

MARKET LEADER

MARKETING

3rd edition

GREWAL • LEVY • MATHEWS • HARRIGAN • BUCIC • KOPANIDIS

MARKETING



3rd edition

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I dedicate this to my loving family
who make my life so wonderful.
Shane Mathews

For Maggie, Grace and Rory
Paul Harrigan

For Mark, Jack and Max
Tania Bucic

For my daughter, Danae
Foula Kopanidis

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About the authors

Dhruv Grewal

Dhruv Grewal, PhD (Virginia Tech), is the Toyota Chair in Commerce and Electronic Business and a Professor of Marketing at Babson College in the United States. His research and teaching interests focus on direct marketing and e-commerce, marketing research, the broad areas of value-based marketing strategies, services and retailing, and pricing. He is listed in Thompson Reuters' 2014 World's Most Influential Scientific Minds list (only eight from the marketing field and 95 from economics and business are listed). He is an Honorary Distinguished Visiting Professor of Retailing and Marketing, Center for Retailing, Stockholm School of Economics; an Honorary Distinguished Visiting Professor of Retailing and Marketing, Tecnológico de Monterrey; a GSBE Extramural Fellow, Maastricht University; a Global Chair in Marketing at University of Bath; and has been a Visiting Scholar at Dartmouth. He has also served as a faculty member at the University of Miami, where he was a department chair.

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Association Educators' Conference 2000; and University of Miami School of Business Research Excellence Award for 1991, 1995, 1996, and 1998. He has also been a finalist for the 2014 *Journal of Marketing* Harold H. Maynard Award, the 2012 Paul D. Converse Award, and the 2005 Best Services Paper Award from the Services SIG.

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Professor Grewal has also co-authored *Marketing* (publisher McGraw-Hill, 1e 2008; 2e 2010–Awarded Revision of the Year, McGraw-Hill Corporate Achievement Award with Connect Marketing in the category of Content and Analytical Excellence; 3e 2012; 4e 2014; 5e 2016; 6e 2018); *M Series: Marketing* (publisher McGraw-Hill, 1e 2009, 2e 2011, 3e 2013, 4e 2015, 5e 2017, 6e 2019); *Retailing Management* (publisher McGraw-Hill, 9e 2014, 10e 2018–the leading textbook in the field); and *Marketing Research* (publisher Houghton Mifflin Co., 1e 2004, 2e 2007). He was ranked number 86 for Books in Business and Investing by Amazon in 2013.

Professor Grewal has won many awards for his teaching: 2005 Sherwin-Williams Distinguished Teaching Award, Society for Marketing Advances; 2003 American Marketing Association, Award for Innovative Excellence in Marketing Education; 1999 Academy of Marketing Science Great Teachers in Marketing Award; Executive MBA Teaching Excellence Award (1998); School of Business Teaching Excellence Awards (1993, 1999); and Virginia Tech Certificate of Recognition for Outstanding Teaching (1989).

He has taught executive seminars/courses and/or worked on research projects with numerous firms such as Dell, ExxonMobil, IRI, RadioShack, Telcordia, Khimetrics Profit-Logic, McKinsey, Ericsson, Motorola, Nextel, FP&L, Lucent, Sabre, Goodyear Tire & Rubber Company, Sherwin-Williams and Asahi. He has delivered seminars in the United States, Europe, Latin America and Asia. He has served as an expert witness or worked as a consultant on numerous legal cases. He serves on the Board of Directors of Babson Global, and on the Board of Trustees of Marketing Edge.

Michael Levy

Michael Levy, PhD (Ohio State University), is the Charles Clarke Reynolds Professor of Marketing Emeritus at Babson College and CEO of RetailProf LLC in the United States. He received his PhD in business administration from The Ohio State University and his undergraduate and MS degrees in business administration from the University of Colorado at Boulder. He taught at Southern Methodist University before joining the faculty as professor and chair of the marketing department at the University of Miami.

Professor Levy received the inaugural ACRA Academic Lifetime Achievement Award presented at the 2015 AMA/ACRA (American Marketing Association/American Collegiate Retailing Association) Triennial Conference and was recognised for 25 years of dedicated service to the editorial review board of the *Journal of Retailing* in 2011. He won the McGraw-Hill Corporate Achievement Award for Grewal-Levy *Marketing* 2e with Connect in the category of excellence in content and analytics (2010); Revision of the Year for *Marketing* 2e (Grewal-Levy) from McGraw-Hill/Irwin (2010); the 2009 Lifetime Achievement Award, American Marketing Association, Retailing Special Interest Group (SIG); the Babson Faculty Scholarship Award (2009); and the Distinguished Service Award, *Journal of Retailing* (2009) (at winter AMA).

He was rated as one of the best researchers in marketing in a survey published in *Marketing Educator* (Summer 1997). He has developed a strong stream of research in retailing, business logistics, financial retailing strategy, pricing, and sales management. He has published over 50 articles in leading marketing and logistics journals, including the *Journal of Retailing, Journal of Marketing, Journal of the Academy of Marketing Science,* and *Journal of Marketing Research.* He has served on the editorial review boards of the *Journal of Retailing, Journal of the Academy of Marketing Science, International Journal of Physical Distribution and Materials Management, International Journal of Business Logistics, ECR*

Journal, European Business Review, and has been on the editorial advisory boards of *European Retail Research* and the *European Business Review*. He is co-author of *Retailing Management,* 10e (2019), the best-selling college-level retailing text in the world. Professor Levy was co-editor of the *Journal of Retailing* from 2001 to 2007. He co-chaired the 1993 Academy of Marketing Science conference and the 2006 summer AMA conference.

Professor Levy has worked in retailing and related disciplines throughout his professional life. Prior to his academic career, he worked for several retailers and a housewares distributor in Colorado. He has performed research projects with many retailers and retail technology firms, including Accenture, Federated Department Stores, Khimetrics (SAP), Mervyn's, Neiman Marcus, ProfitLogic (Oracle), Zale Corporation and numerous law firms.

About the Australian authors



Shane Mathews

Shane Mathews is an Associate Professor in the School of Advertising, Marketing and Public Relations, Queensland University of Technology Business School. Shane has more than 20 years of experience in the marketing profession both domestic and international. He has teaching experience from undergraduate to executive education in marketing and international business and has won a number of awards for teaching excellence. Shane's research investigates digitalisation: the internet's impact on digital marketing such as digital branding, firm digital marketing capabilities, virtual social networks and the broader implications of digital marketing and international marketing.

Shane has published articles in many marketing journals, including the *Journal of Business Research, International Marketing Review, International Business Review, Journal of Marketing Management, Journal of Strategic Marketing, Journal of Marketing Communications, International Journal of Tourism Research, Australasian Marketing Journal* and *Educational Research.*



Paul Harrigan

Paul Harrigan is Associate Professor of Marketing at UWA Business School, at the University of Western Australia. He has been at UWA since 2012. Before this, Paul was a Lecturer in Marketing at the University of Southampton in the UK from 2008–2012. He is also an Adjunct Professor at IESEG School of Management in France. Paul received his PhD from Ulster University in the UK in 2008.

His research expertise is in digital marketing, specifically social media marketing. Paul has published his research in over 40 international journal articles and books, presented at over 30 international conferences, and supervised many research students. His teaching focus is on digital marketing and he creates and delivers undergraduate, postgraduate and executive education courses, internationally. More broadly, Paul is a member of the Australian and New Zealand Marketing Academy, and was appointed Vice President in December 2019. He is also an Associate Editor at the *Journal of Marketing Management* and is on the editorial board of the *Journal of Interactive Advertising*. Paul consults with industry and regularly engages with the media on digital marketing issues.



Tania Bucic

Tania Bucic is Associate Professor of Marketing at the UNSW Business School, at the University of New South Wales, Australia. As a Scientia Education Fellow, she is passionate about teaching and has distinguished herself by winning a string of teaching-related accolades at faculty, university, national and international levels. For example, Tania received the 2019 Ivey Publishing Global Best Seller Award for her business case studies, the 2018 Marketing Management Association's Master Teacher Award (USA), a Citation for Outstanding Contribution to Student Learning, from the Australian Office of Learning and Teaching, and the UNSW Vice Chancellor's Teaching Award (medal). In addition, Tania's research appears in *Industrial Marketing Management*, *Journal of Business Ethics*, *Journal of Marketing Education*, *Journal of Strategic Marketing*, *Australian Journal of Management*, *Journal of Services Marketing* and *International Journal of Innovation Management* among others. Tania is a former President of the Australian and New Zealand Marketing Academy.



Foula Kopanidis

Foula Kopanidis is an Associate Professor with RMIT University's College of Business, School of Economics, Finance and Marketing, and is the Postgraduate Course Coordinator of Consumer Behaviour. Her teaching and research expertise areas include consumer behaviour, selection behaviour, choice criteria, education and marketing. Foula's teaching excellence has been recognised at a college, university and national level with a Citation for Outstanding Contribution to Student Learning from the Australian Office of Learning and Teaching. She was recently awarded Fellow of the Higher Education Academy (UK).

Foula's research is anchored across the three disciplines of marketing, education and psychology. She has recent publications in the journals of *Education + Training*, *Higher Education, Research and Development*, *Higher Education Policy and Management*, *Women & Aging*, and *Journal of Services Marketing* and is also a co-author of McGraw-Hill Education's publication *Consumer Behaviour* 7e. Foula is active in research and is currently supervising PhD students.

About the digital authors

We are indebted to our digital resource authors who have worked hard to ensure that we have the best resource package on the market.

- Karen Fernandez, University of Auckland
- Sandy Sergeant, Queensland University of Technology

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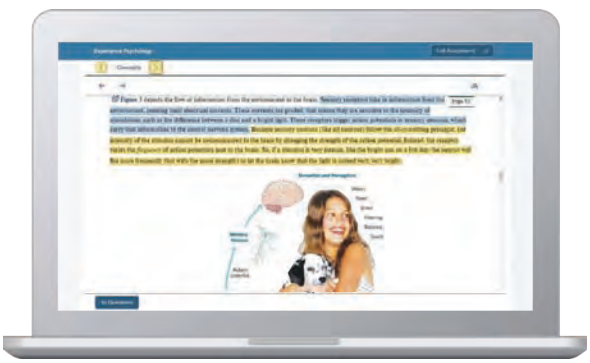
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New to this edition

The third edition of *Marketing* sees significant changes. As always, every example, fact and key term has been checked, updated and/or replaced. What follows are major changes in the text, chapter-by-chapter.

Chapter	Chapter updates
PART 1 Assessing the marketplace	
Chapter 1 **Overview of marketing**	• Thoroughly updated discussion on what is marketing • Updated discussion on how marketing firms become more value driven • New vignettes • New case studies
Chapter 2 **Digital marketing**	• Updated discussion on digital channels • Substantially improved explanation of 4E network • Updated discussion on social media marketing • Added discussion on the influence of augmented reality (AR) in retail sector
Chapter 3 **Marketing ethics, sustainability and CSR**	• Added discussion on the rise of social marketing (using marketing techniques to create a behavioural change) • Updated opening vignette includes changes in the fashion industry since the Rana Plaza incident in Bangladesh • Updated section on ethical issues includes efforts being made by Google and Microsoft in this sphere • Added findings from the survey Ethics at Work • New Adding value on supply chain that adheres to a code of ethics • New Adding value on ban on plastic bags in Australian supermarkets • Updated discussion on ethics and marketing strategy, including the example of Roma boots, how celebrities influence consumers' decisions, the Cambridge Analytica scandal
Chapter 4 **Analysing the marketing environment**	• Entire chapter has been revised to lay a greater emphasis on the importance of understanding competition and how it impacts on the development of marketing strategy • New Superior service highlights how Chemist Warehouse adapted itself for the Chinese market • Added discussion on consumers pushing brands to take position in key societal issues such as equality • Expanded discussion on health and wellness including mental wellbeing • New Adding value feature on Netflix and its predictive analytics • Updated and revised discussion on privacy and data and how the EU has led the way in implementing legislation to protect consumers' privacy

Chapter	Chapter updates
PART 2 Understanding and targeting the marketplace	
Chapter 5 **Consumer behaviour**	• Updated discussion on consumer decision process including examples from varied fields to highlight the importance of engaging the customer • New examples explaining various factors influencing consumer decision process
Chapter 6 **Segmentation, targeting and positioning**	• Greater emphasis on discussion around segmentation methods including pricing strategies, distribution strategies and overall appeals • Addition of more complex segmentation methods such as psychographic, benefits derived and behavioural • Inclusion of the seven segments of consumer lifestyle segmentation in New Zealand developed by the University of Otago • Updated section on behavioural segmentation • New Social media and mobile marketing feature describing how various tech companies and online platforms segment customers based on the use of their services • Updated table on value proposition statement key elements • New Adding value discusses the influence and message of evolving company logos
Chapter 7 **Marketing research**	• Updated opening vignette showing the impact of wearable devices in day-to-day life and how the personal data they collect is used by companies to deliver timely information • New graph about secondary data and how it is used by policy makers to draft economic policies • Updated table on firms that provide syndicated data • Updated section on social media research with examples of LEGO and Sephora and how they engage with their customers • New Superior service feature on the use of drones in the service industry • Updated section on emerging technology and the ethics of using customer information
PART 3 Value creation	
Chapter 8 **Product and branding decisions**	• Updated section on branding includes examples of Amazon and Sony and how they operate • Updated table on the world's most valuable brands • New Ethical and societal dilemma feature on how brands get creative to cater to a particular market
Chapter 9 **Developing new products**	• Updated opening vignette emphasises the importance of innovation–from companies and also driven by consumers' demands • New Adding value feature on resusable plastic bags examines the Australian retail sector's transformation to improve sustainability practices • New Ethical and societal dilemma feature regarding innovation in the smart products industry and its privacy concerns • Updated discussion on using the diffusion of innovation theory • Revised section about how firms develop new products

Continued

Chapter	Chapter updates
Chapter 10 **Services: The intangible product**	• Revised and updated opening vignette on the services provided by online retail stores • Updated discussion on the intangibility of services including involvement of the ACCC in dealing with various advertisements • Revised section on the service gaps model • Updated Social media and mobile marketing feature highlighting the growth of digital marketing in Australia • New Social media and mobile marketing feature on Spotify and how it uses social media for customer service–in particular, to recover from service failures
PART 4 Value capture, delivery and communication	
Chapter 11 **Pricing concepts**	• New Adding value feature exploring the rising popularity of online stores and how they are attracting customers and businesses alike • New Ethical and societal dilemma feature about the long-running court case between Amazon, Apple, a group of book publishers and customers who fought a tough battle over the price of reading • New Superior service feature on leasing
Chapter 12 **Supply chain, channel management and retail**	• Added discussion on customer store pick-up technology
Chapter 13 **Integrated marketing communications**	• Updated opening vignette to reflect the influence of media on advertising • New Social media and mobile marketing feature emphasising new ideas adopted by companies to promote themselves • New Adding value feature on Puma's use of Google Analytics to revamp its advertising strategy • New Ethical and societal dilemma feature on Volkswagen's advertising campaign to persuade customers to trust it again after recent scandals • Revised section on product placement

Text at a glance

***Marketing* is a pedagogically rich learning resource. The features laid out on these pages are designed to encourage and enhance your understanding of marketing.**

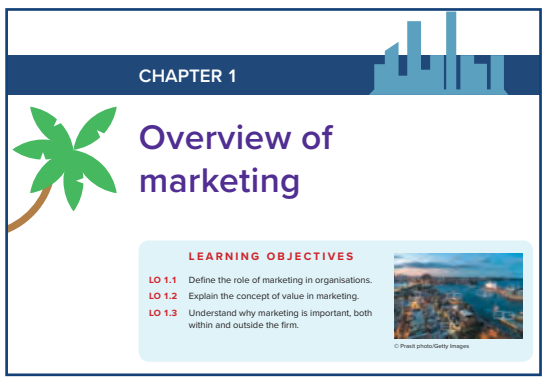
REAL-WORLD EXAMPLES

Real-world examples are used to illustrate concepts throughout the text, giving you an opportunity to think about how these concepts are used in everyday life. They are presented in the following elements.

Part opener



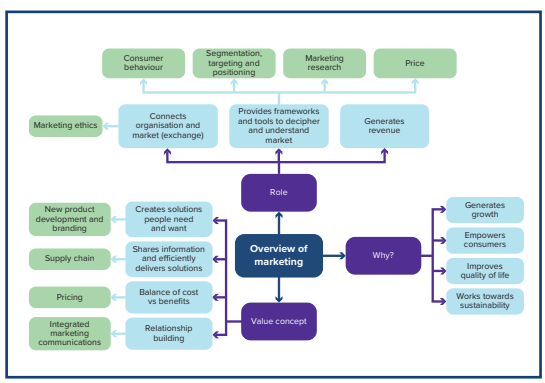
Chapter opener



Learning objectives outline the skills and knowledge that you should have gained on completing each chapter.

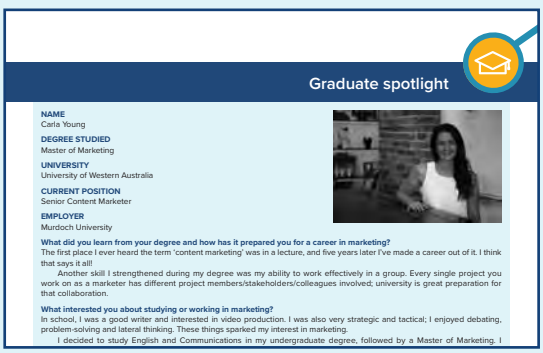
Concept map

A visual and stimulating summary concept map for each chapter links the key theoretical points of each topic.



Graduate spotlight

Graduate spotlights are a series of Q&As with marketing graduates to find out where they have taken their careers and what advice they would give to new students in the field.



The fashion industry is often criticised for reinforcing superficial ideals and for contributing to materialistic lifestyles in developed economies, while exploiting those in developing countries through unethical manufacturing and distribution strategies. For many profit-driven companies in the fashion industry, balancing the needs of shareholders and the wider community is not always easy. For example, many firms in the clothing industry compete on offering great value for the latest fashions by maintaining low prices. Low prices, of course, mean that cost savings must be made along the supply chain, often affecting the manufacturing process. In our globalised world, most fashion labels outsource their manufacturing function to countries with significantly lower labour costs. This, in turn, leads to a competitive manufacturing landscape, where contractors in developing countries compete to offer the lowest cost of production. As a result, working conditions in many contracted factories in developing countries are poor.

Media coverage has questioned the sustainability of the fashion industry and how brands will continue to minimise their impact given Western consumer culture's obsession with low prices and its insatiable appetite for the latest fashion trends. Globally, 80 billion new pieces of clothing are consumed every year and, by 2030, the industry will have manufactured 92 million tonnes of clothes and shoes in

Chapter opening vignette

These short cases focus on well-known companies to draw you into thoughtful discussion about some of the challenges you may face as a marketer.

h anniversary selling vehicles in
s, sedans, station wagons, people
anages to connect with different
(see Exhibit 6.1). Mazda has been
ehicle manufacturers it has been
arketplace.
taining its position in the number
yota in number one and Hyundai
in sales than either.[1] So, what are
ance? To better understand and
e marketing to ensure Australian
sition.
company's website (www.mazda



Exhibit 6.1 Targeting the mid-range car buyer.
© Tony Vingerhoets/Alamy Stock Photo/DAL

Exhibits

Every chapter contains a variety of advertisements and images that reflect the chapter theme.

CHECK YOURSELF

1. What is the definition of marketing?
2. Marketing is about satisfying _____ and _____.
3. What are the four components of the marketing mix?
4. Who can perform marketing?
5. What are the various eras of marketing?

Check yourself

These quick questions, which are included after key points, allow you to check your understanding and apply what you have learned.

Case study **5.1: Tourism Australia uses ingenious Hollywood magnet to pull in American visitors**

By Victoria Jennifer Harrison, Deakin University

Overview

Australia's tourism market share in the United States had stagnated over time, even though outbound tourism was flourishing. To get things moving, Tourism Australia creatively used the 2018 NFL Super Bowl to launch a strong lead-generation campaign disguised as the 'big Hollywood blockbuster reboot' (see Exhibit 5.14).

Strategy

The resurrection of *Crocodile Dundee*, a three-decades-old iconic Australian film, was Tourism Australia's innovative solution to breaking through the reluctance of North Americans to travel Down Under. The challenge was finding a way to motivate people to travel to Australia, which, though among

Continued

Case studies

Two new short case studies appear in each chapter to bring the theory to life, with real examples of businesses and events that illustrate the concepts discussed.

Adding value **3.1**

Etiko: wear no evil, do no harm

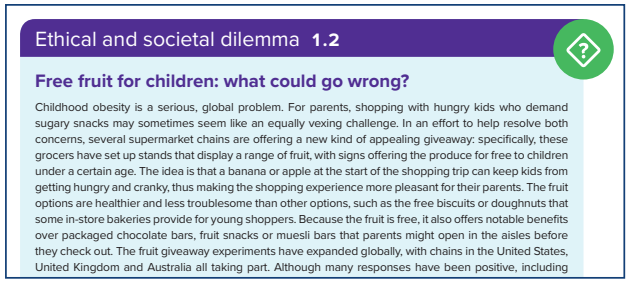
As consumers are increasingly placing value on ethical and environmentally conscious products and services, questions of malpractice and exploitation have demanded a more transparent supply chain. An ethical supply chain considers employment practices, working conditions and workers' pay. The Rana Plaza factory collapse in 2013 in Bangladesh highlighted both human rights and environmental

Adding value

These boxed features illustrate how companies add value, not only in providing products and services, but also in making contributions to society.

Ethical and societal dilemma

These short features emphasise the role of marketing in society.

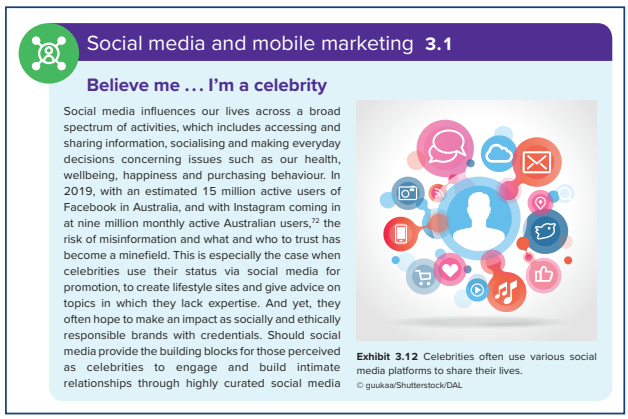

Ethical and societal dilemma **1.2**

Free fruit for children: what could go wrong?

Childhood obesity is a serious, global problem. For parents, shopping with hungry kids who demand sugary snacks may sometimes seem like an equally vexing challenge. In an effort to help resolve both concerns, several supermarket chains are offering a new kind of appealing giveaway: specifically, these grocers have set up stands that display a range of fruit, with signs offering the produce for free to children under a certain age. The idea is that a banana or apple at the start of the shopping trip can keep kids from getting hungry and cranky, thus making the shopping experience more pleasant for their parents. The fruit options are healthier and less troublesome than other options, such as the free biscuits or doughnuts that some in-store bakeries provide for young shoppers. Because the fruit is free, it also offers notable benefits over packaged chocolate bars, fruit snacks or muesli bars that parents might open in the aisles before they check out. The fruit giveaway experiments have expanded globally, with chains in the United States, United Kingdom and Australia all taking part. Although many responses have been positive, including

Social media and mobile marketing

These boxed features discuss how social media are used in marketing real products.


Social media and mobile marketing **3.1**

Believe me … I'm a celebrity

Social media influences our lives across a broad spectrum of activities, which includes accessing and sharing information, socialising and making everyday decisions concerning issues such as our health, wellbeing, happiness and purchasing behaviour. In 2019, with an estimated 15 million active users of Facebook in Australia, and with Instagram coming in at nine million monthly active Australian users,[72] the risk of misinformation and what and who to trust has become a minefield. This is especially the case when celebrities use their status via social media for promotion, to create lifestyle sites and give advice on topics in which they lack expertise. And yet, they often hope to make an impact as socially and ethically responsible brands with credentials. Should social media provide the building blocks for those perceived as celebrities to engage and build intimate relationships through highly curated social media

Exhibit 3.12 Celebrities often use various social media platforms to share their lives.
© guukaa/Shutterstock/DAL

Superior service

These features highlight the emerging role of the service industry.


Superior service **7.2**

When the sky is the delivery: drones in action

Feel like a hot coffee? Have three minutes to spare? Registered in the Early Flyer program? Then it can be yours.

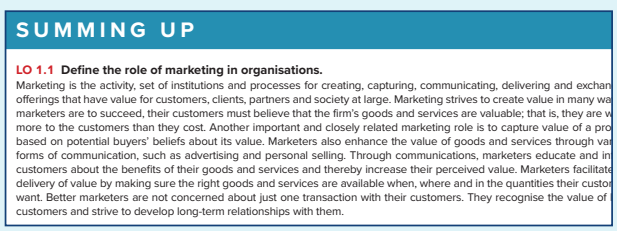
In a service economy where the customer expects everything to be delivered and done quicker and more efficiently than by competitors, drones are an emerging and evolving technology that is carving a path to meet this goal. Defined as an unmanned aircraft that can be remotely controlled or fly autonomously through software-controlled flight plans, drones have been associated with the military, construction, aerial photography and film companies, and with public safety surveillance organisations to name a few.[56]

Exhibit 7.16 Drones have already launched in our skies.
© Dmitry Kalinovsky/Shutterstock/DAL

END-OF-CHAPTER FEATURES

Summing up

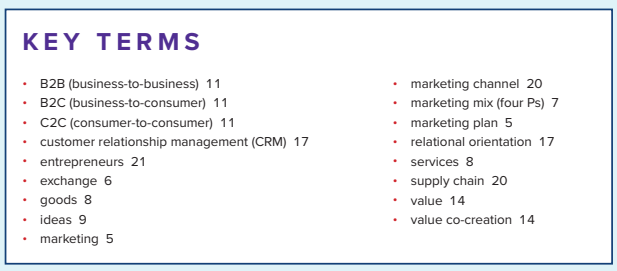
The main points are summarised at the end of each chapter, organised by learning objective to assist your learning.


SUMMING UP

LO 1.1 Define the role of marketing in organisations.
Marketing is the activity, set of institutions and processes for creating, capturing, communicating, delivering and exchan
offerings that have value for customers, clients, partners and society at large. Marketing strives to create value in many wa
marketers are to succeed, their customers must believe that the firm's goods and services are valuable; that is, they are w
more to the customers than they cost. Another important and closely related marketing role is to capture value of a pro
based on potential buyers' beliefs about its value. Marketers also enhance the value of goods and services through va
forms of communication, such as advertising and personal selling. Through communications, marketers educate and in
customers about the benefits of their goods and services and thereby increase their perceived value. Marketers facilitate
delivery of value by making sure the right goods and services are available when, where and in the quantities their custo
want. Better marketers are not concerned about just one transaction with their customers. They recognise the value of
customers and strive to develop long-term relationships with them.

Key terms

A list of page-referenced key terms for the chapter appears after the summary.


KEY TERMS

- B2B (business-to-business) 11
- B2C (business-to-consumer) 11
- C2C (consumer-to-consumer) 11
- customer relationship management (CRM) 17
- entrepreneurs 21
- exchange 6
- goods 8
- ideas 9
- marketing 5
- marketing channel 20
- marketing mix (four Ps) 7
- marketing plan 5
- relational orientation 17
- services 8
- supply chain 20
- value 14
- value co-creation 14

MARKETING APPLICATIONS

1. Evaluate CBA's social media strategy using the 4E framework.
2. Using the components of the 4E framework, outline how an entrepreneur marketing T-shirts can augment or enhance their marketing mix efforts.
3. Suppose a herbal tea company introduced a new product called 'mint-enhanced tea'—mint and lemon herbal tea. How should it go about creating excitement using various social and mobile media tools?
4. If you were marketing a new running shoe, what sort of mobile applications might enhance your marketing efforts?
5. Assume you work for a large consumer packaged-goods firm that has discovered that its latest line of snack foods is moving very slowly off store shelves. Recommend a strategy for listening to what consumers are saying on blogs, review sites and the firm's website. Describe how your strategy might provide insights into consumers' sentiments about the new product line.
6. As a new employee of Subway, you have been asked to develop a social media campaign for a new sub. The objective of the campaign is to increase awareness and trial of the new line of subs. How would you go about putting such a campaign together?
7. Make sure your LinkedIn profile is up to date. Make it reflect the type of career you want. If you want to go further, get on Twitter and follow key people in the field you are interested in; for example, if it is social media marketing, just search for this and it will list key people talking about it.

Marketing applications

Each chapter concludes with several Marketing applications in which you are asked to consider what you have learned in the chapter and answer essay-style questions.

QUIZ YOURSELF

1. The 'Got milk?' advertising campaign was designed to help market a(n):
   a. individual
   b. firm
   c. industry
   d. organisation.
2. Henry Ford's statement, 'Customers can have any colour they want so long as it's black', typified the _____ era of marketing.
   a. production
   b. sales
   c. marketing
   d. value-based

(Answers to these two questions can be found on page 455.)

Quiz yourself

These questions give you a chance to test your knowledge by answering chapter-specific questions and checking your answers against those provided at the back of the textbook.

NET SAVVY

1. Visit www.apple.com/au. What value does Apple provide for customers? What are the advantages to people of using Apple to buy music or to rent/buy videos?
2. Go to www.facebook.com/facebook/info and newsroom.fb.com. What is Facebook's mission? How could a marketer use Facebook? What other social media tools could they use? What are the drawbacks a marketer might face when using Facebook and other social media tools?
3. Go to www.snapchat.com/ and click on the 'Ads' tab. Scroll down until you see the 'Creative Spotlight' examples. Click on the video link for one of the highlighted campaigns. Why do you think the use of Snapchat worked for this company over and above other social media options?

Net savvy

These activities are provided to encourage you to go online to research and/or write about a particular company or practice.

CHAPTER CASE STUDY

Greensteel at the Whyalla Steelworks

By Dr Jacqueline Burgess, University of the Sunshine Coast

There was deep concern in the town of Whyalla, South Australia, when Australian mining company Arrium, collapsed in April 2016 owing $2.8 billion in unpaid debts. Arrium owned the Whyalla Steelworks, which was the largest single employer in the town of 22 000 people. The purchase in 2017 of the Whyalla Steelworks by the Liberty Group, headed by UK billionaire Sanjeev Gupta, meant thousands of jobs, and by extension the town itself, were saved. Gupta was welcomed to Whyalla by a parade and it was half-jokingly suggested that the town should be renamed Guptaville.

Within months of the acquisition, Gupta announced a $1 billion upgrade of the steelworks, which would involve doubling its production, modernising equipment and implementing new technology to cut power costs. The focus would be on powering

Chapter case studies

The end-of-chapter case studies illustrate real-world applications of various marketing concepts. They are designed to help you develop your analytical, critical thinking and technology skills.

ENDNOTES

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Endnotes

References and other notes are listed at the end of each chapter.

Case matrix

Chapter	Adding value	Ethical and societal dilemma	Social media and mobile marketing	Superior service	Case study
PART 1 Assessing the marketplace					
Chapter 1 **Overview of marketing**	1.1 Jeans: from workwear to image-wear	1.1 Making a family business more valuable by addressing gender inequality in the coffee market 1.2 Free fruit for children: what could go wrong?	1.1 Mobile marketing: changing the landscape of advertising	1.1 Skiing industry offers service enhancements	1.1 Amazon.co.au: from A to Z in Australia 1.2 Why Telstra and not Belong? Chapter case study: Getting real with Dove
Chapter 2 **Digital marketing**	2.1 The Commonwealth Bank invests in its future 2.2 Engagement at Booking.com 2.3 Dropbox educates its customers 2.4 Co-creation with LEGO 2.5 Careers in social media marketing			2.1 Telstra's social customer service 2.2 Moshi Monsters	2.1 BMW: the innovation leader making the technological shift towards digitalisation 2.2 Sukin: the power of digital marketing in building a brand Chapter case study: Coca-Cola: 'Share a Coke'
Chapter 3 **Marketing ethics, sustainability and CSR**	3.1 Etiko; wear no evil, do no harm 3.2 War on plastic bags: are Australian supermarkets taking action?		3.1 Believe me . . . I'm a celebrity 3.2 Ethics, information and Facebook: how my data becomes your data		3.1 Shopkins: 'Real Little' brands for real little hands 3.2 Barramundi: an Australian icon? Chapter case study: Greenwashing: walking the green talk

Chapter	Adding value	Ethical and societal dilemma	Social media and mobile marketing	Superior service	Case study
Chapter 4 **Analysing the marketing environment**	4.1 Comparison sites 4.2 When best is good enough: Netflix's stellar predictive analytics	4.1 The next target: infants?	4.1 TransferWise making banking easier	4.1 Chemist Warehouse for Chinese consumers 4.2 Grocery retailers help time-poor consumers	4.1 When video games and politics collide 4.2 The sustainability of luxury fashion Chapter case study: Greensteel at the Whyalla Steelworks

PART 2 Understanding and targeting the marketplace

Chapter 5 **Consumer behaviour**	5.1 Engaging with brands: the Instagram effect 5.2 Judging a product by its cover	5.1 The obesity epidemic and fast foods 5.2 Fit to wear the healthy/ natural/ organic label	5.1 Shopping online with friends		5.1 Tourism Australia uses ingenious Hollywood magnet to pull in American visitors 5.2 'Paytm karo': situation changes everything Chapter case study: Influence of advertising on consumer behaviour
Chapter 6 **Segmentation, targeting and positioning**	6.1 Samsung's many markets 6.2 Zara's changing logo and positioning		6.1 Google's your match 6.2 Australian open rebranding 6.3 Spotify's segments for everyone	6.1 Customers flock to The ICONIC	6.1 The Coke story heard around the world 6.2 Starbucks in Australia: a failure to understand Chapter case study: One company, multiple brands

Continued

Chapter	Adding value	Ethical and societal dilemma	Social media and mobile marketing	Superior service	Case study
Chapter 7 **Marketing research**	7.1 Ipsos Australia	7.1 Who is watching whom? 7.2 How digital characters work		7.1 Data capture and banking incentives 7.2 When the sky is the delivery: drones in action	7.1 Many facets of the Ruby 7.2 Digitally ethical connections Chapter case study: Yarra Valley Water and 'Make every drop count—Target 155': the value of market research

PART 3 Value creation

Chapter 8 **Product and branding decisions**		8.1 Burger wars in India: fast-food chains are finding creative ways to enter a no-beef market 8.2 Pure water? Or pure spin?	8.1 Lynx effect: Lynx Anarchy fragrance		8.1 Zara: never out of fashion 8.2 Modibodi product innovation in personal hygiene Chapter case study: Coca-Cola promotes no-sugar consumption
Chapter 9 **Developing new products**	9.1 The demand for reusable bags 9.2 LifeStraw: innovation designed for the other 90 per cent 9.3 New options to better serve customers	9.1 Innovation at all costs? Privacy concerns at the forefront 9.2 Drones	9.1 From luxury and expensive to fast and casual	9.1 Coca-Cola Freestyle	9.1 Low-fat chocolate: love it, like it, hate it? 9.2 Vinyl is making a comeback Chapter case study: Do co-working spaces really work?

Chapter	Adding value	Ethical and societal dilemma	Social media and mobile marketing	Superior service	Case study
Chapter 10 **Services: the intangible product**	10.1 SugarSync cloud backup 10.2 Wolgan Valley Service quality	10.1 Fake reviews	10.1 Growth of digital marketing in Australia 10.2 Spotify cares	10.1 Amazon: prime service	10.1 Making history matter 10.2 Visiting Uluru—a new set of expectations Chapter case study: Happy airways—how to keep the passengers happy!

PART 4 Value capture, delivery and communication

Chapter 11 **Pricing concepts for establishing value**	11.1 Price in-store, online and in new markets	11.1 The verdict: Apple conspired to raise prices on e-books	11.1 Pricing on eBay	11.1 Great service lowers price elasticity 11.2 Leasing for cashflow	11.1 Your next cup of coffee 11.2 Operating a tall ship in a price-sensitive marketplace Chapter case study: The role of pricing in Australia's streaming media: a case of Netflix versus Disney+
Chapter 12 **Supply chain, channel management and retail**	12.1 How will 3D printing alter the supply chain?	12.1 Do customers care more about the newest iPhone or about working conditions in China?	12.1 Virtual store fronts? What would this mean for the supply chain?	12.1 Terry White Chemists and online doctor consultation via Skype 12.2 The globalisation of online retail	12.1 Retail theft: the dark side of retailing 12.2 The road ahead for Village Cinemas Chapter case study: Hypercompetition in the Australian retail sector

Continued

Chapter	Adding value	Ethical and societal dilemma	Social media and mobile marketing	Superior service	Case study
Chapter 13 **Integrated marketing communications**	13.1 Arts Centre Melbourne 'Fuelling imaginations'. Agency: Ogilvy Melbourne 13.2 Puma's use of Google Analytics	13.1 Volkswagen tries to put emissions woes behind it as it vows to 'Think New' 13.2 When make-up companies really do make up models' faces	13.1 Tasty: a revolution in marketing or just the latest example of IMC?		13.1 Consumers shopping big for 'Little Shop' 13.2 *Star Wars*: an integrated marketing force Chapter case study: An 'All Mitey' battle

Overview of marketing

At the beginning of each chapter, a visual and stimulating summary concept map that links the key theoretical points of each topic is included. It starts with the concept map below, which examines the key theories and direct and indirect relationships that will be examined in our study of marketing. Marketing is an important business function that achieves value creation by connecting marketplaces and businesses for the purpose of solving problems. The more clearly that solutions resolve customer problems, the greater the value that is created.

The marketing function achieves value creation by using a unique toolkit that unlocks complex marketplace understandings that can be used to develop new products or brands, or to improve existing ones, and to make them available at the right places and at the right prices, to cater to changing societal needs and wants. Marketing is a dynamic discipline that evolves continually as it leverages direct and indirect relationships with multiple stakeholders in the process of value creation, value delivery and value capture.



PART 1



Assessing the marketplace

CHAPTER 1

Overview of marketing

CHAPTER 2

Digital marketing

CHAPTER 3

Marketing ethics, sustainability and CSR

CHAPTER 4

Analysing the marketing environment

Part 1, Assessing the marketplace, contains four chapters. An introduction to marketing is presented in Chapter 1. A central theme of that chapter is how firms can effectively create, capture, deliver and communicate value to their customers. Chapter 2 is devoted to understanding how one can develop digital marketing strategies. Chapter 3 focuses on marketing ethics where an ethical decision framework is developed and presented. Finally, Chapter 4 focuses on how marketers can make sense of the marketing environment to systematically uncover and evaluate opportunities.

CHAPTER 1

Overview of marketing

LEARNING OBJECTIVES

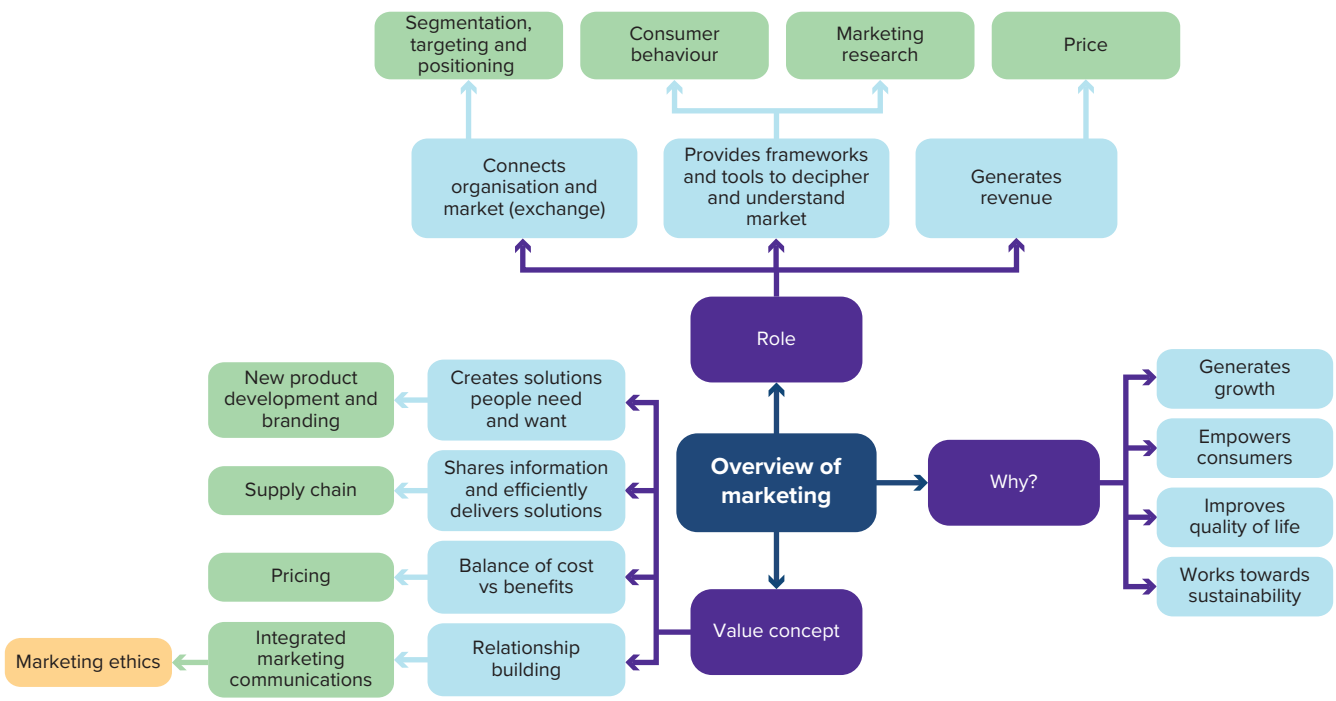
LO 1.1 Define the role of marketing in organisations.

LO 1.2 Explain the concept of value in marketing.

LO 1.3 Understand why marketing is important, both within and outside the firm.



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Graduate spotlight

NAME
Carla Young

DEGREE STUDIED
Master of Marketing

UNIVERSITY
University of Western Australia

CURRENT POSITION
Senior Content Marketer

EMPLOYER
Murdoch University



What did you learn from your degree and how has it prepared you for a career in marketing?
The first place I ever heard the term 'content marketing' was in a lecture, and five years later I've made a career out of it. I think that says it all!

Another skill I strengthened during my degree was my ability to work effectively in a group. Every single project you work on as a marketer has different project members/stakeholders/colleagues involved; university is great preparation for that collaboration.

What interested you about studying or working in marketing?
In school, I was a good writer and interested in video production. I was also very strategic and tactical; I enjoyed debating, problem-solving and lateral thinking. These things sparked my interest in marketing.

I decided to study English and Communications in my undergraduate degree, followed by a Master of Marketing. I intentionally avoided taking Marketing in my undergraduate course as I wasn't interested in taking other units within Commerce.

What have you been up to since graduation?
While studying the Master of Marketing, I started working for a content marketing agency where I spent three and a half years writing content marketing strategies for clients of all sizes and industries.

Just over a year ago I made the move to Murdoch University, where I now work as the Senior Content Marketer in their marketing team.

What does your current job involve?
When I started my current job, my first task was to write a content marketing strategy for the university. Once it was approved, I moved into project managing its implementation.

This includes overseeing all content production and ensuring it aligns with our defined strategy. It also involves working in integrated marketing project teams, where I bring a content marketing perspective to our bigger marketing projects.

What do you enjoy most about your job?
Moving out of an agency environment, I thought I might miss the varied, project-style work. What I love about my current job is the fact that I still have these project-style opportunities, yet I also have the consistency of focus and authority to oversee more long-term goals.

The crux of my interest in content marketing is that I love effective storytelling. At a university, there are *so* many stories to tell.

What are your thoughts on the future of the marketing and communication industry? What advice would you give to students wanting to work in marketing?
I'm excited for the future of the marketing industry. One of the things I love about it is its rapidly changing and evolving landscape.

My advice to current students would be to keep an open mind, and to take every opportunity to get involved. If you keep your finger on the pulse, you'll be able to ride the waves of change, rather than getting left behind!

In many ways, marketing is already familiar to you. Every time you make a purchase, swap an idea, have something done for you or do something for someone else, you are engaging in an exchange. If you paid money to buy a travel pass, then tapped your pass to deduct the correct fare for your travel, and were transported to your desired location, then you engaged in a system of interconnected marketing activities–you made choices about how much you would spend on your travel, how much time you could spare for the journey, which route you would take and which transport options you would use. Alternatively, if you refuelled your car so that you could drive it, you made decisions about which service station you would use, which roads you would drive on–free roads or toll roads–and which suburbs you would drive through. You also made decisions about where to park your car–on the street for free or closer to the venue with metered parking, in a public or paid car park, or in the private garage of a friend or one that you rented. Before taking any of those actions, you also decided which brand and type of car you would buy, and in which colour, as well as which insurance company you would take a policy with. All of your decisions are connected to the concepts of exchange and value–the foundations of the marketing function.

It seems logical then, that the task of marketers is to create value for people. This has always been true, but it is much more challenging in modern markets, where consumers have access to a vast array of options in saturated environments and can easily compare offerings through the ready availability of product information; they also have the ability to connect with others in online forums to share their experiences or obtain advice. Marketers are guided by the mantra '*people don't buy products, they buy solutions to problems*', meaning that you don't buy a travel pass (you buy the ability to use transport that will move you between locations); you don't buy a car (you buy personal flexible transport); you don't buy car insurance (you buy security and peace of mind).



Exhibit 1.1 Marketing allows businesses to tell their story to people who are interested.

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To better understand how marketers can create value to support exchange, we need to understand how marketing works. If we take a scholarly perspective, we delve into the theories, frameworks and key concepts that comprise the discipline of marketing. In this book, we showcase the key concepts that will become your tools as a marketer, helping you to break through the clutter to reach your market with clearly crafted value that will resonate with their unique needs. In short, marketing allows businesses to tell their story to people who are interested. Welcome to *Marketing* 3e–we look forward to sharing the marketing discipline with you.

LO 1.1

WHAT IS MARKETING?

When people think of marketing, they often think of selling. While selling is certainly one part of the picture, marketing involves a great deal more. For example, before anyone can even think of selling, marketers work to understand what is happening in the world around them. They take note of macro market influences, such as the state of the economy, the political and legal situation, and other factors that impact society at large and which cannot be controlled by the marketer. They also work to recognise the immediate environment that encompasses their customers, competitors and the company. Marketers use this initial analysis as the starting point to understand where their business is located in the market and what the threats and opportunities might be. They can also identify potential ways to either extend their leading position or inspire them to create and deliver better value that will then help them to become more competitive in the marketplace.

By applying marketing research approaches that help them delve into the reasons why people behave as they do, marketers gain an insight into what people really need and want. They use diverse methods to analyse this consumer information and identify the population of interest for specific purposes. They narrow the population down to segments of potential consumers and, finally, to the target markets that they will invest in because they believe that this group of potential consumers will benefit most from their offerings. From here, marketers are involved in new product development and innovation, and in positioning the new and improved solution in ways that will resonate with the target market. Here, value propositions come to life. Once the product is in the market, it becomes part of the product portfolio for which a marketing manager is responsible.

Marketing is an exciting and very dynamic discipline that advances with the evolution of society. It is the only function in business that connects the market and the firm. Marketing is consumer-centric, meaning that it is always focused on the market–including the customer, the company and its

employees, as well as society at large. Marketing considers the strength of relationships with these stakeholders to be important company assets.

Consider some of the most successful brands in the world. While we don't know what is in their secret recipe for success, we do know that marketing has played a key role! Look at Apple, for instance. Most people own or have used at least one Apple hardware product. If you ask them why, they will probably cite functionality and value. But the other brands offer almost the same technology and often at lower prices. The fact is that there are many smartphones, tablets and music players on the market and Apple does not hold the market leadership position for volume of sales, but loyal users have spent their dollars buying Apple iOS products–iPod, iPhone, iPad–and further dollars on software and subscriptions at the App Store. Apple has successfully leveraged its brand strength in hardware to create new businesses and sources of revenue in services that keep it positioned as a leading global brand worth over US$200 billion[1] and a company that is worth about US$1 trillion.

Marketing can be defined as 'the activity, set of institutions and processes for creating, communicating, delivering and exchanging offerings that have value for customers, clients, partners and society at large'.[2] Marketing is closely connected to other organisational functions, such as accounting and finance. Its role of creating market-based assets, including customer and supplier relationships, enables the creation and leveraging of marketing assets such as brands which are represented on company balance sheets.[3] Brands also have a multifaceted impact on broader business, including consumer sentiment, shareholder activity, customer loyalty and determination of organisational value.

marketing
An organisational function and a set of processes for creating, capturing, communicating and delivering value to customers and for managing customer relationships in ways that benefit the organisation and its stakeholders.

Effective marketing is not a random activity; it requires thoughtful planning with an emphasis on the ethical implications of those decisions on society in general. Firms assess their market position and decide on their marketing strategy. They then develop a **marketing plan** (refer to online Appendix) that specifies the marketing activities for a specific period of time. The marketing plan is also broken down into various components–how the product will be conceived or designed, how much it should cost, where and how it will be promoted and how it will get to the consumer. In any exchange, all parties in the transaction should be satisfied. For example, you should be satisfied or even delighted with your iTunes downloads and Apple should be satisfied with the amount of money it received from you.

marketing plan
A written document composed of an analysis of the current marketing situation, opportunities and threats for the firm, marketing objectives and strategy specified in terms of the four Ps, action programs, and projected or pro forma income (and other financial) statements.

The core aspects of marketing are summarised in Figure 1.1.



Figure 1.1 Core aspects of marketing

Marketing is about satisfying customer needs and wants

Understanding the marketplace, and especially consumer needs and wants, is fundamental to marketing success. In the broadest terms, the marketplace refers to the world of trade. More narrowly, however, the marketplace can be segmented or divided into groups of people who are pertinent to an organisation for particular reasons. Marketers engage in segmentation and targeting to shift the attention away from commodities to distinguishable products that can deliver clearer benefits to consumers. For example, if there are two jars of honey and one jar does not have a label, people might not understand or trust what is inside the unlabelled jar, or even where the product is from and who has manufactured it. In contrast, if a label is present on the same jar, then it will be used by marketers to convey all of the relevant information, including product details such as nutritional information, source and manufacturer details and perhaps even price. Demystifying the offering enables consumers to understand its value.



Exhibit 1.2 A label on a jar can make all the difference to marketers and consumers.

© Grigor Unkovski/Shutterstock/DAL

Another example is the marketplace for soft drinks, which includes vast numbers of people across the globe. As Pepsi and Coke battle each other for domination, they divide the global population into a host of categories: men versus women, calorie-conscious or not, people who prefer carbonated versus non-carbonated drinks and multiple categories of flavour preferences, among others.[4] If you manufacture a beverage with zero calories, you will want to know the marketplace segments for which your product is most relevant, then make sure you build a marketing strategy that targets those groups. Certain diet- and health-conscious customers may prefer Diet Coke® or Diet Pepsi®; others may opt for bottled water products such as Fiji Water®, Mount Franklin® or even niche brands that support charitable works, humanitarian projects or which simply represent small businesses. Others still might prefer to buy their own drink bottles and refill them at water fountains. Consumers are diverse and marketers are tasked with identifying which consumers are alike enough to desire the same solution and who can therefore be grouped into target markets.

From a marketing perspective, it is neither practical nor realistic to target everybody. Effective marketing activities take time, money and resources, and good marketers therefore carefully seek out potential customers who have both an interest in the product and an ability to buy it. For example, most people need some form of transportation and many people probably would like to own a prestige vehicle, but not everyone can afford to pay what such a vehicle costs. Car companies instead manufacture vehicles that emphasise different types of value, at varying price points that are reasonable for viable target markets–or for those consumers who want *and* can afford such a product.[5] This approach is consistent across all industries.

Marketing entails an exchange

exchange
The trade of things of value between the buyer and the seller so that each is better off as a result.

Marketing is about an **exchange**–the trade of things of value between the buyer and the seller so that each is better off as a result. As depicted in Figure 1.2, sellers provide goods or services, then communicate and facilitate the delivery of their offering to consumers. Buyers complete the exchange by giving money and information to the seller. Suppose you learn about a new Taylor Swift album by hearing one of her songs on the radio. The same day, a friend tweets on her Twitter

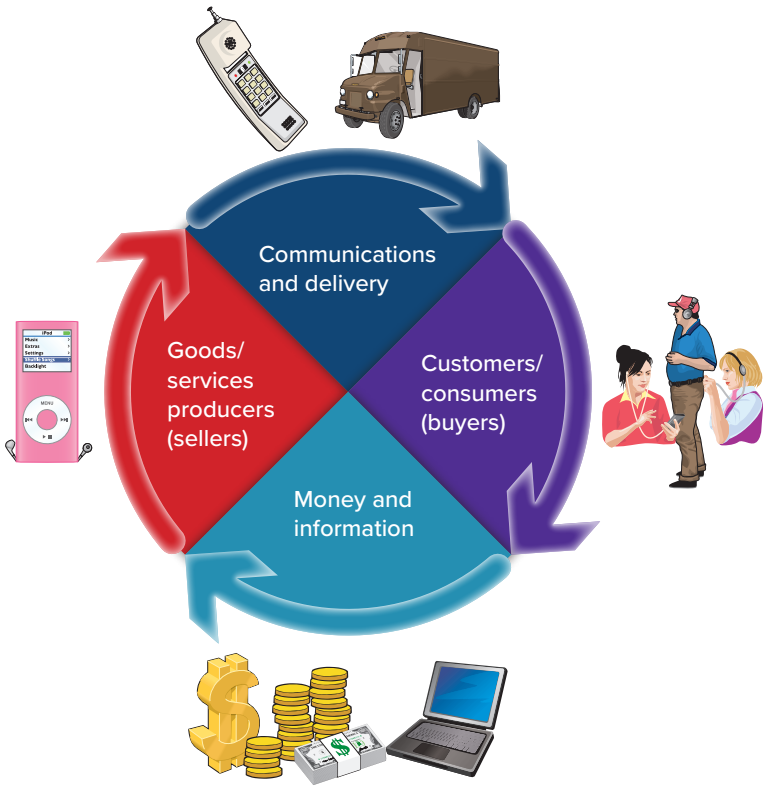


Figure 1.2 Exchange: the underpinning of seller–buyer relationships

account that she loves the new album and you visit the Taylor Swift Facebook fan page, which is full of recommendations. From there, you click into the iTunes store, where you can purchase the song you heard, multiple songs or the entire new album. You begin with the song you heard, which you continue to love after hearing it several times. Therefore, you go back to iTunes and take advantage of its offer to complete the album by downloading the rest of the songs to your iTunes library. Your billing information is already in the company's system, so you do not have to enter your credit card number or other information. Furthermore, iTunes creates a record of your purchase, which it uses, together with your other purchase trends, to create personalised recommendations of other albums or songs that you might like. Thus, Apple uses the valuable information you provide to facilitate future exchanges and solidify its relationship with you.

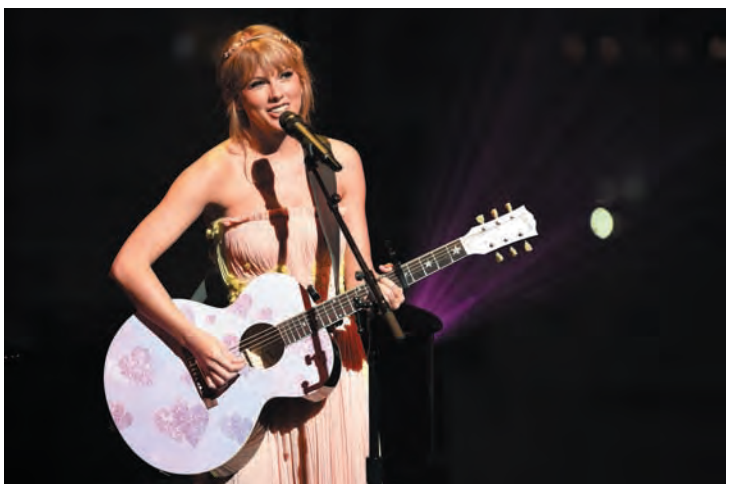


Exhibit 1.3 Purchasing a Taylor Swift song from the iTunes store entails an exchange. The customer gets the song and Apple gets money and information.

© Dimitrios Kambouris/Getty Images

Marketing requires product, price, place and promotion decisions

Marketing traditionally has been divided into a set of four interrelated decisions and consequent actions known as the **marketing mix**, *or* **four Ps**: product, price, place and promotion (as defined in Figure 1.3).[6] The four Ps are the controllable set of decisions/activities that the firm uses to respond to the wants of its target markets. But what does each of these activities in the marketing mix entail?

marketing mix (four Ps) Product, price, place and promotion—the controllable set of activities that a firm uses to respond to the wants of its target markets.

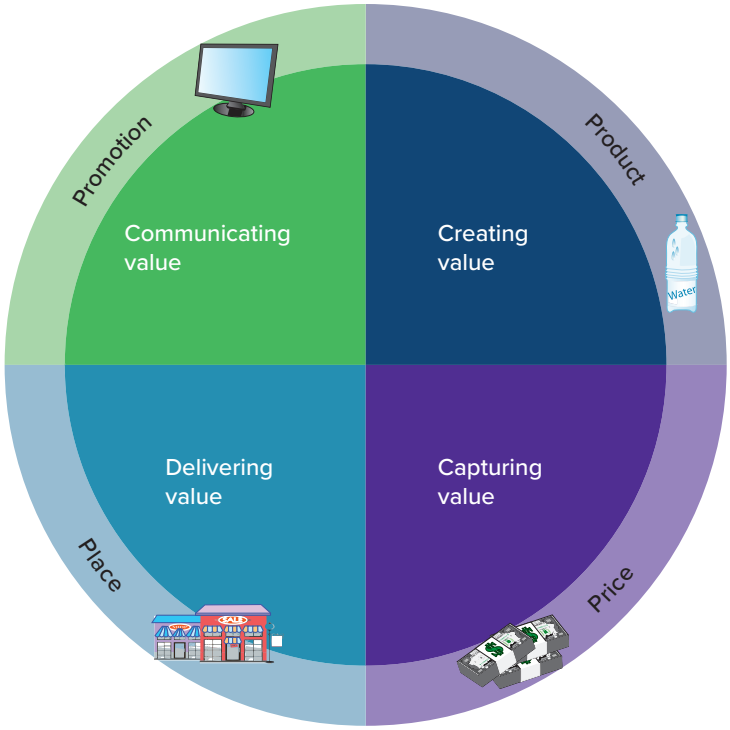


Figure 1.3 The marketing mix

Product: creating value

Although marketing is a multifaceted function that is pervasive throughout the organisation, its fundamental purpose is to create value to elicit exchange between two or more parties. Marketers achieve this by developing a variety of offerings, including goods, services and ideas, to satisfy customer needs.[7] Take, for example, a frozen dessert. Not too long ago, consumers perceived milk-based ice-cream as their primary option. But as the market evolves, numerous other options are available, such as frozen yoghurt, sorbets and even liquid-nitrogen frozen concoctions.[8] It seems that with the range of desserts available, there is something for everyone. In terms of a product, from a marketing perspective, the dessert is a good, the service involves how it is served to you or your experience within the store, and there might even be an idea driving your experience–for example, that frozen yoghurt desserts can also be healthy for you.

A consumer's judgement of value is influenced by many factors. At the minimum, we know that value can be conveyed through four types of benefits: functional, hedonic, social and cognitive.[9] Consumers consider the value of these benefits in different ways, depending on the type of exchange and other situational factors.

goods
Items that can be physically touched, as opposed to services.

Goods are items that you can physically touch. Nike shoes, Pepsi-Cola®, Tooheys, Bega cheese, Cold Power®, iPads® and countless other products are examples of goods. The producers of these items tend to add extra value to their goods to increase their presence in the market. For instance, Nike primarily makes shoes but also adds value to its products by offering custom designs under its Nike ID brand, which increase their fashionable appeal, and by enlisting popular celebrities such as Sam Kerr, Australian soccer player and Matildas captain, to add their names to the designs and add performance credibility.

services
Any intangible offering that involves a deed, performance or effort that cannot be physically possessed; intangible customer benefits that are produced by people or machines and cannot be separated from the producer.

Unlike goods, **services** are intangible customer benefits that are produced by people or machines and cannot be separated from the producer. When people buy tickets–whether for airline travel, a sporting event or the theatre–they are paying not for the physical ticket stub but for the experience they gain. Hotels, insurance agencies and spas similarly provide services. Withdrawing money from your bank, whether through an ATM or from a teller, is another example of using a service. In this case, cash machines usually add value to the banking experience because they are conveniently located, fast and easy to use. Many offerings in the market combine goods and services.[10] When you go to an optometrist, you get your eyes examined (a service) and purchase new contact lenses (a good). If you

enjoy visiting the Sydney Opera House, you can attend a concert that can be provided only at that particular time and place (a service) and which gives you the chance to purchase concert memorabilia such as a program and, often, related books, T-shirts or CDs (tangible goods) that are often signed by the performing artists–a small detail that puts the finishing touch on and even extends a satisfying service experience.

Although much of their appeal relies on another P–that of *place*–ski slopes worldwide have also been striving to provide their customers with a better product, which in this case means more amenities and great customer service, as Superior service 1.1 relates.

Ideas include concepts, opinions and philosophies, and intellectual concepts such as these also can be marketed. Groups promoting bicycle safety go to schools, give talks and sponsor bike helmet poster contests for the members of their primary market: children. Then their secondary target market–parents and siblings–gets involved through their interactions with the young contest participants. The exchange of value occurs when the children listen to the sponsors' presentation and wear their helmets while bicycling. This means that the children have adopted and become 'users' of the safety idea that the



Exhibit 1.4 Sam Kerr adds value to the Nike brand.

© Matt King/Getty Images

Superior service 1.1

Skiing industry offers service enhancements



Exhibit 1.5 Ski resorts are constantly increasing the amenities offered to their patrons.

© Lasse Bolstad/Alamy Stock Photo/DAL

Black-diamond ski runs are not for everyone. Actually, skiing is not for everyone, but the friendly folk at Australian ski resorts would like to make it accessible to as many people as possible. That means that whatever your skiing ability level, you can rest assured that at places such as Thredbo Alpine Village there will be something for you. From serious runs to racing and special events or private lessons, they have you covered. They will even accommodate individuals or groups. The flexibility of such operators allows them to tap into markets that have traditionally avoided ski fields. For example, for families with young children, skiing was not previously an attractive family holiday option because of the challenges of accommodating young children. Young children often do not possess skiing proficiency equal to their parents and also need 24-hour care—meaning that adults are unable to indulge in skiing on the tougher slopes. At Thredbo, though, specialised programs are offered, through 'Thredboland', for children aged three to six years—programs that are specially designed to stimulate children's imagination and curiosity. Emphasising safety and putting parents' minds at ease, there is a 'kids only' area as well as special activities and events during the day. This means that parents can enjoy the slopes and the resort, knowing that their children are being well looked after.

The targeting of multiple markets and a commitment to meeting the needs of each market enables ski resort operators to appeal to a wider audience and gain a competitive edge. That is, by being flexible operators, they are able to create offerings that appeal to skiers, non-skiers, occasional skiers and new skiers, such as children. These offerings are spreading across the ski industry as operators learn that reducing wait times and adding more challenging slopes are not the only ways to create appeal to varied audiences. Instead, they are focusing on newer and more exciting rounds of value-added service enhancements. This trend is focused on life off the slopes, with the emphasis on downtime. By extending a resort's appeal to new segments of the market, these new services ensure that everyone in the family can find something they want to do—even those who tire after just one or two runs down the bunny slopes.

ideas
Intellectual concepts—thoughts, opinions and philosophies.



Exhibit 1.6 Calvin Klein is known for selling youth, fun and sex appeal in its fragrance promotions. In this advertisement, models dance to the sounds of DJ Ruckus in a billboard shaped like a giant ck one bottle overlooking the streets of Times Square in New York City.

© Paul Hawthorne/Getty Images

group marketed. In the event that a child did not previously own a helmet, the secondary market comprising responsible adults or other influencers may act as buyers of the helmet for the child user. In this indirect way, the children have become non-monetary 'purchasers' of the product.

Price: capturing value

Everything has a price, though it doesn't always have to be monetary. Price is everything the buyer gives up–money, time, energy–in exchange for a product.[11] Marketers must determine the price of a product carefully on the basis of the potential buyer's belief about its value. For example, Qantas can take you from Sydney to Melbourne. The price you pay for that service depends on how far in advance you book the ticket, the time of year and whether you want to fly economy or business class. If you value the convenience of buying your ticket at the last minute for a trip between Christmas and New Year's Day and you want to fly business class, you can expect to pay four or five times as much as you would for the cheapest available ticket such as the Red e-Deal. That is, you have traded off a lower price for convenience. For marketers, the key to determining prices is figuring out how much customers are willing to pay so that they are satisfied with the purchase and the seller achieves a reasonable profit.

Place: delivering value

Place refers to all of the activities necessary to make the product available to the right customer when that customer wants it. For the ski resorts in the Superior service 1.1 box, the mission is to provide a relaxing venue for the entire family–including young children.

Place commonly deals with retailing and marketing channel management. Marketing channel management, also known as supply chain management, is the set of approaches and techniques that firms employ to efficiently and effectively integrate their suppliers, manufacturers, warehouses, stores and other firms involved in the transaction (e.g. transport companies) into a seamless value chain in which merchandise is produced and distributed in the right quantities, to the right locations and at the right time, while minimising system-wide costs and satisfying the service levels required by the customers. Many marketing students initially overlook the importance of marketing channel management, because a lot of these activities are behind the scenes. But without a strong and efficient marketing channel system, merchandise isn't available when customers want it. Then customers are disappointed, and sales and profits suffer.

In the frozen desserts domain, for example, marketing channel considerations have pushed a growing number of businesses to adopt multiple convenient locations and self-service delivery systems. Rather than requiring a large, free-standing store, Cold Rock has set up smaller kiosk-type shopfronts. In these more conveniently located places (which also require fewer staff and therefore reduce costs for the company), consumers get to choose exactly what to put on their desserts. As a consequence, the company does not have to determine the right amounts or variations to offer; the customer makes that decision.[12]

Promotion: communicating value

Even the best goods and services will go unsold if marketers cannot communicate their value to customers. Promotion is communication by a marketer that informs, persuades and reminds potential buyers about a product to influence their opinions and elicit a response. Promotion of the product's benefits–the value proposition–generally can enhance a product's perceived value. For example, Calvin Klein fragrances are promoted using far more than product attributes. The company's provocative advertising has helped create an image that says more than 'Use this product and you will smell good'. Rather, the promotion sells youth, style and sex appeal. Increasingly, marketers are having to adapt to new technologies that enable them to reach markets in different ways. Social media and mobile marketing 1.1 considers how social media channels are changing and how mobile marketing is increasing in popularity.

Social media and mobile marketing 1.1

Mobile marketing: changing the landscape of advertising

The signs of the growth of mobile advertising, at the expense of other digital forms such as desktops and laptops, have long been evident. But the speed with which this shift is occurring is taking many marketers by surprise—it is virtually unprecedented. Consider some of the numbers: in 2009, mobile internet ad spending was US$1.3 billion, whereas in 2018 the figure was over US$76 billion—which is more than the spend on traditional channels, including TV, radio or print.[13] Within just a couple of years, mobile advertising has become a bigger market than digital advertising. Both forms are similar, in the sense that they are clearly distinct from traditional marketing and seek to reach technologically savvy shoppers. But they require unique approaches and marketing plans because a campaign that works well on a user's desktop computer might not function effectively on a tablet or smartphone. Furthermore, mobile marketing offers functionalities and advertising tactics that digital ads cannot provide. For example, mobile advertising allows brands and marketers to send timely, location-based communications to consumers at the moment they enter a store or begin a search for a nearby restaurant on their phones. Another trend occurring alongside this shift is the rise of ad-blocking technology. Apple now allows users to install software to block banner ads in digital channels. Although consumers indicate that they would like the ability to block advertising in mobile settings as well, marketing messages contained within apps continue to be prevalent. In this sense, advertisers might seek to expand and improve their mobile marketing to avoid the barriers that consumers can implement on their desktops. In the longer term, though, the shift to more mobile marketing probably implies the need for new forms of communication, including game-oriented, social content and informational advertising that does not really look like advertising at all.

Marketing can be performed by both individuals and organisations

Imagine how complicated the world would be if you had to buy everything you consumed directly from producers or manufacturers. You would have to go from farm to farm buying your food and then from manufacturer to manufacturer to purchase the table, plates and utensils you needed to eat that food. Fortunately, marketing intermediaries, such as retailers, accumulate merchandise from producers in large amounts and then on-sell it (to you) in smaller amounts. The process by which businesses sell to consumers is known as **B2C (business-to-consumer)** marketing, whereas the process of selling from one business to another is called **B2B (business-to-business)** marketing. With the advent of various internet auction sites (e.g. eBay) and social media, consumers have also started marketing their goods and services to other consumers. This third category, in which consumers sell to other consumers, is **C2C (consumer-to-consumer)** marketing. These marketing transactions are illustrated in Figure 1.4.

B2C (business-to-consumer)
The process by which businesses sell to consumers.

B2B (business-to-business)
The process of selling merchandise or services from one business to another.

C2C (consumer-to-consumer)
The process by which consumers sell to other consumers.

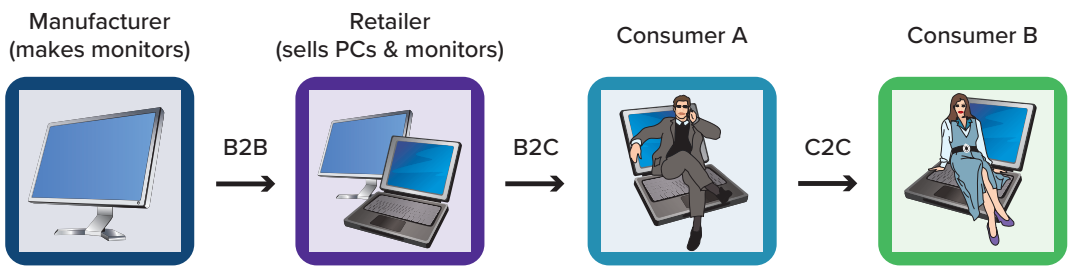


Figure 1.4 Marketing can be performed by both individuals and organisations

Individuals can also undertake activities to market themselves. When you apply for a job, for instance, the research you do about the firm, the résumé and cover letter you submit with your application, the way you dress for an interview and conduct yourself during it are all forms of marketing activities. Accountants, lawyers, financial planners, doctors and other professional service providers constantly market their services in one way or another.

Marketing impacts various stakeholders

Most people think of marketing as a way to facilitate the sale of goods or services to customers or clients. But marketing can also impact several other stakeholders (e.g. supply chain partners, society at large). Partners in the supply chain include wholesalers, retailers and other intermediaries, such as transport and warehousing companies.

All of these entities are involved in marketing their value-adding capabilities to one another. Manufacturers sell merchandise to retailers, but the retailers often have to convince manufacturers to sell to them. For example, the German supermarket chain ALDI had to work hard to convince manufacturers of popular brands to also manufacture products for ALDI under a private label. In recent years, increased consumer awareness and acceptance of obtaining food from various sources has led to mainstream alternatives and new entrants, such as ALDI, gaining popularity.

This growing momentum is changing the way we shop, changing sales patterns and market shares. A testament to the growing significance of retailers such as ALDI can be observed through manufacturers of mainstream brands increasingly selling their branded products through ALDI stores.

Marketing can also aim to benefit an entire industry or society at large. The US dairy industry has used a very successful, award-winning campaign with its slogan 'Got milk?', aimed at different target segments. This campaign not only created high levels of awareness about the benefits of drinking milk but also increased milk consumption in various target segments. The featuring of celebrities for endorsement such as David Beckham, Alex Rodriguez, Hayden Panettiere, Demi Lovato and others helped in communicating the value proposition of the campaign. This campaign benefitted the entire dairy industry and promoted the health benefits of drinking milk to society at large. Ethical and societal dilemma 1.1 describes an example of how marketing in practice is helping to transform lives for the better.

Ethical and societal dilemma 1.1

Making a family business more valuable by addressing gender inequality in the coffee market

Worldwide, the coffee supply chain is dominated by women—not that most marketing in this industry would indicate that. Rather than the conventional images of a male farmer walking a donkey along rows of coffee beans in fields, the reality is that women perform approximately 70 per cent of the work involved in getting beans to market and into consumers' cups. Together with the misleading imagery, gender inequality throughout the supply chain has meant that in many places, female farmers are underpaid, excluded from negotiations or limited in the competitive moves they are allowed to make. For one small, family-owned gourmet coffee company in Minnesota, that situation led to the inspiration for a new way to market its products. As Alyza Bohbot took over her parents' company, Alakef Coffee Roasters, she first determined that she did not want simply to keep doing what her parents had done, because she believed that the brand had reached a plateau. It was not growing any more, and its marketing and branding had remained the same for years. Upon taking over, Bohbot decided to attend a conference of the International Women's Coffee Alliance. There she heard the story of a farmer from Colombia who had lost her farm after her husband died because women were not allowed to make decisions about property. With this growing recognition of the gender inequality that marked her industry, Bohbot realised that she could turn a negative into a positive. The company initiated a new brand, City Girl Coffee, dedicated to ensuring the empowerment and employment of women throughout the supply chain. It purchases beans only from cooperatives and farms that are owned or managed by women. In addition, it donates 5 per cent of its profits to non-profit industry groups that are committed to supporting women. In line with these initiatives, City Girl Coffee is unapologetically feminine in its marketing. Beyond the brand name, the packaging is bright pink. The logo depicts a clearly feminine figure on a scooter, and the mission statement asserts straightforwardly, 'We are bringing awareness and equality to the coffee industry'.[14]

Of course, all marketing activities are not aimed at making bold statements. Sometimes, marketing actions are intended to help achieve incremental change that will, over time, improve societal wellbeing. Ethical and societal dilemma 1.2 outlines how the supermarket offering of free fruit to

children who are shopping with their parents is a positive step towards fighting childhood obesity and easing the burden of shopping–but one that can also be misconstrued by some stakeholders.

Ethical and societal dilemma 1.2

Free fruit for children: what could go wrong?

Childhood obesity is a serious, global problem. For parents, shopping with hungry kids who demand sugary snacks may sometimes seem like an equally vexing challenge. In an effort to help resolve both concerns, several supermarket chains are offering a new kind of appealing giveaway: specifically, these grocers have set up stands that display a range of fruit, with signs offering the produce for free to children under a certain age. The idea is that a banana or apple at the start of the shopping trip can keep kids from getting hungry and cranky, thus making the shopping experience more pleasant for their parents. The fruit options are healthier and less troublesome than other options, such as the free biscuits or doughnuts that some in-store bakeries provide for young shoppers. Because the fruit is free, it also offers notable benefits over packaged chocolate bars, fruit snacks or muesli bars that parents might open in the aisles before they check out. The fruit giveaway experiments have expanded globally, with chains in the United States, United Kingdom and Australia all taking part. Although many responses have been positive, including parents praising stores for helping to encourage healthy eating in their children, others question the tactic. The key complaint has been one of hygiene, as there are few options to wash fruit such as apples, peaches and pears before the children bite down. Still, the generally positive responses have led at least one chain to estimate that it will give away approximately one million pieces of fruit over the next year.[15]

Marketing helps create value

Marketing didn't get to its current prominence among individuals, corporations and society overnight. Marketing evolves to reflect what is happening in society. This adaptive characteristic of marketing is reflected in the formal definition of marketing by the American Marketing Association,[16] which meets regularly to review the state of the discipline and practice of marketing and to ensure that there is consistency between the two. Just as society has evolved, so too has marketing, from its early emphasis on selling, to its current consideration of multiple stakeholders and societal advancement. To understand how marketing has evolved into its present-day, integral business function of creating value, let's look for a moment at some of the milestones in marketing's short history (see Figure 1.5).



Figure 1.5 Marketing evolution: production, sales, marketing and value

Left to right: © Ingram Publishing/Alamy Stock Photo/DAL, CMCD/Getty Images/DAL, Lawrence Manning/Getty Images/DAL, Ryan McVay/Getty Images/DAL, blinkblink/Shutterstock/DAL

Production-oriented era

Around the turn of the twentieth century, most firms were production oriented and believed that a good product would sell itself. Henry Ford, the founder of Ford Motor Co., once famously remarked, 'Customers can have any colour they want so long as it's black'. Manufacturers were concerned with product innovation, not with satisfying the needs of individual consumers, and retail stores were typically considered places to hold the merchandise until a consumer wanted it.

Sales-oriented era

Between 1920 and 1950, production and distribution techniques became more sophisticated, and the Great Depression and World War II conditioned customers to consume less or make items themselves; for example, they planted victory gardens instead of buying produce. As a result, manufacturers had the capacity to produce more than customers really wanted or were able to buy. To counter the negative effects of their excess capacity, firms continued to produce more than they needed to and shifted to a sales orientation, whereby they were dependent on aggressive selling, including, but not limited to, strong doses of personal selling and advertising.

Market-oriented era

After World War II, soldiers returned home, got new jobs and started families. At the same time, manufacturers turned from focusing on the war effort towards making consumer products. Suburban communities, featuring cars in every garage, sprouted up around the country and the new suburban fixture, the shopping centre, began to replace cities' central business districts as the hub of retail activity and a place to just hang out. Some products, once in limited supply because of the war, became plentiful. Developed economies entered a buyers' market–the customer became king! When consumers again had choices, they were able to make purchasing decisions on the basis of factors such as quality, convenience and price. Manufacturers and retailers responded by initiating a focus on what consumers wanted and needed before they designed, made or attempted to sell their goods and services. It was during this period that firms discovered marketing.

Value-based marketing era

Most successful firms today are market oriented.[17] That means they have moved from a production or selling orientation to a value-based orientation, where they attempt to discover and satisfy their customers' needs and wants. Before the turn of the twenty-first century, better marketing firms recognised that in addition to discovering and providing what consumers want and need, 'good marketing' is about value creation–giving customers greater value than what is offered by the competition.

value
Reflects the relationship of benefits to costs, or what the consumer *gets* for what they *give*.

value co-creation
When customers act as collaborators with a manufacturer or retailer to create the product.

Value reflects the relationship of benefits to costs or, alternatively, what you get for what you give.[18] In a marketing context, customers seek a fair return in goods and/or services for their hard-earned money and scarce resources. They want goods or services that meet their specific needs or wants and that are offered at a price that they believe represents good value. A creative way to provide value to customers is to engage in **value co-creation**.[19] In this case, customers can act as collaborators in creating the product. When clients work with their investment advisors, they co-create their investment portfolios; when Nike allows customers to custom design their sneakers, they are co-creating. Adding value 1.1 examines how jeans makers and retailers have added value to what was once apparel worn for working.

Adding value 1.1

Jeans: from workwear to image-wear

When blue jeans first hit the market in 1873,[20] they were workwear: rugged cotton pants with metal rivets at stress points to help prevent rips. The pants, created by tailor Jacob Davis and a dry goods businessman named Loeb 'Levi' Strauss, were an instant success, flying off the shelves at the then-exorbitant cost of US$1 per pair. Today, blue jeans still fly off the shelves but at substantially higher prices, and with so many different styles and details that they are appropriate casual and businesswear. In fact, blue jeans show up at formal occasions without raising eyebrows. The evolution of jeans—and how they have managed to remain a wardrobe staple for over a century despite changes in fashion—illustrates how customer perception can increase or undermine the value of a product.



Exhibit 1.7 Everyone wears jeans everywhere and for every occasion.

© Tom Werner/Getty Images

In the 1930s, movie cowboys popularised jeans, creating a market among 'urban cowboys' who aspired to a rugged look but wanted comfortable clothing. In the 1950s, jeans-clad movie idol James Dean became the symbol of adolescent rebellion[21] and teenagers donned them to symbolise the departure from their parents' values. Throughout the 1960s and early 1970s, jeans acquired embroidery, flared bottoms, beads and paint and began appearing with tie-dyed patterns to match the fashions of the day. They also acquired rips and frays, signs of wear that would soon evolve into fashionable styling on even brand-new jeans. Late in the 1970s, designers caught denim fever, and costly versions appeared with tags bearing names such as Jordache, Vidal Sassoon, Gloria Vanderbilt, Gucci and Calvin Klein.[22] Using new styles and finishes, these designers revitalised the jeans market throughout the 1980s, turning the $1 workingman's pants into a garment that retailed from US$200 to $2000. Even the originals had a new value: a pair of 1850 Levi's 501's sold on eBay for US$60 000.

Designer jeans for men became popular, and consumers began paying more attention to the tops, shoes and accessories they wore with their jeans. This interest led to new value for garments to go with jeans: jewelled shirts, denim vests and jackets, and shoes, from designer heels to basic ballet flats. Meanwhile, the old standby—basic blue jeans from Levi's, Lee's or Wrangler's—continued to find a solid customer base with a price point in the comfortable double digits for most.

But then the fashion pendulum swung again. Whereas jeans in the 1950s signalled youth and rebellion, they were viewed as pants for parents by teenagers coming of age in the 1990s. Jeans were acceptable to teens only if they looked vintage or second-hand. Levi Strauss & Company, which had remained the pre-eminent jeans producer despite losing its patent in the late nineteenth century, began closing factories.

The industry has reacted in a variety of ways to rekindle a sense of consumer value.[23] Specialty brands such as Diesel, 7 for All Mankind, Citizens of Humanity, Lucky Jeans, True Religion, Sass & Bide, R.M. Williams and Bettina Liano have entered the market, positioning themselves as hip or edgy. Some brands, such as True Religion, have maintained prices as demand has waned, hoping to perpetuate an aura of prestige for their western-inspired jeans; others have dropped prices, seeking to attract more budget-conscious consumers who want fashionable jeans. For example, designers are increasingly pairing with well-known lower cost retailers such as Target to launch a low-price range for budget-conscious customers. Other designers have brought back retro styles or hired supermodels and other trend setters such as movie stars to generate renewed interest in their products. Some stores also offer organic and green products for environmentally conscious consumers, which are more expensive than their traditionally made counterparts.

Efforts to keep denim king have also enjoyed the contributions of political and business leaders who wear blue jeans in certain venues to impart their own updated image. These trends build on some of the traditional associations with jeans to project an image of a 'new' executive: someone who is confident, creative and willing to dig in and get the job done. The badge of rebellion has transformed into a symbol of power. The trend is evident all over the globe, among top executives and world leaders. As the *Wall Street Journal* puts it, 'jeans are now a legitimate part of the global power-dress lexicon, worn to influential confabs where the wearers want to signal they're serious—but not fussy—and innovative'.[24]

Jeans are still jeans—cotton twill pants that are most commonly dyed indigo blue. But now they are worn by men, women and children. They appear at official functions, the coffee shop and in the paddocks. They may sport platinum rivets or strategically placed holes, be purchased ready-to-wear or tailored for an individual fit. Brands and styles sell for various prices, reflecting the value that each offering provides.

In the next section, we explore the notion of value-based marketing further. Specifically, we look at various options for attracting customers by providing them with better value than the competition does. Then we discuss how firms compete on the basis of value. Finally, we examine how firms transform the value concept into their value-driven activities.

CHECK YOURSELF

1. What is the definition of marketing?
2. Marketing is about satisfying _____ and _____.
3. What are the four components of the marketing mix?
4. Who can perform marketing?
5. What are the various eras of marketing?

LO 1.2

HOW DO MARKETING FIRMS BECOME MORE VALUE DRIVEN?

Firms become value driven by focusing on four activities. First, they share information about their customers and competitors across their own organisation and even with other firms, such as the manufacturers and transportation companies that help them get their product to the marketplace. Second, they strive to balance their customers' benefits and costs. Third, they concentrate on building relationships with customers. Fourth, they need to take advantage of new technologies and connect with their customers using social and mobile media.

Sharing information

In a value-based, marketing-oriented firm, marketers share information about customers and competitors (see Chapter 7, Marketing Research) and integrate it across the firm's various departments. The fashion designers for Zara, for instance, collect purchase information and research customer trends to determine what their customers will want to wear in the next few weeks; simultaneously, the logisticians–people in charge of getting the merchandise to the stores–use the same purchase history to forecast sales and allocate appropriate merchandise to individual stores. Sharing and coordinating such information represents a critical success factor for any firm. Imagine what might happen if Zara's advertising department were to plan a special promotion but not share its sales projections with those people in charge of creating the merchandise or getting it to stores.



Exhibit 1.8 Through its innovative marketing approaches, IKEA is able to create buzz among consumers.

© James D. Morgan/Getty Images

Balancing benefits with costs

Value-oriented marketers constantly measure the benefits that customers perceive against the cost of their offerings. They use available customer data to find opportunities to better satisfy their customers' needs, keep costs down and develop long-term loyalties. For example, IKEA does not have highly paid salespeople to sell its furniture, but its simple designs mean customers can easily choose a product and assemble it themselves. Augmented by its clever marketing approaches, IKEA is able to generate interest and interaction with consumers.

Building relationships with customers

During the past couple of decades, marketers have begun to develop a **relational orientation** as they have realised that they need to think about their customers in terms of relationships rather than transactions.[25] To build relationships, firms focus on the lifetime profitability of the relationship, not how much money is made during each transaction. Thus, Apple makes its innovations compatible with existing products to encourage consumers to maintain a long-term relationship with the company across all their electronic needs.

This relationship approach uses a process known as **customer relationship management (CRM)**, a business philosophy and set of strategies, programs and systems that focus on identifying and building loyalty among the firm's most valued customers.[26] Firms that employ CRM systematically collect information about their customers' needs and then use that information to target their best customers with the products, services and special promotions that appear most important to them.



Exhibit 1.9 Apple makes its new products compatible with existing ones to maintain a long-term relationship with its customers.

© aiyoshi597/Shutterstock

Now that we've examined what marketing is and how it creates value, let's consider how it fits into the world of commerce, as well as into society in general.

relational orientation
A method of building a relationship with customers based on the philosophy that buyers and sellers should develop a long-term relationship.

customer relationship management (CRM)
A business philosophy and set of strategies, programs and systems that focus on identifying and building loyalty among the firm's most valued customers.

Connecting with customers using social media platforms and digital tools

New technologies are seen by many marketers as tools that enable them to connect with and serve customers more effectively. By extension, many businesses take social and mobile media seriously, and take the necessary steps to invest in an online presence. They believe that if they provide a customer interface that offers detailed information, a persistent presence and ways to interact, customers will be engaged with the brand. If customers are engaged with the brand, the brand value will grow and people will be more likely to prefer to purchase from that brand instead of the brand's competitors. In addition to social and mobile media, new technologies are enabling businesses to make their presence more interactive so that consumers can become more involved in the offerings at hand. For example, IKEA's virtual reality app allows shoppers to place furniture in their homes, virtually.[27]

But having an online presence requires ongoing commitment to content and engagement. Some small businesses do this very well and have grown to become large companies without a physical presence. It is difficult, though, to accurately measure the effectiveness of social and mobile media. One reason for this is that consumers today are offered multiple touchpoints in the consumer decision-making journey, so it is challenging for companies to segment the real impact of any one channel. In the literature, researchers have also been unable to pinpoint precisely which online tool is used for which consumer purpose, and the extent to which it is impactful. Indeed, there are many instances of online failures, even for otherwise very successful companies–for example, Snapchat lost over US$650 million after it made a very offensive joke about Rihanna and Chris Brown, and it lost US$1.3 billion when Kylie Jenner tweeted that she was no longer open to using the platform and influenced other high-profile celebrities to leave it.[28]

Currently, Facebook has over two billion users, YouTube has almost two billion users, WhatsApp has about 1.5 billion users, WeChat has over one billion users, Instagram has over one billion users, Twitter and Reddit have just over 300 million users each, Snapchat has over 250 million users, and the list goes on, with new platforms appearing every so often.[29] Undoubtedly, many people use social media, but what is less obvious is how they use it and for what purpose. Do they use it for social purposes, to connect with family and friends, or do they use it for information searches or purchasing? Furthermore, what type of social media content is most valuable and engaging to users? Is it informational, is it entertaining, is it educational? None of these answers is obvious. It is therefore

challenging for marketers to maintain their social medial presence in a consistent manner that is valuable to users, who will, ideally, become consumers.

Furthermore, adoption by both consumers and businesses is variable depending on country, but it is fair to say that among the heaviest users, more than half of the population use social media. To give a sense of perspective, in 2018, 2.65 billion people used social media and this number is expected to increase to 3.1 billion by 2021.[30] Interestingly, Chinese consumers make up a significant portion of users, with a projection of about 800 million by 2023, compared to a projected 257 million in the US by 2023, 43 million in the UK and approximately 42 million in South Korea by then.[31] By comparison, East Asia leads the way with mobile penetration of up to 70 per cent in 2019 compared to 51 per cent in Oceania and 6 per cent in Middle Africa.[32] In Australia, 90 per cent of consumers aged 12–55 have a social media account.[33]

Beyond social media sites, online travel agencies such as Checkin, Expedia and Travelocity have become the first place users go to book travel arrangements: 46 per cent of online hotel bookings take place through one of these portals.[34] Customers who book hotels using travel agencies become loyal to the agency that gives them the lowest prices, rather than to any particular hotel brand. So hotels are using social media and mobile applications to lure customers back to their specific brands by engaging in conversations with them on Facebook and allowing followers of the page to book their hotel reservations directly. Some hotel chains have mobile applications that allow customers to make changes to their reservations, shift check-in and check-out times and add amenities or services to their stays. The hotels know a lot about their customers because they collect information about their previous visits, including the type of room they stayed in, their preferences (from pillows to drinks consumed from the minibar) and the type of room service they prefer.

CHECK YOURSELF

1. Does providing 'good value' mean selling at a low price?
2. What are the benefits of long-term relationships with customers?
3. How are marketers connecting with customers using social and mobile media?

Case study 1.1: Amazon.com.au: from A to Z in Australia

By Dr Eugene Chan, Monash University

Amazon.com Inc. is an e-commerce company that first started in 1994, quickly becoming one of the most popular e-commerce platforms in the US. When Amazon.com.au was launched in Australia in 2017, there was great fanfare because many Australian consumers were familiar with the brand and had heard about the extensive product range.

Amazon.com.au's strategy in Australia makes good use of the four Ps in the marketing mix in order to build and deliver on value, encapsulated by their tagline 'Great Range, Delivered Fast'.

Product: The product component is perhaps the simplest. Amazon.com.au offers a wide range of items that Australians can buy online, including over nine million books (with more than 1.7 million e-books) and more than 70 000 other products from major brands. Amazon.com.au's wide selection provides value because there are no major domestic booksellers that have the same expansive collection, simplifying the shopping experience for consumers. Amazon.com.au, although an American company, is also well-regarded and trusted by many Australians. Thus, Amazon.com.au creates value by offering a wide selection of books and products from a trusted name.

Price: The price is dependent on the product, but Amazon complements this by offering a 'Prime' service, with an expedited delivery for a flat monthly rate of AU$6.99 per month. Combined with lower prices on many products, and comparable ones on others, Amazon has diluted the focus on simply lower product prices by appealing to another aspect of value. That is, products that are delivered at minimal cost to the consumer, adding to the overall customer experience.

Place: Currently, Amazon.com.au is an online service, with a fulfilment centre in the Melbourne area. The fulfilment centre stocks a wide range of inventory that Amazon.com.au sells, allowing it to fulfil Australian customers' orders relatively quickly, often shipping within 24 hours. Amazon.com.au also allows local third-party sellers to sell directly on the platform. Purchases from these sellers are shipped directly from the seller, also located within Australia. Thus, Amazon.com.au delivers value through offering saved time, appealing to the increasingly time-poor Australian consumer.

Promotions: When Amazon.com.au first launched in Australia, it leveraged the fact that Amazon.com in the United States was already well-known (and trusted) among Australians, and so brand awareness was already high. Thus, the primary goal of the campaign was to get Australians to rethink their go-to websites and buy books and other products from Amazon.com.au instead of its competitors. Even since its launch, Amazon.com.au still maintains an advertising presence, emphasising the fact that it offers expedited delivery and a world-renowned inventory of books and other products. It communicates the value offering by emphasising the wide selection, trusted brand name and fast delivery.

Amazon.com.au made good use of the four Ps when it first launched in Australia to create, deliver and capture value. Each element of the marketing mix is different and can be examined independently. However, in terms of developing value, each is highly dependent on the others.

It remains to be seen whether Amazon.com.au will maintain its success, or if it will go down in history as one of the major failures for an American company entering the Australian market. But whether Amazon.com.au achieves success or not in the long term, the winner is the Australian shopper. The customer experience is diversified, with value added both online (the wide range of products means that only one website need be visited) and offline (the actual product is delivered quickly). For bricks-and-mortar stores and malls, retail outlets will need to offer experiences that Amazon.com.au cannot provide—for example, places for customers to simply meet and relax, food courts or hands-on product demonstrations For e-commerce sites, Amazon.com.au also shakes up the market because online retailers will have to understand that customers are not simply looking for low prices, but are seeking other elements of value, such as increased time saving in their shopping and rapid delivery experiences. Most importantly, in any environment retailers must ensure that they are delivering what they are promising, enriching the consumer experience and building value into that experience.

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Questions

1. Describe the marketing mix as it pertains to Amazon.com.au.
2. How does Amazon.com.au offer value to the Australian consumer, relative to its major competitors?
3. Discuss the concepts of value creation, communication, delivery and capture.

WHY IS MARKETING IMPORTANT?

LO 1.3

Marketing once was only an afterthought to production. Early marketing philosophy went something like this: 'We've made it; now how do we get rid of it?' However, not only has marketing shifted its focus dramatically, it has also evolved into a major business function that crosses all areas of a firm or organisation, as illustrated in Figure 1.6. Marketing advises production about how much of the company's product to make and then tells logistics when to ship it. It creates long-lasting, mutually valuable relationships between the company and the firms from which it buys.[35] It identifies those elements that local customers value and makes it possible for the firm to expand globally. Marketing has had a significant impact on consumers as well. Without marketing, it would be difficult for any of us to learn about new goods and services. Understanding marketing can even help you find a job after you finish your studies.



Figure 1.6 Importance of marketing

Clockwise from top left: © F8 studio/Shutterstock/DAL, CAT SCAPE/Shutterstock/DAL, DreamPictures/Shannon Faulk/Blend Images LLC/DAL, mTaira/Shutterstock/DAL, Robert Kneschke/Shutterstock/DAL, Rawpixel.com/Shutterstock/DAL

Marketing expands firms' global presence

A generation ago, Coca-Cola® was available in many nations, but Levi's® and most other US brands weren't. Blue jeans were primarily an American product–made in the United States for the US market. But today, most jeans, including those of Levi Strauss & Co., are made in places other than the United States and are available nearly everywhere. Thanks to YouTube and other global entertainment venues, low-priced foreign travel and the internet, you share many of your consumption behaviours with university students in countries all over the globe. The best fashions, music and even food trends disseminate rapidly around the world. Take a look at your next shopping bag. Whatever it contains, you will find goods from many countries–produce from New Zealand, jeans from Japan, electronics from Korea. Global manufacturers and retailers continue to make inroads into the Australian market. As marketing helps expand firms' global presence, it also enhances global career opportunities for marketing professionals.

supply chain
The group of firms that make and deliver a given set of goods and services.

marketing channel
The set of institutions that transfer the ownership of, and move goods from, the point of production to the point of consumption; consists of all of the institutions and marketing activities in the marketing process.

Marketing is pervasive across marketing channel members

Firms do not work in isolation. Manufacturers buy raw materials and components from suppliers, which they sell to wholesalers, retailers or other businesses after they have turned the materials into products (see Figure 1.7). Every time materials or products are bought or sold, they are transported to a different location, which sometimes requires that they be stored in a warehouse operated by yet another organisation. Such a group of firms that make and deliver a given set of goods and services is known as a **supply chain** or a **marketing channel**. All of the various channel members

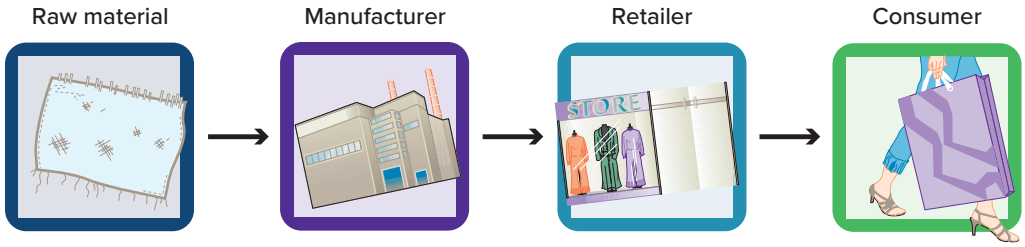


Figure 1.7 Supply chain

(e.g. suppliers, manufacturers, wholesalers and retailers) of the supply chain are firms that are likely to provide career opportunities to marketing professionals.

Effectively managing supply chain relationships often has a marked impact on a firm's ability to satisfy the consumer, which results in increased profitability for all parties. Consider Levi Strauss & Co. and its close relationship with its major retailers. Not too many years ago, only about 40 per cent of orders from the jeans manufacturer to its retailers arrived on time, which made it very difficult for retailers to keep all sizes in stock and therefore keep customers, who are generally not satisfied with anything less than the correct size, happy. Today, Levi's uses an automatic inventory replenishment system through which it manages e-inventory itself. When a customer buys a pair of jeans, the information is transferred directly from the retailer to Levi's, which then determines which items the retailer needs to reorder and automatically ships the merchandise. The relationship benefits all parties: retailers don't have to worry about keeping their stores stocked in jeans and they save money because they don't have to invest as much money in inventory. Because Levi's has control of the jeans inventory, it can be assured that it won't lose sales because its retailers have let their inventory run down. Finally, customers benefit by having the merchandise when they want it. This system is an example of superior value creation for all parties involved in the exchange.



Exhibit 1.10 Levi Strauss & Co. helps retailers manage their inventory so they don't run out of stock.

© Redfx/Alamy Stock Photo/DAL

Marketing enriches society

Should marketing focus on factors other than financial profitability–such as good corporate citizenship? All of the top companies, such as those on the Fortune 500 list, think so and actively engage in various marketing activities in this direction, such as developing greener products, creating healthier food options and safer products, and improving their supply chains to reduce their carbon footprint. At a more macro level, many firms are making socially responsible activities an integral component of everything they do. This is called corporate social responsibility and many believe that is one of marketing's major contributions to society.[36]

Socially responsible firms recognise that including a strong social orientation in business is a sound strategy that is in both its own and its customers' best interest. It shows the consumer marketplace that the firm intends to be around for the long run and can be trusted with their business. In a volatile market, investors view firms that operate with high levels of corporate responsibility and ethics as safe investments. Similarly, firms have come to realise that good corporate citizenship through socially responsible actions should be a priority because it will help their bottom line.[37] In a world in which consumers constantly hear about negative examples of ethics, the need for companies to live up to their ethical promises has become even more important.

Marketing can be entrepreneurial

Marketing plays a major role in the success of large corporations, and it is also at the centre of the successes of numerous new ventures initiated by **entrepreneurs** or people who organise, operate and assume the risk of a business venture. Key to the success of many such entrepreneurs is that they launch ventures that aim to satisfy unfilled needs in the marketplace. Some examples of

entrepreneurs
A person who organises, operates and assumes the risk of a new business venture.

globally successful ventures (and their founders) that understood their customers and added value include:

- Ben & Jerry's (Ben Cohen and Jerry Greenfield)
- Bose (Amar Bose)
- Amazon (Jeff Bezos)
- Netflix (Reed Hastings).

Some examples that are closer to home include:

- Grill'd (Simon Crowe)
- Jump on it (Adam Rigby, Colin Fabig and James Gilbert)
- OzHarvest (Ronni Kahn)
- TPG (Vicky Teoh)
- McMillan Shakespeare (Anthony Podesta)
- Magic Millions (Gerry Harvey and John Singleton).

Another extraordinary entrepreneur and marketer, Oprah Winfrey, was a self-made billionaire before she turned 50 years of age. Winfrey went from being the youngest person and first African-American woman to anchor news at WLAC-TV television in Nashville, Tennessee, to being only the third woman in history to head her own production studio. Under the Oprah banner are a variety of successful endeavours, including Harpo Films, Oprah's Book Club, Oprah.com, the Oxygen television network and the Oprah Winfrey Network. In addition to producing two of the highest-rated talk shows ever on television, *The Oprah Winfrey Show* and *Dr. Phil*, Harpo Studios has produced films such as *Beloved*. Oprah's philanthropic contributions are vast and varied. Through the Oprah Winfrey Foundation and Oprah's Angel Network, people worldwide have raised more than US$80 million for scholarships, schools, women's shelters and youth centres.[38] Although her signature televised talk show has ended, her influence persists.

Great and distinguished entrepreneurs often have more than one fantastic idea and therefore have several businesses operating under the same company banner. They have visions of how certain combinations of goods and services can satisfy unfilled needs. They find and understand a marketing opportunity (i.e. the unfilled need), conduct a thorough examination of the marketplace, and develop and communicate the value of their goods and services to potential consumers.

CHECK YOURSELF

1. List five functions that illustrate the importance of marketing.
2. A firm doing the right thing emphasises the importance of marketing to _____.

Case study **1.2: Why Telstra and not Belong?**

By Dr Eugene Chan, Monash University

In 2019, Australia's largest mobile carrier Telstra launched a discount carrier called Belong. This follows the pattern in many other countries in which major carriers launch smaller discount networks to capture a growing slice of the market that prefers cheaper mobile plans. Such discount carriers provide their service by using the telecommunications networks of their parent company but offering fewer, simpler features, plus lower prices—something that is sought by some price-conscious consumers.

There are numerous reasons why Telstra followed in the footsteps of other mobile carriers around the world and launched Belong. For one thing, doing so supports Telstra's bottom line. While Telstra as

a carrier targets mainstream Australians who not only prefer the more popular features that Telstra (and its competitors) provide, but also see value in staying with the parent brand, Belong is targeted at Australians who seek cheaper prices, whether for socioeconomic or other reasons. Thus, Telstra and Belong are both mobile carriers from the same company, yet the two brands are aimed at different target markets, allowing them to attract different market segments through a different value proposition. Although there will be a little overlap, with some Telstra customers switching to Belong, this is perceived as a minimal risk compared to the benefit of the new market segments that the overall Telstra group can now target.

However, despite many major wireless carriers offering budget and cheaper plans, many consumers (in Australia and worldwide) still rely on the major wireless carriers when texting and phoning family and friends. Why then are consumers willing to pay higher prices when it's possible to get what is essentially the same service at a lower price?

Today, mobile carriers understand that many consumers are seeking value—which is not limited simply to lower prices. Belong may offer cheaper plans and use the same technological infrastructure as Telstra, but there are many affiliated products and services that Belong cannot offer. Combined with trust in the Telstra brand name in the minds of (especially older) Australians, and in the increasingly complex and diverse services these companies offer, including internet access and movie streaming, a reputable and reliable brand connotes value to a wide range of potential consumers.

Product is one key factor. Telstra offers more plans for people to choose from, while Belong offers only a few. Thus, Telstra's plans may be more expensive, but it has the flexibility and convenience that customers are looking for. As mentioned, these plans contain a wide range of technology applications (the mobile phone is much more than just a phone these days). Being able to choose among these for a more tailored end product that fits with a customer's needs may be perceived as an element of added value. The actual price becomes less important than the consumers' belief that they are buying only what they may actually use.

Telstra also has numerous retail outlets throughout the country, in both major CBDs (central business districts) and suburbs. Thus, if a Telstra customer needs to speak to someone about their plan, they can visit any of these outlets and get a quick response. On the other hand, Belong only offers online or on-the-phone customer service. This may be convenient to some, but for others, the personal one-on-one connection is still important—another component of value to the consumer.

Discount mobile carriers such as Belong are production-oriented companies; they understand that some consumers will be price-sensitive and look for the 'best' product at the 'lowest' prices. But Telstra and other major telecommunication companies are focused on creating, delivering and capturing value, moving past simply price-selling, and appealing to a wide range of other factors that may drive a customer's choice. Recognising this allows a more expensive brand such as Telstra to effectively coexist in the same marketplace.

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Questions

1. The mobile carrier industry espouses a value-based marketing approach. Discuss to what extent this is true and provide examples to support your answer.
2. Identify the market segments that Telstra focuses on and describe how 'value' is created for these consumer groups.
3. Explain what co-creation means in the context of Telstra.

SUMMING UP

LO 1.1 Define the role of marketing in organisations.

Marketing is the activity, set of institutions and processes for creating, capturing, communicating, delivering and exchanging offerings that have value for customers, clients, partners and society at large. Marketing strives to create value in many ways. If marketers are to succeed, their customers must believe that the firm's goods and services are valuable; that is, they are worth more to the customers than they cost. Another important and closely related marketing role is to capture value of a product based on potential buyers' beliefs about its value. Marketers also enhance the value of goods and services through various forms of communication, such as advertising and personal selling. Through communications, marketers educate and inform customers about the benefits of their goods and services and thereby increase their perceived value. Marketers facilitate the delivery of value by making sure the right goods and services are available when, where and in the quantities their customers want. Better marketers are not concerned about just one transaction with their customers. They recognise the value of loyal customers and strive to develop long-term relationships with them.

LO 1.2 Explain the concept of value in marketing.

Value represents the relationship of benefits to costs. Firms can improve their value by increasing benefits, reducing costs or both. The best firms integrate a value orientation into everything they do. If an activity doesn't increase benefits or reduce costs, it probably shouldn't occur. Firms become value driven by finding out as much as they can about their customers and those customers' needs and wants. They share this information with their partners, up and down the supply chain, so the entire chain collectively can focus on the customer. The key to true value-based marketing is the ability to design goods and services that achieve precisely the right balance between benefits and costs. Value-based marketers aren't necessarily worried about how much money they will make on the next sale. Instead, they are concerned with developing a lasting relationship with their customers so that those customers return again and again.

LO 1.3 Understand why marketing is important, both within and outside the firm.

Successful firms integrate marketing throughout their organisations so that marketing activities coordinate with other functional areas such as product design, production, logistics and human resources, enabling them to get the right product to the right customers at the right time. Marketing helps facilitate the smooth flow of goods through the supply chain, all the way from raw materials to the consumer. From a personal perspective, the marketing function facilitates your buying process and can support your career goals. Marketing can also be important for society through its embrace of solid, ethical business practices. Firms 'do the right thing' when they sponsor charitable events, seek to reduce environmental impacts and avoid unethical practices; and such efforts endear the firm to customers. Finally, marketing is a cornerstone of entrepreneurialism. Not only have many great companies been founded by outstanding marketers, but an entrepreneurial spirit pervades the marketing decisions of firms of all sizes.

KEY TERMS

- B2B (business-to-business) 11
- B2C (business-to-consumer) 11
- C2C (consumer-to-consumer) 11
- customer relationship management (CRM) 17
- entrepreneurs 21
- exchange 6
- goods 8
- ideas 9
- marketing 5
- marketing channel 20
- marketing mix (four Ps) 7
- marketing plan 5
- relational orientation 17
- services 8
- supply chain 20
- value 14
- value co-creation 14

MARKETING APPLICATIONS

1. Do you know the difference between needs and wants? When companies that sell frozen desserts develop their marketing strategy, do they concentrate on satisfying their customers' needs or wants? What about a utility company, such as the local power company? Or a humanitarian agency, such as *Médecins Sans Frontières* (Doctors Without Borders)?

2. People can apply marketing principles to finding a job. If the person looking for a job is the product, describe the other three Ps.
3. Mercedes-Benz manufactures a range of vehicles at varying price points. Is it better for the company to make just one car for everyone or to make many different models that will suit different target markets? Which approach will offer better value to customers? Justify your answer.
4. Assume you have been hired by the marketing department of a major consumer products manufacturer, such as Nike. You are having lunch with some new colleagues in other departments—finance, manufacturing and logistics. They are arguing that the company could save millions of dollars if it just got rid of the marketing department. Develop an argument that would persuade them otherwise.
5. Why do marketers such as Procter and Gamble (P&G) find it important to embrace societal needs and ethical business practices? Provide an example of a societal need or ethical business practice that P&G is addressing.

QUIZ YOURSELF

1. The 'Got milk?' advertising campaign was designed to help market a(n):
   a. individual
   b. firm
   c. industry
   d. organisation.
2. Henry Ford's statement, 'Customers can have any colour they want so long as it's black', typified the _____ era of marketing.
   a. production
   b. sales
   c. marketing
   d. value-based

(Answers to these two questions can be found on page 455.)

NET SAVVY

1. Visit www.apple.com/au. What value does Apple provide for customers? What are the advantages to people of using Apple to buy music or to rent/buy videos?
2. Go to www.facebook.com/facebook/info and newsroom.fb.com. What is Facebook's mission? How could a marketer use Facebook? What other social media tools could they use? What are the drawbacks a marketer might face when using Facebook and other social media tools?
3. Go to www.snapchat.com/ and click on the 'Ads' tab. Scroll down until you see the 'Creative Spotlight' examples. Click on the video link for one of the highlighted campaigns. Why do you think the use of Snapchat worked for this company over and above other social media options?

CHAPTER CASE STUDY

Getting real with Dove

By Dr Eugene Chan, Monash University

In 2007, Dove was the world's number-one selling 'cleansing' brand in the personal health and beauty industry. Dove had worldwide sales of over US$2.5 billion a year in more than 80 countries, including Australia. It led the way in products such as cleansing bars, body washes, handwashes, facial care, hair care, deodorants, antiperspirants and body lotions.

Dove started out in 1957, in the post-World War II era, in the United States. The first Dove product was a 'beauty bar' that claimed not to dry out skin in the way that the typical soaps of the day did. At the time, the marketing message was 'Dove soap doesn't dry your skin because it's one-quarter cleansing cream', which was illustrated in advertisements with images of the cream being poured into a cake of soap. It instantly become one of America's most recognisable products and brands.

Continued

However, over the years, Dove also followed the shift in marketing from merely offering functional benefits (the production-oriented era). In 2002, amid declining sales, it launched its 'Real Beauty' campaign. This recognised that women then—and now—are more likely to be persuaded by models who look like themselves rather than those who are aspirationally thin and attractive—perhaps *too* much so, making such ideals unrealistic and harmful to young women's self-esteem and body satisfaction. Indeed, traditionally, 'young, white, blonde and thin' were the ideal characteristics of women portrayed in advertising. But in the early 21st century, after conducting research with women, Dove hired British photographer John Rankin Waddell, famous for using ordinary people in supermodel contexts, to photograph ordinary women using Dove products.

In this campaign, billboards and advertisements asked women to phone '1-888-342-DOVE' to vote whether a woman on a billboard was 'outsized' or 'outstanding'. A counter on the billboard showed the votes in real time. The campaign attracted a lot of public attention, as 'outsized' was the leader initially but then fell into second—and thus last—place.

This led in June 2005 to the 'Firming' campaign in which Dove advertised its newest skin-firming cream with six 'real' women posing in a happy mood in plain white underwear. Dove's goal was to change how women are portrayed in advertising and how the world views 'beauty'. The campaign was also highly successful and became instantly popular among women in the US.

This was soon followed by other campaigns focusing on 'real' women and 'true' beauty. The leadership team at Dove even filmed their own daughters discussing their self-esteem challenges, which the advertising firm Ogilvy & Mather quickly incorporated into their video ads. One young woman had a freckled face with the caption 'Hates her freckles'. Another young woman of Asian descent was accompanied by the caption 'Wishes she were blonde'. Notably, these ads did not even mention the Dove brand or product, but focused on changing young women's attitudes towards what 'beauty' really meant. Though these and subsequent campaigns were viewed by some as controversial, they were mostly adored, and the ads even ran during the 2006 Super Bowl—the most important advertising venue for any American advertiser.

Dove's Real Beauty campaign is not limited only to the American market. When Dove first brought the campaign into Australia, it partnered with Coles to deliver self-esteem workshops, reaching as many as 500 000 young women with its 'Dove Self-Esteem Project'. In one case, Dove brought parents into a classroom to show them what other Australian girls their daughters' ages were looking up online and what that meant for their daughters' self-esteem. The research was based on responses from nearly 30 000 Australian girls aged 13–17 across a number of different studies. This was not a 'traditional' way of advertising a product or brand, but it helped improve Dove's long-term reputation in Australia as a company that cares—not just a company focused on making a profit.

Nearly 20 years after the original ads, Dove's Real Beauty is still one of the most successful and admired campaigns in the personal health and beauty category. Its 2006 video, 'Evolution', went viral before 'viral' was even a thing. (YouTube had launched only in 2005, one year before.) Dove's 2013 ad 'Real Beauty Sketches', which shows women describing their appearances to a forensic sketch artist (and then contrasting the illustration with a stranger's description of them), in fact became the most-watched video ad of all time.

Dove transported its ad campaign to Australia in the early 2010s after it found that only 1 per cent of Australian women described themselves as beautiful. This campaign had five Australian women describing how fat, fabulous, wrinkled, wonderful, grey or gorgeous they felt. It established a Dove Self-Esteem Fund alongside the campaign, aimed at boosting Australian women's self-esteem.

The change in Dove's advertising themes, from offering functionality to recognising and embracing changing concepts of beauty, nicely encapsulates marketing's movement from the belief that offering a functional product is enough in the production-oriented era, to presenting a product that offers value. Here, in the personal health and beauty category, Dove was offering women, young and old, a product that added value in allowing them to express who they were, to show their 'real selves', in contrast to an alignment with some media-depicted standard that could be physically and emotionally harmful.

In the process, Dove also became one of the few marketers to stress the importance of social marketing and marketing ethics. Marketing is not just about selling products at prices that let firms earn a profit; rather, it can be used to better things—here, by challenging social norms that can be detrimental to women and young girls everywhere.

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DISCUSSION QUESTIONS

1. Explain how Dove moved from a production-oriented marketing perspective to a values-based marketing one.
2. How would you describe Dove's 'product'?
3. Explain how Dove adopts a social marketing perspective.
4. If you were marketing a brand of skincare products for men, how might you take inspiration from Dove's 'Real Beauty' campaign that was aimed at women and young girls?

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CHAPTER 2

Digital marketing

LEARNING OBJECTIVES

LO 2.1 Recognise the distinct digital consumer elements.

LO 2.2 Understand the types of digital channels.

LO 2.3 Describe the 4E framework of social media marketing.

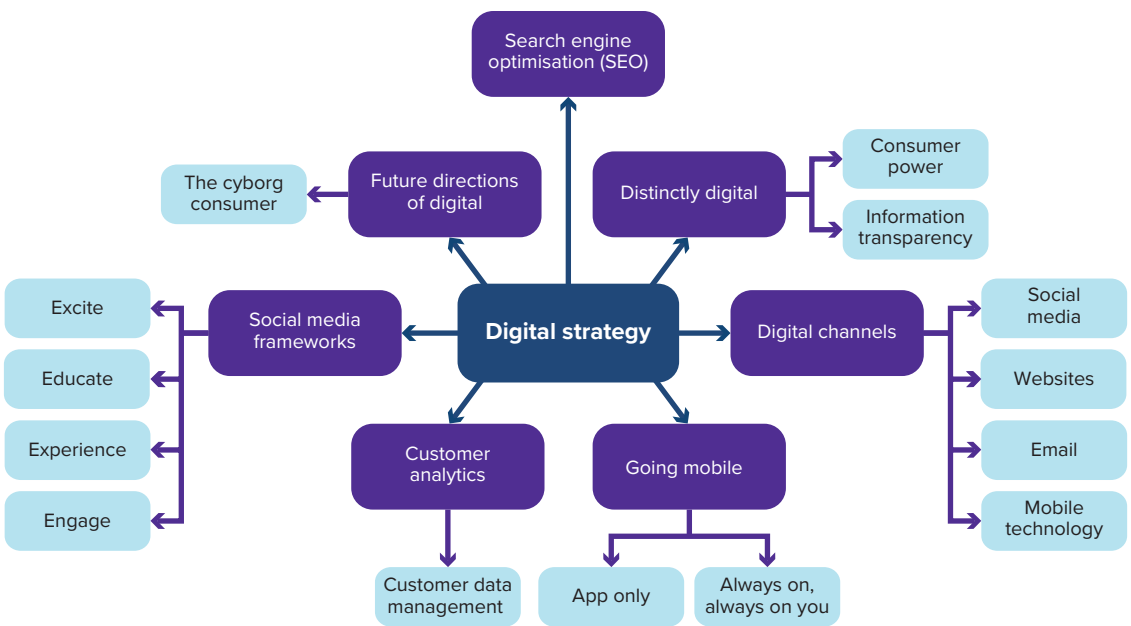
LO 2.4 Understand the important role of mobile applications.

LO 2.5 Understand the components of a digital marketing strategy.

LO 2.6 Recognise the future directions of digital marketing.



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Graduate spotlight



NAME
Camille Whitehead

DEGREE STUDIED
Bachelor of Commerce (Hons) (Marketing)

UNIVERSITY
University of Western Australia

CURRENT POSITION
Strategist

EMPLOYER
The Brand Agency

What did you learn from your degree, and how has it prepared you for a career in marketing?
Any degree will teach you a range of transferable skills, such as time management, communication and leadership, which are relevant to every career; however, my marketing degree encouraged me to think analytically and equipped me with quantitative and qualitative research skills. My current role as a strategist demands that I use these skills every day when investigating markets and creating brand strategies.

What interested you about studying or working in marketing?
Marketing uniquely combines the rationality of data analysis with the freedom of creativity. I often describe marketing as the 'social economics', as it uses elements of psychology to predict the behaviour of consumers. It is this unusual balance of thinking styles that interested me in studying and working in marketing.

What have you been up to since graduation?
In my final semester at UWA, I participated in the Communications Council's Graduate Program. This eight-week program sought to give participants an insight into the different functions of the communications and advertising industry in Western Australia. Following my participation in the program I was offered a job at The Brand Agency in the role of strategist. I recently completed my second year in this role.

What does your current job involve?
My role as a strategist at The Brand Agency entails:

- analysing data
- researching, reporting and presenting trends
- carrying out qualitative and quantitative research
- defining goals, developing strategies and evaluating results
- preparing tender documents
- branding of Western Australian organisations across a range of industries
- managing social media
- managing The Brand Agency's social media and blog.

What do you enjoy most about your job?
I enjoy the variety of work and clients: every day is different and I am constantly learning new things. Late last year I was placed on a three-month secondment to Rio Tinto to assist in celebrating the company's 50th anniversary of exporting iron ore from Western Australia. During this placement I travelled to the Pilbara weekly, and lived in fly-in-fly-out accommodation. This is just one example of the many opportunities that I never thought I would get to experience in my job.

What are your thoughts on the future of the marketing and communications industry? What advice would you give to students wanting to work in marketing?
The future of marketing will be largely guided by the increasing quantities of data that we are able to gather through the Internet of Things and other smart technologies. Products will have more options for personalisation, and advertisements will become increasingly targeted. We can also expect a smoother transaction when purchasing online as brands invest in user experience.

My best advice is to be interested in and passionate about the industry, stay up-to-date with new trends and think about what the implications may be for consumers.

Digital marketing has revolutionised how companies communicate with, listen to and learn from their customers. The volume of information generated can be a powerful tool for improving all business operations, including product design, technical support and customer service. Few companies have mastered this potential for transformation better than the Commonwealth Bank of Australia (CBA).

Although CBA is Australia's largest financial services bank,[1] it has not always been considered the leading digital innovator in the banking sector. However, recently CBA has made some significant changes to its digital strategy, investing heavily in new mobile **apps** that are leading the digital marketing charge towards consumer-centric banking relationships. CBA has a vast digital presence through its multilayered website, app, online banking, and presence on YouTube, Instagram, LinkedIn, Twitter and Google+. With more than 750 000 Facebook users having 'liked' the CBA Facebook page,[2] and more than 220 000 Instagram followers, the company has worked tirelessly to generate community and consumer conversation in this new virtual space (see Adding value 2.1).

apps
Mobile applications designed to offer advanced features to consumers that are similar to standard websites but optimised for their mobile phones.

The company has now diversified its marketing channels to target each different audience. In addition to customer support, the new media provides company and product news and food for thought to its customers about digital business and digital life. In turn, they enable the company to monitor and learn from fast-shifting user conversations.

How does a company draw meaning about its products from the thousands of Facebook, Twitter and other social media interactions that occur daily? Listening and analysing–or social media monitoring–is key, enabling companies to identify salient customer input and trends. Companies can gather and monitor these online chats and posts and engage in other discussions. In the past few years CBA has progressively updated its website and included new features for its customers.

The internet offers marketers a vast array of opportunities to engage with their consumers. This has become even more critical with the advent of the smartphone. Today consumers carry the internet with them everywhere they go in their pocket or bag. Essentially the internet and the marketer's ability to engage the consumer is within arm's-length reach of most consumers within Australia.

Australian consumers have one of the fastest-growing and highest adoption rates of smartphones in the world, with nine out of ten owning a smartphone.[3] With smartphone apps and the software integration of apps, the mobile phone has become the most powerful consumer device for businesses and marketers to understand. The mobile phone is an extension of oneself, as it is physically attached to consumers 24 hours a day, 'always on and always on you'.[4] Therefore, it is now an integral part of how people live their daily lives.

The internet has the ability to be a mechanism for the interaction between the brand and the consumer. So what is so unique or distinctive about digital consumers compared to traditional consumers? To help make this distinction, we can view digital consumers in general as falling into three broad categories, corresponding to intensity of usage. These digital consumers move with their experience curve to a higher level of digital integration or intensity. First, there are those consumers who use digital media as a dominant force in their lives. These are considered *dominant digital* consumers, and they are proactively looking to use the internet at every opportunity. Second, there are the majority of consumers, who are hybrid users and will embrace good technological solutions if they are presented and when they see ease of use and benefit. These *hybrid digital* consumers take a functional approach, whereby they use the internet to facilitate perceived better outcomes for their lives. Lastly, the *reluctant digital* consumers are those who have to use the internet but do not actively seek to use it in their daily lives. These consumers are reluctant to change to digital solutions unless they must. All consumers are impacted by the internet.

This is, however, a very general analysis of consumers; we need a more sophisticated understanding of how and why they consume online. For example, companies such as PricewaterhouseCoopers (PwC) have used psychographic behaviour-based segmentation research to further analyse how groups consume online content.[5] PwC identifies six digital 'personalities' that are not age-based; rather, they are derived from how consumers access the internet and how it impacts their lives (see Figure 2.1):

- **Cord cutter.** Cuts ties with traditional forms of shopping and entertainment
- **Financial services consumer.** Is empowered and self-sufficient through digital access
- **Reluctant digitist.** Favours traditional methods over digital platforms
- **Wellness connoisseur.** Intertwines the path to purchase and the path to wellness
- **Mobile consumer.** Consumes aspects of life on the move
- **Digital first-mover.** Is more aggressive in adopting the latest digital trends.

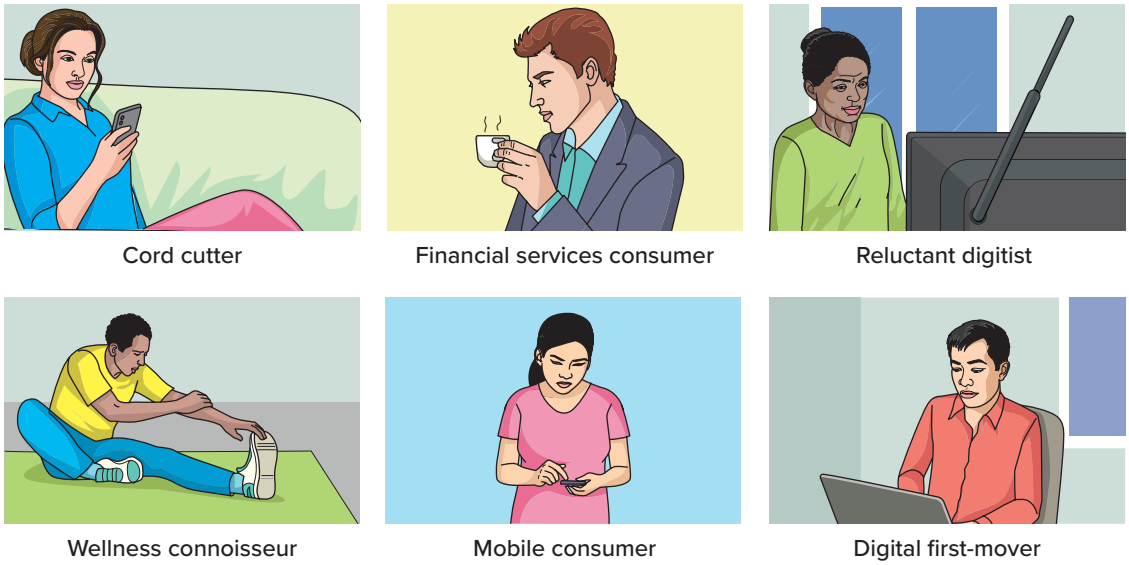


Figure 2.1 Behavioural segmentation

LO 2.1 DISTINCTLY DIGITAL CONSUMER ELEMENTS

The balance of power has shifted from the marketer to the consumer in a number of ways. First, the consumer is now empowered in many instances because of unprecedented access to information about products, prices and competition. This transparency of information and ubiquity of access allows the consumer to have much of the power in the transaction that in the past would have been possessed by the company. For example, consider air travel and hotel booking (see Exhibit 2.1). Most consumers now go to a comparison site and enter their destination. A comparative website such as www.expedia.com.au gives options that the consumer can choose from. This gives consumers many choices without having to go to a travel agent or being restricted by a travel agent's intermediary role and their limited options or preferences. This leads to the next major change: the ability to control the processes in the transaction through technologies such as online service automation.



Exhibit 2.1 Comparison sites such as Expedia and Trivago offer price and product transparency.

© Atstock Productions/Shutterstock/DAL

Although it has been shown that it is not necessarily easy to integrate personalisation models of marketing, those companies that embrace the understanding of the individualisation effect can benefit from increased performance.[6] For example, for purchasers of a Dell computer through the Dell website (see Exhibit 2.2), the company has been able to integrate a customised virtual interface with a personalised experience through its virtual live helpdesk solution. This is the second distinct digital consumer element: personalisation and customisation. Customers can choose a laptop, tablet or PC and then customise the components, such as the type of motherboard, case, graphics card, memory, screen, CPU and colour. If the components do not fit together, which sometimes happens, the automated system will advise the consumer and stop them from making mistakes. Further, if the website analytics indicate to a sales assistant on the live helpdesk that a consumer may need some help, a sales assistant question or pop up will appear on the screen and ask the consumer if they need assistance. Dell was one of the first companies to truly understand the concepts of customisation and personalisation.

As a consequence, there has been a shift in how marketers interact with their customers. The customer is now more demanding and less forgiving, and wants more appropriate, relevant and individualised interaction. The consumer is not passive; they now play a more active role in the interaction. This is the third digital consumer element: loss of control over the brand interaction.

Consumer interconnectedness is the desire to be connected all the time with one's device, friends and work and/or study in both social and non-social environments. This active involvement of the consumer means they play a significant role in how and where brand interaction occurs. As a result, there is some loss of control over what a company does in an online environment, as the firm cannot

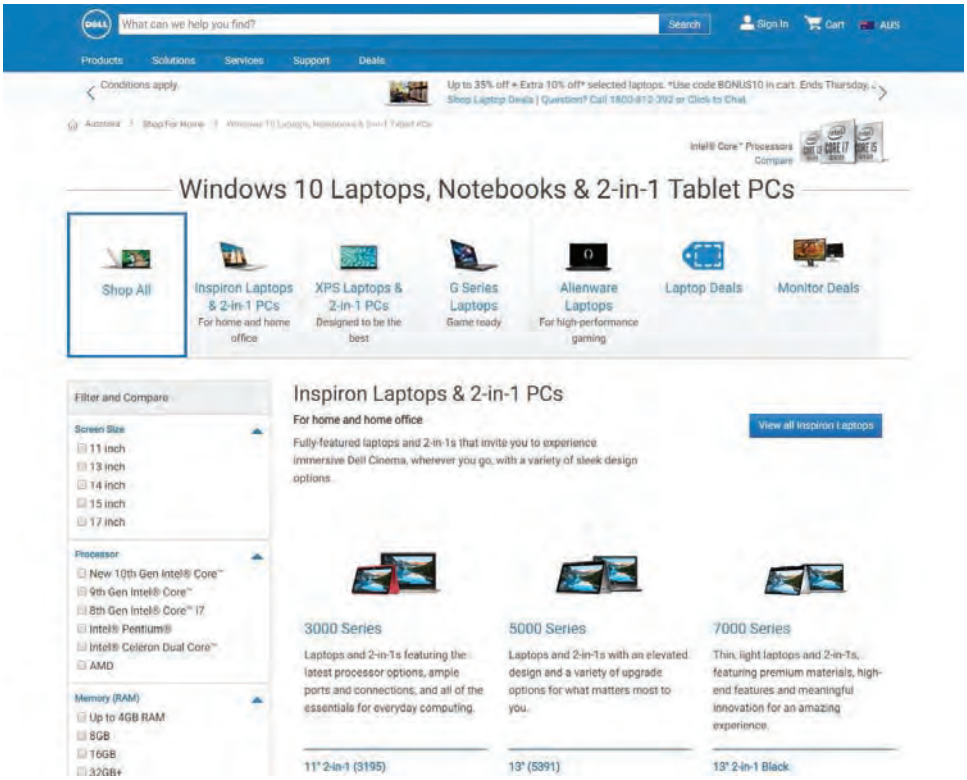


Exhibit 2.2 Dell.com offers customisation and personalisation.

Source: Dell, Inc.

control all **touchpoint** engagement. (Touchpoints will be discussed in more detail later, in the section on digital channels.) For example, a firm cannot control what is said on Facebook, Twitter, Instagram, blogs or any other platform with electronic word of mouth (eWOM) outside the firm's managed website. As such, eWOM has become increasingly important to marketing strategy.

touchpoints
The range of ways in which a consumer can interact with an organisation, offline and online (e.g. in store, by telephone, website, email, social media).

Further, even within the firm's managed websites there are still interactions in which the firm cannot control what consumers say. This should be seen as a positive environment where consumers have the ability to engage with other consumers, in consumer-to-consumer engagement. Also known as a trialogue, this interaction between the firm and the consumer-to-consumer engagements allows for fascinating communication that is unprecedented in marketing. Because this type of three-way communication is unprecedented, the way in which we manage these interactions is still evolving (see Figure 2.2). Firms now need to seriously consider what they want to achieve in social media, as it may become too difficult to manage.

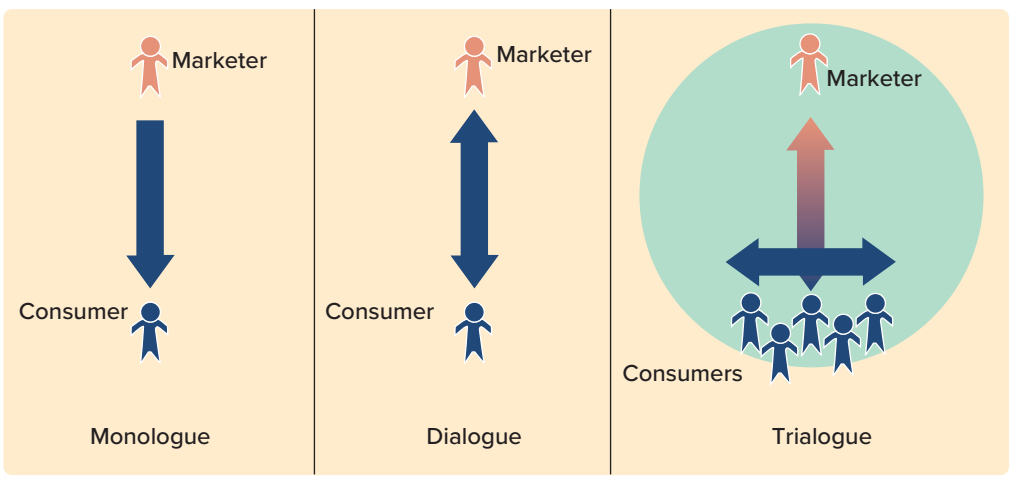


Figure 2.2 The uncontrolled spaces: aspects of the internet—eWOM

Marketers can learn about their product and brand from these consumer-to-consumer interactions. It may be the best market research they will ever have access to. However, any negative publicity should be managed, while allowing for honest and transparent engagement with consumers. Although any negative comments are visible to other consumers, they show that the company is willing to listen. This is critical for any company wanting to grow its brand in the uncontrollable environment of the internet.

The internet has given consumers the ability to explore and express their individuality. This is the fourth major change that has led to greater consumer experiences and higher demand for control over the brand. According to McKinsey, consumers are now demanding interaction whenever and wherever they want, or anywhere at any time.[7] This allows for real-time individualised interaction for the consumer, and gives the postmodern consumer the ability to express their individuality like never before.[8] They want to feel in control.

empowerment
In the context of service delivery, allowing employees to make decisions about how service is provided to customers.

As a consequence, there is tension between the consumer's desire for individualistic brand/consumption experiences and a need for new forms of sociality and **empowerment** around brands/consumption.[9] For example, TripAdvisor now controls many brand communication touchpoints for consumers that would have been managed by the company in the past. Consumers now search review sites where eWOM populates product evaluations, and consider these to be credible and relevant evaluations of many service-based products, including hotels, restaurants, flights and other travel products (see Exhibit 2.3). This is a challenge for companies, as they are unable to control the communications space where consumers engage with their product offerings.



Exhibit 2.3 Consumers search review sites for many service-based products, including hotels, restaurants, flights and attractions.

Clockwise from top © Ozerov Alexander/Shutterstock/DAL, bom/Shutterstock/DAL, Berlin Photo/Shutterstock/DAL, design.at.krooogle/Shutterstock/DAL

Consumers also expect all data stored about them to be targeted to their needs, or used to personalise their experiences.[10] This is the fifth major change: the demand for relevant active interaction. Consumers want novelty and personalisation approaches by the brand that add value. This data should be deployed more effectively in ways that create value for the customer.[11] It therefore needs to be relevant to the customer and their perceived values.

These distinct differences are not mutually exclusive: some will blend with others. Here's a summary of the five differences as discussed above:

1. **transparency of information** (product, price and promotions)
2. **personalisation** and **customisation**
3. loss of control over brand interactions
4. demand for individualisation of exchange
5. demand for relevant active interaction.

transparency of information
The consumer is now empowered in many instances because of their unprecedented access to information about products, prices and competition.

DIGITAL CHANNELS

LO 2.2

There are now many different touchpoints through which consumers can interact with companies. The conversation prism (see Exhibit 2.4) shows how companies can classify different social media into different ways of engaging with consumers.[12] However, we must remember that social media does not make up all the digital channels in a marketer's armoury. Other major digital channels include websites, search engines, email and mobile phones.

personalisation (customisation)
Promotions, goods and services tailored for the individual customer and which offer a competitive advantage. A benefit of the internet can include heightened service or individualised offerings.

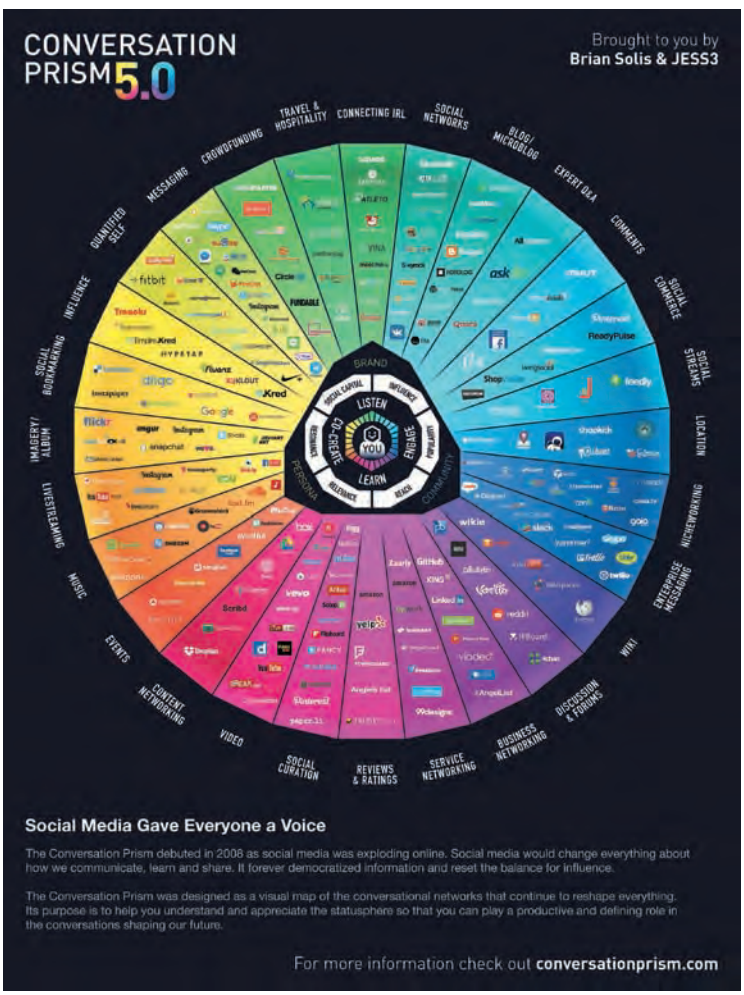


Exhibit 2.4 The conversation prism shows how companies can classify social media into different ways of engaging with consumers.

Source: Brian Solis (briansolis.com) and JESS3

Adding value 2.1

The Commonwealth Bank invests in its future

The Commonwealth Bank of Australia (CBA) is constantly innovating with new technologies for customers. Its property app is no exception, enabling customers to search for relevant properties, check estimated market prices, calculate affordability and apply for home loans. The app won an Australian Business Award for Mobile Innovation in 2016.[13]

This app adds value because it does more than just let customers apply for a home loan, which is ultimately where the bank makes its money. CBA understands that to get customers to this stage, it must provide them with the other types of value listed above.

Banks in general are increasingly competing not only on their financial products but also on the added value they can provide to customers through mobile apps. An article in the *Australian Financial Review* titled 'Banks in technology arms race with banking apps' underlined this trend.[14]

CBA still claims leadership in the technology field. For example, it implemented the Customer Engagement Engine (CEE), a multichannel decision-making engine underpinned by machine learning that takes a proactive, rather than reactive, approach to serving customers.

Other banks are active, too, and are introducing third-party payment-integrated systems such as Apple Pay, and GPS technology to enable customers to identify nearby businesses that offer payment services.[15]



Exhibit 2.5 Banks are developing mobile technologies for their customers.

These are not just additions to previous marketing channels such as television, radio and print. They are different in that they are interactive and often operate in real time. This leads to the need for marketers not only to communicate but also to engage with consumers. Customer engagement is a major trend in marketing, giving the customer a greater voice and more power in customer service, marketing messages and even product/service creation.[16] An example of such engagement can be found in the area of **social customer service**. Air New Zealand is good at this; it is on Facebook, Twitter, Instagram, YouTube and Snapchat, all to engage directly with its customers. On Twitter, in particular, it is available 24 hours a day, every day, to answer customers' and potential customers' questions. It has a dedicated team of social media customer service staff who are trained to deal with both positive and negative posts to the account.[17] In contrast, there are still many businesses that are totally non-responsive on social media!

social customer service
The use of social media as a customer service channel that is interactive, but only in a reactive manner, to consumer queries.

Going further is customer service using social media for **co-creation**. This can be co-creation of marketing campaigns or even of the products themselves.[18] Tourism Australia's website, Australia.com, was redeveloped in 2015 to take advantage of the co-creation possibilities with the millions of tourists who travel around Australia each year. Travellers have the opportunity to be featured on Tourism Australia's Instagram, Facebook or Twitter social media.[19] Indeed, Tourism Australia has a history of getting customers to take and publish their own images, so why not crowdsource them from tourists? One campaign in particular, called 'Chase the Sun', encouraged tourists to take pictures at Australia's iconic locations from sunrise to sunset. Co-creation is also demonstrated in the testing of beta versions of the new iOS, Samsung Pay and Uber Eats, and even in engaging influential bloggers for their views on what features the next iPad should include.

co-creation
The involvement of various parties, particularly consumers and an organisation's employees, in the production of marketing, advertising campaigns, new product ideas or even new product development.

For many years there has been a balance between the use of iconic Australian celebrities and an integration of customer-focused campaigns. In 2020, Tourism Australia's 'Come Live Our Philausophy' campaign featured Kylie Minogue, Paul Hogan, Chris Hemsworth, Adam Hills, Ben Shewry, Curtis

Stone, Dr Terri Irwin, Kathy Lette, Kylie Kwong, Laura Brown, Mick Fanning, Mike Cannon-Brookes and Warwick Thornton, highlighting what the Australian way of life means to them.

This is all very different from what is possible for marketers via traditional one-way channels, but even these channels are changing to become interactive. For example, how different is a smart TV from the one your grandparents grew up with (see Exhibit 2.6)? For now, though, we will go through the most popular digital channels in use by consumers and marketers today.



Exhibit 2.6 Televisions have evolved from the one-way channel television to the interactive smart TV.

© Scanrail1/Shutterstock/DAL

Websites

Websites have been around as the main digital channel since the internet became widely available in the late 1990s. Websites today, however, are very different from the brochure-like sites that existed into the mid-2000s. Today, good websites are interactive, engaging and social resources. Adding value 2.2 illustrates how Booking.com uses its website to engage with customers.

Adding value **2.2**

Engagement at Booking.com

Booking.com, established in Europe in 1996, is one of the leading online hotel and accommodation reservations companies in the world. The website is available on any device in 43 languages, and has a total of 29 million reported listings, with more than 155 000 destinations in 226 countries and territories across the globe. Booking.com has had phenomenal success. Its global website traffic is double that of TripAdvisor.[20] It employs more than 17 500 employees in nearly 200 offices in 70 countries worldwide and operates its own 24/7 in-house customer service team. This should give you a clue as to one of the main reasons for its success: its customer focus. As an online-only business, this means engaging people through its website and across its social channels (Instagram, Facebook, Twitter, YouTube and Pinterest).[21]

Former Chief Marketing Officer, Paul Hennessy, once said that Booking.com is focused on delivering 'that moment of joy, when you realise just how great your accommodation is and how amazing your trip is going to be'.[22] Since launching in Australia, Booking.com has become the biggest and fastest-growing online travel agent, according to Experian Hitwise.

Booking.com understands what it takes to be a successful online retailer. This is achieved through engaging with consumers. For a start, there is the huge social element of its website, with millions of real reviews from real guests. Add to that the smaller details that focus on 'micro-persuasion', reassuring consumers right through the decision-making process. For each hotel, and for each hotel room, the user can see when it was last booked, and if it is booked while they are viewing it ('just booked'). If someone from the United States, for example, books a room in the hotel while another consumer is viewing it, a notice will flash up that 'This hotel was just booked from the US'. The website also notifies the viewer of how many people are currently looking at the hotel, and if it is likely to sell out soon.

Booking.com also uses something called 'collaborative filtering', which Amazon pioneered, to let consumers see what other consumers have viewed that is similar to what they are looking at. But its personalisation goes further than that. Each user's bookings are stored and easily brought up, reviewed or even cancelled on the website or mobile app. If you are a regular booker on the website, Booking.com might even make you a 'Booking genius'. Apart from the congratulations, you also get a discount on selected stays.

All this effort to engage with consumers on its website through real-time information provision and interaction means Booking.com has developed a loyal customer base. This is key to success in an online marketplace that is characterised by price sensitivity and low switching costs for consumers.[23]

Booking.com is continuing to expand and is also one of Google's largest advertisers. This is to attract more people to its site and engage with them to make them loyal customers. As a Google employee explains it; 'Digital marketing is their DNA'.[24]

Search engines

Many consumers now have search engines (overwhelmingly Google) set as their homepages, both on computers and mobiles. The impact this has on consumer behaviour and related marketing activities is significant. The importance of URLs is lessened, and the importance of having keywords and content on the website is heightened. It is mainly due to this that search engines rank search results. This process is called **search engine optimisation (SEO)** and thus search engine marketing is a major field in marketing today. SEO is where a website includes HTML (hypertext markup language) content that indicates to the search engine web crawler that this website is relevant in the context of the words being entered into the search engine. For example, if you were to search the word 'insurance', what companies would be listed at the top of the list of results provided by the search engine? This would be dependent on a number of key elements, including the contents within the relevant websites, the title tags, the popularity of the website, the hyperlinks within and outside the website, the credibility of those hyperlinks, **meta tag phrases (metadata)**, how current the content is, how active the company is on social media, and other elements that Google will not reveal. Predominantly, if a company looks at quality content, and targeted and focused title tags and meta tags in their linking strategy, and if it updates its content to be relevant to its target consumer, this will give the company the best chance of being at the top of the search engine's results list.

search engine optimisation (SEO)
Increasing traffic to websites so that they are ranked more highly by search engines in organic or unpaid search results. This involves the use of keywords relating to the product and industry in the website's content and coding.

meta tag phrases (metadata)
Hidden text that describes a page's content to help tell search engines what a web page is about.

Google dominates the market, with more than 90 per cent of the search engine market share. Therefore, it is prudent for a company to target how Google creates its results lists. All companies want to be on the first page; however, this is very difficult, especially within broad categories or when broad search terms such as 'insurance' are used. Further, companies need to understand the consumer insight related to key phrases and search patterns for digital consumers.

The importance of relevant content on websites and social media sites such as Facebook and Instagram, which are also searchable, has also led to the growth of the **content marketing** field. For example, Instagram has a blog that serves as a platform for users to tell their stories via images, rather than Instagram directly promoting itself. It runs features such as 'This weekend's hashtag project', which encourages users to take pictures and add the hashtag of the week to them.[25] This all serves as promotion for Instagram, and ends up as searchable user-generated content. Other brands with blogs that share their expertise, give advice or entertain customers include Dropbox,[26] Red Bull[27] and Sprite.[28]

content marketing
The marketing technique of creating and distributing valuable, relevant and consistent content to attract and acquire a clearly defined audience, with the objective of driving profitable customer action.

When the content is created by the brand and is on its own channels, such as its own Facebook page, it is called **owned media**. When the content is created more organically by consumers on their own Snapchat or Instagram accounts, it is called **earned media**. All this content is searchable and helps increase brands' visibility on search engines.

owned media
An organisation's own media, such as its own website, its own social media channels or email marketing.

earned media
Public-relations-type media that an organisation earns but has not paid for, such as the social sharing of a particularly funny, innovative or educational marketing message.

Paid media is different. With regard to search engines, this is when marketers actually buy media space through pay-per-click marketing provided by Google AdWords or Facebook Adverts. This can be effective but also expensive, and is no substitute for plenty of appropriate content across websites and social media that search engines will find.

Email

Email remains a powerful marketing tool as customers tend to read most of their emails–as long as they are relevant and specific to their needs.[29] However, many emails are deleted or remain unopened. Email marketing can be abused, where marketers have access to vast databases of their own customers' details or bought lists of email addresses and are under pressure to sell their good or service. Daily newsletters about deals will tend to turn consumers off pretty quickly.

On the other hand, relevant, personalised and timely emails are a powerful way of reaching consumers and giving them an easy way to click through to purchase. When we book flights through Expedia or Webjet, or a hotel through Wotif.com or Booking.com, or buy music or goods online, we always wait for a confirmation email, which more often than not we will open. The opportunities for cross-selling here are significant.

Pizza Hut's marketing emails, although not personalised from a content perspective, are still very clear about the offer, for example, 2 for 1. Beyond this, companies such as Wotif.com send out personalised email alerts based on consumers' stated preferences. Obviously these emails won't all result in a sale, but the more personalised they are, based on past behaviour data, the greater the chance of capturing the consumer's interest. This is also true for OKCupid's automated yet personalised and timely emails that let users know who is 'checking them out' on their profile page.

Mobile technology

Mobile technology is the biggest growth area in digital marketing today. We will discuss mobile concepts in greater detail below. For now, the **infographic** in Exhibit 2.7 shows how dominant the mobile channel is becoming.

Social media

Social media dominates the online environment today, as Exhibit 2.8 showing the main social networks illustrates. Social media is a lot more than just Facebook and Twitter. In the next section, we will go into more detail on the types of social media and how they can be used for marketing purposes.

CHECK YOURSELF

1. What is customer engagement?
2. What are the differences between owned and earned media?



Exhibit 2.7 Mobile commerce in Asia.

Source: yStats.com GmbH & Co. KG



Exhibit 2.8 The main social networks.

© Chesnot/Contributor/Getty Images

Case study 2.1: BMW: the innovation leader making the technological shift towards digitalisation

By Victoria Jennifer Harrison, Deakin University

BMW, short for Bayerische Motoren Werke AG, is one of the most popular luxury car manufacturers in the world. The German multinational company, established in 1916, now also provides premium financial and mobility services. The BMW Group has 31 production and assembly facilities in 15 countries and a global sales network.

BMW's almost uncontested leadership is the result of its continuous innovation and mixing of effective resource management with the latest technology, a strategy that has kept the company ahead of the competition. BMW believes that its economic success is owed primarily to long-term thinking and responsible action. Ecological and social sustainability form an integral part of its strategy,

Exhibit 2.9 BMW is one of the world's most recognisable luxury brands.

Source: BMW Group

Continued

infographic
A pictorial means of presenting information, which is a common piece of content marketing, particularly for B2B organisations.

ensuring that its products are designed responsibly and with a clear commitment to conserving resources.

Recently, BMW was looking to 'enlarge the upper sales funnel' using content. It also wanted to increase its social media community and better manage its Google AdWords campaigns. It required a digital marketing strategy that would help it increase community engagement, produce more leads and boost the conversion rate of test drives to sales. Though the company had accounts across numerous media sites, these were underused for the market segments they wanted to attract.

It was strongly believed at BMW that to have a wider audience, a content-rich approach would be the best step. The head of digital marketing at BMW was also looking at new content creation around lifestyle, design and fashion. Hence, a new strategy was designed, which focused on appropriate and relevant content, mixing high-end fashion and usefulness. BMW's new digital strategy aimed to reach existing customers and those people who were considering owning their first BMW.

The company worked hard to apply digitalisation to all possible facets for a user-friendly, seamless experience. This is how BMW made the shift from its car-centric approach to a customer-centric approach, a move that included the integration of various web channels with social media.

As part of its strategy, BMW used technology to connect with its market segment via mobile phones. The result was a new, mobile-friendly site, which loaded in 1.9 seconds, a speed that was four times faster than before. This improvement proved to be highly beneficial for the company as the click-through rate from the main website—BMW.com—to regional sites increased by as much as 44 per cent. This is roughly four times higher than it was before digitalisation.

The change in speed resulted in a consumer-first approach, created through the combination of two technologies: Accelerated Mobile Pages (AMP) and Progressive Work Apps (PWA). In April 2019, BMW became the first automotive customer to use AMP Stories, thus making the mobile experience more immersive, engaging and, most importantly, fast.

In the past, the average customer visited the dealership about four times before buying a car. With the introduction of the 'online showroom' that provided new functionalities and all sorts of information at the touch of a finger, the footfall decreased by 1.4 times. This drastic change in the number of showroom visits is attributed to the fact that prospective customers were able to get about 97 per cent of the information they sought from the online showroom.

Social media campaigns, such as for the BMW X2, were very well received. BMW was once again the first in the market to create a 3D augmented reality kind of product through its partnership with Snapchat. This campaign allowed customers to see what the new car looked like on the road before they decided to buy it. An interesting feature of the campaign was that it allowed Snapchat users to customise the AR version of the car and even view it from different perspectives.

In addition to this, BMW launched mobile-like video ads that enabled users to play around with the lens. When swiped, the ad opened along with the camera, allowing the user to walk around the car virtually and see its details. This feature—interact and play—was used for the first time by BMW.

Another interactive campaign introduced as a part of BMW's new digital strategy was the 'Eyes on Gigi' interactive campaign, with 360-degree film. The campaign was a sort of 'find Gigi' (American supermodel Gigi Hadid) game, in which she races with four other BMW M2 Coupés and the user needs to guess the car she was in. An interactive 360-degree film was also created and placed on the campaign micro-site.

In Melbourne, BMW's digital strategy to promote one of its cars—the X5—saw the launch of the 'Illuminated Landscapes' featuring artworks lit only by the X5's laser lights. BMW continuously works towards creating new and innovative digital strategies with the aim of outshining its competitors as an innovator and thought leader.

The company's digital strategy involves using the internet to its maximum potential to attract and retain customers effectively and efficiently. Other communication channels include: search engine marketing (SEM), for promoting the brand across several engines; search engine optimisation (SEO), for increasing website visibility in standard search engine results; online public relations (OPR), for online public awareness, press releases and third-party media coverage; online television, to promote brand values, technological advancements, quality, performance and exclusiveness through the broadcast of official advertisements, launches and promotions; and an online game, 'PACE', which is strategically used to promote performance and strengthen positive brand image.

As a result of BMW's recent digital campaign, its Facebook community grew to more than 14 000 from a mere 800, with 1500-plus test drive inquiries. The company will continue to explore other digital assets to create a seamless link between the customer, sales of cars and the digital world. It believes that in the future the customer will be engaged seamlessly through a complete digital integration leading to a most rewarding omnichannel experience.

Case study references

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Questions

1. What are the future directions of digital marketing?
2. How did the changes made to the mobile site benefit BMW?
3. How did BMW attract new customers and retain existing ones?
4. Why did BMW's digital strategy gain so much popularity?

SOCIAL MEDIA MARKETING

LO 2.3

The 4E framework for social media

As we will see throughout the book, social media is becoming an integral component of any integrated marketing communications strategy. The term **social media** refers to interactive online platforms that are open to a mix of organisational and user-generated content. These media outlets use various firms that offer services or tools to help consumers and firms build connections. Through these connections, marketers and customers share information of all forms–from their thoughts about products or images, to uploaded pictures, music and videos.

social media
Media used for social interactions, such as YouTube, Facebook and Twitter.

Before social media, the internet was not truly interactive on a real-time basis. Balances of power have since shifted and consumers are now able to share their views with companies and with their peers. They are able to request instantaneous service and compare prices from across the globe through new, interactive intermediaries such as eBay, TripAdvisor, iSelect and Hotels.com. Thus, social media extends far beyond the realms of the main social networks such as Facebook, Instagram and even TikTok. In fact, any website or forum that allows consumer interaction is part of social media.

The changes and advances in social, mobile and online technologies have created a 'perfect storm', forcing firms to change how they communicate with their customers. Traditional ways of marketing their products, using bricks-and-mortar stores, traditional mass media (e.g. print, television, radio) and other sales promotional vehicles (e.g. mail, telemarketing) are no longer sufficient for many firms. The

presence of social, mobile and online marketing is steadily expanding relative to these more traditional forms of integrated marketing communication (IMC).

The changing role of traditional media, sales promotions and retail, coupled with the new media of social, mobile and online, has led to a different way of thinking about the objectives of marketing communications using the 4E framework for social media (see Figure 2.3):

- **Excite** customers with relevant offers.
- **Educate** them about the offering.
- Help them **experience** products, whether directly or indirectly.

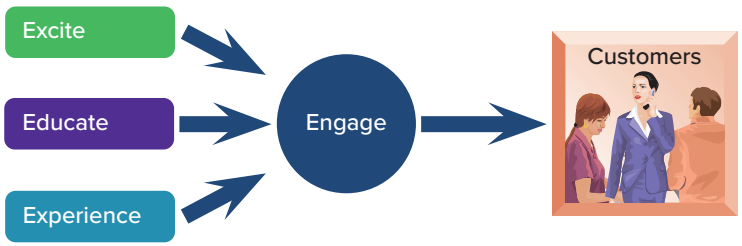


Figure 2.3 The 4E framework for social media

Customer engagement

Customer engagement is one of the buzz terms in contemporary marketing. Marketers must try harder to persuade people to buy their products, and to do this they need to create content that potential customers find exciting, educational or experiential. Traditional advertising that simply talks about the benefits of a product or service and promotes it is no longer effective, particularly on interactive channels such as social media. Brands that put the effort into engaging customers in the ways we are about to outline do reap the rewards, with positively engaged customers tending to be the most profitable.[30]

Excite the customer

Marketers use many types of content on many types of platforms to excite customers. TikTok is the latest social media platform to offer an advertising service for marketers who are trying to reach a younger audience with exciting and entertaining branded videos.

The Instagram stories function is full of exciting content from brands. Some of the best to check out are Google Maps, Everlane, Bailey Nelson and Billabong. The most innovative brands are even on Spotify, such as Casper, with the Sleep Channel (see Exhibit 2.10).



Exhibit 2.10 Casper on Spotify.

Source: https://open.spotify.com/episode/1gKtE3HugNIGV6HrFsi2tQ

To excite customers, an offer must be relevant to its targeted customer. Relevancy can be achieved by providing personalised offers, which are determined through insights and information obtained from social media analytics. To obtain these insights, marketers use tools such as Google Analytics, Instagram Insights or Sprout Social, which are described later in this chapter.

All of the apps we use now are **location-based**. This allows for a range of features, from offering location-based filters on Snapchat, to returning local search results on Google, to showing nearby traffic on Google Maps. Uber Eats relies on knowing your location to offer its service. Other older brands, such as Target and Hungry Jack's, are able to send personalised messages direct to a consumer's mobile phone while they are in the store–a very relevant and hopefully exciting experience.[31]

location-based software Any app, website or program that is able to tailor messages to you based on your location.

Educate the customer

An imperative of a well-designed social media marketing offer is that it has a clear call to action: to draw customers through their computers, tablets and mobile devices into the website or a traditional retail store. When a potential customer arrives at the website or store, the marketer has a golden opportunity to educate them about its value proposition and communicate the offered benefits. Some of this information may be new, but in some cases, education is all about reminding people about what they already know. Therefore, by engaging in appropriate education, marketers are expanding the overlap of the benefits they provide with the benefits that customers require. In this sense, the second E of the 4E framework constitutes a method to develop a sustainable competitive advantage.

Blogs are used by many marketers to educate their customers. These are an essential tool to provide valuable educational content to consumers. Exhibit 2.11 shows an example of a quality blog from Qantas, Travel Insider.

In many cases, however, it is ordinary people who write and manage the most successful and influential blogs. For example, a simple Google search about where to travel to see the best of New Zealand will take you to a range of blogs written by avid travellers or, as marketers call them, influencers. Adding value 2.3 shows how marketers can use blogs to better inform and educate their customers.

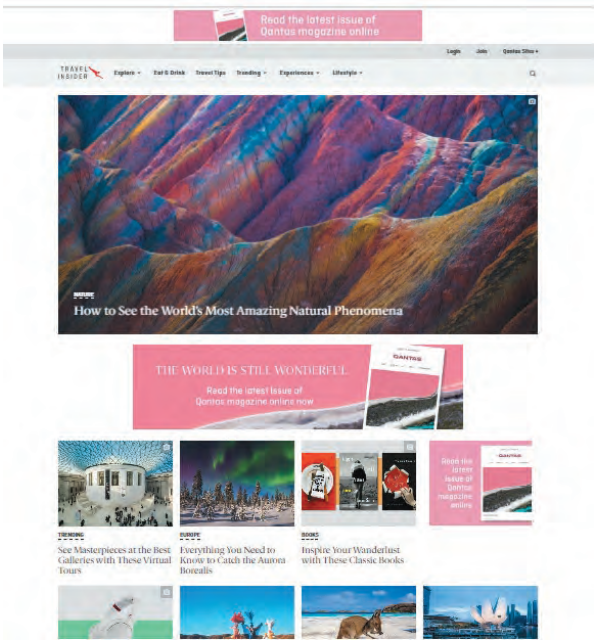


Exhibit 2.11 Qantas' educational blog.

Source: Courtesy of Qantas Airways Limited

Adding value **2.3**

Dropbox educates its customers

Dropbox is a US$6.8 billion business, despite being a free or 'freemium' service.[32] Its growth has been astounding since its launch in 2007, and has continued despite operating in an increasingly competitive field, with services such as Microsoft's OneDrive and Apple's iCloud competing for similar customers. How then does it continue to thrive, with 500 000 customers, 200 000 business clients and 1600 staff?[33]

Dropbox educates customers on two levels. First, it educates on how to use cloud services and file-sharing to improve productivity. Its blog and social media channels, particularly YouTube, take individuals and organisations through how to use its service. This is engaging content, but it is most useful to existing customers.

Where Dropbox's educational content comes into its own is in the second level of education, which is linked to the company's mission of designing a more enlightened way of working (see Exhibit 2.12). This is an excellent approach to customer engagement, and also stakes its claim to a piece of the cloud and collaboration markets.

Continued

Titles of posts on Dropbox's blog range from 'The mind at work: Ted Chiang on making stories that change our minds', to 'Dion Lee on finding time to focus in the ever-changing world of fashion'. On YouTube, you will find pieces on how Edward Norton used Dropbox to make the film *Motherless Brooklyn*, and how the Dropbox mobile app keeps projects moving.

Going further, there are Dropbox support forums that are co-created with consumers, an official Dropbox blog and even a DBX developers' conference.

Creating and distributing this level and quality of educational content is the role of the marketing team, which has to work hard to reach and engage both current and potential customers.

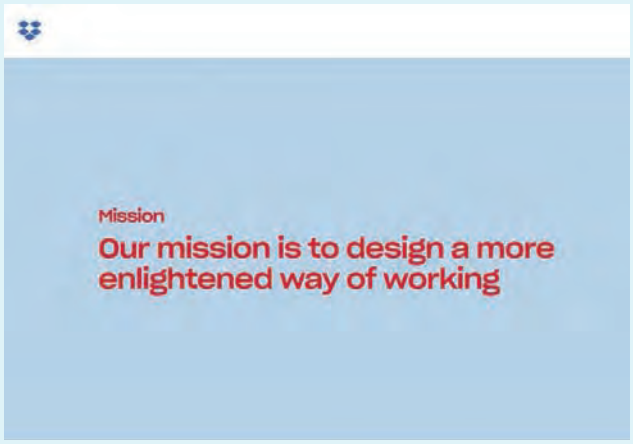


Exhibit 2.12 Dropbox's mission statement.

Source: https://www.dropbox.com/about 'Marketing is not affiliated with or otherwise sponsored by Dropbox, Inc'.

Experience the product

Although most of the top videos on YouTube are funny, silly or otherwise entertaining, the site's most useful contribution may be the vivid information it provides about a firm's goods and services–how they work, how to use them and where they can be obtained. YouTube and similar sites can come relatively close to simulating real experiences. Such benefits are very common for products that have long been sold online–so much so that we might forget that it used to be difficult to assess these products before buying them.

Today, consumers can download a chapter of a new book onto their tablet before buying it. They can try out a software option for a month before buying it. They often can listen to a few seconds or even an entire song before purchasing from iTunes. The diffusion of such products has expanded to feature a wealth of new channels and media options.



Exhibit 2.13 Bunnings helps customers to experience what its products and services can do on YouTube.

Source: Courtesy of Bunnings Warehouse

For other offerings, such as services, social media again offers experience-based information that was not previously available unless consumers bought and tried the product. We have already mentioned TripAdvisor, but there are hundreds of review sites for different product types. For technology products, there is CNET or TechRadar. For beauty and make-up tips, there is MakeupAlley. For car reviews, there is Car Review and Car Showroom. There are even review sites like RateMyProfessor.com and RateMyTeacher.com for lecturers and teachers. Of course, general e-commerce sites such as Kogan, JB Hi-Fi, OzSale and Vinomofo also base much of their success on consumer reviews.

Perhaps one of the places we go to experience products or services the most is YouTube. This is why the top YouTube channels in Australia are dominated by individual YouTubers, not brands, who take products and services and tell people how they work–the good and the bad. Thinking of some of the useful branded YouTube channels, however, Bunnings (see Exhibit 2.13) and IKEA come to mind.

LO 2.4

GOING MOBILE

Although many continue to access social media through computers, the vast majority of people now use their smartphone to connect with social networks such as Facebook, Instagram and Snapchat.

Superior service **2.1**

Telstra's social customer service

The vast majority of companies with a presence in Australia use a social media platform to deliver customer service (see Exhibit 2.14). Brands that offer good social customer service include Telstra, Vodafone Australia, Singapore Airlines, Dan Murphy's, Afterpay, Bendigo Bank and Optus. Telstra's service in particular stands out; it is active on Facebook, Twitter, Instagram, YouTube and LinkedIn.

Focusing on customer service, Telstra's live service function on Facebook is available 24 hours a day, seven days a week, in recognition that customers often need questions answered outside business hours. On Twitter, the company is 'responsive 24/7' and has more than 100 000 followers.



Exhibit 2.14 Some companies offer customer service 24/7 via social media.

Telstra also has various blogs for consumer, business and government audiences, and a CrowdSupport forum to let consumers post questions and answers about Telstra's goods and services. The Telstra Exchange forum attracts posts from employees, industry experts and bloggers alike on related company, industry and everyday customer news. This level of service is almost unprecedented for a company of Telstra's size.

This commitment to being where the consumer is requires a lot of resources and staff time. Telstra calculates that it is worth the investment. It has undertaken extensive staff training on the 'new rules of engagement' with online consumers, so that they are able to engage with customers in a meaningful way through, for example, their Instagram account.

With social media, things can always go wrong, and this is no different for Telstra. One particular social media manager tweeted, in response to a customer complaint about their internet service being down, 'I usually show my kid the outside world when there's no internet, it's tricky'. In this case, this response was not well received and quickly spread via social media.[34] With many customers unhappy about the disruption to services, Telstra responded by providing their mobile customers with free data for 24 hours. This initiative was able to help manage much of the negative commentary across social media and restore a level of confidence in Telstra's services. As a result of this kind of customer service strategy, where priority is placed on managing and resolving issues early on social media, it is likely that Telstra has retained many customers.

CHECK YOURSELF

1. What are the 4Es of social media marketing?
2. Which social media elements work best for each of the 4Es?

Around 91 per cent of Australians now own a smartphone, with many owning multiple devices.[35] This mobile internet use leads to new behaviours among consumers, and opportunities for marketers. For example, more than half of all Australian consumers now have ready access to a 'connected device'. Connected devices include gaming consoles, smart TVs and smart watches. In terms of the 4E framework, mobile marketing is particularly useful for creating excitement with consumers, as we will now explain. Several applications have been developed to better market goods and services to mobile consumers. We will briefly discuss a few types: price-check apps, fashion apps and location apps.

Price-check apps

When out shopping, smartphone users no longer have to go from store to store or go home to go online and compare prices. Using a price-check app, such as those offered by Amazon, ShopSavvy or

Stylish Girl, customers can scan a product in a store and instantly compare prices online to see whether a better deal is available. Although price checking can encourage competition, companies can stray into ethical grey areas depending on how they promote their apps.

Realising that online price checking could be damaging to business, retailers are responding in kind. Menswear clothing retailer Lowes makes sure they always have stock and gives employees smartphones to help them instantly search both in-store and nearby inventories, and to place orders online if products are out of stock. In this way they ensure that no customer leaves empty-handed.[36] Many retailers are working with vendors to create exclusive in-store items, to match online retailer pricing and to develop a subscription-based online pricing strategy that gives special discounts to regular buyers.

Fashion apps

The consumers who are most likely to access mobile media are also likely to buy from technology- and fashion-oriented firms, whether they are fashion or technology retailers or they sell fashion magazine content or brand information. The 'Keep Shopping' app highlights clothes and accessories that are hand-picked by other users, or 'Keep' users. You can follow your favourite 'Keepers' to get ideas sent to your feed on the app. You can also buy your must-haves and save others in collections to purchase later.[37] Other apps provide a more in-depth look at a particular brand. Louis Vuitton's NOWNESS app combines magazine content with brand promotion. Pose is a non-brand-specific photo-sharing app that shares style and fashion views and tips. Pinterest allows people to 'pin' merchandise, services, recipes and ideas onto a virtual bulletin board. For instance, users can pin clothing and accessories that match their personal taste; others can browse their pinboards to discover new things and make comments. All of these apps present opportunities for marketers to gain more exposure for their products and services.

Location-based apps

The apps on our smartphones are increasingly location-based, using the GPS function of the phone to share what people are doing, where they are and when they're doing it.

Google Now is a location-based app that uses everything from your location to the time of day and your calendar to display things such as commute times to your workplace, favourite hangouts and calendar appointments. Waze is another location-based app that combines social network and crowdsourced traffic maps, allowing drivers to report traffic conditions and incidents and share them in a 'live' map for everyone to see. Waze is personalised to each user, as it learns each user's commuting hours, frequent destinations and preferred routes. Another interesting example of a location-based app is Pricegrabber, which aims to help customers find the merchandise they want according to their location.

gamification
The process of building customer loyalty through game-like design elements so as to create interest and engagement.

Companies can use apps like these to reach the right customers at exactly the right time. One way in which some companies do this is through **gamification**. Think about the global Pokémon Go phenomenon. Many retailers near PokéStops benefited from the concentration of Pokémon gamers. Users of Foursquare can check in at their favourite restaurants and stores, sharing their location on Facebook. They can also compete with other users for the title of 'Mayor' by achieving the most number of check-ins at a retail location within a 60-day period. Google also encourages us to answer questions about places we have visited, and post reviews and pictures, and offers extra Google Drive storage in return.

In the past two decades, marketers have developed websites and other methods to communicate information about and to sell their goods and services. Their quest for new ways to improve, integrate and enhance these outcomes has resulted in a confluence of social, mobile and online marketing. These forces and their manifestations align with our 4E framework. Social network and mobile applications and the associated relevant offers are ideal for stimulating excitement in the offers. In particular, mobile location-based apps are exciting because they provide customers with highly relevant offers when they are in close proximity to the retailer or service provider or they can even be used to provide competitive offers. Media-sharing sites such as YouTube and Instagram are excellent

social media tools that provide customers with visual experiences of customers or professionals who are using these goods and services. They also provide customers an opportunity to engage with the firms as well as their own social network by posting their own experiences (i.e. uploading videos), as well as sharing their thoughts (blogs and Twitter posts). Finally, thought-sharing sites, like blogs, are excellent for providing customer education, as is highlighted by how Dropbox adds value for its customers.

LO 2.5

social CRM
The strategic use of the range of social media to engage with customers and gather, manage and analyse information on them with a view to building profitable relationships.

CHECK YOURSELF

1. Give examples of a social network, a media-sharing site, a thought-sharing site and a mobile application.
2. In which of the 4E dimensions do social networks, media-sharing sites, thought-sharing sites and mobile applications excel?

DIGITAL STRATEGY

The best companies at social media marketing, on computers or mobile phones, tend to have a certain type of culture. Social media is owned by the customer, so for a company to venture into this field signals an interest in their customers and an intent to listen and engage with them. We have discussed how this can go wrong and how some companies treat social media as they would traditional, one-way media such as radio or press. These are the companies whose social media profiles have posts only by the company. Don't be fooled by the number of likes, either: these can be acquired in many ways. It is ongoing engagement at post level that counts.

True success in social media marketing is very different and far-reaching. However, to achieve far-reaching benefits often requires far-reaching organisational support and change. A **social CRM** strategy is an appropriate means of integrating social media into a company's existing marketing operations and drills down through social media marketing into two key processes: customer engagement and customer data management. Exhibit 2.15 shows how social CRM differs from the traditional CRM that has been around since the early 1990s and led to the many loyalty card schemes and email newsletters that still exist today.

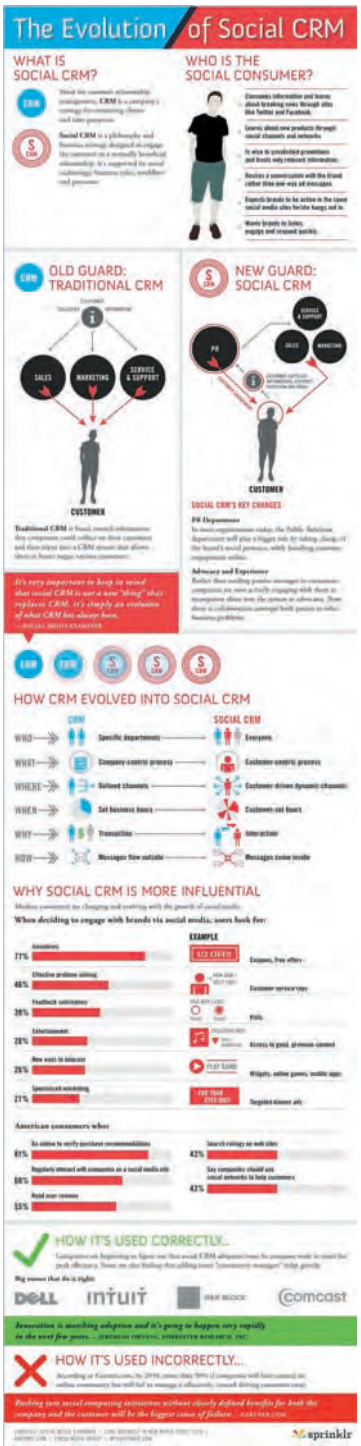


Exhibit 2.15 How CRM evolved into social CRM.
Source: Courtesy of Sprinklr

CUSTOMER ENGAGEMENT

Customer engagement, as we discussed earlier, is different from communicating a marketing message to customers. Engagement includes listening and responding to consumers, involving consumers and empowering consumers.[38]

Listening and responding

From a market research point of view, companies can learn a lot about their customers by listening to (and monitoring) what they say on their social networks, blogs, review sites and so on. Customers appear willing to provide their opinions about just about anything, including their interests and purchases and those of their friends. Writing blogs and providing opinions through polls about such diverse topics as botox treatments, running shoes and a particular play of a sports team during a game all constitute new ways in which customers communicate with one another–and with marketers who are paying attention.

Many companies track mentions of keywords relating to their brand on Twitter and Instagram and jump in to respond to queries. On Facebook, customers can post questions on company pages and expect responses immediately. However, this requires someone to manually reply so, although these tools are free, they are time intensive for marketers.

Monitoring tools such as Buffer, Hootsuite, HubSpot, Mention and Keyhole let marketers bring together information about who is talking about them, where they are and the general reach and sentiment of conversations about the brand.

We are all different online. Some people are just spectators not creating any content. Others post ratings, reviews and comments on other people's or brands' content. Others write their own blogs and create their own content.[39] To reach these different types of people, some companies have different social media accounts for different purposes or audiences, such as @FlyAirNZ, @airnzaustralia and @airnzusa, or @Nike, @NikeRunning and @NikeBasketball. Some companies use Facebook rather than YouTube, or Instagram rather than LinkedIn, or their own blog rather than a peer-review site, all to try to reach different types of people in their target market(s).

Involving

For those companies taking social media marketing to the next level, listening and responding are just part of basic customer service. What about using the interactive nature of social media to actively involve consumers in marketing campaigns?

Consumers trust reviews from other consumers, rather than traditional marketing messages, so it is very important for companies to encourage consumers to post reviews.[40] Such user-generated content (UGC) is the backbone of social media marketing. As discussed earlier, not all consumers are equal online, and companies particularly want to seek out and engage with the opinion leaders in their industry, many of whom may just be 'ordinary' people who write popular blogs or have a large Instagram following (see Exhibit 2.16).



Exhibit 2.16 Social influencers can be ordinary people in their own home.

© Kaspars Grinvalds/Shutterstock/DAL

It should be becoming clear that, in social CRM, strategies relating to customer engagement are very much dependent on the acquisition and analysis of consumer behaviour on social media. Without monitoring and analysing this behaviour, marketers would not be able to pick out those most influential consumers or even be aware of what forum their brand was being discussed in. The section below on customer data management will discuss in more detail how this data can be gathered and used. For now, we will look at how companies can better involve customers.

First, marketers need to leverage their customers' stories. This is what other customers care about and will listen to. Marketers can identify influential customers quite easily and reach out to them to ask them to get involved, and share their experience–not just in terms of using their product or service, but highlighting how it helped them in their day-to-day life. Second, brands are increasingly stating clear

values and taking positions on issues in society, such as marriage or gender equality. This involves customers as people who may share these values.

Dove's 'Project #ShowUs' (see Exhibit 2.17) is perhaps one of the best examples of involving customers. According to Dove, 70 per cent of women still don't feel represented in media and advertising. To combat this under-representation, Dove partnered with Girlgaze, Getty Images and ordinary women everywhere to create the world's largest photo library created by women and non-binary individuals to shatter beauty stereotypes. There are over 5000 images, which together offer a more inclusive vision of beauty to all media and advertisers.



Exhibit 2.17 Dove involved its customers with Project #ShowUs.

© Nicky J Sims/Stringer/Getty Images

Empowering

Can companies go further again? There is such a thing as product and service co-creation. We have all searched for the 'Help' sections on websites and been led to forums full of consumers answering other consumers' questions. Next time you have a problem with your iPhone, the most likely help you will get will be from the thousands of forum posts by other users. This is service co-creation, where the company lets the consumer create the level of customer service. Other examples include the multitude of forums on TripAdvisor created by other travellers to help each other. This user-generated content means that consumers are actively co-creating the knowledge, experience and overall service. Of course, it is important for marketers to be involved too, and for any company in the tourism industry, TripAdvisor would be a key part of their marketing toolkit to engage with consumers. Even the Australian outdoor footwear company Steel Blue has a 'Talking Blue' section on its website to let customers comment on their experiences with its products.

Product co-creation is different again. This is where companies use social media to empower consumers to be part of the product creation or even design phases. Obviously, this is reserved for the most expert and influential consumers in the company's field. Some of the leading companies in the world involve their customers in co-creation, such as DHL, DeWALT, Apple, Microsoft and Google, all of which invite key users to beta test and provide feedback on new products. None of these co-creation initiatives would be possible without social media technology and the level of engagement it allows. Adding value 2.4 discusses how LEGO® has become famous for co-creation, and used it to grow market share.

Adding value **2.4**

Co-creation with LEGO®

LEGO is world-famous for its ability to engage customers to the extent that they co-create new products, services, communities and events. This brand advocacy is invaluable to LEGO, and is the main reward for opening itself up to and investing in co-creation with customers.

Changing a company's culture so that it opens itself up to criticism from customers is not easy. At the beginning, LEGO considered legal action against hackers who took over its original co-creation platform.[41] However, it soon realised that these hackers were in fact valuable 'super consumers', who loved LEGO, and thus could be useful. The culture since has been one in which recognising the power and role of key customers is central.

Today, LEGO's 'Ideas' platform allows customers to be directly involved in the invention of its products (see Exhibit 2.18). It asks LEGO fans to post their own designs for new playsets and ideas that receive over 10 000 votes are considered for production. As well as the sense of pride that would come

Continued

from your idea being seen in shops across the world, anyone whose idea gets chosen receives 1 per cent of net sales.[42] For LEGO, it gets free market research, and fosters an engaged base of loyal advocates.

In short, LEGO, and others who facilitate co-creation, follow a key set of processes. First, they identify and reach out to super consumers. Second, they create a community experience whereby these super consumers can interact and draw others in. Third, they foster creativity, seeding ideas within this community, and ensuring there are guidelines for discussion. Finally, they leverage the community members, who by self-selection, are advocates of the LEGO brand, and its products and services.

To date, LEGO Ideas has over 900 000 members who have submitted more than 20 000 project concepts. Of these submissions, at the time of publication, 19 had been brought to market.



Exhibit 2.18 LEGO's Ideas platform relies on social media.

Source: Courtesy of LEGO

Case study **2.2: Sukin: the power of digital marketing in building a brand**

By Victoria Jennifer Harrison, Deakin University

Sukin, based in Melbourne and whose products are available in more than 20 countries, is among Australia's top-ranked natural skincare brands. Sukin implemented a digital strategy to drive qualified traffic through its website to build and leverage its position as a leader in natural products. Its goal was to improve online engagement and convert traffic to subscribe to its database and seek Sukin products in-store.

Background

Launched in 2007, Sukin is Australia's number one in natural skincare products, and markets its products both nationally and internationally. The brand is promoted as being natural, cruelty-free, vegan, carbon-neutral and pocket-friendly—good for people, animals and the environment (see Exhibit 2.19).

Sukin successfully created a niche as a company that offers natural beauty products with no added chemicals at affordable prices—which was previously an area exclusively for a wealthier demographic.



Exhibit 2.19 Sukin's products are promoted as being good for people, animals and the environment.

© pittyh6/Shutterstock

To grow its market, Sukin counted on consumers switching to natural products based on the finding that, although one in two women preferred natural skin products, these products accounted for a mere 20 per cent of total sales. One response to this was Sukin's online initiative, the 'Synthetic Swap' campaign, whereby consumers could send in their synthetic products and Sukin would replace them with a natural alternative from its range.

Target market

The target customers are in the 18 to 50 age group, who seek value for money without compromising quality. The company targets consumers who are concerned about the environment and sustainability, and want to do their bit, while at the same time desiring high-quality personal care products.

Overall marketing mix and digital strategy

Sukin consistently highlights its key points of difference—that its products are natural, cruelty-free, vegan, carbon-neutral and contain neither parabens nor sulphates. It even curated a 'No List', which stresses that no artificial additives or ingredients that are harsh or harmful to people, animals or the environment are used. In its digital strategy, Sukin is vocal about its intention to bring about a shift in consumer preference from synthetics to naturals.

To create brand awareness and increase its conversion rate, promotional campaigns in digital media, targeted marketing and point-of-sale (POS) were run across the country. The effort resulted in a much-desired consumer funnel, which boosted awareness and sales significantly.

Sukin's conversion rate from trial to regular purchase is approximately 35 per cent and from regular purchase to preferred brand is over 50 per cent, which is excellent by any standards. According to marketing reports, the next best performing brand has a conversion from trial of 38 per cent, but a much lower conversion to first-choice brand of 32 per cent.

In mid-2017, Sukin was launched in Coles supermarkets, where it showed a high trial-to-regime ratio—the unaided awareness was lower than mainstream competitors. This, alongside Sukin's point-of-sale (POS) promotional campaign, has proven to be highly effective.

To increase its online engagement and conversion rate, Sukin implemented a targeted national search engine optimisation (SEO) for all of its products and services in 2018. In addition, its ongoing display-marketing and target-tailored content strategy on Instagram and Facebook enhanced visibility while sustaining the attention of customers.

Other forms of digital marketing included a pay-per-click (PPC) which is still running successfully, Google shopping sales and website e-commerce, which were the key factors for the increase in sales. Over the course of two years (starting in 2018), brand awareness increased by over 30 per cent, making it among the top brands on the market. While website visits increased by over 50 per cent, the strategy implemented helped Sukin improve its organic search ranking. It has achieved more than 300 first-page Google results.

At the time of publication Sukin is working with digital agency First to create a new digital strategy leveraging voice-activation technology to create a brand experience for Sukin, both in-store and at home. This includes prompts at the end of video advertisements, where customers can use their Google device to, 'ask Sukin for a sample pack', resulting in samples being sent out using information from the user's Google account. This also acts as a chatbot. Such innovations could prove to be very successful for the company.

Case study references

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Questions

1. Why has Sukin's digital strategy been so successful?
2. What are some of the different ways in which competitors use digital social and mobile channels?
3. Which of the future alternative strategies would be the most logical? Explain your reasoning.

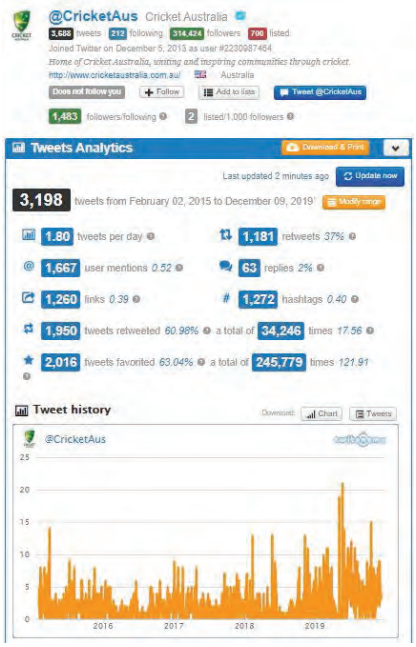


Exhibit 2.20 Twitter analytics for Cricket Australia.

Source: Courtesy of Twitonomy and Cricket Australia

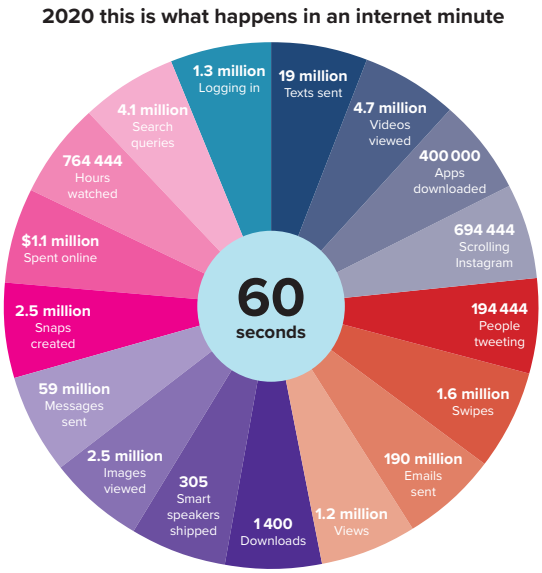


Exhibit 2.21 What happens online in 60 seconds.

CUSTOMER DATA MANAGEMENT

Data drives modern marketing. As part of social CRM, each engagement with a consumer creates data and this data should be gathered, analysed and used to inform future engagement strategies.

Just some of the questions that data from social media can answer include:

- Who is talking about us, and what are they saying?
- Who are our most influential consumers?
- What incentives encourage people to comment on or share our material?
- Where does our material get shared?
- Who are our competitors and their customers?
- What do consumers like and dislike about our products and services?

For example, recent research has shown that, for maximum exposure, the best time to post on Instagram is between 2pm and 3pm. If you post on a Thursday, that extends to 4pm, and also 5am and 11am![43] This data is helpful to marketers looking to launch and maintain social media campaigns. Marketers of specific organisations can use social media monitoring or analytics tools to assess their own organisation's performance. Check out the free analysis we were able to do of Cricket Australia's Twitter account (see Exhibit 2.20).

The amount of data being created every minute on social media has led to the term 'big data' being coined. Exhibit 2.21 illustrates exactly what happens every minute online. This data has the potential to drive much more than marketing decisions, with the increasing number of internet-enabled devices and tracking of our online behaviour creating storable data. Google Maps has the Timeline feature, which tracks our every move. We also have wearables such as the Apple Watch, Fitbit or Garmin collecting data on our behaviour. In the future, our clothes will be able to evaluate our health, and our refrigerators our diet. Of course, marketers will also be able to use this data to better segment and target their target markets. See the section on 'The future of digital marketing' below for some of the new concepts being discussed in marketing today.

For marketers, the sheer amount of social media data can be daunting and lead to 'data overload'. In many large organisations the senior positions of Chief Marketing Officer (CMO) and Chief Information Office (CIO) have been created to deal with this situation. Data overload can lead to the problem of customer data getting stuck in different 'silos' and not being combined to form the comprehensive picture that marketing managers need. Luckily, there are many tools that marketers can use to simplify gathering consumer data from social media, and more are being developed every day to cater for the demand from marketers. We will discuss just a few here, starting with the simplest and moving through to the more advanced.

Google Alerts is a free tool that anyone, including marketers, can use to get alerts sent when certain keywords are mentioned online (and are searchable by Google). For example, setting an alert for Hungry Jack's will mean that every time an article is written about Hungry Jack's, Google will send an alert. YouTube provides a Trends section on its site that lets marketers check what videos people of different age groups and nationalities are viewing and sharing most. These trends can also be viewed across ordinary Google searches.

Tools such as Sprout Social, Zoho and Nimble let marketers search for mentions of keywords relating to their brand across the internet. Each social network has its own analytics, such as Instagram Insights, LinkedIn Analytics and Twitter Analytics. There are also independent analytics tools. For Twitter, in particular, there are several powerful tools. Twitonomy is a tool whose perhaps most interesting feature is allowing marketers to map out where in the world people are mentioning their brand. There is also Commun-IT, which is useful in identifying key people with **influence** on

influence
In a social media context, the extent to which a person influences others (e.g. how much the other people in a person's network read that person's content).

Twitter and thus people who marketers should reply to and engage with. For Instagram, Iconosquare is an effective tool that provides marketers with a range of metrics, such as the engagement rate of their followers. For Snapchat, Snaplytics lets marketers analyse the performance of their stories and gain competitor insights. Most of these tools are offered on a 'freemium' pricing model, which means the basic features are available for anyone to use–so feel free to give them a try yourself.

We can look at our Facebook news feeds for examples of how marketers are using data to analyse our behaviour and target us personally. Facebook has a whole service offering for businesses, which helps them to use the data we create on Facebook to market to us. This is how they generate income. The same goes for Instagram, YouTube, Twitter, LinkedIn and Snapchat. Every advertisement on social media is targeted to you, based on what you publicly post and like and what your friends like, among many other variables. They can also now be based on your behaviour outside social media, so if you have just come from searching for cheap flights to Singapore, Singapore Airlines can purchase advertising space to follow you to your Facebook news feed and try to reach you with an advertisement there.

Some of the more advanced social CRM tools include HubSpot and Salesforce. These can cost between hundreds and thousands of dollars per month. Sprout Social lets marketers schedule, publish and analyse posts. CRM software giant, Salesforce, has a product that is even more complex again (see Exhibit 2.22). What all these tools do is aggregate and present social media data in dashboard format, and also produce many reports about levels of engagement and influencer identification. This allows marketers to make key decisions about what to post, when to post it and who to post it to.

Google Analytics even allows marketers to track the impact of social media marketing on their website activity. Some of the metrics Google provides include the number of visitors coming from social media, the value of these people and the most socially shared content from the website.

This section has discussed how social CRM is a strategic approach to social media marketing. Figure 2.4 shows the cyclical process of managing your customers, interacting with them, analysing them and therefore knowing them.

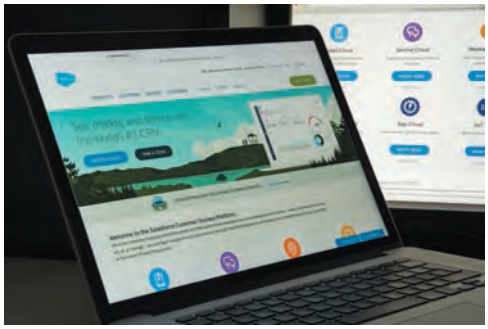


Exhibit 2.22 An advanced social CRM tool: Salesforce.

© Casimiro PT/Shutterstock

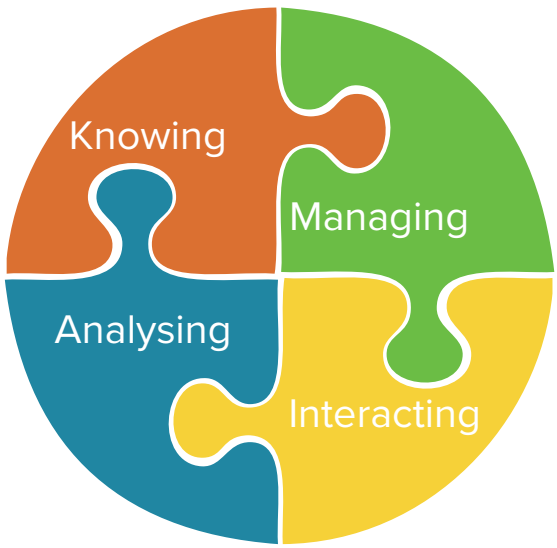


Figure 2.4 Social CRM

Source: Dr Mark van Rijmenam—speaker, author and founder of Datafloq and Mavin

CHECK YOURSELF

1. What are the three stages in customer engagement?
2. What is product co-creation?
3. What kinds of insights on consumers can marketers get from social media?
4. What are some of the tools marketers can use to gather data from social media?

THE FUTURE OF DIGITAL MARKETING

LO 2.6

Virtual worlds, augmented reality and wearable technology

Virtual worlds have been around for some time now. Examples include Second Life, The Sims and vSide. Brands have been investigating the potential for a higher level of interaction with their consumers within these virtual worlds. For example, Adidas, Nike, BMW, Sony, Cisco and IBM have been using Second Life for some time to explore the potential implications of the 3D experience and how that experience can be used outside virtual worlds.



Exhibit 2.23 Virtual reality headsets allow customers to have a unique connection with the product.

© Mark Nazh/Shutterstock/DAL

For this reason, virtual worlds now play a much greater role in how companies offer their product. For example, Sony PlayStation 3 (PS3) had a virtual world that gave each customer an avatar and a virtual apartment, which they could customise and personalise in any way they liked. The virtual world is combined with the MMOG (massively multiplayer online game) offerings of many of their games. When a customer bought the PS3 they gained access to PlayStation Home, where they could personalise their avatar. This allowed them to customise the product, enabling them to connect with it and with other product users in uniquely individual ways. The experiences from these 3D worlds have now been integrated into their new range of virtual reality products, such as PlayStation 4 with the new virtual reality headset. For example, VR headsets from Sony and others such as Oculus Rift can be used to play many games with virtual worlds, such as PlayerUnknown's Battlegrounds (PUBG) and Fortnite. These games are, in essence, their own virtual worlds, with millions of global users interacting 24 hours a day within immersive experiences.

Virtual worlds move the static 2D website into a realistic 3D experience that alters the reality of the consumer (see Exhibit 2.23). This underpins the flow effect, which we see in gaming technology where consumers are 'in the zone' or block out physical reality while engaging in their virtual experience. It has been suggested that marketers need to explore these computer-mediated environments, such as virtual reality gaming, for immersive experiences that create some level of **flow effect**.[44]

flow effect
The immersive state that is produced when a person 'zones out' the peripheral environment in favour of the current activity/ experience.

Virtual worlds or 3D experiences are now having a bigger impact on markets such as the children's toys market, where children can now link a product or a particular character with an online 3D environment, giving them not only a physical toy but also an avatar in a virtual world or MMOG (see Superior service 2.2). When a child buys a character from a toy shop they also get access to the online world through a smartphone app, where they have an avatar they can individualise and then use to interact with others in the virtual world. This allows them to individualise the product, creating a unique, personalised, individual experience to engage and play with others online. This is augmenting reality to create an experience beyond the 2D.

Essentially this form of virtual world tries to move from the 2D interface, or flat website interface, that we normally experience to a 3D interactive flow-effect experience. This creates an experience closer to reality. Hence, people's virtual personas will become increasingly important to their self-actualisation and therefore increasingly important to current and potential customers of the firm. How companies adapt to these changes to consumer self-concepts will become critical to how they interact with customers. Further, marketers have been exploring augmented reality (AR) opportunities where smartphones are used in the physical product or package, which in turn gives an augmented 3D reality on their smartphone, creating a distinct experience for consumers.[45]

Retailers are slowly integrating augmented reality into product marketing practice by using try-on sensory effects in online shopping environments (see international fashion brands such as ASOS and local Melbourne brand Nixi Killick, on YouTube). AR enables consumers to freely use gestures and various bodily actions in accordance with their personal preference to directly manipulate virtual products–something that is currently limited in website use. Moreover, AR can record online consumers' various try-on dynamics and behaviours in real time, permitting them to review, recheck and correct the self-fitting effects at any moment.[46]



Exhibit 2.24 AR is now being integrated into retail.

© ekkasit919/Shutterstock/DAL

More recently, advances in wearable technology have started to fuse the concept of hardware wearable technologies with internet technologies, taking the concept of physiological tethering to the next level. This concept is also known as cyborg consumerism, where we start to integrate our offline self-concept with our virtual selves due to the physical and psychological tethering that occurs when consumers use these technologies.[47] These technologies, such as attachable or wearable devices, give us access to the internet. Examples of wearable technologies include smart glasses (e.g. Google Glass, now Glass Enterprise, and Intel's Vaunt), numerous wrist devices for monitoring activity, such as Fitbit and now Samsung's flexible-display phones (Galaxy Fold) and tablets. Having a flexible smartphone screen allows manufacturers to mould the

Superior service 2.2

Moshi Monsters

At its peak, the children's website Moshi Monsters had approximately 80 million users worldwide (see Exhibit 2.25). Children were able to choose from one of a number of virtual pet monsters including Diavlo, Luvli, Katsuma, Poppet, Zommer and Furi. They could create, name and nurture these virtual pets and guide them through all of the challenges within the game. Challenges earned kids 'Rox', or virtual currency, while playing games. One key element was that children could play with friends in what was regarded as a safe online environment, something that is questionable in other virtual worlds.



Exhibit 2.25 Moshi Monsters.
© Dan Kitwood/Staff/Getty Images

Moshi Monsters was so successful that McDonald's Happy Meals in the United States and Canada included Moshi Monsters toys as part of their kids' meal deals. The Moshi Monsters Facebook page had more than 600 000 likes, and many blogs and review sites commented on this virtual world regularly due to its enormous success.

Moshi Monsters physical product range included a magazine, a DS video game, a music album (in partnership with Sony Music), books, membership cards, soaps, trading cards and figures of many Moshlings. All of these augmented product offerings allowed the company to give its consumers more of the Moshi Monsters experience, linking the physical and virtual. Because it was Flash-based, the site was closed in 2019 due to the lack of ongoing support for that technology.

device to the consumer's wrist, just like a watch (see Exhibit 2.26). Although Samsung experienced quality issues, the technology shows what is about to happen in the market.[48]

Customers will access the internet through their glasses or watch with flexi-glass linked to their smartphone. Thus, the device will allow not only for a psychological tethering to the online world but also a physical tethering.

Digital marketing is the biggest field in marketing and one that will continue to diversify and grow in the decades to come. For students graduating with a marketing degree, the possibilities are more exciting now than ever. Adding value 2.5 discusses the career opportunities that may be available.



Exhibit 2.26 Gear Fit wearable technology.
© rawf8/Shutterstock

Adding value 2.5

Careers in social media marketing

There are many areas where you can personally add value in the world of marketing. With digital and social media skills, the career possibilities are plentiful. Some common job titles are:

- **Social media strategist.** In this quite well-paid social media job people create social media marketing campaigns, then measure the results using an effective strategic plan.
- **Community manager.** People in these positions are responsible for handling corporate forums and blogs, increasing traffic to the site and broadening their company's community.
- **Blogger.** These highly sought-after jobs provide great flexibility and freedom. By posting articles on relevant websites, bloggers can earn $35 to $75 per hour.

Continued

- **Social media marketing specialist.** These well-paid professionals distribute promotional channels using a range of social media channels, which requires strong online marketing skills.
- **Search engine marketing associate.** Focusing on search engines, these online marketers rely on their knowledge of optimisation techniques to increase the organic search rankings for a website.
- **Online customer service representative.** Customers like to provide feedback, often online, and the best service companies make sure someone is on hand to respond.
- **Social media officer.** People in this position provide support to, for example, the digital and marketing function to deliver innovative and effective media and communications in line with branding strategy.

Securing such a job implies that the candidate truly has influence, so being active on social media is key. In your marketing course, do you use Twitter to do extra research about the topic? Do you use LinkedIn to keep your résumé up to date? These are a minimum for marketing or even just personal branding, in order to get any job in the modern marketing environment.

SUMMING UP

LO 2.1 Recognise the distinct digital consumer elements.
There are *dominant digital, hybrid digital* and *reluctant digital* consumers, who all behave differently and thus need to be treated differently online. The balance of power has shifted online. Consumers can now compare prices and product features globally, and can demand a higher level of customer service as a result of the power of eWOM on social media channels.

LO 2.2 Understand the types of digital channels.
There are a range of digital channels; including websites, search engines, email, social media and mobile. These are often used as part of an integrated marketing communications (IMC) strategy. These channels are characterised by marketers engaging with customers.

LO 2.3 Describe the 4E framework of social media marketing.
The 4E framework recognises that marketers must: **excite** customers with relevant offers; **educate** them about the offering; help them **experience** products, whether directly or indirectly; and give them an opportunity to **engage**. Different social media work better for different elements of this framework.

LO 2.4 Understand the important role of mobile applications.
Mobile is the dominant area in digital marketing. There has been an explosion in the number of apps available for consumers. For marketing purposes, some of these are price-check, fashion and location-based gamified apps.

LO 2.5 Understand the components of a digital marketing strategy.
Social CRM is a strategy that brings together what marketers are trying to do through marketing on digital, social and mobile channels. It is about customer engagement, listening and responding to, involving, and empowering consumers. It is also about customer data management, to better understand consumer behaviour on digital channels. A range of tools is available to help marketers access and understand the vast amounts of data available.

LO 2.6 Recognise the future directions of digital marketing.
Virtual worlds allow a whole new level of customer engagement. This links to the concept of augmented reality, where consumers can have experiences with brands from their armchair. This in turn links to the concept of wearable technologies, where consumers can have experiences with brands from anywhere. Think of Glass Enterprise, and Intel's Vaunt, augmenting reality wherever we go. With all these exciting developments in marketing, the job opportunities for skilled graduates are endless!

KEY TERMS

- apps 31
- co-creation 36
- content marketing 38
- earned media 38
- empowerment 34
- flow effect 54
- gamification 46
- influence 52
- infographic 39
- location-based software 43
- meta tag phrases (metadata) 38
- owned media 38
- personalisation (customisation) 35
- search engine optimisation (SEO) 38
- social CRM 47
- social customer service 36
- social media 41
- touchpoints 33
- transparency of information 35

MARKETING APPLICATIONS

1. Evaluate CBA's social media strategy using the 4E framework.
2. Using the components of the 4E framework, outline how an entrepreneur marketing T-shirts can augment or enhance their marketing mix efforts.
3. Suppose a herbal tea company introduced a new product called 'mint-enhanced tea'—mint and lemon herbal tea. How should it go about creating excitement using various social and mobile media tools?
4. If you were marketing a new running shoe, what sort of mobile applications might enhance your marketing efforts?
5. Assume you work for a large consumer packaged-goods firm that has discovered that its latest line of snack foods is moving very slowly off store shelves. Recommend a strategy for listening to what consumers are saying on blogs, review sites and the firm's website. Describe how your strategy might provide insights into consumers' sentiments about the new product line.
6. As a new employee of Subway, you have been asked to develop a social media campaign for a new sub. The objective of the campaign is to increase awareness and trial of the new line of subs. How would you go about putting such a campaign together?
7. Make sure your LinkedIn profile is up to date. Make it reflect the type of career you want. If you want to go further, get on Twitter and follow key people in the field you are interested in; for example, if it is social media marketing, just search for this and it will list key people talking about it.

QUIZ YOURSELF

1. Reebok is actively offering online coupons on Facebook. It is probably trying to:
   a. excite consumers
   b. educate consumers
   c. provide experiences to consumers
   d. allow customers to engage with the firm.
2. Crowdsourcing is a means of starting off:
   a. social customer service
   b. customer data management
   c. product/service co-creation
   d. social CRM.

(Answers to these two questions can be found on page 455.)

NET SAVVY

1. Go to www.facebook.com/business and learn about how to build pages, ads and sponsored stories and take advantage of mobile applications. What are some of the steps that Facebook suggests a person consider when marketing using ads?

CHAPTER CASE STUDY

Coca-Cola: 'Share a Coke'

By Harleen Dhillon, Deakin University

Background

'Share a Coke' is an iconic campaign by Coca-Cola wherein it puts popular and diverse names of people (and more recently pets) on its iconic bottles and cans (see Exhibit 2.27). The campaign invites Australians to Share a Coke and 'share the happiness this summer'.

The huge success of the campaign has led to it becoming a global phenomenon, with it running in more than 80 markets since its initial launch in Australia in 2012. The campaign has helped reverse an 11-year decline in consumption in the United States, won various awards all over the globe, and was considered a huge success for its revival of a classic brand in a modern way. The campaign was so effective that it was relaunched in 2019 at the place it began, Australia, with some new initiatives, creative executions and changes. The relaunch happened towards the end of 2019, in time for the Australian summer, with activities planned throughout January and February 2020.



Exhibit 2.27 Coca-Cola invited Australians to 'Share a Coke' with a mate.
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Industry

Coca-Cola is a leader in the beverage industry and is one of the most recognisable brands worldwide. The industry generally relies on extensive distribution networks and strong marketing messages. The beverage industry operates across a broad range of markets and is highly competitive. Competitors can be classified in two ways:

- **Direct competition** comes traditionally from other carbonated soft drinks. While Pepsi is the strongest and best-known competitor, other brands include Fanta and Sprite (both brands from the Coca-Cola company), Mountain Dew (a Pepsico brand) and Dr Pepper (an independent company). Increasingly, direct competition has also come from energy drinks such as Red Bull (which has attained more recent popularity in pub culture as a mixer).
- **Indirect competition** comes from the range of other drinks on the market. These include sports drinks (such as Gatorade), fruit juices, vegetable juices, iced teas, fermented drinks (for example, kombucha) and flavoured milks (from the wide range of Dare Iced Coffee drinks through to Oak Chocolate Milk).

Target market

In 2012, the campaign initially targeted millennials and young adults aged 18–25 due to their fondness for personalisation and increasing activity on social media. However, with its demonstrated campaign popularity, the relaunch in 2019 effectively extended the target demographic to all Australians. This included a focus on cultural diversity, with a far wider range of names available in-store than in the past.

The objectives of the original campaign were twofold:

- To increase sales during the Australian summer period.
- To encourage customer engagement from diverse cultures both online and offline and generate loyalty.

The personalisation of a very well-known brand, allowing it to get closer to its audience, served as a **unique selling proposition**. When complemented by a very catchy slogan and a range of promotional activities, many of which involved the consumer, further success was expected.

Marketing activities

In 2012, marketing activities focused on connecting consumers at a personal level and encouraging participation (especially online) with strong calls to action. In 2019, these were further enhanced, including:

- For the very first time in 2019, Australians could go to the website and personalise a limited-edition glass Coke bottle.
- Pop-up kiosks at major shopping centres in major cities around Australia in 2019 and 2020 enabled customers to customise their own cans of Coke.
- Hundreds of first names and thousands of surnames and nicknames were available on the product in-store.
- A new television commercial was released, supported by social media, online videos, experiential and influencer activity.
- There was billboard, cinema and sponsorship activity.

Results

Metrics indicating the success of the 2012 campaign in Australia included:

- The campaign was successful in reaching the target demographic; consumption of Coke by young adults increased by 7 per cent.
- Facebook had a central role in the campaign. Coke's Facebook page spiked in traffic by 870 per cent while the page 'likes' increased by 39 per cent. Coca-Cola gained roughly 25 million new Facebook followers that first year.
- It is estimated that 76 000 virtual cans of Coke have been shared online, and around 378 000 cans were printed across the whole country.

In the 2014 US campaign of the same name, consumers shared more than 500 000 photos using the hashtag #ShareaCoke during the first year of the campaign alone.

Overall, there was a positive impact on the image of Coca-Cola as a brand, and loyalty to the brand increased.

Conclusion

The 'Share a Coke' campaign demonstrated that consumers are attracted to goods that allow them to engage personally. This was the case even with a brand as well-known globally as Coca-Cola. Not only did the personal branding facilitate this connection, but the call to 'share' it meant that people felt they were connecting with each other at the same time as feeling a connection with the brand. The tagline itself is memorable and a call to action. The way the message has integrated with social media platforms makes consumers feel that they are part of the story, rather than simply part of the promotion. Finally, the campaign itself has changed and developed, making better use of technologies and connectivity. This has meant that even though it was relaunched in Australia after seven years, it had enough 'newness' to resonate with an even wider market. As social media continues to evolve, marketers can make better use of technologies to connect personally with the consumer.

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DISCUSSION QUESTIONS

1. What is the fundamental reason for the success of the 'Share a Coke' campaign?
2. What challenges will confront Coca-Cola in the digital space?
3. What are some of the other digital metrics Coca-Cola could have used?
4. In what ways did the 'Share a Coke' campaign appeal to the distinct digital consumer elements?

Continued

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CHAPTER 3

Marketing ethics, sustainability and CSR

LEARNING OBJECTIVES



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LO 3.1 Identify the ethical values marketers should embrace.

LO 3.2 Distinguish between ethics and social responsibility.

LO 3.3 Identify the four steps in ethical decision-making.

LO 3.4 Describe how ethics can be integrated into a firm's marketing strategy.

LO 3.5 Describe the ways in which corporate social responsibility programs help various stakeholders.



Graduate spotlight



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Bec Cole

DEGREE STUDIED
Master of Commerce

UNIVERSITY
RMIT University, Melbourne, Victoria

CURRENT POSITION
Team Leader Arts and Culture

EMPLOYER
Wyndham City Council, Wyndham, Victoria

What did you learn from your degree and how has it prepared you for a career in marketing?
I've developed a commercial mindset and now understand the total logistics of a 'product' from development through to purchase and beyond. I apply this thinking to develop less tangible products such as Arts and Culture experiences. Acquiring a language to describe different audiences and how they might be motivated to purchase (or participate) is very valuable.

What interested you about studying or working in marketing?
I enrolled in a few marketing subjects during my commerce degree, mainly out of curiosity. I was hooked! My previous degrees in psychology and cultural development prepared me to understand the human side of marketing, but what I enjoyed most was learning about the technical and structural aspects.

What have you been up to since graduation?
Working, learning more and reading more. Curiosity is one of my drivers and I'll never stop learning. However, I can't watch commercial TV any more without applying a critical lens to all of the ads!

What does your current job involve?
I manage and lead Wyndham's Arts and Culture program. We produce arts experiences, support the local creative industry, commission public art and operate Wyndham Art Gallery, which is fast developing a national profile because of our bold program. I also develop cultural policy and set the council's strategic marketing and engagement direction for the arts. One of our biggest challenges is generating awareness and consideration of our cultural products, but we are shifting perceptions about the outer west of Melbourne.

What do you enjoy most about your job?
The diversity of people I meet, and the ability to offer visibility and opportunities to under-represented voices. I'm passionate about working with emerging communities and artists who have something unique to say. It's amazing how much of what I've learnt through studying marketing is directly applicable to supporting artists to find their audience and success.

What are your thoughts on the future of the marketing and communication industry? What advice would you give to students wanting to work in marketing?
Marketing and communications are fast becoming core skills across all types of industry, and across the private and public sectors. I feel that it's one of the most transferable knowledge sets because every kind of transaction has a marketing component built in. My advice to students would be: don't limit yourself to pure marketing roles in the career path you choose. Think of marketing as a mindset that you can apply to all sorts of business problems. The solution is usually in how you communicate.

The fashion industry is often criticised for reinforcing superficial ideals and for contributing to materialistic lifestyles in developed economies, while exploiting those in developing countries through unethical manufacturing and distribution strategies. For many profit-driven companies in the fashion industry, balancing the needs of shareholders and the wider community is not always easy. For example, many firms in the clothing industry compete on offering great value for the latest fashions by maintaining low prices. Low prices, of course, mean that cost savings must be made along the supply chain, often affecting the manufacturing process. In our globalised world, most fashion labels outsource their manufacturing function to countries with significantly lower labour costs. This, in turn, leads to a competitive manufacturing landscape, where contractors in developing countries compete to offer the lowest cost of production. As a result, working conditions in many contracted factories in developing countries are poor.

Media coverage has questioned the sustainability of the fashion industry and how brands will continue to minimise their impact given Western consumer culture's obsession with low prices and its insatiable appetite for the latest fashion trends. Globally, 80 billion new pieces of clothing are consumed every year and, by 2030, the industry will have manufactured 92 million tonnes of clothes and shoes in a 10-year period. By 2030, it is predicted that the fashion industry will use 35 per cent more land for cotton, forest for cellulose fibres, and grassland for livestock. In Australia, the average consumer spends $2288 on clothing and footwear per year, with just 4 per cent of what Australians spend on clothing going to the wages of workers in garment factories across the globe. With approximately 85 per cent of the textiles purchased by Australians ending up in landfill, the country has become the second-largest consumer of new textiles after the United States.[1]

The collapse of the Rana Plaza, an eight-storey commercial building near Dhaka, Bangladesh, killing more than 1130 people on 24 April 2013, brought into focus the working conditions, environmental impacts and ethical issues associated with consumers' demand for fast fashion. The building had housed manufacturing facilities for large Western retailers such as Tesco, Carrefour, Benetton and Walmart. Although no Australian companies were directly implicated in the Rana Plaza tragedy, the news served as a wake-up call for many that had manufacturing operations in Bangladesh. One initiative to come out of the tragic building collapse was the Bangladesh Fire and Building Safety Accord. The Accord serves as a legally binding deal that ensures regular inspections and fire training for over 1600 factories in Bangladesh. Many iconic Australian brands–including Kmart, Target, Big W, Cotton On, Forever New, Specialty Fashion Group (Katies, Millers, City Chic and Rivers), APG and Co (Saba, Jag and Sportscraft) and Designworks (Everlast, Republic, Dunlop and Mooks)–have signed the latest Accord.[2] To ensure that the safety improvements achieved under the Accord are maintained and expanded, brand and union signatories of the Accord announced in June 2017 that the Accord has been extended for three years, until May 2021.

The signatories to the Accord represent many of the largest brands and retailers in the world and most of the Bangladesh ready-made garments (RMG) sector's key customers.[3] Their combined commitment means that the 2019 Accord agreement will cover at least 1400 factories and a majority of all export garment production. Working towards a better awareness of companies logistic operations, Oxfam Australia publishes a Christmas 'naughty' and 'nice' list, informing consumers about which companies publish the locations of their factories.[4]

Another initiative to emerge from the 2013 tragedy was the Baptist World Aid Australia Australian Fashion Report. The report tracks what the industry and specific companies are undertaking to address and mitigate forced labour, child labour and exploitation in the supply chain, with grades awarded from A to F.[5] Since the report's initial launch, two-thirds of companies graded have taken measures to improve their practices and more than a dozen have now signed the Accord. In 2019, the report, now the Ethical Fashion Report, also took into consideration companies' environmental and labour rights management systems in its grade assessment.[6] Fairtrade companies are also making their mark in Australia in relation to labour rights management. Etiko is Australia's first Fairtrade-certified fashion company, which achieved A+, the highest ranking, for its ethical supply chains in the 2013, 2015 and 2016–2019 Ethical Fashion Reports. Etiko's founder, Nick Savaidis, stated that the company's fashion range–which includes T-shirts, sneakers and underwear for men, women and children–is entirely vegan, organic and Fairtrade, made with the least possible impact on the natural environment.[7]

Other companies have taken a proactive approach in initiating projects to better the working conditions of their contracted workers in developing countries. One such initiative is accreditation from Ethical Clothing Australia (ECA),[8] whose focus is 'on ensuring that local textile, clothing and footwear



Exhibit 3.1 MIMCO positions itself as a brand with a conscience.

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workers are being paid appropriately, receiving all the legal minimum entitlements and working in safe workplaces throughout the entire supply chain'. Farm to Hanger is an ECA-accredited business that identifies itself as a circular eco-friendly brand that takes end-to-end responsibility for its products, including knowing where its products are sourced and extending its sustainability commitment to planting a tree for every garment made.

Australian fashion brand MIMCO's[9] journey with the Ethical Fashion Initiative (EFI)[10] commenced in 2014, and it launched its EFI collection of handbags and jewellery in 2015 (see Exhibit 3.1). The EFI works with brands in the luxury fashion industry and connects artisans living in marginalised communities around the world with the global fashion industry. As a result, artisans are given an opportunity to develop their skills in crafting high-quality and unique accessories and apparel. The EFI also empowers women in less developed regions of the world to acquire new skills and support their families and communities. By participating in a recognised community development project such as the EFI, MIMCO is able not only to position itself as a brand with a conscience but also to set the standard for more ethical and socially aware consumption patterns among consumers.

A number of campaigns, including those by War on Want, Avaaz, Labour Behind the Label, the Ethical Trade Initiative and the Clean Clothes Campaign, have been proactive in urging clothing retailers to reassess labour and safety conditions. The Clean Clothes Campaign is an alliance of organisations across 16 European countries, with members including NGOs and trade unions. Its primary focus is on improving 'working conditions and supporting the empowerment of workers in the global garment and sportswear industries'.[11, 12] Similarly, Fashion Revolution is a global movement established in 2013 that encourages fashion brands to demonstrate commitment to transparency and responsibility across the value chain. BE SLAVERY FREE,[13] formerly known as STOP THE TRAFFIK, represents Australia's commitment to work together with the community and various organisations to eliminate trafficking in Australia and around the world. The Australian Government's commitment to this cause was enacted on 1 January 2019 through the passing of the Commonwealth *Modern Slavery Act 2018* (the Act). The Act establishes a national mandatory Modern Slavery Reporting Requirement supporting the Australian business community to identify and address modern slavery risks, and maintain responsible and transparent supply chains.[14]

Which is the more important corporate objective: making a profit or obtaining and keeping customers?[15] Although firms cannot stay in business without earning a profit, using profit as the sole guiding light for corporate action can lead to short-term decisions that cause the firm to lose customers in the long run. The balancing act may turn out to be the quest to place the company on the firmest footing possible.

This question leads into the primary ethical dilemma facing managers; that is, how to balance shareholder interests with the needs of society. In our opening example, we saw how the expansion of the fashion industry offers increased variety and great value to customers. The flipside of this dynamic development, however, is seen in less fortunate countries, all competing to offer the best manufacturing deals to Western brands. The ethical tension that arises is this: fashion companies have an obligation to make returns on investment for shareholders, but some investment initiatives may actually be harmful to communities outside of the immediate stakeholder setting. How might a better balance arise in this setting?

Perhaps the fashion industry could take a cue from the European toy industry. Regulations enforced by the European Union (EU) place the responsibility for content and safety on toy producers, importers and distributors.[16] They are responsible for documenting that the products in any toys imported into the EU contain no dangerous materials, avoid potential allergens and cannot cause choking risks.

Or maybe that's the wrong place to look; in the United States, regulations similarly have been designed to prevent the sort of massive toy recalls that Mattel had to undertake when millions of its most popular toys–including Barbie® dolls and and some Sesame Street plastic toys–turned out to be safety risks.[17] At other times, independent bodies such as federal regulatory agencies intervene to ensure consumer protection against unreasonable risks of injuries and deaths associated with products. A recent voluntary recall of the Rock 'n Play Sleeper made by Mattel's Fisher-Price unit has resulted in a partnership with the US Consumer Product Safety Commission, affecting about 4.7 million products (see Exhibit 3.2).[18] In the process, manufacturers, regulators, retailers, parents and other groups have been battling over the

definition of 'children's products'.[19] Is a stuffed bear with a Valentine's Day theme a product for children or one for adults? Should companies in the fashion industry be bound by regulation to ensure a certain level of health and safety in overseas manufacturing facilities? Should legislation be passed to oblige all Australian brands to publish the locations of their factories to ensure working conditions are safe for all workers?

As these examples show, sometimes the ethical dilemma has as much to do with defining our terms as with the conditions under which the products are manufactured. But even if the question seems to be one of terminology, if customers believe they can no longer trust a company or that the company is not acting responsibly, they will no longer support that company by purchasing its goods or services or investing in its shares. For marketers, the firm's ability to build and maintain consumer trust by conducting ethical, transparent, clear transactions must be of paramount importance.

In this chapter, we start by examining what marketing ethics is and why behaving ethically is so important to successful marketing and to long-term profits. We then discuss how firms can create an ethical climate among employees and how their individual behaviour can affect the ability of the firm to act ethically. To help you make ethical marketing decisions, we provide a framework for ethical decision-making and then examine some ethical issues within the context of the marketing plan. Finally, we present some scenarios that highlight typical ethical challenges marketing managers must often face.



Exhibit 3.2 The Fisher–Price unit, in partnership with the US Consumer Product Safety Commission, has issued a voluntary recall of about 4.7 million products.
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THE SCOPE OF MARKETING ETHICS

Business ethics refers to the moral or ethical dilemmas that might arise in a business setting. **Marketing ethics**, in contrast, examines those ethical problems that are specific to the domain of marketing. Firms' attempts to apply sound ethical principles must be a continuous and dynamic process.[20] Because the marketing profession is often singled out among business disciplines as the root cause of a host of ethical lapses (e.g. unethical advertising, the promotion of poor quality products), anyone involved in marketing must recognise the ethical implications of their actions. These can involve societal issues, such as the sale of goods or services that may damage the environment; global issues, such as the use of child labour (see Chapter 12 as well); and individual consumer issues, such as deceptive advertising[21] or the marketing of dangerous products.[22]

business ethics
Refers to a branch of ethical study that examines ethical rules and principles within a commercial context, the various moral or ethical problems that might arise in a business setting, and any special duties or obligations that apply to persons engaged in commerce.

marketing ethics
Refers to those ethical problems that are specific to the domain of marketing.

ETHICAL ISSUES ASSOCIATED WITH MARKETING DECISIONS

Unlike other business functions such as accounting or finance, people in marketing interact directly with the public. Because they are in the public eye, it should not be surprising that marketing and sales professionals sometimes rank poorly in ratings of the most trusted professions. As customer perceptions can influence their consumption behaviour, it is important for professions to understand how they are viewed by their customer base. Roy Morgan Research's annual Image of Professions Survey, depicted how Australian men and women rated different professions on the basis of ethics and honesty in 2017 (Figure 3.1). Top rankings were professions such as doctors, school teachers and judges. Nurses have ranked for 23 consecutive years as the most ethical and honest profession (see Exhibit 3.3).[23] Ministers of religion have suffered the greatest loss in ranking over time, from 59 per cent in 1996 to 34 per cent in 2017; while bank managers improved their standing marginally, up from 30 per cent in 2016 to 33 per cent in 2017. Real estate agents, advertising people and car salespeople were at the bottom of the list.[24] For marketers, who depend on the long-term trust of their customers, this low ranking is very disappointing.

Yet there is some good news too.[25] Although many consumers remain highly sceptical of business, and especially of marketing, the marketing function regularly interacts with many entities outside the firm. Therefore, it has a tremendous opportunity to build public trust. Creating an ethical climate that

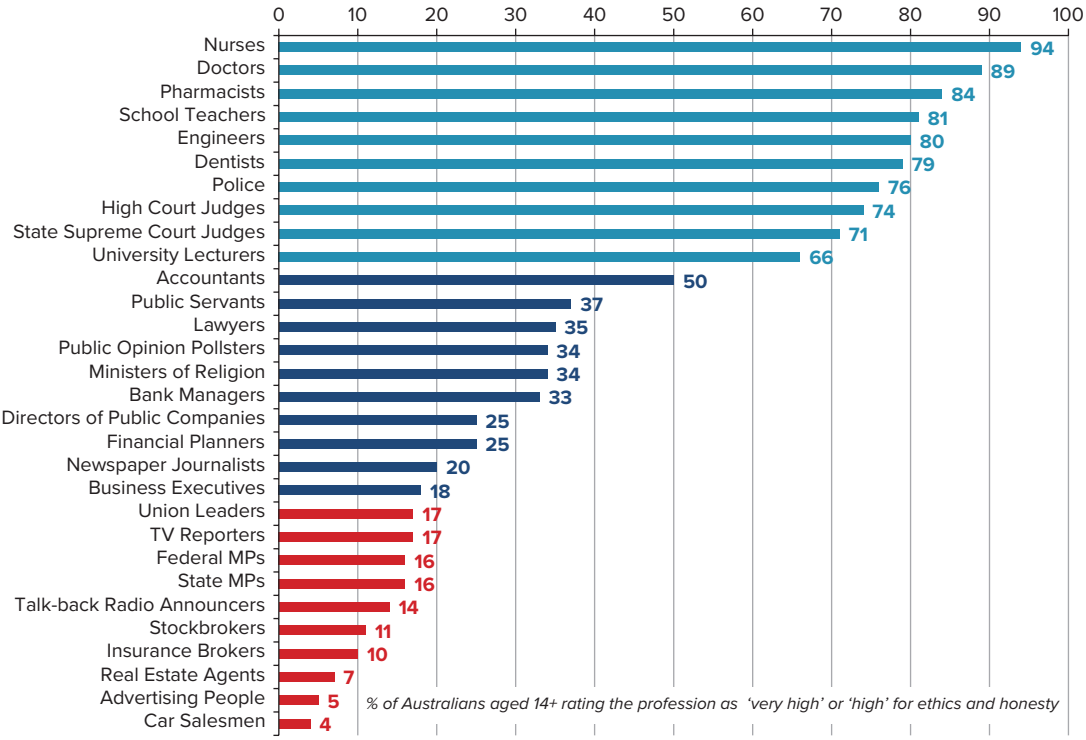


Figure 3.1 Attitudes about the ethical standards of various professions

Source: Courtesy of Roy Morgan, http://www.roymorgan.com/findings/7244-roy-morgan-image-of-professions-may-2017-201706051543



Exhibit 3.3 Nurses and doctors are among the most trusted professionals.

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establishes the health and wellbeing of both internal (staff) and external (consumers) stakeholders as the firm's number one priority just makes good business sense.

Many large companies with reputable brands work hard to ensure their brand is perceived as fair, ethical and contributing to the sustainability of communities. Singapore Airlines, for example, ensures it is positioned not only as a brand that delivers outstanding service and safety but also as a brand conscious of the needs of its stakeholders beyond the core business. To ensure this image is maintained, Singapore Airlines continuously involves itself in various community engagement activities. In Australia, for example, the airline is a major sponsor of the West Australian Ballet and Art Exhibitions Australia, as well as playing a key sponsoring role in the Indian and Spanish Film Festivals.[26] By engaging in these practices, Singapore Airlines is able to project an image of a firm whose scope is broader than simply selling airline tickets. It is vital that firms engage in some form of stakeholder engagement and this is where marketers have an opportunity to make a positive difference, by communicating the value that a firm delivers back to the community.

Creating an ethical climate in the workplace

ethical climate
The set of values within a marketing firm, or in the marketing division of any firm, that guide decision-making and behaviour.

The process of creating a strong **ethical climate** within a marketing firm (or in the marketing division of any firm) includes having a set of values that guides decision-making and behaviour. Google's 'Don't be evil' informal corporate motto for over a decade has transformed to include 'Do the right thing … follow the law, act honorably, and treat each other with respect' under its parent company Alphabet (see Exhibit 3.4). While posting its own code of conduct as part of the identity shift, Alphabet appears to have retained the intention of 'doing the right thing'.[27] In 2018, the updated version of Google's Code of Conduct removed 'Don't be evil' from its introduction; however, the unofficial motto first developed in 2000 still persists, as is evident in the last sentence of the document: 'And remember . . . don't be evil, and if you see something that you think isn't right–speak up!'[28]

While Google generates the bulk of its revenue from AdWords, a service that allows advertisers to purchase ad space on Google searches, Google recognises that many non-profit organisations struggle

to reach wider target audiences in order to raise much-needed funds for their projects. Google provides a service called Google Grants, where non-profit organisations can apply for free exposure ad spaces (without paying the standard AdWords fees) and maximise their reach.[29]

Other community engagement initiatives include GoogleServe, which encourages 'Googlers' to actively engage in service projects in their communities, and the Gift Matching scheme, where Google will match the contributions employees make to non-profit organisations. For example, Googlers in Berlin helped Berliner Bahnhofsmission in its quest to feed and assist 200 homeless people, handing out food and beverages, preparing and restocking food, cleaning dishes, staffing the entrance and sorting donated clothes.[30] Such initiatives ensure that Google is at the forefront of pioneering ways in which companies with large revenue bases can make a positive difference in the community.[31]

Every year, Ethisphere, the US-based research centre publishes its World's Most Ethical Companies list.[32] 3M has been recognised for its ethics and integrity and placed on the list for the sixth consecutive year, achieving first place in the 2019 listing. Although Google has been widely recognised for its ambition to be a leader in creating an ethical climate in the workplace, it is Microsoft that has secured a place in the 2019 listing.[33] Among its many community engagement initiatives, Microsoft was especially commended for its unique and highly successful Employee Giving Program. The program is designed to encourage employees at Microsoft to see the value of giving, by getting involved in raising money for non-profit organisations. In 35 years of Microsoft employee giving history, an average of $125 000 per day has been raised–which totals $1.6 billion and counting.[34] In 2018/19, the Technology Educational and Literacy in School (TEALS) program served approximately 16 000 students at 494 high schools in the United States and British Columbia to develop appropriate skills for future employment in computer science. The TEALS program was staffed by 1450 tech volunteers from nearly 700 companies.[35]

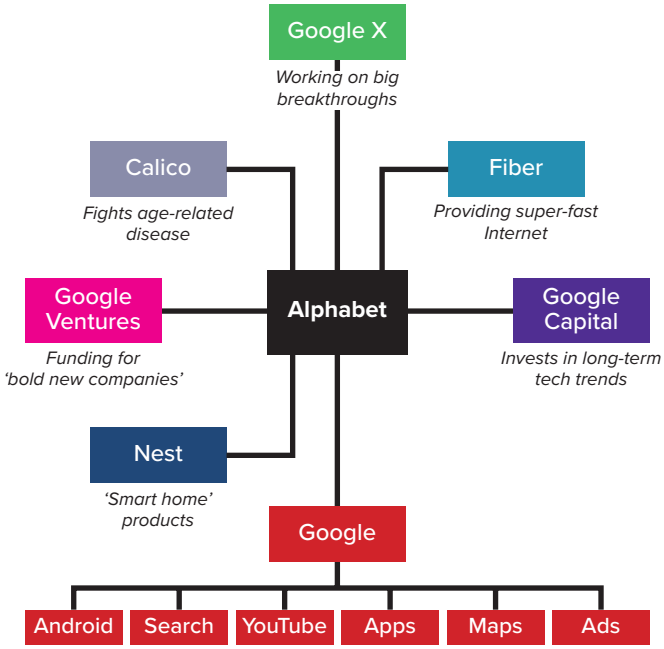


Exhibit 3.4 Alphabet operates as the parent company for a number of smaller companies, including Google.

Microsoft's long-standing culture of giving, a result of founder Bill Gates' philanthropic approach to business, permeates the entire workplace and contributes to the ethical culture among Microsoft employees around the world. Microsoft Philanthropies, launched in 2015, focuses on expanding technology access to parts of the world and segments of the population that have missed out on the benefits of the digital revolution.[36] The aim of this internal organisation is to donate $1 billion to researchers, non-profit organisations and science education through YouthSpark, tech education and global aid organisations.[37]

Everyone within a firm must share the same understanding of its ethical values and how they translate into the business activities of the firm. They also need to share a consistent language to discuss them. Once the values are understood, the firm must develop explicit rules and implicit understandings that govern all of the firm's transactions. Top management must commit to establishing an ethical climate, and employees throughout the firm must be dedicated to that climate, because the roots of ethical conflict are often the competing values of individuals. Each individual holds their own set of values and sometimes those values result in inner turmoil or even conflicts between employees. For instance, a salesperson may believe that it is important to make a sale because their family depends on them for support, but at the same time, they may feel that the product they are selling is not appropriate for a particular customer. Once the rules are in place, there must be a system of controls that helps resolve such dilemmas and rewards appropriate behaviour–that is, behaviour consistent with the firm's values–and punishes inappropriate behaviour. For example, in 2012 Microsoft terminated the employment of two of its top marketing executives responsible for the marketing of Microsoft's search engine, Bing. Although the two employees each held critical roles, Microsoft insisted that they be terminated immediately after being found to have violated company policies related to mismanagement of company assets and vendor procurement.[38]

The Transport Accident Commission (TAC) has had a long association with Australian Football League (AFL) clubs, but it has been a precarious partnership. The TAC has terminated sponsorship with

the Richmond, Collingwood and Geelong football clubs, ending lengthy partnerships, because of revelations about incidents of players drink driving.[39, 40] This withdrawal of sponsorship would have come as a financial blow as well as a blow to the clubs' reputations. It is critical that companies not only espouse ethical values but that they also take action when breaches of ethical conduct take place.

Among the most important ethical controls is the policing of potential violations of human rights and child labour laws. A 2018 US Department of Labor report found evidence of forced and child labour in the fashion industry in Argentina, Bangladesh, Brazil, China, India, Indonesia, the Philippines, Turkey, Vietnam and other countries.[41] The International Labour Organization has estimated 170 million children, representing 11 per cent of the global population of children, are engaged in child labour.[42] Not-for-profit organisations including the Global March against Child Labour, International Initiative to End Child Labor (IIECL) and Stop Child Labour Coalition are united in advocating for children's rights and working towards ending child labour.[43] Many firms have had to publicly defend themselves against allegations of human rights, child labour or other abuses involving the factories and countries in which their goods are made.[44] As we saw in the opening example from the fashion industry, some brands take an active approach to ensure working conditions in overseas manufacturing facilities are of an acceptable standard.

Like companies that develop and apply their ethical codes, many professions, including the marketing profession, also have their own codes of ethics that firms and individuals in the profession agree to abide by. The generally accepted code in marketing, developed originally by the American Marketing Association (AMA), flows from universal norms of conduct to the specific values to which marketers should aspire.[45] It indicates that the basic ethical values marketers should aspire to are honesty, responsibility, fairness, respect, openness and citizenship.

Each sub-area within marketing, such as marketing research, advertising, pricing and so forth, has its own code of ethics that deals with the specific issues that arise when conducting business in those areas. The Australian Marketing Institute (AMI) has a code of ethics that outlines similar values to those originally conceived by the AMA. These include advice on fair promotions, fair pricing, fair marketing research practices and other critical areas of the marketing profession. Government agencies in Australia and New Zealand provide detailed guidelines on behaviour that is acceptable and practices that are unlawful. In Australia, the Australian Competition and Consumer Commission (ACCC) is the key regulatory body; in New Zealand the Commerce Commission provides enforcement on similar matters.

Now let's examine the ethical role of the individuals within a firm and how individuals contribute to the firm's ethical climate.



Case study 3.1: Shopkins: 'Real Little' brands for real little hands

By Dr Delane Osborne, Curtin University, and Dr Carol Osborne, Murdoch University

Manufactured by Moose Toys, Shopkins are a range of tiny collectable toys in the shape of various grocery items. After launching in 2014, it wasn't long before Shopkins became a household name, winning numerous major awards in its first year, including edging out Barbie to win 'Girl Toy of the Year'. Six years later, and with over 600 million Shopkins sold worldwide, the brand is still going strong, having just released its latest series. Shopkins began as generic grocery items and remained unbranded for 11 series; however, the latest series, dubbed 'Real Littles', brings about a distinct change in direction for the toys in that all of the groceries featured are miniature versions of real products. For this latest release, Moose Toys partnered with US companies Kellogg's, Conagra and Welch's to create miniatures of well-known products such as Pringles, Pop Tarts and Snack Packs. For the brands featured, the partnership presents an opportunity to get children interacting with their products in the most tactile way possible, with Welch's expressing excitement over being able to introduce its brand to children

through the toys. This form of brand placement could well pay off, with research suggesting that children are able to recognise product packaging from as young as two years old, and that they begin to recall brand names by the age of four.

The creation of the miniature branded products has called into question the ethics of marketing to children, with consumers expressing concern over the implications of creating brand loyalty in children at such a young age. From the ages of two to seven years old, children have little understanding of the intentions of advertising, leaving them vulnerable to marketing. A report issued by the US food and health watchdog highlights this vulnerability, arguing that an increase in health concerns such as childhood obesity is attributable to the advertising of 'junk' food. A further review of the effects of food marketing to children has found that such promotional activity not only attracts children's attention but stimulates their subsequent acceptance and liking of products, culminating in an increased demand for the products. According to the Australian Code for Advertising and Marketing Communications to Children, advertising and other marketing communications must be presented in a manner able to be clearly understood by children as being commercial in nature. With the Shopkins 'Real Littles' marketed as suitable for children aged five years and older, this highlights the balance marketers must maintain in creating engaging promotions while remaining ethical.

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Questions

1. Do you think toy manufacturers have an ethical responsibility towards children?
2. Is there anything Moose Toys could adapt in their 'Real Littles' range to make the product more ethical?
3. On what basis should brands be selected to feature in the 'Real Littles' range to demonstrate that they align with Moose Toys as a socially-responsible company?

THE INFLUENCE OF PERSONAL ETHICS

LO 3.1

Every firm is made up of individuals, each with their own needs and desires. Let's start by looking at why people may make unethical decisions and how firms can establish a process for decision-making that ensures they choose ethical alternatives instead.

Why people act unethically

Every individual is a product of their culture, upbringing, genes and various other influences. In spite of these factors, people continue to grow emotionally in their understanding of what is and is not ethical behaviour. As a six-year-old child, you might have thought nothing of taking your brother's toy

and hitting him on the head with it. As an adult, you have probably outgrown this behaviour. But all of us vary in the way we view more complex situations, depending on our ethical understandings.

Consider product recalls of toys, for example. How can certain manufacturers engage in such egregious behaviour as using lead paint on toys marketed to young children? What makes people take actions that create so much harm? Are all of the individuals who contributed to that behaviour just plain immoral? These simple questions have complex answers.

As another example, imagine that a brand manager for a car company discovers from conversations with a member of the development team that the new energy-efficient hybrid model, that is set to go into full production shortly, has a potentially dangerous design flaw. There are two options for the brand manager: delay production and remedy the design flaw, which pushes production off schedule, delays revenue and may result in layoffs and loss of the manager's bonus; or stay on schedule, put the flawed design into production, achieve planned revenue and bonus, and hope it does not result in injuries to consumers and loss of revenue for the firm due to recalls later on. This type of dilemma occurs nearly every day in thousands of different business environments.



Exhibit 3.5 What is the 'real' price? Did the manager bring the T-shirts in at an artificially high price and then immediately mark them down?

© Blend Images LLC/JGI/Jamie Grill

Ethics at Work is a national survey of Australian workers and provides a snapshot on ethical behaviour in the workplace. The survey is undertaken by the Institute of Business Ethics and asks about employees' attitudes and perceptions of ethics in their place of work. Some of the findings from the 2018 survey included employees; were aware of misconduct and decided not to speak up (35%); felt 'time pressure' to compromise ethics (13%); felt honesty was practised 'frequently' (84%); were aware that people were treated unethically (39%) and misreported their hours worked (32%).[46]

Do employees feel able to speak up if they have been aware of misconduct? Are formal ethics programs effective in embedding ethical values into organisational culture and influencing behaviour? Did all employees in these situations view their actions as unethical? Probably not. There may have been extenuating circumstances. In the workplace, employees across different levels of responsibility often face the choice of doing what is beneficial for them and possibly the firm in the short run and doing what is right and beneficial for the firm and society in the long run.

For instance, a manager might feel confident that earnings will increase in the next few months and therefore it will benefit themselves, the branch and the employees to exaggerate current earnings just a little. Another manager might feel considerable pressure to increase sales in a retail store, so they bring in some new merchandise, mark it at an artificially high price and then immediately put it on sale, deceiving consumers into thinking they are getting a good deal because they viewed the initial price as the 'real' price (see Exhibit 3.5). These decisions may have been justifiable at the time, but they have serious consequences for the company.

To avoid such dire consequences, the short-term goals of each employee must be aligned with the long-term goals of the firm. In our hybrid car example, the brand manager's short-term drive to receive a bonus conflicted with the firm's long-term aim of providing consumers with safe, reliable cars. To align personal and corporate goals, firms need to have a strong ethical climate, explicit rules for governing transactions, including a code of ethics and a system for rewarding and punishing inappropriate behaviour. In the next section, we add the concept of corporate social responsibility to our discussion of ethics.

Adding value **3.1**

Etiko: wear no evil, do no harm

As consumers are increasingly placing value on ethical and environmentally conscious products and services, questions of malpractice and exploitation have demanded a more transparent supply chain. An ethical supply chain considers employment practices, working conditions and workers' pay. The Rana Plaza factory collapse in 2013 in Bangladesh highlighted both human rights and environmental

crises, and became an impetus for organisations to work towards sourcing and manufacturing ethically and responsibly. Many businesses now produce their own ethical supply chain codes, which identify all players in the supply chain that must adhere to them.[47]

A supply chain that adheres to a code of ethics should exemplify:

- freedom of employment and association for workers
- the eradication of child labour
- safe and hygienic working conditions
- living change
- humane and non-discriminatory treatment
- anti-bribery and corruption
- environmental awareness.[48]



Exhibit 3.6 Etiko's logo is synonymous with making decisions and purchases that do not harm people, animals or the Earth.

Source: Etiko

Launched in 2005, Etiko[49] is the pioneer of organic/fair-trade clothing and footwear and is dedicated to supporting human and labour rights. Nick Savaidis, founder of Etiko, doesn't just want his customers to 'wear no evil', but also to 'do no harm' to those in the supply chain by campaigning for the human rights of those working in traditionally exploitative industry supply chains. This translates to implementing high ethical standards from the bottom up, so the factories from which Etiko sources its garments are certified by Fairtrade USA and comply with fair-trade standards for labour rights, worker democracy and environmental performance. In the past 10 years of sales, Etiko's products have supported the human and labour rights of cotton growers and rubber tappers, workers in apparel, sports ball and shoe production, and their families and communities in India, Sri Lanka and Pakistan.

Ethically minded consumers have at their disposal reports, websites and apps that provide an environmental and social record of the companies behind common brands as a way of empowering them in their purchase decisions. One such report, the Australian Ethical Fashion Report,[50] assesses the three stages of the supply chain: materials, input production and final-stage manufacturing. First launched in 2013 by Baptist World Aid and Not For Sale Australia, the report grades the systems the companies have in place to protect the workers in their supply chain from exploitation, forced labour and child labour. Among the ethical practices of 128 clothing brands assessed, Etiko has been awarded an A+ rating by the Australian Ethical Fashion Report, successfully achieving the highest ranking for ethical production every year since the report's first release in 2013.

ETHICS AND CORPORATE SOCIAL RESPONSIBILITY

LO 3.2

Although no single, established definition of the concept exists,[51] **corporate social responsibility (CSR)** generally entails voluntary actions taken by a company to address the ethical, social and environmental impacts of its business operations and the concerns of its stakeholders. The AMA's definition refers to it as the serious consideration of 'the impact of the company's actions and operating in a way that balances short-term profit needs with society's long-term needs, thus ensuring the company's survival in a healthy environment'.[52] This notion goes beyond the individual ethics that we have discussed so far, but for a company to act in a socially responsible manner, the employees of the company must also first maintain high ethical standards and recognise how their individual decisions lead to the optimal collective actions of the firm. Firms with strong ethical climates tend to be more socially responsible.

corporate social responsibility (CSR) Refers to the voluntary actions taken by a company to address the ethical, social and environmental impacts of its business operations and the concerns of its stakeholders.

However, it is important to distinguish between ethical business practices and corporate social responsibility programs. Ideally, firms should implement programs that are socially responsible and employees should act in an ethically responsible manner (see Figure 3.2, upper left quadrant).



Figure 3.2 Ethics versus social responsibility



Exhibit 3.7 Thankyou channels 100 per cent of its profits into development work and projects globally.

Source: Courtesy of thankyou



Exhibit 3.8 Oil spills are a major catastrophe for all parties.

© Aaron Roeth Photography/DAL

Thankyou is an Australian social enterprise owned by a charitable trust that channels 100 per cent of its profits into development work and projects globally (see Exhibit 3.7). Motivated by an ethos of 'We always have and always will exist 100% for ending the effects of global poverty', the company sells a range of products including bottled water, cereals and muesli bars, and soap and body products. Through partners including Oxfam, Red Cross, World Vision and Care Australia, Thankyou has given more than $2.5 million to projects spanning 16 countries in areas such as safe water, hygiene and sanitation, and food aid. Through setting up its Future Fund, the company encourages donations from the public, who also receive something of value in return in the form of paying what they want for one of the newest product offerings.[53]

Being socially responsible generally means going above and beyond the norms of corporate ethical behaviour. For example, a firm's employees may conduct their activities in an ethically acceptable manner, but the firm may still not be considered socially responsible because their activities have little or no impact on anyone other than their closest stakeholders: their customers, employees and stockholders (Figure 3.2, upper right quadrant).

Employees at some firms that are perceived as socially responsible can nevertheless take actions that are viewed as unethical (Figure 3.2, lower left quadrant). For instance, a firm might be considered socially responsible because it makes generous donations to charities but is simultaneously involved in questionable sales practices. After the 2010 oil spill in the Gulf of Mexico, BP committed to donating millions of dollars to help economically impacted states promote tourism.[54] Considered the worst oil spill in US history, BP accepted criminal responsibility for the disaster and agreed to pay AU$6.6 billion to the US Government and to put AU$29 billion into a trust to be paid to businesses and individuals in compensation.[55]

Volkswagen's social responsibility and sustainability objective of reducing nitrogen oxide in petrol engine exhausts came to an abrupt halt when the company admitted to cheating on diesel emission figures for 11 million of its vehicles. The software installed enabled vehicles to pass emissions tests while exceeding the legal pollution limits for on-the-road driving. The company has agreed to pay up to US$14.7 billion to settle claims, which includes compensation to owners, US$2.7 billion into an EPA fund for the environmental impact, and US$2 billion on new cleaner-vehicle projects.[56] And in 2019, following the crash of Ethiopian Airlines Flight 302, the Boeing 737 MAX fleet was grounded by airlines around the world, including Air China, Southwest Airlines, Turkish Airlines, Norwegian Air and Ryanair. With the grounding costing hundreds of millions of dollars in terms of affected flights, airlines are seeking compensation from Boeing, whose response

has been to update the MAX's software and change flight controls and training guidelines.[57] Although Boeing has paid compensation to airlines in the past, the question still remains as to when and how much it will compensate airlines for the 737 MAX disruption.[58]

Ethically, how do we characterise a firm that obtains its profits through illicit actions but then donates a large percentage of those profits to charity? The worst situation, of course, is when firms behave both unethically and in a socially unacceptable manner (Figure 3.2, lower right quadrant).

Consumers and investors increasingly appear to want to purchase products from and invest in companies that act in socially responsible ways. They may be willing to pay more if they can be assured the companies truly are ethical.[59] The Pulse of the Fashion Industry report found that consumers globally are expressing concerns on issues dealing with sustainability in the fashion industry.[60] Across five countries–the United States, the United Kingdom, France, China and Brazil–75 per cent of shoppers viewed sustainability as 'extremely' or 'very important'. The report also found that of 3000 consumers surveyed globally, 38 per cent expressed a preference to consume products that credibly stood for positive environmental and/or social practices.

With such ethical consumers making up more of the market, many large companies have recognised that they must be perceived as socially responsible by their stakeholders to earn their business. Other companies began their operations with such a commitment, as Adding value 3.2 describes.

Adding value **3.2**

War on plastic bags: are Australian supermarkets taking action?

When supermarkets Coles and Woolworths decided to ban single-use plastic bags in their stores, some shoppers applauded and saw the ban as a positive environmental move, while other shoppers were annoyed that they had to adjust their purchase routine.

Australians use around four billion plastic bags every year—with an estimated 50 million of these entering the environment and ending up in waterways and the ocean.[61] Australia has now joined the 64 international countries in which bans have been introduced, with different degrees of enforcement, including levies. Bangladesh was the first country to ban plastic bags in 2002. Most state governments in Australia have now banned thin single-use bags or have plans to ban them, with NSW still lagging behind on its pledge. Three months in, the National Retail Association (NRA) had reported an 80 per cent drop in the consumption of plastic bags nationwide. This is a significant win considering Woolworths alone estimated that it distributed 3.2 billion single-use plastic bags annually each year.[62]

But other shoppers expressed a wave of annoyance, to which the supermarkets responded by offering thicker plastic bags to assist in their transition to reusable bags, for which they would later be charged 15 cents (see Exhibit 3.9). Coles managing director John Durkan said the supermarket wanted to do the right thing by its customers who 'had found the transition to purchasing reusable bags difficult'.[63] Claire Peters, managing director at Woolworths, expressed a similar sentiment, stating that some customers found forming the habit of bringing their own reusable bags challenging.

But it wasn't only supermarket customers who were annoyed. Environmental lobby group Greenpeace said Coles' decision was bad for the planet as thicker reusable plastic bans have the potential to do more damage to the environment because they take longer to break down. Co-founder of not-for-profit organisation Take 3 for

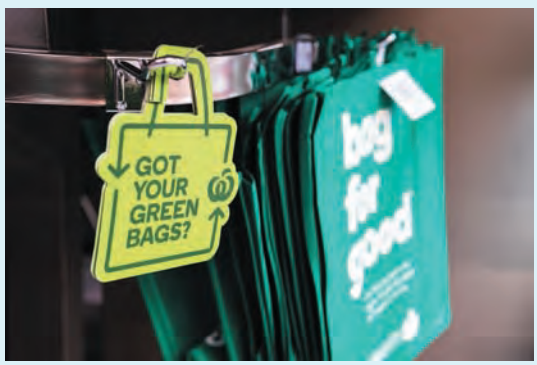


Exhibit 3.9 Some customers found the transition to reusable plastic bags difficult.

© anystock/Shutterstock

Continued

the Sea, Tim Silverwood, noted that the timing of the plastic ban was 'ripe' to push ahead given the opinion of a majority of consumers who are demanding a reduction in plastic pollution. And adding to the supermarkets' woes was their decision to give away collectable campaigns—Coles with its 'Little Shop' collectable toy plastic replicas range of 30 mini-products and Woolworth's Lion King Ooshies collectables.[64]

Do these plastic campaigns mean supermarkets are taking a step back after banning single-use plastic bags? How will shoppers decide to process this conflicting information? Ultimately, for these major supermarkets, quarterly sales and profits will be the measure of whether shoppers applaud or remain annoyed.

We cannot expect every member of a firm always to act ethically. However, a framework for ethical decision-making can help move people to work towards common ethical goals.

LO 3.3 A FRAMEWORK FOR ETHICAL DECISION-MAKING

Figure 3.3 outlines a simple framework for ethical decision-making. Let's consider each of the steps.

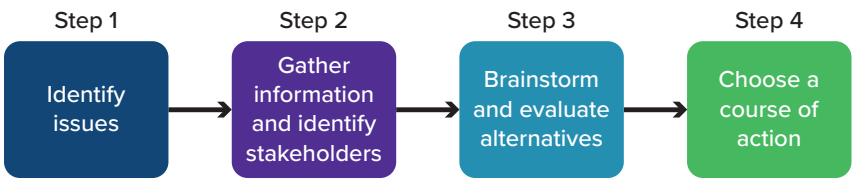


Figure 3.3 Ethical decision-making framework

Step 1: Identify issues

The first step is to identify the issue. For illustrative purposes, we will investigate the use (or misuse) of data collected from consumers by a marketing research firm. One of the issues that might arise is the way the data is collected. For instance, are the respondents told about the real purpose of the study? Another issue might be whether the results are going to be used in a way that might mislead or even harm the public, such as selling the information to a firm to use in soliciting the respondents.

Step 2: Gather information and identify stakeholders

In this step, the firm focuses on gathering facts that are important to the ethical issue, including all relevant legal information. To get a complete picture, the firm must identify all of the individuals and groups that have a stake in how the issue is resolved.

Stakeholders typically include the firm's employees and retired employees, suppliers, the government, customer groups, shareholders and members of the community in which the firm operates. Beyond these, many firms now also analyse the needs of the industry and the global community, as well as 'one-off' stakeholders, such as future generations and the natural environment. In describing its sustainability and transparency efforts, for example, the electronics firm Philips notes that it tries to communicate with and consider 'anyone with an interest in Philips'.[65]

Step 3: Brainstorm and evaluate alternatives

After the marketing firm has identified the stakeholders and their issues and gathered the available data, all parties relevant to the decision should come together to brainstorm any alternative courses of action. In our example, these might include halting the market research project, making responses anonymous, instituting training on the AMA Code of Ethics for all researchers and so forth. Management would then review and refine these alternatives, leading to the final step.

Step 4: Choose a course of action

The objective of this last step is to weigh the various alternatives and choose a course of action that generates the best solution for the stakeholders using ethical practices. Management will rank the alternatives in order of preference, clearly establishing the advantages and disadvantages of each. It is also crucial to investigate any potential legal issues associated with each alternative. Of course, any illegal activity should immediately be rejected.

To choose the appropriate course of action, marketing managers will evaluate each alternative using a process something like the sample ethical decision-making metric in Figure 3.4. The marketer's task here is to ensure that they have applied all relevant decision-making criteria and to assess their level of confidence that the decision being made meets those stated criteria. If the marketer is not confident about the decision, they should re-examine the other alternatives. Using Figure 3.4, you can gauge your own ethical response. If your scores tend to be in the green area (1 and 2), then the situation is not an ethically troubling situation for you. If, in contrast, your scores tend to be in the dark purple area (6 and 7), it is ethically troubling and you know it. If your scores are scattered or in the yellow area, you need to step back and reflect on how you wish to proceed.

	Decision						
	Yes			Maybe		No	
Test	**1**	**2**	**3**	**4**	**5**	**6**	**7**
The publicity test Would I want to see this action that I'm about to take described on the front page of the local paper or in a national magazine?							
The moral mentor test Would the person I admire the most engage in this activity?							
The admired observer test Would I want the person I admire most to see me doing this?							
The transparency test Could I give a clear explanation for the action I'm contemplating, including an honest and transparent account of all my motives, that would satisfy a fair and dispassionate moral judge?							
The person in the mirror test Will I be able to look at myself in the mirror and respect the person I see there?							
The golden rule test Would I like to be on the receiving end of this action and all its potential consequences?							

Figure 3.4 Ethical decision-making metric

Source: Adapted from The Art of Achievement: Mastering the 7 Cs of Business and Life, Andrews McMeel Publishing LLC, 2002

Appendix 1 presents a series of ethical scenarios designed to assist you in developing your skills at identifying ethical issues. Use Figure 3.4 to help you evaluate these scenarios. In using such an ethical metric or framework, decision-makers must consider the relevant ethical issues, evaluate the alternatives and then choose a course of action that will help them avoid serious ethical lapses. Next, let's illustrate how the ethical decision-making metric in Figure 3.4 can be used to make ethical business decisions.

Myra Jansen, the head cook at a public school in Randomville, Western Australia, has had enough. Reports showing that children rarely eat enough vegetables have combined with studies that indicate

school children have a limited amount of time to eat their lunches. The combination has led to increasing obesity rates and troublesome reports about the long-term effects. Jansen has therefore decided that the meat pies, chips and hot dogs are out. Vegetables and healthy proteins are in.

The problem, of course, is getting the kids to eat raw vegetables, plant proteins and lean meat. For many teenagers, recommending that they eat healthy food at lunch is akin to calling detention a play date. But Myra plans to reformulate various menu items using different ingredients and just never tell the students. Thus the regular hot dogs will be replaced with turkey or soy dogs. The chips will contain the more nutrient-dense sweet potatoes instead of vitamin-deficient regular potatoes. She is convinced she can make such switches for most of the menu items and none of the children need to know.

Most of the kitchen staff are onboard with the idea and have even suggested other possible menu switches that would benefit the students by ensuring that they receive a well-balanced meal at school. School board members, when apprised of the idea, became very excited and praised Myra for her innovative thinking. But the community liaison officer for the school, whose job it is to communicate with parents and other members of the community, is not so sure. Salim Jones is nervous about how students will react when they learn that they have been deceived. He also has two small children of his own, one of whom has a severe wheat allergy. Thus, the Joneses are extremely cautious about eating out, always asking for a detailed, specific list of ingredients for anything they order.

Using his training in ethical decision-making, Salim evaluates his alternatives, beginning with identifying possible options available to the school district, as well as the various stakeholders that might be impacted by the decision. He comes up with the following list:

1. Switch the food without telling students.
2. Leave menus as they are.
3. Switch the food but also tell students exactly what is in each item.

To make a clear recommendation to the board about which would be the best ethical choice, Salim decides to evaluate each alternative using a series of questions similar to those in Figure 3.4.

- **Question 1: Would I want to see this action described on the front page of the local paper?** The school board's reaction caused Salim to think that the larger community would appreciate the effort to improve students' health. Thus, option 1 appears best for these stakeholders and possibly for society, which may reduce the prevalence of obesity among these students. However, he shudders to think about how angry students might be if they learned they had been tricked. They are also likely to be accustomed to their menu as it is and, therefore, they would prefer option 2.
- **Question 2: Would the person I admire most engage in this activity and would I want him or her to see me engage in this activity?** For most of his life, Salim has held up Mahatma Gandhi as his ideal for how to act in the world. For Mahatma Gandhi, truth was an absolute concept, not something that could be changed depending on the situation. Therefore, Salim believes Mahatma Gandhi would strongly disapprove of option 1. However, Mahatma Gandhi also worried about the ethics of eating and took care to avoid food choices that had negative effects on society, so he might reject option 2 as well.
- **Question 3: Can I give a clear explanation for my action, including an honest account of my motives?** In thinking about his children, Salim realises that he is prioritising their needs over the needs of other children, such as those who struggle with weight issues. That is, he worries that his daughter might unknowingly be exposed to wheat in a school cafeteria, so he prefers option 3.
- **Question 4: Will I be able to look at myself in the mirror and respect what I see?** By bringing up the ethics of this decision, even when it seems as if everyone else has agreed with it, Salim feels confident that he has taken the right first step. The option chosen is still important, but it is a group decision and Salim thinks he is doing his part.
- **Question 5: Would I want to be on the receiving end of this action and its consequences?** Salim struggles most with this question. He remembers the kind of junk foods he chose when he was at school and the 10 kilos he put on as a result. He wishes now that his parents had given him rules to follow about what to eat at school. But he also remembers how rebellious he was and knows that he probably would not have followed those rules. And at the same time, he hates the idea that someone could give him food to eat with substituted ingredients.

On the basis of this exercise, Salim decides that he wants to recommend option 3 to the school board. When he does so, Myra Jansen protests loudly: 'This is ridiculous! I know better what kids should be eating and I know too that some community liaison officer has no idea what they are willing to eat. You have to trick them to get them to eat right.' Another school board member agrees, noting: 'They're just kids. They don't necessarily have the same rights as adults, so we are allowed to decide what's best for them. And hiding the healthy ingredients to get the kids to eat healthy foods is what's best.'

So what does the school board decide?

CHECK YOURSELF

1. Identify the stages in the ethical decision-making framework.

INTEGRATING ETHICS INTO MARKETING STRATEGY

LO 3.4

Ethical decision-making is not a simple process, though it can get easier as decision-makers within the firm become accustomed to thinking about the ethical implications of their actions from a strategic perspective.[66] In this section, we examine how ethical decision-making can be integrated into the marketing plan introduced in the online appendix. The questions vary at each stage of the strategic marketing planning process. For instance, in the planning stage, the firm will decide what level of commitment to its ethical policies and standards it is willing to declare publicly. In the implementation stage, the tone of the questions switches from 'can we?' serve the market with the firm's goods or services in an ethically responsible manner to 'should we?' be engaging in particular marketing practices. The key task in the control phase is to ensure that all potential ethical issues raised during the planning process have been addressed and that all employees of the firm have acted ethically. Let's take a closer look at how ethics can be integrated at each stage of the strategic marketing planning process.

Planning phase

Marketers can introduce ethics at the beginning of the planning process simply by including ethical statements in the firm's mission or vision statements. Greenbatch Foundation, a not-for-profit organisation, developed Western Australia's first plastic bottle reprocessing plant. With its mission to reduce the plastic being sent to landfill, Greenbatch takes the PET and HDPE plastic, processing and recycling it and turning it into 3D printer filament. Greenbatch is partnering with schools around Western Australia to give waste plastic a new life, encouraging them to collect plastic bottles and trade them in for printer filament.[67]

Qantas' commitment to environmental sustainability has seen the Qantas group announce a strategic plan to 'reuse, recycle and compost' at least three-quarters of its general waste by the end of 2021. Recognising that more than 30 000 tonnes of waste is generated annually by Qantas and Jetstar in Australia, some of the initiatives will include: coffee cups that can be recycled or composted; eliminating single-use plastics by switching to alternative packaging and removing unnecessary paper, such as boarding passes. Qantas is also offering its frequent flyers incentives to fly carbon neutral by earning Qantas Points to offset their flights.[68]



Exhibit 3.10 Feed bags. To date, more than 107 000 meals have been provided.

Source: Courtesy of FEED

During the planning stage, ethical mission statements can become the means to guide a firm's **SWOT analysis**. Companies are electing to donate part of their proceeds to charities of their choice. Feed, founded in 2007, is one such company. Identifying as an impact-driven lifestyle brand, Feed donates school meals to communities in need with every product sold. They provide their funds to the UN World Food Programme (global school meal programs) and No Kid Hungry (domestic school meal programs). The brand also partners with artisans from Kenya to India with the goal of providing sustainable livelihoods for their artisan communities. The numbers on the products sold represent the number of school meals donated with purchases. Another example is Newman's Own, which had what most would consider a simple but powerful purpose: the company

SWOT analysis
A planning exercise in which managers identify organisational Strengths, Weaknesses, (environmental) Opportunities and Threats.



Exhibit 3.11 ROMA Boots' mission is to merge fashion with philanthropy to 'give poverty the boot'.

Source: Courtesy of Roma Boots

would sell salad dressing (initially; it expanded later to many other product lines) and use the proceeds to benefit charities. Today, Newman's Own and Newman's Own Organic products are sold in 15 countries and include dozens of lines, from coffee to popcorn to dog food. Profits from Newman's Own–over US$280 million since 1982–have been donated to thousands of charities, especially Newman's Hole in the Wall Gang camps for children with life-threatening diseases.[69]

In another example, ROMA Boots' mission is to merge fashion with philanthropy to 'give poverty the boot'. Founded in 2010, the company donates one boot for every boot sold, which goes to a child in need across 27 countries (see Exhibit 3.11).

The unique mission of these companies and the entrepreneurial flair of their founders means that employees have the great satisfaction of giving back to society, various charities benefit from the donations and customers enjoy the products offered with a clear conscience.

Implementation phase

In the implementation phase of the marketing strategy, when firms are identifying potential markets and ways to deliver the 4Ps to them, firms must consider several ethical issues. Sometimes a firm's choice of target market and how they pursue it can lead to charges of unethical behaviour. For instance, Snapchat ran an ad for an online game site that asked users 'Would you Rather?' and offered the options 'Slap Rihanna' or 'Punch Chris Brown'.[70] Commentators stated that the ad crossed a line in making light of domestic violence, and criticised the flippant reference to violence against women when globally about one in three women (35%) worldwide have experienced either physical and/or sexual intimate partner violence or non-partner sexual violence in their lifetime. Snapchat responded to the public uproar by issuing an apology and removing the ad, stating that it was approved in error, as it violated its advertising guidelines.[71]

Marketing through social media has some particular ethical concerns associated with it, especially when it comes to celebrities using social media as a communication platform, as Social media and mobile marketing 3.1 shows.

Social media and mobile marketing 3.1

Believe me … I'm a celebrity

Social media influences our lives across a broad spectrum of activities, which includes accessing and sharing information, socialising and making everyday decisions concerning issues such as our health, wellbeing, happiness and purchasing behaviour. In 2019, with an estimated 15 million active users of Facebook in Australia, and with Instagram coming in at nine million monthly active Australian users,[72] the risk of misinformation and what and who to trust has become a minefield. This is especially the case when celebrities use their status via social media for promotion, to create lifestyle sites and give advice on topics in which they lack expertise. And yet, they often hope to make an impact as socially and ethically responsible brands with credentials. Should social media provide the building blocks for those perceived as celebrities to engage and build intimate relationships through highly curated social media



Exhibit 3.12 Celebrities often use various social media platforms to share their lives.

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feeds, allowing them to be seen as trusted experts by their audiences? A number of celebrities have thought so.

Celebrity chef Pete Evans' comments that sunscreen was 'poisonous' appeared to receive support from his 1.5 million Facebook followers.[73] However, when approximately, two in three Australians will be diagnosed with skin cancer by the time they are 70 years of age,[74] the Cancer Council and the Australian Medical Association labelled his comments as irresponsible and ill-informed.

Belle Gibson positioned herself as a wellness guru and blogger, claiming she cured herself of terminal cancer by rejecting conventional medicine in favour of a healthy diet and lifestyle. She had accrued 200 000 followers on Instagram. Using a blog and social media, she promoted her Whole Pantry app and cookbook, featuring lifestyle advice and healthy recipes. Gibson's wellness app was downloaded 300 000 times and she received AU$500 000 from the proceeds of sales of her app and book. In 2015, it was revealed that Gibson did not have cancer and she was exposed as a fraud; however, this was not before she had spent AU$91 000 of the proceeds she had pledged to donate to charities, donating only about AU$10 000 of the AU$500 000. She was fined AU$410 000.[75]

In the United States, Jessica Alba's Honest brand—marketed as using only safe, non-toxic ingredients in its household cleaners, nappies and personal care products—agreed to pay US$1.55 million for a class action settlement in response to misleading buyers about ingredients in its laundry detergent and dish soap.[76] With an Instagram page of 16 million followers, Alba is relaunching her Honest Beauty line through the Honest brand. Whether her followers agree valuable lessons actually come from making mistakes will remain to be seen.

However, other celebrities use social media as an effective communication platform to raise awareness for a number of worthy causes which, importantly, are validated by their followers. With 7.4 million followers, Angelina Jolie is a UN Goodwill Ambassador and uses her celebrity status to promote awareness of her charity work that addresses humanitarian crises around the world. The Jolie–Pitt Foundation assists and addresses issues such as abuse, adoption, fostering, orphans, disaster relief, education, refugees, poverty and human trafficking.[77] Jamie Oliver, positioning himself as a celebrity chef, has built up his reputation on campaigns such as improving the standard of school meals and addressing issues including childhood obesity and workplace eating habits.[78] Oliver's social media presence via Facebook (2.5 million followers), Twitter (2.5 million followers) and YouTube (over 5000 subscribers) has indeed served as a multi-channel platform to engage and offer personalised experiences for his followers.

Once the strategy is implemented, controls must be put in place to be certain that the firm has actually done what it set out to do. These activities take place in the next phase of the strategic marketing planning process.

Control phase

During the control phase of the strategic marketing planning process, managers must be evaluated on their actions from an ethical perspective. Systems must be in place to check whether each potentially ethical issue raised in the planning process was actually successfully addressed. Systems used in the control phase must also react to change. The emergence of new technologies and new markets ensures that new ethical issues continually arise. Social media and mobile marketing 3.2 uncovers many of these new privacy issues.

Social media and mobile marketing 3.2

Ethics, information and Facebook: how my data becomes your data

A political consulting firm, a personality-quiz app, data misuse, Facebook and a presidential election. If this wasn't an actual scandal, one that embroiled a number of parties, brought down a company and exposed what third parties can do with private information, the scenario would make for an intriguing fictional 'Whodunnit?' night.

Continued

Facebook exposed data on up to 87 million Facebook users and profiles to Cambridge Analytica, a political data firm. The firm gained private information from a personality-quiz app 'thisisyourdigitallife', developed by Professor Aleksandr Kogan, a researcher employed by the University of Cambridge. However, not only was the private information of those who signed in to Facebook and took the quiz collected, but also that of their friends. Facebook's rules at the time permitted the app to collect information about all of the users and, even more importantly, information about their contacts. However, the fact that Kogan then passed on the private data to Cambridge Analytica violated Facebook's terms of service on using personal data. Cambridge Analytica, hired by President Trump's 2016 election campaign at the time, constructed 30 million 'psychographic' profiles of voters in an attempt to identify the personalities of American voters and micro-segment them to better influence their behaviour.[79] The data included education, location, the groups and pages they liked, their relationship status and where they worked. The profiles divulged such information as personality traits and likes on Facebook pages. However, those involved in the political campaigns stated that they never used the data Cambridge Analytica illicitly acquired from Facebook. Cambridge Analytica and Kogan were consequently suspended from Facebook.



Exhibit 3.13 Social media is a preferred tool for building relationships and communicating with potential customers.

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Data has value. So whose responsibility is it to uphold individual privacy and protect private data? The user's or the platform's? Or both? Data is collected by third parties.[80] Smartphone apps can potentially provide profile data on the user (age, gender, relationship status), location data (nearby base towers, wi-fi routers) and information about every other app on a phone to third parties such as Google Analytics, the Facebook Graph API or Crashlytics.[81]

Approximately a third of the apps available in Google's Play Store have the potential to transfer data to 10 third parties, with one in five apps able to share data with more than 20. For example, FaceApp, a Russia-based app that applies filters to photos to make users look older or younger, processes photos by storing them in the cloud. Although there is a statement that photos will not be shared or sold, the data can be anonymised and used for other purposes, such as advertising. Yet the app has been downloaded from Google Play by more than 100 million users.[82] In the case of the Cambridge Analytica scandal, 270 000 people installed the personality app and consented to the app collecting their personal data.[83] Should consumers have a better understanding of their privacy settings? Should Facebook users be more proactive in educating themselves on how their personal data is being accessed, transferred and used?

As one of the world's largest social network platforms, should Facebook be more accountable for what happens to the private data collected from its two billion customer base? Facebook was issued with a US$5 billion fine for Cambridge Analytica's privacy violations. The question remains, if Cambridge Analytica was able to gain access to a database of private information from an app developer, how many more of these databases are out there violating our privacy?[84]

Many firms have emergency response plans in place in case they encounter a situation such as a pharmaceutical tampering emergency or an industrial accident at a manufacturing plant. Ethics thus remains an ongoing crucial component of the strategic marketing planning process and should be incorporated into all of a firm's decision-making.

CHECK YOURSELF

1. What ethical questions should a marketing manager consider at each stage of the marketing plan?

CORPORATE SOCIAL RESPONSIBILITY

LO 3.5

In 1906, Upton Sinclair published *The Jungle*, his novel exposing the horrific conditions in US meat-packing plants, which prompted US President Theodore Roosevelt and Congress to force meat companies to take responsibility for the safety of their products. The notion of societal marketing and corporate social responsibility (CSR) has changed significantly since then and its prevalence has increased rapidly in recent decades. Today, companies undertake a wide range of CSR initiatives, such as establishing corporate charitable foundations; supporting and associating with non-profit groups; supporting community activities; and following responsible marketing, sales and production practices. Social responsibility is one of the key measures used by *Fortune* for its list of the most admired companies (see Table 3.1).

Table 3.1 Top admired companies and their CSR programs

Rank	Company	Illustration of CSR program
1	Apple	More than 60 per cent of paper used in packaging is from recycled wood fibre
2	Amazon	Facilitates the donation of electronic devices and gift cards to schools
3	Berkshire Hathaway	Donates billions of dollars to the Bill and Melinda Gates Foundation
4	Walt Disney Entertainment	Supports Disney's Planet Challenge, worldwide animal and conservation fund
5	Starbucks	Develops community stores that partner with local non-profits aimed at meeting the needs of the communities
6	Microsoft	Developed a system with the American Red Cross that provides vital information on people's welfare in a disaster aftermath
7	Alphabet Internet Services	Provides environmental protection and natural disaster response initiative
8	Netflix	Provides student scholarships and charities, such as the Giving Pledge Charity
9	JPMorgan Chase & Co.	Provides substantial support to community college and other non-traditional career pathway programs
10	FedEx	Delivered 399 tonnes of relief supplies at no charge to Hurricane Katrina victims; provides health and human services support through relationships with Fondation de France, Child Relief and You (CRY), India, and SOS Kinderdorf in Germany
11	Southwest Airlines Co.	Employees donate volunteer hours to Ronald McDonald Houses throughout the United States
12	CostCo Retailers	Supports the 'Renewed, reused and recycled' initiative, using cardboard to ship and display merchandise and to give to customers to carry their shopping home
13	Nike Apparel	Addresses the impact of climate change on the supply chain and reduces its environmental impact
14	Salesforce	Supports its sustainability strategy through development of renewable sources of energy across global operations
15	Coca-Cola	Spent $102 million through 'The Coca-Cola Campaign', focusing on water stewardship, healthy and active lifestyles, community recycling and education
16	American Express	Partners with the National Trust for Historic Preservation through the World Monuments Fund to preserve sites in the United States and worldwide
17	Johnson & Johnson Pharmaceuticals	Funds non-profits that fight HIV/AIDS around the world
18	Singapore Airlines	Supports the arts by partnering with local and overseas museums to bring international exhibitions to destinations on its network
19	Boeing	Committed to helping children and youth through educational enrichment and support programs
20	Nordstrom	Supports communities by partnering with programs such as 'Shoes that Fit', which donates new shoes to children, and MAC Viva Glam, which supports HIV/AIDS research, education and programs through sales

Source: Adapted from 'World's Most Admired Companies', *Fortune Magazine,* 20 March 2019, Copyright © 2019, Time Inc. Used under licence.



Exhibit 3.14 For Nike, sustainability matters!
© The Washington Post/Contributor/Getty Images

One of *Fortune's* most admired companies, Nike, concentrates its sustainability efforts in several areas.[85] Highlights include:

- **Minimising environmental footprint.** Its 'Reuse-a-shoe' program has recycled approximately 30 million pairs of shoes (see Exhibit 3.14). Since 2010, more than three billion plastic bottles have been diverted from landfills and converted into recycled polyester for Nike performance products.
- **Transforming manufacturing.** Nike supports innovations in technology and sustainable labour practices. Nike's aim for 2020 was for 100 per cent of contract factories to transform their businesses 'to be lean, green, equitable' and empowering for workers.
- **Investing in human potential.** Nike raises awareness of the physical inactivity epidemic and works towards getting school-aged children active. The 'Let's move! Active schools partnership' has helped reach more than 10 million kids across the United States since 2013.

Some economists and social commentators suggest that CSR is unnecessary–that the goal of any corporation in a capitalist economy is simple: to make money.[86] How does it benefit the company or its shareholders if a company worries about such unquantifiable issues as being a good citizen? Or what is the point of companies attempting to rebrand themselves as champions of the environment when in fact they don't have a meaningful commitment to green initiatives? By announcing green marketing declarations, through making misleading and unsubstantiated claims, companies can attempt to take advantage of growing consumer demand for environmentally friendly products.[87] Such a phenomenon is referred to as **greenwashing**; when a company or its products convey a false impression of being more environmentally sound than they really are. This becomes problematic when businesses that appear to be socially accountable and responsible are shown in their business practice to be otherwise. This is illustrated below.

greenwashing
The practice of making an unsubstantiated or misleading claim about the environmental benefits of a product, service, technology or company practice.

Avon publicly advocates respect for animals, highlighting its anti-animal-testing policy. However, it also states that it operates in China, which legally requires animal testing on 'special use' products at accredited laboratories.[88] And Starbucks, listed as one of the most admired companies (see Table 3.1), has recently announced that it will eliminate all plastic straws, in an attempt to help reduce the more than one billion plastic straws used globally that end up in landfills and the ocean. Instead, it has settled on an adult 'sippy cup lid'. Although the lid will be made from an acceptable recyclable plastic, approximately 9 per cent of the world's plastic is actually recycled, with the other 91 per cent sitting in landfill, floating in oceans or being burned.[89] Given that the lids will use more plastic in the manufacturing process, it may be difficult to gauge whether Starbucks' decision to eliminate plastic straws but to use more plastic will be environmentally beneficial in the long run.[90] Another of the most admired companies, Apple, faced the 'batterygate' scandal, which involved slowing down iPhones over time. Can this strategy be considered commensurate with the company's commitment to being environmentally focused and continuously working to reduce its environmental footprint? The main concern here is that because Apple creates demand for new smartphones, the manufacturing process, including the mining of rare earth metals, is generating more CO_2 emissions than consumers emit after purchasing a smartphone. In fact, a new smartphone takes as much energy to build as it does to recharge and operate a smartphone for an entire decade once purchase occurs. Is it socially responsible to offer cheaper battery replacements and to apologise for having purposely slowed down old models in an attempt to force consumers to upgrade?[91]

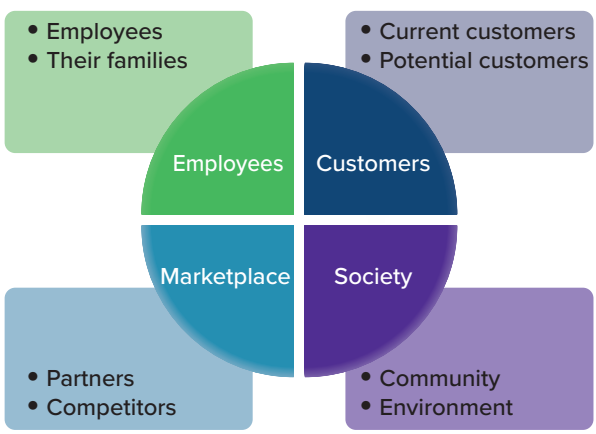


Figure 3.5 Key CSR stakeholders

When companies embrace CSR, they appeal not only to their shareholders, but to their key stakeholders (Figure 3.5), including their own employees, consumers, the marketplace and society as a whole. Thus, an insurance provider differentiates its goal, 'to be a profitable company', from its calling 'to be an ethical partner to our stakeholders–one that plays by the rules and demonstrates leadership in the arena of business ethics'.[92]

Let's consider each of these stakeholder categories to understand the meaning and effects of CSR in the modern marketing arena, as well as how CSR can ultimately benefit the firm that undertakes it.



Exhibit 3.15 CSR programs must adapt quickly to shifts and trends.

© Jacob Lund/Shutterstock/DAL

Employees

Perhaps the most basic CSR to employees is to ensure a safe working environment, free of threats to their physical safety, health or wellbeing. In some cases, this basic level of safety seems insufficient in terms of responsibility to workers. An insurance provider might regard its pay-for-performance structure a key element of its responsibility to its employees, with the notion that everyone, from call centre operators to the CEO, faces the same compensation standards. In this sense, it ensures equality of treatment and fairness in compensation, meaning the insurance company earns a reputation as a good place to work and increases its potential job applicants. Happy employees should also provide a better service to customers, which in turn ensures better outcomes for the firm. In addition to focusing on employees, more firms are realising that happy employee families make happy and productive employees. Consequently, firms are focusing their efforts on outreach programs aimed at their employees' families.

Customers

As the marketing environment changes, firms must consider the effects on their current and potential customers. CSR programs must take shifts and trends into account and react to them quickly. A few of the trends that are receiving the most attention include respecting and protecting privacy in an electronic world and ensuring the healthiness of products, especially those aimed at children. Moreover, CSR often increases consumer awareness of the firm, which can lead to better brand equity and sales in the long run. For example, Qantas with UNICEF's 'Change for Good' program has raised tens of millions of dollars over the 20-plus years of the partnership. And supermarkets Woolworths and ALDI have aligned with food rescue organisations (such as Foodbank and OzHarvest) to donate unsold food to support people in need. Woolworths' surplus food that cannot be used by charities is used as fertiliser and as animal feed in partnerships with some zoos. ALDI Australia's commitment to reducing food wastage has seen the donation of over 3175 tonnes of quality surplus food since 2017 through its partnership with OzHarvest.[93]

Other companies might embrace existing initiatives, such as 'National walk to work day', aimed at raising awareness of the health benefits of walking. By participating, employers and employees are encouraged to be more active and to build regular walking into their daily routines. 'Australia's biggest morning tea' invites organisations to host a morning tea on behalf of the Cancer Council as a way of 'coming together' for a fundraising event.[94] Companies that adopt such initiatives can be seen to display high levels of social responsibility. Boots pharmacy in the UK has actively practised and applied its commitment to operating as a socially responsible business, both at the organisational and the community level. Employees are encouraged and supported in further education opportunities, and the Boots Charitable Trust has donated over £10 million to date to charities across the country.[95]

NGOs are also leading a number of campaigns for social good. For the month of November, men around the world are asked to take part in Movember, a charitable foundation that raises awareness of men's health issues (see Exhibit 3.16). Since its beginnings in 2004, the charity has funded more than 1200 men's health initiatives worldwide. Every October, VicHealth, in its capacity as a health-promotion foundation, funds the 'Walk to School' campaign. The event is designed to promote regular physical activity and raise awareness of the physical, environmental and social benefits of active travel (walking to school). In 2018, 147 776 children took part from 746 schools across Victoria and walked more than 1.7 million kilometres during October.[96]



Exhibit 3.16 Movember is changing the face of men's health.

© Reamolko/Shutterstock



Exhibit 3.17 Companies such as GE are leading the way in CSR.

© Todamo/Shutterstock/DAL

Marketplace

When one firm in an industry leads the way in CSR, its partners and competitors often have no choice but to follow–or run the risk of not doing business or being left behind. To address issues such as global warming, water scarcity and energy, GE uses Ecomagination, which encompasses a business strategy comprised of four commitments: to double investments in clean R&D; increase revenue from Ecomagination products; reduce greenhouse gas emissions; and inform the public about these issues.[97] The formation of Ecomagination 2020 in 2015 saw a focus on 'innovation, sustainability and problem-solving' with like-minded companies such as Intel, Goldman Sachs, MWH Global, BHP, Masdar and Statotoil. GE is hoping its sustainability program impacts areas such as 'industrial energy-efficiency, water-reuse adoption, energy-neutral wastewater, and new hybrid renewable solutions'.[98]

When confronted with such initiatives, other energy companies are forced to make a decision: continue as they have been doing or adopt more responsible practices. In either case, the initiating firm enjoys an advantage by gaining a reputation for being on the cutting edge of CSR efforts.



Exhibit 3.18 Community and stakeholders have a voice to ensure companies act responsibly.

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Society

Firms expend considerable time and energy engaging in activities aimed at improving the overall community and the physical environment. According to a McKinsey & Co. survey, 95 per cent of CEOs in the United States believe that society increasingly expects companies to take on public responsibilities.[99] That is, in a broad sense, companies cannot ignore societal demands that they act responsibly. A firm that fails to do so causes damage to all stakeholders, as well as itself. Perhaps the most famous recent example is BP, which failed to offer adequate protection to the workers on the *Deep Horizon* deep-sea oil rig, failed to ensure that consumers could enjoy waters free of oil contamination, and did not live up to marketplace standards for safety. As a result, society as a whole suffered, as did BP's corporate reputation, profits and outlook for the future. In contrast, organisations working proactively with local communities may foster long-term relationships. Fortescue's commitment to local employment and the residential workforce through training and employing Indigenous workers is a community initiative aimed at changing the lives of thousands of young people in the Pilbara region.[100]

CHECK YOURSELF

1. How has corporate social responsibility evolved since the turn of the twenty-first century?
2. Provide examples of each of the stakeholders that firms should consider in their corporate social responsibility efforts.

Case study **3.2: Barramundi: an Australian icon?**

When in a restaurant, would you order the barramundi or the Asian sea bass? Quite probably you'd choose the barramundi (as it's a well-known and iconic Australian fish, isn't it? Even the name, barramundi, is a borrowed Darumbal word, meaning 'large-scaled river fish'). But did you know that they're the same thing? The practice of changing the names of fish to make them sound more appealing to customers is quite common. A better sounding name might make a fish easier to promote and sell, but it can also cover up a range of unethical and unsustainable practices. Ensuring consistent name recognition and building and maintaining brand recognition is not a new marketing tactic, but is it an ethical one?

Consider the barramundi, a fish that has high-consumer appeal. Assuming you (or someone you know) didn't catch it, there are three likely sources of the fish you're being offered. First, wild caught by fishers in the waters off Northern Australia. Second, farmed in Australia, probably in Queensland or the Northern Territory. Third, where most of the barramundi sold in Australia is sourced (up to 60 per cent), wild caught in Indonesia or farmed in a range of countries, especially Vietnam.

In 2018, the barramundi fishing industry in the Northern Territory was on the point of collapse. Not only was there an oversupply of wild caught fish following two good seasons, but, more seriously, many retailers and wholesalers had switched to farmed fish. Farmed fish can be supplied all year round, in reliable sizes and volumes. Questions over taste between farmed and wild caught fish had been largely resolved through better management of water quality in the farming operations. (A Townsville-based farm even won the Champion Fresh Fish category at the Sydney Royal Fine Food Fair in 2019.) But, like operating the equipment to catch wild fish, farming fish in Australia is a costly business.

The cheaper wholesale price of imported fish, together with lack of regulation around the amount imported, means that Australian fish, in many instances, can't compete on price. Australian aquaculture is a heavily regulated industry, with stringent controls on environmental effects. The fishing industry has its own set of controls, with the goal of maintaining a sustainable fishery. These industries in other countries are often not subject to the same regulatory environment, and a poorer quality fish, unsustainably produced, can be the result.

Country of origin labelling that applies to the retail sector does not yet apply to the food service industry. If introduced, it may go some way to alleviating the problem and will allow the consumer to be better informed, albeit in a limited way. In the meantime, when it comes to fish, it remains the consumer's responsibility to ask questions about what they are eating.

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Questions

1. If you owned and operated a seafood restaurant, how could you implement CSR principles in relation to what you put on the menu?
2. Is labelling of seafood (e.g. changing names to make it more palatable) to build a value perception in the eyes of consumers an ethical issue if no laws are broken? Discuss.
3. Should the onus to be better informed about seafood choices be placed on the consumer? Discuss.

SUMMING UP

LO 3.1 Identify the ethical values marketers should embrace.

Being a part of an ethically responsible firm should be important to every employee but is particularly important to marketers, because they interact most directly with customers and suppliers, which offers a multitude of ethical questions and opportunities. AMA's Code of Ethics indicates that the basic ethical values marketers should aspire to are honesty, responsibility, fairness, respect, openness and citizenship.

Continued

LO 3.2 Distinguish between ethics and social responsibility.
Individuals and firms can (and should) act ethically, but the outcome of their acts may not affect society in general. An ethical act may only affect the firm's immediate stakeholders, such as its employees, customers and suppliers. To be socially responsible, a firm must also take actions that benefit the community in a larger sense, for example helping people who have been affected by a natural disaster such as a bushfire.

LO 3.3 Identify the four steps in ethical decision-making.
First, firms can include ethics and social responsibility in their corporate mission. Second, they should institute policies and procedures to ensure that everyone working for the firm is acting in an ethically responsible manner. Third, firms can model their ethical policies after a well-established code of ethics such as the one provided by the AMI (Australian Marketing Institute) https://ami.org.au/. Fourth, when making ethically sensitive decisions, firms can utilise a metric such as the ethical decision-making metric shown in Figure 3.4.

LO 3.4 Describe how ethics can be integrated into a firm's marketing strategy.
Ethical and socially responsible considerations should be integrated into the firm's mission statement, as long as top management follows through and commits to supporting a strong ethical climate within the organisation. When considering their marketing strategy, firms should ask not only 'Can we implement a certain policy?' but also 'Should we do it?' Finally, in the control phase, marketers must determine whether they truly have acted in an ethical and socially responsible manner. If not, they should make changes to the marketing strategy.

LO 3.5 Describe the ways in which corporate social responsibility programs help various stakeholders.
To answer this question, we first have to identify the various stakeholders of a company; namely, the customers, employees, marketplace and society. CSR benefits these stakeholders as follows:

- **Customers.** When companies adopt CSR, customers know that they can trust these firms to provide healthy, ethically acceptable goods and services. Many customers also prefer to buy from a company that engages in responsible practices, which provides them with the additional value of feeling good about buying from that company.
- **Employees.** A firm committed to CSR likely treats its employees with decency and respect. For many employees, working for an irresponsible firm would be antithetical to their own morals and values.
- **Marketplace.** An industry improves its practices and avoids scandals when it ensures that the participating firms act responsibly and appropriately in all areas.
- **Society.** This stakeholder is local, national or global communities. The benefits of CSR in all cases are numerous—cleaner air and water, aid to the underprivileged and healthier product options can all result from CSR by companies.

KEY TERMS

- business ethics 67
- corporate social responsibility (CSR) 73
- ethical climate 68
- greenwashing 84
- marketing ethics 67
- SWOT analysis 79

MARKETING APPLICATIONS

1. Why are marketers more likely to be faced with more ethical dilemmas than members of other functional areas, such as finance, accounting or real estate?
2. Develop an argument for why a cosmetics manufacturer should build and maintain an ethical climate.
3. A clothing company gives generously to charities and sponsors donation drives to help lower-income teen girls get reasonably priced formal dresses. It also locates its manufacturing plants in countries with few labour laws, such that it does not know if children are working in its factories, and works to prevent union activity among its employees. Evaluate this company from an ethical and social responsibility perspective.
4. Based on the evaluation you developed for Question 3, provide responses to the ethical decision-making metric from Figure 3.4. Provide a rationale for your score for each question.
5. A company that makes muesli and other 'healthy' foods has the following mission statement: 'Our goal is to profitably sell good-tasting, healthy products and to better society'. Although its products are organic, they are also relatively high in sugar and calories. The company gives a small portion of its profits to the United Way. Evaluate its mission statement.

6. A health inspector found some rodent droppings in one batch of muesli made by this same company (in Question 5). What should the company do? Base your decision on the ethical decision-making metric in Figure 3.4.
7. Choose a company that you believe is particularly socially responsible. How do you justify your choice? What counterarguments might someone make to suggest that your chosen company is not responsible? Consider all key stakeholders in developing both sides of the argument.

QUIZ YOURSELF

1. Burger King's Whopper Sacrifice campaign was seen to be a violation of the ethical norms of social media because:
   a. it compromised users' privacy
   b. it promoted stereotypes of people who consume fast food
   c. it was unfair to employees at Burger King
   d. it went against the purpose of social media, which is about making connections
   e. no customers were interested in it
2. The Harvestville school board is concerned about deteriorating school facilities, combined with a shrinking budget. The board began by studying the issue and then identified parents, children, teachers, staff and taxpayers as groups who have a vested interest in solving the problem. The school board has listened to each group's concerns. In the ethical decision-making framework, its next action should be to:
   a. identify issues of concern to lawmakers
   b. assess the impact of its actions beyond the classroom
   c. engage in brainstorming and evaluate alternatives
   d. choose a course of action
   e. all of the given answers

(Answers to these two questions can be found on page 455.)

NET SAVVY

1. Perhaps no subdiscipline of marketing receives more scrutiny regarding ethical compliance than direct marketing, a form of non-store retailing in which customers are exposed to and purchase merchandise or services through an impersonal medium such as telephone, mail or the internet. Ethical issues in direct marketing cover a broad spectrum because this means of selling is conducted through all forms of communication.

   The Australian Association of National Advertisers (AANA) is the peak national body championing the interests of Australia's advertisers. The board exists to inspire and promote responsible, innovative and respected marketing, through a commitment to sustainable industry collaboration. Go to the AANA Code of Ethics (at https://aana.com.au/content/uploads/2014/05/AANA-Practice-Note-Code-of-Ethics.pdf). List the different ways in which the AANA is involved in assisting consumers, the community and the industry to create a more ethical marketplace.
2. An increasing number of firms are stating their strong commitment to corporate social responsibility initiatives. The Corporate Social Responsibility Newswire (CSRwire) keeps track of these various initiatives and posts stories on its website about what various corporations are doing. What are the advantages of a digital media platform such as CSRwire in showing CSR and sustainability standards globally? Are there any disadvantages?

CHAPTER CASE STUDY

Greenwashing: walking the green talk

By Dr Eugene Chan, Monash University

Consumers today are placing a premium on 'green' and environmentally friendly products. Firms have responded by endeavouring to make their products green and sustainable, while also engaging in corporate social responsibility (CSR) at the company level. Companies also frequently tout the green-friendliness of their firms and products. Yet, at the same time, the use of environmental claims attracts scrutiny by parties interested in protecting consumers, including federal regulatory

Continued

bodies, non-governmental organisations (NGOs) and the media. These agents constantly monitor and verify companies' green claims. One notable example was the September 2015 Volkswagen (VW) emissions scandal. The German carmaker touted its green-friendliness, yet its position was toppled by the US Environmental Protection Agency after it found that VW had programmed its diesel engines to activate emissions controls only during laboratory testing.

The communication of clear and specific green claims has thus attracted scrutiny from lawmakers and regulatory agencies. In many countries around the world, federal regulatory bodies discourage or even ban the use of broad or vague environmental claims that can not be directly and objectively tested. According to the US Federal Trade Commission, vague environmental claims are to be avoided or at least must be substantiated with reliable scientific evidence. In Europe, Article 6(1): a) and (b) of the Unfair Commercial Practices Directive emphasises clear, truthful and accurate information. In Australia, Australian Consumer Law protects the consumer against unfair contract terms, unsafe products, lay-by agreements and all kinds of unfair business practices. These regulations are backed up by research demonstrating the misleading effects of vague claims.

While environmental proactivity has a positive effect on financial profitability, firms are unlikely to benefit financially in the event of negative corporate environmental performance—that is, when their green claims are proven otherwise by third-party agents. Consumers tend to react negatively when an environmental claim made by a company is proven false—even more strongly than when there is a negative environmental event (e.g. the BP oil spill) followed by an apology and a promise of future environmental commitment. Thus, consumers are more concerned about companies telling the truth; they are relatively more accepting of companies that made an environmental mistake and apologise afterwards.

When firms make a 'green' statement and yet external evidence finds it to be erroneous, this is known as 'greenwashing'. Greenwashing is a peculiar phenomenon that 'tricks' consumer laws across the globe. It is an unethical marketing technique that involves making misleading and unsubstantiated claims about the environmental friendliness of a product. It works because it does not make vague claims, but rather uses vague evidence to back up claims that do not go against legal standards, even in Australia.

To illustrate greenwashing, let's look at several notable examples.

- Cosmetics companies often highlight their anti-animal testing policy, but evidence indicates that they conduct animal testing in China. So consumers think their products are less damaging to animals than other brands, when the reality is different.
- Confectionery companies promote the healthiness of their products, yet, in reality, their products may be loaded with artificial sweeteners in lieu of sugar. Many confectionery brands also abuse community resources. In the UK a report indicated that Cadbury and Nestlé were among several companies that breached water pollution limits 2152 times in a single year. Many consumers stop being faithful to brands once they realise they are making misleading claims.
- Additionally, many firms, especially retailers, tout their 'sustainable development' goals, promoting pictures of clean reefs and happy people on their websites and brochures, yet they do not necessarily take action to cut down their greenhouse gas pollution.

Why do marketers do this, even when they know it's wrong? We are living in an age when environmental friendliness is gaining importance. Consumers are becoming more aware that if they do not act now, negative consequences will ensue for generations to come. The scientific facts are overwhelming, and an increasing number of people are starting to engage in green behaviours, such as using less plastic which is harmful for the environment.

This is where businesses and marketers come into the picture. When consumers demand something, businesses strategise to deliver it. It is usually easier to spend money on campaigns that promote greenness and environmental friendliness rather than to implement changes that make products genuinely environmentally friendly. This is the most common greenwashing strategy: a company highlights an eco-friendly program or policy, but its core business practices are not as sustainable as they might seem.

What can you do as a consumer? Look at the company as a whole. Question every advertisement you come across, and search for more information before making a purchase decision. While laws are there to protect you and the environment, greenwashing is still common, and in the end only you—the consumer—can take a stand and do something about it.

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DISCUSSION QUESTIONS

1. Explain what greenwashing is.
2. Why do companies engage in greenwashing?
3. How do confectionery brands make claims that can't be backed up? What other food categories or industries similarly make claims that can't be backed up?
4. If you were the CEO or manager of a firm, how could you make sure that your firm avoided greenwashing practices?

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CHAPTER 4

Analysing the marketing environment

LEARNING OBJECTIVES

LO 4.1 Outline how customers, the company, competitors and corporate partners affect marketing strategy.

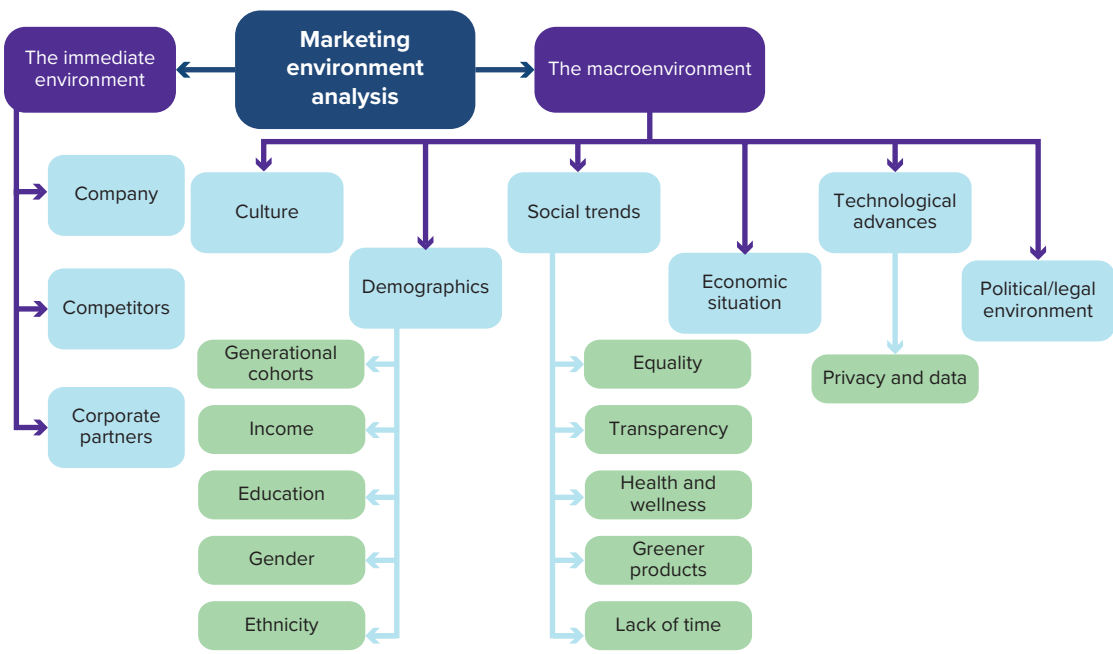
LO 4.2 Explain why marketers must consider their macroenvironment when they make decisions.

LO 4.3 Describe the differences among the various generational cohorts.

LO 4.4 Identify various social trends that impact marketing.



Source: Google



Graduate spotlight



NAME
Georgie Carey

DEGREE STUDIED
Bachelor of Commerce with Honours in Marketing

UNIVERSITY
The University of Western Australia

CURRENT POSITION
Chief Sock Designer

EMPLOYER
Toe the Line

What did you learn from your degree and how has it prepared you for a career in marketing?
Two of the most important things I learnt were putting customers at the forefront of your decision-making and how to think creatively in order to solve problems. When working for a small business you often need to be creative in your approach given the limited resources, which can be challenging but also really fun.

What interested you about studying or working in marketing?
I love that the skills you learn from studying marketing are applicable across so many different fields. Can you think of an organisation that doesn't use some form of marketing? Studying marketing opens lots of different doors—be it in the corporate world, government, the not-for-profit sector or even starting your own business—the world really is your oyster.

What have you been up to since graduation?
I helped my friend launch Toe the Line while we were both still in university, so since graduating we've been able to put a lot more time and effort into the business. For one of our recent sock collections, we decided to launch our new socks via a Kickstarter crowdfunding campaign and were shocked when our campaign reached its funding goal within 48 hours of launching!

What does your current job involve?
Since Toe the Line is a small business, it's really only the founder and myself. This means that although my primary role is to design the socks, I've had experience in almost all aspects of the business, including business strategy, social media marketing, product photography, dealing with supply chain issues and even designing market stalls.

What do you enjoy most about your job?
For me, the best part of my job is seeing people out wearing the socks I've designed. It's pretty surreal to see something develop from an idea to a sketch to an actual product. I find it very rewarding to know that someone is enjoying what we've created.

What are your thoughts on the future of the marketing and communication industry? What advice would you give to students wanting to work in marketing?
With technological shifts changing the future of work, I believe the demand for the skills marketing teaches you, such as being able to think creatively to generating novel solutions to complex problems, will be more important than ever before. Therefore, whether you want to work directly in a marketing role or not, having some experience in marketing will help you stand out from the crowd.

The term 'trending' has become commonplace due to social media. However, since business began, there has been a need for an awareness and understanding of what 'trending' is. This does not mean which hashtags are dominating social media on a particular day; it means what is going on in the marketing environment.

Businesses and other organisations clearly need to be aware of and understand trends in consumer behaviour, such as the latest healthy eating trend if you are a cafe, or the latest home design ideas if you are a builder. They also need to be aware of what competitors are doing, in order to stay ahead.

Beyond that, what about changes in politics, economics, societies and laws? It is the marketer's job to be aware of and attempt to understand the impact of changes in this broader environment on their organisation. Look at the effect an event such as Brexit or a personality like President Trump can have globally. Businesses cannot afford to just react to events such as these; they must be proactive and even try to influence or lobby for their interests.

A simple example of how marketers might stay on top of what is trending in their particular industry is Google Trends. Marketers, or anyone, can use Google Trends to check what people are searching for this week, this year or over the past five years. This can be limited to areas such as music, shopping, real estate or science. Is this of use to the brands or their competitors? Of course it is! Facebook, Instagram and other social media users get personalised 'Trending' feeds, which are based on their interests, friends and locations. This is their way of keeping up with our broader environment. Businesses and marketers take this to a much more serious level.

Google Alerts is another service that marketers can use to alert them to mentions of key terms, such as their company name or that of their competitor. This, along with closely monitoring what is happening on social media and their organisation's own website, analysing customer data and carrying out broader market research, are all ways for marketers to analyse the marketing environment.

A MARKETING ENVIRONMENT ANALYSIS FRAMEWORK

LO 4.1

Marketers look for changes in what their customers demand or expect, and adapt their product and service offerings accordingly. By paying close attention to customer needs and continuously monitoring the organisation's business environment, a good marketer can identify potential opportunities.

Figure 4.1 illustrates factors in the marketing environment. The key immediate factors are the actions of the focal company, the company's competitors or corporate partners that work with the firm to make and supply goods and services to consumers. Outside of the immediate environment lies the macroenvironment, which includes various cultural, demographic and social, technological, economic and political/legal factors. We discuss each of these components in detail in this chapter and suggest how they might interrelate.

Because the consumer is at the centre of all marketing efforts, value-based marketing aims to provide greater value to consumers than competitors offer. Therefore, the marketer must consider the entire business process, all from a consumer's point of view.[1] Consumers' needs and wants, as well as their ability to purchase, depend on a host of factors that change and evolve over time. Marketers use various tools to keep track of competitors' activities and consumer trends, such as the CIA World Factbook, the Department of Foreign Affairs and Trade, the World Bank, Google Trends, Google Alerts, Google Analytics and Instagram Insights, and they rely on various methods to communicate with their corporate partners. Furthermore, they monitor

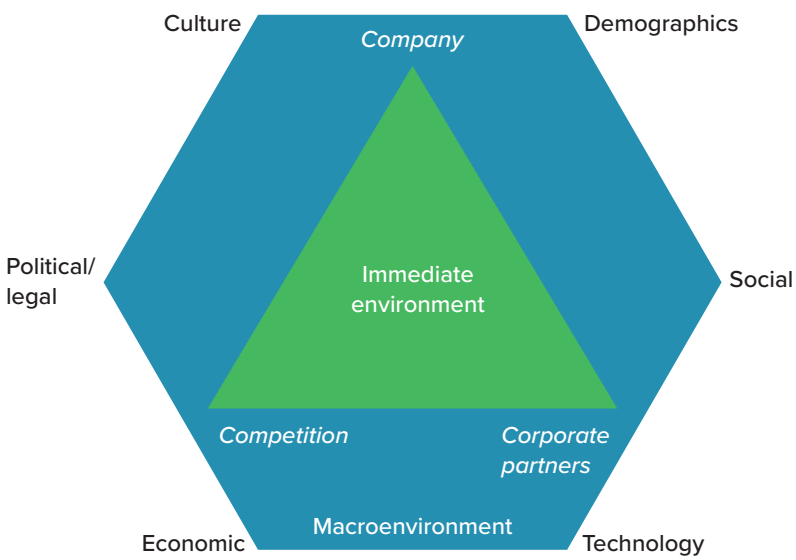


Figure 4.1 Understanding the marketing environment

their macroenvironment to determine how such factors influence consumers and how they should respond to them. Sometimes, a firm can even anticipate trends.

One useful tool for marketers is a SWOT analysis. A SWOT analysis forces a marketer to consider and analyse the firm's strengths and weaknesses, which tend to be internal and thus in the immediate environment. It also forces marketers to equally consider and analyse the firm's opportunities and threats, which tend to be external, sitting across both the immediate and macroenvironments.

THE IMMEDIATE ENVIRONMENT

Figure 4.2 illustrates the factors in the immediate marketing environment: the company's capabilities, competitors and corporate partners.

Company capabilities

In the immediate environment is the firm itself. Successful marketing firms focus on satisfying customer needs that match their core competencies. Apple, for example, originally specialised in the manufacture, distribution and promotion of personal computers, but has refocused in response to changing trends to provide a range of electronic entertainment devices and services, such as the iPad, Apple Watch and Apple Music. Other organisations specialise in differing aspects. Consider what Audi specialises in, and therefore what its brand means, compared to Honda or Kia. Even consider your university; what does it state are its key competencies?

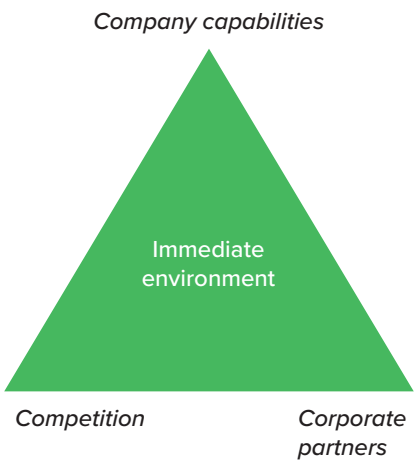


Figure 4.2 Understanding the immediate environment

Competitors

Competition is also a significant factor in the immediate environment. It is therefore critical that marketers understand their firm's competitors, including their strengths, weaknesses and likely reactions to the marketing activities that their own firm undertakes. Who has an iPhone and who has an Android? This is the ultimate level of competition, and each organisation needs to be aware of the other's plans, as much as is legally and ethically possible. Apple and Samsung have had patent violation disagreements over the years, resulting, for example, in a US Supreme Court ruling that Samsung does not have to pay a $399 million penalty to its American rival for copying key iPhone designs.[2] What is clear is that millions of consumers rely on these two electronics giants and this market forces both companies to continually strive for a competitive advantage. This underlines the importance of knowing what a competitor is doing and may be about to do, and understanding that companies may try to curb competitor tactics that may be considered damaging. But at the same time, each company touts its benefits over its competitors, because the ultimate goal, of course, is to appeal to consumers (see Exhibit 4.1).



Exhibit 4.1 Apple and Samsung: an example of hypercompetition.

© Peter Macdiarmid/Getty Images

Corporate partners

Few firms operate in isolation. For example, vehicle manufacturers collaborate with suppliers of sheet metal, tyre manufacturers, component part makers, unions, transport companies and dealerships to produce and market their vehicles successfully. Parties that work with the focal firm are its corporate partners.

Consider the example of Qantas and Emirates, who have developed a long-term corporate partnership to increase the effectiveness and efficiency of their global flight operations (see Exhibit 4.2). Rather than competing directly with each other in a possibly damaging price war between two airlines at the premium end of the market, they made the decision that cooperation is the best way towards mutual profitability. For customers, the benefits are facilitated global connections and more seamless bookings. However, with such partnerships,



Exhibit 4.2 Qantas and Emirates: a partnership.
Source: Courtesy of Qantas Airways Limited

questions are raised about over-efficiency leading to job losses and too much power over customers with regard to their choice and pricing. A recent example of this is the knock-back of another partnership proposed by Qantas, this time with Cathay Pacific.[3]

CHECK YOURSELF

1. What are the components of the immediate environment?

macroenvironmental factors
Aspects of the external environment that affect a company's business, such as the culture, demographics, social issues, technological advances, economic situation and political/legal environment.

MACROENVIRONMENTAL FACTORS

LO 4.2

In addition to understanding their customers, the company itself, their competition and their corporate partners, marketers must understand the **macroenvironmental factors** that operate in the external environment; namely, the culture, demographics, social issues, technological advances, economic situation and political/legal environment, or CDSTEP, as shown in Figure 4.3.

Culture

culture
The set of values, guiding beliefs, understandings and ways of doing things shared by members of a society; this exists on two levels: visible artefacts (e.g. behaviour, dress, symbols, physical settings, ceremonies) and underlying values (e.g. thought processes, beliefs and assumptions).

We broadly define **culture** as the shared meanings, beliefs, morals, values and customs of a group of people.[4] Transmitted by words, literature and institutions, culture is passed down from generation to generation. You participate in many cultures: your family has a cultural heritage, so perhaps your Christmas day is spent over a turkey lunch or a barbecue, or your Chinese New Year is spent enjoying some dumplings, spring rolls and nian gao. Your university or workplace also shares its own common culture. In a broader sense, you participate, too, in the cultural aspects of the town and country in which you live. The challenge for marketers is to have products identifiable by and relevant to a particular group of people. Our various cultures influence what, why, how, where and when we buy. Two dimensions of culture that marketers must take into account as they develop their strategies are the culture of the country and that of a region within a country.

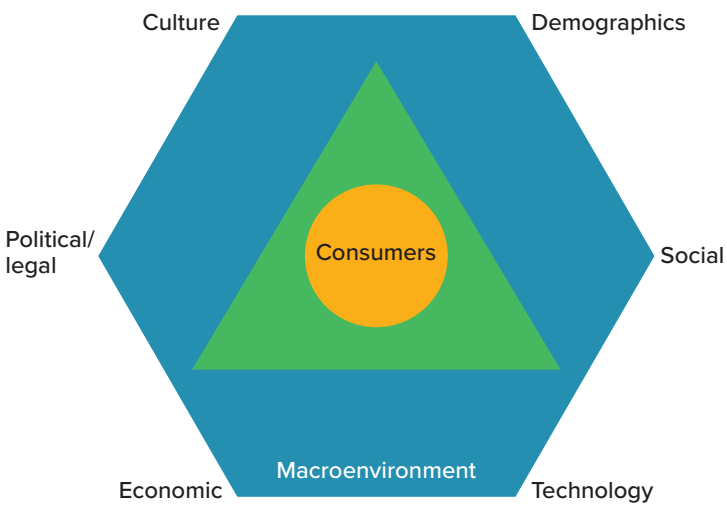


Figure 4.3 The macroenvironment

Country culture

The visible manifestations of a country's culture, such as its artefacts, behaviour, dress, symbols, physical settings, ceremonies, language differences, colours and



Exhibit 4.3 Subaru's ad targets Australian values.

Source: Subaru (Aust) Pty Ltd.

tastes and food preferences, are easy to spot. But the subtler aspects of **country culture** are generally trickier to identify and navigate. Sometimes the best answer is to establish a universal appeal within the specific identities of country culture. Volkswagen and other global car manufacturers have successfully bridged the cultural gap by producing advertising that appeals to the same target market across countries. The pictures and copy are the same. The only thing that changes is the language. However, others such as Subaru appeal to different cultural elements within country cultures, as seen in the 'Australiana' campaign run for the Outback SUV in Australia (see Exhibit 4.3).

country culture
Entails visible, country specific-manifestations; such as dress, symbols, ceremonies, language, colours and food preferences.

Regional culture

The region in which people live within a particular country has its own **regional culture** that affects many aspects of people's life; for instance, the way they might refer to a particular product category. For example, ordering a beer in Australia can get complicated, with different names for different sizes of beers in different states. There are pots, ponies, middies, schooners and pints, with each varying in size across states. Of course, this is a relatively simple example, but it nonetheless shows how regional marketing must be spot-on. Within a country as large and diverse as China, for example, regional cultural differences are prominent between Beijing, Shanghai and Hong Kong. Imagine the difficulty firms have in developing promotional materials that transcend these regional differences.

regional culture
The influence of the area within a country in which people live.

LO 4.3

Demographics

Demographics indicate the characteristics of human populations and segments, especially those used to identify consumer markets. Typical demographics such as age–which includes generational cohorts–gender, race and income are readily available from international market research firms such as Forrester and Gartner. Today, technological advances are allowing more organisations to carry out their own market research. For example, the FlyBuys loyalty card scheme spans numerous service providers gathering wide-ranging data on customer demographics and purchases, which Coles Supermarkets, in particular, uses to tailor marketing offerings. Demographics provide an easily understood 'snapshot' of the typical consumer in a specific target market, as the next few sections detail.

demographics
Information about the characteristics of human populations and segments, especially those used to identify consumer markets such as by age, gender, race, income and education.

Generational cohorts

Consumers in a **generational cohort**–a group of people of the same generation–have similar purchase behaviours because they have shared experiences and are at the same stage of life. Baby boomers (people born after World War II, in the period 1946–1964) will have different behaviours from generation Y (people born between 1980 and 1994), also known as millennials; and generation Y will in turn be different from generation Z (people born between 1995 and 2010). Think about fashion, technology and travel purchases as examples.

Applying age as a basis to identify consumers is quite useful to marketers, as long as it is used in conjunction with other consumer characteristics. For example, most media are characterised by the consumers who use them.[5] Age groups can identify appropriate websites, television shows and apps on which firms should advertise, as well as lists for email and telemarketing campaigns. Age is also useful for identifying the best social media outlets (e.g. Twitter, Instagram, Facebook). Figure 4.4 presents the two most recent generations.

generational cohort
A group of people of the same generation; they typically have similar purchase behaviours because they have shared experiences and are at the same stage of life.

Generation Z

Generation Z, born from 1995 to 2010, are also known as the **digital natives** because people in this group were born into a world that was already full of electronic gadgets and digital technologies, such as the internet and social networks.[6] These technologies are being developed and adopted at an unprecedented rate. While it took 38 years for the radio to be adopted by 50 million people and 13 years for television, it took only two years for the same number of consumers to sign up for Facebook.[7] Because of the technologies available to them, these digital natives will be more globally connected than previous generations. Therefore they might have a better appreciation of diverse

generation Z (gen Z) or digital natives
Also known as digital natives, because people in this group were born into a world that was already full of electronic gadgets and digital technologies, such as the internet and social networking sites. Cohort born between 1995 and 2010.

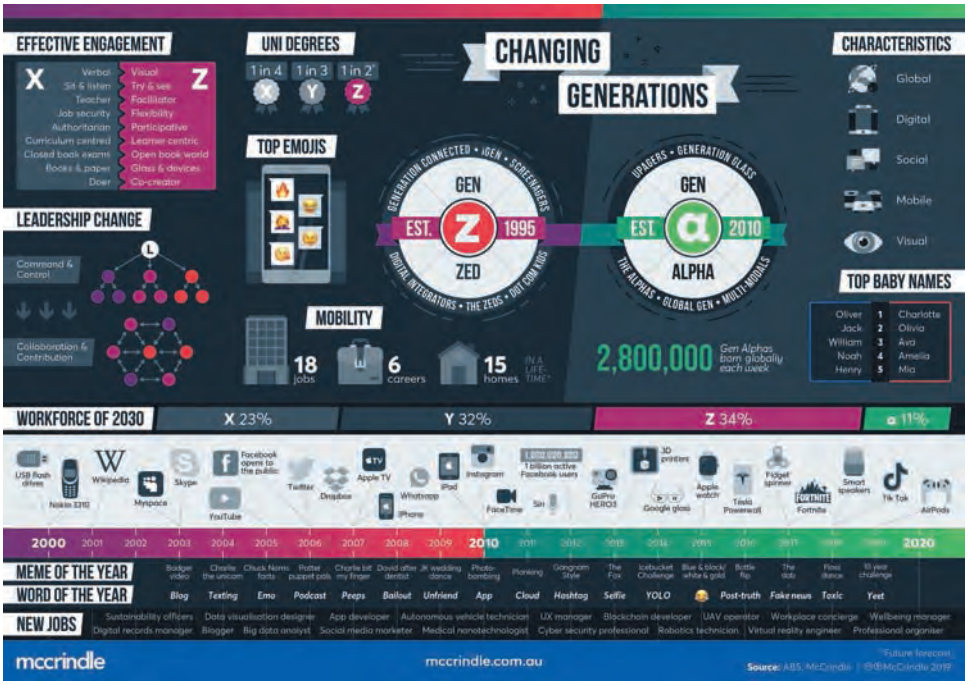


Figure 4.4 Characteristics of the latest generational cohorts: generation Z and generation Alpha.
Source: © McCrindle Research Pty Ltd, https://mccrindle.com.au/insights/blogarchive/gen-z-and-gen-alpha-infographic-update/

cultures, but generation Z consumers were also born into a world confronted by national and international terrorism, often facilitated by technology and widespread environmental concerns.

This wave of digital natives is about to enter the world of employment in developed countries. Organisations will have to adapt to social media being used both personally and professionally, to stay up to date and to network. Fewer and fewer organisations are banning access to social media and sites such as YouTube, and are instead trying to embrace it as a new way of doing business. High-flying marketing executives have shown how far understanding new social technologies can get you. Many of the world's top CEOs are active on social media, including the CEOs of BuzzFeed, Airbnb, Uber and Facebook.[8] In education, digital natives welcome the use of social media, which challenges traditional models of learning.[9]

As children, generation Z are being raised by and have a lot in common with their generation X parents, whom we discuss later.[10] Generation Z and their parents increasingly watch the same television channels, such as Nickelodeon, especially when it broadcasts 'nostalgic' shows that the parents remember and the children enjoy anew. Both groups also like video games, leading the industry to develop family-oriented games on communal consoles, such as the Nintendo Wii. Finally, because many generation Z kids still go shopping with their parents, they are developing an affinity for the same brands, prompting retailers such as Gap (GapKids, babyGap), Bardot (Bardot Junior) and Cotton On (Cotton On Kids) to develop special product lines to accommodate their demands. But at a certain point, such accommodation might cross the line into exploitation, as Ethical and societal dilemma 4.1 suggests.

Ethical and societal dilemma **4.1**

The next target: infants?

By the time a child is three years old, he or she can recognise an average of 100 brand logos.[11] Marketers can make use of this information to ensure that their logos and advertising communication are prominent on packaging, as well as on the toys themselves, to prompt children to demand their brand from gift-giving parents.

The influence does not stop with toys. More companies are placing advertisements in schools and on buses. Advertising is rife on social media. Even though you must be at least 13 years old to sign up

Continued

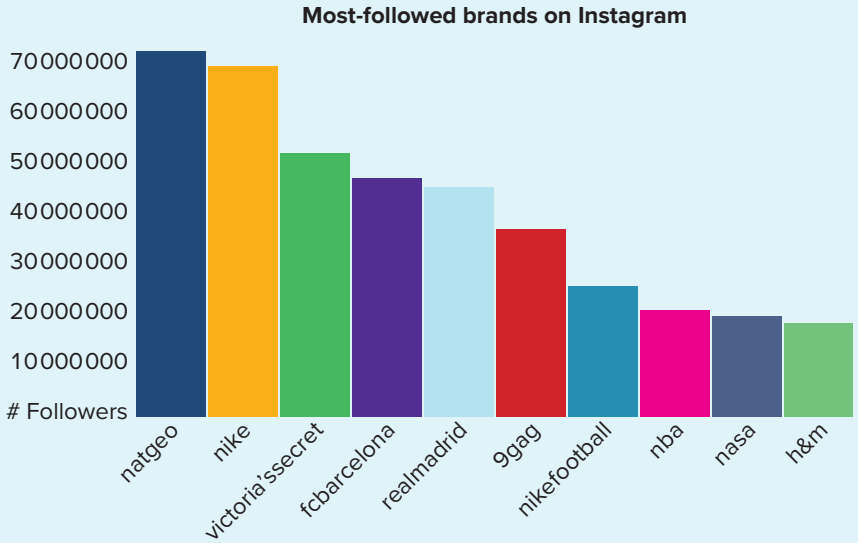


Exhibit 4.4 Most-followed brands on Instagram.

Source: Based on data from Instagram

for an account on Facebook, Instagram and other social media, this rule is difficult to enforce. The rule relates to the US' *1998 Children's Online Privacy Protection Act.*[12]

For social media companies, inviting children to join offers two main advantages. First, it encourages their brand loyalty to the site itself. If a child creates a Facebook or Snapchat account at the age of 13, she is unlikely to take it down by the time she is 15 or 18 or even 26 years old. Second, by making the concept of sharing information more familiar to users from a very young age, the social media companies help encourage the type of behaviours it needs from consumers for it to survive. If digital natives have few expectations of privacy but rather share all of their preferences online, advertisers enjoy greater access to their ideas and thoughts.

Brands can then use this information to market their own products to children. Look at the brands with the most followers on social media: how many of these followers are children (see Exhibit 4.4)? The law struggles to keep up with marketing to children on social media.

Of course, access also potentially extends to sexual predators and others who might do harm to children. Research from 2016 in Australia shows that 40 per cent of people under the age of 18 worry about receiving hostile or demeaning texts, emails or messages. Specifically, 64 per cent of females from years 6 to 12 reported being cyber-bullied.[13] Thus, the question becomes: is expanding demographic target markets to ever-younger children a boon for marketers? Or is it rather a danger to children?

Generation Y

generation Y (gen Y) or millennials
The generational cohort of people born between 1980 and 1994; the biggest cohort since the postwar baby boom. Also known as *millennials*.

Generation Y, also called **millennials**, are people born between 1980 and 1994. They make up more than 25 per cent (five million) of all Australians. In fact, this group makes up more than 25 per cent of the world's population. India, in particular, is one of the 'youngest' countries in the world. In 2020, 65 per cent of its population is under the age of 35 and the average age is 29.[14] Children of the baby boomers, this group is 12 per cent larger and a major target for marketers worldwide. The group varies a lot in age, ranging from teenagers to adults who have their own families.[15] Now that millennials are progressing through the workplace, it has become apparent that its members have different expectations and requirements from those of other cohorts. Millennials put a strong emphasis on balancing work and life—these young adults want a good job, but they also want to live in a location that supports their lifestyle. They also consider marriage secondary, and not obviously necessary, to being good parents themselves.[16]

The younger edge of this group has never lived without the internet or easy access to mobile phones, which makes them technologically savvy. As a result, these millennials are the first generation to truly look and consume very similarly across countries. Due to social media and global television providers, millennials share behaviours and interests across previously impassable borders. It is difficult

to tell the difference in appearance between millennials in Australia, Malaysia, China and other developed countries, based solely on their 'uniforms' of jeans, sneakers and T-shirts. They are very connected and use these connections, rather than marketers or advertising, to make product and service consumption decisions. Eighty-four per cent of millennials do not trust traditional advertising.[17]

Generation X

The next group, **generation X (Xers)**, includes those born between 1965 and 1979 and represents some 4.4 million Australians, which is 21 per cent of the population.[18] Vastly unlike their baby boomer parents, Xers are the first generation of latchkey children (those who grew up in homes in which both parents worked) and in countries such as the United States, United Kingdom and Australia, up to 50 per cent of them may have divorced parents. Unlike most previous generations, they are unlikely to enjoy greater economic prosperity than their parents.[19]

generation X (Xers)
The generational cohort of people born between 1965 and 1979.

Although fewer in number than generation Y or baby boomers, Xers possess considerable spending power because they tend to get married later and buy houses later in life. They're much less interested in shopping than their parents and far more cynical, which tends to make them astute consumers. They demand convenience and tend to be less likely to believe advertising claims or what salespeople tell them. Because of their experience as children of working parents, who had little time to shop, Xers developed shopping savvy at an early age and knew how to make shopping decisions by the time they were teenagers. As a result, they grew more knowledgeable about products and more risk averse than other generational cohorts.

Baby boomers

After World War II, the birth rate in most countries rose sharply, resulting in a group known as the **baby boomers**, which includes around three million Australians (14% of the population).[20] In China, the figure is similar, at around 16 per cent.[21] As this large group of consumers ages past 60, the implications for marketing, business, public policy and society in general are significant. Although the baby boomer generation spans 18 years, experts agree that its members share several traits that set them apart from those born before World War II. First, they are individualistic. Second, leisure time represents a high priority for them. Third, they believe that they will always be able to take care of themselves, partly evinced by their feeling of economic security, even though they are a little careless about the way they spend their money. Fourth, they have an obsession with maintaining their youth. And finally, they will always love rock 'n' roll.

baby boomers
The generational cohort of people born after World War II, between 1946 and 1964.

The move from suits and ties to jeans and T-shirts in business is a direct result of baby boomers imposing their values on the workplace as they have moved into upper management positions.[22] Boomers, who wore tie-dyed shirts, ripped jeans and long hair in their younger days, have pushed their casual lifestyles into the workplace and virtually every aspect with which they are associated. Recognising the opportunity, Levi-Strauss developed its Dockers line of casual shirts and khakis. However, in Australia an Mi9 report found that only 10 per cent of advertising spend is directed towards baby boomers, despite the fact that this age group is currently entering a 'lifestyle' stage where they have more disposable income than any other group. This is despite the fact that Australia's baby boomers are worth an average of $1 million each and hold more than 40 per cent of the nation's wealth.[23]

Food companies have targeted baby boomers with healthier options for cereals, frozen meals and snacks that have no cholesterol, low fat and no sugar. Kellogg's targets women with its range of Special K cereals and snacks, and goes further by encouraging discussion around healthy eating and positive body image (see Exhibit 4.5). Coca-Cola has its Diet Coke option and many more brands have added healthier options. New brands such as Innocent have even been developed wholly on a healthy value proposition.[24] This company was set up in 1999 and makes 'natural, delicious, healthy foods that help people live well and die old'. It has since been acquired by Coca-Cola. Retailers who recognise the immense buying power of the ageing baby boomers cater directly to them with larger fonts on signage, staff available to read the small print on product packaging, and seating options in stores.[25] They note that their older customers, even the ones with moderate incomes, are more focused on quality than price and make decisions on what merchandise to carry accordingly. Finally, and perhaps surprisingly, baby boomers are heavy internet users, with 70 per cent viewing technology positively and as an important part of their lives. They are increasingly relying on socially-generated content to make decisions.[26]



Exhibit 4.5 Kellogg's targets women with its range of Special K cereals and snacks.
© Shutterstock

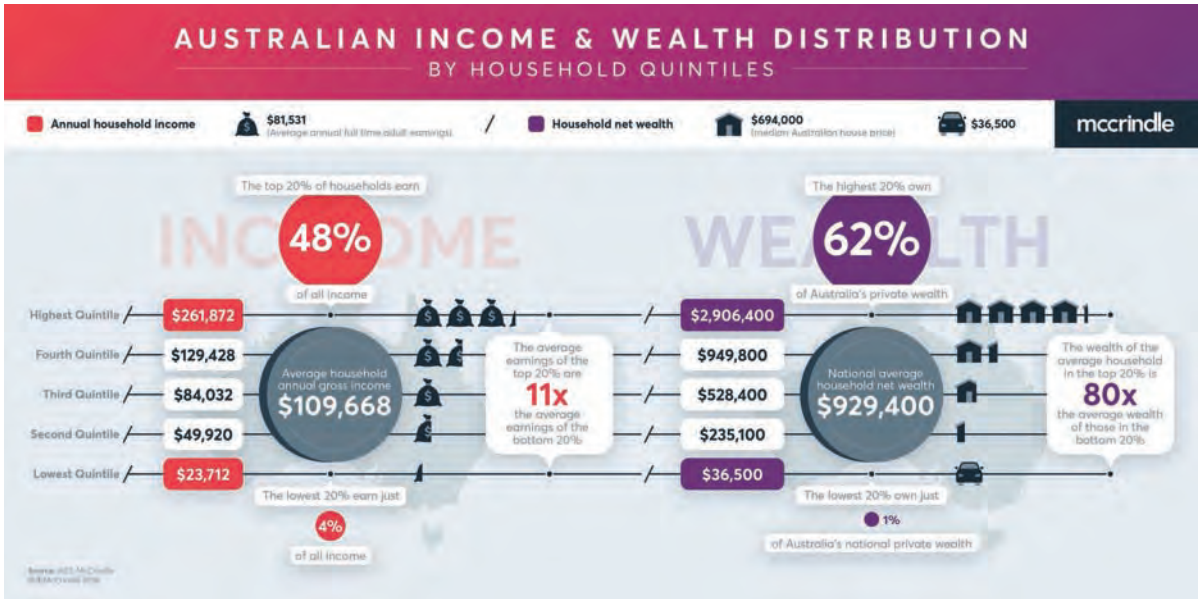


Exhibit 4.6 Australian income and wealth distribution 2018.

Source: © McCrindle Research Pty Ltd, https://mccrindle.com.au/insights/blog/australias-household-income-wealth-distribution/

Income

Income distribution in Australia has grown more polarised (see Exhibit 4.6). The average household income is just under $110 000, but the top 20 per cent earn more than twice this (exceeding $260 000) while the bottom 20 per cent earn around one-fifth of this (a little over $23 000). This means that while the bottom fifth of households get 4 per cent of all income, the top fifth get almost half of all earnings (48%).[27] The increase in wealthy families may be due to the maturing of the general population, the increase in dual-income households and the higher overall level of education. It also may prompt some ethical concerns about the distribution of wealth. However, the broad range in incomes creates marketing opportunities at both the high and low ends of the market.

Although some marketers choose to target only affluent population segments, others have had great success delivering value to middle- and low-income earners. Consider, for example, ALDI, the lower-priced supermarket operating in Australia. Its sales rose by 10 per cent in 2019, to reach $9 billion.[28] At the other end of the market, boutique supermarkets specialising in more expensive produce, perhaps locally sourced, are also succeeding. In the airline industry, Qantas tends to aim at the more expensive end of the market, and Air Asia at the cheaper end. In fact, to also take advantage of the low-cost airline market, Qantas established its subsidiary Jetstar in 2003.

Another aspect of the income demographic relates to the concept of value. In Australia, although household incomes have been increasing dramatically in the past decade, the cost of living has also increased. Inflation has grown by 9.7 per cent since the 2013 election but household incomes have grown by only 7.8 per cent, creating a 1.9 per cent fall in the standard of living.[29] Increases in utilities such as electricity and gas, and economic inflation, contribute to higher costs of living. This trend, along with increased choice and consumer awareness, leads consumers to seek greater value for their dollar.



Exhibit 4.7 Young people are increasingly engaged in higher education in Australia.

© pathdoc/Shutterstock/DAL

Education

Studies show that higher levels of education lead to better jobs and higher incomes. There has been a consistent increase in young people engaging in higher education in Australia (see Exhibit 4.7).[30]

For some products, marketers can combine education level with other data such as occupation and income and obtain fairly accurate predictions of purchase behaviour. For instance, a full-time university student with a part-time job may have relatively little personal income but will spend his or her disposable dollars



Exhibit 4.8 Nivea has created separate product lines and brand imagery for men and for women.

Source: Beiersdorf AG



Exhibit 4.9 Welcoming Australia: creating a more welcoming and inclusive Australia.

Source: Courtesy of Welcoming Australia

differently than would a secondary school graduate who works in a factory and earns a similar income. University students tend to play sports and go to nightclubs, whereas secondary school graduates are more likely to watch sports and go to pubs. Marketers need to be quite cognisant of the interaction among education, income and occupation.

Gender

Years ago, gender roles appeared clear, but those male/female roles have been blurred. This shift in attitude and behaviour affects the way many firms design and promote their goods and services. More firms are careful about gender neutrality in positioning their products and attempt to transcend gender boundaries, especially through increased interactions with their customers. Nivea has created separate product lines and brand imagery for men and for women to recognise men's shifting consumption trends, which tend to remain different from those of women (see Exhibit 4.8). Honda introduced a new car model designed for women in Japan in 2012. The Honda Fit She's features pink stitching on the upholstery, pink-gold chrome finishes and a pink key. This product and campaign rightly attracted criticism for its stereotyping of women, highlighting the ethical challenges facing organisations. In 2013, the car company Kia ran a dual marketing campaign with different television advertisements for men and women during the Australian Open tennis tournament.

Ethnicity

It is reported that that 23 per cent of Australians were born overseas and almost the same percentage speak a language other than English at home and consume non-English media (see Exhibit 4.9).[31] The 'Asian Century' in particular is having major implications for Australia. Because of its proximity to South-East Asia, the Australian population is growing more and more culturally diverse. In New Zealand, the trend is similar. Historically, people migrated to Australia from European countries but today people from Asian countries comprise the largest immigrant group. In 2018, people born in England continued to be the largest group of overseas-born residents, accounting for 4 per cent of Australia's total population. Chinese-born people now form up to 2.6 per cent of the population, with those born in India close behind at 2.4 per cent.[32] Temporary immigration, principally through university students, also has a major impact on the economy. In New Zealand, higher education is worth $4 billion each year and supports over 19000 jobs.[33] Many of these students are international.

Among the different cultural groups, buying power varies but is becoming more homogenised as more Asian immigrants secure professional employment and thus possess increased disposable income. One company that has invested heavily in culturally diverse marketing is the health insurance company Medibank; it commits to an annual sponsorship of Sydney's Chinese New Year festival. Government departments are mandated to allocate around 7 per cent of print marketing and 3 per cent of electronic marketing to culturally diverse communication (see Exhibit 4.10). In 2000,



Exhibit 4.10 Government departments must allocate a proportion of their marketing to culturally diverse communication, such as this Vietnamese-language information pamphlet on child-care assistance.

Source: CC BY 4.0 https://docs.education.gov.au/system/files/doc/other/my_time_our_place_framework_for_school_age_care_in_australia_information_for_families_vietnamese.pdf

the launch of the goods and services tax (GST) was published in 33 languages. Other companies, such as Nokia and McDonald's, have run advertisements in Australia designed to appeal to a range of cultural groups. In 2017, McDonald's ran an advertisement in the lead-up to Australia Day, which promoted 'Macca's' as a place to meet for all Australians. Superior service 4.1 describes how Chemist Warehouse has tapped into the Chinese market.

Superior service **4.1**

Chemist Warehouse for Chinese consumers

Chemist Warehouse is one of the biggest pharmacy retailers in Australia, and Australia is home to one of the largest Chinese diasporas in the world, with 1.2 million people of Chinese background residents in the country.[34] Thus, it makes sense for Australian brands to consider how to market to the Chinese consumer. However, few brands undertake this consideration properly, often relying on using translation or ethnic people in marketing messages to try to reach different ethnic groups. Another example of brands' laziness in this regard is the dominant use of Facebook and Instagram where, for Chinese consumers, WeChat is their channel of choice.

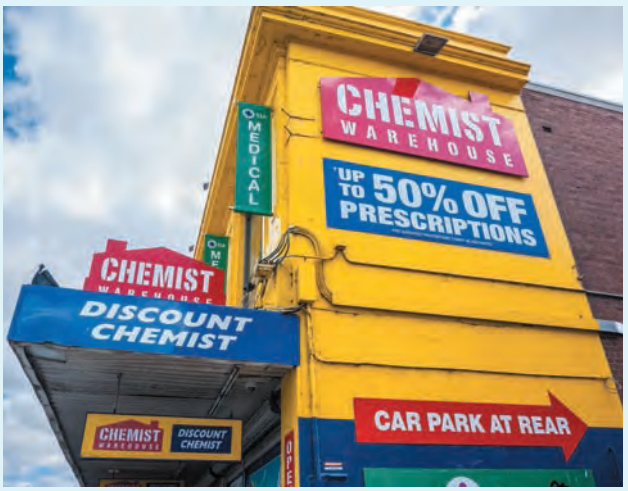


Exhibit 4.11 Chemist Warehouse was able to tap into the Chinese market with its launch on Tmall Global.

© Shuang Li/Shutterstock

In 2015, Chemist Warehouse decided to do things properly. It launched on Tmall Global, Alibaba's e-commerce platform for international products. Its launch was just in time for 'Singles Day', which has become the world's largest online shopping event. Sales on this day alone on Alibaba have reached up to 100 billion yuan (AU$2 billion).

For Chemist Warehouse, the launch was a success, and it became the fastest retailer in the world to sell one million yuan (AU$195 979) in products in just three minutes. More than that, Chemist Warehouse was the first merchant on Tmall Global to reach 10 million yuan (AU$1.96 million) in sales in only 46 minutes.[35]

This significant effort to reach out to consumers in ways that appeal to them and through their native channels pays off. Cultural relevance can lead consumers to want to learn more about a brand, and to buy from that brand; this increases the likelihood to purchase by up to 300 per cent.[36]

Other Australian brands doing well in Chinese and indeed South-East Asian markets are Crumpler, the backpack designer and retailer, and Swisse, the vitamins and supplements producer and retailer.

In many cases, consumers from diverse cultural backgrounds do not understand or are offended by the intended message that a specific marketer is trying to communicate to them. Companies such as Optus, Lebara and Lyca, on the other hand, have been participating in different cultural events such as the Haldon Street Festival in Lakemba, a western suburb of Sydney, and the Beamish Street Festival in Campsie in efforts to reach out to their Asian, Eastern European and Middle Eastern communities. Other companies, such as the Australian supermarket giants Coles, Woolworths and IGA, have focused on new product lines for different cultural tastes. For example, Coles has Asian, Indian and kosher products as well as some halal foods. Nevertheless, these supermarkets have not been as successful as small suburban retail grocery shops.[37]

Social trends

LO 4.4

Various social trends appear to be shaping consumer values in Australia and around the world; including equality, transparency, health and wellness, greener products and lack of time.

Equality

Equality is something we should all expect across all facets of society. Unfortunately, though, not everyone in our society is treated equally. More and more, consumers are pushing brands to take positions on key societal issues, such as equality.[38] Two key aspects of equality receiving particular prominence at the moment are gender and marriage equality. Of course, there are many facets to equality and inequality, such as ability, ethnicity, income and race. Let's consider how marketers respond to what society deems particularly important. With regard to gender equality, Nike's 'Dream Crazier' campaign focused on female athletes who have broken barriers, brought people together and inspired others. Gillette's 'The Best Men Can Be' campaign was an interesting position for a traditionally male-focused brand to take, shining a light on toxic masculinity. The #MeToo movement became a brand in itself, inspiring people around a vital cause, which other brands rallied to support. In Australia, marriage equality was a key issue in 2017. Brands as varied as Ben & Jerry's, Airbnb, Coopers, and the AFL, NRL and FFA all launched campaigns of support. One of the most significant was the position taken by Qantas, as seen in Exhibit 4.12.



Exhibit 4.12 Qantas' prominent participation in the RainbowRoo campaign highlighting the company's stand on the issue of marriage equality.

Source: Courtesy of Qantas Airways Limited

Transparency

Consumers have information to compare goods and services, and pricing tends to be more transparent. We all do our research before making a purchase, relying on consumer review sites, social media and comparison sites. Adding value 4.1 describes a global business born out of consumers' need for transparency.

Adding value **4.1**

Comparison sites

Comparison websites help us get the best deal, for example, in insurance, credit cards, home loans, flights and mobile phone contracts. They are particularly useful for complex product or service decisions. From the marketer's perspective, they encourage transparency around price and benefits offered, and encourage healthy competition.

Research by Nielsen Australia suggests that some of the main reasons consumers cite for using comparison websites are easier comparisons (68%), better-informed purchasing decisions (66%), simpler comparisons (62%) and easier-to-find information (58%).[39] Other research shows that 82 per cent of us spend time researching online before making a purchase decision.[40] The first comparison site in Australia was canstar.com.au, founded in 1992 to assist customers with financial services decisions followed by iselect.com.au, which started in 2000. Since then, there has been comparethemarket.com.au, finder.com.au, goswitch.com.au, webjet.com.au, kayak.com.au and many more. These sites exist across industry sectors.

While the benefits to consumers are clear, these sites also have to work on developing their brand image, reputation and trust. There have been instances where sites have been found to be misleading consumers. In 2012, EnergyWatch was made to pay more than $2 million in penalties for misleading advertising, while in 2014 Compare the Market paid $10 200 over claims relating to its health insurance comparison service.[41] Canstar Blue in Australia (see Exhibit 4.13) is a comparison site where companies

Continued

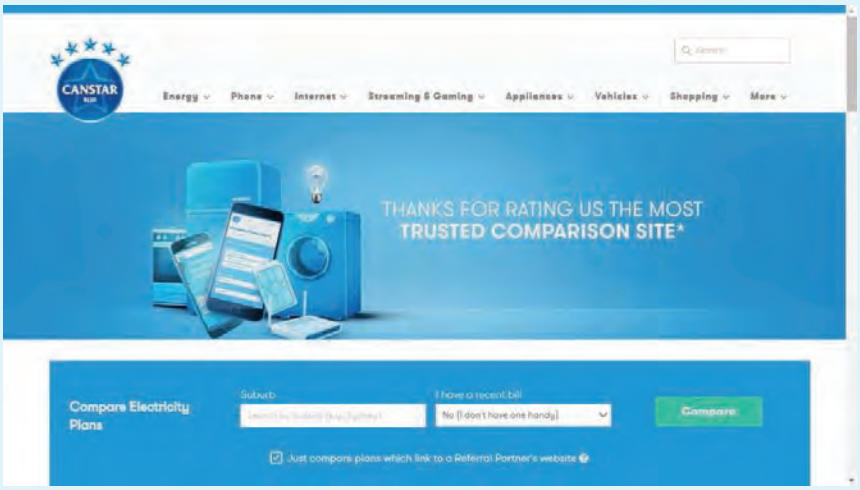


Exhibit 4.13 Canstar Blue: a major comparison website in Australia.

Source: Canstar Blue

don't pay to be listed, and which actually examines the vast majority of products in the markets it covers. It is part of Canstar, and was formed in 2010 to expand beyond the financial services industry.

Research by the Australian Competition and Consumer Commission found that purchases on the actual comparison site are still relatively low, held back by a lack of consumer trust. This means that these sites are still predominantly used for research only—a challenge for their marketers.[42] Australia is also lagging a little behind the United Kingdom and the United States when it comes to consumers using comparison sites, but with the trend of consumers seeking to save money, their continued growth is undoubted.

Health and wellness

Health concerns, especially those pertaining to children, are prevalent, critical and widespread. In Australia, 25 per cent of children aged 2–17 were overweight or obese in 2018. The figure rises to 67 per cent among adults. Aboriginal and Torres Strait Islander Australians are 1.9 times more likely than non-Indigenous Australians to be obese.[43] In New Zealand, the figures are 13 per cent for children (although this applies only to children aged 2–14) and 32 per cent for adults. However, this rises to 47 per cent of Māori adults and 65 per cent of Pacific adults.[44] In China, the figure for children is 20 per cent.



Exhibit 4.14 Public health marketing aims to raise the profile of health issues and provide guidance for individuals and communities.

Source: AMHF

If weight gain continues at current levels, by 2025 close to 80 per cent of all Australian adults and one-third of children will be overweight or obese. Obesity has overtaken smoking as the leading cause of premature death and illness in Australia (see Exhibit 4.14). On the basis of present trends, we can predict that by the time they reach the age of 20, our kids will have a shorter life expectancy than earlier generations simply because of obesity. Rates are also increasing at alarming rates in other countries and among consumers who adopt more western diets.

There are strict laws for marketers wishing to advertise products, particularly to children. For example, junk food advertisements aimed at children are banned online, in print and in the cinema. Sports betting advertisements are banned before 8:30pm during live sporting events. However, marketers are still reaching children. Saturday night programs, such as the sports coverage, family movies and *The Voice*, can expose children to up to

26 junk-food advertisements, such as for chocolate, high-sugar and caffeine-added energy drinks and fast-food chains, over a six-hour viewing period.[45]

At the same time, consumers' interest in improving their health has opened up several new markets and niches focused on fitness and healthy living. New Zealand's health and wellness industry is worth $567 million, and growing.[46] Figure 4.5 shows some detail on the situation in Australia.[47]

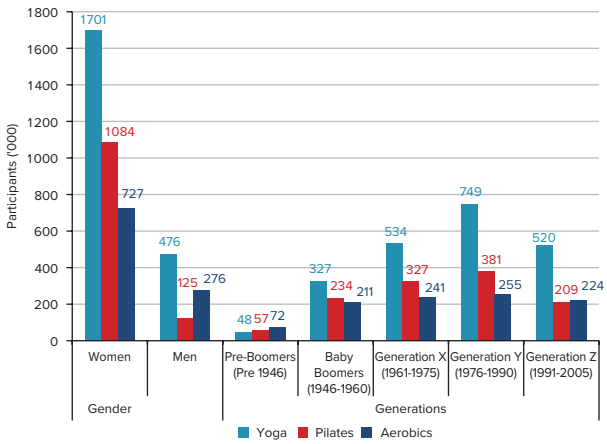


Figure 4.5 Participation in yoga, Pilates and aerobics by gender and generation in 2017

Source: Courtesy of Roy Morgan, http://www.roymorgan.com/findings/7544-yoga-pilates-participation-december-2017-201803290641

As well as physical health, our mental health and wellness is an issue of increased importance across society. Organisations such as Beyond Blue and Headspace are growing and increasing their marketing efforts to educate us more about our mental health, with a growing area of concern being men's mental health. Marketers are responding to the key issues on which, as with equality, consumers expect them to take a position and contribute to the discussion. Take, for example, the '#HereForYou' and '#RealConvo' campaigns by Instagram, which has since hidden the number of 'likes' on posts from public view, partly due to concerns about mental health impacts.[48] Another campaign was 'UOKM8?' from LADbible. In New Zealand, Cotton On helped raise NZ$292 000 to stamp out bullying, which is obviously key to fostering mental health (see Exhibit 4.15). It partnered with the Mental Health Foundation of New Zealand (MHF) and Toll Group to create and deliver pink shirts to help mark Pink Shirt Day. Its purpose was to raise awareness and understanding of the prevalence and impact of bullying on young people's mental health and wellbeing.

Greener products

Green marketing involves a strategic effort by firms to supply customers with environmentally friendly merchandise.[49] Many consumers, concerned about everything from the purity of air and water to the safety of beef and salmon, believe that each person can make a difference to the environment. For example, almost all Australian households (98%) reported that they recycled waste and 86 per cent reported that they reused waste.[50] Nearly half of US adults now recycle their soft-drink bottles and newspapers, and European consumers are even more green. Germans are required by law to recycle bottles and the European Union does not allow beef raised on artificial growth hormones to be imported.

green marketing
Involves a strategic effort by firms to supply customers with environmentally friendly merchandise.

Demand for green-oriented products has been a boon to the firms that supply them. Marketers encourage consumers to replace older versions of washing machines and dishwashers with water- and energy-saving models and to invest in phosphate-free laundry powder and mercury-free and rechargeable batteries. New markets have emerged for recycled building products, packaging, paper goods and even clothes and shoes, as well as for more efficient appliances, lighting, and heating and cooling systems in homes and offices. Large companies such as Toyota have moved into the green market with the Prius, the world's first mass-market hybrid vehicle. The car is now sold in over 40 countries.

These green products and initiatives suggest a complicated business model. Are they good for business? Some green options are more expensive than traditional products and initiatives. Are consumers interested in or willing to pay the higher prices for green products? Are firms really interested in improving the environment? Or are they disingenuously marketing goods or services as environmentally friendly, with the goal of gaining public approval and sales, rather than actually improving the environment? This type of exploitation is common enough that it even has produced a new term: greenwashing.[57] Consumers need to question whether a firm is spending significantly more money and time advertising being green and operating with consideration for the environment, rather than actually spending these resources on environmentally sound practices.



Exhibit 4.15 New Zealand PM Jacinda Ardern lent her support to the important issue of stopping bullying.

Source: Courtesy of Like Minds, Like Mine

Adding value 4.2

When best is good enough: Netflix's stellar predictive analytics

Netflix's data analytics are groundbreaking. In academic circles, its influence has been called a 'scientific renaissance'[51] due to the techniques the streaming service has pioneered in its efforts to handle the massive amounts of data it deals in and process payments from across the globe. The power and precision of Netflix's predictive analytics have become common knowledge. Netflix gathers data about every aspect of the viewing process, including the basics such as customer ratings, searches, time of day, week and location, as well as customer behaviours that take place during the movie, such as rewinds, fast forwards, pauses, and how long they let the credits roll. Going even a step further, Netflix analyses every hue of colour contained in the cover art of the options that it offers and can create a profile of the average colour of titles viewed by each customer. But Netflix also deflects the customers' attention from this strategy and pokes fun at itself. Consider the 1 April 2018 video of Netflix 'acquiring' Seth Rogen.[52]

Netflix clearly relies on customer data to create its hallmark personalised suggestions. But in 2010, Netflix chose not to enhance its ability to personalise any further.[53] In 2009, a team of mathematicians created a new algorithm that would have improved Netflix's personalisation by 10 per cent, in response to a company-sponsored contest. But Netflix never implemented the improved algorithm. Why? There simply wasn't enough value to be gained from it. Various studies show that even for the most personal choices, including their love lives, people often forego what they already know for the thrill of something new. Thus, Netflix decided that it could deliver more value to its customers by offering something new rather than a personalised version of what they wanted yesterday. Accordingly, Netflix changed its strategy and uses of predictive analytics to focus more on creating original content.

Netflix challenges traditional approaches to content development by using data to help make new shows as well as production decisions—an approach that has almost guaranteed the success of the shows. They realised the need to incorporate industry expertise in their decision-making, alongside acknowledging 'uncontrolled consumer behaviour within a larger ecosystem'.[54] Evidence of their content success includes the release of the sixth season of the award-winning series *House of Cards* and the fourth season of *Stranger Things* to be announced. Investment bank Morgan Stanley surveyed US consumers and found that 39 per cent rated Netflix as having the best original content against its competitors.[55] Similar results are found in Australia; a Roy Morgan survey in mid-2019 found almost 11.5 million Australians 'had a Netflix subscription in their household, up by 17.6 per cent on a year earlier'.[56]

Case study 4.1: When video games and politics collide

By Dr Jacqueline Burgess, University of the Sunshine Coast

The global video game industry generated US$152.1 billion in 2019, a 9.6 per cent growth on 2018, from over 2 billion players worldwide. This is a large and growing global industry, which means its marketers need to be aware of many different laws and regulations. An example is from 2018 and 2019, when various governments turned their attention to 'loot boxes', which are present in many popular video games.

Players spend real money on loot boxes, which contain in-game characters, weapons or costumes. However, there is no guarantee of what the player will receive. It might be something rare and valuable, or it might be something common and effectively worthless. As a result, players can spend large sums of money trying to get the rarest items.

Due to this element of chance, it has been suggested that buying a loot box constitutes gambling. Video game companies do not agree, but Belgium and the Netherlands have decided that buying some loot boxes does constitute gambling and have banned or regulated them, while China and South Korea now require the odds of receiving each item from a loot box to be displayed. Other countries, including Australia, are investigating loot boxes.

An Australian Senate cross-party investigation in June 2018 reported that a targeted investigation into loot boxes was necessary to identify if video game players suffer any gambling-specific harm from buying them, if any legal framework was required to regulate them, and to ensure Australia's approach was consistent with other countries. These various governments' laws and investigations illustrate that even an entertainment-focused industry has a complex political macroenvironment.

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Questions

1. What are the aims of government investigations and why should marketers be aware of them?
2. Loot boxes are not currently illegal in Australia. Why is it important for video game marketers to monitor the federal government's actions and plan strategically?
3. Video game companies do not agree that selling loot boxes constitutes gambling. What can they do?
4. The political/legal environment is the most prominent in this case. What other environment has allowed the issue of loot boxes to emerge?

Lack of time

Reaching a target market has always been a major challenge, but it is made even more complicated by several trends that increase the difficulty of grabbing those markets' attention. In the majority of two-parent families, both parents work and the kids are busier than ever. This is despite the fact that average working hours per person have actually decreased in Australia in recent years. Average actual weekly hours worked per full-time employed person generally rose following the early-1980s economic downturn, reaching a peak of approximately 41.5 hours in 2000. Since then, the average hours worked per full-time employee have been decreasing.[58] In Asian countries, however, the reverse is true, with many workers in Bangladesh, Malaysia, Thailand, Sri Lanka and even the developed economies of South Korea and China working more than 48 hours per week. In China, it is reported that up to 30 per cent of people work more than 10 hours per day.[59] Even in the United States, where there is no legal, contractual or collective requirement to provide any minimum amount of annual leave, working hours per person are increasing. Employers in the European Union are subject to the European working time directive, which requires at least four weeks of paid annual leave for every employee. Among younger consumers, the trend is to cope with a lack of leisure time by multitasking–watching television or listening to music while talking on the telephone or doing homework. Their divided attention simply cannot focus as well on advertisements that appear in those media.



Exhibit 4.16 Mobile payment: saving us time.
© s4svisuals/Shutterstock/DAL

Marketers must respond to the challenge of getting consumers' attention by making adjustments. Supermarkets offer online shopping and self-checkouts, and in the not-so-distant future smart devices and homes will connect us to supermarkets and other service providers automatically; our fridge will know when we need milk, for example. Airlines offer online check-in, mobile boarding passes and luggage self-check-in, customer service providers offer call-back features and comparison websites aggregate information for us, and mobile payments through both Android and Apple mean we can make purchases more quickly than ever (see Exhibit 4.16). How much time does Uber Eats or Deliveroo save you?

Supermarkets have been particularly aggressive in developing strategies to help time-poor customers, as Superior service 4.2 describes.

Superior service **4.2**

Grocery retailers help time-poor consumers

The two major supermarkets in Australia, Woolworths and Coles, are constantly responding to consumer pressures around a lack of time to shop. The trend is for consumers to want to do all their shopping at once, rather than visiting a number of specialty stores in addition to buying groceries at the supermarket. This is why you see supermarkets expanding beyond mainly dry groceries and into categories such as produce, deli, bakery, meat, and health and beauty. More than that, these supermarkets now also offer banking and insurance services. Store layouts have been rearranged to bring the meat, bakery, produce and dairy sections closer together, creating a food-market atmosphere as well as allowing shoppers to quickly restock dinner ingredients mid-week. More space has been given to self- and express-lane checkouts, reflecting a trend towards more frequent shopping, on average about 2.4 times a week, rather than one big weekly shop.

The online side of shopping is also an important service to time-poor consumers. Both Coles' and Woolworths' websites allow shoppers to browse the 'aisles', saving time through saved lists and recommended items. Delivery options are varied to suit different working patterns. Mobile apps complement this service, enabling shoppers to create, edit, save and share shopping lists, search for products by name or category, scan a barcode in-store and add it to a shopping list, find their nearest store via GPS and access offers and fuel savings vouchers. Finally, there is contactless payment, via card or smartphone, which lets shoppers pay by debit or credit card without a PIN or signature.

The latest developments include a partnership between Coles and eBay to allow Coles to offer products for the same price on eBay as they are in Coles' bricks-and-mortar stores.[60] The store has also introduced bulk-sized products to appeal to budget-conscious consumers. Woolworths is trying new initiatives, too, such as 'scan-and-go' technology, and a new subscription service called 'Delivery Unlimited', which offers customers free delivery on their weekly shop for a monthly or annual fee, provided they spend more than $100 each time.[61]

To find and develop such methods to make life easier for consumers in the time-poor society, marketers often rely on technology, another macroenvironmental factor and the topic of the next section.

Technological advances

Technological advances have accelerated during the past decade, improving the value of both goods and services. Consumers have constant access to the internet everywhere through services like wifi and 4G+. Smartphones using the Apple, Android and Windows operating systems allow for greater computing, data storage and communication. Tablet computers, starting with the iPad, have extended mobile computing even further by offering a larger mobile interface in environments that traditionally limited access.

These examples of advanced technology make consumers increasingly dependent on the help they can provide, especially in terms of making decisions and communicating with others. More websites are personalised by our previous behaviour, such as YouTube recommending videos we would like or StrawberryNET.com recommending other beauty products that would suit us. Near-field communication technology takes payments, coupons and loyalty card data from customers as they walk by the scanner.[62] This is how Apple Pay and Google Pay work.

From a firm's perspective, the technology called **RFID (radio frequency identification device)** enables it to track an item from the moment it was manufactured, through the distribution system, to the retail store and into the hands of the final consumer.[63] Because they are able to determine exactly how much of each product is at a given point in the supply chain, retailers can also communicate with their suppliers and collaboratively plan to meet their inventory needs.

RFID (radio frequency identification device) Technology that tracks an item from the moment it was manufactured, through the distribution system, to the retail store and into the hands of the final consumer.

As Social media and mobile marketing 4.1 shows, mobile devices enhance the customer's experience by making it easier to interact with the manufacturer, retailer or other customers, and they add a new channel of access, which makes customers more loyal and more likely to spend more with a particular retailer. Uber's app, with its tracking facility, is one of the features that helps build loyalty in a competitive market. Domino's app lets you order and track your pizza through cooking to delivery. In Australia, 47 per cent of online shoppers still use credit cards to make purchases, but our smartphones are slowly taking over. Some 29 per cent use services such as PayPal and other third-party payment systems like Alipay or Amazon Payments are growing. By 2023, about 37 per cent of online payments will be processed via these e-wallet services.[64]

Mobile applications are not just about shopping with a phone. We now access the internet more often through smartphones than through laptops and desktops combined. But mobile experiences cannot be identical to web experiences, because the interface is different and thus the way users employ the sites differ. In particular, the smaller screen on mobile devices means that less information must convey the same brand image.



Exhibit 4.17 Pizza companies' apps let you order and track your pizza through cooking to delivery.
© Andrey_Popov/Shutterstock /DAL

Social media and mobile marketing 4.1

TransferWise making banking easier

TransferWise is a major player in the financial services industry. Its main tagline is 'Bye bye bank fees, hello world'. It also claims to make it 11 times cheaper to send money internationally than banks—which is a growing need for consumers in an increasingly global society. In particular, TransferWise has focused on the functionality and user experience of its app for consumers.

According to Kristo Käärmann, its CEO and co-founder, its main purpose is to save people money, by being low-cost and transparent. Here are some of the things its impressive mobile app can do:

- Add money from any account in any currency.
- Send money to any account in any currency.
- Show live exchange rates.
- Show fee breakdowns.
- Store a list of recipients.
- Show a simple list of transactions and statements.
- Allow face ID and fingerprint log-in.

Unlike many other banking apps, everything can be accessed and achieved within the app, without the need to visit the website. This is a subtle but important shift, displaying a clear recognition of changing consumer behaviour—that we want to be able to do increasingly complex tasks while on the go.

TransferWise must be doing a few things right; in 2020 it has six million users, is valued at $3.5 billion, and just turned in a third straight year of profit.[65]

Privacy and data

More and more, consumers worldwide are sensing a loss of privacy. But at the same time that the internet has created an explosion of accessibility to consumer information, improvements in computer storage facilities and the manipulation of information have led to more and better security and credit-check services. Yet controversies still erupt, and some observers suggest that hackers are just becoming more effective. Aside from the Cambridge Analytica scandal, quite a few high-profile multinational corporations have suffered recent security breaches, including Yahoo!, LinkedIn, MySpace, Ashley Madison and even the US Democratic National Committee. Facebook CEO Mark Zuckerberg has also been hacked several times!

In the European Union, a 'cookie law' was passed in 2012 as a new piece of privacy legislation that requires websites to obtain consent from visitors to store or retrieve any information on a computer or other web-connected device, such as a smartphone or tablet. Cookies are widely used online to customise what repeat visitors see on a site and to help advertisers track users online. The law is designed to protect online privacy by making consumers aware of how information about them is collected by websites and enabling them to choose whether or not they want it to happen. Such a law does not yet exist in Australia, New Zealand or the United States, but of course many international consumers access European sites.

More than that, the EU's General Data Protection Regulations (GDPR) came into effect in 2018. The GDPR is designed to limit information sharing, not only between organisations, but between departments within organisations. Think about the different teams within your bank that could sell you a range of products if they merged all your data. In the United States, there also exist, for example, the *California Consumer Privacy Act (CCPA)* and the *New York Privacy Act (NYPA)*. Organisations are complying with the new rules, with research showing that more than two-thirds of businesses have dedicated dozens of staff members to spearheading the GDPR conundrum in Europe. One of the reasons: Google was fined $84 million by CNIL (National Commission on Informatics and Liberty), France's data-protection watchdog group![66]

Economic situation

Marketers monitor the general economic situation, both in their home country and abroad, because it affects the way consumers buy merchandise and spend money. Some major factors that influence the state of an economy include the rate of inflation, foreign currency exchange rates and interest rates.

inflation
Refers to the persistent increase in the prices of goods and services.

foreign currency fluctuations
Changes in the value of a country's currency relative to the currency of another country; can influence consumer spending.

Inflation refers to the persistent increase in the prices of goods and services. Increasing prices cause the purchasing power of the dollar to decline; in other words, the dollar buys less than it used to.

In a similar fashion, **foreign currency fluctuations** can influence consumer spending. For instance, in the summer of 2001, AU$1 would buy US$0.50. In March 2013, AU$1 would buy US$1.02. In September 2019, AU$1 would buy US$0.67. Such fluctuations have major implications for global import and export markets. For businesses importing from Australia, a weak Australian dollar makes goods less expensive, therefore benefiting the export market here. However, for those importing into Australia, there will be increased costs, which may be passed on to the consumer. The effects on incoming tourism are also significant, as a weak Australian dollar encourages tourists to visit the country.

In Europe, the previously weak euro had major implications globally, seriously impeding the European export market. The growing power of the Chinese economy and the strength of its currency has had major implications in Australia and globally. In September 2019, AU$1 would buy ¥4.82. Over the past 10 years this has fluctuated greatly, falling to almost ¥4 in the midst of the global financial crisis (GFC) in 2008. The conclusion is that global financial markets are so closely connected that when one falls, everyone suffers.

interest rates
These represent the cost of borrowing money.

Finally, **interest rates** represent the cost of borrowing money. When customers borrow money from a bank, they agree to pay back the loan, plus the interest that accrues. The interest, in effect, is the cost to the customers or the fee the bank charges those customers for borrowing the money. Likewise, if a customer opens a savings account at a bank, he or she will earn interest on the amount saved, which means the interest becomes the fee the consumer gets for 'loaning' the money to the

bank. If the interest rate goes up, consumers have an incentive to save more, because they earn more for loaning the bank their money; when interest rates go down, however, consumers generally borrow more.

How do these three important economic factors–inflation, foreign currency fluctuations and interest rates–affect firms' ability to market goods and services? Shifts in the three economic factors make marketing easier for some and harder for others. For instance, when inflation increases, consumers probably don't buy less food, but they may shift their expenditures from expensive steaks to less-expensive hamburgers. Grocery stores and inexpensive restaurants win, but expensive restaurants lose. Consumers also buy less discretionary merchandise, though off-price and discount retailers often gain ground at the expense of their full-price competitors. Similarly, the sale of expensive jewellery, fancy cars and extravagant vacations decrease, but the sale of low-cost luxuries, such as personal care products and home entertainment tends to increase.

Political/legal environment

The political/legal environment comprises the political parties, government organisations, and legislation and the laws. Internationally, how does a Trump presidency or Brexit affect business in the Asia-Pacific region? As an example, if there were to be a trade war between the United States and China, with associated tariffs, the Productivity Commission predicts that economic activity in Australia would be more than 1 per cent lower, employment would be reduced by 100 000 people, and nearly 30 per cent of households would experience a fall in purchasing power of at least 4 per cent.[67]

Legally, organisations must fully understand and comply with any legislation regarding fair competition, consumer protection and industry-specific regulation. There are many commissions in Australia to regulate business, such as the Australian Competition and Consumer Commission (ACCC), the Australian Prudential Regulation Authority, the Australian Securities and Investments Commission, the Australian Securities Exchange Limited, the Australian Taxation Office, the Foreign Investment Review Board, the Reserve Bank of Australia and IP Australia. There are also many laws around the protection of technology and intellectual property, ecommerce, employment and industrial relations, takeover, property and the environment.

Legislation protects consumers in a variety of ways. First, regulations require marketers to abstain from false or misleading advertising practices that might deceive consumers, such as claims that a medication can cure a disease when it cannot, or it causes other health risks. Second, manufacturers are required to refrain from using any harmful or hazardous materials (e.g. lead in toys) that might place a consumer at risk. Third, organisations must adhere to fair and reasonable business practices when they communicate with consumers. For example, they must employ reasonable debt collection methods and disclose any finance charges, and they are limited with regard to their telemarketing and email solicitation activities. A summary of the most significant legislation affecting marketing interests appears in Figure 4.6. The *Competition and Consumer Act 2010* is a particularly important piece of legislation (previously named the *Trade Practices Act 1974*), which aims to enhance the welfare of Australians through the promotion of competition and fair trading, and provision for consumer protection. It is also known as *The Australian Consumer Law*, which became the new national consumer law, replacing consumer protection provisions in at least 20 different Commonwealth, state and territory laws. *The Australian Consumer Law* includes a national law guaranteeing consumer rights when buying goods and services, a national product safety law and enforcement system, a national law for unsolicited consumer agreements covering door-to-door and telephone sales, and new penalties, enforcement powers and consumer redress. An example of a company being penalised for anti-consumer practices is Woolworths, which in 2016 was fined $9 million by the Federal Court over involvement with a laundry detergent cartel. The ACCC has also launched major investigations into Facebook and Google over breaches of privacy, competition and consumer laws.[68]

Responding to the environment

As the examples throughout this chapter show, many companies engage in tactics and marketing strategies that attempt to respond to multiple developments in the wider environment. For example, responding to social (ageing population), economic (baby boomers' spending power) and political

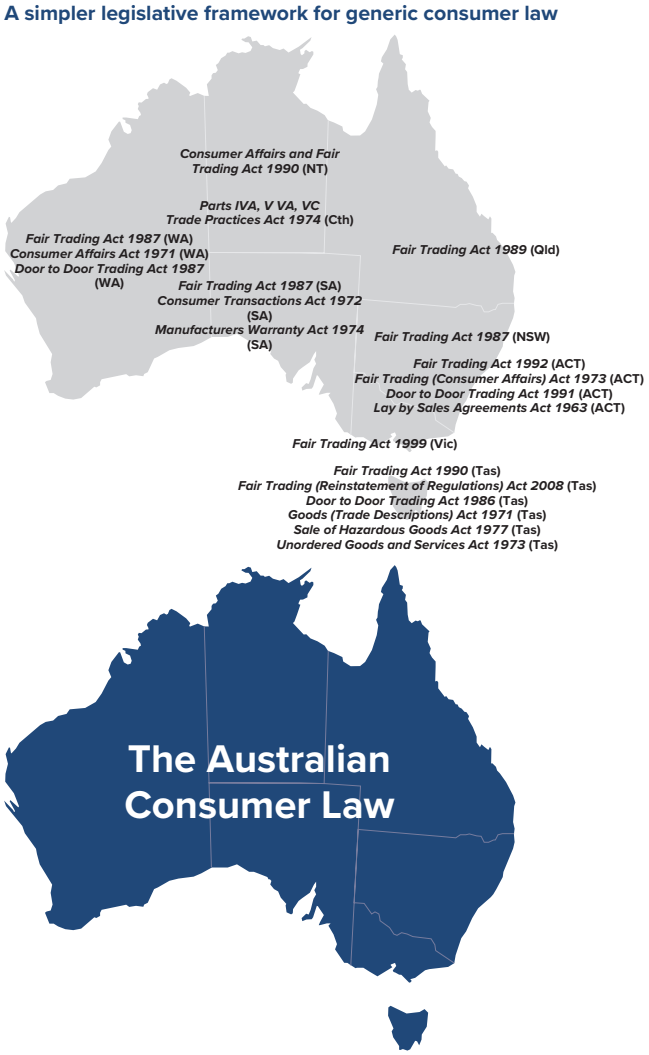


Figure 4.6 The Australian Consumer Law

pressures, the Australian Government-funded Broadband for Seniors scheme was set up in 2008. It provides senior Australians, aged 50 years and over, with free access to computers, the internet and basic training to help build their confidence in using new technology.

Since it was set up, around 2000 Broadband for Seniors kiosks have opened across Australia with approximately 250 000 seniors enjoying the benefits. Organisations such as NEC Australia, in partnership with Adult Learning Australia, Australian Senior Computer Clubs Association and University of the Third Age Online, have made this possible.

We noted the increased awareness among consumers of environmental issues. An example is from New Zealand, where consumers questioned the sustainability of fish served in McDonald's restaurants caught using the hoki fishing method, whose environmental sustainability has been questioned. Campaigners have called for McDonald's to drop New Zealand fish from menus.[69]

In a constantly changing marketing environment, the marketers who succeed are the ones who respond quickly, accurately and sensitively to their consumers.

CHECK YOURSELF

1. What are the six key macroenvironmental factors?
2. Differentiate between country culture and regional culture.
3. Identify the different generational cohorts.
4. What are some important social trends shaping consumer values and shopping behaviour?

Case study **4.2: The sustainability of luxury fashion**

By Dr Jacqueline Burgess, University of the Sunshine Coast

When Burberry, the English luxury fashion brand, released its 2017–2018 annual report, it was revealed that the brand had burnt GB£28.6 million worth of unsold products in 2017. Destroying unsold products is widespread in the fashion industry as selling goods at heavily discounted prices, or donating them, can damage the perceived exclusivity and luxury of brands.

However, Burberry's decision to burn its unsold products gained attention in both the international news and on social media, with consumers heavily criticising the brand and practice—providing evidence that consumers of luxury goods are becoming increasingly more ethically and environmentally aware. Specifically, millennial consumers expect these luxury brands to be aware of environmental and sustainability problems. The brand's shareholders were also unhappy with the decision and the resulting criticism. This was a big marketing problem for Burberry!

In response to the criticism, Burberry explained that the energy generated from burning the products was environmentally neutral and the products were destroyed to ensure they were not obtained by counterfeiters to use them to create fake Burberry products. However, this explanation

was seen as inadequate and in response to its consumers' concerns and the environmental values, Burberry announced in September 2018 that it would cease the practice of burning unsold stock. Instead, it would reuse, repair, donate or recycle all unsold products and focus on creating smaller, targeted collections to reduce the number of unsold products.

Part of this change would involve working with the sustainable luxury company Elvis and Kresse, to transform 120 tonnes of leather offcuts into new products over the next five years. Burberry also announced that it would stop using real fur in any new products and change or phase out any existing products that contained real fur. Burberry's actions are a response to both its consumers' sociocultural values and their environmental concerns.

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Questions

1. Why did Burberry promise to stop burning its unsold products and make sustainability commitments instead, in the wake of criticisms of the practice?
2. Why are millennials specifically so able to influence marketers?
3. Burberry could not have donated or discounted its unsold products. How could Burberry have got rid of its unsold stock instead, without destroying it?
4. Fast fashion is another ethical issue facing the fashion industry. Research fast fashion and explain why it is important.

SUMMING UP

LO 4.1 Outline how customers, the company, competitors and corporate partners affect marketing strategy.

Everything a firm does should revolve around the customer; without the customer, nothing gets sold. Firms must discover their customers' wants and needs and then be able to provide a valuable product that will satisfy those wants or needs. If there was only one firm and many customers, a marketer's life would be a piece of cake. But because this situation rarely occurs, firms must monitor their competitors to discover how they might be appealing to their customers. Without competitive intelligence, a firm's customers might soon belong to its competitors. Though life certainly would be easier without competitors, it would be difficult, if not impossible, without corporate partners. Good marketing firms or departments work closely with suppliers, marketing research firms, consultants and transportation firms to coordinate the extensive process of discovering what customers want and finally getting it to them when and where they want it. Each of these activities—discovering customers' needs, studying competitors' actions and working with corporate partners—helps add value to firms' goods and services.

LO 4.2 Explain why marketers must consider their macroenvironment when they make decisions.

What are the chances that a fast-food hamburger restaurant would be successful in a predominantly Hindu neighbourhood? Not good. Marketers must be sensitive to such cultural issues to be successful and they must also consider customer demographics—age, income, education, gender and ethnicity—to identify specific customer target groups. In any society, major social trends influence the way people live. At no other time in history has technology moved so rapidly and had such a pervasive influence on the way we live. Not only do marketers help identify and develop technologies for practical, everyday uses, but technological advances help marketers provide consumers with more goods and services more quickly and efficiently. The general state of the economy influences how people spend their discretionary income. When the economy is healthy, marketing success comes relatively easily. But when the economy gets bumpy, only well-honed marketing skills can yield long-term successes. Naturally, all firms must abide by the law and many legal issues affect marketing directly. These laws pertain to competitive practices and protecting consumers from unfair or dangerous products.

LO 4.3 Describe the differences among the various generational cohorts.

Generational cohorts are groups of consumers of the same generation. They are likely to have similar purchase and consumption behaviours due to their shared experiences and stages of life. The four main cohorts are generation Z (born 1995–2010), generation Y (1980–94), generation X (1965–79) and baby boomers (1946–64). Each of these segments exhibits different consumption patterns, attitudes towards the world and preferences with regard to marketing efforts.

LO 4.4 Identify various social trends that impact marketing.

Social trends have a tremendous impact on what consumers purchase and consume. Understanding these trends—such as thrift, health and wellness, green marketing, privacy issues and the time-poor society—can help marketers serve their customers better.

KEY TERMS

- baby boomers 103
- country culture 100
- culture 99
- demographics 100
- digital natives 100
- foreign currency fluctuations 114
- generation X (Xers) 103
- generation Y (gen Y) 102
- generation Z (gen Z) 100
- generational cohort 100
- green marketing 109
- inflation 114
- interest rates 114
- macroenvironmental factors 99
- millennials 102
- regional culture 100
- RFID (radio frequency identification device) 113

MARKETING APPLICATIONS

1. Assume you are going to open a new shop selling fitness products. Describe it. Who are your competitors? What would you do to monitor your competitors' actions? Who are your customers? What are you going to do to appeal to them? What are your social responsibilities and how will you meet them?
2. In which generational cohort do you belong? What about your parents? How do you approach buying a computer differently from how your parents would? What about buying an outfit to wear to a party? How can firms use their knowledge of generational cohorts to market their goods and services better?
3. How can firms use customer demographics like income, market size, education and ethnicity to market to their customers better?
4. Identify some of the ethnicity changes in Australia. Describe how they might affect the marketing practices of (a) a radio station in Perth, (b) food retailers in cities and (c) a home furnishing store in Melbourne.
5. Identify some recent technological innovations in the marketplace and describe how they have affected consumers' everyday activities.
6. Why should a T-shirt shop in Australia care about the value of the Hong Kong dollar?
7. Time-poor consumers have adopted various approaches to 'buy' themselves more time, such as (a) voluntarily simplifying their complex lives, (b) using new technologies for greater empowerment and control, (c) using their time productively when travelling or commuting and (d) multi-tasking. Identify and describe some goods and services that consumers use to implement each of these strategies.
8. Identify a company that you believe does a particularly good job of marketing to different cultural groups. Justify your answer.

QUIZ YOURSELF

1. Recently, Jason, one of the few people not to have registered with the Do Not Call Registry, received a call from a marketer suggesting Jason needed additional insurance since he had just become a father and changed jobs. Jason was shocked and very concerned about:
   a. his financial situation
   b. his lack of privacy
   c. the marketer's lack of cultural awareness
   d. his telephone bill
   e. his technological comfort.
2. Some Australian consumers are purchasing hybrid or electric vehicles even though they are more expensive when compared to compact conventional cars. Car marketers recognise that these consumers:
   a. value contributing to a greener environment
   b. are economically irrational
   c. are responding to global corporate pressure for social responsibility
   d. would prefer a four-wheel drive
   e. all of the above.

(Answers to these two questions can be found on page 455.)

NET SAVVY

1. Natures Organics is a company set up to create environmentally responsible products and make them more readily affordable to Australian families. Visit its website (www.naturesorganics.com.au) and review the philosophy behind the business. Next, review the site to identify the products the company offers. Briefly summarise some of the consumer trends you think are reflected. Describe the ways in which Natures Organics' products address the wants and needs of its customers.
2. Check out Google Trends (www.google.com.au/trends) and identify examples that would provide marketers with insights regarding social trends.

CHAPTER CASE STUDY

Greensteel at the Whyalla Steelworks

By Dr Jacqueline Burgess, University of the Sunshine Coast

There was deep concern in the town of Whyalla, South Australia, when Australian mining company Arrium, collapsed in April 2016 owing $2.8 billion in unpaid debts. Arrium owned the Whyalla Steelworks, which was the largest single employer in the town of 22 000 people. The purchase in 2017 of the Whyalla Steelworks by the Liberty Group, headed by UK billionaire Sanjeev Gupta, meant thousands of jobs, and by extension the town itself, were saved. Gupta was welcomed to Whyalla by a parade and it was half-jokingly suggested that the town should be renamed Guptaville.

Within months of the acquisition, Gupta announced a $1 billion upgrade of the steelworks, which would involve doubling its production, modernising equipment and implementing new technology to cut power costs. The focus would be on powering the steelworks with renewable energy, an approach that Gupta calls 'Greensteel' and which he has implemented in the steelworks and engineering plants he owns in the United Kingdom. Gupta believes that renewable power is cheaper and more reliable than fossil fuel and utilising it in the energy-intensive Whyalla Steelworks would mean that electricity for all businesses and households in South Australia would be more reliable. Maintaining a reliable and efficient supply chain in the face of dynamic macroenvironment forces is an important consideration for marketers, but for Gupta, the Whyalla Steelworks was just the beginning.

Several months after the purchase of the Whyalla Steelworks, Gupta purchased through one of his companies, GFG Alliance, a 50.1 per cent stake in the Adelaide-based Zen Energy, a company that specialises in renewable energy and storage technologies. This joint venture between Gupta's GFG Alliance and Zen Energy was renamed SIMEC Zen Energy. Gupta then began to align his two companies' capabilities to ensure he had an integrated supply chain.

SIMEC Zen Energy announced in 2017 that it would construct a solar farm, a giant battery and a hydro facility in a nearby abandoned mine in Whyalla to power the steelworks. The $1 billion solar farm, now known as Cultana, received planning approval in 2019. The battery will have an even larger capacity than the one Elon Musk was involved in building in South Australia in 2017, which at the time was the world's largest. All of Gupta's actions attracted considerable and favourable marketing public relations attention.

In addition to the revitalisation of the Whyalla Steelworks, Gupta ensured that in his planning he also had an attractive value proposition to offer to other business clients. SIMEC Zen Energy has been involved in the construction of commercial-scale battery energy storage across a range of facilities, including the South Australian State Library, the Art Gallery of South Australia, Adelaide High School and the City of Adelaide Works Depot. By utilising battery storage, businesses maximise their solar power capabilities, reduce peak demand charges for energy, and draw less energy from the grid, which can then be used by other consumers. Gupta has also brokered an agreement to provide solar power to five major South Australian companies, which has been projected to cut their electricity costs by up to 50 per cent. This agreement was attractive to these companies as electricity prices had risen across the National Electricity Market—which provides roughly 80 per cent of Australia's electricity—by 130 per cent between 2015 and 2017. Gupta's actions are a clear example of the strategies and plans companies and marketers must undertake to counter and adapt to changes in the macroenvironment and how changes can be taken advantage of by producing new products for clients.

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DISCUSSION QUESTIONS

1. Which macroenvironments is Gupta responding to? How are these connected?
2. The Numurkah solar farm in Victoria was built by French renewable energy company Neoen. Research the farm, describe its capabilities and discuss what the energy generated will be used for and its connection to Gupta.
3. What lessons and benefits can marketers from other industries draw from Gupta's actions?
4. Explain who are Gupta's customers. Are they consumers? Are they the only beneficiaries of his plans?

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PART 2



Understanding and targeting the marketplace

CHAPTER 5

Consumer behaviour

CHAPTER 6

Segmentation, targeting and positioning

CHAPTER 7

Marketing research

Part 2 contains three chapters. Chapter 5, on consumer behaviour, discusses why individual consumers purchase products and services. Chapter 6 focuses on segmentation, targeting and positioning, examining how firms segment the marketplace, pick a target market and finally, position their goods and services in line with their customers' needs and wants. Chapter 7, on marketing research, identifies the various tools, techniques and metrics that marketers use to uncover customers' needs and wants, to ensure that they create goods and services that provide value to their target markets.

CHAPTER 5

Consumer behaviour

LEARNING OBJECTIVES

LO 5.1 Articulate the steps in the consumer buying process.

LO 5.2 Describe the difference between functional and psychological needs.

LO 5.3 Describe the factors that affect information search.

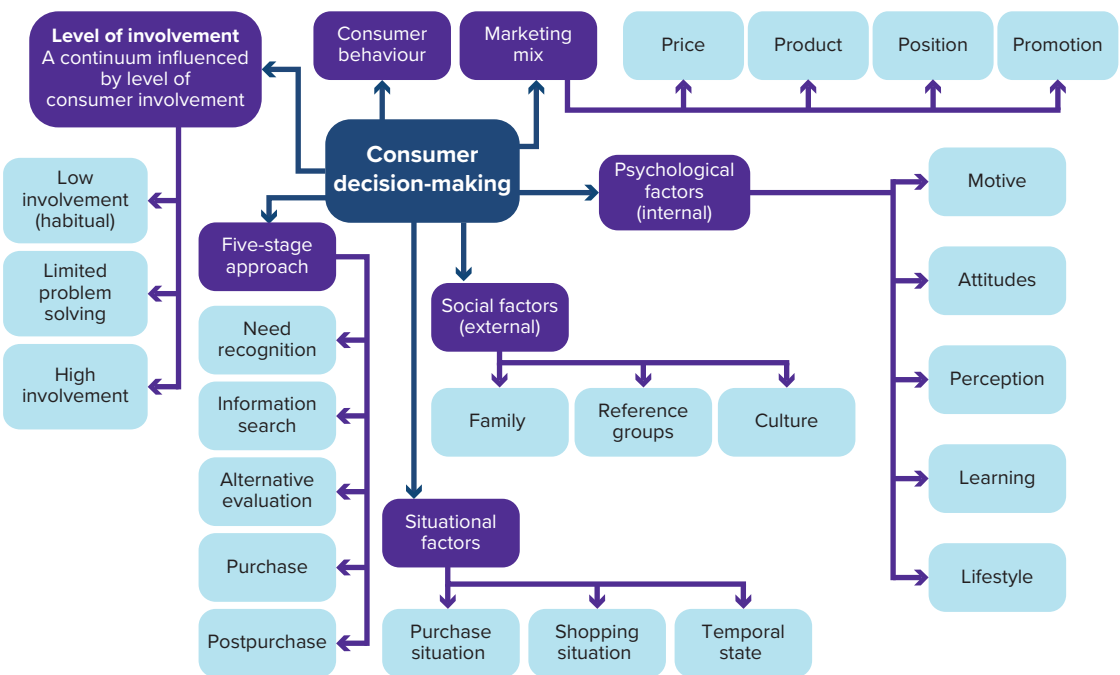
LO 5.4 Discuss postpurchase outcomes.

LO 5.5 List the factors that affect the consumer decision process.

LO 5.6 Describe how involvement influences the consumer decision process.



Source: Courtesy of RMIT University



Graduate spotlight

NAME
Pawan Chandra

DEGREE STUDIED
Master of Commerce (Marketing and Business Analytics)

UNIVERSITY
RMIT University, Melbourne

CURRENT POSITION
General Accountant

EMPLOYER
Royal Canin Pacific, a division of Mars Petcare



What did you learn from your degree and how has it prepared you for a career in marketing?
What I learnt most from RMIT are the skills necessary to work in a modern, cross-functional business. The coursework helped build my commercial mindset and gave me the crucial foundations I needed to build my career. Coming from a financial background, the marketing specialisation covered Integrated Marketing Communications, Consumer Behaviour, Marketing Research and Marketing Management. All of these skills are fundamental to becoming a marketer; however, they have also helped me partner more effectively in my career, often bridging the gap in cross-functional teams.

What interested you about studying or working in marketing?
I have always had a strong interest in marketing; I wanted to know the mechanics behind marketing—the who, what, when, where, how and why of campaigns, enabling them to draw consumers in. Essentially, I wanted to find out what the 'it' factor was that made campaigns transcend their initial purpose.

What have you been up to since graduation?

- 2017: Accounts Receivable Officer, Royal Canin Pacific
- 2018 to present: General Accountant, Royal Canin Pacific

What does your current job involve? What do you enjoy most about your job?
My current role focuses on improving daily business-wide processes and the efficient completion of global reporting periods. In this role I love to find new and more efficient ways to do things to enable better financial partnering for all of our departments.

What are your thoughts on the future of the marketing and communication industry? What advice would you give to students wanting to work in marketing?
As the world becomes increasingly connected, marketing automation and e-commerce will become more important in communicating with consumers. However, consumers are becoming more aware of marketing activities; therefore, the premise should be crafting well-designed, efficient, seamless and natural user experiences and consumer journeys. While more 'screens' (from mobile devices, etc.) traditionally means more reach, the goal should be to increase consumer arousal to ensure your marketing messaging is encoded at a deeper level for your target.

Targeting will also become more granular and marketing analytics will play a major role in developing campaigns. While the idea behind this is to ensure that the messaging hits the right consumer at the right time, beware of sterility and data correlation dependence—there's a difference between getting the message to the consumer and making it stick. Also, don't forget the human element.

Here are some things to think about when you're developing your career:

- Play to your strengths and weaknesses—you know them better than anyone.
- Remain curious and open-minded.
- Choose a company or brand that resonates with you.
- Be determined—even if you don't land a marketing gig straight away, there are always alternative pathways.

When first year on-campus students arrive at university for their first semester, they are immediately exposed to older students offering them free advice, assistance, goods and invitations to a plethora of events and parties (see Exhibit 5.1). Sometimes these are volunteers lending a hand; sometimes they are student marketers.

Using students as brand ambassadors to promote goods to their peers and classmates gives manufacturers the credibility of word-of-mouth advertising and direct contact with a market segment comprising 1.2 million consumers in Australia and almost 500 000 in New Zealand.[1] A lot of these students come from overseas, opening further marketing opportunities. Students promoting the brand and those experiencing it for the first time can become fans and spread the word to their families and friends. They can also form a habit and continue purchasing the same brand of toothpaste, smartphone or jeans as they build their careers and families. This potential to attract new consumers and influence their lifetime shopping behaviour, just by marketing to university students, is so significant that more brands want a piece of the market.

Companies such as Commonwealth Bank, Bankwest, Fairfax, Adobe, Optus, Dairy Farmers and Kimberly-Clark Australia–and even the government's Department of Health–all employ student marketers.[2] The packed schedules of university orientation, or O weeks as they are known, across Australia are peppered with companies taking advantage of marketing opportunities.

Trialling a colourful new hair look using Schwarzkopf products was all the rage at the 2019 orientation weeks held at five university campuses across NSW and Victoria, including Macquarie University's Macquarie Park campus, Monash University's Clayton campus and Swinburne University's Hawthorn location. An activation series with Schwarzkopf in partnership with *Daily Mail Australia*, Zenith and Publicis Media's content team also featured on the *Daily Mail Australia*'s Facebook page.[3] While at the University of Adelaide, a partnership with Australian Fashion Labels offered students at orientation week an opportunity to purchase university-branded clothing.[4] Optus ran a campaign at both the University of New England in Armidale and the University of Sydney, offering Snapchat filters for students to access across O week. Ten Snapchat filters were created with the aim of arousing interest and engagement with students, enabling them to share memorable O week moments with friends and family.[5]

As these events and campaigns show, companies from across all industry sectors recognise the value of reaching young buyers to shape both their current and future consumer behaviour. By using peer-to-peer endorsements and other approaches that resonate with university students, these companies are creating lifelong customers, whose behaviours will continue to benefit the firms.

We are all consumers and we take this status for granted. But we are also complex and irrational creatures who cannot always explain our own choices and actions. This inability makes the vitally important job of marketing managers even more difficult, in that they must be able to explain consumers' behaviour to give marketers as clear an understanding of their customers as possible.

To understand consumer behaviour, we must understand the activities associated with why people buy goods and services, how they use and dispose of goods and services, and what drives their preference towards different consumption practices in terms of virtual experiences (e.g. gaming). Using principles and theories from sociology and psychology, marketers have been able to decipher many consumer choices and develop basic strategies for dealing with consumers' behaviour. Generally, people buy one product instead of another because they perceive it to be of better value for them; that is, the ratio of benefits to costs is higher for that product than for any other.[6]



Exhibit 5.1 Orientation week at Australia's universities is a marketing opportunity for many companies.

Source: The University of Sydney

However, 'benefits' can be subtle and less than rationally assessed, as we shall see. Consider purchasing attire for a job interview. An applicant may consider something fashionable but professional looking and doesn't want to spend a lot of money. In making the decision about interview attire, an applicant may ask themselves:

- Which alternative gives me the best overall value–the most appropriate, yet fashionable attire at the lowest price?
- Which alternative is the best investment–an outfit that I can get the most use of?

Because consumers might have several different reasons to choose a particular store or attire, it is critical for companies like Myer and David Jones to 'key in' on the specific benefits that are most important. Other factors might influence a consumer's unconscious awareness, highlighting to retailers the

need to be even more well-versed in consumers' decision processes.[7] Only then can they create a marketing mix that will satisfy each consumer.

In this chapter, we explore the decision-making process that consumers go through when they buy goods and services. Then we discuss the psychological, social and situational factors that influence this consumer decision process. Throughout the chapter, we emphasise what firms can do to influence consumers to purchase their goods and services.

need recognition
The beginning of the consumer decision process; occurs when consumers recognise they have an unsatisfied need and want to go from their actual, needy state to a different, desired state.

THE CONSUMER DECISION PROCESS

LO 5.1

The consumer decision process model represents the steps that consumers go through before, during and after making purchases.[8] Because marketers often find it difficult to determine how consumers make their purchasing decisions, it is useful for us to break down the process into a series of steps and examine each individually, as in Figure 5.1.

functional needs
Needs that pertain to the performance of a product.

Need recognition

LO 5.2

The consumer decision process begins when consumers recognise they have an unsatisfied need and they would like to go from their actual, needy state to a different, desired state. The greater the discrepancy between these two states, the greater the **need recognition** will be. Numerous triggers can initiate problem recognition including factors that affect the desired state (e.g. reference groups), the actual state (e.g. arousal of needs) and factors that affect both (e.g. marketing efforts).[9]

psychological needs
Needs that pertain to the personal gratification consumers associate with a product.

For example, your stomach tells you that you are hungry, and you would rather not have that particular feeling. If you are only a little hungry, you may pass it off and decide to eat later. But if your stomach is growling and you cannot concentrate, the need–the difference between your actual (hungry) state and your desired (not hungry) state–is greater and you'll want to eat immediately to get to your desired state. A need can be viewed as an innate, organismic necessity rather than an acquired motive,[10] whereas wants are goods or services that are not necessarily needed but are desired.[11] For example, an advertisement for a new burger can increase a consumer's desire for such a food, although a salad would suffice in meeting hunger. Consumer needs like these can be classified as functional, psychological or both.[12]



Figure 5.1
The consumer decision process

Functional needs

Functional needs pertain to the performance of a product. Toothpaste, for example, may be advertised as effective for consumers who want fresh breath and whiter teeth to increase their attractiveness in their social circle, but consumers also need toothpaste to fight tooth decay. It is the performance of toothpaste in preventing plaque build-up through fluoride protection and therefore the protection from tooth decay that will appeal to a consumer's functional needs.

Psychological needs

Psychological needs pertain to the personal gratification consumers associate with a product and/or service.[13] Shoes, for instance, provide a functional need–to keep feet clean and protect them from the elements. So why would anyone pay more than $1000 for shoes that may do neither? Because they seek to satisfy psychological needs. Christian Louboutin's shoes, with their signature red sole, may be the hottest shoe on the market.[14] Sarah Jessica Parker sports several pairs in *Sex and the City* and in real life; BMW even featured the shoe in a commercial. Virtually every modern fashion icon, including Penelope Cruz, Catherine Deneuve, Lady Gaga, Ashley Olsen, Beyoncé and Angelina Jolie, has been photographed wearing Louboutin shoes. And yet a black python-and-lace shoe with a 14-cm heel is not a particularly practical means of spending $1500. As a result of all the media attention though, there is a strong demand for Louboutin shoes by women who identify with or aspire to the lifestyle suggested by such exciting (and expensive) shoes.



Exhibit 5.2 A consumer's association with value will influence where they get their hair cut.

© Marc Romanelli/Blend Images LLC/DAL

These examples highlight that the vast majority of goods and services are likely to satisfy both functional and psychological needs, albeit to different degrees. Whereas the functional characteristics of toothpaste as fluoride protection and the cleaning properties may not be the first selling point, Christian Louboutin shoes satisfy psychological needs that overshadow the functional needs, though they still ultimately serve the function of a shoe.

Consider another, slightly more realistic example: you can get a $15 haircut at Hair Express or spend $80 or more to get basically the same thing at an upscale salon. Are the two haircuts objectively different? The answer might vary depending on what you believe represents a good haircut and good value: one person might value getting a really good deal; another might enjoy the extra attention and amenities associated with a fancy salon (see Exhibit 5.2).

A key to successful marketing is determining the correct balance of functional and psychological needs that best appeals to the firm's target markets. Accor Hotels is carefully treading this fine line, with its wide range of hotel offerings to suit a wide range of consumers. For consumers looking to satisfy functional needs, Accor offers the Ibis or Mercure hotel, which are positioned as budget-priced to medium-priced hotels offering basic amenities. However, the Sofitel and Sebel hotels, in offering luxury accommodation, are targeted to consumers who desire to satisfy their psychological needs. Remember, these may be the same consumers at different times. The Australian brand Rydges has a more narrow focus, offering mid-scale to upscale hotel accommodation to corporate travellers and holidaymakers in Australia and New Zealand (see Exhibit 5.3).

Search for information

The second step, after a consumer recognises a need, is to search for information about the various options that exist to satisfy that need. The length and intensity of the search are based on the degree of perceived risk associated with purchasing the product. If the way your hair is cut is important to your appearance and self-image, you may engage in an involved search for the right salon and stylist. Alternatively, an athlete looking for a short 'buzz' cut might go to the closest, most convenient and cheapest barber shop.

There are two key types of information search: internal and external.

internal search for information
Occurs when the buyer examines his or her own memory and knowledge about the product gathered through past experiences.

external search for information
Occurs when the buyer seeks information outside his or her personal knowledge base to help make the buying decision.

Internal search for information

In an **internal search for information**, the buyer examines their own knowledge about a product, gathered through past experiences. For example, a favourite lunch snack of salad may bring Sumo Salad to mind and a craving for dessert may lead straight to Brumby's or Baker's Delight. In making these choices, consumers rely on their memory of past experiences when they have eaten at these chains.



Exhibit 5.3 Rydges Hotels has a particular target market.

Source: Courtesy of Rydges Hotels & Resorts

External search for information

In an **external search for information**, the buyer seeks information outside their personal knowledge to help make the buying decision. Consumers might fill in their personal knowledge gaps by talking with friends, family or a salesperson. They can also scour commercial media for unsponsored and (it is hoped) unbiased information, such as that available through consumer reports and sponsored media such as magazines, television or radio. Sometimes consumers get commercial exposure to goods or services without really knowing it. Social media such as Instagram are steadily becoming a major source of external information to consumers, as Adding value 5.1 notes.

The internet provides more information via different social media channels than that contained in Instagram, especially when it comes to evoking emotions

and attachment. For example, audiences watching Netflix's *Stranger Things* series are prompted to search behaviour through a social campaign that includes cinemagraphs, custom Facebook, Twitter, Snapchat and animated GIFs. The release of Season 2 saw 670 416 unique mentions appearing across

Adding value **5.1**

Engaging with brands: the Instagram effect

Australian consumers are digitally savvy, with 72 per cent of shoppers researching online before they go shopping.[15] Approximately 9.46 million Australians aged 14+ (46.8%) purchased something online in an average four-week period in 2018.[16] And connection is key. At least 75 per cent of Instagrammers are more likely to buy something after it has been shared on Instagram. And some 71 per cent of millennials rely on Instagram, making them the most prolific users of this visual storytelling medium.[17] Engaging with brands for this cohort means viewing photos and videos, reposting content, following accounts and visiting websites.

So why are brands increasing their adoption of Instagram? Because this platform provides a key opportunity for brands to provide content and interact with their target audience in 'their world' of everything from fashion to travel posts.[18] As a social media platform, Instagram is meeting the demand for brand engagement while driving more sales and consumer actions. And it is all about engagement with the Instagram community. A typical month in 2019 reported a billion active Instagram users worldwide, with 500 million stories shared and around one million photos and videos uploaded per day. In Australia, nine million active users comprised individuals, influencers and brands.[19] Likes, comments, shares and hashtags are fuelling 4.2 billion daily posts.[20]

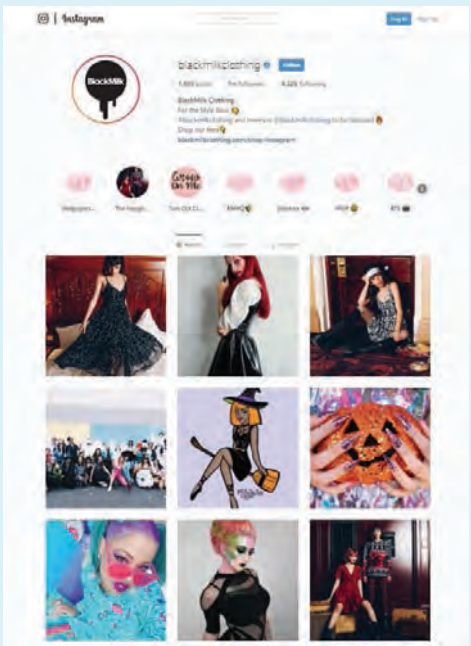


Exhibit 5.4 Visual content influences our consumption behaviour. Instagram as a marketing tool connects brands in understanding their communities. Fashion retailer BlackMilk Clothing actively seeks out photos on Instagram hashtagged with #blackmilkclothing and engages with all of them, reinforcing community interaction.

Source: BlackMilk Clothing Pty Ltd

Some 70 per cent of the most-used hashtags are branded. Melbourne's obsession with food culture has created a subculture of hashtagging including #melbournefoodie, #melbourneeats and #melbournefood, with 616 448 posts that connect social media to cafe culture; #airbnb, with 1.4 million followers, engages customers through re-sharing their holiday photos; by tagging selfies with #blackmilkclothing, the Australian-based retailer engages with its community by checking profiles, adding personalised comment on tagged photos and featuring customers on its websites (see Exhibit 5.4). This in turn encourages more content to be posted.

With over 40 billion photos shared and an average of 80 million images posted daily generating 3.5 million likes,[21] marketers are recognising the importance of Instagram as a powerful social media resource for consumers to exchange, engage and participate seamlessly with desired brands and influencers. However, the latest initiative by Instagram—allowing only the account holder to see their likes, but the not their followers—may appear counter-intuitive. Addressing concerns that social comparison of public tallies may trigger feelings of inadequacy and have longer-term mental health repercussions, the trial is taking place across six countries, including Australia. Whether the change in the 'liking system' will reduce Instagram's appeal for both brands and Instagrammers or allow a refocus in the sharing of experiences though photos and videos is yet to be seen.[22]

Twitter, Facebook, Instagram, Reddit, Tumblr and YouTube in the 24 hours that followed. Searches included their favourite cast member(s)–for example, Will Byers, via Noah Schnapp's Instagram, @noahschnapp; Snapchat, @theschnappchat; and Twitter, @noah_schnapp. They also searched about the show using #strangerthings3edit and #strangerthings or by tapping into online competitions ('Are You Meant to be with Jonathan, Steve, Billy or Hopper from "*Stranger Things*"?').[23]

By engaging the audience on common points of interest and 'gossip' as shareable movie segments teased plot points from the series, fans are immediately connected to the show's millions of other fans. Employing different social media-focused marketing methods to advertise the series encourages audiences to sign up, to share information with their friends, and creates brand awareness and even loyalty. The series' 360-degree virtual reality video on YouTube, which allowed viewers to explore the first floor of the Byers' home and experience the thrill for themselves, was one such example.



Exhibit 5.5 Ice cream chain, Baskin-Robbins, is bringing to life Netflix's *Stranger Things* Scoops Ahoy!

© Jesse Watrous/Shutterstock

The release of Season 3 has seen various brands forging partnerships with the series; in fact, Netflix has promotional agreements with 75 different brands for the new season. All such searches are examples of external searches for information; social media facilitates a search to find out more about what partnership brands have on offer. For example, H&M will stock replicas of the garments worn by characters on-screen, Baskin-Robbins will offer flavours based on the ones sold at the fictional Scoops Ahoy ice-cream parlour (see Exhibit 5.5) and not only will Burger King sell upside-down Whoppers, it will add a nostalgic element by serving them in Burger King's classic packaging from the mid-1980s.[24]

LO 5.3 Factors affecting consumers' search processes

It is important for marketers to understand the many factors that affect consumers' search processes. Among them are factors relating to perceived benefit, locus of control and risks.

The perceived benefits versus perceived costs of search. Is it worth the time and effort to search for information about a product? For instance, most families spend a lot of time researching the housing market in their preferred area before they make a purchase, because homes are a very expensive and important purchase with significant safety and enjoyment implications. They are likely to spend much less time researching which inexpensive dollhouse to buy for the youngest member of the family.

internal locus of control
Refers to when consumers believe they have some control over the outcomes of their actions, in which case they generally engage in more search activities.

external locus of control
Refers to when consumers believe that fate or other external factors control all outcomes.

performance risk
Involves the perceived danger inherent in a poorly performing product.

financial risk
Risk associated with a monetary outlay; includes the initial cost of the purchase, as well as the costs of using the item or service.

The locus of control. People who have an **internal locus of control** believe they have some control over the outcomes of their actions, in which case they generally engage in more search activities. With an **external locus of control**, consumers believe that fate or other external factors control all outcomes. In that case, they believe it doesn't matter how much information they gather; if they make a wise decision, it isn't to their credit and if they make a poor one, it isn't their fault. People who do a lot of research before purchasing individual stocks have an internal locus of control; those who purchase mutual funds are more likely to believe that they can't predict the market and probably have an external locus of control. These beliefs have widespread effects. For example, when people believe that they can choose their own consumption goals (internal locus of control), they work harder to achieve them than if those goals feel imposed upon them (external locus of control).[25]

Actual or perceived risk. Six types of risk associated with purchase decisions can delay or discourage a purchase: performance, financial, social, time, physiological and psychological. The higher the risk, the more likely the consumer is to engage in an extended search.

Performance risk involves the perceived danger inherent in a poorly performing product. An example is the possibility that an interview outfit is prone to shrinking when dry-cleaned.

Financial risk is risk associated with a monetary outlay and includes the initial cost of the purchase, as well as the costs of using the item or service.[26] A consumer is not only concerned that a new outfit will provide the professional appearance they are seeking, but also that the cost of dry

cleaning will not be exorbitant. Retailers recognise that buying professional apparel can be a financial burden and therefore offer guarantees that the products they sell will perform as expected. Their suppliers are also well aware that dry cleaning is expensive and can limit the life of the garment, so many offer easy-to-care-for washable fabrics.

Social risk involves the fears that consumers suffer when they worry others might not regard their purchases positively. When buying attire, consumers consider what their friends would like. Alternatively, because a job interview is so important, a consumer might make a conscious effort to assert a distinctive identity or make a statement by buying a unique, more stylish and possibly more expensive outfit than their friends would typically buy.

Time risk is associated with the loss of time and inconvenience consumers may experience when searching for suitable websites or when submitting purchase orders, or delays experienced when receiving products.

Physiological risk is related to **safety risk**. Whereas performance risk involves what might happen if a product does not perform as expected, physiological (or safety) risk refers to the fear of an actual harm should the product not perform properly. Although physiological risk is typically not an issue with apparel, it can be an important issue when buying other products, such as a car. External agencies and government bodies publish safety ratings for cars to help assuage this risk. Consumers compare the safety records of their various choices, because they recognise the real danger to their wellbeing if the car they purchase fails to perform a basic task, such as stopping when the driver activated the brake or protecting the passengers in the cabin even if the car flips.

Another major physiological risk pertains to growing concerns about health risks associated with the food and beverages we consume. The fast-food industry is being held more accountable for the obesity epidemic in Australia. McDonald's has come under a lot of scrutiny, especially in response to the 2004 film *Super Size Me,* and more recently in response to related media (see Ethical and societal dilemma 5.1).

Finally, **psychological risks** are those risks associated with the way people will feel if the product does not convey the right image.

social risk
The risk that others might not regard one's purchase positively.

time risk
The risk associated with loss of time in finding suitable products, or delays in receiving them.

physiological risk
The risk of actual bodily harm should a product not perform properly.

safety risk
Risk associated with the way people will feel if the product does not convey the right image.

psychological risk
Risk associated with the way people will feel if the product does not convey the right image.

Ethical and societal dilemma **5.1**

The obesity epidemic and fast foods

Reality television series in Australia such as *The Biggest Loser* aim to highlight the growing obesity trend in the country.[27] In 2017–18, two in every three Australian adults (67%) were overweight or obese. The news is not great for children and adolescents either, with one in four (25%) also overweight or obese. Compounding the obesity epidemic is a lack of physical activity, with an estimated 67 per cent of Australians doing little to no exercise.[28]



Exhibit 5.6 The fast-food industry continues to grow in Australia.

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Rather than seeing this as a barrier to market growth, some of the fast-food companies that have been the target of criticism have turned the situation into a marketing opportunity (see Exhibit 5.6). Despite the concerns about healthy eating popularised by the book *Fast Food Nation,* the documentary *Super Size Me,* reality television's *The Biggest Loser* and a host of government initiatives to promote healthier eating, companies such as McDonald's, Pizza Hut, KFC and Hungry Jack's have shown healthy sales growth over recent years. In the 2018 calendar year, McDonald's Australia's revenue soared by almost $100 million to $1.7 billion.[29] As part of its $500 million national expansion binge over the following

Continued

three years, McDonald's Australia planned to invest $350 million to open 45 new restaurants in Sydney and Melbourne. Selling more than fast food, the outlets would feature digital kiosks, mobile apps with ordering capability and dual drive-through lanes.

So what have fast-food chains done? They've understood consumers' changing taste preferences, adapted menu offerings to include healthier foods in addition to their traditional, less healthy options and enhanced the convenience of their offering (e.g. Uber Eats). Shifting the emphasis away from counting calories to a healthier, more holistic positioning by selling foods with one or two such attributes, for example, 'gluten-free' and 'non-genetically-modified ingredients', has also attracted a somewhat choosier audience—all making the industry in general very strong. In fact, this is a $20 billion-plus a year industry.[30] And the question remains whether fast-food chains, through such moves as menu changes, are becoming more accountable with respect to the real issues fuelling Australia's obesity epidemic.[31]

Recent research suggests that psychological risks might help explain why consumers enjoy 'supersizing' their menu options. Especially when consumers feel powerless or more vulnerable, they equate larger sizes–whether in televisions, houses or menu items–with improved status. That is, consumers who feel powerless choose bigger food portions to gain a sense of status.[32]

Evaluation of alternatives

Once a consumer has recognised a problem and explored the possible options, they must sift through the choices available and evaluate the alternatives. Alternative evaluation often occurs while the consumer is engaged in the process of information search. For example, a consumer may rule out various stores because of prior knowledge that the store won't carry the style needed for a job interview. Once in the store, consumers typically will try on lots of clothing and eliminate those that don't fit, don't look good on or aren't appropriate attire for the occasion. Consumers forgo alternative evaluations altogether when buying habitual (convenience) products; you'll rarely catch a loyal Pepsi drinker buying Coca-Cola.

Attribute sets

universal set
Includes all possible choices for a product category.

retrieval set
Includes those brands or stores that the consumer can readily bring forth from memory.

evoked set
Comprises the alternative brands or stores that the consumer states they would consider when making a purchase decision.

evaluative criteria
Consist of a set of salient, or important, attributes about a particular product.

Research has shown that a consumer's mind organises and categorises alternatives to aid his or her decision process. **Universal sets** include all possible choices for a product category, but because it would be unwieldy for a person to recall all possible alternatives for every purchase decision, consumers tend to focus on only a subset of choices. One important subset is **retrieval sets**, which are those brands or stores that can be readily brought forth from memory. Another is a consumer's **evoked set**, which comprises the alternative brands or stores that the consumer states they would consider when making a purchase decision. If a firm can get its brand or store into a consumer's evoked set, it has increased the likelihood of purchase and therefore reduced search time because the consumer will think specifically of that brand when considering choices.

Consumers will know that there are a lot of fashion stores, in particular online stores (universal set). However, if consumers are specifically looking for surfwear, only some have the style that they are looking for, such as Billabong, Roxy, Rip Curl, and The Critical Slide Society (retrieval set). For example, Rip Curl and Billabong may be recalled as shops for more casual items (see Exhibit 5.7); however, if more individualised, luxe bohemian brands are wanted, then The Critical Slide Society would be more suited, so only that is in their evoked set.

When consumers begin to evaluate different alternatives, they often base their evaluations on a set of important attributes, or evaluative criteria. **Evaluative criteria** consist of salient or important attributes about a particular product. For example, when looking for an outfit, consumers might consider things like the selling price, fit, materials and construction quality, reputation of the brand and the service support that the retailer offers. At times, however, it becomes difficult to evaluate different brands or stores because there are so many choices,[33] especially when those choices involve aspects of the garment that are difficult to evaluate, such as materials and construction quality.

Consumers utilise several shortcuts to simplify the potentially complicated decision process: determinant attributes and consumer decision rules. **Determinant attributes** are product features that are important to the buyer and on which competing brands or stores are perceived to differ.[34] Because many important and desirable criteria are equal among the various choices, consumers look for something special–a determinant attribute–to differentiate one brand or store from another. Determinant attributes may appear perfectly rational, such as health and nutrition claims offered by certain foods and beverages, or they may be more subtle and psychologically based, such as the red soles on a pair of Christian Louboutin heels.

Ethical and societal dilemma 5.2 highlights the use of determinant attributes, describing the dilemma consumers may face in choosing organic produce.



Exhibit 5.7 Billabong may feature in a consumer's retrieval set.

© pio3/Shutterstock

determinant attributes Product features that are important to the buyer and on which competing brands or stores are perceived to differ.

Ethical and societal dilemma **5.2**

Fit to wear the healthy/natural/organic label

Organic food has become mainstream in Australia, with its total value estimated at AU$2.6 billion. Globally, the market for all organic products is estimated at US$97 billion. Research published in the 'Organic Market Report 2019' found that 65 per cent of all households reported they had purchased at least one certified organic product in the past 12 months, indicating an annual rise of 5 per cent. One in 10 Australians (12%) consider themselves to be highly-committed organic purchasers, usually outlaying 40 per cent or more on organic food or household products. The perceived benefits of products being chemical-free (80%), environmentally friendly (71%) and additive-free (65%) are fuelling these purchase decisions.[35]

However, lingering doubts remain about the validity of some brands' 'organic' claims. This, along with the higher costs (organic products can cost up to 300% more),[36] has created some suspicion that brands use the healthy and organic labels to portray a higher-quality image, enabling them to charge a higher price. Some research has shown that there are no differences in the levels of vitamin C, phenolic compounds, magnesium, potassium, calcium, zinc and copper in organic and conventional crops.[37] However, it is clear that the environment is better off for organic production because synthetic pesticides and herbicides are not used and crops are commonly rotated. The confusion about organic products comes when the issues of nutrition, taste, safety and environment are mixed into the same argument.



Exhibit 5.8 Organic food websites can offer a range of information about the benefits of buying organic produce.

Continued

Companies are being forced to become more and more transparent to consumers. Mount Franklin, for example, had an 'Our Water' section on its website dedicated to educating consumers about its bottled water's 'natural' qualities.[38] Organic and Quality Foods is a specialist store in Queensland that has focused on the niche market of fresh organic food and chemical-free produce. It has an FAQ section on its website that promotes its 'natural' selling points and explains the benefits of consuming organic products.[39] And organic foods are becoming more accessible and affordable to a wider audience. Supermarket home brands such as Woolworths' Macro brand, Coles Organic and ALDI's Just Organic range are catering for an increasing demand from Australian consumers.

All foods produced or imported for sale in Australia and New Zealand, including organic food, must be labelled in accordance with the Food Standards Code developed by Food Standards Australia New Zealand. Another agency, Australian Organic Ltd (formerly Biological Farmers of Australia), is Australia's foremost organic body, a not-for-profit organisation that represents and develops the interests of more than 3000 organic industry farmers, operators, producers, processors and traders. Australian Organic also serves the greater community, taking on the role of public educator about the benefits of organic food and farming.[40] For some consumers, the perception of organic is enough, but for others, brands need to go further to prove their credibility.

Consumer decision rules

consumer decision rules
The set of criteria that consumers use consciously or subconsciously to quickly and efficiently select from among several alternatives.

Consumer decision rules are the set of criteria that consumers use consciously or subconsciously to quickly and efficiently select from among several alternatives. These rules are typically either compensatory or non-compensatory.

Compensatory. A **compensatory decision rule** assumes that the consumer, when evaluating alternatives, trades off one characteristic against another, such that good characteristics compensate for bad characteristics.[41] For instance, when looking to buy breakfast cereal, several factors, such as taste, calories, price and natural/organic claims, will come into consideration. But even if the cereal is priced a little higher, a superb overall rating offsets or compensates for the higher price.

compensatory decision rule
When a consumer is evaluating alternatives and trades off one characteristic against another, such that good characteristics compensate for bad ones.

The **multi-attribute model** described in Table 5.1, illustrates how a compensatory model would work.[42] Consumers assign weights to the importance of each factor. These weights must add up to 1.0. So, for instance, taste is the most important, with a weight of 0.4, and calories are least important, with a weight of 0.1. Weights are also assigned to tell how well each of the cereals might perform, with 1 being very poor and 10 being very good. For example, if Delicious Dandies has the best taste, it is assigned a 10. Then each performance rating is multiplied by its importance rating to get an overall score for each cereal. The rating for Joopies in this example is the highest of the three cereals [$(0.4 \times 8) + (0.1 \times 9) + (0.3 \times 8) + (0.2 \times 9) = 8.3$]. This multi-attribute model allows the trade-off between the various factors to be incorporated explicitly into a consumer's purchase decision.

multi-attribute model
A compensatory model of customer decision-making based on the notion that customers see a product as a collection of attributes or characteristics. The model uses a weighted average score based on the importance of various attributes and performance on those issues.

Non-compensatory. Sometimes, however, consumers use a **non-compensatory decision rule**, in which they choose a product on the basis of one characteristic or one subset of a characteristic,

non-compensatory decision rule
When consumers choose a product on the basis of a subset of its characteristics, regardless of the values of its other attributes.

Table 5.1 Compensatory purchasing multi-attribute model for buying cereal

	Importance weight				
Breakfast cereal	Taste 0.4	Calories 0.1	Natural/ organic claims 0.3	Price 0.2	Overall score
Delicious Dandies	10	8	6	8	8.2
Joopies	8	9	8	9	8.3
Aunty's Flavoursome Cereal	6	9	9	8	7.6

Note: fictitious data

regardless of the values of its other attributes.[43] Thus, though Joopies received the highest overall score of 8.3, a consumer might still pick Aunty's Flavoursome Cereal because they are particularly sensitive to claims of natural or organic contents and it earned the highest score on this attribute (i.e. a 9).

Once a consumer has considered the possible alternatives and evaluated the pros and cons of each, they can move towards a purchase decision. Social media and mobile marketing 5.1 illustrates how social networks help consumers choose among alternatives.

Social media and mobile marketing **5.1**

Shopping online with friends

The way consumers shop is changing. Where once you needed to invite people to come shopping with you at the shopping centre, now you can invite them to come 'social shopping' with you. Social shopping is online retail's response to the lack of the interactive, sharing experience that online shopping has been criticised for. Stated simply, social media provides a direct buying platform for social shopping, offering consumers a more streamlined experience for in-house purchases and enabling them to 'save' products for later.[44] For marketers, it allows a connection with customers when they are most open to shopping—when they are engaging with social content with friends. And it is trackable through shopping product tags that host information such as the number of consumers who have viewed, saved, clicked on and purchased the item(s).

Pinterest reported 291 million monthly users globally as of January 2019, with 290 000 active monthly users in Australia.[45] When users visited, they stayed there for an average of 14.2 minutes, which is a relatively long time for each social media visit. Pinterest shoppers used the platform to develop their knowledge of food and drinks (52%) and to find accessories, watches and jewellery (70%). Additionally, another 52 per cent of Pinterest users spent $500 or more on beauty products on average over six months.[46] Pinterest epitomises social shopping, which is about discovery, conversations and relationship building.[47] Pinterest's upgrading of its Lens Camera to integrate with shoppable 'pins' allows pinners to identify and buy similar products online using images or screenshot uploaded on the Pinterest app.[48]

Some Australian brands that have more than experimented with Pinterest are Tourism Australia, Triple J and Amnesty Australia. The aim of all these brands is to better connect with their target market and empower them to share and create their own content. The retail sector seems to be particularly suited to Pinterest, with the likes of D&G, Gucci, Louis Vuitton and Gap having some of the most popular pages. The social media platform, proving popular among fashion retailers, is enabling businesses to engage with customers through sharing an online collection of images. These images are shared as 'pins', which users can then place on customised, themed 'boards' based on topics. Each 'pin' links back to the original retailer's website, allowing retailers into the social shopping arena.

In Australia, the stationery and gifts retailer kikki.K has been particularly active on Pinterest (see Exhibit 5.9). Kristina Karlsson, kikki.K founder and creative director, has said that a social media presence



Exhibit 5.9 kikki.K has been strong on Pinterest, using the platform to engage closely with consumers.

Source: https://www.pinterest.com/kikkik/

Continued

has always played an important role in the way the business engaged with customers, and getting involved with Pinterest is just another channel. However, Pinterest is turning into a very important extra channel. According to Shareaholic, Pinterest drives more traffic to retail sites than Google+, YouTube and LinkedIn combined, and Pinterest also drives more traffic to blogs than Twitter.[49] This is because it puts consumers in charge. For example, kikki.K teamed up with the Virgin Australia Melbourne Fashion Festival in a competition inviting consumers to create a 'Fashion Inspiration Board' incorporating its new stationery collections. To enter the competition they simply had to post the link to their pinboard on Facebook or tweet kikki.K. This consumer–brand but also consumer–consumer engagement is one of the main strengths of Pinterest and one that is transforming online shopping.

Purchase and consumption

conversion rate
The percentage of consumers who buy a product after viewing it.

After evaluating the alternatives, customers are ready to buy. However, they don't always patronise the store or purchase the brand or item on which they had originally decided. It may not be available at the retail store, for example. Retailers therefore turn to the **conversion rate** to measure how well they have converted purchase intentions into purchases. One method of measuring the conversion rate is the number of real or virtual abandoned shopping trolleys (or 'carts') in the retailer's store or website.

Retailers use various tactics to increase the chances that customers will convert their positive evaluations into purchases. They can reduce the number of abandoned carts by making it easier to purchase merchandise. Most important, they should have plenty of stock on hand of the merchandise that customers want. They can also reduce the actual wait time to buy merchandise by opening more checkout lanes and placing them conveniently inside the store. To reduce perceived wait times, they might install digital displays to entertain customers waiting in line.[50]

For different types of companies, the conversion rate also refers to rentals (e.g. Netflix) or to outright purchases (e.g. haute couture), though some of these lines appear to be blurring as consumers seek new ways to access the items they want. At high-end clothes rental sites, such as Rent the Runway, fashion- and budget-conscious shoppers gain temporary possession of the latest fashions from big names, including Diane von Furstenburg, Moschino and Rachel Zoe. As if they were dealing with movies on DVDs, members rent haute couture dresses for all occasions, pay anywhere between $50 and $400 for their chosen items, receive the glam wear in the mail within a few days and then return the items after their fabulous affair has ended.[51] At the same time, Netflix, as an on-demand streaming service, has grown to become a must-have entertainment option, where subscription has translated to ownership. In Australia, 55 per cent of households have more than one subscription to on-demand services.[52] With at least 13 streaming services available in Australia, potential subscribers have maximum exposure, and with the launch of Disney+ in late 2019, consumers may find making purchase choices a little more complex.

But conversion rates still tend to be lower for consumers using an internet channel, because they are able to look at products and throw them in their cart, but still delay their purchase decision. To encourage customers to make purchase decisions, companies such as The ICONIC offer three-hour delivery times within Sydney and airlines such as Virgin Australia tell us that there are 'only four seats left'. Other sites, such as LivingSocial, offer deals for specified periods or until they run out, and oo.com.au runs 24-hour, online-only sales. Kicking off in 2012,[53] Click Frenzy is an Australian annual 24-hour sales initiative that centralises offerings from retailers in one online shopping experience (see Exhibit 5.10). In 2019, more than 500 Australian retailers participated, including Myer, Webjet, Nike, Flight Centre, Optus, Sony, Adidas, ASOS, Dell, Cathay Pacific, Country Road, Woolworths, Cotton On, Mon Purse, Timberland and Seafolly, leading to 1.3 million visits, with more than 448 000 people shopping between 6 and 9pm.[54] With the introduction of 'Go wild treasure hunt', Frenzy subscribers received special clues via email for pop-up deals available for less than an hour, encouraging impulse purchasing. Many retailers send reminder emails to visitors about items in carts they have abandoned.[55]



Exhibit 5.10 Click Frenzy's 24-hour sales initiative has proved popular with Australian consumers.

Source: Click Frenzy

Postpurchase

LO 5.4

The final step of the consumer decision process is postpurchase behaviour. Marketers are particularly interested in postpurchase behaviour because it entails actual rather than potential customers. Satisfied customers, whom marketers hope to create, become loyal, purchase again and spread positive word of mouth, so they are quite important. There are three possible positive postpurchase outcomes, as illustrated in Figure 5.2: customer satisfaction, postpurchase cognitive dissonance and customer loyalty (or disloyalty).

Customer satisfaction

Setting unrealistically high consumer expectations of the product through advertising, personal selling or other types of promotion may lead to higher initial sales, but it eventually will result in dissatisfaction if the product fails to achieve high performance expectations (for a related discussion about communication gaps, see Chapter 13). This failure can lead to dissatisfied customers and the potential for negative word of mouth.[56] Setting customer expectations too low is an equally dangerous strategy. Many retailers don't 'put their best foot forward'. For instance, no matter how good the merchandise and service may be, if a store is not clean and appealing from the entrance, customers are not likely to enter.

Marketers can take several steps to ensure postpurchase satisfaction, such as to:

- build realistic expectations, not too high and not too low
- demonstrate correct product use–improper usage can cause dissatisfaction
- stand behind the product by providing money-back guarantees and warranties
- encourage customer feedback, which cuts down on negative word of mouth and helps marketers adjust their offerings
- periodically make contact with customers and thank them for their support. This contact reminds customers that the marketer cares about their business and wants them to be satisfied. It also provides an opportunity to correct any problems. Customers appreciate human contact, though it is more expensive for marketers than email or postal mail contacts.

Postpurchase cognitive dissonance

Postpurchase cognitive dissonance is an internal conflict that arises from an inconsistency between two beliefs, or between beliefs and behaviour. For example, you might have 'buyer's remorse' after purchasing an expensive television because you question after all whether a high-price television offers appreciably better quality than a similar size television at a lower price–or whether you need a television

postpurchase cognitive dissonance
The psychologically uncomfortable state produced by an inconsistency between beliefs and behaviours that in turn evokes a motivation to reduce the dissonance; buyer's remorse.

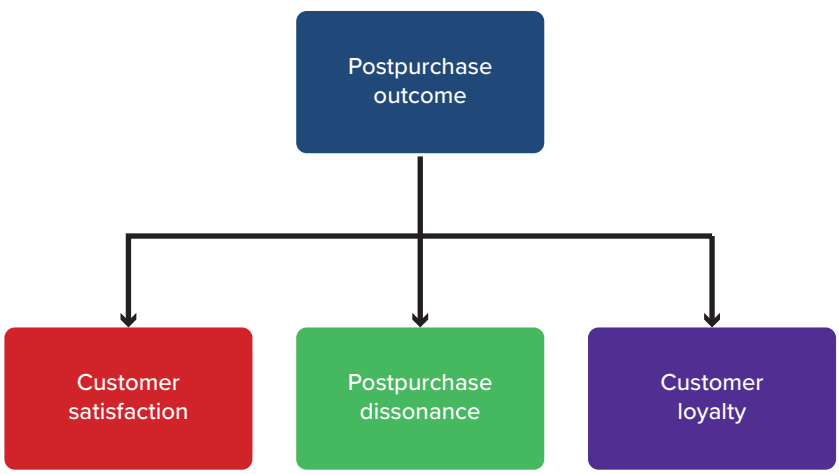


Figure 5.2 Postpurchase outcomes



Exhibit 5.11 Stores collect customer information for their customer relationship management programs from customer credit cards.

© Aleksandra Gigowska/Shutterstock/DAL

at all, considering your ability to stream content through your computer. Thus, postpurchase cognitive dissonance generally occurs when a consumer questions the appropriateness of a purchase after their decision has been made.

Postpurchase cognitive dissonance is especially likely for products that are expensive, are infrequently purchased, do not work as intended and are associated with high levels of risk. Marketers direct efforts at consumers after the purchase is made to address this issue.[57] Kia offers long warranties on its vehicles; NAB welcomes new customers with letters, emails or SMS messages reassuring them that their credit card and PIN will be on the way soon and reminding them of how many features their new account will have; and JB Hi-Fi offers a clear returns policy on its wide product range. Some clothing manufacturers include a tag on their garments to offer the reassurance that because of their special manufacturing process, perhaps designed to provide a soft, vintage appearance, there may be variations in colour that have no effect on the quality of the item. Mixed signals occurring either from family and friends or even from the consumers themselves can result in some dissonance and manifest itself as an uncomfortable, unsettled feeling. In such a situation, a consumer can:

negative word of mouth Occurs when consumers spread negative information about a product, service or store to others.

- return the clothing
- pay attention to positive information, such as looking up ads and articles about this particular dress designer
- seek more positive feedback from friends
- seek negative information about outfits made by designers not selected.

After a while, satisfaction coupled with prior experience will probably result.



Exhibit 5.12 Dell posts both good and bad comments on Twitter and Facebook. It believes that posting negative comments opens up discussions and emphasises the proactive measures it takes to remedy service or product failures.

Source: Dell Inc.

Customer loyalty

In the postpurchase stage of the decision-making process, marketers attempt to solidify a loyal relationship with their customers. They want customers to be satisfied with their purchase and buy from the same company again. Loyal customers will buy only certain brands and shop at certain stores and they include no other firms in their evoked set. Such customers are very valuable to firms and marketers have designed customer relationship management (CRM) programs to retain them (see Exhibit 5.11).

Undesirable consumer behaviour

Although firms want satisfied, loyal customers, sometimes they fail to attain them. Passive consumers are those who don't repeat purchase or recommend the product to others. More serious and potentially damaging, however, is negative consumer behaviour, such as negative word of mouth and rumours.

Negative word of mouth occurs when consumers spread negative information about a product, service or store to others. When customers' expectations are met or even exceeded, they often don't tell anyone about it. But when consumers believe that they have been treated unfairly in some way, they usually want to complain, often to many people. The internet has provided an effective method of spreading negative word of mouth to millions of people instantly through personal blogs, Twitter and corporate websites. To lessen the impact of negative word of mouth, firms provide customer service representatives–whether online, on the phone or in stores–to handle and respond to complaints. Many companies also allow customers to post comments and complaints to proprietary social media sites.

For example, Dell has set up forums and Twitter and Facebook pages to make it easy for customers to talk about and with them, without fear that their negative feedback will be deleted from the site (see Exhibit 5.12). This prioritisation of customer feedback has seen Dell construct a separate



Exhibit 5.13 IdeaStorm is a website designed specifically for Dell users to leave reviews and complaints.

Source: Dell Inc.

website (IdeaStorm) dedicated to Dell users, allowing them to post reviews and complaints (see Exhibit 5.13).[58] Dell believes that it should 'keep the bad' to open up discussions and emphasise the proactive measures the company is taking to remedy service or product failures.[59] If a customer believes that positive action will be taken as a result of a complaint, they are less likely to complain to family and friends or through the internet. (An example of word of mouth appears in Chapter 10.)

CHECK YOURSELF

1. Name the five stages in the consumer decision process.
2. What is the difference between a need and a want?
3. Distinguish between functional and psychological needs.
4. What are the various types of perceived risk?
5. What are the differences between compensatory and non-compensatory decision rules?

Case study **5.1: Tourism Australia uses ingenious Hollywood magnet to pull in American visitors**

By Victoria Jennifer Harrison, Deakin University

Overview

Australia's tourism market share in the United States had stagnated over time, even though outbound tourism was flourishing. To get things moving, Tourism Australia creatively used the 2018 NFL Super Bowl to launch a strong lead-generation campaign disguised as the 'big Hollywood blockbuster reboot' (see Exhibit 5.14).

Strategy

The resurrection of *Crocodile Dundee,* a three-decades-old iconic Australian film, was Tourism Australia's innovative solution to breaking through the reluctance of North Americans to travel Down Under. The challenge was finding a way to motivate people to travel to Australia, which, though among

Continued

the top destinations in the world, was failing to attract enough inflow.

At the time, Hollywood was obsessed by reboots; hence, this seemed like an excellent vehicle to boost Tourism Australia. The campaign masqueraded as a *Crocodile Dundee* sequel that was released on social media featuring cameos from popular celebrities.



Exhibit 5.14 Tourism Australia brought *Crocodile Dundee* to the 2018 Super Bowl to draw American tourists to Australia.

Source: Tourism Australia

Industry and competitors

The direct competitors were all the other popular holiday destinations that Americans preferred to Australia, especially inexpensive destinations within the United States or cheaper international holidays.

Indirect competition came from the other ways in which consumers chose to spend their disposable income, rather than saving for international travel.

Target market

A target market is a specific, profitable section of people whom the company chooses to pursue. The United States is one of Australia's largest and most valuable tourism markets—more than 780 000 American visitors spend $3.8 billion annually in Australia.

Considering the target market, relevant psychographic variables were included—for instance, open to new experiences, extroverted and outdoor-oriented travel—to attract the US tourists. With regard to demographic variables, a key consideration is income, since international holidays may seem unaffordable for many lower-income bracket consumers.

Company's competitive advantage/USP

As a holiday destination, Australia's key features are highlighted in the campaign. For this campaign, however, the 'out-of-the-box' thinking is what made the cut over other tourism industries.

Target market message

Australia's unique landscapes, wines and fine dining experiences were showcased. Quotes from the television ad included '37 000 miles of pristine beautiful beach, mate' and 'Australia makes some of the finest wines in the entire world'. With the locations and target set, all that was required was creative ways to promote it.

Traditional media

The answer was a 60-second television advertisement aired during the Super Bowl. The event, which is viewed by millions of Americans every year (and millions of consumers worldwide), connected to more than 50 per cent of the target.

Digital media

The ad had tremendous social media and digital impact. The campaign's social media reach was worth more than $400 million in global publicity within a day. The trailer for a 'legitimate' movie sequel, cameos from popular celebrities such as the Hemsworth brothers and Hugh Jackman, and videos on YouTube drew in tens of millions of views. Ads on Facebook and Instagram were run prior to the main Super Bowl ad; 50 per cent of leads on the Tourism Australia site came from Facebook.

Behavioural and financial metrics

Between 1 and 25 January 2018, 50 per cent of all digital content engagement that was Super Bowl ad-related directly mentioned Tourism Australia. Immediately after its broadcast, Tourism Australia's website experienced record traffic hits, logging interest from more than 10 000 US towns and cities. Qantas Vacations reported increased web traffic and doubled inquiry numbers within the first 24 hours of the ad airing.

Across social media, the results were most impressive: 80 per cent were from audiences in the US. This includes 15 000 news articles, 250 000 social media mentions and more than 25 000 retweets.

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Questions

1. How did Tourism Australia create the parameters of its audience?
2. Discuss the factors that generated a positive response.
3. What influenced the change in Americans' behaviour and decision-making process about Australia?

FACTORS INFLUENCING THE CONSUMER DECISION PROCESS

LO 5.5

The consumer decision process can be influenced by several factors, as illustrated in Figure 5.3. First are the elements of the marketing mix, which we discuss throughout this book. Second are psychological factors, which are influences internal to the customer, such as motives, attitudes, perception and learning. Third, social factors, such as family, reference groups and culture, also influence the decision

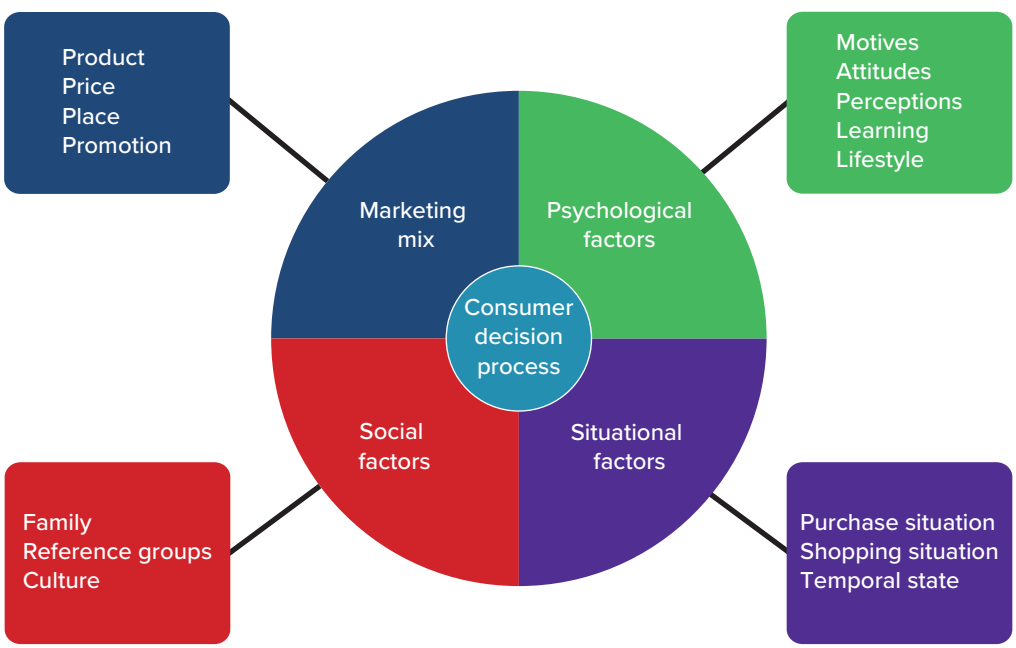


Figure 5.3 Factors affecting the consumer decision process

process. Fourth, there are situational factors, such as the specific purchase situation, a particular shopping situation or temporal state (the time of day), that affect the decision process.

Every decision people make as consumers will take them through some form of the consumer decision process. But, like life itself, this process does not exist in a vacuum.

Psychological factors

Although marketers can influence purchase decisions, a host of psychological factors affect the way people receive marketers' messages. Among them are motives, attitudes, perception, learning and lifestyle. In this section, we examine how such psychological factors can influence the consumer decision process.[60]

Motives

In Chapter 1, we argued that marketing is all about satisfying customer needs and wants. When a need, such as thirst, or a want, such as for a Diet Pepsi, is not satisfied, it motivates us or drives us to get satisfaction. So, a **motive** is a need or want that is strong enough to cause the person to seek satisfaction.

People have several types of motives. One of the best known paradigms for explaining these motive types was developed by Abraham Maslow almost 80 years ago, and is called **Maslow's Hierarchy of Needs**.[61] Maslow categorised needs into five groups: physiological (e.g. food, water, shelter); safety (e.g. secure employment, health); love (e.g. friendship, family); esteem (e.g. confidence, respect); and self-actualisation (engaging in personal growth activities and attempting to meet intellectual, aesthetic, creative and other such needs). The pyramid in Figure 5.4 demonstrates the theoretical progression of those needs.

Physiological needs deal with the basic biological necessities of life–food, drink, rest and shelter. Although for most people in developed countries these basic needs are generally met, some people in developed and less-developed countries are less fortunate. However, everyone remains concerned with meeting these basic needs.[62] Marketers seize every opportunity to convert these needs into wants by reminding us to eat at Grill'd, drink coffee at Coffee Club, exercise at Fitness First, drive a Ford and stay at a Hilton.

Safety needs pertain to protection and physical wellbeing. The marketplace is full of goods and services that are designed to make you safer, such as airbags in cars and burglar alarms in homes, or healthier, such as vitamins and organic meats and vegetables.

Love (belongingness) needs relate to our interactions with others. Haircuts and make-up make you look more attractive and deodorants prevent odour. Greeting cards help you express your feelings toward others.

Esteem needs allow people to satisfy their inner desires. Yoga, meditation, health clubs and many books appeal to people's desires to grow or maintain a happy, satisfied outlook on life.

Finally, **self-actualisation** occurs when you feel completely satisfied with your life and how you live. You don't care what others think. You drive whatever car you choose because it suits the person you are, not because some celebrity endorses it or because you want others to think better of you.

Which of these needs applies when a consumer purchases a magazine? Magazines such as *Women's Health* for instance, help satisfy physiological needs, such as how to eat healthily, but also esteem needs, like how to be happy with one's life. Magazines such as *Family Times* in New Zealand provide tips on how to make the home a safer place to live, and magazines such as *Bride to Be* help satisfy love and belonging needs, for example, by providing instructions on how to prepare gracious invitations for friends and family. Many of these magazines fulfil several needs simultaneously, of course (see Exhibit 5.15). Good marketers add value to their goods or services by nudging people up the needs hierarchy and offering information on as many of the tiers of needs as they can.

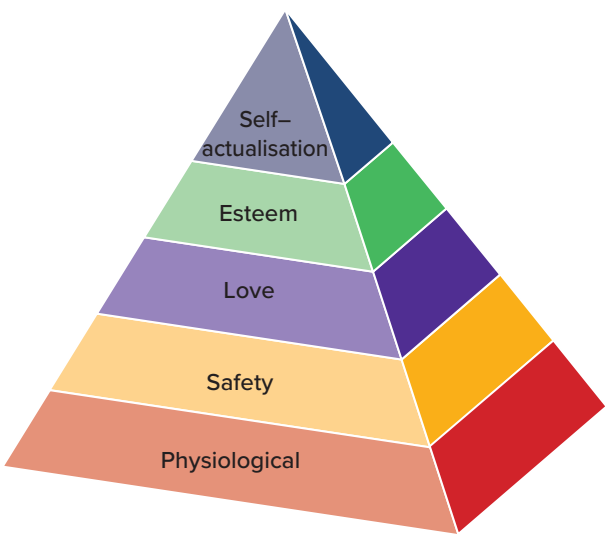


Figure 5.4 Maslow's Hierarchy of Needs

motive
A need or want that is strong enough to cause the person to seek satisfaction.

Maslow's Hierarchy of Needs
A paradigm for classifying people's motives. It argues that when lower-level, more basic needs (physiological and safety) are fulfilled, people turn to satisfying their higher-level human needs (social and personal); see *physiological, safety, love, esteem* and *self-actualisation needs.*

physiological needs
Those relating to the basic biological necessities of life: food, drink, rest and shelter.

safety needs
One of the needs in the hierarchy of needs; pertains to protection and physical wellbeing.

love (belongingness) needs
Needs expressed through interactions with others.

esteem needs
Needs that enable people to fulfil inner desires.

self-actualisation
When a person is completely satisfied with his or her life.



Exhibit 5.15 Which categories of Maslow's Hierarchy of Needs do these magazines fulfil?

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Attitudes

We have attitudes about almost everything. For instance, we like a class, but we don't like the tutor. We like where we live, but we don't like the weather. An **attitude** is a person's enduring evaluation of his or her feelings about and behavioural tendencies towards an object or idea. Attitudes are learned and long lasting and they might develop over a long period of time, though they can also abruptly change. For instance, you might like your tutor for much of the semester–until they return your first exam results. The one thing attitudes have in common for everyone is their ability to influence our decisions and actions.

attitude
A person's enduring evaluation of his or her feelings about and behavioural tendencies towards an object or idea; consists of three components: *cognitive, affective* and *behavioural.*

affective component
A component of *attitude* that reflects what a person feels about the issue at hand—his or her like or dislike of something.

behavioural component
A component of *attitude* that comprises the actions a person takes with regard to the issue at hand.

cognitive component
A component of *attitude* that reflects what a person believes to be true.

An attitude consists of three components: the 'ABC' of attitudes. The **affective component** involves emotions, or what we feel about the issue at hand, including our like or dislike of something; the **behavioural component** pertains to the actions we undertake based on what we know and feel; and the **cognitive component** reflects a person's belief system, or what we believe to be true. For example, a film, such as the third *John Wick* movie *Chapter 3: Parabellum*, starring Keanu Reeves, Halle Berry and Laurence Fishburne, will be promoted using trailers and supported by quotes from different movie critics, who may call it an original and thrilling film (see Exhibit 5.16). If a moviegoer believes the critics must be correct based on what has been stated, then the movie will likely meet the expectation of having an unconventional storyline (the cognitive component). Hearing that the tagline of the movie is 'if you want peace, prepare for war' may arouse feelings of the adrenaline rush associated with the first two chapters, reinforcing enjoyment of the *John Wick* films (the affective component). After weighing up various options–which includes other movies, or other entertainment options such as attending a gig or just staying home–a moviegoer may decide to go see the film (the behavioural component). Ideally, agreement exists among these three components. But when there is incongruence among the three, cognitive dissonance might occur.

Such dissonance is a terrible feeling, which people try to avoid, often by convincing themselves that the decision was a good one in some way.[63] In this example, a dedicated moviegoer may focus on the special effects and the fight scenes of the movie while mentally glossing over the parts that featured the actor they did not enjoy. In this way, they can convince themselves that the parts they liked were good enough to counterbalance the parts they didn't like and thus, they make their movie-going experience a positive event overall.

Although attitudes are pervasive and usually slow to change, the important fact from a marketer's point of view is that they can be influenced and perhaps changed through persuasive communications and personal experience. Marketing communication–through salespeople, advertisements, free samples or other such methods–can attempt to change what people believe to be true about a product (cognitive) or how they feel toward it (affective). If the marketer is successful, the cognitive and affective components work in concert to affect behaviour.



Exhibit 5.16 Based on positive reviews (the cognitive component) and positive feelings (the affective component), many people went to see the latest instalment in the *John Wick* series (the behavioural component) and came away with a positive attitude.

© Kevin Winter/Staff/Getty Images



Exhibit 5.17 Brisbane Council's plan to attract residents: Brisbane Vision 2031.

Source: © 2016 reproduced courtesy of Brisbane City Council

Perception

Another psychological factor, **perception**, is the process by which we select, organise and interpret information to form a meaningful picture of the world.

Perception in marketing influences our acquisition and consumption of goods and services through our tendency to assign meaning to such things as colour, symbols, taste and packaging. Sensory information is selected through sensory input and transformed into something meaningful to the consumer.[64] Our perception of the world will be determined differently according to our sensory characteristics, context of the stimulus, and sensory variables that include social, cultural and/or personal characteristics.

Importantly, consumers can derive different perceptions of the same object. For instance, in purchasing apartments in South Bank Brisbane, a potential buyer may be influenced by previous favourable experiences in either visiting or staying in the precinct, a desired lifestyle, what the location has to offer in terms of cultural, educational and recreational facilities, and from housing attributes such as building materials and floor plan. Yet another buyer for the same apartment may think South Bank apartments are small, expensive and impractical and have limited lifestyle opportunities for couples with young children. For this buyer, The Gap, with its spacious parks, is a more attractive option. Like most major cities in Australia, New Zealand and globally, Brisbane City Council has a plan to make living and doing business there easier (see Exhibit 5.17). Its 'Brisbane Vision 2031' has themes relating to residential developments, traffic management, climate response and many more–all to better market the city to its residents, both current and prospective.

perception The process by which people select, organise and interpret information to form a meaningful picture of the world.

learning Refers to a change in a person's thought process or behaviour that arises from experience and takes place throughout the consumer decision process.

lifestyle A component of *psychographics;* refers to the way a person lives his or her life to achieve goals.

Learning

Learning refers to a change in a person's thought process or behaviour that arises from experience and takes place throughout the consumer decision process. Consumers can acquire purchase and consumption information as a result of either responses to external stimuli (behavioural learning) and/or as the result of mental processes that emphasise the individual as a problem-solver entity (cognitive learning). For example, Apple Watch Series 5, with its position of 'You've never seen a watch like this', prompts watch owners to associate wearing a customised, innovative wristwatch with meeting their personal goals (see Exhibit 5.18). Showcasing the watch's capabilities and benefits as being 'wearable as part of your everyday life' provides the consumer with information to form selection attributes and store them in their memory for future purchase.[65]

Learning affects attitudes and perceptions. Throughout the buying process, a consumer's attitudes may shift towards a brand and/or a store. The cognitive component of Apple's strategy positions each individual product innovation so consumers can learn about the differentiated benefits. Apple creates a store environment that allows for product interaction, and assistance from the 'Apple geniuses' encourages trust and liking, which involves the affective component. Apple's communication strategy of establishing brand confidence in the minds of consumers across all their products, whether an iPhone, MAC, iPad or iTunes software, influences their predisposition to purchase, which involves the behavioural component.[66, 67]



Exhibit 5.18 Showcasing the Apple Watch Series 5's capabilities and benefits as 'You've never seen a watch like this' provides the consumer with information to form selection attributes and store them in their memory for future purchase.

© Justin Sullivan/ Staff/Getty Image

Lifestyle

Lifestyle refers to the way consumers spend their time and money to live. For many consumers the question of whether the product fits with their actual lifestyle, which may be fairly sedentary, or their perceived lifestyle, which might be based on the beach, is an important one. Some of the many consumers sporting Billabong boardshorts buy the product because they feel it's the best gear for surfing and hanging

around the beach. Others, however, simply like the image that the shorts convey–the image that they might be competing in the next national surfing competition–even if the closest they have come has been their local beachside bar.

A person's perceptions and ability to learn are affected by their social experiences, which we discuss next.

Social factors

The consumer decision process is influenced from within by psychological factors, but also by the external, social environment, which consists of the customer's family, reference groups and culture (refer back to Figure 5.3).[68]

Family

Many purchase decisions are made about goods or services that the entire family will consume or use. Thus, firms must consider how families make purchase decisions and understand how various family members might influence these decisions.

When families make purchase decisions, they often consider the needs of all the family members. In choosing a restaurant, for example, all the family members may participate in the decision-making. In other situations, however, different members of the family may take on the purchasing role. For example, a father and teenage child may look through car magazines and consumer reports to search for information about a new car. But once they arrive at the dealership, the parents, not the child, will decide which model and colour to buy, and the mother may negotiate the final deal.[69]

Children and adolescents play an increasingly important role in family buying decisions (see Exhibit 5.19). Children in Australia have reported to have an annual spending power of $1.8 billion, with these young consumers showing preference towards television and digital media, with advertising playing a major persuasive role.[70] The Cartoon Network's 11th 'New Generations' survey highlighted that children's spending was up by 27 per cent to $14 a week from 2013, that girls receive 9 per cent less pocket money than boys, and that apps continue to dominate tablet use, with 83 per cent of children using them. Children, of course, influence their parents. In 2016, Australian households spent $666 billion on general living costs, allocating $2.7 billion to gadgets and $80.3 billion to recreation, including holidays.[71]



Exhibit 5.19 Children influence parents' purchasing decisions.

© Pressmaster/Shutterstock

Influencing a group that holds this much spending power is vitally important. The two big food retailers in Australia, Coles and Woolworths, are in a constant price war and are now pressured from below by the likes of ALDI and Costco, which lure customers seeking cheaper grocery products. Knowing how children influence food-buying decisions is a strategic opportunity for traditional supermarkets and their suppliers to exploit. Currently, the age cohorts referred to as generation X and generation Y (see Chapter 4), born anywhere between 1965 and 1994, tend to shop at Target, Big W and Kmart more, and spend more at those stores than other generational groups.[72] Getting this group to prefer one store, chain or product over another can make a difference to the bottom line, as well as to the chances for survival in a difficult marketplace.

Reference groups

A **reference group** is one or more people an individual refers to for comparison regarding beliefs, feelings and behaviours. A consumer might have various reference groups, including family, friends, co-workers or famous people the consumer would like to emulate. These reference groups affect buying decisions by (1) offering information, (2) providing rewards for specific purchasing behaviours, and (3) enhancing a consumer's self-image.

reference group
One or more people used by an individual as a basis for comparison regarding beliefs, feelings and behaviours.

Reference groups provide information to consumers directly through conversation or indirectly through observation. Some reference groups also influence behaviours by rewarding behaviour that meets with their approval or chastising behaviour that doesn't. For example, smokers are often criticised or even ostracised by their friends and made to smoke outside or in restricted areas.



Exhibit 5.20 Celebrities such as Beyoncé and Jay Z, considered a 'power couple', can be part of a consumer's reference group, influencing their purchase.

© David M. Benett/Contributor/Getty Images

Consumers can identify and affiliate with reference groups to create, enhance or maintain their self-image (see Exhibit 5.20). Customers who want to be seen as 'earthy' might buy Birkenstock sandals, whereas those wanting to be seen as 'high fashion' might buy Christian Louboutin shoes, as we discussed previously in this chapter. If they purchase a gift for someone else and that gift conflicts with their self-image, they also seek to re-establish their preferred affiliation quickly, by purchasing something more in line with their identity.[73]

Some stores, such as Roxy and Quiksilver, play on these forms of influence and hire sales associates they hope will serve as a reference group for customers who shop there. These 'cool', attractive and somewhat aloof employees are encouraged to wear the latest store apparel–thereby serving as living mannequins to emulate.[74]

Culture

We defined culture in Chapter 4 as the shared meanings, beliefs, morals, values and customs of a group of people. As the basis of the social factors that impact your buying decisions, the culture or cultures in which you participate are not markedly different from your reference groups. That is, your cultural group might be as small as your reference group at university, or as large as the country in which you live or the religion to which you belong. Like reference groups, cultures influence consumer behaviour. For instance, having friends who are fashion conscious will influence to some extent, the way those in the group spend and dress, and where they shop.

Conversely, movements that challenge capitalism and uncritical consumerism continue to gain some traction in developed countries. Since the global financial crisis, we have seen protests such as Occupy Wall Street, which was mobilised by people concerned about the imbalance of wealth in capitalist systems.[75] In Australia, too, there is some shift in focus from wealth to wellbeing, with more flexible working hours even for senior executives. A campaign, Buy Nothing New Month, runs annually and encourages people to shop only for essentials in October, and to buy second-hand goods or borrow, rent or swap for the items they need (see Exhibit 5.21). According to the organisers, 'Buy Nothing New Month shines light on consumption practices that are better for us, our people, wallets and planet'.[76] The anti-consumerism trend is significant enough that between 2004 and 2007, RMIT University supervised an Australian Research Council-funded project, Anti-consumerism in the Contemporary West.[77]

situational factors
Factors affecting the consumer decision process: those that are specific to the situation that may override, or at least influence, psychological and social issues.

Situational factors

Psychological and social factors typically influence the consumer decision process in the same way each time. For example, your motivation to quench your thirst may typically drive you to drink a particular brand of soft drink, and your reference group at the workplace may coerce you to wear appropriate attire. But sometimes **situational factors**, or factors specific to the situation, override or at least influence psychological and social issues. These situational factors are related to the purchase and shopping situation, as well as to temporal states.[78]



Exhibit 5.21 Buy Nothing New Month encourages people to shop only for essentials and, where possible, to buy second-hand.

Source: https://www.buynothingnew.com.au/

Purchase situation

Customers may be predisposed to purchase certain goods or services because of some underlying psychological trait or social factor, but these factors may change in certain purchase situations. For instance, a consumer who considers themselves a thrifty, cautious shopper who likes to get a good deal may shop at Kmart or possibly House. However, purchasing gifts for others, such as for a wedding, may impact the purchase situation. For example, Tiffany & Co. may be deemed a more appropriate store for a wedding gift.

Shopping situation

Consumers might be ready to purchase a product but be completely derailed once they arrive in the store. Marketers use several techniques to influence consumers at this stage of the decision process. Consider the following techniques.

Store atmosphere. Some retailers and service providers have developed unique images that are based at least in part on their internal environment, also known as their atmospherics.[79] Research has shown that, if used in concert with other aspects of a retailer's strategy, music, scent, lighting and even colour can positively influence the decision process.[80] Restaurants such as Jamie's Italian, Michel's Patisserie and Go Sushi have developed internal environments that are consistent with their food and service. Stores such as Myer and IKEA offer customers the chance to have something to eat and a coffee while taking a break from their shopping (see Exhibit 5.22). In bars and restaurants, the provision of wi-fi is part of the consumer's environment.



Exhibit 5.22 IKEA enhances the shopping experience through selling food and beverages.
© Prachana Thong-on/Shutterstock

Other stores go further. Aesop creates a unique design for every one of its stores and reinforces the positioning of the brand with familiar brand touchpoints across all stores. As branded alchemists of luxurious products for the skin and hair, touchpoints include infused scents, a clutter-free environment and the use of environmentally sustainable packaging.[81] A fashion boutique in Perth, Dilettante, keeps things interesting by featuring a rotating selection of art installations and hosting seasonal launches to give customers a taste of international shows visited by the owner.[82] The supermarket Coles runs mother-and-toddler groups to talk about recipes and nutritional information and give free samples. It also offers cooking classes in the home.

Salespeople. Well-trained sales personnel can influence the sale at the point of purchase by educating consumers about product attributes, pointing out the advantages of one item over another and encouraging multiple purchases.

The hardware store Bunnings has a workforce of more than 33 000 people in Australia, and more than one-third of them are over 50 years old. For the company, it is essential that its salespeople have the experience to be able to advise and relate to customers. So, although the stores are all warehouse style, the environment is improved by a high number of experienced salespeople to guide consumers. Bunnings' salespeople provide specific services, such as advice on paint colours, home installation and moving house, and even offer kids' DIY workshops.

Crowding. Customers can feel crowded because there are too many people, too much merchandise or lines that are too long. If there are too many people in a shop, some people become distracted and may even leave.[83] Others have difficulty purchasing if the merchandise is packed too closely together. This issue is a particular problem for shoppers with mobility disabilities.

In-store demonstrations. The taste and smell of new food items may attract people to try something they normally wouldn't (see Exhibit 5.23). Similarly, some fashion retailers offer 'trunk shows', during which their vendors show their whole line of merchandise on a certain day. During these well-advertised events, customers are often enticed to purchase that day because they get special assistance from the salespeople and can order merchandise that the retailer does not normally carry.

Promotions. Retailers employ various promotional vehicles to influence customers once they have arrived in the store. An unadvertised price promotion can alter a person's preconceived buying plan. Multi-item discounts, such as 'buy one, get one free' sales, are a popular means to get people to buy more than they normally would.[84] Because many people regard clipping vouchers from the newspaper as too much trouble, some retailers make vouchers available in the store, on the internet or on mobile phones. Another form of promotion is offering a 'free gift' with the purchase of a good or service. This type of promotion is particularly popular with cosmetics.



Exhibit 5.23 In-store food preparation is a subtle means of consumer persuasion.
© Rawpixel.com/Shutterstock

Packaging. It is difficult to make a product stand out in the crowd when it competes for shelf space with several other brands. This problem is particularly difficult for consumer packaged goods, such as groceries and health and beauty products (see Adding value 5.2). Marketers therefore spend millions of dollars designing and updating their packages to be more appealing and eye catching.[85]

Adding value 5.2

Judging a product by its cover



Exhibit 5.24 The power of branding … Vegemite.
© tap10/Getty Images

In stores, customers spend just three to 10 seconds standing in front of products as they decide whether to buy them. Regardless of the significant time and money put into marketing products in places outside store walls, customers evaluate most products based mainly on their appearance in the store. This means that packaging is tremendously important.

Packaging must sell itself to the customer, over and above any competitors on the shelf. Redesigned packages offer the excitement of exhibiting something new but they might also alienate customers who find them unfamiliar. Yet increasing the visibility of any package on the shelf helps increase sales—which may be why Pringles keeps packaging its chips in tubes that differ greatly from the formless bags further down the aisle.

But not all product packaging can, or should, remain the same, the way Pringles' packaging has. Pepsi, Doritos, Listerine, Weight Watchers and many other brands have gone through packaging changes. Australia is the country that pioneered the screw-top wine bottle, which obviously makes life easier for consumers but also gets rid of any cork contamination.[86]

One of the most iconic Australian brands, Vegemite, has undergone packaging and, indeed, recipe changes throughout its history. In 2019 the brand celebrated its 97th birthday. In the 1970s the ingredients were listed on the jar for the first time; in the 1980s the words 'all natural' were added; and in the 1990s the metal lids were replaced with today's yellow, tamper-evident plastic ones. In the 2000s, Vegemite was launched in a plastic tube for those who require a handy travel pack. In 2012, Vegemite was temporarily renamed 'Australia' for Australia Day. This was controversial due to the brand's ownership by the US firm Kraft. The last time Kraft tried to rebrand a Vegemite product—a cheesier version of the spread, which they called 'iSnack 2.0'—it lasted only five days on the shelves before it was met with a huge public backlash for daring to play with the national brand. Vegemite has since launched a gluten-free version, partnered with Arnott's to offer Vegemite Shapes, and launched its latest campaign, 'Tastes Like Australia',[87] which has cemented its place as an iconic Australian brand, while keeping the balance of carefully managed change to attract new customers versus the need to satisfy current brand-loyal customers.

Temporal state

Our state of mind at any particular time can alter our preconceived notions of what we are going to purchase. For instance, some people are 'morning people', whereas others function better at night. A purchase situation may thus have different appeal levels depending on the time of day and the type of person the consumer is. Mood swings can also alter consumer behaviour. Since retailers can't affect what happens outside the store very much, they should do everything possible to make sure their customers have a positive shopping experience once they are in the store.

The factors that affect the consumer decision process–the marketing mix, psychological factors, social factors and situational factors–are all impacted by the level of consumer involvement, the subject of the next section.

CHECK YOURSELF

1. What are some examples of specific needs suggested by Maslow's Hierarchy of Needs?
2. Which social factors likely have the most influence on (a) the purchase of a new outfit for a job interview and (b) the choice of a university to attend?
3. List some of the tactics stores can use to influence consumers' decision processes.

Case study **5.2: 'Paytm karo': situation changes everything**

By Victoria Jennifer Harrison, Deakin University

Overview

- Paytm, 'pay through mobile', is India's largest mobile commerce platform.
- It offers instant digital and utility payments.
- It has over 25 million registered users.

Introduction

Paytm is among the first digital payment wallets launched in India, owned by One97 Communications India.



Exhibit 5.25 Paytm: India's foremost e-commerce wallet.

© Bloomberg/Contributor/Getty Images

On 8 November 2016, Indian Prime Minister Narendra Modi announced the demonetisation of notes of higher denominations—INR 500 and INR 1000. These were recalled in an effort to prevent money laundering. Consequently, the dial shifted from curbing black money to India's transition to a cashless economy. The biggest beneficiaries of this policy shock were fintech (finance/technology) companies, of which Paytm was the most well-known.

Suddenly, cash disappeared from the market, and as the banks could not load ATMs quickly enough, the queues outside ATMs all over India grew larger by the minute. Paytm executives recognised the opportunity that lay ahead and after a serious brainstorming, Paytm launched its new marketing strategy.

It ran full-page advertisements praising the PM for 'taking the boldest decision in the financial history of Independent India', a stunt that attracted major criticism, yet increased its already rising visibility. Paytm became one of the largest beneficiaries of demonetisation as its user base catapulted from 140 million to 270 million.

Paytm brought about a paradigm shift in Indian industry by completely transforming the payment methodology. What started initially as an online wallet-cum-e-commerce website that facilitated payments for limited utilities expanded to bring everything under its purview.

Advertisements etched the words 'Paytm karo' (translated as 'Pay with Paytm') in consumers' minds—a testimony that elaborates the impact Paytm had on people's lives. The founder took charge and spoke of online and digital transactions as the best way to deal with the sudden cash crunch and convinced consumers that Paytm was the solution to their problems.

Huge front-page campaigns and the controversies that followed fuelled the growth and expansion of Paytm. Change in consumer behaviour takes years to garner, but Paytm enjoyed a rapid shift by using change in its favour.

Industry

- Category: e-commerce—online payments.
- It is a leading payment gateway via the e-commerce medium. Paytm Wallet enables people to use their phones to pay for shopping, services, bills, etc. through their mobile application.

Competitors

The major competitors are Google Pay, Amazon Pay, JioMoney, Airtel Money, MobiKwik and FreeCharge.

Target market (TM)

- Initial TM: young Indians, under 30 years of age—recharge medium.
- TM during demonetisation: *all* of India's smartphone and internet users.

Company's competitive advantage/USP

Alternative to cash to make day-to-day payments.

Continued

Target market message

- 'Paytm karo.'
- 'Safe and secure daily payment—go cashless.'

Traditional media

Television:

- Paytm launched several TV campaigns; some of the major ones were broadcast during the Cricket World Cup and the Indian Premier League cricket, season 8, and other cricket events.
- Vernacular language commercials.
- Several campaign launches: #ThoughtfulDiwali, #PaytmKaro, #AadatSeAazadi, #TravelMeinTwist
- Radio broadcasts were on a national scale, ensuring reach to the older generation as well.
- Newspaper advertisements were also published in vernacular language.
- Promotions: 'Paytm maha cashback sale'.
- Headline advertising: 'Download Paytm, your own recharge ATM'.

Other:

- WOM.
- Mobile banner advertising.
- App-install pushes.

Social media

Facebook:

- Cashback promotions on food, movies, shopping, etc.

Twitter and Instagram:

- Promotions and cashback offers on food, hotels and national holidays.
- 'Hello' in various Indian languages, informing people of Paytm's establishment in each city.

SEM advertising

The technique of improving search presence or visibility on different search engines such as Google, Yahoo, Bing, etc., is called search engine marketing (SEM).

Google example: *Every Indian, with or without internet #PaytmKaro; Dial 1800 1800 1234 to access accounts and pay.*

Metrics

- 200 million people started using Paytm Wallet.
- 300 million registered users; 5 million daily transactions; more than 7 million Paytm merchants.

Revenue

- Average monthly transactions: more than $4 billion.
- 2018 revenue: $200 billion.
- Estimated growth through to 2023: $1 trillion.

Conclusion

Paytm was one of the earliest brands to introduce cashless transactions at grassroots level—for instance, even the local vegetable vendors used Paytm. Everyone—not only those who are internet savvy—could easily use Paytm to make payments in stores or to street vendors, to pay another person or send money gifts. No amount was too small and anyone who had a phone and bank account could use it.

To incentivise the use of the wallet, Paytm's main strategy was to offer major discounts and cashbacks, which was quickly taken up by its competitors.



Exhibit 5.26 Paytm announced its arrival throughout India.

© NurPhoto/Contributor/Getty Images

People would not only gain access to an easy way to pay, but through these offers could save a lot of money as well.

It will be interesting to see what Paytm will do now to stand out from the rest.

Case study references

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Questions

1. Does using Paytm satisfy a consumer's psychological or functional need?
2. Would you say that in Paytm's case this is extended or limited problem-solving?
3. What factors led to Paytm's success?

INVOLVEMENT AND CONSUMER BUYING DECISIONS

LO 5.6

involvement
A consumer's interest in a product and the personal importance of that product.

Consumers make three types of buying decisions depending on their level of involvement. **Involvement** is the consumer's degree of interest in the product, and the personal importance of that product. The level of involvement in buying decisions can be considered a continuum, from decisions that are extended or high-involvement problem-solving, to decisions that are limited problem-solving, and those that are low involvement, such as impulse buying and/or habitual decision-making. Consumers may have different levels of involvement for the same type of product. One consumer behaviour theory, the elaboration likelihood model, illustrated in Figure 5.5, proposes two end continuums: that of high and low involvement; this shows how consumers process different aspects of a message or advertisement.

If, for example, both types of consumers view an advertisement for work wear, the high-involvement consumer (e.g. an applicant who is researching buying attire for a job interview) will scrutinise all the information provided (price, fabric quality, construction) and process the key elements of the message more deeply. An involved consumer may end up judging the advertisement as truthful and forming a favourable impression of the product, or else may regard the message as superficial and develop negative product impressions.

In contrast, a low-involvement consumer is likely to process the same advertisement in a less thorough manner. Such a consumer might pay less attention to the key elements of the message (price, fabric quality, construction) and focus on heuristic elements that allow the consumer to use 'mental shortcuts' such as brand name (e.g. 'Country Road') or the presence of a celebrity endorser to make decisions. The impressions of the low-involvement consumer are likely to be more superficial.

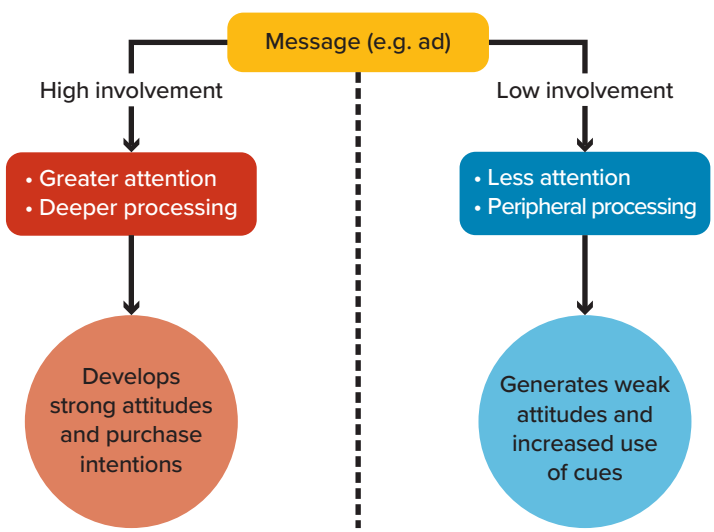


Figure 5.5 Elaboration likelihood model

Extended problem-solving

The buying process begins when consumers recognise that they have an unsatisfied need. Recognising a need to buy appropriate attire for a job interview may prompt information-seeking such as asking for advice from a number of external sources. This can include seeking the opinion of friends, family and other reference group

extended problem-solving
A purchase decision process during which the consumer devotes considerable time and effort to analysing alternatives; it often occurs when the consumer perceives that the purchase decision entails a lot of risk.

members, and seeking specific product information such as by reading fashion magazines and conducting research online. This could include visiting several stores to determine which has the best options for the applicant. Finally, after considerable time and effort analysing alternatives, a decision is made where to purchase the outfit. This process is an example of **extended problem-solving**, which is common when the customer perceives that the purchase decision entails a lot of risk. The potential risks associated with a decision to buy, in this case, attire, may include financial (Did I pay too much?) and social (Will my potential employer and friends think I look professional?) risks. To reduce their perceived risk, a consumer can spend significant time and effort searching for information before a purchase is actually made (see Exhibit 5.27).



Exhibit 5.27 What type of buying decision does this product represent?

Source: Aaron Roeth Photography

limited problem-solving
Occurs during a purchase decision that calls for, at most, a moderate amount of effort and time.

impulse buying
A buying decision made by customers on the spot when they see the merchandise.

habitual decision-making
A purchase decision process in which consumers engage with little conscious effort.

Limited problem-solving

Limited problem-solving occurs during a purchase decision that calls for, at most, a moderate amount of effort and time. Customers engage in this type of buying process when they have had some previous experience with the product and the perceived risk is moderate. Limited problem-solving usually relies on past experience more than on external information. For many people, an apparel purchase, even something to wear for a job interview, could require limited effort.

A common type of limited problem-solving is **impulse buying**, a buying decision made by customers on the spot when they see the merchandise. Consumers will often not go through the entire decision process; instead, they recognise a need and jump directly to purchase without spending any time searching for additional information or evaluating alternatives. For example, when going to the supermarket to do weekly shopping, a display case of popcorn and cola near the checkout counter can prompt an impulse purchase, particularly if the buyer knows that friends are coming over to watch a movie. The supermarkets facilitate this impulse purchase by providing easily accessible cues (e.g. by offering the popcorn and drink in a prominent display, at a great location in the store and at a reasonable price).



Exhibit 5.28 Picking up a hamburger at a fast-food restaurant requires little thought. It is a habitual decision for many people.

© ArliftAtoz2205/Shutterstock

Some purchases require even less thought. **Habitual decision-making** describes a purchase decision process in which consumers engage in little conscious effort. Reacting to cues from signs can result in habitual decision-making. Stopping, for example, for a cheeseburger and soft drink on the way home doesn't require pondering the potential benefits of going to a competitor's drive-through instead (see Exhibit 5.28).

Marketers strive to attract and maintain habitual purchasers by creating strong brands and store loyalty (see Chapters 11 and 12) because these customers don't even consider alternative brands or stores.

CHECK YOURSELF

1. How do low-involvement versus high-involvement consumers process the information in an advertisement?
2. What is the difference between extended versus limited problem-solving?

SUMMING UP

LO 5.1 Articulate the steps in the consumer buying process.
The consumer buying process consists of five main steps: First, during need recognition, consumers realise they have an unsatisfied need or want that they hope to address. Second, they begin to search for information to determine how to satisfy that need. Third, during the alternative-evaluation stage, they assess the various options available to them to determine which is the best for their purposes. Fourth, the purchase stage involves obtaining and using the product. Fifth and finally, consumers enter the postpurchase stage, during which they determine whether they are satisfied or dissatisfied with their choice.

LO 5.2 Describe the difference between functional and psychological needs.
Functional needs pertain to the performance of a product. Psychological needs pertain to the personal gratification consumers associate with a product and/or service.

LO 5.3 Describe the factors that affect information search.
The information search that people undertake varies depending on external and internal factors. Among the former, the type of product dictates whether people can make an easy, quick decision or instead must undertake significant research to find the best purchase option. A person's perceptions of the benefits versus the costs of the search also determine how much effort they undertake. These perceptions often relate closely to their perception of the risk involved in their purchase. Finally, people's locus of control, whether external or internal, strongly influences their information search actions.

LO 5.4 Discuss postpurchase outcomes.
Marketers hope that after their purchase, consumers are satisfied and pleased with their purchase, which can lead to customer loyalty, a positive postpurchase outcome. However, consumers also may suffer postpurchase cognitive dissonance, or 'buyer's remorse'.

LO 5.5 List the factors that affect the consumer decision process.
The elements of the marketing mix (product, place, promotion and price) have significant effects, of course. In addition, social factors, such as family and culture, influence not only what a consumer buys but also how a consumer goes about making a purchase decision. The psychological factors that influence purchase decisions include motives (which can be higher or lower on the hierarchy of needs), attitudes, perceptions, learning and lifestyle. Finally, the specific factors that mark the purchase situation, like the store setting or even the time of day, can alter people's decision process.

LO 5.6 Describe how involvement influences the consumer decision process.
More-involved consumers, who are more interested or invested in the product they are considering, tend to engage in extended problem-solving. They gather lots of information, scrutinise it carefully and then make their decisions with caution, to minimise any risk they may confront. In contrast, less-involved consumers often engage in limited problem-solving, undertake impulse purchases or rely on habit to make their purchase decisions.

KEY TERMS

- affective component 145
- attitude 145
- behavioural component 145
- cognitive component 145
- compensatory decision rule 136
- consumer decision rules 136
- conversion rate 138
- determinant attributes 135
- esteem needs 144
- evaluative criteria 134
- evoked set 134
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- safety needs 144
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- social risk 133
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- universal set 134

MARKETING APPLICATIONS

1. When consumers buy a new notebook computer, what sort of information search would they conduct (internal versus external)? If you were a marketing manager for Dell, how would you use this information?
2. When evaluating different alternatives for a Saturday-night outing to a fine dining restaurant, explain the difference between the universal set, the retrieval set and the evoked set. From which set of alternatives is the consumer most likely to choose the restaurant?
3. Identify and describe the three social factors that influence the consumer decision process. Provide an example of how each of these might influence the purchase of the necessary goods and services for a camping trip by the whole family.
4. Does buying Cheerios cereal satisfy a consumer's functional or psychological need? How might this information help a Cheerios brand manager better promote the product?
5. Explain the factors that affect the amount of time and effort that a consumer might take when choosing an oral surgeon to remove their wisdom teeth. How would your answer change if the consumer were looking for a dentist for a cleaning? How should the office manager for a dental practice use this information?
6. What can retailers do to make sure they have satisfied customers after the sale is complete?
7. Zealong uses exotic tea leaves for its aromatic range. Using Maslow's Hierarchy of Needs, explain which need(s) are being fulfilled by this tea.
8. Avanti Bikes has designed the Vapour, an off-road bicycle designed to stand up to the rugged conditions of mountain biking. Develop a theme for an advertising strategy that ensures all three components of attitude are positively covered.
9. You were recently hired by a multichannel retailer that promotes itself as an Australian firm selling only Australian-made goods. The products featured in advertising and in catalogues tell stories of the firms that produced the goods in Australia. The sales response to the firm's 'Australian made' position has been incredible because it resonates with its customers' values. As a result, growth has been impressive.

   One day, while speaking to a retailer, you find out a shipment of merchandise will be delayed since the product is coming from overseas and is late. A few days later you hear a similar story. As it turns out, the firm just barely earns the 'Australian made' label. Though technically the products meet a standard to be classified as 'Australian made', you worry that the firm is not being truthful to its customers. You decide to write a letter to the chief marketing officer detailing your concerns. What would you say in the letter?

QUIZ YOURSELF

1. Teddy has a nearly new economy car but wants a sports car. If he decides to purchase a sports car, he will be primarily fulfilling _____ needs.
   a. functional
   b. postpurchase
   c. safety
   d. psychological
   e. functional and psychological
2. When Marlon decided to buy a new computer, he thought about all of the brands he could recall seeing advertised, but he would consider only those brands he could buy at his local electronics store. This represents Marlon's _____ set.
   a. universal
   b. retrieval

c. evoked
d. deterministic
e. behavioural

3. Danae has decided the criteria she is going to use in determining which dishwasher to purchase. She is now collecting information on how some of the brands on the market perform in terms of these criteria. Danae is using:
   a. routine problem-solving
   b. extensive problem-solving
   c. limited problem-solving
   d. primary problem-solving.
4. Which of the following is *not* part of the process stage of the model of consumer decision-making?
   a. Evaluation of alternatives
   b. Need recognition
   c. Trial
   d. Prepurchase search
5. When Claire bought a new coat on sale, her concern that the product will not be consistent with her self-image deals with:
   a. functional risk
   b. psychological risk
   c. physical risk
   d. time risk.
6. 'When consumers see what they want to see' sums up the whole notion of:
   a. motivation
   b. perception
   c. subliminal messaging
   d. attitude.

(Answers to these six questions can be found on page 455–456.)

NET SAVVY

1. Visit the Shopkick site (www.shopkick.com), click on 'About us' at the bottom and describe the benefits it offers consumers. How are these offers likely to influence consumers' behaviour? What kinds of need appeals does this company make to encourage shoppers to join?
2. Customers use a variety of methods to provide feedback to companies about their experiences. Check out the website Product Review (www.productreview.com.au). Look over the reviews for Optus by typing 'Optus' in the company search space. Summarise some of the most recent comments. What is the ratio of positive to negative comments about Optus during the last year or so? Describe the effect these comments might have on customer perceptions of Optus.

CHAPTER CASE STUDY

Influence of advertising on consumer behaviour

By Victoria Jennifer Harrison, Deakin University

Introduction

Advertising is a means of communication to convey information to an audience and encourage them to make purchase decisions about a product or service. It is considered a vital and essential element for the economic growth of the market and businesses.

An advertisement is a paid form of promotion by a sponsor, using various mediums, such as newspapers, magazines, television, radio and outdoor advertisements (traditional media), or through blogs, websites and mobile phones (modern media).

In 2017, the Australian Defence Force (ADF) launched its 'The ADF Surprised Us' campaign with the aim of attracting the best talent from across the country. Its strategy—to secure a distinctive place in the minds of the target market relative to other

Continued



Exhibit 5.29 The ADF actively encourages more applications from women, Indigenous Australians and Australian youth of diverse cultures and linguistic backgrounds.

© Ian Hitchcock/Stringer/Getty Images

competitive brands—is referred to as positioning. The ADF advertisements, such as the 'Do what you love' advertisement, took consumers by surprise and was aimed at influencing consumer behaviour to benefit the brand or service. This campaign consisted of a series of stories regarding eight families from diverse backgrounds. It focused on the most common misconceptions about the ADF and how these were overcome once people understood the truth about the organisation. The strategy was designed to make the ADF a more attractive option for employment among the youth, both those from academic background and sports lovers.

Background

The ADF, which currently recruits approximately 8000 people annually, wished to actively encourage more applications from women, Indigenous Australians and Australian youth of diverse cultures and linguistic backgrounds. It spent $46.1 million in advertising during the 2018 financial year—nearly a third of the federal government's total spend of $157 million.

Industry and competitors

The industry includes both government and defence and has no direct competitors. Hence, the Australian Defence Force's competition comes from any other Australian employers that may attract their target market, i.e., millennials and youth. Considering that the ADF requires recruits for diverse roles, the target market is vast.

The ADF's direct competitors are thus every organisation that attracts young employees, while its indirect competitors include universities, which offer pathways to a career, and organisations in the area of entertainment and sport, which offer part-time and casual jobs to youth.

Objectives

The general goals were defined as:

- rebrand the ADF to make it a relevant and relatable 21st-century employer
- design communications for a millennial's digital world.
- engineer a modern application process to keep pace with progressive employers
- reduce dropout rates.

More specific goals were:

- attract 25 per cent women to the navy and air force; and 15 per cent to the army by 2023
- increase Indigenous participation from 2.6 per cent to 2.7 per cent.

Target market

- Target Australians aged between 18 and 24.
- Enhance recruit numbers per annum in the army, navy and air force.
- Increase the number of women (with a target of 6%).
- Pay specific attention to recruiting medical officers, engineers and submariners.

Company's competitive advantage/USP

The ADF is a unique employer offering specific benefits, e.g. travel, upskilling and job security. Quotes from the ADF highlighted the said advantages:

- the best superannuation package—16.4 per cent employer contribution
- historically high recruitment rates.

Target market message

- The main drivers of the recruitment campaigns were 'something different', 'temporary commitment' and 'service'.
- A 'try it before you buy it' approach was used for people in their late teens. The Gap Year program has been a big success with young Australians.

Traditional media

Traditional media was used by this campaign to transform recruitment from end to end. The campaign used predominantly television spending, though the ADF did reduce some television spend so as to increase digital spend.

Digital media

Mobile spend was increased, as well as spend on Twitter and Facebook, in order to reach a very wide, young audience.

The army brand, 360-degree, 'deep-digital' experience

Designed specifically to provide an identical experience across desktop, tablet and mobile, this approach allowed users to access high-level content, or dive deeper into the experience and uncover new stories depending on their level of interest in the service.

Redefined social presence

The content was specifically captured to ensure best-in-class user experience, from shooting video in portrait (for use in-feed on Facebook) to creating the first Australian 360-degree video played on Twitter.

The work was used as a case study by Snapchat globally on how to activate campaigns in its channel. The ADF has even pushed the boundaries of what brands can achieve in social media by using it as a conversion tool, generating 20 per cent of new starts despite just minimum spend in-channel.

Social media usage

The campaign included social media tools such as Facebook and Twitter to advertise job openings and positions and to appeal to a wide audience. The ADF also used its website as a job portal so that candidates could apply through the website, over the phone or at any of the 16 Defence Force Recruitment Centres throughout Australia.

Metrics

Attitudinal metrics

The percentage of people wanting to support the nation's interest increased.

Behavioural metrics

There was an increase in ADF recruits.

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DISCUSSION QUESTIONS

1. What psychological needs are involved in the decision-making of a person considering the recruitment process in this case?
2. Name three social factors that influence the decision-making of the potential ADF recruits in this case.
3. Why would a 'try it before you buy it' approach appeal to such a cohort?

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CHAPTER 6

Segmentation, targeting and positioning

LEARNING OBJECTIVES

LO 6.1 Outline the different methods of segmenting a market.

LO 6.2 Describe how firms determine whether a segment is attractive and therefore worth pursuing.

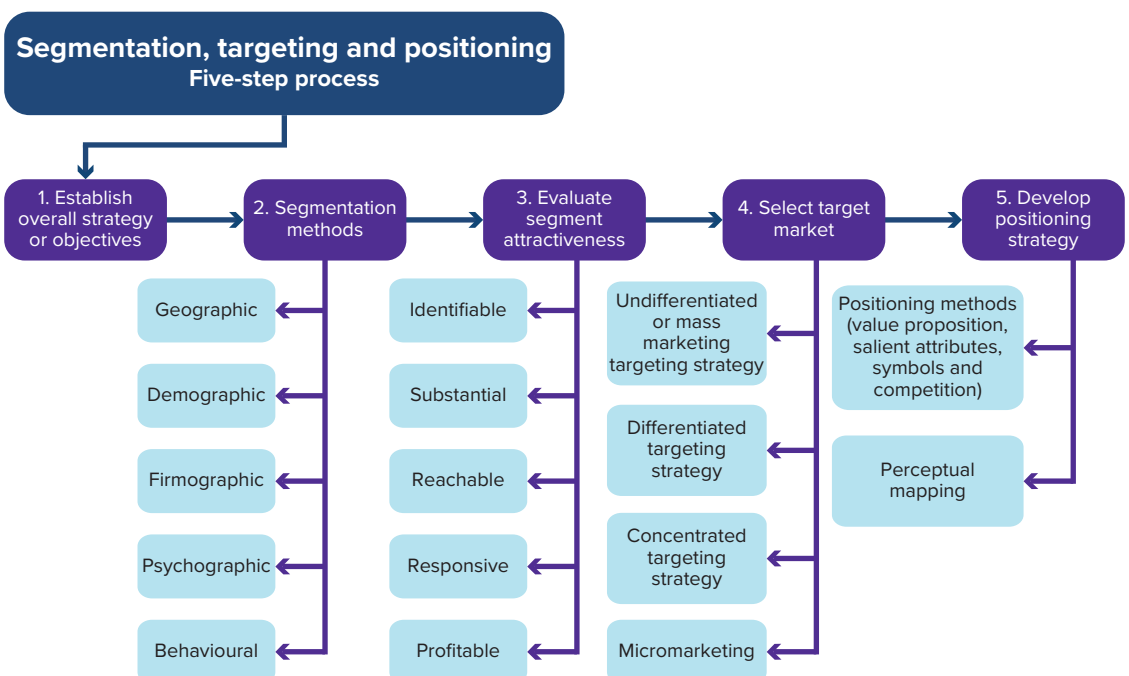
LO 6.3 Articulate the differences among targeting strategies: undifferentiated, differentiated, concentrated and micromarketing.

LO 6.4 Determine the value proposition.

LO 6.5 Define positioning and describe how firms do it.



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Graduate spotlight



NAME
Chelsea Phillips

DEGREE STUDIED
Bachelor of Business (Marketing) (Honours)
Bachelor of Fine Arts (Interactive and Visual Design)

UNIVERSITY
Queensland University of Technology

CURRENT POSITION
Junior Strategy Designer

EMPLOYER
Business Models Inc.

What did you learn from your degree and how has it prepared you for a career in marketing?
Majoring in marketing gave me an incredibly unique and valuable perspective surrounding a continual and unrelenting focus on the customer in any business situation. I have found this customer-centric mindset particularly powerful when working with diverse clients and also non-marketing colleagues as it allows for a creative and adaptive input into an otherwise homogenous discussion and solution.

What interested you about studying or working in marketing?
I have always had a fascination with understanding human behaviour. However, it was not until I went to university that I understood how marketing really promoted the importance of understanding a firm's customer at a granular level to enable the successful implementation of any business strategy.

What have you been up to since graduation?
Since graduation I've joined Business Models Inc., a strategy design firm, as a Junior Strategy Designer, as a result of an internship I undertook during my undergraduate studies. I'm also furthering my studies and have embarked on a full-time honours year in marketing, seeking to investigate the impact of digital technologies on the customer experience in the retail sector.

What does your current job involve?
My current role is incredibly diverse and involves supporting operational management, delivery and execution of our projects with clients. On a regular day I'm often facilitating workshops, as well as supporting other team members in client delivery.

What do you enjoy most about your job?
The diversity of clients and projects (in both company size and industry) is by far the most exciting and rewarding component of my job. No two clients are ever the same.

What are your thoughts on the future of the marketing and communication industry? What advice would you give to students wanting to work in marketing?
In an increasingly competitive environment, I cannot iterate enough the need for students to continually diversify their skillset, particularly surrounding their ability to communicate. As business problems are becoming increasingly complex, the ability to understand, synthesise and communicate context and disciplinary-specific data is often overlooked, but it is incredibly valuable in setting yourself apart. Investing in skills such as public speaking and information design can elevate your existing marketing expertise by enabling you to explain specific data to a broad audience, allowing your knowledge to be promoted effectively and recognised also by those outside the marketing field.

In January 2020 Mazda celebrated its 100th anniversary selling vehicles in Australia. With everything from hatchbacks, sedans, station wagons, people movers and minivans to utes, the brand manages to connect with different segments within the Australian population (see Exhibit 6.1). Mazda has been immensely successful, but as with other vehicle manufacturers it has been struggling in an increasingly competitive marketplace.



Exhibit 6.1 Targeting the mid-range car buyer.
© Tony Vingerhoets/Alamy Stock Photo/DAL

In 2019, its sales fell by 12.3 per cent, retaining its position in the number two spot in Australian car sales between Toyota in number one and Hyundai at number three, but with a bigger decline in sales than either.[1] So, what are Mazda's plans for improving sales performance? To better understand and serve the market, Mazda has resolved to use marketing to ensure Australian customers get to know its new value proposition.

Looking across Mazda's range on the company's website (www.mazda.com.au), you can see how it has identified, is targeting and is positioning itself in a range of market segments. From the Mazda 2 to the Mazda 6 and from the CX-3 to the BT-50, its offering is broad and the segments large. Traditionally, Mazda and other car brands adopted such segmentation, targeting and positioning strategies, but segmentation is about the market, not the product, and the market changes.

Today, the segments are becoming smaller and Mazda has realised that there are nuances within the hatchback, sedan, SUV and ute markets–and that these may be different segments which it can target and position. On the company's website, it quickly becomes evident that within the SUV range it is targeting different segments with models from the CX-3 to the CX-9. Clicking through to the BT-50, we can see the different specs and 'packs' of accessories, clearly illustrating Mazda's granular approach to segmentation, targeting and positioning. This approach goes beyond the tangible product into the service elements of that product.

To better embed itself in the minds of their market segments, Mazda has built some interesting partnerships. Since 1999 Mazda has been the sponsor of the North Melbourne Football Club, one of the most long-lasting relationships in Australian sport. Mazda also sponsors the Tasmanian Kangaroos AFLW, and the Sydney Thunder Big Bash League and Women's Big Bash League teams. Through this significant sponsorship, Mazda aims to promote its affiliation with everyday Australians' interests. However, sports fans don't cover all the consumers across Mazda's market segments. In 2005 Mazda entered a sponsorship arrangement with Opera Australia, an agreement that will run until at least 2021. Bringing free community events to Sydney and Melbourne, this includes Mazda Opera in the Domain, an annual event that attracts around 30 000 opera fans to the Domain in Sydney.[2] Art Exhibitions Australia also benefits from Mazda sponsorship, as have Run for the Kids since 2006.

In all, the future for Mazda will be one of change. With the sudden demise of the iconic Holden brand, the motor vehicle market in Australia will undergo further and rapid evolution. What is clear is that any success will be based upon its understanding of the marketplace and its segmentation, targeting and positioning within it.

In Chapter 1, we learned that marketing is about satisfying consumers' wants and needs but it is not sufficient just to produce such an offering. Firms must also position their offerings in the minds of customers in their target market in such a way that these consumers understand why the thing the company is providing meets their needs better than other competitive offerings.

This process requires a marketing plan (see Appendix online). The third step of this plan is identifying and evaluating opportunities by performing a segmentation, targeting and positioning (STP) analysis. This chapter focuses on the STP analysis.

THE SEGMENTATION, TARGETING AND POSITIONING PROCESS

LO 6.1

In this chapter, we discuss how a firm conducts an STP analysis (see Figure 6.1). We first outline a firm's overall strategy and objectives, methods of segmenting the market and which segments are worth pursuing. Then we discuss how to choose a target market or markets by evaluating each

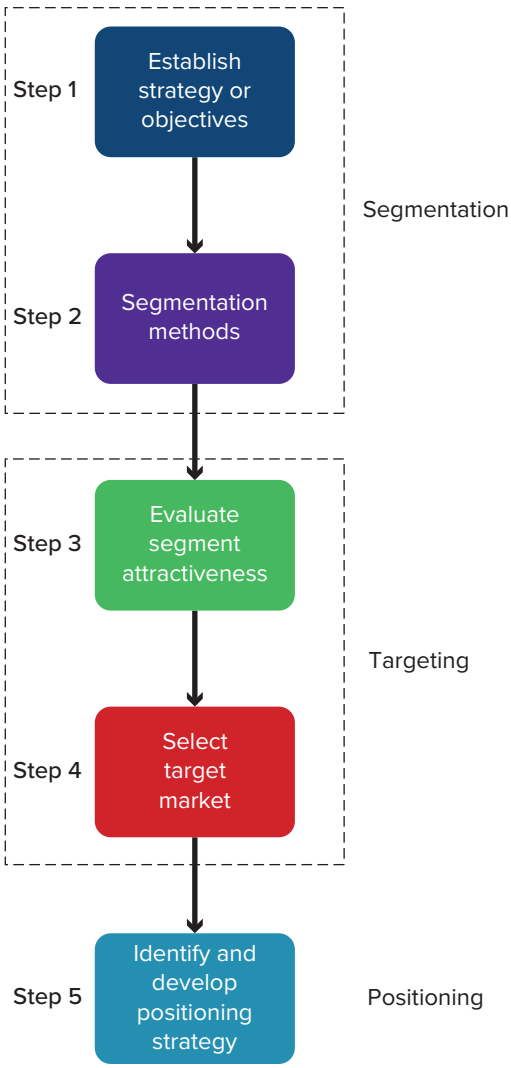


Figure 6.1 The segmentation, targeting and positioning process

segment's attractiveness and, on the basis of this evaluation, choose which segment or segments to pursue. Finally, we describe how a firm develops its positioning strategy.

Although the STP process in Figure 6.1 implies that the decision-making is linear, this need not be the case. For instance, a firm could start with a strategy but then modify it as it gathers more information about various segments' attractiveness.

Step 1: Establish overall strategy or objectives

The first step in the segmentation process is to articulate the vision or objectives of the company's marketing strategy clearly. The segmentation strategy must be consistent with and derived from the firm's mission and objectives, as well as its current situation–its strengths, weaknesses, opportunities and threats (SWOT). Coca-Cola's objective, for instance, is to increase sales in a mature industry. The company knows its strengths are its brand name and its ability to place new products on retailers' shelves, but its primary weakness is that it may not have a product line for newer market segments. Identifying potentially large and profitable market segments, before competitors, offers a great opportunity. However, following through on that opportunity could lead to a significant threat: competitor retaliation. Coca-Cola introduced its Zero and Life products for a consumer segment concerned about sugar levels in soft drinks, and its Energy product to the energy drinks segment. The risk, then, is that its competitors will target the same consumer segments with equivalent products or that it is entering market segments where other brands are already established.

Step 2: Segmentation methods

The second step is to use a particular method, or combination of methods, to segment the market. This step also develops descriptions of the different segments, which helps firms better understand the customer profiles in each segment. With this information, they can distinguish customer similarities within a segment and dissimilarities across segments. Marketers use geographic, demographic, firmographic, psychographic and behavioural segmentation methods, as Table 6.1 details.

Table 6.1 Methods for describing market segments

Segmentation method	Sample segments
Geographic	Continent, region, country, state
Demographic	Age, gender, income
Firmographic	For business-to-business: company size, number of employees
Psychographic	Lifestyle, self-concept, self-values
Behavioural	Purchase, usage, consumption

Soft-drink marketers, for instance, divide the carbonated beverage landscape into caffeinated or decaffeinated, regular (with sugar) or diet, and cola versus something else. This segmentation method is based on the *benefits* that consumers derive from the products.

geographic segmentation The grouping of consumers on the basis of where they live.

Geographic segmentation

Geographic segmentation organises customers into groups on the basis of where they live. Thus, a market could be grouped by country, region (east, west) or areas within a region (state, city, suburbs,

postcodes). Not surprisingly, geographic segmentation is most useful for companies whose products satisfy needs that vary by region.

Firms can provide the same basic goods or services to all segments even if they market globally or nationally, but better marketers make adjustments to meet the needs of smaller geographic groups.[3] A national supermarket chain such as Woolworths or Coles runs similar stores with similar assortments in various locations across Australia. Within those similar stores, though, a significant percentage of the assortment of goods will vary by region, city or even suburb, depending on the different needs of the customers who surround each location.

Demographic segmentation

Demographic segmentation groups consumers according to easily measured, objective characteristics such as age, gender, income and education. These variables represent the most common means to define segments, because they are easy to identify and because demographically segmented markets are easy to reach. Kellogg's uses age segmentation for its breakfast cereals: Coco Pops and Froot Loops are for kids, Special K and All-Bran are for adults (see Exhibit 6.2). It also tends to adopt a gender-based segmentation, such that marketing communications about Special K are more targeted to women.

demographic segmentation The grouping of consumers according to easily measured, objective characteristics such as age, gender, income and education.

Gender still plays a subtle role in how firms develop and market products. Clearly, there are products that are developed for women and there are those that are developed for men. However, these products may be developed by the same firm, such as Gillette, Nivea or Uniqlo. These firms have made the decision to target and position differently to male and female segments. If gender tends to have a clear influence on the type of product needed, such as in personal care or clothing, this approach to segmentation is justified. Where firms run into more trouble, however, is when they make assumptions about gender stereotypes and develop products and marketing campaigns around these stereotypes. An overly sexualised advertisement by Ultra Tune in 2016 received 418 complaints to the Advertising Standards Bureau. In fact, another two advertisements by Ultra Tune received complaints that year.[4] And consider Nivea: does the most significant difference between men's and women's shower gel lie in the product or in the marketing of the product? Gillette has tried to respond to issues of gender stereotyping with its 'The Best Men Can Be' campaign.



Exhibit 6.2 Kellogg's uses age segmentation for its breakfast cereals.

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In actual fact, segmenting that is based solely on gender, or indeed on demographics, is rarely effective. For example, it is a poor predictor of the users of sportswear, such as tracksuits and running shoes. At one time, firms such as Nike assumed that sportswear would be purchased exclusively by young, active people, but the health and fitness trend has led people of all ages to buy such merchandise. And even relatively inactive consumers of all ages, incomes and education find sportswear more comfortable than traditional street clothes. Education levels, or even income levels, cannot now be reliably linked to consumer behaviour. The credit culture allows consumers earning less to spend more, such as on cars and holidays, while professional families putting children through expensive education may possess less disposable income.

Rethinking some stereotypical ideas about who is buying has become a common trend among firms that once thought their target market was well defined. Adding value 6.1 highlights how Samsung has broadened its appeal by aiming marketing communications at various segments of potential consumers.

Adding value **6.1**

Samsung's many markets

Samsung Electronics is a part of the conglomerate multinational corporation Samsung, based in South Korea. The corporation is involved in various, diverse industries, including shipbuilding, construction, life insurance, defence, advertising and electronics. It knows all about market segments!

Focusing on Samsung Electronics, we can look at how the company has penetrated markets and diversified into new ones over recent years. The consumer product range spans the following sectors: mobiles, tablets, wearables, memory and storage, television and home theatre, monitors and home appliances.



Exhibit 6.3 The Samsung 'experience' stores.
© Mahony/Shutterstock

Let's just look at the mobile sector. Samsung has a very clear approach to segmentation, with a limited number of three or four distinct products in each. In mobile, the Galaxy's tagline 'A Galaxy for everyone' summarises the approach. The Galaxy A is targeted at consumers who have relatively simple smartphone usage behaviours and lower budgets. The Note serves yet another segment: those consumers who use their phone professionally as much as personally. This is clear from its tagline: 'Improve your productivity'. The Z Flip is the most expensive, providing a consumer with an innovative phone that bends (screen and all) to the fit easily in a person's pocket. The Z may appeal to a consumer looking for more novelty in their phone. The Samsung Galaxy S is the flagship product. It is the focus of most of Samsung's marketing campaigns, is updated regularly, and each update is available in around four different sub-variants. That is because Samsung believes this product serves the biggest market segment.

Sometimes, consumers struggle to decide between products. Samsung knows its market segments, and which products are targeted at whom, but consumers do not think in segment terms. This is why we see websites providing as much product information as possible, specifically comparison features, which clearly outline the different products' value propositions, or positioning. We can also get this information from multiple review sites online.

Samsung also believes that face-to-face is important. It has 25 'experience' stores throughout Australia and three in New Zealand. This significant retail presence serves to further communicate the positioning of each of its different products targeted at the different market segments.[5]

Samsung is immensely successful in the mobile market. The main reason for this is that it does not view itself as a mobile phone company, and that is because that is not what the market is looking for. Consumers today want devices that they can use to browse the internet, watch movies, listen to music, play games and work on, and share all of this via social media or the cloud. And yes, they still want to make calls and send messages too.

Samsung's major competitor, Apple, also operates in all of these markets, and perhaps it will be the differences in the two companies' segmentation, targeting and positioning that will decide their future success or failure rather than product characteristics alone.

Firmographic segmentation

Firmographics are similar to demographics, but apply to firms, not individuals. We must always remember that up to 80 per cent of all commerce, and thus marketing, occurs between businesses. This is called business-to-business (B2B) marketing. B2B marketers also need to segment the market, and will do so by the type of firms they want to do business with. Some common variables are size and industry sector. Many marketers use LinkedIn to market to other firms, which offers lots of different demographic variables upon which one can segment the market.



Exhibit 6.4 LinkedIn presents analytics to marketers that allow them to segment the market by number of followers, number of updates, engagement rate etc.

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Psychographic segmentation

Of the various methods for segmenting or breaking down the market, **psychographics** is the one that delves into how consumers actually describe themselves. Usually marketers determine (through demographics, buying patterns or usage) into which segment an individual consumer falls. Psychographics studies how people self-select, as it were, based on the characteristics of how they choose to occupy their time (behaviour) and what underlying psychological reasons determine those choices.[6] For example, a person might have a strong need for inclusion or belonging, which motivates them to seek out activities that involve others, which in turn influences the products they buy to fit in with the group. Determining psychographics involves knowing and understanding three components: self-values, self-concept and lifestyles.

Self-values are goals for life, not just the goals one wants to accomplish in a day. They are the overriding desires that drive how a person lives their life. Examples might be the need for self-respect, self-fulfilment or a specific sense of belonging. This motivation causes people to develop self-images of how they want to be and then images of a way of life that will help them arrive at these ultimate goals. From a marketing point of view, self-values help determine the benefits the target market may be looking for from a product. The underlying, fundamental, personal need that pushes a person to seek out certain products or brands stems from their desire to fulfil a self-value.

People's self-image, or **self-concept**, is the idealised image people have of themselves.[7] For instance, a person who has a goal to belong may see or want to see themselves as a fun-loving, gregarious type who people wish to be around. Marketers often make use of this particular self-concept through communications that show their products being used by groups of laughing people who are having a good time. The connection emerges between group fun and the product being shown and connotes a lifestyle that many consumers seek.

Lifestyles, the third component of people's psychographic make-up, are the way we live.[8] If self-values provide an end goal, and self-concept is the way one sees oneself in the context of that goal, lifestyles are how we live our lives to achieve goals (see Exhibits 6.5–6.9). Across all Western cultures, there are significant variations in lifestyles based on income, profession, education level, upbringing, peer influences, and so on. Some people may like to eat out once a week in

firmographics
Used in business-to-business market segmentation; like demographics but for firms, not individuals.

psychographics
Used in segmentation; delves into how consumers describe themselves; allows people to describe themselves using those characteristics that help them choose how they occupy their time (behaviour) and what underlying psychological reasons determine those choices.

self-values
Goals for life, not just the goals one wants to accomplish in a day; a component of *psychographics* that refers to overriding desires that drive how a person lives their life.

self-concept
The idealised image a person has of themself; a component of *psychographics.*

lifestyles
A component of *psychographics;* refers to the way a person lives his or her life to achieve goals.



Exhibit 6.5 Airbnb markets experiences that we aspire to, not accommodation we want.

© AlesiaKan/Shutterstock



Exhibit 6.6 Some people like to participate in sport.
© Izf/Shutterstock/DAL



Exhibit 6.7 Some people prefer to watch sport.
© 2WinG2/Shutterstock



Exhibit 6.8 Some people enjoy fine dining.
© hkt83000/123RF/DAL



Exhibit 6.9 Some people prefer a casual setting.
© McGraw Hill Education



Exhibit 6.10 Roy Morgan Values Segments outline the characteristics of each and a range of drivers to purchase.
Source: Courtesy of Roy Morgan

expensive restaurants, others may prefer to eat out every night in cheaper restaurants (see Exhibits 6.8 and 6.9). Some people may like to play sport, others may like to watch it. Some people put their money into their house, others into their car. Some people like to holiday in far-flung corners of the world, others prefer to stay in Australia. Sometimes, these are all the same people at different times. All of these lifestyle preferences and choices affect the segmentation, targeting and positioning strategies of any business in those sectors.

In Australia, Roy Morgan offers a comprehensive range of values segments that companies can use as a foundation for their own segmentation approaches.[9] Exhibit 6.10 shows one such segment: 'young optimism'. Outlined are the characteristics of this segment as well as a range of drivers to purchase.

In New Zealand, there has been considerable research done at the University of Otago to develop a consumer lifestyles segmentation,[10] which Figure 6.2 overviews. Which segment do you fit into?

Consumers buy goods and services because of their primary motivations–that is, how they see themselves in the world and how that self-image governs their activities.

Firms are finding that psychographic segmentation schemes are often more useful for predicting consumer behaviour than are demographics. This is because people who share demographics often have very different psychological traits. Take, for example, Rob and Paul, both 25-year-old university graduates. Demographically, they are the same but Rob is risk averse and Paul is a risk taker. Rob is socially conscious and Paul is focused on himself. Lumping Rob and Paul together as a target does not make sense because the ways they think and act are different.

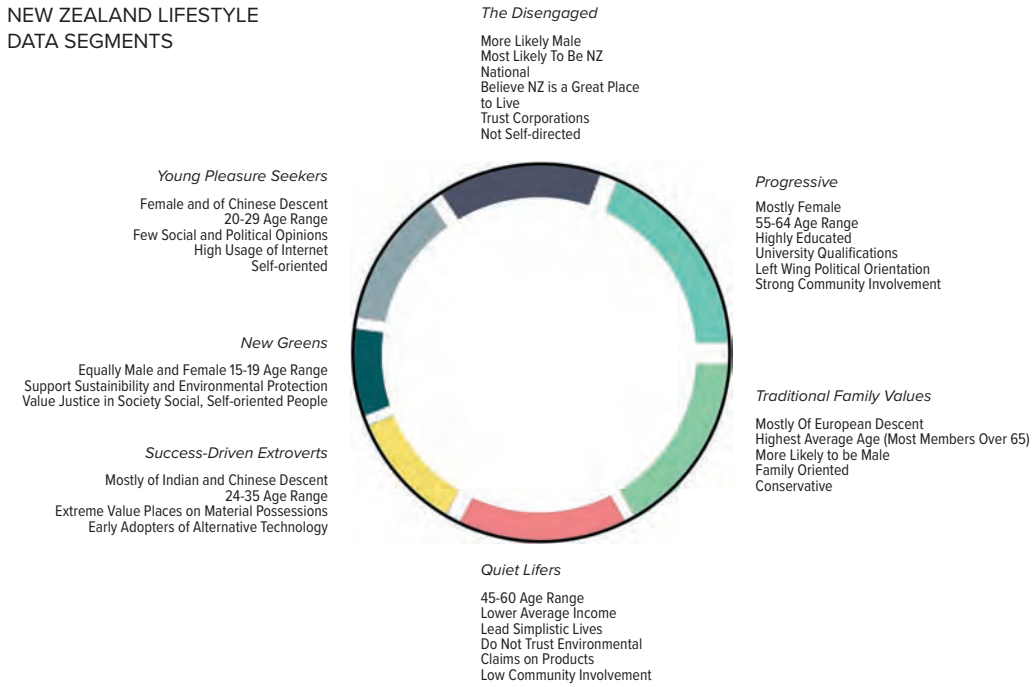


Figure 6.2 The seven segments of New Zealand's Consumer Lifestyles segmentation study

Source: University of Otago

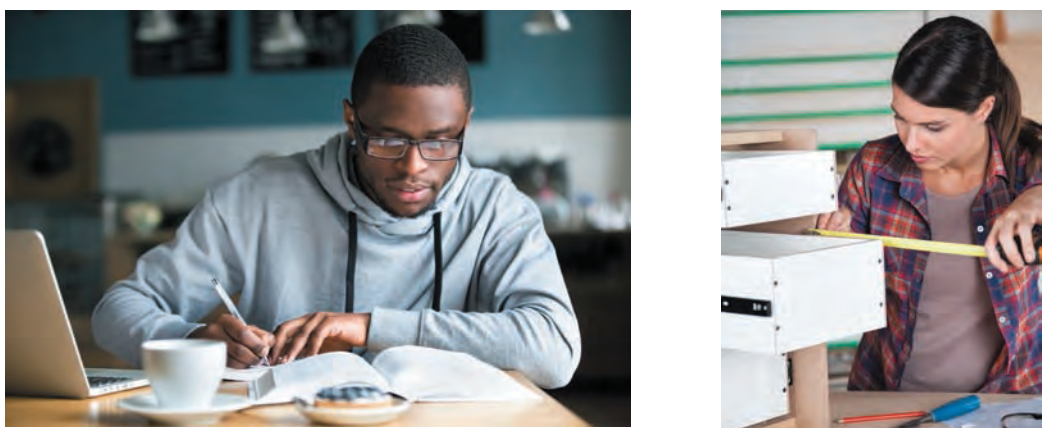


Exhibit 6.11 Market research can help identify which segment people fit into.

Left to right: © fizkes/Shutterstock/DAL, © leaf/123RF.com/DAL

The New Zealand study is based on over 2000 responses to around 600 questions about consumer attitudes, opinions and behaviours. The research has been ongoing since 1979, and has gone through six iterations to reflect the latest social trends, such as food and drink consumption, sustainable consumption behaviour, and happiness and wellbeing.

Consumers in the 'young pleasure seekers' segment are more likely to be students aged 20–29. They are on the internet most of the day, avoiding traditional media and thus traditional advertising. You can immediately see some implications for marketers here.

There are limitations to using psychographic segmentation, however. Psychographics are more expensive as a means to identify potential customers. With demographics, for example, a firm such as Nike can easily identify its customers as, say, younger or older runners, and then direct its marketing strategies to each group differently. The problem is that not all men are alike, as we saw with Rob and Paul. Women are not all alike either!

Behavioural segmentation

behavioural segmentation
A segmentation method that divides customers into groups based on how they use the product. Some common behavioural measures include purchase, usage and consumption.

purchase segmentation
A type of behavioural segmentation based on when and how often a product is purchased or consumed.

Behavioural segmentation divides customers into groups on the basis of how they use a product. Some common behavioural measures include purchase, usage and consumption. Behavioural segmentation based on when and how often a product is purchased or consumed is called **purchase segmentation**.

A particularly significant element of purchase segmentation is customer loyalty. Loyal customers are those who feel so strongly that the firm can meet their needs that any competitors are virtually excluded from their consideration; that is, these customers buy almost exclusively from the firm. These loyal customers are the most profitable in the long term.[11] In light of the high cost of finding new customers and the profitability of loyal customers, most of today's companies are segmenting their market(s) based on what customers purchase most, and investing in retention and loyalty initiatives to retain their most profitable customers.

Airlines definitely believe that not all customers are created equal. At Qantas, Air New Zealand and Singapore Airlines, customers who have flown the most miles get better treatment. Singapore's KrisFlyer scheme labels its most frequent travellers Elite Silver and Elite Gold members. Elite Gold members receive miles at a special bonus rate, access to priority reservation waiting lists and airport standby, an increased check-in baggage allowance and, of course, lounge access via Star Alliance Gold lounges. Elite Gold members will not have to wait on hold like other consumers.

At a more granular behavioural level, marketers can now track each of our purchases and the process we undertook to make that purchase. Think of how Amazon recommends products to you, or how Woolworths sends out coupons for specific products. Even think of the increasing number of advertisements or 'recommended posts' that you see on Facebook.[12] All of this is driven by segmentation based on online behaviour. Social media and mobile marketing 6.1 sheds some light on how Google does this. Of course, the ethics of marketers using our data to deliver personalised offerings raises concerns among certain groups of consumers. It is also part of marketing's role to be transparent and educational about how our data is used.

Social media and mobile marketing 6.1

Google's your match

Do you find Exhibit 6.12 helpful or an invasion of your privacy? If you share your data with Google, you will receive personalised recommendations of places to go to and things to do. As in Exhibit 6.12, Google will be able to give you a unique 'match' for a coffee shop based on: how many times you've been there and the other types of places you, and the websites and social media you follow, engage with.

Your matches show how well different places fit with your preferences. They're unique to you and improve over time. Matches are based on:[13]

- any dietary restrictions or cuisines that you list in your preferences
- the types of cuisine and restaurants you typically visit or avoid
- whether you've saved, rated or visited a place or somewhere similar
- your interactions with places on Google Maps or Google Search.

Check out 'Your Timeline' on Google Maps to see how much Google knows about you. It has a better memory than you!

Just as Amazon is able to recommend products that you'll like, Netflix is able to recommend movies that you'll enjoy and Google is

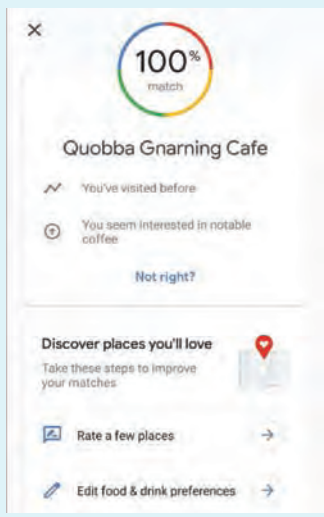


Exhibit 6.12 Based on the data you have shared with Google, it will recommend places to visit and things you might be interested in.
Source: Google

able to recommend pretty much anything for you. Google relies on data to make money. It does not sell that data to advertisers, but it can segment its users into very specific groups and let advertisers target them.

usage segmentation
A type of behavioural segmentation based on the usage rate of how often a product is used.

consumption segmentation
A type of behavioural segmentation based on when and how a product is consumed.

Usage segmentation is similar to purchase consumption, but the subtle difference is it relates to usage rate. Think about how often you use Spotify, or how many gigabytes you use on your mobile data plan each month. These companies will be segmenting you based on this usage. Amaysim is a mobile plan provider offering different levels of plans for customers with different levels of usage. In May 2020 the company offered unlimited calls and texts per month, for $10. For 35GB of data per month, and international calls to 19 countries, you would pay $30. For unlimited =/= 60GB per month, and international calls to 19 countries, you would pay $50.14. This is usage segmentation.

When segmentation is based on when and how a product is consumed, this is called **consumption segmentation**. Gazman uses this type of segmentation to develop its merchandise selection and its promotions. Sometimes men need a shirt or trousers for their everyday work, but for going out or casual wear they want a T-shirt and jeans. And the muesli producer Carman's sells its products as bars, cereals, biscuits or as kids' snacks, with different flavours for each product type (see Exhibit 6.13). Hollywood in particular is a constant and effective practitioner of consumption segmentation. Although all movies may seem to provide the same service–entertainment for a couple of hours–film producers know that people visit the cinema or rent films to obtain a vast variety of benefits and market them accordingly. Need a laugh? Try *The Hangover I, II* or *III*. Want some romance and suspense? Check out the *Twilight* saga. By the time the movie is over you are likely to feel happy, because the lead characters will have faced obstacles, overcome them and ultimately found love.

Social media and mobile marketing 6.2 describes how the Australian Open rebranded in 2017 to better recognise how people consumed tennis.

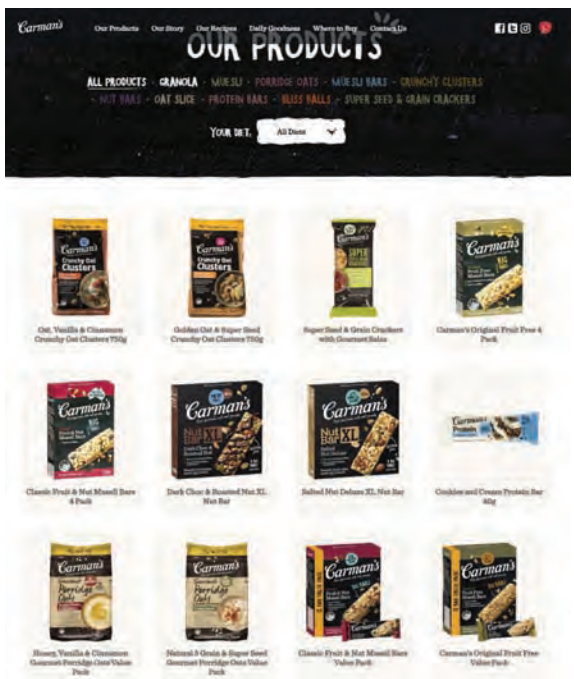


Exhibit 6.13 Carman's has segmented its market as narrowly as possible, enabling a varied product range.
Source: Carman's Kitchen

Social media and mobile marketing 6.2

Australian Open rebranding

The Australian Open rebranded in 2017. A rebrand occurs when the organisation needs to better relate to and communicate with the market, which may have changed since the brand was first developed. The Australian Open used to have a serving man as its logo. Clearly, that no longer fully reflects the event and its customers. Tennis Australia employed the agency Landor to lead the rebrand.

According to Tennis Australia CEO Craig Tiley, the rebrand was needed to 'ensure we optimise the many new media opportunities available now and in the future; we also needed to evolve our look and feel, make it more relevant globally and more adaptable in an increasingly digital world'.[15]

Continued



Exhibit 6.14 The Australian Open rebrand led to a new logo.

© Leonard Zhukovsky/Shutterstock

Tennis Australia hoped that the new brand would better engage new audiences, be more shareable digitally, and reflect the sport's wider appeal as an entertainment offering. Its marketing manager, Jo Juler, reflected that 'there are thousands of people coming, of which tennis is an anchor, but a lot of people just come for the atmosphere that is the event, the music and the lovely vibe'.

Many of the people attending the event and following it across Australia and the world will also be talking about it online. This emphasises the need for a brand that reflects men, women, tennis players, tennis fans and all cultures, Tennis Australia increased its digital marketing spend by 20 per cent between 2015 and 2016, underscoring the need for a logo that can be easily shared online.[16]

The simple 'AO' logo allows Tennis Australia's marketers to have some fun ideas around the A and the O to bring it to life with the fans. As its marketing manager says, the AO is dubbed 'the happy slam'.

Using multiple segmentation methods

geodemographic segmentation The grouping of consumers on the basis of a combination of geographic, demographic and lifestyle characteristics.

Although all segmentation methods are useful, each has its unique advantages and disadvantages. For example, segmenting by demographics and geography is easy because information about who the customers are and where they are located is readily available, but these characteristics don't help marketers determine their customers' needs. Knowing what benefits customers are seeking or how the product fits a particular lifestyle is important for designing an overall marketing strategy, but such segmentation schemes present a problem for marketers attempting to identify specifically which customers are seeking these benefits. Thus, firms often employ a combination of segmentation methods, using demographics and geography to identify and target marketing communications to their customers, then using benefits or lifestyles to design the product and the substance of the marketing message.



Exhibit 6.15 If a toy store is surrounded by poor mixed urban families, it might adjust its offering to include less expensive toys.

© Daria Chichkareva/Shutterstock/DAL

One very popular mixture of segmentation schemes is geodemographic segmentation. Based on the adage 'birds of a feather flock together', **geodemographic segmentation** uses a combination of geographic, demographic and lifestyle characteristics to classify consumers. Consumers in the same neighbourhoods tend to buy the same types of cars, appliances, and apparel and shop at the same types of retailers. Two of the most widely-used tools for geodemographic segmentation are Mosaic (www.experian.com.au/mosaic and www.experian.co.nz/mosaic/) and geoSmart by RDA Research (www.rdaresearch.com/geosmart). The geoSmart system has 55 segments and 11 groups organised on the two dimensions, socioeconomic status and family orientation. Using detailed demographic data and information about the consumption and media habits of people, geoSmart identifies segments including urban bohemians, multicultural mixed urban, established Asian and transient suburban.

Geodemographic segmentation can be particularly useful for retailers because customers typically patronise stores close to their suburb. Thus, retailers can use geodemographic segmentation to tailor each store's assortment to the preferences of the local community. If a toy store discovers that one of its stores is surrounded by poor mixed urban families, it might adjust its offering to include less expensive toys. This kind of segmentation is also useful for finding new locations; retailers identify their 'best' locations and determine what types of people live in the area surrounding those stores, according to the geodemographic clusters. They can then find other potential locations where similar segments reside.

CHECK YOURSELF

1. What are the various segmentation methods?

Case study 6.1: The Coke story heard around the world

By Dr Eugene Chan, Monash University

Coca-Cola is one of the most well-known brands in the world, ranked in 2018 the 5th 'best global brand' by Interbrand. It didn't get there by chance. It is available everywhere in the world; if you travel abroad, one thing you can be certain of is that your Coke bottle or can will taste the same as in your home country, giving you a sense of comfort and security.

But Coca-Cola is also one of the best examples of a global brand that has adapted its advertising to local cultures around the world. In the United States, where the NFL is the most popular sport, Coca-Cola frequently uses images of NFL players in its advertisements or as celebrity endorsements. In Canada, Coca-Cola ads feature a lovable cartoon polar bear sliding down a slide with her cub. In Australia, the surfing lifestyle is at the forefront. In India, Coca-Cola uses themes involving cricket. In China, Coca-Cola emphasises the traditions and conservative values that are important to Chinese consumers.

In 2019, Coca-Cola reported revenues of US$31.9 billion. But what makes it one of the most reputable and profitable brands in the world? To answer this question: it understands the different needs, expectations and values of each culture that it targets. In other words, it segments the global market geographically (by country) and then develops advertising campaigns and positions itself in a manner that is appropriate to the target market. This is why Coca-Cola does not use NFL players in ads in Australia, or why you would never see an Indian cricket player endorsing the latest Coke beverage in Coca-Cola's ads in Canada. It understands that each market has different 'tastes'.

Yet, despite the differences in geography and positioning, Coca-Cola has a message that is universal. In 2009, its main theme was 'Open Happiness', resonating with consumers around the world. In other words, although there were animated polar bears in Coca-Cola ads in Canada and a surfing lifestyle was evident in its Australian ads, these different images were portraying the same idea—that happiness can come from drinking a bottle or a can of Coke. In 2016, the company changed its theme to 'Taste the Feeling', suggesting that Coke, the beverage, is not just a product but an experience.

One of the most important concepts in marketing is to segment, target and position the market appropriately. Often, a company or brand cannot target 'everyone' in the world, and this is why you have to define and choose your segments carefully and understand the target audience, in order to then develop appropriate marketing communications at the targeted audience. But Coca-Cola is one of the few brands in the world that adopts a 'globalisation' technique. Coca-Cola, in particular, understands how different cultures understand and value universal concepts and then portrays this understanding and value differently but appropriately.

Other brands that understand the local market yet have a constant theme include Apple, BMW and LEGO. Apple's 'Think Different' campaign from 1997 to 2002 encouraged consumers to buy Apple products to make them stand apart. BMW understands that everyone wants to drive 'The Ultimate Driving Machine', while LEGO's 'Rebuild the World' emphasises the fact that the toy company is a 'global force' aiming to inspire creativity globally.

In 2018, these three companies were ranked the 1st, 13th and 74th best brands in the world according to Interbrand. It's no surprise that they are among the top brands in the world once we understand how companies use segmentation, targeting and positioning.

Continued

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2. Trefis Team, 'Can Coca-Cola Increase Its Revenue and Profitability by Slashing Its Advertising the Next Two Years?', *Forbes,* 13 March 2019, available at www.forbes.com/sites/greatspeculations/2019/03/13/can-coca-cola-increase-its-revenue-and-profitability-by-slashing-its-advertising-the-next-two-years/#3cddcdb14419 (accessed 15 January 2020).

Questions

1. How does Coca-Cola advertise its products globally? What are the similarities and differences in Coca-Cola's approach to global marketing?
2. What are some challenges to Coca-Cola's globalised marketing strategy? Is it realistic to communicate the same theme (via different messages) around the world? Why or why not?
3. Think about the latest Coca-Cola advertisement in your home country. Do you think Coca-Cola understands 'you' and 'your culture' well?

LO 6.2

Step 3: Evaluate segment attractiveness

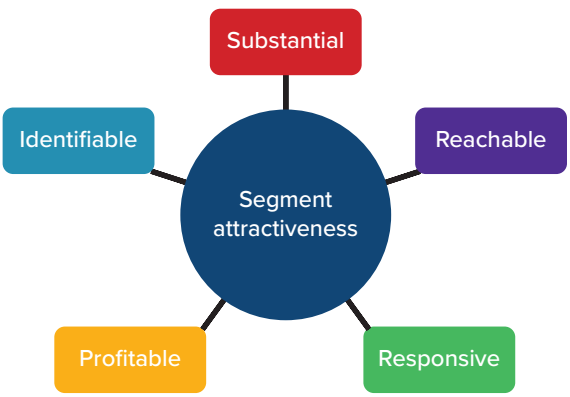


Figure 6.3 Evaluation of segment attractiveness

The third step in the segmentation process involves evaluating the attractiveness of the various segments. To undertake this evaluation, marketers first must determine whether the segment is worth pursuing, using several descriptive criteria: is the segment identifiable, substantial, reachable, responsive and profitable (see Figure 6.3)?

Identifiable

Firms must be able to identify who is within their market to be able to design goods or services to meet their needs. It is equally important to ensure that the segments are distinct from one another, because too much overlap between segments means that distinct marketing strategies aren't necessary to meet segment members' needs. For example, Sportsbet.com.au can identify sports fans from their Facebook posts, then tailor advertisements to an individual sport.

Substantial

Once the firm has identified its potential target markets, it needs to measure their size. If a market is too small or its buying power insignificant, it won't generate sufficient profits or be able to support the marketing mix activities. As China's economy started growing, there were not enough middle-class car buyers to push foreign car manufacturers to design an entry-level vehicle. It was only after these consumers reached substantial numbers that it became worthwhile for them to market to these identified consumers.

Reachable

The best product cannot have any impact, no matter how identifiable or substantial the target market is, if that market cannot be reached (or accessed) through persuasive communications and product distribution. The consumer must know the product exists, understand what it can do for them and recognise how to buy it. For example, if Bras N Things fails to tell women that it offers more than just bras, shoppers will just walk right past the store to Myer in the same shopping centre.

Responsive

For a segmentation strategy to be successful, the customers in the segment must react similarly and positively to the firm's offering. If the firm's distinctive competencies cannot provide goods or services to that segment, it should not be targeted. For instance, Ford and Toyota do not target the large and very lucrative luxury car segment as people in this market will typically purchase a Porsche, BMW, Audi or Lexus. In contrast, Ford and Toyota are very successful at competing for the middle-priced

family-oriented car and ute or van segments (see Exhibit 6.16). Thus, though the luxury car segment meets all the other criteria for a successful segment, it does not seem appropriate for Ford or Toyota to pursue this market.



Exhibit 6.16 Toyota goes after the middle-priced market segment, and does it well. The company leaves the luxury market to others.

© Hannu Liivaar/Alamy Stock Photo/DAL

Profitable

Marketers must also focus their assessments on the potential profitability of each segment–both current and future. Some key factors to keep in mind in this analysis include market growth (current size and expected growth rate), market competitiveness (number of competitors, entry barriers, product substitutes) and market access (ease of developing or accessing distribution channels and brand familiarity). Some straightforward calculations can help illustrate the profitability of a segment:[17]

Segment profitability = (Segment size × Segment adoption percentage × Purchase behaviour × Profit margin percentage) − Fixed costs

where

Segment size = Number of people in the segment

Segment adoption percentage = Percentage of customers in the segment who are likely to adopt the product/service

Purchase behaviour = Purchase price × number of times the customer would buy the product/service in a year

Profit margin percentage = (Selling price − variable costs) ÷ selling price

Fixed costs = Advertising expenditure, rent, utilities, insurance and administrative salaries for managers

To illustrate how a business might determine a segment's profitability, consider Angelo's start-up lawn mowing service. He is trying to determine whether to target homeowners or businesses in a small country town. Table 6.2 estimates the profitability of the two segments. The homeowner segment is much larger than the business segment, but there are already several lawn services with established customers. There is much less competition in the business segment. So, the segment adoption rate for the homeowner segment is only one per cent, compared with 20 per cent for the business segment. Angelo can charge a much higher price to businesses and they use lawn services more frequently. The profit margin for the business segment is higher because Angelo can use large equipment to cut the grass and save on variable labour costs. However, the fixed costs for purchasing and maintaining the large equipment are much higher for the business segment. Furthermore, he needs to spend more money obtaining and maintaining the business customers, whereas he would use less expensive door-to-door flyers to reach household customers. On the basis of these informed predictions, Angelo decides the business segment is more profitable.

Table 6.2 Profitability of two market segments for Angelo's Lawn Mowing Service

	Homeowners	Businesses
Segment size	75 000	1000
Segment adoption percentage	1%	20%
Purchase behaviour Purchase price Frequency of purchase	 $100 12 times	 $500 20 times
Profit margin percentage	60%	80%
Fixed costs	$400 000	$1 000 000
Segment profit	$140 000	$600 000

Social media and mobile marketing 6.3 highlights the issue of different segment profitability in the context of the modern music business.

Social media and mobile marketing 6.3

Spotify's segments for everyone

The music business has long been a microcosm that demonstrates changing technology. From record albums to eight-tracks to CDs to digital downloads, its history summarises the history of changing customer demand and reinventions of offerings. And that history shows no signs of changing as the industry once again leads the way in shifting its approach by reimagining what it means to sell to customers.



Exhibit 6.17 Music streaming services, such as Spotify, offer premium plans that provide various features to consumers.

© Hero/Corbis/Glow Images/DAL

Spotify is currently one of the world's leading music streaming services. Its tagline is 'Music for everyone'. Right beneath that on its website are the words: 'Millions of songs. No credit card needed.' Ok, so how does it make money? Well, it runs on a Freemium model. You may think that, as most users have the free version, most of Spotify's revenue must come from advertisements. In actual fact, 91 per cent of its revenue comes from subscriptions.[18] This is Spotify Premium.

In Australia, consumers have access to two plans: free and premium. A standard premium plan costs $11.99 per month, for which you can play any song, with no advertisements, unlimited skips, high quality and the ability to listen offline. Given the revenue Spotify is bringing in from subscriptions, there is a clear and profitable market segment for this offering. Within it, there is also a student offering at $5.99 a month, which can be cancelled at any time. The company also partners up with Sony PlayStation to bring Spotify to that platform.

There is also a family option, which provides up to six accounts for $17.99 per month.[19]

Spotify was launched in 2006. It went public on the New York Stock Exchange in 2018, and reported 170 million daily active users, and a revenue of $1.36 billion in Q1 2018.[20] However, only in the last quarter of 2018 did Spotify finally make a profit.[21] The reason: premium subscribers had increased by 36 per cent year on year. Thus, although in 2019 only 96 million of Spotify's 217 million active users were premium subscribers, they were responsible for almost all the company's turnover, and its profitability.

The lesson is that segment profitability is not always related to segment size, and that Spotify serves its users, not its advertisers.

To address such issues, marketers consider factors such as how long the customer will remain loyal to the firm, the defection rate (percentage of customers who switch on a yearly basis), the costs of replacing lost customers (advertising, promotion), whether customers will buy more or more expensive merchandise in the future, and other such factors. We address the lifetime value of customers in Appendix 2.

Now that we've evaluated each segment's attractiveness (Step 3), we can select the target markets to pursue (Step 4).

LO 6.3 Step 4: Select target market

The fourth step in the STP process is to select a target market. Having evaluated the attractiveness of different segments, marketers must make a decision on which to target. The key factor likely to affect this decision is the marketer's ability to pursue such an opportunity or target segment. Thus, a firm assesses both the attractiveness of the target market (opportunities and threats based on the SWOT analysis and the profitability of the segment) and its own competencies (strengths and weaknesses based on SWOT analysis) very carefully.

Determining how to select target markets is not always straightforward and some potentially profitable segments may be overlooked due to resource constraints, organisational strategy or even

customer resistance. Figure 6.4 illustrates several targeting strategies, which we discuss in more detail next.

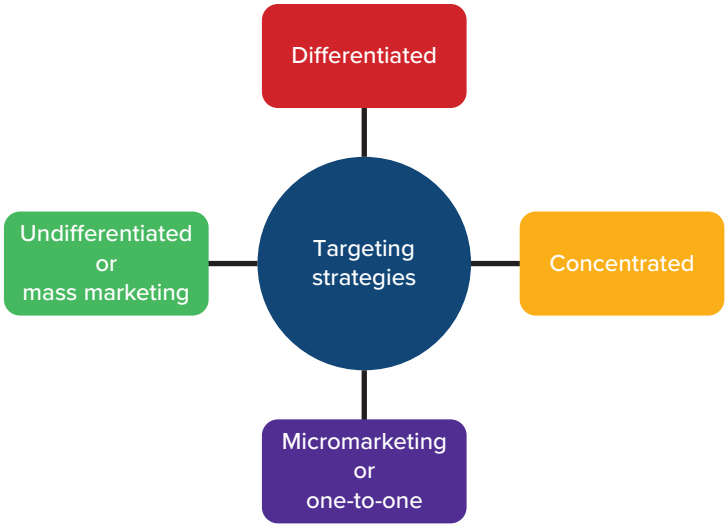


Figure 6.4 Targeting strategies

Undifferentiated targeting strategy or mass marketing

When everyone might be considered a potential user of its product, a firm uses an **undifferentiated targeting strategy**, also known as **mass marketing** (see Figure 6.4). Clearly, such a targeting strategy focuses on the similarities in the needs of customers as opposed to the differences. If the product is perceived to provide similar benefits to most consumers, there simply is little need to develop separate strategies for different groups.

Although not a common strategy in today's complex marketplace, an undifferentiated strategy is used for many basic commodities, such as salt or sugar. However, even those firms that offer salt and sugar are now trying to differentiate their products. Similarly, everyone with a car needs fuel. Yet fuel companies have vigorously moved from an undifferentiated strategy to a differentiated one by targeting their offerings to low-, medium- and high-octane fuel users.

Differentiated targeting strategy

Firms using a **differentiated targeting strategy** target several market segments with a different offering for each (see Figure 6.2). For example, Procter & Gamble (P&G) does this to a significant extent across the world, and particularly in Australia and New Zealand. In its beauty and grooming brands, Braun is targeted to slightly older males, while Gillette is targeted to slightly younger males. Beyond male shaving products, P&G offers Head & Shoulders, Pantene and Wella Professional. Head & Shoulders is targeted at males and females, whereas Pantene tends to be targeted to females who focus on their hair style. Wella Professional is targeted at hair stylists and salons. P&G even makes and sells Duracell batteries! P&G's major competitor, Unilever, operates similarly with brands like Dove, Flora and Simple.

Firms embrace differentiated targeting because it helps them obtain a bigger share of the market and increase the market for their products overall. Providing goods or services that appeal to multiple segments helps diversify the business and therefore lowers the company's (in this case, P&G's) overall risk (see Figure 6.5). Even if one product suffers a decline in sales, the impact on the firm's profitability can be offset by revenue from another product that continues to do well. But a differentiated strategy is likely to be more costly for the firm.

undifferentiated targeting strategy (mass marketing)
A marketing strategy a firm can use if the product is perceived to provide the same benefits to everyone, with no need to develop separate strategies for different groups.

differentiated targeting strategy
A strategy where firm targets several market segments with a different offering for each.

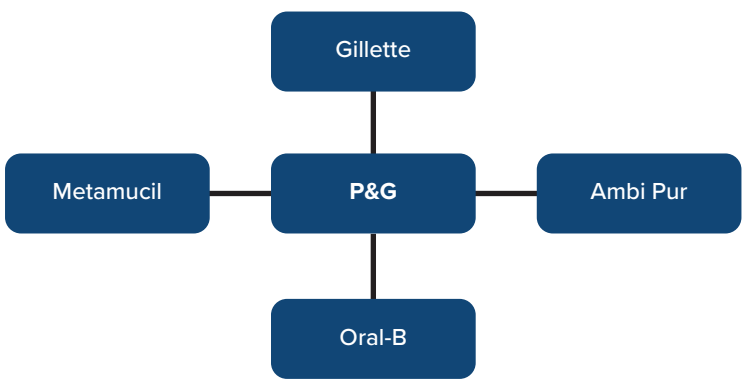


Figure 6.5 Did you know all of these brands are owned by P&G? Check out its website for more!

Source: Procter & Gamble

Concentrated targeting strategy

concentrated targeting strategy
A marketing strategy that selects a single, primary target market and focuses all energies on providing a product to fit that market's needs.

When an organisation selects a single, primary target market and focuses all its energies on providing a product to fit that market's needs, it is using a **concentrated targeting strategy**. Entrepreneurial start-up ventures often benefit from using a concentrated strategy, which allows them to employ their limited resources more efficiently. The Athlete's Foot, for instance, has concentrated its targeting strategy on devoted runners: it offers a shoe-fitting service overseen by physiotherapists and sports science experts; offers advice on a full range of racing, performance, trail and minimal footwear; and provides specialist professional services for the running and fitness community and workshops for running technique, recovery and more. By comparison, although it is also known for its running shoes, Nike uses a differentiated targeting strategy. It makes shoes for segments that include basketball and football players and skateboarders, as well as fashion-conscious white-collar workers, with its subsidiary brand Cole-Haan.

Micromarketing

micromarketing (or one-to-one marketing)
An extreme form of segmentation that tailors a product to suit an individual customer's wants or needs.

Online marketing on social media, such as on Facebook, Instagram and across Google's Display Networks, is becoming more one-to-one, where banners for items you previously looked at 'follow' you. This extreme form of segmentation is called **micromarketing** or **one-to-one marketing**. Business-to-business or very small firms tend to carry out more micro- or one-to-one marketing as they have fewer customers. In big consumer markets it is extremely rare as even the smallest segments contain more than one person. The coupons you get from Woolworths or Coles are pretty close to one-to-one marketing and are based on your behaviour but you may be bundled in a segment with other similar consumers.

Small producers and service providers can generally tailor their offerings to individual customers more easily. But it is far more difficult for larger companies to achieve this degree of segmentation. Dell has managed it through its use of the internet, which allows consumers to customise their product choices. Personalisation is obviously more costly for the company, but it sells this as an added value that customers will pay more for.

Thinking about personalisation of the service, rather than just the product, we can quickly think of many examples where our interactions with firms are personalised. Most notably, no one else's Instagram feed is the same as yours and no one else's Google search results are the same as yours. Even on firms' websites, personalisation is increasing. Obviously we get personalised recommendations on Amazon, but this is now happening on most websites, based on our previous behaviour on that website, as well as on social media and search engines.[22] Superior service 6.1 discusses such micromarketing.

Superior service 6.1

Customers flock to The ICONIC

The Australian and New Zealand online fashion retailer The ICONIC has unsettled the fashion retail market in Australia, big time. For the four co-founders, it's been an amazing journey from idea to set-up to bringing in millions of dollars per month (see Exhibit 6.18).

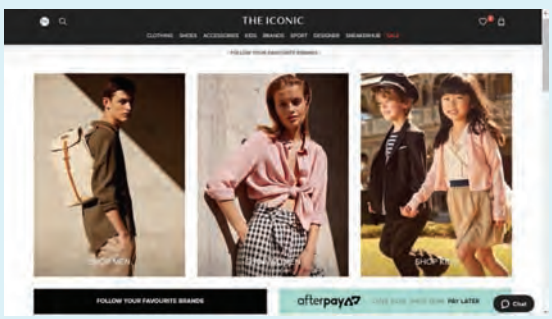


Exhibit 6.18 The ICONIC service includes offering its customers a choice of over 1000 brands.

Source: The ICONIC

Adam Jacobs, Andreas Otto, Cameron Votan and Finn Age Haensel all left lucrative day jobs to launch what is now one of Australia's most successful online shopping sites, employing about 1000 people, 100 of them solely in technology.[23] According to Chief Operations Officer (COO), Anna Lee, its mission is 'customer liberation'. She goes on to say that this is 'understanding the customer's emotional journey when they buy apparel—it's not just buying clothes, it's an expression of the individual. When someone buys something, there's an emotional attachment. It's not just transactional, so understanding what the emotional journey is for the customer has been critical for us.'[24]

So, it is customer service that has led to The ICONIC growing 50 per cent year-on-year over the past few years. The company has a logistics model of fast turnaround with free overnight delivery and returns. By fast delivery, they mean within three hours in Sydney and same day in Melbourne, Brisbane and Adelaide.[25] Returns are also made risk-free. This has been really well marketed and consequently utilised by consumers.

This is logistics, but it is also customer service. Online retailing is not about saving money, it is about customer experience. The company does not have a physical presence, so its website must be usable, experiential and engender trust. The ICONIC COO says that 'there is nothing worse than a clunky site. The way we interact with customers is purely based on the trust we provide to them'. The website attracts 13 million visitors per month.

This great service includes fast delivery, free returns, the choice of 1000 brands, hundreds of new products daily, *The ICONIC* magazine and its social media content. The ICONIC also has its own blog, where consumers can interact with the brand and with real people. Of course, if you still want to pick up the phone, that works too and is a service clearly offered on the website, along with the 'live chat' feature. Online firms need this personal presence as well as the technological efficiencies, and The ICONIC seems to be getting it right so far.

The internet clearly helps facilitate such a segmentation strategy.[26] Companies can cater to very small segments, sometimes as small as one customer at a time, relatively efficiently and inexpensively (e.g. mortgage and insurance sites provide personalised quotes). An internet-based company can offer one-to-one service more inexpensively than other venues, such as retail stores or telephone-based businesses. For example, fliers with Air Asia can check prices and choose special services online at a fraction of the cost that the company would incur for a phone consultation with a ticket agent.

The internet also simplifies customer identification. **Cookies**, or small text files a website stores in a visitor's browser, provide a unique identification of each potential customer who visits and details how the customer has searched the site. Marketers can also ask visitors to fill out an online registration form. Using such information, the company can make a variety of recommendations to customers. Amazon.com is renowned for the algorithms it uses to provide recommendations for related products to customers as they browse the site, which match customer profiles to those of other customers. The marketing strategy therefore is customised in real time, using known and accurate data about the customer. Based on the consumer's IP address, firms' websites may appear differently in different countries and even states. Such automation removes the need for consumers to manually enter their information and preferences. Customers can still do the work themselves, perhaps going further to create wishlists for items for themselves and others, which they can then share via social media.[27] Coca-Cola's 'Share a Coke' campaign let consumers personalise their Coke cans and bottles with their own name, a friend's name or just a funny name (see Exhibit 6.19).



Exhibit 6.19 This campaign allowed consumers to personalise their Coke bottles and cans with their own or any name.

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cookie
A computer program, installed on hard drives, that provides identifying user information.

Some consumers appreciate such custom-made goods and services because they are made especially for them, which means they'll meet the person's needs exactly. If a tailor measures you first and then sews a suit that fits your shoulders, hips and leg length exactly, it will probably fit better than an off-the-rack suit that was bought at a department store. But such goods and services are typically more expensive than ready-made offerings and often take longer to obtain. You can purchase a dress shirt in your size at David Jones and wear it out of the store. A tailored shirt ordered from an online site that allows you to enter in your measurements might take five to six weeks to be delivered. And if you visited an old-fashioned tailor, the processes of measuring you, ordering the material and sewing the shirt might take several months–at a much higher cost.

Step 5: Develop positioning strategy

LO 6.4

The last step in developing a market segmentation strategy is positioning. Market positioning involves a process of defining the marketing mix variables so that target customers have a clear understanding of what the product does or represents in comparison with competing products.

value proposition
The unique value that a product provides to its customers and how it is better than and different from those of competitors.

The positioning strategy can help to communicate the firm or product's **value proposition**, which communicates the customer benefits to be received from a product and thereby provides reasons for wanting to purchase it.

To visualise the value proposition, examine Figure 6.6.[28] The first circle at bottom left represents customer needs and wants, the second circle represents the benefits that the company provides (i.e. its capabilities) and the final circle represents the benefits provided by competitors. The best situation is if a firm's product offering overlaps with customer needs and wants but suffers no overlap with competitors' offerings. The shaded portion reflects the value proposition, or the intersection of what the customer needs and wants with what the firm can offer. Unfortunately, even if this situation existed, the product would be successful but this would not be sustainable because competitors would attempt to copy the important product attributes and begin to encroach on the firm's value proposition. Maintaining a unique value proposition can be sustained in the long term only in monopoly situations or possibly monopolistic competition situations.

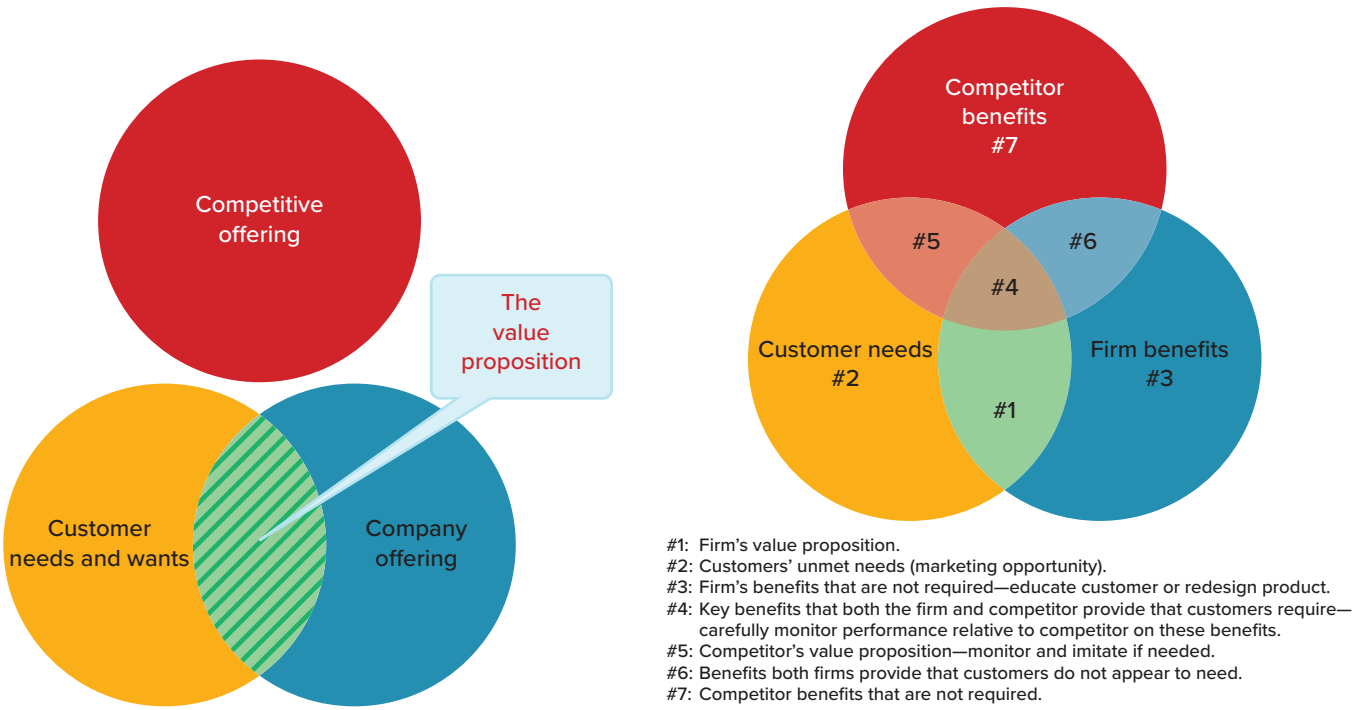


Figure 6.6 Circles for a successful value proposition

In the right-hand part of Figure 6.6, the intersection of customer needs, the benefits provided by our focal firm and the benefits provided by a competing firm reveal seven specific spaces where a product might be located. Let's look at each one in turn, using the offerings of the airline industry as hypothetical examples to understand each space.

Space #1. Representing the firm's value proposition, this space reveals which customer needs are effectively met by the benefits that the firm provides but not by the benefits provided by competitors. That is, there is no overlap between competitors. When airline customers prefer the very cheapest flights between Australia and South-East Asia, they will go for Tigerair.

Space #2. These customer needs are unmet. This represents an important marketing opportunity, in that the firm could create new products or augment existing services to satisfy these needs better. A direct route between two cities that are not currently connected by any airline, such as Qantas' direct flight from Perth to London, represents a prime example of such a space.

Space #3. Customers express little need or desire for these company benefits. The firm thus has several options. It might educate customers about the importance and benefits that it provides with this space, to encourage customers to develop a sense of their need. Alternatively, it could re-engineer its approach to stop providing these unwanted benefits, which would enable it to save money. For example, when airlines realised that passengers cared little about the appearance of a piece of lettuce underneath the in-flight sandwiches they were served, they saved millions of dollars they had previously spent on unwanted produce.

Space #4. These needs are being met by the benefits of the firm, as well as by competitors. Many customers make frequent trips between major cities, like Sydney and Auckland, and many airlines offer multiple direct flights each day between these hubs. Each firm therefore works to compete effectively, such as by offering convenient flight times or striving to increase its on-time rates, to make it easier for customers to compare firms on these specific features.

Space #5. This space constitutes the competitor's value proposition: the needs of customers that are met by benefits a competitor provides, but not by the benefits provided by our focal firm. For example, only a few airlines host separate lounges for their best customers; a lower cost airline cannot compete. However, if more and more customers start to make demands for these benefits, the focal firm needs to carefully monitor developments and match some benefits if possible.

Space #6. Although both the focal firm and its competitors provide these benefits, they somehow are not meeting customer needs. The stringent security screening requirements aim to increase passenger safety, but they also represent a significant inconvenience that many fliers associate with airlines, rather than federal regulators. Expending significant efforts to educate customers by the focal firm about these needs would also benefit competitors, so they are likely to be lower in the priority list of spending.

Space #7. Finally, some competitor benefits are either undesired or unnecessary among customers. Similar to Space 3, the competitor could invest money to educate customers about the importance of these benefits and highlight their needs through advertising and promotional campaigns. If so, the focal firm should recognise that this need is moving to Space 5. Alternatively, the competitor could re-engineer its products to eliminate these benefits, in which case it requires no response from the focal firm.

Regardless of their existing space though, firms must constantly and closely monitor their competitors' offerings. If competitors offer features that the firm does not, it is important to determine their importance to customers. Important attributes should be considered for inclusion into the firm's offering–or else they will provide a unique value proposition for competitors.

In Table 6.3, we highlight the elements of developing and communicating a firm's value proposition. The main value proposition components are:

1. target market
2. offering name or brand
3. product/service category or concept
4. unique point of difference/benefits.

Let's focus on a couple of well-known products, Gatorade and Pepsi, and their potential value propositions (brackets added to separate the value proposition components):

- **Gatorade**–To [athletes around the world], [Gatorade] is the [sports drink] that [represents the heart, hustle and soul of athleticism and gives the fuel for working muscles, fluid for hydration and electrolytes to help replace what is lost in sweat before, during and after activity to get the most out of your body].
- **Pepsi**–To [cola consumers], [Pepsi] is a [caffeinated soft drink] that is [refreshing, sweet, and smooth] and [that helps create joyful moments].

Table 6.3 Value proposition statement key elements

	Gatorade	Pepsi
Target market	Athletes around the world	Younger consumers
Offering name or brand	Gatorade	Pepsi
Product/service category or concept	Sports drink	Carbonated soft drink
Unique point of difference/benefits	Represents the heart, hustle and soul of athleticism and gives the fuel for working muscles, fluid for hydration and electrolytes to help replace what is lost in sweat before, during and after activity to get the most out of your body	Refreshing, sweet, smooth drink that helps create joyful moments



Exhibit 6.20 French retailer Hermès is positioned as a luxury brand, which makes its customers less price-sensitive for its products. On its Australian website, Hermès handbags sell for up to $14 000.

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POSITIONING METHODS

Firms position their goods and services based on different methods, such as the value proposition, salient attributes, symbols and competition.

The positioning strategy can help communicate the firm's or the product's value proposition, the unique value that a product provides to its customers, and how it is better than and different from those of its competitors. Firms thus position their goods and services according to value and salient attributes. **Value** is a popular positioning method because the relationship of price to quality is among the most important considerations for consumers when they make a purchase decision.

Remember that value does not necessarily mean low priced. The watchmaker Patek Philippe uses the advertising tagline 'You never actually own a Patek Philippe. You merely take care of it for the next generation', to encourage buyers to consider its products as an investment.[29] The long-running campaign takes on added effectiveness in the modern economic downturn, especially as a way to market a luxury brand in a necessity-focused economy. Other brands that rely on a similar idea of luxury value include Hermès, Chanel and Mercedes-Benz.

value
Reflects the relationship of benefits to costs, or what the consumer *gets* for what they *give*.

Another common positioning strategy focuses on the product attributes that are most important to the target market. Volvo, the car company traditionally positioned for the safety-conscious driver, wants to stretch its safety image to one focused on driving performance and excitement. The company expects the positioning adjustment to be a long and concentrated effort, because so many of Volvo's boxier vehicles remain on the road today, which reinforces its more conservative image. Volvo's goal is not to abandon the safety notions associated with the brand but rather to expand its image to compete with other top luxury brands.[30]



Exhibit 6.21 Apple positions itself as an innovator; after a legal battle, Samsung was forced to pay around $800 million for infringing its design and utility patents.

© Nebojsa Markovic/Shutterstock

A well-known symbol can also be used as a positioning tool. What comes to mind when you think of KFC, the Flying Kangaroo, Aleksandr the meerkat or Toucan Sam? Or consider the Caltex star, the Nike swoosh or the Ralph Lauren polo player. These symbols are so strong and well-known that they create a position for the brand that distinguishes it from its competition. Many such symbols are registered trademarks that are legally protected by the companies that developed them.

Firms can choose to position their goods or services against a specific competitor or an entire product/service classification. For instance, Samsung has poked fun at Apple in the past, with an ad showing people queuing up for a new smartphone. Foxtel's Fox Footy channel clearly competes against Channel 7's football coverage, with its tagline 'no ad breaks during play'.

Marketers must be careful, however, that they don't position their product too closely to their competition. If, for instance, their package or logo looks too much like a competitor's, they might be opening themselves up to

a trademark-infringement lawsuit. Many private-label and store brands have been challenged for using packaging that appears confusingly similar to that of the national brand leaders in a category. McDonald's sues anyone who uses the 'Mc' prefix, including McSleep Inns and McDental Services in the United States. Apple and Samsung have been involved in ongoing legal battles, with Samsung forced to pay around $800 million to Apple in 2015 for infringing its design and utility patents (see Exhibit 6.22).

Positioning using perceptual mapping

Now that we have identified the various methods by which firms position their goods and services, we will discuss the steps they go through to establish that position. When developing a positioning strategy, firms go through five important steps. Before you read about these steps, though, examine Figure 6.7 (Charts A–D), a hypothetical perceptual map of the soft-drink industry. A **perceptual map** displays, in two or more dimensions, the position of products or brands in the consumer's mind. We have chosen two dimensions for illustrative purposes: sweet versus light taste (vertical) and less natural versus healthy (horizontal). Also, though this industry is quite complex, we have simplified the diagram to include only a few players in the market. The position of each brand is denoted by a small oval and the numbered circles denote consumers' **ideal points**–where a particular market segment's ideal product would lie on the map. The larger the numbered oval, the larger the market size.

perceptual map
Displays, in two or more dimensions, the position of products or brands in the consumer's mind.

ideal point
The position at which a particular market segment's ideal product would lie on a *perceptual map.*

To derive a perceptual map such as shown in Figure 6.7, marketers follow six steps.

1. **Determine consumers' perceptions and evaluations of the product in relation to competitors' products.** Marketers determine their brand's position by asking consumers a series of questions about their and competitors' products. For instance, they might ask how the consumer uses the existing product, what items the consumer regards as alternative sources to satisfy their needs, what the person likes or dislikes about the brand in relation to competitors and what might make that person choose one brand over another. Figure 6.7A depicts the products using two dimensions (light taste–sweet taste and less natural–healthy).
2. **Identify the market's ideal points and size.** On a perceptual map, marketers can represent the size of current and potential markets. For example, Figure 6.7B uses different-sized ovals that correspond to the market size. Ideal point 1 represents the largest market, so if the firm does not already have a product positioned close to this point, it should consider an introduction. Point 3 is the smallest market, so there are relatively few customers who want a healthy, light-tasting drink. This is not to suggest that this market should be ignored; however, the company might want to consider a niche, rather than mass-market strategy for this group of consumers.
3. **Identify competitors' positions.** When the firm understands how its customers view its brand relative to competitors', it must study how those same competitors position themselves. For instance, Powerade positions itself closely to Gatorade, which means they appear next to each other on the perceptual map and appeal to target market 2 (see Figure 6.7C). They are also often found next to each other on store shelves, are similarly priced and are both viewed by customers as sports drinks. Gatorade also knows that its sports drink is perceived to be more like Powerade than like its own Propel Fitness Water (located near target market 3) or Coke (target market 1).
4. **Determine consumer preferences.** The firm knows what the consumer thinks of the goods or services in the marketplace and their positions relative to one another. Now it must find out what the

Chart A

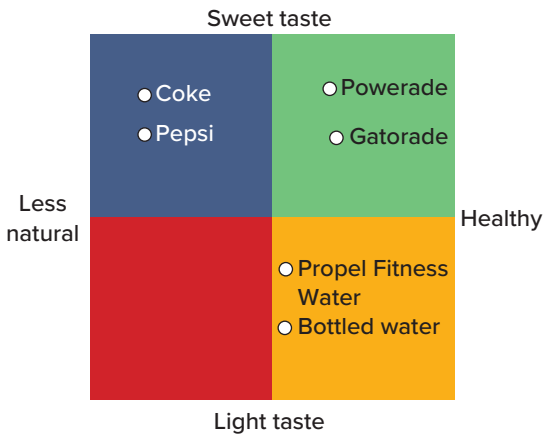


Figure 6.7A Perceptual maps

Chart B

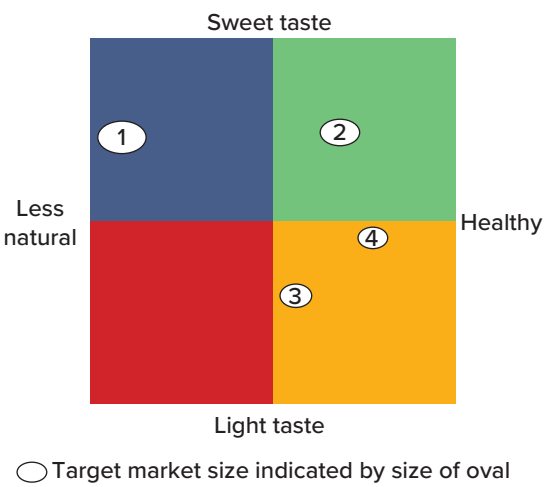


Figure 6.7B Perceptual maps

Chart C

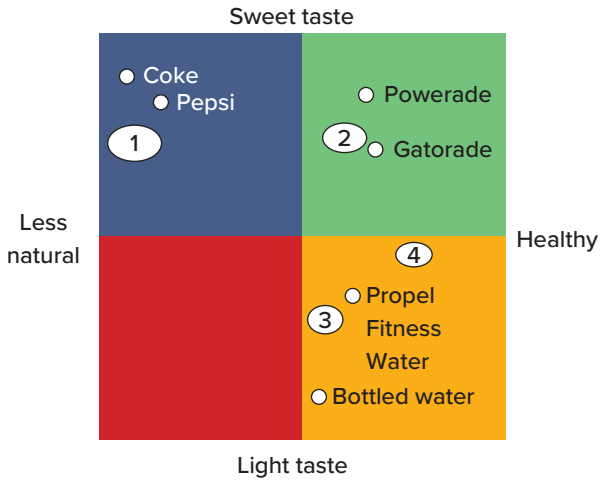


Figure 6.7C Perceptual maps

Chart D

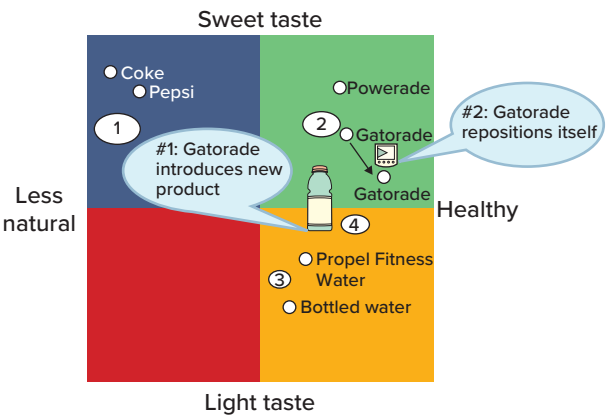


Figure 6.7D Perceptual maps

consumer really wants, that is, determine the 'ideal' product that appeals to each market. For example, a huge market exists for traditional Gatorade and that market is shared by Powerade. Gatorade also recognises a market, depicted as the ideal product for segment 4 on the perceptual map, of consumers who would prefer a less sweet, less calorie-laden drink that offers the same rejuvenating properties as Gatorade. Currently, no product is adequately serving market 4.

5. **Select the position.** Continuing with the Gatorade example, the company has some choices to appeal to the 'less sweet sports drink' target market 4. It could develop a new product to meet the needs of market 4 (see Figure 6.7D, option 1). Alternatively, it could adjust or reposition its marketing approach–its product and promotion–to sell original Gatorade to market 4 (option 2). Finally, it could ignore what target market 4 really wants and hope that consumers will be attracted to the original Gatorade because it is closer to their ideal product than anything else on the market.

6. **Monitor the positioning strategy.** Markets are not stagnant. Consumers' tastes shift and competitors react to those shifts. Attempting to maintain the same position year after year can spell disaster for any company. Thus, firms must always view the first three steps of the positioning process as ongoing, with adjustments made in step four as necessary.

Despite the apparent simplicity of this process, marketers should recognise that changing their firm's positioning is never an easy task. Some firms might try to change their image in response to a shift in the target market, such as when BlackBerry realised, albeit too late, that consumers wanted smartphones that were optimised for more than call, text and email. Another recent example of repositioning is Zara, as Adding value 6.2 describes.

Adding value 6.2

Zara's changing logo and positioning

When a brand changes its logo, it is always about more than just the logo. It signals a deeper change in terms of where the brand wants to go, and thus in its positioning to consumers. Zara, the high street fashion retailer, changed its logo in 2019, having last changed it in 2011. Let's consider why.

First, Zara offers a wide range of relatively low-priced fashion products for a large variety of consumers. Its value proposition, however, is that the clothes actually resemble higher-end fashion brand items. In short, it is making fashion affordable.[31] This has been termed 'fast fashion', and is something on which Zara wants to be able to differentiate itself and compete on. Its main competitors are Topshop, Uniqlo and H&M.

Zara's new logo was designed by French agency Baron & Baron, whose other clients include luxury fashion brands Dior, Bottega Veneta, Coach, Hugo Boss and Louis Vuitton. The main differences between the old and new logos are the height of and spacing between the letters. The change is



Exhibit 6.22 Zara's changing logo.

Source: https://thebrandpool.com.au/repositioning-brand-zaras-controversial-new-logo/

subtle, but the tight spacing resembles that of the luxury brands' logos, while the increase in height could signify an increase in stature (see Exhibit 6.22).

Coco Wu, of Kantar Consulting, explains that there are many elements influencing brands at the moment, such as globalisation, a younger generation and an appreciation of aesthetics. Perhaps the 'flatter expression in the logo encourages young consumers to express themselves'.[32]

Not all logo changes are successful, though. Gap's 2010 change lasted just 11 days, following many complaints from loyal consumers. This is a warning to brands that repositioning runs the risk of alienating those consumers you are currently successfully serving.

Can you think of any other recent logo changes?

CHECK YOURSELF

1. What is a perceptual map?
2. Identify the six positioning steps.

Case study **6.2: Starbucks in Australia: a failure to understand**

By Dr Eugene Chan, Monash University

Starbucks is one of the top coffee brands in the world. The very first Starbucks outlet was founded at Pike Place Market in Seattle, United States, in 1971. Since then, it has grown to become the most popular coffee chain in the United States and around the world. In New York City, it is not uncommon to find a Starbucks at all four corners of an intersection. In Italy and France, both countries famed for their coffee, Starbucks has become the best-selling coffee chain, overtaking local baristas and capturing the tastebuds of coffee drinkers in these countries. Starbucks is also growing in Asia, namely China, where in 2019 it was opening a store every 15 minutes.

Yet, despite all of its successes, there is one notable geographical area in which Starbucks has failed miserably—that is Australia. In the early 2000s, the company attempted to expand into the country and become its favourite coffee chain store. But in 2008, just a few years after its entry, it closed 70 per cent of its outlets, leaving only 23 Starbucks stores in the country. A few years later, even more stores closed. Why couldn't Starbucks replicate in Australia the success it had found elsewhere?

The answer lies in the fact that Starbucks did not understand its target market. It thought that because it was successful in the United States, Europe and Asia, it could replicate the success using the same marketing model—selling the same sweet-tasting beverages, designing the same stores in the same architectural style, and assuming that Australian tastebuds were just like Americans'.

Continued

Yet, what it failed to understand was that coffee culture in Australia is unique—and also very different from that in the United States, Italy and France. Australians do not prefer very sweet beverages. And while it is common in the United States to see businesspeople setting up 'offices' at Starbucks all day long with their laptops, this is not the coffee culture in Australia, a country where people prefer to enjoy their brew and use it as part of a relaxing ritual. It could also be argued that Australian tastebuds are more refined, with people preferring espresso-based beverages to the typical brew or drip coffee common in the United States.

Starbucks failed to understand the unique culture of Australia. In other words, it did not segment and understand the target market appropriately, making it difficult for it to position its beverages accordingly. More than a decade later, Starbucks' failure in Australia is one of the most significant stories about marketing failures. But it's not hard to understand why once we understand the concepts of segmentation, targeting and positioning.

Nowadays, Starbucks is regaining its foothold in Australia, but its target is very different. Rather than targeting Australians, it targets visitors to Australia who may be accustomed to Starbucks coffee back in their home country. It has found success by focusing on this target market, and not trying to convert Australians to move from their local neighbourhood barista to the American chain. By understanding what its target market (foreigners) prefer, Starbucks has been able to reap profits, and is now starting to re-expand across the country—one coffee shop at a time.

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Questions

1. What makes Starbucks an 'American' brand? How is it not an 'Australian' brand?
2. When Starbucks first entered the Australian market, it failed. Was the failure one of segmentation, targeting or positioning?
3. Starbucks in Australia is now focused on tourists in Australia who are familiar with Starbucks back in their home country. Do you think this will alienate Australians more? Why or why not?

SUMMING UP

LO 6.1 Outline the different methods of segmenting a market.

There is no one 'best' method to segment a market. Firms choose from various methods on the basis of the type of product/service they offer and their goals for the segmentation strategy. For instance, to identify its customers easily, demographic or geographic segmentation are best. But if it is trying to dig deeper into why customers might buy its offering, then psychographic, geodemographic, benefits or behavioural segmentation (occasion and loyalty) work best. Typically, a combination of several segmentation methods is most effective.

LO 6.2 Describe how firms determine whether a segment is attractive and therefore worth pursuing.

Marketers use several criteria to assess a segment's attractiveness. First, the customer should be identifiable—companies must know what types of people are in the market so they can direct their efforts appropriately. Second, the market must be

substantial enough to be worth pursuing. If relatively few people appear in a segment, it is probably not cost-effective to direct special marketing mix efforts toward them. Third, the market must be reachable—the firm must be able to reach the segment through effective communications and distribution. Fourth, the firm must be responsive to the needs of customers in a segment. It must be able to deliver a product that the segment will embrace. Finally, the segment must be profitable, both in the near term and over the lifetime of the customer.

LO 6.3 Articulate the differences among targeting strategies: undifferentiated, differentiated, concentrated and micromarketing.

Firms use a targeting strategy after they have identified its segments. An undifferentiated strategy uses no targeting at all and works only for goods or services that most consumers consider to be commodities. The difference between a differentiated and a concentrated strategy is that the differentiated approach targets multiple segments, whereas the concentrated targets only one. Larger firms with multiple product/service offerings generally use a differentiated strategy; smaller firms or those with a limited product/service offering often use a concentrated strategy. Firms that employ a micromarketing or one-to-one marketing strategy tailor their product/service offering to each customer—that is, it is custom made. In the past, micromarketing was reserved primarily for artisans, tailors or other craftspeople who would make items exactly as the customer wanted. Recently, however, larger manufacturers and retailers have begun experimenting with custom-made merchandise as well. Service providers, in contrast, are largely accustomed to customising their offering.

LO 6.4 Determine the value proposition.

A firm's value proposition communicates the customer benefits to be received from a product and thereby provides reasons for wanting to purchase it. It consists of the attributes of a product that are desired by the target market, but not available from competitors. Firms could attempt to offer attributes that are important to its customers, whether or not they are offered by competitors. For attributes that are not important to its customers, it should either educate its customers about the importance of those attributes, de-emphasise them or not offer those product attributes.

LO 6.5 Define positioning and describe how firms do it.

Positioning is the 'P' in the STP (segmentation, targeting and positioning) process. It refers to how customers think about a product, service or brand in the market relative to competitors' offerings. Firms position their goods and services according to several criteria. Some focus on their offering's value—customers get a lot for what the product costs. Others determine the most important attributes for customers and position their offering on the basis of those attributes. Symbols can also be used for positioning, though few goods or services are associated with symbols that are compelling enough to drive people to buy. Finally, one of the most common positioning methods relies on the favourable comparison of the firm's offering with the goods or services marketed by competitors. When developing a positioning strategy and a perceptual map, firms go through six steps. First, they determine consumers' perceptions and evaluations of the product in relation to competitors. Second, they identify the market's ideal points and market sizes for those goods or services. Third, they identify competitors' positions. Fourth, they determine consumer preferences. Fifth, they select the position. Finally, they monitor the positioning strategy.

KEY TERMS

- behavioural segmentation 174
- concentrated targeting strategy 182
- consumption segmentation 175
- cookie 183
- demographic segmentation 169
- differentiated targeting strategy 181
- firmographics 171
- geodemographic segmentation 176
- geographic segmentation 168
- ideal point 187
- lifestyles 171
- mass marketing 181
- micromarketing 182
- one-to-one marketing 182
- perceptual map 187
- psychographics 171
- purchase segmentation 174
- self-concept 171
- self-values 171
- undifferentiated targeting strategy 181
- usage segmentation 175
- value 186
- value proposition 184

Continued

MARKETING APPLICATIONS

1. What segmentation methods would you suggest for a small entrepreneur starting their own business selling gourmet chocolates? Explain why you would recommend those methods.
2. You have been asked to identify various segments in the market and then a potential targeting strategy. Describe the segments for a pet supply store and then justify the best targeting strategy to use.
3. How and why would a retailer use micromarketing?
4. You have been asked to evaluate the attractiveness of a group of identified potential market segments. What criteria will you use to evaluate those segments? Why are these appropriate criteria?
5. A small-business owner is trying to evaluate the profitability of different segments. What are the key factors you would recommend they consider? Over what period of time would you recommend they evaluate?
6. Think about the various soft drinks that you know (e.g. Coca-Cola, Pepsi, 7-Up). How do those various brands position themselves in the market?
7. Put yourself in the position of an entrepreneur who is developing a new product to introduce into the market. Briefly describe the product. Then, develop the segmentation, targeting and positioning strategy for marketing the new product. Be sure to discuss (a) the overall strategy, (b) characteristics of the target market, (c) why that target market is attractive and (d) the positioning strategy. Provide justifications for your decisions.
8. Think of a specific company or organisation that uses various types of promotional material to market its offerings. The web, magazine ads, newspaper ads, catalogues, newspaper inserts, direct mail pieces and flyers might all be sources for a variety of promotional materials. Locate two or three promotional pieces for the company and use them as a basis to analyse the segments being targeted. Describe the methods used for segmenting the market reflected in these materials and describe characteristics of the target market according to the materials. Be sure to include a copy of all the materials used in the analysis.
9. You have been hired recently by a large bank in its credit card marketing division. The bank has relationships with a large number of universities and prints a wide variety of credit cards featuring university logos, images and the like. You have been asked to oversee the implementation of a new program targeting the first-year students at the universities with which the bank has a relationship. The bank has already purchased the names and home addresses of the incoming students. You have been told that no credit checks will be required for these cards as long as the student is over 18 years of age. The bank plans a first day of semester marketing blitz that includes free hats, T-shirts and book promotions, as well as free pizza, if the students simply fill out an application. Do you think it is a good idea to target this program to these new students?

QUIZ YOURSELF

1. Apple has directed its marketing efforts for the iPad Mini towards women. This is an example of which kind of segmentation?
   a. Geographic
   b. Psychographic
   c. Demographic
   d. Benefits
   e. Behavioural
2. Within a perceptual map, what represents where a particular market segment's desired product would lie?
   a. Point of parity
   b. Strategic target
   c. Ideal point
   d. Benefit centroid

(Answers to these two questions can be found on page 456.)

NET SAVVY

1. Go to Facebook. Take a look at all the information in the About section of your profile. Think about these as segmentation variables that marketers could use to target advertisements to you. Have you ever seen advertisements based on this information? Imagine how difficult it was for marketers to gather information on customers before social media! Also check which of this information is private, available to friends, and available to the public while you are there.

2. Go to the VALS website at www.strategicbusinessinsights.com/vals/presurvey.shtml and click on the link to complete the VALS survey. After you submit your responses, a screen will display your primary and secondary VALS types. Click on the coloured names of each segment to get additional information about them and print out your results. Assess the extent to which these results reflect your lifestyle, and identify which characteristics accurately reflect your interests and activities and which do not.

CHAPTER CASE STUDY

One company, multiple brands

By Dr Eugene Chan, Monash University

Many people may not be familiar with Procter & Gamble, but they will be familiar with its brands. Procter & Gamble, or P&G, is headquartered in Cincinnati, Ohio, and owns multiple brands in the personal hygiene and home products category. Its Bounty brand in the United States makes paper towels, Fairy makes detergent in Australia, Pampers makes nappies, Tampax makes female hygiene products, Head & Shoulders makes shampoos, Olay makes skin and cosmetic products, Crest makes toothpaste, and NyQuil makes over-the-counter medicinal products. But even within the same product category, P&G has multiple brands. P&G has more than 20 different brands across the world, including Ambi Pur and Braun.

Why would any company make multiple brands within the same product category? Wouldn't this simply cannibalise sales of its own products, hurting P&G's overall financial bottom line? Cannibalism in marketing occurs when demand for one brand weakens demand for another brand.

The answer lies in how P&G segments, targets and positions its products, even within the same product category. Let's maintain our focus on laundry detergents. In the United States, the market for laundry detergents is very price-sensitive, meaning not only that Americans look for low prices and good-value products, but that competition is fierce. P&G, in an effort to maintain market share within its own home country, has brands called Gain and Bounce that are low-cost and high-value products. They are not the most heavy-duty detergents by any means, but they offer exceptional value by offering low prices for moderate-strength laundry detergents.

In Western Europe, however, P&G has brands including Ariel, Bold, Daz and Fairy. Western Europeans look for innovative products; they are constantly searching for new ways to get their clothes clean. At the same time, Western Europeans are also looking for heavy-duty detergents that are stronger than American preferences. P&G's laundry detergent brands in Western Europe thus offer innovative detergent formats and formulations, without sacrificing the high-quality nature of its products. One such example is Ariel Liqui-Tabs, which P&G launched in 2001 before Unilever, P&G's main rival, launched Persil capsules in order to maintain its competitive edge. Ariel Liqui-Tabs were one of the first laundry detergent products to use the 'tabs' when the traditional way of washing one's clothes was with detergent power.

In recent years, Americans and Canadians have shifted their preferences towards being energy efficient as they become more concerned with the negative impacts they have on the environment. In a response to this, P&G launched Cheer, Deft and Ivory Snow, which are 'compact' and 'concentrated, laundry detergents that come in smaller cartons—allowing North Americans to reduce their environmental footprint. Meanwhile, in Australia, millennials are moving away from using fabric softeners altogether, and so P&G has removed its fabric softener brands from the Australian and New Zealand markets.

In contrast to some companies such as Coca-Cola and Apple that have a 'globalisation' approach, positioning themselves in the same way across the globe, P&G markets, targets and positions the market geographically. There is no one right or wrong way—it depends on the product and the customer. With soft drinks and technology, most consumers around the world demand refreshing beverages and high-tech products, which allows Coca-Cola and Apple to use a single marketing strategy wherever they sell their products. But customers in different parts of the globe look for different things when it comes to washing their clothes. P&G understands this and so it has developed different brands that are targeted and positioned differently.

The same reasoning applies to P&G's other brands in other industries, whether it is toothpaste, cosmetics or personal hygiene products. Each brand is targeted at different geographic markets. Even within the same geographic market, P&G has different brands depending on the demographic, psychographic and behavioural characteristics of the market—whether it is one that is relatively affluent or one that has particular tastes and preferences.

Continued

This explains why, despite P&G offering multiple brands even in the same product category, it does not cannibalise its own profits. By understanding the various markets appropriately, P&G is able to capture markets that it would otherwise be unable to. Consumers in one segment that P&G targets with a particular brand do not purchase another brand because the other brand does not appeal to their tastes and preferences. Thus, multiple brands in the same industry do not hurt P&G's overall profits.

In fact, the global success stories of Coca-Cola and Apple are actually quite rare. Many companies have adapted to the local market in order to be profitable globally. McDonald's is one example. Have you ever had a taro pie, a McLobster or fries with wasabi shaker powder? These are McDonald's products that are available only in Hong Kong of China, Canada and Japan, respectively—not in Australia. The Kiwiburger, likewise, is available only in New Zealand, across the Tasman Strait. McDonald's is an excellent example of a company that tailors products to each local market. It still emphasises fast food wherever it is located, but it makes sure it has products that adapt to local tastes. Next time you visit McDonald's in a different country, check out its menu to see the foods and beverages that you can't find back home.

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DISCUSSION QUESTIONS

1. Explain how segmenting, targeting and positioning can help reduce cannibalism in marketing.
2. When it comes to laundry detergents, what did P&G find about what Americans, Western Europeans and Australians look for, previously and now?
3. Explain the higher-level basis of segmentation that P&G uses, and the lower-level basis.
4. What do you think are some further ways in which P&G can segment the market for its laundry detergent brands besides geographic and demographic?

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CHAPTER 7

Marketing research

LEARNING OBJECTIVES

LO 7.1 Identify the five steps in the marketing research process.

LO 7.2 Describe the various secondary data sources.

LO 7.3 Describe the various primary data collection techniques.

LO 7.4 Summarise the differences between secondary data and primary data.

LO 7.5 Examine the circumstances in which collecting information on consumers is ethical.



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Graduate spotlight



NAME
Georgia Rajic

DEGREE STUDIED
Bachelor of Business (Marketing) Applied

UNIVERSITY
RMIT University

CURRENT POSITION
Travelling the world! Previously: Campaign Coordinator

EMPLOYER
RMIT University

What did you learn from your degree and how has it prepared you for a career in marketing?
I learnt about working in teams, as well as some really important things through subjects like Marketing Research, Digital Marketing and Design Thinking. Design Thinking let me delve deep into an area which is a passion of mine (Female Sports Fans and Engagement) and was a research project that ended with a solution. That project is probably my favourite piece of work I've ever completed and allowed me to seek a problem and work a way through to a solution. Those skills are transferable to every project and opportunity I have in the workplace.

While studying, I was also involved in extracurriculars at RMIT. I was a committee member of RMIT Football Club (soccer), ran a social netball competition for students and was President of RMIT Netball Club for several years. Doing this alongside my studies meant that I was able to put what I was learning from my marketing degree into the running, marketing and promotion of a real-life business and just consolidated my learning one hundred times over.

What interested you about studying or working in marketing?
Marketing is inherently about being nosy and wanting to know why people do what they do. I've always had a good memory and loved knowing random statistics and facts. So combining those two brought me to marketing. I want to know who does what, why they do that and how they do it. It's all about human behaviour and has a flair of creativity I love.

What have you been up to since graduation?
I started working full-time in the third year of my degree as part of the 'Applied' section of my degree. I worked with frontline sales staff in the Info Corner, Conversion and Student Recruitment teams, as a campaign advisor in the Undergraduate and Vocational Education segment team. After my placement year, I was lucky enough to continue working for RMIT's marketing department and was offered a role in Segment and Campaigns. This job was the perfect opportunity to learn about all aspects of marketing activities and I continued for a year and a half. This experience through learning and working has made me feel confident in my own abilities.

What does your current job involve?
I worked as a Campaign Coordinator for RMIT's undergraduate marketing squad. I helped market all bachelor degrees to prospective students in and outside of Australia with the help of other teams. A lot of my work was around direct sales marketing through emails (eDMs) and assisting the Segment Manager in all work that needed to be done. I was heavily involved in the creation of advertising assets, working through our creative agency, and working alongside the Sales/Recruitment/Conversion teams for insights on how to optimise and improve the customer journey. I was also lucky enough to work on a sponsorship project (alongside two other RMIT graduates) when RMIT sponsored the Melbourne Renegades in the last Big Bash League season. That was an amazing project where I was able to lead student ambassadors.

What do you enjoy most about your job?
The best part was the variety! Although a lot of my work was around eDMs, I was also involved in helping choose talent for our advertising campaigns, scouting locations and attending photoshoots, and styling to make sure we aligned best with the RMIT brand. I assisted on the Sans Forgetica campaign, deploying paid media posts across social media. I got very in-depth with lead qualification and scoring through learning how to use RMIT's CRM.

What are your thoughts on the future of the marketing and communication industry? What advice would you give to students wanting to work in marketing?
Marketing isn't all about events and being creative. And that's why I was drawn to it. I like being creative through numbers and problem-solving (even if I wasn't very good at maths growing up). Marketing isn't just one thing, it's a billion and one. So you have opportunities to grow and discover what subset is best for you—whether you're an all-rounder, content specialist, visually

talented or love to understand why people do what they do. You should also learn how to use Microsoft Excel/Google Sheets—it might seem like a pain but it's so ridiculously useful for everything.

I can't make any recommendations without suggesting people join a club (especially a university one!). RMIT has been my entire life for the past five or so years and my favourite experience has been RMIT Netball Club. Watching that club grow from two teams to 17 and winning awards for it was the best thing I did in terms of understanding how a business works. It gave me connections that led to job offers and gave me a sense of purpose that nothing else has been able to.

Accessing information and storing personal data has become a daily ritual for most of us. How many times a day do we visit our daily steps, check our quality of sleep and our calorie intake? If your response is in multiple digits, you are not alone. Progressive innovations in consumer technology are redefining how we receive notifications, how we make choices, store and gather data, and we are responding.

With Australia's smartphone penetration level sitting at 84 per cent, our daily appetite to access information has us glancing at our smartphones about 85 times a day and spending more than 46 hours a week looking at our screens; on average we download 36 different apps per month, with 23 per cent of smartphone users streaming films or TV shows weekly. In 2019, a total of 1.2 million smart wrist wearables were sold, mainly driven by the increasing demand for smartwatches. Of the smart wrist wearables sold during the first six months of 2019, 69 per cent were smartwatches (830 000).[1] Nudging smartphones for a slice of the information pie are wearable devices explicitly intended for fitness. Of the total users of wearables, the largest segment (31.9%) are 25- to 34-year-olds, closely followed (25.5%) by the 33- to 44-year-old segment. Females are just leading as the owners of wearable gadgets at 56.5 per cent. However, as this market expands in appeal and definition to include devices such as activity trackers, smartwatches, smart glasses, smart rings, smart clothing and functional fabrics as well as health technology devices, growth is expected to continue. This is particularly so as makers of wearable devices collaborate and merge with apparel manufacturers, tech giants (for instance, Apple) and industries such as medical and insurance.[2]

This new wave of wearable devices has the capability to continuously collect data that is both public and private. For example, the Apple Health platform permits the collection of data from Apple devices and apps for general and medical purposes. Apple's focus on the healthcare industry has seen continual updates to its Health app, positioning the platform as a 'one stop health place'.[3] A recent development permits users to 'download, store and share parts of their medical records' and dually permit approved providers to 'send lab test results, medication regimens and other data directly to a patient's iPhone Analytics', providing the wearer with data related to their physical activities and health statistics. Data transfer can occur directly from either the wearable sensors or from the proprietary warehouse.[4]

But is such data collection a double-edged sword? How can this data aid decision-making?

Data generated from a 'wearable' identifies the location, movement, personal health, browsing and purchasing behaviour of that individual (see Exhibit 7.1). Medical monitoring devices are designed to collect data on movement, heart rate, respiratory rate, temperature, steps taken, distance travelled and calories burned. Biometric data also records information pertaining to health and fitness. For the individual user, a wearable device may seem an ideal motivator in terms of constructing fitness goals and making personal decisions based on the data collected; however, this data can also become a selling commodity for data-mining companies, insurance companies, healthcare providers and businesses.[5] Such analytics can provide companies, marketers and researchers with information that enables them to develop customised profiles that predict future consumption patterns, preferences and choice behaviours for that individual.

Wearable devices are also entering the workforce. For example, companies are trialling smartwatches and other wearables for their employees and using business analytics, alerts and employees' biometric data to make informed decisions that boost the productivity, safety and wellbeing of their workforce.[6]

As personal data from wearable devices become more comprehensive, the challenge for companies becomes how to deliver timely information that will trigger consumers' consumption behaviour into action. For the wearer, the issue of privacy and security of personal information will continue to be an ongoing concern. Although the *Privacy Act 1988* (Cth) regulates how personal information is handled,



Exhibit 7.1 Wearable technology.
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the Act does not protect the consumer from potential hacking, data leakage and data loss.[7] In its role of ensuring individuals and businesses comply with the *Competition and Consumer Act 2010*, the Australian Competition and Consumer Commission (ACCC) began legal proceedings against Google in Australia in 2019 based on a claim that Google misled consumers about the personal location data it had collected or used when certain account settings were enabled or disabled. The decision to take court action by the ACCC is all about consumer choice–it claims the fact that Google decided to remain silent about another setting that had to be switched off to stop the collection of data deprived consumers of the right to make informed choices about their highly sensitive and valuable personal information.[8]

So for the individual, the question is whether or not to sync their personal statistics to their devices, bearing in mind the fact that their everyday activities (exercise, diet, weight, sleep and vital health metrics) may not be for their eyes only.

marketing research
A set of techniques and principles for systematically collecting, recording, analysing and interpreting data that can aid decision-makers involved in marketing goods, services or ideas.

As the wearable device example illustrates, **marketing research** is a prerequisite of successful decision-making for consumers and marketing managers. It consists of a set of techniques and principles for systematically collecting, recording, analysing and interpreting data that can aid decision-makers involved in marketing goods, services or ideas.[9] When marketing managers attempt to develop particular strategies, marketing research can provide valuable information that will facilitate segmentation, positioning, product, place, price and promotion decisions.

Firms invest billions of dollars in marketing research every year. The market research and statistical services industry in Australia is forecast to reach $2.3 billion over the ten years through 2012–22 in total revenue with an annualised growth of one per cent. The industry comprises a number of research firms conducting research for commercial and governmental clients. Nielsen Company (Australia), with a market share of less than three per cent, is on par with the Roy Morgan Research Centre and Ipsos Group with a market share of less than three per cent.[10]

Why do marketers find this research valuable? First, it helps reduce some of the uncertainty under which they currently operate. Successful managers know when research might help their decision-making and then take appropriate steps to acquire the information they need. Second, marketing research provides a crucial link between firms and their environments, which enables them to be customer oriented because they build their strategies by using customer input and continual feedback. Third, by constantly monitoring their competitors, firms can anticipate and respond quickly to competitive moves.

If you think market research is applicable only to corporate or retailing ventures, think again. Not-for-profit organisations and governments also use research to serve their constituencies better. The political sector has been 'slicing and dicing' the voting public for decades to determine relevant messages for different demographics. Politicians desperately want to understand who makes up the voting public to determine how to reach them. But not only do they want to know your political views; they also want to understand your media habits, such as what magazines you subscribe to, so they can target you more effectively.

To do so, they rely on the five-step marketing research process we outline in this chapter. We also discuss some of the ethical implications of using the information that these databases can collect.

In Appendix 2, we detail the concept of customer lifetime value, a popular marketing metric to determine a customer's value to a firm.

LO 7.1

THE MARKETING RESEARCH PROCESS

Managers consider several factors before embarking on a marketing research project. First, will the research be useful: will it provide insights beyond what the managers already know and reduce uncertainty associated with the project? Second, is top management committed to the project and willing to abide by the results of the research? Related to both of these questions is the value of the

research. Marketing research can be very expensive, and if the results won't be useful or management does not abide by the findings, it represents a waste of money. Third, should the marketing research project be small or large? A project might involve a simple analysis of data that the firm already has or it could be an in-depth assessment that costs hundreds of thousands of dollars and takes months to complete.

The marketing research process itself consists of five steps (see Figure 7.1). Although we present the stages of the marketing research process in a step-by-step progression, of course, research does not always or even usually happen that way. Researchers go back and forth from one step to another as the need arises. For example, marketers may establish a specific research objective, which they follow with data collection and preliminary analysis. If they uncover new information during the collection step or if the findings of the analysis spotlight new research needs, they might redefine their objectives and begin again from a new starting point. Another important requirement before embarking on a research project is to plan the entire project in advance. By planning the entire research process prior to starting the project, researchers can avoid unnecessary alterations to the research plan as they move through the process.



Figure 7.1 The marketing research process

Step 1: Defining the objectives and research needs

Because research is both expensive and time-consuming, it is important to establish in advance exactly what problem needs to be solved. To do so, marketers must clearly define the objectives of their marketing research project. It is critical at this first step to isolate and identify the problem(s) and not the symptoms.

Consider the following scenario: Virgin Airlines wants a better understanding of its customers' experience (see Exhibit 7.2). It also needs to understand how customers view their experience flying with Jetstar, Virgin's main competitor in the budget-conscious travel market. Finally, Virgin hopes to gain some insight into how it can enhance its customer service experiences through engaging with its customers before they arrive at the airport, and after their flight has landed. Any one of these questions could initiate a research project. The complexity of the project that the company eventually undertakes depends on how much time and resources it has available, as well as the amount of in-depth knowledge it needs.

Researchers assess the value of a project through a careful comparison of the benefits of obtaining answers to such questions and the costs associated with conducting the research. When researchers have determined what information they need to address a particular problem or issue, the next step is to design a research project to meet those objectives.

Step 2: Designing the research

The second step in the marketing research project involves research design. In this step, researchers identify the type of data needed and determine the methods and procedures necessary to collect and analyse the information needed. Research designs include exploratory, descriptive or causal research. Recall that the objectives of the project drive the type of data needed, as outlined in Step 1.

Let's look at how this second step works, using Virgin Airlines' customer experience as a baseline. Say that Virgin wants to know how to exceed customer expectations to increase customer satisfaction. The company can employ a number of data collection approaches including observation, where the spontaneous behaviour of participants can be recorded in typical surroundings. This could include observing the technologies customers access in both the departure and arrival lounges to keep informed about such things as departure and arrival times. The project's design might begin with available data, such as web analytic information that shows customer engagement of the number of times apps, websites and online surveys for customer feedback are visited. Then Virgin market researchers can start to ask customers specific questions about their customer service experience.



Exhibit 7.2 If Virgin were to do research to better understand its customers' experience, it would study both the Virgin customer experience and that of its major competitor, Jetstar.

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Step 3: The data collection process

Data collection begins only after the research design process. Based on the design of the project, data can be collected from secondary or primary data sources. **Secondary data** refers to pieces of information that have been collected prior to the start of the focal research project. This data includes both external and internal data sources and should always be the starting point in the research process. Although secondary data can be beneficial, it is important for researchers to evaluate the data's quality, relevance and accuracy (i.e. is it valid and reliable), and ensure the data set is timely and complete. **Primary data**, in contrast, is that data collected to address specific research needs. Some common primary data collection methods include focus groups, in-depth interviews and surveys.

For our hypothetical airline scenario, Virgin may decide to obtain relevant secondary data from external providers, such as AC Nielsen and Euromonitor, which provide specific geographic and industry reports. IBISWorld Industry Research Reports produces statistical research reports and analysis pertaining to different industries; in this instance, the 'Domestic Airlines in Australia: Market Research Report' would be relevant. The data includes information relating to competitive landscape, industry trends, opportunities and threats, and specifics such as sales figures, growth or decline in the category, and advertising and promotional spending. Virgin is likely to gather data concerning the competitive landscape including key success factors driving the industry (see Exhibit 7.3). However, the airline may also want competitor data concerning the major players within this market, the demand determinants based on market segmentation showing which is the most profitable segment, and consumption data relating to the purchasing habits of these segments. Based on the data, Virgin might decide to follow up with primary data using a survey.[11]

secondary data
Pieces of information that have already been collected from other sources and are usually readily available.

primary data
Data collected to address specific research needs.

sample
A group of customers who represent the customers of interest in a research study.

data
Raw numbers or facts.

information
Organised, analysed, interpreted data that offers value to marketers.

No company can ask every customer their opinions, so researchers must choose a group who represents the customers of interest or a **sample** and then generalise their opinions to describe all customers with the same characteristics. A company may choose the sample participants at random to represent the entire customer market. Or they may select the sample on the basis of a characteristic, such as the frequency of flying a particular leg, to gauge the experience of the budget-conscious travel market.

Marketing researchers use various methods of asking questions to measure the issues they are tackling. In our hypothetical Virgin scenario, assume the research team has developed a relevant questionnaire (see Table 7.1) using a few different types of questions for Virgin and Jetstar. Sections A and B measure the customer's perception of value for money, customer's experience and customer's satisfaction (including arrival and departure times) for both Virgin and Jetstar. Section C measures customer demographics.[12]



Exhibit 7.3 Virgin assesses its customers' market experience by examining available data and then asks customers about their experience with services such as check-in times.

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Step 4: Analysing data and developing insights

The next step in the process–analysing and interpreting the data–should be thorough and methodical. To generate meaningful information, researchers analyse and make use of the collected data. In this context, **data** can be defined as raw numbers or other factual information that, on its own, has limited value to marketers. However, when the data is interpreted, it becomes **information**, which results from organising, analysing and interpreting data and putting it into a form that is useful to marketing decision-makers. For example, a checkout scanner in a supermarket collects sales data about individual consumer purchases. That data is categorised and examined to provide information about which goods and services were purchased together or how a promotional activity translated into sales.

Table 7.1 **A hypothetical airline survey**

A. Virgin	Poor 1	Fair 2	Good 3	Very good 4	Excellent 5
Perception of value	☐	☐	☐	☐	☐
Customer experience	☐	☐	☐	☐	☐
Customer satisfaction					
Arrival times	☐	☐	☐	☐	☐
Departure times	☐	☐	☐	☐	☐
B. Jetstar	**Poor 1**	**Fair 2**	**Good 3**	**Very good 4**	**Excellent 5**
Perception of value	☐	☐	☐	☐	☐
Customer experience	☐	☐	☐	☐	☐
Customer satisfaction					
Arrival times	☐	☐	☐	☐	☐
Departure times	☐	☐	☐	☐	☐
C. Please tell us about yourself					
What is your age?	18–25 ☐	26–35 ☐	36–45 ☐	46–55 ☐	56+ ☐
What is your gender?	Male ☐	Female ☐	Prefer not to say ☐		
What is your employment status?	Self-employed ☐	Full-time ☐	Part-time ☐	Not employed ☐	

For the Virgin example, we can summarise the results of the survey (template example from Table 7.1) in Figure 7.2. Virgin has scored higher in terms of perception of value; however, Jetstar has scored higher in both customer expectations and satisfaction. Virgin thus may want to further investigate how to improve and manage customer expectations and satisfaction to compete more effectively with Jetstar.

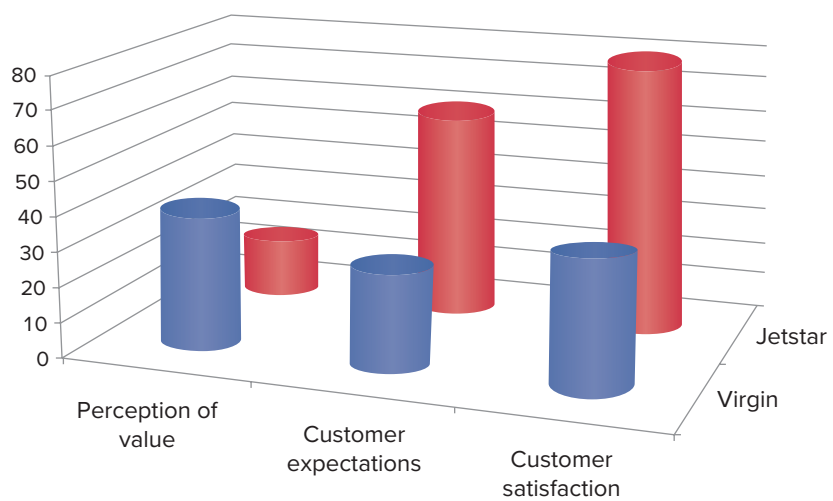


Figure 7.2 Survey results for Virgin and Jetstar airlines

Step 5: Action plan and implementation

In the final phase of the marketing research process, the analyst prepares the results and presents them to the appropriate decision-makers, who undertake appropriate marketing strategies. A typical marketing research presentation includes an executive summary, the body of the report (which discusses the research objectives, methodology used and detailed findings), the conclusions, the limitations, and appropriate supplemental tables, figures and appendices.[13]

In the Virgin hypothetical scenario, according to the research findings, the company is performing well in terms of how customers perceive value (comparable to its competitors). In other words, Virgin customers believe the airline is meeting quality expectations on the basis of the costing involved. However, both customer expectations and satisfaction can be improved. Using this analysis and the related insights gained, Virgin might consider investigating customer complaints and complaint handling as one dimension of understanding service quality and satisfaction.[14] It then could highlight its efforts in bridging the gap between expectations and delivery in terms of pre-flight services, such as managing customer relationships, and in-flight services, such as on-board entertainment facilities and delivery of timely services.

Now let's take a closer look at sources of secondary and primary data.

LO 7.2

SECONDARY DATA

A marketing research project often begins with a review of the relevant secondary data. Secondary data might come from free or very inexpensive external sources, such as census data, or from trade associations, reports published in books and journals or internet resources. Although readily accessible, these inexpensive sources may not be specific or timely enough to solve the marketer's research needs and objectives. Firms also can purchase more specific or applicable secondary data from specialised research firms. Finally, secondary sources can be accessed through internal sources, including the company's sales invoices, customer lists and other reports generated by the company.

In many countries, one or more companies conduct polls to provide political parties with the preferences and voting intentions of cross-sections of potential electors aged 18 years and over. Gallup Inc. does this in a number of nations including Australia. Gallup polls provide political parties with secondary data that can be critical for them to gauge public opinion and the preferences and voting

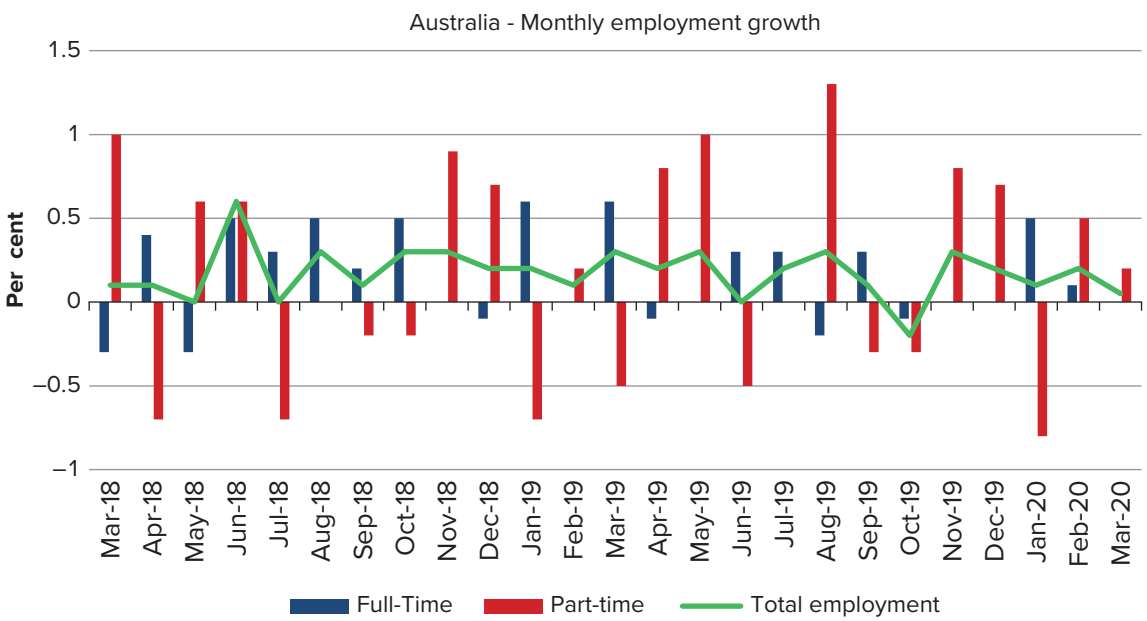


Figure 7.3 Secondary data as annual growth indicators can be useful to politicians in economic policy development.

Source: Courtesy of Wlliam Mitchell

intentions of an Australia-wide cross-section of potential electors. Information pertaining to voters, such as their demographics, attitudes to various issues, how they spend their leisure time, what media they use and their subscriptions to various media, gives political parties strategic direction in designing broader campaign materials or to zero in on very specific issues. In New Zealand, Roy Morgan conducts regular political polls to inform the voting audience of party support for both the current and key coalition partners if a general election were to be held at the time of the polling.

CHECK YOURSELF

1. What are the steps in the marketing research process?
2. What is the difference between data and information?

Inexpensive external secondary data

Some sources of external secondary data can be quickly accessed at a relatively low cost. The Australian Bureau of Statistics (ABS) provides a wide range of statistical data at national and local level. If you wanted to open a new location of a business you were already operating, this data might help you determine the size of your potential market.

Often, however, inexpensive data sources are not adequate to meet researchers' needs. Because the data initially was acquired for some purpose other than the research question at hand, it may not be completely relevant or timely. Most countries have a government body in charge of collecting national data through a periodic census or other means. The ABS data collection also includes census data, trade and industry data, demographic statistics down to a suburb level and changes in social trends. The last Census of Population and Housing was conducted in 2016, with the next anticipated in August 2021. Information collected includes estimates of the population of each of the states, territories and local government areas, through measuring the number and key characteristics of people who were in Australia on census night. The data that is collected every five years provides reliable information for planning and policy that has implications for all Australians.

In terms of using inexpensive secondary data, researchers must pay careful attention to what they are collecting. Despite the great deal of data available on the internet, easy access does not ensure that the data is trustworthy. Net Savvy (Q3) offers more details on information collected by the ABS.[15]

Syndicated external secondary data

Although the secondary data described previously is either free or inexpensively obtained, marketers can purchase external secondary data called **syndicated data**, which is available for a fee from commercial research firms such as Ipsos Australia, AC Nielsen and IBISWorld (see Exhibit 7.4). Table 7.2 contains information about various firms that provide syndicated data.

syndicated data
Data available for a fee from commercial research firms.

Consumer packaged goods firms that sell to wholesalers often lack the means to gather pertinent data directly from the retailers that sell their products to consumers, which makes syndicated data a valuable resource for them. Some syndicated data providers also offer information about shifting brand preferences and product usage in households, which they gather from scanner data and consumer panels.

Scanner data is used in quantitative research obtained from scanner readings of universal product code (UPC) labels at checkout counters. Whenever you go into your local supermarket, your purchases are rung up using scanner systems. The data from these purchases is likely to be acquired by leading marketing research firms, such as Nielsen Homescan, which use this information to supply data information services to the fast-moving consumer goods (FMCG) industry (e.g. Woolworths) in Australia and New Zealand. Households recruited as Homescan panellists scan the barcodes on purchases and complete surveys, providing a detailed profile of Australian shopping habits in terms of what was bought, where purchases occurred and how much was paid.[16] Major supermarket chains and suppliers can use scanner data to assess, for example, which product lines are underperforming, and they can trial scenarios such as what would happen to sales if they reduced the price of their least popular product by 10 per cent in a given month.

scanner data
A type of syndicated external secondary data used in quantitative research that is obtained from scanner readings of universal product code (UPC) labels at checkout counters.

Table 7.2 Firms that provide syndicated data

Syndicated data providers, Australia	Services provided
AC Nielsen www.nielsen.com	With its Homescan Panel sample, members track and report all grocery and retail purchases, allowing purchasing patterns to be related to household demographics
Ipsos Australia ipsos.com.au	Specialises in researching advertising, loyalty, marketing, media, public affairs and social research, qualitative research, operations (survey management and data collection) and the Ipsos Mackay Report (social trends)
IBISWorld www.ibisworld.com.au	Produces reports on Australia's 500+ industries, with data relating to key statistics and analysis on market characteristics, operating conditions, current and historical performance, a five-year forecast and major industry participants. It also provides reports on Australia's top 2000 companies, risk rating reports and global reports
Roy Morgan www.roymorgan.com	Roy Morgan Single Source is an example of syndicated market research where all the answers are from a single source, for example, from one group of respondents to questions relating specifically to media usage
Quantum Australia www.qmr.com.au	Quantum's AustraliaSCAN provides an understanding of how Australian society is changing, what the established and emerging cultural trends are, and how they are manifesting themselves in a particular category
CoreData Research www.coredata.com.au	Offers research relating to consumer and professional opinions and attitudes as they develop over time in industries and service sectors
Research Data Australia https://ardc.edu.au/services/research-data-australia/	RDA caters specifically for researchers but also has broader relevance to others including policy makers, educators, industry and business people.
Australian Bureau of Statistics (ABS) www.abs.gov.au	One of the largest sources of official research in Australia collecting data at a national and local level—census data, trade and industry data and demographic statistics
BIS Shrapnel www.bis.com.au	A provider of Australian industry research, analysis and forecasting services
BuddeComm www.budde.com.au	An independent global telecommunications research and consultancy company specialising in fixed and wireless telecommunications
OzTAM www.oztam.com.au	An official source of television audience measurement covering Australia's five mainland metropolitan markets and nationally for subscription television
Syndicated data providers, New Zealand	
Government Syndicated ICT Services Agreement www.msi.govt.nz	The Ministry of Business, Innovation and Employment is the lead agency in a government syndicated ICT services agreement to provide ICT outsource services for other small government agencies
AC Nielsen www.nielsen.com/nz	Consumer and Media Insights is a fully national syndicated quantitative database offering value-added marketing solutions
Syndicated data providers, United States	
SymphonyIRI Group www.iriworldwide.com/en-US	InfoScan store tracking provides detailed information about sales, share, distribution, pricing and promotion across a wide variety of retail channels and accounts
Mediamark Research www.greenbook.org/company/Mediamark-Research	Supplies multimedia audience research pertaining to media and marketing planning for advertised brands
Research and Markets www.researchandmarkets.com	Promotes itself as a 'one-stop shop' for market research and data from most leading publishers, consultants and analysts

panel data
Information collected from a group of consumers.

Panel data is information collected from a group of consumers, organised into panels, over time. Data collected from panel lists often records what they have purchased (i.e. secondary data), as well as their responses to survey questions provided by the client (i.e. primary data). Secondary panel data thus might show that when Diet Pepsi is offered at a deep discount, 80 per cent of usual Diet Coke consumers switch to Diet Pepsi. Primary panel data could give insights into what they thought of each option. We discuss how marketing researchers use scanner and panel data to answer specific research questions in the primary data section.

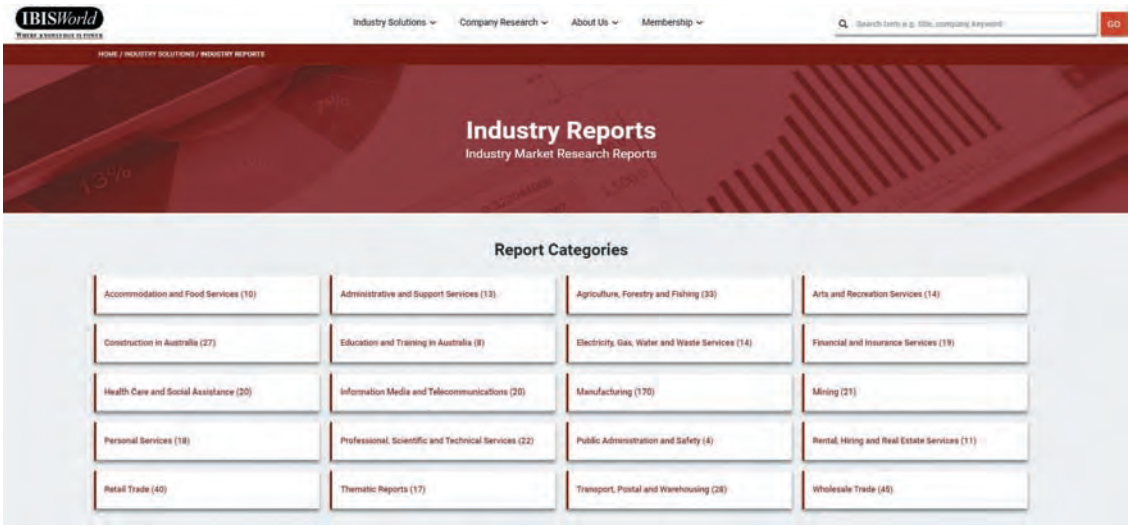


Exhibit 7.4 IBISWorld provides industry market research.
Source: IBISWorld, February 2020

Overall, both panel and scanner data provides firms with a comprehensive picture of what consumers are buying or are not buying. The key difference between scanner research and panel research is how the data is aggregated. Scanner research typically focuses on weekly consumption of a particular product at a given unit of analysis (e.g. individual store, chain, region); panel research focuses on the total weekly consumption by a particular person or household. Both types are valuable and Adding value 7.1 describes just how Ipsos Australia provides them to its customers.

Adding value **7.1**

Ipsos Australia

The Ipsos group is a leading research company with global contacts in 89 countries and research projects spanning 110 countries. Ipsos Australia is the second-largest market research company in Australia; it was expected to generate revenue of approximately $50 million for the year ending December 2019. Ipsos Australia specialises in advertising, loyalty, marketing, media, public affairs and social research, qualitative research, operations (survey management and data collection) and the Ipsos Mackay Report (social trends) (see Exhibit 7.5).[17]

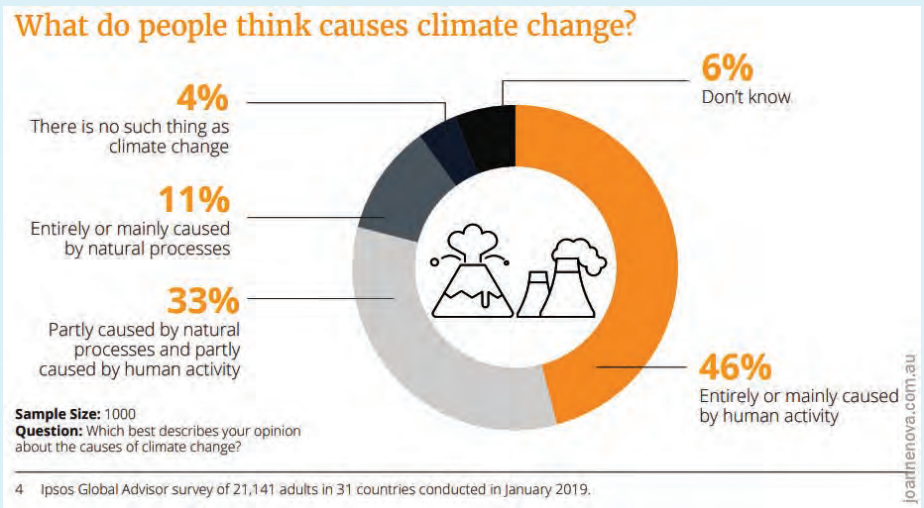


Exhibit 7.5 Ipsos Australia conducts social research.
Source: https://www.ipsos.com/sites/default/files/ct/publication/documents/2019-03/climate_change_report_2018_final.pdf, page 6

Continued

Social research pertaining to behaviours, expectations and opinions of consumers is of particular interest to decision-makers in the public and private sectors. The annual Ipsos Social Research Institute Climate Change Report is an example. The objective of the report is to ascertain the attitudes and opinions of Australians in relation to climate change and environmental issues. The 2018 report showed that incremental increases in climate change are higher than at any time since the study began in 2010. More Australians than ever before believe that climate change is entirely or mainly caused by human activity (46%) and the impact is already felt more frequently and/or as extreme drought.[18]

The Attitudes to Mental Health Survey was conducted with the Policy Institute at King's College London for World Mental Health Day 2019. Findings from the global survey found that four in five Australians say mental health is as important as physical health—but just over one quarter think our health system treats it that way. The survey also found that Australians are more tolerant than many countries when it comes to mental health, with 60 per cent thinking about their own mental wellbeing 'very/fairly often'; 76 per cent thinking about their physical wellbeing 'very/fairly often'; and 71 per cent agreeing we need to adopt a more tolerant attitude towards people with mental illness in our society.[19]

Our state of happiness as global consumers is another example of Ipsos research. Conducted across 28 countries, the research found that two-thirds of adults globally (64%) consider themselves to be happy. Happiness appears to be most widespread in Australia and Canada (both with 86% of adults describing themselves as 'very' or 'rather' happy), followed by China and Great Britain (both 83%), and France (80%). By contrast, only a minority of adults in Argentina (34%), Spain (46%) and Russia (47%) say they are happy. In terms of workplace happiness, having a meaningful job ranked 13th out of 29 sources of happiness in a global survey, while factors such as health, living conditions, hobbies, safety, having meaning in life, friends and more money all placed above it on the list.[20]

Perspectives on happiness can give valuable insight to major brands on how to align emotions to marketing taglines. Many global brands directly link the emotion of happiness to their products and/or service offerings, such as Disneyland's 'The Happiest Place on Earth' and Coca-Cola's taglines over time, which have included 'Smile. Coke Adds Life' (1980), 'Open Happiness' (2011) and 'Taste the Feeling' (2019), which brings to life the idea that drinking a Coca-Cola—any Coca-Cola—is a simple pleasure that makes everyday moments more special.

data warehouses
Large computer files that store millions and even billions of individual pieces of data.

data mining
The use of a variety of statistical analysis tools to uncover previously unknown patterns in the data stored in databases or relationships among variables.

Internal secondary data

Internally, companies also generate a tremendous amount of secondary data from their day-to-day operations. One of the most valuable resources such firms have at their disposal is their rich cache of customer information and purchase history. However, it can be difficult to make sense of the millions and even billions of pieces of individual data, which are stored in large computer files called **data warehouses**. For this reason, firms find it necessary to use data-mining techniques to extract valuable information from their databases.



Exhibit 7.6 Syndicated external data is obtained from scanner readings of codes at the checkout counters and from panel data collected from consumers that electronically record their purchases.

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Data mining uses a variety of statistical analysis tools to uncover previously unknown patterns in the data or relationships among variables. Some retailers try to customise their product and service offerings to match the needs of their customers.

If you have signed yourself to a loyalty program, using a loyalty card will provide retailers with your demographics (age, address, gender and household size) and a personalised profile of your spending behaviour: what, when, how much is purchased, amount spent and the payment method (see Exhibits 7.6 and 7.7).

For example, an understanding of customers' buying preferences for particular supermarket items allowed Woolworths to directly target its branded insurance to those customers it perceived as 'low-risk customers'.[21] Gauging customer feedback relating to Woolworths' 'Dollars' program prompted the company to relaunch its reward system. Extending its affiliation with Caltex petrol stations and BWS liquor stores, Woolworths' 'Rewards' program gives shoppers the option of converting their acquired points to Qantas points.[22]

MasterCard also collects information through analysing data from billions of customer transactions (see Exhibit 7.8). The organisation provides information to assist marketers to customise advertising campaigns for specific segments, for example, consumers who are more likely to purchase travel or luxury goods. This information is anonymous and is aggregated into groups to protect individuals' privacy.[23]

Data mining can also give an insight into how social networking influences online purchasing behaviour. Facebook's partnerships with a number of vendors such as Acxiom, Oracle Data Cloud (Datalogix), Epsilon and Experian provided insights for advertisers to create stronger online connections with their brands and potential customers' purchase behaviour. This can be executed either by expanding their customer reach through greater penetration of their advertising to a broader category of people or by adopting a more targeted approach. For example, a local gym can show advertisements to people who live in the vicinity and who are more likely to consider joining a gym. However, with Facebook announcing it will be removing access to data provided by third-party data brokers within its advertising system, advertisers will need to look to other companies that turn raw data into useful information.[24]

Data mining can be useful for a broad range of situations and organisations. By analysing the enormous amount of information that they possess about their customers, companies have developed statistical models that help identify when a customer is dissatisfied. Once the company identifies an unhappy customer, it can follow up and proactively address that customer's issues. By mining customer data and information, the company also reduces its churn levels.



Exhibit 7.7 Marketers use data-mining techniques to determine what items people buy at the same time so they can be promoted and displayed together.

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Exhibit 7.8 MasterCard mines data for marketers.

© Atstock Productions/Shutterstock

Churn is the number of participants who discontinue use of a service, divided by the average number of total participants. With this knowledge, the company can focus on what it does best.

churn
The number of consumers who stop using a product, divided by the average number of consumers of that product.

The purpose of converting data to information is to describe, explain, predict, and/or evaluate a particular situation and implement findings, as illustrated by understanding customer lifetime value in the personal banking industry in Superior service 7.1.

Superior service 7.1

Data capture and banking incentives

In a bid to stem the costs of customer attrition, financial institutions are finding innovative approaches to capitalise on 'customer lifetime value'. This concept requires an understanding of customer retention, loyalty, equity and profitability.[25] With the annual churn rates of new customers for banking institutions lingering in the 20–25 per cent range during their first year, how to best retain that customer to foster long-term relationships becomes a priority.[26] And by better understanding the large amount of personal information that personal banking accounts capture, banks can identify the potential causes of churn.[27]

Banks are able to find out the browsing and online purchase habits of their customers and tailor products and services suited to their needs. Of critical importance is the bank's ability to meet customers' increasing desire for fully personalised offerings that better meet their lifestyle.[28] Tailoring initiatives to new parents, such as encouraging early financial literature, reflects a bank's understanding of the profitability of luring young customers and hopefully retaining them and their parents throughout their lives. With the Australian Securities and Investments Commission (ASIC) reporting an increase in school banking, it is no wonder banks and financial institutions offer a number of initiatives to try to increase the likelihood of students remaining with the same bank once they leave school and enter adulthood.

Continued

The Commonwealth Bank's 'Dollarmites' account is such an initiative. Operational for about 80 years, it is pitched as a 'club' offering children a 'reward program'. The School Banking Program is offered in more than 2500 Australian schools and provides five dollars to the school for each child who joins the program. With an enrolment of 2 247 875 students across Australian primary schools,[29] the Commonwealth Bank may be achieving not only the 'benefit of teaching kids about savings', but securing early-stage customers.[30] Westpac's 'Bump' savings accounts initiative was launched in 2017, where a sum of $200 was deposited into new accounts for babies born that year. It is estimated to have cost Westpac approximately $15 million and involved 75 000 Australian newborns. A survey conducted by Westpac found that almost 86 per cent of parents, grandparents and prospective parents believed teaching children to save by opening a savings account would positively impact attitudes towards saving.[31] Westpac has repositioned the 'Bump' savings account, which is now designed to attract kids and teens under 18 to kickstart their savings.

Both of these major banks have recognised the importance of establishing long-term client relationships with their customers and sustaining 'customer lifetime value'. Translating the data captured into information can give the bank a distinct advantage in terms of predicting and minimising churn, designing personalised strategies and building customer loyalty and engagement.

Overall, firms hope to use data mining to generate customer-based analytics that they can apply to their strategic decision-making and thereby make good customers better and make better customers their best. Firms can also use secondary data to assess the profitability of their customers by determining the customer lifetime value (CLV). More details about calculating CLV can be found in Appendix 2.

CHECK YOURSELF

1. What is the difference between internal and external secondary research?

LO 7.3

PRIMARY DATA COLLECTION TECHNIQUES

In many cases, the information researchers need is available only through primary data or data collected to address specific research needs. Depending on the nature of the research problem, the primary data collection method can employ a *qualitative* or a *quantitative* research method.

qualitative research Informal research methods, including observation, following social media sites, in-depth interviews, focus groups and projective techniques.

As its name implies, **qualitative research** is used to understand the phenomenon of interest through broad open-ended responses. It provides initial information that helps the researcher more clearly formulate the research objectives. The emphasis on qualitative measures is to seek illumination and understanding of a phenomenon in a context-specific setting.[32] Qualitative research is more informal than quantitative research methods and includes observation, following social media sites, in-depth interviews, focus groups and projective techniques (see Figure 7.4, left side).



Figure 7.4 Qualitative versus quantitative data collection

quantitative research Structured responses that can be statistically tested to confirm insights and hypotheses generated via qualitative research or secondary data.

Once the firm has gained insights from doing qualitative research, it is likely to engage in **quantitative research**, which seeks structured responses that can be statistically tested. Quantitative research provides information needed to confirm insights and hypotheses generated via qualitative research or secondary data and helps managers pursue appropriate courses of action. The emphasis on quantitative measures is on facts where the information is in numbers that can be quantified and summarised and the final outcome is presented in statistical terminologies.[33] Formal studies such as specific experiments, scanner and panel data or some combination of these are quantitative in nature (see Figure 7.4, right side). We now examine each of these primary data collection techniques.

Observation



Exhibit 7.9 By measuring eye activity, eye-tracking technology can assist brands in collecting data to improve products and marketing campaigns.

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Observation entails examining purchase and consumption behaviours through personal or video camera scrutiny. For example, researchers might observe customers while they shop or when they go about their daily lives, during which processes they use a variety of products. Observation can last for a very brief period of time (e.g. two hours watching teenagers shop for clothing at a shopping centre), or it may take days or weeks (e.g. researchers live with families to observe their use of products). The advantage in using observational research is that actual behaviour is measured as opposed to self-reported behaviour. Observation techniques have evolved as consumers become more discerning in terms of their preferences, likes and dislikes. As brands need more insightful information, techniques have included: usability testing; eye tracking; contextual inquiry; in-home and in-store observation and mystery shoppers.[34]

observation
An exploratory research method that entails examining purchase and consumption behaviours through personal or video camera scrutiny.

Eye-tracking technology has been shown to be beneficial in helping brands to evaluate their products, packaging designs, advertising, websites and mobile apps, as well as customers' online and offline shopping behaviour (see Exhibit 7.9).[35] By better understanding how consumers interact with products and services, this information can translate into marketing campaigns and marketing messages. Gaining insight as to what consumers actually see allows advertisers to optimise the design and placement of advertisements. Essentially a data-collection tool, eye-tracking records eye movements and gaze patterns and analyses human processing of visual information by specifically measuring attention, interest and arousal using either a remote or head-mounted 'eye tracker' connected to a computer. Metrics useful to market researchers include engagement (number of fixations, dwell time, percentage of time in an area), ease of processing (fixation duration), findability (time to first fixation and number of fixations prior to first fixation), order of processing (gaze path), comprehension (repeat fixations) and excitement (pupil dilation).[36]

In a bid to better understand how potential car buyers engage and interact while browsing in showrooms, Toyota partnered with Tobii Pro to measure eye tracking with two groups in their showroom. The millennials spent more time with interactive digital elements, while the second group of older shoppers' attention was focused more on textual information. Toyota was able to gauge that interactive digital screens generated the most engagement for potential customers. By understanding that car buyers use showrooms for a specific purchase, Toyota was able to implement influential features to assist potential buyers down the path to actual purchase.[37]

Ethical and societal dilemma 7.1

Who is watching whom?

In a competitive landscape, retailers are employing a host of devices to observe and gain an insight into exactly who their customers are. Retailers obtain data to observe customer traffic from motion detectors and smartphones' wi-fi signals, and can track individual consumers through facial recognition technology. With a smile to the in-store cameras, facial recognition technology uses a database of photos (such as a driver's licence) to identify people through biometrics, creating a 'facial signature' by tracking the distance between a person's eyes and the distance from their forehead to their chin (see Exhibit 7.10).[38,39] Digital billboards also have the capacity to detect and quantify the age range, gender and attention level of those consumers passing by. So why is this important to retail stores?



Exhibit 7.10 Facial recognition technology is becoming popular in many spheres.

© Franck Boston/Shutterstock

Continued

By incorporating facial recognition technology into traditional advertising media, marketers are able to specifically target advertising messages by segmenting customers. Importantly, data input from this technology can measure the effectiveness of outdoor marketing media. Retailers are also banking on a payment system termed 'near-field communication' (NFC), where an instant checkout occurs based solely on facial recognition.

However, are such advancements in observational technology an infringement on privacy? Privacy advocates think so, as consumers are mostly unaware of the extent to which they are being tracked. At the very least, consumers should be made aware of data collection tactics that may occur in physical retail outlets. There are also implications for personal information security, as once a person's face has been 'hacked', nothing can be done.

Retailers are adopting facial recognition technology as a data-collection tool allowing for better customisation and consumer engagement. Coffee company Douwe Egberts, based in South Africa, targeted a specific audience of coffee drinkers. Those who 'yawned' were dispensed free coffee from a coffee machine, in effect not only rewarding a customer base but also providing the brand with a huge advantage.[40] Walmart and Walgreen stores have experimented with facial recognition technologies, initially using biometric data to detect the level of customer 'happiness' and correlating this to the transaction data of the customer. Changes in purchase behaviour over time aligned with biometric data were used as an intervention strategy to generate positive customer service action. Forward to 2019 and Walmart's focus in using facial recognition technology had shifted to security and it was being used as a preventive measure against shoplifters.[41] Beyond retail, major Chinese businesses have adopted facial recognition systems in travel and banking environments, where consumers can use a 'smile to pay' application at fast food chain KFC, 'face' boarding passes, and facial recognition-based automated teller machines.[42]

The question remains of how facial recognition technologies will continue to evolve and whether brands' continual investment in these capabilities will be acceptable to consumers whose shopping behaviours are being tracked—and who are perhaps not being informed when their faces are being scanned.

Social media research

Social media sites are a booming source of data for marketers. Marketers have realised that social media can provide valuable information that could aid their marketing research and strategy endeavours. In particular, contributors to social media sites are rarely shy about providing their opinions about a firm's products or its competitors' offerings. If companies can monitor, gather and mine this vast social media data, they can learn a lot about their customers' preferences. They might then cross-reference such social media commentary with consumers' past purchases to derive a better sense of what they want. Customers also appear keen to submit their opinions about their friends' purchases, interests, polls and blogs.

Blogs in particular represent valuable sources of marketing research insights. Marketers are paying attention to online reviews about everything from restaurants to running shoes to recycling.[43] Food blogging, where restaurant patrons are encouraged to post their food experiences, photos and recommendations through a 'like' or 'don't like' rating system, is blooming. For example, Zomato encourages food bloggers to review restaurants, create wishlists of restaurants they would like to visit, and so on. For those fashionistas who want the latest industry trends, fashion inspirations and style ideas, fashion blogs are a colourful solution. Beginning Boutique (recognised in Australia's top 50 fashion blogs for 2019) is an Australian-based fashion blog featuring 'party wear, festival clothing, basics, swimwear, denim, the latest trending items, and designer pieces, style solutions, daily inspiration, fashion fix-its, and beauty buys'.[44]

Instagram as a social platform is emerging as a lucrative tool for users to interact with brands. In the fashion arena, 'Insta-fashion' is allowing savvy consumers to window shop through browsing, comparing, following and purchasing. As a discovery tool, Instagram's 'shoppable posts' allow brands to tag items available for purchase and customers to shop in-app, giving brands even greater exposure and selling the entire brand concept.[45]

Another creative use of social media for market research involves building online communities for companies (see Exhibit 7.12). Brands support online community forums they have created for their customers, which engages customers on their own domain as well as fostering conversations across networks. Such ongoing conversations can generate a wealth of data, giving insight into the 'why' and

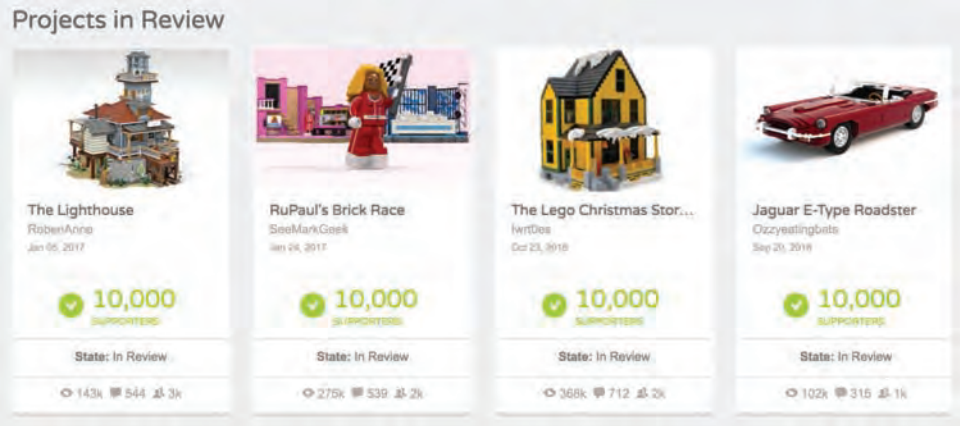


Exhibit 7.11 Brand communities are an effective way to foster customer relationships.

Source: Courtesy of LEGO

'how' in fostering customer relationships. Two such examples of engaged brand communities that drive brand loyalty are LEGO and Sephora Beauty Talk and Beauty Board.

LEGO's online brand community engages its fans in co-creation, content creation and exploration. Its introduction to the online space came in 2008, and its latest project, LEGO Ideas, allows enthusiasts to create and submit ideas for new LEGO products. If successful, they receive one per cent of the royalties once it is on the shelf. Fans are supported in their quest to become a LEGO Fan designer, from submitting their idea, to gaining 10 000 supporters, to production approval. Through interaction with the brand community, LEGO devotees peruse proposals, vote on their most liked and leave feedback. Some past famous creations have included the DeLorean from *Back to the Future* (see Exhibit 7.13) and the 30th anniversary *Ghostbusters* set.[46]

Sephora's online community connects with customers through its three-tiered reward program, with opportunities to become instant brand ambassadors (Beauty Insiders), and engage with forums (Beauty Talk and Conversation pages) and its Beauty Board, which offers a Pinterest-like social media platform–all experiences that work towards cementing loyalty to the brand. Dedicated customers are encouraged to share beauty ideas and advice, and to ask questions, and those who are active community members of the Conversation pages are rewarded with giveaway products. The launch of its app on Google Assistant offers advantages to customers–in terms of accessing beauty services, taking quizzes and listening to influencer-curated beauty podcasts–and also for Sephora, which can use its customers' preference data to profile its customer base. Further engagement from the brand community is leveraged through Sephora's development of its web page and mobile platforms (Sephora to Go) in order to meet its evolving customer needs. The merging of augmented reality and location-based content via its mobile app is one such illustration, as shoppers entering the store are prompted to enable 'Store Mode' to allow them to access an array of features such as product ratings, reviews, past purchases, wish lists and scannable loyalty cards. With almost five million Facebook fans, 900 000 Twitter followers and 600 000 Apple Passbook registrations, and with mobile devices contributing to a third of all Sephora.com traffic, Sephora's brand community is all about nurturing two-way conversations, building anticipation and keeping its customers engaged and loyal.[47]



Exhibit 7.12 LEGO's online community allows enthusiasts to create and submit ideas for new LEGO products.

© CTR Photos/Shutterstock

Noting these various opportunities and market research sources online, many companies–including PepsiCo, Coca-Cola, major supermarkets Coles and Woolworths, and Qantas–have added 'heads of social media' to their management teams. These managers take responsibility for scanning the web for blogs, postings, tweets and Facebook posts in which customers mention their experience with a brand. By staying

abreast of this continuous stream of information, companies can gather the most up-to-date news about their company, goods and services, as well as their competitors. These social media searches allow companies to learn about customers' perceptions and resolve customer complaints they may never have heard about through other channels.[48]

The data gathered through the searches is carefully analysed: Are customer sentiments generally positive, negative or neutral? What sort of intensity or interest levels do they imply? How many customers are talking about the firm's products and how many focus instead on competitors'? This data analysis is understandably challenging, considering the amount of data available online. However, monitoring consumer sentiments has grown easier with the development of social media monitoring platforms. Ethical and societal dilemma 7.2 illustrates how social media is facilitating the acquisition of data without asking a question.

Ethical and societal dilemma 7.2

How digital characters work

What if, as a major brand, you did not need to ask questions, interact or observe to understand your target audience but rather could use online multimedia as a data-collecting platform? Imagine gaining insights, ideas and understanding through identifying the attitudinal and emotional territories of target groups without a single word exchanged. Internet research robots, or DigiViduals™, have paved the way. As a new ethnographic approach constructed to understand target audiences, DigiViduals are Twitter characters built from keywords and emotions that may typically represent a particular type of person. These research robots are programmed to have a persona and to mine data that profiles individuals of a specific demographic group, for example, age, family, location and profession, ethnographically. As internet trawlers, they find tweets that align with an aspect of their programmed personality and the words from these tweets are used to form the basis of further searches on Flickr, YouTube, eBay and Google Books, which return content that is uploaded to a blog (see Exhibit 7.13). This steady stream of information tracked from many thousands of individuals matching a particular digital persona or profile is then incorporated and becomes part of the robot's own personality.

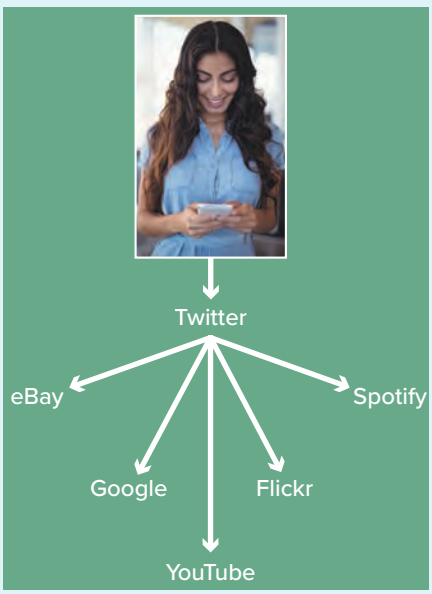


Exhibit 7.13 How digital characters work in the social media landscape.

© wavebreakmediamicro/123RF/DAL

But is an individual's right to privacy being trampled on? Not according to BrainJuicer, who say their online robots are merely listening to what is being said online by consumers anyway. Furthermore, with almost one-third of the world's population online, the rise to prominence of social media has provided market researchers with an avenue to observe, listen to and identify social patterns of behaviour, providing a habitat for DigiViduals. The shift from the individual to the social is guiding individuals' consumption reinforced by the desire to share similar experiences, stories and consumption decisions online. Online shopping websites constantly remind customers what is popular, what is the most sought-after product and what people similar to them are purchasing. Broadcasting one's decision provides 'social proof' that the most popular decision is a safer and easier one to make. This gives market researchers an opportunity to track a DigiVidual to gain deep insight into the lives, mindsets and behaviour of their customers that otherwise may not be possible.

So how do they work? A DigiViduals' DNA is programmed to sense its audience, defined by a set of keywords that accurately reflects the character and persona in question. These words are composed of three sets of words that will indicate content that the online research robot will search for. For example, the first set are emotional words that may reflect a particular lifestyle such as 'relaxed' or 'happy', which then serve as cues that prompt that emotion. Words associated with core characteristics

reflect the DigiVidual's main attributes, for example, 'time poor'. The last set is routine words, whereby the internet robot pinpoints a specific time of the day, searching out activities the target profile may be doing such as 'brunching' at 10:30am. A DigiVidual can gather enormous amounts of unprompted conversation and dialogue online by adopting as its own a tweet matching its profile, which it is then able to retweet. A further layer to these robots is finding associated media on the internet—pictures, videos, references to venues near the character's location—to bring the target audience to life.

For example, in order to better understand the several distinct segments that Allstate Insurance identified as its primary target markets, the insurance company used DigiViduals to construct a virtual representation of a customer or consumer segment. In this case the use of DigiViduals added depth to the original segmentation profiles, providing the organisation with an understanding of psychological constructs as emotional motivators, and perceived risk that influenced consumption decisions, as well as and also a sense of what was deemed important in the lives of their segments. The information collected enhanced communication strategies and allowed for personalised targeting. As social media continues to add dimensions to the way consumers communicate, perhaps their voices can be heard even more loudly.

There are a number of social monitoring tools accessible to researchers that allow them to track, listen to, discover and measure conversations across the social web. Dialogix is an Australian social media monitoring tool using **sentiment mining** that informs organisations about what is communicated about their brand, industry and competitors. Using social media sites such as Twitter, news websites, forums and blogs, Dialogix and other firms collect consumer comments about companies and their products, creating a database of influencers.[50] The data is then analysed to distil customer attitudes towards and preferences for particular products and advertising campaigns. By scouring millions of sites by combining automated online search tools with text analysis techniques, sentiment-mining yields qualitative data that provides new insight into what consumers really think. Companies plugged into this real-time information can become more nimble, allowing for quick changes in a product roll-out or a new advertising campaign. Some companies take it a step further, by joining the online conversation with customers, a process called *social engagement*.[51]

sentiment mining
Data gathered by evaluating customer comments posted through social media sites such as Facebook and Twitter.

In-depth interviews

In an **in-depth interview**, trained researchers ask questions, listen to and record the answers, and then pose additional questions to clarify or expand on a particular issue (see Exhibit 7.14). For instance, in addition to simply observing which customers head towards which store level in Shanghai's No.1 Department Store, interviewers might stop customers one at a time in the store to ask them a few questions. As this department store has an eight-floor retail podium and a total business area of 70 000 square metres, gauging the store level that attracts the most traffic would be of interest to the department store.[52] An example of a question could be: 'We noticed that you mainly went to the clothing level without buying anything. Why was that?' If the subjects responds that no one had bothered to serve her, the interviewer might ask a follow-up question like, 'Has that happened to you before?' or 'Do you expect more sales assistance there?'

in-depth interview
An exploratory research technique in which trained researchers ask questions, listen to and record the answers, and then pose additional questions to clarify or expand on a particular issue.

In-depth interviews provide insights that help managers better understand the nature of their industry, as well as important trends and consumer preferences, which can be invaluable for developing marketing strategies. Specifically, they can establish a historical context for the phenomenon of interest, particularly when they include industry experts or experienced consumers. They can also communicate how people really feel about a product at the individual level. Finally, marketers can use the results of in-depth interviews to develop surveys.

In-depth interviews are, however, relatively expensive and time consuming. Each interview could cost $200 or more, depending on the length of the interaction and the characteristics of the people included in the sample. If the sample must feature medical doctors, for example, the costs of getting sufficient interviews will be much higher than the costs associated with intercepting teenagers in a shopping centre.



Exhibit 7.14 Although relatively expensive, in-depth interviews can reveal information that would be difficult to obtain with other methods.

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Exhibit 7.15 The TAC's Wipe off 5 campaign aimed to convince drivers to reduce their speed by 5 km/h.

Source: Transport Accident Commission

Focus group interviews

In **focus group interviews**, a small group of people (usually 8 to 12) comes together for an intensive discussion about a particular topic. Using an unstructured method of enquiry, a trained moderator guides the conversation, according to a predetermined, general outline of topics of interest. Researchers usually record the interactions so they can carefully comb through the interviews later (or feature them in advertisements, as Domino's did in advertisements designed to reposition its pizza)[53] to catch any patterns of verbal or non-verbal responses. In particular, focus groups gather qualitative data about initial reactions to a new or existing product, opinions about different competitive offerings or reactions to marketing stimuli, like a new advertisement campaign or point-of-purchase display materials.[54]

focus group interview
A research technique in which a small group of people (usually 8 to 12) comes together for an intensive discussion about a particular topic, with the conversation guided by a trained moderator using an unstructured method of enquiry.

The Victorian Transport Accident Commission (TAC) employed focus groups to identify the strengths and weaknesses of different ideas and proposed messages targeting the issue of low-level speed for its Wipe off 5 campaign (see Exhibit 7.15). These group discussions highlighted the relevance of giving drivers a convincing reason why even a relatively small reduction in speed (by 5 km an hour) is worthwhile. Themes that emerged and that directed the advertising message were the importance of the campaign incorporating 'everyday driving situations' and 'showing proof of the difference 5 km/h can make'. Since the introduction of this campaign in 2001, eight subsequent Wipe off 5 campaigns have followed, with the campaign creating significant community awareness towards speeding, and self-reported speeding being reduced from 25 per cent (2001) to 11 per cent (2008). The latest campaign initiative #DNDWhileDriving focuses on distracted driving and encourages Victorians to activate their smartphone's 'Do Not Disturb While Driving' function when behind the wheel. This theme is in line with TAC's 2013–2022 Victorian Road Safety Strategy, where the ultimate aim of the TAC and its road safety partners is to achieve the vision of Towards Zero.[55]

Innovative ideas stemming from marketing research are not limited to new products but also to improving its service offerings. Remotely piloted aircrafts, more commonly known as drones, are doing just that—impacting supply chain management and distribution as Superior service 7.2 describes.

Superior service 7.2

When the sky is the delivery: drones in action

Feel like a hot coffee? Have three minutes to spare? Registered in the Early Flyer program? Then it can be yours.

In a service economy where the customer expects everything to be delivered and done quicker and more efficiently than by competitors, drones are an emerging and evolving technology that is carving a path to meet this goal. Defined as an unmanned aircraft that can be remotely controlled or fly autonomously through software-controlled flight plans, drones have been associated with the military, construction, aerial photography and film companies, and with public safety surveillance organisations to name a few.[56]



Exhibit 7.16 Drones have already launched in our skies.

© Dmitry Kalinovsky/Shutterstock/DAL

With more brands adopting this innovative technology, drones are becoming commonplace in delivering everything from pizzas to medical supplies. In 2016, Domino's Pizza flew its peri-peri chicken and chicken and cranberry pizzas to the backyard of a New Zealand couple, who became the first people in the world to have a pizza delivered by drone.[57] In Australia, Canberra's skies are sharing air space with 'roast chickens, hot coffee, milk, bread and screwdrivers' as Wing, owned by Alphabet, officially received

the go-ahead from the Civil Aviation and Safety Authority (CASA) after trialling such items as burritos and coffee for 12 to 18 months, fending off competition from Amazon to win over Australian regulators. Setting its sights on Queensland next, the Google-linked company was also able to address community concerns of regulating drone noise by flying a quieter model and meeting certain conditions, such as not flying over crowds or scheduling deliveries before 7am on weekdays and 8am on weekends. Showcasing its new Australian drone service with a fleet of 'tens of drones', households registered with the Early Flyer program are able to order goods from groceries to hardware, with drone delivery set to be offered free of charge initially and goods delivered within minutes of ordering.[58]

So who is coming on board? Wing Australia has signed a number of brands to deliver their products as part of the service, including Kickstart Espresso, Capital Chemist, Pure Gelato, Jasper + Myrtle, Bakers Delight, Guzman y Gomez and Drummond Golf. Nudging on board in a partnership is also THE ICONIC, whose Canberra-based customers can receive their orders in as little as 10 minutes.[59] The fashion online retailer is planning to offer products from brands such as Calvin Klein, C&M (Camilla & Marc), Bonds, Daniel Wellington, G-SHOCK, Happy Socks, Le Specs, Local Supply, Quay, Ray-Ban and TIMEX for order and delivery.[60]

And it's not only in logistics that drones can provide a competitive edge. Marketers can use drones to socially connect brands with their audience through video shares and by creating high-quality visual content on social media platforms such as Facebook, Pinterest, Instagram, Twitter and YouTube. Using drones as mobile billboards, Camisaria Colombo utilised drone-based advertising to reach executives working late in their offices, informing them about special offers available at the Colombo shirt store.[61]

Audio-visual marketing through streaming drones footage presents an opportunity to create a narrative with and for an audience, and uses real-time aerial views of events or the use of a product and services. The 2014 'Red Bull Gives You Wings' film, *The Ridge,* which featured Scottish cyclist Danny MacAskill conquering a perilous mountain ridge, accumulated over 43 million views on YouTube.[62] Drones can also be used as a marketing research tool to collect market data identification, for example, through observation of a brand's target audience on-site.

With an estimated growth in the drone market from 2018's revenue of $14 billion to over $43 billion in 2024,[63] who will continue to benefit? On the one hand, the capability of drones to assist, enhance, support and deliver across a number of industries is recognised; however, at the same time as drones continue to proliferate and penetrate further, privacy concerns will no doubt also rise at the same rate.

The growth of online technology and computer and video capabilities has provided tremendous benefits for focus group research, which now often takes place online. For example, eFocusGroups offers a secure site as a platform for companies to listen in on focus groups and even interact with consumers, without having to attend the focus group session. The client company not only saves costs but also gains access to a broader range of potential customers who live in various neighbourhoods, states or even countries. Because eFocusGroups automatically records all the online interactions, the company also has a detailed, verbatim transcript of consumers' comments and responses.[64] However, these online focus groups rarely include video feeds, so companies lose some important information that can be gleaned from body language.

CHECK YOURSELF

1. What are the types of qualitative research?

Survey research

Arguably, the most popular type of quantitative primary collection method is a **survey**–a systematic means of collecting information from people using a questionnaire. A **questionnaire** is a form that features a set of questions designed to gather information from respondents and thereby accomplish the researchers' objectives. Individual questions on a questionnaire can be either unstructured or structured (see Figure 7.5). **Unstructured questions** are open ended and allow respondents to answer in their own words. An unstructured question like, 'What are the most important characteristics

survey
A systematic means of collecting information from people, which generally uses a *questionnaire*.

questionnaire
A form that features a set of questions designed to gather information from respondents and thereby accomplish the researchers' objectives; questions can be either unstructured or structured.

unstructured questions
Open questions that allow respondents to answer in their own words.

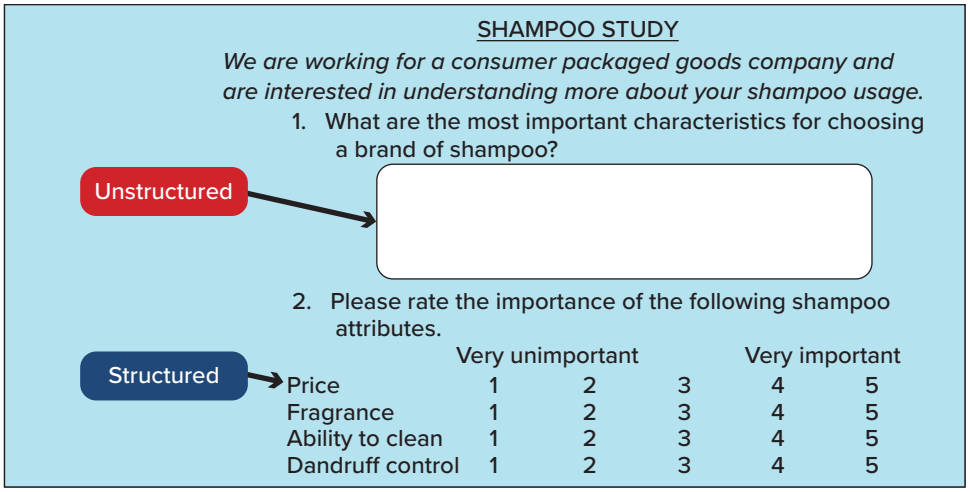


Figure 7.5 Structured versus unstructured responses

structured questions Closed questions for which a discrete set of response alternatives, or specific answers, is provided for respondents to choose from.

for choosing a brand of shampoo?' yields an unstructured response. However, the same question could be posed to respondents in a structured format by providing a fixed set of response categories, such as price, fragrance, ability to clean or dandruff control and then asking respondents to rate the importance of each. **Structured questions** thus are closed-ended questions for which a discrete set of response alternatives or specific answers is provided for respondents to evaluate.

Developing a questionnaire is part art and part science (see Exhibit 7.17). The questions must be carefully designed to address the specific set of research questions. Moreover, for a questionnaire to produce meaningful results, its questions cannot be misleading in any fashion (e.g. open to multiple interpretations) and they must address only one issue at a time. They also must be worded in vocabulary that will be familiar and comfortable to those being surveyed. The questions should be sequenced appropriately: general questions first, more specific questions next and demographic questions at the end. Finally, the layout and appearance of the questionnaire must be professional and easy to follow, with appropriate instructions in suitable places. For some tips on what *not* to do when designing a questionnaire, see Table 7.3.[65]



Exhibit 7.17 Survey research uses questionnaires to collect primary data. Questions can be either unstructured or structured.

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Similar to focus groups, marketing surveys can be conducted either online or offline, but online marketing surveys offer researchers the chance to develop a database quickly with many responses, whereas offline marketing surveys provide a more direct approach that includes interactions with the target market. Web surveys have steadily grown as a percentage of all quantitative surveys. Online surveys have a lot to offer marketers with tight deadlines and small budgets.[66]

Online surveys are an impactful way to collect data, given the ease of access and efficiency with regard to cost and time. Importantly, social media has provided the impetus in terms of access to databases and a wider target audience. Various online tools include:

- **Online interviews:** these are effective for probing respondents' thoughts and feedback about a particular topic to gain insights into their experiences, ideas or attitudes. Such interviews are typically run via computer-assisted communications such as emails, using survey software, for instance, Qualtrics, SurveyMonkey or Zoomerang. This makes it very easy to draft an online survey using questions from existing survey libraries. A survey link can be sent easily in an email to potential respondents or panellists, as well as being posted on specific sites that are likely to attract the target audience or people who are willing to perform online work (e.g. Amazon's Mechanical Turk site).

Table 7.3 What to do and what not to do when designing a questionnaire

Issue	Good question	Bad question
Avoid questions the respondent cannot easily or accurately answer.	When was the last time you went to the supermarket?	How much money did you spend on groceries last month?
Avoid sensitive questions unless they are absolutely necessary.	Do you take vitamins?	Do you dye your grey hair?
Avoid double-barrelled questions, which refer to more than one issue with only one set of responses.	1. Do you like to shop for clothing? 2. Do you like to shop for food?	Do you like to shop for clothing and food?
Avoid leading questions, which steer respondents to a particular response, irrespective of their true beliefs.	Please rate how safe you believe a BMW is on a scale of 1 to 10, with 1 being not safe and 10 being very safe.	BMW is the safest car on the road, right?
Avoid one-sided questions that present only one side of the issue.	To what extent do you believe fast food contributes to adult obesity using a five-point scale? 1: Does not contribute, 5: Main cause	Fast food is responsible for adult obesity: agree/disagree

- **Online qualitative research:** which includes mobile diaries and brand communities. Recruitment of online respondents can take place via existing databases or panels, or they can be added by conducting surveys (see Exhibit 7.18).
- **Online text analysis:** can be used to explain verbal or graphic communication formats that complement qualitative research for better interpretation of the text.
- **Social network analysis:** permits a researcher to map and measure flows and relationships between people, organisations, URLs, groups or computers by depicting associations and links among groups of people.[67]



Exhibit 7.18 Online research is an effective approach to collecting data.
Source: Zografina

Case study 7.1: Many facets of the Ruby

By Dr Leanne Brereton, University of Wollongong

Primary data collection can take many forms, with success dependent on a research design based on clear, well-formulated marketing research objectives. When commencing work with a client, market research agencies, such as Ruby Cha Cha, discuss the research problem to ensure a joint understanding of the marketing opportunity or issue facing the company and how the stated research objectives will address the opportunity. Based on the client brief, marketing research is then designed to collect a combination of primary and/or secondary data using a range of techniques dependent on the research objectives.

In response to a client brief from Uber, Ruby Cha Cha conducted research to enable the client's driver loyalty program to be focused and deliverable. The business issue was that Uber needed more drivers to be available in peak periods to increase service coverage and meet customer demand. The research objectives were twofold: first, to understand the benefits and features of a loyalty program that would help encourage driver partners to spend more time driving at key times to balance customer demand and provide the necessary operational support. Second, to develop a list of features and benefits that would assist drivers in managing their own businesses as well as providing valued support to help them achieve more aspirational long-term goals. Uber had already gathered some initial feedback from drivers on a proposed loyalty program. Through ensuring they understood the client's research needs, Ruby Cha Cha was able to assist Uber in designing realistic benefits and features that were actually deliverable within a viable time frame.

Ruby Cha Cha used a two-stage research design. First, the research team collected primary qualitative data using focus groups, and second, they conducted a wide-reaching quantitative survey of drivers in

Continued

Australia and New Zealand. In Stage One, Ruby Cha Cha gathered initial reactions to a variety of aspirational and operationally focused benefits through conducting focus groups with four groups of eight drivers in 90-minute sessions. The use of focus groups as the qualitative technique of choice was based on the need for a collaborative discussion among drivers. The moderators were able to guide the discussion to identify the strengths and weaknesses of the proposed ideas and elicit new ideas from the drivers.

In Stage Two, the insights gained from the qualitative research were used to design the quantitative research. Online surveys were used to systematically collect data from 1000 drivers throughout Australia and 200 drivers across New Zealand. Uber sent the survey directly to the drivers and then, via an ID number, shared the return information with Ruby Cha Cha. This double-blind approach enabled the drivers' privacy to be maintained while providing Ruby Cha Cha with a richer data set. The results were aggregated, and Ruby Cha Cha reported back to the client.

From the research findings, Uber has been able to design a loyalty program that includes a range of features and benefits that are relevant to the drivers. The program is tailored to the target audience, motivating drivers to spend more time driving during priority times in order to balance customer demand. By identifying a range of aspirational benefits, such as résumé-writing and accountancy services, and operational benefits, such as free coffee, discounted petrol and car washing, the company is supporting the drivers in both their short- and long-term goals.

By using a combination of data-collection techniques, Ruby Cha Cha was able to design research to meet the research objectives of its client. The design was built up from the original ideas of the company to the final outcome, with checkpoints along the way that ensured the voices of the client and the target audience were heard. By guiding the client to offer features and benefits that were viable and timely, the market research agency was able to ensure that the loyalty program was grounded and able to be operationalised. The next step will be to monitor the program to test its ability to create the desired business outcomes for both the drivers and the company.

Case study reference

1. Telephone interview, Troy Kohut, General Manager at Ruby Cha Cha,13 December 2019.

Questions

1. You are a market researcher working for Ruby Cha Cha—what is the first step in the marketing research process you would focus on to ensure the client's brief is clear?
2. Ruby Cha Cha gathered primary data in different ways for each stage of the research. If you were the market researcher, what data-collection techniques would you have used? Why?
3. You are working for a market research agency. The client comes in with set ideas of what research is required, having used surveys in the past. Given your extensive experience in a range of both qualitative and quantitative techniques, how would you go about convincing them of the best research design to meet their research objectives?

Panel and scanner-based research

As discussed previously, panel and scanner research can be either secondary or primary. Major supermarkets such as Coles and Woolworths use the Nielsen Homescan panel of 10 000-plus households, which provides household purchase patterns and behaviour relating to packaged groceries and fresh produce. Key behavioural measures include repeat rates, purchase cycles and brand loyalty. The purchase information gives timely insights into the general demographics of the household and the brand's competitive position relative to major rivals.

Experimental research

experimental research (experiment)
A type of conclusive and quantitative research that systematically manipulates one or more variables to determine which variables have a causal effect on another variable.

Experimental research (an **experiment**) is a type of quantitative research that systematically manipulates one or more variables to determine which variables have a causal effect on other variables. For example, in our earlier scenario, one thing Virgin's research team wants to better understand is how it can enhance customer satisfaction before the customer arrives at the airport, and after their flight has landed. In determining the most important factors for its customers' satisfaction, Virgin may trial a customised app that provides information relating to tangible attributes of the service (e.g. food and seat space), customer interactions (e.g. with flight attendants and gate agents), and operating performance outcomes (e.g. flight timeliness).

Virgin could design a study that would include an allocation of repeat customers into an intervention group and a control group. Those customers in the intervention group would be given access to a 'VirginApp' and asked to use this app to gain information and provide feedback over five months (see Exhibit 7.19). The control group would only have access to established channels of communication. A follow-up five months after trialling the VirginApp would assess the effectiveness of the app in increasing customer satisfaction for both groups (experimental and control) using an online survey.



Exhibit 7.19 Using an experiment, Virgin could test the use of an app on customer satisfaction.

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Virgin could assume from the results (see Figure 7.6) that the use of the VirginApp in the first three months of trial increased levels of satisfaction compared to those customers using established lines of communication. However, after the fourth month of use, results for both groups intersected and incrementally decreased. In this experiment, changes in satisfaction might have been initially influenced by the novelty factor of using an app for the intervention group but as satisfaction levels were not sustained, Virgin might need to investigate further and could use the results as a basis for future studies.

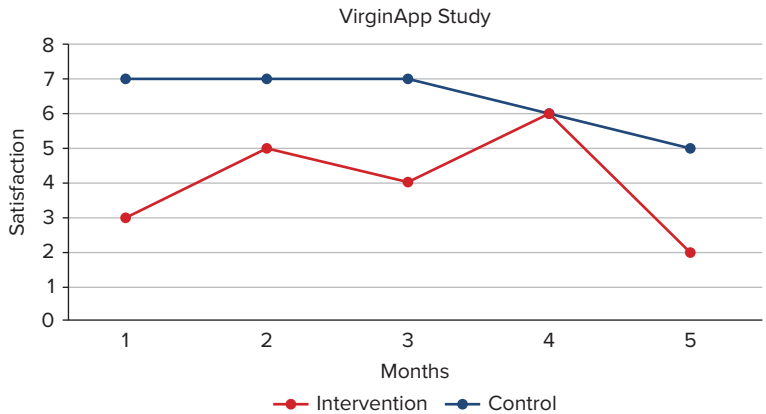


Figure 7.6 Hypothetical 'VirginApp' experiment results

Advantages and disadvantages of primary and secondary research

LO 7.4

Now that we have discussed the various secondary and primary data collection methods, think back over our discussion and ask yourself what seems to be the best applications of each and when you would want to go to secondary sources or use primary collection methods. We can see that primary data and secondary data have certain inherent and distinct advantages and disadvantages. For a summary of the advantages and disadvantages of each type of research, see Table 7.4.

Table 7.4 Advantages and disadvantages of secondary and primary research

Type	Examples	Advantages	Disadvantages
Secondary research	☐ Census data ☐ Sales invoices ☐ Internet information ☐ Books ☐ Journal articles ☐ Syndicated data	☐ Saves time in collecting data because they are readily available ☐ Free or inexpensive (except for syndicated data)	☐ May not be precisely relevant to information needs ☐ Information may not be timely ☐ Sources may not be original and therefore usefulness is an issue ☐ Methodologies for collecting data may not be appropriate ☐ Data sources may be biased
Primary research	☐ Observed consumer behaviour ☐ Focus group interviews ☐ Surveys ☐ Experiments	☐ Specific to the immediate data needs and topic at hand ☐ Offers behavioural insights generally not available from secondary research	☐ Costly ☐ Time consuming ☐ Requires more sophisticated training and experience to design study and collect data

CHECK YOURSELF

1. What are the types of quantitative research?
2. What are the advantages and disadvantages of primary and secondary research?

LO 7.5

EMERGING TECHNOLOGY AND THE ETHICS OF USING CUSTOMER INFORMATION

As we noted in Chapter 3, upholding strong business ethics requires more than a token nod to ethics in the mission statement. A strong ethical orientation must be an integral part of a firm's marketing strategy and decision making. In Chapter 3, we discussed how marketers have a duty to understand and address the concerns of the various stakeholders in the firm.

It is particularly important for marketers to adhere to ethical practices when conducting marketing research. Individual members of the Australian Market and Social Research Society (AMSRS) are bound by the Code of Professional Behaviour, which covers the ethical requirements and standard conditions of conducting and reporting market and social research. The code outlines ethical obligations and rules under the three key areas:[68]

1. responsibilities to respondents
2. researchers' professional responsibilities
3. researchers' and clients' mutual rights and responsibilities.

Numerous codes of conduct written by various marketing research societies reinforce the duty of researchers to respect the rights of participants in the course of their research. The bottom line: marketing research should be used only to produce unbiased, factual information. However, as technology continues to advance, the potential threats to consumers' personal information grow in number and intensity. Marketing researchers must be vigilant to avoid abusing their access to these data. But it is not only research companies that must be vigilant in protecting data: as cyber security and cyber theft occur with increasing frequency and sophistication, it is critical to prepare for a potential breach. In Australia, a new cyber crime was reported every 10 minutes, with 23 000 businesses targeted in 2019, and more than 9.2 million malware detections recorded. The total cost of cyber crime–defined as identity theft and fraud, online scams and/or attacks on computer systems or websites–in Australia from January to October 2019 was estimated at $29 billion. Cyber attacks typically adopt one of three approaches: phishing email, malware and/or ransomware.[69]

The Australian Government and corporate computer networks have been compromised by sophisticated cyber attacks across a number of sectors, including: travel (Thomas Cook's customers and former employees with fake websites); Australian universities (Australian National University internal records); banks (Westpac's PayID customers, Commonwealth Bank customers' bank statements); healthcare (Medicare customer details, Victorian hospitals exposed to ransomware attack); retail (Princess Polly's customers' personal and payment information disclosed to an 'unidentified third party'); airlines (Air New Zealand phishing attack on customers' information) and social media (Instagram users' personal data, WhatsApp spyware, Twitter location data and Facebook passwords).[70]

Attempted cyber attacks have prompted a pledge of a $156 million boost to Australia's cyber security capabilities, with a view to developing a cyber security national workforce growth program, and to set up a capability within the Australian Cyber Security Centre (ACSC) to counter cyber threats. In addition, businesses must be vigilant and take on proactive strategies.[71] The ACSC advocates in order to deal with and prevent data spills and/or breaches, improve staff awareness of cyber security issues and threats, including the cyber risk environment in which an organisation operates. Compounding this potential for cyber risk is the ease of carrying 'globally connected super computers', where data storage is online in the cloud or on servers. In response to cyber threats, the Australian Government is cooperating with industries to develop stringent protection measures, including mandatory reporting and responding.[72]

Many firms therefore voluntarily notify their customers that any information provided to them will be kept confidential and not given or sold to any other firm. Organisations such as the Association

for Data Driven Marketing and Advertising have emerged as watchdogs over data-mining of consumer information. In addition, national and state governments in Australia play a big part in protecting privacy. The Australian Competition and Consumer Commission's primary responsibility is to ensure that individuals and businesses comply with the Commonwealth competition, fair trading and consumer protection laws. The Office of the Australian Information Commissioner (OAIC) is an Australian Government agency, established under the *Information Commissioner Act 2010 (Cth)*. The Act provides that the OAIC is responsible for freedom of information, privacy and information policy functions. At state level, the Victorian Privacy Commissioner is an independent statutory office created by the *Information Privacy Act* (Vic.), which oversees the way Victorian Government agencies and local councils collect and handle personal information. Companies are legally required to disclose their privacy practices to customers on an annual basis, for example.[73] Businesses and government agencies within Australia covered by the Privacy Act are required to articulate in their privacy policies how personal information is handled and when it can be used for direct marketing or sent overseas.

But laws have yet to catch up with advances in other areas, including social media, neuromarketing (see below) and facial recognition software. As we noted previously in this chapter, social media have grown into an important resource for marketing researchers because consumers are so willing and likely to share their attitudes and opinions there. Although legislation such as Victoria's Privacy Act regulate how personal information is handled, protecting privacy is mainly up to the consumer in terms of activating privacy settings.

In contrast, consumers have little control over facial recognition software, which allows companies to detect demographic features based on their appearance. For example, digital billboards embedded with such software can identify passers-by and then display ads targeted to them, based on their age, gender and attention level.[74] The resulting communication is precisely targeted, which should make the advertisement more interesting to the consumer walking by–though it also could lead to embarrassing encounters. Imagine, for example, a teenager with skin problems having a billboard loudly advertise an acne product as he walks by!

On Facebook, facial detection software applied to photographs eliminates the need for users to continue to tag the same people multiple times. It also stores all users' biometric data. **Biometric data** includes one or more physical traits such as facial characteristics, iris scans or fingerprints. Facebookers can turn off the facial detection function but their biometric data will still be collected. In Germany, with its strict privacy laws, regulators have demanded that Facebook stop collecting any biometric data. But not all countries are as strict: since metadata laws were introduced in Australia by the Federal Government in 2015, requiring service providers such as Telstra, Optus and Vodafone to collect and store people's personal details for two years, Victoria's privacy watchdog has warned of the potential for fraud, identity theft and violence against unsuspecting Australians. Part of the watchdog's recommendations was a reduction in the two-year period for which telecommunication operators store information and the destruction of metadata after a period of time if it is no longer needed. Data collected–such as the time and date of a call, how long it lasted, the IP address of a web page that an internet user browses to and email addresses–have the potential to profile an individual in terms of age and gender, religion, sexual preferences and personality, and to predict the person's future location and the activities of an individual's friends. The laws passed were intended to provide enforcement and security agencies with information for criminal investigations; however, more than 80 other agencies have used powers under different legislation to access the information, such as the Australian Sports Anti-Doping Authority.[75]

biometric data
Digital scanning of the physiological or behavioural characteristics of individuals as a means of identification.

Going even deeper than biometric data, neuromarketing claims the ability to read consumers' minds, using wireless electroencephalogram (EEG) scanners that measure the involuntary brainwaves that occur when they view a product, advertisement or brand images. Such insights would be invaluable for marketers, to discover what truly appeals to consumers. For example, do people love the iPad because of its functionality or is the true source of its appeal the curves of the tablet, which appeal to a primal preference in humans?[76] But as anyone who has ever seen a science fiction movie can imagine, the potential for abuses of such tools is immense. And a key question remains: Do any consumers want marketers reading their brain waves and marketing goods and services to them in a manner that bypasses their conscious thoughts? NeuroFocus uses neuromarketing techniques with several global firms to garner customer information that would be difficult, if not impossible, to obtain using more traditional research methods. In Australia, Melbourne company Neuro-Insight is pioneering communication neuroscience using a technology known as steady-state topography, which records and measures electrical signals at the scalp in order to build a second-by-second picture of activity in the brain.

CHECK YOURSELF

1. Under what circumstances is it ethical to use consumer information in marketing research?
2. What challenges do technological advances pose for the ethics of marketing research?

Case study 7.2: Digitally ethical connections

By Dr Leanne Brereton, University of Wollongong

In this technological age, how does a marketing agency, such as Connected Digital, utilise digital data to balance its clients' need for targeted campaigns while adhering to ethical standards intended to protect consumers' personal information? The answer lies in using data that is anonymised and aggregated. Originally, marketing campaigns would rely on context, making assumptions about the target audience based on lifestyle and contextual browsing behaviours. While this approach did not impinge on the privacy of the individual, it also did not provide a verified audience and therefore was not as effective at communicating with the target audience. By using digital data sets, Connected Digital is able to develop an aggregated audience profile based on a large number of attributes and online behaviours. The campaign can then target a verified audience in real time based on past and present behaviour. With an audience more likely to perform the intended action, the effectiveness of the campaign is increased but without using any personally identified data.

Despite the ethical practices of many companies such as Connected Digital, there is still concern about invasion of privacy and misuse of personal data. Part of the reason for this concern is the digitisation and storage of personal data. The Australian Competition and Consumer Commission (ACCC) has recently conducted an inquiry into digital platforms, with particular reference to Google and Facebook. It highlighted a difference between consumers' view of how they think their data should be treated and how it is treated. With the dawning of the digital age, online publishers collect data directly from individuals. Terms and conditions are provided on these sites; however, there is no guarantee that the individual has read the documentation, or has understood the ramifications of providing their data so freely. In the digital world, the onus is on the individual to read and accept the terms and conditions and give their permission for their data to be collected whether it be for facial recognition software or geolocation via their phones. Individuals may give little consideration to how their data will be used or stored in anticipation of using the latest app, gaining loyalty points or being part of an online community such as Facebook or Snapchat. The digitisation of data means that storage can also be an issue, with technology enabling data theft and usage by third parties.

There is an argument for consumers to be more aware and to take responsibility for the conditions under which they accept the use of a product, For instance, how many times have you read the terms and conditions of a product before accepting the rights of the app or platform provider? A counter-argument is for companies to play their role in providing standardised, consumer-friendly terms and conditions. Presently, online publishers such as Facebook and YouTube are largely self-regulated, although many are adopting the European Union General Data Protection Regulation (EU GDPR) for their data management. Currently considered best practice and enforced since 2018, the GDPR has enabled global companies to take a standardised approach to data management. The aim of the GDPR is to protect all EU citizens from privacy and data breaches irrespective of whether the companies processing their data are or are not located in the EU.

There are a number of differences between how market researchers versus online publishers collect and store data. When market researchers collect data from study participants, there is usually an agreement that the data will be de-identified, thereby protecting the privacy of individuals. The way data will be used and stored has to be clearly explained in a participant information guide, with the onus on the researcher to present the information in plain everyday language to ensure the participant knows what they are agreeing to. Sometimes the participant is compensated for their time with a

monetary contribution or a gift but often their participation is given freely in support of research in general or a particular study topic. The whole process is often overseen by an ethics committee with stringent rules and regulations to protect the participants.

As can be seen from this brief discussion, the issues of useful data and privacy are complex. As a marketing researcher, how will you balance your ethical behaviour with the desire to be an effective marketer?

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Questions

1. When conducting market research using big data, how would you ensure that consumer privacy is protected?
2. You have opened a new site for your restaurant chain. How does digital data improve your ability to target your audience successfully?
3. By agreeing to the terms and conditions of online publishers, consumers give their permission for their data to be collected. How is this any different from giving consent in traditional market research? Explain the reasons for your stance on this issue.

SUMMING UP

LO 7.1 Identify the five steps in the marketing research process.

The first step is to define objectives and research needs, which sounds so simple that managers often gloss over it. But this step is crucial to the success of any research project because, basically, the research must answer those questions that are important for making decisions. In the second step, designing the research project, researchers identify the type of data that is needed, whether primary or secondary, on the basis of the objectives of the project from Step 1 and then determine the type of research that enables them to collect those data. The third step involves deciding on the data-collection process and collecting the data. The process usually starts with qualitative research methods such as observation, in-depth interviews or focus groups. The information gleaned from the qualitative research is then used in quantitative research, which may include a survey, an experiment, or the use of scanner and panel data. The fourth step is to analyse and interpret the data and develop insights. The fifth and final step is to develop an action plan and implementation. Although these steps appear to progress linearly, researchers often work backwards and forwards throughout the process as they learn at each step.

LO 7.2 Describe the various secondary data sources.

External secondary data comprises information that has been collected from outside sources, such as the ABS, the internet, books, articles, trade associations or syndicated data services. Internal secondary data can also be derived from internal company records such as sales, customer lists and other company reports.

LO 7.3 Describe the various primary data collection techniques.

Primary data is collected to address specific research needs. Techniques used for primary qualitative research include observation, social media, in-depth interviews and focus groups. Techniques used for primary quantitative research include surveys (offline and online), scanner, panel and experiments.

LO 7.4 Summarise the differences between secondary data and primary data.

Compared with primary research, secondary research is quicker, easier and generally less expensive. The ability to use secondary data also requires less methodological expertise. However, because secondary research is collected for reasons other than those pertaining to the specific problem at hand, the information may be dated, biased or simply not specific enough to answer the research questions. Primary research, in contrast, can be designed to answer very specific questions, but it also tends to be more expensive and time-consuming.

Continued

LO 7.5 Examine the circumstances in which collecting information on consumers is ethical.
Marketing researchers should gain permission to collect information on consumers and it should be for the sole purpose of conducting marketing research endeavours. Information should not be collected under the guise of marketing research when the intent is to sell products or to fundraise. In addition, marketers must take responsibility for protecting any information they collect.

KEY TERMS

- biometric data 223
- churn 209
- data 202
- data mining 208
- data warehouses 208
- experiment 220
- experimental research 220
- focus group interview 216
- in-depth interview 215
- information 202
- marketing research 200
- observation 211
- panel data 206
- primary data 202
- qualitative research 210
- quantitative research 210
- questionnaire 217
- sample 202
- scanner data 205
- secondary data 202
- sentiment mining 215
- structured questions 218
- survey 217
- syndicated data 205
- unstructured questions 217

MARKETING APPLICATIONS

1. A large hardware store collects data about what its customers buy and stores this data in a data warehouse. If you were the store's buyer for lawn equipment, what would you want to know from the data warehouse that would help you be a more successful buyer?
2. Identify a not-for-profit organisation that might use marketing research and describe one example of a meaningful research project that it might conduct. Discuss the steps it should undertake in this project.
3. Marketing researchers do not always go through the steps in the marketing research process in sequential order. Provide an example of a research project that might not follow this sequence.
4. Sunglasses retailer NOA is trying to determine if there is a significant market for its merchandise in a specific mall location where it is considering opening a store. Would NOA be most likely to use primary or secondary data, or a combination of the two, to answer this question?
5. A consumer package goods company (e.g. Schweppes Australia) has just developed a new beverage. The company needs to estimate the demand for such a new product. What sources of syndicated data could it explore?
6. A bank manager notices that by the time customers get to the teller, they seem irritated and impatient. She wants to investigate the problem further, so she hires you to design a research project to figure out what is bothering the customers. The bank wants two studies: (a) several focus groups of their customers and (b) an online survey of 500 customers. Which study is qualitative and which is quantitative?
7. Australian beverage manufacturer Nudie has developed Wonder Winnie and wants to gauge customers' response to its introduction. The company used two separate studies to help develop the advertising campaign: (a) a focus group to identify the appropriate advertising message for the new beverage; (b) a survey to assess the effectiveness of the advertising campaign for the new beverage.

   Which study was qualitative and which was quantitative? What other studies would you recommend Nudie undertake?
8. Suppose your university wants to modify its course scheduling procedures to better serve students. What are some secondary sources of information that might be used to conduct research into this topic? Describe how these sources

might be used. Describe a method you could use to gather primary research data about the topic. Would you recommend a specific order in obtaining each of these types of data? Explain your answer.

9. EliBoy & Co is planning to launch a new organic chicken takeaway and is trying to decide what features and what prices would entice consumers. They send a request for a proposal to four marketing research vendors and three respond, as described in Table 7.5.

   Which vendor should they use? Explain the rationale for picking this vendor over the others.

Table 7.5 Responses to proposed new takeaway chain

Vendor A	Vendor B	Vendor C
The vendor that EliBoy & Co has used in the past estimates it can get the job done for $200 000 and in two months. The vendor plans to do a telephone-based survey analysis and use secondary data from the census.	EliBoy & Co's key competitor has used this vendor, which claims that it can get the job done for $150 000 and in one month. This vendor plans to do a telephone-based survey analysis and use secondary data. During a discussion pertaining to its price and time estimates, the vendor indicates it will draw on insights it has learned from a recent report prepared for one of EliBoy & Co's competitors.	This well-known vendor has recently started to focus on the restaurant industry. It quotes a price of $180 000 and a time of one month. The vendor plans to conduct a web-based survey analysis and use secondary data.

QUIZ YOURSELF

1. Through analysis of sales data, ALDI retail store found that customers who bought peanut butter also tended to buy bananas. ALDI was engaged in:
   a. syndicated surveying
   b. focus group analysis
   c. behavioural analysis
   d. data mining
   e. structured sampling
2. MIA.G, a market research company, has brought together a small group of soft-drink consumers to get feedback on the three new advertising slogans that a consulting firm is considering. The market research firm might conduct a(n) _____ to provide the information the firm has requested.
   a. industry survey
   b. experiment
   c. focus group
   d. observational study
   e. data-mining analysis
3. During the _____ phase of a research project, researchers concentrate on gathering information about the organisation, its environment and the type of problem it may be facing.
   a. situation-analysis
   b. data-gathering
   c. data-analysis
   d. all of the above
   e. none of the above
4. Sogo Hong Kong, a large department store in Hong Kong, is interested in data that has been gathered specifically for its current research project. This is an example of _____ data.
   a. primary
   b. secondary
   c. tertiary
   d. all of the above
   e. none of the above

Continued

5. Sogo Hong Kong wants to understand how enjoyment of shopping motivates consumers' shopping behaviour. This is an example of _____, which are designed to gather more complex insightful information.
   a. quantitative research methods
   b. qualitative research methods
   c. internet research methods
   d. all of the above
   e. none of the above
6. Sogo Hong Kong wants to develop a customer database to better target its different customer segments. Databases will allow the marketing team at the department store to _____.
   a. sort customer records by specific characteristics
   b. select customer records by specific characteristics
   c. concentrate on more narrowly defined markets
   d. all of the above
   e. none of the above

(Answers to these questions can be found on page 456.)

NET SAVVY

1. Go to the website for the marketing research company Ipsos Australia (www.ipsos.com.au). Find the Latest News page and choose one of the recent press releases. What research question was Ipsos Australia addressing? What type of research did Ipsos Australia conduct and what insights did it develop for its clients?
2. The epinions.com website (https://au.trustpilot.com/review/www.epinions.com) is a clearinghouse for consumer reviews about different goods and services. Think of a particular business with which you are familiar, and then review the ratings and comments for that business on the epinions website. Discuss the extent to which this site might be useful to a marketer for that company who needs to gather market research about the company and its competitors. Identify the type of research this process involves—secondary or primary?
3. The ABS (www.abs.gov.au) provides access to a full range of statistical and reference information. Popular publications include:

   Alcohol
   Apparent Consumption of Alcohol
   Alcohol Consumption in Australia: A Snapshot

   Crime
   Crime and Safety Australia

   Employment/unemployment
   Labour Force, Australia

   Household expenditure
   Household Expenditure Survey

   Click on to one of the publications and discuss, from a market researcher's and a client's perspective, how useful the information is and how readily this information can be applied. What are some important points that need to be taken into consideration when referencing these publications?

CHAPTER CASE STUDY

Yarra Valley Water and 'Make every drop count—Target 155': the value of market research

By Dr Leanne Brereton, University of Wollongong

What is Yarra Valley Water?

Yarra Valley Water is the largest of Melbourne's three retail water corporations based in the east of Melbourne, servicing approximately 30 per cent of Victoria's population. In 2019, Yarra Valley Water led the development of a campaign to support the Victorian Government's initiative to save water. Householders were to be encouraged to reduce their daily

water usage from the per capita average of 161 litres to 155 litres per person per day. With Melbourne Water, a statutory authority responsible for managing and protecting Melbourne's major water resources, the water retailers—Yarra Valley Water, South East Water and City West Water—launched a campaign to reduce water usage and 'Make Every Drop Count—Target 155'.

Despite increased water supplies into dams as a result of Victoria's desalination plant, Melbourne's water storage supplies are currently at around 60 per cent, having steadily decreased from year to year. Following the Millennium Drought in the years 1997 to 2009, when annual rainfall was 73 mm below average (or 12.4% below the 20th-century mean), population growth and climate change have accelerated. Melbourne is the fastest-growing city in Australia, and is expected to grow from 4.6 million inhabitants to almost 8 million over the next 50 years. With population growth comes increased annual water usage, resulting in a 10.7 per cent increase over the past five years. Melbourne's climate is now characterised by longer, drier periods, greater temperature extremes and more intense storm events, which in turn dry out the land, affect rainfall patterns and reduce rainfall water storage, placing further pressure on drinking water supplies.

As a result of population growth and climatic changes in the Melbourne region, water authorities are working to secure Melbourne's water supply by utilising various strategies. One such strategy is the implementation of water efficiency measures, which call upon public support. Yarra Valley Water has taken the lead and is working with a market research agency to create a campaign to encourage Melburnians to save water. Several different market research techniques were used in the creation of this campaign.

The role of market research in the Yarra Valley Water campaign

The 'Make Every Drop Count—Target 155' campaign targets Melbourne residents aged 35 years or younger. This target audience was selected on the basis of research which showed that Melburnians who were children or teenagers during the Millennium Drought were less efficient with their water usage than those who were adults during this time. In order to develop an effective campaign, the first stage in researching the market was to better understand the behaviour of the target market and what had been achieved previously, so they undertook a literature review (for example, case studies, reports on past water usage reduction campaigns and academic literature) and interviewed water industry experts. Once they had an understanding of the current level of information, they worked with a market research agency to move to the next stage of the marketing research process.

The next stage in developing the campaign was to undertake quantitative and qualitative research across Melbourne. First, qualitative data was collected via a three-day online discussion board with 30 participants recruited to participate in a closed forum. This forum produced key themes, feelings, ideas and issues about water and water usage. The forum drew out exactly how Melburnians felt about water saving and provided rich explanations of the participants' attitudes and feelings. Key themes from this qualitative research were used to design an online survey. Second, using this survey, quantitative data collection was undertaken with 2800 participants. The survey was able to measure attitudes to water, water usage and water saving strategies by sociodemographic segments. The market research agency and the creative agency worked closely together to design the research so that the findings could be translated easily into creative outputs.

The final step in the marketing research process will consist of constant monitoring and evaluation of the campaign through a quarterly survey. By comparing results with pre-campaign benchmarking, the online survey will track levels of awareness, consideration and behaviour change over a 12-month period. The results will be summarised and presented back to Yarra Valley Water and the creative agency. This research will be conducted every three months and is a cost-effective way to measure audience attitudes and behavioural change consistently and in real time. In addition, water usage can be used as a comparative measure to gauge the success of this campaign versus the previous Millennium Drought campaign. Because significant investment is made in the media channels that deliver campaign messages, and the campaign is designed to change consumer behaviour, it is critical to know when an advertisement is beginning to lose relevance with the target audience so that work on the next brief can begin.

How does Yarra Valley Water benefit from market research?

Market research has helped provide the key target audience and audience insights. The 'Make Every Drop Count—Target 155' campaign works through understanding customer problems and meeting their needs when it comes to reducing water usage. It also helps Yarra Valley Water and its partners to measure and track whether the campaign is resonating with the target audience. Working in collaboration with their water-saving partners, Yarra Valley Water has utilised market research to ensure this campaign has the best chance of success in reducing water usage in Melbourne.

Continued

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DISCUSSION QUESTIONS

1. You have been asked to present to your team explaining why it is important for Yarra Valley Water to conduct initial research before approaching the market research agency. Explain why this is an important step in the marketing research process.
2. As part of the marketing team at Yarra Valley Water, what points would you need to include to justify fund allocation to monitor a campaign on a regular basis and for a prescribed length of time?
3. Yarra Valley Water and the market research agency employed various research methods to collect both qualitative and quantitative data. As a researcher, discuss the advantages of each method and how each stage of the approach is linked.

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PART 3



Value creation

CHAPTER 8

Product and branding decisions

CHAPTER 9

Developing new products

CHAPTER 10

Services: the intangible product

Part 3 devotes three chapters to how marketing contributes to value creation. Chapter 8 and Chapter 9 explore strategies and tactics in the development and management of successful products and their brands. Chapter 10 addresses the unique challenges of the marketing of services.

CHAPTER 8

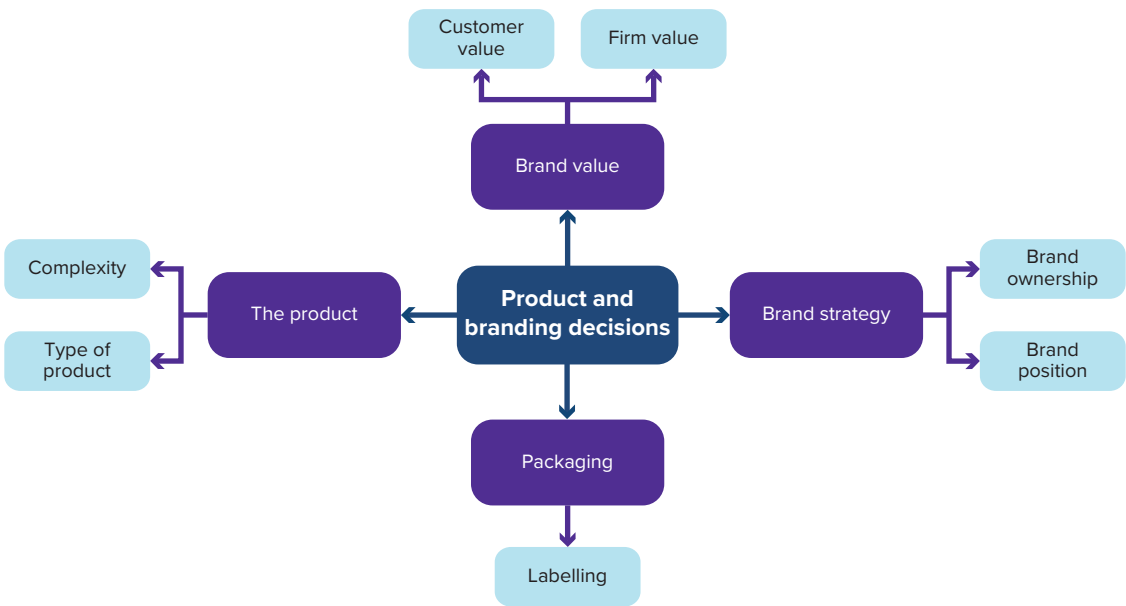
Product and branding decisions

LEARNING OBJECTIVES



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- **LO 8.1** Describe the components of a product.
- **LO 8.2** Identify the types of consumer products.
- **LO 8.3** Explain the difference between a product mix's breadth and a product line's depth.
- **LO 8.4** Identify the advantages that brands provide to firms and consumers.
- **LO 8.5** Explain the various components of brand equity.
- **LO 8.6** Determine the various types of branding strategies used by firms.
- **LO 8.7** Distinguish between brand extension and line extension.
- **LO 8.8** Indicate the advantages of a product's packaging and labelling strategy.



Graduate spotlight



NAME
Afra Abdeen

DEGREE STUDIED
Bachelor of Arts and Business (Conjoint) in Psychology and Marketing; Bachelor of Business Honours in Marketing

UNIVERSITY
Auckland University of Technology (AUT)

CURRENT POSITION
Consultant and small business owner

EMPLOYER
Healthy Business Builder Group and Oh That Be Good

What did you learn from your degree and how has it prepared you for a career in marketing?
By studying psychology and marketing I learnt more about our ability to evolve, adapt and change. It showed me that change, and learning, is constant; what we discover at university is a snippet of the world that is—it is up to us define what it can be.

What interested you about studying or working in marketing?
Its versatility across contexts. The ability of an entrepreneurial approach to meet consumer needs, create needs and aspirations and even solve problems in society drew me to studying it further.

What have you been up to since graduation?
At university I discovered the world of social enterprise through Enactus—a global network of students who develop entrepreneurial solutions to societal challenges. As president of this organisation, I worked with fellow members on innovative business ideas that leveraged the positive power of business and explored this through my Honours research.

I left university armed with the ability to speak the language of corporates and social enterprises. I focused my career on bridging these two worlds. To gain the corporate experience, I joined the Unilever Australia graduate program. The drawcard was their flagship Sustainable Living Plan. I moved to Sydney, learnt the ropes at Unilever and discovered how to execute sustainable business strategies. Concurrently, I turned my passion for baking into a bespoke cake business called 'Oh That Be Good'.

I went on to become a Sustainable Business Specialist for Unilever South-East Asia and Australasia, reporting to Singapore. After two years, this role came to an end due to a restructure. I then chose to take a break, develop my business and redefine what employment looked like for me. Today, I work as a consultant for the Healthy Business Builder Group, servicing my love of business four days a week while running Oh That Be Good the rest of the time.

What does your current job involve?
As a business growth specialist, I help businesses understand the causes of key strategic challenges and develop solutions to resolve them. As a small business owner, I look after the end-to-end operations of Oh That Be Good, which involves product creation, customer service, photography, writing, marketing and selling all in one.

What do you enjoy most about your job?
I am in a fortunate position where I can service my passion for business and baking. I enjoy leveraging my strengths and applying my skills in many different environments. I love that I can problem-solve for diverse industries and contexts every day.

What are your thoughts on the future of the marketing and communication industry? What advice would you give to students wanting to work in marketing?
That it will break every rule you know and be reinvented time and again. Be comfortable with being the disruptor that the systems may need.

Take everything you learn and use it as your foundation; then build on it with real-world experience. Remember that we all have the same basic training and degree. It demonstrates a commitment to learning. What will set you apart in the world is what you bring to it with your experiences in life and work. Be sure to gather as many of those as you can along the way and showcase them loud and proud as you start your career.

A major global player in the highly competitive sports apparel market, Nike is at the forefront of product innovation. Its products, traditionally seen as tangible physical products or sports gear, are now starting to resemble what we see from technology companies. Traditionally, Nike sporting apparel was seen as physical goods: a pair of running shoes, a shirt or shorts. However, in recent years we have seen the digitalisation of product offerings, for example, the Nike product range called Nike+ and more recently Apple Watch Nike+ (Series 4).[1] Nike has been very active in creating converging products that integrate the internet and mobile devices with traditional products such as shoes and clothing. So much so, that Nike created a digital sports department.

Nike+ products have included the Nike+ sports band, Nike+ sports watch, Nike+ running app, iPod Nano with Nike+, Nike+ Basketball, Nike+ Kinect Training, Nike+ fuel band, and now there is the Nike Apple Watch.[2] Nike has teamed up with Apple and evolved this product range into a single product offering called Apple Watch Nike+, which links to its associated Nike Run app called Nike Run Club (NRC). The Apple Watch Nike+ measures your running activity output and then links up with the NRC app software to track your performances on runs and during other activity. Your running data is then transmitted from the watch (this could also be other watch brands such as Garmin or TomTom) into the Nike system, which can measure your running performances to track your running history. The Nike running app maps all of your runs with GPS, tracking your progress. It lets you know how fast you are going, how long you have been running, how far you have been and how many calories you have burnt. The Apple Watch Nike+ sports watch has GPS, but the device will also monitor your heart rate (through an optical heart sensor) and other measures of activity performance.

The Nike app even allows you to link up with your friends so you can measure your performance against that of others. The app sets new training programs, lets you set goals and attempts to keep you motivated. Product elements are used to encourage and motivate you in your running endeavours. The new and improved Nike Run Club creates a community–where Nike can engage its consumers, no matter where they are in the world, in a single platform, allowing it to motivate and connect like-minded customers–something that was not possible previously without the internet. This is a good example of product development and brand engagement evolving through digitalisation as non-technology brands digitise their offerings.

Consumers also actively participate in the development of the product as runners create content by measuring themselves against their friends in the Nike+ community and upload running courses for fellow runners to see and/or use. The product experience is enhanced through this co-creation, enabled by the technology convergence via the Nike+ app on mobile phones, giving the Nike brand a way to stay connected to the consumer while they are using or experiencing the product.

The integration of technologies into sporting apparel is due to digitalisation and the adoption rates of the consumer mobile phone market. With the advent of the internet, the evolution of mobile apps and the mobility gained through smartphones, it is now becoming difficult to define a Nike product purely as a physical sports apparel product.

A Nike product is manufactured to be like an experience. Product offerings from Nike have successfully integrated mobility and digitalisation, which has allowed Nike to move its product offerings from physical goods to more experience-based products (see Exhibit 8.1). This adds value for



Exhibit 8.1 Sports apparel is becoming more complex.

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the consumer in the product offering through Nike+, which in turn enhances brand equity for Nike. Consumers today are tethered to their mobile phones. Nike is using this understanding of tethering to extend the value of product offerings that, in turn, have a positive impact on how the brand is perceived by consumers. Being 'tethered' to your mobile device is sometimes referred to as 'always on/always on you'.[3] Nike has successfully created products that exploit this.

The evolution in product offering extends the core brand meaning we have seen in the past from Nike. Nike endeavours to motivate and encourage its customers, as in its slogan 'Just do it!' With new digital product offerings Nike is able to add value and deepen its emotional engagement with its target consumers as the product becomes more personal. Nike+ products are a good example of the complexity in product offerings we now see in a market, where there is a blurring of what is considered a good, service and/or an experience.[4]

Targeting new market segments to expand their brand is a challenge for all companies. Successful companies like Nike thrive against competition.

As a key element of a firm's marketing mix (recall the four Ps), product strategies are central to the creation of value for the consumer. A **product** is anything that is of value to a consumer and can be offered through a voluntary marketing exchange. In addition to goods, such as soft drinks, or services, such as a stay in a hotel, products might be places (e.g. Movie World, Sea World or Wet & Wild theme parks), ideas (e.g. 'quit smoking'), organisations (e.g. Greenpeace), people (e.g. Oprah Winfrey) or communities (e.g. Facebook) that create value for consumers in their respective competitive marketing arenas.

product
Anything that is of value to a consumer and can be offered through a voluntary marketing exchange.

This chapter begins with a discussion of the complexity and types of products. Next we examine how firms adjust their product lines to meet and respond to changing market conditions. Then we turn our attention to branding–why are brands valuable to a firm and what are the different branding strategies firms use? We also never want to underestimate the value of a product's package and label. These elements should send a strong message from the shelf: Buy me! The final section of this chapter examines packaging and labelling issues.

COMPLEXITY AND TYPES OF PRODUCTS

Complexity of products

LO 8.1

There is more to a product than its physical characteristics or its basic service function. Marketers involved with the development, design and sale of products think of them in an interrelated fashion, as depicted in Figure 8.1. At the centre is the **core customer value**, which defines the basic problem-solving benefits that consumers are seeking. For example, when Mars manufactures M&Ms, Snickers and other confectionery products or when Nike designs shoes, each company's core question is: What are customers looking for? With Mars, is it a sweet, great-tasting snack or is it an energy boost? With Nike, is the shoe being used for staying fit, losing weight, comfort, speed and/or performance improvement?

core customer value
The basic problem-solving benefits that consumers are seeking.

Marketers convert core customer value into an **actual product**. Attributes such as the brand name, features/design, quality level and packaging are important, but the level of their importance varies, depending on the product. The Apple watch Nike+, for instance, is positioned as the 'sporting technology that keeps you motivated'. It features GPS, pace tracker, timer, calorie counter, heart rate monitor and pedometer, and can mark laps and intervals, as well as being water resistant. The product is designed to be comfortable while you are active as well as stylish. Customers can choose from a series of products that suit the type of sport they play.

actual product
The physical attributes of a product including the brand name, features/design, quality level and packaging.

The **associated services** in Figure 8.1, also referred to as the **augmented product**, include the non-physical aspects of the product, such as product warranties, financing, product support and after-sale service. The amount of associated services also varies with the product. The associated services for a packet of M&Ms, for instance, may include only a customer complaint line, which means they are relatively less important than the associated services for, say, Nike products. The Apple Nike watch series is guaranteed for one year and sold in Apple stores, electronics stores and the Nike sports store, where specialist advice can be given to consumers. Consumer questions are also answered on Apple's website and on Nike's interactive website. A comprehensive video collection gives consumers a feel for what they are intending to purchase. The technology, including the Nike Run Club app, also helps to connect Nike consumers with local running clubs and running events.

associated services (augmented product)
The non-physical attributes of a product (also called augmented product), including product warranties, financing, product support and after-sales service.



Figure 8.1 Product complexity

Top to bottom: © Sam Edwards/Glow Images/DAL, © Fozan Ns/Shutterstock

When developing or changing a product, marketers start with the core customer value to determine what their potential customers are seeking. Then they make the actual physical product and add associated services to round out the offering.

LO 8.2

Types of products

consumer products
Goods and services used by people for their personal use.

Marketers consider the types of products they are designing and selling, because these types affect how they will promote, price and distribute their products. There are two primary categories of goods and services that reflect who buys them: consumers or businesses. Here we discuss consumer products.

Consumer products are goods and services used by people for their personal use. Marketers further classify consumer products by the way they are used and how they are purchased (see Exhibit 8.2).

specialty products/services
Goods or services towards which the customer shows a strong preference and for which they will expend considerable effort to search for the best suppliers.

Specialty products/services

Specialty products/services are those for which customers express such a strong preference that they will expend considerable effort to search for the best suppliers. Running enthusiasts, like those interested in the Nike+ product series, devote lots of time and effort to selecting just the right shoe. Other examples might include luxury cars, legal or medical professionals or designer apparel.

shopping products/services
Those for which consumers will spend time comparing alternatives, such as apparel, fragrances and appliances.

Shopping products/services

Shopping products/services are those for which consumers will spend a fair amount of time comparing alternatives, such as furniture, clothing, fragrances, appliances and travel alternatives. When people need new running shoes, for instance, they often go from store to store shopping–trying shoes on, comparing alternatives and chatting with salespeople.



Exhibit 8.2 Types of products: a consultation with a medical professional is a specialty service; a soft drink is a convenience product; apparel is a shopping product; insurance is an unsought service.

Clockwise from top left © Monkey Business Images/Shutterstock/DAL, Andrew Bret Wallis/Getty Images/DAL, Ingram Publishing/AGE Fotostock/DAL, Jose Luis Pelaez Inc/Blend Images LLC/DAL

Convenience products/services

Convenience products/services are those goods or services for which the consumer is not willing to spend any effort to evaluate prior to purchase. They are frequently purchased commodity items, usually bought with very little thought, such as common beverages, bread and soap.

convenience products/services
Those products and services on which the consumer is not willing to spend any effort to evaluate prior to purchase.

Unsought products/services

Unsought products/services are products that consumers either do not normally think of buying or do not know about at all. Because of their nature, these products require considerable marketing effort and various forms of promotion. When new-to-the-world products, as GPS systems once were, are first introduced, they are unsought products. Do you have cold hands and don't know what to do about it? You must not have heard yet of HotHands hand warmers, an air-activated product that provides warmth for up to 10 hours. Do you have to travel to a less developed country and your regular insurance cannot give you the coverage you may need in case of an emergency? You can now turn to a travel insurance policy–something you may have had no knowledge of prior to your situation changing.

unsought products/services
Goods or services that consumers either do not normally think of buying or do not know about.

CHECK YOURSELF

1. Explain the three components of a product.
2. What are the four types of consumer products?

LO 8.3

PRODUCT MIX AND PRODUCT LINE DECISIONS

The complete set of all goods and services offered by a firm is called its **product mix**. An example, an abbreviated version of Uncle Toby's product mix, appears in Table 8.1. The product mix typically consists of various **product lines**, which are groups of associated items that consumers tend to use together or think of as part of a group of similar goods or services. Uncle Toby's product lines include oats, cereals and snacks.

The product mix reflects the breadth and depth of the company's product lines. A firm's product mix **breadth** represents a count of the number of product lines offered by the firm; Uncle Toby's has three, as indicated by the three columns in Table 8.1. Product line **depth**, in contrast, equals the number of products within a product line. Within Uncle Toby's breakfast cereal product line, for example, are Uncle Toby's Plus, Cheerios, Vita Brits, Weeties, Fruity Bites, Oat Crisp, Oat Flakes, Oat Brits, Bran Plus and Shredded Wheat.

Adding unlimited numbers of new products can have adverse consequences. Too much breadth in the product mix becomes costly to maintain, and too many brands may weaken the firm's reputation.[5]

product mix
The complete set of all goods and services offered by a firm.

product line
A group of associated items, such as those that consumers use together or think of as part of a group of similar products.

breadth
The number of product lines offered by a firm; also known as variety.

depth
The number of products within a product line.

Table 8.1 Abbreviated list of Uncle Toby's product mix

Product line		
Cereals	**Oats**	**Snacks**
Plus	Traditional	Classic Muesli Bars
Cheerios	Quick Oats	Le Snack
Vita Brits	Quick Sachets	Milk and Oats Muesli Bars
Weeties	Quick Cup	Roll-ups
Fruity Bites	Quick Sachets Big Bowl	
Oat Crisp	Breakfast Bakes	
Oat Flakes	Super Blend	
Oat Brits	Ancient Grains	
Bran Plus		
Shredded Wheat		



Exhibit 8.3 Uncle Toby's offers three product lines (breadth) and multiple products within each product line (depth).

© SOPA Images/Contributor/Getty Images

In the past several years, for example, Revlon undertook a significant restructuring. It introduced a new line, Vital Radiance, aimed at women over the age of 45 years. But this line cut into the sales of its other brands and harmed its reputation among younger consumers, so Revlon eliminated the Vital Radiance line, to refocus on those products and markets that were doing well.[6]

So why do firms change their product mix's breadth or depth?[7]

Increase depth

Firms might add items to address changing consumer preferences or to pre-empt competitors while boosting sales (see addition of product A4 in Figure 8.2). A service provider like a bank typically offers consumer accounts as one of its product lines. To increase depth in this line, it frequently adds new types of accounts.

For example, the Commonwealth Bank added new types of e-accounts, such as the Net Bank Saver account, which appeals to those who wish to do their banking online rather than in a branch. Arnott's extended its heritage Tim Tam range of chocolate biscuits (normally sold in packets of between 165g and 200g) to include the Tim Tam Treat Pack range (90 g), which it launched by travelling around the country in a bus that resembled a giant Tim Tam Treat Pack (see Exhibit 8.4).[8]

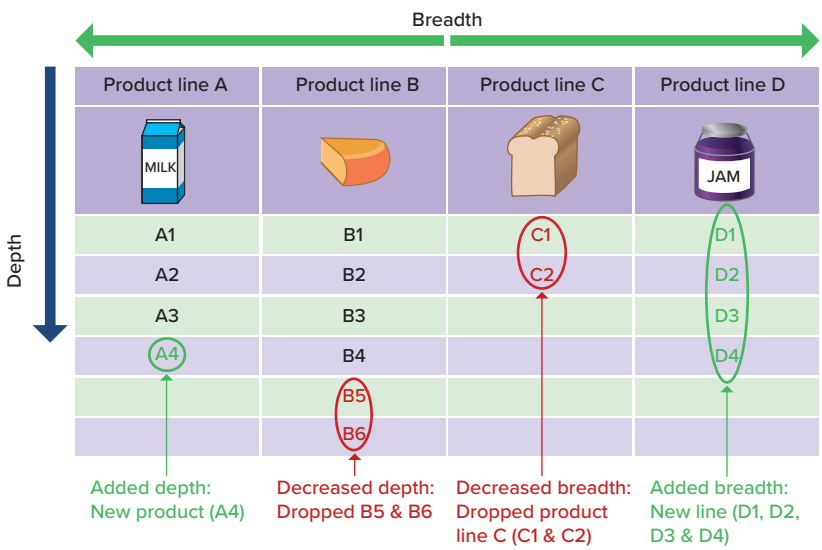


Figure 8.2 Changes to a product mix

Decrease depth

From time to time, it is also necessary to delete products within a product line to realign the firm's resources (see deletion of products B5 and B6 in Figure 8.2). The decision is never taken lightly. Generally,

substantial investments have been made to develop and manufacture the products. Yet firms often must prune their product lines to eliminate unprofitable or low-margin items and refocus their marketing efforts on their more profitable items. Procter & Gamble (P&G) introduced Tide Basic as an extension of its Tide line–probably the best-known detergent brand in the United States and a product that enjoys a reputation as an innovative, high-end brand. Tide Basic was priced 20 per cent cheaper than regular Tide, but P&G deleted the extension less than a year after introducing it, worried that an inexpensive, less effective version simply undermined its brand, rather than offering an appealing alternative.[9]



Exhibit 8.4 Arnott's Tim Tam Treat Pack.
Source: Courtesy of Arnott's Biscuits Limited

Decrease breadth

Sometimes it is necessary to delete entire product lines to address changing market conditions or meet internal strategic priorities (e.g. deleting product line C in Figure 8.2). Thus, a firm may drop its line of bread and focus its attention on its dairy products–milk and cheese (product lines A and B).

Increase breadth

Firms often add new product lines to capture new or evolving markets and increase sales (e.g. product line D in Figure 8.2). A firm may add a whole new line of jam products as a complementary product to its bread line.

Social media and mobile marketing 8.1

Lynx effect: Lynx Anarchy fragrance

Lynx body spray already owned a major share of the men's fragrance market, so when its owner, Unilever, wanted to grow the brand, it needed to expand its product depth. Thus came Lynx Anarchy, a new scent offered in male and female versions, to exploit the promise of 'irresistible sexuality' that had proven so successful for the brand.

In a year's worth of controversial Lynx commercials, average guys drew very attractive women to them, simply by spraying themselves with the scent. The Anarchy product promised sexual energy that goes slightly out of control. An early commercial depicted a chaotic series of events, including a car pile-up, in which a man and a woman remained oblivious to the havoc but gravitated towards each other until they were just inches apart. 'Unleash the chaos', the screen recommended, as the video cut to shots of the two actors spraying themselves with 'new Lynx Anarchy for him and for her'.[10]

Noting its youthful target market, Unilever also wanted to ensure that the advertising medium for Anarchy fitted the brand extension, so the company released a mobile phone app.[11] Called 'Spark', the idea was that the more 'sparks' with the opposite sex a user got, the more chance they had to win prizes. It also gave users a chance to win their own Anarchy party with Lynx 360. More recently, Lynx Australia released the 'Even Kiwi Guys Can Find Some of that Aussie Magic' campaign, which highlights that Lynx Australia helps you find magic (a girl) even if you are a Kiwi.

The marketing subtext was clear: break the narrative and also break through sexually, which seemed to offer a potent message for young women. But some observers remained unconvinced that Unilever's 'pick-up app' would help the brand cross over into the women's body spray market. Could smartphone apps really help their traditionally young male audience connect with young women? Would Lynx's brand expansion strategy simply alienate the audience that built its body spray brand, that is, average-guy male teens trying to attract a special girl? Would advertising to girls make Lynx lose credibility among boys?

CHECK YOURSELF

1. What is the difference between product mix breadth and product line depth?
2. Why change product mix breadth?
3. Why change product line depth?

Case study 8.1: Zara: never out of fashion

By Shivani Gupta, Deakin University

Zara is one of the world's largest retailer catering for men, women and children. The fashion company is a significant player in retail fashion, with annual revenue of US$20 billion and employing more than 150 000 people worldwide. Zara adopts an innovative product strategy, with 10 000 new designs each year across its ranges, using an affordable pricing strategy.

Zara's primary target is women in the 18–40 age range. These women are typically highly educated, enjoy an above-average income and purchase for other members of their family, namely children and their partner. They are particularly influential and valuable to Zara as they act as the key decision-maker for the family when it comes to clothing.

Zara has been successful by understanding user needs when fashion trends are ever-changing and often unpredictable. It offers unique styles imitating designer brands and attempts to persuade fashion-conscious consumers to buy exclusive and limited pieces. Psychographic and lifestyle characteristics of this female segment include being fashion-conscious, a preference to wear non-basic trendy clothing, and enjoyment of shopping and socialising. The secondary target market for Zara is fashion-conscious men; it offers a more limited, high-quality product range at a reasonable cost.

Zara has grown and flourished through the successful integration of an innovative product strategy, which has been consistent with its overall marketing mix. As a retailer, it recognises the 7Ps in its strategy (product, pricing, place, promotion, people, process, physical evidence). It has a broad product range for different demographics, largely based on women's role as the primary clothing purchaser. Zara has an extremely wide and deep *product* range in terms of the broad targeting of females, with a secondary emphasis on adult males. *Pricing* is mid-range, which makes it competitive against luxury brands and suitable for a broad market. *Place/distribution* is vast, through 600 well-located major stores in 30 countries. Interestingly, for *promotion,* it dedicates only 0.3 per cent of revenue to traditional advertising media and focuses more on online advertising, such as social media, e-commerce channels and online shopping. *People* (i.e. retail staff) are part of its strategy and it invests heavily in staff training to ensure high-quality customer service. *Process* is facilitated with leading-edge payment technology offering a wide choice of payment options. *Physical evidence,* the seventh (and final) P, augments and enhances the shopping experience through the careful selection of in-store design in terms of specifically chosen colours, layouts and music appropriate for the broad female target market.

In order to be competitive, Zara has a chosen product strategy that reflects breadth (number of product lines, e.g. pants, jeans, shoes, tops, bags) and depth (different types and styles within the product lines, e.g. formal and casual pants, skinny and straight-cut jeans). While some specialty competitors might have more depth in some product lines, Zara is a broad competitor with substantial breadth and products. The benefit of this is that it can be close to a one-stop shop, although this means it cannot always specialise in some product lines to the extent that a specialist retailer might.

Zara faces a range of large and small competitors, some of which compete purely in clothing while others also offer hardware goods. In that sense, Zara has a narrower breadth as it only provides clothing and selected household goods, but has a greater depth in clothing than its larger competitors. Zara certainly has a greater product range breadth than the small niche competitors.

Competitors include:

- New Look—a British fashion retail brand that offers high-quality low-priced goods. New Look has replaced Zara as the first choice of British women.
- Debenhams—a British multinational retailer that uses competitive pricing by offering a broad range of products, such as male, female and kids' clothing, shoes, kitchenware, furniture and electronics.
- Marks & Spencer—a British retailer specialising in a wider product range, selling high-quality clothing, home and food products.
- H&M—a Swedish retailer that offers greater product depth with cheaper prices. In contrast to Zara, it has a much greater investment in traditional advertising and emphasises physical stores rather than its online presence.

- Uniqlo—a Japanese company that appeals as a private-label brand of clothing adopting a competitive pricing strategy with a broad product range. Its designs tend to be more simplistic and practical than the clothing products offered by Zara and H&M.
- Gap—an American brand that competes through its low pricing strategy by offering a wider product range using different brand names with a major emphasis on effective online marketing.

Zara operates in the extremely competitive and dynamic retail fashion environment. It has been very successful because it has adopted a wide and deep product strategy aimed primarily at women. The product strategy for women could be described as using exclusive designer styles shown in magazines such as *Vogue* to position it as high end and sophisticated while offering a wide variety of products. Its product strategy for men uses a similar approach and offers higher-quality designer clothes in limited product width. Product strategies for children have been less successful than those used to target men and women. While the product quality for children is high, the product depth and width are limited, giving competitors an advantage.

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Questions

1. Is it profitable for Zara to expand beyond clothing?
2. Should Zara continue targeting women as the primary focus or could it increase its emphasis on men?
3. Does Zara copy the pricing strategies of competitors such as H&M to compete for its customers?

BRANDING

A company lives or dies based on brand awareness. Consumers cannot buy products that they don't know exist. Even if the overall brand name is familiar, it won't help sales of individual products unless consumers know what products are available under that name. The now-global brand Quiksilver started from humble beginnings in Torquay, Victoria, in 1969, when there was no brand awareness. Today, the company generates revenue in the billions and the brand has become a global surfing lifestyle company (see Exhibit 8.5). The founders, Alan Green and John Law, wanted to make products that were extraordinary for their customers. Their ambition to create something innovative and honest has driven the company's growth for over 50 years and helped establish brand awareness and positive brand associations for Quiksilver.



Exhibit 8.5 From humble beginnings, Quiksilver has become a global brand.

© Bruce Bennett/Staff/Getty Images

Branding also provides a way for a firm to differentiate its product offerings from those of its competitors. Both Nudie and The Daily Juice Company make and sell fruit drinks, yet consumers may choose one over the other because of the associations that the brands invoke. Samsung plans for its televisions to use LCD panels manufactured by TCL, and yet the brand still enjoys a unique reputation that is distinct from TCL's', and is perceived by many to be superior to TCL.[12] As we discuss in more detail subsequently, brand names, logos, symbols, characters, slogans, jingles and even distinctive packages constitute the

various brand elements firms use,[13] which they usually choose to be easy for consumers to recognise and remember. Most consumers know the Nike swoosh and would recognise it even if the word 'Nike' did not appear on the product or in an advertisement. Table 8.2 summarises some of these brand elements.

Table 8.2 What makes a brand?

Brand element	Description
Brand names	The spoken component of branding, it can describe the product characteristics and/or be composed of words invented or derived from colloquial or contemporary language. Examples include Comfort Inn (suggests product characteristics), Apple (no association with the product) or ACER (invented term).
URLs (uniform resource locators) or domain names	The location of pages on the internet, which is often the firm's name, such as Yahoo and Amazon.
Logos and symbols	Logos are visual branding elements that stand for corporate names or trademarks. Symbols are logos without words. Examples include the Nike swoosh and the Mercedes-Benz star.
Characters	Brand symbols that could be human, animal or animated. Examples include the Energizer Bunny and the St George Dragon.
Slogans	Short phrases used to describe the brand or persuade consumers about some characteristics of the brand. Examples include Nike's 'Just do it', and the Commonwealth Bank's 'Which bank' and the more recent 'CommBank can'.
Jingles/sounds	Audio messages about the brand that are composed of words or distinctive music. Examples are Intel's four-note sound signature that accompanies the 'Intel Inside' slogan.

Source: Adapted from Kevin Lane Keller, *Strategic Brand Management,* 4th ed., 2012, Prentice Hall: Upper Saddle River, NJ.

LO 8.4 Value of branding for customers and firms

Brands add value to merchandise and services, for consumers and sellers, beyond physical and functional characteristics or the pure act of performing the service.[14] Let's examine some ways in which brands add value for customers and firms.

Brands facilitate purchases

Brands are often easily recognised by consumers and, because they signify a certain quality level and contain familiar attributes, brands help consumers make quick decisions, especially about their purchases.[15] The cola market is a good example of this. Buyers of soft drinks may think all cola brands are the same. However, from the perspective of the two market leaders, Coca-Cola and Pepsi, this couldn't be further from the truth. For example, by implementing a consistent branding strategy, Pepsi has made it easier for its buyers to quickly find the familiar logo on the store shelf–so much so that these buyers are more likely to also buy one of Pepsi's other products should they decide to switch to a diet soft drink or flavoured version. From past purchases, in-store promotions or information from friends and family, Pepsi buyers recognise the brand offering before they even read any text on the label. Pepsi's brand strategy means that buyers will most likely possess a perception of the brand's level of quality, how it tastes, whether it is good value and, most importantly, whether they like it and will buy it again and again. Brands enable customers to differentiate one firm or product from another. Without branding, how could we easily tell the difference between Coca-Cola and Pepsi before tasting them?

Brands establish loyalty

Over time and with continued use, consumers learn to trust certain brands. For example, they would not consider switching brands they feel are important to them and to which they feel very loyal. Consider the case of Amazon. This company has a strong reputation for customer service, which means many customers will turn to Amazon first for their purchases. For example, a US customer whose $500 PlayStation 3 was apparently stolen during delivery received a replacement PS3 with no extra fees

added. Amazon was willing to bear the $500 replacement cost plus shipping, despite it not being responsible for the incident, in order to maintain its service reputation. It is quite likely that this customer would not only continue to buy goods through Amazon, but also tell everyone about the positive experience they had with the company.[16]

Brands protect from competition and price competition

Strong brands are somewhat protected from competition from other firms and price competition. Because such brands are more established in the market and have a more loyal customer base, neither competitive pressures on price nor retail-level competition is as threatening to the firm. For example, Lacoste is widely known for its golf shirts. Although many similar brands are available and some retailers offer their own brands, Lacoste is perceived to be of superior quality, garners a certain status among its users and therefore can command a premium price.

Brands are assets

For firms, brands are also assets that can be legally protected through trademarks and copyrights and thus constitute a unique form of ownership. Firms sometimes have to fight to ensure their brand names are not being used, directly or indirectly, by others.

Brands impact market value

Having well-known brands can have a direct impact on the company's bottom line. The value of a company is its overall monetary worth, comprising a vast number of assets. The value of the brand, just one of these assets, refers to the earning potential of the brand over the next 12 months.[17] The world's 10 most valuable brands for 2018 are listed in Table 8.3–though currently most of the brands are US-based firms, there are two brands from Asia: Samsung from South Korea and Toyota from Japan. The tech companies have, for the last decade, been moving rapidly to dominate this brand landscape. Companies including Apple, Google, Microsoft, Samsung, Amazon and, more recently, Facebook (with its impressive 43% increase to reach position 9 in 2018), now hold many positions once held by more traditional industries.

Table 8.3 The world's 10 most valuable brands in 2018

2011 rank	Brand	Country of ownership	2018 brand value (US$ billions)
1	Apple	United States	214.4
2	Google	United States	155.5
3	Amazon	United States	100.7
4	Microsoft	United States	92.7
5	Coca-Cola	United States	66.3
6	Samsung	South Korea	59.8
7	Toyota	Japan	53.4
8	Mercedes-Benz	Germany	48.6
9	Facebook	United States	45.1
10	McDonald's	United States	43.4

Source: Compiled based on data from https://www.interbrand.com/best-brands/best-global-brands/2018/ranking/ (accessed 16 March 2020)

Brand equity

LO 8.5

The value of a brand translates into **brand equity**, or the set of assets and liabilities linked to a brand that add to or subtract from the value provided by the product.[18] Like the physical possessions of a firm, brands are assets a firm can build, manage and harness over time to increase its revenue, profitability and overall value. For example, firms spend millions of dollars on promotion, advertising and other marketing efforts throughout a brand's life cycle. Sometimes this spending comes close to crossing ethical lines, as Ethical and societal dilemma 8.1 describes. However, marketing expenditures allocated carefully can result in greater brand recognition, awareness, perceived value and consumer loyalty for the brand, which all enhance the brand's overall equity.

brand equity
The set of assets and liabilities linked to a brand that add to or subtract from the value provided by the product.

Ethical and societal dilemma 8.1

Burger wars in India: fast-food chains are finding creative ways to enter a no-beef market



Exhibit 8.6 Fast-food chains such as McDonald's adapt to the no-beef culture in India with vegetarian and chicken options.

© Douglas E. Curran/AFP/Getty Images

In the Hindu religion, which is the predominant belief system in India, cows are sacred and eating beef is strictly forbidden. This foundational belief may make it seem as if burger joints would never be able to gain a foothold in India. But the massive growth and potential of the nation's consumer market has proved irresistible, leading to restaurants simply becoming a little more creative in their offerings.

US burger chain Wendy's first Indian store features mutton and veggie burgers, and the buns are sprinkled with local flavours such as turmeric, coriander and chillies. But the menu is not the only thing that sets the Indian Wendy's apart. Servers bring meals to customers at their tables, on china plates, and the store environment is more like a casual restaurant than a traditional fast-food outpost. The burger chain has two stores in India so far, but it plans to go 'location by location', opening new stores slowly and carefully to ensure its success. Ultimately, the Indian franchise hopes that Wendy's India will be as big as Wendy's in the US.

The road to success will not be smooth, though. Wendy's is not the only prominent chain seeking access to Indian consumers. McDonald's entered relatively early and is currently the market leader, but it has not stopped there. It recently announced plans to create burger-type versions of popular Indian dishes such as masala dosa. More recent entries by Burger King, Carl's Jr., Fatburger and Johnny Rockets have prompted predictions of a burger war. Not to be left out, even Dunkin' Donuts stores in India serve some type of burger because doughnuts have not proved popular enough.

The flavours and ingredients contained in the versions of burgers offered by the different chains vary widely. Some rely on chicken offerings, with smoky chipotle flavouring, barbecue bacon additions or a tandoori-style preparation. Others integrate other types of meat, but some are purely vegetarian. Thus, the burger wars feature some notable differentiation across the combatants. Whether any or all of them will emerge victorious remains to be seen.

How do we know how 'good' a brand is or how much equity it has? Experts look at four aspects of a brand to determine its equity: brand awareness, perceived value, brand associations and brand loyalty.

Brand awareness

brand awareness
Measures how many consumers in a market are familiar with the brand and what it stands for; created through repeated exposures of the various brand elements (brand name, logo, symbol, character, packaging or slogan) in the firm's communications to consumers.

Brand awareness measures how many consumers in a market are familiar with the brand and what it stands for and have an opinion about it. The more aware or familiar they are, the easier their decision-making process is, which improves the chances of purchase. Familiarity matters most for products that are bought without much thought, such as soap or chewing gum, but brand awareness is also critical for infrequently purchased items or those the consumer has never purchased before. If the consumer recognises the brand, it probably has attributes that make it valuable.[20] For those who have never purchased a Toyota, the simple awareness that it exists can help facilitate a purchase. Marketers create brand awareness through repeated exposures of the various brand elements (brand name, logo, symbol, character, packaging and slogan) in the firm's communications to consumers through advertising, publicity or other methods (see Chapter 12). Certain brands gain

such predominance in a particular product market over time that they become synonymous with the product itself; that is, the brand name starts being used as the name of the generic product category. Examples include Esky™ coolers, Band-Aid® adhesive bandages (see Exhibit 8.7) and Rollerblade® skates. Companies must be vigilant in protecting their brand names, because if they are used so generically, over time, the brand itself can lose its trademark status.



Exhibit 8.7 Generic brand: the Band-Aid® brand is so strong, it has become synonymous with the product.

© Keith Homan/Shutterstock

Perceived value

The **perceived value** of a brand is the relationship between the product's or service's benefits and its cost. Customers usually determine the offering's value in relationship to that of its close competitors. If they believe a less expensive brand is about the same quality as a premium brand, the perceived value of that cheaper choice is high. Merchandise sold by Target and Kmart is not always of the highest quality, nor is the apparel the most fashion-forward. But not every customer needs to show up at university looking like they came from a fashion show runway. At the same time, these retailers hire high-fashion designers and stylists to create reasonably priced lines to feature in their stores–as Target has with Roberto Cavalli, Dita Von Teese and Gok Wan, to create well-designed pieces at Target-level prices.[21]

Brand associations

Brand associations reflect the mental links that consumers make between a brand and its key product attributes. These brand associations often result from a firm's advertising and promotional efforts. Toyota's hybrid car, the Prius, is known for being economical, good value, stylish and good for the environment. But firms also attempt to create specific associations with positive consumer emotions, such as fun, friendship, good feelings, family gatherings and parties. An aggregate of these associations forms the foundation of the brand image in consumer consciousness. Hallmark Cards associates its brand with helping people show they care with quality: 'When you care enough to send the very best'. Furthermore, the programs on Hallmark's television channel are always consistent with the brand's wholesome family image.[22]

perceived value
The relationship between a product's or service's benefits and its cost.

brand association
The mental links that consumers make between a brand and its key product attributes; can involve a logo, slogan or famous personality.

Brand loyalty

Brand loyalty occurs when a consumer buys the same brand's product repeatedly over time rather than buy from multiple suppliers within the same category.[23] Therefore, brand-loyal customers are an important source of value for firms. First, firms such as airlines, hotels, long-distance telephone providers, credit card companies and retailers reward loyal consumers with loyalty or customer relationship management (CRM) programs, such as points customers can redeem for extra discounts or free services, advance notice of sale items and invitations to special events sponsored by the company. Second, the marketing costs of reaching loyal consumers are much lower because the firm does not have to spend money on advertising and promotion campaigns to attract these customers. Loyal consumers simply do not need persuasion or an extra push to buy the firm's brands. Third, loyal customers tend to praise the virtues of their favourite products, retailers or services to others. These consumers are sometimes referred to as brand champions. Positive word of mouth and now 'e-word of mouth' (eWoM) is faster and more far-reaching, because of social media, such as Facebook, reaching potential customers and reinforcing the perceived value of current customers, all at no cost to the firm. Fourth, a high level of brand loyalty insulates the firm from competition because brand loyal customers do not switch to competitors' brands, even when provided with a variety of incentives.

brand loyalty
Occurs when a consumer buys the same brand's product repeatedly over time rather than buying from multiple suppliers within the same category.

CHECK YOURSELF

1. How do brands create value for the customer and the firm?
2. What are the components of brand equity?

Case study **8.2: Modibodi product innovation in personal hygiene**

By Katrina McCarter, Founder and CEO, Marketing to Mums

Have you ever experienced an embarrassing leakage when you coughed, laughed or sneezed? Do you dislike the sweat in your underwear when you exercise? Have you ever wondered what happens to the tampons, pads or liners you might be using on a monthly basis during menstruation? These questions are still regarded as a societal taboo, yet the reliance on disposable products, including tampons, pads, liners and menstrual cups, has seen the personal hygiene market tipped to reach US$52 billion by 2023. Despite its rising success and growth, this market has been facing a growing image problem. The majority of personal hygiene products end up in landfill, creating an environmental headache. One innovative Australian company is offering a solution, and in doing so it has created a new specialty market set to disrupt the lucrative personal hygiene market. Modibodi provides a complete replacement and alternative to tampons, pads and liners, with a range of leak, wee and period-proof underwear for teens, women and men. Sold in a wide range of absorbencies, Modibodi's current underwear range (at end 2019) can hold up to three to four tampons' worth of fluid and is reusable, requiring only a hand rinse in cold water before going into the washing machine and being line-dried. Modibodi products completely replace the need for additional protection.

The business was started by Australian mother of four, Kristy Chong, after she experienced some urinary leakages while training for a marathon following the birth of her second child. Like many women, she relied on liners and pads; however, she was concerned about the impact these were having on the environment as well as the lack of comfort. She knew there had to be a better way. Kristy spent the next 18 months developing her patent-protected technology before launching her business in late 2013.

The Modibodi brand appeals to anyone who requires leak protection, with its primary audience being women aged 25–45 years who are eco-conscious, active and want comfort and convenience. Modibodi launched with underwear and quickly extended into a series of product lines including activewear, maternity and swimwear to develop a strong product mix offering in the marketplace. Most of the products are made from patented technology that uses a number of different fibres. Further range extensions have included vegan underwear, where the merino wool is replaced with spandex and polyester. A range of singlets and tops for nursing mothers dealing with leaking breast milk has also been added. The entire Modibodi range is Australian designed and owned and it offers a 30-day trial to reduce the barrier to first purchase.

The Modibodi product range is sold online as well as through select key stockists globally. Retailers were initially reluctant to support such an innovative product and failed to recognise the growing trend towards conscious shopping, with increasing numbers of women looking for biodegradable, eco-friendly alternatives. This trend has grown the Modibodi brand quickly, with more than two million Modibodi products sold by the end of 2019. It has now expanded beyond Australia to sell in key global markets.

To capitalise on its strong brand equity and loyal following, Modibodi has launched two new brands—RED by Modibodi in 2018 and MO in 2019. RED by Modibodi was created to appeal to the youth market, starting from a girl's first period, providing this audience with a sustainable option when it comes to choosing a menstrual product. RED by Modibodi leverages the Modibodi brand name; it is often a mother who is a current user of Modibodi products who purchases the RED by Modibodi products for her daughter. MO caters for men who might be experiencing incontinence issues, which sometimes occurs after a prostate operation, or who may experience discomfort from sweating, particularly when exercising. All ranges use comfortable and technical fabrics. Each brand appears on a unified website, with each global market having its own localised website. These brand extensions successfully allow Modibodi to cater for different demographic segments.

At the core of Modibodi's values is 'creating limitless social impact', says CEO Kristy Chong. Whether by delivering more sustainable product options, or through a commitment to support people in need across the world, social impact is core to the brand. Modibodi's strategy has been to tap into

an increasing desire by eco-conscious shoppers to support brands that have a greater purpose than just making a profit. This also serves to differentiate Modibodi from its competitors.

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Questions

1. How can Modibodi extend its brand awareness to women who don't know about this technological product offering?
2. Why would Modibodi establish separate brands for the male and teenage markets?
3. What new brands or brand extensions could be considered by the Modibodi business?

BRANDING STRATEGIES

LO 8.6

Firms institute a variety of brand-related strategies to create and manage key brand assets, such as deciding to own the brands, establishing a branding policy, extending the brand name to other products and markets, cooperatively using the brand name with that of another firm, licensing the brand to other firms and repositioning the brand.

Brand ownership

Brands can be owned by any firm in the supply chain, whether manufacturers, wholesalers or retailers. There are two basic ownership strategies: manufacturer brands and retailer/store brands, as Figure 8.3 shows. Additionally, the brands can be marketed using a common/family name or as individual brands.

		Who owns the brand?	
		Manufacturer/National brand	Retailer/Store brand
Common name or not?	Family brands	Kellogg's family line 	Woolworths line 
	Individual brands	Kellogg's individual brand 	Woolworths individual brand 

Figure 8.3 Who owns the brand?

Clockwise from top left © urbanbuzz/Shutterstock, Quinn Rooney/Staff/Getty Images, Bloomberg/Contributor/Getty Images, Shutterstock

Manufacturer brands

manufacturer brands (national brands)
Brands owned and managed by the manufacturer; also called national brands.

Manufacturer brands, also known as **national brands**, are owned and managed by the manufacturer. Some famous manufacturer brands are Nike, Coca-Cola and Sony. With these brands, the manufacturer develops the merchandise, produces it to ensure consistent quality and invests in a marketing program to establish an appealing brand image.

The majority of the brands marketed in developed markets are manufacturer brands and manufacturing firms spend millions of dollars each year to promote them. For example, recently Procter & Gamble spent $2.9 billion on US advertising, more than any other company.[24] By owning their brands, manufacturers retain more control over their marketing strategy and brand image, are able to choose the appropriate market segments and positioning for the brand, and can build the brand and thereby create their own brand equity. Brand positioning is the image that the consumer and potential consumer have in their mind about your brand. Therefore, much thought, effort, research, analysis and resources are invested into these decisions to try and create the optimal brand position for the product.

Retailer/store brands

retailer/store brands (private-label brands)
A product developed and marketed by a retailer and available only from that retailer; also called private-label brand.

Retailer/store brands, also called **private-label brands**, are products developed by retailers. In some cases, retailers manufacture their own products; in other cases they develop the design and specifications for their retailer/store brands and then contract with manufacturers to produce those products. Some national brand manufacturers work with retailers to develop a special version of their standard merchandise offering to be sold exclusively by a particular retailer.

In the past, sales of store brands were limited. But in recent years, as the size of retail firms has increased through growth and consolidation, more retailers have the scale economies to develop private-label merchandise and use this merchandise to establish a distinctive identity. In addition, manufacturers are more willing to accommodate the needs of retailers and develop co-brands for them. Store brands now account for almost 20 per cent of the purchases in North America and close to 30 per cent in Europe.[25]

In Australia, private labels account for approximately 18 per cent of all supermarket purchases. This is expected to rise thanks to supermarkets such as Coles, which is expected to devote up to 40 per cent of its product range to private labels over the next five years due to the benefit of increased margins.[26] The two major supermarket chains in Australia, Coles and Woolworths, have both been significantly increasing their private labels in recent years. Coles has an extensive range of private labels for many of its product lines,[27] as does Woolworths, with private labels including Woolworths Delicious Nutritious, Farmers' Own Milk, Free From, Gold, Essentials, Macro, Woolworths Range and The Odd Bunch.[28] Both continue to expand their product lines, and hence market share, through the implementation of private labels.

Naming brands and product lines

Although there is no simple way to decide how to name a brand or a product line, the more the products vary in their usage or performance, the more likely it is that the firm should use individual brands. For example, General Motors utilises several different individual brands, each catering to different target markets and meeting different needs. Hyundai, on the other hand, utilises only one brand since usage and level of performance are relatively homogeneous.

Family brands

family brand
A firm's own corporate name used to brand its product lines and products.

A firm can use its own corporate name to brand all its product lines and products, so Kellogg's incorporates the company name into the brand name of Kellogg's Rice Bubbles. When all products are sold under one **family brand**, the individual brands benefit from the overall brand awareness associated with the family name. Kellogg's uses its family brand name prominently on its cereal brands (e.g. Kellogg's Special K, Kellogg's Froot Loops, Kellogg's Rice Bubbles).[29]

Individual brands

individual brand
The use of individual brand names for each of a firm's products.

A firm can use **individual brand** names for each of its products. For example, while Nestlé makes good use of corporate branding strategy, it also allows other products, such as Purina petcare, Peters ice cream, Jenny Craig diet foods, Mövenpick ice cream and Musashi health supplements, to keep individual identities not readily seen as being under the Nestlé umbrella.

Brand and line extensions

LO 8.7

A **brand extension** refers to the use of the same brand name in a different product line. It is an increase in the product mix's breadth.[30] The dental hygiene market, for instance, is full of brand extensions; Colgate and Crest sell toothpaste, toothbrushes and other dental hygiene products, even though their original product line was just toothpaste. A **line extension** is the use of the same brand name within the same product line and represents an increase in a product line's depth.[31]

brand extension
The use of the same brand name for new products being introduced to the same or new markets.

line extension
The use of the same brand name within the same product line; represents an increase in a product line's depth.

There are several advantages to using the same brand name for new products. First, because the brand name is already well established, the firm can spend less in developing consumer brand awareness and brand associations for the new product.[32] Kellogg's has branched out from the cereal company it once was. Their strategy of branding the corporate name into the product name has allowed it to introduce new products more quickly and easily. Kellogg's breakfast beverages, such as Nutri-Grain Breakfast Fuel, and its dessert bars, such as the Special K dessert bar, were natural extensions to its product line of breakfast foods.

Second, if either the original brand or the brand extension has strong consumer acceptance, that perception will carry over to the other product. Consumers who had not used the Neutrogena brand before trying the brand extension, Neutrogena sunscreen, might be encouraged to try Neutrogena's core product line of cleansers and moisturising lotions, especially if their experience with the sunscreen has been positive.[33]

Third, when brand extensions are used for complementary products, a synergy exists between the two products that can increase overall sales. For example, Doritos markets both corn chips and dips under its brand name. When people buy the corn chips, they tend to buy the dips as well.

Not all brand extensions are successful, however. Some can dilute brand equity.[34] **Brand dilution** occurs when the brand extension adversely affects consumer perceptions about the attributes the core brand is believed to hold.[35] Here are some examples of unsuccessful brand extensions:[36]

brand dilution
Occurs when a brand extension adversely affects consumer perceptions about the attributes the core brand is believed to hold.

- Lifesavers soft drink did well in prelaunch taste tests, but didn't in subsequent sales.
- Colgate Kitchen Entrees were microwavable frozen dinner entrees that shared the name with the famous toothpaste.
- Bic thought that since people wanted their disposable lighters and razors, they would also want disposable underwear. They were wrong.
- Cheetos Lip Balm was based on the idea that if you like Cheetos, you would want to wipe it all over your lips.

To prevent the potentially negative consequences of brand extensions, firms consider the following:

- Marketers should evaluate the fit between the product class of the core brand and that of the extension.[37] If the fit between the product categories is high, consumers will consider the extension credible and the brand association will be stronger for the extension. Thus, when Starbucks introduced its line of instant coffee, VIA, it made sense to its customers.
- Firms should evaluate consumer perceptions of the attributes of the core brand and seek out similar attributes for the extension because brand-specific associations are very important for extensions.[38] For example, if HP printers were associated with reliability, performance and value, consumers would expect the same brand-specific attributes in other products that carried the HP brand name.
- Firms should refrain from extending the brand name to too many products and product categories to avoid diluting the brand and damaging brand equity. Dick Smith was quite successful lending his name to the Dick Smith electronics stores before its demise and more recently to various food categories, but was unsuccessful with extending himself to chocolate biscuits with the name Temptin', which was an imitation of the iconic Tim Tam.
- Firms should consider whether the brand extension will be distanced from the core brand, especially if the firm wants to use some but not all of the existing brand associations. Marriott has budget, mid-tier and luxury hotels. Its luxury hotels, including the Ritz-Carlton, Edition and Renaissance, do not use the name Marriott at all.[39]

Co-branding

co-branding
The practice of marketing two or more brands together, on the same package, promotion or store.

Co-branding is the practice of marketing two or more brands together, on the same package, promotion or store. Co-branding can enhance consumers' perceptions of product quality by signalling 'unobservable' product quality through links between the firm's brand and a well-known quality brand. For example, Nike and Apple teamed up for the Apple watch Nike+ range of products explained in the opening vignette. The Apple watch Nike+ is a co-branded Nike and Apple product linked through the Apple watch. This co-branding strategy is designed to appeal to diverse market segments and attracts customers by leveraging either brand.

Yet co-branding also creates risks, especially when the customers of each of the brands turn out to be vastly different. For example, the Burger King (known as Hungry Jack's in Australia) and Häagen-Dazs co-branding strategy failed because the customer profiles for each brand were too different.[40] Co-branding may also fail when there are disputes or conflicts of interest between the brands.

Brand licensing

brand licensing
A contractual arrangement between firms, whereby one firm allows another to use its brand name, logo, symbols or characters in exchange for a negotiated fee.

Brand licensing is a contractual arrangement between firms, whereby one firm allows another to use its brand name, logo, symbols and/or characters in exchange for a negotiated fee.[41] Brand licensing is common for toys, apparel, accessories and entertainment products, such as video games. The firm that provides the right to use its brand (licensor) obtains revenue through royalty payments from the firm that has obtained the right to use the brand (licensee). These royalty payments may take the form of an upfront, lump-sum licensing fee or be based on the dollar value of sales of the licensed merchandise.

One very popular form of licensing is the use of characters created in books and other media. Such entertainment licensing has generated tremendous revenues for movie studios. Disney, for instance, flooded retail stores with products based on *The Princess and the Frog* movie. *Star Wars* memorabilia has continued to be successful since the first film was released in the 1970s. A long-standing staple of licensing has been major league sports teams that play in the AFL, NRL or ARU, as well as various other sports teams.

Licensing is an effective form of attracting visibility for the brand and thereby building brand equity while also generating additional revenue. There are, however, some risks associated with it. For the licensor, the major risk is the dilution of its brand equity through overexposure of the brand, especially if the brand name and characters are used inappropriately or the celebrities are badly behaved.[42]

Brand repositioning

brand repositioning (rebranding)
A strategy in which marketers change a brand's focus to target new markets or realign the brand's core emphasis with changing market preferences.

Brand repositioning or **rebranding** refers to a strategy in which marketers change a brand's focus to target new markets or realign the brand's core emphasis with changing market preferences.[43] Although repositioning can improve the brand's fit with its target segment or boost the vitality of old brands, it is not without costs and risks. Firms often need to spend tremendous amounts of money to make tangible changes to the product and packages, as well as intangible changes to the brand's image through various forms of promotion. These costs may not be recovered if the repositioned brand and messages are not credible to the consumer or if the firm has mistaken a fad for a long-term market trend.



Exhibit 8.8 Old Spice: repositioning an 'old' brand.
© Kathy Hutchins/Shutterstock

Yet even when they enjoy the benefits of their well-known name and reputations, brands may find it necessary to reposition, even if that means challenging hundreds of years of tradition. For example, Old Spice has been around for more than 70 years. In 2010, the company embarked on what would become one of the most successful rebranding campaigns in history.[44] The Old Spice campaign featured former US NFL player Isaiah Mustafa, who delivered the phrase 'Look at your man, now back at me, now back at your man, now back to me, sadly he isn't me. But if he stopped using ladies' scented body wash he might smell like me'. This phrase has now been mimicked millions of times over and posted on YouTube, which has assisted in changing the position of the Old Spice brand from what was considered a tired conservative brand to something more exciting and youthful. Business was slowing for many years within the Old Spice category. The company had

a problem with the conservative perceptions of its brand and intense competition in the category. The company found through market research that more than 50 per cent of all men's bodywash purchases were made by women. Therefore, this campaign was going to target couples, not just men, for the very first time. To do this they used Isaiah Mustafa in a number of online videos (and on TV shortly after). The campaign repackaged the product and repositioned the brand and as a consequence increased sales by over 100 per cent, taking Old Spice to the number one brand in the category. The campaign used a multi-dimensional approach to repositioning, using a combination of contemporary media such as online ads, Twitter and personalised response videos from Isaiah to cover interaction with the consumer, as well as traditional media for a mass audience, such as television commercials and public appearances on daytime television with Oprah and Ellen DeGeneres as a '360-degree approach'.

CHECK YOURSELF

1. What are the differences between manufacturer and private-label brands?
2. What is co-branding?
3. What is the difference between brand extension and line extension?
4. What is brand repositioning?

PACKAGING

LO 8.8

Packaging is an important brand element with more tangible or physical benefits than other brand elements. Packages come in different types and offer a variety of benefits to consumers, manufacturers and retailers. The **primary package** is the one the consumer uses, such as the toothpaste tube. From the primary package, consumers typically seek convenience in terms of storage, use and consumption.

primary package
The packaging the consumer uses, such as the toothpaste tube, from which they typically seek convenience in terms of storage, use and consumption.

The **secondary package** is the wrapper or exterior carton that contains the primary package and provides the universal product code (UPC) label used by retail scanners. Consumers can use the secondary package to find additional product information that may not be available on the primary package. Like primary packages, secondary packages add consumer value by facilitating the convenience of carrying, using and storing the product.

secondary package
The wrapper or exterior carton that contains the primary package and provides the UPC label used by retail scanners; can contain additional product information that may not be available on the primary package.

Whether primary or secondary, packaging plays several key roles. It attracts consumers' attention. It enables products to stand out from their competitors. It offers a promotional tool (e.g. 'NEW' or 'IMPROVED' promises on labels). Finally, it allows for the same product to appeal to different markets with different sizes, such that convenience stores stock little packages that travellers can buy at the last minute, whereas Costco sells extra-large versions of products.

Firms occasionally change or update their packaging as a subtle way of repositioning the product. A change can be used to attract a new target market and/or appear more up to date to its current market. For instance, as previously discussed, Old Spice changed the packaging of its products to complement the repositioning of the brand. The new packaging gave the product an injection of colour and design. The packaging was an extension of the newly youthful brand image.

Changes also can make consumers feel like they are receiving something tangible in return for paying higher prices, even when the product itself remains untouched. Whether true or not, consumers see new packaging and tend to think that the 'new' product may be worth trying. Some packaging changes are designed to make the product more ecological, such as PepsiCo's response to concerns about the waste associated with bottled water. To reduce the amount of plastic it uses, PepsiCo has decreased the weight of its water bottles by 20 per cent, which means less plastic in landfills. In a competitive marketplace, a brand that can associate with less harmful impacts on the environment often can gain a significant competitive advantage it can use to induce consumers to purchase in good conscience.[45]

Many consumers have experienced what is considered 'wrap rage'–the great frustration with packaging that makes it seemingly impossible to get at the physical product. So companies are moving away from traditional 'clamshells', which are the curved plastic package around many electronics goods, because they are so difficult to open. For example, Costco has replaced the clamshells with packaging made of coated paperboard that still requires scissors to open, but is flat and therefore can be opened easily.

Retailers' and manufacturers' priorities for secondary packaging often differ from those of customers. They want convenience in terms of displaying and selling the product. In addition, secondary packages often get packed into larger cartons, pallets or containers to facilitate shipment and storage from the manufacturer to the retailer. These shipping packages benefit the manufacturer and the retailer, in that they protect the shipment during transit; aid in loading, unloading and storage; and allow cost efficiencies due to the larger order and shipment sizes.

Packaging can also be used in a far more subtle way, namely, to help suppliers save costs. For routine purchases, consumers rarely engage in actual decision-making but rather just grab their familiar breakfast cereal from the shelf. In so doing, they are unlikely to notice that Kellogg's Special K has gone from containing 600g to just 535g–with the same appearance and same price. (However, with the advent of the internet, consumers now have the power to voice their grievance with a vengeance.) Some companies have departments devoted to cost cutting through package redesign or clever content-reduction ideas. Because sometimes 75 per cent of a product's cost may be in the packaging, these savings can represent huge overall savings for the company.[46]

Product labelling

Labels on products and packages provide information the consumer needs for their purchase decision and consumption of the product. In that they identify the product and brand, labels are also an important element of branding and can be used for promotion. The information required on them must comply with general and industry-specific laws and regulations, including the ingredients contained in the product, where the product was made, directions for use and/or safety precautions.

Many labelling requirements stem from various laws, including the *Competition and Consumer Act 2010* (Cth), which is an Act of the Parliament of Australia. (Prior to 1 January 2011, the *Trade Practices Act 1974* was the Commonwealth law introduced to ensure fair market competition and fair treatment of consumers.) Under the *Competition and Consumer Act*, also known as Australian Consumer Law, companies must ensure they do not mislead or deceive the consumer, for example, on the labelling of products. Several agencies, industry groups and consumer watchdogs carefully monitor product labels. Ethical and societal dilemma 8.2 illustrates the problems associated with the different regulations that apply to various bottled water products, as well as some associated labelling concerns.

Ethical and societal dilemma **8.2**

Pure water? Or pure spin?

Tap water sold in bottles is marked up by extravagant margins. Is this ethical or not?

In developed countries, consumers can simply turn on the tap, and there it is. Yet firms have been successful in packaging this almost-free natural resource, creating some perceived value and selling it (see Exhibit 8.9). Bottled water has enjoyed significant growth over the last decade in Australia and the industry currently generates sales estimated at more than $706 million per annum.[47] The popularity and growth of the industry has attracted attention, though, as bottled water operators have been charging significant mark-ups on water that has been sourced from the tap.



Exhibit 8.9 Why are you paying for water?
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Laura Speranza from *The Sunday Telegraph* suggests that 'millions of unsuspecting customers are buying filtered tap water and boiled rainwater at massive mark-ups of more than 180 000 per cent. Several manufacturers admit they fill their bottles from the Sydney Water mains after applying filtration and purification procedures—but they insist customers know their water is not sourced from a mineral

spring, and are happy to pay for the convenience of having it in a plastic bottle'.[48] Many brands, such as Mount Franklin, Fiji Water and Pump, use spring or mineral water. But what about brands such as Aqua Pura, Mizone, Noble's Pureau, Nature's Best Organic, Active Organic and Refresh, who use the labels 'purified' or 'organic'? The managing director of Refresh Pure Water, Henry Heng says they bottle rainwater, which has been boiled for sterilisation. Others filter and/or purify tap water. For example, Active Organic water admitted its product was filtered tap water and Nature's Best Organic owner Warren Peffer said his bottled water wasn't claiming to be spring water.[49]

A product label is much more than just a sticker on the package; it is a communication tool. As noted above, many of the elements on the label are required by laws and regulations (i.e. ingredients such as sodium, fat or nuts), but other elements remain within the control of the manufacturer. How manufacturers use labels to communicate the benefits of their products to consumers varies by the product. Many products highlight specific ingredients, vitamin content or nutrient content (e.g. iron) or country of origin. This focus signals to consumers that the product offers these benefits. The importance of the label as a communication tool should not be underestimated as many consumers make their consumer decisions at the point of purchase. However, brands have a responsibility to abide by regulation and be careful about what they communicate about their product, as Swisse vitamin found out when they were found to have breached the national advertising code by making claims about the benefits of its products that were not substantiated, for example, 'You'll feel better on Swisse'.[50]

SUMMING UP

LO 8.1 Describe the components of a product.
The product itself is important, but so are its associated services, such as support or financing. Other elements combine to produce the core customer value of a product: the brand name, quality level, packaging and additional features.

LO 8.2 Identify the types of consumer products.
These products tend to be classified into four groups: specialty, shopping, convenience and unsought products. Each classification involves a different purchase situation and consumer goal.

LO 8.3 Explain the difference between a product mix's breadth and a product line's depth.
Breadth, or variety, relates to the number of product lines that a company offers. Depth relates to the number of categories within one specific product line.

LO 8.4 Identify the advantages that brands provide to firms and consumers.
Brands play important roles in enabling people to make purchase decisions more easily and encouraging customer loyalty. For firms, specifically, they also constitute valuable assets and improve a company's bottom line and help protect against competition.

LO 8.5 Explain the various components of brand equity.
Brand equity is the value that a brand adds to or subtracts from the offering's value. It comprises brand awareness, or how many consumers in the market are familiar with the brand; brand associations, which are the links consumers make between the brand and its image; and brand loyalty, which occurs when a consumer will only buy that brand's offering. Brand equity also encompasses the concept of perceived value, which is a subjective measure that consumers develop to assess the costs of obtaining the brand.

LO 8.6 Determine the various types of branding strategies used by firms.
Firms use a variety of strategies to manage their brands. First, they decide whether to offer manufacturer and/or retailer brands. Second, they have a choice of using an overall corporate brand or a collection of product line or individual brands. Third, to

Continued

reach new markets or extend their current market, they can extend their current brands to new products. Fourth, firms can co-brand with another brand to create sales and profit synergies for both. Fifth, firms with strong brands have the opportunity to license their brands to other firms. Finally, as the marketplace changes, it is often necessary to reposition a brand.

LO 8.7 Distinguish between brand extension and line extension.
Whereas a brand extension uses the same brand name for a new product that gets introduced into new or the same markets, a line extension is simply an increase within an existing product line by the brand.

LO 8.8 Indicate the advantages of a product's packaging and labelling strategy.
Similar to brands, packaging and labels help sell the product and facilitate its use. The primary package holds the product and its label provides product information. The secondary package provides additional consumer information on its label and facilitates transportation and storage for both retailers and their customers. Labels have become increasingly important to consumers because they supply important safety, nutritional and product usage information.

KEY TERMS

- actual product 239
- associated services 239
- augmented product 239
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MARKETING APPLICATIONS

1. Nike guarantees that its products will last one year. What features of a Nike+ product would be part of the actual product and what features would be part of the associated services?
2. Classify each of the following products into convenience, shopping, specialty or unsought goods: toothpaste, life insurance, Sharp TV, waffles, lettuce, Coach handbag, Adidas soccer studs, furniture.
3. Consider the following two product mixes. For Product Mix 1: A, B, C and D are the lines. For Product Mix 2: X, Y and Z are the lines. Which mix has more *breadth* and why? Which mix is *deeper* and why?
4. Suppose you are the coffee buyer at Coles. There is a strong corporate initiative to increase retailer-brand merchandise. Discuss the advantages and disadvantages of offering retailer-brand coffee.
5. Identify a brand that has developed a high level of brand equity. What specific aspects of that brand establish its brand equity?
6. Are you loyal to any brands? If so, pick one and explain why you believe you are loyal, beyond that you simply like the brand. If not, pick a brand that you like and explain how you would feel and act differently towards the brand if you were loyal to it.
7. Nestlé owns many brands, including Purina Petcare, Peters ice cream, Jenny Craig diet foods, Mövenpick ice cream and Musashi health supplements. Each brand features many models that may appeal to various customer groups. Wouldn't it be easier to just identify them all as Nestlé? Justify your answer.
8. Do you think all edible items sold in a supermarket should have an ingredient and nutrition label? Consider the perspectives of consumers, the manufacturer and the store.

9. You are the brand manager for a firm that makes herbs, spices and other food additives. You have had complaints from some of your retail outlets that they are finding empty bottles of pure vanilla extract stashed around the store. Apparently, due to the high (35%) alcohol content of pure vanilla extract, people are grabbing the little bottles, having a drink and getting rid of the evidence. Anecdotal evidence from store employees indicates that the majority of the offenders are teenagers. The cost of placing a tamper-proof cap on the extract is a relatively insignificant percentage of the purchase price, but will make it more difficult to open, particularly for older customers. Also, there has been a significant rise in sales to retailers as a result of the vanilla essence 'addicts'. What should you do?

QUIZ YOURSELF

1. A university that has separate undergraduate and postgraduate admission offices recognises that these are distinct:
   a. brand associations
   b. product/service lines
   c. product mixes
   d. brands
   e. co-brands.
2. _____ is the set of assets and liabilities linked to a brand that add to or subtract from the value provided by the product.
   a. Brand positioning
   b. Brand licensing
   c. National branding
   d. Brand equity
   e. Brand solvency

(Answers to these two questions can be found on page 456.)

NET SAVVY

1. Visit Revlon's website (www.revlon.com.au). Identify and briefly describe the depth and the breadth of its product lines.
2. Go to Kellogg's website (www.kelloggs.com.au) and identify a few recently introduced brand extensions to the marketplace. Discuss whether you believe the brand extension examples you provided will benefit or harm the firm.
3. Go to Woolworths' website (www.woolworths.com.au) and click on the 'Discover' tab and then on 'Our Brands'. Review the different private-label brands Woolworths has, including Essentials, Gold and Macro. What kind of buyer need are these brands appealing to?

CHAPTER CASE STUDY

Coca-Cola promotes no-sugar consumption

By Dr Aila Khan and Dr Felicitas Evangelista, Western Sydney University

In 2018, in response to growing public concern about Australians' sugar consumption, members of the Australian Beverages Council signed a pledge to reduce sugar in their product portfolios by 10 per cent by 2020 and 20 per cent by 2025. In a bid to achieve this goal, Australia's largest beverage manufacturer, Coca-Cola Australia, accelerated its voluntary reformulation program (see Exhibit 8.10). This meant a change



Exhibit 8.10 Coca-Cola Australia is encouraging consumers to switch to its no-sugar products.

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Continued

in Coca-Cola's product mix, with the company reducing or removing sugar from 25 products since 2015. This program includes several of its most popular brands, such as Sprite and Fanta.

Response to a social issue

The Western Sydney region is a diabetes 'hotspot', with disease rates higher than the New South Wales (NSW) average. More than half of Western Sydney's population is overweight and at risk of developing Type 2 diabetes. Type 2 diabetes is a progressive condition whereby a person becomes resistant to insulin or their pancreas is no longer able to produce enough insulin to counteract the food eaten. The signs and symptoms are gradual, and people can often live with the condition for years without knowing it. A late diagnosis of diabetes results in a greater chance of developing diabetes-related complications such as kidney disease, heart disease and blindness. Experts are of the opinion that if this issue is not addressed, it will cause an unsustainable economic and societal burden on the state's healthcare system.

Recently, Coca-Cola Australia ran a field experiment to encourage consumers to make a healthier switch to its low/no-sugar products in Fairfield, Western Sydney. This multicultural suburb has high rates of obesity and associated conditions such as diabetes. The area also has a dense population of quick service restaurants (QSR), and residents are more likely to be within walking distance of a QSR than a fresh food outlet. In partnership with a prominent QSR, Coca-Cola Australia implemented promotional strategies (e.g. point of purchase materials, free coupons) and line-extension strategies (e.g. low/no-sugar options, smaller pack sizes). Both sets of strategies were used to encourage consumption of healthier options. The trial also included promotion of no and low-sugar drinks at local vending machines and in two function centres. At the end of the intervention period, Western Sydney University researchers were able to compare sales of low/no-sugar soft drinks with those in a nearby 'control suburb' where no such promotional strategies were undertaken. Western Sydney University's research team also designed and rolled out a survey to measure customers' opinions about the low/no-sugar drink items.

Results

The initial results from Coca-Cola Australia's experiment in Fairfield look encouraging. As a direct result of the sales promotion incentives, consumers' trial and purchase of no-sugar soft drinks increased significantly. Our analysis shows that among the range of strategies used, consumers responded particularly to the free coupon tactic. This was also reflected in the sales figures as we could see a direct and immediate impact on sales in the month in which the coupons were distributed.

Another tactic that worked well—especially in the case of Frozen Fanta Pink Lemonade Light—was the complete replacement of a regular brand with its low-sugar line extension. When the regular-sugar option was no longer available and the lower-sugar variant was promoted, consumers happily switched to the 'light' option. However, caution is needed in implementing such a strategy. The product must appeal to consumers, who need to be satisfied with its taste. Fanta is one of the world's most popular soft-drink brands; it has a 'fun', 'cheeky' personality, and a loyal fan base. In this experiment, consumers easily accepted the low-sugar alternative. However, such a change can cause a backlash, which may also harm a flagship brand.

Overall, we were able to calculate a significant decrease in sugar consumption due to the planned migration of consumers from full-sugar soft drinks to low/no-sugar options. This field experiment—a major departure from using more commonly known research methods only, such as market surveys—provided concrete evidence of actual consumer behaviour. Since such experiments are time-consuming, costly and difficult to administer, these have a low penetration into marketing research practice. Coca-Cola Australia should be commended for taking this methodological shift.

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DISCUSSION QUESTIONS

1. In what ways did the introduction of 'no-sugar' variants (such as Coke No Sugar and Fanta Light) affect the overall product mix of Coca-Cola?
2. This case study demonstrates how a line-extension strategy can be used by organisations in response to a growing social issue. Can you think of situations in which companies/brands have used a similar strategy to respond to a public concern?
3. Coca-Cola used surveys to collect data about consumers' opinions on a new product. What could be some of the concerns in relying on survey data?
4. What could be some of the challenges for Coca-Cola when it undertakes a line-extension strategy?

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CHAPTER 9

Developing new products

LEARNING OBJECTIVES

LO 9.1 Identify the reasons firms create new products.

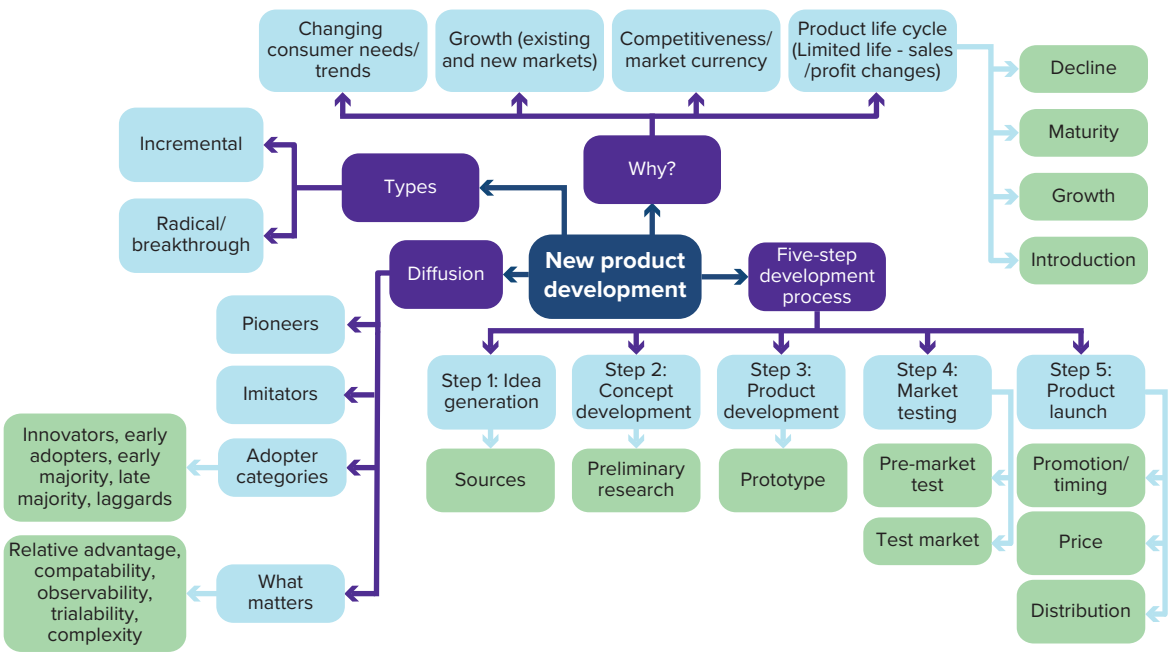
LO 9.2 Describe the different groups of adopters articulated by the diffusion of innovation theory.

LO 9.3 Describe the various stages involved in developing a new product.

LO 9.4 Explain the product life cycle.



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Graduate spotlight



NAME
Allan van Breukelen

DEGREE STUDIED
Bachelor of Commerce (Marketing) and Bachelor of Arts (Philosophy)

UNIVERSITY
University of New South Wales

CURRENT POSITION
Associate

EMPLOYER
The Boston Consulting Group (BCG)

What did you learn from your degree and how has it prepared you for a career in marketing?
Marketing taught me that people are at the core of everything. When making decisions, it's vital to remember that we are talking about real people, with real wants and needs. My studies also helped me to think critically and commercially, to ask the right questions and to identify opportunities. With masses of information at our fingertips today, it is essential to step back and prioritise—whether between business units, customer segments, brands or even specific products.

What interested you about studying or working in marketing?
As an inquisitive person with a passion for understanding human behaviour, marketing was a natural fit. It allowed me to observe and question why we do the things we do, and to look at commercial or social opportunities around that. Or, in some instances, to create new opportunities that may not currently exist or be obvious. On top of this, marketers' decisions often have an observable impact, which makes the work tangible.

What have you been up to since graduation?
I spent two and a half years at Unilever in marketing and category management across a variety of ice cream and food brands. I launched new Paddle Pop and Golden Gaytime ice creams, presented to retailers at strategy workshops and observed consumer focus groups to reimagine product ranges many years into the future. After deciding to move into management consulting, I first took some time to travel the world and worked as a freelance strategist at M&C Saatchi.

What does your current job involve?
At BCG, I help solve some of the toughest and most interesting problems faced by the world's leading businesses, governments and non-government organisations. I'm surrounded by some of the brightest and most interesting people! Every day is different and I'm often drawing on the understanding of people that I gained through my study, travels and previous work.

What do you enjoy most about your job?
Learning is the thing that drives me most. I love that my work at BCG allows me to learn about varied and fascinating problems every day, alongside other curious thinkers who relish problem-solving. We are privileged to work on high-level problems faced by senior management, and I find it exciting to be exposed to these issues and trusted to find solutions.

What are your thoughts on the future of the marketing and communication industry? What advice would you give to students wanting to work in marketing?
It's dizzying to imagine the future of the marketing industry, given the current pace of change. Between big data, technology and automation reinventing the industry, marketers can add value through their understanding of people and ability to step back and consider the big picture. As our work becomes more data-driven, it's vital to respect consumers as real people and to get 'out of the office' often to learn more about them. I would suggest students explore the industry early on in their studies, so they can uncover which parts excite and interest them.

Innovation is the key to growth because it is a process that is responsible for production. Companies such as Procter & Gamble (P&G) rely on new products to generate top-line revenue growth each year. P&G committed to investing in creating an innovation culture that has yielded higher-than-expected returns and market successes. In an industry where the average success rate for new products is somewhere between 15 and 20 per cent, P&G's success rate is 50–60 per cent. Over half of P&G's new products succeed in the market. Its sustained focus on developing innovation systems is also paying off, with the company spending relatively less on research and development (R&D) (as a percentage of total revenue) and growing revenue at the same time.[1]

Innovation is important for all businesses. For large ones, it's important as a survival tool. For smaller businesses, innovation is the key that unlocks their competitive potential. Lime Scooters, for instance, has changed how inner-city commuters move around their cities.[2] People have jumped on the pay-as-you-ride electric scooters across many cities around the world. Smaller than bikes, the scooters offer an easy and efficient mode of transport that produces low carbon emissions and eliminates the need to use cars, wait in queues or pay hefty vehicle (or parking) prices. Electric scooters seem to have a promising future as long as governments can decide on how to regulate their usage to ensure consumer and public safety.

Not all innovations are in the breakthrough category–such as the electric scooter. Most innovations on the market are incremental, representing improvements to existing products. A change in packaging, an alteration to size, a new colour, shape or flavour, new functions or new styling are all examples of how existing products are updated to meet changing consumer demands. Because marketers focus on being consumer-centric, they are constantly trying to keep up with new trends to ensure their brands stay relevant.

Innovative ideas don't always come from expert scientists or engineers. Increasingly, they are co-developed with consumers, who are often referred to as the lead users. Lead users are experienced users who are concerned with devising new solutions to emerging needs.[3] They tend to be loyal, heavy users of the existing product who are so enthused by it that they take any opportunity they can to improve it.[4] Such 'improvements' are sometimes basic and sometimes sophisticated. They can include changes in styling and even in functions, so that the product is transformed and can be used to solve new problems. Sometimes, the lead users may suggest and prototype such vast product improvements that the outcomes become new product categories altogether. Large companies especially sense that this type of approach to innovation in cooperation with others, such as open innovation, is important because it can equip them with highly specific customer-centric information and problem-solving ideas that might just be the ticket to disrupting the industry and gaining a strategic advantage.

Few three-letter words are more exciting than 'new'. It brings forth an image of freshness, adventure and excitement. Yet 'new' is a complex term when it comes to market offerings, because it might mean adding something new to an existing product, introducing a flavour never offered before, or relying on different packaging that provides added value. But the most exhilarating type of new product is something never seen before. Thousands of patent applications pursue this elusive prize: a successful and truly innovative new product.

Imagine living 200 years ago: you cook meals on a stove fuelled by coal or wood; you write out homework by hand (if you are lucky enough to attend school) and by candlelight. To get to school, you hike along unpaved roads to reach a small, cold, basic classroom with just a few classmates, who listen to a lecture from a teacher writing on a blackboard.

Today, you finish your homework on a notebook with word-processing software that appears to have a mind of its own and can correct your spelling automatically. Your climate-controlled room has ample electric light. While you work on your laptop, you also talk with a friend using the hands-free headset of your wireless phone. As you drive in your car, you pick up fast food from a convenient drive-through window while browsing and listening to your personal selection of songs playing through your car speakers, connected wirelessly to your smartphone. Your friend calls to discuss a slight change to the homework, so you pull over to grab your smartphone, make the necessary change to your assignment and email it immediately to your lecturer. When you arrive at uni, you sit in a 200-person classroom, where you can plug in your notebook, take notes on it or digitally record the lecture, right after which you check in on Facebook and maybe send some messages to friends using WhatsApp or Snapchat. The lecturer adds notes on the day's PowerPoint presentations. You have already downloaded the PowerPoint presentations and add similar notes through your own device.

After class, to complete your planning for a last-minute party, you send out a Facebook invitation to your friends and ask for responses to get a headcount. You then text your roommate, asking her to get food and drinks for the right number of people, which she orders through an online store that will deliver later in the day.

Our lives are defined by the many new goods and services developed through scientific and technological advances and by the added features included in products that we have always used. These innovations can come from a variety of sources such as private businesses, government agencies and, of course, universities. Interestingly, innovations can also come from consumers: individuals who are interested in creating new solutions for their unmet needs. These people tend to come up with solutions that are meaningful to them in the first instance; then, when others see the solution and find value in it too, demand increases, and an entrepreneur will usually take it to market to monetise the idea. There are lots of different ways to innovate and create new goods and services. In this chapter, we explore how companies add value to product offerings through innovation. We also look at how firms develop new goods and services on their own. We conclude the chapter with an examination of how new goods and services get adopted by the market and how firms can change their marketing mix as the product moves through its life cycle.

LO 9.1

REASONS FIRMS CREATE NEW PRODUCTS

If you are wondering why firms consider it necessary to invest resources creating new products, particularly if they already have good products on the market, here is the answer: all firms must innovate[5]–this means evolving to better meet the needs of the market and society in general. This makes sense because, as we know from Chapter 5 (Consumer behaviour),[6] markets are dynamic and consumer needs are ever-changing[7] and the market is saturated with alternative and substitute products. Consumers are mostly spoiled for choice. This means that firms must seek out ways to create value for customers such that their products will stand out from the crowd. Otherwise, their products will not be selected and they will inevitably embark on a slippery downward slope, losing sales, market share, brand value and so forth. The implications of such a situation are widespread and potentially devastating for the firm. Thus, for firms that aim for longevity and success, innovation is a matter of competitive survival. If you consider a shortlist of top companies with whom you are familiar, you will more than likely realise that you are so familiar with their brands because of their resounding value propositions and their innovative products. Some global examples of these include Mercedes-Benz, Volkswagen, Miele, Apple, Coca-Cola and McDonald's.

New products for growth

When new products have become accepted by the market and become embedded, they continue to be produced and tweaked to ensure they maintain relevance for users. Some Australian examples of products that were once leading-edge innovation but are now firmly embedded in the marketplace are penicillin (developed as a medicine by a team including Howard Florey, an Australian, and noted as one of the most important innovations of all time, having saved hundreds of millions of lives), the baby safety capsule (developed in the 1980s and still one of the safest child restraints on the global market), the black box flight recorder (developed in the 1950s for the purpose of recording what happens on a flight to assist with aircraft safety even in the event of a mishap such as an accident), the Hills hoist (designed in the mid-1940s and synonymous with the Australian home, it is a rotary clothes line that makes use of the breeze to dry clothes naturally) and the Victa lawnmower (developed in the 1950s, it is an affordable and highly effective lawnmower that went on to become the best-selling mower in Australia and is currently exported to more than 30 countries). Recent examples that many people have benefitted from include in vitro fertilisation (IVF), which has helped people conceive, and wi-fi, a technology for wireless local area networking that was developed for commercial use by scientists working at Australia's CSIRO. All of these products have been constantly improved to meet customer needs and have been marketed well to maintain their success.

New market offerings provide value to both firms and customers. But the degree to which they do so depends on how new they really are. When we say a 'new product/service' we don't necessarily

mean that the market offer has never existed before–kids have long played with LEGO, but new themed box sets keep appearing on shelves such as LEGO City, LEGO Creator and LEGO Friends. When firms keep up with consumer demands, they are being responsive to the market–they are being market-driven–and when they possess satisfactory capabilities for producing a new innovation they can create an opportunity to develop new markets. They can do this by offering unprecedented value (delivered by the new innovation), such as when electric stoves, televisions, PCs and tablets were first created. Just like Google Glass (see Exhibit 9.1) or LifeStraw Australia (see Adding value 9.2), these firms and their products are attempting to be market-driving.



Exhibit 9.1 Google Glass

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Completely new-to-the-market products represent fewer than 10 per cent of all new product introductions each year. It is more useful to think of the degree of newness or innovativeness on a continuum from truly 'new-to-the-world'–as wi-fi was a few years ago–to 'slightly repositioned', such as when Kmart repositioned itself from a medium-price store to a low-price store, offering the value promise of 'making low prices irresistible'. Other examples of slight repositioning can be commonly found in supermarkets: Kellogg's cereals demonstrate variation such as Special K original and Special K with berries. The slight alteration helps the brand to appeal to more markets or a greater number of consumers within existing markets.

innovation
The process by which ideas are transformed into new goods and services that will help firms grow.

Regardless of where on the continuum a new product lies, firms have to innovate. **Innovation** refers to the process by which ideas get transformed into new offerings or improved versions of what the firm currently offers. This process of innovation is critical because it represents the firm's commitment to investing in their long-term competitiveness and growth. Without innovation, firms would have only two choices: continue to market current products to current customers or take the same product to another market. But with innovation, growth trajectories for the firm widen dramatically. This is neatly summarised by the Ansoff Matrix, sometimes called the Product/Market Expansion Grid (see Figure 9.1). This matrix suggests that with innovation, firms have four choices when deciding which growth strategy to adopt:

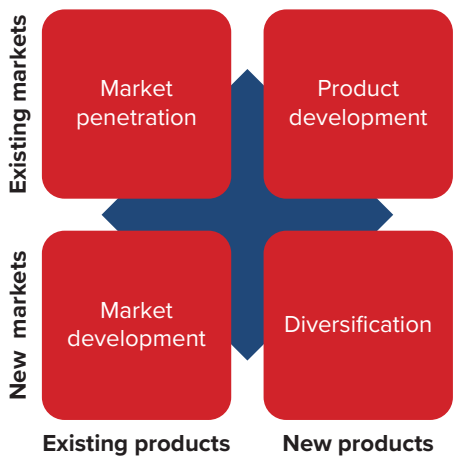


Figure 9.1 The Ansoff Matrix

Source: © Aaron Hoos (AaronHoos.com)

1. Sell existing products to existing markets.
2. Sell existing products to new markets.
3. Sell new products to existing markets.
4. Sell new products to new markets (diversification).

Although innovation strategies may not always work in the short run–some estimates indicate that only about three per cent of radically new products actually succeed–various overriding and long-term reasons compel firms to continue introducing new goods and services, as the following sections describe.

Changing customer needs

When they add products, services and processes to their offerings, firms can create and deliver value more effectively by satisfying the changing needs of their current and new customers or by keeping customers from getting bored with the current product offering and thereby switching to other brands. For example, there are many food and beverage packaging companies that supply cafés and restaurants and there is limited room for competition in the traditional sense. However, forward-thinking BioPak launched into the packaging business with vigour, promising a unique value proposition that is proving refreshing and hard to resist for buyers: 'the highest quality eco-friendly packaging and food-service disposables available in the market today' (see Exhibit 9.2). BioPak offers



Exhibit 9.2 BioPak: meeting changing customer needs.

Source: Courtesy of BioPak

plant-based, biodegradable and compostable packaging products, which constitute a smart alternative to traditional single-use products such as coated paper or styrofoam. Its packaging solutions help food-service businesses meet sustainability goals, while serving broader missions of environmental stewardship and social justice. By offering unique and sustainable packaging solutions, BioPak has been able to gain a significant foothold in the market.[8]

Adding value 9.1 examines how the Australian retail sector has undergone a transformation designed to improve sustainability practices by reducing reliance on single-use plastic bags for packing groceries at the register.

Adding value **9.1**

The demand for reusable bags

'Reuse and reuse and reuse' is the text printed on IGA's plastic reusable shopping bags, which retail for about 15 cents at the register—a reminder for shoppers in case they have forgotten to bring their own reusable bags from home. Woolworths also has degradable plastic shopping bags, again for about 15 cents, as well as fabric versions for $1 or insulated ones at a slightly higher price. Coles offers a similar solution. ALDI—emanating from Europe, where the accepted norm is not to provide single-use packing bags—has never provided single-use packing bags and instead has always encouraged shoppers to bring their own bags. Nevertheless, if needed, ALDI does offer fabric bags or plastic reusable bags at a lower price point.



Exhibit 9.3 Supermarkets such as Woolworths have introduced reusable plastic bags.

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A trend is underway: it is about ethical consumption, green consumption and sustainability. Consumers are using the power of their voice via social media to lobby for awareness and change for the sustainability of the natural environment. They are demanding green practices and sustainable solutions and are promising to purchase ethical products. About a third currently do as they say.[9] Nevertheless, the focus on customer centricity has led to significant changes in the marketplace, one of which has been the shift to reusable shopping bags.

Motivated by the need to address concerns regarding environmental sustainability, the Australian Government has supported retailers regarding the single-use plastic bag ban. The scientific evidence shows that tonnes of single-use plastic bags have already accumulated on the ocean floors—clear evidence that the practice is killing marine life and polluting waterways, and is severely detrimental to human health and the longevity of the natural environment. This information, along with images and specific examples of negative impacts, such as marine life trapped in plastic waste, has been disseminated via newspapers and assorted media channels. People have quickly come to understand the concerns and have been supportive of the need to find a solution.

Shoppers at major supermarkets where single-use plastic bag bans were being used, however, were not happy about the inconvenience caused by having to bring their own bags or pay for them at the register. Supermarkets had to create educational campaigns to remind shoppers why the bans were being put in place and to give them time to adjust to the change. Some stores also gave away reusable bags for free during the transition period.

This single change in the supermarket sector has caused a heightened awareness of the interplay between organisations and customer, and the delicate balance that must be achieved between

customer-centricity and broader societal concerns. Ultimately, the change to reusable bags has been positive, with shoppers now comfortable with the new system. For retailers, the Australian Government provides guidelines regarding the types of bags that are permitted and those that are not.[10] For example, lightweight polyethylene bags are out, while compostable biodegradable bags made of plant starch (certified to Australian Standard AS 4736-2006), barrier bags, heavy retail bags and green bags are in. Never before have there been so many opportunities in the Australian retail landscape for manufacturers of reusable bags to innovate, in order to keep customers satisfied.

Market saturation

The longer a product exists in the marketplace, the more likely it is that the market will become saturated. Without new goods or services, the value of the firm will ultimately decline.[11] Imagine, for example, if car companies simply assumed and expected that people would keep their cars until they stopped running. If that were the case, there would be no need to come up with new and innovative models; companies could just stick with the models that sell well. But few consumers actually keep the same car until it stops running. Even those who want to stay with the same make and model often want something new, just to add some variety to their lives. Therefore, car companies revamp their models every year, whether with new features like hybrid power, environmentally friendly fuel compatibility, lower fuel consumption, driver assistance systems such as beepers, automatic parking and navigation options, or by redesigning the entire look of the vehicle. The firms sustain their growth by getting consumers excited by the new looks and new features, prompting many car buyers to exchange their old vehicle years before its functional life is over.

Saturated markets can also offer opportunities for a company that is willing to adopt a new process or mentality. At one point in time, mass marketers would not even consider entering a market that they believed would not earn at least $50 million. But many companies are now looking to niche or small markets for brand growth. An example of this is the increasingly popular concentration on coeliac disease sufferers and the creation of gluten-free products for their benefit. In Australia, it is estimated that one in every 70 people is affected by this disease, which damages the digestive system when sufferers ingest gluten, but that as many as 80 per cent of these people are currently undiagnosed.[12] As awareness increases, these numbers, and consequently the size of the market, will grow and thereby dramatically increase in financial value. There are several producers of gluten-free products and these are becoming widely available throughout major supermarket chains as well as discount supermarkets such as ALDI with its 'HAS NO. . . Gluten Free' brand (see Exhibit 9.4).



Exhibit 9.4 Supermarkets such as ALDI are increasingly offering gluten-free products.

Source: Courtesy of ALDI Stores

Ethical and societal dilemma **9.1**

Innovation at all costs? Privacy concerns at the forefront

Privacy concerns are quickly becoming a red-hot issue for many consumers. As more smart products enter our homes, many consumers wonder just how safe their personal information is from unscrupulous hackers—and even some manufacturers. Laptops and mobile phones are typically the types of devices suspected of causing a breach in security, but new concerns are being raised over the widespread consumer adoption of Amazon Echo, Amazon Alexa and Google Home, as well as web-enabled and interactive digital gaming that children and teens seem to enjoy so much. These devices have the capability not just to collect personal data—which must be provided to access networks—but also to listen in to conversations in the home and, potentially, see users. With the rapid pace of technological development, regulators are having trouble keeping up. Without clear rules on the governance and control of such technologies, manufacturers create their own rules. Thus, customer data is not protected.

Continued

Privacy concerns extend to the most vulnerable consumers in society: young children. With the introduction of smart toys such as Mattel's wi-fi-enabled Hello Barbie and Vivid Toy Group's My Friend Cayla doll, security breaches have been detected. It was found that hackers could bypass installed firewalls to monitor a child's whereabouts and listen to conversations to the extent that they could even hold their own personal conversations with a child through the toy. Watchdog groups have raised concerns. Parents have been urged to rethink their reliance on smart technologies in the home as a means of taking steps to protect their privacy.[13]

In the United States, advocacy groups have become vocal as apprehension grows about the storage and use of voice recordings gathered from smart devices. However, the company behind storing voice prints recorded from Cayla has already reserved the right to use any data it gathers as it chooses. Cayla has been banned in Germany on the basis that it is an illegal surveillance device, but it is still available for sale in other countries and on eBay.[14]

Managing risk through diversity

Through innovation, firms often create a broader portfolio of products, which help them diversify their risk and enhance firm value better than a single product can.[15] If some products in a portfolio perform poorly, others may do well. Firms with multiple products can better withstand external shocks, including changes in consumer preferences or intensive competitive activity. For this reason, firms like 3M demand that a specific percentage of their sales each year must come from new products introduced within the previous few years. In the soft drinks aisle, Coca-Cola offers many variations of its long-standing basic product, including still water, flavoured mineral water, flavoured soft drinks and sparkling water. This diversification enables Coca-Cola to enjoy more consistent performance than it would with just one kind of carbonated beverage.

Fashion cycles



Exhibit 9.5 Designer–department store partnerships are increasingly common; for example, Target has partnered with big-name fashion designers, including Lilly Pulitzer.

© Cindy Ord/Getty Images

In industries that rely on fashion trends and experience short product life cycles–including apparel, arts, books and software markets–most sales come from new products. For example, a film generates most of its cinema, DVD and pay TV revenue within a year of its release. If the same selection of books were always for sale, with no new titles, there would be no reason to buy more. Consumers of computer software and video games demand new offers because once they have mastered the game, they want to be challenged by another game or experience the most recent version. In the case of apparel, fashion designers produce entirely new product selections a few times per year. In Australia, designer-department store partnerships are increasingly common in order to stimulate demand for such products (see Exhibit 9.5). For example, Target has been collaborating with top designers for 20 years. On 14 September 2019, it launched a 300-piece limited-edition collection that is designed to encapsulate the greatest hits of its best designer pair-ups across the years. Designers include Issac Mizrahi, Anna Sui, Lilly Pulitzer, Zac Posen, Missoni, Proenza Schouler, Rodarte, Jason Wu, 3.1 Phillip Lim, Altuzarra and more.[16] In Australia, collaborations have focused on local designers such as Collette Dinnigan, and support emerging Australian talent such as Rachael Zheng, who graduated from the University of Technology Sydney in 2014 and was a finalist of the 2015 Target National Graduate Showcase as part of the Virgin Australia Melbourne Fashion Festival.[17]

Improving business relationships

Innovation is not always targeted at the end-user consumer market. Instead, it is sometimes used to improve relationships with suppliers and other intermediaries to enhance value creation. For example, Coca-Cola and Pepsi are engaged in a long-standing battle for market share throughout the world

(see Exhibit 9.6), but the battle is most prominent in the Latin American market. In this market, consumers are heavily influenced by community ties and local brands, and are not as receptive to traditional mass marketing as consumers in other countries. Both companies see creating local businesses partnerships as an opportunity to overcome such resistance. PepsiCo had made significant inroads, but Coca-Cola's relentless and broad focus on supplier relationships and local communities resulted in increased sales in Brazil and Mexico,[18] and market domination, at 29 per cent.[19] Driving the strength of their foothold further, in 2013 Coca-Cola Latin America, together with reputable international and small local partners, embarked on a three-year community development project–the Millennium Water Alliance–to support rural communities by delivering clean water, improved sanitation and hygiene solutions. Clearly, innovation has a valuable place among suppliers and businesses to create mutual advantage for their brands, consumers and society as a whole.



Exhibit 9.6 Coca-Cola versus Pepsi: the cola wars.
© Sheila Fitzgerald/Shutterstock

Thus, even if they succeed in innovating and creating new products, new-to-the-world products are not adopted by everyone at the same time. Rather, they diffuse or spread through a population in a process known as *diffusion of innovation.*

CHECK YOURSELF

1. Why do firms innovate?

DIFFUSION OF INNOVATION

LO 9.2

The process by which the use of an innovation–whether a product, a service or a process–spreads throughout a market group, over time and across various categories of adopters, is referred to as **diffusion of innovation**.[20] The theory relating to diffusion of innovation helps marketers understand the rate at which consumers are likely to adopt a new product. It also gives them a means to identify potential markets for their new products and predict their potential sales, even before they introduce the innovations.[21]

diffusion of innovation
The process by which the use of an innovation, whether a product or a service, spreads throughout a market group over time and over various categories of adopters.

Truly new product introductions–that is, new-to-the-world products that create new markets–can add tremendous value to firms. These new products, also called **radical innovations**, **pioneers** or **breakthroughs**, establish a completely new market or radically change both the rules of competition and consumer preferences in a market.[22] The Apple iPod is a pioneer product. Not only did it change the way people listen to music, but it also created an entirely new industry devoted to accessories, such as cases, ear buds, docking stations and speakers. Although Apple offers many of these accessories itself, other companies have jumped on the bandwagon, ensuring that you can strap your iPod to your arm while on the move or insert it into the base of a desk lamp equipped with speakers to get music and light from your desk. And don't forget: the Apple iPod also launched perhaps the most notable other recent pioneer, the iPhone, along with the innovative iTunes service, the iPod Touch and iPad and even the Apple Watch.[23]

radical innovations (or pioneers or breakthroughs)
A new product introduction that establishes a completely new market or radically changes both the rules of competition and consumer preferences in a market; also called a *breakthrough.*

Pioneers have the advantage of being **first movers**; as the first to create the market or product category, they become readily recognisable to consumers and thus establish a commanding and early market share lead. Studies also have found that market pioneers can command a greater market share over a longer time period than later entrants can.[24] Yet not all pioneers succeed.[25] In many cases, imitators capitalise on the weaknesses of pioneers and subsequently gain advantage in the market. Because pioneering products and brands face the uphill task of establishing the market alone, they pave the way for followers, who can spend less marketing effort creating demand for the product line and focus directly on creating demand for their specific brand. Also, because the pioneer is the first product in the market, it often has a less sophisticated design and may be priced relatively higher, leaving room for better and lower-priced competitive products. A majority of new products are failures: as many as 95 per cent of all new consumer goods fail and products across all markets and industries suffer failure rates of 50 to 80 per cent.[26]

first movers
Product pioneers that are the first to create a market or product category, making them readily recognisable to consumers and thus establishing a commanding and early market share lead.

An important question to ask is, why is the failure rate for new products so high? One of the main reasons is the failure to assess the market properly by neglecting to do appropriate product testing, targeting the wrong segment, and/or poor positioning.[27] Firms may also overextend their abilities or competencies by venturing into goods or services that are inconsistent with their brand image and/or value proposition. Some infamous product failures are summarised in Table 9.1.

As the diffusion of innovation curve in Figure 9.2 shows, the number of users of an innovative product spreads through the population over a period of time and generally follows a bell-shaped curve.

Table 9.1 Illustrative product failures

Product	Concept	Why it failed
Google Glass	In 2012, Google announced the next big innovation in wearable technology: Google Glass, glasses with smartphone technology.	Although tech circles were excited about the product, privacy concerns, system bugs and being banned from public spaces prevented the product from living up to expectations. Development was stopped in 2015.
New Coke	In response to growing market pressure, Coca-Cola launched a reformulated version of its classic cola in 1985 that was so hated it was pulled from shelves three months later.	Coke underestimated consumers' affinity for the original formulation and their unwillingness to change.
Sony Betamax	In 1975, Sony bet big on the Betamax, one of the first ever mass-produced home video recording systems.	Unfortunately, the next year JVC launched the VHS player, sparking a format war similar to the Blu-Ray and HD-DVD format wars of 2006.
Harley-Davidson Perfume	After being successful with lighters and T-shirts bearing the Harley logo, Harley-Davidson branched out into its own line of perfumes 'associated' with the motorcyling lifestyle.	Although lighters and T-shirts may resonate with the Harley image, customers were not as attracted to smelling like a motorcycle.
Bic Underwear	Bic is well-known for its disposable products: pens, lighters and razors. Capitalising on its ability to cross product categories, Bic began producing underwear.	The concept of buying underwear from a company well-known for disposable pens was confusing and offputting to consumers.
Bottled Water for Pets	Trying to capitalise on the pet pampering craze, makers of *Thirsty Cat!* and *Thirsty Dog!* launched a line of bottled water for cats and dogs. No longer did owners need to give their pets tap water; instead they could give them a 'daily pet drink' in flavours such as Crispy Beef, Tangy Fish and Grilled Chicken.	Although people do indeed desire to pamper their pets, the idea of purchasing bottled water for them never caught on. The associations generated by their flavours, such as 'tangy fish' tasting water, probably did not help either.
Frito Lay Lemonade	To Frito Lay, lemonade seemed like a reasonable enough brand extension. After all, the high salt content of corn chips often leads consumers to search out something to quench their thirst.	Associating a salty snack with a supposed 'thirst quencher' did not go over well.
Kellogg's Breakfast Mates	Capitalising on the convenience market, Kellogg's Breakfast Mates launched a line of cereal products in 1998 that came with cereal, spoon and milk together.	Sometimes a good idea is poorly executed. The milk was usually warm because it did not require refrigeration and the product was not child-friendly, making its appeal very limited.
Apple Newton	Launched in 1993 with a price tag of more than $700, the Apple Newton was one of the first PDAs, which then led the way for the Palm Pilot, BlackBerry and iPad.	The Newton concept was ahead of its time. Unfortunately, due to its bulky size and ridicule by comedians, the Newton only lasted until 1998.
Colgate Kitchen Entrees	Colgate launched a line of frozen dinners. Apparently the idea was that consumers would enjoy eating a Colgate meal and then using Colgate on their toothbrush afterwards.	The association of toothpaste with a chicken stir-fry was something customers did not find appetising.
Clairol's Touch of Yogurt Shampoo	This was a shampoo with a 'touch of yoghurt' to improve hair quality.	Consumers were not enticed by the idea of washing their hair with yoghurt, something Clairol should have known after its 'Look of Buttermilk' failed in test markets a few years earlier.

A few people buy the product at first, then increasingly more buy it, and finally fewer people buy as the degree of diffusion slows. These purchasers can be divided into five groups according to how soon they buy the product after it has been introduced.

Innovators

Innovators are those buyers who want to be the first on the block to have the new product. These buyers enjoy taking risks and are regarded as highly knowledgeable. You probably know someone who is an innovator–or perhaps you are one for a particular product category. For example, the person who stood in line overnight to be sure to get a ticket for the very first showing of the latest superhero movie is an innovator in that context. Those consumers who already fly drones are likely innovators, too–a development covered in Ethical and societal dilemma 9.2. Firms that invest in the latest technology, either to use in their goods or services or to make the firm more efficient, are also considered innovators. Typically, innovators keep themselves very well informed about the product category by subscribing to trade and specialty magazines, talking to other 'experts', visiting product-specific blogs and forums that describe the newest products and emergent trends. They also attend product-related forums, seminars and special events to educate themselves on new product opportunities. Yet innovators represent only about 2.5 per cent of the total market for any new product.

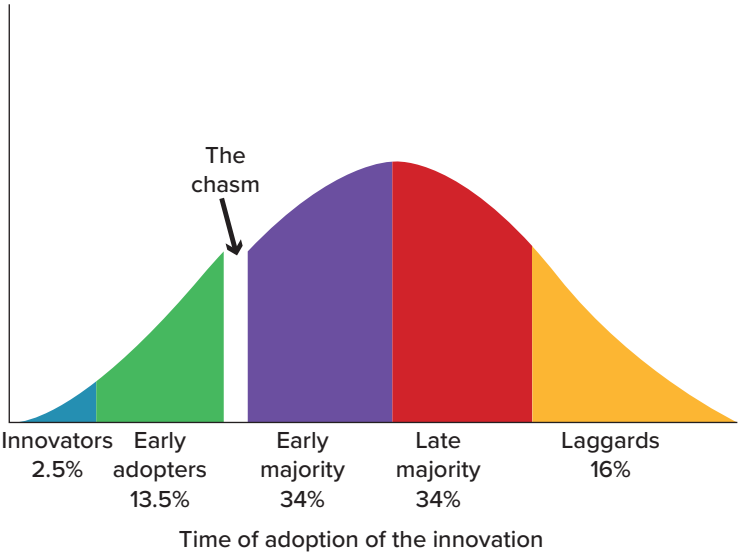


Figure 9.2 Diffusion of innovation curve

Source: Courtesy of LEAD, Illustrations by Bryan Mathers, Visual Thinkery

innovators
Those buyers who want to be the first to have the new product.

Innovators are crucial to the success of any new product though, because they help the product gain market acceptance. Through talking about and spreading positive word of mouth about the new product, they prove instrumental in bringing in the next adopter category, known as early adopters.[28]

Ethical and societal dilemma 9.2

Drones

As some of the newest gadgets on the consumer market, personal drones have become very popular across the world. Although the United States remains the biggest market, consumers in Europe, China and Australia also find them irresistible, using them for fun, photography and videography (see Exhibit 9.7). For more serious-minded and business users, drones also have a variety of uses, such as creating short fly-through films for real estate, conducting aerial checks of surf conditions at beaches, monitoring livestock on rural properties, and are even being used on construction sites, where crews now can send drones hundreds of feet in the air to take up-to-the-minute digital images, map the progress of the construction and identify where to install solar panels or other elements—without requiring any member of the crew to risk life and limb by climbing multiple storeys and dangling a tape measure to get the information. They are also used for storm tracking, military use and have been proposed as carriers in package delivery services.

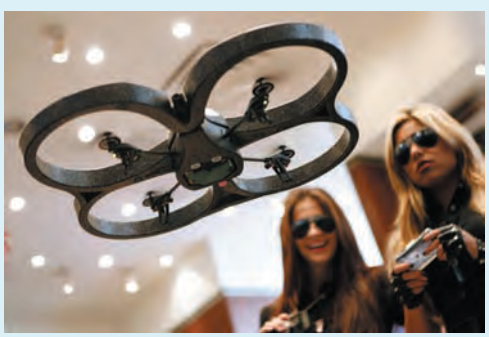


Exhibit 9.7 Drones are among the hottest new products on the market.

© Kimihiro Hoshino/AFP/Getty Images

Continued

But along with these notable benefits for business and consumers, the use of drones has created some new privacy and ethical concerns. Unfortunately, drones enable unethical users to capture unsolicited and unwarranted images of others, intruding on the privacy and threatening the safety of some of their subjects. Serious concerns surrounding the use of private drones persist, without any sign of a clear resolution. Furthermore, evidence that some national governments are seeking to extend their uses of drones, to establish massive 'armies' of small devices that could swarm battlefields, leads some observers to suggest there is a serious ethical crisis with potentially global implications. In Australia, some specific privacy protections have been established in relation to drones. These include flying only during the day and in the user's line of sight, not flying higher than 120 metres above ground level, keeping the drone at least 30 metres away from others, not flying over an emergency area or above people (including beaches, parks or events) and respecting personal privacy, such as ensuring recording of personal images are not made without consent.[29] The challenge these laws face, though, is finding a way to impose reasonable privacy limits without hindering the useful, fun and effective applications of these innovative devices by ethical businesses and consumers.

Early adopters

early adopters
The second group of consumers in the diffusion of innovation model, after *innovators,* to use a product innovation; generally don't like to take as much risk as innovators but instead wait and purchase the product after careful review.

The second group that begins to use a product innovation is **early adopters**. They generally do not appreciate risk taking to the same extent as innovators, and instead wait and purchase the product after careful review (and some early trial by innovators). Thus, this market waits for the first reviews of the latest movie before purchasing a ticket, though they are still likely to go a week or two after it opens. Early adopters do not stand in line to grab the first Samsung's Chromebook Plus;[30] only after reading the innovators' experiences and reviews do they decide whether the new technology is worth the cost. Most of them go ahead and purchase though, because early adopters tend to enjoy novelty and often are regarded as the opinion leaders for particular product categories.

This group, which represents about 13.5 per cent of all buyers in the market, spreads the word. As a result, early adopters are crucial for bringing the other three buyer categories to the market. If the early adopter group is relatively small, it is likely that the number of people who ultimately adopt the innovation will also be small.

Early majority

early majority
A group of consumers in the diffusion of innovation model that represents approximately 34 per cent of the population; members don't like to take much risk and therefore tend to wait until bugs are worked out of a particular product; few new goods and services can be profitable until this large group buys them.

The **early majority**, which represents approximately 34 per cent of the population, is crucial because few new goods and services can be profitable until this large group buys them. If this group never becomes large enough, the product typically fails.

The early majority group differs in many ways from buyers in the first two groups. Its members don't like to take as much risk and therefore tend to wait until 'the bugs' are worked out of a particular product. This group probably rents the latest *Star Wars* or *Frozen* movie once all the reviews are in and/or some of their friends have seen it. Thus, they experience little risk, as they are fairly certain that the cost of going to the cinema will be justified by expected enjoyment of the movie. When early majority customers enter the market, the number of competitors in the marketplace has usually also reached its peak, so these buyers have many different price and quality choices.

Late majority

late majority
The last group of buyers to enter a new product market; when they do, the product has achieved its full market potential.

At 34 per cent of the market, the **late majority** is the last group of buyers to enter a new product market. When they do, the product has achieved its full market potential. Perhaps these movie watchers wait until the newest movie is available on Netflix. By the time the late majority enters the market, sales tend to level off or may be in decline.

Laggards

laggards
Consumers who like to avoid change and rely on traditional products until they are no longer available.

Laggards make up roughly 16 per cent of the market. These consumers like to avoid change and rely on traditional products until they are no longer available. In some cases, laggards may never adopt a

certain product. When *Star Wars* or *Frozen* eventually shows up on their regular television networks, they are likely to go ahead and watch it.

Using the diffusion of innovation theory

Using the diffusion of innovation theory, firms can predict which types of customers will buy their new product immediately after its introduction, as well as later as the product gets more and more accepted by the market. With this knowledge, the firm can develop effective promotion, pricing and other marketing strategies to encourage acceptance among each customer group. Let's consider an example of some everyday products.



Exhibit 9.8 Consumers who are fixated on cleaning will spend substantial amounts for the most technologically advanced machines, such as this Dyson Ball vacuum cleaner.

© Hugh Threlfall/Alamy Stock Photo

Although they are not as flashy as the latest iPhone, cleaning supplies are used by everyone. Often the innovators who adopt new cleaning products are the ones who are the most fanatical about cleaning. Firms conduct in-depth research into how people clean their homes to identify such segments. This research finds that some people are so obsessive about cleaning that they spend nearly 20 hours every week doing it, whereas others are so reluctant that they avoid cleaning as much as they can; their average weekly cleaning time is about 2.5 hours.[31] Their options with regard to the available products to assist them in their cleaning tasks are vast, from scrubbers to sprays to vacuums to dusters. Thus, in the vacuum cleaner market, manufacturers recognise that the segment of consumers who will spend substantial amounts for the most technologically advanced, powerful, easy-to-manoeuvre machines, such as the latest Dyson model, are likely to be the segment of consumers most fixated on cleaning[32] (see Exhibit 9.8)–whereas another segment just wants some basic suction to get the grit out of their rugs.

Relative advantage

If a product is perceived to be better than substitutes, then the diffusion will be relatively quick. Instead of offering just an e-reader, Apple has developed a multi-purpose 'tablet' device (the iPad). When launched, the iPad had several relative advantages, including a touch screen, a vibrant and large colour screen, access to various games and apps, and the ability to play videos and music.[33]

Compatibility

A diffusion process may be faster or slower, depending on various consumer features, including international cultural differences. Electrolux's latest bagless vacuums offer a key innovation and solve the age-old problem of how to empty the chamber without having a cloud of particles fly out: compact the dirt into a 'pellet'. To make the product more compatible with the needs of people in different cultures, it is made in various sizes. For example, the US version offers a carpet nozzle with a motor, to deal with the dirt accumulated in Americans' larger, often carpeted homes. In contrast, the Asian version offers a smaller and quieter model to suit 'megacity' consumers who live in tiny apartments. Segmenting the market even further, products such as the Swiffer have a relative advantage over the competition because they make cleaning faster, easier and more efficient, especially for seniors and other consumers with mobility issues.[34]

Observability

When products are easily observed, their benefits or uses are easily communicated to others, which enhances the diffusion process. Consumers seeing their friends using the iPad, seeing the devices on television or on YouTube or reading about them in the deluge of media coverage surrounding each iPad release may be convinced to purchase one as well. In contrast, since people may not want to talk about their purchase of moissanite rather than diamond jewellery, or about their botox treatments to reduce wrinkles, the use of these products is less easily observed by others and therefore diffused more slowly.

Complexity and trialability

Products that are relatively less complex are also relatively easy to try. These products will generally diffuse more quickly and lead to greater/faster adoption than those that are not so easy to try.

For example, most customers who may be interested in purchasing a new tablet know that they can go to any Apple store and immediately try it there in the store. The options for trying a Kindle are a little more complex due to the lack of Amazon stores.

The diffusion of innovation theory thus comes into play in the immediate and long-term aftermath of a new product introduction. But before the introduction, firms must actually develop those new offerings. In the next section, we detail the process by which most firms develop new goods and services and how they initially introduce them into the market.

CHECK YOURSELF

1. What are the five groups on the diffusion of innovation curve?
2. What factors enhance the diffusion of a good or service?

LO 9.3

HOW FIRMS DEVELOP NEW PRODUCTS

The new product development process begins with the generation of new product ideas and culminates in the launch of a new product and the evaluation of its success. The stages of the new product development process, along with the important objectives of each stage, are summarised in Figure 9.3.

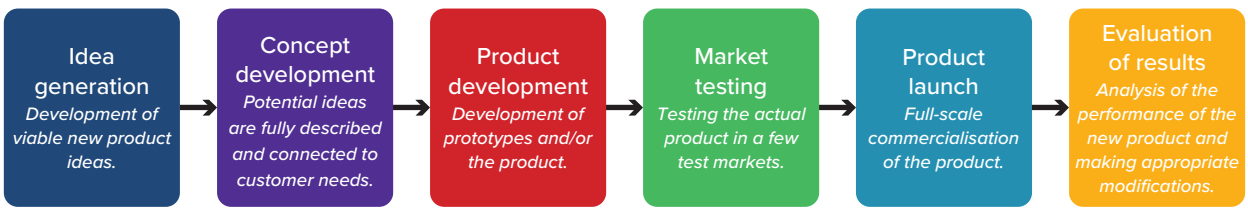


Figure 9.3 The product development process

Idea generation

To generate ideas for new products, a firm can use its own internal R&D efforts, collaborate with other firms and institutions, license technology from research-intensive firms, brainstorm, research competitors' goods and services, and/or conduct consumer research (see Figure 9.4). Firms that want to be pioneers rely more extensively on R&D efforts, whereas those that tend to adopt a follower strategy are more likely to scan the market for ideas. Let's look at each of these idea sources.

Internal research and development

Many firms have their own R&D departments in which scientists and engineers work to solve complex problems and develop new ideas. Historically, firms such as Black + Decker in the consumer goods industry, 3M in the industrial goods industry, and Merck and Pfizer in the pharmaceuticals industry have relied on R&D development efforts for their new products. In the fast-food industry, many chains run vast test kitchens that experiment with various flavours, concepts and food groups to create potential new offerings. Furthermore, the industry uses its common franchise models to support new product development. For example, McDonald's has a test kitchen where talented chefs explore new menu additions and test samples on a limited audience to ensure the products meet consumer standards before they are introduced across franchise locations. In perhaps the most famous example, the Egg McMuffin was created by a franchisee in the early 1970s.[35] In other industries, such as software, music and motion pictures, product development efforts also tend to come from internal ideas and R&D financial investments.

The product development costs for these firms are quite high, but the resulting new product or service is expected to have a good chance of being a technological or market breakthrough.

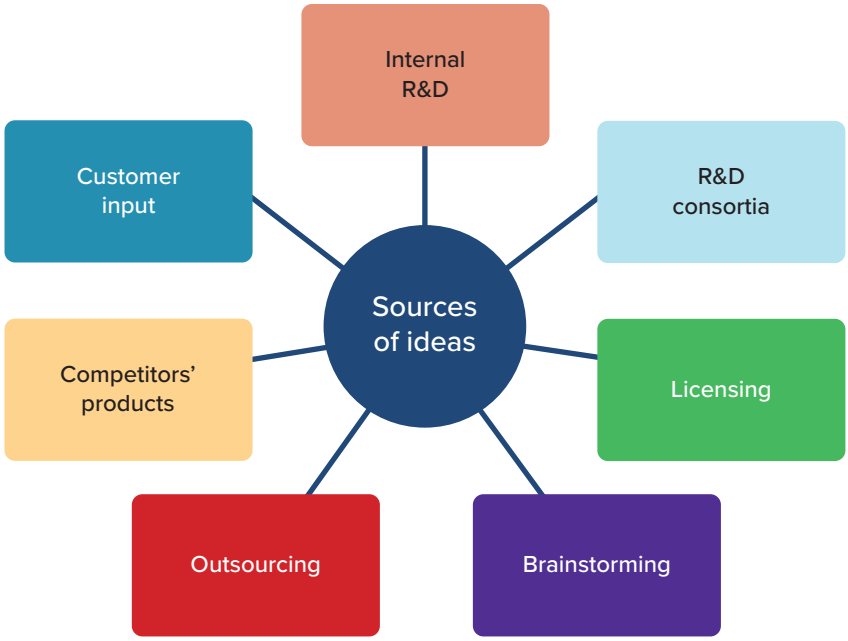


Figure 9.4 Sources of new product ideas

Firms expect such products to generate enough revenue and profits to make the costs of R&D worthwhile. R&D investments generally are considered continuous investments, so firms may lose money on a few new products. In the long run, though, these firms are betting that a few extremely successful new products, often known as blockbusters, can generate enough revenue and profits to cover the losses from other introductions that might not fare so well.

Some global firms also are taking an approach called reverse innovation. They turn to subsidiaries in less developed markets for new product ideas. Samsung's ActivWash washing machine was designed specifically for the Indian market. However, the top-loading machine is now one of the most popular washers in South Korea, where front-loading machines dominated the market previously. The ActivWash machine has become so popular in South Korea that one is sold every two minutes. Unilever's Pureit water purifier was also initially developed for the Indian population; however, it is now available in 13 countries including China, Brazil and Mexico.[36]

R&D consortia

In recent years, more and more firms have been joining consortia, or groups of other firms and institutions, sometimes including government and educational institutions, to explore new ideas or obtain solutions for developing new products. Here, the R&D investments come from the group as a whole and the participating firms and institutions share the results. In many cases, the consortia involve pharmaceutical or high-tech members, whose research costs can run into the millions–too much for a single company to bear. The National Institutes of Health in the United States sponsors medical foundations to conduct research to treat rare diseases. The research is then disseminated to the medical community, encouraging the development of drugs and therapies more quickly and at a lower cost than would be possible if the research were privately funded. One such development, the LifeStraw, designed to enable people to drink safely from dirty streams, is discussed in Adding value 9.2.

Licensing

For many other scientific and technological products, firms buy the rights to use the technology or ideas from other research-intensive firms through a licensing agreement. This approach saves the high costs of in-house R&D, but it means that the firm is banking on a solution that already exists but has not been marketed.

Adding value 9.2

LifeStraw: Innovation designed for the other 90 per cent

Innovations are not only for those who can afford to pay—10 per cent of the world market. Innovative products exist that have been specifically designed to solve problems for the 'other 90 per cent',[37] that is, the poor and under-served. The advent of these products adds so much value that they are life-changing for the target market.

One such example is the LifeStraw, a mobile water-purification tool designed by Torben Vestergaard Frandsen to turn any surface water into drinking water (see Exhibit 9.9).[38] It is effective against waterborne diseases such as typhoid, cholera and dysentery. Considering about half of the world's poor suffer from waterborne diseases and more than 6000 people die each day from consuming unsafe drinking water,[39] the LifeStraw is a life saver! The innovation was first used in Ghana, Nigeria, Pakistan and Uganda. Charitable organisations around the world such as LifeStraw Australia have been actively involved in raising funds to enable them to distribute the LifeStraw to places far and wide where it is needed. Further developments of the LifeStraw have converted the personal-use item into a community storage well to maximise access to safe drinking water. Furthermore, alternative designs have been developed to cater to different needs and open new markets.



Exhibit 9.9 LifeStraw was designed to turn any surface water into drinking water.

© Dorling Kindersley/Getty Images

The LifeStraw is a life saver for the world's majority, and it is a life enhancer for consumers who place value on having a personal water-purifying device. New markets include those who are seeking to safeguard travel routes that are off the beaten track, including army personnel and other intrepid travellers such as hikers and campers.

Thoughtfully and purposefully adding value to a specific market often leads to opportunities to extend to other markets.

Brainstorming

Firms often engage in brainstorming sessions during which a group works together to generate ideas. One of the key characteristics of a brainstorming session is that no idea can be immediately accepted or rejected. The moderator of the session may channel participants' attention to specific product features and attributes, performance expectations or packaging. Only at the end of the session do the members vote on the best ideas or combinations of ideas. Those ideas that receive the most votes are carried forward to the next stage of the product development process.

Outsourcing

When companies have trouble moving through these steps alone, they turn to outsourcing, a practice in which they hire an outside firm to help generate ideas and develop new products and services. IDEO, a design firm, does not sell ready-made product ideas but rather offers a service that helps clients generate new product and service ideas in industries such as health care, toys and computers. IDEO employs anthropologists, graphic designers, engineers and psychologists whose special skills help foster creativity and innovation.

As society keeps moving forward, our homes reflect changing environments and habits. To design the kitchens of the future, IKEA hired IDEO to research how social, technological and demographic changes will influence how we eat and to develop a full-size prototype kitchen (see Exhibit 9.10). The prototype included a pantry with see-through containers and cooling technology that responds to radio-frequency

identification (RFID) stickers. Although the kitchen was not functional, IKEA is using the insights gathered from IDEO research to develop future products.[40]



Exhibit 9.10 IKEA hired IDEO to research how we eat. This research led to new products such as these see-through containers.

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Competitors' products

A new product entry by a competitor may trigger a market opportunity for a firm, which can use reverse engineering to understand the competitor's product and then bring an improved version to market. **Reverse engineering** involves taking apart a product, analysing it and creating an improved product that does not infringe on the competitor's patents, if any exist. This copycat approach to new product development is widespread and practised by even the most research-intensive firms. Copycat consumer goods show up in apparel, grocery and pharmaceutical products, as well as in more technologically complex products like motor vehicles and computers.

reverse engineering Involves taking apart a competitor's product, analysing it and creating an improved product that does not infringe on the competitor's patents, if any exist.

Customer input

Listening to the customer in both business-to-business (B2B) and business-to-consumer (B2C) markets is essential for successful idea generation.[41] Because customers for B2B products are relatively few, firms can follow their use of products closely and solicit suggestions and ideas to improve those products either by using a formal approach, such as focus groups, interviews or surveys or through more informal discussions. The firm's design and development team then works on these suggestions, sometimes in consultation with the customer. This joint effort between the selling firm and the customer significantly increases the probability that the customer eventually will buy the new product.

Customer input in B2C markets comes from a variety of sources. In some cases, consumers may not expressly demand a new product, though their behaviour demonstrates their desire for it. After analysing its sales data, Kmart realised that the majority of its customers always or often buy home brands rather than national brands. So it developed more varied and appealing versions of its 'irresistibly low prices' value proposition. It surveyed mothers, whom it had found are the primary shoppers and target market in its stores, and created a series of advertisements to connect with this target market.

Companies also realise that their customers are on the web–writing customer reviews on retailers' websites and talking about their experiences on Yelp.com or Twitter. By monitoring feedback through these online communities, companies can get better ideas about new products or necessary changes to existing ones.

Social media and mobile marketing 9.1 describes how luxury chocolatier Godiva used the online community voice to gather information to generate ideas to improve products and introduce new ones to the market. Many companies also proactively develop their own online communities to focus the conversations around topics in which they are interested.

Social media and mobile marketing 9.1

From luxurious and expensive to fast and casual

Faced with a severe economic downturn, the luxury chocolatier Godiva set out to determine how its customers were changing too. Godiva's premium products had generally been purchased and given only on special occasions. But in a members-only online community, called Chocolate Talk, Godiva asked customers for their insights in the hope of discovering where and when they buy chocolate—Godiva or any other brand.[42]

The results? People buy Godiva for special occasions for others whom they care about or want to impress, especially during the holiday season and for their birthdays. But true chocolate connoisseurs still expressed their preference for premium chocolate, as opposed to lower-end brands. Because Godiva sells in shopping centre boutiques and stand-alone retail outlets (see Exhibit 9.11), purchasing the chocolates requires a special trip to the shopping centre—acceptable for a special occasion but not for an impulsive treat. Therefore, when chocolate lovers wanted to buy a treat for themselves, they bought premium chocolate from the supermarket or shopping centre where they shopped regularly.

Continued

Buying chocolate for themselves and eating it all prompted feelings of guilt in a lot of these community members. Thus, Godiva realised that people enjoyed sharing chocolate with co-workers. In this setting, the firm's individually wrapped offerings, similar to Lindor Truffles and Ghirardelli Squares, were very appealing.

The company put all these insights together to arrive at a new product concept: premium chocolate, available in regular retail channels such as supermarkets, presented as individually wrapped treats. In so doing, Godiva was also encouraging a new consumer behaviour for its customers: casual purchases of luxury Godiva chocolates.



Exhibit 9.11 Godiva chocolates

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The new Godiva Gems, stand-up bags of individually wrapped truffles, are competitively priced at department stores such as David Jones. The extensive, technology-enabled market research that Godiva undertook in developing this product led to its widespread and great appeal. Godiva Gems may still sound luxurious but they are not just for special occasions, nor just for others. They are intended as treats for oneself, on a more frequent basis.

lead users
Innovative product users who modify existing products according to their own ideas to suit their specific needs.

A particularly successful customer input approach is to analyse **lead users**, those innovative product users who modify existing products according to their own ideas to suit their specific needs.[43] If lead users customise a firm's products, other customers might wish to do so as well. Thus, studying lead users helps the firm understand general market trends that might be just on the horizon. Manufacturers and retailers of fashion products often spot new trends by noticing how innovative trendsetters have altered their clothing and shoes. Designers of high-fashion jeans distress their products in different ways depending on signals they pick up 'on the street'. One season, jeans appear with 'holes', the next season they have paint spots, and so on. At the end of the idea-generation stage, the firm should have several ideas that it can take forward to the next stage: concept development and testing.

Concept development

concept
A brief written description of a product; its technology, working principles and forms; and what customer needs it would satisfy.

concept testing
The process in which a concept statement that describes a product or a service is presented to potential buyers or users to obtain their reactions.

Ideas with potential are developed further into **concepts**, which in this context refers to brief written descriptions of the product; its technology, working principles and forms; and what customer needs it will satisfy.[44] A concept might also include visual images of what the product would look like.

Concept testing refers to the process in which a concept statement is presented to potential buyers or users to obtain their reactions. These reactions enable the developer to estimate the sales value of the product concept, possibly make changes to enhance its sales value and determine whether the idea is worth further development. If the concept fails to meet customers' expectations, it is doubtful it would succeed if it were to be produced and marketed. Because concept testing occurs very early in the new product introduction process, even before a real product has been made, it helps the firm avoid the costs of unnecessary product development.

The concept for an electric scooter might be written as follows:

> The product is a lightweight electric scooter that can be easily folded and taken with you inside a building or on public transport. The scooter weighs 10 kg. It travels at speeds of up to 25 km per hour and can go about 20 km on a single charge. The scooter can be recharged in about two hours from a standard electric outlet. The scooter is easy to ride and has simple controls–just an accelerator button and a brake. It sells for $299.[45]

For concept testing, the firm likely starts with exploratory research, such as in-depth interviews or focus groups, to test the concept, after which it can undertake conclusive research through internet or shopping-centre surveys. Video clips on the internet might show a virtual prototype and the way it works so that potential customers can evaluate the product. In a shopping-centre survey, an

interviewer would provide a description of the concept to the respondent and then ask several questions to obtain their feedback.

The most important question pertains to the respondent's purchase intentions if the product were made available. Marketers should also ask whether the product would satisfy a need that other products currently are not meeting. Depending on the type of product, researchers might also ask about the expected frequency of purchase, how much customers would buy, whether they would buy it for themselves or as a gift, when they would buy and whether the price information (if provided) indicates a good value. In addition, marketers usually collect some information about the customers so they can analyse which consumer segments are likely to be most interested in the product.

Some concepts never make it past concept testing stage, particularly if respondents seem uninterested. Those that receive high evaluations from potential consumers, however, move on to the next step, product development.

Product development

Product development or **product design** entails a process of balancing various engineering, manufacturing, marketing and economic considerations to develop a product's form and features or a service's features. An engineering team develops a product prototype that is based on research findings from the previous concept testing step, as well as their own knowledge about materials and technology. A **prototype** is the first physical form or service description of a new product, still in rough or tentative form, that has the same properties as a new product but is produced through different manufacturing processes–sometimes even crafted individually using new technologies such as 3D printing, which is extensively used across all major industries to trial the look and feel of a product.[46]

Product prototypes are usually tested through alpha and beta testing. In **alpha testing**, the firm attempts to determine whether the product will perform according to its design and whether it satisfies the need for which it was intended.[47] Rather than use potential consumers, alpha tests occur in the firm's R&D department. For instance, the McDonald's test kitchen first tests proposed new menu items with employees. Many people, consumer groups and government agencies are concerned when alpha testing involves testing on animals, particularly when it comes to pharmaceuticals and cosmetics.

In contrast, **beta testing** uses potential consumers, who examine the product prototype in a 'real use' setting to determine its functionality, performance, potential problems and other issues specific to its use. The firm might develop several prototype products that it gives to users, then survey those users to determine whether the product worked as intended and identify any issues that need resolution.

Household products manufacturer Kimberly-Clark uses virtual testing in the beta-testing phase of its product development process. The consumer goods company uses a virtual store aisle that mimics a real-life shopping experience by creating a realistic picture of the interior of the store. A retina-tracking device records the movements of a test customer who 'shops' in the virtual aisle of the store and chooses certain products to investigate further in the simulation. Thus, consumer companies can demonstrate the likely success or failure of a product without actually having to produce it for a market and, potentially, expose its secrets to competitors.[48]

product development (product design)
Entails a process of balancing various engineering, manufacturing, marketing and economic considerations to develop a product's form and features or a service's features; also called *product design*.

prototype
The first physical form or service description of a new product, still in rough or tentative form, that has the same properties as a new product but is produced through different manufacturing processes, sometimes even crafted individually.

alpha testing
An attempt by a firm to determine whether a product will perform according to its design and whether it satisfies the need for which it was intended; occurs in the firm's research and development (R&D) department.

beta testing
Having potential consumers examine a product prototype in a real use setting to determine its functionality, performance, potential problems and other issues specific to its use.

Market testing

The firm has developed its new product and tested the prototypes. Now it must test the market for the new product with a trial batch of products. These tests can take either of two forms: premarket testing or test marketing.

Premarket testing

Firms conduct **premarket tests** before they actually bring a product to market to determine how many customers will try and then continue to use the product according to a small group of potential consumers. Although tests vary depending on client preferences, most tests serve to expose potential customers to the marketing mix variables, such as the promotional campaign and perhaps the price, and then they are surveyed for their opinions. A product trial follows, and then the potential customers are surveyed about whether they would buy or use the product again. This second survey provides an estimation of the probability of a consumer's repeat purchase. From this data, the firm generates a sales

premarket test
Assessments performed before an ad campaign is implemented to ensure that the various elements are working in an integrated fashion and doing what they are intended to do.

estimate for the new product that enables it to decide whether to introduce the product, abandon it, redesign it before introduction or revise the marketing plan. An early evaluation of this sort–that is, before the product is introduced to the whole market–saves marketers the costs of a nationwide launch if the product fails.

Sometimes firms simulate a product introduction, in which case potential customers view the advertising of various currently available products along with advertising for the new product. They receive money to buy the product from a simulated environment, such as a mock webpage or store and respond to a survey after they make their purchases. This test thus can determine the effectiveness of a firm's advertising as well as the expected trial rates for the new product.

Test marketing

test marketing
Introduces a new product to a limited geographical area (usually a few cities) prior to a national launch.

A method of determining the success potential of a new product, **test marketing** introduces the offering to a limited geographical area (usually a few cities) prior to a national launch. Test marketing is a strong predictor of product success because the firm can study actual purchase behaviour, which is more reliable than a simulated test. A test marketing effort uses all the elements of the marketing mix: it includes promotions like advertising and vouchers, just as if the product were being introduced nationally and the product appears in targeted retail outlets, with appropriate pricing. On the basis of the results of the test marketing, the firm can estimate demand for the entire market.

Test marketing costs more and takes longer than premarket testing, which may provide an advantage to competitors that could get a similar or better product to market first without test marketing. For this reason, some firms might launch new products without extensive consumer testing and rely instead on intuition (instincts and 'gut feelings').[49]

Product launch

If the market testing returns positive results, the firm is ready to introduce the product to the entire market. This most critical step in the new product introduction requires tremendous financial resources and extensive coordination of all aspects of the marketing mix. For any firm, if the new product launch is a failure, it may be difficult for the product–and perhaps the firm–to recover. For example, in Australia, cinema admissions increased by 5.6 per cent in 2018 compared to the previous year. Of all the films that have been screened in Australia over the past 35 years, 51 per cent have come from the United States. Asian-produced films account for about 35 per cent, while local films comprise just 8 per cent. The majority of movies are produced in 2D, even though 3D technology exists. The reason for this is that 3D movie theatres seem to have reached their peak and have started declining globally. Despite this decline, Hollywood continues to release 3D movies. In 2016, 19 of the top 25 movies were released in 3D, compared to only 14 of the top 25 movies in 2015. But if–as appears to be the case–moviegoers have decided that the realistic, three-dimensional images are not worth the higher ticket price, such investments might be painful for both movie studios and movie theatres.[50]

So what does a product launch involve? First, on the basis of the research it has gathered on consumer perceptions, the tests it has conducted and competitive considerations, the firm confirms its target market (or markets) and decides how the product will be positioned. Then the firm finalises the remaining marketing mix variables for the new product, including the marketing budget for the first year.[51] This early marketing often simply involves efforts to get people to try a new product.

Promotion

trade promotion
Advertising to wholesalers or retailers to get them to purchase new products, often through special pricing incentives.

introductory price promotion
Short-term price discounts designed to encourage a trial of the products.

The test results help the firm determine an appropriate integrated marketing communications strategy.[52] Promotion for new products is required at each link in the supply chain. If the products are not sold and stocked by retailers, no amount of promotion to consumers will sell the products. **Trade promotions**, which are promotions to wholesalers or retailers to get them to purchase the new products, often combine introductory price promotions, special events and personal selling. **Introductory price promotions** offer limited-duration, lower-than-normal prices designed to provide retailers with an incentive to try the products. Manufacturers may run a special event in the

form of a special display in a supermarket aisle, an introductory celebration or a party in conjunction with an interesting event like the Academy Awards.

Another outlet for exposing buyers to new products is a **trade show**, which is a temporary concentration of manufacturers that provides retailers the opportunity to view what is available and new in the marketplace. The fashion world's equivalent to trade shows are fashion weeks, in which fashion manufacturers meet with retailers and have elaborate runway shows to introduce their new products. Finally, as in many B2B sales situations, personal selling may be the most efficient way to get retailers to purchase their products.

trade shows
Major events attended by buyers who choose to be exposed to goods and services offered by potential suppliers in an industry.

Manufacturers also use promotion to generate demand for new products with consumers. If manufacturers can create demand for the products among consumers, they will go to retailers asking for it (pull demand), thus further inducing retailers to carry the products. These promotions are often coupled with short-term price reductions, vouchers or rebates. Sometimes manufacturers promote new products in advance of the product launch to create excitement with potential customers, as well as to measure the likely demand so they have appropriate supply available. Car and motorcycle manufacturers, for instance, advertise their new products months before they are available on the dealers' floors.

For products that are somewhat complex or conceptually new, marketers may need to provide far more consumer education about the product's benefits than they would for simpler and more familiar products. The quantum dot technology that is being developed to improve the LCD screens on televisions, computers and mobile phones is not something that most consumers understand. But marketers can encourage their adoption by highlighting the clearly evident appeal of energy efficiency, longer battery life and more vibrant colour offered by the innovative technology.[53] In addition, technical support staff, like Apple's 'Geniuses', often must be trained to answer customer questions that may arise immediately after the launch of a new technical innovation.

Place

The manufacturer coordinates the delivery and storage of the new products with its retailers to ensure that it is available for sale when the customer wants it, at the stores the customer is expecting to find it and in sufficient quantities to meet demand. Manufacturers work with their retailers on decisions such as:

- Should the merchandise be stored at retailers' distribution centres or distributed directly to stores?
- What initial and fill-in quantities should be shipped?
- Should the manufacturer be involved in reordering decisions?
- Should the merchandise be individually packaged so it is easy to display in the stores?
- Should price stickers be affixed on the merchandise at the factory or at the store?
- Should the manufacturer be involved in the maintenance of the merchandise once in the store?

Price

Like the promotion of new products, setting prices is a supply-chain-wide decision. Manufacturers must decide at what price they would like products to sell to consumers. They often encourage retailers to sell at a specified price known as the manufacturer's **recommended retail price (RRP)**. Although retailers often don't abide by the RRP, manufacturers can withhold benefits such as paying for all or part of a promotion or even refusing to deliver merchandise to non-complying retailers. It is sometimes easier to start with a higher RRP and then over time lower it than it is to introduce the new product at a low price and then try to raise the price.

recommended retail price (RRP)
The retail price specified by the manufacturer.

When setting the RRP, manufacturers also consider the price at which the new products are sold to the retailers. The retailers not only need to make a profit on each sale, but they may also receive a **slotting allowance** from the manufacturer, which is a fee paid simply to get new products into stores or to gain more or better shelf space for their products.

slotting allowance
Fee firms pay to retailers simply to get new products into stores or to gain more or better shelf space for their products.

Timing

The timing of the launch may be important, depending on the product.[54] Hollywood studios typically release movies targeted towards general audiences (i.e. those rated G or PG) during the summer when children are on holidays from school. New car models are traditionally released for sale during September and fashion products are launched just before the season of the year for which they are intended.

Evaluation of results

After the product has been launched, marketers must undertake a critical post-launch review to determine whether the product and its launch were a success or failure and what additional resources or changes to the marketing mix are needed, if any. Many firms use panel data to improve the probability of success during the test marketing phase of a new product introduction. The consumer panel data is collected by panellists scanning in their receipts using a home scanning device. This information is used to measure individual household first-time trials and repeat purchases. Through such data, market demand can be estimated, so the firm can figure out how best to adjust its marketing mix. Some products never make it out of the introduction stage, especially those that seem almost laughable in retrospect. Bottled water for pets? Harley-Davidson perfume?[55]

For those products that do move on, though, firms can measure the success of a new product by three interrelated factors: (1) its satisfaction of technical requirements, such as performance; (2) customer acceptance; and (3) its satisfaction of the firm's financial requirements, such as sales and profits.[56] If the product is not performing sufficiently well, poor customer acceptance will result, which in turn leads to poor financial performance.

The new product development process, when followed rationally and sequentially, helps avoid such domino-type failures. Coca-Cola has learned this recommendation well, as Superior service 9.1 describes. The product life cycle, discussed in the next section, helps marketers manage their products' marketing mix during and after introduction.

Superior service **9.1**

Coca-Cola Freestyle

Coca-Cola may never totally outlive its failed New Coke product introduction but it is always innovating! One of its innovations that was introduced almost a decade ago in the United States (but that did not extend to Australia) is the Freestyle vending machine (Exhibit 9.12), which appeared to be a step in the right direction. With the Freestyle, Coca-Cola set out to reinvent the 'soda fountain' experience and give customers more choice. The outcome was a success for all stakeholders.

For consumers, the Freestyle vending machines offer access to any combination of caffeine, flavour and calories they choose. Altogether, there are 90 different caffeine-free options on every machine. The possibilities seem infinite!

For supply chain partners, such as restaurants and convenience stores, the Freestyle machines offer high-tech capabilities. Computer software connects every machine to a global supply chain, which enables immediate replenishment and the virtual elimination of out-of-stock situations. It also gives them a new revenue stream.



Exhibit 9.12 The Freestyle vending machine.

© Roberto Machado Noa/Contributor/ Getty Images

For Coca-Cola, the Freestyle software tracks exactly what is ordered on each machine. It thus not only knows which machines to refill but also learns about which products customers prefer in which markets and locations. It then can target its advertising ever more precisely, based on highly accurate preference information that the consumers provide themselves.

For society as a whole, Freestyle machines embody Coca-Cola's 'Live Positively' slogan. The cartridges in the machines are LEED (Leadership in Energy and Environmental Design) gold certified. LEED certification provides independent, third-party verification that a building, home, community or product was designed and built using strategies aimed at achieving high performance in key areas of human and environmental health: sustainable site development, water savings, energy efficiency, materials selection and indoor environmental quality.[57] The syrup that goes into beverages poured from the Freestyle machine is highly concentrated, which makes the product 30 per cent less bulky than bottled beverages. The outcomes include not just cost savings on shipping for the supply chain but also a reduction in the environmental footprint.

More recent innovations include the limited edition ginger-flavoured Coke;[58] the Arctic Coke, a Coke fridge that makes the perfect Slushy Coke;[59] and the Coke Studio for the Deaf, a special studio-like set-up launched in Pakistan to allow hearing-impaired people to enjoy music through touch using vibrating engines embedded in a couch and accompanying lighting, paired with music to share the experience.[60]

CHECK YOURSELF

1. What are the steps in the new product development process?
2. Identify different sources of new product ideas.

Case study 9.1: Low-fat chocolate: love it, like it, hate it?

By Dr Nguyen (Beo) Thai, University of Wollongong

Note: This case is based on actual events, but names and some characteristics have been changed to maintain anonymity.

According to the Australian Bureau of Statistics, two out of three (67%) Australian adults were overweight or obese in 2017–2018. Increasingly, consumers are becoming more aware of their health and wellbeing. This trend challenges the Australian confectionery industry to make healthier products.

Out of all the types of confectionery, chocolate is almost everyone's favourite. The chocolate confectionery market in Australia grew by 3 per cent in both current value and volume terms in 2019. To attract more consumers, chocolate manufacturers are expanding into different formats.

As reducing saturated fat is scientifically proven to be beneficial, Marvellous—a global chocolate brand with a history of more than 100 years—was prompted to improve some of its iconic chocolate products.

Marvellous decided to replace solid fats (high in saturated fats) with liquid oils (e.g. high-oleic sunflower oil), which are high in unsaturated fat (and are healthier). However, reducing saturated fat levels is considered to be a major technological challenge in the confectionery industry because taste, mouth-feel, structure and shelf life are all impacted. To overcome this challenge, Marvellous investigated the ingredients in every component of its chocolate bars (e.g. caramel, nougat and fillings). It then found alternative solutions using analytical and sensory tools. The company claimed that the reformulation process finally resulted in a reduction of more than 10 per cent in saturated fat levels in its iconic chocolate bars without changing the taste, appearance or quality.

However, the conventional wisdom that fat is 'evil' is increasingly being challenged. There is growing evidence that it is sugar—not fat—that causes obesity and other health problems such as heart disease and cancer. In fact, some types of saturated fat, such as those found in cocoa butter, are actually good for us. In contrast, some argue—and unlike what food manufacturers might claim—low-fat foods may actually make us gain weight, not lose it. This is because low-fat diets don't fill us up, leaving us wanting to eat more. In addition, to compensate for the loss of flavour and texture, low-fat foods are bulked out with extra sugar.

From a totally different perspective, Australian chocolate manufacturers can respond to other consumer trends instead of low-sugar chocolates. For example, another way for consumers to indulge

Continued

with less guilt is to have larger packs of chocolate for sharing occasions. As the gifting space continues to grow, chocolate manufacturers can continue to capitalise on seasonal events such as Easter or Christmas to boost sales.

On your next trip to your local supermarket, you might see a pack of low-fat chocolate bars that advertises itself as a 'guilt-free' way for you to enjoy your favourite treat. Would you buy it?

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Questions

1. Using the Ansoff Matrix, indicate the growth strategy that Marvellous adopted.
2. In your opinion, why did Marvellous decide to introduce its low-fat chocolate bars?
3. Given the controversial findings in scientific research regarding the pros and cons of saturated fat, what should Marvellous do?

LO 9.4

THE PRODUCT LIFE CYCLE

product life cycle
Defines the stages that new products move through as they enter, get established in and ultimately leave the marketplace, and thereby offers marketers a starting point for their strategy planning.

introduction stage
The stage of the product life cycle when innovators start buying the product.

The **product life cycle** defines the stages that products move through as they enter, get established in and ultimately leave the marketplace. It thereby offers marketers a starting point for their strategy planning.

Figure 9.5 illustrates a typical product life cycle, including the industry sales and profits over time. In their life cycles, products pass through four stages: introduction, growth, maturity and decline. When the product category first launches, its products initiate the **introduction stage**. In the

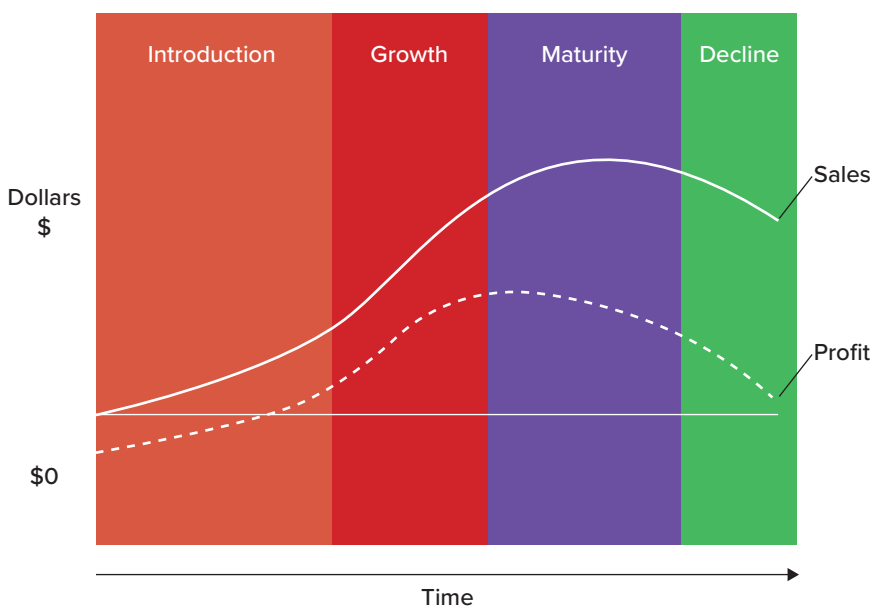


Figure 9.5 Product life cycle

growth stage, the product gains acceptance, demand and sales increase and more competitors emerge in the product category. In the **maturity stage**, industry sales reach their peak, so firms try to rejuvenate their products by adding new features or repositioning them. If these efforts succeed, the product achieves new life.[61] If not, it goes into the **decline stage** and eventually exits the market.

The stages of the life cycle often reflect marketplace trends, such as the healthy lifestyle trend that today places organic and green product categories in their growth stages.

Not every product follows the same life cycle curve. Many products, such as home appliances, stay in the maturity stage for a very long time. Manufacturers may add features to dishwashers and washing machines, but the mature product category remains essentially the same and seems unlikely to enter the decline stage unless some innovative, superior solution comes along to replace them.

The product life cycle offers a useful tool for managers to analyse the types of strategies that may be required over the life of their products. Even the strategic emphasis of a firm and its marketing mix (the four Ps) strategies can be adapted from insights about the characteristics of each stage of the cycle, as we summarise in Table 9.2.

Let's look at each of these stages in depth.

growth stage
The stage of the product life cycle when the product gains acceptance, demand and sales increase, and competitors emerge in the product category.

maturity stage
The stage of the product life cycle when industry sales reach their peak, so firms try to rejuvenate their products by adding new features or repositioning them.

decline stage
The stage of the product life cycle when sales decline and the product eventually exits the market.

Table 9.2 Characteristics of different stages of the product life cycle

	Introduction	Growth	Maturity	Decline
Sales	Low	Rising	Peak	Declining
Profits	Negative or low	Rapidly rising	Peak to declining	Declining
Typical consumers	Innovators	Early adopters and early majority	Late majority	Laggards
Competitors (number of firms and products)	One or few	Few but increasing	High number of competitors and competitive products	Low number of competitors and products

Introduction stage

The introduction stage for a new product usually starts with a single firm and innovators are the ones to try the new offering. Some new-to-the-world goods and services that defined their own product category and industry include the telephone (invented by Alexander Graham Bell in 1876), the transistor semiconductor (Bell Laboratories in 1947), the Walkman portable cassette player (Sony in 1979), the internet browser (Netscape in 1994), the personal digital assistant (Palm in 1996), iTunes (Apple in 2001), Facebook (2004), Blu-Ray (Sony in 2006), iPad (Apple in 2010) and the Amazon Echo smart speaker (Amazon in 2015). Sensing the viability and commercialisation possibilities of some market-creating new product, other firms soon enter the market with similar or improved products at lower prices. The same pattern holds for less-innovative products like apparel, music and even new soft-drink flavours. The introduction stage is characterised by initial losses to the firm due to high start-up costs and low levels of sales revenue as the product begins to take off. If the product is successful, firms may start seeing profits towards the end of this stage.

Growth stage

The growth stage of the product life cycle is marked by a growing number of product adopters, rapid growth in industry sales, and increases in the number of competitors and the number of available product versions.[62] The market becomes more segmented and consumer preferences more varied, which increases the potential for new markets or new uses of the product.[63]

Also during the growth stage, firms attempt to reach new consumers by studying their preferences and producing different product variations–varied colours, styles or features–which enable them to segment the market more precisely. The goal of this segmentation is to ride the rising sales trend and firmly establish the firm's brand, so as not to be outdone by competitors. For example, many food manufacturers and retailers are working hard to become the first brand that consumers think of when they consider organic products. Woolworths supermarket stocks Macro Wholefoods Market organic



Exhibit 9.13 ALDI's organic food brand Macro Wholefoods Market.
Source: Courtesy of ALDI Stores

range, Coles supermarket offers Coles Organic and ALDI supermarket sells a homebranded organic range of products (see Exhibit 9.13). By selling organic foods, these brands promise that no pesticides were used to produce the food items. Organic food represents a growth category and companies are working hard to establish the distinctive appeal of their brands.

As firms ride the crest of increasing industry sales, profits in the growth stage also rise because of the economies of scale associated with manufacturing and marketing costs, especially promotion and advertising. At the same time, firms that have not yet established a stronghold in the market, even in narrow segments, may decide to exit in what is referred to as an 'industry shakeout'.

Maturity stage

The maturity stage of the product life cycle is characterised by the adoption of the product by the late majority and intense competition for market share among firms. Marketing costs (e.g. promotion, distribution) increase as these firms vigorously defend their market share against competitors. They also face intense competition on price as the average price of the product falls substantially compared with the shifts during the previous two stages of the life cycle. Lower prices and increased marketing costs begin to erode the profit margins for many firms. In the later phases of the maturity stage, the market has become quite saturated and practically all potential customers for the product have already adopted the product. Such saturated markets are prevalent in developed countries.

In Australia, as in the United States, most consumer packaged goods found in supermarkets and discount stores are already in the maturity stage. For example, in the well-established hair care product market, consumer goods companies constantly search for innovations to set themselves apart and extend the time in which they maintain their position in the maturity stage. Several brands including Redken added diamonds as a new ingredient to their Diamond Oil range, offering strength and shine for dull or damaged hair.[64] As this example suggests, firms pursue various strategies during this stage to increase their customer base and/or defend their market share. Other tactics include entry into new markets and market segments and developing new products.

Entry into new markets or market segments

Because a market is saturated, firms may attempt to enter new geographical markets, including international markets that may be less saturated. For example, pharmaceutical companies are realising that they need to turn to BRIC countries (Brazil, Russia, India and China) for continued growth in the coming years. While the US and European markets are fairly saturated, the BRIC countries are expected to continue to grow. China currently has the fastest-growing market, valued at over $86 billion in 2017.[65]

However, even in mature markets, firms may be able to find new market segments. Apple is well-known for releasing new versions of its iPhone and iPad yearly, and development cycles are getting even shorter. Although people still get excited over these new products, they are also beginning to suffer from 'device exhaustion', in which they are becoming progressively less likely to continue to upgrade their phones and tablets. As a result, the smartphone and tablet markets appear nearly or completely mature.[66] The market may be mature, but for many people, these new versions are prohibitively expensive, even when signing a two-year contract. To expand to these lower-income market segments, Apple doesn't get rid of its older devices when a new one comes along. Instead, it

reduces the price on the older versions that are cheaper to produce. As a result, it is able to reach customers who would never be able to afford the latest iPhone model.

Development of new products

Despite market saturation, firms continually introduce new products with improved features or find new uses for existing products because they need constant innovation and product proliferation to defend market share from intense competition. Firms such as 3M, Procter & Gamble and Hewlett-Packard continually introduce new products. Innovations by such firms ensure that they are able to retain or grow their respective market shares. KFC took its expertise with its existing product line consisting of different types of fried chicken and developed Kentucky Grilled Chicken, a relatively innovative product line in an otherwise mature market.[67] McDonald's introduced the Angus Burger as well as the DinnerBox. And Hallmark, which has been the hallmark name for greeting cards for a long time, is trying a variety of innovations, as Adding value 9.3 describes.

Adding value **9.3**

New options to better serve customers

Sending greeting cards is becoming less common, yet there is a market that continues to find value in sending cards and receiving them. Within this market, the postal method is declining in popularity, and the digital method is becoming more prominent. Regardless of the delivery method, the sender always hopes the intended recipient will be delighted with their lovely surprise.



Exhibit 9.14 Hallmark Greetings focuses on cards, gift wrap and related products.

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Hallmark recognises that its purpose is dedicated to creating a more emotionally connected world and making a difference in the lives of others. As the number of senders opting for digital postage overtakes those who use snail mail, users are forming a movement that is disrupting the very foundation of the greeting card business. Paper-based greeting cards are in lower demand, while the market for digital greetings is growing. The two options require different types of creative, production, distribution and value-capture capabilities. To continue to serve the market, Hallmark must continue to respond to both types of customers and so it is continually searching for viable pathways to achieve this aim. Currently, it has 1000 people across the world creating new products every day. In addition, the Hallmark company has diversified its portfolio to include a range of businesses that are broadly related but are aligned with the same mission: to ensure its longevity in very competitive business landscapes. For example, the Hallmark portfolio includes: Hallmark Greetings, which focuses on cards, gift wrap and related products, sold in more than 100 countries; Hallmark retail, which sells in both physical stores and online; Crayola art materials; Crown Media, specialising in publishing and movies; and the Crown Center hotel and residential complex in Kansas City, USA.

In the greeting card space, Hallmark has carefully created and curated a product portfolio that grants consumers creative input, greater convenience and both print and digital options. For example, not only does Hallmark offer standard greeting options, it also provides options for customisable greeting cards in print plus greeting applications available for smart devices, plates and even interactive storybooks that can be personalised for recipients.

Continued

The company is also cognisant of the very meaning of a *greeting,* a signal of recognition and goodwill, which should be special. Research has documented the importance of emotional connectedness for people's physical health and longevity, and marketing studies show that people desire to celebrate smaller, often unnoticed moments. As emails and text messages overtake communications, the challenge for Hallmark is to stay relevant by findings new ways to resonate with shifting consumer habits and preferences and offering superior value. One way that the company has responded is with its campaign, 'Life is a special occasion', which suggests that every day is a good day to send a greeting. Because the campaign moves beyond the idea that cards are only for holidays and birthdays, it encourages consumers to enjoy the value of connecting with significant others at any time.

Decline stage

Products that are in the decline stage of the cycle are there because a sustained change in consumer tastes or preferences has diminished demand, or because new products have entered the market that are capturing consumer attention, or both. At this stage of the product life cycle, marketers must respond to the demand that remains. This might mean adjusting positioning to target a niche segment of diehard consumers, those with specific needs, or those who have not yet tried the product and only feel comfortable entering the market at this late stage. Products that are in the decline stage but which are still active include landline (fixed line) telephones–that are being challenged by lower cost access to broadband and mobile devices that, together, reduce the cost of calls and allow greater flexibility for customers; digital cameras that are being replaced by cameras built into mobile phones and other mobile devices; MP3 players such as Apple's iPod, which are being replaced by streaming and music player services such as Spotify and iTunes, both of which are available on mobile phones; e-book readers because fewer people are reading books at all; GPS systems that are being replaced by Google maps; and external hard drives and usb sticks or flash drives for data storage because people can now seamlessly store and access data on the cloud. The very nature of marketing means that marketers must constantly seek to create and provide value to consumers–all consumers, including those at the front of the curve (innovators), those in the middle (early and late majority), and those at the end (laggards). Each market is valuable and has specific needs that must be met. Products that are new are exciting to work with because they offer something different, but it is important to acknowledge and respect existing, older products that have proven their worth in the market throughout the life cycle.

The shape of the product life cycle curve

In theory, the product life cycle curve is bell shaped with regard to sales and profits. In reality, however, each product category has its own individual shape; some move more rapidly through their product life cycles than others, depending on how different the category is from offerings currently in the market and how valuable it is to the consumer. New products and services that consumers accept very quickly have higher consumer adoption rates very early in their product life cycles and move faster across the various stages.



Exhibit 9.15 Microsoft's Xbox Kinect moved faster than other tech and gaming products through the life cycle curve. It sold well at first, but reached the decline stage after two years.

© Will Ireland/T3 Magazine/Getty Images

For example, Microsoft's Xbox Kinect motion sensor transformed gaming by allowing players to ditch traditional controllers (Figure 9.15). Kinect moved faster than other tech and gaming products through the life cycle curve. Within 60 days of being released, eight million units had been sold, breaking the Guinness World Record for the fastest-selling consumer electronic device. However, just one year later the product seemed to reach maturity, and after two years it reached the decline stage. Although the consumer product moved quickly through the product life cycle, Microsoft has been able to integrate its Kinect motion sensor software into other industrial products, such as miniature satellites.[68]

Strategies based on product life cycle: some caveats

Although the product life cycle concept provides a starting point for managers to think about the strategy they want to implement during each stage of the life cycle of a product, this tool must be used with care. The most challenging part of applying the product life cycle concept is that managers do not know exactly what shape each product's life cycle will take, so there is no way to know precisely what stage a product is in. If, for example, a product experiences several seasons of declining sales, a manager may decide that it has moved from the growth stage to decline and stop promoting the product. As a result, of course, sales decline further. The manager then believes they made the right decision because the product continues to follow a predetermined life cycle. But what if the original sales decline was due to a poor strategy or increased competition–issues that could have been addressed with positive marketing support? In this case, the product life cycle decision became a self-fulfilling prophecy and a growth product was doomed to an unnecessary decline.[69]

Fortunately, new research, based on the history of dozens of consumer products, suggests that the product life cycle concept is indeed a valid idea and new analytical tools now provide 'rules' for detecting the key turning points in the cycle.[70]

CHECK YOURSELF

1. What are the stages in the product life cycle?
2. How do sales and profits change during the various stages?

Case study **9.2: Vinyl is making a comeback**

By Dr Nguyen (Beo) Thai, University of Wollongong

Note: This case is based on actual events, but names and some characteristics have been changed to maintain anonymity.

After a break of almost three decades, since 1989, Sonority Music Entertainment has started pressing vinyl records again due to the dramatic increase in demand for vinyl music in recent years. Notably, the interest comes from both younger customers, who have never used records before, and older fans.

The current music-buying industry is dominated by streaming apps such as Spotify and Apple Music. Yet music consumption has seen a curious cultural and commercial comeback in the form of vinyl, a format made extinct by the compact disc (CD). In Australia, the peak of vinyl was 1987, when sales were worth more than $80 million. By 2007, this format's sales were barely worth $2 million. Now, it is a market worth $20 million and climbing. For those in doubt, vinyl is coming back.

So, what has contributed to this comeback?

Vinyl's revival could be motivated by mere nostalgia for the antithesis of digital streaming. However, that is arguably only a part of the story. Music fans love the warmth of the vinyl sound due to the lack of audio cleanness and perfection. This sound is also more immersive and less detached, thanks to the lack of 'revolutionary' features found in CD players such as the ability to skip tracks and reshuffle albums. In addition, owning and collecting vinyl provides a possessive quality that downloaded music cannot offer to customers—a range of 'ritual' behaviours, from opening the sleeve and gently handling the record to appreciating the aesthetic qualities of the cover. From the business perspective, the margins on vinyl justify its appeal for retailers (e.g. Kylie Minogue's best-of collection *Step Back in Time* costs $24.99 on CD, $59.99 on black vinyl and $64.99 on limited-edition mint-green vinyl).

Would vinyl become mainstream? Is it still a tiny niche market?

Vinyl's comeback is no longer seen as a quirky novelty but instead has come close to being mainstream. In Australia, while vinyl accounts for only 5 per cent of music revenue, compared with more than 12 per cent from CDs, the gap was disappearing by 2019. Although vinyl sales are starting to

Continued

rise again, they are doing so from a very low base. In the United States, there were 8.6 million vinyl albums sold in 2017, compared with 74.5 million CDs, 64.9 million album downloads, and 377 billion streams.

In terms of the managerial implications, the comeback of vinyl is a story of predators and prey. Once the appearance of a new technology leads to the extinction of the previous one, it might be interesting to look at what existed before (e.g. smartphones vs digital cameras vs analogue film) because some of the characteristics of a long-extinct technology often become relevant again. Of course, not every comeback is possible and many have disappeared because they are no longer useful. Yet when a new technology starts dominating a market, it's a good idea to look at what existed two or three generations before and identify how to optimise its features alongside the new format.

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Questions

1. What stage of the product life cycle is vinyl going through at the moment?
2. What are the reasons for the comeback of vinyl?
3. As an investor, would you invest in vinyl records or streaming music apps? Why?

SUMMING UP

LO 9.1 Identify the reasons firms create new products.
Firms need to innovate to respond to changing customer needs, prevent declines in sales from market saturation, diversify their risk and respond to short product life cycles, especially in industries such as fashion, apparel, arts, books and software, where most sales come from new products. Innovations can help firms improve their business relationships with suppliers.

LO 9.2 Describe the different groups of adopters articulated by the diffusion of innovation theory.
The diffusion of innovation theory can help firms predict which types of customers will buy their goods or services immediately upon introduction, as well as later, as they gain more acceptance in the market. Innovators are those buyers who want to be the first to have the new product. Early adopters do not take as much risk as innovators but instead wait and purchase the product after careful review. The early majority don't like to take risks and therefore tend to wait until 'the bugs' have been worked out of a particular product. The late majority are buyers who purchase the product after it has achieved its full market potential. Laggards like to avoid change and rely on traditional products until they are no longer available. Laggards may never adopt a certain product.

LO 9.3 Describe the various stages involved in developing a new product.
When firms develop new products, they go through several steps. First, they generate ideas for the product using several alternative techniques, such as internal research and development, R&D consortia, licensing, brainstorming, outsourcing, tracking competitors' goods or services or working with customers. Second, firms test their concepts by either describing the idea of the new product to potential customers or showing them images of what the product would look like. Third, the design process entails determining what the product will actually include and provide. Fourth, firms test-market their designs. Fifth, if everything goes well in the test market, the product is launched. Sixth, firms must evaluate the new product to determine its success.

LO 9.4 Explain the product life cycle.

The product life cycle helps firms make marketing mix decisions on the basis of the product's stage in its life cycle. In the introduction stage, companies attempt to gain a strong foothold in the market quickly by appealing to innovators. During the growth stage, the objective is to establish the brand firmly. When the product reaches the maturity stage, firms compete intensely for market share and many potential customers already own the product or use the service. Eventually, most products enter the decline phase, during which firms withdraw marketing support and eventually phase out the product. Knowing where a product is in its life cycle helps managers determine its specific strategy at any given point in time.

KEY TERMS

- alpha testing 283
- beta testing 283
- breakthroughs 273
- concept 282
- concept testing 282
- decline stage 289
- diffusion of innovation 273
- early adopter 276
- early majority 276
- first mover 273
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- recommended retail price (RRP) 285
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- slotting allowance 285
- test marketing 284
- trade promotion 284
- trade show 285

MARKETING APPLICATIONS

1. Some people think that a product should be considered 'new' only if it is completely new to the market and has never existed before. Describe or give examples of other types of new products.
2. Panasonic's 3D HD personal camcorder allows users to record live events in three dimensions instead of two. How quickly do you think this product will diffuse among the Australian population? Describe the types of people that you expect will be in each of the diffusion of innovation stages.
3. What are the advantages and disadvantages for companies that are the first to introduce products that create new markets?
4. Identify and describe the ways in which companies generate new product ideas. Which of these ways involve the customer? How can firms assess the value of the ideas that customers generate?
5. Describe an example of a new product that is targeted at the university student market. Using the concept testing discussion in the chapter, describe how you would conduct a concept test for this product.
6. How does the internet help companies gain customer input on existing and new products?
7. Assume Kellogg's is about to introduce a type of muesli and is in the market-testing phase of the new product development process. Describe two ways that Kellogg's might conduct initial market testing prior to launching this new product.
8. As a brand manager at Moi Moi you are responsible for marketing its range of moissanite jewellery. How would you approach this task of promoting your product to a new market?
9. What type of deodorant do you use? What stage of the product life cycle is it in? Is the deodorant manufacturer's marketing strategy—its four Ps—consistent with the product's stage in its life cycle? Explain.
10. In what stage of the product life cycle is a new model of a PlayStation video game console? Is Sony's marketing strategy—its four Ps—consistent with the product's stage in its life cycle? How is it different from that of the deodorant in the previous question? Explain.

Continued

11. You have recently been hired by a cosmetics company in its product development group. The firm's brand is a top-selling, high-end line of cosmetics. The head of the development team has just presented research that shows that 'tween' girls, aged 11 to 15, are very interested in cosmetics and have money to spend. The decision is made to create a line of tween cosmetics based on the existing adult line. As the product moves through development you begin to notice that the team seems to lean towards a very edgy and sexual theme for the line, including naming the various lines 'envy', 'desire', 'prowess' and 'fatal attraction'. You begin to wonder, is this concept too much for girls in the targeted age group? Discuss.

QUIZ YOURSELF

1. By the time BMW and Mercedes-Benz entered the mini-SUV market, there were many competitors, sales had peaked and profits were declining. These firms entered the market during which stage of the product life cycle?
   a. Introduction
   b. Levelling
   c. Maturity
   d. Growth
   e. Decline
2. Lorraine belongs to a national consumer panel created by a market research company. She regularly receives samples of new products from a variety of firms and fills out questionnaires about the products. The national consumer panel Lorraine is part of is engaged in:
   a. premarket testing.
   b. product launch.
   c. test marketing.
   d. product development.
   e. concept testing.

(Answers to these two questions can be found on page 457.)

NET SAVVY

1. Go to www.inventables.com. Choose two of the products on the site. What are some potential applications of these ideas?
2. The automotive industry is constantly adding new and different products and technologies to their cars—both above and under the bonnet. Conduct an internet or library database search and discuss two innovative new automotive technologies that are changing the industry.

CHAPTER CASE STUDY

Do co-working spaces really work?

By Dr Nguyen (Beo) Thai, University of Wollongong

Since the opening of the first official co-working space in San Francisco in 2005, co-working spaces have become a global phenomenon. Today, co-working spaces can be found in at least 150 countries, spanning six continents.

The future of work: a diversified phenomenon

Digital technology. Digital technologies, such as mobile devices and social media, increasingly shape where and how work gets done, and even what counts as work in the first place. Social media promises to create cohesive social and team structures, enabling collaboration between people across time and space. Emerging new technologies are also bringing down the costs of setting up a small business through the proliferation of DIY websites, social media for communication and online business services such as banking.

The rise of the freelancer. Australia counted just over one million independent contractors in August 2015, making up nearly 10 per cent of all employment; a quarter of these were professional services workers. There is evidence of a continuing

trend towards part-time employment that exceeds the growth in full-time jobs. Overall, it has been estimated that around one-third of the Australian workforce performs some form of freelance work. Finally, recent surveys indicate that around a third of our future workforce, the millennials, have a strong preference for freelance work due to perceptions of superior work satisfaction and opportunities.

New ways of working. Driven by the realisation that creative professional work requires more than just a desk or being online, organisations are engaged in a multitude of initiatives to re-imagine where and how work gets done. Further driven by economic rationales, businesses have begun to rethink how they make use of their expensive inner-city real estate to best facilitate work, by doing 'more with less'. Activity-based working (ABW) describes a way to design office space around different kinds of activities, or 'how' work gets done. In ABW spaces, employees no longer 'own' a particular space but rather select spaces suitable for the work task at hand. Importantly, ABW goes beyond mere 'hot desking'; rather, it offers a range of configurations geared towards different activities: creative team collaboration, meetings, quiet work, reflection and rest, as well as integrating workspace with hospitality offerings such as cafes. It also allows people to work off-site while staying connected online. Underpinning such initiatives is a philosophy that workspaces should support the diverse ways in which people work—and an understanding that empowering workers by matching the environment to their work will lead to productivity gains, and also ultimately to more effective talent attraction and management.

Aspirational culture. Increasing the personalisation of the work experience helps workers to satisfy their need for meaningful and purposeful work; this is particularly the case for younger workers, for whom this is becoming more important. As a result, some organisations are beginning to show a renewed awareness of the social impact of work on people's lives. Co-working spaces highlight the importance of building a sense of community through rituals, events and a myriad of experiences, and underline how culture manifests beyond the physical layout and corporate messaging. Corporates, government agencies and non-profit organisations are tapping into co-working spaces as a way to inspire their employees, fostering their organisation's entrepreneurial spirit through a range of innovation events, such as hackathons or hosting inspirational guest speakers.

How co-working works

Co-working spaces are often referred to as a 'third space'—the place for work between the office and the home.

Co-working spaces. Most co-working spaces are shared, open-plan workspaces that usually feature shared desks or tables where co-workers work alongside each other. These open work areas are not dissimilar to the activity-based work settings found in the contemporary office environments of many large corporate buildings today. Yet at the same time, they mark a significant departure from the 'cubicle'-style office layouts that dominated in the 1980s and 1990s. Other features often included in co-working space offerings are meeting spaces, places for presentations and events, entertainment areas, break-out and relaxation spaces, and a small number of private office suites.

Joint activities. Co-working space operators often talk about 'activation' and 'curation' of the space and the community. This refers to the kinds of activities a co-working space offers, creating a positive and engaging experience for members and guests. Such activities are thus both an important way for the operator to differentiate their space from other offerings in the market and an important reason why people sign up to become a member of a particular space. Activities come in many forms: regular member social events, facilitated networking, individual professional introductions, learning events and tours of the space. Other activities that are common in co-working spaces aim to engage and connect members with broader audiences. These activities may also form part of the financial model for the space's operations: hosting events for corporates, utilising space for external events and holding events that engage students.

Membership models. Co-working spaces are usually run on a subscription membership base, which gives members access to all of the available work settings. While each space will have slightly different membership models, members will typically pay a weekly or monthly fee, in line with their membership 'level', which is determined by several factors, which include: frequency, dedicated space, additional services and access.

More than a serviced office: creating community. The creation of a community is the key difference between serviced offices and co-working spaces. Co-working spaces are typically built around a membership base of regular users. As such, they facilitate relationships between members through the open-plan layout of workspaces, the range of social, networking and learning events, and the facilitated introductions between individual members by the staff. These activities provide a sense of identity as a member of a particular co-working community.

Could it soon be a thing of the past?

Despite the benefits of open-plan co-working spaces, it could soon be a 'thing of the past' as there is an increasing demand for private workspaces in a flexible environment. In the 12 months to July 2019, 80 per cent of flexible workspace tenants

Continued

were seeking private offices. Some argue that while new co-working spaces try to create the illusion that they still offer a co-working environment, in reality they don't really. In other words, they are essentially serviced offices and co-working is more of a buzzword than something more concrete nowadays.

The case study is modified based on the Coworking Spaces Australia report, a publication of Sydney Business Insights and the Digital Disruption Research Group at the University of Sydney Business School.

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DISCUSSION QUESTIONS

1. Identify the reasons why co-working spaces are the preferred workplace for millennials and generation Z employees.
2. Based on the diffusion of innovation theory, explain how co-working spaces are increasingly being adopted by companies and organisations.
3. Imagine that you and your co-founders are planning to open a co-working space in your city. As the first part of the 'new product development process' is idea generation, you should conduct a brainstorming exercise to develop new viable ideas to differentiate your co-working space from others in the market. How would you go about it?
4. Conduct some press and media research, and present at least two or three news articles that critique the co-working space business models. What is your personal opinion regarding this business model? Do you think it would work?

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CHAPTER 10

Services: the intangible product

LEARNING OBJECTIVES

LO 10.1 Describe how the marketing of services differs from the marketing of products.

LO 10.2 Discuss the four gaps in the Service Gaps Model.

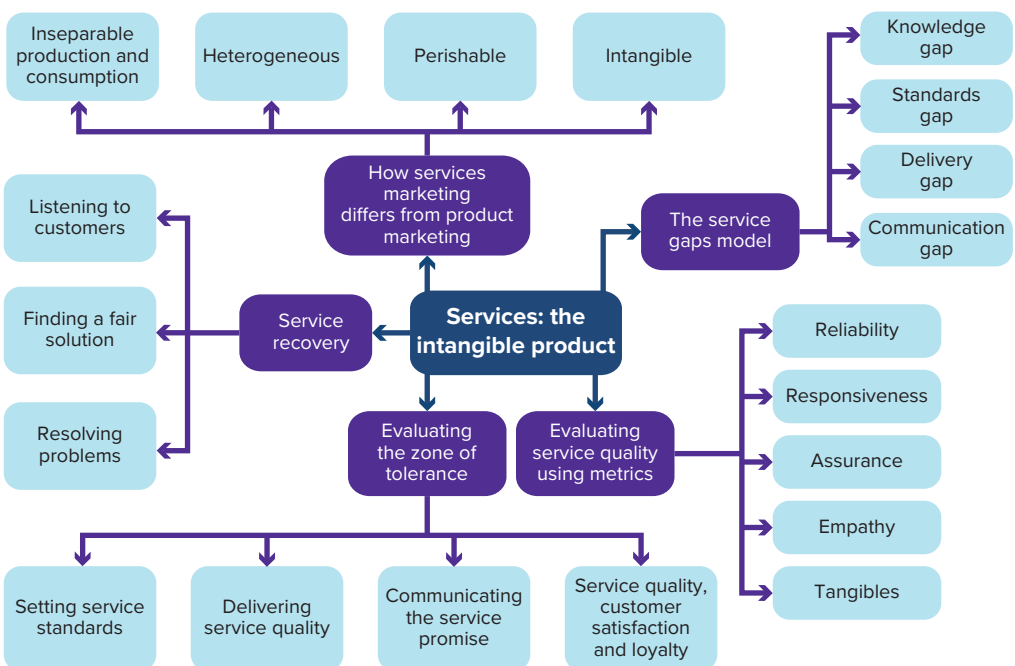
LO 10.3 Examine the five service quality dimensions.

LO 10.4 Explain the zone of tolerance.

LO 10.5 Identify three service recovery strategies.



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Graduate spotlight



NAME
Jiaranai Keatnuxsuo

DEGREE STUDIED
Master of Commerce in Business Information and Logistics Management (2017)
Master of Information Technology (2019)

UNIVERSITY
The University of Western Australia

CURRENT POSITION
Account Manager, Partner and Integration

EMPLOYER
TrafficGuard

What did you learn from your degree and how has it prepared you for a career in marketing?
The biggest takeaway from my degree was that knowledge is constantly changing, especially in the technology and marketing field. Hence, ongoing learning becomes the most paramount element for career development. Through university assignments, my appreciation for the learning process was engaged and has been ingrained in the way I work. The love of learning has led me to habitually refresh my domain knowledge, whether it is studying the latest digital trends or researching new SEO techniques. I eventually became well-prepared to start my career in the most fast-changing time.

What interested you about studying or working in marketing?
I find marketing challenging as there is no one single answer to reach the set objective or outperform competitors.

What have you been up to since graduation?
I have been working full time in a software company that builds online advertising fraud protection. Although I do not work directly in the marketing field, understanding the principles of marketing, such as resonation and personalisation, greatly aids relationship-building with my clients.

What does your current job involve?
My role is to use technical and non-technical skills to help partners integrate my company's product into their environment. This involves an understanding of web technology and communication skills as I sometimes need to deliver complex instructions or difficult requests to the client.

What do you enjoy most about your job?
I love client interaction, which is the reason I am highly committed to work regardless of the job scope or title. I feel a strong sense of satisfaction knowing that someone is living and breathing easier because of my input.

What are your thoughts on the future of the marketing and communication industry? What advice would you give to students wanting to work in marketing?
Technology has become an inescapable tool for marketers to grow their business and to be in the right place at the right time. Due to its prevalence, scepticism about data privacy has ballooned and led to the dilemma between personalisation and privacy. I believe that the lack of trust in marketing will continue to increase as more consumers will be aware of the need to protect themselves online. Therefore, as a marketer, we must ensure that we hold data security as our priority while finding a balance between privacy and personalisation.

Even when online retailers offer great merchandise, the customer service they offer can be a deciding factor in their success. How well staff respond to the stream of customer enquiries may determine whether the company thrives or takes a nosedive. But relating to customers can also be highly variable; it depends on individual employees. How do you mobilise an entire company to speak with one voice? How can a service firm ensure that employee–customer interactions consistently meet or exceed the company's service standards?

Zalora is a great example of how service can drive success. This online fashion retailer operates across South-East Asia, specifically in Indonesia, Singapore, Malaysia, the Philippines, Hong Kong of China, Taiwan of China and Brunei. In Australia, The ICONIC is the equivalent of Zalora, and is owned by the same group. Wherever you are in the world, the online fashion retail market is tough. It was tough in the beginning, as early entrants had to create a culture of online fashion shopping. Once this existed among a large enough group of consumers, the competition then became fierce, with Etsy, Zappos, ASOS and Zalando to name a few. The only way to stand out is service.

Along those lines, maintaining a consistent level of service for a product that cannot be touched before purchase across 16 000 cities with far from perfect delivery networks is a major challenge. For Zalora to succeed, it requires more than good products; consumers can get that in bricks-and-mortar retailers. It requires a level of added value for consumers. This is marketing's job, and Zalora's chief marketing officer (CMO) is responsible for approximately 150 individuals, overseeing the full marketing operations across Asia Pacific.[1] According to the CEO of Zalora's parent company Global Fashion Group, Patrick Schmidt, the CMO will enable Zalora to 'continue to provide fashion consumers in Asia [with] the best online and mobile shopping experience possible and achieve its full potential as the region's fashion retail powerhouse'.[2]

Zalora competes by focusing on service. It uses behavioural data, gathered from customers using its app and website, to deliver tailor-made experiences and recommendations in real time, providing them with a more meaningful and relevant online shopping experience. Also part of its service is the ability to choose a range of delivery options, including same day in some areas. To achieve this goal, Zalora is investing heavily in providing a 'last mile' fleet to finish off deliveries. It is now also offering customers up to 30 per cent cashback via ShopBack on both its website and mobile app.[3]

This is an important element for Zalora: to be seen as local. As an example, the company has different websites for each of the 11 countries it serves. More than that, it offers a cash-on-collection service at some 7-Eleven stores in Singapore, to satisfy those consumers who cannot or prefer not to pay online.[4] It also offers phone orders for those consumers with no or patchy internet access.[5] Other customer service features are free delivery over a certain value (e.g. $30 in Singapore) and a 30-day free return policy, a personalised email newsletter, a 'style' section of the website with the latest trends, tips and advice, and a full social media presence across Facebook, Twitter, Instagram and Snapchat, which really seeks to engage consumers.

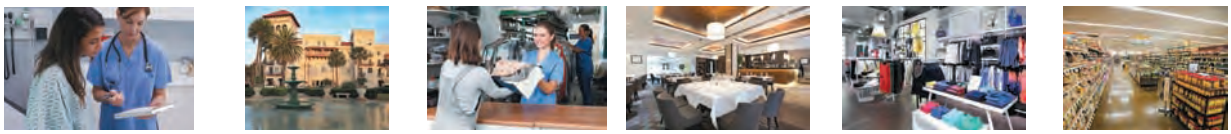
Of course, all of this customer service requires a commitment from Zalora's staff. Thus, although it is an online-only retailer, there are people behind the technology. When retail goes online, delivering the product is just half the battle. Distance complicates service, and how that service gets delivered, whether online or through a call centre, can make or break the customer relationship.

Whereas a **service** is any intangible offering that involves a deed, performance or effort that cannot be physically possessed,[6] **customer service** specifically refers to human or mechanical activities that firms undertake to help satisfy their customers' needs and wants. By providing good customer service, firms add value to their products.

Figure 10.1 illustrates the continuum from a pure service to a pure product. Most offerings, like those of Zalora, lie somewhere in the middle and include some service and some good (i.e. a hybrid of the two). Even firms that are engaged primarily in selling a good, like a clothing store, typically view service as a method to maintain a sustainable competitive advantage. This line of thinking is called service dominant logic (SDL), where the service element dominates even product-based industries. This chapter moves on to take an inclusive view of services as anything from pure service businesses to businesses that use service as a differentiating tool to help them sell physical goods.

service
Any intangible offering that involves a deed, performance or effort that cannot be physically possessed; intangible customer benefits that are produced by people or machines and cannot be separated from the producer.

customer service
Specifically refers to human or mechanical activities firms undertake to help satisfy their customers' needs and wants.



Doctor | Hotel | Dry cleaner | Restaurant | Clothing store | Supermarket

Service dominant ⟷ Product dominant

Figure 10.1 The service–product continuum

Left to right © Rocketclips, Inc./Shutterstock/DAL, Vlad G/Shutterstock/DAL, jackf/123RF/DAL, rilueda/123RF/DAL, fiphoto/123RF.com/DAL, Erik Isakson/Blend Images LLC/DAL

The economies of developed countries such as Australia and New Zealand have become increasingly dependent on services. Services account for approximately 70 per cent of Australian gross domestic product (GDP), and the sector employs four out of every five Australians.[7] Globally, the current list of Fortune Global 500 companies contains more service companies and fewer manufacturers than in previous decades.[8] This dependence and the growth of service-oriented economies in developed countries have emerged for several reasons.

First, it is generally less expensive for firms to manufacture their products in less-developed countries. Even if the goods are finished in Australia, some of their components are likely to have been produced elsewhere. In turn, the proportion of service production to goods production in Australia and other similar economies has steadily increased over time.

Second, people place a high value on convenience and leisure. For instance, household maintenance activities, which many people performed themselves in the past, have become more popular and quite specialised. Food preparation, lawn maintenance, house cleaning, pet grooming, laundry and dry cleaning, hair care and car maintenance are all now often performed by specialists.

Third, as the world has become more complicated, people are demanding more specialised services–everything from plumbers to personal trainers, from massage therapists to tax preparation specialists, from lawyers to travel and leisure specialists and health care providers. The ageing population in particular has increased the need for health care specialists, including doctors, nurses and caregivers in assisted living facilities and nursing homes, and many of those consumers want their specialists to provide personalised, dedicated services.

LO 10.1

SERVICES MARKETING DIFFERS FROM PRODUCT MARKETING

The marketing of services differs from the marketing of products because of the four fundamental differences involved in services: services are intangible, inseparable, heterogeneous and perishable.[9] This section examines these differences and discusses how they affect marketing strategies.

Intangible

intangible
A characteristic of a service; it cannot be touched, tasted or seen like a product can.

As the title of this chapter implies, the most fundamental difference between a product and a service is that services are **intangible**–they cannot be touched, tasted or seen like a pure product can. When you get a physical examination, you see and hear the doctor, but the service itself is intangible. This intangibility can prove highly challenging to marketers. For instance, it makes it difficult to convey the benefits of services–try describing whether the experience of visiting your dentist was good or bad and why. Service providers (e.g. doctors, dentists) therefore offer cues to help their customers experience and perceive their service more positively, such as a waiting room stocked with television sets, drinks and comfortable chairs to create an atmosphere that appeals to the target market.

A service that cannot be shown directly to potential customers is also difficult to promote. Marketers must creatively employ symbols and images to promote and sell services, as BIG4 Holiday Parks does in using its advertising to evoke images of happy families and friends enjoying their holidays (see Exhibit 10.1). Professional medical services provide appropriate images of personnel doing their

jobs in white coats surrounded by high-tech equipment. Educational institutions promote the quality of their services by touting their famous academic staff and alumni, as well as their accreditations. They also often use images of happy students sitting spellbound in front of a fascinating lecturer or going on to forge lucrative careers of their own.

Because of the intangibility of services, the images that marketers use must reinforce the benefit or value that a service provides. Professional service providers, such as doctors, lawyers, accountants and consultants, depend heavily on consumers' perceptions of their integrity and trustworthiness, but they also need to market their offerings using promotional campaigns. There are strict laws governing the advertising of such professional services, but these are sometimes difficult to enforce. The Australian Competition and Consumer Commission (ACCC) is always busy dealing with complaints regarding misleading advertisements about services in particular. In 2019, Flight Centre was fined $252 000 for misleading customers during its Christmas 2018 and Easter 2019 promotions. The ACCC is also looking into home loan pricing, investigating a wide variety of issues ranging from the rates paid by new vs existing customers, how the cost of financing for banks has affected bank decisions on interest rates, and why RBA cuts aren't always passed on in full.[10] Intangible services can lead to more ethical dilemmas. For other providers, there are fewer ethical dilemmas and more emphasis on creativity, as Adding value 10.1 notes.



Exhibit 10.1 Since it is difficult to show a service, companies such as BIG4 Holiday Parks evoke images in their advertising of happy families enjoying their holidays.

Source: BIG4

Adding value **10.1**

SugarSync cloud backup

All of us trust 'the cloud' more and more with our data. Our email, pictures, videos and documents might all be on there. Services such as Dropbox, Google Drive, iCloud, SkyDrive, SugarSync and Ninefold are the main providers in this marketplace, offering a mix of free and premium services depending on the level of storage and sharing needed.

For most small- to medium-sized enterprises (SMEs) the computer system is a lifeline. It contains your history and your present business, and helps you to plan for your future. Yet despite its importance, a growing number of SMEs are neglecting to take the necessary steps to protect their data.[11]

In 2019's Global Fraud Report, 94 per cent of Chinese executives were concerned about data loss. This figure sat at 73 per cent in the United States and 77 per cent in the UK.[12] In Australia, small businesses, rather than larger businesses, are more likely to be the victims of cyber crimes, with 43 per cent of such crimes being targeted at smaller businesses.[13] Yet 87 per cent of small businesses believe they are already safe from data security breaches, and 33 per cent do not take any proactive preventative action. In all, cyber crime costs the Australian economy around $1 billion each year.

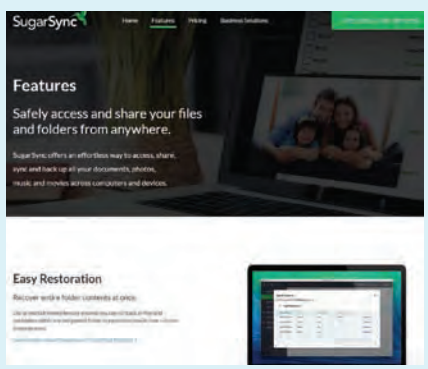


Exhibit 10.2 SugarSync's many ways of adding value for users.

Source: SugarSync

The marketing campaigns of the data storage services respond with an appropriate message of assuredness. SugarSync, in particular, has been effective at marketing its intangible service. Exhibit 10.2 shows its home page, which offers a 30-day free trial to let customers get a feel for the product and compare SugarSync with competitors' products, which is about being transparent. A video is also provided, again

Continued

to 'tangibilise' the service. Famous advocates are also prominently listed, such as *Wall Street Journal,* Bloomberg and *PC Magazine*.

The company's home page also provides a clear layout of the main service features provided. What SugarSync is doing is telling the customer about what its service can *do for them,* rather than giving technical explanations of how cloud-based storage works. However, that is there if you need it, too. SugarSync provides a range of features, such as syncing multiple devices, online backup, a mobile app, security and protection, remote access, photo and music extras, and folder and file sharing with others. SugarSync has also segmented its market into personal and business. With an offering like this, customer service is also important. SugarSync provides real-time customer help for business users, which helps put a personal element to an otherwise virtual service.

For SugarSync, being able to translate its service into a solution for customer's problems is a strategy that is quite rare in business, and one that should continue to drive success among high competition.

Inseparable production and consumption

Unlike a pair of jeans that may have been made six months prior to their purchase, halfway around the world, services are produced and consumed at the same time; that is, service and consumption are **inseparable**. When getting a haircut, the customer is not only present but also may participate in the service process. Furthermore, the interaction with the service provider may have an important impact on the customer's perception of the service outcome. If the hair stylist appears to be having fun while cutting hair, it may positively impact the experience.

inseparable
A characteristic of a service: it is produced and consumed at the same time; that is, service and consumption are inseparable.

Because the service is inseparable from its consumption, customers rarely have the opportunity to try the service before they purchase it. And after the service has been performed, it can't be returned. Imagine telling your hair stylist that you want to have the hair around your ears trimmed as a test before doing your entire head. Because the purchase risk in these scenarios can be relatively high, service firms sometimes provide extended warranties and 100 per cent satisfaction guarantees.[14] Domino's offers a 20-minute delivery guarantee. It uses an algorithm to check how busy the store is, the distance of the delivery and the size of the order to determine whether it can safely deliver your order within 20 minutes.[15]

heterogeneity
As it refers to the differences between the marketing of goods and services, the delivery of services is more variable.

Heterogeneous

The more humans are needed to provide a service, the more likely there is to be **heterogeneity** or variability in the service's quality. A hair stylist may give bad haircuts in the morning because they went out the night before. Yet that stylist still may offer a better service than the undertrained stylist working in the next station over. A restaurant, which offers a mixture of services and products, generally can control its food quality but not the variability in food preparation or delivery. If a consumer has a problem with a product, it can be replaced, redone, destroyed or, if it is already in the supply chain, recalled. In many cases, the problem can even be fixed before the product gets into consumers' hands. But an inferior service can't be recalled; by the time the firm recognises a problem, the damage has been done.

Marketers also can use the variable nature of services to their advantage. A micromarketing segmentation strategy can customise a service to meet customers' needs exactly (see Chapter 6).

In an alternative approach, some service providers tackle the variability issue by replacing people with machines. For simple transactions like getting cash, using an ATM is usually quicker and more convenient–and less variable–than waiting in line for a bank teller.

perishable
A characteristic of a service: it cannot be stored for use in the future.



Exhibit 10.3 Bunnings sells much more than just products. It also sells services around those products.

Source: Courtesy of Bunnings Warehouse

Perishable

Services are **perishable** in that they cannot be stored for use in the future. You can't stockpile your membership at Fitness First like you could a carton of beer, for instance. The perishability of services provides both challenges and opportunities to marketers



Exhibit 10.4 Self-service at Coles helps customers get the service they need.

© Daria Ni/Shutterstock



Exhibit 10.5 Since services are perishable, service providers such as airlines offer promotions when demand may be lower.

© AmazeinDesign/Shutterstock

in terms of the critical task of matching demand and supply. As long as the demand for and supply of the service match closely, there is no problem, but unfortunately, this perfect matching rarely occurs. Flights, for example, are not always full. This may be more comfortable for the passengers, but the airline may be losing money on a particular flight or even route. This is why they use promotions, from simple money-off deals to more complicated points deals, or even free upgrades (see Exhibit 10.5). They are always trying to predict and meet supply with demand. All service providers, from restaurants to cinemas, confront similar challenges and address them in similar ways.

Certainly, providing great service is not easy and it requires a diligent effort to analyse the service process piece by piece. In the next section, we examine what is known as the Service Gaps Model, which is designed to highlight those areas where customers believe they are getting less or poorer service than they should (the gaps) and how these gaps can be closed.

CHECK YOURSELF

1. What are the four marketing elements that distinguish services from products?
2. Why can't we separate firms into just service or product sellers?

Case study 10.1: Pet insurance—a service from the heart

By Dr Rajeev Sharma, Charles Darwin University

Australia is a nation of pet lovers. Pet ownership in the country is among the highest in the world. Almost two-thirds of households in Australia have pets. Most pet owners find the company of their pets therapeutic. To them, pets bring a sense of happiness and love and they treat their pets as members of the family. This love is not limited to traditional pets such as dogs and cats, but can also include native animals. While some people may consider it wrong to keep these animals in captivity and away from their natural habitats, for pet lovers, they are a part of their family.



Exhibit 10.6 Owning a pet is a substantial financial commitment yet very few Australian households take out pet insurance.

© Jaromir Chalabala/Shutterstock

Continued

This love for their pets involves a substantial financial commitment by pet owners. In a survey, *Choice* magazine found that more than half of cat and dog owners are prepared to pay a significant amount of money for their treatment. Despite the deep monetary commitment, only 16 per cent of households take out pet insurance.

In recent times, the financial commitment of caring for a pet has become increasingly stressful as it has gone beyond the reach of many families in Australia. Average annual vet expenses are estimated to cost close to $400 for dogs and around $270 for cats—and this excludes expenditure on medications, surgery and emergency treatment.

The RSPCA is an independent, non-government community-based organisation in Australia. Its mission is to prevent cruelty to animals by actively promoting their care and protection. It offers a wide range of services and is one of the many pet insurance providers in a highly competitive industry.

There are currently more than 80 pet insurance providers in Australia, including Woolworths, Coles, Bupa and Medibank. However, *Choice* magazine recently stated that, 'based on the review of 86 insurance policies, we do not endorse any pet insurance policy'. While brand recognition of RSPCA is quite high and positive, it views the comments of *Choice* as unhelpful.

Case study references

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5. RSPCA Australia, available at www.rspca.org.au/ (accessed 20 January 2020).

Questions

1. As RSPCA marketing manager, what marketing actions would you deploy to improve the current market position of RSPCA pet insurance?
2. What steps should the RSPCA take to differentiate its policy and how should this be communicated?

LO 10.2

PROVIDING GREAT SERVICE: THE SERVICE GAPS MODEL

service gap
Results when a service fails to meet the expectations that customers have about how it should be delivered.

Customers have certain expectations about how a service should be delivered. When the delivery of that service fails to meet those expectations, a **service gap** results. The Service Gaps Model (Figure 10.2) is designed to encourage the systematic examination of all aspects of the service delivery process and prescribes the steps needed to develop an optimal service strategy.[16]

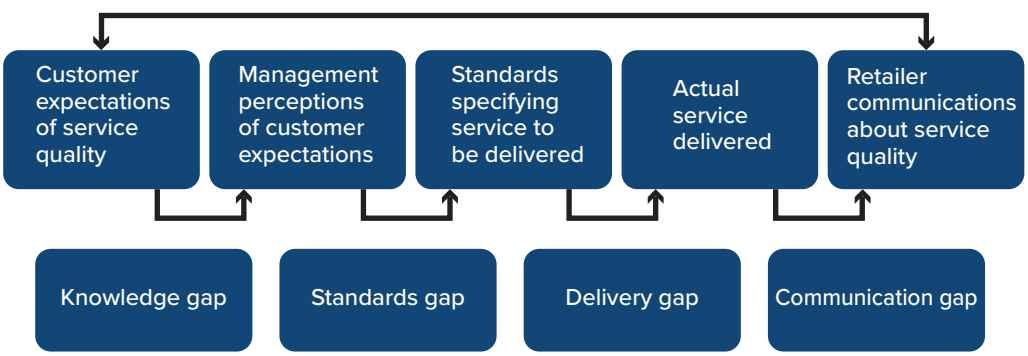


Figure 10.2 The Service Gaps Model for improving service

As Figure 10.2 shows, there are four service gaps:

1. The **knowledge gap** reflects the difference between customers' expectations and the firm's perception of those customer expectations. Firms can close this gap by determining what customers really want by doing research using marketing metrics such as service quality and the 'zone of tolerance'.
2. The **standards gap** pertains to the difference between the firm's perceptions of customers' expectations and the service standards it sets. By setting appropriate service standards, training employees to meet and exceed those standards and measuring service performance, firms can attempt to close this gap.
3. The **delivery gap** is the difference between the firm's service standards and the actual service it provides to customers. This gap can be closed by getting employees to meet or exceed service standards when the service is being delivered by empowering service providers, providing support and incentives and using technology where appropriate.[17]
4. The **communication gap** refers to the difference between the actual service provided to customers and the service that the firm's promotion program promises. If firms are more realistic about the services they can provide and at the same time manage customer expectations effectively, they generally can close this gap.

knowledge gap
A type of *service gap;* reflects the difference between customers' expectations and the firm's perception of those expectations.

standards gap
A type of *service gap;* pertains to the difference between the firm's perceptions of customers' expectations and the service standards it sets.

delivery gap
A type of *service gap;* the difference between the firm's service standards and the actual service it provides to customers.

communication gap
A type of *service gap;* refers to the difference between the actual service provided to customers and the service that the firm's promotion program promises.

As we discuss the four gaps, we will apply them to the experience that Jason Tan had with a hotel in Singapore (see Exhibit 10.7). He saw an ad for a package weekend at Classic Hotel Singapore that quoted a very reasonable daily rate for a three-star hotel and listed the free amenities available: free babysitting services, a piano bar with a nightly singer, a free breakfast, a heated swimming pool and newly decorated rooms. When he booked the room, Jason discovered that the price advertised was not available during the weekend and that a three-day minimum stay was required. Because of the nice amenities, however, he went ahead. After an unpleasant check-in experience, and finding that his room appeared really outdated and had not been cleaned, he decided to complain. His complaint was not well-received. Resigned to the fact that he was booked to spend the weekend, he decided to go for a swim. Unfortunately, the water was heated to only around 10 degrees! No one was using the babysitting services because there were few young children at the hotel, and it turned out the piano bar singer was the second cousin of the owner and he couldn't carry a tune, let alone play the piano very well. The breakfast must have been left over from the day before, because everything was stale and tasteless. Jason couldn't wait to get home!



Exhibit 10.7 What service gaps did Jason experience while on holiday in Singapore?

© Luciano Mortula—LGM/Shutterstock

The knowledge gap: understanding customer expectations

An important early step in providing good service is knowing what the customer wants. It doesn't pay to invest in services that don't improve customer satisfaction.[18] To reduce the knowledge gap, firms must understand customers' expectations. To understand those expectations, firms undertake customer research and increase the interaction and communication between managers and employees.

Customers' expectations are based on their knowledge and experiences.[19] Jason's expectations were that his room at the hotel in Singapore would be ready when he got there, the swimming pool would be heated, the singer would be able to sing and the breakfast would be fresh. Not a lot to expect, but in this extreme example the hotel was suffering a severe knowledge gap, perhaps based on its assumption that being in central Singapore was enough. If the hotel didn't understand Jason's expectations, it is unlikely it would ever be able to meet them.

Expectations vary according to the type of service. Jason's expectations might have been higher, for instance, if he were staying at the five-star Grand Hyatt rather than the three-star Classic Hotel. At the Hyatt, he might expect employees to know him by name, be aware of his dietary preferences

and have placed fresh fruit of his choice and fresh-cut flowers in his room before he arrived. At the Classic Hotel, he expected easy check-in/check-out, easy access to Singapore's shops, a clean room with a comfortable bed and a TV, at a bare minimum.

People's expectations also vary depending on the situation. If he had been travelling on business, the Classic Hotel might have been fine (had the room at least been clean and modern), but if he were celebrating his tenth wedding anniversary he would probably have preferred the Hyatt. Thus, the service provider needs to not only know and understand the expectations of the customers in its target market but also have some idea of the occasions of service usage.

To help ensure that Cathay Pacific understands customers' expectations, it uses Qualtrics to collect data on a range of issues from customers. Its Head of Insights, Walter Li, explains how it uses surveys to find out what customers think of everything from meals and entertainment systems to check-in and the seat itself.[20]

LO 10.3

EVALUATING SERVICE QUALITY USING WELL-ESTABLISHED MARKETING METRICS

service quality
Customers' perceptions of how well a service meets or exceeds their expectations.

To meet or exceed customers' expectations, marketers must determine what those expectations are. Yet because of their intangibility, the **service quality**, or customers' perceptions of how well a service meets or exceeds their expectations, is often difficult for customers to evaluate.[21] Customers generally use five distinct service dimensions to determine overall service quality: reliability, responsiveness, assurance, empathy and tangibles (see Figure 10.3). Adding value 10.2 describes how the Emirates One&Only Wolgan Valley maintains its five-star rating by focusing on these five service characteristics.

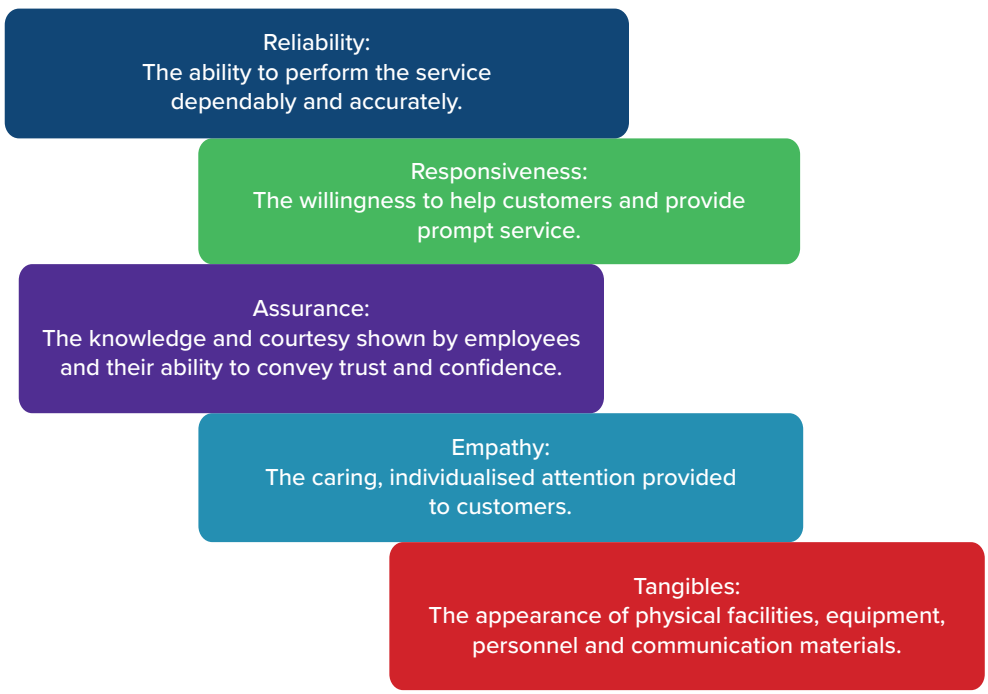


Figure 10.3 The building blocks of service quality

Adding value 10.2

Wolgan Valley service quality

Emirates One&Only Wolgan Valley resort and spa in the Greater Blue Mountains World Heritage Area (see Exhibit 10.8) consistently appears at the top of many of the prestigious tourism and travel awards.

In 2019, it was ranked #5 in the Top 25 Hotels in Australia and ranked #9 in the Top 25 Hotels in the South Pacific, in TripAdvisor Travellers' Choice Awards.[22]



Exhibit 10.8 Wolgan Emirates One& Only Wolgan Valley.
© Handout/Handout/Getty Images

The resort takes up 2 per cent of a 1600-hectare carbon-neutral conservation and wildlife reserve and is surrounded by spectacular scenery. Its all-inclusive packages start from above $2000 per night, and for that price, they take care of service quality.

- **Reliability.** The resort offers a luxurious but close-to-nature and environmentally friendly experience, proving that luxury and sustainability do work together. Guests experience a personalised service, which begins from the moment they arrive at the gatehouse where they are met by staff and then driven by 4WD to the main homestead. All of the accommodation is top quality. Each suite features its own private swimming pool, verandah and double-sided fireplace.
- **Assurance.** Customers expect the resort to live up to its 'natural' claims. The local Aboriginal tribe, the Wiradjuri, cleansed the site in an ancient ritual before construction work began, and have remained involved. The resort confirms that not a single tree was destroyed as a result of construction work, and the ground was meticulously studied for potential archaeological sites.[23]

  The resort staff, which includes a team of field guides, are very knowledgeable about the local nature, wildlife and heritage, and are involved with the property's ongoing conservation work.
- **Tangibles.** The tangibles of the experience include the suites and the beds, custom-designed by the hotel's former manager, Joost Heymeijer. The food is top notch and maintains an emphasis on regional, seasonal and organic produce sourced from within a 160 km radius where possible.
- **Empathy.** Many guests will not have been to such a resort before. Thus, guests have access to a team of dedicated field guides who assist them with selecting activities and experiences based on an individual's interests and abilities. The field guides provide tangible support, such as tours of the property, but also intangibles like advice and recommendations. For example, telling guests where the best place is to see an albino wallaroo or a wombat!
- **Responsiveness.** For more standard customer requirements and complaints, guests are assigned a personal guest service agent who looks after individual requirements, shares information about the property, and arranges all tours and activities.

If you were to apply the five service dimensions to your own decision-making process–for instance, when you selected a university, which provides you the service of education–you might find results like those in Table 10.1.

Table 10.1 University service dimensions

	University A	University B
Reliability	Offers sound curriculum with extensive placement services and internships.	Curriculum covers all the basics but important courses are not always available. Career placement is haphazard at best.
Responsiveness	Slow to respond to application. Very structured visiting policy. Rather inflexible with regard to personal enquiries and additional meetings.	Quick response during application process. Open visiting policy. Offers a variety of campus resources to help with decision making.
Assurance	Staff seems very confident in reputation and services.	Informal staff who convey enthusiasm for institution.
Empathy	Seems to process student body as a whole rather than according to individual needs or concerns.	Very interested in providing a unique experience for each student.
Tangibles	Very traditional campus with old-world look and feel. Facilities are manicured. Student accommodation is spacious, but bathrooms are a little old. Classes are all face-to-face.	New campus with modern architecture. Campus is less manicured. Student accommodation is spacious, with newer bathrooms. Classes are a mix of face-to-face and online.

If your expectations include an individualised experience at a state-of-the-art institution, perhaps University B is a better alternative for you. But if you are relying heavily on academic performance and career placement from your university experience, then University A might be a better choice in terms of the five service dimensions. If a strong culture and tradition are important to you, University A offers this type of environment. What your expectations are has a lot to do with your perception of how your university falls within these service dimensions.

voice-of-customer (VOC) program
An ongoing marketing research system that collects customer inputs and integrates them into managerial decisions.

Marketing research (see Chapter 7) provides a means to better understand consumers' service expectations and their perceptions of service quality. This research can be extensive and expensive or it can be integrated into a firm's everyday interactions with customers. Today, most service firms have developed voice-of-customer programs and employ ongoing marketing research to assess how well they are meeting their customers' expectations. A systematic **voice-of-customer (VOC) program** collects customer inputs and integrates them into managerial decisions.

LO 10.4

Evaluating the zone of tolerance

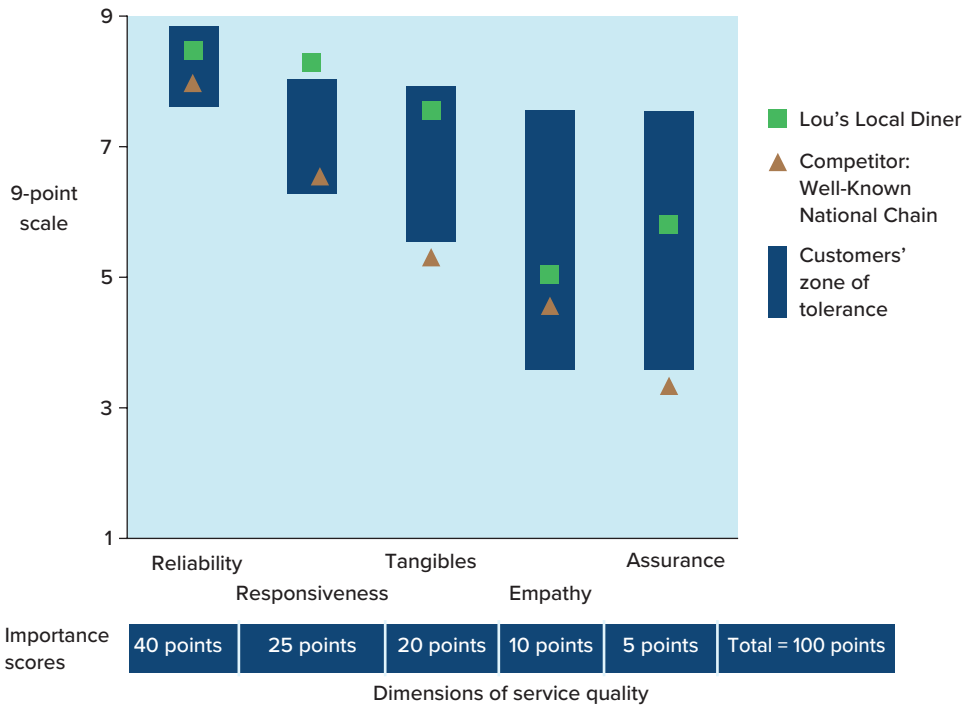
zone of tolerance
The area between customers' expectations regarding their desired service and the minimum level of acceptable service—that is, the difference between what the customer really wants and what they will accept before going elsewhere.

An important marketing metric to evaluate how well firms perform on the five service quality dimensions (review Figure 10.3) is the **zone of tolerance**, which refers to the area between customers' expectations regarding their desired service and the minimum level of acceptable service–that is, the difference between what the customer really wants and what they will accept before going elsewhere.[24] To define the zone of tolerance, firms ask a series of questions about each service quality dimension that relate to:

- the desired and expected level of service for each dimension, from low to high
- customers' perceptions of how well the focal service performs and how well a competitive service performs, from low to high
- the importance of each service quality dimension.

Figure 10.4 illustrates the results of such an analysis for Lou's Local Diner, a family-owned restaurant. The rankings on the left are based on a nine-point scale, on which 1 is low and 9 is high. The length of each box illustrates the zone of tolerance for each service quality dimension. For instance, according to the short length of the reliability box, customers expect a fairly high level of reliability (top of the box) but will accept only a fairly high level of reliability (bottom of the box). On the other end of the scale, customers expect a high level of assurance (top of the box) but will also accept a fairly low level (bottom of the box). This difference is to be expected, because the customers were also

asked to assign an important score to the five service quality dimensions so that the total equals 100 per cent (see bottom of Figure 10.4). Looking at the average importance score, we conclude that reliability is relatively important to these customers, but assurance is not. So customers have a fairly narrow zone of tolerance for service dimensions that are fairly important to them and a wider range of tolerance for those service dimensions that are less important.



Note: The scale ranges from a 9 indicating very high service quality on a given service quality dimension to a 1 indicating very low service quality.

Figure 10.4 Customers' evaluation of service quality

Also note that Lou's Local Diner always rates higher than its primary competitor, Well-Known National Chain, on each dimension. Further note that Well-Known National Chain scores below the zone of tolerance on the tangibles dimension, meaning that customers are not willing to accept the way the restaurant looks and smells. Lou's Local Diner, in contrast, performs above the zone of tolerance on the responsiveness dimension–maybe even too well. Lou's may wish to conduct further research to verify which responsiveness aspects it is performing so well and then consider toning those aspects down. For example, being responsive to customers' desires to have a diner that serves breakfast 24 hours a day can be expensive and may not add any further value to Lou's Local Diner, because customers would accept more limited times.

A straightforward and inexpensive method of collecting consumers' perceptions of service quality is to gather them at the time of the sale. Service providers can ask customers how they liked the service–though customers often are reticent to provide negative feedback directly to the person who provided the service–or distribute a simple questionnaire. Regardless of how information is collected, companies must take care not to lose it, which can happen if there is no effective mechanism for filtering it up to the key decision-makers. Furthermore, in some cases, customers cannot effectively evaluate the service until several days or weeks later. Car dealers, for instance, often call their customers a week after they perform a service like an oil change to assess their service quality.[25]

Another excellent method for assessing customers' expectations is making effective use of customer complaint behaviour. Even if complaints are handled effectively to solve customers' problems, the essence of the complaint is too often lost on managers. If you check out Dropbox's Help centre, you will see a wide range of frequently asked questions, all organised into the most popular sections. They have learnt what customers want from instances when customers have complained.[26]

Even firms with the best formal research mechanisms in place must put managers on the front lines occasionally to interact directly with the customers. The late Sam Walton, founder of Walmart



Exhibit 10.9 Elon Musk 'gets involved'.

© Kathy Hutchins/Shutterstock/DAL

in the United States, participated in and advocated this strategy, which is known as 'management by walking around'.[27] Richard Branson of Virgin does similarly. We are also seeing more and more CEOs on social media, which is a similar approach in terms of getting involved. Entrepreneur Elon Musk is the most obvious example. Unless the managers who make the service quality decisions know what their service providers are facing daily, and unless they can talk directly to the customers with whom those service providers interact, any customer service program they create will not be as good as it could be.

The standards gap: setting service standards

Getting back to the Classic Hotel in Singapore for a moment, suppose because of a number of complaints or because business was falling off it set out to determine customers' service expectations and gained a pretty good idea of them. The next step would be to set its service standards accordingly and develop systems to meet the customers' service expectations. How, for instance, can it make sure that every room is cleaned and ready by an optimum time of day in the eyes of the customers, or that the breakfast is checked for freshness and quality every day? To consistently deliver service that meets customers' expectations, firms must set specific, measurable goals. For instance, for the Classic Hotel, the most efficient process might have been to start cleaning rooms at 8am and finish by 5pm. But many guests want to sleep late and new arrivals want to get into their room as soon as they arrive, often before 5pm. So a customer-oriented standard would mandate that the rooms are cleaned between 10am and 2pm.

Service providers generally want to do a good job, as long as they know what is expected of them.[28] Hotel employees should be shown, for instance, exactly how managers expect them to clean a room and what specific tasks they are responsible for performing. In general, more employees will buy into a quality-oriented process if they are involved in setting the goals. For instance, suppose an important employee of the hotel objects to disposable plastic cups and suggests actual drinking glasses in the rooms would be classier as well as more ecological. There might be a cost–benefit trade-off to consider here, but if management listens to the employee and makes the change in this case, it should likely make the employee all the more committed to other tasks involved in cleaning and preparing rooms.

The employees must be thoroughly trained not only to complete their specific tasks but also in how to treat guests, and the manager needs to set an example of high service standards, which will permeate throughout the organisation. The kind of 'attitude' Jason experienced, for instance, when he registered a complaint at the Classic Hotel is not a recipe for generating repeat customers and should not be tolerated. For frontline service employees under stress, however, pleasant interactions with customers do not always come naturally. Although people can be taught specific tasks related to their jobs, this is not easily extended to interpersonal relations. But it is simply not enough to tell employees to 'be nice' or 'do what customers want'. A quality goal should be specific, such as: greet every customer/guest you encounter with 'Good morning/afternoon/evening, Sir or Madam'. At some customer service staff desks, if you look carefully, you will see little notices reminding the staff to 'smile' or 'use the customer's name'.

In extreme cases, such training becomes even more crucial. From long ticket lines to cancelled flights to lost luggage to safety concerns, customer service incidents are on the rise in the airline industry. Faced with these mounting complaints, some airlines are attempting to implement better employee training geared towards identifying and defusing potentially explosive situations.

The delivery gap: delivering service quality

The delivery gap is where 'the rubber meets the road', where the customer directly interacts with the service provider. Even if there are adequate standards in place, the employees are well-trained and management is committed to meeting or exceeding customers' service expectations, there can still be delivery gaps. It could very well have been that Jason experienced several delivery gaps at the Classic Hotel. It could have been that the unclean room, the assistant manager's attitude, the unheated swimming pool, the poor piano bar singer or the stale food resulted from unforeseen or unusual

circumstances. While some of these issues such as an unclean room or the 'attitude' Jason encountered should have been avoided, it is possible that the hotel had a power outage resulting in the unheated swimming pool, the regular piano bar singer was ill and the breakfast was stale because of a missed delivery. The cleaner could not vacuum the room because of the lack of power and the assistant manager felt assaulted on all sides by these problems. But the result was a lost customer. Even if there are no other gaps, a delivery gap always results in a service failure.

Delivery gaps can be reduced when employees are empowered to spontaneously act in the customers' and the firm's best interests when problems or crises are experienced. Such empowerment might have saved the day for Jason and the Classic Hotel. Empowerment means employees are supported in their efforts to do their jobs effectively (see Figure 10.5).[29]

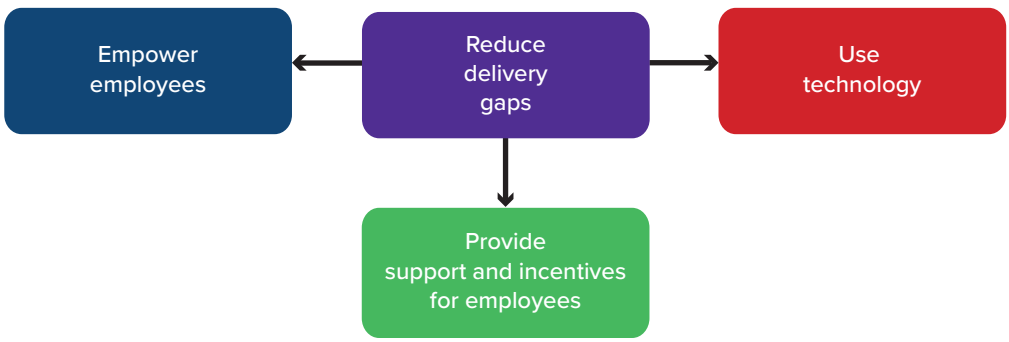


Figure 10.5 Methods to reduce delivery gaps

Empowering service providers

In the service context, **empowerment** means allowing employees to make decisions about how service gets provided to customers. When frontline employees are authorised to make decisions to help their customers, service quality generally improves. Empowerment becomes more important when the service is more individualised.



Exhibit 10.10 Staff provide customers with an experience in a Nespresso Boutique.

© Sorbis/Shutterstock

Support and incentives for employees

To ensure that service is delivered properly, management needs to support the service providers in several ways and give them incentives. This is basic. A service provider's job can often be difficult, especially when customers are unpleasant or less than reasonable. But the service provider cannot be rude or offensive just because the customer is. The old cliche, 'Service with a smile', remains the best approach, but for this to work, employees must feel supported.

First, managers and co-workers should provide **emotional support** to service providers by demonstrating a concern for their wellbeing and standing behind their decisions. Because it can be very disconcerting when a waiter is abused by a customer who believes their food was improperly prepared, for instance, restaurant managers must be supportive and help the employee get through their emotional reaction to the berating experienced.[30] Such support can extend to empowering the waiter to rectify the situation by giving the customer new food and a free dessert, in which case the manager must understand the waiter's decision, not punish them for giving away too much.

Second, service providers require **instrumental support**–the systems and equipment to deliver the service properly. Many retailers provide state-of-the-art instrumental support for their service providers. In-store kiosks help sales associates provide more detailed and complete product information and enable them to make sales of merchandise that is either not carried in the store or is temporarily out of stock.

Third, the support that managers provide must be consistent and coherent throughout the organisation. Patients expect doctors to provide great patient care, but sometimes the service may feel rushed because the costs of running a practice may cause doctors to schedule a patient every

empowerment
In the context of service delivery, allowing employees to make decisions about how service is provided to customers.

emotional support
Concern for others' wellbeing and support of their decisions in a job setting.

instrumental support
Providing the equipment or systems needed to perform a task in a job setting.



Exhibit 10.11 Quiksilver's pleasing environment retains both customers and staff.

© Alexander_IV/Shutterstock

10 minutes or so. These conflicting goals can be very frustrating to patients.

Finally, a key part of any customer service program is providing rewards to employees for their excellent service. Numerous firms have developed a service reputation by ensuring that their employees are themselves recognised for emphasising the value the firm places on customer service. Quiksilver, for example, is renowned for creating a rewarding environment for its employees (see Exhibit 10.11). Part of that is making everyone responsible for excellent customer service. The company started with two guys making boardshorts in Torquay and is now one of the largest and most prestigious clothing and apparel companies in the action outdoor sports industry. Employees are rewarded for excellent customer service and therefore motivated to maintain a high level of care.[31] Employees tend to stay at Quiksilver, and so do customers. Other companies with a reputation for being good employers are Salesforce, Jetts Fitness, Hilton, Mars and Nova Group.[32]

Use of technology

Technology can also be employed to reduce delivery gaps. Technology has become an increasingly important facilitator of the delivery of services. Using technology to facilitate service delivery can provide many benefits, such as access to a wider variety of services, a greater degree of control by the customer over the services and the ability to obtain information. Social media and mobile marketing 10.1 describes the growth of technology in marketing. The use of technology also improves the service provider's efficiency and reduces servicing costs; in some cases, it can lead to a competitive advantage over less service-oriented competitors.[33]

Social media and mobile marketing 10.1

Growth of digital marketing in Australia

Digital marketing is experiencing exponential growth, both in Australia and worldwide. An estimated $9.3 billion was spent on digital advertising in Australia in 2019 (see Exhibit 10.12). This is well over half of all of Australia's ad spend, which, given that digital advertising tends to be lower in cost, means there is a massive amount of it. It is growing too: the 2019 spend was up 6 per cent from 2018.

Mobiles and videos are the fastest-growing areas. As an example, the annual 2017 spend was up 20 per cent in 2018 to 48 per cent of the digital advertising budget. This trend should not be surprising. Research suggests that Australians spend more than 46 hours a week looking at their screens, and on average check their smartphones about 85 times a day![34]

Most of our time on smartphones is spent on social media; second to that is apps. Why and how do we use apps? Here are a few examples where apps can help us in our everyday lives.

- Splitwise lets you split bills easily—say, when you are out for dinner with a group of friends. It saves a lot of arithmetic and embarrassment!
- Slack is not new, but it is worth a mention. It is a team-working app that many teamworking organisations use.

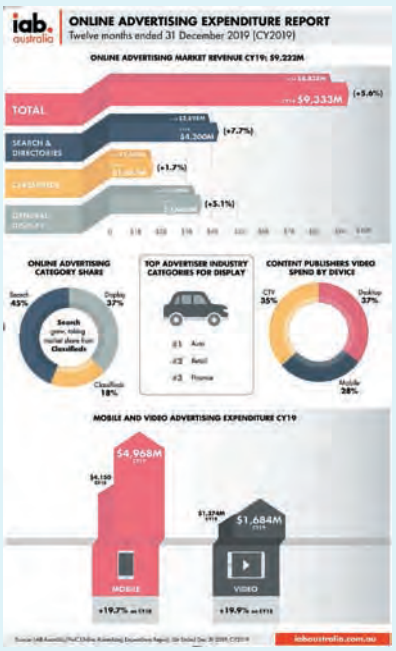


Exhibit 10.12 Growth of digital marketing in Australia.

Source: IAB Australia

It is like a WhatsApp group, but with the functionality to enable good teamwork, including messaging, video calling, file sharing, task allocation and progress tracking.
- Google Maps is constantly being updated. You can now book Uber rides there, and see what places are 'Your Match', just to help you decide if that cafe is right for you or not.
- SleepBot provides an in-depth analysis of your sleep cycle, which could give you an idea of why your productivity is higher on some days than others.
- Raiz lets you invest in the stock market, just by rounding up everyday purchases. If that movie ticket costs $19.50, you can tell Raiz to round that up, and invest $0.50 in a portfolio of your choice.

These are only a few examples of the millions of apps out there. Most are aimed at making consumers' daily lives easier. For marketers, it is about deciding how an app could assist their particular customers and what other apps they should be paying attention to.

Technological advances that help close the delivery gap are expanding. Beauty salons and cosmetics counters use kiosks to show customers how they would look with different beauty products and various hair colours. Stores enable customers to scan price tags and then have a kiosk recommend complementary items. We discussed self-service checkouts earlier in the chapter, and Woolworths may be going even further, gifting some of its online grocery shoppers with Google Home Minis, in a bid to encourage customers to try its voice-activated shopping lists. Estate agents are the latest to try new technologies, using virtual reality (VR) headsets to offer 'virtual viewings'.[35]

The technological delivery of services can cause problems. Some customers either do not embrace the idea of replacing a human with a machine for business interactions or have problems using the technology. In other cases, the technology may not perform adequately, such as ATMs that run out of money or are out of order. Supermarket self-checkout devices are too challenging for some customers.



Exhibit 10.13 Will virtual property viewings become more mainstream?

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The communication gap: communicating the service promise

Poor communication between marketers and their customers can result in a mismatch between an ad campaign's (or a salesperson's) promises and the service the firm can actually offer. Although firms have difficulty controlling service quality because it can vary from day to day and provider to provider, they have nearly constant control over how they communicate their service package to their customers. This control involves a significant responsibility, as Ethical and societal dilemma 10.1 notes.

Ethical and societal dilemma **10.1**

Fake reviews

Canstar, ProductReview.com.au, Yelp, TripAdvisor and Amazon have all made user ratings and reviews a familiar—and even essential—part of the online toolbox for shoppers and other consumers. From the consumer's perspective, what better preparation could there be for a major purchase than to see what other, objective customers have to say about the product under consideration (see Exhibit 10.14)?

Continued

For retailers and service professionals, online reviews offer a huge benefit. For some companies, especially small service providers that cannot afford much marketing, online reviews function as a low-cost form of advertising. A business seeking to meet or exceed customer expectations receives valuable, candid feedback from customers, which it can use to measure how well it is meeting customer expectations. Some firms even use this feedback in their formal voice-of-customer programs to improve company operations.



Exhibit 10.14 Online reviews are an almost essential part of our decision-making.
© Rawpixel.com/Shutterstock/DAL

But who benefits from fake consumer reviews? Seemingly, the company might, assuming it does not get caught. According to the Australian Competition and Consumer Commission (ACCC), as many as 75 per cent of us read online reviews prior to making purchase decisions, more so as those decisions become complex. The ACCC plays a vital role in checking the validity of online reviews, based on complaints, and can issue fines of up to $1 million. Research from Which? in the UK has shown that one in seven reviews for top hotels had the hallmarks of being fake.[36]

In Australia, there are two recent cases of online review manipulation, against which the ACCC took action. In 2017, Aveling Homes was ordered to pay $380 000 for misleading review websites.[37] And in 2019, HealthEngine was taken to court, accused of misleading conduct relating to publishing patient reviews and ratings.[38]

To sum up, crowd-sourced online opinions of consumers have become a major source of information about goods and services. When that information is authentic, it serves both consumers and companies. But when companies manipulate online reviews, it seems as if all of society is harmed. It's important that we are all aware of how to spot a fake review. Does it include evidence that the reviewer actually dealt with the business, such as photos, or even a verification to show they were an actual customer? Is it written in normal language, or does it look like marketing-speak? Finally, have there been a lot of positive reviews around the same time?



Exhibit 10.15 Putting on a great show.
Source: Groovin the Moo, Cattleyard Promotions

If a firm promises more than it can deliver, customers' expectations won't be met. An advertisement may lure a customer into a service situation once, but if the service doesn't deliver on the promise, the customer will never return. Dissatisfied customers also are likely to tell others about the underperforming service, using word of mouth or, increasingly, the internet, which has become an important channel for dissatisfied customers to vent their frustrations.

The communication gap can be reduced by managing customer expectations and by promising only what you can deliver or possibly even a little less.[39] Suppose you need an operation and the surgeon explains, 'You'll be out of the hospital in five days and back to your normal routine in a month'. You have the surgery and feel well enough to leave the hospital three days later. Two weeks after that, you're playing tennis again. Clearly, you will tend to think your surgeon is a genius. However, regardless of the operation's success, if you had to stay in the hospital for 10 days and it took you two months to recover, you would undoubtedly be upset.

Think about another example, the Groovin the Moo festival (see Exhibit 10.15). Consumers and artists expect a high level of service provision which, if not met, could be catastrophic for the event's future.

Check out the website (www.gtm.net.au) and look at how the organisers communicate about their service. The list of artists, services, FAQs and travel information is provided, for example. That may seem obvious, but many other organisations are not so transparent about what you will get from them. Groovin the Moo is a successful festival because of quality service. When that fails, the whole business fails.

That is a key contributing factor as to why a number of festivals no longer exist. There is a wide range of analysis online about the cancellation of Big Day Out–it is well worth investigating.

A relatively easy way to manage customer expectations is to coordinate how the expectation is created and the way the service is provided. Expectations typically are created through promotions, advertising or personal selling. Delivery is another function altogether. If a salesperson promises a client that an order can be delivered in one day and that delivery actually takes a week, the client will be disappointed. However, if the salesperson coordinates the order with those responsible for the service delivery, the client's expectations are likely to be met. As we noted in this chapter's opener, Zalora provides fast delivery throughout South-East Asia. In Australia, online clothing retailer The ICONIC offers same-day delivery in Sydney, Melbourne and Brisbane.

Customer expectations can be managed when the service is delivered. Recorded messages tell customers who have phoned a company with a query how many minutes they will have to wait before the next operator is available. Sellers automatically inform online customers of any items that are out of stock. Whether online or in a store, retailers can warn their customers to shop early during a sale because supplies of the sale item are limited. People are generally reasonable when they are warned that some aspect of the service may be below their expectations. They just don't like surprises!

Service quality and customer satisfaction and loyalty

Good service quality leads to satisfied and loyal customers. As we discussed in Chapter 5, customers inevitably wind up their purchase decision process by undertaking a postpurchase evaluation. This evaluation after the purchase may produce one of three outcomes: satisfaction, dissonance or loyalty (review Figure 5.2 in Chapter 5). Dissonance may just be a passing emotion that is overcome; we will discuss recovery from an actual service failure in the next section. Satisfaction, on the other hand, often leads to loyalty.

Assuming that none of the service gaps that we have discussed above occur, or at least if they do they are not too wide, customers should be more or less satisfied. Surveys of customers that ask them to identify the retailer that provides the best customer service thus often show some consistency. A service provider that does a good job one year is likely to keep customers satisfied the next year too.

If a firm not only minimises but eliminates any service gaps, customers are likely to exhibit significant loyalty to that firm–which is what Amazon hopes to achieve with its Amazon Prime service, as Superior service 10.1 describes. Customers want to continue receiving such superior service and have no desire to go elsewhere for the offerings it provides them.

Superior service **10.1**

Amazon: Prime service

Amazon is an online retailer, and a major challenge for online retailers is loyalty. That is why Amazon created its Prime service (see Exhibit 10.16). For $119 per year, membership gives you access to Prime Video, free two-day delivery, unlimited music streaming, unlimited photo storage, unlimited reading and free same-day delivery. Such a membership pricing model is beneficial for Amazon. It creates repeat, loyal customers. Since customers have a membership, they feel motivated to use the service more.

It plays on psychology: customers realise that they earn more from the program when they use it more, at no extra cost to them. For example, 10 products purchased on Amazon with two-day shipping would pay for the annual membership. If they go on to buy 100 or 1000 products, still for just $119, customers feel like they have 'put one over on' the company. In a sense, they have. Amazon has demonstrated its willingness to lose significant profits to develop its program and build unparalleled customer loyalty.

Over time, the cost of Prime has gone up a little. However, the number of products available to members increases every day. This is even more the case in the United States, where services such as Prime Now, the two-hour delivery service, are available in around 30 US cities. In fact, a one-hour food

Continued

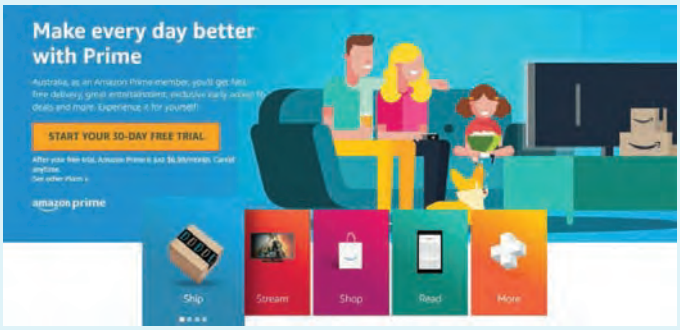


Exhibit 10.16 Amazon.com's Prime service includes all of the above (and more) in your $119 annual membership.

Source: https://www.amazon.com.au/prime

delivery service is also available in some cities! This is Amazon moving into the Uber Eats and Deliveroo markets. Are Amazon's bold service moves working? In 2019, its sales were $70 billion and profit $2.1 billion.[40] Prime subscriptions increased by 34 per cent between 2018 and 2019.[41]

While sales were impressive to investors, profits were not. The reason: higher spend on shipping and fulfilment—as much as $9.6 billion in 2019. This shows Amazon's commitment to a high level of service, one that will ultimately lead to one-day delivery.

CHECK YOURSELF

1. Explain the four service gaps identified by the Service Gaps Model.
2. List at least two ways to overcome each of the four service gaps.

Case study 10.2: Visiting Uluru—a new set of expectations

By Dr Rajeev Sharma, Charles Darwin University

Climbing Uluru was permanently prohibited on 26 October 2019, 34 years after the Australian Government returned ownership of Uluru to its traditional owners in 1985.

Uluru is widely acknowledged as an Australian icon and for indigenous Australians, it is a sacred site. Situated in the Northern Territory, it has a rich cultural history and unique geological features that are admired globally. A large number of domestic and international visitors travel to the remote location of Uluru every day to admire its beauty and experience this gift of nature.



Exhibit 10.17 Uluru, a sacred site for its traditional owners the Anangu people, attracts large number of domestic and international travellers every year, many of whom climbed the rock before its closure in 2019.

© Stanislav Fosenbauer/Shutterstock /DAL

The Anangu people are the traditional owners of Uluru and the surrounding land, and have consistently discouraged visitors to Uluru from climbing it, for both cultural and safety reasons. Apart from its spiritual significance, they have argued that the climb can be dangerous. Many people have died while attempting to climb it and many others have been injured. For example, a young South Australian girl fell at least 20 metres while descending from the summit on 14 October 2019. Despite the advice and requests of the traditional owners and the risks, a number of visitors continued to undertake the climb.

Prior to the permanent ban on climbing, on a typical day about 150 visitors climbed Uluru. However, during the period between the announcement of the climb closure and the closure date, the numbers of climbers increased significantly to more than 300 per day. This created both opportunities and problems for all tourism service providers based around Uluru. For example, the increased visitor numbers generated additional business for local organisations such as tour operators, eating houses and accommodation providers. However, this also put the tourist infrastructure under significant stress. The roadhouses in and around the town of Yulara were at capacity, reportedly forcing tourists to camp illegally on the side of the road. Similarly, visitor numbers at the Curtin Springs station and roadhouse, 100 kilometres from Uluru, were up by up to 20 per cent.

Following the climb closure many tourism operators became concerned about the possibility of an adverse impact on visitor numbers and their businesses.

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Questions

1. Is visiting Uluru a service or a product? Provide reasons for your response.
2. What would you recommend to tourism operators facing business challenges resulting from the closure of the climb?

SERVICE RECOVERY

LO 10.5

Despite a firm's best efforts, sometimes service providers fail to meet customer expectations. When this happens, the best course of action is to attempt to make amends with the customer and learn from the experience. Of course, it is best to avoid a service failure altogether, but when a failure does occur, the firm has a unique opportunity to demonstrate its customer commitment.[42] Effective service recovery efforts can significantly increase customer satisfaction, purchase intentions and positive word of mouth, though customers' post-recovery satisfaction levels usually fall lower than their satisfaction level prior to the service failure.[43]

Social media and mobile marketing 10.2 articulates how social media channels are being used by customers and companies alike to publicly and transparently deal with customer service issues.

Social media and mobile marketing **10.2**

Spotify cares

Have you ever complained on social media? It tends to be the channel where you will get the quickest and most effective response. Of course, not all companies are as responsive as each other, but Spotify is one of the best.

Spotify has won awards for how it treats its customers on social media. It responds quickly and effectively to recover service issues or failures, so that customers actually come out of an originally

Continued



Exhibit 10.18 Spotify cares: using social media for customer service—in particular, to recover from service failures.

© wichayada suwanachun/Shutterstock

negative experience with a more positive mindset towards the brand. Sometimes, Spotify even links to an appropriate song when it has resolved a customer problem!

Of course, it takes a level of skill to respond appropriately to customer complaints on social media. This is why Spotify selects and trains key members of staff. One of the most important areas of focus is tone of voice, in other words, being approachable and relatable.

Beyond Twitter, Spotify also hosts a massive online community for customers to help each other. From a community of over 700 000 users, there are usually around 2000 people online at any particular time, which is a great resource for customers with problems—and a great way to relieve the pressure on Spotify's customer service team.

Remember the Classic Hotel in Singapore? It could have made amends with Jason Tan after its service failures if it had taken some relatively simple, immediate steps: the assistant manager could have apologised for his bad behaviour and quickly upgraded Jason to a suite and/or given him a free night's accommodation for a future stay. The hotel could also have given him a free lunch or dinner to make up for the bad breakfast. Alternatively, the assistant manager could have asked Jason how he could resolve the situation and worked with him to come up with an equitable solution. None of these actions would have cost the hotel much money.

Had it used the customer lifetime value approach we described in Chapter 7, the hotel would have realised that by not taking action, it lost Jason as a customer forever. Over the next few years, he could have been responsible for several thousand dollars in sales. Instead, Jason is now likely to spread negative word of mouth about the hotel to his friends and family, and through social media like Yelp.com because of its failure to recover service expectations. Effective service recovery thus demands:

1. listening to the customers and involving them in the service recovery
2. providing a fair solution
3. resolving the problem quickly.

Listening to the customers and involving them in the service recovery

Firms often don't find out about service failures until a customer complains. Whether the firm has a formal complaint department or the complaint is offered directly to the service provider, the customer must have the opportunity to air the complaint completely, and the firm must listen carefully to what they are saying.

Customers can become very emotional about a service failure, whether the failure is serious (a botched surgical operation) or minor (the wrong change at a restaurant). In many cases, the customer may just want to be heard, and the service provider should give the customer all the time they need to 'get it out'. The very process of describing a perceived wrong to a sympathetic listener is therapeutic in and of itself. Service providers therefore should welcome the opportunity to be that sympathetic ear, listen carefully and appear (and actually be) anxious to rectify the situation to ensure it doesn't happen again.

When the company and the customer work together, the outcome is often better than either could achieve on their own. This co-creation logic applies especially well to service recovery. A service

failure is a negative experience, but when customers participate in its resolution, it results in a more positive outcome than simply listening to their complaint and providing a pre-approved set of potential solutions that may satisfy them.

Suppose, for instance, that when you arrived at the airport in Auckland, your flight had been overbooked and you were asked to take the next one. Of course, good customer service required the ticket agent to listen to your frustration and help provide a fair solution. But the most obvious potential solution from the airline's perspective might not have been the best solution for you. They might have been inclined to put you on the next available flight which would be an overnight flight that left at midnight and got you to Tokyo at 8am. But if you don't sleep well on planes and you have an important business meeting the next afternoon, the best solution from your perspective would be to have the airline put you up in an airport hotel so you can get a good night's sleep and then put you on an early morning flight that would get you to Tokyo in time for your meeting, well-rested and ready to go. Thus, by working closely with you to understand your needs, the ticket agent would be able to co-create a great solution to the service failure.

Finding a fair solution

Most people realise that mistakes happen. But when they happen, customers want to be treated fairly, whether that means *distributive* or *procedural* fairness.[44] Their perception of what 'fair' means is based on their previous experience with other firms, how they have seen other customers treated, material they have read and stories recounted by their friends.

Distributive fairness

Distributive fairness pertains to a customer's perception of the benefits they received compared with the costs (inconvenience or loss). Customers want to be compensated a fair amount for a perceived loss that resulted from a service failure. If, for instance, a person arrives at the airport gate and finds their flight is overbooked, they may believe that taking the next flight that day and receiving a travel voucher is adequate compensation for the inconvenience. But if no flights are available until the next day, the traveller may require additional compensation, such as overnight accommodations, meals and a round-trip ticket to be used at a later date.[45]

distributive fairness
Pertains to a customer's perception of the benefits they received compared with the costs (inconvenience or loss) that resulted from a service failure.

The key to distributive fairness, of course, is listening carefully to the customer. One customer, travelling on holiday, may be satisfied with a travel voucher, whereas another may need to get to the destination on time because of a business appointment. Regardless of how the problem is solved, customers typically want tangible restitution–in this case, to get to their destination–not just an apology. If providing tangible restitution isn't possible, the next best thing is to assure the customer that steps are being taken to prevent the failure from recurring.

Procedural fairness

With regard to complaints, **procedural fairness** refers to the perceived fairness of the process used to resolve them. Customers want efficient complaint procedures over whose outcomes they have some influence. Customers tend to believe they have been treated fairly if the service providers follow specific company guidelines. Nevertheless, rigid adherence to rules can have deleterious effects. Have you ever returned an item to a store, even a very inexpensive item, that needed a manager's approval? The process can take several minutes and irritate everyone in the checkout line. Furthermore, most managers' cursory inspection of the item or the situation would not catch a fraudulent return. In a case like this, the procedure the company uses to handle a return probably overshadows any potential positive outcomes. Therefore, as we noted previously, service providers should be empowered with some procedural flexibility to resolve customer complaints.

procedural fairness
Refers to the customer's perception of the fairness of the process used to resolve complaints about service.

A 'no questions asked' return policy has been offered as a customer service by many retailers for years. But because of its high cost as a result of customers abusing the policy, many retailers have modified their return policy.[46] Some large retailers now limit their returns to 90 days, considered a reasonable amount of time for customers to return an item. Others will only grant a store credit based on the lowest selling price for the item if the customer doesn't have a receipt. In addition, for some consumer electronics products that have been opened, customers must pay a 15 per cent restocking fee.

Resolving problems quickly

The longer it takes to resolve a service failure, the more irritated the customer will become and the more people they are likely to tell about the problem. To resolve service failures quickly, firms need clear policies, adequate training for their employees and empowered employees. Health insurance companies, for instance, have made a concerted effort in recent years to avoid service failures that occur because customers' insurance claims have not been handled quickly or to the customers' satisfaction.

CHECK YOURSELF

1. Why is service recovery so important to companies?
2. What can companies do to recover from a service failure?

SUMMING UP

LO 10.1 Describe how the marketing of services differs from the marketing of products.
Unlike products, services are intangible, inseparable, variable and perishable. They cannot be seen or touched, which makes it difficult to describe their benefits or promote them. Service providers therefore enhance service delivery with tangible attributes, like a nice atmosphere or price benefits. Services get produced and consumed at the same time, so marketers must work quickly and they are more variable than products, though service providers attempt to reduce this variability as much as possible. Finally, because consumers cannot stockpile perishable services, marketers often provide incentives to stagger demand.

LO 10.2 Discuss the four gaps in the Service Gaps Model.
The knowledge gap reflects the difference between customers' expectations and the firm's perception of those customer expectations. Firms need to match customer expectations with actual service through research. The standards gap is the difference between the firm's perceptions of customers' expectations and the service standards it sets. Appropriate service standards and measurements of service performance help close this gap. The delivery gap is the difference between the firm's service standards and the actual service it provides to customers. Closing this gap requires adequate training and empowerment of employees. The communication gap refers to the difference between the actual service provided to customers and the service that the firm's promotion program promises. Firms close the communication gap by managing customer expectations and promising only what they can deliver.

LO 10.3 Examine the five service quality dimensions.
First, reliability refers to whether the provider consistently provides an expected level of service. Second, responsiveness means that the provider notes consumers' desires and requests and then addresses them. Third, assurance reflects the service provider's own confidence in its abilities. Fourth, empathy entails the provider's recognition and understanding of consumer needs. Finally, tangibles are the elements that go along with the service, such as the magazines in a doctor's waiting room.

LO 10.4 Explain the zone of tolerance.
The area between customers' desired service and the minimum level of service they will accept is the zone of tolerance. It is the difference between what the customer really wants and what they will accept before going elsewhere. Firms can assess their customers' zone of tolerance by determining the desired and expected level of service for each service dimension, their perceptions of how well the focal service performs and how well a competitive service performs and the importance of each service quality dimension.

LO 10.5 Identify three service recovery strategies.
In a best-case scenario, the service never fails. But some failures are inevitable and require the firm to make amends to the customer by: (1) listening carefully and involving the customer in the service recovery, (2) finding a fair solution to the problem that compensates the customer for the failure and follows procedures the customer believes are fair, and (3) resolving the problem quickly.

KEY TERMS

- communication gap 309
- customer service 303
- delivery gap 309
- distributive fairness 323
- emotional support 315
- empowerment 315
- heterogeneity 306
- inseparable 306
- instrumental support 315
- intangible 304
- knowledge gap 309
- perishable 306
- procedural fairness 323
- service 303
- service gap 308
- service quality 310
- standards gap 309
- voice-of-customer (VOC) program 312
- zone of tolerance 312

MARKETING APPLICATIONS

1. Companies from which you purchase goods and services are not pure sellers of services, nor are they pure sellers of products. What services does a pizza restaurant provide? What goods does a post office provide?
2. You have been sitting in the waiting room of your mechanic's shop for more than an hour. With the knowledge that products are different from services, develop a list of the things the shop manager could do to improve the overall service delivery. Consider how the shop might overcome problems associated with the tangibility, separability, heterogeneity and perishability of services.
3. You have conducted a zone of tolerance analysis for a local dry cleaner. You find that the lengths of the reliability and responsiveness boxes are much greater than those of the other three service quality dimensions. You also find that the dry cleaner is positioned above the zone box on reliability but below the box on responsiveness. What should you tell the manager to do?
4. Assume you were hired by your local supermarket to help assess its service quality. How would you go about undertaking this project?
5. What should a restaurant waiter do when faced with an irate customer who has received undercooked food after a long wait? How can they avoid a service failure by being empowered?
6. What types of support and incentives could your university provide to lecturers to help make them more attentive to students' needs?
7. What technologies do you use that help facilitate your transactions with a specific retailer or service provider? Would you rather use the technology or engage in a face-to-face relationship with a person? How, if at all, would your parents' answers to these two questions be different?
8. A local health club is running a promotional campaign that promises you can lose two centimetres a month off your waist if you join the club and follow its program. How might this claim cause a communication gap? What should the club do to avoid a service failure?
9. Suppose the health club didn't listen to your advice and ran the promotional campaign discussed in question 8 as is. A new member has come in to complain that not only did they not lose centimetres off their waist, they actually gained weight. How should the health club manager proceed?
10. You are hired by a career consulting firm that promises to market new graduates to high-paying employers. The firm provides potential clients with an impressive list of employers. It charges the clients a fee and then a separate finder's fee if the client gets a position. The firm aggressively markets its services and has a large client base. You learn that the firm simply takes submitted resumes and posts them to a variety of online job search engines. The firm never actually contacts any firms on its clients' behalf. The CEO, a recent university graduate, tells you that the firm never promises to actually contact potential employers, only that they have access to employers and will distribute clients' resumes. What do you think of the career consulting firm's practices?

Continued

QUIZ YOURSELF

1. Barbara manages a Golden Chain Motel on a highway. She knows from experience that five to 10 last-minute customers will call after 8pm each evening looking for a room and asking the price. Barbara has empowered her staff to offer discounts when the motel is largely vacant and to quote the standard price when the motel is close to full. She knows her service is _____, meaning that if no one stays in the room, it generates no revenue that evening.
   a. intangible
   b. inseparable
   c. variable
   d. durable
   e. perishable
2. A _____ gap reflects the difference between a firm's perception of customer expectations and a firm's standards for service to be delivered.
   a. seniority
   b. knowledge
   c. standards
   d. delivery
   e. communication

   (Answers to these two questions can be found on page 476.)

NET SAVVY

1. What services does Singapore Airlines (www.singaporeair.com) offer? Go to Singapore Airlines' website and click on 'Flying with us'. Compare the services of Singapore Airlines and AirAsia (www.airasia.com). Which would you prefer to fly with if the price of a ticket was the same?
2. Go to the iiNet website (www.iinet.com.au) and examine its customer service offerings. Next, go to Product Review (www.productreview.com.au) and look up iiNet. Based on these reviews, does iiNet have a service gap? If so, how can it close it?

CHAPTER CASE STUDY

Happy Airways—how to keep the passengers happy!

By Dr Rajeev Sharma, Charles Darwin University

The take-off

Happy Airways flight HA009 from Bangkok to Sydney was scheduled to depart at 10:40pm. The pilot informed the passengers before the scheduled take-off that due to heavy congestion at Suvarnabhumi Airport, there would be a slight delay. No one seemed to mind. In fact, many travellers felt reassured by this friendly and informative update.

HA009 was a code-shared flight with more than 180 passengers on board. While the majority were Australians, a substantial number of passengers were from other countries, mostly from South-East Asia. Many passengers had connected with the flight from other international destinations such as Dhaka, Ho Chi Min City, Jakarta, Tokyo and Seoul. Although for many travellers, Sydney was the final destination, others were due to connect with domestic flights to places such as Wagga Wagga, Bathurst and the Gold Coast.



Exhibit 10.19 Not-so-happy travel with Happy Airways.

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Checked-in baggage

As a full service carrier, all passengers on this flight had a decent checked-in baggage allowance. Economy-class passengers were allowed one checked bag of not more than 23 kg. However, this allowance became progressively higher, driven by factors such as 'frequent flight' status, country of the ticket purchase and class of travel.

In-flight experience

Despite leaving the aircraft bay at about 11:10pm, the plane was not airbound until 11:50pm—just over an hour late from the scheduled departure. The passengers' frustration with this delay was mild but noticeable. The in-flight crew did their best to look after the passengers, but many families, particularly those with very young children, were clearly unhappy with the whole situation. To make the situation more unpleasant, it turned out to be a bumpy flight due to monsoon activities in the region. For the most part of the journey, all passengers were required to keep their seatbelts fastened and were restricted to their seats.

Arrival

HA009 was further delayed and eventually landed in Sydney at 10am—about two hours late due to the influx of regular international flights at Sydney Kingsford Smith Airport.

No one could anticipate that more drama awaited them in Sydney. More than 85 per cent of passengers did not get their checked-in luggage. After clearing immigration formalities, the passengers waited patiently at the announced baggage conveyor belt. They started to get suspicious when only a few bags emerged on the belt. Apart from a few porters and airport staff, no one from Happy Airways was there to provide credible information on the status of the checked-in luggage.

Customer service

The passengers eventually found the customer service counter of Happy Airways, tucked away in an obscure location. By now, all of the passengers were gravely concerned about their missing luggage. This was particularly noticeable for passengers who did not reside in Sydney and for passengers who were due to connect with other flights in Sydney. This group had multiple concerns, including the possibility of having to come back to Sydney Airport to collect their luggage when it did arrive, as well as worries about customs formalities.

It became evident that most non-Australian passengers were in Sydney for official engagements and meetings. The delayed luggage was clearly a source of huge inconvenience and frustration for them.

The customer service counter of Happy Airways was soon overwhelmed by 150 or so passengers—some clearly seething with disgust and anger. The airline staff struggled to provide definitive answers to some very simple queries from the passengers, such as:

- When will the luggage arrive?
- When will the airline provide information about the luggage?

The process to formally register missing luggage with the airlines proved to be tedious and at first there were insufficient forms for everyone affected by the delay. The result was confusion, frustration and delay.

Reason for missing luggage

Everyone wanted to understand why they didn't get their luggage. Clearly it was not a case of one or a few misplaced pieces of luggage left behind at the source as the result of an oversight. There was obviously a more serious reason. Reluctantly, one Happy Airways staff member confirmed that the pilot had decided to offload most of the luggage in order to carry extra fuel to deal with the likely monsoon activity in the flight path.

After going through the lengthy paperwork process, most passengers had left the airport by 2pm. Despite the assurance that their luggage would be delivered within 24 hours, some of the passengers in Sydney waited two days. It was unclear when the out-of-Sydney passengers got their luggage.

(*This anecdotal case study is based on firsthand experience of recent international travel.*)

Continued

DISCUSSION QUESTIONS

1. Identify and explain the communication failure points in this case.
2. What would you do to address the issues identified earlier?
3. Were all passengers equally or similarly affected by the baggage issue? What were the different passenger segments?
4. What key operational issues can you identify in this situation?

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PART 4



Value capture, delivery and communication

CHAPTER 11

Pricing concepts for establishing value

CHAPTER 12

Supply chain, channel management and retail

CHAPTER 13

Integrated marketing communications

In Part 4 we explore value capture, delivery and communication. Today, value communication methods are more complex because new technologies have added email, blogs, the internet, social media and podcasts to the advertising mix that once utilised only radio, television, newspapers and magazines to relay messages to consumers. Chapter 11 examines the importance of setting the right price; the relationship between price, quality and quantity sold; break-even analysis; the impact of price wars; and how the internet has changed the way people shop. Chapter 12 examines the importance of the supply chain and the changing nature of marketing channels. Chapter 13 introduces the breadth of integrated marketing communications, discussing advertising, public relations, sales promotions and personal selling.

CHAPTER 11

Pricing concepts for establishing value

LEARNING OBJECTIVES

LO 11.1 List the four pricing orientations.

LO 11.2 Explain the relationship between price and quantity sold.

LO 11.3 Explain the price elasticity of demand.

LO 11.4 Describe how to calculate a product's break-even point.

LO 11.5 Indicate the four price competition levels.



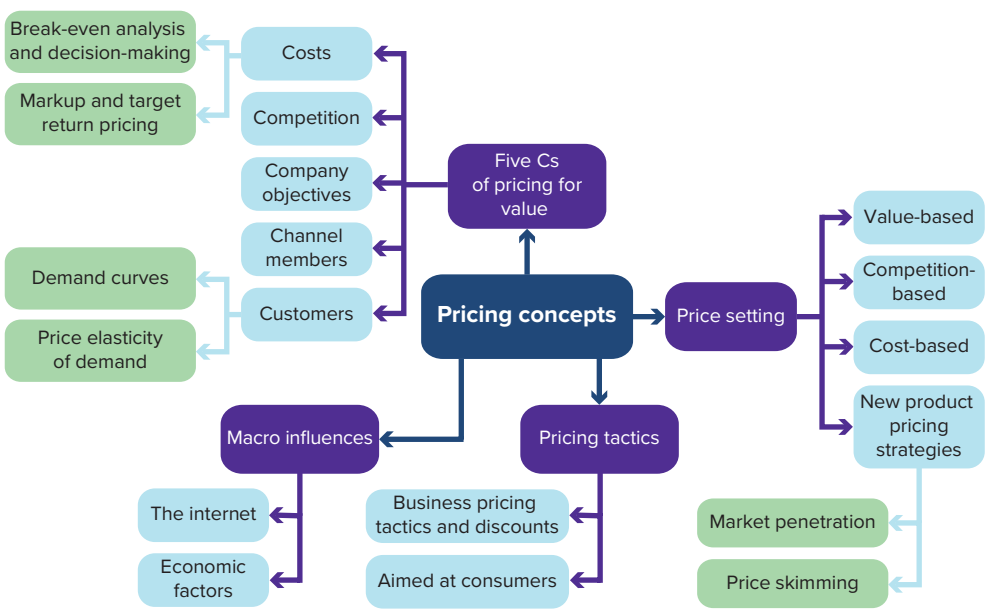
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LO 11.6 Identify three methods that firms commonly use to set their prices.

LO 11.7 Explain the difference between price skimming and market penetration pricing.

LO 11.8 Identify tactics used to reduce prices to consumers.

LO 11.9 Identify tactics used to reduce prices to businesses.



Graduate spotlight



NAME
Jessica Richardson

DEGREE STUDIED
Bachelor of Commerce (Marketing and Advertising)

UNIVERSITY
Curtin University

CURRENT POSITION
Marketing Delivery Officer

EMPLOYER
Roobix

What did you learn from your degree and how has it prepared you for a career in marketing?
My degree was incredibly hands-on, so I was able to learn skills around managing clients and their expectations and working with them to pull out the necessary information for a solid marketing plan. It also taught me how to report on results, which is so important for all of my clients.

What interested you about studying or working in marketing?
I was never too sure what I wanted to do growing up—I have a creative side but am also very analytical. Marketing seemed like the perfect mix of both sides.

What have you been up to since graduation?
After graduating in 2018, I joined Roobix as a Marketing Officer. Here I assisted the team with social media, PPC, SEO and strategy work before getting my own portfolio of clients. I've been in my current role for about a year now.

What does your current job involve?
Every day is different for me—which I love! I manage a handful of clients from all different industries. One day I might be reviewing social ads, the next I'm working with our strategists on a new concept for a client. I'm a client's main point of contact, so I'm also in lots of meetings, doing lots of calls and staying connected with the client. My role means I get to dip my toes into all different aspects of marketing, working with specialists in each field to get real results.

What do you enjoy most about your job?
I love that I'm helping small- to medium-sized businesses. Roobix is a martech provider, meaning we use technology to help businesses make more meaningful connections with their target market. Being able to offer things like automation to a local business is such an amazing opportunity.

What are your thoughts on the future of the marketing and communication industry? What advice would you give to students wanting to work in marketing?
The industry changes every day and businesses that stay at the forefront of that change are going to be successful. The best advice I could give to students wanting a career in marketing is to keep up-to-date with marketing trends and what other businesses are doing. Subscribe to lots of marketing bulletins and read lots of articles.

price
The overall sacrifice a consumer is willing to make—money, time, energy—to acquire a specific product.

Price can be defined as the overall sacrifice a consumer is willing to make to acquire a specific product. Pricing is a key part of the value proposition. After all, the relationship between benefits and costs is translated as value. For example, when there is an economic downturn, consumer sentiment drops and consumers become more frugal. They focus more on price and the perceived value, or cost versus benefit, of their purchases. This trend affects all major industries and in the retail sector is perhaps most evident in supermarkets. Supermarket shoppers tend to favour private label offerings, which rapidly increased their collective market share following the global financial crisis. Shoppers showed increased acceptance of private label products, with 65 per cent of shoppers in early 2017 opting to purchase private label items, compared to 44 per cent in late 2016.[1] The purchase of private label products was once driven purely by price, but increasingly, and with the sophistication of private label brands, these purchases are being influenced by perceived value and societal lifestyle shifts towards frugality and conservation of resources. In the midst of these changing trends, shoppers also exhibit different spending patterns depending on the product category. For example, staples like bread and milk draw shoppers to stores, but spending on non-essential items such as confectionery items and magazines tends to be more elastic. Thus, for all categories price is important, and for non-essentials the pricing challenge comes down to pricing strategy: how to set the best price for the product and how to lure customers back when they are focused on spending less or have set themselves price limits.

Price is so important that even a corporate giant such as Coca-Cola has to grapple with it. The soft drink that became shorthand worldwide for a quick, ice-cold drink started out in 1886 as a headache cure called Coca-Cola. By the end of World War II, the popular American brand controlled more than 60 per cent of the soft-drink market worldwide. The Australian soft-drink market is worth approximately $3.5 billion, with Coca-Cola Amatil dominating the market and accounting for about 62 per cent of all Australian soft-drinks manufactured.[2] Coca-Cola makes beverages such as the Coke range, Fanta, Sprite, Lift, Kirks (the Australian brand), Deep Spring Mineral Water, Appletiser, Powerade, Monster and Glacéau energy drinks. The Japanese giant Asahi accounts for another 26 per cent of the global soft-drink manufacturing market.[3] These two companies control a vast majority of the global market.

But lifestyle changes in the consumer market have transformed the carbonated beverage industry. In recent years soft-drink consumption in Australia has been stagnant at best and decreasing at worst, with calorie-conscious consumers changing their beverage purchasing decisions away from sugary soft drinks.[4] Health-conscious consumers have abandoned high-sugar soft drinks. Now alternative beverages including iced teas, bottled waters and vitamin drinks compete for shelf space in developed markets such as the United States, Australia, New Zealand and the United Kingdom. In Australia, as in the United States, soft-drink consumption has declined as a result.[5] Much of Coca-Cola's revenue growth comes from Russia and China.[6] However, the company has also been keeping up with new consumer trends, by way of new product developments and/or acquisitions, such as energy drinks, sports drinks, water, mineral water and extensions to traditional offerings such as Coke Zero and Sprite Zero.

Coca-Cola's new pricing approach had to reconcile two diverging trends: rising costs and the demand for lower prices. The company had already confronted this problem in countries such as Mexico, the world's largest per capita consumer of Coke. When economic crisis hit and the peso dropped in 1994, Coca-Cola started offering smaller, lower-priced packages to get customers to buy again. Today Coke fans have many package options.[7] In the search for a pricing strategy to jumpstart flagging revenue, Coca-Cola has also confronted another problem as manufacturing costs in developed countries rise due to higher prices for plastic, sugar, high-fructose syrup and fruit.[8]

In Australia, Coca-Cola has traditionally offered multiple sizes. The company has offered many size variations, such as the 375 mL can, the 600 mL, 1 L, 1.25 L, 1.5 L, 2 L and even 3 L bottles, as well as cases of 375 mL cans. Now it has added smaller package options for consumers looking to spend less and/or make a healthier choice: the 200 mL and 300 mL slim cans. The company also originally cut the price on its 'mini' cans, hoping that the smaller can designed for weight-conscious consumers would also appeal to those on a budget.

Can Coca-Cola boost revenue and profits while offering reduced-volume options? That seems like a paradox, but the company may have found a strategic 'sweet spot'. Smaller containers cost less, but consumers pay more per litre. Those who still want larger bottles and cans will face higher

prices. Coca-Cola is hoping that its selection of sizes and prices will ensure that for every fan, Coke is still 'the real thing'. Further, in Australia the introduction of unit pricing has created new rules for pricing within large supermarkets. For example, along with the total price, the product must also have a unit price per 100 mL or other measure. This change was introduced for transparency of price information, and many supermarkets such as Coles, Woolworths and ALDI are now legally bound to comply (see Exhibit 11.1).



Exhibit 11.1 Like many supermarkets, ALDI must show the unit price for its olive oil products as well as the total price.

Source: Courtesy of ALDI Stores

Previously, we defined *value* as the relationship between the product's benefits and the consumer's costs, which is another way of looking at the same thing. Consumers judge the benefits the product delivers against the sacrifice necessary to obtain it, then make a purchase decision based on this overall judgement of value. Thus, a great but overpriced product can be judged as low in value and may not sell as well as an inferior but well-priced item. We cannot define price without referring to the product associated with it. The key to successful pricing is to match the product with the consumer's value perceptions. Getting this balance right is the key to market success.

In this equation, price also provides information about the quality of goods and services. If firms can price their goods or services too high, can they price them too low as well? Quite simply, yes. Although price represents the sacrifice consumers make to acquire the product, looked at the other way around, it also provides helpful signals to consumers. A price set too low may signal low quality, poor performance or other negative attributes about the product. Would you trust your looks to a plastic surgeon advertising rhinoplasty surgery (commonly referred to as a nose job) for only $99.99? We discuss this aspect of price in further detail when we talk about specific pricing strategies. Note that consumers do not necessarily want a low price all the time or for all products. Rather, what they want is high value, which may come with a relatively high or low price, depending on the bundle of benefits the product delivers. If a firm wants to deliver value, and value is judged by the benefits relative to the cost, then pricing decisions are absolutely critical to the effort to deliver value.

Because price is the only element of the marketing mix that does not generate costs, but instead generates revenue, it is important in its own right. Every other element in the marketing mix may be perfect, but with the wrong price, sales and thus revenue will not accrue. Research has consistently shown that consumers usually rank price as one of the most important factors in their purchase decisions.[9]

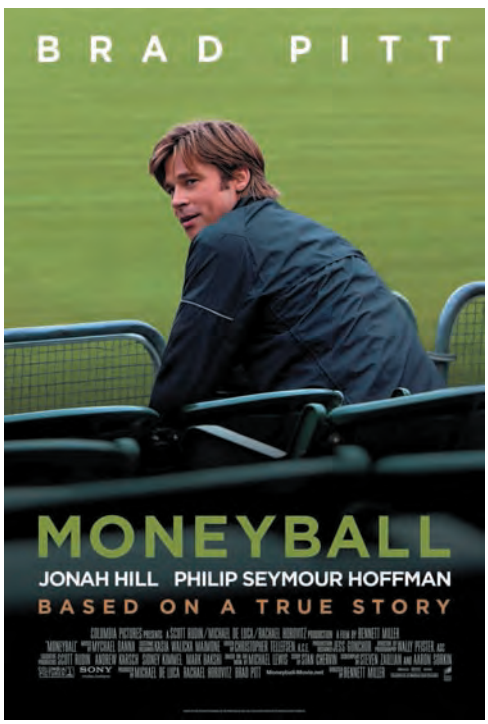


Exhibit 11.2 Demonstrating that price is often used to judge quality, in the movie *Moneyball,* Jonah Hill's character explains to Brad Pitt's character that baseball teams often overpay for young untested talent or big-name players because they don't know how else to gauge an appropriate salary.

© Scott Rudin Productions/Kobal/Shutterstock

If we know that price is so critical to success, why don't managers put greater emphasis on it as a strategic decision variable? Price is the most challenging of the four Ps (product, price, place, promotion) to manage, partly because it is often the least understood. Historically, managers have treated price as an afterthought to their marketing strategy, setting prices according to what competitors were charging or, worse yet, adding up their costs and tacking a desired profit on to set the sales price. Prices rarely changed except in response to radical shifts in market conditions. Even today, pricing decisions are often relegated to standard rules of thumb that fail to reflect our current understanding of the role of price in the marketing mix. For example, retailers sometimes use a 100 per cent markup rule, otherwise known as 'keystoning'. That is, they simply double what they paid for the item when they price it for resale (price = wholesale cost × 2). Yet what happens if the store receives a particularly good deal from the manufacturer on an item? If consumers are not sensitive to price changes for the product, should marketers blindly pass this lower price on to consumers? Why lower the price if it will not stimulate more sales? In this case, it might be better for the store not to follow its standard markup practice and instead take the additional profit. Similarly, if the store's cost for an item goes up and consumers are particularly sensitive to price increases for that product, the store might want to set the price at less than double the cost.

As we said, all this is crucial because consumers may use the price of a product to judge its quality.[10] Price is a particularly powerful indicator of quality when consumers are less knowledgeable about the product category–a lesson brought home by the movie (based on the book of the same name) *Moneyball* (see Exhibit 11.2). As the character played by Jonah Hill argues convincingly to



Exhibit 11.3 People use price to judge the quality or performance of a product: a group of people who paid less for an energy drink than others were able to solve fewer puzzles than those who paid more for the same drink.

© PhotoTodos/Shutterstock

Brad Pitt's character, baseball teams often overpay for young, untested talent or big-name players, because they don't know how else to set an accurate price.[11]

In an everyday example of this effect, a research team at Stanford conducted a study in which they gave consumers samples of 'different' energy drinks with varying prices, though two of the drinks actually were the same product. These participants paid more or less for the same drink, but 'the people who paid discounted prices consistently solved fewer puzzles than the people who paid full price for the drinks' (see Exhibit 11.3).[12] Apparently, consumers believe more expensive products will perform better for them–so strongly that they even display more energy after drinking a more expensive energy booster. In summary, marketers should view pricing decisions as a strategic opportunity to create value rather than as an afterthought to the rest of the marketing mix. Let us now turn to the five basic components of pricing.

THE FIVE Cs OF PRICING

Successful pricing strategies are built around the five critical components (the five Cs) of pricing shown in Figure 11.1. We examine these components in some detail, because each makes a significant contribution to formulating good pricing policies for a firm.[13] To start, the first step is to develop the company's pricing objectives.

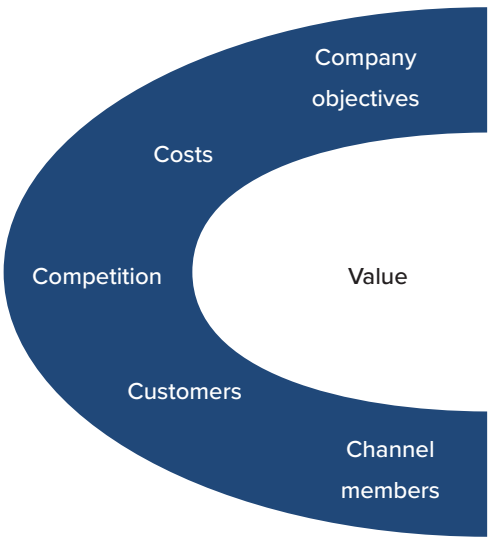


Figure 11.1 The five Cs of pricing

PRICING: 1. COMPANY OBJECTIVES

By now, you know that different firms operate according to different objectives, which act as a pathway for growth. These corporate objectives should spill down to all functional units, including marketing, and are useful for guiding the formulation of pricing strategies for its offerings. Managers need to make decisions, such as do they want to grow by increasing profits, increasing sales, decreasing competition or building customer satisfaction? The pricing of a company's goods and services should support and allow the firm to reach its overall objectives. For example, a firm with a primary objective of very high sales growth will likely have a different pricing strategy than a firm with the objective of being a quality leader.

Company objectives are not as simple as they might first appear. They can be expressed in slightly different forms that mean very different things. Table 11.1 introduces some common company objectives and corresponding examples of their implications for pricing strategies. These objectives are not always mutually exclusive, because a firm may embrace two or more non-competing objectives.

LO 11.1 Profit orientation

profit orientation
A company objective that can be implemented by focusing on *target profit pricing, maximising profits* or *target return pricing.*

target profit pricing
A pricing strategy implemented by firms when they have a particular profit goal as their overriding concern; uses price to stimulate a certain level of sales at a certain profit per unit.

Even though all company methods and objectives may ultimately be oriented toward making a profit, firms implement a **profit orientation** by focusing on target profit pricing, maximising profits or target return pricing.

- Firms usually implement **target profit pricing** when they have a particular profit objective as their overriding concern. To meet this target, firms use price to stimulate a specific level of sales at a set profit per unit.
- The **maximising profits** strategy is a mathematical model that captures all the factors required to explain and predict sales and profits, that is, to identify the price at which its profits are maximised. Of course, the problem with this approach is that actually gathering the data on all these relevant factors and somehow coming up with an accurate mathematical model is an extremely difficult undertaking. However, this approach is more accurate for marketing managers.

Table 11.1 Common company objectives and pricing strategy implications

Company objective	Examples of pricing strategy implications
Profit-oriented	Institute a company-wide policy that all products must provide for at least an 18% profit margin to reach a particular profit goal for the firm.
Sales-oriented	Set prices very low to generate new sales and take sales away from competitors, even if profits suffer.
Competitor-oriented	To discourage more competitors from entering the market, set prices very low.
Customer-oriented	Target a market segment of consumers who highly value a particular product benefit and set prices relatively high (referred to as premium pricing).

maximising profits
A profit strategy that relies primarily on economic theory. If a firm can accurately specify a mathematical model that captures all of the factors required to explain and predict sales and profits, it should be able to identify the price at which its profits are maximised.

target return pricing
A pricing strategy implemented by firms less concerned with the absolute level of profits and more interested in the rate at which their profits are generated relative to their investments; designed to produce a specific return on investment, usually expressed as a percentage of sales.

sales orientation
A company objective based on the belief that increasing sales will help the firm more than will increasing profits.

- Other firms are less concerned with the absolute level of profits and more interested in the rate at which their profits are generated relative to their investments. These firms typically turn to **target return pricing** and employ pricing strategies designed to produce a specific return on investment (ROI), usually expressed as a percentage of sales.

Sales orientation

Firms using a **sales orientation** to set prices believe that increasing sales will help the firm more than will increasing profits. Coca-Cola might adopt such an orientation selectively, when it introduces new products that it wants to establish in the market, for example, Sprite Zero. A new health club might focus on unit sales, dollar sales or market share and therefore be willing to set a lower membership fee and accept less profit at first to focus on and generate more unit sales. In contrast, a high-end jewellery store might focus on dollar sales and maintain higher prices. The jewellery store relies on its prestige image, as well as the image of its suppliers, to encourage sales. Even though it sells fewer units, it can still generate high dollar sales levels (see Exhibit 11.4).

Some firms may be more concerned about their overall market share than about dollar sales *per se* (though these often go hand in hand), because they believe that market share better reflects their success relative to the market conditions than do sales alone. A firm may set low prices to discourage new firms from entering the market, encourage current firms to leave the market, and/or take market share away from competitors–all to gain overall market share. For example, though Apple has sold more than 10 billion songs since the introduction of its iTunes service, it wants to keep increasing its market share, especially as competitors such as Amazon.com make inroads in this arena. Therefore, instead of $1.99 per song–the fixed pricing structure it previously maintained–Apple sets three price tiers ($1.19, $1.69 and $2.19) for its songs, according to their popularity and recency. The songs that are the most popular cost the most, but by charging less for less popular songs, Apple aims to increase its sales per customer.[14] Further, iTunes have a free song per week marketing activity promoting return consumption. However, this premium pricing policy by Apple in Australia has been questioned for perceived exploitation due to its market dominance.



Exhibit 11.4 A high-end jewellery store relies on its prestige image.

© Juice Images/Glow Images/DAL

Yet adopting a market share objective does not always imply setting low prices. Rarely is the lowest-price offering the dominant brand in a given market. Heinz tomato sauce, Philadelphia cream cheese, Colgate toothpaste and Nike shoes have all dominated their markets, yet all are premium-priced brands (see Exhibit 11.5). On the services side, IBM claims market dominance in human resource outsourcing, but again, it is certainly not the lowest price competitor.[15] **Premium pricing** means the firm deliberately prices a product above the prices set for competing products to capture those customers who always shop for the best or for whom price does not matter as much. Thus, companies can gain market share by offering a high-quality product at a price that is perceived to be fair by its target market as long as they use effective communication and distribution methods to generate high value perceptions among consumers. Although the concept of value is not overtly expressed in sales-oriented



Exhibit 11.5 Philadelphia cream cheese dominates its market and is a premium-priced product.

© Bloomberg/Contributor/Getty Images

strategies, it is at least implicit because, for sales to increase, consumers must see greater value.

Competitor orientation

When firms take a **competitor orientation**, they view pricing policy strategy according to the premise that they should measure themselves primarily against their competition. Some firms focus on **competitive parity**, which means they set prices that are similar to those of their major competitors. Another competitor-oriented strategy, **status quo pricing**, changes prices only to meet those of the competition. For example, when Jetstar increases its average fares, Virgin Australia generally follow with similar increases; if Jetstar rescinds that increase, its competitors tend to drop their fares too. Value is only implicitly considered in competitor-oriented strategies, but in the sense that competitors may be using value as part of their pricing strategies, copying their strategy might provide value.

premium pricing
A competitor-based pricing method by which the firm deliberately prices a product above the prices set for competing products to capture those consumers who always shop for the best or for whom price does not matter.

competitor orientation
A company objective based on the premise that the firm should measure itself primarily against its competition.

competitive parity
A firm's strategy of setting prices that are similar to those of major competitors.

status quo pricing
A competitor-oriented strategy in which a firm changes prices only to meet those of the competition.

customer orientation
A company objective based on the premise that the firm should measure itself primarily according to whether it meets its customers' needs.

Customer orientation

When implementing a **customer orientation** a firm sets its pricing strategy based on how it can add value to its goods or services. Firms may offer very high-priced, 'state-of-the-art' goods or services in full anticipation of limited sales. These offerings are designed to enhance the company's reputation and image and thereby increase the company's value in the minds of consumers. Paradigm, a Canadian speaker manufacturer, produces what many audiophiles consider a high-value product, yet offers speakers priced as low as $320 per pair. However, Paradigm also offers a very high-end speaker, for $8500 per pair. Although few people will spend $8500 on a pair of speakers, this 'statement' speaker communicates what the company is capable of and can increase the image of the firm and the rest of its products–even that $320 pair of speakers. Setting prices with a close eye to how consumers develop their perceptions of value can often be the most effective pricing strategy, especially if it is supported by consistent advertising and distribution strategies.

After a company has a good grasp on its overall objectives, it must implement pricing strategies that enable it to achieve those objectives. As the second step in this process, the firm should look to consumer demand to lay the foundation for its pricing strategy (consumer demand is not static and can change).

PRICING: 2. CUSTOMERS

When firms have developed their company objectives, they turn to understanding consumers' reactions to different prices. The second of the five Cs of pricing focuses on the customers. Customers want value and, as you will recall, price is half of the value equation.

To determine how firms account for consumers' preferences when they develop pricing strategies, we must first explain how prices are related to demand (consumers' desire for products) and how managers can incorporate this knowledge into their pricing strategies. Consider how Apple has leveraged consumers' love for its offerings into a sophisticated pricing strategy.[16]

Adding value 11.1

Price in-store, online and in new markets

Pricing is certainly an important component of a product's overall value. The rise of online shopping has been partly fuelled by access to lower prices, but for how long can this continue? The low barriers to entry in the online space have attracted newcomers and the market is now hypercompetitive. Businesses strive to keep their costs low, but the intense competition and consumer choice means that they are also forced to invest in building technological capability to offer superior online experiences

and service to customers. For some, this technological capability investment is nearing the cost of the high retail rents that shopfront stores must pay. Increasingly, businesses are narrowing the pricing gap between physical retail stores and online stores and are finding alternative ways to pass on costs to customers. For example, the Australian department store David Jones offers online purchasing through its website, but customers must pay for delivery. It also regularly sends discount codes that can be used in-store during promotions via email to existing customers—these are different from those advertised at the point-of-sale. David Jones' promotional tactics encourage customers to view and sometimes buy online, but also to visit the physical store.



Exhibit 11.6 The online grocery business is a small but lucrative market.

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For others such as Sportscraft, the same pricing applies in-store and online, but consumers must pay for delivery, unless the total order is over $200, at which point standard delivery is free of charge. If customers wish to return items, they may do so free of charge in-store; or they can use the postal system, for which they will be charged $6.99 if they use the recommended 'easy return label' included in the original packaging (for online purchases).[17] The total price paid by an online customer may thus be higher when purchasing and returning items than if the same person had visited a physical store and was able to try on the garments prior to making a purchase decision, thereby eliminating the need for product returns.

A recent Roy Morgan research study found that in 2018 about 9.5 million Australians aged 14+ made an online purchase in the four-week period preceding the survey.[18] The most popular shopping categories are: Entertainment and Leisure items (4.5 million shoppers), Fashion (2.7 million shoppers), Food and Beverages (2.4 million shoppers) and Reading Material (2.2 million shoppers). A small but lucrative market is the online grocery business (see Exhibit 11.6).[19] Research shows that online shoppers spend about 45 per cent more than in-store customers, with women spending the greatest amounts. The online grocery market represents only 4 per cent of the total grocery market, but the overall spend is significant and promising—if the survey results indicating that as many as 31 per cent of shoppers are considering online grocery shopping in the near future are to be trusted. Retailers focused on increasing revenue per customer are set to be the biggest beneficiaries of this seemingly imminent trend.

demand curve
Shows how many units of a product consumers will demand during a specific period at different prices.

Demand curves and pricing

LO 11.2

A **demand curve** shows how many units of a product consumers will demand during a specific period of time at different prices. Although we call them 'curves', demand curves can be either straight or curved, as Figure 11.2 shows. Of course, any demand curve relating demand to price assumes that everything else remains unchanged. For the sake of experiment, marketers creating a demand curve assume that the firm will not increase its expenditures on advertising and that the economy will not change in any significant way.

Figure 11.2 illustrates a classic downward-sloping demand curve, for teeth-whitening kits. As price increases, demand for the product decreases. In this case, consumers will buy more as the price decreases. We can expect a demand curve similar to this one for many, if not most, goods and services.

The horizontal axis in Figure 11.2 measures the quantity demanded for the teeth-whitening kits in units and plots it against the various price possibilities indicated on the vertical axis. Each point on the demand curve then represents the quantity demanded at a specific price. So, in this instance, if the price of a kit is $10 per unit ($P_1$), the

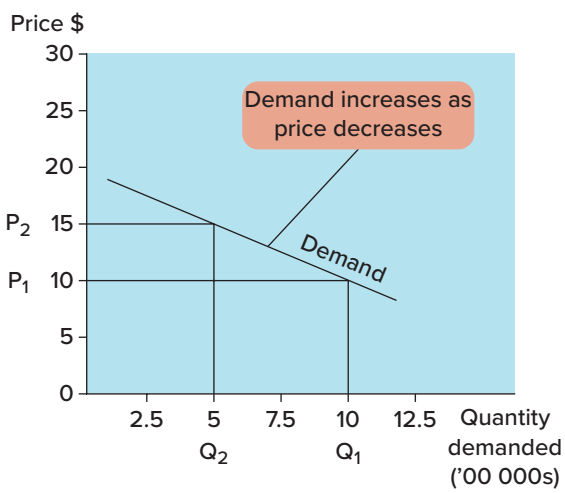


Figure 11.2 Demand curve for teeth-whitening kits



Exhibit 11.7 Based on Figure 11.2, what is the best price for Colgate Max White?

© Matthew Horwood/Getty Images

demand is 1 000 000 units (Q_1), but if the price were set at \$15 (P_2), the demand would only be 500 000 units (Q_2). The firm will sell far more teeth-whitening kits at \$10 each than at \$15 each. Why? Because of the greater value this price point offers (see Exhibit 11.7).

Knowing the demand curve for a product enables a firm to examine different prices in terms of the resulting demand and relative to its overall objective. In our preceding example, the retailer will generate a total of \$10 000 000 in sales at the \$10 price (\$10 × 1 000 000 units) and \$7 500 000 in sales at the \$15 price (\$15 × 500 000 units). In this case, given only the two choices of \$10 or \$15, the \$10 price is preferable as long as the firm wants to maximise its sales in terms of dollars and units. But what about a firm that is more interested in profit? To calculate profit, it must consider its costs, which we cover in the next section.

Not all goods or services follow the downward-sloping demand curve for all levels of price depicted in Figure 11.2. Consider **prestige goods or services**, which consumers purchase for their status rather than their functionality. The higher the price, the greater the status associated with it and the greater the exclusivity, because fewer people can afford to purchase it. Fabergé, the French jeweller known for making jewelled eggs for the Russian Tsar Alexander III and later his son Nicholas II, among other exotic items, is so prestigious that in some stores people are required to schedule a viewing appointment (see Exhibit 11.8). Fabergé's latest line of jewellery is featured on the company website (www.faberge.com), and while customers are welcome to browse any time, they must first register their interest and request an appointment. Customers then wait to be contacted by Fabergé to proceed. For some, exclusivity pays.

prestige goods or services
Those that consumers purchase for status rather than functionality.



Exhibit 11.8 With prestige products such as this expensive Fabergé egg, the higher the price, the higher the status associated with it and, possibly, the more it will sell.

Source: Courtesy of Fabergé

With prestige goods or services, a higher price may lead to a greater quantity sold, but only up to a certain point. The price demonstrates just how rare, exclusive and prestigious the product is. When customers value the increase in prestige more than the price differential between the prestige product and other products, the prestige product attains the greater value overall.

However, prestige products can also run into pricing difficulties. The Fender Telecaster and Stratocaster guitars are absolute necessities for any self-respecting guitar hero, but for students just learning or hobbyists, the price of owning a Fender 'axe' was simply too much. In response, Fender introduced a separate, budget-priced line of similar guitars under a different brand name, so as not to dilute the prestige of the Fender name. The Squier line, made in Japan with automated manufacturing and less expensive parts, offers a look similar to the famous Fender guitars and performance just a notch below the originals. Today, an American-made Vintage Hot Rod '62 Fender Stratocaster lists for \$2400, more than 10 times as much as a Squier Bullet Strat model, which retails for around \$200.[20]

Figure 11.3 illustrates a demand curve for another hypothetical prestige service, a Caribbean cruise. As the graph indicates, when the price increases from \$1000 (P_1) to \$5000 (P_2), the quantity demanded actually increases from 200 000 (Q_1) to 500 000 (Q_2) units. However, when the price increases to \$8000 (P_3), the demand then decreases to 300 000 (Q_3) units.

Although the firm likely will earn more profit selling 300 000 cruises at \$8000 each than 500 000 cruises at \$5000 each, we do not know for sure until we bring costs into the picture. However, we do know that more consumers are willing to book the cruise as the price increases initially from \$1000 to \$5000 and that more consumers will choose an alternative vacation as the price increases further from \$5000 to \$8000.

We must consider this notion of consumers' sensitivity to price changes in greater depth.

LO 11.3 Price elasticity of demand

Although we now know something about how consumers react to different price levels, we still need to determine how consumers respond to actual changes in price. These responses vary depending on the product (see Exhibit 11.9). For example, consumers are generally less sensitive to price increases for necessary items, like milk, because they have to purchase the items even if

the price climbs. When the price of milk goes up, demand does not fall significantly because people still need to buy milk. However, if the price of T-bone steaks rises beyond a certain point, people will buy less or stop buying it because they can turn to a substitute product–for instance, alternative cuts of beef or different meats, such as pork or chicken, or other meat options such as sausages–which might be offered at lower price points. Most non-essential household items and perishable goods are subject to substitution if consumers feel that the asking price outweighs the relative value of the item. Marketers need to know how consumers will respond to a price increase (or decrease) for a specific product or brand so they can determine whether it makes sense for them to raise or lower prices.

Price elasticity of demand measures how increases or decreases in price affect product demand. Specifically, it is the ratio of the percentage change in demand to the percentage change in price.

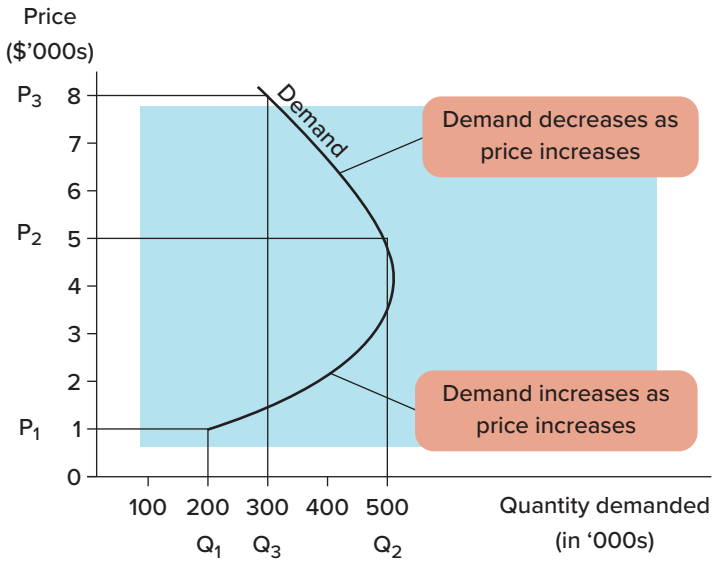


Figure 11.3 Demand curve for Caribbean cruises

We can calculate it with the following formula:

$$\text{Price elasticity of demand} = \frac{\%\text{ change in quantity demanded}}{\%\text{ change in price}}$$

The demand curve provides the information we need to calculate the price elasticity of demand. For example, a marketer might be wondering about the effect of a price increase from $10 to $15 of the company's teeth-whitening kit, and what it would do to demand. It is possible to determine the effect, or price elasticity of demand, using the formula below:

$$\%\text{ change in quantity demanded} = \frac{(1\,000\,000 - 500\,000)}{1\,000\,000} = 50\%, \text{ and}$$

$$\%\text{ change in price} = \frac{(\$10 - \$15)}{10} = -50\%, \text{ so}$$

$$\text{Price elasticity of demand} = \frac{50\%}{-50\%} = -1.$$



Exhibit 11.9 Customers' response to a product and the change in the price depends on the product.

© Neyya/Getty Images

Thus, the price elasticity of demand for the teeth-whitening kit is −1. This means that the price change from $10 to $15 will likely result in a one per cent reduction in units sold.

In general, the market for most products is price sensitive (or **elastic**) such that when price changes, demand also changes. In a scenario with high price elasticity, relatively small changes in price will generate fairly large changes in the quantity demanded, so if a firm is trying to increase its sales, it can do so by lowering prices. However, the flip side of this is that raising prices will result in reduced sales. For example, a retailer can significantly increase its sales of steak by lowering its price, because steak prices are elastic. But the retailer should be aware that increasing the price of steak will lead to reduced demand and sales.

In contrast, for products that are considered staples or at least those that people must purchase, such as medicines, the market is referred to as price insensitive because demand is **inelastic**. We can then say that when price elasticity is greater than -1, it means that a one per cent decrease in price results in a (less than 1%) increase in quantity sold. Generally, if a firm must raise prices, it is helpful to do so with inelastic goods or services because in such a market, fewer customers will stop buying or reduce their purchases. Interestingly too, if the products are inelastic, lowering prices will not necessarily increase demand.

Consumers are generally more sensitive to price increases than to price decreases.[21] That is, it is easier to lose current customers with a price increase than it is to gain new customers with a price decrease. Also, the price elasticity of demand usually changes at different points in the demand curve

price elasticity of demand
Measures how changes in a price affect the quantity of the product demanded; specifically, the ratio of the percentage change in quantity demanded to the percentage change in price.

elastic
Refers to a market for a product that is price sensitive; that is, relatively small changes in price will generate fairly large changes in the quantity demanded.

inelastic
Refers to a market for a product that is price insensitive; that is, relatively small changes in price will not generate large changes in the quantity demanded.

unless the curve is actually a straight line, as in Figure 11.2. For instance, a prestige product, like our Caribbean cruise example in Figure 11.3, enjoys a highly inelastic demand curve up to a certain point, so price increases do not affect sales significantly. But when the price reaches that certain point, consumers start turning to other alternatives because the value of the cruise has finally been reduced by the extremely high price.

When companies believe they cannot raise prices without invoking negative consumer responses, they can turn to different strategies to increase prices without changing the numbers on the price tag. Ethical and societal dilemma 11.1 describes one such method that some consumers question.

Ethical and societal dilemma 11.1

The verdict: Apple conspired to raise prices on e-books

In a long-running court case, Amazon, Apple, a group of book publishers, and customers fought a tough battle over the price of reading.[22]

Compared with Amazon, Apple was a late entrant to the e-book market. Amazon, with its Kindle devices and well-known reputation as a bookseller (which was how the online giant started), dominated the market of books sold to be read on Kindles as well as on other devices, including Apple's phones and tablets. Amazon also offered great prices, with many popular titles priced at under $10. Faced with this tremendous dominance, Apple believed it needed to find a way to compete. It worked with five major book publishers to decide on a minimum price below which they would not sell. With the agreement, publishers Hachette, Harper Collins, Simon & Schuster, Penguin and Macmillan began insisting on higher prices for their titles, and Apple took a percentage of each sale. This pricing method also meant that Amazon had to raise the prices it charged consumers, because it was paying more for the rights to the electronic content.



Exhibit 11.10 Who will ultimately win the Apple–Amazon pricing war? Currently, the US court decision is that the agreement among Apple and the five big publishers represents collusion.

© Joby Sessions/Computer Arts Magazine/Getty Images

Amazon immediately brought the situation to the attention of the US Department of Justice, alleging that the agreement represented price fixing and illegal conspiracy. Apple defended its actions vigorously; by entering a market that had been essentially a monopoly, with Amazon as the only seller,

Apple asserted that it was increasing competition, not harming it. It also alleged that the effect on the price was not the issue. Whether its entry led to higher or lower prices, the key point—according to Apple's argument—was that previously, consumers had only one source for e-books, and now they had two, and this was an improvement.

Various levels of the US court system have disagreed with Apple's assertions, though, and recently the Supreme Court of the United States refused to hear an appeal. Thus, the most recent decision by the lower appellate court stands. This decision establishes that the agreement among Apple and the five big publishers represented collusion. Previously, the publishers had been forced by Amazon to sell at low prices. The deal with Apple benefited them by allowing them to charge what they wanted. It also benefited Apple, which received a percentage of each sale. But the court's interest is mostly in the effects on consumers, and for those stakeholders, the conspiracy had negative effects in the form of higher prices.

As a result, Apple is liable to pay a $450 million settlement to e-book consumers. The publishers had already settled with the government.

Factors influencing price elasticity of demand

We have illustrated how the price elasticity of demand varies across different products and at different points along a demand curve, as well as how it can change over time. What causes these differences in the price elasticity of demand? We discuss a few of the more important factors next.

The **income effect** refers to the change in the quantity of a product demanded by consumers due to a change in their income. Generally, as people's income increases, their spending behaviour changes: they tend to shift their demand from lower priced products to higher priced alternatives (see Exhibit 11.11). That is, consumers buy a hamburger when they are stretching their money but steak when they are flush. Similarly, they may increase the quantity they purchase and splurge on a five-star hotel during their six-day Gold Coast trip rather than three-star accommodation over a weekend visit. In turn, when the economy is good and consumers' incomes are rising overall, the price elasticity of steak or hotel rooms may actually drop, even though the price remains constant. Conversely, when incomes drop, consumers turn to less expensive alternatives or purchase less.



Exhibit 11.11 If there are many close substitutes for a product, customers will be sensitive to small price changes and the product pricing will be highly elastic.

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income effect
Refers to the change in the quantity of a product demanded by consumers due to a change in their income.

The way a product is marketed to customers can have a profound effect on its price elasticity. Superior service 11.1 describes how good marketing in the form of great customer service can make customers less sensitive to price. Prior to this point, we have focused on how changes in prices affect how much customers buy. Clearly, knowing how prices affect sales is important, but it cannot give us the whole picture. To know how profitable a pricing strategy will be, we must also consider the third C, costs.

Superior service 11.1

Great service lowers price elasticity

Why can some hotels, doctors and retailers get away with charging more than their competitors and keep customers coming back for more? In some cases, it is the service. Consider the Ritz-Carlton chain of hotels. When it opens a new hotel, each employee undergoes more than 80 hours of training. About half the staff are transferred from other Ritz hotels to ensure that the new opening maintains the customer service and attention to detail for which the company is well-known.

Every shift, every day, on every Ritz property, a 15-minute meeting acts as a refresher to remind employees to act on one of the 12 'service values' that constitute the company's 'gold standard'. Employees are empowered to do whatever it takes to solve guest problems.

Continued

To support its performance, the Ritz collects information about guests, from special requests to informal observations. This system is relatively difficult to implement, because observations need to be 'actionable' and confirmed by various aspects of the customer's stay. For example, if a customer orders a martini with cocktail onions three times, the bartender should enter it into the system as the customer's favourite drink, but if that same customer orders a similar martini only once, it likely is not something worth noting. Employees are constantly trying to 'wow' their customers, so any knowledge that helps them to do so in the future provides value to both employees and customers.

Customers are accustomed to finding concierge services in such a hotel, but some doctors in the United States are expanding the idea to their practices too. For patients tired of waiting for hours to see an overbooked GP, concierge doctors promise to keep precise appointments, be available 24/7 and give medical tests that the doctor, not the insurance company, deems necessary. These doctors also promise to limit their patient load so as to give this high level of service. Despite the clear appeal of such offerings, they can cost as much as $25 000 per year. Clearly people who adopt this service are not price sensitive.

We might find the same customers cruising the aisles and loading up on merchandise from specialty department stores. These stores have great merchandise, some of which is unavailable at other stores in the area. But even more importantly, they provide outstanding service—service so good that many people don't mind paying relatively high prices. Salespeople get to know their good customers as well as they know their merchandise. Then they do whatever it takes to exceed those customers' expectations. If a store is out of an item that a good customer is requesting, a salesperson in one of these service-oriented stores is likely to not only try to get it from other stores in the same chain but even go to competitors' stores to find the item. For such service, some customers will pay more.

Under what circumstances, if any, would you be willing to pay more for better service?

PRICING: 3. COSTS

To make effective pricing decisions, firms must understand their cost structures so they can determine the degree to which their goods or services will be profitable at different prices. In general, prices should *not* be based on costs, because consumers make purchase decisions based on their perceived value; they care little about the firm's costs to produce and sell a product or deliver a service. Consumers use just the price they must pay and the benefits they may receive to judge value; they will not pay a higher price for an inferior product simply because the firm cannot be as cost efficient as its competitors or because events out of their control drive the cost of raw materials or labour higher.

Some companies may have had trouble passing their costs on to consumers, but other companies can do so with few negative repercussions. For example, even though deodorant sales have been stagnant for years, revenue shot up recently as a result of a price hike. The 'clinical' formula of Secret deodorant in the US costs $8.50 per bottle, more than twice as much as another version of the product. The reason consumers likely accept this price increase is the value that deodorant offers, in the form of peace of mind. To avoid the social embarrassment associated with sweat-stained clothing, consumers overlook the higher price.[23]

Although companies incur many different types of costs as a natural part of doing business, there are two primary cost categories: variable and fixed.

Variable costs

variable costs
Those costs, primarily labour and materials, that vary with production volume.

Variable costs are those costs, primarily labour and materials, that vary with production volume. As a firm produces more or less of a good or service, the total variable costs increase or decrease at the same time. Because each unit of the product produced incurs the same cost, marketers generally express variable costs on a per-unit basis. Consider a bakery like Bakers Delight: the majority of the variable costs are the cost of the ingredients, primarily flour. Each time Bakers Delight makes a loaf of bread, it incurs the cost of the ingredients.

In the service industry, variable costs are far more complex. A hotel, for instance, incurs certain variable costs each time it rents a room, including the costs associated with the labour and supplies

necessary to clean and restock the room. Note that the hotel does not incur these costs if the room is not booked. Suppose that a particular hotel calculates its total variable costs to be $10 per room; each time it rents a room, it incurs another $10 in variable costs. If the hotel rents out 100 rooms on a given night, the total variable cost is $1000 ($10 per room × 100 rooms).

In either case, however, variable costs tend to change depending on the quantity produced. If Bakers Delight makes 100 000 loaves of bread in a month, it would have to pay a higher price for ingredients on a per kilogram basis than if it were producing a million loaves. Similarly, a very large hotel will be able to get a lower per unit price on most, if not all, the supplies it needs to service the room because it purchases such a large volume. However, as the hotel company continues to grow, it may be forced to add more benefits for its employees or increase wages to attract and keep long-term employees. Such changes will increase its overall variable labour costs and affect the total variable cost of cleaning a room. Thus, though not always the case, variable costs per unit may go up or down (for all units) with significant changes in volume.

Fixed costs

Fixed costs are those costs that remain essentially at the same level, regardless of any changes in the volume of production. Typically, these costs include items such as rent, utilities, insurance, administrative wages (for executives and higher-level managers) and the depreciation of the physical plant and equipment. Across reasonable fluctuations in production volume, these costs remain stable; whether Bakers Delight makes 100 000 loaves or a million, the rent it pays for the bakery remains unchanged.

fixed costs
Those costs that remain essentially at the same level, regardless of any changes in the volume of production.

Total cost

Finally, the **total cost** is simply the sum of the variable and fixed costs. For example, in one year, our hypothetical hotel incurred $100 000 in fixed costs. We also know that because the hotel booked 10 000 room nights, its total variable cost is $100 000 (10 000 room nights × $10 per room). Thus, its total cost is $200 000.

Next, we illustrate how to use these costs in simple analyses that can inform managerial decision-making about setting prices.

total cost
The sum of the *variable* and *fixed costs*.

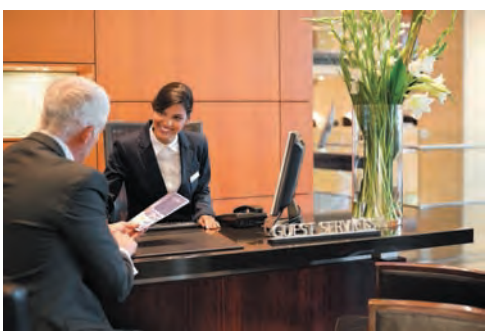




Exhibit 11.12 In a hotel, the cost of the physical structure, including the lobby, is fixed—it is incurred even if no rooms are booked. The costs of washing the towels and sheets are variable—the more rooms that are booked, the higher the costs.

Left to right: © Onoky/SuperStock/DAL, © LI CHAOSHU/Shutterstock/DAL

break-even analysis
A technique used to examine the relationships among cost, price, revenue and profit over different levels of production and sales to determine the *break-even point*.

Break-even analysis and decision-making

LO 11.4

A useful technique that enables managers to examine the relationships among cost, price, revenue and profit over different levels of production and sales is called a **break-even analysis**. Central to this analysis is the determination of the **break-even point** or the point at which the number of units sold generates just enough revenue to equal the total costs. At this point, profits are zero. Although profit, which represents the difference between the total cost and the total revenue (total revenue or sales = selling price of each unit sold × number of units sold), can indicate how much money the firm is making or losing at a single period of time, it cannot tell managers how many units a firm must produce and sell before it stops losing money and at least breaks even, which is what the break-even point does.

break-even point
The point at which the number of units sold generates just enough revenue to equal the total costs; at this point, profits are zero.

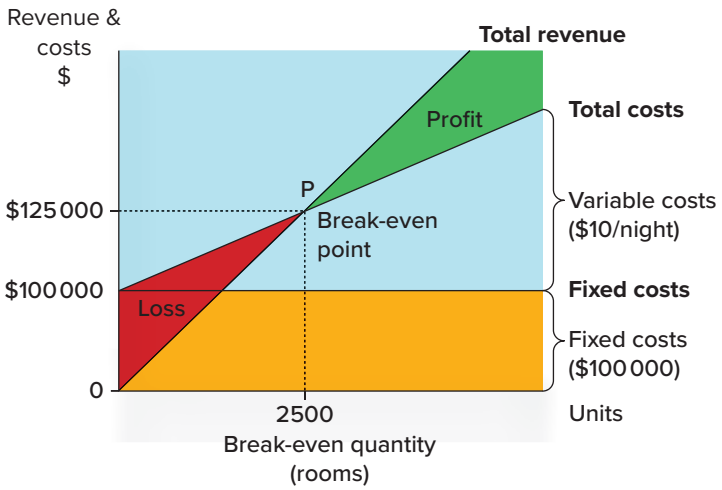


Figure 11.4 Break-even analysis

How do we determine the break-even point? Figure 11.4 presents the various cost and revenue information we have discussed in a graphic format. The graph contains three curves (recall that even though they are straight, we still call them curves): fixed costs, total costs and total revenue. The vertical axis measures the revenue or costs in dollars and the horizontal axis measures the quantity of units sold. The fixed cost curve will always appear as a horizontal line straight across the graph because fixed costs do not change over different levels of volume.

The total cost curve starts where the fixed cost curve intersects the vertical axis at $100 000. When volume is equal to zero (no units are produced or sold), the fixed costs of operating the business remain and cannot be avoided. Thus, the lowest point the total costs can ever reach is equal to the total fixed costs. Beyond that point, the total cost curve increases by the amount of variable costs for each additional unit, which we calculate by multiplying the variable cost per unit by the number of units or quantity.

Finally, the total revenue curve increases by the price of each additional unit sold. To calculate it, we multiply the price per unit by the number of units sold. The formulas for these calculations are as follows:

$$\text{Total variable cost} = \text{Variable cost per unit} \times \text{Quantity}$$
$$\text{Total cost} = \text{Fixed cost} + \text{Total variable cost}$$
$$\text{Total revenue} = \text{Price} \times \text{Quantity}$$

We again use the hotel example to illustrate these relationships. Recall that the fixed costs are $100 000 and the variable costs are $10/room rented. If the rooms rent for $50 per night, how many rooms must the hotel rent over the course of a year to break even? If we study the graph carefully, we find the break-even point at 2500, which means that the hotel must rent 2500 rooms before its revenues equal its costs. If it rents fewer rooms, it loses money (the red area); if it rents more, it makes a profit (the green area). To determine the break-even point in units mathematically, we must introduce one more variable, the **contribution per unit**, which is the price less the variable cost per unit.

contribution per unit Equals the price less the variable cost per unit. A variable used to determine the break-even point in units.

In this case,

$$\text{Contribution per unit} = \$50 - \$10 = \$40$$

Therefore, the break-even point becomes

$$\text{Break-even point (units)} = \frac{\text{Fixed costs}}{\text{Contributions per unit}}$$

That is,

$$\text{Break-even point (units)} = \frac{\$100\,000}{\$40} = 2500 \text{ room nights}$$

When the hotel has crossed the break-even point of 2500 rooms, it will start earning profit at the same rate of the contribution per unit. So if the hotel rents 4000 rooms–1500 rooms more than the break-even point–its profit will be $60 000 (1500 rooms × $40 contribution per unit).

$$\text{Profit} = (\text{Contribution per unit} \times \text{Quantity}) - \text{Fixed costs}$$
$$\text{Profit} = (\$40 \times 4000) - \$100\,000 = \$60\,000$$

Or an alternative formula would be:

$$\text{Profit} = (\text{Price} \times \text{Quantity}) - (\text{Fixed Costs} + (\text{Variable Costs} \times \text{Quantity}))$$
$$\text{Profit} = (\$50 \times 4000) - (\$100\,000 + (\$10 \times 4000))$$
$$\text{Profit} = \$200\,000 - (\$100\,000 + \$40\,000) = \$40\,000$$

Let's extend this simple break-even analysis to show how many units a firm must produce and sell to achieve a target profit. Say the hotel wanted to make $200 000 in profit each year. How many rooms would it have to rent at the current price? In this instance, we need only add the targeted profit to the fixed costs to determine that number:

$$\text{Break-even point (units)} = \frac{(\text{Fixed costs} + \text{Target profit})}{\text{Contributions per unit}}$$

or

$$7500 \text{ rooms} = \frac{(\$100\,000 + \$200\,000)}{\$40}$$

Although a break-even analysis cannot actually help managers set prices, it does help them assess their pricing strategies, because it clarifies the conditions in which different prices may make a product profitable. It becomes an even more powerful tool when performed on a range of possible prices for comparative purposes. For example, the hotel management could analyse various prices, not just $50, to determine how many hotel rooms it would have to rent at what price to make a $200 000 profit.

There are limitations to a break-even analysis. First, it is unlikely that a hotel has one specific price that it charges for every room, so the price it would use in its break-even analysis probably represents an 'average' price that attempts to account for these variances. Second, prices often get reduced as quantity increases because the costs decrease, so firms must perform several break-even analyses at different quantities. Third, a break-even analysis cannot indicate for sure how many rooms will be rented or, in the case of products, how many units will sell at a given price. It only tells the firm what its costs, revenues and profitability will be, given a set price and an assumed quantity. To determine how many units the firm actually will sell, it must bring in the demand estimates we discussed previously.

Markup and target return pricing

In many situations, the manufacturer may want to achieve a standard markup–let's say 10 per cent of cost. In our example of the teeth-whitening kit, assume:

- Variable costs per unit $8.00
- Fixed costs $1 000 000
- Expected sales 1 000 000 units

The teeth-whitening kit manufacturer would like to calculate the price at which they would make a 10 per cent markup. The formula for calculating a target return price based on a markup on cost is:

$$\text{Target return price} = (\text{Variable cost} + \text{Fixed cost} \div \text{Expected unit sales}) \times (1 + \text{Target return \% [expressed as a decimal]})$$

In this example, this would result in the firm charging $9.90.

$$\text{Target return price} = (\$8 + (\$1\,000\,000 \div 1\,000\,000)) \times (1 + 0.10)$$
$$\text{Target return price} = \$9.00 \times 1.1 = \$9.90)$$

PRICING: 4. COMPETITION

LO 11.5

Because the fourth C, competition, has a profound impact on pricing strategies,[24] we use this section to focus on its effect, as well as on how competitors react to certain pricing strategies. There are four levels of competition:

1. **monopoly**
2. **oligopolistic competition**
3. **monopolistic competition**
4. **pure competition**.

Each has its own set of pricing challenges and opportunities (see Figure 11.5).

monopoly
Occurs when one firm provides the product in a particular industry.

oligopolistic competition
Occurs when only a few firms dominate a market.

monopolistic competition
Occurs when there are many firms that sell closely related but not homogeneous products; these products may be viewed as substitutes but are not perfect substitutes.

pure competition
Occurs when different companies sell commodity products that consumers perceive as substitutable; price is usually set according to the laws of supply and demand.



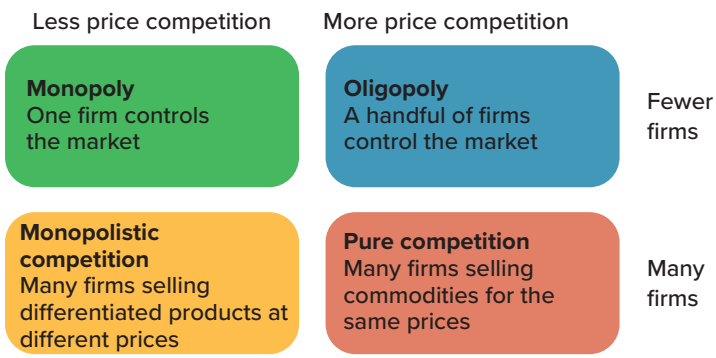


Figure 11.5 Four levels of competition. Can you match each photo to its respective type of competition?

Top to bottom: © PIXTAL/DAL; Smereka/Shutterstock/DAL; senohrabek/123RF/DAL; Sunday Stock/Shuttestock/DAL

In a monopoly, one firm provides the product in a particular industry, which results in less price competition. For example, there is often only one provider of power in each region of the country. Power companies operate more efficiently when there is one service provider, so the government regulates the pricing of utility monopolies to prevent them from raising prices uncontrollably. A monopoly that restricts competition by controlling an industry can be deemed illegal and broken apart by the government.

When a market is characterised by oligopolistic competition, only a few firms dominate. Firms typically change their prices in reaction to competition to avoid upsetting an otherwise stable competitive environment. Examples of oligopolistic markets include the soft drink market and commercial airline travel. Sometimes reactions to prices in oligopolistic markets can result in a **price war**, which occurs when two or more firms compete primarily by lowering their prices. Firm A lowers its prices; Firm B responds by meeting or beating Firm A's new price. Firm A then responds with another new price and so on. In some cases though, these tactics result in **predatory pricing**, when a firm sets a very low price for one or more of its products with the intent to drive its competition out of business.

price war
Occurs when two or more firms compete primarily by lowering their prices.

predatory pricing
The practice of a firm setting a very low price for one or more of its products with the intention of driving its competition out of business.

Monopolistic competition occurs when there are many firms competing for customers in a given market but their products are differentiated. When so many firms compete, product differentiation rather than strict price competition tends to appeal to consumers. This is the most common form of competition. Hundreds of firms make sunglasses thus the market is highly differentiated. Ray Ban offers its iconic, thick-rimmed, black Wayfarer-style sunglasses. Oakley sells sunglasses that are sporty, with varied lens colours that promise to protect wearers' eyes better when they are engaging in outdoor activities. For consumers looking for more style, fashion designers such as Prada and Gucci have their own sunglasses. Depending on the features, style and quality, companies compete for very different market segments. By differentiating their products using various attributes, prices and brands, they create unique value propositions in the minds of their customers.

With pure competition, a large number of sellers offer standardised products or commodities that consumers perceive as substitutable, such as grain, gold, meat, spices or minerals. In such markets, price usually is set according to the laws of supply and demand. For example, wheat is wheat, so it does not matter to a commercial bakery whose wheat it buys. However, the secret to pricing success in a pure competition market is not necessarily to offer the lowest price, because doing so might

create a price war and erode profits. Instead, some firms have brilliantly decommoditised their products. For example, most people feel that all salt purchased in a grocery store is the same. But companies like Morton have branded their salt to move into a monopolistically competitive market.

When a commodity can somehow be differentiated, even by a sticker or logo, there is an opportunity for consumers to identify it as distinct from the rest, and in this case, firms can at least partially extricate their product from a pure competitive market.

PRICING: 5. CHANNEL MEMBERS

Channel members–manufacturers, wholesalers and retailers–can have different perspectives when it comes to pricing strategies. Consider a manufacturer that is focused on increasing the image and reputation of its brand but working with a retailer that is primarily concerned with increasing its sales. The manufacturer may desire to keep prices higher to convey a better image, whereas the retailer wants lower prices and will accept lower profits to move the product, regardless of consumers' impressions of the brand. Unless channel members carefully communicate their pricing goals and select channel partners that agree with them, conflict will surely arise.

Channels can be very difficult to manage and distribution outside normal channels does occur. A **grey market** employs irregular but not necessarily illegal methods; generally, it legally circumvents authorised channels of distribution to sell goods at prices lower than those intended by the manufacturer.[25] Many manufacturers of consumer electronics therefore require retailers to sign an agreement that demands certain activities (and prohibits others) before they may become authorised dealers. But if a retailer has too many high-definition TVs in stock, it may sell them at just above its own cost to an unauthorised discount dealer. This move places the merchandise in the market at prices far below what authorised dealers can charge and in the long term, it may tarnish the image of the manufacturer if the discount dealer fails to provide sufficient return policies, support, service and so forth.

grey market
Employs irregular but not necessarily illegal methods; generally, it legally circumvents authorised channels of distribution to sell goods at prices lower than those intended by the manufacturer.

To discourage this type of grey market distribution, some manufacturers have resorted to large disclaimers on their websites, packaging and other communications to warn consumers that the manufacturer's product warranty becomes null and void unless the item has been purchased from an authorised dealer.

CHECK YOURSELF

1. What are the five Cs of pricing?
2. Identify the four types of company objectives.
3. What is the difference between elastic and inelastic demand?
4. How does one calculate the break-even point in units?

Case study 11.1: Your next cup of coffee

Australia's coffee culture has boomed since the arrival of the first espresso machine in the 1940s. Thanks to immigration from southern Europe, especially Italy, espresso bars have sprung up in Melbourne and Sydney, and then spread across the country. By the 2000s the Australian coffee scene had developed its own identity to such an extent that even the US giant Starbucks failed to become established (closing most of its outlets in 2008) due to the very different tastes and expectations in Australia.

With the proliferation of coffee shops, from independent operators through to chains, each coffee shop operates in a highly competitive environment. Differentiation is achieved through level of service, decor, menus, ambiance and, most importantly, through the coffee served. Coffee can be sourced from a range of countries and may be ethically produced, sustainably grown and roasted in a particular way,

Continued

as well as being made by a skilled barista. The two main types of coffee bean (*arabica* and *robusta*) may be blended, or often only *arabica* is served.

A simple small takeaway flat white can cost $0.80–$1.00 to make, and sells for between $3.50 and $4.50. This assumes a quick barista (i.e. labour) and pretty standard costs of goods (i.e. coffee, milk, cup and lid). Most of the coffees that the majority of us buy fit into this model, with a little more charged for a larger coffee. The variables mentioned above tend to be used to try to draw customers away from competitors—for example, a person may wish to consume only coffee that they believe has been bought in a 'fair-trade' manner, with the originating farmer getting a fair return for their work and product; or the barista may simply remember the person's name and usual order. But the final price paid at the till is unlikely to change much. It's a volume game, and a coffee shop needs to sell a lot of coffees to make an overall return, covering the cost of goods as well as the fixed costs (e.g. rent, insurance etc.) and providing a net profit to the business owner.

This is not so simple at ONA, a coffee shop in Marrickville in the inner-west of Sydney. At ONA, where you can pay $16 for a coffee, the consumer chats with the barista, sees the beans being ground and learns about the origins of the particular blend itself. The emphasis is on the experience, recognition of the craft of coffee making, and ensuring a reward for all of those involved at each stage of the coffee production process, from the farmer onwards. The cost of labour and the beans all add to the final price. Is it worth it? Only the consumer can make that decision, but with the shop selling between 50 and 100 of the top-tier coffees a day on weekends, it would appear that there is a strong market acceptance.

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Questions

1. Discuss the five Cs of pricing in relation to a typical coffee shop and how a cup of coffee is priced.
2. What is a typical quantity discount tactic that coffee shops use to reward loyalty? Discuss how effective these tactics are in this market.
3. How has the internet affected possible value-based methods of pricing in the coffee shop sector?

MACRO INFLUENCES ON PRICING

Thus far, we have focused mainly on product- and firm-specific factors–the five Cs–that influence pricing. Now we turn to the broader factors that have a more sweeping effect on pricing in general. In this section, we consider the internet and various economic factors.

The internet

The shift among consumers to acquiring more and more products, services and information online has made them more price sensitive and opened new categories of products to those who could not access them previously. Gourmet foods, books (and now e-books), music, movies and electronics are just a few of the product categories that have a significant online presence. Because they have gained access to rare cheeses, breads, meats, spices and confections, consumers are demanding more from their local

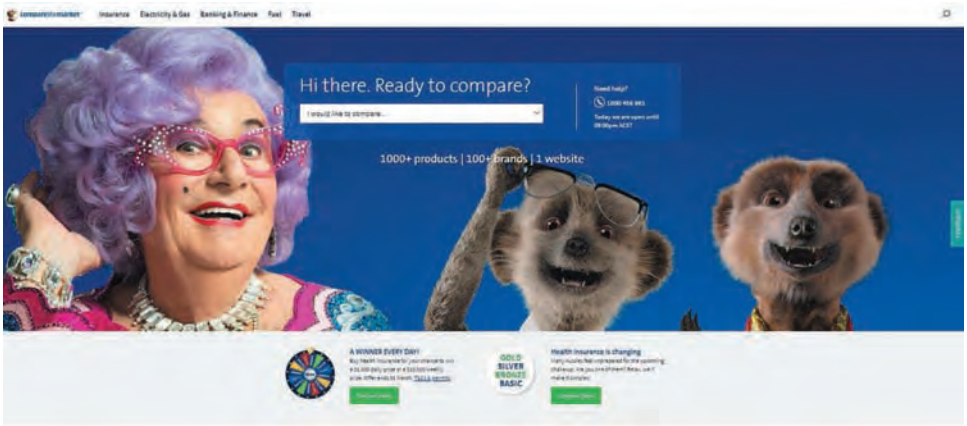


Exhibit 11.13 Websites allow consumers to compare prices of products and services online.

Source: comparethemarket.com.au

supermarkets in terms of selection and variety and have become more sensitive about prices. This is due to price transparency that the internet facilitates. Further, price comparison websites, such as Webjet.com.au for airfares or comparethemarket.com.au for insurance products, allow customers to make price comparisons (see Exhibit 11.13).

The internet is also having an effect on how we implement new pricing models. For example, digital products such as computer software are now being sold free of charge (freemium) for the basic offering or on a trial period (shareware, trialware or demoware) so as to engage with the consumer first, which then hopefully leads to purchase at a later date. Freemium is normally a digital product such as software, games or web services. It is provided free of charge but if you want the premium version with advanced features you will need to pay. Shareware, trialware and demoware, also usually for a digital product, are more of a subscription model, where you have a trial period with no initial payment but when the trial ends you will be charged if you want to continue to use the product.

Consumers' ability to buy electronics at highly discounted prices online has pushed bricks-and-mortar stores to attempt to focus consumers' attention on pre-purchase advice and expertise, consulting services and after-sales service–and away from price.

The internet and new mobile apps that encourage 'showrooming' enable consumers to find the best prices for any product quickly, which again increases their price sensitivity and reduces the costs associated with finding lower price alternatives.[26] **Showrooming** is when customers visit a store to touch, feel and even discuss a product's features with a sales assistant but then purchase it online from another retailer at a lower price. As such, the visited store essentially becomes a showroom for online shoppers. Showrooming is particularly popular with customers purchasing electronics.

showrooming
When customers visit a store to touch, feel and even discuss a product's features with a salesperson, and then purchase it online from another retailer at a lower price.

Another implication of the internet for prices has been the growth of online auction sites such as eBay. Gone are the days when sellers had to offer their unwanted items to local buyers at 'fire sale' prices. Although there certainly are good deals to be had on eBay, many items can fetch a premium price because bidders tend to get caught up in the bidding process. Interestingly, the auction process through such auction sites has the potential to generate an inflated price due to the competitive bidding by some consumers. Hou and colleagues suggest that some consumers pay more on average because they get caught up in the idea of winning the product rather than buying the product, also known as the winner's curse.[27] Also, unique and special-interest items, which previously required professional appraisals before their value could be established, now have millions of potential bidders clearly articulating a value for everything from a 2011 Lexus LX9 for $61 200 to an 18-karat gold Signature S mobile phone for $24 100. Many consumers use eBay's prior auction section to determine the prices at which products have sold in the past and establish a value for new offerings. Social media and mobile marketing 11.1 describes some eBay pricing strategies for sellers and buyers.

Social media and mobile marketing 11.1

Pricing on eBay

Researchers have published dozens of papers using eBay as their data source. One research question often investigated is, 'What can sellers do to get the highest price?' Here are a few tips:

1. Set the starting price relatively low. It is important to start prices relatively low to stimulate interest among potential bidders. For instance, starting a camera auction at $0.01 resulted in significantly higher final prices than the average price for all camera auctions. In another case, when the seller started an auction for a kitchen sink at $225, it ended without a single bidder. When re-auctioned with a starting price of $75, the sink sold for $275. There is one exception to the start-low rule: If the item is somewhat idiosyncratic and therefore might not have many bids, it is best to set the price closer to the item's actual value.[28]
2. Use reserve prices with caution, especially for low-priced items. A **reserve price** in an auction is secret to potential bidders, and is the minimum amount at which a seller will sell an item. Sellers use reserve prices as protection against selling an item too low. Using a reserve price reduces the probability that the auction will end in a sale. In an experiment using relatively low-value Pokémon trading cards, researchers found that auctions utilising reserves on average resulted in fewer serious bidders per auction and lower final sale prices. However, other research suggests that for items over $25, the reserve might push revenue higher when the auctions end in a successful sale.[29, 30]
3. Use photos to generate bids. Listings with photos receive much more traffic than listings without photos. More traffic to the listing results in bids, and the more bids, the higher the sale price.
4. Don't flood the market. To sell multiples of an item, don't sell them all at the same time. The market appreciates the illusion of scarcity. Items that are scarce or even unique are perceived to be more valuable. Also, spacing out the listings increases the size of the potential market because people float in and out of the market.
5. Spell-check. Misspellings decrease the amount of traffic an auction receives. People search for specific words. If those words are spelled wrongly, the item won't pop up. One study found that Michael Jordan shirts listed 'Micheal' went unsold almost twice as often as those that were spelled correctly. When sold, the misspelt brand names resulted in lower final sale prices.
6. Hype it up. It is good to exaggerate a little. For instance, in selling a handbag, say, 'Runway special! A must-have this season!' Also, if the suggested retail price is relatively high, mention it. One study found that auctions that mention the high retail price in an item description sell for seven per cent more on average.[31, 32]
7. Hold longer auctions. Longer auctions tend to fetch higher prices. Research shows that three-day and five-day auctions yield approximately the same prices, seven-day auctions are about 24 per cent higher, and 10-day auctions 42 per cent higher on average.
8. Don't end auctions when everyone else does. A study found that auctions ending during peak hours on eBay are actually 9.6 per cent less likely to result in a sale. About 35 per cent of auctions end between 5 pm and 8.59 pm, when only 25 per cent of bids are placed.[33, 34]
9. Charge for postage—but not too much. Bidders don't pay much attention to postage costs when placing bids. In one study, CDs listed with a starting price of one cent with $3.99 postage averaged 21 per cent higher final sale prices than CDs set with an opening price of $4 and no postage charge. When the CDs were listed with a $2 starting price and a $6 postage cost, five of the 20 CDs went unsold.[35]
10. Avoid negative feedback. Sellers who have even a few positive feedback reports are more likely than sellers who have no history to receive bids and to have their auctions result in a sale. Positively rated sellers also receive higher bids.[36, 37]

By implementing these sellers' strategies from a buyers' perspective, one might be able to get some good deals. For instance, if an item has lots of bids, it may sell for an artificially high price. It pays to check out items without pictures or with misspelt words since they get fewer bids and therefore usually end up selling for less. Finally, look for short-duration auctions with items at high starting or reserve prices.[38]

reserve price
The price in an auction that is the minimum amount at which a seller will sell an item.

Economic factors

Two interrelated trends that have merged to impact pricing decisions are the increase in consumers' disposable income and status consciousness. Some consumers appear willing to spend money for products that can convey status in some way. Products once considered only for the very rich, such as Rolex watches and Mercedes-Benz cars, are now owned by more working professionals (see Exhibit 11.14). Despite a lingering slow worldwide economic situation, luxury goods manufacturers' sales are seeing double-digit increases, fuelled in part by unrelenting demand in emerging markets.[39] Although such prestige products are still aimed at the elite, more and more consumers are making a financial leap to attain them.



Exhibit 11.14 Luxury goods are now owned by more working professionals.

© fiphoto/Shutterstock/DAL

At the same time, however, a countervailing trend finds customers attempting to shop cheaply. The popularity of everyday low-price retailers like Kmart and Target, extreme value stores such as The Reject Shop and wholesale clubs like Costco attract customers who can afford to shop at department and specialty stores, yet believe it is cool to save. Retailers like Myer and David Jones also have introduced cross-shopping into Australian shopping habits. In this context, **cross-shopping** is the pattern of buying both premium- and low-priced merchandise, or patronising both expensive, status-oriented retailers and price-oriented retailers. These stores offer fashionable merchandise at great value–value so good that if the items last for only a few wearings, it doesn't matter to the customers. The net impact of these contradictory trends on prices has been that some prestige items have become more expensive, whereas many other items have become cheaper.

cross-shopping
The pattern of buying both premium- and low-priced merchandise or patronising both expensive, status-oriented retailers and price-oriented retailers.

Finally, the economic environment at local, regional, national and global levels influences pricing. Starting at the top, the growth of the global economy has changed the nature of competition around the world. Many firms maintain a presence in multiple countries–products get designed in one country, the parts are manufactured in another, the final product assembled in a third and after-sales service is handled by a call centre in a fourth. By thinking globally, firms can seek out the most cost-efficient methods of providing goods and services to their customers.

cost-based pricing method
An approach that determines the final price to charge by starting with the cost, without recognising the role that consumers or competitors' prices play in the marketplace.

CHECK YOURSELF

1. How have the internet and economic factors affected the way people react to prices?

CONSIDERATIONS FOR SETTING PRICE STRATEGIES

LO 11.6

Firms embrace different objectives, face different market conditions and operate in different manners. A single firm needs different strategies across its goods and services and over time as market conditions change. The choice of a pricing strategy thus is specific to the product/service and target market. Although firms tend to rely on similar strategies when they can, each product requires its own strategy, because no two are ever exactly the same in terms of the marketing mix. Three different methods that can help develop pricing strategies–cost-based, competitor-based and value-based–are discussed in this section (see Figure 11.6).

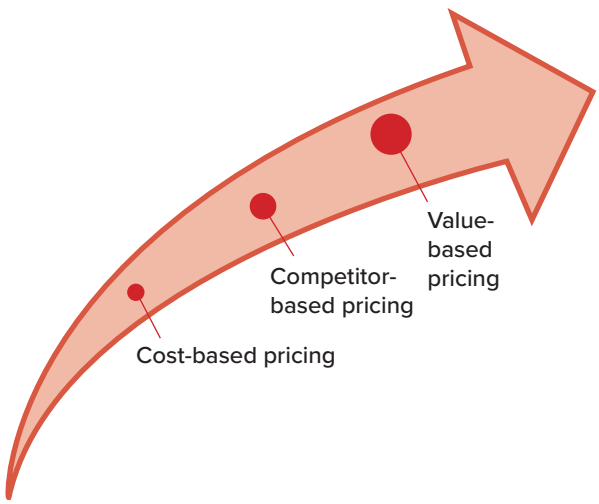


Figure 11.6 Pricing strategies

Cost-based pricing methods

As their name implies, **cost-based pricing methods** determine the final price to charge by starting with the cost. Relevant costs (e.g. fixed, variable, overhead) and a profit are added. Then this total

amount is divided by the total demand to arrive at a cost-plus price. For example, assume the fixed costs to produce an item are $200 000, the variable costs add up to $100 000 and the estimated number of units to be produced is 30 000. Then,

$$(\$100\,000 + \$200\,000) \div 30\,000 = \$10$$

which is the total allocated cost per unit when 30 000 units are produced. If the desired markup is 20 per cent, we multiply $10 by 1.20 (i.e. by 100 + 20 = 120 per cent) to attain the cost-plus price for this item: $12. This sales price represents a cost-plus-percentage markup.

Cost-based methods do not recognise the role that consumers or competitors' prices play in the marketplace. Although they are relatively simple, compared with other methods used to set prices, cost-based pricing requires that all costs be identified and calculated on a per-unit basis. Moreover, the process assumes that these costs will not vary much for different levels of production. If they do, the price might need to be raised or lowered according to the production level. Thus, with cost-based pricing, prices are usually set on the basis of estimates of average costs.

Competition-based pricing methods

Some firms set prices according to their competitors' prices. But even if they do not have a strict competitor orientation, most firms still know that consumers compare the prices of their products with the different product/price combinations that competitors offer. Thus, using a **competition-based pricing method**, they may set their prices to reflect the way they want consumers to interpret their own prices, relative to competitors' offerings. For example, setting a price very close to a competitor's price signals to consumers that the product is similar, whereas setting the price much higher signals greater features, better quality or some other valued benefit.

competition-based pricing method
An approach that attempts to reflect how the firm wants consumers to interpret its products relative to the competitors' offerings; for example, setting a price close to a competitor's price signals to consumers that the product is similar, whereas setting the price much higher signals greater features, better quality or some other valued benefit.

Value-based pricing methods

Value-based pricing methods include approaches to setting prices that focus on the overall value of the product offering as perceived by the consumer. Consumers determine value by comparing the benefits they expect the product to deliver with the sacrifice they will need to make to acquire the product. Of course, different consumers perceive value differently. So how does a manager use value-based pricing methods? We consider two key approaches.

value-based pricing method
An approach that focuses on the overall value of the product offering as perceived by consumers, who determine value by comparing the benefits they expect the product to deliver with the sacrifice they will need to make to acquire the product.

Improvement value method

With the first method, the manager must estimate the improvement value of a new product. This **improvement value method** represents an estimate of how much more (or less) consumers are willing to pay for a product relative to other comparable products (see Exhibit 11.15). For example, suppose a major telecommunications company has developed a new mobile phone. Using any of a host of research methods–such as consumer surveys–the manager could get customers to assess the new product relative to an existing product and provide an estimate of how much better it is or its improvement value.

improvement value method
An estimate of how much more (or less) consumers are willing to pay for a product relative to other comparable products.

Table 11.2 illustrates how to calculate the improvement value. Consumers evaluate how much better (or worse) the new mobile phone is than an existing product on five dimensions: clarity, range, security, battery life and ease of use. According to the respondents to the survey, the new mobile phone has 20 per cent more clarity than the comparison phone. These consumers also weight the importance of the five attributes by allocating 100 points among them to indicate their relative importance; for the clarity dimension, this weighting is 0.40. When the manager multiplies the improvement weight by the relative importance percentage, clarity (20 × 0.40) emerges with a weighted factor of eight per cent. The marketer repeats the process for each benefit and sums the weighted factors to arrive at an approximation of the improvement value of the new product from customers' point of view. In this illustration, the improvement value is equal to 21 per cent, so if the other mobile phone costs $100, the firm should be able to charge customers a value-based price as high as $121 ($100 × 1.21).

Table 11.2 Improvement value

Incremental benefits	Improved value	Benefit weight	Weighted factor
Clarity	20%	0.40	8%
Range	40%	0.20	8%
Security	10%	0.10	1%
Battery life	5%	0.20	1%
Ease of use	30%	0.10	3%
Overall		1.00	21%

Cost of ownership method

Another value-based method for setting prices determines the total cost of owning the product over its useful life. Using the **cost of ownership method**, consumers may be willing to pay more for a particular product because, over its lifetime, it will eventually cost less to own than a cheaper alternative.[40]

Consider, for example, that an energy-efficient fluorescent light bulb costs $3 and is expected to last 6000 hours. Alternatively, a conventional light bulb costs $1 but its average life is only 1500 hours. The fluorescent bulb is expected to last four times longer than a conventional bulb, but it only costs three times as much. Using the cost of ownership method, and considering the cost per hour, the fluorescent bulb manufacturer could charge $4 for each bulb, if it wanted to be equivalent to the cost of the conventional bulb. But research also has indicated that many consumers are reluctant to spend $4 for a bulb when they have been used to getting them for $1, so the manufacturer chose to charge only $3.



Exhibit 11.15 One way to determine the price of a new product, such as a new mobile phone model, is to determine the improvement value from the customers' perspective.

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Implementing value-based pricing methods

Although value-based pricing methods can be quite effective, they also necessitate a great deal of consumer research to be implemented successfully. Sellers must know how consumers in different market segments will attach value to the benefits delivered by their products. They also must account for changes in consumer attitudes, because the way customers perceive value today may not be the way they perceive it tomorrow.

cost of ownership method
A value-based method for setting prices that determines the total cost of owning the product over its useful life.

CHECK YOURSELF

1. What are the three different considerations for setting prices?
2. How can you use value-based methods for setting prices?

New product pricing strategies

LO 11.7

Developing pricing strategies for new products is one of the most challenging tasks a manager can undertake. When the new product is similar to what already appears on the market, this job is easier, because the product's approximate value has already been established and the value-based methods described earlier in this chapter can be employed. But when the new product is innovative, or what we call 'new to the world', determining consumers' perceptions of its value and pricing it accordingly become far more difficult.

Two distinct new product pricing strategies are discussed next: market penetration pricing and price skimming.

Market penetration pricing

market penetration strategy
A growth strategy focused on current customers.

Firms using a **market penetration strategy** set the initial price low for the introduction of the new product. Their objective is to build sales, market share and profits quickly. The low market penetration price is an incentive to purchase the product immediately. Vendors of security software often adopt such a tactic: by adding their products, such as Microsoft's anti-virus package, to a computer software bundle at no extra charge, providers can increase their market share. They also increase the likelihood that customers will pay to obtain updates of software that is already implanted into their computer. Firms using a market penetration strategy expect the unit cost to drop significantly as the accumulated volume sold increases, an effect known as the **experience curve effect**. With this effect, as sales continue to grow, the costs continue to drop.

experience curve effect
Refers to the drop in unit cost as the accumulated volume sold increases; as sales continue to grow, the costs continue to drop, allowing even further reductions in the price.

In addition to offering the potential to build sales, market share and profits, penetration pricing discourages competitors from entering the market because the profit margin is relatively low. Furthermore, if the costs to produce the product drop because of the accumulated volume, competitors that enter the market later will face higher unit costs, at least until their volume catches up with the early entrant.

A penetration strategy has its drawbacks. First, the firm must have the capacity to satisfy a rapid rise in demand–or at least be able to add that capacity quickly. Second, low price does not signal high quality. Of course, a price below their expectations decreases the risk for consumers to purchase the product and test its quality for themselves. Third, firms should avoid a penetration pricing strategy if some segments of the market are willing to pay more for the product; otherwise, the firm is just 'leaving money on the table'.

Price skimming



Exhibit 11.16 Price skimming is often used when new technology, such as the smart tv, becomes available.

© Robert Daly/Caia Image/Glow Images/DAL

In many markets, and particularly for new and innovative goods or services, innovators and early adopters are willing to pay a higher price to obtain the new product. This strategy, known as **price skimming**, appeals to these segments of consumers who are willing to pay the very high premium price to have the innovation first (see Exhibit 11.16). This tactic is also particularly common in consumer technology markets, where sellers know that fans of *Call of Duty* will wait in line for hours, desperate to be the first to own the newest version. These innovators are willing to pay the very highest prices to obtain brand-new examples of technology advances, with exciting product enhancements. However, after this high-price market segment becomes saturated and sales begin to slow down, companies generally lower the price to capture (or skim) the next most price-sensitive market segment, which is willing to pay a somewhat lower price. For most companies, the price dropping process can continue until the demand for the product has been satisfied, even at the lowest price points.

price skimming
A strategy of selling a new product at a high price that *innovators* and *early adopters* are willing to pay in order to obtain it; after the high-price market segment becomes saturated and sales begin to slow down, the firm generally lowers the price to capture (or *skim*) the next most price-sensitive segment.

The spread of new media for movies illustrates a price skimming strategy. As with VCRs in the 1970s and DVD players in the 1990s, consumers were slow to embrace the new, more expensive Blu-Ray discs in the 2000s. But enough early adopters purchased the Blu-Ray discs that manufacturers continued to refine Blu-Ray players to penetrate wider target markets. Consumers are buying the devices at a faster pace than the earlier movie-playing devices. One obvious reason for this sales growth is that prices for high-quality Blu-Ray players have dropped below $80, a steep drop from the $300-plus that retailers charged for debut models.[41]

For price skimming to work, the product must be perceived as breaking new ground in some way, offering consumers new benefits currently unavailable in alternative products. When they believe it will work, firms use skimming strategies for a variety of reasons. Some may start by pricing relatively high to signal high quality to the market. Others may decide to price high at first to limit demand, which gives them time to build their production capacities. Similarly, some firms employ a skimming strategy to try to quickly earn back some of the high research and development investments they made for the new product. Finally, firms employ skimming strategies to test consumers' price sensitivity. A firm that prices too high can always lower the price, but if the price is initially set too low, it is almost impossible to raise it without significant consumer resistance.

Furthermore, for a skimming pricing strategy to be successful, competitors cannot be able to enter the market easily; otherwise, price competition will likely force lower prices and undermine the whole strategy. Competitors might be prevented from entering the market through patent protections, their inability to copy the innovation (because it is complex to manufacture, its raw materials are hard to get or the product relies on proprietary technology) or the high costs of entry.

Skimming strategies also face a significant potential drawback in the relatively high unit costs associated with producing small volumes of products. Therefore, firms must consider the trade-off between earning a higher price and suffering higher production costs. Finally, firms using a skimming strategy for new products must face the consequences of ultimately having to lower the price as demand wanes. Margins suffer, and customers who purchased the product at the higher initial price may become irritated when the price falls.

CHECK YOURSELF

1. What pricing strategies should be considered when introducing a new product?

Case study 11.2: Operating a tall ship in a price-sensitive marketplace

By Vikki Baldwin, University of Notre Dame

Pricing a tourism product, particularly a tall ship sailing experience on a seventeenth-century replica vessel, has always been a tricky task for the *Duyfken* 1606 Replica Foundation. Western Australia is in the unique position of having one such replica vessel, the *Duyfken,* with cruises offered to the public (see Exhibit 11.17). Only one other city in Australia—Sydney—is able to offer similar tall ship experiences.

With many other tourist activities in the immediate area of the *Duyfken,* including Elizabeth Quay, the Bell Tower, the Perth Mint and a variety of vessels offering 'booze cruises' (not to mention another tall ship, the *Leeuwin II,* which offers three-hour sails out of the harbour), how can the *Duyfken* sailing experience differentiate itself from the rest and deliver a fantastic customer experience? Tickets for a twilight sail are priced at a premium: $145 for adults, $120 for seniors, $85 for kids. These represent high price points and are in fact a fair bit higher (around 40 per cent more) than the price charged for similar experiences in Sydney.



Exhibit 11.17 The *Duyfken*.

Source: Courtesy of *Duyfken* 1606 Replica Foundation

The owners of the *Duyfken* have taken a value-based approach in pricing their product, believing that the consumer's perception of value from the experience will make it worthwhile, particularly when compared with the numerous other activities they could choose from. So, what key value aspects does the *Duyfken* trade on?

Continued

Operating from the South of Perth Yacht Club since 2018, the twilight sail offers an experience that is unique not only to Perth, but to the whole of Australia—that is, a sail on the only seventeenth-century replica vessel in the country. All of this takes place on the Swan River, allowing customers to gaze out on the picturesque Perth scenery. Activities designed to enhance the passenger experience include a chance to take the helm, haul up the sails or pull the lines and halyards, as well as enjoy a light meal and beverages. The natural environment further enhances the experience, with spectacular sunsets and dolphins regularly escorting the ship during the sail. Finally, twilight cruises are not offered every day of the week, limiting their availability.

All of these elements factor into the implementation of the improvement value method. That is, how much more (in this case) consumers will pay compared to other products or services that might be available. In the competitive world of tourism, the *Duyfken* 1606 Replica Foundation looks to have got it right so far.

Case study references

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Questions

1. What method has the *Duyfken* 1606 Replica Foundation used to help develop its pricing strategy? Explain your answer.
2. Of the four price orientations presented in the text, which strategy is *Duyfken* using? Explain your answer.
3. Is *Duyfken* operating in a competitive market? Identify which market the *Duyfken* sailing experience fits into. Justify your answer.

pricing strategy
A long-term approach to setting prices for a firm's products.

pricing tactics
Short-term methods, in contrast to long-term pricing strategies, used to focus on company objectives, costs, customers, competition or channel members; can be responses to competitive threats (e.g. lowering price temporarily to meet a competitor's price reduction) or broadly accepted methods of calculating a final price for the customer that is short term in nature.

PRICING TACTICS

It is important to distinguish clearly between pricing strategies and pricing tactics. A **pricing strategy** is a long-term approach to setting prices broadly in an integrative effort (across all the firm's products) based on the five Cs (company objectives, costs, customers, competition and channel members) of pricing discussed earlier in this chapter. **Pricing tactics**, in contrast, offer short-term methods to focus on select components of the five Cs. Generally, a pricing tactic represents either a short-term response to a competitive threat (e.g. lowering price temporarily to meet a competitor's price reduction) or a broadly accepted method of calculating a final price for the customer that is short term in nature. We separate our discussion of pricing tactics into those directed at end consumers and those aimed at intermediaries in a business-to-business (B2B) setting.

LO 11.8 Pricing tactics aimed at consumers

When firms sell their goods and services directly to consumers, rather than to other businesses, the pricing tactics they use differ. Some of the tactics aimed directly at consumers–such as markdowns, quantity discounts, seasonal discounts, coupons, rebates, leasing, price bundling, leader pricing and price lining–continue to be important factors.

markdown
A pricing tactic aimed at consumers; describes the reductions retailers make on the initial selling price of a product.

Markdowns

Markdowns are the reductions retailers take on the initial selling price of the product.[42] An integral component of the high/low pricing strategy we described previously, markdowns enable retailers to

get rid of slow-moving or obsolete merchandise, sell seasonal items after the appropriate season, and match competitors' prices on specific merchandise. Retailers must get rid of merchandise that isn't selling, because holding on to such items hurts the retailer's image and ties up money in inventory that could be used more productively elsewhere.

Retailers also use markdowns to promote merchandise and increase sales. Particularly when used in conjunction with promotions, markdowns can increase traffic into the store or onto their websites, which many retailers view as important in maintaining salience in already cluttered consumer markets. Once customers are in the store or on their websites, retailers always hope they will purchase other products at regular prices.

Quantity discounts for consumers

The most common implementation of a quantity discount at the consumer level is the **size discount**. The larger the quantity, the less the cost per unit, which means the manufacturer is providing a quantity discount. The goal of this tactic is to encourage consumers to purchase larger quantities each time they buy. In turn, these consumers are less likely to switch brands and often tend to consume more of the product, depending on the product usage characteristics. Typically, buying a larger package of toilet paper does not mean consumers will use it faster, but buying a larger box of cereal may encourage them to eat more of it or eat it more often.[43]

size discount
The most common implementation of a quantity discount at the consumer level; the larger the quantity bought, the less the cost per unit (e.g. per kilogram).

Seasonal discounts

Seasonal discounts are price reductions offered on goods and services to stimulate demand during off-peak seasons. You can find hotel rooms, ski lift tickets, lawn mowers, barbecues, holiday packages, flights to certain destinations and Christmas cards at discounts during their 'off' seasons. Some consumers even plan their buying around these discounts, determined to spend the day after Christmas stocking up on discounted wrapping paper and cards for the following year.

seasonal discount
Pricing tactic of offering a reduction to increase demand during off-peak seasons.

Coupons

Coupons offer a discount on the price of specific items when they're purchased. Coupons are issued by manufacturers and retailers in newspapers, on products, on the shelf, at the cash register, over the internet and through the mail. Retailers use coupons because they can induce customers to try products for the first time, convert those first-time users to regular users, encourage large purchases, increase usage and protect market share against competition. However, the impact of coupons on profitability is questionable.

coupon
Provides a stated discount to consumers on the final selling price of a specific item; the retailer handles the discount.

Coupon promotions, like all temporary promotions, may be stealing sales from a future period without any net increase in sales. For instance, if a supermarket runs a coupon promotion on sugar, households may buy a large quantity of sugar and stockpile it for future use. Thus, unless the coupon is used mostly by new buyers, the net impact on sales is negligible, and there will be a negative impact on profits due to the amount of the redeemed coupons and cost of the coupon redemption procedures. In addition, some consumers engage in 'extreme couponing', such that their purchases represent losses for the manufacturer and the retailer selling the products.

Coupons also may annoy, alienate and confuse consumers and therefore do little to increase store loyalty. Customers see an ad for a supermarket with a headline reading 'Double coupons' but don't realise there might be conditions, such as a minimum purchase required, or that it may only apply to certain manufacturers. Recognising these problems, some retailers have reduced coupon usage and cut the number of days in which customers can redeem coupons. Other retailers are making coupons more attractive to loyal customers by customising their content to be in line with their unique needs. For instance, if a customer typically spends a small amount during each shopping trip, the customer will receive coupons that encourage larger purchases, such as 'buy one, get one free'. If another customer spends a lot each time they shop, but shops sporadically, that customer will get coupons that expire relatively quickly. Unique coupons will also encourage customers to try new brands within categories that they normally purchase, or products that complement their usual purchases, such as shampoo to customers that purchase hair colour.[44]

Internet sites provide customers with instant coupons. For instance, a customer might go to Big W and find a Hot Wheels video game for $29.99. A scan of the barcode on their smartphone to ShopSavvy.

com might find the same item across at Target a few kilometres away for $19.99. Another scan to MyCoupons.com provides a coupon for $10, thus saving the customer $20 in a matter of minutes.

Rebates

rebate
A consumer discount in which a portion of the purchase price is returned to the buyer in cash; the manufacturer, not the retailer, issues the refund.

Rebates provide another form of discounts for consumers off the final selling price. In this case, the manufacturer, rather than the retailer, issues the refund as a portion of the purchase price returned to the buyer in the form of cash. Rebates can be even more frustrating than coupons for consumers, but the idea is similar. Whereas a coupon provides instant savings when presented, a rebate promises savings, usually mailed to the consumer at some later date, only if the consumer carefully follows the rules. The 'hassle factor' for rebates thus is higher than for coupons. The consumer must first buy the item during a specified time period, then mail in the required documentation–which usually includes the original sales receipt–and finally wait four to six weeks (or more!) for a cheque to arrive.

Manufacturers generally like rebates because as much as 90 per cent of consumers never bother to redeem them. Manufacturers also embrace this form of price reduction because it lets them offer price cuts to consumers directly. With a traditional wholesale price cut from its vendors, retailers can keep the price on the shelf the same and pocket the difference. Rebates can also be rolled out and shut off quickly. That allows manufacturers to fine-tune inventories or respond quickly to competitors without actually cutting prices. Finally, because buyers are required to fill out forms with names, addresses and other data, rebates become a great way for vendors to build a customer data warehouse. From the retailer's perspective, rebates are more advantageous than coupons since they increase demand in the same way coupons may, but the retailer has no handling costs.

Leasing

lease
A written agreement under which the owner of an item or property allows its use for a specified period of time in exchange for a fee.

For some products, discounts, coupons and rebates may not be sufficient to bring the price to within consumers' reach. With a **lease**, consumers pay a fee to purchase the right to use a product for a specific period of time. They never own the product; they are just renting it. Leasing products opens up new, less price-sensitive target markets. Some consumers also like leases because they get tired of the product before its useful life is over and they don't have to worry about selling it, trading it or throwing it away. Car companies have used leasing options for years to appeal to consumers who plan to keep their cars for only a few years and will want to trade in for a new model sooner rather than later (see Superior service 11.2). This leasing activity by firms became a political issue in the 2013 federal election in Australia, with tax concessions scrapped by the then government. Consequently, car manufacturers and leasing companies lost customers, as leasing arrangements were used by some companies predominantly for the tax concessions that were available.

Superior service 11.2

Leasing for cashflow

For many business owners, leasing is a routine and necessary part of running the business because it uses less cashflow than outright purchasing. Business owners often lease the premises from which they operate, the equipment they use, and the company vehicles they drive. For example, a cafe owner might be selling cups of coffee for $5—a figure that is derived by including all direct and indirect costs, including plant and equipment such as coffee machines, retail space and vehicles, as well as the regular cost of goods sold, utilities and labour.



Exhibit 11.18 Leasing equipment is routine for many businesses, including cafes.

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Leasing is considered to provide a valuable solution for short-term to medium-term possession and is used beyond the business community, by individual consumers for personal use. For example, students can lease computers, drivers can lease cars, and homemakers can lease electrical appliances and other household items.

Radio Rentals started in Sydney in 1937 and has become Australia's leading leasing company for consumer household needs.[45] Offering white goods, technology and furniture, the company's promise is to '... make life easier by giving customers affordable access to essential household items and technology'. Radio Rentals' unique value offering is appealing to consumers, who can lease a wide range of goods under flexible terms and payment options, with the security of installation, repairs and warranty inclusions. Typical leasing agreements pass the responsibility of owning an asset to the lessee but withhold actual ownership.

The availability of leasing means that consumers are not limited to brands or products that they can afford to purchase outright and, instead, have a greater range within easier reach.[46] The focus on owning products is less important than limiting financial exposure and experiencing products that they would otherwise not be able to afford. In addition, consumers might feel protected with the added value of ancillary services that would not be available with outright private purchase.

Price bundling

When you signed up for your high-speed internet connection, did you also get pay TV and a landline? If so, you probably pay less than if you were to get the three services separately. This practice of selling more than one product for a single, lower price is called **price bundling**.[47] Firms bundle goods or services together to encourage customers to stock up so they won't purchase competing brands, to encourage trial of a new product, or to provide an incentive to purchase a less desirable product to obtain a more desirable one in the same bundle.

price bundling
A consumer pricing tactic of selling more than one product for a single, lower price than the items would cost if sold separately; can be used to sell slow-moving items, to encourage customers to stock up so they won't purchase competing brands, to encourage trial of a new product, or to provide an incentive to purchase a less desirable product to obtain a more desirable one in the same bundle.

Leader pricing

Leader pricing is a tactic that attempts to build store traffic by aggressively pricing and advertising a regularly purchased item, often priced at or just above the store's cost. The rationale behind this tactic argues that, while in the store to get the great deal on, say, milk for $2, the consumer will also probably pick up other items, which sell at a higher margin. The higher margins and profits on these other items then will more than cover the lower markup on the milk. Imagine the marketing potential of various combinations of products; the store uses leader pricing on cocktail sauce, which

leader pricing
A consumer pricing tactic that attempts to build store traffic by aggressively pricing and advertising a regularly purchased item, often priced at or just above the store's cost.



Exhibit 11.19 Stores such as ALDI use a pricing tactic called leader pricing to build store traffic, aggressively pricing and advertising regularly purchased items often at or just above the store's cost.

Source: Courtesy of ALDI Stores

gives employees the perfect opportunity to ask, 'How about a kilogram of fresh tiger prawns to go with the cocktail sauce you're purchasing?' However, there is sometimes debate about the negative impact on the loss leader, such as has been discussed with Coca-Cola and what is happening in Australia with milk.

Price lining

When marketers establish a price floor and a price ceiling for an entire line of similar products and then set a few other price points in between to represent distinct differences in quality, the practice is called **price lining**. Imagine that you need a new dress shirt because you have an important job interview. You go to brooksbrothers.com and find similar-looking shirts for $79.50 (non-iron), $135 (classic cotton) and $295 (luxury). Which are you going to buy? Are you going to risk the success of the interview by purchasing the least expensive shirt? Probably not. Will the interviewer be able to tell the difference between the $135 classic cotton and the $295 luxury shirt? Probably not. You will probably purchase the middle-quality shirt because you don't want to look cheap, but you really can't afford the highest-priced shirt.

price lining
Consumer market pricing tactic of establishing a price floor and a price ceiling for an entire line of similar products and then setting a few other price points in between to represent distinct differences in quality.

LO 11.9

Business pricing tactics and discounts

The pricing tactics employed in B2B settings differ significantly from those used in consumer markets. Among the most prominent are seasonal and cash discounts, allowances, quantity discounts and uniform delivered versus zone pricing (see Table 11.3).

Table 11.3 Business-to-business pricing tactics

Tactic	Description
Seasonal discounts	An additional reduction offered as an incentive to retailers to order merchandise in advance of the normal buying season.
Cash discounts	An additional reduction that reduces the invoice cost if the buyer pays the invoice prior to the end of the discount period.
Allowances	Advertising or slotting allowances (additional price reductions) offered in return for specific behaviours. Advertising allowances are offered to retailers if they agree to feature the manufacturer's product in their advertising and promotional efforts. Slotting allowances are offered to get new products into stores or to gain more or better shelf space.
Quantity discounts	Providing a reduced price according to the amount purchased.
Uniform delivered versus zone pricing	Uniform delivered price: delivery charged at one rate, no matter where the buyer is located. Zone price: different prices depending on the geographical delivery area.

Seasonal discounts

A seasonal discount is an additional reduction offered as an incentive to retailers to order merchandise in advance of the normal buying season. For instance, Fujitsu may offer its air conditioner dealers an additional seasonal discount if they place their orders and receive delivery before 1 September, prior to the warm months when air conditioner sales are highest. If it can ship earlier in the season, Fujitsu can plan its production schedules more easily and lessen its finished goods inventory. Its dealers, however, must weigh the benefits of a larger profit because of the discount versus the extra cost of carrying the inventory for a longer period of time.

Cash discounts

A **cash discount** reduces the invoice cost if the buyer pays the invoice prior to the end of the discount period. Typically, it is expressed in the form of a percentage, such as '3/10, n/30' or '3%, 10

cash discount
The tactic of offering a reduction in the invoice cost if the buyer pays the invoice prior to the end of the discount period.

days, net 30', which means the buyer can take a three per cent discount on the total amount of the invoice if the bill is paid within 10 days of the invoice date; otherwise the full, or net, amount is due within 30 days.

Why do B2B sellers offer cash discounts to customers? By encouraging early payment, they benefit from the time value of money. Getting money earlier rather than later enables the firm to either invest the money to earn a return on it or avoid borrowing money and paying interest on it. In both instances, the firm is better off financially.

Allowances

Another pricing tactic that lowers the final cost to channel members is allowances, such as advertising or slotting allowances, offered in return for specific behaviours. An **advertising allowance** offers a price reduction to channel members if they agree to feature the manufacturer's product in their advertising and promotional efforts. Advertising allowances are legal as long they are available to all customers and not structured in such a way that they consistently and obviously favour one or a few buyers over others. **Slotting allowances** are fees paid to retailers simply to get new products into stores or to gain more or better shelf space for their products, usually on the end of the aisle. Some argue that slotting allowances are unethical because they put small manufacturers that cannot readily afford allowances at a competitive disadvantage.

Quantity discounts

A **quantity discount** provides a reduced price according to the amount purchased. The more the buyer purchases, the higher the discount and, of course, the greater the value.

A **cumulative quantity discount** uses the amount purchased over a specified time period and usually involves several transactions. This type of discount particularly encourages resellers to maintain their current supplier because the cost to switch must include the loss of the discount. For example, car dealers must buy the products they hope to sell to consumers from the manufacturer. They often attempt to meet a quota or a sales goal for a specific time period, such as a quarter or a year, because if they meet those quotas, they earn discounts on all the cars they purchased from the manufacturer, in the form of a cumulative quantity discount. For this reason, you will often find good deals on cars at the end of a quarter or financial year. If the dealership can just sell a few more cars to meet its quota, the cumulative quantity discount earned can be substantial, so taking a few hundred dollars less on those last few cars is well worth the opportunity to receive a rebate worth many times the amount of the losses.

A **non-cumulative quantity discount**, though still a quantity discount, is based only on the amount purchased in a single order. It therefore provides the buyer with an incentive to purchase more merchandise immediately. Such larger, less frequent orders can save manufacturers order processing, sales, and transportation expenses. For example, a retail store might get a 40 per cent discount off the manufacturer's suggested retail price for placing a $500 order; a 50 per cent discount for an order of $501–$4999; and a 60 per cent discount for an order greater than $5000.

Uniform delivered versus zone pricing

These pricing tactics are specific to delivery, which represents a major cost for many manufacturers. With a **uniform delivered pricing** tactic, delivery is charged at one rate, no matter where the buyer is located, which makes things very simple for both the seller and the buyer. **Zone pricing**, however, sets different prices depending on a geographical division of the delivery areas. This way, each customer in a zone is charged the same cost for delivery. Zone pricing can be advantageous to the seller because it reflects the actual delivery charges more closely than uniform delivered pricing can.

advertising allowance
The tactic of offering a price reduction to channel members if they agree to feature the manufacturer's product in their advertising and promotional efforts.

slotting allowances
Fees firms pay to retailers simply to get new products into stores or to gain more or better shelf space for their products.

quantity discount
The pricing tactic of offering a reduced price according to the amount purchased; the more the buyer purchases, the higher the discount and, of course, the greater the value.

cumulative quantity discount
A pricing tactic that offers a discount based on the amount purchased over a specified period and usually involves several transactions; encourages resellers to maintain their current supplier because the cost to switch must include the loss of the discount.

non-cumulative quantity discount
A pricing tactic that offers a discount based on only the amount purchased in a single order; provides the buyer with an incentive to purchase more merchandise immediately.

uniform delivered pricing
When a transport company charges one rate, no matter where the buyer is located.

zone pricing
When a transport company sets different prices depending on a geographical division of the delivery areas.

CHECK YOURSELF

1. What are some consumer-oriented pricing tactics?
2. What are some B2B-oriented pricing tactics?

SUMMING UP

LO 11.1 List the four pricing orientations.
A profit-oriented pricing strategy focuses on maximising or at least reaching a target profit for the company. A sales orientation sets prices with the goal of increasing sales levels. With a competitor-oriented pricing strategy, a firm sets its prices according to what its competitors do. Finally, a customer-oriented strategy determines consumers' perceptions of value and prices accordingly.

LO 11.2 Explain the relationship between price and quantity sold.
Generally, when prices go up, quantity sold goes down. Sometimes, however—particularly with prestige goods and services—demand actually increases with price.

LO 11.3 Explain the price elasticity of demand.
Changes in price generally affect demand; price elasticity measures the extent of this effect. It is based on the percentage change in quantity divided by the percentage change in price. Depending on the resulting value, a market offering can be identified as elastic, such that the market is very price sensitive or inelastic, in which case the market cares little about the price.

LO 11.4 Describe how to calculate a product's break-even point.
Because the break-even point occurs when the units sold generate just enough profit to cover the total costs of producing those units, it requires knowledge of the fixed cost, total cost and total revenue curves. When these curves intersect, the marketer has found the break-even point.

LO 11.5 Indicate the four price competition levels.
In a monopoly setting, either one firm controls the market and sets the price or many firms compete with differentiated products, rather than on price. Monopolistic competition occurs when there are many firms competing for customers in a given market but their products are differentiated. In an oligopolistic competitive market, a few firms dominate and tend to set prices according to a competitor-oriented strategy. Finally, pure competition means that consumers probably regard the products offered by different companies as basic substitutes, so the firms must work hard to achieve the lowest price point, limited by the laws of supply and demand.

LO 11.6 Identify three methods that firms commonly use to set their prices.
The various methods of setting prices have their advantages and disadvantages. The three primary methods are cost-based, competitor-based and value-based. The cost-based techniques are quick and easy but fail to reflect the competitive environment or consumer demand. Although it is always advisable to be aware of what competitors are doing, using competitor-based pricing should not occur in isolation without considering cost considerations and consumer reactions. Taking a value-based approach to pricing, whether the improvement value or the total cost of ownership approach, in conjunction with these other methods provides a nicely balanced method of setting prices.

LO 11.7 Explain the difference between price skimming and market penetration pricing.
When firms use a price skimming strategy, the product must be perceived as breaking new ground or customers will not pay more than what they pay for other products. Firms use price skimming to signal high quality, limit demand, recoup their investment quickly and/or test people's price sensitivity. Moreover, it is easier to price high initially and then lower the price than vice versa. Market penetration, in contrast, helps firms build sales and market share quickly, which may discourage other firms from entering the market. Building demand quickly also typically results in lowered costs as the firm gains experience making the product or delivering the service.

LO 11.8 Identify tactics used to reduce prices to consumers.
Marketers use a variety of tactics to provide lower prices to consumers. The tactics include markdowns, quantity discounts, seasonal discounts, coupons, rebates, price bundling, leader pricing and price lining. For example, leader pricing involves retailers pricing certain goods or services at very low prices, with the hope that these same customers will also buy other, more profitable items.

LO 11.9 Identify tactics used to reduce prices to businesses.
Seasonal discounts give retailers an incentive to buy prior to the normal selling season, cash discounts prompt them to pay their invoices early, and allowances attempt to get retailers to advertise the manufacturer's product or to stock a new product. In addition, quantity discounts can cause retailers to purchase a larger quantity over a specific period of time or with a particular order. Finally, zone pricing bases the cost of delivering the merchandise on the distance between the retailer and the manufacturer—the farther away, the more it costs.

KEY TERMS

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MARKETING APPLICATIONS

1. You and your two housemates are starting a pet grooming service to help put yourselves through university. There are two other well-established pet services in your area. Should you set your price higher or lower than that of the competition? Justify your answer.
2. One of your housemates believes the most important objective in setting prices for the new pet grooming business is to generate a large profit while keeping an eye on your competitors' prices; the other housemate believes it is important to maximise sales and set prices according to what your customers expect to pay. Who is right, and why?
3. Assume you have decided to buy an advertisement in the local newspaper to publicise your new pet grooming service. The cost of the ad is $1000. You have decided to charge $40 for a dog grooming and your variable costs are $20 for each dog. How many dogs do you have to groom to break even on the cost of the ad? What is your break-even point if you charge $60 per dog?
4. The local newspaper ad isn't helping much, so you decide to post your services on an auction site, where customers can bid for your services. What should the starting price of the auction be?
5. Is there a difference between a $5900 Hermès cashmere sweater and a $150 cashmere sweater from Myer? Have you ever purchased a higher-priced product because you thought the quality was better than that of a similar, lower-priced product? What was the product? Do you believe you made a rational choice?

Continued

6. A soft-drink manufacturer has opened a new manufacturing plant in Perth. The total fixed costs are $100 million. It plans to sell soft drinks to retailers for $6 for a package of 10 × 350 mL cans. Its variable costs for the ingredients are $4 per package. Calculate the break-even volume. What would happen to the break-even point if the fixed costs decreased to $50 million or the variable costs decreased to $3 due to declines in commodity costs? What would the break-even point be if the firm wanted to make $20 million?
7. On your weekly grocery shopping trip, you notice that the price of spaghetti has gone up 50 cents a kilogram. How will this price increase affect the demand for spaghetti sauce, rice and parmesan cheese? Explain your answers in terms of the price elasticity of demand.
8. Zinc Energy Resources Co., a new division of a major battery manufacturing company, recently patented a new battery that uses zinc-air technology. The unit costs for the zinc-air battery are as follows: the battery housing is $8, materials are $6 and direct labour is $6 per unit. Retooling the existing factory facilities to manufacture the zinc-air batteries amounts to an additional $1 million in equipment costs. Annual fixed costs include sales, marketing and advertising expenses of $1 million; general and administrative expenses of $1 million; and other fixed costs totalling $2 million. Answer the following questions:
   a. What is the total per-unit variable cost associated with the new battery?
   b. What are the total fixed costs for the new battery?
   c. If the price for the new battery was set at $35, what would the break-even point be?
9. How do pricing strategies vary across markets that are characterised by monopoly, oligopolistic competition, pure competition and monopolistic competition?
10. Suppose you are in the market for a new Samsung LCD television. You see one advertised at a locally owned store for $300 less than it costs at Harvey Norman. The salesperson at the local store tells you that the television came from another retailer in the next state that had too many units of that model. Explain who benefits and who is harmed from such a grey market transaction: you, Samsung, Harvey Norman, the local store?
11. Has the internet helped lower the price of some types of merchandise? Justify your answer.

QUIZ YOURSELF

1. If a shoe company has $2 million in fixed costs, its average shoe sells for $100 a pair, and variable costs are $60 per unit, how many units does the company need to sell to break even?
   a. 5000
   b. 10 000
   c. 50 000
   d. 100 000
   e. 500 000
2. The Porsche 918 Spyder is priced at $550 000. The demand for such a prestigious car is likely to be:
   a. cross-price elastic
   b. price inelastic
   c. price elastic
   d. status quo elastic
   e. derived demand inelastic

(Answers to these two questions can be found on page 457.)

NET SAVVY

1. Several different pricing models can be found on the internet. Each model appeals to different customer groups. Go to www.eBay.com.au and try to buy this textbook. What pricing options and prices are available? Do you believe that everyone will choose the least expensive option? Why or why not? Now go to www.Amazon.com. Is there more than one price available for this book? If so, what are those prices? Are different versions available? If you had to buy another copy of this book, where would you buy it and why would you buy it there?
2. Prices can vary, depending on the market being served. Because Dell sells its computers directly to consumers all around the world, the Dell website makes it easy to compare prices for various markets. Go to www.dell.com.au and look at the price of an Inspiron 6200 desktop computer. Next go to www.dell.com, the Dell US website, and find the price of the same computer. (If you need to convert currency to Australian dollars go to www.xe.com.) How does the price of the desktop computer vary? What would account for these differences in price?

CHAPTER CASE STUDY

The role of pricing in Australia's streaming media: a case of Netflix versus Disney+

By Shivani Gupta and Shriya Sivaji, Deakin University

Background

Streaming media has become the norm in Australian households, with over 12.3 million subscriptions to video-on-demand (SVOD) services in September 2019. This has come about in a remarkably short time, beginning with the Australian launch of Netflix in 2015 (followed by Stan, Amazon Prime and others). When Disney+ launched in November 2019, a further strong rival emerged for Netflix, providing Australians streaming TV shows and movies with another choice.

Netflix

Netflix was founded in 1997, at which point its main business model was renting DVDs by mail. It began streaming video content in 2007 in the United States, entered the international market in 2010 by expanding into Canada, and now streams in more than 190 countries. Netflix is also known for its original content, developing its own movies and shows, a number of which have won nominations and awards at the Emmys and Oscars. It has 5.3 million Australian subscribers, accounting for over 40 per cent of Australian SVOD revenue. With more than 700 original series, 200 original movies**,** a library with more than 5500 titles and a budget of $12 billion for original content, Netflix is the dominant streaming platform in Australia and overseas.

Netflix has adopted a 'customer-oriented pricing approach', offering tiers based on different market segment needs and the perceived value of additional services on offer. A basic service is $9.99 per month for one screen; high definition and the ability to watch on two devices is $13.99 per month; while Ultra-HD streaming and four devices is $19.99 per month. All tiers offer the ability to watch unlimited shows and movies; the value pitch is for the quality and number of screens. This was complemented with a one-month free trial period for new subscribers.

Disney+

Disney is one of the strongest, most-loved brands in the world and can be described as an entertainment and mass media conglomerate. It established itself through cartoon animation in the 1930s with Mickey Mouse, before diversifying into television, live-action film production and theme parks and cruises. Disney+ aims to introduce more than 600 original movies and 7000 television episodes for franchises such as Marvel, Pixar, *Star Wars* and *National Geographic*.

The US launch of Disney+ on 12 November 2019 was an immediate success, with 10 million sign-ups achieved instantly. One week later, Disney+ launched in Australia, gaining 1.8 million subscribers by April 2020. Disney+ offered what Netflix classed as premium features (four simultaneous screenings, 4K Ultra-HD video quality and unlimited downloads) at a single price of $8.99 per month. The Disney offering was powerful as it included major in-demand content, including Pixar, Marvel and *Star Wars*. Disney+ targeted those audiences with low discretionary income with this high-value, low-price offer. It chose market penetration through a low price to obtain quick market share—a strategy that also helped develop positive media. In addition, Disney+ offered a single-week trial period (in contrast to the full month offered by Netflix), reflecting the overall lower price point. Even if profit wasn't the major goal, the rapid penetration was to some extent justified because, unlike Netflix, Disney+ has the ability to leverage the brand and cross-sell across other products, merchandise and services, as mentioned above.

Pricing strategy considerations

Disney+ provides an example of a sales-oriented approach, with low prices aimed at generating new sales at the expense of profit. In strategic contrast to Disney+, Netflix illustrates a customer-oriented approach. It does this by offering consumers a range of pricing, including a premium price for a greater product value. This may also be described as a price-skimming strategy, as prices are lowered in response to market saturation or other factors such as competition. Additionally, due to its premium pricing and smaller catalogue for teens and family-oriented purchasers, Netflix may have the greater price elasticity. This means that a Netflix customer is more susceptible to switch to Disney+ due to Disney's cost advantage especially for families and teens.

Continued

In terms of the medium and long term, Netflix—with its premium pricing approach and price-skimming, high-profit-margin strategy—needs to consider future threats to its strategy. These might include losing more series that it currently accesses through competitive studios (e.g. *Friends*). The issue is to maintain the prestigious quality of shows that validate the higher pricing associated with influencing medium- to long-term brand loyalty.

Other medium-term threats include new streaming competitors such as NBC, CBS, ABC and superior video-on-demand from Australia's traditional television channels, which are developing better user-friendly interfaces for catch-up television. On the other hand, with an ageing population, including empty nesters with no children to spend on but who have become accustomed to streaming services, there is an ongoing market that may accept higher pricing for high-quality streaming services. This is a potentially positive aspect to a high-price strategy for the medium and long term.

Competitive advantage

As mentioned above, Disney+ has the ability to price penetrate as it can 'cross-subsidise' its various products and assets and allow one to be a loss leader at a point in time. In addition, the brand reach and brand enhancement of Disney+ increases sales for other merchandise and services sold by Disney—for instance, merchandising, resorts, cruises and theme parks—giving it a competitive cost advantage over Netflix. This has helped it provide an annual budget spend of $4 billion on content, with forecasts suggesting a profitable outcome for Disney+ by 2024.

Disney will be an ad-free service solely supported by subscription fees. By using this strategy, it not only increases its market share, but is also able to link to other services offered by Disney through price-bundling tactics (Disney+, Hulu and ESPN+).

These pressures on cost could mean Netflix may have to consider some form of advertising. This could follow the same model as music-streaming services Spotify or Pandora, where there is a premium and an ad-supported version. Either way, when it comes to streaming media, the different pricing and competitive strategies used by the streaming services will provide interesting viewing in themselves.

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DISCUSSION QUESTIONS

1. How does a market penetration pricing strategy fit the positioning of Disney and Disney+, which for many decades has always been about superior products and service quality rather than volume-oriented strategies?
2. Show how the different pricing strategies of Netflix and Disney+ (i.e. with Netflix being closer to market skimming and Disney to market penetration) appeal to different household types?

3. One of this chapter's learning objectives suggested marketers have a choice of price-setting methods. Identify appropriate pricing strategies for Netflix and Disney+ and explain why your choices should be implemented.
4. Price elasticity is an important concept in pricing. With new competitors continuing to enter the market, what strategies might Netflix undertake to make its offering more inelastic to retain market share?

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CHAPTER 12

Supply chain, channel management and retail

LEARNING OBJECTIVES



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LO 12.1 Understand the importance of marketing channels and their management.

LO 12.2 Understand the difference between direct and indirect marketing channels.

LO 12.3 Describe how marketing channels are managed.

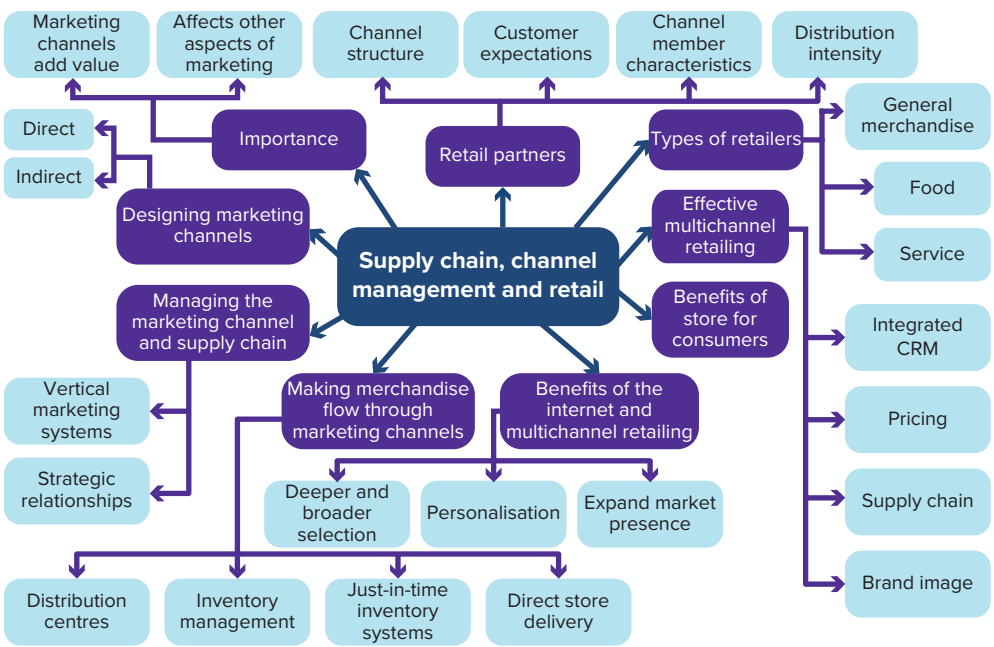
LO 12.4 Discuss the factors manufacturers should consider as they develop their strategy for working with retailers.

LO 12.5 Outline the considerations associated with choosing retail partners.

LO 12.6 List the three levels of distribution intensity.

LO 12.7 Describe the various types of retailers.

LO 12.8 Identify the benefits and challenges of stores and multichannel retailing.



Graduate spotlight



NAME
Michaela von Perger

DEGREE STUDIED
Bachelor of Commerce, majoring in Marketing and Psychology

UNIVERSITY
University of Western Australia

CURRENT POSITION
Graduate with NSW Government Graduate Program

EMPLOYER
NSW Department of Communities and Justice

What did you learn from your degree and how has it prepared you for a career in marketing?
I have learned to communicate effectively with different audiences through a variety of media—email, face-to-face, presentations, reports and academically. Studying marketing has provided me with critical thinking and analytical skills, which have been helpful in solving complex problems.

What interested you about studying or working in marketing?
Marketing is a practical and relevant way of understanding and influencing human behaviour, which I find very interesting. I also like that the fundamental principles of marketing can be applied across multiple industries, offering different employment opportunities.

What have you been up to since graduation?
After graduating in 2018, I was offered a job with the NSW Government Graduate Program. This involves three rotations across different government agencies over 18 months. In my first six months, I was working in the Department of Communities and Justice. I am currently working in the NSW Treasury for my second rotation.

What does your current job involve?
In the NSW Treasury, I work in the Health, Communities and Justice Reform branch. I am working on understanding and improving cross-sectoral government service systems within the health and criminal justice space to improve outcomes for people in NSW. I consider the barriers to access and provide long-term reform recommendations to ensure the sustainable implementation of programs that aim to fill the service gap.

What do you enjoy most about your job?
It is very interesting to be involved in the planning, execution, delivery and finalisation of a breadth of projects with a bigger purpose than myself. I love being able to do this through research, the analysis of data and presentation of findings in fun and creative formats.

What are your thoughts on the future of the marketing and communication industry? What advice would you give to students wanting to work in marketing?
In the future, most people will need some knowledge of marketing, as understanding how to deliver a service, effectively communicate a message and reach your intended customer seems to be essential for any successful business, service or program.

To any student wanting to work in marketing, be open to the possibility of having a broad and versatile career as you will likely work across multiple industries and streams of marketing—whether it be research, sales, advertising, media or something else. This openness will allow you to have a very interesting and rewarding career.

When a company saves a dollar by increasing the efficiency of its distribution system, the overall benefits are worth much more than that single dollar. So, for example, if a retailer can get its goods to its stores quickly, in the right quantities and when its customers want them, customers are happy, which ultimately increases sales and profits. At the same time, the retailer can reduce one of its costliest expenses, namely its distribution costs. Also, because of these distribution systems, manufacturers that sell products in its stores have a good sense of how much they need to make and when, which reduces their inventory costs. Thus, profits rise and everyone is happy.

Where and when customers purchase products has been changing dramatically due to innovation. For example, disintermediation (the shortening of the supply chain) and re-intermediation (the re-engineering of the supply chain) have been changing in different ways for different industries for many years. Technologies such as **electronic data interchange (EDI)**, radiofrequency identification (RFID), self-scanning technology checkouts in point-of-sale systems and internet websites, apps, quick response (QR) scanning, market spaces and portals have been altering the way in which companies such as supermarkets operate on a fundamental level. These technological innovations create efficiencies but also create different channels in which consumers interact and/or transact with the retailer or the principal producer. For example, Woolworths has more than 40 million customers each week. Both Woolworths and Coles are committed to giving their customers channel options, such as a new internet channel to get their groceries delivered or flexible delivery options (e.g. pick-up at Melbourne airports). However, both companies are also committed to new physical stores, as hundreds of new outlets have been opened over the past decade. Through convenience stores, express stores and specialty premium stores, as well as their liquor stores and service stations, these two supermarket giants are looking at every opportunity for convenience shopping. Further, the process of shopping has also undergone some dramatic changes in the last few years as self-service checkouts in supermarkets become more common; it is estimated that self-service checkouts will account for most transactions done in-store over the next five years and there will be a continued focus on online, with the anticipation of AmazonFresh entering the market.[1]

electronic data interchange (EDI) The computer-to-computer exchange of business documents from a retailer to a vendor and back.

In Australia, the supermarket and grocery store industry is dominated by two main players and a number of smaller companies that include Woolworths (37.5% market share), Coles Group Ltd (29%), ALDI (9.3%), Metcash or IGA (6.6%), Costco (1.8%) and Australian United Retailers Limited (1.0%).[2] From the farmer or producer to the consumer, the two giants, Woolworths and Coles, feed the vast majority of the population in Australia.

The approximately 24.6 million people in Australia need a supply chain that can facilitate food/grocery distribution to a sometimes geographically isolated and dispersed population. As a consequence, these supermarket chains work closely with the producers (vendors) to get the best for their consumers. This means that vendors need to align and integrate their inventory systems with Woolworths and Coles. However, this perceived control of the supply chain has caused much concern among consumer advocate groups, farmers' groups, small businesses and producers, where this level of supply chain power has been seen as anti-competitive and a barrier to entry for many new and incumbent producers.[3] To further complicate the supply chain, these major supermarket companies have a growing number of private labels that are in direct competition with some producers who may be trying to get access to the large volume of Woolworths and Coles distribution retail outlets.

If we consider Woolworths, the largest grocery retailer in Australia, its significant power–in terms of setting prices, growth and satisfying customers–stems directly from its innovations in marketing channel and supply chain management. Its influence has also spread to its vendors, altering the way they manufacture and deliver merchandise (e.g. developments such as in EDI and RFID). Software links the vendor with Woolworths, such that the moment Woolworths' distribution centres run out of a certain brand or size of a product, the vendor initiates a shipment to replenish it. Such cooperation helps suppliers plan their production and it also enables Woolworths to track arrivals at its distribution centres and thus coordinate shipments to stores more effectively.



Exhibit 12.1 Australian supermarket chains are committed to providing new channels for their customers.

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Other innovations by Woolworths include extensive information systems to transmit the millions of point-of-sale transactions that take place in its

stores every day; cross-docking to ensure that goods that arrive at a distribution centre move out to stores quickly; widespread adoption of barcodes and RFID tags, for keeping track of inventory; and consolidated global sourcing to purchase directly from suppliers rather than relying on third-party procurement services.

After a number of major floods in Queensland in the past decade, it has been critical for the large supermarket retailers to look globally to source produce because of the fruit and vegetable shortage. Even with its remarkable supply chain successes, Woolworths is hesitant to rest on its laurels, so it constantly reviews its supply chain to find new efficiencies. Both Woolworths and Coles have their own freight transportation system so the companies can use their trucks to keep the produce in optimal conditions and control the quality.

In all of these cases, Woolworths' superior marketing channel and supply chain management has enabled it to reap the rewards of higher levels of customer service and satisfaction, lower production and transportation costs, and more productive uses of its retail space. Fundamentally, Woolworths has a unique ability to link together suppliers, distribution centres, retail outlets and, ultimately, customers, regardless of their location. As a result, the cost savings achieved by Woolworths and its suppliers benefit their bottom lines. Even more, when those cost savings are passed through, they benefit customers in the form of lower prices, which is another reason for them to shop at Australia's largest supermarket retailer.

marketing channel management (supply chain management)
A set of approaches and techniques firms employ to efficiently and effectively integrate their suppliers, manufacturers, warehouses, stores and transport intermediaries into a seamless value chain in which merchandise is produced and distributed in the right quantities, to the right locations and at the right time, as well as to minimise system-wide costs while satisfying the service levels their customers require. Also called supply chain management.

In this chapter, we discuss the third P, *place*, which includes all activities required to get the right product to the right customer when that customer wants it.[4] **Marketing channel management**, which has also been called **supply chain management**, refers to a set of approaches and techniques firms employ to efficiently and effectively integrate their suppliers, manufacturers, warehouses, stores and transport intermediaries into a seamless operation in which merchandise is produced and distributed in the right quantities, to the right locations and at the right time, as well as to minimise system-wide costs while satisfying the service levels their customers require. Students of marketing often overlook or underestimate the importance of place in the marketing mix, simply because it happens behind the scenes. Yet marketing channel management adds value, say, for customers at Woolworths, because it gets the products to them efficiently, quickly and at low cost.

LO 12.1

THE IMPORTANCE OF MARKETING CHANNEL/ SUPPLY CHAIN MANAGEMENT

So far in this book, we have reviewed the methods companies use to conduct in-depth market research, gain insights into consumer and business behaviour, segment markets, select the best target markets, develop new goods and services, and set prices that provide good value. But even if firms execute these activities flawlessly, unless they can secure the placement of products in appropriate outlets in sufficient quantities exactly when customers want them, they are likely to fail.

Convincing wholesalers and retailers to carry new products can be more difficult than you might think. **Wholesalers** are firms that buy products from manufacturers and resell them to retailers; retailers sell products directly to consumers. In the simplified supply chain in Figure 12.1, manufacturers make products and sell them to retailers or wholesalers. The figure would be much more complicated if we had included the suppliers of materials to manufacturers and all the manufacturers, wholesalers and stores in a typical marketing channel.

wholesalers
Those firms engaged in buying, often storing, and physically handling goods in large quantities, then reselling the goods (usually in smaller quantities) to retailers or industrial or business users.

Figure 12.1 represents a typical flow of manufactured goods: manufacturers ship to a wholesaler or to a retailer's distribution centre (e.g. Manufacturer 1 and Manufacturer 3) or directly to stores (Manufacturer 2). In addition, many variations on this supply chain exist. Some retail chains, such as Bunnings Warehouse, function as both retailers and wholesalers. They act as retailers when they sell to consumers directly and as wholesalers when they sell to other businesses, like building contractors or restaurant owners. When manufacturers such as Avon sell directly to consumers, they perform both production and retailing activities. When Dell sells computers to a university or business, this is a business-to-business (B2B) transaction, but when it sells to students or employees individually, it is a business-to-consumer (B2C) transaction.

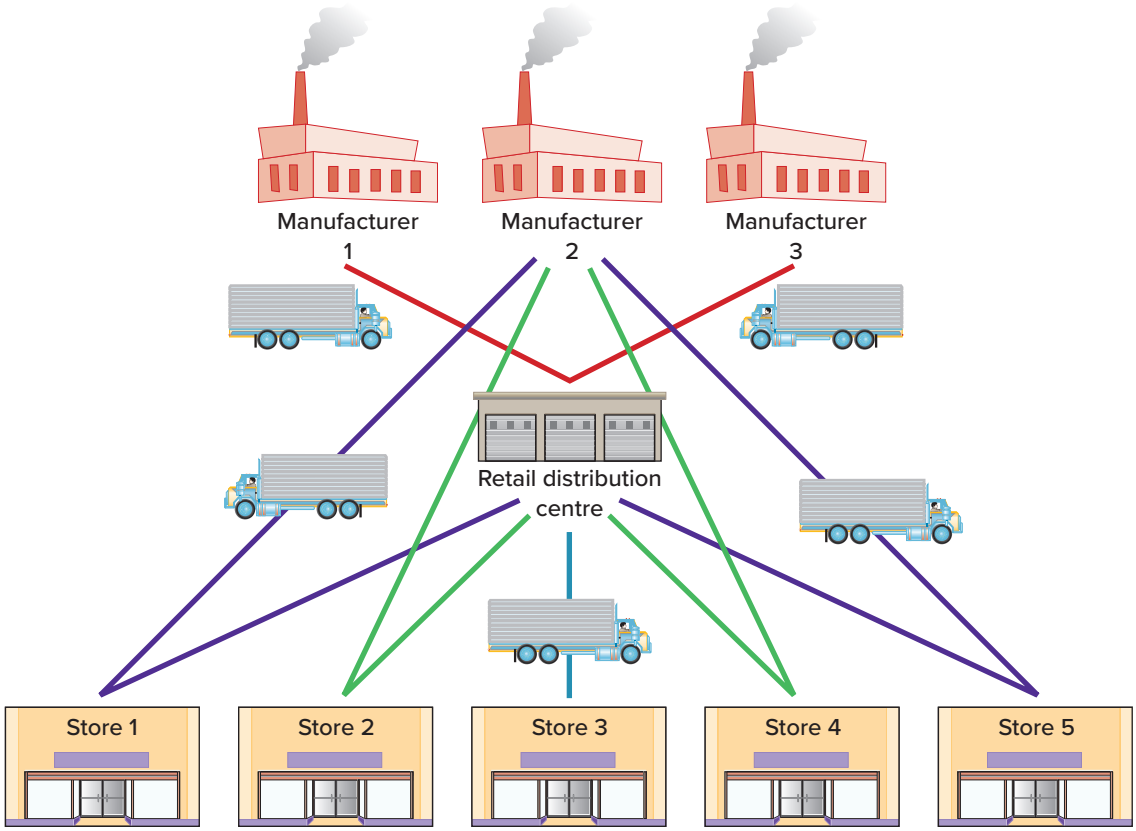


Figure 12.1 Simplified supply chain

Adding value **12.1**

How will 3D printing alter the supply chain?

3D printing, in the context of supply chains, is a form of additive manufacturing technology where a three-dimensional object is created by laying down successive layers from a digital blueprint. 3D printing is distinct from traditional machining techniques, which rely on the removal of material by methods such as cutting or drilling. Additive manufacturing takes virtual digital blueprints from computer-aided design (CAD) or animation modelling software and then slices these into digital cross-sections for the machine to successively use as a guideline for printing. Depending on the machine used, material or a binding material is deposited on the build bed or platform until material/binder layering is complete and the final 3D model has been printed.[5] Some retailers in the United States have started stocking 3D printers in mainstream retail outlets; for example, Staples and Amazon.com have started to stock multiple 3D printing products, mainly for their business clientele. Any number of items can be printed through 3D printing, for example, clothing, toys, cases for your mobile phone or jewellery.[6] More recently, we have seen the 3D printing of shoes, prosthetic limbs, body parts, cars and quick built homes. Although quality remains an issue, more 3D models or digital blueprints are becoming freely available, ready for consumers to get printing.

Jones Land LaSalle EMEA Research suggests that 3D printing has the potential to transform the manufacturing industry; however, its current impact is quite modest. Major retailers are starting to stock 3D cube printers; the additive 3D printing industry has become mainstream. The potential positive impact on the supply chain is through hub manufacturing or hub additive manufacturing, with smaller localised manufacturing environments capable of custom production, shortened lead times and drastic cuts to transportation costs and overall carbon footprint.[7]

Continued

As shown in Exhibit 12.2, the efficiency in transportation across a country like Australia, with a geographically dispersed consumer market, is significant in cost savings and would have a dramatic impact on the supply chain. Further, the gains in resource efficiency and speed (due to just-in-time management) to get the component to the client would also lead to a greater client satisfaction, and a much more efficient use of resources that limits the impact on the natural environment. Hypothetically, if you were a farmer in northern New South Wales, your local hub for additive manufacturing could supply your machine components quickly without waiting weeks for a replacement part while the farm stayed unproductive and lost precious harvest time. Current disadvantages remain, however, as 3D printing is less than 100 per cent accurate; but as the technology matures, this will change.

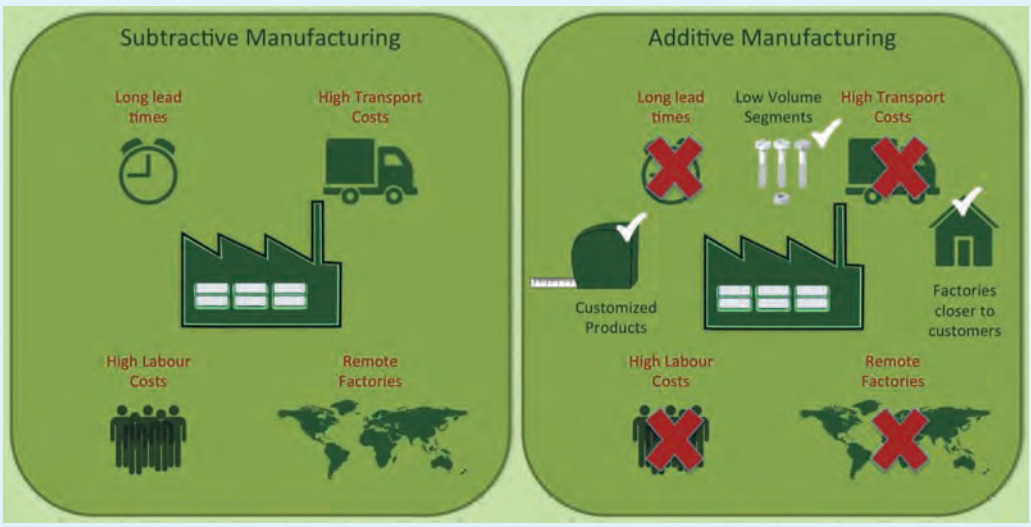


Exhibit 12.2 The future of supply chains: 3D printing?

Source: Courtesy Stratnel Technologies LLP, https://stratnel.com.

Marketing channels add value

Why do manufacturers use wholesalers or retailers? Don't these added channel members just cut into their profits? Wouldn't it be cheaper for consumers to buy directly from manufacturers? The best supply chain likely follows a direct route from manufacturer to consumer: the consumer goes to the farm and buys food directly from the farmer. Modern 'eat local' environmental campaigns suggest just such a process. For example, Australia recently has seen a rise in the number of farmers' markets in major cities in the past few years as customers and producers come together in a convenient place. But before a consumer can eat a fresh steak procured from a local farm, they need to cook it. Assuming the consumer doesn't know how to make a stove and lacks the materials to do so, they must rely on a stove maker. The stove maker, who has the necessary knowledge, must buy raw materials and components from various suppliers, make the stove and then make it available to the consumer (see Exhibit 12.3). If the stove maker isn't located near the consumer, the stove must be transported to where the consumer has access to it. To make matters even more complicated, the consumer may want to view a choice of stoves, hear about all their features and have the stove delivered and installed.



Exhibit 12.3 How many companies are involved in getting a stove to your kitchen?

© John Smith/Fancy/Glowimages/DAL

Each participant in the channel adds value.[8] The components manufacturer helps the stove maker by supplying parts and materials. The stove maker turns the components into the stove. The transport company gets the stove to the retailer. The retailer stores the stove until the customer wants it, educates the customer about product features, and delivers and installs the stove. At each step, the stove becomes more costly but also more valuable to the consumer.

Figures 12.2A and 12.2B show how using channel partners can provide value overall. Figure 12.2A shows three manufacturers, each of which sells directly to three consumers in a system that requires nine transactions. Each transaction costs money–for example, the manufacturer must fill the order, package it, write up the paperwork and ship it–and each cost is passed on to the customer. Figure 12.2B shows the same three manufacturers and consumers, but this time they go through a retailer. The number of transactions falls to six and, as transactions are eliminated, the channel and supply chain becomes more efficient, which adds value for customers by making it more convenient and less expensive to purchase merchandise.

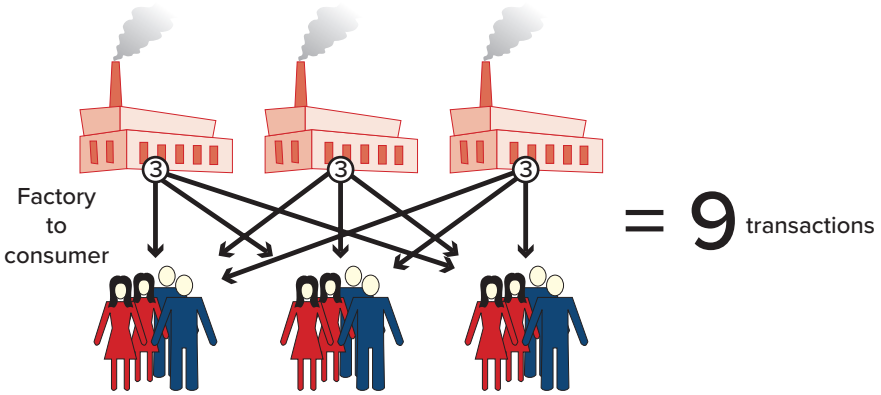


Figure 12.2A Direct supply chain without a retailer

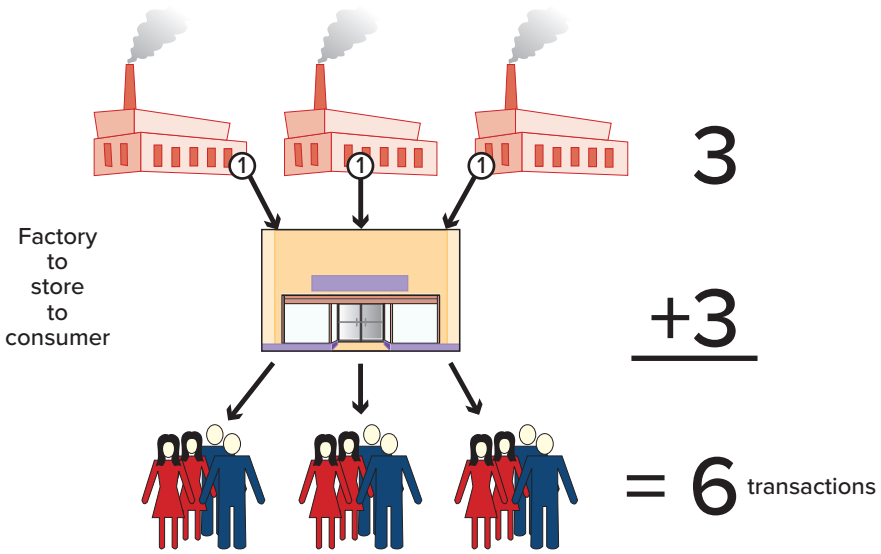


Figure 12.2B Indirect supply chain with a retailer

Marketing channel management affects other aspects of marketing

Every marketing decision is affected by, and has an effect on, marketing channels. When products are designed and manufactured, how and when the critical components reach the factory must be coordinated with production. The sales department must coordinate its delivery promises with the factory or distribution centres. A **distribution centre**, a facility for the receipt, storage and redistribution of goods to company stores or customers, may be operated by retailers, manufacturers or distribution specialists.[9] Furthermore, advertising and promotion must be coordinated with those departments that control inventory and transportation. There is no faster way to lose credibility with customers than to promise deliveries or run a promotion and then not have the merchandise when the customer expects it.

distribution centre
A facility for the receipt, storage and redistribution of goods to company stores or customers; may be operated by retailers, manufacturers or distribution specialists.

LO 12.2

DESIGNING MARKETING CHANNELS

When a firm is just starting out or entering a new market, it doesn't typically have the option of designing the 'best' marketing channel structure–that is, choosing from whom it buys or to whom it sells. A new sporting goods retailer may not have the option of carrying all the manufacturer lines it wants, because other competing retailers in its market area might carry the same products. On the other side, a small specialty sporting goods apparel manufacturer may not be able to place its products in major stores like Rebel Sports because its line is unproven and the products might duplicate lines that the retailer already carries. Although there are various constraints on marketing channel partners with regard to the design of the 'best' channel structure, all marketing channels take the form of a direct channel, an indirect channel or some combination thereof.

Direct marketing channel

direct marketing channel
Where the manufacturer sells directly to the buyer.

As shown in Figure 12.3, there are no intermediaries between the buyer and seller in a **direct marketing channel**. Typically the seller is a manufacturer, such as when a cabinetmaking business sells designer coffee tables through its own store and online to individual consumers. The seller can also be an individual, such as when an artist sells their paintings or pottery at craft fairs or through eBay. When the buyer is another business, such as when Boeing sells a 787 Dreamliner to Qantas, the marketing channel is still direct but, in this case, the transaction is a business-to-business one.

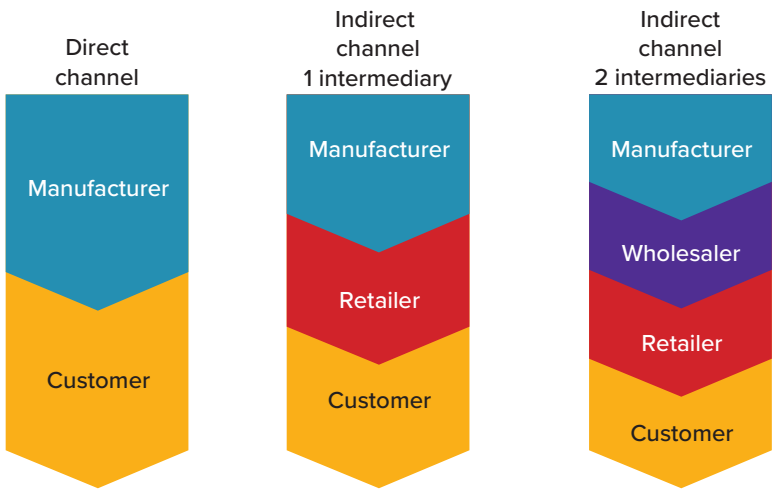


Figure 12.3 Channel strategies

Indirect marketing channel

indirect marketing channel
Where one or more intermediaries work with manufacturers to provide goods and services to customers.

In **indirect marketing channels**, one or more intermediaries work with manufacturers to provide goods and services to customers. In some cases, there may only be one intermediary involved. Motor vehicle manufacturers such as Ford often use indirect distribution, such that dealers act as retailers, as shown in Figure 12.3. Wholesalers are more common when the company does not buy in sufficient quantities to make it cost-effective for the manufacturer to deal directly with them (e.g. a wine producer). Wholesalers are also prevalent in less-developed economies where large retailers are rare.

LO 12.3

MANAGING THE MARKETING CHANNEL AND SUPPLY CHAIN

Marketing channels and supply chains comprise various buying entities, such as retailers and wholesalers; sellers, such as manufacturers or wholesalers; and facilitators of the exchange, such as transport companies. Similar to interpersonal interactions, their relationships can range from close working partnerships to one-time arrangements. In almost all cases, though, interactions occur because

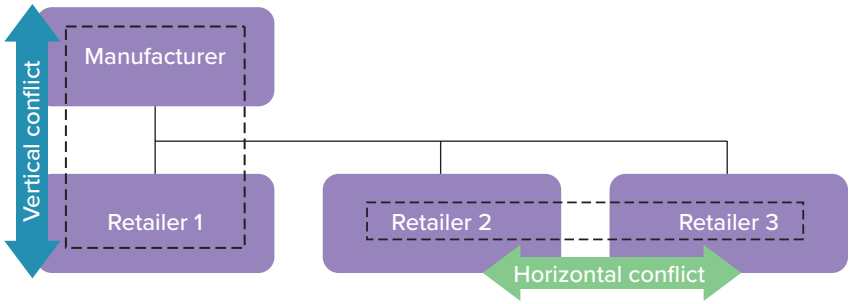


Figure 12.4 Vertical versus horizontal channel conflict

the parties want something from each other: Bunnings Warehouse wants power tools from Ryobi Tool Company; Ryobi wants an opportunity to sell its tools to the general public; both companies want DHL to deliver the merchandise.

Each member of the marketing channel also performs a specialised role. If one member believes that another has failed to do its job correctly or efficiently, it can replace that member. So, if Ryobi isn't getting good service from DHL, it can switch to TNT. If Bunnings believes its customers do not perceive Ryobi tools as good value, it may buy from another tool company. Bunnings could even decide to make its own tools or use its own trucks to pick up tools from Ryobi. However, any time a marketing channel member is replaced, the function it has performed remains, so someone needs to complete it.[10]



Exhibit 12.4 Hardware stores carry a range of tool brands to maximise their sales.

© Purestock/Alamy Stock Photos/DAL

If a marketing channel is to run efficiently, the participating members must cooperate. Often, however, supply chain members have conflicting goals and this may result in channel conflict (see Figure 12.4). For instance, Ryobi wants Bunnings to carry all its tools but not those of its competitors, so that Bunnings can maximise Ryobi's sales. But Bunnings carries a mix of tool brands so it can maximise the sales in its tool category (see Exhibit 12.4). When supply chain members that buy and sell to one another are not in agreement about their goals, roles or rewards, **vertical channel conflict** or discord results.

vertical channel conflict
A type of channel conflict in which members of the same marketing channel, for example, manufacturers, wholesalers and retailers, are in disagreement or discord.

Horizontal channel conflict can also occur when there is disagreement or discord among members at the same level of marketing channel, such as two competing retailers or two competing manufacturers. For instance, if Bunnings and Mitre 10 engage in a price war on Ryobi tools, all three parties are affected. Bunnings and Mitre 10 make less money because they are both offering lower prices. Ryobi may experience increased pressure from Bunnings and Mitre 10 to recover some of its lost profits by pressuring it to lower its prices to them. Also, other retailers may stop buying Ryobi tools because they cannot afford to get involved in the price war between Bunnings and Mitre 10.

horizontal channel conflict
A type of channel conflict in which members at the same level of a marketing channel, for example, two competing retailers or two competing manufacturers, are in disagreement or discord, such as when they are in a price war.

Common goals also help sustain the relationship when expected benefits fail to arise. If one supplier shipment fails to reach a Woolworths store on time, due to an uncontrollable event like a mis-routing by the transport company, Woolworths does not suddenly call off the whole arrangement. Instead, it recognises the incident as a simple, isolated mistake and maintains the good working relationship, because Woolworths knows that both it and the supplier are committed to the same goals in the long run.

In this sense, their partnership exhibits both of the non-mutually exclusive ways that exist to manage a marketing channel or supply chain: coordinate the channel using a vertical marketing system and develop strong relationships with marketing channel partners–topics we will now examine.

Managing the marketing channel and supply chain through vertical marketing systems

Although conflict is likely in any marketing channel, it is generally more pronounced when the channel members are independent entities. Marketing channels that are more closely aligned, whether by contract or ownership, share common goals and therefore are less prone to conflict.

independent (or conventional) marketing channel
A marketing channel in which several independent members—a manufacturer, a wholesaler and a retailer—each attempts to satisfy its own objectives and maximise its profits, often at the expense of the other members.

vertical marketing system
A supply chain in which the members act as a unified system; there are three types: *administered, contractual* and *corporate*.

administered vertical marketing system
A supply chain system in which there is no common ownership and no contractual relationships, but the dominant channel member controls the channel relationship.

power
A situation that occurs in a marketing channel in which one member has the means or ability to have control over the actions of another member in a channel at a different level of distribution, such as if a retailer has power or control over a supplier.

reward power
A type of marketing channel power that occurs when the channel member exerting the power offers rewards to gain power, often a monetary incentive, for getting another channel member to do what it wants it to do.

coercive power
Threatening or punishing the other channel member for not undertaking certain tasks. Delaying payment for late delivery would be an example.

referent power
A type of marketing channel power that occurs if one channel member wants to be associated with another channel member. The channel member with whom the others wish to be associated has the power and can get them to do what it wants.

In an **independent** or **conventional marketing channel**, several independent members–a manufacturer, a wholesaler and a retailer–each attempts to satisfy its own objectives and maximise its profits, often at the expense of the other members, as we portray in Figure 12.5. None of the participants has any control over the others. For example, the first time Woolworths purchases shavers from Bic, both parties will try to extract as much profit from the deal as possible. After the deal has been completed, neither party feels any responsibility to the other.

Over time, though, Woolworths and Bic might develop a relationship marked by routine, automatic transactions, such that Woolworths customers come to expect Bic shaving products in stores and Bic depends on Woolworths to buy a good portion of its output. This scenario represents the first phase of a **vertical marketing system**, a marketing channel in which the members act as a unified system, as in Figure 12.5. Three types of vertical marketing systems–administered, contractual and corporate–reflect increasing phases of formalisation and control. The more formal the vertical marketing system, the less likely it is that conflict will ensue.

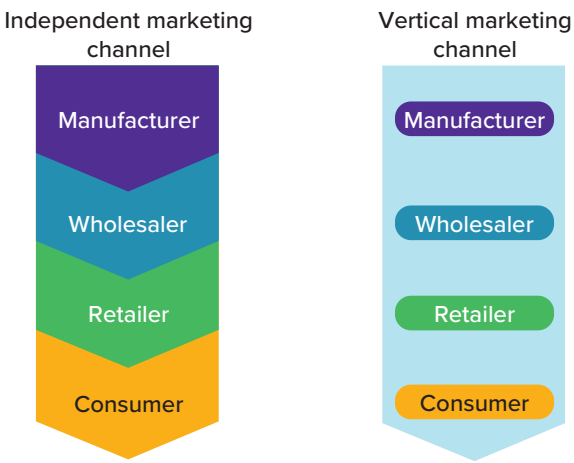


Figure 12.5 Independent versus vertical marketing channels

Administered vertical marketing system

The Woolworths/Bic marketing channel relationship offers an example of an **administered vertical marketing system**: there is no common ownership or contractual relationship, but the dominant channel member controls or holds the balance of power. Because of its size and relative power, Woolworths imposes controls on Bic. **Power** in a marketing channel exists when one firm has the means or ability to dictate the actions of another member at a different level of distribution. A retailer such as Woolworths exercises its power over suppliers in several ways. With its **reward power**, Woolworths offers rewards, often a monetary incentive, if Bic will do what Woolworths wants it to do. **Coercive power** arises if Woolworths threatened to punish or punishes the other channel member for not undertaking certain tasks, such as if it were to delay payment to Bic for a late delivery. Woolworths may also have **referent power** over Bic if the supplier wants to be associated with Woolworths, because being known as an important Woolworths supplier enables Bic to attract other retailers' business. If Woolworths exerts **expertise power** over Bic, it relies on its expertise with marketing of the product. Because Woolworths has vast information about the office supply and back-to-school markets, it can exert **information power** over Bic by providing or withholding such important market information. Finally, **legitimate power** is based on getting a channel member, such as Bic, to behave in a certain way because of a contractual agreement between the two firms. As Woolworths deals with Bic and its other suppliers, it is likely to exert multiple types of power to influence their behaviours. If either party dislikes the way the relationship is going though, it can simply walk away.

Contractual vertical marketing system

Over time, Woolworths and Bic may formalise their relationship by entering into contracts that dictate various terms, such as how much Woolworths will buy each month and at what price, as well

as the penalties for late deliveries. In **contractual vertical marketing systems** like this, independent firms at different levels of the marketing channel join together through contracts to obtain economies of scale and coordination and to reduce conflict.[11]

Franchising is the most common type of contractual vertical marketing system. **Franchising** is a contractual agreement between a franchisor and a franchisee that allows the franchisee to operate a retail outlet using a name and format developed and supported by the franchisor. In a franchise contract, the franchisee pays a lump sum plus a royalty on all sales in return for the right to operate a business in a specific location. The franchisee also agrees to operate the outlet in accordance with the procedures prescribed by the franchisor. The franchisor typically provides assistance in locating and building the business, developing the goods or services sold, management training and advertising. To maintain the franchisee's reputation, the franchisor also makes sure that all outlets provide the same quality of services and products.

Corporate vertical marketing system

In a **corporate vertical marketing system**, the parent company has complete control and can dictate the priorities and objectives of the marketing channel because it owns multiple segments of the channel, such as manufacturing plants, warehouse facilities and retail outlets. By virtue of its ownership and resulting control, potential conflict among segments of the channel is lessened.

Managing marketing channels and supply chains through strategic relationships

There is more to managing marketing channels and supply chains than simply exercising power over other members in an administered system or establishing a contractual or corporate vertical marketing system. There is also a human side.

In a conventional marketing channel, relationships between members are often based on the argument over the split of the profit pie–if one party gets ahead, the other party falls behind. Sometimes this type of transaction is acceptable if the parties have no interest in a long-term relationship. For instance, if Woolworths believes that Bic's ergonomic pens are just a short-term fad, it may only be interested in purchasing once. In that case, it might seek to get the best one-time price, even if it means that Bic will make very little money and therefore might not want to sell to Woolworths again.

More often than not, however, firms seek a **strategic relationship**, also called a **partnering relationship**, in which the marketing channel members are committed to maintaining the relationship over the long term and investing in opportunities that are mutually beneficial. In a conventional or administered marketing channel, there are significant incentives to establishing a strategic relationship, even without contracts or ownership relationships. Both parties benefit because the size of the profit pie has increased, so both the buyer and the seller increase their sales and profits. These strategic relationships are created explicitly to uncover and exploit joint opportunities, so members depend on and trust each other heavily; share goals and agree on how to accomplish those goals; and are willing to take risks, share confidential information and make significant investments for the sake of the relationship. Successful strategic relationships require mutual trust, open communication, common goals, interdependence and credible commitments.

With trust, there's also less need for the supply chain members to constantly monitor and check up on each other's actions, because each believes the other won't take advantage, even if given the opportunity. Although it is important in all relationships, monitoring supply chain members becomes particularly pertinent when suppliers are located in less-developed countries, where issues such as the use of child labour, poor working conditions and below-subsistence wages have become a shared responsibility. Ethical and societal dilemma 12.1 highlights how Apple has both stumbled in this responsibility and changed its practices to improve its dedication to ethical choices.

expertise power
When a channel member uses its expertise as leverage to influence the actions of another channel member.

information power
A type of marketing channel power within an administered vertical marketing system in which one party (e.g. the manufacturer) provides or withholds important information to influence the actions of another party (e.g. the retailer).

legitimate power
A type of marketing channel power that occurs if the channel member exerting the power has a contractual agreement with the other channel member that requires the other channel member to behave in a certain way.

contractual vertical marketing system
A system in which independent firms at different levels of the supply chain join together through contracts to obtain economies of scale and coordination and to reduce conflict.

franchising
A contractual agreement between a *franchisor* and a *franchisee* that allows the franchisee to operate a business using a name and format developed and supported by the franchisor.

corporate vertical marketing system
A system in which the parent company has complete control and can dictate the priorities and objectives of the supply chain; it may own facilities such as manufacturing plants and warehouses.

strategic relationship (partnering relationship)
A supply chain relationship that the members are committed to maintaining long term, investing in opportunities that are mutually beneficial; requires trust, communication, common goals and credible commitments.

Ethical and societal dilemma 12.1

Do customers care more about the newest iPhone or about working conditions in China?

An iPad user reading *The New York Times* article about their tablet might have suffered a strange sense of guilt. The newspaper published reports of labour abuses that seemingly run rampant in the Chinese factories responsible for producing Apple's most popular products. These in-depth reports catalogued a long list of failures: the presence of child workers, shifts of more than 12 hours, regular work weeks of longer than 60 hours, workers housed in tiny dormitories with approximately 20 people limited to three rooms, allegations of suicides and lax safety standards that have led to fatal explosions.[12]

The reports focused mostly on the Taiwanese-owned Foxconn factory in Chengdu, in southwestern China, which manufactures iPhones and iPads (see Exhibit 12.5). An explosion caused by insufficient ventilation of aluminium dust (created when the cases for the gadgets get polished) in May 2011 killed four workers. A similar explosion followed six months later at another factory. The ensuing investigations by *The New York Times* revealed multiple other violations of the code of conduct that Apple had established for its suppliers.[13]



Exhibit 12.5 Although a company will attempt to monitor its channel partners' behaviour with regard to labour issues, sometimes abuses fall through the cracks.

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With its code of conduct, as well as the frequent audits it performs, Apple asserts that it is doing the best it can to ensure its suppliers live up to reasonable standards and fair labour practices. An anonymous former Apple executive asserts, 'There is a genuine, company-wide commitment to the code of conduct'. Yet abuses continue, as Apple's own corporate responsibility reports reveal. Audits show that several supply companies continue to engage in labour practices that violate the code, with few punishments or changes to the supply chain.

Part of the reason stems from Apple's desire for secrecy—once it finds a supply partner that can manufacturer its high-tech gadgets, it wants to maintain that relationship to avoid any leaking of innovation information. So even if a supplier violates the code again and again, Apple is unlikely to switch.

Furthermore, Apple's focus on innovation means that it must work constantly to come up with new ideas and products, which it needs to produce quickly and in sufficient quantities to keep customers happy. This demanding supply chain leaves little room for flexibility. When Apple says it needs one million products, then its supplier is going to do whatever it takes to get those products ready in time. The code of conduct might ask that factory workers be limited to 60-hour working weeks but, in reality, Apple is asking the factories to keep running all day, every day, to deliver the order on time.[14]

To keep its costs low, Apple also offers very slim profit margins to suppliers. In turn, these factories aim to reduce their own costs.

The primary reason for these labour abuses may come only at the end of the supply chain—the consumer. A survey of Apple consumers showed that only 2 per cent of them recognised labour issues as a concern. In a remarkably succinct summary of the challenge, another anonymous Apple executive asserted, 'You can either manufacture in comfortable, worker-friendly factories, or you can reinvent the product every year, and make it better and faster and cheaper, which requires factories that seem harsh by United States standards. And right now, customers care more about a new iPhone than working conditions in China.'[15]

Unsafe work conditions were also called into question when an outsourcing manufacturing factory building in Bangladesh collapsed, killing more than 1000 workers.[16] The Bangladeshi garment industry has been plagued with incidents of unethical and unsafe working conditions, with many

major retailers being accused of not managing the unethical work environments of their outsourcing companies. For example, in the few years preceding this incident, fires in Bangladesh and Pakistan had taken the lives of nearly 500 apparel workers at plants producing for US retailers Gap, JC Penney, Target and Abercrombie & Fitch, the German retailer KiK and many others.[17] Britain's low-cost chain Primark and Canada's Loblaw, which had outsourcing contracts from the factory, have offered compensation to victims and their families, but 28 other companies have also been implicated in the disaster, including high-street brands Benetton, Matalan and Mango.[18] Target, Kmart and Cotton On, which all source materials from Bangladesh but did not have anything to do with the factory that collapsed, met with Oxfam to come up with a solution to the issue of unauthorised third-party outsourcing.[19]

Open communication

To share information, develop sales forecasts together and coordinate deliveries, Woolworths and its suppliers maintain open and honest communication. This maintenance may sound easy in principle, but some businesses don't tend to share information with their business partners. However, open, honest communication is a key to developing successful relationships, because supply chain members need to understand what is driving each other's business, their roles in the relationship, each firm's strategies and any problems that arise over the course of the relationship.

Common goals

Supply chain members must have common goals for a successful relationship to develop. Shared goals give both members of the relationship an incentive to pool their strengths and abilities and exploit potential opportunities together. Such commonality also offers an assurance that the other partner won't do anything to hinder the achievement of those goals within the relationship.

Woolworths and its suppliers recognise that it is in their common interest to be strategic partners. Woolworths needs its suppliers to satisfy its customers and those manufacturers recognise that if they can keep Woolworths happy, they will have more than enough business for years to come. With common goals, both firms have an incentive to cooperate, because they know that by doing so, both can boost sales. If Woolworths needs a special production run of pens to meet demand for back-to-school buyers, Bic will work to meet the challenge. If Bic has difficulty financing its inventory, it is in Woolworths' best interest to help it because they are committed to the same goals in the long run.

Interdependence

When supply chain members view their goals and ultimate success as intricately linked, they develop deeper long-term relationships. Interdependence between supply chain members that is based on mutual benefits is key to developing and sustaining the relationship. Woolworths' suppliers recognise that without Woolworths, their sales would be significantly less. Although certainly the more powerful member of the supply chain, Woolworths also recognises that it can rely on these suppliers to be a dependable source of supply, thus enabling it to have a very efficient marketing channel.

Credible commitments

Successful relationships develop because both parties make credible commitments to, or tangible investments in, the relationship. These commitments go beyond just making the hollow statement, 'I want to be your partner'; they involve spending money to improve the goods or services provided to the customer and on information technology to improve supply chain efficiency. Woolworths works closely with its suppliers to streamline the entire marketing channel.

Just like many other elements of marketing, managing the marketing channel can seem like an easy task at first glance: put the right merchandise in the right place at the right time. But the various elements and actors involved in a marketing channel create its unique and compelling complexities and require that firms work carefully to ensure they are achieving the most efficient and effective chain possible. We now turn our attention to how information and merchandise flows through marketing channels.

Social media and mobile marketing 12.1

Virtual store fronts? What would this mean for the supply chain?

What is a virtual store? A virtual store uses displayed images of products on a poster board with back lights; each product has a specific QR code under the product image that the consumer can scan with their smartphone. A QR code is a 'quick response code', or matrix barcode, and is used to identify the product through a QR scanner so the consumer can put the product in their online shopping basket. Once the customer has finished shopping, they finalise their transaction by paying and the product is sent to their allocated address. For example, South Korea's Home Plus trialled a grocery virtual store where images and the related QR codes were displayed on train platforms in a mass-transit environment.[20] While waiting for the train, time-poor customers scanned the QR code of their preferred products and had the groceries sent to their home. South Korea has some of the highest working-hour days in the world and therefore their consumers are very time poor. Deliveries were arranged to arrive in minutes or hours, rather than days, so the groceries would be in the shopper's kitchen that night and there was no need to wait at home for delivery.[21]



Exhibit 12.6 QR codes allowed South Korean commuters to do their shopping while waiting for the train.

© PARK JI-HWAN/Stringer/Getty Images

So how could this affect the supply chain? Just think about it: no need for a physical store with stock! You can send products from the distribution centre, saving significant resources in staffing, and saving on rent, electricity and other costs associated with a physical traditional retail store. There is no need for stock at the point of purchase, creating a more efficient supply chain. Further, the stores can be located in spaces where you couldn't get a physical store to fit, giving new opportunities to reach your audience. For example, virtual store fronts can be seen in the train station or on the side of a wall on a busy suburban street, as in Exhibit 12.6.

Retailers such as Sportsgirl have started to replace printed catalogue-style advertisements in store windows with large QR codes. When the Sportsgirl store on Chapel Street in Melbourne closed for renovation it was a good opportunity to trial the virtual store front.[22] Consumers could use their smartphones to purchase products by scanning a QR barcode associated with a particular item. The large displays on the windows of Sportsgirl stores are also linked to the virtual store that can be found on the company's website. Consumers are able to scan the QR codes accompanying each product and make purchases through that website. The site has been optimised for mobile viewing, allowing smartphone users to easily navigate merchandise. More recently Amazon Go has taken things one step further, using a combination of QR codes and a physical store without any cashiers. It uses 'Just Walk Out' technology, with no human intervention; purchases are recorded through an Amazon app and QR technology, with customers scanning their phones as they enter the shop and then simply walking out (with no checkout required).

CHECK YOURSELF

1. What is the difference between an indirect and a direct marketing channel?
2. What are the differences among the three types of vertical marketing systems?
3. How do firms develop strong strategic partnerships with their marketing channel partners?

Case study 12.1: Retail theft: the dark side of retailing



By Dr Saalem Sadeque, Central Queensland University

One aspect of the retail industry that receives little attention is theft, which can translate to losses of billions of dollars in retail revenue. A recent survey conducted in Australia and New Zealand of more than 9000 stores found that annual retail theft could be as high as $3.37 billion.

Retail theft occurs for a variety of reasons, including the overall economic conditions of the country and the presence of the opportunity to steal. The reasons why people steal vary, but may include financial difficulties, peer pressure, emotional issues (e.g. enjoying the thrill or feeling good from stealing) or psychological disorders (e.g. kleptomania). Some have also suggested that retail theft opportunities have increased as retailers move towards more automation, such as the use of self-service checkouts, which were set up to afford greater customer convenience. However, it appears that this is convenience with a cost for retailers.

The big retail stores in Australia have been taking various measures to counter retail theft. Woolworths has installed scales in its bagging areas to identify incorrectly scanned items by weight. Coles has installed tablet computer-sized cameras on top of its self-checkout counters to detect retail theft. This is in addition to the use of undercover security officers to catch any thieves red-handed.

Face-recognition technologies are also being used to tackle retail theft. The system works by creating a database of previously identified shoplifters. When a recorded shoplifter visits a particular store, the store's security camera matches the shoplifter's face with those in the database using a face-recognition algorithm. Security teams can then proactively alert customer services to the potential shoplifter, who can be turned away from the store.

Retailers can also use artificial intelligence (AI) in their fight against retail theft. Japan-based Vaak has developed AI software to help identify potential shoplifters. Similar to the premise of the movie *Minority Report,* the software algorithm analyses the store's security camera footage and can identify potential shoplifters based on suspicious body movement such as excessive fidgeting or restlessness.

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Questions

1. According to the case, what are the different ways in which retailers are combating retail theft?
2. What are the potential benefits and risks of the various methods to tackling retail theft?
3. What roles could the government and society play to reduce retail theft?

MAKING MERCHANDISE FLOW THROUGH MARKETING CHANNELS

Figure 12.6 illustrates the different types of merchandise flows:

1. manufacturer to distribution centre
2. manufacturer directly to stores
3. if the merchandise goes through a distribution centre, it is then shipped to stores
4. then to the customer.

Making merchandise flow involves first deciding if the merchandise is going to go from the manufacturer to a retailer's distribution centre or directly on to stores. Once in a distribution centre, multiple activities take place before it is shipped on to a store.

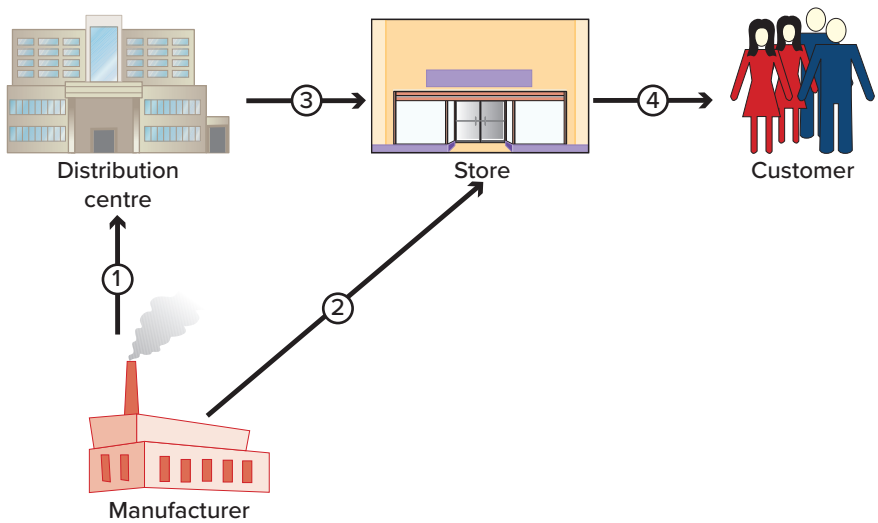


Figure 12.6 Merchandise flows

Distribution centres versus direct store delivery

As indicated in Figure 12.6, manufacturers can ship merchandise directly to a retailer's stores–direct store delivery (flow 2)–or to their distribution centres (flow 1). Although manufacturers and retailers may collaborate, the ultimate decision is usually up to the retailer and depends on the characteristics of the merchandise and the nature of demand. To determine which distribution system–distribution centres or direct store delivery–is better, retailers consider the total cost associated with each alternative and the customer service criterion of having the right merchandise at the store when the customer wants to buy it.

There are several advantages to using a distribution centre:

- More accurate sales forecasts are possible when retailers combine forecasts for many stores serviced by one distribution centre rather than doing a forecast for each store. Consider a set of 50 Target stores, serviced by a single distribution centre that each carries Breville toasters. Each store normally stocks five units for a total of 250 units in the system. By carrying the item at each store, the retailer must develop individual forecasts, each with the possibility of errors that could result in either too much or too little merchandise. Alternatively, by delivering most of the inventory to a distribution centre and feeding the stores merchandise as they need it, the effects of forecast errors for the individual stores are minimised and less backup inventory is needed to prevent stockouts.
- Distribution centres enable the retailer to carry less merchandise in the individual stores, which results in lower inventory investments systemwide. If the stores get frequent deliveries from the

distribution centre, they need to carry relatively less extra merchandise as backup stock. This can reduce the costs of inventory in the channel, especially when we consider perishable products such as fresh fruit and vegetables.

- It is easier to avoid running out of stock or having too much stock in any particular store because merchandise is ordered from the distribution centre as needed.
- Retail store space is typically much more expensive than space at a distribution centre and distribution centres are better equipped than stores to prepare merchandise for sale. As a result, many retailers find it cost-effective to store merchandise and get it ready for sale at a distribution centre rather than in individual stores.

But distribution centres aren't appropriate for all retailers. If a retailer has only a few outlets, the expense of a distribution centre is probably unwarranted. Also, if many outlets are concentrated in metropolitan areas, merchandise can be consolidated and delivered by the vendor directly to all the stores in one area economically. Direct store delivery gets merchandise to the stores faster and thus is used for perishable goods (meat and fresh produce), items that help create the retailer's image of being the first to sell the latest product (e.g. video games) and fads. Finally, some manufacturers provide direct store delivery for retailers to ensure that their products are on the store's shelves, properly displayed and fresh. For example, employees delivering potato chips directly to supermarkets replace products that have been on the shelf too long and are stale, replenish products that have been sold and arrange products so they are neatly displayed. Further, these employees as well as merchandisers come and replenish their items in supermarkets as well as display the product in an appropriate manner for the brand so as to create interest and stimulate sales.

The distribution centre

The distribution centre performs the following activities: coordinating inbound transport, receiving and checking, storing and cross-docking, getting merchandise 'floor ready', and coordinating outbound transport. To illustrate these activities being undertaken in a distribution centre, we'll use the example of Sony HD TVs being shipped to a Harvey Norman distribution centre.

Management of inbound transport

Traditionally, buyers focused their efforts, when working with vendors, on developing merchandise assortments, negotiating prices and arranging joint promotions. Now, buyers and planners are much more involved in coordinating the physical flow of merchandise to the stores. The **planner** is the employee responsible for the financial planning and analysis of merchandise and its allocation to stores. The TV buyer has arranged for a truckload of HD TVs to be delivered to its Sydney distribution centre on Monday between 1pm and 3pm. The buyer also specifies how the merchandise should be placed on pallets for easy unloading.

The truck must arrive within the specified time because the distribution centre has all of its 100 receiving docks allocated throughout the day and much of the merchandise on this particular truck is going to be delivered to stores that evening. Unfortunately, the truck was delayed in a flood. The **dispatcher**–the person who coordinates deliveries to the distribution centre–reassigns the truck delivering the HD TVs to a Wednesday-morning delivery slot and charges the firm several hundred dollars for missing its delivery time. Although many manufacturers pay transportation expenses, some retailers negotiate with their vendors to absorb this expense. These retailers believe they can lower their net merchandise cost and better control merchandise flow if they negotiate directly with transport companies and consolidate deliveries from many vendors.

planner
In a retailing context, an employee who is responsible for the financial planning and analysis of merchandise, and its allocation to stores.

dispatcher
The person who coordinates deliveries to distribution centres.

receiving
The process of recording the receipt of merchandise as it arrives at a distribution centre or store.

checking
The process of going through the goods upon receipt to ensure they arrived undamaged and that the merchandise ordered was the merchandise received.

Receiving and checking using universal product code and radiofrequency identification devices

Receiving is the process of recording the receipt of merchandise as it arrives at a distribution centre. **Checking** is the process of going through the goods upon receipt to make sure they arrived undamaged and that the merchandise ordered was the merchandise received.

In the past, checking merchandise was a very labour-intensive and time-consuming process. Today, however, many distribution systems using EDI are designed to minimise, if not eliminate,

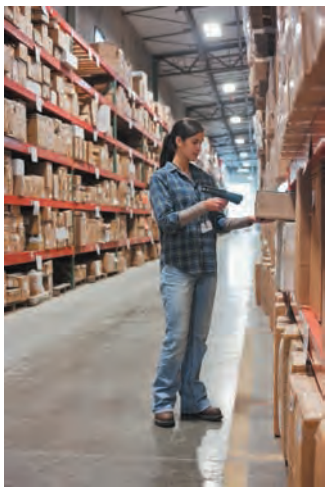


Exhibit 12.7 By scanning the UPC on each carton its contents can be automatically identified and counted in the warehouse.

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these processes. The advance shipping notice (ASN) tells the distribution centre what should be in each carton. A universal product code (UPC) label or RFID tag on the shipping carton that identifies the carton's contents is scanned and automatically counted as it is being received and checked (see Exhibit 12.7). **Radiofrequency identification (RFID) tags** are tiny computer chips that automatically transmit to a special scanner all the information about a container's contents or individual products. Approximately as large as a pinhead, each of these RFID tags consists of an antenna and a chip that contains an electronic product code that stores far more information about a product than barcodes or UPC codes can. The tags also act as passive tracking devices, signalling their presence over a radio frequency when they pass within a few yards of a special scanner. The tags have long been used in high-cost applications, such as automated highway toll systems and security identification badges.

A key advantage of RFID is that it eliminates the need to handle items individually by enabling distribution centres and stores to receive whole truckloads of merchandise without having to check in each carton. Another advantage is that manufacturers and distributors are able to reduce overall inventory thanks to greater supply chain efficiency.

Storing and cross-docking

After the merchandise has been received and checked, it is either stored or cross-docked. When merchandise is stored, the cartons are transported by a conveyor system and forklift trucks to racks that go from the distribution centre's floor to its ceiling. Then, when the merchandise is needed in the stores, a forklift driver goes to the rack, picks up the carton and places it on a conveyor system that routes the carton to the loading dock of a truck going to the store.

radiofrequency identification (RFID) tag
A tiny computer chip that automatically transmits to a special scanner all the information about a container's contents or individual products.

Merchandise cartons that are **cross-docked** are pre-packaged by the vendor for a specific store. The UPC labels on the carton indicate the store to which it is to be sent. The vendor also may affix price tags to each item in the carton. Because the merchandise is ready for sale, it is placed on a conveyor system that routes it from the unloading dock at which it was received to the loading dock for the truck going to the specific store–thus, the term *cross-docked*. The cartons are routed on the conveyor system automatically by sensors that read the UPC label on the cartons. Cross-docked merchandise is in the distribution centre only for a few hours before it is shipped to the stores.

cross-dock
In a distribution centre, merchandise that is ready for sale and is placed on a conveyor system that routes it from the unloading dock at which it was received to the loading dock for the truck going to a specific store for delivery.

Merchandise sales rate and degree of perishability or fashionability typically determine whether cartons are cross-docked or stored. For instance, because Sony's HD TVs sell so quickly, it is in Harvey Norman's interests not to store them in a distribution centre. Similarly, cross-docking is preferable for fashion apparel, perishable meat and fresh produce.

Getting merchandise floor-ready

For some merchandise, additional tasks are undertaken in the distribution centre to make the merchandise floor-ready. **Floor-ready merchandise** is merchandise that is ready to be placed on the selling floor. Getting merchandise floor-ready entails ticketing, marking, and, in the case of some apparel, placing clothes on hangers (or maybe attaching RFID chips).

floor-ready merchandise
Merchandise that is ready to be placed on the selling floor immediately.

ticketing and marking
Creating price and identification labels and placing them on the merchandise.



Exhibit 12.8 Additional tasks are undertaken in the distribution centre to make merchandise floor-ready before it is delivered to the store.

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Ticketing and marking refers to affixing price and identification labels to the merchandise. It is more efficient for a retailer to perform these activities at a distribution centre than in its stores. In a distribution centre, an area can be set aside and a process implemented to efficiently add labels and put apparel on hangers. Conversely, getting merchandise floor-ready in stores can block aisles and divert salespeople's attention from their customers. An even better approach from the retailer's perspective is to get vendors to ship floor-ready merchandise, thus totally eliminating the expensive, time-consuming ticketing and marking process (see Exhibit 12.8).

Preparing to transport merchandise to a store

At the beginning of the day, the computer system in the distribution centre generates a list of items to be delivered to each store on that day. For each

item, a pick ticket and shipping label is generated. The **pick ticket** is a document or display on a screen in a forklift truck indicating how much of each item to get from specific storage areas. The forklift driver goes to the storage area, picks up the number of cartons indicated on the pick ticket, places UPC shipping labels on the cartons that indicate the stores to which the items are to be transported and puts the cartons on the conveyor system, where they are automatically routed to the loading dock for the truck going to the stores.

pick ticket
A document or display on a screen in a forklift truck indicating how many of each item to get from specific storage areas.

Transporting merchandise to stores

Transporting merchandise to stores from a distribution centre has become increasingly complex. Some distribution centres run 50 to 100 outbound truck routes in one day. To handle this complex transport problem, the centres use sophisticated routing and scheduling computer systems that consider the locations of the stores, road conditions and transport operating constraints to develop the most efficient routes possible. As a result, stores are provided with an accurate estimated time of arrival and vehicle utilisation is maximised.

Inventory management through just-in-time inventory systems

Marketing channel management offers the 21st century's answer to a host of distribution problems faced by firms. As recently as the early 1990s, even the most innovative firms needed 15 to 30 days–or even more–to fulfil an order from the warehouse to the customer. The typical order-to-delivery process had several steps: order creation, usually using a telephone, fax or mail; order processing, using a manual system for credit authorisation and assignment to a warehouse; and physical delivery. Things could and often did go wrong. Ordered goods were not available. Orders were lost or misplaced. Shipments were misdirected. These mistakes lengthened the time it took to get merchandise to customers and potentially made the entire process more expensive.

Faced with such predicaments, firms began stockpiling inventory at each level of the supply chain (retailers, wholesalers and manufacturers), but keeping inventory where it is not needed creates a huge and wasteful expense. If a manufacturer has a huge stock of items stuck in a warehouse, it not only is not earning profits by selling those items but also must pay to maintain and guard that warehouse.

More recently, many firms, such as American Apparel, Zara, Mango and Forever 21, have adopted a practice developed by Toyota in the 1950s. **Just-in-time (JIT) inventory systems**, also known as **quick response (QR) systems** in retailing, are inventory management systems that deliver less merchandise on a more frequent basis than traditional inventory systems. The firm gets the merchandise 'just-in-time' for it to be used in the manufacture of another product or for sale when the customer wants it. The benefits of a JIT system include reduced lead time, increased product availability and lower inventory investment.[23]

just-in-time (JIT) inventory system (or quick response (QR) systems)
An inventory management system designed to deliver less merchandise on a more frequent basis than traditional inventory systems; the firm gets the merchandise 'just-in-time' for it to be used in the manufacture of another product, in the case of parts or components; or for sale when the customer wants it, in the case of consumer goods; also known as *quick response (QR) systems* in retailing.

Nick Scali Furniture sells a basic product range from its warehouse, but mostly the retailer takes orders and uses a JIT system, where customer preferences such as colour, material and texture are collected and then the company gets the product made to order. The consumer must wait eight to 12 weeks for delivery but they get their desired sofa due to the JIT distribution system.

Reduced lead time

By eliminating the need for paper transactions, the EDI in the JIT system reduces **lead time**, or the amount of time between the recognition that an order needs to be placed and the arrival of the needed merchandise at the seller's store, ready for sale. Because the vendor's computer acquires the data automatically, no manual data entry is required on the recipient's end, which reduces lead time even more and eliminates vendor recording errors. Even better, the shorter lead times further reduce the need for inventory because the shorter the lead time, the easier it is for the retailer to forecast its demand.

lead time
The amount of time between the recognition that an order needs to be placed and the arrival of the needed merchandise at the seller's store, ready for sale.

Increased product availability and lower inventory investment

In general, as a firm's ability to satisfy customer demand by having stock on hand increases, so does its inventory investment; that is, it needs to keep more backup inventory in stock. But with JIT, the ability to satisfy demand can actually increase while inventory decreases. Because a firm like a clothing

retailer can make purchase commitments or produce merchandise closer to the time of sale, its own inventory investment is reduced. The clothing retailer needs less inventory because it is getting less merchandise in each order, but is receiving those shipments more often. Since firms using JIT are ordering merchandise to cover shorter-term demand, inventory is even further reduced. A good example of this is the global fast-fashion retailer, Zara.

The ability to satisfy customer demand by keeping merchandise in stock also increases in JIT systems as a result of the more frequent shipments. For instance, if the clothing retailer runs low on a particular medium-sized T-shirt, its JIT system ensures a shorter lead time than those of more traditional retailers. As a result, it is less likely that the store will be out of stock for its customers before the next shirt delivery.

Costs of a JIT system

Although firms achieve great benefits from a JIT system, it is not without its costs. The distribution function becomes much more complicated, with more frequent deliveries. With greater order frequency also come smaller orders, which are more expensive to transport and more difficult to coordinate. Therefore, JIT systems require a strong commitment by the firm and its vendors to cooperate, share data and develop systems.

CHECK YOURSELF

1. How does merchandise flow through a typical marketing channel?
2. What activities occur in a distribution centre and what technologies facilitate those activities?
3. Why have JIT inventory systems become so popular?

Case study 12.2: The road ahead for Village Cinemas

By Dr Saalem Sadeque, Central Queensland University

Cinemas are examples of service retailers whose success very much depends on providing positive and unique customer experiences. According to Graham Burke, the CEO of Village Roadshow, 'People are increasingly buying experiences rather than things'. In 2017, Village Cinemas, part of Village Roadshow, introduced the first-ever 4D cinema experience in Melbourne. The 4D cinema experience provides audiences with real physical experiences that are in sync with scenes in the movies. For example, if there is a motorcycle chase, the audience will feel the wind blowing past their heads, or if there is rain in a scene, the audience will have water drops land on their bodies. Similarly, Hoyts has recently introduced motion recliner seats from D-Box, a company that designs immersive entertainment experiences.

The cinema industry in Australia is worth $2 billion, but it has been facing competition from video-streaming services and suffering the effects of internet movie piracy. Improved internet connections, especially with the introduction of the National Broadband Network (NBN), and competitive prices from internet service providers means that many cinema audiences can now view movies from the comfort of their homes using subscription video on demand (SVOD) services such as Netflix, Stan, Amazon Prime and Disney+. In addition, these companies create their own content, which is available only through their streaming services.

Improved internet connections have also contributed to the rise of illegal movie downloading, another factor that adversely affects attendance at cinemas. In a recent court ruling, made in favour of Village Roadshow, copyright holders of films will be required to give a two-month, instead of a six-month, notice period to piracy websites that are going to be blocked by local internet companies. This will lessen the opportunity for the piracy sites to change locations.

Faced with these challenges, cinema companies are looking for ways to offer new customer experiences. For example, Event Cinemas has introduced an innovative concept labelled Event Boutique, which includes laser projections, food and beverage offerings, waiter service, custom-made designer recliners and footrests. Event Cinemas has positioned itself as a 'designer cinema experience'. In 2017, Village Cinema introduced Vjunior, targeted at kids aged between three and ten. Vjunior tickets are priced at $3 over the standard price and offer an interactive play area, a big slide, a building-block play area, light projection games, activity tables and beanbags for the kids to sit and watch movies.

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Questions

1. How are service retailers different from retailers that sell physical goods?
2. What are some of the different customer experiences that cinemas in Australia offer?
3. Describe some of the challenges and opportunities that the Australian cinema industry might face in the future.

RETAILING

LO 12.4

Retailing sits at the end of the supply chain, where marketing meets the consumer. But there is far more to retailing than just manufacturing a product and making it available to its customers. It is primarily the retailer's responsibility to make sure that these customers' expectations are fulfilled.

Retailing is defined as the set of business activities that add value to goods and services sold to consumers for their personal or family use. This definition includes products bought at stores, through catalogues, and over the internet, as well as services like fast-food restaurants, airlines and hotels. Some retailers claim they sell at 'wholesale' prices, but if they sell to customers for their personal use, they are still retailers, regardless of their prices. Wholesalers buy products from manufacturers and resell them to retailers or industrial or business users.

Retailing today is changing, both in Australia and around the world. Manufacturers no longer rule many supply chains, as they once did. Retailers such as Walmart in the United States, Carrefour (a French hypermarket), Metro (a German retail conglomerate), Tesco (a UK supermarket), Schwarz

retailing
The set of business activities that add value to goods and services sold to consumers for their personal or family use; includes products bought at stores, through catalogues and over the internet, as well as services like fast-food restaurants, airlines and hotels.



Exhibit 12.9 M·A·C will use different criteria than either Coach or Eva's green cosmetics when placing its products in retail stores.

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(another German conglomerate), Kroger, Costco, ALDI, Home Depot and Target[24]–the 10 largest retailers in the world–dictate to their suppliers what should be made, how it should be configured, when it should be delivered and, to some extent, what it should cost. These retailers are clearly in the driver's seat. Is this the same in Australia? To investigate this question we examine how and why manufacturers use retailers in an Australian context. The manufacturer's strategy depends on its overall market power and how consistent a new product or product line is with current offerings. Consider the following:

- **Scenario 1:** Cosmetics conglomerate Estée Lauder's subsidiary brand M·A·C is introducing a new line of mascara (see Exhibit 12.9).
- **Scenario 2:** Coach, well known for its women's handbags, has introduced a line of men's leather goods, apparel, gifts, shoes and other accessories–products not previously in its assortment.
- **Scenario 3:** Eva, a young entrepreneur, is launching a new line of environmentally friendly (green) cosmetics.

Each of these scenarios is different and requires the manufacturer to consider alternatives for reaching its target markets through retailers.

Figure 12.7 illustrates four factors manufacturers consider when establishing their strategy for working with retailers.[25] In choosing retail partners, the first factor, manufacturers assess how likely it is for certain retailers to carry their products. Manufacturers also consider where their target customers expect to find the products, because those are exactly the stores in which they want to place their products. The overall size and level of sophistication of the manufacturer will determine how many of the marketing channel functions it performs and how many it will hand off to other channel members. Finally, the type and availability of the product and the image the manufacturer wishes to portray will determine how many retailers within a geographic region will carry the products.

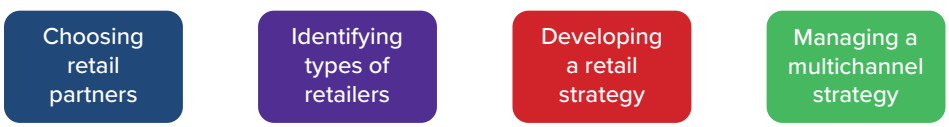


Figure 12.7 Factors for establishing a relationship with retailers

For the second factor, manufacturers identify the types of retailers that would be appropriate to carry their products. Although the choice is often obvious–such as a supermarket for fresh produce–manufacturers may have a choice of retailer types for some products.

multichannel strategy
A strategy that involves selling through more than one channel (e.g. stores, the internet, catalogues).

As discussed earlier, a hallmark of a strong marketing channel is one in which manufacturers and retailers coordinate their efforts. Many retailers and some manufacturers use a **multichannel strategy**, which involves selling in more than one channel (e.g. store, catalogue and internet). One key factor is the circumstances in which sellers may prefer to adopt a particular strategy. Although these factors are listed consecutively, manufacturers may consider them all simultaneously or in a different order.

LO 12.5

CHOOSING RETAIL PARTNERS

Imagine, as a consumer, trying to buy a new leather jacket without being able to visit a retailer or buy online. You would have to figure out exactly what size, colour and style of jacket you wanted. Then you would need to contact various manufacturers, whether in person, by phone or over the internet, and order the jacket. If the jacket fits you reasonably well but not perfectly, you still might need to

take it to a tailor to have the sleeves shortened. You wouldn't find this approach to shopping very convenient.

Manufacturers like Coach use retailers such as David Jones to undertake partnerships that create value by pulling together all the actions necessary for the greatest possible customer convenience and satisfaction (see Exhibit 12.10). The store offers a broad selection of purses, leather jackets, scarves and other accessories that its buyers have carefully chosen in advance. Customers can see, touch, feel and try on any item while in the store. They can buy one scarf or leather jacket at a time or buy an outfit that works together. Finally, the store provides a salesperson to help customers coordinate their outfits and a tailor to make the whole thing fit perfectly.

When choosing retail partners, manufacturers look at the basic channel structure, where their target customers expect to find the products, channel member characteristics and distribution intensity (see Exhibits 12.11 and 12.12).



Exhibit 12.10 Coach partners with retailers to help conveniently deliver its products to satisfied customers.

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Channel structure

The level of difficulty a manufacturer experiences in getting retailers to purchase its products is determined by the degree to which the channel is vertically integrated; the degree to which the manufacturer has a strong brand or is otherwise desirable in the market; and the relative power of the manufacturer and retailer.

Scenario 1 represents a corporate vertical marketing system. Because M·A·C is made by Estée Lauder and operates its own stores, when the new mascara line gets introduced, the stores receive the new line automatically with no decision on the part of the retailer. In contrast, Revlon would have a much more difficult time getting David Jones to buy a new mascara line because these supply chain partners are not vertically integrated.

When an established firm like Coach enters a new market with men's leather goods, apparel, gifts, shoes and other accessories, as is the case in Scenario 2, it cannot place the products with any retailer. It must determine where its customers would expect to find these products and then use its established relationships with women's handbag buyers, the power of its brand and its overall reputation to leverage its position in this new product area.

Eva (Scenario 3) would have an even more difficult time convincing a retailer to buy and sell her green cosmetics line, because she lacks power in the marketplace–she is small and her brand is unknown. She would have trouble getting buyers to see her, let alone consider her line. She might face relatively high slotting allowances just to get space on retailers' shelves. But like Coach in Scenario 2, Eva should consider where the end customer expects to find her products, as well as some important retailer characteristics and the growth of larger online market spaces such as alibaba.com.au.





Exhibits 12.11 and 12.12 Most consumer packaged goods companies such as soft-drink manufacturers (top) strive for intensive distribution—they want to be everywhere. But cosmetics firms like Estée Lauder (bottom) use an exclusive distribution strategy by limiting their distribution to a few select higher end retailers in each region.

Top to bottom: © Niloo/Shutterstock, © TY Lim/Shutterstock

Customer expectations

Retailers should also know customer preferences regarding manufacturers. Manufacturers need to know where their target market customers expect to find their products and those of their competitors. As we see in the hypothetical example, Coach currently sells handbags at stores such as David Jones and Myer, as well as in its own stores. Its competitor Cellini sells at David Jones and Myer. A survey of male Coach customers shows that they would expect to find its products at David Jones and its own stores. On the basis of this information, Coach decides to try selling at David Jones but to stop selling at Myer, to better meet customers' expectations.

Customers generally expect to find certain products at some stores but not at others. For example, Estée Lauder would not choose to sell to Kmart or Target because its customers would not expect to

shop at those stores for high-end cosmetics like Estée Lauder's. Instead, Kmart might carry less-expensive cosmetic brands, like Revlon and Maybelline. But male Coach customers definitely expect to find the brand's clothing offerings at major department stores and at Coach stores.

Channel member characteristics

Several factors pertaining to the channel members themselves help determine the channel structure. Generally, the larger and more sophisticated the channel member, the less likely that it will use supply chain intermediaries. Eva will probably use a group of independent salespeople to help sell her line of green cosmetics, whereas a large manufacturer like Estée Lauder will use its own sales force that already has existing relationships in the industry. In the same way, an independent supermarket might buy merchandise from a wholesaler, but Woolworths, Australia's largest supermarket chain, only buys directly from the manufacturer. Larger firms often find that by performing the channel functions themselves, they can gain more control, be more efficient and save money.

LO 12.6

Distribution intensity

When setting up distribution for the first time, as is the case with Eva's green cosmetics (Scenario 3) or introducing a new product line, as is the case with Coach for men (Scenario 2), firms decide the appropriate level of **distribution intensity**–the number of channel members to use at each level of the marketing channel. Distribution intensity commonly is divided into three levels: intensive, exclusive and selective.

distribution intensity
The number of supply chain members to use at each level of the supply chain.

Intensive distribution

An **intensive distribution** strategy is designed to place products in as many outlets as possible. Most consumer packaged goods companies, such as PepsiCo, Procter & Gamble, Kraft and other nationally branded products found in supermarkets and discount stores strive for and often achieve intensive distribution. PepsiCo wants its product available everywhere–supermarkets, convenience stores, restaurants and vending machines. The more exposure the products get, the more they sell.

intensive distribution
A strategy designed to get products into as many outlets as possible.

Exclusive distribution

Manufacturers also might use an **exclusive distribution** policy by granting exclusive geographic territories to one or very few retail customers so no other retailers in the territory can sell a particular brand. Exclusive distribution can benefit manufacturers by assuring them that the most appropriate retailers represent their products. Luxury goods firms such as Coach limit distribution to a few select, higher-end retailers in each region. The company believes that selling its products to full-line discount stores or off-price retailers would weaken its image.

When supply is limited or a firm is just starting out, providing an exclusive territory to one retailer or retail chain helps ensure enough inventory to provide the buying public an adequate selection. By granting exclusive territories, Eva guarantees her retailers will have an adequate supply of her green cosmetics. This guarantee gives these retailers a strong incentive to market her products. The retailers that Eva uses know there will be no competing retailers to cut prices, so their profit margins are protected. This knowledge gives them an incentive to carry more inventory and use extra advertising, personal selling and sales promotions.

exclusive distribution
Strategy in which only selected retailers can sell a manufacturer's brand.

Selective distribution

Between the intensive and exclusive distribution strategies lies **selective distribution**, which relies on a few selected retail customers in a territory to sell products. Like exclusive distribution, selective distribution helps a seller maintain a particular image and control the flow of merchandise into an area. These advantages make this approach attractive to many 'shopping goods' manufacturers. (Recall that shopping goods are those products for which consumers are willing to spend time comparing alternatives, such as most clothing items, home items like branded pots and pans or sheets and towels, branded hardware and tools, and consumer electronics.) Retailers still have a strong incentive to sell the products but not to the same extent as if they had an exclusive territory.

selective distribution
Lies between the intensive and exclusive distribution strategies; uses a few selected retail customers in a territory.

Like any large complicated system, a marketing channel is difficult to manage. Whether the balance of power rests with large retailers like Woolworths or with large manufacturers such as Procter & Gamble or Nestlé, channel members benefit by working together to develop and implement their channel strategy. In the next section, we explore the different types of retailers with an eye toward which would be most appropriate for each of our scenarios: M·A·C Cosmetics, Coach's products for men and Eva's new line of environmentally friendly cosmetics.

CHECK YOURSELF

1. What issues should manufacturers consider when choosing retail partners?
2. What are the differences between intensive, exclusive and selective levels of distribution intensity?

IDENTIFY TYPES OF RETAILERS

LO 12.7

At first glance, identifying the types of retailers that Coach and Eva may wish to pursue when attempting to place their new lines seems straightforward. But the choice is not always easy. Manufacturers need to understand the general characteristics of different types of retailers to determine the best channels for their product. The characteristics of a retailer that are important to a food manufacturer may be quite different to those considered valuable by a cosmetics manufacturer. In the next few sections, we examine the various types of retailers, identify some major players and discuss some of the issues facing each type (Figure 12.8).



Figure 12.8 Types of retailers

Food retailers

The food retailing landscape is changing dramatically. Twenty years ago, consumers primarily purchased food at conventional supermarkets. Now, conventional supermarkets account for slightly more than half of food sales (not including restaurants). While full-line discount stores such as Woolworths and warehouse clubs like Costco are offering more food items, traditional supermarkets are carrying more non-food items. Many smaller supermarkets offer ATMs and cafes.

Supermarkets

A **conventional supermarket** is a self-service retail food store offering groceries, meat and fresh produce with limited sales of non-food items, such as health and beauty aids and general merchandise.[26] Perishables including meat, fresh produce, baked goods and dairy account for a high proportion of supermarket sales and typically have higher margins than packaged goods.[27]

conventional supermarket
A type of retailer that offers groceries, meat and fresh produce with limited sales of non-food items, such as health and beauty aids and general merchandise, in a self-service format.

stock keeping units (SKUs)
Individual items within each product category; the smallest unit available for inventory control.

limited-assortment supermarket (extreme-value food retailer)
A retailer that offers only one or two brands or sizes of most products (usually including a store brand) and attempts to achieve great efficiency to lower costs and prices; also known as *extreme-value food retailer*.

Conventional supermarkets carry thousands of individual items or **stock keeping units (SKUs)**. An SKU represents a unique inventory item. **Limited-assortment supermarkets** or **extreme-value food retailers** such as ALDI stock only a small range.[28] Rather than carry 20 brands of laundry detergent, limited-assortment stores offer one or two brands and sizes, one of which is a store brand. By trimming costs, limited assortment supermarkets can offer merchandise at up to 40 per cent lower prices than conventional supermarkets.[29]

Conventional supermarkets are under substantial competitive pressure from other types of food retailers, full-line discount chains, warehouse clubs, convenience stores, online grocers and restaurants.

Thus, to compete successfully against intrusions by other food retailing formats, conventional supermarkets have begun to differentiate their offerings by:

1. emphasising fresh, locally sourced perishables
2. targeting health-conscious and culturally diverse consumers with new lines of natural, organic and culture-specific items
3. offering more private-label brands
4. providing a better in-store experience with a better overall atmosphere, demonstrations and fun.

Warehouse clubs

warehouse clubs
Large retailers with an irregular assortment, low service levels and low prices, that often require membership for shoppers.

Warehouse clubs are large (in terms of floor space) retailers that offer a limited and irregular assortment of food and general merchandise, little service and low prices to the general public and small businesses. The largest warehouse club chain in Australia is Costco. Customers are attracted to these stores because they can stock up on large packs of basics like paper towels, mega-sized packaged groceries such as litre bottles of tomato sauce, best-selling books, fresh meat and produce and an unpredictable assortment of upscale merchandise and services (e.g. jewellery, electronics, home décor) at lower prices than are available at other retail stores. Typically, members pay an annual fee, which amounts to significant additional income for the chain.

Although both Coach for Men and Eva's products could be sold in warehouse clubs, these retailers probably are not the best choices. Both product lines will have an upscale image, which is inconsistent with any warehouse club. If, however, either firm has overstock merchandise as a result of overestimating demand or underestimating returned merchandise from retailers, warehouse clubs are a potential outlet.

Convenience stores

convenience store
A type of retailer that provides a limited number of items at a convenient location in a small store with speedy checkout.

Convenience stores provide a limited variety and assortment of merchandise at a convenient location with smaller-floor-space stores with speedy checkout. They are the modern version of the neighbourhood general store. Convenience stores enable consumers to make purchases quickly without having to search through a large store and wait in a lengthy checkout line. Convenience store assortments are limited in terms of depth and breadth and they charge higher prices than supermarkets. Milk, eggs and bread once represented the majority of their sales, but now most sales come from petrol and cigarettes.

Convenience stores also face increased competition from other retail formats. In response to these competitive pressures, convenience stores are taking steps to decrease their dependency on petrol sales by offering fresh food and healthy fast food, tailoring assortments to local markets and making their stores even more convenient to shop at. Finally, convenience stores are adding new services, such as ATMs, mobile prepaid telephone credit and gift cards.

General-merchandise retailers

The major types of general merchandise retailers are department stores, full-line discount stores, specialty stores, pharmacies, category specialists, extreme-value retailers and off-price retailers.

Department stores

Department stores are retailers that carry a broad variety and deep assortment, offer customer services and organise their stores into distinct departments for displaying merchandise. Department stores would be an excellent retail channel for Coach for Men and Eva's new lines.

To compete for and gain better traction among younger consumers, who generally favour smaller specialty stores,[30] many department stores are increasing the amount of exclusive and private-label merchandise they sell. In addition, department stores are becoming true multichannel retailers: at David Jones and Myer, customers can buy or reserve products online, then pick them up in the store or get the product delivered.

department store
A retailer that carries many different types of merchandise (broad variety) and lots of items within each type (deep assortment), offers some customer services, and is organised into separate departments to display its merchandise.

Full-line discount stores

Full-line discount stores are retailers that offer a broad variety of merchandise, limited service and low prices. The largest full-line discount store chains in Australia are Big W, Target and Kmart.

Although full-line discount stores typically might carry men's leather goods, accessories and cosmetics, they are not good options for Coach for Men or Eva's new green cosmetics line. Customers do not expect higher-end products in full-line discount stores. Rather, they are looking for value prices on these items and are willing to compromise on quality or cachet.

full-line discount stores
Retailers that offer low prices, limited service and a broad variety of merchandise.

Specialty stores

Specialty stores concentrate on a limited number of complementary merchandise categories targeted towards very specific market segments by offering deep but narrow assortments and sales associate expertise. Although such shops are familiar in bricks-and-mortar forms, more retailers are also expanding their online specialty profile.

Estée Lauder's M·A·C line of cosmetics sells in the company's own retail specialty stores, as well as in some department stores. Certain specialty stores would be excellent outlets for the new lines by Coach for Men and Eva. Customers likely expect to find Coach for Men leather goods and accessories in men's apparel or leather stores. Eva's line of green cosmetics would fit nicely in a cosmetics specialty store like Sephora.

specialty store
A type of retailer that concentrates on a limited number of complementary merchandise categories in a relatively small store.

Chemists

Chemists (or pharmacies) are specialty stores that concentrate on pharmaceuticals and health and personal grooming merchandise. Prescription pharmaceuticals represent a large percentage of sales. The largest chemists in Australia include My Chemist Retail Group, Sigma Healthcare Ltd, EBOS Group Ltd (including Terry White Chemists and Australian Pharmaceutical Industries Ltd (including Priceline)).[31]

Although Estée Lauder's new line would not be consistent with the merchandise found in chemists, Eva's green cosmetics may be a welcome addition. Some chemists have recognised consumer demand for green products, even though Eva's cosmetics may be priced higher than its competitors. Eva must decide whether her high-end products will suffer a tarnished image if she sells them in chemists or if chemists could be a good channel for increasing her brand awareness.

Chemists face competition from supermarkets and pressure to reduce costs. The major chemists are offering a wider assortment of merchandise, as discussed in Superior service 12.1. For example, chemists such as Terry White Chemists have been very successful in delivering superior service by augmenting their products to include customer- and/or community-based services, such as offering nurses to do health checks for babies, and weight-management programs like the Tony Ferguson weight-loss goods and services.[32] Chemists are also expanding their role as a fill-in trip destination by carrying products typically found in convenience stores and supermarkets. The jury is still out, however, regarding how successful this initiative will be, because chemists' prices on these items are on a par with convenience stores and higher than supermarkets.[33]

chemist
A specialty store that concentrates on health and personal grooming merchandise, though pharmaceuticals may represent more than 60 per cent of its sales.

Superior service 12.1

Terry White Chemists and online doctor consultation via Skype

Your local pharmacist has always been considered a trusted person in a service environment, as they help when you are sick. So the service delivery from a pharmacist in times of sickness is important to get right. Pharmacies in Australia have always given quality service to their customers, offering expert advice about medicines that can help with the customer's illness. However, in recent times innovative pharmacists have looked to deliver superior service quality as a competitive advantage due to the competitive forces coming from the large dominant supermarkets. These include services such as pre- and postnatal information and advice from midwives and/or nurses; weight-loss management, including information from nutritionists and dietitians and weight-loss management programs. Terry White Chemists have been innovators in the market with their Tony Ferguson diet products, a series of physical goods and services with assistance in-store and online to help manage weight loss; diabetes advice and assistance from nurses; blood-pressure management, where nurses are brought in-store to give advice about how to cope with blood pressure issues; and more recently a link to online doctor consultations.

Terry White Chemists have teamed up with GP2U, the online doctor consultation service. Time-poor Australians are now able to see a doctor from the comfort of their own home via Skype using this new innovative service.[34] The customer makes an appointment via the Skype video system through any of their devices, the doctor has the consultation with the patient and then the prescription is sent automatically to a pharmacy for collection or mailed to the patient. As a result of the new partnership, this telehealth technology could ease pressure on crowded clinics and help GPs who are new parents return to work by consulting from home. It is like a 'virtual clinic', according to founder of GP2U Dr James Freeman.[35] This is a good example of service-dominant logic (SDL), whereby two companies form a strategic alliance and combine compatible services to extrapolate a service value proposition. Both companies benefit through this service exchange and knowledge, the companies are driving service innovation and change, and the customers are demanding change and are also co-creating the service engagement they desire. More importantly, the end-user patient benefits from the value created through the changes to the supply chain brought about by the SDL perspective.[36]

This is how it works:

1. Patient registers at www.gp2u.com.au, using their address, phone, Medicare number and Skype username.
2. Patient logs in and can see GPs Australia-wide who have available appointments, filtering by gender, location, areas of expertise or name.
3. Patient clicks on a GP to book an appointment and either waits in the 'virtual waiting room' or logs off.
4. When the appointment is available, the GP places a call to the patient via Skype, which can be taken on a laptop, tablet or smartphone.
5. If the patient is prescribed any medication, they will be prompted to choose whether to have the script mailed to them or faxed to their nearest Terry White pharmacy. The patient can also decide if they want to collect the medication themselves or have it delivered to them.
6. All doctors' notes are added to the patient's case file, which is viewable by doctors in future consultations.[37]

category specialist (big-box retailer or category killer)
A retailer that offers a narrow variety but a deep assortment of merchandise; also known as *big-box retailer* or *category killer*.

Category specialists

Category specialists are **big-box retailers** or **category killers** that offer a narrow but deep assortment of merchandise. Most category specialists use a predominantly self-service approach, but they offer assistance to customers in some areas of the stores. For example, the office supply store Officeworks has a warehouse atmosphere with cartons of copy paper stacked on pallets, plus equipment in boxes on shelves. But in some departments, such as computers, electronics and other high-tech products, salespeople staff the display area to answer questions and make suggestions.

By offering a complete assortment in a category at somewhat lower prices than their competition, category specialists can 'kill' a category of merchandise for other retailers, which is why they are frequently called category killers. Using their category dominance, these retailers exploit their buying power to negotiate low prices.

Extreme-value retailers

Extreme-value retailers are small, full-line discount stores that offer a limited merchandise assortment at very low prices. One of the largest extreme-value retailers in Australia is the Reject Shop. Like limited-assortment food retailers, extreme-value retailers reduce costs and maintain low prices by buying opportunistically from manufacturers with excess merchandise, offering a limited assortment and usually operating in low-rent locations. They offer a broad but shallow assortment of household goods, health and beauty aids and groceries.

extreme-value retailer
A general merchandise discount store that offers a limited merchandise assortment at very low prices.

Many value retailers target low-income consumers, whose shopping behaviour differs from that of typical discount store or warehouse club customers. Although these consumers might demand well-known national brands, they often cannot afford to buy large-sized packages. So vendors such as Procter & Gamble create special, smaller packages for extreme-value retailers, often using the reverse-innovation approach. Some shoppers regard extreme-value retailers as an opportunity to find hidden treasures among the household staples.

Extreme-value retailers would not be an obvious consumer choice for Coach for men or Eva's new lines because these stores are not consistent with the brands' image. But if these manufacturers find themselves in an overstock situation, they could utilise the retailers to reduce inventory. For the same reason, they might use off-price retailers.

Off-price retailers

Off-price retailers offer an inconsistent assortment of brand-name merchandise at a significant discount from the manufacturer's recommended retail price (RRP). In today's market, these off-price retailers may be bricks-and-mortar stores, online outlets or a combination of both. One of the largest in Australia is Direct Factory Outlet (DFO), which is in multiple locations around the country.

off-price retailer
A type of retailer that offers an inconsistent assortment of merchandise at relatively low prices.

To be able to sell at prices 20–60 per cent lower than the RRP, most merchandise is bought opportunistically from manufacturers or other retailers with excess inventory at the end of a season. Therefore, customers cannot be confident that the same merchandise or even type of merchandise will be available each time they visit a store or website. The discounts off-price retailers receive from manufacturers reflect what they do not do as well: they do not ask suppliers to help them pay for advertising, make them take back unsold merchandise, charge them for markdowns or ask them to delay payments.

Services retailers

The retail firms discussed in the previous sections sell products to consumers.[38] However, **services retailers**, or firms that primarily sell services rather than merchandise, are a large and growing part of the retail industry (see Exhibit 12.13). Consider a typical Saturday: after bacon and eggs and a cup of coffee at a nearby Coffee Club, you go to drop off a coat at a dry cleaner, have a prescription filled at a Terry White Chemist and make your way to a BP service station to have your car's oil changed. In a hurry, you drive through a McDonald's so you can eat lunch quickly and be on time for your haircut at Michael's Hair Salon. By mid-afternoon, you're ready for a workout at your gym, Fitness First. After stopping at home for a change of clothes, you're off to dinner at the Bird's Nest, a movie at Village Cinema, Gold Class and a drink with a friend at Marble Bar. Finally, you end your day with an affogato and biscotti at Brunetti, having interacted with multiple different service retailers during the day.

services retailer
A firm that primarily sells services rather than merchandise.



Exhibit 12.13 Cinemas are retailers that provide services rather than products.

© Mark Agnor/123RF/DAL

There are a wide variety of services retailers, along with some national companies that provide these services. These companies are retailers because they sell goods and services to consumers. However, some are not just retailers. For example, airlines, banks, hotels and insurance and courier companies sell their services to businesses as well as consumers.

Organisations such as banks, hospitals, health spas, legal firms, entertainment firms and universities that offer services to consumers traditionally have not considered themselves retailers. Yet due to increased competition, these organisations are adopting retailing principles to attract customers and satisfy their needs. For example, many banks such as the ANZ, Commonwealth Bank and NAB now open on Saturday for customers.

Several trends suggest considerable future growth in services retailing. For example, the ageing population will increase demand for healthcare services. Younger people are also spending more time and money on health and fitness. Busy parents in two-income families are willing to pay to have their homes cleaned, lawns maintained, clothes washed and ironed and meals prepared so they can spend more time with their families. For example, this has spawned companies such as Jim's services franchises, including Jim's mowing, computer services, cleaning, building maintenance and plumbing.

CHECK YOURSELF

1. What strategies distinguish the different types of food retailers?
2. What strategies distinguish the different types of general merchandise retailers?
3. Are organisations that provide services to consumers retailers?

LO 12.8

BENEFITS OF STORES FOR CONSUMERS

In this section, we explore the relative advantages of the most traditional retail channels, the bricks-and-mortar store, from consumers' perspective. We examine how the addition of the internet channel has added value to retailers' ability to satisfy their customers' needs.

Browsing

Shoppers often have only a general sense of what they want (e.g. a shirt, something for dinner, a gift) but don't know the specific item they want. They go to a store to see what is available before making their final decision about what to buy. Although some consumers look through catalogues and websites for ideas, many still prefer browsing in stores. Some also employ both approaches, getting a sense of what's available through catalogues or the internet and then going to the store to try on apparel or view the actual object.

Touching and feeling products

Perhaps the greatest benefit offered by stores is the opportunity for customers to use all five of their senses–touch, smell, taste, vision and hearing–to examine products.

Personal service

Sales staff have the capability to provide meaningful, personalised information. Salespeople can be particularly helpful when purchasing a complicated product, like consumer electronics, or something the customer doesn't know much about, like Japanese raw selvedge denim jeans.

Cash and credit payment

Stores are the only channel that accept cash payments. Some customers prefer to pay with cash because it is easy, resolves the transaction immediately and does not result in potential interest payments. And, of course, some people don't have a credit card. Some customers also prefer to use their credit card or debit card in person rather than send the payment information electronically via the internet.

Entertainment and social experience

In-store shopping can be a stimulating experience for some people, providing a break in their daily routine and enabling them to interact with friends, providing a positive social experience.

Immediate gratification

Stores have the advantage of allowing customers to get the merchandise immediately after paying for it.

Risk reduction

When customers purchase merchandise in stores, the physical presence of the store reduces their perceived risk of buying and increases their confidence that any problems with the merchandise will be corrected.

BENEFITS OF THE INTERNET AND MULTICHANNEL RETAILING

In this section, we examine how the addition of the internet channel to traditional store-based retailers has improved their ability to serve their customers and build a competitive advantage in several ways.

First, the addition of an internet channel has the potential to offer a greater selection of products. Second, an internet/digital channel enables retailers to provide customers with more personalised information about goods and services. Third, it offers sellers the unique opportunity to collect information about consumer shopping behaviour–information that they can use to improve the shopping experience across all channels. Fourth, the internet channel allows sellers to enter new markets efficiently.

Deeper and broader selection

One benefit of adding the internet channel is the vast number of alternatives retailers can make available to consumers without crowding their aisles or increasing their square footage. Stores and catalogues are limited by their size. By shopping on the internet, consumers can easily 'visit' and select merchandise from a broader array of retailers. Individual retailers' websites typically offer deeper assortments of merchandise (more colours, brands and sizes) than are available in stores or catalogues. This expanded offering enables them to satisfy consumer demand for less-popular styles, colours or sizes. Many retailers also offer a broader assortment (more categories) on their websites. Staples.com, for instance, offers soft drinks and cleaning supplies, which are not available in stores, so that its business customers will view it as a one-stop shop.

Personalisation

Another benefit of adding the internet channel is the ability to personalise promotions and services economically, including heightened service or individualised offerings.

Personalised customer service

Traditional internet channel approaches for responding to customer questions–such as FAQ (frequently asked questions) pages and offering a toll-free telephone number or email address to ask questions–often do not provide the timely information customers are seeking. To improve customer service from an electronic channel, many firms offer live **online chats**, so that customers can click a button at any time and participate in an instant messaging conversation with a customer service representative. This technology also enables firms to send a proactive chat invitation automatically to customers on the site. At Bluefly.com and Dell.com, for example, if a visitor searches for more than three items in five minutes, thereby demonstrating more than a passing interest, a pop-up window will be displayed with a friendly face offering help.[39]

online chat
Instant messaging or voice conversation with an online sales representative.

Personalised offering

The interactive nature of the internet also provides an opportunity for retailers to personalise their offerings for each of their customers, based on customers' behaviour. Just as a well-trained salesperson would make recommendations to customers prior to checkout, an interactive webpage can make suggestions to the shopper about items that they might like to see, based on previous purchases, what other customers who purchased the same item purchased, or common web viewing behaviour.

Some multichannel retailers are able to personalise promotions and internet homepages on the basis of several attributes tied to the shopper's current or previous web sessions, such as geolocation, time of day, time zone as determined by a computer's internet address and assumed gender.[40] However, some consumers worry about this ability to collect information about purchase histories, personal information and search behaviour on the internet. How will this information be used in the future? Will it be sold to other firms or will the consumer receive unwanted promotional materials online or in the mail?

Expand market presence

The market for customers who shop in stores is typically limited to consumers living in proximity to those stores. The market for catalogues is limited by the high cost of printing and mailing them and increasing consumer interest in environmentally friendly practices. By adding the internet channel, retailers can expand their market without having to build new stores or incur the high cost of additional catalogues. Adding an internet channel is particularly attractive to retailers with strong brand names but limited locations and distribution. For example, retailers such as King Furniture and IKEA are widely known for offering unique, high-quality merchandise. If these retailers only had a store, customers would have to travel vast distances to buy the merchandise they carry.

Advances in customer store pick-up technology have changed consumers' expectations of their shopping experience. They now want the option of making the purchase online and then picking it up in store. Retailers that can offer this option drive additional sales, as customers who come into the store to pick up online orders are more likely to make additional purchases while there. For retailers to be successful with the buy-online-and-pick-up-in-store option, they need to invest in technology that enables order allocation systems to locate every item in stock so as to fulfil the order in a timely manner. Consumers have been spoiled by technology that allows them to shop for anything, anywhere, at any time–and they want it delivered now. Multichannel retailers that offer the buy-online-and-pick-up-in-store option will be appealing to these spoiled customers. For this option to be successful, retailers need to ensure that the products that show up as being available online will actually be in stock and ready for pick-up. This requires a high level of accuracy inherent in the retailer's inventory management system.

The notification of sales to stores quickly and accurately is crucial if retailers are to differentiate themselves. Retailers need to equip themselves with mobile task management technology to deliver an outstanding customer experience. Such technology involves a wireless network and a mobile device that receives demand notification and enables a speedy response. This solution allows the associate closest to the ordered item to physically pull it and verify its availability. For the buy-online-and-pick-up-in-store option to be successful, the retailer must be able to move the product along its supply chain smoothly, effectively and efficiently, with the intention of delivering a single order to an individual customer. This is what enables the retailer to deliver an outstanding in-store pick-up experience, which, in return, brings the customer back to the store in the future.[41]



Superior service 12.2

The globalisation of online retail

In 2018 Australians spent more than $27.5 billion in online retail.[42] The significant growth area has been domestic, such as food delivery with companies such as Foodora, Menulog and UberEats helping drive this increase.[43] There has also been a slowing of growth for international retailers due to the weak Australian dollar, which has seen smaller retailers do favourably in the online market space. Australian retailers have been losing the online retail war, with a staggering $6.8 billion worth of merchandise being bought from overseas retailers in previous years (see Exhibit 12.14).[44] Both UK and US retailers target Australian consumers. For example, UK and US retailers Debenhams, ASOS, Nordstrom and Macy's ship products to Australia regularly. Certainly this indicates that the supply

chain in Australian retail has been altered for companies such as David Jones and Myer.

However, there have been many cases of post-purchase dissonance or buyer's remorse when consumers do not get what they want and have to return the product. Consumers have found the return policy with international retailers challenging and expensive, with many simply opting not to return the product, for example, if the consumer bought a pair of shoes that did not fit. As a consequence, one of the leading UK online retailers, ASOS, has set up a speedy return system where the consumer sends the product by express post to a Sydney address rather than to the United Kingdom, to better service its clientele. Further, other Australian online retail companies are starting to move. While the larger stores such as David Jones and Myer languish in their prestige, other more nimble and adaptive companies like The ICONIC are forging ahead of their domestic competitors. For example, The ICONIC has free overnight delivery for purchases over $50, a return policy for 30 days and three-hour delivery in Sydney—essentially adapting to the digital environment and giving consumers the service they want.



Exhibit 12.14 Australian consumers are buying online from overseas retailers.

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EFFECTIVE MULTICHANNEL RETAILING

Consumers desire a seamless experience when interacting with multichannel retailers. They want to be recognised by a retailer, whether they interact with a sales assistant, the retailer's website or the retailer's call centre by telephone. Customers want to buy a product through the retailer's internet or catalogue channels and pick it up or return it to a local store; find out whether a product offered on the internet channel is available at a local store; and, when unable to find a product in a store, determine whether it is available for home delivery through the retailer's internet channel.

Providing this seamless experience for customers is not easy for retailers. Because each of the channels is somewhat different, a critical decision facing multichannel retailers is the degree to which they should, or are able to, integrate the operations of the channels. To determine how much integration is best, each retailer must address issues such as integrated CRM, brand image, pricing and the supply chain.[45]

Integrated CRM

Effective multichannel operations require an integrated CRM system with a centralised customer data warehouse that houses a complete history of each customer's interaction with the retailer, regardless of whether the sale occurred in a store, on the internet or on the telephone.[46] Sometimes called **omni-channel retailing**, this is a multichannel approach to sales that seeks to provide customers with a seamless shopping experience, whether they are shopping online from a desktop or mobile device, by telephone or in a bricks-and-mortar store. Further, these systems of information storehouses allow retailers to efficiently handle complaints, expedite returns, target future promotions and provide a seamless experience for customers when they interact with the retailer through multiple channels.

omni-channel retailing A multichannel approach to sales that seeks to provide customers with a seamless integrated shopping experience, whether they're shopping online from a desktop or mobile device, by telephone, or in a bricks-and-mortar store.

Brand image

Retailers need to provide a consistent brand image across all channels. For example, Patagonia reinforces its image of selling high-quality, environmentally friendly sports equipment across its stores, catalogues and website (see Exhibit 12.15). Each of these channels emphasises function, not fashion, in the descriptions of Patagonia's products. Patagonia's position on taking care of the environment is communicated by lighting its stores in an environmentally conscious manner and using recycled polyester, and organic, rather than pesticide-intensive, cotton in many of its clothes.



Exhibit 12.15 Multichannel retailers such as Patagonia sell on the internet and in stores.

© lentamart/Shutterstock

Pricing

Pricing represents another difficult decision for a multichannel retailer. Customers expect pricing consistency for the same SKU across channels (excluding delivery charges and sales tax). However, in some cases, retailers need to adjust their pricing strategy because of the competition they face in different channels. For example, US bookseller Barnes & Noble offers lower prices through its internet channel than in its stores, to compete effectively against Amazon.com.

Retailers with stores in multiple markets often set different prices for the same merchandise to compete better with local stores. Customers generally are not aware of these price differences because they are only exposed to the prices in their local markets. However, multichannel retailers may have difficulties sustaining these regional price differences when customers can easily check prices on the internet.

Supply chain

Multichannel retailers struggle to provide an integrated shopping experience across all their channels because unique skills and resources are needed to manage each channel.[47] For example, store-based retail chains operate and manage many stores, each requiring the management of inventory and people. With internet and catalogue operations, inventory and telephone salespeople instead are typically centralised in one or two locations. Also, retail distribution centres (DCs) supporting a store channel are designed to ship many cartons of merchandise to stores. In contrast, the DCs supporting a catalogue and internet channel are designed to ship a few items to individual customers. The difference in shipping orientation for the two types of operations requires a completely different type of distribution centre.

Due to these operational differences, many store-based retailers have a separate organisation to manage their internet and catalogue operations. But as the multichannel operation matures, retailers tend to integrate all operations under one organisation.

CHECK YOURSELF

1. What are the components of a retail strategy?
2. What are the advantages of traditional stores versus internet-only stores?
3. What challenges do retailers face when marketing their products through multiple channels?

SUMMING UP

LO 12.1 Understand the importance of marketing channels and their management.

Marketing channels allow companies to get their products in the appropriate outlets in sufficient quantities to meet consumer demand. To anticipate this demand, advertising and promotions must be coordinated with the departments that control inventory and transport. Otherwise, customers would come in seeking a promotion and not find the product.

Without a marketing channel, consumers would be forced to find raw materials, manufacture products and somehow get them to where they could be used, all on their own. Thus, each marketing channel member adds value to the product by performing one or more of these functions. Marketing channel management also creates value for each firm in the chain and

helps bind together many company functions, including manufacturing, inventory management, transport, advertising and marketing.

LO 12.2 Understand the difference between direct and indirect marketing channels.

There are two main ways by which businesses get their goods to consumers. Using a direct marketing channel, a customer can purchase goods from the manufacturer without needing to go through a retailer or intermediary, generally online or at company stores (e.g. Apple). More commonly, manufacturers choose to offer their goods to consumers through an intermediary, such as a retailer (e.g. Woolworths), implementing an indirect marketing channel strategy.

LO 12.3 Describe how marketing channels are managed.

The more closely aligned the marketing channel members are with each other, the less likely there will be significant conflict. An administered marketing channel occurs when a dominant and powerful marketing channel member has control over the other members. In a contractual marketing channel (e.g. franchising), coordination and control are dictated by contractual relationships between members. Corporate marketing channels can operate relatively smoothly because one firm owns the various levels of the chains. Marketing channels also can be effectively managed through strong relationships developed with marketing channel partners. To create such relationships, the partners must trust each other, communicate openly, have compatible goals, realise there is benefit in being interdependent and be willing to invest in each other's success.

LO 12.4 Discuss the factors manufacturers should consider as they develop their strategy for working with retailers.

When they initiate the decision process for choosing retail partners, manufacturers determine how likely it is that certain retailers would carry their products and whether target customers expect to find their products for sale at those retail locations. Next, manufacturers need to identify types of retailers that would be appropriate locations for their products. After identifying likely and appropriate retailers, manufacturers work with their retailer partners to develop a strategy. Finally, manufacturers, again with their retail partners, must determine which elements of a multichannel strategy will be effective. Manufacturers often make these decisions simultaneously or in varying order.

LO 12.5 Outline the considerations associated with choosing retail partners.

Manufacturers often start by noting the basic channel structure, which includes the level of vertical integration, the relative strength of the retailer and the manufacturer and the strength of the brand. They also consider where their target customers expect to find products, which depends largely on the retailer's image. Channel member characteristics are also important inputs, as is the level of distribution intensity.

LO 12.6 List the three levels of distribution intensity.

Intensive distribution intensity means the product is available virtually everywhere, in as many places as will agree to carry it. In an exclusive distribution intensity strategy, the manufacturer allows only one retailer (or retail chain) in each area to sell its products. Selective distribution is the middle ground option; several retailers carry the products, but not all of them.

LO 12.7 Describe the various types of retailers.

Retailers generally fall into one of three categories: food retailers, general merchandise retailers or service retailers. Each of the categories consists of various formats, including supermarkets, supercentres, warehouse clubs, convenience stores, department stores, discount stores, specialty retailers, chemists, category specialists, extreme-value retailers and off-price stores. Although service retailers primarily sell services, if they sell to consumers, they are still retailers. Service retailers span the gambit from universities to service stations.

LO 12.8 Identify the benefits and challenges of stores and multichannel retailing.

Because consumers often have just a general idea of what they want to purchase, stores' main benefits come from giving shoppers a place to browse. They can touch and feel products, obtain personal services, pay using cash or credit, engage in an entertaining and social experience, receive instant gratification and reduce their sense of risk.

The various types of retail channels—stores, catalogues and the internet—all offer their own benefits and limitations, including those related to availability, convenience and safety. If a retailer adopts a multichannel strategy, it can exploit the benefits and mitigate the limitations of each channel and help expand its overall market presence. Furthermore, a multichannel strategy offers the chance to gain a greater share of customers' wallets and more insight into their buying behaviours.

To function in multiple channels, retailers must organise their operations carefully to ensure an integrated customer experience. In particular, they must have an integrated CRM system and determine how to maintain a consistent brand image across the various channels, decide whether to charge the same or different prices, and determine how best to deliver merchandise to multiple channels.

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- category killer 398
- category specialist 398
- checking 387
- chemist 397
- coercive power 380
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MARKETING APPLICATIONS

1. Does Reebok pursue an intensive, an exclusive or a selective distribution intensity strategy? Would you suggest any changes to this strategy?
2. Why don't traditional department stores have the same strong appeal to younger Australian consumers that they enjoyed in the last half of the 20th century? Discuss which types of retailers are now competing with department stores.
3. Assume that Adidas, the shoe manufacturer, has decided to sell expensive watches for men and women. What factors should it consider when developing its strategy for choosing retail partners?
4. Some argue that retailers can be eliminated from the distribution channel because they only add costs to the final product without creating any value-added services in the process. Do you agree with this perspective? Are consumers likely to make most purchases directly from manufacturers in the near future? Provide justification for your answers.
5. Assume you have been given some money but told that it must be invested in a retailer's stock. In which type of retailer would you choose to invest? Which specific retailer? Provide a rationale for your answers.
6. Provide examples of how manufacturers work with retailers to jointly plan and implement the four Ps.
7. Why have so many bricks-and-mortar retailers adopted a multichannel strategy?

8. You can purchase clothing at a discount store, specialty store, category specialist, off-price retailer, department store or internet-only store. From which of these types of stores do you shop for clothing? Explain why you prefer one type of store over another.
9. Should Eva, a young entrepreneur launching a new line of environmentally friendly (green) cosmetics, sell through a physical store, catalogues or the internet? Explain two key benefits of each channel for her business.
10. Search the internet for a product you want to buy. Are there differences in the prices, delivery charges or return policies among the different retailers offering the product? From which retailer would you buy? Explain the criteria you would use to make the decision.
11. Name a retailer from which you have received personalised service, product or promotion offerings online. What form of personalisation did you receive? Did the personalisation influence your purchase decision? Explain why or why not.

QUIZ YOURSELF

1. David Jones is an example of a(n):
   a. department store
   b. off-price retailer
   c. discount store
   d. specialty store
   e. extreme-value retailer.
2. Kmart, Big W and Target dominate which industry in Australia?
   a. Department stores
   b. Off-price retailers
   c. Discount stores
   d. Specialty stores
   e. Category specialists

(Answers to these two questions can be found on page 457.)

NET SAVVY

1. The ICONIC, an Australian online fashion and sports retailer, has received praise for its use of technology in its supply chain systems. Go to www.theiconic.com.au/playbook/story, to read about the company values. Then visit https://insideretail.com.au/news/the-iconic-warehouse-now-capable-of-serving-50000-customers-per-day-201912. How does its distribution system enable The ICONIC to adhere to its marketing communications message and provide excellent customer service?
2. Select a familiar multichannel retailer. Evaluate its website in terms of how well it provides value to its customers. Do you believe that offering multiple selling channels to customers enhances their shopping experience? How does it help the retailer? Explain your answer.

CHAPTER CASE STUDY

Hypercompetition in the Australian retail sector

By Dr Saalem Sadeque, Central Queensland University

The Australian supermarket and grocery industry can be aptly described as hypercompetitive. In 2018–2019, the retail industry in Australia generated $103.4 billion of revenue and $4.2 billion of profit. The duopoly of Coles and Woolworths is being increasingly challenged by newer and leaner competitors such as ALDI and Costco, which have entered the industry with different business models designed to provide customers with value for money.

One of the relatively newer players in the Australian retail industry is Costco Wholesale Australia, which is a subsidiary of the US-based Costco Wholesale Corporation. Costco has established 11 stores in Australia based in Victoria, New South Wales, Queensland, South Australia and the Australian Capital Territory, with plans to open two more stores in Western Australia

Continued

in 2020. According to Patrick Noone, the managing director of Costco Australia, the company is projected to operate up to 60 stores in Australia within the next 30–40 years. Costco's business model is a unique one, with customers purchasing an annual membership for $60. This annual membership allows customers to shop in Costco at a discounted price and buy in bulk. The company sells a large variety of products, including fresh food, groceries, electronics, diamonds, tyres and petrol, among other things. According to Roy Morgan's Discount Department Store Satisfaction Report, Costco achieved the highest customer satisfaction rating among the leading discount stores in Australia in 2018.

Private-label brands (PLBs) promise to be an important area of growth for the Australian retail industry. In the past, PLBs were considered cheap alternatives to major national brands and as a result did not generate a substantial amount of sales. However, retail customers in Australia have been increasingly accepting PLBs in the past few years. One reason has been the entry of ALDI, which primarily offers a large number of PLBs, some of which have been ranked as the best in their product categories. The success of ALDI has led the established retailers such as Coles and Woolworths to invest heavily in their own PLBs in order to remain competitive. This has resulted in better-quality PLBs at affordable prices. Sales of PLBs reached $17.7 billion in 2017 in Australia. Costco has clearly outlined that the sale of PLBs is one of its strategies, with its Kirkland Signature toilet paper becoming one of the fastest-growing products in Australia since its launch in 2017. According to Noone, Costco Australia intends to offer more private-label products under the Kirkland brand, provided that the quality is not compromised at lower prices.

Presently, the online grocery shopping market in Australia is not significant, with revenue of about $3.3 billion. However, with an annual projected growth rate of 10.9 per cent in the next five years, it is shaping up to be the next major battleground for the Australian retailers. Major retailers such as Coles and Woolworths already operate online shopping sites with promotional offers. Costco Australia also has plans to offer online shopping exclusively to its members and in the capital cities across Australia.

While Australians currently seem to prefer to buy groceries from bricks-and-mortar shops, the likelihood of online shopping becoming the preferred method for grocery shopping is keeping the retailers operating in Australia awake.

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DISCUSSION QUESTIONS

1. Identify the key differences among the various retailers mentioned in the case.
2. What are the benefits and limitations of bricks-and-mortar stores and online stores?
3. Summarise the challenges and opportunities the Australian retail industry might face in the future.
4. What does Costco Australia need to consider to ensure that it will be competitive in the long term in the Australian retail industry?

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CHAPTER 13

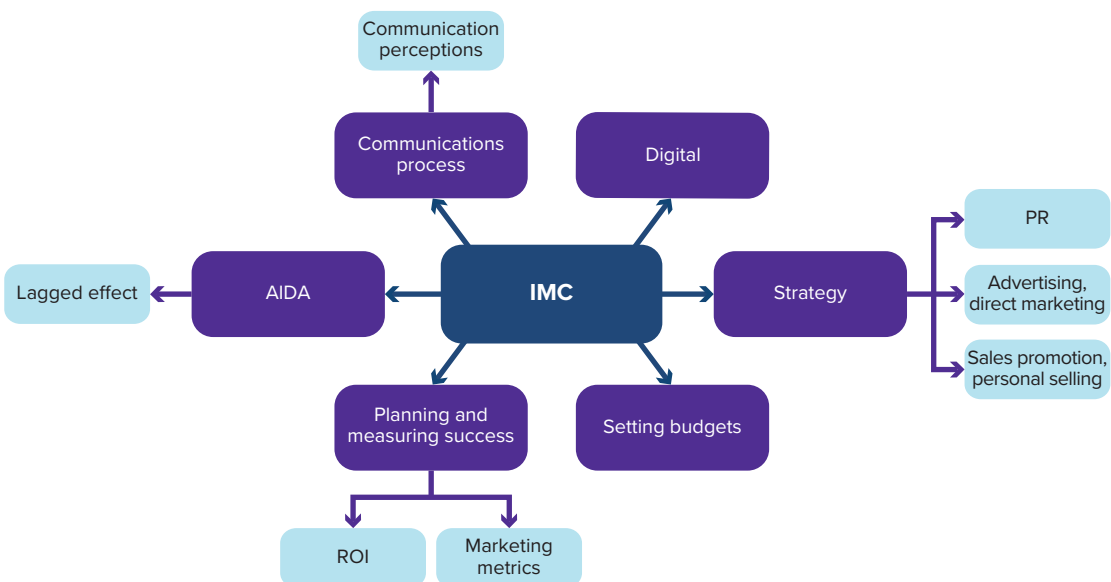
Integrated marketing communications

LEARNING OBJECTIVES

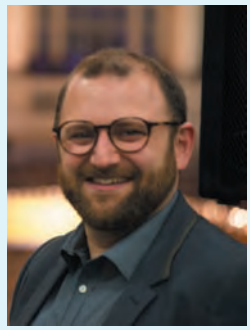


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- **LO 13.1** Identify the components of the communication process.
- **LO 13.2** Explain the four steps in the AIDA model.
- **LO 13.3** Describe the various integrative communication channels.
- **LO 13.4** Describe the steps in designing and executing an advertising campaign.
- **LO 13.5** Identify three objectives of advertising.
- **LO 13.6** Describe the different ways in which advertisers appeal to consumers.
- **LO 13.7** Identify the various types of media.
- **LO 13.8** Describe the elements of a public relations toolkit.
- **LO 13.9** Identify the various types of sales promotions.
- **LO 13.10** Explain the methods used to allocate the integrated marketing communications (IMC) budget.
- **LO 13.11** Identify the marketing metrics used to measure IMC success.



Graduate spotlight



NAME
Steve Spargo

DEGREE STUDIED
Bachelor of Business and Commerce (Marketing)

UNIVERSITY
Western Sydney University

CURRENT POSITION
School and Library Marketing Manager

EMPLOYER
Walker Books Australia

What did you learn from your degree and how has it prepared you for a career in marketing?
The most important thing I learned is that there's no one perfect marketing solution for all products; everything needs its own plan and strategy. My degree taught me how to think about the product I'm promoting so I can plan and implement innovative and effective marketing campaigns.

What interested you about studying or working in marketing?
Towards the end of high school I didn't have a potential career in mind. I ended up deciding to give marketing a go based on information in the UAC booklet, with the idea that I could change courses if I didn't like it. Luckily, I did enjoy it and it has allowed me to build a career in an industry that I love.

What have you been up to since graduation?
I've made a career in books—I spent several years working in a bookshop during and after university, then I moved into marketing roles at book publishers, first at an educational publisher and currently at the children's publisher, Walker Books Australia. During this time I've worked my way up from Marketing Coordinator to Marketing Manager.

What does your current job involve?
The main objective of my role is to promote our books to schools and libraries across Australia and New Zealand. It's quite a varied role; two of my main functions are creating educational resources to align the teaching of our picture books and novels with the Australian National Curriculum, and promoting as an exhibitor at teacher and librarian conferences. There is also an element of PR in my role that takes the form of organising author/illustrator promotional tours to schools and event management.

What do you enjoy most about your job?
I'm very passionate about children's literature and literacy, so interacting with talented children's book creators and seeing them in action in front of a group of students is such a rewarding experience. I also appreciate the variety of publishing. On average we publish 40 books a month, so there is always something new to get excited about.

What are your thoughts on the future of the marketing and communication industry? What advice would you give to students wanting to work in marketing?
Experience is always a huge bonus to a prospective employer. Taking internships in a relevant company is a great way to get that experience and make valuable industry contacts straight out of university. The marketing industry is constantly changing and getting more competitive. You should always be learning new strategies to keep your work fresh and relevant. Networking within the industry is a great way of staying on top of trends and creating opportunities. My biggest piece of advice is to work with a product or service you are passionate about and you'll find it very rewarding.

The incredible expansion of the internet and online tools has radically changed **advertising**. More and more, companies spread their messages through all sorts of media–television, print, radio, sponsorship, outdoor, email, websites, Facebook, Twitter, Tumblr, Snapchat, and so on. To really stand out, a company may need to go further than ever.

advertising
A paid form of communication from an identifiable source, delivered through a communication channel, and designed to persuade the receiver to take some action, now or in the future.

To achieve success in a market, companies must communicate the value of their offerings in diverse, well-rounded ways. When companies promote their brands through multiple channels, they stand a better chance of reaching their customers. Coordination across these platforms is the key to effective multichannel marketing communications. But it is difficult to ensure brand consistency when their radio, television, website and print ads each require different types of elements, unique voices and varying styles. Firms need to integrate their marketing communications even further by incorporating new opportunities to reach customers through social media sites, such as Facebook and Twitter.

A full range of communication media channels should be integrated to give consistency in the brand message. This does not mean that each message should be the same or that the message should be static. The channels should be carefully selected and the messages should also evolve.

A good example of an IMC campaign is the recent campaign with Ben Simmons, the Australian Philadelphia 76ers player, doing his part as an ambassador for Four'n Twenty pies. The Melbourne-born player represents a passion for the iconic Australian pie brand in Australia and transmits this to where he now plays basketball in the United States. The partnership includes an image of Ben with his name featured on product packs (packaging) and in consumer promotions, an engaging media campaign and his enthusiastic support of the launch of new products in Australia and the United States.

The announcement of Simmons as a brand ambassador coincided with the launch of Four'n Twenty's 'Original Fan Food' campaign, celebrating the deep-seated and culturally standard Australian ritual of eating a pie at sporting games. The campaign, which includes a partnership with Channel Seven, saw the brand release its first television commercial in years.

By leveraging such a large sponsorship package, the company can gain economies of scale on the content creation and augmented service delivery needed for such a massive integrated marketing brand communications strategy through so many channels. That is, all messages and channels are working in unison to achieve a consistently persuasive brand communication message at the lowest price for the company on an international level.

As the description of the campaign above asserts, each element of an integrated marketing communication strategy must have a well-defined purpose and support and extend the message delivered by all the other elements. Throughout this text, we have focused our attention on how firms create value by developing goods and services. However, consumers are not likely to come flocking to new goods and services unless they are aware of them. Therefore, marketers must consider how to communicate the value of a good and/or service–or, more specifically, the value proposition–to the target market. A firm must develop a communication strategy to demonstrate the value of its product. We begin our consideration by examining what integrated marketing communication is, how it is developed and how integrated marketing communication contributes to value creation.

Broadly speaking, communication is the process of conveying a shared meaning between individuals, and/or between individuals and organisations. Marketing communications are more specific and relate to the marketing mix that is targeting a group of customers, where the firm attempts to position the brand in a way that the marketer believes there is value created for the customer and the firm in an exchange. For example, the Samsung company has identified a way to highlight the perceived advanced functionality of the Samsung Galaxy mobile over its major rival, the iPhone. A series of television commercials (TVC) ran in Australia and internationally, highlighting the Galaxy's advanced functionality, 'coolness' and sophisticated usability, all of which added value to the new product. For example, the new Samsung Galaxy has waterproof functionality, which the iPhones did not. That is, if your iPhone gets wet you may have to pay to get it repaired, whereas the Samsung Galaxy is waterproof: highlighted in the TVC with someone dunking the phone in the water while washing the dishes.

Whether you are a Samsung or an Apple user is irrelevant, it is whether or not you perceive there to be added value within that message. Samsung is banking on the message working and persuading consumers to switch brands. Essentially, marketing communication is embedded in the marketing mix to create a distinct meaning in the consumer target group's mind that gives an individual consumer a reason to perceive value. The consumer's positive interpretation of the communication and/or brand

message gives the firm the ability to compete. Hence, marketing communication is used to persuade consumers generally in relation to other competing brands. However, consumer attitudes can sometimes be entrenched or difficult to shift. Attitudes are learned, they can be enduring and they influence consumer behaviour. Therefore, the firm may have a difficult time attempting to persuade the consumer to alter their attitude towards the brand.

Persuasion can happen in a number of ways, for example, emotion-based persuasion, where the firm relates the product to the target consumer's personal situation; or message-based persuasion, where attitude is formed as a result of processing the value proposition argument in the marketing communicated message. These may lead to changes in beliefs and in turn to changes in how the consumer evaluates the brand. Therefore, the marketing communications need to collectively give a shared value proposition meaning that incorporates the target consumer's psychology.

integrated marketing communications (IMC) Represents the promotion dimension of the four Ps; it encompasses a variety of communication disciplines—general advertising, personal selling, sales promotion, public relations, direct marketing and electronic media—in combination to provide clarity, consistency and maximum communicative impact.

This implementation of marketing communication is called integrated marketing communication, which is a way of viewing marketing communication in its totality rather than as a single activity. **Integrated marketing communications (IMC)** represents the 'promotion' part of the four Ps. It encompasses a variety of communication disciplines–advertising, personal selling, sales promotion, public relations, direct marketing and online marketing, including social media–in combination to provide clarity, consistency and maximum communicative impact.[1] Instead of consisting of separated marketing communication elements with no unified control, IMC programs regard each of the firm's marketing communications elements as part of a whole, each of which offers a different means to connect with the target audience. This integration of elements provides the firm with the best means to reach the target audience with the desired message and it enhances the value story by offering a clear and consistent message. There are three elements in any IMC strategy: the consumer, the channels through which the message is communicated and the evaluation of the results of the communication.

LO 13.1

COMMUNICATING WITH CONSUMERS

As the number of communication media has increased, the task of understanding how best to reach target consumers has become far more complex. In this section, we examine a model that describes how communications go from the firm to the consumer and the factors that affect the way the consumer perceives the message. Then we look at how marketing communications influence consumers–from making them aware that a product exists to persuading them to buy.

The communication process

Figure 13.1 illustrates the communication process. Let's first define each component and then discuss how they interact.

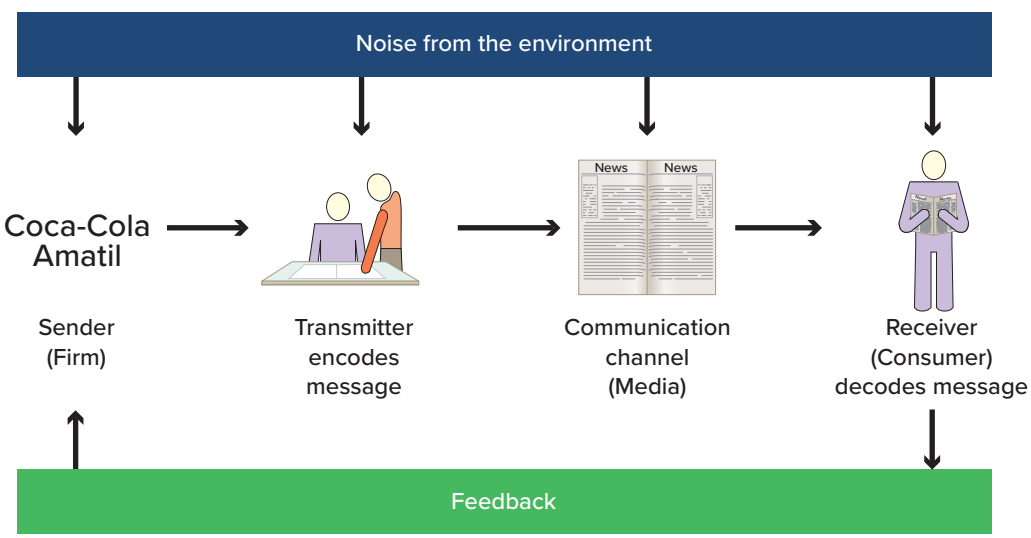


Figure 13.1 The communication process

The sender

The message originates from the **sender**, who must be clearly identified to the intended audience. For example, if Coca-Cola Amatil introduces a new product such as Sprite Zero, to make customers aware of this option, Coca-Cola works with retailers and other outlets that stock its product range, such as Coles, Woolworths, Domino's, convenience stores and vending machine operators.

sender
The firm from which an IMC message originates; the sender must be clearly identified to the intended audience.

The transmitter

The sender works with a creative department, whether in-house or from a marketing (or advertising) agency, to develop marketing communications to highlight the new drink. With the assistance of its marketing department, Coca-Cola and its partners might develop flyers, in-store displays and window banners. The marketing department or external agency receives the information and transforms it for use in its role as the **transmitter**.

transmitter
An agent or intermediary with which the sender works to develop the marketing communications; for example, a firm's creative department or an advertising agency.

Encoding

Encoding means converting the sender's ideas into a message, which could be verbal, visual or both. A television commercial could show consumers the perceived benefit of pouring themselves this soft drink. Billboards showcasing the perceived benefit of a no-sugar soft drink might highlight their pictures with a message asking, 'Zero calories, great taste, Sprite Zero?' Although a picture can be worth a thousand words, the most important facet of encoding is not what is sent but rather what is received. Consumers must receive information that makes them want to try the new soft drink and to continue to buy for it to be successful.

encoding
The process of converting the sender's ideas into a message, which could be verbal, visual or both.

The communication channel

The **communication channel** is the medium–print, broadcast, the internet and so forth–that carries the message. Coca-Cola could transmit through television, radio and various print advertisements, but it also realises that the media chosen must be appropriate to connect itself (the sender) with its desired recipients. If the company believes its target market is broad, Coca-Cola might advertise during popular television shows, such as *The Big Bang Theory* or *The Voice*, or through a product placement in *Stranger Things 3* on Netflix. Coca-Cola is also likely to rely on social media channels to encourage fans to consider this alternative drink.

communication channel
The medium—such as print, broadcast or the internet—that carries the message.

Adding value 13.1

Arts Centre Melbourne 'Fuelling imaginations'. Agency: Ogilvy Melbourne

Marketers need to understand that not all target consumers are the same. Where marketers need to apply their skill most is when the target market has a particular view of the world that may be different from their own. The Fuelling Imaginations direct marketing campaign developed for Arts Centre Melbourne is an example of how Ogilvy Melbourne added value through understanding the target market.

The challenge was to produce a direct marketing campaign that persuaded Arts Centre Melbourne consumers to donate to a cause that gives children disadvantaged by circumstance or distance the opportunity to experience live performance. To stand out from other Australian charities, the campaign needed to tap into the psychology of the target consumer.

Research showed the audience had a desire for children to enjoy the same kind of childhood they did—one filled with imagination and creativity. They believed the 'kids of today' should be able to happily amuse themselves by pretend-sword fighting instead of relying on an Xbox or iPad for entertainment. This led to the campaign idea—that a child's imagination is fuelled by the performing arts and imagination can help them take an everyday object and turn it into something magical.

Continued

The mailer was executed in an artistic manner befitting a client like Arts Centre Melbourne. Gorgeous bespoke illustrations, creative reveals, imaginative typography and engaging copy combined to tell the story. On first opening, it shows everyday objects—a rock, a stick, a bin lid. As it unfolds, we see what a child can make of these items—the jewel in a crown that makes you the boss, a wizard's sceptre that controls the weather, a shield that turns you invisible.[2] The creative direct marketing campaign was given an award by the Association of Data Driven Marketing and Advertising (ADMA Awards) because of the artistic work in the direct mail (see Exhibit 13.1).



Exhibit 13.1 The award-winning artistic work in Arts Centre Melbourne's direct marketing campaign.

Source: Reproduced by permission of Ogilvy Melbourne and Arts Centre Melbourne

receiver
The person who reads, hears or sees and processes the information contained in the message or advertisement.

decoding
The process by which the receiver interprets the sender's message.

noise
Any interference that stems from competing messages, a lack of clarity in the message, or a flaw in the medium; a problem for all communication channels.

feedback loop
Allows the receiver to communicate with the sender and thereby informs the sender of whether the message was received and decoded properly.

The receiver

The **receiver** is the person who reads, hears or sees and processes the information contained in the message and/or advertisement. The sender, of course, hopes that the person receiving it will be the one for whom it was originally intended. Coca-Cola wants its message received and decoded properly by a broad population, including teens, young adults and families who often purchase soft drink and/or who are looking for a low-calorie alternative. **Decoding** refers to the process by which the receiver interprets the sender's message.

Noise

Noise is any interference that stems from competing messages, a lack of clarity in the message or a flaw in the medium. It poses a problem for all communication channels. Coca-Cola may choose to advertise in newspapers that its target market doesn't read, which means the rate at which the message is received by those to whom it has relevance has been slowed considerably. As we have already defined, encoding is what the sender intends to say and decoding is what the receiver hears. If there is a difference between them, it is probably due to noise.

Feedback loop

The **feedback loop** allows the receiver to communicate with the sender and thereby informs the sender whether the message was received and decoded properly. Feedback can take many forms: a customer's purchase of the item, a complaint or compliment, the redemption of a coupon or rebate, a tweet about the product on Twitter, and so forth. Put simply, when Coca-Cola observes an increase in sales, its managers know that the intended audience received the message.

Social media and mobile marketing 13.1

Tasty: a revolution in marketing or just the latest example of IMC?

From one perspective, Tasty—the division of BuzzFeed that is responsible for producing the site's vastly popular, widely viewed videos—is a radically new invention, changing the game and the markets to which it links. From another perspective, though, Tasty is just the latest example of how companies can take a good idea and leverage it across multiple channels to reach consumers wherever they are (see Exhibit 13.2).



Exhibit 13.2 Tasty, a division of BuzzFeed, produces popular, widely viewed videos, shot from an overhead perspective, of people making food. To make money, Tasty also makes videos for brands that pay for its services.

© Melissa Lyttle/The New York Times/Redux Pictures

What is new and unique about Tasty? To start, consider that an entire division of the company is dedicated to producing videos, shot from an overhead perspective, of people making food, such as 'Sliders 4 Ways'. This stream of content is very popular for BuzzFeed, prompting millions of hits, likes and views. Its 'Cheeseburger Onion Ring' video alone had over 167 million viewings. Overall, an estimated 1.1 billion views of Tasty content have occurred. Furthermore, Tasty has nearly 90 million followers on Facebook. To support itself, Tasty also makes videos for brands that pay for its services, so the more popular it is, the more it can attract sellers who will pay to get their products featured.

Such popularity has in turn prompted Tasty to expand its operations to other fields as well, including the publication of a made-to-order cookbook and the development of an app that connects to a small cooktop, which users can program to prepare their food using various cooking methods. This Tasty One Top device thus offers fans their own chance to try sous vide or simmer a pot at home, with the help of the app. By expanding in this way, Tasty is seemingly taking a wholly new and innovative route: moving from being an electronic content provider and lifestyle brand to a manufacturer of both physical and electronic products and services.

The success of Tasty has also prompted the Food Network to try its hand at its own version. The new Genius Kitchen has launched with 150 hours of videos, appearing on Facebook and YouTube, as well as Amazon and Apple TV. These videos target the same young consumers whom Tasty has been so successful at reaching, and its content will be similar as well, featuring short videos of hands making original recipes. Genius Kitchen has added a new feature, though: a weekly show starring YouTube personalities Akilah Hughes and Mike Lockyer.[3]

How consumers perceive communication

The actual communication process is not as simple as the model in Figure 13.1 implies. Each receiver may interpret the sender's message differently and senders often adjust their message according to the medium used and the receivers' level of knowledge about the product.

Receivers decode messages differently

Each receiver decodes a message in their own way, which is not necessarily the way the sender intended. Different people shown the same message will often take radically different meanings from it.

If you are a user of this brand, it may convey satisfaction. If you recently went on a diet and gave up your soft drink, it may convey optimism. If you have chosen to be a non-user, it may convey

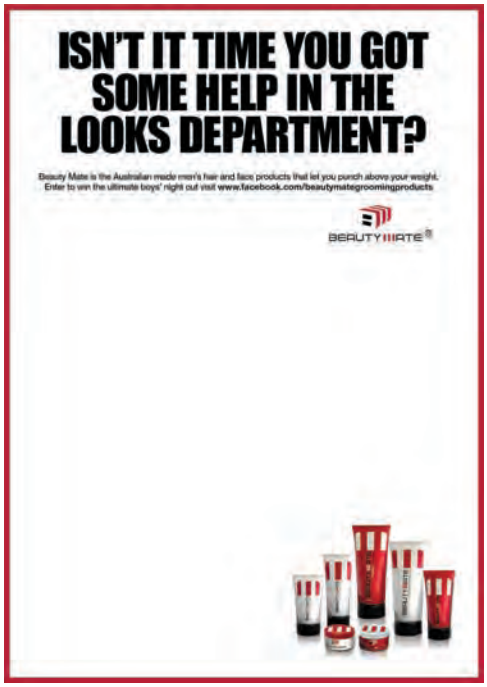


Exhibit 13.3 The intended receivers of this message are male.

Source: Courtesy Beauty Mate

some disgust or dismissal. The sender has little, if any, control over what meaning any individual receiver will take from the message, but the job of the marketer is to estimate the possible interpretation.

Senders adjust messages according to the medium and receivers' traits

Different media communicate in very different ways, so marketers make adjustments to their messages and media depending on whether they want to communicate with suppliers, shareholders, customers or the general public, as well as the specific segments of those groups (see Exhibits 13.3–13.5).[4]

For example, the high-technology firm Analtech sells thin layer chromatography plates to companies that need equipment to determine the ingredients of samples of virtually anything. It is not a particularly easy product to explain and sell to laypeople. Therefore, in addition to traditional marketing through trade shows and scientific conferences, Analtech developed a Monty Python-inspired YouTube video in which a 'witch' overcomes threats to drown her by proving that the ink in the king's decree is actually from the sheriff's pen, thus using inside jokes and references to something that the target audience would have an interest in. It also highlights points in *CSI* episodes when the television detectives rely on its products. With these more broadly popular appeals, Analtech ensures its messages reach and can be received accurately by a wider audience, with less noise than might occur through more scientific appeals.



Exhibit 13.4 Consumers' perceptions of this giant billboard will depend on their level of knowledge and attitude towards the brand.

© Radu Bercan/Shutterstock

THE AIDA MODEL

LO 13.2

Clearly, IMC is not a straightforward process. After being exposed to a marketing communication, consumers go through several steps before actually buying or taking some other action. There is not always a direct link between a particular marketing communication and a consumer's purchase.

To create effective IMC programs, marketers must understand how marketing communications work. Generally, marketing communications move consumers stepwise through a series of mental stages, for which there are several models. The most common and simple is the **AIDA model** (see Figure13.2),[5] which suggests that **a**wareness leads to **i**nterest, which leads to **d**esire, which leads to **a**ction. At each stage, the consumer makes judgements about whether to take the next step in the process.

Customers actually have three types of responses, so the AIDA model is also known as the 'think, feel, do' model. In making a purchase decision, consumers go through each of the AIDA steps to some degree, but the steps may not always follow the AIDA order. For instance, during an impulse purchase, a consumer may 'feel' and 'do' before they 'think'.



Exhibit 13.5 Senders must adjust messages according to the receivers' traits. McDonald's, for example, uses bright packaging and movie merchandise to appeal to children.

© enchanted_fairy/Shutterstock

Awareness

Even the best marketing communication can be wasted if the sender doesn't gain the attention of the consumer first. **Brand awareness** refers to a potential customer's ability to recognise or recall that the brand name is a particular type of retailer or product/service. Thus, brand awareness is the strength of the link between the brand name and the type of good or service in the minds of customers.

Coca-Cola already has excellent brand awareness and thus might not have to focus as much effort on this step when it wants to introduce a new drink or vending machine. In contrast, when Jay-Z wanted to promote his memoir, he needed to exert more effort to get consumers to think of him as an author, rather than a musician.

There are several awareness metrics, including aided recall and top-of-mind awareness. **Aided recall** is when consumers indicate they know the brand when the name is presented to them. **Top-of-mind awareness**, the highest level of awareness, occurs when consumers mention a specific brand name first when they are asked about a product. For example, Harley-Davidson has top-of-mind awareness if a consumer responds 'Harley' when asked about American-made motorcycles. High top-of-mind awareness means that the brand probably enters the evoked set of brands when customers

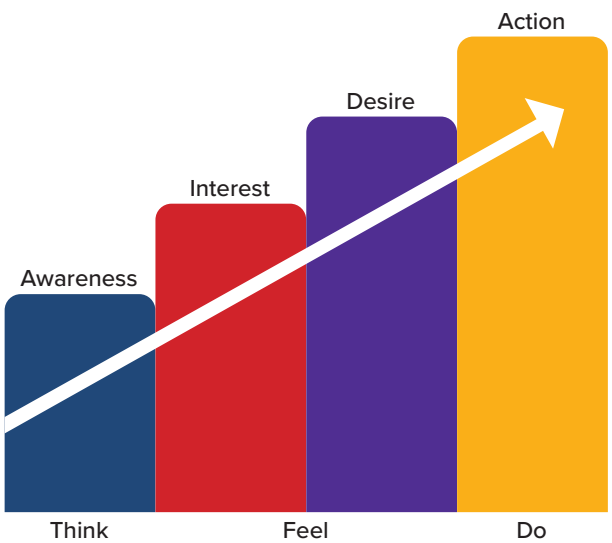


Figure 13.2 The AIDA model

Source: Strong, E. K., *The Psychology of Selling,* 1925. New York: McGraw-Hill.

AIDA model
A common model of the series of mental stages through which consumers move as a result of marketing communications: *A*wareness leads to *I*nterest, which leads to *D*esire, which leads to *A*ction.

brand awareness
Measures how many consumers in a market are familiar with the brand and what it stands for; created through repeated exposures of the various brand elements (brand name, logo, symbol, character, packaging or slogan) in the firm's communications to consumers.

aided recall
Occurs when consumers recognise a name (e.g. of a brand) that has been presented to them.

top-of-mind awareness
A prominent place in people's memories that triggers a response without them having to put any thought into it.

decide to shop for that particular product. Manufacturers, retailers and service providers build top-of-mind awareness by having memorable names; repeatedly exposing their name to customers through advertising, locations and sponsorships; and using memorable symbols.

As an excellent example of the latter method, imagine two smaller circles, sitting on opposite sides atop a larger circle. Did you see Mickey Mouse ears? Did you think of Disney? The company has moved on to images brighter than circles to ensure that its name comes easily to the front of young consumers' minds. Disney also has movies, music and stars that essentially leverage the brand. Each marketing element reminds the various segments of the target markets about both the brand and its owner, Disney. With this multichannel approach, Disney gets the same 'product' into more markets than would be possible with a more conservative approach–further building top-of-mind awareness for both Disney and its stars.[6]

Interest

Once the consumer is aware that the company or product exists, communication must work to increase their interest level. It isn't enough to let people know that the product exists; consumers must be persuaded that it is a product worth investigating. Marketers do this by ensuring that the ad's message includes attributes that are of interest to the target audience. Disney increases interest in an upcoming tour, movie or DVD by including a mention, whether casual or not, in the stars' television shows. Because the primary target market for the tour is also probably watching the show, the message gets received by the correct recipient.

Desire

After the firm has piqued the interest of its target market, the goal of subsequent IMC messages should move the consumer from 'I like it' to 'I want it'. If John C. Reilly appears on *Sunrise* and talks about his movie, *Ralph Breaks the Internet*, and how great it is going to be, the viewing audience is all the more likely to demand access–in this case, probably parents who hope to score points with their children by taking them to the sequel to the popular movie, *Wreck-it Ralph*.

Action

The ultimate goal of any marketing communication is to drive the receiver to action. If the message has caught consumers' attention and made them interested enough to consider the product as a means to satisfy a specific desire, they likely will act on that interest by either searching for the product or making a purchase. If young consumers are viewing the Wiggles website, they might in turn beg their parents to make an actual purchase of a concert ticket or the new Wiggles DVD (see Exhibit 13.6).

lagged effect
A delayed response to a marketing communication campaign.

The lagged effect

Sometimes consumers don't act immediately after receiving a marketing communication because of the **lagged effect**–a delayed response to a marketing communication campaign. It generally takes several exposures to an ad before a consumer fully processes its message.[7] In turn, measuring the effect of a current campaign becomes more difficult because of the possible lagged response to a previous one. For example, buying a washing machine happens potentially only once every five to ten years and as such consumers forget what they have seen in advertising messaging or they did not pay attention at the time. Companies such as LG understand this and therefore create advertising related to product innovations that have the ability to stay in the consumer's mind. For example, LG TWINWash products are a range of washing machines that can do two loads of washing at the same time. The perceived benefit communicated within the message helps create a brand association whereby LG is seen as an innovator in the market. Thus, when consumers go to make their purchase in six months or even a year, LG is in the evoked set of brand choices.[8]



Exhibit 13.6 An image of the Wiggles may lead to the purchase of a range of related products.

© Desiree Navarro/Contributor/Getty Images

Now that we've examined various aspects of the communication process, let's look at how specific media are used in an IMC program.

CHECK YOURSELF

1. What are the different steps in the communication process?
2. What is the AIDA model?

ELEMENTS OF AN INTEGRATED MARKETING COMMUNICATIONS STRATEGY

LO 13.3

For any communications campaign to succeed, the firm must deliver the right message to the right audience through the right media, with the ultimate goal of profiting from long-term customer relationships rather than just short-term transactions. Reaching the right audience is becoming more difficult, as the media environment grows more complicated.[9] No single channel is necessarily better than another channel; the goal of IMC is to use each channel in conjunction so that the whole exceeds the sum of the individual channels. However, advances in technology have led to a variety of new and traditional media options for consumers, all of which vie for consumers' attention. Print media have also grown and become more specialised. This proliferation of media has led many firms to shift their promotional dollars from advertising to direct marketing, website development, product placements and other forms of promotion in search of the best way to deliver messages to their target audiences.

We now examine the individual elements of IMC and the way each contributes to a successful IMC campaign (see Figure 13.3). The elements can be viewed on two axes: passive–interactive (from the consumer's perspective) and offline–online. Some of these elements (e.g. advertising, sales promotion, public relations, personal selling, direct and online marketing) are discussed below.

Note that as the marketer's repertoire of IMC elements has expanded, so too have the ways in which marketers can communicate with their customers. So, for instance, direct marketing appears in all four boxes. Firms have expanded their use of these traditional media (e.g. advertising, public relations and sales promotions) from pure offline approaches to a combination of offline and online.

Advertising

Perhaps the most visible of the IMC components, advertising entails the placement of announcements and persuasive messages in time or space purchased in any of the mass media by business firms,

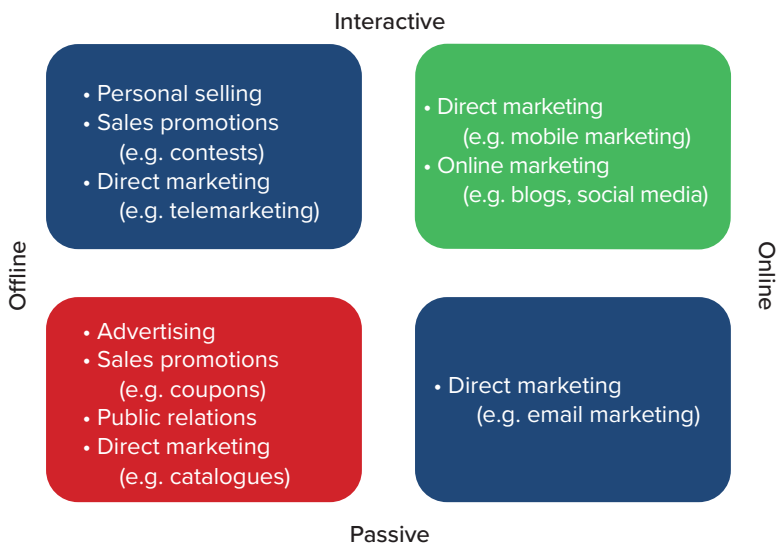


Figure 13.3 Elements of an IMC strategy

not-for-profit organisations, government agencies and individuals who seek to inform and/or persuade members of a particular target market or audience about their products, services, organisations or ideas.[10] When we discuss the purpose of advertising and its various types, we note that advertising is extremely effective for creating awareness of a product and generating interest. Mass advertising can entice consumers into a conversation with marketers, though it does not necessarily require much action by consumers, which places it on the passive end of the spectrum. Traditionally, advertising has been passive and offline (e.g. television, magazines, newspapers; see Figure 13.3), though recently there has been a growth in online advertising and interactive features. Advertising thus must break through the clutter of other messages to reach its intended audience.

Advertising is a paid form of communication, delivered through media from an identifiable source, about an organisation, product, service or idea, designed to persuade the receiver to take some action, now or in the future.[11] This definition provides some important distinctions between advertising and other forms of promotion. First, advertising is not free; someone has paid, with money, trade or other means, to get the message shown. Second, advertising must be carried by some medium–television, radio, print, the internet, app, game, T-shirts, bus shelters and so on. Third, legally, the source of the message must be known or knowable. Fourth, advertising represents a persuasive form of communication, designed to get the consumer to take some action. That desired action can range from 'Don't drink and drive' to 'Buy a new Mercedes'.

Some activities that are called advertising really are not, such as word-of-mouth advertising. Even political advertising technically is not advertising because it is not for commercial purposes and thus is not regulated in the same manner as true advertising.

Advertising encompasses an enormous industry and clearly is the most visible form of marketing communications–so much so that many people think of marketing and advertising as synonymous. Global advertising expenditures are almost $500 billion, and almost half that amount is spent in the United States. Although expenditures dropped somewhat during the global downturn, advertising remains virtually everywhere, and predictions are that it will continue to grow.[12]

Yet, how many of the advertisements you saw yesterday do you actually remember today? Probably not more than three or four. Perception is a highly selective process. Consumers simply screen out messages that are not relevant to them. When you notice an advertisement, you may not react to it. Even if you react to it, you may not remember it later. Even if you remember the ad, you may not remember the brand or sponsor–or worse yet from the advertiser's point of view, you may remember it as an advertisement for another brand.[13]

To get you to remember their ad and the brand, advertisers must first get your attention. The increasing number of communication channels and changes in consumers' media usage have made the job of advertisers far more difficult.[14] Advertisers must continually endeavour to use creativity and various media to reach their target markets.

As a consumer, you are exposed only to the end product–the finished advertisement. But many actions must take place before you actually get to see an ad. We examine the ingredients of a successful advertising campaign, from identifying a target audience to creating the actual ad to assessing performance. Although our discussion is generally confined to advertising, much of the process for developing an advertising campaign is applicable to the IMC media vehicles.

Designing and carrying out a successful advertising program requires much planning and effort. Figure 13.4 shows the key steps in the process, each of which helps ensure that the intended message reaches the right audience and has the desired effect. Let's examine each of these steps.

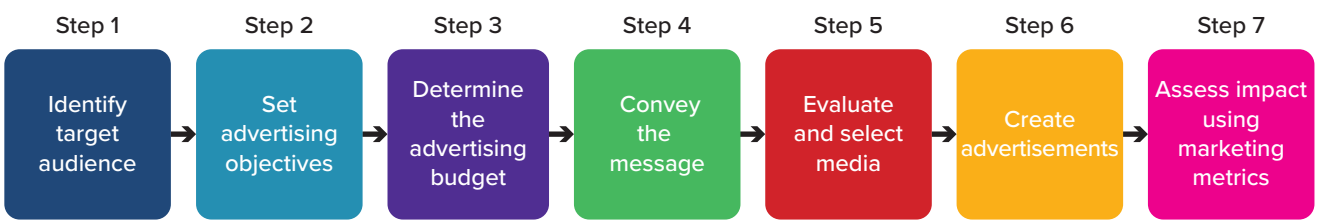


Figure 13.4 Steps in planning and executing an ad campaign

STEP 1: IDENTIFY TARGET AUDIENCE

LO 13.4

The success of an advertising program depends on how well the advertiser can identify its target audience. Firms conduct research to identify their target audience, then use the information they gain to set the tone for the advertising program and help them select the media they will use to deliver the message to that audience.

During this research, firms must keep in mind that their target audience may or may not be the same as current users of the product. For example, Adidas knows that NBA fans are at least familiar with its offerings, even if they do not currently purchase sports gear from Adidas. Thus, some advertisements feature Los Angeles Lakers forward LeBron James, to encourage them to buy more of the brand's products. But teenage pop music fans might be less likely to pay attention to sporting goods. So in its marketing, Adidas has also featured Katy Perry.[15] Another example of marketing and advertising towards different segments (e.g. consumer vs. business users) is illustrated by Visa and MasterCard, which have different ads and offerings aimed at these segments. The key is to understand the target audience beyond the basic generic insight so as to better appeal to the consumers' wants and needs.

STEP 2: SET ADVERTISING OBJECTIVES

Advertising campaign objectives are derived from the overall objectives of the marketing program and clarify the specific goals that the ads are designed to accomplish. Generally, these objectives appear in the **advertising plan**, a subsection of the firm's overall marketing plan that explicitly analyses the marketing and advertising situation, identifies the objectives of the advertising campaign, clarifies a specific strategy for accomplishing those objectives, and indicates how the firm can determine whether the campaign was successful.[16] An advertising plan is crucial because it will later serve as the yardstick against which advertising success or failure is measured.

advertising plan
A section of the firm's overall marketing plan that explicitly outlines the objectives of the advertising campaign, how the campaign might accomplish those objectives, and how the firm can determine whether the campaign was successful.

Generally, in advertising to consumers, the objective is a **pull strategy** in which the goal is to get consumers to pull the product into the marketing channel by demanding it. **Push strategies** also exist and are designed to increase demand by focusing on wholesalers, retailers or salespeople. These campaigns attempt to motivate the seller to highlight the product, rather than the products of competitors, and thereby push the product to consumers.

pull strategy
A strategy designed to get consumers to pull the product into the supply chain by demanding it.

push strategy
A strategy designed to increase demand by motivating sellers—wholesalers, distributors or salespeople—to highlight the product, rather than the products of competitors, and thereby push the product onto consumers.

All advertising campaigns aim to achieve certain objectives: to inform, persuade and remind customers. Another way of looking at advertising objectives is to examine an ad's focus. Is the ad designed to stimulate demand for a particular product, or more broadly for the institution in general? Also, ads can be used to stimulate demand for a product category or an entire industry, or for a specific brand, firm or item. For example, Toyota ads attempt to stimulate demand for different models with relevant targeted messages in each (e.g. Prius vs. Corolla).

We first look at the broad overall objectives: to inform, persuade and remind. Then we examine advertising objectives based on the focus of the ad: product versus institutional.

Informative advertising

LO 13.5

Informative advertising is a communication used to create and build brand awareness, with the ultimate goal of moving the consumer through the buying cycle to a purchase. Such advertising helps determine some important early stages of a product's life cycle, particularly when consumers have little information about the specific product or type of product. Retailers often use informative advertising to tell their customers about an upcoming sales event or the arrival of new merchandise.

informative advertising
Communication used to create and build brand awareness, with the ultimate goal of moving the consumer through the buying cycle to a purchase.

Persuasive advertising

When a product has gained a certain level of brand awareness, firms use **persuasive advertising** to motivate consumers to take action. Persuasive advertising generally occurs in the growth and early maturity stages of the product life cycle, when competition is most intense, and attempts to accelerate

persuasive advertising
Communication used to motivate consumers to take action.

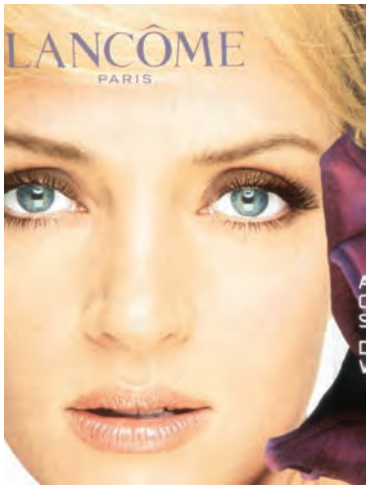


Exhibit 13.7 Lancôme's persuasive ads attempt to motivate consumers to take action: try the product, switch brands or continue to buy the product.
Source: Bill Aron/PhotoEdit

the market's acceptance of the product. In later stages of the product life cycle, persuasive advertising may be used to reposition an established brand by persuading consumers to change their existing perceptions of the advertised product (see Exhibit 13.7). Businesses often use persuasive advertising to convince consumers to take action—switch brands,[17] try a new product or even continue to buy the advertised product.

Reminder advertising

Finally, **reminder advertising** is a communication used to remind or prompt repurchases, especially for products that have gained market acceptance and are in the maturity stage of their life cycle. Such advertising certainly appears in traditional media, such as television commercials or print ad, but it also encompasses other forms of advertising. For example, if you decide to buy tissues, do you carefully consider all the options, comparing their sizes, prices and performance, or do you just grab the first thing you see on the shelf? When your local supermarket places a display of Kleenex tissues at the end of the paper products aisle, it relies on your top-of-the-mind awareness of Kleenex, which the manufacturer has achieved through advertising. That is, Kleenex tissues maintain a prominent place in people's memories and trigger their response, without them having to put any thought into it. The advertising and the display thus prompt you, and many other consumers, to respond by buying a box—just the response Kleenex hoped to attain.

reminder advertising
Communication used to remind consumers of a product or to prompt repurchases, especially for products that have gained market acceptance and are in the maturity stage of their life cycle.

Focus of advertisements

An ad campaign's objectives determine each specific ad's focus. The ad can be product-focused, might have an institutional focus, or could have a public service focus. **Product-focused advertisements** inform, persuade or remind consumers about a specific product.

Institutional advertisements inform, persuade or remind consumers about issues related to places, politics or an industry. Perhaps the best-known institutional advertising campaign is the long-running 'Eat Lamb on Australia Day', campaign. For Australia Day 2005, Sam Kekovich, a famous former AFL player for North Melbourne, encouraged people to eat more Australian lamb in an advertising campaign. In particular, the ad campaign labelled vegetarians 'un-Australian', provoking outrage from animal rights activists and groups such as the Australian Vegetarian Society. Sam proclaimed that the woes of Australia would be resolved or pan out differently if Australians ate more lamb. This satirical commercial still runs today, with increased intensity in the run-up to Australia Day, provocatively questioning what it is to be Australian or un-Australian. The 2017 iteration of the ad caused debate in the Australian community about what it means to be Australian in 2017 and drew much attention from commentators and the media.[18]

A specific category of institutional advertising is **public service advertisements (PSAs)**. PSAs focus on public welfare; generally they are sponsored by non-profit institutions, civic groups, religious organisations, trade associations or political groups.[19] Like product and institutionally focused advertising, PSAs also inform, persuade or remind consumers, but the focus is for the betterment of society. As such, PSAs represent a form of **social marketing**, defined as the application of marketing principles to a social issue to bring about attitudinal and behavioural change among the general public or a specific population segment. The ad shown in Exhibit 13.8 is designed to promote safe behaviour and prevent injury on trams.

Although the 'Got Milk?' campaign is actually sponsored by sellers of milk, it can claim some PSA elements, in that it touts the improvement of people's health through milk consumption. Another recent PSA campaign is sponsored by Yum Brands, the corporation that owns Pizza Hut and KFC. To promote hunger relief efforts, Yum has created World Hunger Relief, with a focus on 'fighting hunger, not marketing products'.[20] The related PSAs, featuring Christina Aguilera, describe ways to help combat hunger, with no mention of purchasing from the fast-food giants. PSAs can also be targeted to decrease consumption. For instance, numerous campaigns in a range of countries have been designed to raise awareness of the increased risk of melanoma, the deadliest form of skin cancer, and decrease usage of tanning salons.[21]

product-focused advertisement
An advertisement to inform, persuade or remind consumers about a specific product.

institutional advertisement
A type of advertisement that informs, persuades or reminds consumers about issues related to places, politics or an industry.

public service advertisement (PSA)
Advertising that focuses on public welfare and is generally sponsored by non-profit institutions, civic groups, religious organisations, trade associations or political groups; a form of *social marketing.*

social marketing
The content distributed through online and mobile technologies to facilitate interpersonal interactions.

Regardless of whether the advertising campaign's objective is to inform, persuade or remind, with a focus on a particular product or the institution in general, each campaign's objectives must be specific and measurable. For a brand awareness campaign, for example, the objective might be to increase brand awareness among the target market by 50 per cent within six months. Another campaign's goal may be to persuade 10 per cent of a competitor's customers to switch to the advertised brand. Once the advertising campaign's objectives are set, the firm then establishes the advertising budget.



Exhibit 13.8 This public service advertisement is designed to inform, persuade or remind consumers, for the betterment of society.

Source: The 'Heads Up—Play it safe around light rail' campaign is by Transport for NSW and Wunderman Thompson, reproduced with permission.

STEP 3: DETERMINE THE ADVERTISING BUDGET

The various budgeting methods for marketing communication also apply to budgeting for advertising. First, firms must consider the role that advertising plays in their attempt to meet their overall promotional objectives. Second, they must consider how the advertising expenditures vary over the course of the product life cycle. Third, the nature of the market and the product influence the size of advertising budgets. The nature of the market also determines the amount of money spent on advertising. For instance, less money is spent on advertising in B2B (business-to-business) marketing contexts than in business-to-consumer (B2C) markets, as personal selling is more important in B2B markets.

STEP 4: CONVEY THE MESSAGE

In this step, marketers determine what they want to convey about the product. First, the firm determines the key message it wants to communicate to the target audience. Second, the firm decides what appeal would most effectively convey the message. We present these decisions sequentially, but in reality, they must be considered simultaneously.

The message

The message provides the target audience with reasons to respond in the desired way. A logical starting point for deciding on the advertising message is to tout the key benefits of the product. The message should communicate its problem-solving ability clearly and in a compelling fashion. In this context, advertisers must remember that goods and services solve problems, whether real or perceived. That is, people are not looking for 3 mm drill bits; they are looking for 3 mm holes to hang a picture on the wall.[22] Because there are many ways to make a 3 mm hole, a firm like Ryobi must convey to consumers that its drill bit is the best way to get that hole.

Another common strategy differentiates a product by establishing its unique benefits. This distinction forms the basis for the **unique selling proposition (USP)** or the value proposition, which is often the common theme or slogan in an advertising campaign. A good USP communicates the unique attributes of the product and thereby becomes a snapshot of the entire campaign. Some of the most famous USPs include the following past and present, as these do evolve slightly over time:

unique selling proposition (USP)
A strategy of differentiating a product by communicating its unique attributes; often becomes the common theme or slogan in the entire advertising campaign.

Red Bull–Gives you wings

Coke–It's the real thing

Nike–Just do it

Adidas–Impossible is nothing

Apple–Think different

L'Oréal–Because you're worth it

De Beers–A diamond is forever

KFC–So good

McDonald's–I'm lovin' it

BMW–Ultimate driving machine

Ford–Go further

Holden–Let's go there

The selling proposition communicated by the advertising must be not only unique to the brand but also meaningful to the consumer. It furthermore must be sustainable over time, even with repetition.

LO 13.6

The appeal

According to early theories of rhetoric (the study of the principles and rules of composition), there are three main types of appeal that an argument may use: logos (logical), ethos (ethical) and pathos (emotional). Advertisers similarly use different appeals to portray their product and persuade consumers to purchase them, though advertising tends to combine the types of appeals into two categories: informational and emotional.

informational appeal
Used in a promotion to help consumers make purchase decisions by offering factual information and strong arguments built around relevant issues that encourage them to evaluate the brand favourably on the basis of the key benefits it provides.

emotional appeal
Aims to satisfy consumers' emotional desires rather than their utilitarian needs.

media planning
The process of evaluating and selecting the *media mix* that will deliver a clear, consistent and compelling message to the intended audience.

media mix
The combination of media used and the frequency of advertising in each medium.

Informational appeals

Informational appeals help consumers make purchase decisions by offering factual information that encourages consumers to evaluate the brand favourably on the basis of the key benefits it provides.[23] Thus Exxon Mobil attempts to explain technical aspects of its products, such as lithium ion batteries, hydrogen technology, biofuels and CO_2-capture technologies, in an attempt to convince consumers that the company is environmentally friendly, efficient, innovative and responsible.[24] This appeal is well suited to this type of product: by informing consumers about a potential source of its competitive advantage, including tangible features and images of science, the advertising copy directly delivers an informational, persuasive message.

Emotional appeals

An **emotional appeal** aims to satisfy consumers' emotional desires rather than their utilitarian needs. These appeals therefore focus on feelings about the self.[25] The key to a successful emotional appeal is the use of emotion to create a bond between the consumer and the brand. Table 13.1 shows examples of the most common types of emotional appeals: fear (or safety), humour, happiness, love (or sex) (see Exhibit 13.9),[26] comfort and nostalgia.[27]

In its advertising, the UK insurance provider John Lewis highlights what really makes homeowners' insurance important–such as the daughter in a family who simply must dance to 'Tiny Dancer' but whose embellished twirls and leaps put everything in the home at risk of being broken. With both humour and tenderness, the advertising gives an emotional appeal to a service that many consumers regard as boring and unappealing.[28]



Exhibit 13.9 The emotional appeal of Lady Gaga's perfume is love and sexual attractiveness.

© Walter McBride/Contributor/Getty Images

STEP 5: EVALUATE AND SELECT MEDIA

The content of an advertisement is tied closely to the characteristics of the media that firms select to carry the message and vice versa. **Media planning** refers to the process of evaluating and selecting the **media mix**–the combination of the media used and the frequency of advertising in each medium–that will deliver a clear, consistent, compelling message to the intended audience.[29] For example, the Myer department store may determine that a heavy dose of television, radio, print and billboards is appropriate for the Christmas selling season.

Table 13.1 Emotional appeals in advertising

Emotional appeal	Company	Example
Fear/safety	ADT Security	Breaking into your apartment is easier than you think
Humour	Skittles	Experience the rainbow
Happiness	Coke	Open happiness
Love/sex	Lynx	Unleash the chaos
Comfort	Kleenex	Softness worth sharing
Nostalgia	Qantas	Still call Australia home

Because the **media buy**, which is the actual purchase of airtime or print pages, is generally the largest expense in the advertising budget, marketers must make their decisions carefully. Television advertising is by far the most expensive. Whereas television advertising is consistent, digital advertising continues to grow, and newspaper advertising is rapidly losing share.[30] To characterise these various types of media, we use a dichotomy: mass and niche media.

media buy
The purchase of airtime or print pages.

Mass and niche media

Mass media channels, including national newspapers, magazines, radio and television, are ideal for reaching large numbers of anonymous audience members. **Niche media** channels are more focused and generally used to reach narrower segments, often with unique demographic characteristics or interests. Specialty television channels such as Home and Garden TV and specialty magazines such as *Skateboarder* or *Cosmo Girl* all provide examples of niche media. The internet provides an opportunity to appeal to the masses through advertisements on the home page of internet sites such as nine.com.au or more niche opportunities, such as an American Express business card on *The Australian Financial Review* website. In a similar fashion, a billboard advertising McDonald's on a major highway would target the masses, but a McDonald's billboard in a specific community would target a more focused niche market (see Exhibit 13.10).

mass media
Channels that are ideal for reaching large numbers of anonymous audience members; include national newspapers, magazines, radio and television.

niche media
Channels that are focused and generally used to reach narrow segments, often with unique demographic characteristics or interests.

Choosing the right medium

For each class of media, each alternative has specific characteristics that make it suitable for meeting specific objectives (see Table 13.2).[31] For example, consumers use different media for different purposes, to which advertisers should match their messages. Television is used primarily for escapism and entertainment, so most television advertising relies on a mix of visual and auditory techniques.

Communication media also vary in their ability to reach the desired audience. For instance, radio is a good medium for products such as grocery purchases or fast food because many consumers decide what to purchase either on the way to the shops or while at the shops. Because many people listen to the radio in their cars, it becomes a highly effective means to reach consumers at a crucial point in their decision process. Each medium also varies in its reach and frequency. Advertisers can determine how effective their media mix has been in reaching their target audience by calculating the total gross rating points (reach × frequency) of the advertising schedule, which we discuss next.



Exhibit 13.10 A McDonald's billboard in a specific community, such as Stanthorpe, targets a focused niche market.

Source: Clegg Media

Table 13.2 Types of media available for advertising

Medium	Advantages	Disadvantages
Television	Wide reach Incorporates sound and video	High cost A lot of channel and program options May increase awareness of competitors' products
Radio	Relatively inexpensive Can be selectively targeted Wide reach	No video, which limits presentation Consumers give less focused attention than TV Exposure periods are short
Magazines	Very targeted Subscribers pass along to others	Relatively inflexible Takes some time for the magazine to be available
Newspapers	Flexible Timely Able to localise	Can be expensive in some markets Advertisements have short life span
Internet	Can be linked to detailed content Highly flexible and interactive Allows for specific targeting	Becoming cluttered The ad may be blocked by software on the computer
Outdoors	Relatively inexpensive Offers opportunities for repeat exposure	Is not easily targeted Has placement problems in some markets Exposure time is very short
Direct marketing	Is highly targeted Allows for personalisation	Cost can vary depending on type of direct marketing used Traditional media, like mail, will be more expensive than newer media

Determining the advertising schedule

advertising schedule
The specification of the timing and duration of advertising.

Another important decision for the media planner is the **advertising schedule**, which specifies the timing and duration of advertising. There are three types of schedules, as noted below:[32]

continuous schedule
Runs steadily throughout the year and therefore is suited to goods and services that are consumed continually at relatively steady rates and that require a steady level of persuasive or reminder advertising.

- A **continuous schedule** runs steadily throughout the year and therefore is suited to goods and services that are consumed continually at relatively steady rates and that require a steady level of persuasive and/or reminder advertising. For example, Unilever advertises its OMO brand of laundry detergent continuously.

flighting
An advertising schedule implemented in spurts, with periods of heavy advertising followed by periods of no advertising.

- **Flighting** refers to an advertising schedule implemented in spurts, with periods of heavy advertising followed by periods of no advertising. This pattern generally functions for products whose demand fluctuates, such as sunscreen, which manufacturers may advertise heavily in the months leading up to and during summer.

pulsing
Combines the continuous and flighting schedules by maintaining a base level of advertising but increasing advertising intensity during certain periods.

- **Pulsing** combines the continuous and flighting schedules by maintaining a base level of advertising but increasing advertising intensity during certain periods. For example, airlines, hotels and car rental companies might continuously advertise to ensure brand awareness, but might increase the advertising in spikes during certain low-demand periods.

STEP 6: CREATE ADVERTISEMENTS

After the advertiser has decided on the message, type of ad and appeal, its attention shifts to the actual creation of the advertisement. During this step, the message and appeal are translated creatively into words, pictures, colours and/or music. Often, the execution style for the ad will dictate the type of medium used to deliver the message. To demonstrate an image, advertisers can use television and magazines. To promote price, they can use newspapers and radio. To appeal to specific target markets, they can use some of the electronic media. When using multiple media to deliver the same message, however, they must maintain consistency across the execution styles–that is, integrated marketing–so that the different executions deliver a consistent and compelling message to the target audience.

How do advertisers go about creating advertisements? They simultaneously consider the objectives of the ad, the targeted customer segment(s), the product's value proposition or the unique selling proposition, and how the ad will be coordinated with other IMC elements.

They then go about creating an ad or the ad campaign. For example, using a print ad, the first component that the reader generally notices is the visual, and as such it should be eye-catching. Although it is not always possible to meet all possible objectives with the visual, other important purposes are to identify the subject of the ad, show the product being used and its unique features, create a favourable impression of the product or advertiser, and arouse the readers' interest in the headline, which is generally noticed second.[33]

The **headline** is the large type in an ad that is designed to draw attention. Headlines should be short and use simple words, and include the primary product benefits, the name of the brand, and an interest-provoking idea. They should ideally contain an action verb and give enough information for learning even if only the headline is read.

headline
In an advertisement, large type designed to draw attention.

The **body copy** represents the main text portion of the ad. It is used to build on the interest generated by the visual and headlines, explain in more depth what the headline and subheads introduced, arouse desire for the product and provide enough information to move the target consumer to action.

body copy
The main text portion of an ad.

Finally, the ad typically has a number of **brand elements** that identify the sponsor of the ad, typically through a logo and a unique selling proposition. The advertiser must convey its message using compelling visuals, headlines, body copy and identifying brand elements. Although creativity plays a major role in the execution stage, advertisers must remain careful not to let their creativity overshadow the message. Whatever the execution style, the advertisement must be able to attract the audience's attention, provide a reason for the audience to spend its time viewing the advertisement, and accomplish what it set out to do. In the end, the execution style must match the medium and objectives.

brand elements
Characteristics that identify the sponsor of a specific ad.

Motor vehicle manufacturers and dealers are among the most active advertisers, and use very different messages in their advertising campaigns. Consider, for instance, two well-known car companies that introduced new four-door sedan models, each with very different advertising campaigns:

- **Skoda Octavia.** A relatively new entry into the mid-sized sedan market. Drawing on its parent company, Volkswagen, for many aspects, the Octavia offers a range of turbocharged engines, which give good fuel efficiency together with a five-star safety rating. It is also positioned as a family sedan with an increased level of technological sophistication. Likely advertising outlets include family-oriented magazines and television spots.
- **Toyota Camry Hybrid.** With a focus on fuel economy, ads for the new Camry hybrid promise its hybrid engine with the 2.5 L petrol engine, replacing the existing 2.4 L engine, will give more power and be kinder to the environment. This brings more power to the car but also fuel efficiency. With these appeals, Toyota is focusing largely on younger consumers, who tend to care more about environmental concerns.

At times, though, even when advertisers think they have done their best to appeal to consumers, their actions can backfire, as Ethical and societal dilemmas 13.1 and 13.2 describe.

Ethical and societal dilemma 13.1

Volkswagen tries to put emissions woes behind it as it vows to 'Think New'

Is it possible for Volkswagen to come back from the emissions cheating scandal and resulting betrayal of consumer trust? The company hopes so, and in support of that effort, it plans to 'Think New'. That is, Volkswagen has shelved its long-running 'Das Auto' tagline in favour of the new phrase, as the company tries to make a fresh start and rebuild its brand.

Continued

To win back the trust of vehicle consumers and stay relevant in the US market, Volkswagen has introduced a new mix of family-friendly SUVs and electric vehicles. The cars are designed specifically to appeal to younger car buyers who value high-tech features, such as smartphone integration and easy-to-use interfaces with convenient services such as Apple CarPlay and Google Android Auto (see Exhibit 13.11). With this innovative tack, Volkswagen hopes to lure drivers back to vehicles that are fun to be in, as well as fun to drive.



Exhibit 13.11 Electric vehicles are designed specifically to appeal to younger car buyers.

© guteksk7/Shutterstock/DAL

Prior to the emissions scandal in 2015, the company relied heavily on its so-called clean diesel vehicles to appeal to environmentally friendly consumers: 20 per cent of the company's total US sales featured such vehicles. Losing this market, as well as contending with an overall reduction in VW sales, has made it hard for the company to turn the page and start anew.

It has taken several steps forward in these efforts, though. Volkswagen of America has been granted new autonomy from its German headquarters, allowing the company the freedom to respond to the changing market demands of the United States. The company thus hopes to fill a void in its current product line with a new seven-passenger SUV. It has also expressed its goal to emerge as one of the leaders in the electric car market, with ambitious plans to sell one million electric cars globally by 2025.

Even with a fresh line-up of cars and SUVs, the road to redemption in the hearts and minds of the American people will be slow to come. The company plans to continue its aggressive spending on advertising, in which it will highlight new vehicle offerings along with a consistent, core message that leverages remaining nostalgia for the brand and outlines what it stands for—as well as where the company wants to go in the future.[34]

Ethical and societal dilemma 13.2

When make-up companies really do make up models' faces

Is Julia Roberts really that good-looking (see Exhibit 13.12). Of course, she's beautiful, but the portrayal of her face in advertising has, more likely than not, been given a 'Photoshop fix'. Airbrushing may be as old as advertising, but improved technology makes the changes nearly imperceptible—can you tell the difference between the normal thickness of an eyelash and the version that Taylor Swift sported in a CoverGirl NatureLuxe Mousse Mascara ad? Ultimately, the US National Advertising Division of the Council of Better Business Bureaus ruled that the ad was misleading, prompting the brand to pull it.[35]



Exhibit 13.12 When selling cosmetics, is it ethical to touch up photos of models and celebrities such as Julia Roberts to make them even more beautiful? What does this mean for Australian advertisers?

© Denis Makarenko/Shutterstock

But in other cases, cosmetics and fashion companies claim that 'fixing' elements of appearance is both ubiquitous and expected by consumers. They assert they are not misleading anyone but rather creating a perfect image for their brand. So is it wrong for cosmetic companies to retouch ads, brushing away wrinkles and skin imperfections digitally?[36]

The UK Advertising Standards Agency considers touching up photos in ads to be wrong. That agency banned two separate ads by L'Oréal recently, charging that they were misleading. One ad featured Julia Roberts promoting Teint Miracle, a new Lancôme skin product that, according to the company, provides 'luminosity to the skin'. The other featured the model Christy Turlington, promoting a cosmetic concealer called Eraser that promises to hide wrinkles and skin discolouration. Although the company protested that the ads did not exaggerate their product's effectiveness, the UK Advertising Standards Agency was not convinced.[37]

Do consumers want realistic images and measured promises, or do they accept and even prefer exaggerated claims and unrealistic images of beauty?

STEP 7: ASSESS IMPACT USING MARKETING METRICS

The effectiveness of an advertising campaign must be assessed before, during and after the campaign has run. **Pretesting** refers to assessments performed before an ad campaign is implemented to ensure that the various elements are working in an integrated fashion and doing what they are intended to do.[38] **Tracking** includes monitoring key indicators, such as daily or weekly sales volume, while the advertisement is running, to shed light on any problems with the message or the medium. **Post-testing** is the evaluation of the campaign's impact after it has been implemented. At this last stage, advertisers assess the sales and/or communication impact of the advertisement or campaign.

pretesting
Assessments performed before an ad campaign is implemented to ensure that the various elements are working in an integrated fashion and doing what they are intended to do.

tracking
Includes monitoring key indicators, such as daily or weekly sales volume, while the advertisement is running to shed light on any problems with the message or the medium.

post-testing
The evaluation of an IMC campaign's impact after it has been implemented.

Measuring sales impact can be especially challenging because of the many influences other than advertising on consumers' choices, purchase behaviour and attitudes. These influences include the level of competitors' advertising, economic conditions in the target market, sociocultural changes, in-store merchandise availability and even the weather, all of which can influence consumer purchasing behaviour. For instance, the sales resulting from even the best ads can be foiled by a lack of merchandise in the stores or storms/floods. Advertisers must try to identify these influences and isolate those of the particular advertising campaign.

For frequently purchased consumer goods in the maturity stage of the product life cycle, such as soft drink, sales volume offers a good indicator of advertising effectiveness. Because their sales are relatively stable, and if we assume that the other elements of the marketing mix and the environment have not changed, we can attribute changes in sales volume to changes in advertising. Figure 13.5 illustrates a hypothetical sales history for Red Bull in a supermarket chain (see Exhibit 13.13). Using a statistical technique called time-series analysis, sales data from the past is used to forecast the future. The data in Figure 13.5 can be decomposed into its basic trend (green), seasonal influences (red) and the lift or additional sales caused by the advertising (orange). In this case, the lift caused by the advertising campaign is substantial.

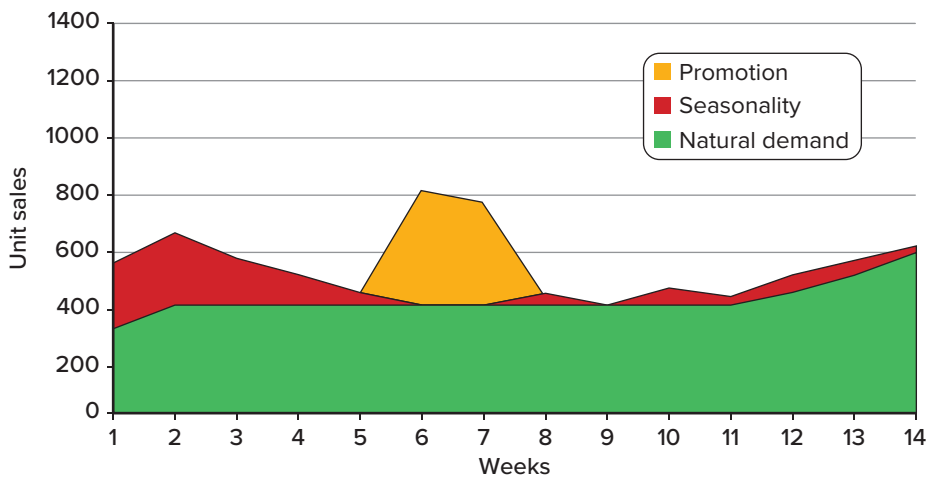


Figure 13.5 Sales history for Red Bull in a supermarket chain



Exhibit 13.13 Volume of sales is a good indicator of advertising effectiveness for frequently purchased consumer goods in the maturity stage of their life cycle, such as Red Bull energy drink.

© PhotoTodos/Shutterstock

For other types of goods in other stages of the product life cycle, sales data offer but one of the many indicators that marketers need to examine to determine advertising effectiveness. For instance, in high-growth markets, sales growth alone can be misleading, because the market as a whole is growing. In such a situation, marketers measure sales relative to those of competitors to determine their relative market share. Firms find creative ways to identify advertising effectiveness. For example, Fox allows them to present a specific advertisement to certain neighbourhoods and then track sales by local or regional retailers.

CHECK YOURSELF

1. What are the steps involved in planning an ad campaign?
2. What are the differences between informational, persuasive and reminder advertising?
3. What are the pros and cons of the different media types?
4. How can the effectiveness of advertising be evaluated?

Case study 13.1: Consumers shopping big for 'Little Shop'

By Dr Delane Osborne and Dr Carol Osborne, Curtin University



Exhibit 13.14 Despite controversy over the use of plastics, Coles' 'Little Shop' promotion has boosted sales for the supermarket chain.

© Daria Ni/Shutterstock

In 2019 Coles Supermarkets concluded its second major release of the 'Little Shop' campaign—a purchase promotion that rewards customers with a miniature product for every $30 they spend (see Exhibit 13.14). The promotion couldn't have come at a better time for Coles as the company faced a slump in sales following the ban on plastic bags. The irony of this was not lost on consumers, who took to social media, slamming the grocery giant for mass-producing the plastic toys. Such environmental concerns culminated in a Change.org petition with over 28 000 signatures, calling on consumers to boycott Coles stores. Despite the backlash, the 'Little Shop' campaign has been hugely popular, boosting supermarket sales by 5.8 per cent and with some participating brands seeing sales increases of up to 50 per cent. In fact, it has been so successful that Woolworths has credited the promotion for its own poor sales during the campaign period.

Hailed as one of the greatest marketing campaigns of all time, Coles' 'Little Shop' utilised a variety of mediums to advertise the promotion, including mass media channels such as television and newspapers as well as prominent in-store displays and a heavy social media presence. In addition to collector cases for storing and displaying the miniature products, Coles also produced a range of companion products such as miniature trolleys and shopping baskets, cash registers, shop fronts and even delivery trucks that were available for purchase during the promotion. Consumers admit they've been caught up in the frenzy, spending more per transaction in order to reach the $30 threshold at which they receive one of the collectables.

The success of the promotion has been fuelled by pester power: children nagging their parents into purchasing particular products and hassling them to shop at certain supermarkets in order to collect the tiny products. This type of promotion offering premiums targeted at children isn't new, with Woolworths having previously implemented a number of similar promotional campaigns such as Jamie's Garden stickers, DreamWorks Heroes cards, animal cards, Marvel Heroes discs, Pixar dominoes, Disney Words tiles, Lion King Ooshies and, most recently, the Discovery Garden plants. While successful

in driving sales, such promotions are problematic in that consumers become conditioned to expect premiums and engage in brand switching in order to participate in the promotions rather than remaining loyal to a particular store. With such a steady promotional cycle over the past six years, it appears supermarket premiums are now becoming a normalised part of the grocery shopping experience.

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Questions

1. Who is the target audience for the Coles 'Little Shop' campaign?
2. What measures of success could be utilised to assess the impact of the Coles 'Little Shop' campaign?
3. What are the potential problems with cyclically running sales promotions such as those discussed in the case?

PUBLIC RELATIONS

LO 13.8

The organisational function that manages the firm's communications to achieve a variety of objectives, including building and maintaining a positive image, handling or heading off unfavourable stories or events and maintaining positive relationships with the media is called **public relations (PR)**. Like advertising, this tactic is relatively passive, in that customers do not have to take any action to receive it. Public relations activities also support the other promotional efforts of the firm by generating 'free' media attention.

public relations (PR) The organisational function that manages the firm's communications to achieve a variety of objectives, including building and maintaining a positive image, handling or heading off unfavourable stories or events, and maintaining positive relationships with the media.

Designers, for example, vie to have celebrities, especially those nominated for awards, wear their fashions on the red carpet. Their brands offer intangible benefits, not just functional benefits. Events such as the Oscars, with its 35 million annual viewers, provide an unparalleled opportunity to showcase the emotional benefits of the brand and make others want to be a part of it. Thus, the celebrities that designers pursue and offer their items to are those who will sell the most or provide the best iconic images. When a celebrity wears a dress to the Grammy Awards, the brand sends out press releases to



Exhibit 13.15 Event sponsorship, such as of football games, is a popular PR tool.

Source: National Rugby League Ltd

make sure everyone knows.[39] The placement of designer apparel at media events benefits both the designer and the celebrity. And neither happens by accident. Public relations people on both sides help orchestrate the events to get the maximum benefit for both parties.

Good PR has always been an important success factor. Yet, in recent years, the importance of PR has grown as the cost of other forms of marketing communications has increased. At the same time, the influence of PR has become more powerful as consumers have become increasingly sceptical of marketing claims made in other media.[40] In many instances, consumers view media coverage generated through PR as more credible and objective than any other aspects of an IMC program, because the firm does not 'buy' the space in print media or time on radio or television.

Certainly the McDonald's restaurant chain conducts plenty of media buys in traditional advertising spaces. But it has also partnered with many hospitals in examples of **cause-related marketing** (i.e. commercial activity in which businesses and charities form a partnership to market an image, product for their mutual benefit). The McDonald's Ronald McDonald House Charities provide accommodation for families with sick children, rooms to make families more comfortable while they are at hospital, learning programs and retreats.

cause-related marketing
A commercial activity in which businesses and charities form a partnership to market an image, a product or a service for their mutual benefit; a type of promotional campaign.

Another very popular PR tool is event sponsorship (see Exhibit 13.15). **Event sponsorship** occurs when corporations support various activities (financially or otherwise), usually in the cultural or sports and entertainment sectors. Some of them are big-name events; the titles of most football games now include the name of their sponsors (e.g. the NRL Telstra Premiership, Holden Cup Under-20s NRL competition, AFL NAB Cup and AFL Toyota Finals Series). Others are slightly less famous, such as Bunnings hardware stores sponsoring Father's Day events, where they give materials and lessons to school kids so they can make their dad a handmade present, for example, a key holder. However, companies should be careful about which products they want to be associated with. The Australian NRL and AFL found this out the hard way. Bookmaker Tom Waterhouse had paid sponsorship, pre-game, during the game and post-game TVCs, as well as in-game odds and 'expert' advice from him. He was even appearing as part of the commentating team, discussing the odds on live television; essentially Tom Waterhouse was everywhere. Even though Australians are prolific gamblers, this was too much and an uneasy alliance for the Australian viewing public as well as regulators. Many viewers believed that children were being overly exposed to gambling at the expense of the game. Further, many in the football codes did not like the negative association with their beloved game.

event sponsorship
A popular public relations tool; occurs when corporations support various activities (financially or otherwise), usually in the cultural or sports and entertainment sectors.

Firms often distribute a PR toolkit to communicate with various audiences. Some toolkit elements are designed to inform specific groups directly, whereas others are created to generate media attention and disseminate information. We depict the various elements of a PR toolkit in Table 13.3.

Table 13.3 Elements of a public relations toolkit

PR element	Function
Publications: brochures, special-purpose single-issue publications such as books	Inform various constituencies about the activities of the organisation and highlight specific areas of expertise
Video and audio: programs, public service announcements	Highlight the organisation or support cause-related marketing efforts
Annual reports	Give required financial performance data and inform investors and others about the unique activities of the organisation
Media relations: press kits, news releases, speeches, event sponsorship	Generate news coverage of the organisation's activities or products/services
Electronic media: websites, email campaigns	Websites can contain all the previously mentioned toolbox elements, while email directs PR efforts to specific target groups

SALES PROMOTIONS

LO 13.9

Advertising rarely provides the only means to communicate with target customers. A natural link appears between advertising and sales promotions. **Sales promotions** are special incentives or excitement-building programs that encourage the purchase of a product, such as coupons, rebates, contests, free samples and point-of-purchase (POP) displays. Marketers typically design these incentives for use in conjunction with other advertising or personal selling programs. Many sales promotions, like free samples and POP displays, are designed to build short-term sales, while others, such as loyalty programs, contests and sweepstakes, have become integral components of firms' CRM programs (e.g. building a database) as a means of building customer loyalty.

sales promotions
Special incentives or excitement-building programs that encourage the purchase of a product, such as coupons, rebates, contests, free samples and point-of-purchase displays.

We present these sales promotions tools next. The tools of any sales promotion can be focused on any channel member–wholesalers, retailers or end-user consumers. Just as we delineated for advertising, when sales promotions are targeted at channel members, the marketer is employing a push strategy; when it targets consumers themselves, it is using a pull strategy. Some sales promotion tools can be used with either a push or pull strategy. We now consider each of the tools and how they are used.

Types of sales promotion

Coupons

Coupons offer a discount on the price of specific items when they're purchased. Coupons are issued by manufacturers and retailers in newspapers, on products, on the shelf, at the cash register, over the internet and through the mail to stimulate demand. Some retailers have linked their coupons directly to their loyalty programs. Woolworths tracks customers' purchases when they use their Rewards loyalty card and gives them coupons that can be used for petrol. Hypothetically, if a customer typically spends a small amount during each shopping trip, they might receive coupons to encourage larger purchases, such as 'buy one, get one free'.

coupon
Provides a stated discount to consumers on the final selling price of a specific item; the retailer handles the discount.

Internet sites also provide customers with instant coupons of their choosing. Imagine a customer who visits their local Big W and finds a Hot Wheels video game for $29.99. By scanning the barcode using their smartphone, the customer connects to ShopSavvy or another comparison app and finds that same item at a Target store up the road for only $19.99. Another scan and a connection to Shop A Docket or Groupon provides them with a $10 coupon–which means they've saved $20 in a matter of minutes and just a few clicks.

Some coupons, whether printed from the internet or sent to mobile phones, also contain information about the customers who use them.[41] The barcode may identify the customer, their internet address, Facebook page information, and even the search terms the customer used to find the coupon in the first place. These new breeds of coupons may look standard, but they offer up a startling amount of data, which promises benefits for advertisers who want to target their marketing more closely. Traditionally, coupons had low redemption rates and were therefore a relatively inexpensive sales promotion tool, but firms like Groupon have resulted in higher redemption rates, increasing their expense.

Deals

A **deal** refers generally to a type of short-term price reduction that can take several forms, such as a 'featured price', a price lower than the regular price (see Exhibit 13.16); a 'buy one, get one free' offer; or a certain percentage 'more free' offer contained in larger packaging. Another form of a deal involves a special financing arrangement, such as reduced percentage interest rates or extended repayment terms. Deals encourage customers to try a product because they lower the risk for consumers by reducing the cost of the good.

deal
A type of short-term price reduction that can take several forms, such as a 'featured price', a price lower than the regular price; a 'buy one, get one free' offer; or a certain percentage 'more free' offer contained in larger packaging; can involve a special financing arrangement, such as reduced percentage interest rates or extended repayment terms.

But deals can also alter perceptions of value–a short-term price reduction may signal a different price/quality relationship than would be ideal from the manufacturer's perspective. In addition, as Old Spice learned, offering too many deals can offset likely gains. Its popular 'Old Spice Guy' campaign attracted consumer attention through funny television commercials and interactive online campaigns, and sales of Old Spice jumped. But the company



Exhibit 13.16 This sales promotion deal is a short-term price promotion that offers its goods for half-price.
© ArliftAtoz2205/Shutterstock/DAL

offered so many 'buy one, get one free' deals at the same time that the potential profit impact of the great ads was essentially eliminated by the costs of the deals.[42]

Premiums

premium
An item offered for free or at a bargain price to reward some type of behaviour, such as buying, sampling or testing.

A **premium** offers an item for free or at a bargain price to reward some type of behaviour, such as buying, sampling or testing. These rewards build goodwill among consumers, who often perceive high value in them. Premiums can be distributed in a variety of ways. They can be included in the product packaging, such as the toys inside cereal boxes; placed visibly on the package, such as a coupon for a free magazine on a box of Coco Pops; handed out in the store; or delivered in the mail, such as the free perfume offers that Victoria's Secret mails to customers. Furthermore, premiums can be very effective if they are consistent with the brand's message and image and highly desirable to the target market. However, finding a premium that meets these criteria at a reasonable cost can be a serious challenge.

Contests

contest
A brand-sponsored competition that requires some form of skill or effort.

A **contest** refers to a brand-sponsored competition that requires some form of skill or effort. US television network ESPN's website hosts a page devoted just to sports-related contests: 'Get Me to the World Cup Sponsored by Sony' or 'Player of the month presented by Kia'.[43] For the Get Me to the World Cup contest, each participant had to create and upload a short video demonstrating why they should be the one picked to attend the international event. For those who need some help sparking their creativity, ESPN provided some sample videos–including one by Kobe Bryant. Since contests require consumer involvement, they can create a lot of excitement or buzz around a product.

Sweepstakes

sweepstakes
A form of sales promotion that offers prizes based on a chance drawing of entrants' names.

A form of sales promotion that offers prizes based on a chance drawing of entrants' names, **sweepstakes** do not require the entrant to complete a task other than buying a ticket or filling out a form. For example, fans who purchased a Coke go to the website where they enter into a sweepstake to win a PlayStation or tickets to the Toyota AFL Grand Final. Often the key benefit of sweepstakes is that they encourage current consumers to consume more if the sweepstakes form appears inside the packaging or with the product. In this case Coke uses a code under the label, which then needs to be entered on the website.

Samples

sampling
Offers potential customers the opportunity to try a product before they make a buying decision.

Sampling offers potential customers the opportunity to try a product before they make a buying decision. Distributing samples is one of the most costly sales promotion tools but also one of the most effective. Quick-service restaurants and supermarkets frequently use sampling. Lipton Tea and Red Bull provide samples of new products to customers regularly near university campuses and train stations. Sometimes trial-size samples come in the mail or are distributed in stores.

Loyalty programs

loyalty program
A program specifically designed to retain customers by offering premiums or other incentives to customers who make multiple purchases over time.

As part of a sales promotion program, **loyalty programs** are specifically designed to retain customers by offering premiums or other incentives to customers who make multiple purchases over time, such as the Woolworths Rewards program. Well-designed loyalty programs encourage consumers to increase their engagement and purchases from a given firm. Such sales promotions are growing increasingly popular and are tied to long-term CRM systems. These programs need to be carefully managed as they can be quite costly.

Point-of-purchase displays

point-of-purchase (POP) display
A merchandise display located at the point of purchase, such as at the checkout counter in a grocery store.

Point-of-purchase (POP) displays are merchandise displays located at the point of purchase, such as at the checkout counter in a supermarket. Retailers have long recognised that the most valuable real estate in the store is at the POP, since they increase product visibility and encourage trial. Customers see products like a magazine or a chocolate bar while they are waiting to pay for their purchases and impulsively purchase them. In the internet version of a POP display, shoppers are stimulated by special merchandise, price reductions or complementary products that internet retailers feature on the checkout screen.

Rebates

rebate
A consumer discount in which a portion of the purchase price is returned to the buyer in cash; the manufacturer, not the retailer, issues the refund.

Rebates are a particular type of price reduction in which a portion of the purchase price is returned by the seller to the buyer in the form of cash. Many products, such as consumer electronics, offer

significant mail-in rebates that may lower the price of the item significantly. For example, Harvey Norman regularly uses rebates to encourage consumers to purchase laptop computers. Firms offer such generous rebates because the likelihood that consumers will actually apply for the rebate is low. The firms garner considerable value from rebates because they attract consumers and therefore stimulate sales, but they may not have to pay off all the rebates offered.

Product placement

When marketers use **product placement**, they pay to have their product included in non-traditional situations, such as in a scene in a movie or television program.[44] By doing so, they increase the visibility of their products. Product placement may be subtle, such as when *MasterChef* contestants or judges use Sunbeam appliances.

product placement Inclusion of a product in non-traditional situations, such as in a scene in a movie or television program.

James Bond movies have for many years used product placement as a way to generate extra revenue for the movie through brands such as BMW and Omega watches, which benefit by having one of the most famous and coolest spies ever present their product in the best light. Most recently, the introduction of digital production has allowed product placement post-production. This new post-production opportunity also allows the brands to leverage their product into a program repeat, hence lowering the risk associated with picking a winner or popular show, as the show has already been shown to be popular.

Although many firms would embrace product placement in hit shows and movies and are willing to pay for it, for Apple, the challenge is a little less stringent. US film and television directors seem to love its sleek white laptops, ear-budded AirPods and ubiquitous iPhones. Thus, more than a third of all top-grossing films at the US box office–129 of 374 movies–have included Apple-branded products in the past decade. Appearances include popular offerings as well as critically acclaimed broadcasts, from an episode of *Modern Family* viewed exclusively through Apple products to more nefarious uses depicted in *Billions*. Apple is also unique in that until recently it claimed not to pay for product placement beyond supplying the devices, nor does it comment on film appearances. However, in 2017 Apple officially sponsored an episode of *Saturday Night Live* in which its products were featured, and it also sponsored Fox's show *9-1-1*. An analytics firm that estimates the dollar value of product placements has reported that Apple's five-minute screen time in Disney's *Zootopia* alone was worth about $5 million.[45] Apple seemingly can earn those returns without always paying for the placements, but not all companies are so lucky.

Using sales promotion tools

Marketers must be careful in their use of sales promotions, especially those that focus on lowering prices. Depending on the item, consumers may stock up when items are offered at a lower price, which simply shifts sales from the future to now and thereby leads to short-run benefits at the expense of long-term sales stability. For instance, using sales promotions like coupons to stimulate sales of household cleaning supplies may cause consumers to stockpile the products and decrease demand for those products in the future. But a similar promotion used with a perishable product like yoghurt should increase its demand at the expense of its competitors.

Many firms are also realising the value of **cross-promoting**, when two or more firms join together to reach a specific target market. To achieve a successful cross-promotion, the two products must appeal to the same target market and together create value for consumers.

cross-promoting Efforts of two or more firms joining together to reach a specific target market.

The goal of any sales promotion is to create value for both the consumers and the firm. By understanding the needs of its customers, as well as how best to entice them to purchase or consume a particular product, a firm can develop promotional messages and events that are of interest to, and achieve the desired response from, those customers. Traditionally, the role of sales promotion has been to generate short-term results, whereas the goal of advertising was to generate long-term results. As this chapter demonstrates, though, both sales promotion and advertising can generate both long- and short-term effects. The effective combination of both types of activities leads to impressive results for the firm and the consumers.

CHECK YOURSELF

1. What are the various forms of sales promotions?
2. What factors should a firm consider when evaluating a sales promotion?

Personal selling

personal selling
The two-way flow of communication between a buyer and a seller that is designed to influence the buyer's purchase decision.

Personal selling is the two-way flow of communication between a buyer and a seller that is designed to influence the buyer's purchase decision. Personal selling can take place in various settings: face-to-face, by video or teleconferencing, on the telephone or over the internet. Although consumers don't often interact with professional salespeople, personal selling represents an important component of many IMC programs, especially in B2B settings.

The cost of communicating directly with a potential customer is quite high compared with other forms of promotion, but it is simply the best and most efficient way to sell certain goods and services. Customers can buy many goods and services without the help of a salesperson, but salespeople simplify the buying process by providing information and services that save customers time and effort. In many cases, sales representatives add significant value, which makes the added expense of employing them worthwhile.

Many people are employed in sales positions, including those involved in B2B transactions–like manufacturers' representatives selling to retailers or other businesses–and those completing B2C transactions, such as retail salespeople, real estate agents and insurance agents. Salespeople are referred to in many ways: sales representatives or reps, account executives, agents. Most professions rely on personal selling to some degree.

The value added by personal selling

The benefits of salespeople mean that they are expensive for firms. So why include them in the marketing channel at all? Some firms have turned to the internet and technology to lower the costs of personal selling. Other firms, especially some retailers, have made the decision not to use a sales force and thus require customers to perform the sales function on their own. But the firms that continue to use personal selling as part of their integrated marketing communications program recognise the value that it adds to their product mix. That is, personal selling is worth more than it costs. Personal selling adds value by educating customers and providing advice, saving the customer time, making things easier for customers, and building long-term strategic relationships with customers.[46]

Salespeople provide information and advice

Imagine how difficult it might be to buy a custom-made suit, a house or a car without the help of a salesperson. Qantas wouldn't dream of investing in a new fleet of aircraft without the benefit of Boeing's selling team. Boeing's sales team can provide Qantas with the technical aspects of the aircraft, as well as the economic justification for the purchase. If you need formal wear for your friend's upcoming wedding, you might find it helpful to solicit the input of a retail salesperson who can tell you what colours are hot this season, how to tie a bow tie, how each garment tends to fit, what the latest fashions are in formal wear and how long your dress should be for a function that starts at 6 pm. Certainly, you could figure out most of this information on your own, but some customers find value in and are willing to pay for the education and advice that salespeople provide.

Salespeople save time and simplify buying

Time is money! Customers perceive value in time and labour savings. In many supermarkets and pharmacies, salespeople employed by the vendor supplying merchandise straighten stock, set up displays, assess inventory levels and write orders. In some cases, such as bakeries or soft drink sales, salespeople and truck drivers even bring in the merchandise and stock the shelves. These are all tasks that retail employees would otherwise have to do. To appeal to end customers, manufacturers might send salespeople into stores to provide cooking demonstrations or free samples in the case of supermarkets, or made-to-measure shows in the case of clothing or shoe retailers. In this case, the vendor increases convenience for both its immediate customer (the retailer) and the end consumer.

Sometimes, however, turning over too many tasks to suppliers' salespeople can cause problems. Imagine a supermarket that has turned its inventory management function over to a supplier, like the consumer packaged goods firm Kraft. The supplier might place competitors' products in disadvantageous shelf positions. Unless the relationship involves significant trust or the grocery has precautionary measures in place, the Kraft sales representative might place plenty of Kraft cheese on the shelf but leave little room for its competitors' products, designating a sub-optimal amount of shelf space to Devondale offerings. Although this relationship benefits Kraft, it may not help the grocer, especially if

that retailer earns better margins on the competitors' products. Salespeople certainly can help facilitate a buying situation, but they should never be allowed to take it over.

The same might be said of your own personal shopping. When you go to buy a new car, the salesperson likely will work hard to convince you that you should purchase a specific make or model. Although a motor vehicle salesperson has a significant amount of knowledge about the products and therefore can simplify the car buying process, the final decision must remain up to you, the consumer.



Exhibit 13.17 Salespeople provide information and service.

© Tyler Olson/Shutterstock

Salespeople build relationships

Building strong marketing channel relationships is a critical factor for achieving success. Who in the organisation is better equipped to manage this relationship than the salesperson, the frontline emissary for the firm? The most successful salespeople are those who build strong relationships with their customers–a rule that holds across all sorts of sales. That is, whether you are selling yourself as a job candidate, a product produced by your company, or a concept to a client, your sale is not successful if it leads to just a one-time transaction. Instead, good salespeople of all stripes consistently take a long-term perspective.

Building on the relationship concept, **relationship selling** refers to a sales philosophy and process that emphasises a commitment to maintaining the relationship over the long term and investing in opportunities that are mutually beneficial to all parties.[47] Relationship-oriented salespeople work with their customers to find mutually beneficial solutions to their wants and needs (see Exhibit 13.17). For example, universities often negotiate long-term agreements with clothing companies to supply their sports teams. Similarly, a Lenovo sales team might be working with your university to provide you with the computer support and security you need during the years you spend working on the university's network or in their computer labs.

relationship selling
A sales philosophy and process that emphasises a commitment to maintaining the relationship over the long term and investing in opportunities that are mutually beneficial to all parties.

CHECK YOURSELF

1. Why is personal selling important to an IMC strategy?

Direct marketing

The component of IMC that has received the greatest increase in aggregate spending recently is **direct marketing**, or marketing that communicates directly with target customers to generate a response or transaction.[48] Direct marketing contains a variety of traditional and new forms of marketing communication initiatives. Traditional direct marketing includes mail and catalogues sent through the mail; direct marketing also includes email and mobile marketing.

direct marketing
Sales and promotional techniques that deliver promotional materials individually.

Internet-based technologies have had a profound effect on direct marketing initiatives. Email, for instance, can be directed to a specific consumer. Firms use email to inform customers of new merchandise and special promotions, confirm the receipt of an order and indicate when an order has been shipped. Currently available technologies also mean handheld devices can function as a payment medium: just tap your mobile phone and the transaction occurs in much the same way as it occurs with a credit card.[49]

The increased use of customer databases has enabled marketers to identify and track consumers over time and across purchase situations, which has contributed to the rapid growth of direct marketing. Marketers have been able to build these databases, thanks to consumers' increased use of credit and debit cards, store-specific credit and loyalty cards and online shopping, all of which require the buyer to give the seller personal information that becomes part of its database. Because firms understand customers' purchases better when they possess such information, they can more easily focus their direct marketing efforts appropriately.

Direct marketing retailers try to carefully target their customers so they will be more receptive to their messages. For example, Domino's sends email coupons for items that customers have purchased previously, and mails slick pictures of meal packages to addresses that have received orders in the past. These different forms of direct marketing demonstrate how this IMC format can vary on both the interactivity and online/offline dimensions of the matrix.

mobile marketing Marketing through wireless handheld devices.

Mobile marketing is marketing through wireless handheld devices, such as mobile telephones.[50] Smartphones have become far more than tools to place calls; they offer a kind of mobile computer with the ability to obtain sports scores, entertain, interact with friends, check weather, listen to music, watch videos and use text messages, as well as purchase merchandise. Marketing success rests on integrating marketing communications with fun, useful apps that are consistent with these consumer attitudes toward their mobile devices. In response, firms are steadily improving customers' potential experience with their mobile interface, as discussed in depth in Chapter 2.

Online marketing

We now examine three electronic media vehicles: websites, blogs and social media.

Websites

Firms have increased their emphasis on communicating with customers through their websites. They use their websites to build their brand image and educate customers about their goods or services, as well as where they can be purchased. Retailers and some manufacturers sell merchandise directly to consumers over the internet. For example, in addition to selling merchandise, Officeworks' website hosts a Business Solutions Centre for its business customers that provides advice, product knowledge and delivery status. By providing this information, Officeworks reinforces its image as an essential source of products, services and information for small businesses.

Many firms operate websites devoted to community building. These sites offer an opportunity for customers with similar interests to learn about goods and services that support their hobbies and share information with others. Visitors can also post questions seeking information and/or comments about issues, goods and services. For example, in the huggies.com.au forums, new parents and parents-to-be can share their experiences and ask each other questions about parenting and children, conception, pregnancy, childbirth, baby care and adjusting to their new life. Others who have experienced this problem then can post their advice.

Many firms, especially retailers, encourage customers to post reviews of products they have bought or used and even have visitors to their websites rate the quality of the reviews. Research has shown that these online product reviews increase customer loyalty and provide a competitive advantage for sites that offer them.[51]

Blogs

blog (weblog) A web page that contains periodic posts; corporate blogs are a new form of marketing communications.

A **blog** (short for **weblog**) contains periodic posts on a common webpage. A well-received blog can communicate trends, announce special events, create positive word of mouth, connect customers by forming a community, allow the company to respond directly to customers' comments and develop a long-term relationship with the company. By its very nature, a blog is supposed to be transparent and contain authors' honest observations, which can help customers determine their trust and loyalty levels.

Nowadays, blogs are becoming more interactive as the communication between bloggers and customers has increased. Southwest Airlines' blog, 'The Southwest Airlines Community', is used primarily to connect customers with the company's employees, letting them in on the culture and operations. The corporate contributors include everyone from mechanics to executives to pilots. The blog is also used to announce new product launches and collect information on which to base corporate decisions.[52]

In addition, blogs can be linked to other social media, such as microblog Twitter. Consider the situation in which Kevin Smith, the popular director of films such as *Clerks* and *Dogma* (and the actor who played Silent Bob in several of his movies), was removed from a Southwest Airlines flight because his large size required him to purchase two seats. Smith immediately tweeted about the situation to his more than 1.6 million Twitter followers. Then when he got onto another flight, he followed up

with a picture of himself, proclaiming 'SouthwestAir! Look how fat I am on your plane! Quick! Throw me off!'[53] Southwest quickly responded on its blog, citing its long-standing rules and concern for other passengers. Consumers' responses were about equally split in support of the airline and Smith.[54]

Social media

Social media is media content distributed through social interactions (see Chapter 2). The three most popular facilitators of social media are YouTube, Facebook and Twitter. In these online sites, consumers review, communicate about and aggregate information about products, prices and promotions. These social media also allow users to interact among themselves (e.g. form a community), as well as provide other like-minded consumers (i.e. members of their community) and marketers with their thoughts and evaluations about a firm's goods or services. Thus, social media help facilitate the consumer decision process by encouraging need recognition, information search, alternative evaluation, purchase and postpurchase reviews.

social media
Media used for social interactions, such as YouTube, Facebook and Twitter.

CHECK YOURSELF

1. What are the different elements of an IMC program?

PLANNING FOR AND MEASURING IMC SUCCESS

We begin this section by examining how marketers set strategic goals before implementing any IMC campaign. After they have established those goals, marketers can set the budget for the campaign and choose marketing metrics they will use to evaluate whether it has achieved its strategic objectives.

Goals

As with any strategic undertaking, firms need to understand the outcome they hope to achieve before they begin. These goals can be short term, such as generating enquiries, increasing awareness and prompting trial. Or they can be long term, such as increasing sales, market share and customer loyalty. Selling soft drinks is always the primary and long-term goal of Coca-Cola, but in the short term, its famous polar bear advertising campaign aimed to establish brand awareness and purchase intentions. Some other goals are outlined in Table 13.4.

Table 13.4 Illustrative marketing goals and related campaigns

Company and campaign	Goals	Target market	Media used	Outcome
ASICS 'Sound Mind, Sound Body'	Branch out beyond serious runner market segment and target casual runners	Even split males and females, ages 30–49	Television and print ads, online advertising	17% increase in market share
Columbia Sportswear Company 'Tested Tough'	Showcase Columbia's technical innovation ability and overcome perceptions of inferior products	60% males, ages 20–59	Print ads, mobile media, social media, videos, online advertising	11% increase in sales
Southwest Airlines 'Nonstop Love'	To show that Southwest is 'an airline with a heart'	Even split males and females, all ages	Television, radio, print, billboard and in-airport ads	4% increase in revenue
BMW '#DrivingLuxury'	To highlight the new technology of the redesigned 7 Series sedan	Mostly men, aged 35 and up	Social media, blog posts, videos	Posts reached up to 13 500 likes on Instagram

Sources: 'ASICS Launches New Global Advertising Campaign, Inspiring People Everywhere to Run with "It's a Big World. Go Run It"', *PR Newswire,* 19 February 2015; '2015 Annual Report', ASICS, 12 February 2016; Karl Greenberg, 'Columbia's New Global Campaign Is "Tested Tough"', *Marketing Daily,* 7 October 2015; '2015 Annual Report', Columbia Sportswear, 2016; David Gianatasio, 'Southwest Airlines Is Completely, Hopelessly, Head over Heels in Love in New Ads', *Adweek,* 8 July 2014; '2014 Annual Report', Southwest Airlines, 15 March 2015; 'BMW's Instagram Influencer Marketing Campaign', Mediakix.

Such goals, both short term and long term, should be explicitly defined and measured. They also might change over time. Regardless of their measure or changes though, goals constitute part of the overall promotional plan, which is usually a subsection of the firm's marketing plan. Another part of the promotional plan is the budget.

LO 13.10

SETTING AND ALLOCATING THE IMC BUDGET

objective-and-task method
An IMC budgeting method that determines the cost required to undertake specific tasks to accomplish communication objectives; process entails setting objectives, choosing media and determining costs.

Firms use a variety of methods to plan their marketing communications budgets. Because all the methods of setting a promotional budget have both advantages and disadvantages, no one method should be used in isolation.[55]

The **objective-and-task method** determines the budget required to undertake specific tasks to accomplish communication objectives. To use this method, marketers first establish a set of communication objectives, then determine which media best reach the target market and how much it will cost to run the number and types of communications necessary to achieve the objectives. This process–set objectives, choose media and determine costs–must be repeated for each product. The sum of all the individual communication plan budgets becomes the firm's total marketing communications budget. In addition to the objective-and-task method, various **rule-of-thumb methods** can be used to set budgets (see Table 13.5).

rule-of-thumb methods
Budgeting methods that base the IMC budget on either the firm's share of the market in relation to competition, a fixed percentage of forecasted sales, or what is left after other operating costs and forecasted sales have been budgeted.

Table 13.5 Rule-of-thumb methods

Method	Definition	Limitations
Competitive parity	The communication budget is set so that the firm's share of communication expenses equals its share of the market.	Does not allow firms to exploit the unique opportunities or problems they confront in a market. If all competitors use this method to set communication budgets, their market shares will stay approximately the same over time.
Percentage-of-sales	The communication budget is a fixed percentage of forecasted sales.	Assumes the same percentage used in the past, or by competitors, is still appropriate for the firm. Does not take into account new plans (e.g. to introduce a new line of products in the current year).
Available budget	Marketers forecast their sales and expenses, excluding communication, during the budgeting period. The difference between the forecast sales and expenses plus desired profit is reserved for the communication budget. That is, the communication budget is the money available after operating costs and profits have been budgeted.	Assumes communication expenses do not stimulate sales and profit.

These rule-of-thumb methods use previous sales and communication activities to determine the present communication budget. Although they are easy to implement, they have various limitations, as noted in Table 13.5. Clearly, budgeting is not a simple process. It may take several rounds of negotiations among the various managers, who are each competing for resources for their own areas of responsibility, to devise a final IMC budget.

LO 13.11

MEASURING SUCCESS USING MARKETING METRICS

Once a firm has decided how to set its budget for marketing communications and its campaigns have been developed and implemented, it reaches the point that it must measure the success of the campaigns, using various marketing metrics.[56] Each step in the IMC process can be measured to determine how effective it has been in motivating consumers to move to the next step in the buying process. However, recall that the lagged effect influences and complicates marketers'

evaluations of a promotion's effectiveness, as well as the best way to allocate marketing communications budgets. Because of the cumulative effect of marketing communications, it may take several exposures before consumers are moved to buy, so firms cannot expect too much too soon. They must invest in the marketing communications campaign with the idea that it may not reach its full potential for some time. In the same way, if firms cut marketing communications expenditures, it may take time before they experience a decrease in sales.



Exhibit 13.18 The goal of these types of messages is to highlight a new formula and show that the organisation is ahead of the curve.

Traditional media

When measuring IMC success, the firm should examine when and how often consumers have been exposed to various marketing communications. Specifically, they use measures of frequency and reach to gauge consumers' exposure to marketing communications. For most products and situations, a single exposure to a communication is hardly enough to generate the desired response. Therefore, marketers measure the **frequency** of exposure–how often the audience is exposed to a communication within a specified period of time. The other measure used to measure consumers' exposure to marketing communications is **reach**, which describes the percentage of the target population exposed to a specific marketing communication, such as an advertisement, at least once. Marketing communications managers usually state their media objectives in terms of **gross rating points (GRP)**, which represents reach multiplied by frequency (GRP = reach × frequency).

This GRP measure can refer to print, radio or television, but any comparisons require a single medium. Suppose that Armani places seven advertisements in *Vogue* magazine, which reaches 50 per cent of the 'fashion forward' target segment. The total GRP generated by these seven magazine advertisements is 50 reach × 7 advertisements = 350 GRP. Now suppose Armani includes 15 television ads as part of the same campaign, run during the program *Australia's Next Top Model*, which has a rating (reach) of 9.2. The total GRP generated by these 15 advertisements is 138 (9.2 × 15 = 138). However, advertisements typically appear in more than one television program. So, if Armani also advertises 12 times during *The Voice*, which earns a rating of 1.8, its GRP would be 1.8 × 12 = 21.6 and the total GRP for both programs would be 138 + 21.6 = 159.6.

frequency
Measure of how often the audience is exposed to a communication within a specified period of time.

reach
Measure of consumers' exposure to marketing communications; the percentage of the target population exposed to a specific marketing communication, such as an advertisement, at least once.

gross rating points (GRP)
A measure used for various media advertising—print, radio or television; *GRP = reach × frequency.*

Web-based media

Firms are spending more annually on online advertising, which includes paid search, display ads, email and sponsorships. Although GRP is an adequate measure for television and radio advertisements, assessing the effectiveness of any web-based communication efforts in an IMC campaign generally requires web-tracking software to measure how much time viewers spend on particular web pages, the number of pages they view, how many times users click on banner ads, which website they came from and so on. All these performance metrics can be easily measured and assessed using a variety of software, including Google Analytics.

Facebook also helps companies to see who has been visiting their fan pages, what those people are doing on the fan pages and who is clicking on their advertisements.[57] By keeping track of who is visiting, marketers can better customise the material on their pages.

Planning, implementing and evaluating IMC programs: an illustration of Google advertising

Imagine a hypothetical upscale sports shoe store in Melbourne, called Transit, that is modelled after vintage New York City subway trains. Transit's target market is young, well-educated, hip men and women aged 17–34 years. The owner's experience indicates the importance of personal selling for this market because they (1) make large purchases and (2) seek considerable information before making a decision. Thus, Jay Oliver, the owner, spends part of his communication budget on training his sales staff. Oliver has realised his communication budget is considerably less than that of other sports shoe stores in the area. He has therefore decided to concentrate his limited budget on a specific segment and use electronic media exclusively in his IMC program.

The IMC program Oliver has developed emphasises his store's distinctive image and uses his website, social shopping and some interesting community building techniques. For instance, he has an

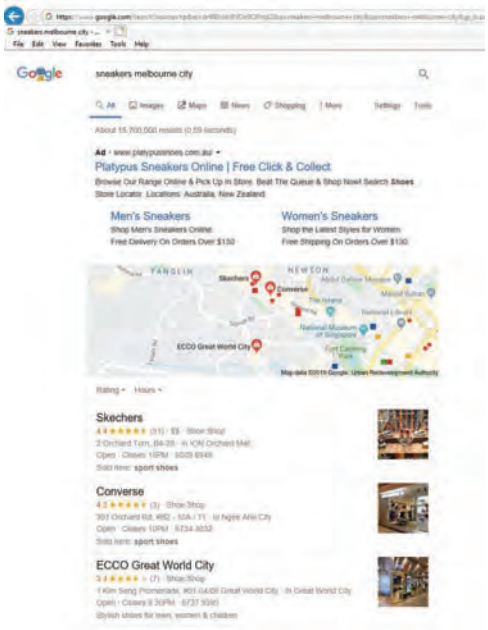


Exhibit 13.19 Advertisers pay Google AdWords to show up in the sponsored link section based on the keywords customers use in their searches.

extensive customer database as part of his CRM system from which he draws information for matching new merchandise with his customers' past purchase behaviours and little personal nuggets of information that he or other sales associates have collected on the customers. He then emails specific customers information about new products that he believes they will be interested in. He also encourages customers to use blogs hosted on his website. Customers chat about the 'hot' new sports shoes, club events and races. He does everything with a strong sense of style.

To reach new customers, he is using **search engine marketing (SEM)**. In particular, he is using Google AdWords, a search engine marketing tool offered by Google that allows advertisers to show up in the sponsored links section of the search results page based on the keywords potential customers use (see Exhibit 13.19).

Oliver must determine the best keywords to use for his sponsored link advertising program. Some potential customers might search using the key words, 'sports shoes', 'sports shoes in Melbourne', 'athletic shoes' or other such versions. Using Google AdWords, Oliver can assess the effectiveness of his advertising expenditures by measuring the reach, relevance and return on investment for each of the keywords that potential customers used during their internet searches.

To estimate reach, Oliver uses the number of **impressions** (the number of times the ad appears in front of the user) and the **click-through rate (CTR)**. To calculate CTR, he takes the number of times a user clicks on an ad and divides it by the number of impressions.[58] For example, if a sponsored link was delivered 100 times and 10 people clicked on it, then the number of impressions is 100, the number of clicks is 10 and the CTR would be 10 per cent.

search engine marketing (SEM)
A type of online advertising whereby companies pay for keywords that are used to catch consumers' attention while browsing a search engine.

impressions
The number of times an advertisement appears in front of the user.

click-through rate (CTR)
The number of times a user clicks on an online ad divided by the number of *impressions*.

The **relevance** of the ad describes how useful an ad message is to the consumer doing the search. Google provides a measure of relevance through its AdWords system using a quality score. The quality score looks at a variety of factors to measure how relevant a keyword is to an ad's text and to a user's search query. In general, a high quality score means that a keyword will trigger ads in a higher position and at a lower cost-per click.[59] In a search for 'sports shoe store', the Transit ad showed up fourth, suggesting high relevance.

relevance
In the context of search engine marketing (SEM), a metric used to determine how useful an advertisement is to the consumer.

Using the following formula, Oliver also can determine an ad's **return on investment (ROI)**:

$$\text{ROI} = \frac{\text{Sales revenue} - \text{Advertising cost}}{\text{Advertising cost}}$$

return on investment (ROI)
The amount of profit divided by the value of the investment. In the case of an advertisement, the ROI is (the sales revenue generated by the ad – the ad's cost) ÷ the ad's cost.

For the two keyword searches in Table 13.6, Oliver finds how much the advertising cost him (Column 3), the sales produced as a result (Column 4) and the ROI (Column 6). For 'sports shoe store', the Transit website had a lot more clicks (110) than the clicks received from 'Melbourne sports shoes' (40) (see Column 2). Even though the sales were lower for the keywords 'sports shoe store' at $35/day, versus $40/day for the keywords 'Melbourne sports shoes', the ROI was much greater for the 'sports shoe store' keyword combination. In the future, Oliver should continue this keyword combination, in addition to producing others that are similar to it, in the hope that he will attain an even greater return on investment.

Table 13.6 ROI assessment

(1) Keyword	(2) Clicks	(3) Cost	(4) Sales	(5) Sales Revenue (Col. 4) – (Col. 3)	(6) ROI = (Col. 5/Col. 3) × 100
Sports shoe store	110	$10/day	$35/day	$25	250%
Melbourne sports shoes	40	$25/day	$40/day	$15	60%

To evaluate his IMC program, Oliver compares the results of the program with his objectives (see Table 13.7). To measure his program's effectiveness, he conducted an inexpensive online survey using the questions in Table 13.7, which shows the survey results for one year.

Table 13.7 Program effectiveness results

Communication objective	Questions	Before campaign (%)	Six months after (%)	One year after (%)
Awareness (% mentioning store)	What stores sell sports shoes?	38	46	52
Knowledge (% giving outstanding rating for sales assistance)	Which stores would you rate outstanding on the following characteristics?	9	17	24
Attitude (% first choice)	On your next shopping trip for sports shoes, which store would you visit first?	13	15	19
Visit (% visited store)	Which of the following stores have you been to?	8	15	19

The results show a steady increase in awareness, knowledge of the store and choice of the store as a primary source of sports shoes. This research provides evidence that the IMC program was conveying the intended message to the target audience.

Adding value 13.2

Puma's use of Google Analytics

The international sports brand Puma offers clothing and accessories alongside its iconic shoes. It enjoys continued success mainly because it has turned to analytics to define its integrated marketing strategies and develop its advertising. When Puma first partnered with Google Analytics, its primary goals were to showcase the breadth of its products online and centralise its online presence. But to compete in the modern age among customers who are accustomed to shopping anywhere at any time, it needed to do more than update its website. Thus, Puma integrated its advertising with its online marketing strategy to devise an overall branded content online strategy.

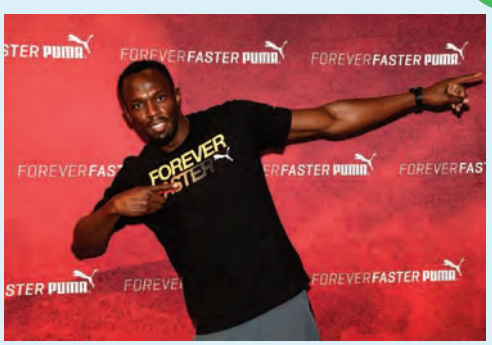


Exhibit 13.20 The insights gained from Google Analytics were used to launch a photo-driven site with profiles of famous athletes such as Olympian Usain Bolt and introduce the brand's 'Forever Faster' campaign used in television commercials and social media campaigns.

© Jamie McCarthy/Getty Images

The insights gained from Google Analytics drive these new advertising and online strategies. For example, Puma launched a new photo-driven site with multiple profiles of famous athletes such as Olympian Usain Bolt and soccer star Mario Balotelli. Instead of traditional web formats, the site weaves the featured apparel together with buy buttons that appear interspersed throughout the content. The new site was also integrated with the brand's 'Forever Faster' campaign—which also featured the same athletes in television commercials and social media campaigns (see Exhibit 13.20). Although Puma.com is still a relatively small player in the online world, it saw a significant increase in engagement and the number of site visits as a result of these efforts.

Continued

Google Analytics also helped Puma develop another aspect of its marketing strategy: by analysing each product line individually, Puma came to recognise exactly which products and lines were most popular. This analysis in turn revealed the need to improve the visibility of its women's lines. To address this need, Puma decided to add inspirational women to its list of celebrity endorsements, alongside the mostly male athletes it had been featuring. In the hope of reaching more young female customers, for example, Puma named Rihanna as a brand ambassador and creative director of its women's line.

CHECK YOURSELF

1. Why is the objective-and-task method of setting an IMC budget better than the rule-of-thumb methods?
2. How do firms use GRP to evaluate the effectiveness of traditional media?
3. How would a firm evaluate the effectiveness of its Google advertising?

Case study 13.2: *Star Wars*: an integrated marketing force

By Dr Eugene Chan, Monash University

Whether you are a *Star Wars* fan or not, it is likely that you are familiar with the buzz that surrounds the release of the latest *Star Wars* movie. The buzz around *Star Wars: The Force Awakens,* released in 2015, was no different, with promotions for the movie seemingly everywhere, in Australia and globally. By 'everywhere', it was literally *everywhere.* Not only were people exposed to movie trailers, it was on breakfast cereals, on television screens, on every smartphone screen, and even in the toy aisle.

This was not possible when the first *Star Wars* movie came out in 1977. But today, especially with the advent of technology, marketing campaigns are tightly integrated—hence we have integrated marketing communications, using not just print, billboards and TV spots, but also POS signage, product sponsorships and co-branding, mobile apps and fan promotions, among others.

The marketing campaign for *Star Wars: The Force Awakens* was no different. Through an agreement with multiple search engines, *Star Wars* dominated the first page on each one, whether you used Google, Yahoo, Bing or a local one—even Baidu in China. *Star Wars* also negotiated a licensing deal with Burger King in the United States, which offered glass collectables with *Star Wars* images on them, and with Max Factor and CoverGirl, with *Star Wars*-themed make-up; there were also LEGO toys featuring *Star Wars* characters and scenarios, and Adidas sportswear with *Star Wars* logos; you could also cover up a boo-boo with a Band-Aid *Star Wars* plaster. You could even get a 'Dark Side' laptop from HP.

In the United Kingdom, *Star Wars* partnered with O2, the mobile carrier, to offer its loyalty scheme members *Star Wars* promotions and merchandise. This included giving away 1700 tickets to the film's UK opening at Leicester Square in London and more than 250 000 pieces of merchandise such as light sabre key rings, mini speakers and toys with the droid character BB-8. For *Star Wars: The Force Awakens,* Disney partnered with practically every channel to ensure that 'The Force' was strong—it made US$2.06 billion at the box office. Messages were targeted depending on the target market. For kids, there were *Star Wars* toys and *Star Wars* lunch boxes. For older fans, there were free movie tickets and glass collectables. And for women, there was *Star Wars*-themed make-up.

What marketers can learn from *Star Wars: The Force Awakens* is that marketing campaigns are integrated now more than ever. Traditional advertising can reach some viewers, but more viewers lie beyond the movie theatre or television screen.

Yet, despite the variety of channels that got the word about *Star Wars: The Force Awakens* out there, the overarching theme was constant—the new movie was out, and Disney was using all channels

available to drum up interest. This is difficult to do in an IMC campaign. Because there are so many moving parts, each can attract different markets with different goals, creating confusion as to what is being 'sold'. *Star Wars: The Force Awakens* was successful because of its universal themes and the fact that its fans range from young to old.

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Questions

1. Identify the ways in which *Star Wars: The Force Awakens* adjusted its message depending on the receiver.
2. Draw on the case study to identify all of the relevant elements of the communications process.
3. What are the possible downfalls of conducting an integrated marketing communications campaign?

SUMMING UP

LO 13.1 Identify the components of the communication process.
The communication process begins with a sender, which provides the message to a transmitter that develops or encodes the message for transmission through a communication channel. When a recipient receives the message, it may have been altered by noise in the environment. To find out, the sender needs to receive some form of feedback from the recipient.

LO 13.2 Explain the four steps in the AIDA model.
Awareness is the first 'thinking' step, during which the consumer simply recognises a brand or product. During the interest step, the consumer starts to 'feel' and become intrigued enough to explore the product or brand. This interest then leads to another feeling, namely, desire for the marketed item. Finally, to be successful, marketing communication must prompt an action: a purchase, a commitment, a recommendation or whatever else the company is trying to get consumers to do.

LO 13.3 Describe the various integrative communication channels.
Advertising has long been the primary channel for marketing communication and is still a constant presence, but other media channels have become more and more prominent. For example, direct marketing media options, particularly online options, have increased in recent years. Outbound direct marketing telephone calls have declined, but internet-based technologies like email and m-commerce have increased. Public relations has also become increasingly important as other media forms become more expensive and as consumers grow more sceptical of commercial messages. With regard to new and electronic media, the wealth of recent options include websites, corporate blogs and social media such as YouTube, Facebook and Twitter.

LO 13.4 Describe the steps in designing and executing an advertising campaign.
Firms (1) identify their target market, (2) set advertising objectives, (3) set the advertising budget, (4) depict their product, (5) evaluate and select the media, (6) create the ad and (7) assess the impact of the ad.

Continued

LO 13.5 Identify three objectives of advertising.
All advertising campaigns are designed to inform, persuade or remind customers. Informative advertising is communication used to create and build brand awareness. Persuasive advertising is communication used to motivate consumers to take action. Finally, reminder advertising is communication used to remind or prompt repurchases.

LO 13.6 Describe the different ways in which advertisers appeal to consumers.
Advertising appeals are either informational or emotional. Informational appeals influence purchase decisions with factual information and strong arguments built around relevant key benefits that encourage consumers to evaluate the brand favourably. Emotional appeals indicate how the product satisfies emotional desires rather than utilitarian needs.

LO 13.7 Identify the various types of media.
Firms can use mass media channels like newspapers or television to reach large numbers of anonymous audience members. Niche media, such as pay television and specialty magazines, are generally used to reach narrower segments with unique demographic characteristics or interests. When choosing media, firms must match their objectives to that channel. Also, certain media are better at reaching a particular target audience.

LO 13.8 Describe the elements of a public relations toolkit.
A variety of elements comprise a firm's public relations toolkit. They include publications, video and audio programs, public service announcements, annual reports, media kits (e.g. press kits), news releases and electronic media (e.g. websites).

LO 13.9 Identify the various types of sales promotions.
Sales promotions are special incentives or excitement-building programs that encourage purchase and include coupons, deals, premiums, contests, sweepstakes, samples, POP displays, rebates and product placement. They either push sales through the channel, as is the case with contests directed towards retail salespeople, or pull sales through the channel, as coupons and rebates do.

LO 13.10 Explain the methods used to allocate the integrated marketing communications (IMC) budget.
Various rule-of-thumb methods rely on prior sales and communication activities to determine the best allocation. For example, the competitive parity method sets the budget so that the share of communication expenses equals the firm's share of the market. The percentage-of-sales method, just as it sounds, uses a fixed percentage of sales as the amount of the budget. In contrast, the objective-and-task method establishes specific communication objectives, identifies which media can best attain those objectives and then determines the related costs to expend.

LO 13.11 Identify the marketing metrics used to measure IMC success.
Marketers rely on a mix of traditional and non-traditional measures to determine IMC success. Because potential customers generally need to be exposed to IMC messages several times before they will buy, firms estimate the degree to which customers are exposed to a message by multiplying frequency (the number of times an audience is exposed to a message) by reach (the percentage of the target population exposed to a specific marketing communication). Measuring internet IMC effectiveness requires different measures, such as click-through tracking that measures how many times users click on banner advertising on websites.

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MARKETING APPLICATIONS

1. Assume that the contemporary apparel company Juicy Couture has embarked on a new IMC strategy. It has chosen to advertise on television during Network Ten's news program and in print in *Time* magazine. The message is designed to announce new styles for the season and uses a 17-year-old female model. Evaluate this strategy and, if appropriate, propose an alternative.
2. Using the steps in the AIDA model, explain why a potential consumer in question 1 who views Juicy Couture's advertising may not be ready to go out and purchase a new pair of jeans.
3. Suppose a snack company introduces a new product called SumSeeds—sunflower seeds with energy boosters like caffeine, taurine, lysine and ginseng. How would you expect this product's IMC program to differ from that for regular sunflower seeds sold as snacks?
4. It's holiday time and you've decided to purchase a box of chocolates for the person of your choice. Evaluate how Godiva's advertising, personal selling, public relations and electronic media might influence your purchase decision. How might the relative importance of each of these IMC elements be different if your parents were making the purchase?
5. Suppose you saw your lecturer for this course being interviewed on TV about the impact of a big storm on an upcoming holiday's sales. Is this interview part of your university's IMC program? If so, do you believe it benefits the university? How?
6. A retail store places an ad in the local newspaper for yoga wear. The sales of the featured items increase significantly for the next two weeks. Sales in the rest of the sportswear department go up as well. What do you think are the short- and long-term objectives of the ad? Justify your answer.
7. As an intern for Coca-Cola, you have been asked to help with developing an IMC budget. The objective of the IMC strategy is to raise Diet Coke's market share by two per cent in Australia in the next 18 months. Your manager explains, 'It's simple; just increase the budget two per cent over last year's'. Evaluate your manager's strategy.
8. You were sitting in the university cafeteria yesterday and a young man from your marketing class, whom you don't know well, asked if he could sit down. He then started telling you about this very cool new Apple product that allows you to video capture the class lectures and play them back when you want. Although you recognise the merit in the product, you later find out that he works for Apple. Do you believe his action constitutes an ethical IMC strategy? How will it affect your attitude towards Apple and the potential that you will purchase the product?

Continued

QUIZ YOURSELF

1. Senders often use cues or heuristics to facilitate _____ in the communication process.
   a. encoding
   b. decoding
   c. recoding
   d. transcoding
   e. feedback
2. Ingrid wants her company to expand its use of public relations. She argues that, as other IMC alternatives become more expensive and _____, public relations should be a larger part of her company's IMC efforts.
   a. online couponing has declined
   b. consumers have become more sceptical of marketing claims
   c. web tracking software has become more sophisticated
   d. gross rating points have become marginalised
   e. commercial speech has become more effective

(Answers to these two questions can be found on page 457.)

NET SAVVY

1. Visit www.9thwonder.com and click on the Work tab at the top. Compare the IMC for the different companies. What were the goals of the IMC? Which IMC components were used in that particular campaign? How do those components contribute to the success of the IMC campaign in achieving its stated goals?
2. The *Journal of Integrated Marketing Communications,* published annually by graduate students of the Medill School at Northwestern University in the United States, attempts to identify best practices and provide 'a forum for communications industry professionals and academia to discuss the theory and application of integrated marketing communications'. Visit its site, jimc.medill.northwestern.edu, and see what suggestions it makes. To whom does the site seem targeted?

CHAPTER CASE STUDY

An 'All Mitey' battle

By Shriya Sivaji and Manasa Ramakrishnan, Deakin University

Introduction

Vegemite was created in 1922 by Cyril P. Callister as a substitute for Marmite. Marmite has been a British favourite for over a century now, but when it became unavailable during World War I, Vegemite came into existence in Australia. This salty, unique-tasting breakfast spread soon found a spot on the Australian family's dining table.

In August 2019, the age-old war of the two concentrated yeast extract spreads took a sporty turn, amid an international audience at Lord's Cricket Ground (owned by Marylebone Cricket Club), London, UK, during the Ashes series.

The campaign

Initially, the 'mitey' battle between the two breakfast-spread giants started when Vegemite discovered that Marmite had given out free jars of its spread to Australian fans at Lord's. In response, Vegemite published a strongly worded newspaper ad in *The Daily Mirror.* One of the ads said, 'You lot won't like the taste of Vegemite. Because Vegemite tastes like Australia.' Next, Marmite responded by putting an ad in the same paper, but cleverly took a dig at the infamous Sandpapergate scandal of 2018, 'We might not taste like Australia, but love it or hate it, we won't be tampering with it. See you at the home of cricket. #MarmyArmy.'

Following this ad war, all Marylebone Cricket Club (MCC) members who attended the matches were encouraged to don the Vegemite colours, to show their support. They could even send a Marmite jar to Melbourne and the Aussie company would swap it for a stronger, bolder jar of Vegemite. The cheeky, viral ads garnered a lot of attention, especially on Twitter, as the heated sledging war escalated.

The campaign launched by Vegemite during the Ashes series aimed to achieve international brand recognition and appeal to the people in the UK. Vegemite publicised itself as having a far stronger taste in comparison to Marmite and to have added associated qualities such as resilience and fortitude with a dash of cunning and guile.

All of the cultural attributes mentioned in the Vegemite print ad were intended to reflect Australian culture and offered a fresh approach to presenting the Vegemite taste.

Execution: message

In the past, Vegemite's prime focus, to portray authentic Australian culture, was successful thanks to various campaigns such as 'Tastes Like Australia', 'Abbreviatin' Everythin', 'Having a Public Holiday for a Horse Race', 'Vegemite Name Me' and 'How Do You Like Your Vegemite?'. These phrases resonated well with the Australian public.

The message advertised during the Ashes series glorified Australian taste preferences and aimed at appealing to an international crowd by reflecting patriotic sentiments. The message adopted an emotional appeal, which intended to obtain empathy for the brand and lead to an amicable confrontation against its competitor, Marmite.

The importance of a collaborative agency and marketing department relationship is typified through a quote by Adam Ferrier. Ferrier, the founder of Thinkerbell agency and who is an award-winning advertising creative, says, 'Having a tightly understood brand platform in Tastes Like Australia means that as a working team we can have fun, take advantage of topical events and work at speed with confidence. The strong brand understanding and clear articulation makes doing interesting spikes of activity much easier.' This ability to work at speed was exemplified by their response soon after Australia's cricket victory in the Ashes series. Vegemite concluded the battle by sending the burnt remains of a piece of toast spread with Marmite and contained within the Mitey Ashes Urn to Marmite's office in the UK with a note that said: 'Thanks for a mitey battle. Catch ya at 2021!'.

In marketing strategies, there are always numerous choices on how to respond. Without knowing what was in the minds of the Vegemite marketing team, it is possible that other strategies could have been considered. One possible approach might have been to use Australian celebrities whose names are well established internationally, such as actors Margot Robbie, Rebel Wilson or Hugh Jackman, or the singer Sia, who could have promoted Vegemite's brand name with a unique personalised message. The limitation here is deviating from the sport, as those who follow these celebrities may not necessarily follow cricket. Another approach could be to get famous Australian cricket stars to endorse Vegemite. However, this might have the problem of limiting the message to cricket followers rather than getting it across to the general public.

Media

The integrated marketing communication campaign undertaken by Vegemite during the Ashes series was instigated through traditional and digital media. Vegemite's prime focus was on print media, *The Daily Mirror.* Following this, the battle was carried forward to Twitter, where numerous Vegemite-friendly hashtags such as #miteybattle, #VegemiteisbetterthanMarmite, #tasteslikeaustralia, etc. went viral. Although the print media reached out just to those who physically bought *The Daily Mirror,* the viral twitter tweets and hashtags managed to have a wider international coverage.

Outcome metrics

Sometimes people argue that all publicity is good publicity. In this case, the feud between the brands grew the whole category and helped them gain valuable media exposure. Being associated with Marmite, the popular yeast extract brand in the UK, the less well-known Vegemite gained instant brand recognition among British people. This further benefited Vegemite as it managed to enhance its brand awareness in Australia.

The impact of any campaign lies in both attitude change and positive behaviour. Vegemite's creativity and out-of-the-box thinking has got it to its successful and renowned brand recognition status today. 'Topical and entertaining creative perfectly in line with Vegemite's "Tastes Like Australia" brand platform generated significant earned media coverage for the brand, reaching over 32 million people, illustrating the power of brilliant creative,' affirmed Matt Gray, Senior Marketing Manager of Vegemite.

Continued

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DISCUSSION QUESTIONS

1. What other promotional media might be useful within the Vegemite integrated marketing communication campaign?
2. In what ways would you use social media to spread the Vegemite campaign message?
3. Give an example of Vegemite sales promotions that could take place at Lord's Cricket Ground that would obtain free publicity through media and at the ground itself.
4. Would an emotional or humorous message appeal be more appropriate for the Vegemite campaign? How might you execute that?

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Quiz yourself answer key

Chapter 1

1. The 'Got Milk?' advertising campaign was designed to help market a(n):

   Answer: (c) industry.

2. Henry Ford's statement, 'Customers can have any colour they want so long as it's black', typified the _____ era of marketing.

   Answer: (a) production

Chapter 2

1. Reebok is actively offering online coupons on Facebook. It is probably trying to:

   Answer: (a) excite consumers.

2. Crowdsourcing is a means of starting off:

   Answer: (c) product/service co-creation.

Chapter 3

1. Burger King's Whopper Sacrifice campaign was seen to be a violation of the ethical norms of social media because:

   Answer: (d) it went against the purpose of social media, which is about making connections.

2. The Harvestville school board is concerned about deteriorating school facilities, combined with a shrinking budget. The board began by studying the issue and then identified parents, children, teachers, staff and taxpayers as groups who have a vested interest in solving the problem. The school board has listened to each group's concerns. In the ethical decision-making framework, its next action should be to:

   Answer: (c) engage in brainstorming and evaluate alternatives.

Chapter 4

1. Recently, Jason, one of the few people who have not registered with the Do Not Call Registry, received a call from a marketer suggesting Jason needed additional insurance since he had just become a father and changed jobs. Jason was shocked and very concerned about:

   Answer: (b) his lack of privacy.

2. Some Australian consumers are purchasing hybrid vehicles even though they are more expensive when compared to compact conventional cars. Car marketers recognise that these consumers:

   Answer: (a) value contributing to a greener environment.

Chapter 5

1. Teddy has a nearly new economy car but wants a sports car. If he decides to purchase a sports car, he will be primarily fulfilling _____ needs.

   Answer: (d) psychological

2. When Marlon decided to buy a new computer, he thought about all of the brands he could recall seeing advertised, but he would only consider those brands he could buy at his local electronics store. This represents Marlon's _____ set.

   Answer: (c) evoked

3. Danae has decided the criteria she is going to use in determining which dishwasher to purchase. She is now collecting information on how some of the brands on the market perform in terms of these criteria. Danae is using:

   Answer: (c) limited problem-solving.

4. Which of the following is *not* part of the process stage of the model of consumer decision-making?

   Answer: (c) Trial

5. When Claire bought a new coat on sale, her concern that a product will not be consistent with her self-image deals with:

   Answer: (b) psychological risk.

6. 'When consumers see what they want to see' sums up the whole notion of:

   Answer: (b) perception.

Chapter 6

1. Apple has directed its marketing efforts for the iPad Mini towards women. This is an example of which kind of segmentation?

   Answer: (c) Demographic

2. Within a perceptual map, what represents where a particular market segment's desired product would lie?

   Answer: (c) Ideal point

Chapter 7

1. Through analysis of sales data, ALDI retail store found that customers who bought peanut butter also tended to buy bananas. ALDI was engaged in:

   Answer: (d) data mining.

2. MIA.G, a market research company, has brought together a small group of soft-drink consumers to get feedback on the three new advertising slogans that a consulting firm is considering. The market research firm might conduct a(n) _____ to provide the information the firm has requested.

   Answer: (c) focus group

3. During the _____ phase of a research project, researchers concentrate on gathering information about the organisation, its environment and the type of problem it may be facing.

   Answer: (a) situation-analysis

4. Sogo Hong Kong, a large department store in Hong Kong, is interested in data that has been gathered specifically for its current research project. This is an example of _____ data.

   Answer: (a) primary

5. Sogo Hong Kong wants to understand how enjoyment of shopping motivates consumers' shopping behaviour. This is an example of _____, which are designed to gather more complex insightful information.

   Answer: (b) qualitative research methods

6. Sogo Hong Kong wants to develop a customer database to better target its different customer segments. Databases will allow the marketing team at the department store to _____.

   Answer: (d) all of the above (sort customer records by specific characteristics, select customer records by specific characteristics and concentrate on more narrowly defined markets)

Chapter 8

1. A university that has separate undergraduate and postgraduate admission offices recognises that these are distinct:

   Answer: (b) product/service lines.

2. _____ is the set of assets and liabilities linked to a brand that add to or subtract from the value provided by the product.

   Answer: (d) Brand equity

Chapter 9

1. By the time BMW and Mercedes-Benz entered the mini-SUV market, there were many competitors, sales had peaked and profits were declining. These firms entered the market during which stage of the product life cycle?

   Answer: (c) Maturity

2. Lorraine belongs to a national consumer panel created by a market research company. She regularly receives samples of new products from a variety of firms and fills out questionnaires about the products. The national consumer panel Lorraine is part of is engaged in:

   Answer: (a) premarket testing.

Chapter 10

1. Barbara manages a Golden Chain Motel on a highway. She knows from experience that five to 10 last-minute customers will call after 8pm each evening looking for a room and asking the price. Barbara has empowered her staff to offer discounts when the motel is largely vacant and to quote the standard price when the motel is close to full. She knows her service is _____, meaning that if no one stays in the room, it generates no revenue that evening.

   Answer: (e) perishable

2. A _____ gap reflects the difference between a firm's perception of customer expectations and a firm's standards for service to be delivered.

   Answer: (c) standards

Chapter 11

1. If a shoe company has $2 million in fixed costs, its average shoe sells for $100 a pair, and variable costs are $60 per unit, how many units does the company need to sell to break even?

   Answer: (c) 50 000

2. The Porsche 918 Spyder is priced at $550 000. The demand for such a prestigious car is likely to be:

   Answer: (b) price inelastic.

Chapter 12

1. David Jones is an example of a(n):

   Answer: (a) department store.

2. Kmart, Big W and Target dominate which industry in Australia?

   Answer: (c) Discount stores

Chapter 13

1. Senders often use cues or heuristics to facilitate _____ in the communication process.

   Answer: (a) encoding

2. Ingrid wants her company to expand its use of public relations. She argues that, as other IMC alternatives become more expensive and _____, public relations should be a larger part of her company's IMC efforts.

   Answer: (b) consumers have become more sceptical of marketing claims

Appendix 1

Understanding ethics using scenarios

In this appendix, we present nine ethical scenarios designed to assist you in developing your skills at identifying ethical issues. There is no one right answer to the dilemmas below, just as there will be no correct answers to many of the ethical situations you will face throughout your career. Instead, these scenarios can help you develop your sensitivity toward ethical issues, as well as your ethical reasoning skills. Refer to Figure 3.4 in Chapter 3 for an ethical decision-making metric to assist you in evaluating the following and all such ethical dilemmas you may face.

Scenario 1: J.S. Breweries: Promotion to the youth market

Alcohol company J.S. Breweries sent promotional deals via social media channels to young adults, on their 18th birthdays (the legal age for alcohol consumption in Australia) that could be 'cashed in' across pubs and bars. The campaign, called 'Drinks on us' and featuring the slogan 'Go 'til daybreak, and make sure you're sittin' was deemed controversial as the message failed to comply with Australian alcohol laws designed to protect the community from the harmful effects of alcohol and this campaign was eventually stopped.

After graduation, you have an offer to work in either marketing or sales at J.S. Breweries and work on a similar campaign specifically targeting the youth market. The pay and benefits are very competitive. The job market is tight and if you don't get a job right away you may be economically disadvantaged. Should you take the job?

Scenario 2: Car manufacturer gives bribes for contracts

A car manufacturer just found out that two of its overseas business units have been engaging in bribery over a 10-year period. The company paid $56 million in bribes to more than 20 countries to gain government contracts for their vehicles. The company was investigated by the Australian Commission for Law Enforcement Integrity and is now paying millions in criminal and civil charges because of its violation of the regulations and it admits to earning more than $50 million in profits based on its corrupt transactions. The company recorded the bribe payments as 'commissions', 'special discounts', or 'necessary payments'. Should the manufacturer discontinue its operations with the countries that were unlawfully bribed to buy its cars? Are financial fines sufficient to repair the problem? How can companies be sure the commissions they earn are true commissions and not a bribe?

Scenario 3: Retailers lack ethical guidelines

Octavia has been working at Threadworks for less than a year. Her sales figures have never been competitive with those of her co-workers, and the sales manager has called her in for several meetings to discuss her inability to close the sale. Things look desperate; in the last meeting, the sales manager told her that if she did not meet her quota next month, the company would have to fire her.

In considering how she might improve her methods and sales, Octavia turned to another salesperson, namely, the one with the most experience in the store. Marilyn has been with Threadworks for nearly 10 years, and she virtually always gets the sale. But how?

'Let me tell you something', Marilyn explains. 'Every customer that comes in to Threadworks wants to leave with clothing they feel is customised just for them. . . so I always tell them what they want to hear and always make sure to "upsell". I do this by showing the most expensive item in the line and insisting it is "the one", and of course accessories, the more the better . . .'.

Upselling is a sales technique aimed at persuading customers to purchase a more expensive, upgraded or premium version of the chosen item or other add-ons for the purpose of making a larger sale.[1]

Should Octavia follow Marilyn's advice and save her job?

Scenario 4: Giving credit where credit isn't due

A catalogue retailer that carries home and children's items such as children's furniture, clothing and toys, was seeking a way to reach a new audience and stop the declining sales and revenue trends it was suffering. A market research

firm hired by the cataloguer identified a new but potentially risky market: lower-income single parents. The new market seemed attractive because of the large number of single parents but most of these homes were severely constrained in terms of their monetary resources.

The research firm proposed that the cataloguer offer a generous credit policy that would allow consumers to purchase up to $500 worth of merchandise on credit without a credit check, provided they signed up for direct payment of their credit account from a cheque account. Because these were high-risk consumers, the credit accounts would carry extremely high interest rates. The research firm believed that even with losses, enough accounts would be paid off to make the venture extremely profitable for the catalogue retailer.

Should the cataloguer pursue this new strategy?

Scenario 5: The jeweller's tarnished image

Sparkle Gem Jewellers, a family-owned and -operated costume jewellery manufacturing business, traditionally sold its products only to wholesalers. Recently however, Sparkle Gem was approached by the charismatic Barb Stephens, who convinced the owners to begin selling through a network of distributors she had organised. The distributors recruited individuals to host 'jewellery parties' in their homes. Sparkle Gem's owners, the Bling family, has been thrilled with the revenue generated by these home parties and started making plans for the expansion of the distributor network.

However, Mrs Bling just received a letter from a jewellery party customer, who expressed sympathy for her loss. Mrs Bling was concerned and contacted the letter writer, who told her that Barb Stephens had come to the jewellery party and told the story of Sparkle Gem. According to Stephens' story, Mrs Bling was a young widow struggling to keep her business together after her husband had died. The writer had purchased $200 worth of jewellery at the party and told Mrs Bling that she hoped it helped. Mrs Bling was stunned. She and her very-much-alive husband had just celebrated their 50th wedding anniversary.

What advice would you give Mrs Bling?

Scenario 6: No wonder it's so good

Enjoy Cola is a new product produced by ABC Beverage and marketed with the slogan 'Relax with Enjoy'. Unlike other colas on the market, Enjoy does not contain caffeine and therefore is positioned as the perfect beverage to end the day or for a slow-paced weekend, and as a means to help consumers relax and unwind. The market response has been tremendous and sales of Enjoy have been growing rapidly, especially among women.

ABC Beverage decided not to list on the ingredients label that Enjoy contains a small amount of alcohol because it is not required to do so by the government unless the alcohol content is more than 1 per cent.

Mia Rodriguez, the marketing director for Enjoy, only recently learned that Enjoy contains a small amount of alcohol and is troubled about ABC's failure to disclose this information on the ingredients list. She worries about the impact of this omission on consumers who have alcohol sensitivities or those who shouldn't be consuming alcohol, such as pregnant women and recovering alcoholics.

What should Rodriguez do? What would you do in her position?

Scenario 7: Bright Baby's bright idea

Bartok Manufacturing produces a line of infant toys under the 'Bright Baby' brand label. The Australian Competition & Consumer Commission (ACCC) recently issued a recall order for the Bright Baby car seat gym, a very popular product. According to the ACCC, the gym contains small parts that present a choking hazard. The CEO of Bartok Manufacturing, Bill Bartok, called an executive meeting to determine the firm's strategy in response to the recall.

The recall could cost as much as $10 million in lost revenue from the Bright Baby line. Noting that there had been no deaths or injuries from the product, just the potential for injury, the board proposed that the remaining inventory of car seat gyms be sold in regions. Sue Tyler, the marketing director for Bartok, recommended that the product be repackaged and sold under a different brand name so that the Bright Baby name would not be associated with the product. The board was considering its options to avoid the monetary losses.

What would you have recommended as CEO?

What are some long-term effects for the brand in taking this advice?

Scenario 8: Money from mailing lists

Sports Nostalgia Emporium sells autographed sports memorabilia online. Recently, the director of marketing started using a mailing list he had purchased from Marketing Metrix, a market research firm that sells consumer information. The director relies on such purchased mailing lists to grow the company and sends printed catalogues to thousands of people each month. The mailing lists he gets from Marketing Metrix are much more effective than other mailing lists and generate almost twice as much revenue.

In a recent conversation with a sales representative from Marketing Metrix, it was revealed Marketing Metrix tracks the online behaviour of consumers and uses that information to create targeted lists. The mailing lists that Marketing Metrix has been using consist of consumers who visited the websites of Sports Nostalgia Emporium's competitors and that these consumers are not aware that someone is collecting information about their online behaviour, along with their names and addresses, and selling it to other firms.

Should the director continue to use the Marketing Metrix mailing list? If so, should new customers visiting the website be informed how their names and addresses were collected? Do consumers need to give consent before firms can collect information about their behaviour?

Scenario 9: The blogging CEO

David Burdick is the CEO of ACME Bubblegum, a successful public company. As one of the co-founders of the company, Burdick has enjoyed speaking and writing about the success of ACME Bubblegum for several years. Typically, he speaks at conferences or directly to the press, but recently, he has been blogging about his firm anonymously. Specifically, he defended a recent advertising campaign that was unpopular among consumers and pointedly attacked one of ACME Bubblegum's competitors. Burdick deeply enjoys his anonymous blogging and believes that none of his readers actually know that he works for ACME Bubblegum.

Should Burdick be allowed to praise his company's performance anonymously online? Should he be allowed to attack his competitors without disclosing his relationship with the company? How would you feel if the CEO of a company at which you shopped was secretly writing criticisms of his or her competition? How would you feel if you knew a writer for your favourite blog was actually closely involved in a company that the blog community discussed?

ENDNOTE

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Appendix 2

Using secondary data to assess Customer Lifetime Value (CLV)

This appendix examines how secondary data from customer transactions can help determine the value of a customer over time. Specifically, Customer Lifetime Value (CLV) refers to the expected financial contribution from a particular customer to the firm's profits over the course of their entire relationship.[1]

To estimate CLV, firms use past behaviours to forecast future purchases, the gross margin from these purchases, and the costs associated with servicing the customers. Some costs associated with maintaining customer relationships include communicating with customers through advertising, personal selling, or other promotional vehicles to acquire their business initially and then retain them over time.

Measures of CLV typically apply to a group or segment of customers and use available secondary data. A basic formula for CLV (with the assumption that revenues and profits arrive at the start of the year) is as follows:[2]

$$\text{CLV} = \frac{\sum_{t=1}^{T} [\text{profit at } t \times \text{retention rate}^{t-1}]}{(1+i)^{t-1}} - \text{acquisition costs}$$

To implement this CLV formula, we must answer the following questions:

1. How many years (t) can we expect to do business with a customer? The total number of years is denoted by T.
2. What can we expect the annual profits to be from an individual customer or an average customer? These profits are based on sales minus the costs of merchandise and the costs of serving and retaining the customer.
3. What is the retention rate, that is, the average percentage of customers who continue to purchase from the firm from one time period to another? A 90 per cent retention rate means that if we have 100 customers in the first year, we will have 90 at the beginning of the second year.
4. What is the discount rate (i)? The discount rate is based on the idea that a dollar is worth less in the future than it is today, so the company can use it to adjust future profits and determine a customer's value today for the customer's purchases in the future. For example, if the discount rate is 10 per cent, $100 in profits at the beginning of Year 2 are worth only $90.91 (100/(1+1)) at the beginning of Year 1.

Consider Greg Missoni, a fairly new client of Very Clean Cleaners who switched from his other dry cleaner because Very Clean sent him $100 worth of coupons in a direct mailing.

Greg just picked up his $200 shirt from Very Clean and found that the dry cleaner had broken a brown button and replaced it with a white button. When he complained, the clerk acted as if it were no big deal. Greg explained to the clerk that it was a very expensive shirt that deserved more careful handling, then asked to speak with the manager.

At this point, how important is it that the manager makes sure Greg is satisfied, so that he will continue to bring his dry cleaning to Very Clean Cleaners? To answer this question, the manager uses the following information:

- It cost Very Clean $100 to acquire Greg as a customer. Thus, the acquisition cost is $100.
- Very Clean expects Greg to remain a client for 5 years (time horizon T = 5 years).
- Very Clean expects to make a $1000 profit each year from Greg's dry cleaning.
- On average, 10 per cent of customers defect to another cleaner each year. Therefore, the expected retention rate is 90 per cent.
- The discount rate is 10 per cent per year (in this illustration). For simplicity, Very Clean assumes all profits are accrued at the beginning of the year.

Applying the formula, such that CLV equals the profits from Years 1–5, less the acquisition costs, we obtain:

$$\text{CLV} = \underbrace{\frac{\$1000 \times (0.90)^0}{(1+0.1)^0}}_{\text{Year 1}} + \underbrace{\frac{\$1000 \times (0.90)^1}{(1+0.1)^1}}_{\text{Year 2}} + \underbrace{\frac{\$1000 \times (0.90)^2}{(1+0.1)^2}}_{\text{Year 3}} + \underbrace{\frac{\$1000 \times (0.90)^3}{(1+0.1)^3}}_{\text{Year 4}} + \underbrace{\frac{\$1000 \times (0.90)^4}{(1+0.1)^4}}_{\text{Year 5}} - \$100$$

Or

$$\text{CLV} = \$1000 + \$818.2 + \$669.4 + \$547.7 + \$448.1 - \$100 = \$3383.40$$

Let's see how the formula works. The expected profit from Greg is $1000 per year. Very Clean assumes profits accrue at the beginning of the year, so the profits for the first year equal $1000; they are not affected by the retention rate or the discount rate.

However, the retention and discount rates have effects on the profits for the subsequent time periods. In the second year, the retention rate, which Very Clean determined was 90 per cent (i.e. 90 per cent of customers continue to do business with it) modifies profits, such that expected profits in the second year equal $1000 × 90% = $900.

Moreover, the discount rate is applied such that the profits received in the second year are worth less than if they had been received in the first year. Therefore, the $900 received at the beginning of the second year must be divided by 1.1, which is equivalent to $818.20.

Using similar calculations for the third year, the expected profits adjusted for retention are $1000 × 0.9 × 0.9 = $810. The discount rate then reduces the profit to $810 ÷ 1.1^2 = $669.40 in today's dollars. (Note that the discount rate is squared because it refers to two years in the future.)

After calculating the adjusted and discounted profits for the fourth and fifth years in similar fashion, we realise the sum of estimated discounted profits for five years is $3483.40. However, we still must subtract the $100 spent to acquire Greg, which provides a CLV of $3383.40.

According to this analysis, it would be a good idea for the manager to take a long-term perspective when evaluating how to respond to Greg's complaint about his button. Greg cannot be viewed as a $2.50 customer, as he would be if Very Clean determined his value based on the cost of laundering his shirt, nor should he be viewed as a $200 customer, based on the cost of the shirt. He actually is worth a lot more than that.

For illustrative purposes, we have simplified the CLV calculations in this example. We assumed that the average profits remain constant at $1000. But firms usually expect profits to grow over time, or else grow, level off and then perhaps decline. Retention costs, such as special promotions used to keep Greg coming back, also do not appear in our illustration, though such additional costs would reduce annual profits and CLV. Finally, we assume a five-year time horizon; the CLV obviously would differ for longer or shorter periods. For an infinite time horizon, with first period payments upfront, the formula becomes fairly simple:[3]

$$\begin{aligned}\text{CLV} &= \text{profits} \times \left[1 + \frac{\text{retention rate}}{(\$1 + \text{discount rate} + \text{retention rate})}\right] - \text{acquisition costs} \\ &= \$1000 \times \left[1 + \frac{0.9}{(1 + 0.1 - 0.9)}\right] - \$100 \\ &= \$1000 \times (1 + 4.5) - \$100 \\ &= \$5500 - \$100 = \$5400\end{aligned}$$

This illustration thus explains how firms can use secondary data to calculate CLV; it further demonstrates the importance of knowing a customer's lifetime value when executing marketing tactics and strategies.

Very Clean Cleaners should consider a customer's lifetime value to determine its service levels.

ENDNOTES

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2. We have made some minor adjustments to the formula suggested by Gupta et al., 'Modeling Customer Lifetime Value'.
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Glossary

actual product The physical attributes of a product including the brand name, features/design, quality level and packaging.

administered vertical marketing system A supply chain system in which there is no common ownership and no contractual relationships, but the dominant channel member controls the channel relationship.

advertising A paid form of communication from an identifiable source, delivered through a communication channel, and designed to persuade the receiver to take some action, now or in the future.

advertising allowance The tactic of offering a price reduction to channel members if they agree to feature the manufacturer's product in their advertising and promotional efforts.

advertising plan A section of the firm's overall marketing plan that explicitly outlines the objectives of the advertising campaign, how the campaign might accomplish those objectives, and how the firm can determine whether the campaign was successful.

advertising schedule The specification of the timing and duration of advertising.

affective component A component of *attitude* that reflects what a person feels about the issue at hand—his or her like or dislike of something.

AIDA model A common model of the series of mental stages through which consumers move as a result of marketing communications: *A*wareness leads to *I*nterests, which lead to *D*esire, which leads to *A*ction.

aided recall Occurs when consumers recognise a name (e.g. of a brand) that has been presented to them.

alpha testing An attempt by a firm to determine whether a product will perform according to its design and whether it satisfies the need for which it was intended; occurs in the firm's research and development (R&D) department.

apps Mobile applications designed to offer advanced features to consumers that are similar to standard websites but optimised for their mobile phones.

associated services (augmented product) The non-physical attributes of a product (also called augmented product), including product warranties, financing, product support and after-sales service.

attitude A person's enduring evaluation of his or her feelings about and behavioural tendencies towards an object or idea; consists of three components: *cognitive, affective* and *behavioural.*

B2B (business-to-business) The process of selling merchandise or services from one business to another.

B2C (business-to-consumer) The process in which businesses sell to consumers.

baby boomers The generational cohort of people born after World War II, between 1946 and 1964.

behavioural component A component of *attitude* that comprises the actions a person takes with regard to the issue at hand.

behavioural segmentation A segmentation method that divides customers into groups based on how they use the product. Some common behavioural measures include purchase, usage and consumption.

beta testing Having potential consumers examine a product prototype in a real-use setting to determine its functionality, performance, potential problems and other issues specific to its use.

big-box retailers Discount stores that offer a narrow but deep assortment of merchandise. See *category killer.*

biometric data Digital scanning of the physiological or behavioural characteristics of individuals as a means of identification.

blog (weblog) A web page that contains periodic posts; corporate blogs are a new form of marketing communications.

body copy The main text portion of an ad.

brand association The mental links that consumers make between a brand and its key product attributes; can involve a logo, slogan or famous personality.

brand awareness Measures how many consumers in a market are familiar with the brand and what it stands for; created through repeated exposures of the various brand elements (brand name, logo, symbol, character, packaging or slogan) in the firm's communications to consumers.

brand dilution Occurs when a brand extension adversely affects consumer perceptions about the attributes the core brand is believed to hold.

brand elements Characteristics that identify the sponsor of a specific ad.

brand equity The set of assets and liabilities linked to a brand that add to or subtract from the value provided by the product.

brand extension The use of the same brand name for new products being introduced to the same or new markets.

brand licensing A contractual arrangement between firms, whereby one firm allows another to use its brand name, logo, symbols or characters in exchange for a negotiated fee.

brand loyalty Occurs when a consumer buys the same brand's product repeatedly over time rather than buying from multiple suppliers within the same category.

brand repositioning (rebranding) A strategy in which marketers change a brand's focus to target new markets or realign the brand's core emphasis with changing market preferences.

breadth The number of product lines offered by a firm; also known as variety.

break-even analysis A technique used to examine the relationships among cost, price, revenue and profit over different levels of production and sales to determine the *break-even point.*

break-even point The point at which the number of units sold generates just enough revenue to equal the total costs; at this point, profits are zero.

breakthroughs A new product introduction that establishes a completely new market or radically changes both the rules of competition and consumer preferences in a market.

business ethics Refers to a branch of ethical study that examines ethical rules and principles within a commercial context, the various moral or ethical problems that might arise in a business setting, and any special duties or obligations that apply to persons engaged in commerce.

C2C (consumer-to-consumer) The process in which consumers sell to other consumers.

cash discount The tactic of offering a reduction in the invoice cost if the buyer pays the invoice prior to the end of the discount period.

category killer A specialist that offers an extensive assortment in a particular category, so overwhelming the category that other retailers have difficulty competing.

category specialist (big-box retailer or category killer) A retailer that offers a narrow variety but a deep assortment of merchandise; also known as *big-box retailer* or *category killer.*

cause-related marketing A commercial activity in which businesses and charities form a partnership to market an image, a product or a service for their mutual benefit; a type of promotional campaign.

checking The process of going through the goods upon receipt to ensure they arrived undamaged and that the merchandise ordered was the merchandise received.

chemist A specialty store that concentrates on health and personal grooming merchandise, though pharmaceuticals may represent more than 60 per cent of its sales.

churn The number of consumers who stop using a product, divided by the average number of consumers of that product.

click-through rate (CTR) The number of times a user clicks on an online ad divided by the number of *impressions.*

co-branding The practice of marketing two or more brands together, on the same package, promotion or store.

co-creation The involvement of various parties, particularly consumers and an organisation's employees, in the production of marketing, advertising campaigns, new product ideas or even new product development.

coercive power Threatening or punishing the other channel member for not undertaking certain tasks. Delaying payment for late delivery would be an example.

cognitive component A component of *attitude* that reflects what a person believes to be true.

communication channel The medium—such as print, broadcast or the internet—that carries the message.

communication gap A type of *service gap;* refers to the difference between the actual service provided to customers and the service that the firm's promotion program promises.

compensatory decision rule When a consumer is evaluating alternatives and trades off one characteristic against another, such that good characteristics compensate for bad ones.

competition-based pricing method An approach that attempts to reflect how the firm wants consumers to interpret its products relative to the competitors' offerings; for example, setting a price close to a competitor's price signals to consumers that the product is similar, whereas setting the price much higher signals greater features, better quality or some other valued benefit.

competitive parity A firm's strategy of setting prices that are similar to those of major competitors.

competitor orientation A company objective based on the premise that the firm should measure itself primarily against its competition.

concentrated targeting strategy A marketing strategy that selects a single, primary target market and focuses all energies on providing a product to fit that market's needs.

concept A brief written description of a product; its technology, working principles and forms; and what customer needs it would satisfy.

concept testing The process in which a concept statement that describes a product or a service is presented to potential buyers or users to obtain their reactions.

consumer decision rules The set of criteria that consumers use consciously or subconsciously to quickly and efficiently select from among several alternatives.

consumer products Goods and services used by people for their personal use.

consumption segmentation A type of behavioural segmentation based on when and how a product is consumed.

content marketing The marketing technique of creating and distributing valuable, relevant and consistent content to attract and acquire a clearly defined audience, with the objective of driving profitable customer action.

contest A brand-sponsored competition that requires some form of skill or effort.

continuous schedule Runs steadily throughout the year and therefore is suited to goods and services that are consumed continually at relatively steady rates and that require a steady level of persuasive or reminder advertising.

contractual vertical marketing system A system in which independent firms at different levels of the supply chain join together through contracts to obtain economies of scale and coordination and to reduce conflict.

contribution per unit Equals the price less the variable cost per unit. A variable used to determine the break-even point in units.

convenience products/services Those products and services on which the consumer is not willing to spend any effort to evaluate prior to purchase.

convenience store A type of retailer that provides a limited number of items at a convenient location in a small store with speedy checkout.

conventional or conventional marketing channel A marketing channel in which several independent members—a manufacturer, a wholesaler and a retailer—each attempts to satisfy its own objectives and maximise its profits, often at the expense of the other members.

conventional supermarket A type of retailer that offers groceries, meat and fresh produce with limited sales of non-food items, such as health and beauty aids and general merchandise, in a self-service format.

conversion rate The percentage of consumers who buy a product after viewing it.

cookie A computer program, installed on hard drives, that provides identifying user information.

core customer value The basic problem-solving benefits that consumers are seeking.

corporate social responsibility (CSR) Refers to the voluntary actions taken by a company to address the ethical, social and environmental impacts of its business operations and the concerns of its stakeholders.

corporate vertical marketing system A system in which the parent company has complete control and can dictate the priorities and objectives of the supply chain; it may own facilities such as manufacturing plants, warehouse facilities, retail outlets and design studios.

cost of ownership method A value-based method for setting prices that determines the total cost of owning the product over its useful life.

cost-based pricing method An approach that determines the final price to charge by starting with the cost, without recognising the role that consumers or competitors' prices play in the marketplace.

country culture Entails easy-to-spot visible manifestations that are particular to a country, such as dress, symbols, ceremonies, language, colours and food preferences, and more subtle aspects, which are trickier to identify.

coupon Provides a stated discount to consumers on the final selling price of a specific item; the retailer handles the discount.

cross-dock In a distribution centre, merchandise that is ready for sale and is placed on a conveyor system that routes it from the unloading dock at which it was received to the loading dock for the truck going to a specific store for delivery.

cross-promoting Efforts of two or more firms joining together to reach a specific target market.

cross-shopping The pattern of buying both premium-and low-priced merchandise or patronising both expensive, status-oriented retailers and price-oriented retailers.

culture The set of values, guiding beliefs, understandings and ways of doing things shared by members of a society; this exists on two levels: visible artefacts (e.g. behaviour, dress, symbols, physical settings, ceremonies) and underlying values (e.g. thought processes, beliefs and assumptions).

cumulative quantity discount A pricing tactic that offers a discount based on the amount purchased over a specified period and usually involves several transactions; encourages resellers to maintain their current supplier because the cost to switch must include the loss of the discount.

customer orientation A company objective based on the premise that the firm should measure itself primarily according to whether it meets its customers' needs.

customer relationship management (CRM) A business philosophy and set of strategies, programs and systems that focus on identifying and building loyalty among the firm's most valued customers.

customer service Specifically refers to human or mechanical activities firms undertake to help satisfy their customers' needs and wants.

data Raw numbers or facts.

data mining The use of a variety of statistical analysis tools to uncover previously unknown patterns in the data stored in databases or relationships among variables.

data warehouses Large computer files that store millions and even billions of individual pieces of data.

deal A type of short-term price reduction that can take several forms, such as a 'featured price', a price lower than the regular price; a 'buy one, get one free' offer; or a certain percentage 'more free' offer contained in larger packaging; can involve a special financing arrangement, such as reduced percentage interest rates or extended repayment terms.

decline stage The stage of the product life cycle when sales decline and the product eventually exits the market.

decoding The process by which the receiver interprets the sender's message.

delivery gap A type of *service gap;* the difference between the firm's service standards and the actual service it provides to customers.

demand curve Shows how many units of a product consumers will demand during a specific period at different prices.

demographic segmentation The grouping of consumers according to easily measured, objective characteristics such as age, gender, income and education.

demographics Information about the characteristics of human populations and segments, especially those used to identify consumer markets such as by age, gender, race, income and education.

department store A retailer that carries many different types of merchandise (broad variety) and lots of items within each type (deep assortment), offers some customer services, and is organised into separate departments to display its merchandise.

depth The number of products within a product line.

determinant attributes Product features that are important to the buyer and on which competing brands or stores are perceived to differ.

differentiated targeting strategy A strategy through where firm targets several market segments with a different offering for each.

diffusion of innovation The process by which the use of an innovation, whether a product or a service, spreads throughout a market group over time and over various categories of adopters.

digital natives Also known as *generation Z*, people in this group were born into a world that was already full of electronic gadgets and digital technologies, such as the internet and social networking sites.

direct marketing Sales and promotional techniques that deliver promotional materials individually.

direct marketing channel Where the manufacturer sells directly to the buyer.

dispatcher The person who coordinates deliveries to distribution centres.

distribution centre A facility for the receipt, storage and redistribution of goods to company stores or customers; may be operated by retailers, manufacturers or distribution specialists.

distribution intensity The number of supply chain members to use at each level of the supply chain.

distributive fairness Pertains to a customer's perception of the benefits they received compared with the costs (inconvenience or loss) that resulted from a service failure.

early adopters The second group of consumers in the diffusion of innovation model, after *innovators,* to use a product innovation; generally don't like to take as much risk as innovators but instead wait and purchase the product after careful review.

early majority A group of consumers in the diffusion of innovation model that represents approximately 34 per cent of the population; members don't like to take much risk and therefore tend to wait until bugs are worked out of a particular product; few new goods and services can be profitable until this large group buys them.

earned media Public-relations-type media that an organisation earns but has not paid for, such as the social sharing of a particularly funny, innovative or educational marketing message.

elastic Refers to a market for a product that is price sensitive; that is, relatively small changes in price will generate fairly large changes in the quantity demanded.

electronic data interchange (EDI) The computer-to-computer exchange of business documents from a retailer to a vendor and back.

emotional appeal Aims to satisfy consumers' emotional desires rather than their utilitarian needs.

emotional support Concern for others' wellbeing and support of their decisions in a job setting.

empowerment In the context of service delivery, allowing employees to make decisions about how service is provided to customers.

encoding The process of converting the sender's ideas into a message, which could be verbal, visual or both.

entrepreneur A person who organises, operates and assumes the risk of a new business venture.

esteem needs Needs that enable people to fulfil inner desires.

ethical climate The set of values within a marketing firm, or in the marketing division of any firm, that guide decision-making and behaviour.

evaluative criteria Consist of a set of salient, or important, attributes about a particular product.

event sponsorship A popular public relations tool; occurs when corporations support various activities (financially or otherwise), usually in the cultural or sports and entertainment sectors.

evoked set Comprises the alternative brands or stores that the consumer states they would consider when making a purchase decision.

exchange The trade of things of value between the buyer and the seller so that each is better off as a result.

exclusive distribution Strategy in which only selected retailers can sell a manufacturer's brand.

experience curve effect Refers to the drop in unit cost as the accumulated volume sold increases; as sales continue to grow, the costs continue to drop, allowing even further reductions in the price.

experiment A type of conclusive and quantitative research that systematically manipulates one or more variables to determine which variables have a causal effect on another variable.

experimental research (experiment) A type of conclusive and quantitative research that systematically manipulates one or more variables to determine which variables have a causal effect on another variable.

expertise power When a channel member uses its expertise as leverage to influence the actions of another channel member.

extended problem-solving A purchase decision process during which the consumer devotes considerable time and effort to analysing alternatives; it often occurs when the consumer perceives that the purchase decision entails a lot of risk.

external locus of control Refers to when consumers believe that fate or other external factors control all outcomes.

external search for information Occurs when the buyer seeks information outside his or her personal knowledge base to help make the buying decision.

extreme-value food retailer A retailer that offers only one or two brands or sizes of most products (usually including a store brand) and attempts to achieve great efficiency to lower costs and prices.

extreme-value retailer A general merchandise discount store that offer a limited merchandise assortment at very low prices

family brand A firm's own corporate name used to brand its product lines and products.

feedback loop Allows the receiver to communicate with the sender and thereby informs the sender of whether the message was received and decoded properly.

financial risk Risk associated with a monetary outlay; includes the initial cost of the purchase, as well as the costs of using the item or service.

firmographics Used in business-to-business market segmentation; like demographics but for firms, not individuals.

first movers Product pioneers that are the first to create a market or product category, making them readily recognisable to consumers and thus establishing a commanding and early market share lead.

fixed costs Those costs that remain essentially at the same level, regardless of any changes in the volume of production.

flighting advertising schedule An advertising schedule implemented in spurts, with periods of heavy advertising followed by periods of no advertising.

floor-ready merchandise Merchandise that is ready to be placed on the selling floor immediately.

flow effect The immersive state that is produced when a person 'zones out' the peripheral environment in favour of the current activity/experience.

focus group interview A research technique in which a small group of people (usually 8 to 12) comes together for an intensive discussion about a particular topic, with the conversation guided by a trained moderator using an unstructured method of enquiry.

foreign currency fluctuations Changes in the value of a country's currency relative to the currency of another country; can influence consumer spending.

franchising A contractual agreement between a *franchisor* and a *franchisee* that allows the franchisee to operate a

business using a name and format developed and supported by the franchisor.

frequency Measure of how often the audience is exposed to a communication within a specified period of time.

full-line discount stores Retailers that offer low prices, limited service and a broad variety of merchandise.

functional needs Needs that pertain to the performance of a product.

gamification The process of building customer loyalty through game-like design elements so as to create interest and engagement.

generation X (Xers) The generational cohort of people born between 1965 and 1979.

generation Y (gen Y or millennials) The generational cohort of people born between 1980 and 1994; the biggest cohort since the postwar baby boom.

generation Z (gen Z or digital natives) Also known as digital natives, because people in this group were born into a world that was already full of electronic gadgets and digital technologies, such as the internet and social networking sites. Cohort born between 1995 and 2010.

generational cohort A group of people of the same generation; they typically have similar purchase behaviours because they have shared experiences and are at the same stage of life.

geodemographic segmentation The grouping of consumers on the basis of a combination of geographic, demographic and lifestyle characteristics.

geographic segmentation The grouping of consumers on the basis of where they live.

goods Items that can be physically touched, as opposed to services.

green marketing Involves a strategic effort by firms to supply customers with environmentally friendly merchandise.

greenwashing The practice of making an unsubstantiated or misleading claim about the environmental benefits of a product, service, technology or company practice.

greenwashing The practice of making an unsubstantiated or misleading claim about the environmental benefits of a product, service, technology or company practice.

grey market Employs irregular but not necessarily illegal methods; generally, it legally circumvents authorised channels of distribution to sell goods at prices lower than those intended by the manufacturer.

gross rating points (GRP) A measure used for various media advertising—print, radio or television; *GRP = reach × frequency.*

growth stage The stage of the product life cycle when the product gains acceptance, demand and sales increase, and competitors emerge in the product category.

habitual decision-making A purchase decision process in which consumers engage with little conscious effort.

headline In an advertisement, large type designed to draw attention.

heterogeneity As it refers to the differences between the marketing of goods and services, the delivery of services is more variable.

horizontal channel conflict A type of channel conflict in which members at the same level of a marketing channel, for example, two competing retailers or two competing manufacturers, are in disagreement or discord, such as when they are in a price war.

ideal point The position at which a particular market segment's ideal product would lie on a *perceptual map.*

ideas Intellectual concepts—thoughts, opinions and philosophies.

impressions The number of times an advertisement appears in front of the user.

improvement value method An estimate of how much more (or less) consumers are willing to pay for a product relative to other comparable products.

impulse buying A buying decision made by customers on the spot when they see the merchandise.

in-depth interview An exploratory research technique in which trained researchers ask questions, listen to and record the answers, and then pose additional questions to clarify or expand on a particular issue.

income effect Refers to the change in the quantity of a product demanded by consumers due to a change in their income.

independent or conventional marketing channel A marketing channel in which several independent members—a manufacturer, a wholesaler and a retailer—each attempts to satisfy its own objectives and maximise its profits, often at the expense of the other members.

indirect marketing channel Where one or more intermediaries work with manufacturers to provide goods and services to customers.

individual brand The use of individual brand names for each of a firm's products.

inelastic Refers to a market for a product that is price insensitive; that is, relatively small changes in price will not generate large changes in the quantity demanded.

inflation Refers to the persistent increase in the prices of goods and services.

influence In a social media context, the extent to which a person influences others (e.g. how much the other people in a person's network read that person's content).

infographic A pictorial means of presenting information, which is a common piece of content marketing, particularly for B2B organisations.

information Organised, analysed, interpreted data that offers value to marketers.

information power A type of marketing channel power within an administered vertical marketing system in which one party (e.g. the manufacturer) provides or withholds important information to influence the actions of another party (e.g. the retailer).

informational appeal Used in a promotion to help consumers make purchase decisions by offering factual information and strong arguments built around relevant issues that encourage them to evaluate the brand favourably on the basis of the key benefits it provides.

informative advertising Communication used to create and build brand awareness, with the ultimate goal of moving the consumer through the buying cycle to a purchase.

innovation The process by which ideas are transformed into new goods and services that will help firms grow.

innovators Those buyers who want to be the first to have the new product.

inseparable A characteristic of a service: it is produced and consumed at the same time; that is, service and consumption are inseparable.

institutional advertisement A type of advertisement that informs, persuades or reminds consumers about issues related to places, politics or an industry.

instrumental support Providing the equipment or systems needed to perform a task in a job setting.

intangible A characteristic of a service; it cannot be touched, tasted or seen like a product can.

integrated marketing communications (IMC) Represents the promotion dimension of the four Ps; it encompasses a variety of communication disciplines—general advertising, personal selling, sales promotion, public relations, direct marketing and electronic media—in combination to provide clarity, consistency and maximum communicative impact.

intensive distribution A strategy designed to get products into as many outlets as possible.

interest rates These represent the cost of borrowing money.

internal locus of control Refers to when consumers believe they have some control over the outcomes of their actions, in which case they generally engage in more search activities.

internal search for information Occurs when the buyer examines his or her own memory and knowledge about the product gathered through past experiences.

introduction stage The stage of the product life cycle when innovators start buying the product.

introductory price promotion Short-term price discounts designed to encourage a trial of the products.

involvement A consumer's interest in a product and the personal importance of that product.

just-in-time (JIT) inventory system (or quick response (QR) systems) An inventory management system designed to deliver less merchandise on a more frequent basis than traditional inventory systems; the firm gets the merchandise 'just-in-time' for it to be used in the manufacture of another product, in the case of parts or components, or for sale when the customer wants it, in the case of consumer goods; also known as *quick response (QR) systems* in retailing.

knowledge gap A type of *service gap;* reflects the difference between customers' expectations and the firm's perception of those expectations.

laggards Consumers who like to avoid change and rely on traditional products until they are no longer available.

lagged effect A delayed response to a marketing communication campaign.

late majority The last group of buyers to enter a new product market; when they do, the product has achieved its full market potential.

lead time The amount of time between the recognition that an order needs to be placed and the arrival of the needed merchandise at the seller's store, ready for sale.

lead users Innovative product users who modify existing products according to their own ideas to suit their specific needs.

leader pricing A consumer pricing tactic that attempts to build store traffic by aggressively pricing and advertising a regularly purchased item, often priced at or just above the store's cost.

learning Refers to a change in a person's thought process or behaviour that arises from experience and takes place throughout the consumer decision process.

lease A written agreement under which the owner of an item or property allows its use for a specified period of time in exchange for a fee.

legitimate power A type of marketing channel power that occurs if the channel member exerting the power has a contractual agreement with the other channel member that requires the other channel member to behave in a certain way. This type of power occurs in an administered vertical marketing system.

lifestyle A component of *psychographics;* refers to the way a person lives his or her life to achieve goals.

limited problem-solving Occurs during a purchase decision that calls for, at most, a moderate amount of effort and time.

limited-assortment supermarket (extreme-value food retailer) A retailer that offers only one or two brands or sizes of most products (usually including a store brand) and attempts to achieve great efficiency to lower costs and prices; also known as *extreme-value food retailer.*

line extension The use of the same brand name within the same product line; represents an increase in a product line's depth.

location-based software Any app, website or program that is able to tailor messages to you based on your location.

love (belongingness) needs Needs expressed through interactions with others.

loyalty program A program specifically designed to retain customers by offering premiums or other incentives to customers who make multiple purchases over time.

macroenvironmental factors Aspects of the external environment that affect a company's business, such as the culture, demographics, social issues, technological advances, economic situation and political/legal environment.

manufacturer brands (national brands) Brands owned and managed by the manufacturer; also called national brands.

markdown A pricing tactic aimed at consumers; describes the reductions retailers make on the initial selling price of a product.

market penetration strategy A growth strategy focused on current customers.

marketing An organisational function and a set of processes for creating, capturing, communicating and delivering value to customers and for managing customer relationships in ways that benefit the organisation and its stakeholders.

marketing channel The set of institutions that transfer the ownership of, and move goods from, the point of production to the point of consumption; consists of all of the institutions and marketing activities in the marketing process.

marketing channel management (supply chain management) A set of approaches and techniques firms employ to efficiently and effectively integrate their suppliers, manufacturers, warehouses, stores and transport intermediaries into a seamless value chain in which

merchandise is produced and distributed in the right quantities, to the right locations and at the right time, as well as to minimise system-wide costs while satisfying the service levels their customers require. Also called supply chain management.

marketing ethics Refers to those ethical problems that are specific to the domain of marketing.

marketing mix (four Ps) Product, price, place and promotion—the controllable set of activities that a firm uses to respond to the wants of its target markets.

marketing plan A written document composed of an analysis of the current marketing situation, opportunities and threats for the firm, marketing objectives and strategy specified in terms of the four Ps, action programs, and projected or pro forma income (and other financial) statements.

marketing research A set of techniques and principles for systematically collecting, recording, analysing and interpreting data that can aid decision-makers involved in marketing goods, services or ideas.

Maslow's Hierarchy of Needs A paradigm for classifying people's motives. It argues that when lower-level, more basic needs (physiological and safety) are fulfilled, people turn to satisfying their higher-level human needs (social and personal); see *physiological, safety, love, esteem* and *self-actualisation.*

mass marketing See *undifferentiated targeting strategy.*

mass media Channels that are ideal for reaching large numbers of anonymous audience members; include national newspapers, magazines, radio and television.

maturity stage The stage of the product life cycle when industry sales reach their peak, so firms try to rejuvenate their products by adding new features or repositioning them.

maximising profits A profit strategy that relies primarily on economic theory. If a firm can accurately specify a mathematical model that captures all of the factors required to explain and predict sales and profits, it should be able to identify the price at which its profits are maximised.

media buy The purchase of airtime or print pages.

media mix The combination of media used and the frequency of advertising in each medium.

media planning The process of evaluating and selecting the *media mix* that will deliver a clear, consistent and compelling message to the intended audience.

meta tag phrases (metadata) Is hidden text that describe a page's content to help tell search engines what a web page is about.

micromarketing (or one-to-one marketing) An extreme form of segmentation that tailors a product to suit an individual customer's wants or needs.

millennials Also known as generation Y; people born between 1980 and 1994.

mobile marketing Marketing through wireless handheld devices.

monopolistic competition Occurs when there are many firms that sell closely related but not homogeneous products; these products may be viewed as substitutes but are not perfect substitutes.

monopoly Occurs when one firm provides the product in a particular industry.

motive A need or want that is strong enough to cause the person to seek satisfaction.

multi-attribute model A compensatory model of customer decision-making based on the notion that customers see a product as a collection of attributes or characteristics. The model uses a weighted average score based on the importance of various attributes and performance on those issues.

multichannel strategy A strategy that involves selling through more than one channel (e.g. stores, the internet, catalogues).

need recognition The beginning of the consumer decision process; occurs when consumers recognise they have an unsatisfied need and want to go from their actual, needy state to a different, desired state.

negative word of mouth Occurs when consumers spread negative information about a product, service or store to others.

niche media Channels that are focused and generally used to reach narrow segments, often with unique demographic characteristics or interests.

noise Any interference that stems from competing messages, a lack of clarity in the message, or a flaw in the medium; a problem for all communication channels.

non-compensatory decision rule When consumers choose a product on the basis of a subset of its characteristics, regardless of the values of its other attributes.

non-cumulative quantity discount A pricing tactic that offers a discount based on only the amount purchased in a single order; provides the buyer with an incentive to purchase more merchandise immediately.

objective-and-task method An IMC budgeting method that determines the cost required to undertake specific tasks to accomplish communication objectives; process entails setting objectives, choosing media and determining costs.

observation An exploratory research method that entails examining purchase and consumption behaviours through personal or video camera scrutiny.

off-price retailer A type of retailer that offers an inconsistent assortment of merchandise at relatively low prices.

oligopolistic competition Occurs when only a few firms dominate a market.

omni-channel retailing A multichannel approach to sales that seeks to provide customers with a seamless integrated shopping experience, whether they're shopping online from a desktop or mobile device, by telephone, or in a bricks-and-mortar store.

one-to-one marketing See *micromarketing.*

online chat Instant messaging or voice conversation with an online sales representative.

owned media An organisation's own media, such as its own website, its own social media channels or email marketing.

panel data Information collected from a group of consumers.

perceived value The relationship between a product's or service's benefits and its cost.

perception The process by which people select, organise and interpret information to form a meaningful picture of the world.

perceptual map Displays, in two or more dimensions, the position of products or brands in the consumer's mind.

performance risk Involves the perceived danger inherent in a poorly performing product.

perishable A characteristic of a service: it cannot be stored for use in the future.

personal selling The two-way flow of communication between a buyer and a seller that is designed to influence the buyer's purchase decision.

personalisation (customisation) Promotions, goods and services tailored for the individual customer and which offer a competitive advantage. A benefit of the internet can include heightened service or individualised offerings.

persuasive advertising Communication used to motivate consumers to take action.

physiological needs Those relating to the basic biological necessities of life: food, drink, rest and shelter.

physiological risk The risk of actual bodily harm should a product not perform properly.

pick ticket A document or display on a screen in a forklift truck indicating how many of each item to get from specific storage areas.

pioneers (radical innovations or breakthroughs) A new product introduction that establishes a completely new market or radically changes both the rules of competition and consumer preferences in a market; also called a *breakthrough*.

planner In a retailing context, an employee who is responsible for the financial planning and analysis of merchandise, and its allocation to stores.

point-of-purchase (POP) display A merchandise display located at the point of purchase, such as at the checkout counter in a grocery store.

post-testing The evaluation of an IMC campaign's impact after it has been implemented.

postpurchase cognitive dissonance The psychologically uncomfortable state produced by an inconsistency between beliefs and behaviours that in turn evokes a motivation to reduce the dissonance; buyer's remorse.

power A situation that occurs in a marketing channel in which one member has the means or ability to have control over the actions of another member in a channel at a different level of distribution, such as if a retailer has power or control over a supplier.

predatory pricing The practice of a firm setting a very low price for one or more of its products with the intention of driving its competition out of business.

premarket test Assessments performed before an ad campaign is implemented to ensure that the various elements are working in an integrated fashion and doing what they are intended to do.

premium An item offered for free or at a bargain price to reward some type of behaviour, such as buying, sampling or testing.

premium pricing A competitor-based pricing method by which the firm deliberately prices a product above the prices set for competing products to capture those consumers who always shop for the best or for whom price does not matter.

prestige goods or services Those that consumers purchase for status rather than functionality.

pretesting Assessments performed before an ad campaign is implemented to ensure that the various elements are working in an integrated fashion and doing what they are intended to do.

price The overall sacrifice a consumer is willing to make—money, time, energy—to acquire a specific product.

price bundling A consumer pricing tactic of selling more than one product for a single, lower price than the items would cost if sold separately; can be used to sell slow-moving items, to encourage customers to stock up so they won't purchase competing brands, to encourage trial of a new product, or to provide an incentive to purchase a less desirable product to obtain a more desirable one in the same bundle.

price elasticity of demand Measures how changes in a price affect the quantity of the product demanded; specifically, the ratio of the percentage change in quantity demanded to the percentage change in price.

price lining Consumer market pricing tactic of establishing a price floor and a price ceiling for an entire line of similar products and then setting a few other price points in between to represent distinct differences in quality.

price skimming A strategy of selling a new product at a high price that *innovators* and *early adopters* are willing to pay in order to obtain it; after the high-price market segment becomes saturated and sales begin to slow down, the firm generally lowers the price to capture (or *skim*) the next most price-sensitive segment.

price war Occurs when two or more firms compete primarily by lowering their prices.

pricing strategy A long-term approach to setting prices for a firm's products.

pricing tactics Short-term methods, in contrast to long-term pricing strategies, used to focus on company objectives, costs, customers, competition or channel members; can be responses to competitive threats (e.g. lowering price temporarily to meet a competitor's price reduction) or broadly accepted methods of calculating a final price for the customer that is short term in nature.

primary data Data collected to address specific research needs.

primary package The packaging the consumer uses, such as the toothpaste tube, from which they typically seek convenience in terms of storage, use and consumption.

procedural fairness Refers to the customer's perception of the fairness of the process used to resolve complaints about service.

product Anything that is of value to a consumer and can be offered through a voluntary marketing exchange.

product design Entails a process of balancing various engineering, manufacturing, marketing and economic considerations to develop a product's form and features or a service's features.

product development (product design) Entails a process of balancing various engineering, manufacturing, marketing and economic considerations to develop a product's form and features or a service's features also called *product design.*

product life cycle Defines the stages that new products move through as they enter, get established in and ultimately leave the marketplace, and thereby offers marketers a starting point for their strategy planning.

product line A group of associated items, such as those that consumers use together or think of as part of a group of similar products.

product mix The complete set of all goods and services offered by a firm.

product placement Inclusion of a product in non-traditional situations, such as in a scene in a movie or television program.

product-focused advertisement An advertisement to inform, persuade or remind consumers about a specific product.

profit orientation A company objective that can be implemented by focusing on *target profit pricing, maximising profits* or *target return pricing.*

prototype The first physical form or service description of a new product, still in rough or tentative form, that has the same properties as a new product but is produced through different manufacturing processes, sometimes even crafted individually.

psychographics Used in segmentation; delves into how consumers describe themselves; allows people to describe themselves using those characteristics that help them choose how they occupy their time (behaviour) and what underlying psychological reasons determine those choices.

psychological needs Needs that pertain to the personal gratification consumers associate with a product.

psychological risk Risk associated with the way people will feel if the product does not convey the right image.

public relations (PR) The organisational function that manages the firm's communications to achieve a variety of objectives, including building and maintaining a positive image, handling or heading off unfavourable stories or events, and maintaining positive relationships with the media.

public service advertisement (PSA) Advertising that focuses on public welfare and is generally sponsored by non-profit institutions, civic groups, religious organisations, trade associations or political groups; a form of *social marketing.*

pull strategy A strategy designed to get consumers to pull the product into the supply chain by demanding it.

pulsing advertising schedule Combines the continuous and flighting schedules by maintaining a base level of advertising but increasing advertising intensity during certain periods.

purchase segmentation A type of behavioural segmentation based on when and how often a product is purchased or consumed.

pure competition Occurs when different companies sell commodity products that consumers perceive as substitutable; price is usually set according to the laws of supply and demand.

push strategy A strategy designed to increase demand by motivating sellers—wholesalers, distributors or salespeople—to highlight the product, rather than the products of competitors, and thereby push the product onto consumers.

qualitative research Informal research methods, including observation, following social media sites, in-depth interviews, focus groups and projective techniques.

quantitative research Structured responses that can be statistically tested to confirm insights and hypotheses generated via qualitative research or secondary data.

quantity discount The pricing tactic of offering a reduced price according to the amount purchased; the more the buyer purchases, the higher the discount and, of course, the greater the value.

questionnaire A form that features a set of questions designed to gather information from respondents and thereby accomplish the researchers' objectives; questions can be either unstructured or structured.

quick response An inventory management system used in retailing; merchandise is received just in time for sale when the customer wants it; see *just-in-time (JIT) systems.*

radiofrequency identification (RFID) tag A tiny computer chip that automatically transmits to a special scanner all the information about a container's contents or individual products.

reach Measure of consumers' exposure to marketing communications; the percentage of the target population exposed to a specific marketing communication, such as an advertisement, at least once.

rebate A consumer discount in which a portion of the purchase price is returned to the buyer in cash; the manufacturer, not the retailer, issues the refund.

receiver The person who reads, hears or sees and processes the information contained in the message or advertisement.

receiving The process of recording the receipt of merchandise as it arrives at a distribution centre or store.

recommended retail price (RRP) The retail price specified by the manufacturer.

reference group One or more people used by an individual as a basis for comparison regarding beliefs, feelings and behaviours.

referent power A type of marketing channel power that occurs if one channel member wants to be associated with another channel member. The channel member with whom the others wish to be associated has the power and can get them to do what it wants.

regional culture The influence of the area within a country in which people live.

relational orientation A method of building a relationship with customers based on the philosophy that buyers and sellers should develop a long-term relationship.

relationship selling A sales philosophy and process that emphasises a commitment to maintaining the relationship over the long term and investing in opportunities that are mutually beneficial to all parties.

relevance In the context of search engine marketing (SEM), a metric used to determine how useful an advertisement is to the consumer.

reminder advertising Communication used to remind consumers of a product or to prompt repurchases, especially for products that have gained market acceptance and are in the maturity stage of their life cycle.

reserve price The price in an auction that is the minimum amount at which a seller will sell an item.

retailer/store brands (private-label brand) A product developed and marketed by a retailer and available only from that retailer; also called private-label brand.

retailing The set of business activities that add value to goods and services sold to consumers for their personal or family use; includes products bought at stores, through

catalogues and over the internet, as well as services like fast-food restaurants, airlines and hotels.

retrieval set Includes those brands or stores that the consumer can readily bring forth from memory.

return on investment (ROI) The amount of profit divided by the value of the investment. In the case of an advertisement, the ROI is (the sales revenue generated by the ad – the ad's cost) ÷ the ad's cost.

reverse engineering Involves taking apart a competitor's product, analysing it and creating an improved product that does not infringe on the competitor's patents, if any exist.

reward power A type of marketing channel power that occurs when the channel member exerting the power offers rewards to gain power, often a monetary incentive, for getting another channel member to do what it wants it to do.

RFID (radio frequency identification device) Technology that tracks an item from the moment it was manufactured, through the distribution system, to the retail store and into the hands of the final consumer.

rule-of-thumb methods Budgeting methods that base the IMC budget on either the firm's share of the market in relation to competition, a fixed percentage of forecasted sales, or what is left after other operating costs and forecasted sales have been budgeted.

safety needs One of the needs in the hierarchy of needs; pertains to protection and physical wellbeing.

safety risk Risk associated with the way people will feel if the product does not convey the right image.

sales orientation A company objective based on the belief that increasing sales will help the firm more than will increasing profits.

sales promotions Special incentives or excitement-building programs that encourage the purchase of a product, such as coupons, rebates, contests, free samples and point-of-purchase displays.

sample A group of customers who represent the customers of interest in a research study.

sampling Offers potential customers the opportunity to try a product before they make a buying decision.

scanner data A type of syndicated external secondary data used in quantitative research that is obtained from scanner readings of universal product code (UPC) labels at checkout counters.

search engine marketing (SEM) A type of online advertising whereby companies pay for keywords that are used to catch consumers' attention while browsing a search engine.

search engine optimisation (SEO) Increasing traffic to websites so that they are ranked more highly by search engines in organic or unpaid search results. This involves the use of keywords relating to the product and industry in the website's content and coding.

seasonal discount Pricing tactic of offering an additional reduction as an incentive to retailers to order merchandise in advance of the normal buying season.

secondary data Pieces of information that have already been collected from other sources and are usually readily available.

secondary package The wrapper or exterior carton that contains the primary package and provides the UPC label used by retail scanners; can contain additional product information that may not be available on the primary package.

selective distribution Lies between the intensive and exclusive distribution strategies; uses a few selected retail customers in a territory.

self-actualisation When a person is completely satisfied with his or her life.

self-concept The idealised image a person has of themself; a component of *psychographics*.

self-values Goals for life, not just the goals one wants to accomplish in a day; a component of *psychographics* that refers to overriding desires that drive how a person lives their life.

sender The firm from which an IMC message originates; the sender must be clearly identified to the intended audience.

sentiment mining Data gathered by evaluating customer comments posted through social media sites such as Facebook and Twitter.

service gap Results when a service fails to meet the expectations that customers have about how it should be delivered.

service quality Customers' perceptions of how well a service meets or exceeds their expectations.

services Any intangible offering that involves a deed, performance or effort that cannot be physically possessed; intangible customer benefits that are produced by people or machines and cannot be separated from the producer.

services retailer A firm that primarily sells services rather than merchandise.

shopping products/services Those for which consumers will spend time comparing alternatives, such as apparel, fragrances and appliances.

showrooming When customers visit a store to touch, feel and even discuss a product's features with a salesperson, and then purchase it online from another retailer at a lower price.

situational factors Factors affecting the consumer decision process: those that are specific to the situation that may override, or at least influence, psychological and social issues.

size discount The most common implementation of a quantity discount at the consumer level; the larger the quantity bought, the less the cost per unit (e.g. per kilogram).

slotting allowance Fee firms pay to retailers simply to get new products into stores or to gain more or better shelf space for their products.

social CRM The strategic use of the range of social media to engage with customers and gather, manage and analyse information on them with a view to building profitable relationships.

social customer service The use of social media as a customer service channel that is interactive, but only in a reactive manner, to consumer queries.

social marketing The content distributed through online and mobile technologies to facilitate interpersonal interactions.

social media Media used for social interactions, such as YouTube, Facebook and Twitter.

social risk The risk that others might not regard one's purchase positively.

specialty products/services Goods or services towards which the customer shows a strong preference and for which they will expend considerable effort to search for the best suppliers.

specialty store A type of retailer that concentrates on a limited number of complementary merchandise categories in a relatively small store.

standards gap A type of *service gap;* pertains to the difference between the firm's perceptions of customers' expectations and the service standards it sets.

status quo pricing A competitor-oriented strategy in which a firm changes prices only to meet those of the competition.

stock keeping units (SKUs) Individual items within each product category; the smallest unit available for inventory control.

strategic relationship (partnering relationship) A supply chain relationship that the members are committed to maintaining long term, investing in opportunities that are mutually beneficial; requires mutual trust, open communication, common goals and credible commitments.

structured questions Closed questions for which a discrete set of response alternatives, or specific answers, is provided for respondents to choose from.

supply chain The group of firms that make and deliver a given set of goods and services.

supply chain management A set of approaches and techniques firms employ to efficiently and effectively integrate their suppliers, manufacturers, warehouses, stores and transport intermediaries into a seamless value chain in which merchandise is produced and distributed in the right quantities, to the right locations and at the right time, as well as to minimise system-wide costs while satisfying the service levels their customers require.

survey A systematic means of collecting information from people, which generally uses a *questionnaire.*

sweepstakes A form of sales promotion that offers prizes based on a chance drawing of entrants' names.

SWOT analysis A planning exercise in which managers identify organisational Strengths, Weaknesses, (environmental) Opportunities and Threats.

syndicated data Data available for a fee from commercial research firms.

target profit pricing A pricing strategy implemented by firms when they have a particular profit goal as their overriding concern; uses price to stimulate a certain level of sales at a certain profit per unit.

target return pricing A pricing strategy implemented by firms less concerned with the absolute level of profits and more interested in the rate at which their profits are generated relative to their investments; designed to produce a specific return on investment, usually expressed as a percentage of sales.

test marketing Introduces a new product to a limited geographical area (usually a few cities) prior to a national launch.

ticketing and marking Creating price and identification labels and placing them on the merchandise.

time risk The risk associated with loss of time in finding suitable products, or delays in receiving them.

top-of-mind awareness A prominent place in people's memories that triggers a response without them having to put any thought into it.

total cost The sum of the *variable* and *fixed costs.*

touchpoints The range of ways in which a consumer can interact with an organisation, offline and online (e.g. in store, by telephone, website, email, social media).

tracking Includes monitoring key indicators, such as daily or weekly sales volume, while the advertisement is running to shed light on any problems with the message or the medium.

trade promotion Advertising to wholesalers or retailers to get them to purchase new products, often through special pricing incentives.

trade shows Major events attended by buyers who choose to be exposed to goods and services offered by potential suppliers in an industry.

transmitter An agent or intermediary with which the sender works to develop the marketing communications; for example, a firm's creative department or an advertising agency.

transparency of information The consumer is now empowered in many instances because of their unprecedented access to information about products, prices and competition.

undifferentiated targeting strategy (mass marketing) A marketing strategy a firm can use if the product is perceived to provide the same benefits to everyone, with no need to develop separate strategies for different groups.

uniform delivered pricing When a transport company charges one rate, no matter where the buyer is located.

unique selling proposition (USP) A strategy of differentiating a product by communicating its unique attributes; often becomes the common theme or slogan in the entire advertising campaign.

universal set Includes all possible choices for a product category.

unsought products/services Goods or services that consumers either do not normally think of buying or do not know about.

unstructured questions Open questions that allow respondents to answer in their own words.

usage segmentation A type of behavioural segmentation based on the usage rate of how often a product is used.

value Reflects the relationship of benefits to costs, or what the consumer *gets* for what they *give.*

value co-creation When customers act as collaborators with a manufacturer or retailer to create the product.

value proposition The unique value that a product provides to its customers and how it is better than and different from those of competitors.

value-based pricing method An approach that focuses on the overall value of the product offering as perceived by consumers, who determine value by comparing the benefits they expect the product to deliver with the sacrifice they will need to make to acquire the product.

variable costs Those costs, primarily labour and materials, that vary with production volume.

vertical channel conflict A type of channel conflict in which members of the same marketing channel, for example,

manufacturers, wholesalers and retailers, are in disagreement or discord.

vertical marketing system A supply chain in which the members act as a unified system; there are three types: *administered, contractual* and *corporate.*

voice-of-customer (VOC) program An ongoing marketing research system that collects customer inputs and integrates them into managerial decisions.

warehouse clubs Large retailers with an irregular assortment, low service levels and low prices, that often require membership for shoppers.

wholesalers Those firms engaged in buying, often storing, and physically handling goods in large quantities, then reselling the goods (usually in smaller quantities) to retailers or industrial or business users.

zone of tolerance The area between customers' expectations regarding their desired service and the minimum level of acceptable service—that is, the difference between what the customer really wants and what they will accept before going elsewhere.

zone pricing When a transport company sets different prices depending on a geographical division of the delivery areas.

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Appendix

Writing a marketing plan

Why Write a marketing plan?[1]

As a student, you likely plan out much in your life–where to meet for dinner, how much time to spend studying for exams, which courses to take next semester, and so on. Plans enable us to figure out where we want to go and how we might get there.

For a firm, the goal is not much different. Any company that wants to succeed (which means any firm whatsoever) needs to plan for a variety of contingencies and marketing represents one of the most significant. A marketing plan–which we defined in Chapter 2 as a written document composed of an analysis of the current marketing situation, opportunities and threats for the firm, marketing objectives and strategy specified in terms of the four Ps, action programs, and projected or proforma income (and other financial) statements–enables marketing personnel and the firm as a whole to understand their own actions, the market in which they operate, their future direction and the means to obtain support for new initiatives.[2]

Because these elements–internal activities, external environments, goals and forms of support–differ for every firm, the marketing plan is different for each firm as well. However, several guidelines apply to marketing plans in general; this appendix summarizes those points and offers an annotated example.

Marketing plan versus business plan

Of course, firms consider more than marketing when they make plans and therefore commonly develop business plans as well. Yet as this book highlights, marketing constitutes such an important element of business that business plans and marketing plans coincide in many ways.[3] Both marketing and business plans generally encompass:

1. Executive summary.
2. Company overview.
3. Objectives or goals, usually according to strategic plan and focus.
4. Situation analysis.
5. Customer segmentation, target marketing and positioning analysis.
6. Marketing strategy.
7. Financial projections.
8. Implementation plan.
9. Evaluation and control metrics.
10. Appendix.

However, a business plan also includes details about R&D and operations, and both may feature details about other key topics, depending on the focus of the company and the plan.

Structure of a marketing plan

This section briefly describes each of the elements of a marketing plan.[4]

Executive summary

The executive summary essentially tells the reader why he or she is reading this marketing plan–what changes require consideration, what new products need discussion, and so forth–and suggests possible actions to take in response to the information the plan contains.

Company overview

In this section, the plan provides a brief description of the company, including perhaps its mission statement, background and competitive advantages.

Objectives/goals

This section offers more specifics about why readers are reading the marketing plan. What does the company want to achieve, both overall and with this particular marketing plan?

Situation analysis

Recall from Chapter 2 that a situation analysis generally relies on SWOT considerations; therefore, this section describes the strengths, weaknesses, opportunities and threats facing the company.

STP analysis

The analysis proceeds by assessing the market in which the company functions, the products it currently offers or plans to offer in the future and the characteristics of current or potential customers.

Marketing strategy

The marketing strategy may be very specific, especially if the plan pertains to, for example, a stable product in a familiar market, or it may be somewhat open to varied possibilities, such as when the firm plans to enter a new market with an innovative product.

Financial projections

On the basis of the knowledge already obtained, the marketing plan should provide possible developments and returns on the marketing investments outlined in the marketing strategy.

Implementation plan

This portion of the marketing plan includes the timing of promotional activities, when monitoring will take place and how expansions likely will proceed.

Evaluation and control metrics

The firm must have a means of assessing the marketing plan's recommendations; the marketing plan therefore must indicate the methods for undertaking this assessment, whether quantitatively or qualitatively.

Appendix

The final section(s) offers additional information that might be of benefit, such as a list of key personnel, data limitations that may influence the findings, and suggestions of the plan, relevant legislation, and so forth.

Information sources[5]

When writing a marketing plan, you likely can turn to a variety of your firm's in-house information sources, including annual reports, previous marketing plans, published mission statements, and so on. In addition, various sources offer suggestions and examples that may provide you with direction and ideas. A reference librarian can help you find many of these sources, which likely are available through your university's library system.

- Knowthis.com–a knowledge source for marketing: http://www.knowthis.com/tutorials/principles-of-marketing/how-to-write-a-marketing-plan/21.htm.
- Encyclopedia of American Industries–introduces industry structure; arranged by SIC and NAICS codes.

- Standard & Poor's NetAdvantage–surveys of more than 50 different industries, with financial data about companies in each industry.
- Investext Plus–brokerage house reports.
- IBISWorld–market research on thousands of industries; classified by NAICS code.
- Statistical Abstract of the United States–a vast variety of statistics on a wealth of topics.
- US Census Bureau–detailed statistical data gathered every 10 years on all aspects of the US population.
- County Business Patterns: US Census Bureau–payroll and employee numbers for most NAICS codes.
- Consumer Expenditure Study: US Bureau of Labor Statistics–income and expenditures by household, classified by various demographics.
- LifeStyle Market Analyst–lifestyle information about geographic areas, lifestyle interest groups and age and income groups.
- Mediamark Reporter–information about demographics, lifestyles, product and brand usage, and advertising media preferences.
- Scarborough Arbitron–local market consumer information for various media in 75 local markets for consumer retail shopping behavior, product consumption, media usage, lifestyle behavior and demographics.
- Simmons Study of Media and Markets–products and consumer characteristics; various media audiences and their characteristics.
- Sourcebook America–demographic data, including population, spending potential index, income, race and *Tapestry* data, presented by state, county, DMA and zip code, as well as business data by county and zip code.
- Rand McNally Commercial Atlas and Marketing Guide–maps and tables showing demographic, industrial, transportation, railroad, airline and hospital data.
- 'Survey of Buying Power', Sales and Marketing Management–current state, county, city and town estimates of population by age, retail sales by store group, effective buying income and buying power index.
- Annual & 10-K reports from *Thomson One Banker*, *Edgar* and *LexisNexis*–business descriptions, product listings, distribution channels, possible impact of regulations and lawsuits, and discussions of strategic issues.
- MarketResearch.com Academic–market research reports on a variety of consumer products.
- Mintel Reports Database–market research reports focusing on consumer products, lifestyles, retailing, and international travel industry.

Linguistic and visual suggestions

Again, recall that all marketing plans differ, because all firms differ. However, just as rules exist that dictate what makes for good writing, some rules or guidelines apply to all well-written marketing plans.

- Maintain a professional attitude in the writing and presentation.
- Keep descriptions and summaries concise. Get to the point.
- Use standard, edited English.
- Proofread the entire plan multiple times to catch grammatical, spelling or other such errors that could dampen the professionalism of the writing.
- Adopt a businesslike tone; avoid flowery or jargon-filled writing.
- Employ direct, rather than passive, and present, rather than past, tense whenever possible (e.g. 'We plan to achieve 30 percent growth in two years' rather than 'The plan was that 30 percent growth would be achieved by the firm within two years').
- Be positive.
- Avoid meaningless superlatives (e.g. 'Our goal is tremendous growth').
- Be specific; use quantitative information whenever possible.
- Insert graphics to convey important concepts succinctly, including photos, graphs, illustrations and charts.
- Avoid using so many visual elements that they clutter the plan.

- Lay out the plan clearly and logically.
- Organise sections logically, using multiple levels of headings, distinguished clearly by font differences (e.g. bold for first-level heads, italics for second-level heads).
- Consider the use of bullet points or numbered lists to emphasise important points.
- Exploit modern technology (e.g. graphics software, page layout software, laser printers) to ensure the plan looks professional.
- Adopt an appropriate font to make the text easy to read and visually appealing–avoid using anything smaller than 10-point font at a minimum.
- Avoid unusual or decorative fonts; stick with a common serif type to make the text easy to read.
- Consider binding the report with an attractive cover and clear title page.
- Generally aim for a plan that consists of 15–30 pages.

PeopleAhead marketing plan illustration[6]

PeopleAhead marketing plan: condensed



1. Executive Summary

PeopleAhead focuses on career advancement done right. Instead of making the job search a one-time event, PeopleAhead provides a platform for people to find, advance, and develop their careers by sharing career goals, discussing professional development plans and socialising with other professionals.

PeopleAhead culminates the career advancement experience with its proprietary TrueMatch® technology, which identifies synergies between the companies hiring talent (employers) and PeopleAhead members (job candidates) who wish to be hired. By anonymously presenting only prequalified career opportunities to members, who confirm their interest and recommend others, PeopleAhead transforms the ineffective online hiring process into a highly efficient career-matching system. PeopleAhead was founded by Carlos Larracilla and Tom Chevalier to improve people's lives by helping them achieve their career aspirations. The vision for PeopleAhead was conceived of in January 2006, with a notion that personality alignment is critical to matching the right people with the right career opportunities. Since then, the idea has grown and morphed into a company that matches the right person with the right career opportunity by aligning personality, competencies, experience, and interests.

Tom and Carlos combine human resources, system development, and sales experience to deliver a groundbreaking, TrueMatch®-branded talent matching network that makes it easier for people to achieve their career aspirations and improves the way companies identify individuals who will be able to contribute to their long-term success.

Instead of using separate 'Executive summary' and 'Company overview' sections, this marketing plan begins with a general overview that includes both aspects and answers the key questions: 'What type of business are we?' and 'What do we need to do to accomplish our objectives?' (see chapter 2).

As this plan does, a marketing plan should start with a positive, upbeat assessment of what the company does and what it hopes to continue doing.

Note the personalisation of the company founders, which may help readers feel connected to the company.

2. Strategic objectives

2.1. Mission

PeopleAhead's mission is to help individuals with career advancement and improve the human capital in companies. The site will act as a networking platform for professionals and career matching as opposed to job and resume-posting searches.

2.2. Goals:

- Use brand-matching technology: TrueMatch®.
- Build critical mass of users.
- Drive traffic to the Web site through marketing blitzes.
- Utilise word-of-mouth advertising from satisfied users.

2.3. Business summary

- **Business customers:** This group provides PeopleAhead's revenues. Customers purchase contact information about the Top 10 profiles gleaned from the individual member base that have been sorted and ranked by TrueMatch® technology. PeopleAhead will focus on small and medium businesses (see Market segmentation section), because these entities are underserved by large competitors in the online recruitment market, and because research shows that this demographic has a less efficient recruitment process that would benefit most readily from PeopleAhead's services. Within this segment, customers include HR managers who are responsible for the sourcing of candidates, functional area managers who require new talent for their team, and executives whose business objectives rely on human capital and efficiency of operations.
- **Individual members:** This group does not pay for services but is the main source of data points for PeopleAhead's TrueMatch® system. PeopleAhead will focus on building a base of individual members who range from recent graduates to individuals with five to seven years of continuous employment. Ideal members are those who are currently employed or will be graduating within nine months and are 'poised' to make a career change. These individuals can utilise the services to the fullest extent and are valuable candidates for business customers.

2.4. Competitive Advantage

- **TrueMatch® offers a branded technology,** marketed to both business customers and individual candidates for its 'black box' value proposition, which establishes PeopleAhead as the category leader for recruitment-matching software. This technology provides a point of differentiation from competitors, which may have technically similar matching software but constantly need to reinforce their marketing messages with explanations of their value proposition.
- **For individual candidates,** PeopleAhead will be the favoured career advancement platform online, where individuals enthusiastically create a history and have connections (invited friends, coworkers, and mentors) in place that will make PeopleAhead a staple among their favourite web sites. PeopleAhead delivers TrueMatch career opportunities, professional development plans that let people establish a professional record, and valuable career advancement tools, including automatic position feedback, 'recommend-a-friend', and team-based career networking.
- **For business customers,** PeopleAhead makes online sourcing and qualification of candidates quick and efficient by prequalifying potential candidates, seeking recommendations for hard-to-find individuals, and delivering only the Top 10 most highly qualified candidates who have

The paragraph provides a general outline of the firm's objectives; the bulleted list offers more specific goals, and the subsequent sections go into more detail about the various factors that may influence these objectives.

By referring to another section, the plan makes clear where it is heading and enables readers to cross-reference the information.

The plan acknowledges both a general, potential target market and the ideal targets.

As Chapter 2 suggests, the plan notes PeopleAhead's sustainable competitive advantage as part of its overall mission statement.

preconfirmed interest in the available position. PeopleAhead will be the most effective candidate-company matching platform available in the market, delivering prequalified, preconfirmed candidates.

In discussing both the external market and the internal advantages of PeopleAhead, the plan carefully distinguishes between individual job candidates and businesses, thus differentiating the focus and objectives according to this segmentation.

3. Situation analysis—online recruitment

Online recruitment is the system whereby companies use the web to locate and qualify prospective candidates for available positions. The methods employed by online recruitment service providers to serve this market range from resume aggregation to assessment test application to linking strategies. However, the common underlying objective is to locate candidates who would not be found by traditional recruitment methods and use computing power to qualify candidates quickly and with more accuracy than would be possible manually.

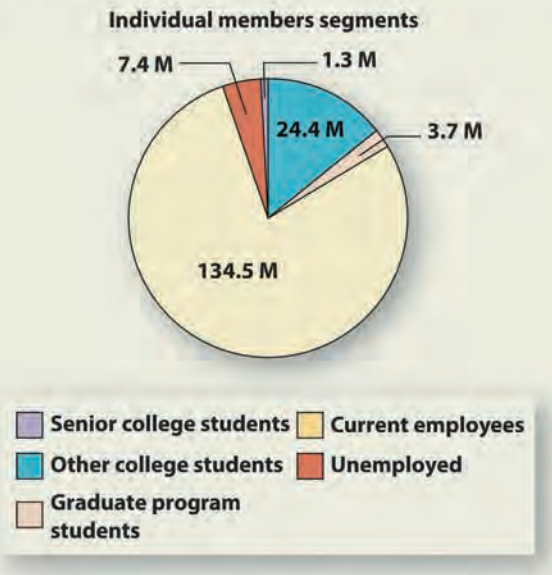
3.1. Industry Analysis

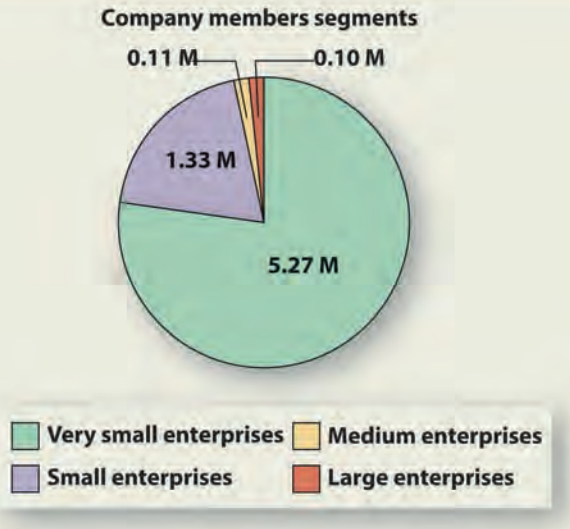
Large online recruitment web sites make this a tedious process by requiring companies to search through many resumes manually to find the right candidate. Other sites solicit recommendations for positions. However, resumes are often 'enhanced,' such that almost all candidates appear qualified, and information found in the resume or provided through a recommendation is simply not sufficient to make an educated hiring decision. Companies need more information and intelligent tools that make this screening process more accurate.

3.1.1. Market size:

The market size for both member segments in 2005 was as follows:

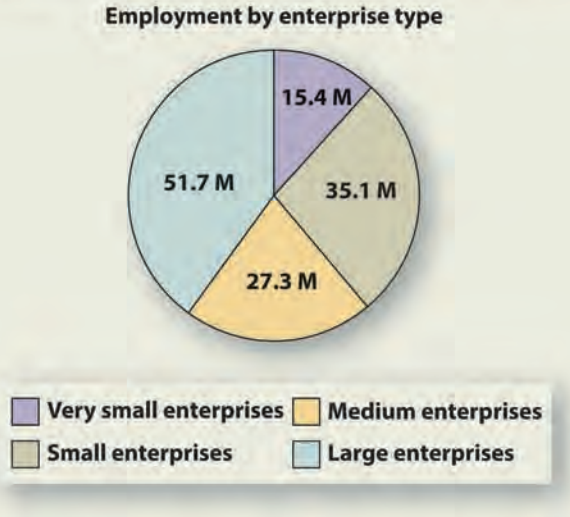
Figures provide a visually attractive break in the text and summarize a lot of information in an easy-to-read format.





The most critical issue in examining market size is the relationship between the number of companies and the number of workers employed, because sales are based on the number of positions (profiles purchased), not the number of companies that use the service.

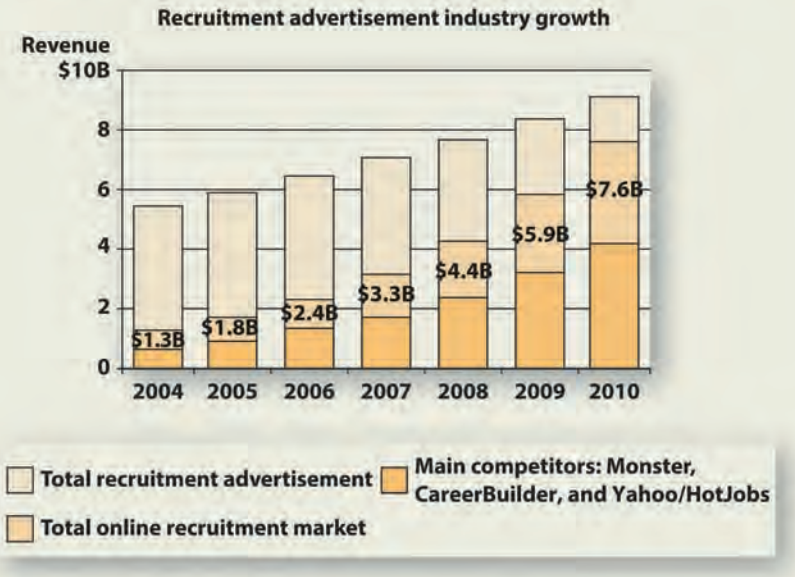
The following figure shows the number of people employed by each enterprise market segment as of January 2006, according to the US Department of Labor. This segment information will be useful in defining PeopleAhead's target market.



3.1.2. Market Growth

PeopleAhead will operate in the online recruitment market. The growth of this industry is subject to two primary constraints: US economic health and online recruitment advertisement adoption rates. Understanding these constraints will help identify PeopleAhead's opportunity. General indicators suggest the US economy (GDP) will grow at an average annual rate of 4% for the next decade.[7] Online recruitment advertising is expected to grow by 35% per year to reach $7.6 billion by 2010.[8] Not only is the market expanding, but it is exhibiting rapid adoption by new entities, as the following graph shows.[9]

Another visually attractive graph summarizes complicated information easily. The use of high-quality color can add a professional feel to a marketing plan.



3.1.3. Market Needs

- **The right person for the right position:** The right employee for one company or position is not the same for all others. Not only must companies locate intelligent individuals with relevant experience, but they also prefer people who are aligned with the position requirements in terms of personality, competencies, and fit with the company culture.
- **Prescreening qualification tools:** Increasing the number of candidates through online recruitment can be advantageous, but it can also be a hindrance. When sourcing candidates, recruiters need tools that help them qualify applicants.
- **Time savings:** Companies need to complete the online sourcing and qualification of candidates quickly. Leaving positions unfilled can cause critical performance gaps to emerge within the company.

3.1.4. Market Trends

The methods by which online recruitment service providers deliver candidates has been undergoing a migration from resume aggregation and search services like Monster and CareerBuilder to new Web 2.0 methodologies that include passive recruitment, 'meta tagging', and social networking.

The underlying objective of these Web 2.0 services is to allow individuals to remain on a few, trusted web sites while enabling companies to access those individuals for financial purposes. In parallel, the focus is moving from aggregation of unique visitors toward engaging existing users more intensively. Internet users are growing familiar with sites that encourage socialising, collaborating, and distributing private information online to help improve network benefits and need to be engaged to maintain contact.

Before engaging in a firm-specific SWOT analysis (see Chapter 2), this marketing plan assesses the external market environment further and thus establishes a basis for the subsequent SWOT analysis.

3.2. SWOT analysis

Using a table and bullet points, the plan summarises a lot of information succinctly and clearly.

	Positive	Negative
Internal	**STRENGTHS**	**WEAKNESSES**
	• Industry best practices: The networking model used by PeopleAhead draws on the industry accepted best practices contact protocols drawn from multiple industries, including online feedback, recruitment, and social networking and offline professional networking. TrueMatch® software aligns business objectives with appropriate candidates. • Team expertise: The combined talents of the founders include human resources, system development, sales, and marketing. • Web development expertise: PeopleAhead has partnered with an award-winning European software development provider. This company provides quality usually reserved for high-budget projects, at terms that are favorable for a start-up company.	• Absence of industry 'influentials': as a start-up, PeopleAhead does not currently have resources to attract influential industry managers. • Inability to guarantee critical mass: As is true of many Internet companies, the business must solve the 'chicken and egg' puzzle to build critical mass. • Verifying efficiency of matching capabilities: In theory, the system has an absolute guarantee of effectivity; computations make decisions rather than humans. However, the matching capabilities must be verified as accurate to gain widespread acceptance. • Broad target market: Because PeopleAhead is targeting a wide range of businesses, the product being developed has not been 'customised' ideally for each segment.
External	**OPPORTUNITIES**	**THREATS**
	• Service gap: Recruiters are not pleased with current online recruitment vendors. • Industry gap: Job turnover is every 3.5 years per person. • Demand for productive candidates. • Online recruitment advertising: Growing by 35% per year, to reach $7.6 billion by 2010.[10]	• Convergence: Existing competitors may form strategic alliances and establish powerful positions before PeopleAhead can establish itself. • Inability to protect model: Very little intellectual property created by Web sites is protected by law. Although PeopleAhead will pursue aggressive

Note that the analysis uses outside sources to support its claims.

(*continued*)

External

OPPORTUNITIES

- Fragmented business models. Online recruitment is fragmented by recruitment methodology: active (people who need jobs), passive (people who are not looking but would move if enticed), poised (people unsatisfied with jobs they have), and network (finding people of interest based on who or what they know).

THREATS

IP protection strategies, the model could be copied or mimicked by competitors.

- Inadequate differentiation: Inability to explain our differentiation would relegate PeopleAhead to (unfair) comparisons with competitors. Without differentiation, PeopleAhead will not be able to create scale through network effects.

3.3. Competition

Most online recruitment web sites compete in the active recruitment market, including Monster, CareerBuilder, and Yahoo/HotJobs. The pervasive segment includes job seekers who actively look for jobs, post their resumes, and search for jobs on company web sites. Most active recruiters offer free services to users and charge companies on a fee basis. Companies can post jobs and search for candidate resumes in the database (average fee for local searches is $500 and nationwide is $1000). In this first-generation online recruitment business model, competitors face the challenge to make the process more user-friendly and reduce the effort required to make these sites deliver results.

- **Monster:** Monster.com is the 16th most visited web site in the United States, with more than 43 million professionals in its viewer base. Monster earns revenue from job postings, access to its resume database, and advertisements on web sites of partner companies.
- **Careerbuilder:** Careerbuilder.com has experienced 75% growth for the past five years. This job post/resume search company uses its media ownership to attract passive candidates from partner web sites. It achieves growth through affiliate partnerships that host job searches on affiliated web pages, such as Google, MSN, AOL, *USA Today*, Earthlink, BellSouth, and *CNN*. Job posting is the primary activity, sold together with or separately from resume searches.
- **Passive recruitment:** The second generation of online recruitment locates candidates who are not necessarily looking for jobs but who could be convinced to move to a new position if the right opportunity was presented. The most recognised competitors in this category include Jobster, LinkedIn, and H3.

3.4. Company Analysis

PeopleAhead's mission is simple: improve people's lives through career advancement. PeopleAhead recognises that career advancement means many things to many people and provides a fresh perspective on career networking that is flexible yet powerful:

- **Users are not alone.** Finding a job is not easy. Why search solo? PeopleAhead unites groups of friends, coworkers, and mentors to create natural, team-based career discovery.
- **Job posting is not natural.** People spend countless hours searching job listings and posting resumes, only to be overlooked because their writing style or resume format does not match an overburdened recruiter's preference. Good people, not resumes, make great companies. PeopleAhead's TrueMatch technology matches the rightpeople with the right position. No posting, no applying—just good, quality matches.

If PeopleAhead chooses to adopt a competitor-based pricing strategy (see Chapter 13), detailed information about how other recruitment firms work will be mandatory.

Information about competitors' revenues, customers, growth, and so forth often is available publicly through a variety of sources.

For information that may not belong in the main text, an appendix offers an effective means to provide detail without distracting readers.

This section offers the product component of the market/product/customer analysis. Because PeopleAhead's product is mostly a service (see Chapter 12), it focuses on some intangible features of its offering.

- **Professionals being professionals.** There is a place online for social networking, pet networking, and music networking. So why is there no outlet for career networking online—the activity that consumes the majority of our professional lives? PeopleAhead is a place where professionals share their experiences, achievements, and objectives with other professionals that care and can be found by employers who value their professionalism.

3.5. Customer Analysis

PeopleAhead's R&D efforts show that the impetus to improve recruitment effectivity is pervasive and that unmet needs revolve around a few core issues: the ability to find qualified talent, establishing a fit between the candidate and the company culture, verifying the candidate's career progression, and working quickly and cost effectively. The following customer characteristics represent ideal attributes that align with PeopleAhead's service offering. This information might be used in conjunction with the marketing strategy.

3.5.1. Business Customer

- **Industry:** Because companies that value human capital are more likely to take a chance on a start-up that promotes professional development, the broadly defined professional services industry, including insurance, banking, and consulting, is the primary focus.
- **Functional area:** PeopleAhead's system identifies 'people' people, so positions that require human interaction are more aligned with system capabilities than those with stringent skill requirements, sets such as programming or accounting.
- **Size:** Large businesses (1000 employees) have high volume requirements and demand vendors with proven track records; small businesses (25 employees) hire fewer people and may not justify acquisition costs. PeopleAhead aligns best with medium-sized customers.
- **Hiring need:** PeopleAhead serves two types of searches very well: those with too many applicants and those with too few applicants. By drawing applicants that most systems overlook and delivering only the most qualified applicants, the system assures the right candidate is identified quickly.

3.5.2. Individual Member

- **Background:** People who value professional development and are familiar with computer networking technologies. Most are likely university educated, motivated by career success, and aware of their professional competencies/deficiencies.
- **Situation:** Members should have a professional development plan to share with others who can help them achieve their objectives—likely people who are inquisitive about their professional future and not content with their current situation. The common industry terminology for this group of people is 'poised candidates'.
- **Outlook:** Proactive people who research, plan, self-educate, and talk about their career. Probably the clearest example of proactivity is a student who devotes time, effort, and financial resources toward career advancement.

The last—and some would say most important—piece of the analysis puzzle: customers.

Although the introduction to this appendix and the plan's organisation suggest that analyses of competitors, products, and customers are separate, as this plan shows, a firm usually cannot address one without considering the other. Here, in the 'customer' section, the plan notes what its competitors fail to do and therefore why it offers a more valuable service.

Understanding a target customer is not just about numbers. PeopleAhead tries to consider what customers think and feel when searching for jobs too.

4. Marketing strategy

4.1. Market segmentation

4.1.1. Business customers

- **Small enterprises.** Businesses with 10–99 employees. Companies with fewer than 10 employees are categorised as 'very small enterprises' and will not be a primary target market.
- **Medium enterprises.** Businesses with 100–1000 employees.

4.1.2. Individual members

- **Senior university students.** Students in the process of searching for a first career.
- **Graduate program students.** Mid-career candidates searching for new career opportunities, such as internships, part-time during enrolment, or full-time after graduation.
- **Current employees.** Persons who are currently employed but are poised to locate better career opportunities.
- **Unemployed.** Persons searching for jobs not included in previous segments.

4.2. Target market

PeopleAhead plans to focus resources on small to medium enterprises (SMEs) in the New England metro market, including Boston, Providence, Hartford, Stamford, Norwalk, Worcester, and Springfield. Online recruitment companies compete for national recruitment spending, but most job seekers are locally based, so market penetration is possible by covering a single geographical location. By maintaining this focus, PeopleAhead will be better equipped to build a critical mass of users that represent the job-seeking population and thus improve both users' and customers' experience, customer service, and the use of financial resources.

4.3. User positioning

To the proactive professional, PeopleAhead is career advancement done right—providing a platform to discover, plan, and advance careers by uniting friends, coworkers, and mentors with companies searching for the right talent.

5. Marketing mix

5.1. Products/services offered

The first planned offering is **group profilings:** users self-associate with groups to share development plans. Access to groupings is permission based and similar to social networking. Members will be able to share professional experiences with people they know. Group profiling may prompt 'voyeur' networking, such that members join to view the profiles of the people they know.

PeopleAhead will then open **group profiling to business customers,** who will be granted access to groups of members to target people they want to hire.

The next added feature will be **user feedback** on professional development plans. PeopleAhead will track data from successful member profile matches to provide feedback for members who have not been matched successfully.

The plan continues with the same segmentation throughout. Here the plan discusses targeting and what makes each segment attractive.

By already identifying key markets in the previous section, the plan provides a foundation for a more specific targeting statement in this section.

The final step in the STP process: Positioning for the segmented, targeted market.

PeopleAhead's mission

Given its own section in this plan, a discussion of the marketing mix constitutes a key element of the strategic planning process (see Chapter 2).

According to well-known marketing concepts, the marketing mix consists of the four Ps: product (service here), price, place (distribution here), and promotion.

The product (service) offering must establish the value for consumers: Why should they expend effort or resources to obtain the offering?

5.2. Price

In addition to a basic pricing schedule, PeopleAhead will offer bulk pricing and contract pricing to business customers to satisfy unique customer needs. The pricing model is expected to remain constant, but customer feedback will be analysed to ensure alignment with their requirements.

Continuing the new customer acquisition plan, PeopleAhead will encourage new trials by offering promotional pricing to new customers.

5.3. Distribution

- **PeopleAhead challenge:** The PeopleAhead Challenge will act as a primary user acquisition strategy. Selection will be focused on successful target segments demanded by customers.
- **Direct sales:** Direct customer contact is the preferred method of communication during the first six months. Telesales is the anticipated eventual sales model, due to reduced costs and quicker customer sales cycle, but it limits intimacy between the customer and PeopleAhead. During the initial stages, intimacy and excellent customer service are more highly desired than reduced cost, and direct sales achieves that objective.
- **Industry events:** Attendance at HR industry and recruitment events will supplement direct sales efforts.
- **Challenge groups:** Word-of-mouth distribution by PeopleAhead members.

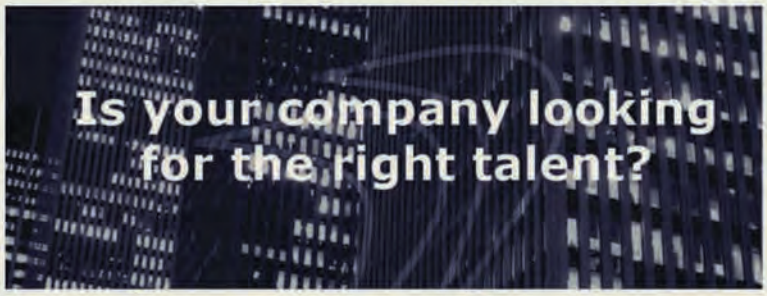
5.4. Promotion

- **Public profiling:** When the product is ready, with proper precautions for protecting competitive advantages, PeopleAhead can increase its web presence. Strategies include contributing articles to recruitment publishers, writing op/ed pieces, public profiling of the founders on web sites like LinkedIn, Ziggs, and zoominfo, and blogging.
- **Blogger community testimonials:** Influential users of blogs will be invited to try the system and be granted exclusive access to the inner workings of the site. A subsequent linking blitz will put opinion pieces in front of recruiters, job seekers, and the investment community.
- **Strategic alliances:** PeopleAhead offers a product that complements the services offered by many large organizations. Partner opportunities exist with:
  a. Universities, colleges, academic institutions
  b. Professional associations, clubs, industry affiliation groups
  c. Online associations, groups, blogs
  d. Professional services firms, outplacement firms, and executive search firms.

Strategic alliances serve multiple purposes: They can help PeopleAhead increase public exposure, increase the user base, expand product offerings, and increase revenue opportunities. These benefits will be considered and partnerships proposed prior to the official launch. For strategic purposes, PeopleAhead prefers to focus on product development in the near term (three months) and then reassess potential alliances after system efficacy has been proven.

Making the product (service) available where and when consumers want it may seem somewhat easier for PeopleAhead because of the vast development of the Internet; however, the firm still needs to consider how it can ensure people know where and how to access its offering.

The plan offers a specific time frame, which recognizes the potential need to make changes in the future, as the market dictates.



PeopleAhead.com

delivers:



- Target marketing for hard-to-fill positions
- Qualified & pre-confirmed candidates
- Intelligent candidate ranking tools
- Results

6. Financials

Start-up costs consist primarily of web site design and development, legal representation (business formation, contract negotiation, and intellectual property protection), and general overhead. PeopleAhead projects start-up expenditures of $70000 during inception, of which $30000 has been funded by the founding team.

After the web site launches, the cost structure will consist of sales agent salaries, general and administrative operating costs, and marketing. In the first year, marketing expenses are projected to be $6250 per month. Monthly overhead likely will reach $24750 and remain constant.

A. **Projected income statement**

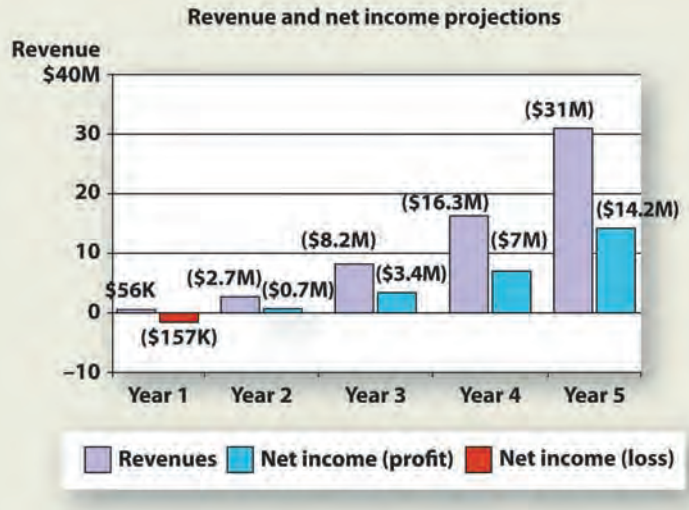
Pro forma income statement

	Year 1	Year 2	Year 3	Year 4	Year 5
Sales	**$56453**	**$2683665**	**$8170655**	**$16312843**	**$30921013**
Gross margin	$54194	$2316318	$7383829	$14780329	$28244172
Gross margin %	96.00%	86.31%	90.37%	90.61%	91.34%
Net profit	**($156906)**	**$717403**	**$3356768**	**$7035155**	**$14180041**

The marketing plan needs to identify not only costs but also potential revenues to cover those costs.

Certain assumptions or marketing research form the basis for its estimation of start-up costs.

This section contains a lot of numbers in a small space; the graphs and tables help depict those numbers clearly and visually.



7. **Implementation plan**
The launch of PeopleAhead will use a phased approach, beginning with building brand awareness. Brand awareness should be developed through the founders' visible presence at professional events, online searches, membership in professional associations, networking, and strategic alliances. This visibility will help gain investment capital.

7.1. Objective—growth

- During the first six months of commercial availability, the primary objective is to expand both the user and customer base to maintain a 100:1 user to customer ratio.
  - **Business customers:** Sign 24 regular customers and 72 occasional customers. Execute 117 position matches.
  - **Individual members:** Convert 10000 people to PeopleAhead members.

7.2. Marketing objectives—growth

- **PeopleAhead challenge:** Pursue groups that were effective during beta trial and represent a cohesive set of profiles. Expand and refine the Challenge to reflect lessons learned.
- **Increase member networking activity:** Increase user numbers through networking initiated by existing members. Improve user experience to promote networking.
- **Increase profile completeness:** Increase user engagement with platform.
- **Generate traffic.**
- **Public relations campaign (PR):** Increase awareness of PeopleAhead brand through concentrated PR efforts directed at the target market of customers and users.

This plan divides the objectives into three categories: overall objective, marketing, and financial. Although this is a marketing plan, it must also include other aspects that influence marketing, such as financial status.

7.3. Financial objectives

- **Efficient marketing expenditures:** 9000 target users (10000 year-end total – 1000 during beta) × $5.00 target acquisition cost = $45000 budget.
- **Revenue:** $482.50 per position × 117 positions = $56452.50 revenue.

By offering quantitative, direct goals, PeopleAhead ensures that it can measure its progress toward those goals.

7.4. Key success factors:

- **Economical marketing to relevant constituents:** PeopleAhead needs to establish communication (distribution) channels that pinpoint relevant constituents in a manner consistent with mission values. Limited by resources, chosen channels must aggregate many relevant eyes with free, minimal, or deferred costs involved.
- **Crafting of brand identity:** The contrast between PeopleAhead and competitors lies not only in product differentiation but also in the company's mission statement and delivery. One-time job search is available from thousands of online recruitment sources. Social networking has been covered from diverse angles, attracting many different audiences. The challenge is to associate www.PeopleAhead.com and TrueMatch technology with 'career advancement done right'. The goal is to become the only company that a person thinks of for long-term career discovery, advancement, and development.
- **Efficient value delivery:** The base of customers (both individual and business) needs to receive the proposed value in a timely manner, with consideration given to quality versus quantity of results, alignment with existing objectives, and overall experience with the PeopleAhead brand.
- **Critical mass of business customers and individual users:** The matching process requires that both customers and users exist in the system from the outset of commercialization. This need brings to the forefront the chicken and egg scenario; establishing either customers or users requires the other constituent to exist already. The exact number that constitutes critical mass ranges from 100 users per position to 10 users per position, depending on compatibility between each constituency.
- **System effectivity:** The ability of PeopleAhead's TrueMatch software to provide relevant candidate recommendations is critical. The effectiveness of the software depends on the algorithms that match users with positions and the networking protocol that initiates recommendations between users and the people they know. Proposing an inappropriate match could jeopardise the credibility of the system.
- **Intellectual property (IP) strategy:** PeopleAhead is engaged in two primary segments of online enterprise, online recruitment and social networking. Existing competitors have made many efforts to protect their methodologies through US patents. However, precedent has not been established for the legal assertions made by these companies. As a result, PeopleAhead will assume an offensive IP strategy, consisting of diligent IP infringement review, patent application where appropriate, and aggressive trade secret protection of best practices.
- **Financial support:** The founders' investment is sufficient to form the business core and take delivery of PeopleAhead's Web site and software. Financial support will be required to fund operations, execute the IP strategy, and secure customers and users to meet financial targets. Without funding, PeopleAhead will not be able to proceed beyond the product development stage.
- **Sales process:** PeopleAhead's business model requires the acquisition of both business customers who have available positions and users who will be matched with those positions. These two constituents may be reached through different sales processes without overlap.

8. Evaluation and control

PeopleAhead will evaluate user profiles to identify sets of profiles that are valuable to new business customers, which will aid in the selection of subsequent target market customers.

8.1. Business customers

Face-to-face meetings, phone conversations, and email survey contacts with people from a range of industries, company sizes, and functional areas provide a means to (1) build relationships with prospective customers, (2) understand customer needs, and (3) ensure alignment between PeopleAhead's product and customers' recruitment preferences. A summary of the key findings is listed here:

- **Employee fit.** Will the applicant fit our corporate culture? Will the applicant fit with the team we're considering? Will the applicants' competencies fit with the position requirements?
- **Pay for performance.** Objections to recruitment services focus not on price (though it is a consideration) but rather on lack of performance.
- **Unqualified applicants.** Many people who want a job apply, whether they are qualified or not. Recruiters then must scan resumes and weed out unqualified applicants instead of getting to know the qualified applicants.
- **Hard costs vs. soft costs.** Most companies track the recruitment costs of hiring providers, but few measure the time costs of hiring, opportunity costs of hiring the wrong employee, or productivity costs of leaving a position unfilled. Recruitment performance must be easy to measure. Value selling is difficult in the human resources departments.
- **Valuable recommendations.** Most recruiters use online recruitment as a necessary but ineffective means of candidate sourcing, secondary to recommendations. Recommendations include the recommender's judgement of the candidate's fit with the available position.

8.2. Individual members

Periodic surveys of various prospective users of online recruitment services indicate (1) current services, (2) methods that work well, and (3) biggest problems with online recruitment providers. The following is a qualitative summary of the key findings:

- **Willingness to try.** Careers are important to people; they are averse to spending time uploading resume information to online recruitment websites only because of the lack of perceived value. They will spend time when the career opportunities are perceived as valuable.
- **Frustration.** Job seekers are frustrated with available online recruitment providers. Networking is the favoured method for career advancement.
- **Lack of differentiation.** Regardless of the qualifications a job seeker possesses, it is difficult to make them evident in a traditional resume.
- **Motivation shift over time.** Early professionals are motivated by financial rewards. Mid-career professionals recommend people because it helps the people they know. Late-career professionals hope to improve their own job search opportunities.

Appendix A. Organisational chart of PeopleAhead

Appendix B. Competition: passive recruiter

The evaluation section retains the segmentation scheme established previously between business customers and individual members.

Additional useful information that might clutter the plan should appear in an appendix, but is not included in this illustration.

ENDNOTES

1. This appendix was written by Tom Chevalier, Britt Hackmann and Elisabeth Nevins Caswell, in conjunction with the textbook authors (Dhruv Grewal and Michael Levy) as the basis of class discussion rather than to illustrate either effective or ineffective marketing practice.
2. http://www.knowthis.com/tutorials/principles-of-marketing/how-to-write-a-marketing-plan.htm (accessed 16 May 2008); see also 'Marketing Plan Online', http://www.quickmba.com/marketing/plan/ (accessed May 16, 2008); 'Marketing Plan', http://www.businessplans.org/Market.html (accessed 18 May 2008).
3. Roger Kerin, Steven Hartley, and William Rudelius, *Marketing,* McGraw-Hill, New York, 2008, p. 53.
4. Ibid., p. 54; http://www.knowthis.com/tutorials/principles-of-marketing/how-to-write-a-marketing-plan.htm (accessed 16 May 2008).
5. This listing of sources largely comes from the Babson College Library Guide, http://www3.babson.edu/Library/research/marketingplan.cfm, 12 May 2008 (accessed 15 May 2008). Special thanks to Nancy Dlott.
6. This marketing plan presents an abbreviated version of the actual plan for PeopleAhead. Some information has been changed to maintain confidentiality.
7. Publishers' and Advertising Directors' Conference, September 21, 2005.
8. Mintel International Group, 'Online Recruitment–US', 1 January 2005, http://www.marketresearch.com (accessed 1 September 2005).
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