitors from attacking.[29] It can introduce a stream of new products, making sure to precede them with *preannouncements*—deliberate communications regarding future actions.[30] Preannouncements can signal to competitors that they will have to fight to gain market share.[31] If Microsoft announces plans for a new-product development, smaller firms may choose to concentrate their development efforts in other directions to avoid head-to-head competition. Some high-tech firms have even been accused of engaging in "vaporware"—preannouncing products that miss delivery dates or are not even ever introduced.[32]

COUNTEROFFENSIVE DEFENSE When attacked, most market leaders will respond with a counterattack. Counterattacks can take many forms. In a *counteroffensive,* the leader can meet the attacker frontally or hit its flank or launch a pincer movement. An effective counterattack is to invade the attacker's main territory so that it will have to pull back to defend the territory. After FedEx watched UPS successfully invade its airborne delivery system, FedEx invested heavily in ground delivery service through a series of acquisitions to challenge UPS on its home turf.[33] Another common form of counteroffensive is the exercise of economic or political clout. The leader may try to crush a competitor by subsidizing lower prices for the vulnerable product with revenue from its more profitable products; or the leader may prematurely announce that a product upgrade will be available, to prevent customers from buying the competitor's product; or the leader may lobby legislators to take political action to inhibit the competition.

MOBILE DEFENSE In mobile defense, the leader stretches its domain over new territories that can serve as future centers for defense and offense through market broadening and market diversification. *Market broadening* involves shifting focus from the current product to the underlying generic need. The company gets involved in R&D across the whole range of technology associated with that need. Thus "petroleum" companies sought to recast themselves into "energy" companies. Implicitly, this change demanded that they dip their research fingers into the oil, coal, nuclear, hydroelectric, and chemical industries. *Market diversification* involves shifting into unrelated industries. When U.S. tobacco companies like Reynolds and Philip Morris acknowledged the growing curbs on cigarette smoking, they were not content with position defense or even with looking for cigarette substitutes. Instead they moved quickly into new industries, such as beer, liquor, soft drinks, and frozen foods.

CONTRACTION DEFENSE Large companies sometimes recognize that they can no longer defend all of their territory. The best course of action then appears to be *planned contraction* (also called *strategic withdrawal*): giving up weaker territories and reassigning resources to stronger territories. Diageo acquired most of Seagram's brands in 2001 and spun off Pillsbury and Burger King so it could concentrate on powerhouse alcoholic beverage brands such as Smirnoff vodka, J&B scotch, and Tanqueray gin.[34]

Expanding Market Share

Market leaders can improve their profitability by increasing their market share. In many markets, one share point is worth tens of millions of dollars. A one-share-point gain in coffee is worth $48 million; and in soft drinks, $120 million! No wonder normal competition has turned into marketing warfare.

Gaining increased share in the served market, however, does not automatically produce higher profits—especially for labor-intensive service companies that may not experience many economies of scale. Much depends on the company's strategy.

Because the cost of buying higher market share may far exceed its revenue value, a company should consider four factors before pursuing increased market share:

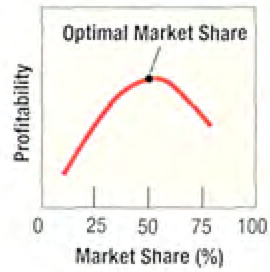


FIG. 11.7

The Concept of Optimal Market Share

- The possibility of provoking antitrust action, such as recently occurred with investigations of Microsoft and Intel. Jealous competitors are likely to cry "monopoly" if a dominant firm makes further inroads. This rise in risk would diminish the attractiveness of pushing market share gains too far.
- Economic cost. Figure 11.7 shows that profitability might fall with further market share gains after some level. In the illustration, the firm's *optimal market share* is 50 percent. The cost of gaining further market share might exceed the value. The "holdout" customers may dislike the company, be loyal to competitive suppliers, have unique needs, or prefer dealing with smaller suppliers. The cost of legal work, public relations, and lobbying rises with market share. Pushing for higher market share is less justified when there are few scale or experience economies, unattractive market segments exist, buyers want multiple sources of supply, and exit barriers are high. Some market leaders have even increased profitability by selectively decreasing market share in weaker areas.[35]
- Pursuing the wrong marketing-mix strategy. Miller Brewing spent *$1.5 billion* on measured advertising during the 1990s but still managed to lose market share. Its ad campaigns were highly distinctive but, unfortunately, also largely irrelevant to its targeted customer base.[36] When it was acquired by SAB in 2002, new management overhauled marketing operations.[37] Companies successfully gaining share typically outperform competitors in three areas: new-product activity, relative product quality, and marketing expenditures.[38] Companies that cut prices more deeply than competitors typically do not achieve significant gains, as enough rivals meet the price cuts and others offer other values so that buyers do not switch. Competitive rivalry and price cutting have been shown to be most intense in industries with high fixed costs, high inventory costs, and stagnant primary demand, such as steel, auto, paper, and chemicals.[39]
- The effect of increased market share on actual and perceived quality.[40] Too many customers can put a strain on the firm's resources, hurting product value and service delivery. America Online experienced growing pains when its customer base expanded, resulting in system outages and access problems. Consumers may also infer that "bigger is not better" and assume that growth will lead to a deterioration of quality. If "exclusivity" is a key brand benefit, existing customers may resent additional new customers.

::: Other Competitive Strategies

Firms that occupy second, third, and lower ranks in an industry are often called runner-up, or trailing firms. Some, such as Colgate, Ford, Avis, and PepsiCo, are quite large in their own right. These firms can adopt one of two postures. They can attack the leader and other competitors in an aggressive bid for further market share (market challengers), or they can play ball and not "rock the boat" (market followers).

Market-Challenger Strategies

Many market challengers have gained ground or even overtaken the leader. Toyota today produces more cars than General Motors and British Airways flies more international passengers than the former leader, Pan Am, did in its heyday. Airbus delivers more aircraft than Boeing.

BOEING AND AIRBUS

When it closed the books on December 31, 2003, Airbus, the company that began in 1970 as an unwieldy confederation of European aerospace firms, had replaced 89-year-old Boeing as the world's largest manufacturer of commercial aircraft. Airbus was on course to deliver 300 new airplanes in 2003 versus 280 from Boeing—just five years earlier in 1998 Boeing delivered twice as many as Airbus. What happened? Challenger Airbus began with a clean slate. It created an innovative new product line equipped with modern features—the massive A380 designed to carry 555 passengers at only 2.5 cents per seat mile. In contrast, Boeing had an arcane production system developed in World War II, and it couldn't match Airbus's advances without redesigning aircraft at prohibitive costs. Once the manufacturing marvel of the world, Boeing fell behind in both technology and manufacturing efficiency during the 1990s. "A new player that's aggressive and focused will almost always gain ground on an established player," says Dean Headley, co-author of a national airline quality report. And in the aircraft business, when it can take nearly a decade to go from design to launch, lost ground can be incredibly difficult to regain.[41]

Challengers like Airbus set high aspirations, leveraging their resources while the market leader often runs the business as usual. That's why the CEO of Airbus, Noel Foregard, vows to keep what he calls the "mentality of a challenger." Now let's examine the competitive attack strategies available to market challengers.

DEFINING THE STRATEGIC OBJECTIVE AND OPPONENT(S) A market challenger must first define its strategic objective. Most aim to increase market share. The challenger must decide whom to attack:

- ***It can attack the market leader.*** This is a high-risk but potentially high-payoff strategy and makes good sense if the leader is not serving the market well. The alternative strategy is to out-innovate the leader across the whole segment. Xerox wrested the copy market from 3M by developing a better copying process. Later, Canon grabbed a large chunk of Xerox's market by introducing desk copiers.
- ***It can attack firms of its own size that are not doing the job and are underfinanced.*** These firms have aging products, are charging excessive prices, or are not satisfying customers in other ways.
- ***It can attack small local and regional firms.*** Several major banks grew to their present size by gobbling up smaller regional banks, or "guppies."

If the attacking company goes after the market leader, its objective might be to gain a certain share. Miller Brewing is under no illusion that it can topple Anheuser-Busch's Budweiser in the domestic premium beer market—it is simply seeking a larger share. If the attacking company goes after a small local company, its objective might be to drive that company out of existence.

CHOOSING A GENERAL ATTACK STRATEGY Given clear opponents and objectives, what attack options are available? We can distinguish among five attack strategies: frontal, flank, encirclement, bypass, and guerilla attacks.

Frontal Attack In a pure *frontal attack,* the attacker matches its opponent's product, advertising, price, and distribution. The principle of force says that the side with the greater manpower (resources) will win. A modified frontal attack, such as cutting price vis-à-vis the opponent's, can work if the market leader does not retaliate and if the competitor convinces the market that its product is equal to the leader's. Helene Curtis is a master at convincing the market that its brands—such as Suave and Finesse—are equal in quality but a better value than higher-priced brands.

Flank Attack An enemy's weak spots are natural targets. A *flank attack* can be directed along two strategic dimensions—geographic and segmental. In a geographic attack, the challenger spots areas where the opponent is underperforming. For example, some of IBM's former mainframe rivals, such as Honeywell, chose to set up strong sales branches in medium- and smaller-sized cities that were relatively neglected by IBM. The other flanking strategy is to serve uncovered market needs, as Japanese automakers did when they developed more fuel-efficient cars.

A flanking strategy is another name for identifying shifts in market segments that are causing gaps to develop, then rushing in to fill the gaps and develop them into strong segments.

LEAPFROG ENTERPRISES INC.

Based in Emeryille, California, this small "David" of a toy company succeeded in using a flank attack against "Goliath" Mattel. In 1999, when the educational toy category couldn't have been drearier, LeapFrog unleashed a product it touted as "a toy in its shape, but an educational product in its soul." LeapFrog's toy, the LeapPad, is a laptop-like device that teaches children age 4 to 8 reading, math, spelling, and geography in a fun way. Parents happily paid $50 for the LeapPad consoles and $15 for content cartridges. In December 2000, the product raced past Razor scooter to become the top-selling toy—the first time in at least 15 years that an educational toy was number one. In 2001, LeapPad was the number-one selling toy in the nation, and so far the company has sold more than 8.6 million systems. Of course, its success has spurred Mattel to compete head-on by launching its own version of LeapPad, an easy-to-use Power Touch Learning System.[42]

Flanking is in the best tradition of modern marketing, which holds that the purpose of marketing is to discover needs and satisfy them. Flank attacks are particularly attractive to a challenger with fewer resources than its opponent and are much more likely to be successful than frontal attacks.

Encirclement Attack The encirclement maneuver is an attempt to capture a wide slice of the enemy's territory through a "blitz." It involves launching a grand offensive on several fronts. Encirclement makes sense when the challenger commands superior resources and believes a swift encirclement will break the opponent's will. In making a stand against arch rival Microsoft, Sun Microsystems licensed its Java software to hundreds of companies and millions of software developers for all sorts of consumer devices. As consumer electronics products began to go digital, Java started appearing in a wide range of gadgets.

Bypass Attack The most indirect assault strategy is the *bypass*. It means bypassing the enemy and attacking easier markets to broaden one's resource base. This strategy offers three lines of approach: diversifying into unrelated products, diversifying into new geographical markets, and leapfrogging into new technologies to supplant existing products. Pepsi used a bypass strategy against Coke by purchasing: (1) orange juice giant Tropicana for $3.3 billion in 1998, which owned almost twice the market share of Coca-Cola's Minute Maid, and (2) The Quaker Oats Company for $14 billion in 2000. (The Quaker Oats Company owns Gatorade Thirst Quenchers, which boasts a huge market share lead over the Coca-Cola Company's Powerade.)[43]

Technological leapfrogging is a bypass strategy practiced in high-tech industries. The challenger patiently researches and develops the next technology and launches an attack, shifting the battleground to its territory, where it has an advantage. Nintendo's successful attack in the video-game market was precisely about wresting market share by introducing a superior technology and redefining the "competitive space." Then Sega/Genesis did the same with more advanced technology, and now Sony's PlayStation has grabbed the technological lead to gain almost 60 percent of the video-game market.[44] Challenger Google used technological leapfrogging to overtake Yahoo! and become the market leader in search. Now another company is using the same tactic to try to become the "Google" of e-mail:

STATA LABS

If Raymie Stata, co-founder of San Mateo–based Stata Labs, has his way you will "bloomba" your e-mail in the same way that you "google" a company name or product on the Internet. He created his Bloomba e-mail management system in response to flaws in Microsoft's Outlook, which is used by 50 percent of office workers. Stata feels that people waste precious time adapting to what he sees as a counterintuitive e-mail management system. Rather than using folders or other complicated filing systems, Bloomba features a powerful search function that indexes all of your messages—even attachments—and lets you search for them in seconds. While it has yet to overtake Microsoft's Outlook, business journalists are hailing Bloomba's technology as the wave of the future for serious e-mail communicators.[45]

A Gatorade ad with the soccer star Mia Hamm. In a bypass strategy against Coca-Cola, Pepsi bought The Quaker Oats Company, owner of Gatorade Thirst Quenchers, which has a much larger share of the sports drink market than Coca-Cola's Powerade.

Guerrilla Warfare Guerrilla warfare consists of waging small, intermittent attacks to harass and demoralize the opponent and eventually secure permanent footholds. The guerrilla challenger uses both conventional and unconventional means of attack. These include selective price cuts, intense promotional blitzes, and occasional legal action. Princeton Review successfully challenged Kaplan Educational Centers, the largest test-preparation business in the United States, through e-mail horror stories about Kaplan and brash ads—"Stanley's a wimp," or "Friends don't let friends take Kaplan"—while always touting the Princeton Review's smaller, livelier classes.

Normally, guerrilla warfare is practiced by a smaller firm against a larger one. The smaller firm launches a barrage of attacks in random corners of the larger opponent's market in a manner calculated to weaken the opponent's market power. Military dogma holds that a continual stream of minor attacks usually creates more cumulative impact, disorganization, and confusion in the enemy than a few major attacks. A guerrilla campaign can be expensive, although admittedly less expensive than a frontal, encirclement, or flank attack. Guerrilla warfare is more a preparation for war than a war itself. Ultimately, it must be backed by a stronger attack if the challenger hopes to beat the opponent.

CHOOSING A SPECIFIC ATTACK STRATEGY The challenger must go beyond the five broad strategies and develop more specific strategies:

- ***Price discount.*** The challenger can offer a comparable product at a lower price. This is the strategy of discount retailers. Three conditions must be fulfilled. First, the challenger must convince buyers that its product and service are comparable to the leader's. Second, buyers must be price sensitive. Third, the market leader must refuse to cut its price in spite of the competitor's attack.

- ***Lower price goods.*** The challenger can offer an average- or lower-quality product at a much lower price. Little Debbie Snack Cakes were priced lower than Drake's and outsold Drake's by 20 to 1. Firms that establish themselves through a lower-price strategy, however, can be attacked by firms whose prices are even lower.
- ***Value-priced goods and services.*** In recent years companies ranging from retailers such as Target and airlines such as Southwest are combining low prices and high quality to snag market share from market leaders. In the United Kingdom, premium retailers like Boots and Sainsbury are now scrambling to meet intensifying price—and quality—competition from ASDA and Tesco.[46]
- ***Prestige goods.*** A market challenger can launch a higher-quality product and charge a higher price than the leader. Mercedes gained on Cadillac in the U.S. market by offering a car of higher quality at a higher price.
- ***Product proliferation.*** The challenger can attack the leader by launching a larger product variety, thus giving buyers more choice. Baskin-Robbins achieved its growth in the ice cream business by promoting more flavors—31—than its larger competitors.
- ***Product innovation.*** The challenger can pursue product innovation. 3M typically enters new markets by introducing a product improvement or breakthrough.
- ***Improved services.*** The challenger can offer new or better services to customers. Avis's famous attack on Hertz, "We're only second. We try harder," was based on promising and delivering cleaner cars and faster service than Hertz.
- ***Distribution innovation.*** A challenger might develop a new channel of distribution. Avon became a major cosmetics company by perfecting door-to-door selling instead of battling other cosmetic firms in conventional stores.
- ***Manufacturing-cost reduction.*** The challenger might achieve lower manufacturing costs than its competitors through more efficient purchasing, lower labor costs, and more modern production equipment.
- ***Intensive advertising promotion.*** Some challengers attack the leader by increasing expenditures on advertising and promotion. Substantial promotional spending, however, is usually not a sensible strategy unless the challenger's product or advertising message is superior.

A challenger's success depends on combining several strategies to improve its position over time.

SAMSUNG

Korean consumer electronics giant Samsung has used many of the challenger strategies to take on Japanese manufacturers and begin outselling them across a wide range of products. Like many other Asian companies, Samsung used to stress volume and market domination rather than profitability. Yet during the Asian financial crisis of the late 1990s, when other Korean *chaobols* collapsed beneath a mountain of debt, Samsung took a different tack. It cut costs and placed new emphasis on manufacturing flexibility, which allows its consumer electronics goods to go from project phase to store shelves within six months. It also began a serious focus on innovation, using technological leapfrogging to produce state-of-the-art mobile telephone handsets that are big sellers not only across Asia but also in Europe and the United States.[47]

"Marketing Memo: Making Smaller Better" provides some additional tips for challenger brands.

Market-Follower Strategies

Some years ago, Theodore Levitt wrote an article entitled "Innovative Imitation," in which he argued that a strategy of *product imitation* might be as profitable as a strategy of *product innovation*.[48] The innovator bears the expense of developing the new product, getting it into distribution, and informing and educating the market. The reward for all this work and risk is normally market leadership. However, another firm can come along and copy or improve on the new product. Although it probably will not overtake the leader, the follower can achieve high profits because it did not bear any of the innovation expense.

S&S CYCLE

S&S Cycle is the biggest supplier of complete engines and major motor parts to more than 15 companies that build several thousand Harley-like cruiser bikes each year. These cloners charge as much as $30,000 for their customized creations. S&S has built its name by improving on Harley-Davidson's handiwork. Its customers are often would-be Harley buyers frustrated by long waiting lines at the dealers. Other customers simply want the incredibly powerful S&S engines. S&S stays abreast of its evolving market by ordering a new Harley bike every year and taking apart the engine to see what it can improve upon.[49]

Many companies prefer to follow rather than challenge the market leader. Patterns of "conscious parallelism" are common in capital-intensive, homogeneous-product industries, such as steel, fertilizers, and chemicals. The opportunities for product differentiation and image differentiation are low; service quality is often comparable; and price sensitivity runs high. The mood in these industries is against short-run grabs for market share because that strategy only provokes retaliation. Most firms decide against stealing one anothers' customers. Instead, they present similar offers to buyers, usually by copying the leader. Market shares show high stability.

This is not to say that market followers lack strategies. A market follower must know how to hold current customers and win a fair share of new customers. Each follower tries to bring distinctive advantages to its target market—location, services, financing. Because the follower is often a major target of attack by challengers, it must keep its manufacturing costs low and its product quality and services high. It must also enter new markets as they open up. The follower has to define a growth path, but one that does not invite competitive retaliation. Four broad strategies can be distinguished:

1. ***Counterfeiter*** – The counterfeiter duplicates the leader's product and package and sells it on the black market or through disreputable dealers. Music record firms, Apple Computer, and Rolex have been plagued with the counterfeiter problem, especially in Asia.

MARKETING MEMO | MAKING SMALLER BETTER

Adam Morgan offers eight suggestions on how small brands can better compete:

1. ***Break with your immediate past***—Don't be afraid to ask "dumb" questions to challenge convention and view your brand differently.
2. ***Build a "lighthouse identity"***—Establish values and communicate who and why you are (e.g., Apple).
3. ***Assume thought leadership of the category***—Break convention in terms of representation (what you say about yourself), where you say it (medium), and experience (what you do beyond talk).
4. ***Create symbols of reevaluation***—A rocket uses half of its fuel in the first mile to break loose from the gravitational pull—you may need to polarize people.
5. ***Sacrifice***—Focus your target, message, reach and frequency, distribution, and line extensions and recognize that less can be more.
6. ***Overcommit***—Although you may do fewer things, do "big" things when you do them.
7. ***Use publicity and advertising to enter popular culture***—Unconventional communications can get people talking.
8. ***Be idea-centered, not consumer-centered***—Sustain challenger momentum by not losing sight of what the brand is about and can be, and redefine marketing support and the center of the company to reflect this vision.

Source: Adam Morgan, *Eating the Big Fish: How Challenger Brands Can Compete Against Brand Leaders* (New York: John Wiley & Sons, 1999).

Market follower strategies: S&S Cycle supplies engines and parts to companies that build Harley-Davidson clones. S&S has a reputation for building powerful engines that improve on the Harley product.

2. ***Cloner*** – The cloner emulates the leader's products, name, and packaging, with slight variations. For example, Ralcorp Holding Inc., sells imitations of name-brand cereals in lookalike boxes. Its Tasteeos, Fruit Rings, and Corn Flakes sell for nearly $1 a box less than the leading name brands.
3. ***Imitator*** – The imitator copies some things from the leader but maintains differentiation in terms of packaging, advertising, pricing, or location. The leader does not mind the imitator as long as the imitator does not attack the leader aggressively. Fernandez Pujals grew up in Fort Lauderdale, Florida, and took Domino's home delivery idea to Spain, where he borrowed $80,000 to open his first store in Madrid. His TelePizza chain now operates almost 1,000 stores in Europe and Latin America.
4. ***Adapter*** – The adapter takes the leader's products and adapts or improves them. The adapter may choose to sell to different markets, but often the adapter grows into the future challenger, as many Japanese firms have done after adapting and improving products developed elsewhere.

What does a follower earn? Normally, less than the leader. For example, a study of food-processing companies showed the largest firm averaging a 16 percent return on investment; the number-two firm, 6 percent; the number-three firm, −1 percent, and the number-four firm, −6 percent. In this case, only the top two firms have profits. No wonder Jack Welch, former CEO of GE, told his business units that each must reach the number-one or -two position in its market or else! Followership is often not a rewarding path.

Market-Nicher Strategies

An alternative to being a follower in a large market is to be a leader in a small market, or niche. Smaller firms normally avoid competing with larger firms by targeting small markets of little or no interest to the larger firms. Here is an example.

LOGITECH INTERNATIONAL

Logitech has become a $1.3 billion global success story by making every variation of computer mouse imaginable. The company turns out mice for left- and right-handed people, cordless mice that use radio waves, mice shaped like real mice for children, and 3-D mice that let the user appear to move behind screen objects. It sells to OEMs as well as via its own brand at retail. Its global dominance in the mouse category enabled the company to expand into other computer peripherals, such as PC headsets, PC gaming peripherals, and Webcams.[50]

Even large, profitable firms use niching strategies for some of their business units or companies.

ITW

Illinois Tool Works (ITW) manufactures thousands of products, including nails, screws, plastic six-pack holders for soda cans, bicycle helmets, backpacks, plastic buckles for pet collars, resealable food packages, and more. Since the late 1980s, the company has made between 30 and 40 acquisitions each year, which added new products to the product line. ITW has more than 500 highly autonomous and decentralized business units. When one division commercializes a new product, the product and personnel are spun off into a new entity.[51]

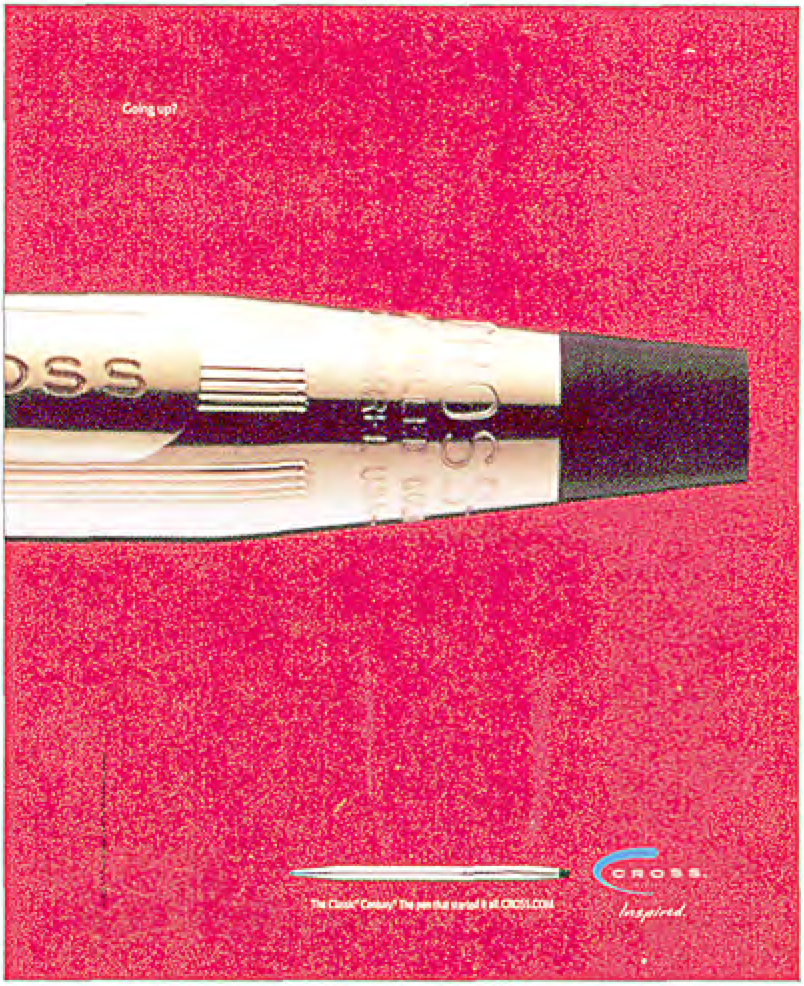
Firms with low shares of the total market can be highly profitable through smart niching. A. T. Cross niched itself in the high-price writing instruments market with its famous gold and silver items. Family-run Tire Rack sells 2 million specialty tires a year through the Internet, telephone, and mail, from its South Bend, Indiana, location.[52] Such companies tend to offer high value, charge a premium price, achieve lower manufacturing costs, and shape a strong corporate culture and vision. New Balance is a classic example of a small company that has successfully used market-nicher strategies to establish a strong market position.

NEW BALANCE

Despite the fact that it has no celebrity endorsers and does comparatively little advertising, New Balance has achieved more customer loyalty than any other athletic shoe brand. Its secret? A truly distinctive product. New Balance offers customers athletic shoes of varying widths. It targets the relatively neglected older market segment of fairly serious athletes age 25 to 45. Its low-key advertising appears in niche magazines like *Outside*, *New England Runner*, and *Prevention*, and on cable TV channels such as CNN, Golf Channel, and A&E. Consistency and focus have paid dividends. With only 3.7 percent of the market in 1999, sales grew to almost a billion dollars by 2002, making the brand the number-three player in the category.[53]

In a study of hundreds of business units, the Strategic Planning Institute found that the return on investment averaged 27 percent in smaller markets, but only 11 percent in larger markets.[54] Why is niching so profitable? The main reason is that the market nicher ends up knowing the target customers so well that it meets their needs better than other firms selling to this niche casually. As a result, the nicher can charge a substantial price over costs. The nicher achieves *high margin*, whereas the mass marketer achieves *high volume*.

Nichers have three tasks: creating niches, expanding niches, and protecting niches. Niching carries a major risk in that the market niche might dry up or be attacked. The company is then stuck with highly specialized resources that may not have high-value alternative uses.



Market nicher strategies: A.T. Cross's famous gold and silver pens are in the high-priced writing instruments niche.

ZIPPO

With smoking on a steady decline, Bradford, Pennsylvania–based Zippo Manufacturing is finding the market for its iconic metal cigarette lighter drying up. Zippo marketers now find themselves needing to diversify and to broaden their focus to "selling flame." With a goal of reducing reliance on tobacco-related products to 50 percent of revenue by 2010, the company introduced a long, slender multipurpose lighter for candles, grills, and fireplaces in 2001; has explored licensing arrangements with suppliers of flame-related outdoor products; and has acquired Case Cutlery, a knifemaker.[55]

Because niches can weaken, the firm must continually create new ones. "Marketing Memo: Niche Specialist Roles" outlines some options. The firm should "stick to its niching" but not necessarily to its niche. That is why *multiple niching* is preferable to *single niching*. By developing strength in two or more niches, the company increases its chances for survival.

Firms entering a market should aim at a niche initially rather than the whole market. (See "Marketing Memo: Strategies for Entering Markets Held by Incumbent Firms.") The cell phone industry has experienced phenomenal growth but is now facing fierce competition as the number of new potential users dwindles. Through innovative marketing, Boost Mobile and Virgin have successfully tapped into one of the few remaining high-growth segments: Generation Y customers entering the market.[56]

VIRGIN GROUP LTD.

While Virgin is a big player in music, air travel, and other industries, it is the new kid on the block in the wireless business. Yet, rather than launch a frontal attack on AT&T Wireless, Cingular, or Verizon, Virgin Mobile is targeting young phone users and was the first wireless company to expressly target this group. Virgin Mobile offers one of the simplest prepaid plans around with no contracts and no hidden fees. The company touts cool features such as a "rescue ring" to escape a boring date or the voice of Isaac Hayes or Grandpa Munster for the greet-

MARKETING MEMO | NICHE SPECIALIST ROLES

The key idea in successful nichemanship is specialization. Here are some possible niche roles:

- ***End-user specialist:*** The firm specializes in serving one type of end-use customer. For example, a *value-added reseller (VAR)* customizes the computer hardware and software for specific customer segments and earns a price premium in the process.
- ***Vertical-level specialist:*** The firm specializes at some vertical level of the production-distribution value chain. A copper firm may concentrate on producing raw copper, copper components, or finished copper products.
- ***Customer-size specialist:*** The firm concentrates on selling to either small, medium-sized, or large customers. Many nichers specialize in serving small customers who are neglected by the majors.
- ***Specific-customer specialist:*** The firm limits its selling to one or a few customers. Many firms sell their entire output to a single company, such as Sears or General Motors.
- ***Geographic specialist:*** The firm sells only in a certain locality, region, or area of the world.
- ***Product or product-line specialist:*** The firm carries or produces only one product line or product. A firm may produce only lenses for microscopes. A retailer may carry only ties.
- ***Product-feature specialist:*** The firm specializes in producing a certain type of product or product feature. Rent-a-Wreck, for example, is a California car-rental agency that rents only "beat-up" cars.
- ***Job-shop specialist:*** The firm customizes its products for individual customers.
- ***Quality-price specialist:*** The firm operates at the low- or high-quality ends of the market. Hewlett-Packard specializes in the high-quality, high-price end of the hand-calculator market.
- ***Service specialist:*** The firm offers one or more services not available from other firms. An example would be a bank that takes loan requests over the phone and hand-delivers the money to the customer.
- ***Channel specialist:*** The firm specializes in serving only one channel of distribution. For example, a soft-drink company decides to make a very large-sized soft drink available only at gas stations.

MARKETING MEMO | STRATEGIES FOR ENTERING MARKETS HELD BY INCUMBENT FIRMS

Carpenter and Nakamoto examined strategies for launching a new product into a market dominated by one brand, such as Jell-O or FedEx. (These brands, which include many market pioneers, are particularly difficult to attack because many are the standard against which others are judged.) They identified four strategies that have good profit potential in this situation:

1. ***Differentiation:*** Positioning away from the dominant brand with a comparable or premium price and heavy advertising spending to establish the new brand as a credible alternative. Example: Honda's motorcycle challenges Harley-Davidson.
2. ***Challenger:*** Positioning close to the dominant brand with heavy advertising spending and comparable or premium price to challenge the dominant brand as the category standard. Example: Pepsi competing against Coke.
3. ***Niche:*** Positioning away from the dominant brand with a high price and a low advertising budget to exploit a profitable niche. Example: Tom's of Maine all-natural toothpaste competing against Crest.
4. ***Premium:*** Positioning near the dominant brand with little advertising spending but a premium price to move "up market" relative to the dominant brand. Examples: Godiva chocolate and Häagen-Dazs ice cream competing against standard brands.

Sources: Gregory S. Carpenter and Kent Nakamoto, "Competitive Strategies for Late Entry into a Market with a Dominant Brand," *Management Science* (October 1990): 1268–1278; Gregory S. Carpenter and Kent Nakamoto, "The Impact of Consumer Preference Formation on Marketing Objectives and Competitive Second Mover Strategies," *Journal of Consumer Psychology* 5, no. 4 (1996): 325–358; Venkatesh Shankar, Gregory Carpenter, and Lakshman Krishnamurthi, "Late Mover Advantage: How Innovative Late Entrants Outsell Pioneers," *Journal of Marketing Research* 35 (February 1998): 54–70.

ing. And, to emphasize that the phone plan has "nothing to hide," Virgin runs provocative ads featuring nude actors. Branson himself even showed up half-naked in New York's Times Square to kick off the company's 50–50 joint venture with Sprint PCS Group. The niching strategy seems to be working; in a very short period of time, Virgin Mobile gained more than 1 million users.[57]

::: Balancing Customer and Competitor Orientations

We have stressed the importance of a company's positioning itself competitively as a market leader, challenger, follower, or nicher. Yet a company must not spend all its time focusing on competitors.

Competitor-Centered Companies

A *competitor-centered company* sets its course as follows:

Situation

- Competitor W is going all out to crush us in Miami.
- Competitor X is improving its distribution coverage in Houston and hurting our sales.
- Competitor Y has cut its price in Denver, and we lost three share points.
- Competitor Z has introduced a new service feature in New Orleans, and we are losing sales.

Reactions

- We will withdraw from the Miami market because we cannot afford to fight this battle.
- We will increase our advertising expenditure in Houston.
- We will meet competitor Y's price cut in Denver.
- We will increase our sales promotion budget in New Orleans.

This kind of planning has some pluses and minuses. On the positive side, the company develops a fighter orientation. It trains its marketers to be on constant alert, to watch for weaknesses in its competitors' and its own position. On the negative side, the company is too reactive. Rather than formulating and executing a consistent, customer-oriented strategy, it determines its moves based on its competitors' moves. It does not move toward its own goals. It does not know where it will end up, because so much depends on what its competitors do.

Customer-Centered Companies

A *customer-centered company* focuses more on customer developments in formulating its strategies.

Situation

- The total market is growing at 4 percent annually.
- The quality-sensitive segment is growing at 8 percent annually.
- The deal-prone customer segment is also growing fast, but these customers do not stay with any supplier very long.
- A growing number of customers have expressed an interest in a 24-hour hot line, which no one in the industry offers.

Reactions

- We will focus more effort on reaching and satisfying the quality segment of the market. We will buy better components, improve quality control, and shift our advertising theme to quality.
- We will avoid cutting prices and making deals because we do not want the kind of customer that buys this way.
- We will install a 24-hour hot line if it looks promising.

Clearly, the customer-centered company is in a better position to identify new opportunities and set a course that promises to deliver long-run profits. By monitoring customer needs, it can decide which customer groups and emerging needs are the most important to serve, given its resources and objectives. Jeff Bezos, founder of Amazon.com, strongly favors a customer-centered orientation: "Amazon.com's mantra has been that we were going to obsess over our customers and not our competitors. We watch our competitors, learn from them, see the things that they [were doing for customers] and copy those things as much as we can. But we were never going to obsess over them."[58]

SUMMARY :::

1. To prepare an effective marketing strategy, a company must study competitors as well as actual and potential customers. Companies need to identify competitors' strategies, objectives, strengths, and weaknesses.
2. A company's closest competitors are those seeking to satisfy the same customers and needs and making similar offers. A company should also pay attention to latent competitors, who may offer new or other ways to satisfy the same needs. A company should identify competitors by using both industry and market-based analyses.
3. A market leader has the largest market share in the relevant product market. To remain dominant, the leader looks for ways to expand total market demand, attempts to protect its current market share, and perhaps tries to increase its market share.
4. A market challenger attacks the market leader and other competitors in an aggressive bid for more market share. Challengers can choose from five types of general attack; challengers must also choose specific attack strategies.
5. A market follower is a runner-up firm that is willing to maintain its market share and not rock the boat. A follower can play the role of counterfeiter, cloner, imitator, or adapter.
6. A market nicher serves small market segments not being served by larger firms. The key to nichemanship is specialization. Nichers develop offerings to fully meet a certain group of customers' needs, commanding a premium price in the process.
7. As important as a competitive orientation is in today's global markets, companies should not overdo the emphasis on competitors. They should maintain a good balance of consumer and competitor monitoring.

APPLICATIONS :::

Marketing Debate How Do You Attack a Category Leader?

Attacking a leader is always difficult. Some strategists recommend attacking a leader "head-on" by targeting its strengths. Other strategists disagree and recommend flanking and attempting to avoid the leader's strengths.

Take a position: The best way to challenge a leader is to attack its strengths versus The best way to attack a leader is to avoid a head-on assault and to adopt a flanking strategy.

Marketing Discussion

Pick an industry. Classify firms according to the four different roles they might play: leader, challenger, follower, and nicher. How would you characterize the nature of competition? Do the firms follow the principles described in this chapter?

MARKETING **SPOTLIGHT** ACCENTURE

Accenture started life as the consulting arm of accounting firm Arthur Andersen. Over the years, the consultants progressively changed their name to build their brand image. They started as the Administrative Accounting Group and then became the Management Information Consulting Division. In 1989, Andersen Consulting separated from Arthur Andersen in order to position itself against its IT services competitors. At the time, Andersen Consulting was already doing $1 billion a year in business, but it wasn't known in the information technology world and was mistakenly associated with accounting. The new spinoff needed to promote its name as an innovator in IT consulting and separate itself from its accounting heritage.

The IT consulting marketplace was crowded with competitors ranging from nuts-and-bolts hardware/software providers like IBM to leading strategy firms like McKinsey and the Boston Consulting Group. To make a name for itself, Andersen Consulting launched the first large-scale advertising campaign in the professional services area. By the end of the decade, it was the world's largest management and technology consulting organization.

In 2000, following arbitration against its former parent, Andersen Consulting was granted its full independence from Arthur Andersen—but at the price of giving up the Andersen name. Andersen Consulting had three months to find, implement, and introduce the world to a new corporate name. This effort would become one of the largest and most successful re-branding campaigns in corporate history.

A consultant from the Oslo office coined the Accenture name because it rhymed with "adventure" and connoted an "accent on the future." The name emerged as the winner because it was catchy and distinctive and embodied bold growth and innovation. It retained the "Ac" of the original Andersen Consulting name (echoing the Ac.com Web site), which would help the firm retain some of the brand equity held in its original name. The Accenture name campaign of 2001 delivered results. It built awareness of the firm's breadth and depth of services. The effect of the advertising campaign was to increase by 350 percent the number of firms considering purchasing Accenture's services.

In 2002, Accenture launched the "Innovation Delivered" campaign to distinguish itself from the competition. Competitors in the IT arena, such as IBM and EDS, lacked broader business consulting expertise and weren't seen as knowledgeable in business strategy and processes. They tended to approach firms from the IT level, not the C-level (CEO, CFO, CIO). Competitors in the business consulting arena like McKinsey, in contrast, had brand strength associated with strategic thinking. They were seen as thought leaders, but not as collaborative partners who would roll up their shirtsleeves and implement the ideas they suggested.

Accenture saw its differentiator as the ability to provide both innovative ideas—ideas grounded in business processes as well as IT—and the ability to execute those innovative ideas. Ian Watmore, Accenture's U.K. chief, explained the need to have both strategy and execution: "Unless you can provide both transformational consulting and outsourcing capability, you're not going to win. Clients expect both. That's why we've grown our outsourcing capabilities, and that's why companies like IBM and EDS are trying to get transformational capabilities." IBM did exactly that, purchasing PriceWaterhouseCooper's consulting arm, thereby becoming a much more formidable competitor to Accenture.

Accenture surveyed senior executives from different industries and countries and confirmed that executives saw the inability to execute and deliver on ideas as the number-one barrier to success. With its "Innovation Delivered" campaign, Accenture positioned itself as the firm that would bring results and put plans into action: "From innovation to execution, Accenture helps accelerate your vision." The award-winning campaign delivered a high return on investment. For example, the firm estimates its ROI for U.K. marketing activities was 215 percent.

In 2002, the climate changed. After the dot-com crash and the economic downturn, innovation was no longer enough. Executives wanted bottom-line results. Accenture launched its "High Performance Delivered" campaign with Tiger Woods as the spokesperson. Accenture's continued success is demonstrated in its revenues ($11.8 billion in 2003) and its number-52 ranking on *BusinessWeek*'s Top 100 brands.

Discussion Questions

1. What have been the key success factors for Accenture?
2. Where is Accenture vulnerable? What should it watch out for?
3. What recommendations would you make to senior marketing executives going forward? What should the company be sure to do with its marketing?

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