Yashwantrao Chavan Maharashtra Open University

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V101: B. Sc. (Hospitality and Tourism Studies)

V76: B. Sc. (Hospitality Studies and Catering Services)

HTS 604/BCH 303: HOTEL MARKETING/ MARKETING SERVICES

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MARKETING SERVICES

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MARKETING SERVICES

CONTENTS

UNIT 1 MARKETING MANAGEMENT

1.00 INTRODUCTION

You are studying the program on Hospitality Studies. We are going to learn some concepts of Management in this course and see how they may be applied to the area of hospitality, catering and tourism.

In this unit we will study of Marketing Management. The first question which should come to your mind is what is meant by market. We will therefore start with a definition of market. In your daily life you come across a number of transactions where you exchange something or the other. You give something and receive something. When you do that with a conscious effort, you are most likely doing a trading of some kind. You may spend money to get something. While doing that you may be negotiating so that you get more be spending less. All this is covered under the concept of “Market”. Market may be a procedure, a system, a social relationship, an institution, or a place. The commodity which we buy may be a goods (like telephone instrument) or a service (like a professional advice from a CA)

Market and Shops are synonymous. But Marketing is not similar to Shopping. Marketing covers that activities which result in sale of a product or service. We need to do many things to market our product and ideas. It is extremely useful if you understand these concepts and apply them in solving your day-to-day problems. The concepts covered here are very general. They hold key to solving your professional problems as a hospitality specialist as well as your personal problems like how to sell your ideas to your relatives and friends. So do take this unit seriously and enjoy.

1.01 UNIT OBJECTIVES

After going through this unit you will be able to

Explain the concept of Market

Explain the importance of marketing in hospitality, catering or tourism industry

Elaborate the concepts like 4P, 7P, 4C,7C, marketing managmet and marketing mix etc as applied to marketing studies

1.02 IMPORTANCE OF MARKETING IN HOSPITALITY

In any business, a solid marketing strategy is critical to building a brand, attracting new customers and maintaining loyalty. The hospitality industry is no different. Because customer loyalty is key, marketing managers and executives devote a lot of time and resources to building brand awareness and creating ongoing, interconnected campaigns. These marketing efforts usually include both print and digital collateral that target former guests while also attracting new clientele. However, this particular industry has a unique set of challenges that must be overcome. Understanding the importance of marketing in the hospitality industry can help you get ahead and stand out in the competitive job market.

The Basics

Hospitality sales are different from consumer goods sales because marketers must sell tangible as well as intangible products. In many cases this means that they are marketing services rather than goods, and success hinges on creating the right ***feeling*** in the consumer. For example, a resort will want to cultivate a relaxing, fun atmosphere that is recognizable to customers and inspires those same feelings in the consumer.

Because the hospitality industry is mostly made up of tourism and other experiential services, a consistent brand identity is also very important. Marketers want to ensure that brand recognition exists so that customers will use their services again and again. Repeat customers bring in a sizeable portion of revenue, so marketing strategy must be split between maintaining relationships with past customers while seeking out new ones.

Strategies for Success

Companies in the hospitality industry use various methods to develop and maintain an effective marketing plan. The following are some of the general strategies that marketers use for brand success.

Research

Customers choose hotels and other hospitality services for a variety of reasons. From location to facilities and perks, companies have to be sure that they're providing what buyers are looking for. The role of marketers is to identify what factors make customers choose a particular hospitality service, and this requires extensive research. By speaking to current and former guests, monitoring customer reviews on websites, reviewing industry data and more, marketing professionals learn what makes a hospitality service stand out, as well as how it can be improved.

Awareness

If potential customers don't know about a service, they can't purchase it. That's where brand awareness comes in. Marketers make sure information on hotels, resorts and restaurants is easy to find and up-to-date. They can do this by buying ad space on relevant travel sites, creating an engaging website and collaborating with other, noncompeting hospitality services in the same market.

Promotion

Another smart strategy for attracting customers is to run promotions during certain times of the year, usually when business is slower. Introducing incentives and offering incentives are just some of the ways that marketing professionals achieve this. Have you purchased a Groupon for a spa weekend? That's promotion at work.

Relationships

To ensure high levels of repeat business, good customer relationships are vital. Not only do repeat customers usually promote a service through word-of-mouth and social media, but they also create a stable revenue base. One way to build relationships is through customer loyalty programs, which reward customers who regularly use a particular hospitality service.

CHECK YOUR PROGRESS

What is the importance of marketing in hospitality?

What is the difference between ‘hospitality sale’ and ‘goods sale’?

Explain at least five strategies for making brand success for hotels.

1.03 WHAT IS THE CONCEPT OF ‘MARKET’?

A **market** is one of the many varieties of systems, institutions, procedures, social relations and infrastructures whereby parties engage in exchange. While parties may exchange goods and services by barter, most markets rely on sellers offering their goods or services (including labor) in exchange for money from buyers. It can be said that a market is the process by which the prices of goods and services are established.

Let me make things easier for you. A good definition is supposed to be general but accurate and should lead to building theoretical framework. There is therefore a need to carefully examine each and every word, phrase, clause in the definition and visualize what meaning they carry and interprete it to the application in our hand and verify that our experience matches with what has been given in the theory or definition. This is sometimes called ‘parsing’ a definition.

The definition envisages market to be any one of **systems, institutions, procedures, social relations and infrastructures whereby parties engage in exchange.** According to this definition market may be a system (for example ‘railways reservation and booking system’ in which railways offers ‘facility to travel’ in exchange to ‘money’ from the passanger on a fixed procedure fed to computer program) or institution (for example ‘marriage’ is an institution in which husband and wife exchange vows whereby husband ensures the safety, financial security in exchange to loyalty and other considerations from wife) or social relations or infrastructure. These should facilitate exchange of things which we will call ‘commodity’ which may be a tangible (meaning that which can be felt by our senses, like touch, smell, sight, hearing and taste; example of tangible commodity is a car or television set) goods or intangible services (for example, traveling, accommodation, tourism experience, telephone service, etc)

Markets facilitate trade and enable the distribution and resource allocation in a society. Markets allow any trade-able item to be evaluated and priced. A market emerges more or less spontaneously or may be constructed deliberately by human interaction in order to enable the exchange of rights (compeare it with concept of ownership) of services and goods. Markets generally supplant gift economies and are often held in place through rules and customs, such as a booth fee, competitive pricing, source of goods for sale (local produce or stock registration), and the threat of military or police force if these rules are broken.

Markets can differ by products (goods, services) or factors (labour and capital) sold, product differentiation, place in which exchanges are carried, buyers targeted, duration, selling process, government regulation, taxes, subsidies, minimum wages, price ceilings, legality of exchange, liquidity, intensity of speculation, size, concentration, exchange asymmetry, relative prices, volatility and geographic extension. The geographic boundaries of a market may vary considerably, for example the food market in a single building, the real estate market in a local city, the consumer market in an entire country, or the economy of an international trade bloc where the same rules apply throughout. Markets can also be worldwide, for example the global diamond trade. National economies can be classified, for example as developed markets or developing markets.

In mainstream economics, the concept of a **market** is any structure that allows buyers and sellers to exchange any type of goods, services and information. The exchange of goods or services, with or without money, is a transaction. Market participants consist of all the buyers and sellers of a good who influence its price, which is a major topic of study of economics and has given rise to several theories and models concerning the basic market forces of supply and demand. A major topic of debate is how much a given market can be considered to be a "free market", that is free from government intervention. Microeconomics traditionally focuses on the study of market structure and the efficiency of market equilibrium; when the latter (if it exists) is not efficient, then economists say that a market failure has occurred. However it is not always clear how the allocation of resources can be improved since there is always the possibility of government failure.

CHECK YOUR PROGRESS

Explain the concept of Market.

Explain various ways in which markets can be classified.

How can we apply concept of market in leaning ‘hospitality’ science?

How can we say that a hotel is a market? Explain.

Types of markets

Markets of varying types can spontaneously arise whenever a party has interest in a good or service that some other party can provide. Hence there can be a market for cigarettes in correctional facilities, another for chewing gum in a playground, and yet another for contracts for the future delivery of a commodity. There can be black markets, where a good is exchanged illegally, for example markets for goods under a command economy despite pressure to repress them, and virtual markets, such as eBay, in which buyers and sellers do not physically interact during negotiation. A market can be organized as an auction, as a private electronic market, as a commodity wholesale market, as a shopping center, as a complex institution such as a stock market, and as an informal discussion between two individuals.

Markets vary in form, scale (volume and geographic reach), location, and types of participants, as well as the types of goods and services traded; nevertheless, violence and extortion are common to many markets. The following is a non exhaustive list:

Physical consumer markets

- food retail markets: farmers' markets, fish markets, wet markets and grocery stores
- retail marketplaces: public markets, market squares, Main Streets, High Streets, bazaars, souqs, night markets, shopping strip malls and shopping malls
- big-box stores: supermarkets, hypermarkets and discount stores
- ad hoc auction markets: process of buying and selling goods or services by offering them up for bid, taking bids, and then selling the item to the highest bidder
- used goods markets such as flea markets
- temporary markets such as fairs

Physical business markets

- physical wholesale markets: sale of goods or merchandise to retailers; to industrial, commercial, institutional, or other professional business users or to other wholesalers and related subordinated services
- markets for intermediate goods used in production of other goods and services
- labor markets: where people sell their labour to businesses in exchange for a wage
- ad hoc auction markets: process of buying and selling goods or services by offering them up for bid, taking bids, and then selling the item to the highest bidder
- temporary markets such as trade fairs

Non-physical markets

media markets (broadcast market): is a region where the population can receive the same (or similar) television and radio station offerings, and may also include other types of media including newspapers and Internet content

Internet markets (electronic commerce): trading in products or services using computer networks, such as the Internet

artificial markets created by regulation to exchange rights for derivatives that have been designed to ameliorate externalities, such as pollution permits (see carbon trading)

CHECK YOUR PROGRESS

If we classify markets according to types of commodity traded, what would be the major categories?

If we classify markets by the locations what would be the various categories?

What are five major categories into which a market can be classified?

Consider a five star hotel in New York, what is the nature of (a) commodity traded (b)location (c) type of participants (d)scale of trade (e) geographical outreach to its participants/customers

Financial markets

Financial markets facilitate the exchange of liquid assets. Most investors prefer investing in two markets (a) the stock markets, for the exchange of shares in corporations (NYSE, AMEX, and the NASDAQ are the most common stock markets in the US), and (b) the bond markets

There are also:

currency markets are used to trade one currency for another, and are often used for speculation on currency exchange rates

the money market is the name for the global market for lending and borrowing

futures markets, where contracts are exchanged regarding the future delivery of goods are often an outgrowth of general commodity markets

prediction markets are a type of speculative market in which the goods exchanged are futures on the occurrence of certain events. They apply the market dynamics to facilitate information aggregation.

Unauthorized and illegal markets

- grey markets (parallel markets): is the trade of a commodity through distribution channels which, while legal, are unofficial, unauthorized, or unintended by the original manufacturer
- markets in illegal goods such as the market for illicit drugs, illegal arms, etc

Mechanisms of markets

Fig 1.01: Corn Exchange, in London circa 1809.

Fig 1.02: A market in Râmnicu Vâlcea by Amedeo Preziosi.

In economics, a market that runs under 'laissez-faire' (meaning 'the policy of leaving things to take their own course, without interfering.')   policies is called a free market, it is "free" from the government, in the sense that the government makes no attempt to intervene through taxes, subsidies, minimum wages, price ceilings, etc. However, market prices may be distorted by a seller or sellers with monopoly power, or a buyer with monopsony (which means a market situation in which there is only one buyer) power. Such price distortions can have an adverse effect on market participant's welfare and reduce the efficiency of market outcomes. Also, the relative level of organization and negotiating power of buyers and sellers markedly affects the functioning of the market.

Fig 1.03: Cabbage market by Václav Malý.

Markets are a system, and systems have structure. The structure of a well-functioning market is defined by the theory of perfect competition. Well-functioning markets of the real world are never perfect, but basic structural characteristics can be approximated for real world markets, for example:

- many small buyers and sellers
- buyers and sellers have equal access to information
- products are comparable

In a market there is a tug of war between the seller and buyer over **price** and **value**. Remember the simple formula to distinguish between value and price which are two of very important concepts. "Value is what a customer gets for the Price which he pays". Thus a smart phone which has 128 GB internal memory is more valuable than similar smart phone with 64GB internal memory. A customer will be willing to pay more price for 128GB smart phone. The seller wants to give minimum value and try to obtain maximum price. On the other hand the buyer would like minimum price and maximum value. This leads to negotiations (also called bargaining). At the end of a successful negotialtion a price is fixed and the commodity is exchanged. We say that equilibrium is met. The term 'equilibrium' comes from Latin with 'equi' for 'equal' and 'libra' which means 'balance'. When you weigh an object on a balance scale, the balance oscillate till it slows down and reaches a balanced state (equilibrium) with weights on both sides equal.

Markets where price negotiations meet equilibrium, but the equilibrium is not efficient are said to experience market failure. Market failures are often associated with time-inconsistent preferences, information asymmetries, non-perfectly competitive markets, principal–agent problems, externalities, or public goods. Among the major negative externalities which can occur as a side effect of production and market exchange, are air pollution (side-effect of manufacturing and logistics) and environmental degradation (side-effect of farming and urbanization).

There exists a popular thought, especially among economists, that free markets would have a structure of a perfect competition. The logic behind this thought is that market failures are thought to be caused by other exogenic systems, and after removing those exogenic systems ("freeing" the markets) the free markets could run without market failures. For a market to be competitive, there must be more than a single buyer or seller. It has been suggested that two people may trade, but it takes at least three persons to have a market, so that there is competition in at least one of its two sides. However, *competitive* markets, as understood in formal economic theory, rely on much larger numbers of both buyers and sellers. A market with a single seller and multiple buyers is a monopoly. A market with a single buyer and multiple sellers is a monopsony. These are "the polar opposites of perfect competition". As an argument against such a logic there is a second view that suggests that the source of market failures is inside the market system itself, therefore the removal of other interfering systems would not result in markets with a structure of perfect competition. As an analogy, such an argument may suggest that capitalists don't want to enhance the structure of markets, just like a coach of a football team would influence the referees or would break the rules if he could while he is pursuing his target of winning the game. Thus according to this view, capitalists are not enhancing the balance of their team versus the team of consumer-workers, so the market system needs a "referee" from outside that balances the game. In this second framework, the role of a "referee" of the market system is usually to be given to a democratic government.

Check Your Progress

Explain the concept of "free market" and how marker prices are distorted by sellers or buyer by monopoly or monopsony.

What is meant by market failure? How market failure can occur if customers do not have "equal" and "fair" access to information.

Explain how "Market failure' can occur in Hotel industry under various circumstances.

Supply and demand

(From Wikipedia, the free encyclopedia)

In microeconomics, **supply and demand** is an economic model of price determination in a market. It postulates that in a competitive market, the unit price for a particular good, or other traded item such as labor or liquid financial assets, will vary until it settles at a point where the quantity demanded (at the current price) will equal the quantity supplied (at the current price), resulting in an economic equilibrium for price and quantity transacted.

Graphical representation

Although it is normal to regard the quantity demanded and the quantity supplied as functions of the price of the goods, the standard graphical representation, usually attributed to Alfred Marshall, has price on the vertical axis and quantity on the horizontal axis.

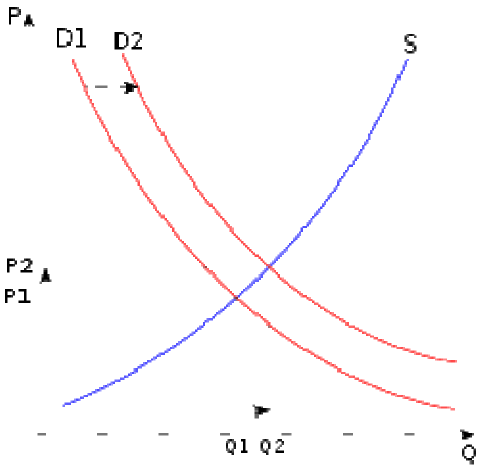

Fig 1.04: The price P of a product is determined by a balance between production at each price (supply S) and the desires of those with purchasing power at each price (demand D). The diagram shows a positive shift in demand from D_1 to D_2, resulting in an increase in price (P) and quantity sold (Q) of the product.

Since determinants of supply and demand other than the price of the goods in question are not explicitly represented in the supply-demand diagram, changes in the values of these variables are represented by moving the supply and demand curves (often described as "shifts" in the curves). By contrast, responses to changes in the price of the good are represented as movements along unchanged supply and demand curves.

Supply schedule

A supply schedule is a table that shows the relationship between the price of a good and the quantity supplied. Under the assumption of perfect competition, supply is determined by marginal cost. That is, firms will produce additional output while the cost of producing an extra unit of output is less than the price they would receive.

A hike in the cost of raw goods would decrease supply, shifting costs up, while a discount would increase supply, shifting costs down and hurting producers as producer surplus decreases.

By its very nature, conceptualizing a supply curve requires the firm to be a perfect competitor (i.e. to have no influence over the market price). This is true because each point on the supply curve is the answer to the question "If this firm is *faced with* this potential price, how much output will it be able to and willing to sell?" If a firm has market power, its decision of how much output to provide to the market influences the market price, therefore the firm is not "faced with" any price, and the question becomes less relevant.

Economists distinguish between the supply curve of an individual firm and between the market supply curve. The market supply curve is obtained by summing the quantities supplied by all suppliers at each potential price. Thus, in the graph of the supply curve, individual firms' supply curves are added horizontally to obtain the market supply curve.

Economists also distinguish the short-run market supply curve from the long-run market supply curve. In this context, two things are assumed constant by definition of the short run: the availability of one or more fixed inputs (typically physical capital), and the number of firms in the industry. In the long run, firms have a chance to adjust their holdings of physical capital, enabling them to better adjust their quantity supplied at any given price. Furthermore, in the long run potential competitors can enter or exit the industry in response to market conditions. For both of these reasons, long-run market supply curves are generally flatter than their short-run counterparts.

The determinants of supply are:

1. Production costs: how much a goods costs to be produced. Production costs are the cost of the inputs; primarily labor, capital, energy and materials. They depend on the technology used in production, and/or technological advances. See: Productivity
2. Firms' expectations about future prices
3. Number of suppliers

Demand schedule

A demand schedule, depicted graphically as the demand curve, represents the amount of some goods that buyers are willing and able to purchase at various prices, assuming all determinants of demand other than the price of the good in question, such as income, tastes and preferences, the price of substitute goods, and the price of complementary goods, remain the same. Following the law of demand, the demand curve is almost always represented as downward-sloping, meaning that as price decreases, consumers will buy more of the good.

Just like the supply curves reflect marginal cost curves, demand curves are determined by marginal utility curves. Consumers will be willing to buy a given quantity of a good, at a given price, if the marginal utility of additional consumption is equal to the opportunity cost determined by the price, that is, the marginal utility of alternative consumption choices. The demand schedule is defined as the *willingness* and *ability* of a consumer to purchase a given product in a given frame of time.

It is aforementioned, that the demand curve is generally downward-sloping, there may be rare examples of goods that have upward-sloping demand curves. Two different hypothetical types of goods with upward-sloping demand curves are Giffen goods (an inferior but staple good) and Veblen goods (goods made more fashionable by a higher price).

By its very nature, conceptualizing a demand curve requires that the purchaser be a perfect competitor—that is, that the purchaser has no influence over the market price. This is true because each point on the demand curve is the answer to the question "If this buyer is *faced with* this potential price, how much of the product will it purchase?" If a buyer has market power, so its decision of how much to buy influences the market price, then the buyer is not "faced with" any price, and the question is meaningless.

Like with supply curves, economists distinguish between the demand curve of an individual and the market demand curve. The market demand curve is obtained by summing the quantities demanded by all consumers at each potential price. Thus, in the graph of the demand curve, individuals' demand curves are added horizontally to obtain the market demand curve.

The determinants of demand are:

1. Income.
2. Tastes and preferences.
3. Prices of related goods and services.
4. Consumers' expectations about future prices and incomes that can be checked.
5. Number of potential consumers.

Microeconomics

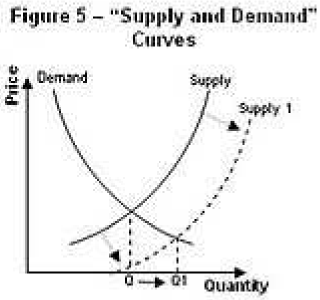

Fig 1.05: Supply and Demand Curve

Equilibrium

Generally speaking, an equilibrium is defined to be the price-quantity pair where the quantity demanded is equal to the quantity supplied. It is represented by the intersection of the demand and supply curves. The analysis of various equilibria is a fundamental aspect of microeconomics:

Market Equilibrium: A situation in a market when the price is such that the quantity demanded by consumers is correctly balanced by the quantity that firms wish to supply. In this situation, the market clears.

Changes in market equilibrium: Practical uses of supply and demand analysis often center on the different variables that change equilibrium price and quantity, represented as shifts in the respective curves. Comparative statics of such a shift traces the effects from the initial equilibrium to the new equilibrium.

Demand curve shifts:

When consumers increase the quantity demanded *at a given price*, it is referred to as an *increase in demand*. Increased demand can be represented on the graph as the curve being shifted to the right. At each price point, a greater quantity is demanded, as from the initial curve D1 to the new curve D2. In the diagram, this raises the equilibrium price from P1 to the higher P2. This raises the equilibrium quantity from Q1 to the higher Q2. A movement along the curve is described as a "change in the quantity demanded" to distinguish it from a "change in demand," that is, a shift of the curve. there has been an *increase* in demand which has caused an increase in (equilibrium) quantity. The increase in demand could also come from changing tastes and fashions, incomes, price changes in complementary and substitute goods, market expectations, and number of buyers. This would cause the entire demand curve to shift changing the equilibrium price and quantity. Note in the diagram that the shift of the demand curve, by causing a new equilibrium price to emerge, resulted in *movement along* the supply curve from the point (Q_1, P_1) to the point (Q_2, P_2).

If the *demand decreases*, then the opposite happens: a shift of the curve to the left. If the demand starts at D2, and *decreases* to D1, the equilibrium price will decrease, and the equilibrium quantity will also decrease. The quantity supplied at each price is the same as before the demand shift, reflecting the fact that the supply curve has not shifted; but the equilibrium quantity and price are different as a result of the change (shift) in demand.

Supply curve shifts:

When technological progress occurs, the supply curve shifts. For example, assume that someone invents a better way of growing wheat so that the cost of growing a given quantity of wheat decreases. Otherwise stated, producers will be willing to supply more wheat at every price and this shifts the supply curve S1 outward, to S2—an *increase in supply*. This increase in supply causes the equilibrium price to decrease from P1 to P2. The equilibrium quantity increases from Q1 to Q2 as consumers move along the demand curve to the new lower price. As a result of a supply curve shift, the price and the quantity move in opposite directions. If the quantity supplied *decreases*, the opposite happens. If the supply curve starts at S2, and shifts leftward to S1, the equilibrium price will increase and the equilibrium quantity will decrease as consumers move along the demand curve to the new higher price and associated lower quantity demanded. The quantity demanded at each price is the same as before the supply shift, reflecting the fact that the demand curve has not shifted. But due to the change (shift) in supply, the equilibrium quantity and price have changed.

The movement of the supply curve in response to a change in a non-price determinant of supply is caused by a change in the y-intercept, the constant term of the supply equation. The supply curve shifts up and down the y axis as non-price determinants of demand change.

Economics

Microeconomics (from Greek prefix mikro- meaning "small" and economics) is a branch of economics that studies the behavior of individuals and small impacting organizations in making decisions on the allocation of limited resources (see scarcity). Macroeconomics (from the Greek prefix makro- meaning "large" and economics), on the other hand, is a branch of economics dealing with the performance, structure, behavior, and decision-making of an economy as a whole, rather than individual markets.

The modern field of microeconomics arose as an effort of neoclassical economics school of thought to put economic ideas into mathematical mode. It began in the 19th century debates surrounding the works of Antoine Augustine Cournot, William Stanley Jevons, Carl Menger, Léon Walras, this period is usually denominated as the Marginal Revolution . A recurring theme of these debates was the contrast between the Labor theory of value and the Subjective theory of value, the former being associated with classical economists such as Adam Smith, David Ricardo and Karl Marx (Marx was a contemporary of the marginalists).

Alfred Marshall in his Principles of Economics (1890), presented a possible solution to this problem, using the supply and demand model. Marshall's idea of solving the controversy was that the demand curve could be derived by aggregating individual consumer demand curves, which were themselves based on the consumer problem of maximizing utility. The supply curve could be derived by superimposing a representative firm supply curves for the factors of production and then market equilibrium would be given by the intersection of demand and supply curves. He also introduced the notion of different market periods: mainly Long run and short run. This set of ideas gave way to what economists call perfect competition, now found in the standard microeconomics texts, even though Marshall himself was highly skeptical it could be used as general model of all markets.

Opposed to the model of perfect competition, some models of imperfect competition were proposed:

- The monopoly model, already considered by marginalist economists, describes a profit maximizing capitalist facing a market demand curve with no competitors, who may practice price discrimination.
- Oligopoly is a market form in which a market or industry is dominated by a small number of sellers. The oldest model was the duopoly of Cournot (1838). It was criticized by Harold Hotelling for its instability, by Joseph Bertrand for lacking equilibrium for prices as independent variables. Hotelling built a model of market located over a line with two sellers in each extreme of the line, in this case maximizing profit for both sellers leads to a stable equilibrium. From this model also follows that if a seller is to choose the location of his store so as to maximize his profit, he will place his store the closest to his competitor: "the sharper competition with his rival is offset by the greater number of buyers he has an advantage". He also argues that clustering of stores is wasteful from the point of view of transportation costs and that public interest would dictate more spatial dispersion.
- Monopolistic competition is a type of imperfect competition such that many producers sell products that are differentiated from one another (e.g. by branding or quality) and hence are not perfect substitutes. In monopolistic competition, a firm takes the prices charged by its rivals as given and ignores the impact of its own prices on the prices of other firms. The "founding father" of the theory of monopolistic competition is Edward Hastings Chamberlin, who wrote a pioneering book on the subject, *Theory of Monopolistic Competition* (1933). Joan Robinson published a book *The Economics of Imperfect Competition* with a comparable theme of distinguishing perfect from imperfect competition. Chamberlin defined monopolistic competition as, "...challenge to traditional viewpoint of economics that competition and monopoly are alternatives and that individual prices are to be explained in terms of one or the other." He continues, "By contrast it is held that most economic situations are composite of both competition and monopoly, and that, wherever this is the case, a false view is given by neglecting either one of the two forces and regarding the situation as made up entirely of the other."

William Baumol provided in his 1977 paper the current formal definition of a natural monopoly where “an industry in which multiform production is more costly than production by a monopoly”. Baumol defined a contestable market in his 1982 paper as a market where "entry is absolutely free and exit absolutely costless", freedom of entry in Stigler sense: the incumbent has no cost discrimination against entrants. He states that a contestable market will never have an economic profit greater than zero when in equilibrium and the equilibrium will also be efficient. According to Baumol this equilibrium emerges endogenously due to the nature of contestable markets, that is the only industry structure that survives in the long run is the one which minimizes total costs. This is in contrast to the older theory of industry structure since not only industry structure is not exogenously given, but equilibrium is reached without add hoc hypothesis on the behavior of firms, say using reaction functions in a duopoly. He concludes the paper commenting that regulators that seek to impede entry and/or exit of firms would do better to not interfere if the market in question resembles a contestable market.

Fig 1.06: Used cars market: due to presence of fundamental asymmetrical information between seller and buyer the market equilibrium is not efficient; in the language of economists it is a market failure.

Around the 1970s the study of market failures came into focus with the study of information asymmetry. In particular three authors emerged from this period: Akerlof, Spence, and Stiglitz. Akerlof considered the problem of bad quality cars driving good quality cars out of the market in his classic “The Market for Lemons” (1970) because of the presence of asymmetrical information between buyers and sellers. Michael Spence explained that signaling was fundamental in the labour market, because since employers can't know beforehand which candidate is the most productive, a college degree becomes a signaling device that a firm uses to select new personnel.

C. B. Macpherson identifies an underlying model of the market underlying Anglo-American liberal-democratic political economy and philosophy in the seventeenth and eighteenth centuries: persons are cast as self-interested individuals, who enter into contractual relations with other such individuals, concerning the exchange of goods or personal capacities cast as commodities, with the motive of maximizing pecuniary interest. The state and its governance systems are cast as outside of this framework. This model came to dominant economic thinking in the later nineteenth century, as economists such as Ricardo, Mill, Jevons, Walras and later neo-classical economics shifted from reference to geographically located marketplaces to an abstract "market". This tradition is continued in contemporary neoliberalism, where the market is held up as optimal for wealth creation and human freedom, and the states' role imagined as minimal, reduced to that of upholding and keeping stable property rights, contract, and money supply. According to David Harvey, this allowed for boilerplate economic and institutional restructuring under structural adjustment and post-Communist reconstruction. Similar formalism occurs in a wide variety of social democratic and Marxist discourses that situate political action as antagonistic to the market. In particular, commodification theorists such as György Lukács insist that market relations necessarily lead to undue exploitation of labour and so need to be opposed in toto.

A central theme of empirical analyses is the variation and proliferation of types of markets since the rise of capitalism and global scale economies. The Regulation school stresses the ways in which developed capitalist countries have implemented varying degrees and types of environmental, economic, and social regulation, taxation and public spending, fiscal policy and government provisioning of goods, all of which have transformed markets in uneven and geographical varied ways and created a variety of mixed economies.

Fig 1.07: A coal power plant in Datteln. Emissions trading or cap and trade is a market-based approach used to control pollution by providing economic incentives for achieving reductions in the emissions of pollutants.

Check Your Progress

What is meant by “microeconomics” and “macroeconomics” and what is the difference in these concepts?

Explain the contribution of Alfred Marshall in the field of economics.

How asymmetry in information availability may lead to market failure where “bad quality” hotels may outsell the “good” quality ones?

How does a college degree in hospitality can act as a ‘signalling” device in selection of persons in hotels?

Drawing on concepts of institutional variance and path dependence, varieties of capitalism theorists (such as Peter Hall and David Soskice) identify two dominant modes of economic ordering in the developed capitalist countries, "coordinated market economies" such as Germany and Japan, and an Anglo-American "liberal market economies". However, such approaches imply that the Anglo-American liberal market economies, in fact, operate in a matter close to the abstract notion of "the market". While Anglo-American countries have seen increasing introduction of neo-liberal forms of economic ordering, this has not led to simple convergence, but rather a variety of hybrid institutional orderings. Rather, a variety of new markets have emerged, such as for carbon trading or rights to pollute. In some cases, such as emerging markets for water, different forms of privatization of different aspects of previously state run infrastructure have created hybrid private-public formations and graded degrees of commodification, commercialization, and privatization.

Marketing

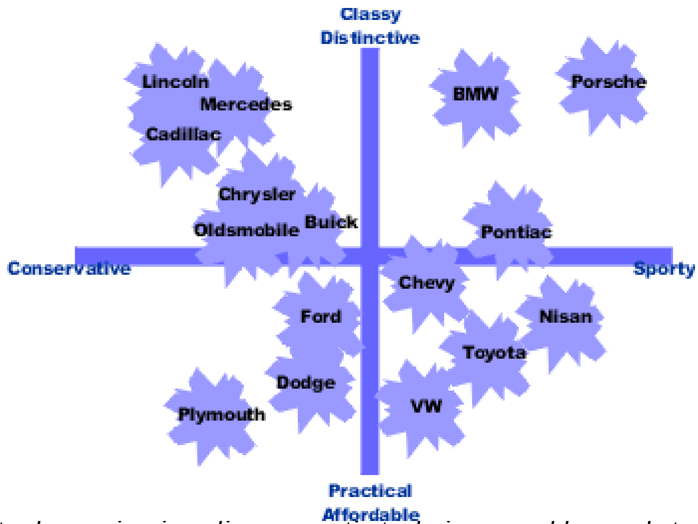

Fig 1.08: Perceptual mapping is a diagrammatic technique used by marketers that attempts to visually display the perceptions of customers or potential customers. Typically the position of a product, product line, brand, or company is displayed relative to their competition.

The marketing management school, evolved in the late 1950s and early 1960s, is fundamentally linked with the marketing mix framework, a business tool used in marketing and by marketers. In his paper "The Concept of the Marketing Mix", Neil H. Borden reconstructed the history of the term "marketing mix". He started teaching the term after an associate, James Culliton, described the role of the marketing manager in 1948 as a "mixer of ingredients"; one who sometimes follows recipes prepared by others, sometimes prepares his own recipe as he goes along, sometimes adapts a recipe from immediately available ingredients, and at other times invents new ingredients no one else has tried. The marketer E. Jerome McCarthy proposed a four Ps classification (Product, Price, Promotion, Place) in 1960, which has since been used by marketers throughout the world. Robert F. Lauterborn proposed a four Cs classification (Consumer, Price, Promotion, Place) in 1990 which is a more consumer-oriented version of the four Ps that attempts to better fit the movement from mass marketing to niche marketing. Koichi Shimizu proposed a 7Cs Compass Model (corporation, commodity, cost, communication, channel, consumer, circumstances) to provide a more complete picture of the nature of marketing in 1981.

Businesses market their products/services to a specific segments of consumers. The defining factors of the markets are determined by demographics, interests and age/gender. A form of expansion is to enter a new market and sell/advertise to a different set of users.

CHECK YOUR PROGRESS

What is meant by “Marketing Mix”?

What are the four P’s according to McCarthy?

What are the four Cs in classification according to Lauterborn?

What are the seven Cs in Shimizu's compass model?

What would be the four Ps as applied to Hotel industry?

Describe how we may apply the 4Cs classification to the hospitality sector.

Apply 7Cs compass model to the hotel industry and explain its implications.

Mathematical modeling

Although arithmetic has been used since the beginning of civilization to set prices, it was not until the 19th century that more advanced mathematical tools began to be used to study markets in the form of social statistics. More recent techniques include business intelligence, data mining and marketing engineering.

Size parameters

Market size can be given in terms of the number of buyers and sellers in a particular market or in terms of the total exchange of money in the market, generally annually (per year). When given in terms of money, market size is often termed *market value*, but in a sense distinct from market value of individual products. For one and the same goods, there may be different (and generally increasing) market values at the production level, the wholesale level and the retail level. For example, the production price of onion may be Rs3 per kg while at wholesale level it may reach Rs10 per kg and the retail market may sell at Rs 40 per kg. The production of onion in 2014 in India was 19.4 million tonnes. You may calculate the market size at production, wholesale and retail level.

1.04 MARKETING AS A SCIENCE

Marketing is the study and management of exchange relationships. The American Marketing Association has defined marketing 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."

Marketing is used to create, keep and satisfy the customer. With the customer as the focus of its activities, it can be concluded that Marketing is one of the premier components of Business Management - the other being Innovation. Other services and management activities such as Operations (or Production), Human Resources, Accounting, Law and Legal aspects can be "bought in" or "contracted out".

Definition

Marketing is defined by the American Marketing Association 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."* The term developed from the original meaning which referred literally to going to a market to buy or sell goods or services. Sales process engineering views marketing as *"a set of processes that are interconnected and interdependent with other functions, whose methods can be improved using a variety of relatively new approaches."*

The Chartered Institute of Marketing defines marketing as *"the management process responsible for identifying, anticipating and satisfying customer requirements profitably."* A similar concept is the value-based marketing which states the role of marketing to contribute to increasing shareholder value. In this context, marketing can be defined as *"the management process that seeks to maximise returns to shareholders by developing relationships with valued customers and creating a competitive advantage."*

Marketing practice tended to be seen as a creative industry in the past, which included advertising, distribution and selling. However, because the academic study of marketing makes extensive use of social sciences, psychology, sociology, mathematics, economics, anthropology and neuroscience, the profession is now widely recognized as a science, allowing numerous universities to offer Master-of-Science (MSc) programmes. The overall process starts with marketing research and goes through market segmentation, business planning and execution, ending with pre and post-sales promotional activities. It is also related to many of the creative arts. The marketing literature is also adept at re-inventing itself and its vocabulary according to the times and the culture.

The marketing concept

The term 'marketing concept' pertains to the fundamental premise of modern marketing. This concept proposes that in order to satisfy the organizational objectives, an organization should anticipate the needs and wants of consumers and satisfy these more effectively than competitors. Marketing and marketing concepts are directly related.

Marketing orientations

An orientation, in the marketing context, relates to a perception or attitude a firm holds towards its product or service, essentially concerning consumers and end-users. There exist several common orientations:

CHECK YOUR PROGRESS

What is the definition of Marketing as per American Marketing Association? Elaborate

Explain what is meant by ‘marketing concept’.

What is meant by ‘Marketing orientation’ of a firm?

Product orientation

A firm employing a product orientation is mainly concerned with the quality of its own product. A firm would also assume that as long as its product was of a high standard, people would buy and consume the product.

This works most effectively when the firm has good insights about customers and their needs and desires, as for example in the case of Sony Walkman or Apple iPod, whether these derive from intuitions or research.

Sales orientation

A firm using a sales orientation focuses primarily on the selling/promotion of a particular product, and not determining new consumer desires as such. Consequently, this entails simply selling an already existing product, and using promotion techniques to attain the highest sales possible.

Such an orientation may suit scenarios in which a firm holds dead stock, or otherwise sells a product that is in high demand, with little likelihood of changes in consumer tastes diminishing demand.

Production orientation

A firm focusing on a production orientation specializes in producing as much as possible of a given product or service. Thus, this signifies a firm exploiting economies of scale, until the minimum efficient scale is reached.

A production orientation may be deployed when a high demand for a product or service exists, coupled with a good certainty that consumer tastes do not rapidly alter (similar to the sales orientation).

Marketing orientation

The marketing orientation is perhaps the most common orientation used in contemporary marketing. It involves a firm essentially basing its marketing plans around the marketing concept, and thus supplying products to suit new consumer tastes.

As an example, a firm would employ market research to gauge consumer desires, use R&D to develop a product attuned to the revealed information, and then utilize promotion techniques to ensure persons know the product exists. The marketing orientation often has three prime facets, which are:

Customer orientation

A firm in the market economy can survive by producing goods that persons are willing and able to buy. Consequently, ascertaining consumer demand is vital for a firm's future viability and even existence as a going concern.

Organizational orientation

In this sense, a firm's marketing department is often seen as of prime importance within the functional level of an organization.

Information from an organization's marketing department would be used to guide the actions of other department's within the firm. As an example, a marketing department could ascertain (via marketing research) that consumers desired a new type of product, or a new usage for an existing product. With this in mind, the marketing department would inform the R&D department to create a prototype of a product/service based on consumers' new desires.

The production department would then start to manufacture the product, while the marketing department would focus on the promotion, distribution, pricing, etc. of the product. Additionally, a firm's finance department would be consulted, with respect to securing appropriate funding for the development, production and promotion of the product.

Inter-departmental conflicts may occur, should a firm adhere to the marketing orientation. Production may oppose the installation, support and servicing of new capital stock, which may be needed to manufacture a new product. Finance may oppose the required capital expenditure, since it could undermine a healthy cash flow for the organization.

Mutually beneficial exchange

In a transaction in the market economy, a firm gains revenue, which thus leads to more profits/market share/sales. A consumer on the other hand gains the satisfaction of a need/want, utility, reliability and value for money from the purchase of a product or service. As no one has to buy goods from any one supplier in the market economy, firms must entice consumers to buy goods with contemporary marketing ideals.

The Four Ps

In the early 1960s, Professor Neil Borden at Harvard Business School identified a number of company performance actions that can influence the consumer decision to purchase goods or services. Borden suggested that all those actions of the company represented a "Marketing Mix". Professor E. Jerome McCarthy, at the Michigan State University in the early 1960s, suggested that the Marketing Mix contained 4 elements: product, price, place and promotion.

Product

The product aspects of marketing deal with the specifications of the actual goods or services, and how it relates to the end-user's needs and wants. The scope of a product generally includes supporting elements such as warranties, guarantees, and support.

Pricing

This refers to the process of setting a price for a product, including discounts. The price need not be monetary; it can simply be what is exchanged for the product or services, e.g. time, energy, or attention. Methods of setting prices optimally are in the domain of pricing science.

CHECK YOUR PROGRESS

What happens when a hotel has Product orientation as its operational philosophy?

What happens when a hotel has Sales orientation as its operational philosophy?

What happens when a hotel has Production orientation as its operational philosophy?

What happens when a hotel has Marketing orientation as its operational philosophy?

What happens when a hotel has Customer orientation as its operational philosophy?

What happens when a hotel has Organisational orientation as its operational philosophy?

Placement (or distribution)

This refers to how the product gets to the customer; for example, point-of-sale placement or retailing. This third P has also sometimes been called *Place*, referring to the channel by which a product or service is sold (e.g. online vs. retail), which geographic region or industry, to which segment (young adults, families, business people), etc. also referring to how the environment in which the product is sold in can affect sales.

Promotion

This includes advertising, sales promotion, including promotional education, publicity, and personal selling. Branding refers to the various methods of promoting the product, brand, or company.

These four elements are often referred to as the marketing mix, which a marketer can use to craft a marketing plan.

Criticism of the Four P-Model

Morgan, in *Riding the Waves of Change* (Jossey-Bass, 1988), suggests that one of the greatest limitations of the 4 Ps approach "is that it unconsciously emphasizes the inside–out view (looking from the company outwards), whereas the essence of marketing should be the outside–in approach".

Some authors suggest extensions of the 4P model (not widely shared by academic researchers and in need of further verification):

Industrial or B2B marketing would need to account for the long term contractual agreements that are typical in supply chain transactions. Relationship marketing attempts to do this by looking at marketing from a long term relationship perspective rather than individual transactions.

Services marketing would need to account for the unique nature of services. In order to recognize the different aspects of selling **services**, as opposed to **Products**, some authors advocate Seven Ps for service industries: **Process -** the way in which orders are handled, customers are satisfied and the service is delivered. **Physical Evidence -** is tangible evidence of the service customers will receive (for example a holiday brochure). **People -** the people meeting and dealing with the customers.

Some authors cite a further P - Packaging - this is thought by many to be part of Product, but in certain markets (Japan, China for example) and with certain products (perfume, cosmetics) the packaging of a product has a greater importance - maybe even than the product itself.

CHECK YOUR PROGRESS

Explain the concept of **Process**, **Physical Evidence** and **People** (as envisaged in extended 7P Model) as may be used for Tourism industry.

Explain the concept of **Process**, **Physical Evidence** and **People** (as envisaged in extended 7P Model) as may be used for Hotel industry.

Elaborate how the concept of **Packaging** may be used in context of marketing in Hotel industry.

Elaborate how the concept of **Packaging** may be used in context of marketing in Tourism industry.

The marketing environment

The term "marketing environment" relates to all of the factors (whether internal, external, direct or indirect) that affect a firm's marketing decision-making/planning. A firm's marketing environment consists of three main areas, which are:

- The macro-environment, over which a firm holds little control
- The micro-environment, over which a firm holds a greater amount (though not necessarily total) control

The macro-environment

A firm's marketing macro-environment consists of a variety of external factors that manifest on a large (or macro) scale. These are typically economic, social, political or technological phenomena. A common method of assessing a firm's macro-environment is via a PESTLE (Political, Economic, Social, Technological, Legal, Ecological) analysis. Within a PESTLE analysis, a firm would analyze national political issues, culture and climate, key macroeconomic conditions, health and indicators (such as economic growth, inflation, unemployment, etc.), social trends/attitudes, and the nature of technology's impact on its society and the business processes within the society.

The micro-environment

A firm's micro-environment comprises factors pertinent to the firm itself, or stakeholders closely connected with the firm or company.

A firm's micro-environment typically spans:

- Customers/consumers
- Employees
- Suppliers
- The Media

By contrast to the macro-environment, an organization holds a greater degree of control over these factors.

Marketing research

Marketing research is a systematic process of analyzing data which involves conducting research to support marketing activities, and the statistical interpretation of data into information. This information is then used by managers to plan marketing activities, gauge the nature of a firm's marketing environment and to attain information from suppliers.

A distinction should be made between ***marketing*** research and ***market*** research. Market research pertains to research in a given market. As an example, a firm may conduct research in a target market, after selecting a suitable market segment. In contrast, marketing research relates to all research conducted within marketing. Market research is a subset of marketing research.

Marketing researchers use statistical methods (such as quantitative research, qualitative research, hypothesis tests, Chi-square tests, linear regression, correlation coefficients, frequency distributions, Poisson and binomial distributions, etc.) to interpret their findings and convert data into information.

The Marketing Research Process

Marketing research spans a number of stages, including:

- Define the problem
- Develop a research plan
- Collect the data
- Interpret data into information
- Disseminate information formally in the form of a report

Market segmentation

Market segmentation consists of taking the total heterogeneous market for a product and dividing it into several sub-markets or segments, each of which tends to be homogeneous in all significant aspects.

The purposes of market segmentation

Market segmentation is conducted for two main purposes, including:

- A better allocation of a firm's finite resources
- To better serve the more diversified tastes of contemporary Western consumers

A firm only possesses a certain amount of resources. Accordingly, it must make choices (and appreciate the related costs) in servicing specific groups of consumers.

Moreover, with more diversity in the tastes of modern consumers, firms are taking noting the benefit of servicing a multiplicity of new markets.

Overview of segmentation process

Segmentation can be defined in terms of the STP acronym, meaning Segment, Target, Position.

Segment

Segmentation involves the initial splitting up of consumers into persons of like needs/wants/tastes.

Four commonly used criteria are used for segmentation, which include:

- **Geographical** (a country, region, city, town, etc.)
- **Psychographic** (e.g. personality traits or character traits which influence consumer behaviour)
- **Demographic** (e.g. age, gender, socio-economic class, education, etc.)
- **Behavioural** (e.g. brand loyalty, usage rate, etc.)

Target

Once a segment has been identified, a firm must ascertain whether the segment is beneficial for them to service.

The *DAMP* acronym (meaning Discernable, Accessible, Measurable and Profitable) are used as criteria to gauge the viability of a target market. DAMP is explained in further detail below:

- **- Discernable -** how a segment can be differentiated from other segments.
- - **Accessible -** how a segment can be accessed via Marketing Communications produced by a firm
- **- Measurable -** can the segment be quantified and its size determined?
- **- Profitable -** can a sufficient return on investment be attained from a segment's servicing?

The next step in the targeting process is the level of differentiation involved in a segment serving. Three modes of differentiation exist, which are commonly applied by firms. These are:

Undifferentiated - where a company produces a like product for all of a market segment
Differentiated - in which a firm produced slight modifications of a product within a segment
Niche - in which an organisation forges a product to satisfy a specialised target market

Position

Positioning concerns how to position a product in the minds of consumers.

A firm often performs this by producing a perceptual map, which denotes products produced in its industry according to how consumers perceive their price and quality. From a product's placing on the map, a firm would tailor its marketing communications to suit meld with the product's perception among consumers.

Marketing communications

Marketing communications is defined by actions a firm takes to communicate with end-users, consumers and external parties. Marketing communications encompasses four distinct subsets, which are:

PERSONAL SALES

Oral presentation given by a salesperson who approaches individuals or a group of potential customers:

Live, interactive relationship
Personal interest

Attention and response
Interesting presentation
Clear and thorough.

SALES PROMOTION

Short-term incentives to encourage buying of products:

Instant appeal
Anxiety to sell

An example is coupons or a sale. People are given an incentive to buy, but this does not build customer loyalty or encourage future repeat buys. A major drawback of sales promotion is that it is easily copied by competition. It cannot be used as a sustainable source of differentiation.

PUBLIC RELATIONS

Public Relations (or PR, as an acronym) is the use of media tools by a firm in order to promote goodwill from an organization to a target market segment, or other consumers of a firm's good/service. PR stems from the fact that a firm cannot seek to antagonize or inflame its market base, due to incurring a lessened demand for its good/service. Organizations undertake PR in order to assure consumers, and to forestall negative perceptions towards it.

PR can span:

- Interviews
- Speeches/Presentations
- Corporate literature, such as financial statements, brochures, etc.

PUBLICITY

Publicity involves attaining space in media, without having to pay directly for such coverage. As an example, an organization may have the launch of a new product covered by a newspaper or TV news segment. This benefits the firm in question since it is making consumers aware of its product, without necessarily paying a newspaper or television station to cover the event.

Advertising

Advertising occurs when a firm directly pays a media channel to publicize its product. Common examples of this include TV and radio adverts, billboards, branding, sponsorship, etc.

Marketing communications "mix"

Marketing communications is a "sub-mix" within the Promotion aspect of the marketing mix, as the exact nature of how to apply marketing communications depends on the nature of the product in question.

Accordingly, a given product would require a unique communications mix, in order to convey successfully information to consumers. Some products may require a stronger emphasis on personal sales, while others may need more focus on advertising.

Marketing Planning

The area of marketing planning involves forging a plan for a firm's marketing activities. A marketing plan can also pertain to a specific product, as well as to an organisation's overall marketing strategy.

Generally speaking, an organisation's marketing planning process is derived from its overall business strategy. Thus, when top management are devising the firm's strategic direction/mission, the intended marketing activities are incorporated into this plan.

Marketing Planning Process

Within the overall strategic marketing plan, the stages of the process are listed as thus:

- Mission Statement
- Corporate Objectives
- Marketing Audit
- SWOT (Strengths, Weaknesses, Opportunities, Threats) analysis
- Assumptions arising from the Audit and SWOT analysis
- Marketing objectives derived from the assumptions
- An estimation of the expected results of the objectives
- Identification of alternative plans/mixes
- Budgeting for the marketing plan
- A first-year implementation program

Levels of marketing objectives within an organization

As stated previously, the senior management of a firm would formulate a general business strategy for a firm. However, this general business strategy would be interpreted and implemented in different contexts throughout the firm.

Corporate

Corporate marketing objectives are typically broad-based in nature, and pertain to the general vision of the firm in the short, medium or long-term.

As an example, if one pictures a group of companies (or a conglomerate), top management may state that sales for the group should increase by 25% over a ten-year period.

Strategic business unit

Strategic business unit (SBU), in this case, means strategic business unit. An SBU is a subsidiary within a firm, which participates within a given market/industry. The SBU would embrace the corporate strategy, and attune it to its own particular industry. For instance, an SBU may partake in the sports goods industry. It thus would ascertain how it would attain additional sales of sports goods, in order to satisfy the overall business strategy.

Functional

The functional level relates to departments within the SBUs, such as marketing, finance, HR, production, etc. The functional level would adopt the SBU's strategy and determine how to accomplish the SBU's own objectives in its market.

To use the example of the sports goods industry again, the marketing department would draw up marketing plans, strategies and communications to help the SBU achieve its marketing aims.

Product Life Cycle

The *Product Life Cycle* (or **PLC**, for short) is a tool used by marketing managers to gauge the progress of a product, especially relating to sales/revenue accrued over time. The PLC is based on a few key assumptions, including:

- A given product would possess an Introduction, Growth, Maturity and Decline stage. - No product lasts perpetually on the market. - A firm must employ differing strategies, according to where a product is on the PLC.

Introduction

In this stage, a product is launched onto the market. To stimulate growth of sales/revenue, use of advertising may be high, in order to heighten awareness of the product in question.

Growth

The product's sales/revenue is increasing, which may stimulate more marketing communications to sustain sales. More entrants enter into the market, to reap the apparent high profits that the industry is producing.

Maturity

A product's sales start to level off, and an increasing number of entrants to a market produce price falls for the product. Firms may utilise sales promotions to raise sales.

Decline

Demand for a good begins to taper off, and the firm may opt to discontinue manufacture of the product. This is so, if revenue for the product comes from efficiency savings in production, over actual sales of a good/service. However, if a product services a niche market, or is complementary to another product, it may continue manufacture of the product, despite a low level of sales/revenue being accrued.

Customer focus

Many companies today have a customer focus (or market orientation). This implies that the company focuses its activities and products on consumer demands. Generally there are three ways of doing this: the customer-driven approach, the sense of identifying market changes and the product innovation approach.

In the consumer-driven approach, consumer wants are the drivers of all strategic marketing decisions. No strategy is pursued until it passes the test of consumer research. Every aspect of a market offering, including the nature of the product itself, is driven by the needs of potential consumers. The starting point is always the consumer. The rationale for this approach is that there is no point spending R&D

funds developing products that people will not buy. History attests to many products that were commercial failures in spite of being technological breakthroughs.

A formal approach to this customer-focused marketing is known as SIVA (Solution, Information, Value, Access). This system is basically the four Ps renamed and reworded to provide a customer focus.

The SIVA Model provides a demand/customer centric version alternative to the well-known 4Ps supply side model (product, price, place, promotion) of marketing management.

Product → Solution

Promotion → Information

Price → Value

Placement → Access

Product focus

In a product innovation approach, the company pursues product innovation, then tries to develop a market for the product. Product innovation drives the process and marketing research is conducted primarily to ensure that profitable market segment(s) exist for the innovation. The rationale is that customers may not know what options will be available to them in the future so we should not expect them to tell us what they will buy in the future. However, marketers can aggressively over-pursue product innovation and try to overcapitalize on a niche. When pursuing a product innovation approach, marketers must ensure that they have a varied and multi-tiered approach to product innovation. It is claimed that if Thomas Edison depended on marketing research he would have produced larger candles rather than inventing light bulbs. Many firms, such as research and development focused companies, successfully focus on product innovation. Many purists doubt whether this is really a form of marketing orientation at all, because of the ex post status of consumer research. Some even question whether it is marketing.

- An emerging area of study and practice concerns internal marketing, or how employees are trained and managed to deliver the brand in a way that positively impacts the acquisition and retention of customers (employer branding).
- Diffusion of innovations research explores how and why people adopt new products, services and ideas.
- A relatively new form of marketing uses the Internet and is called Internet marketing or more generally e-marketing, affiliate marketing, desktop advertising or online marketing. It tries to perfect the segmentation strategy used in traditional marketing. It targets its audience more precisely, and is sometimes called personalized marketing or one-to-one marketing.

With consumers' eroding attention span and willingness to give time to advertising messages, marketers are turning to forms of permission marketing such as branded content, custom media and reality marketing.

The use of herd behavior in marketing.

The Economist reported a recent conference in Rome on the subject of the simulation of adaptive human behavior. It shared mechanisms to increase impulse buying and get people "to buy more by playing on the herd instinct." The basic idea is that people will buy more of products that are seen to be popular, and several feedback mechanisms to get product popularity information to consumers are mentioned, including smart-cart technology and the use of Radio Frequency Identification Tag technology. A "swarm-moves" model was introduced by a Florida Institute of Technology researcher, which is appealing to supermarkets because it can "increase sales without the need to give people discounts."

Marketing is also used to promote business' products and is a great way to promote the business.

Other recent studies on the "power of social influence" include an "artificial music market in which some 14,000 people downloaded previously unknown songs" (Columbia University, New York); a Japanese chain of convenience stores which orders its products based on "sales data from department stores and research companies;" a Massachusetts company exploiting knowledge of social networking to improve sales; and online retailers who are increasingly informing consumers about "which products are popular with like-minded consumers" (e.g., Amazon, eBay).

CHECK YOUR PROGRESS

What is meant by marketing environment? What are the three areas which comprise marketing environment?

What is meant by marketing research?

Explain the concept of market segmentation.

What is meant by DAMP in context of gauging viability of target market?

What is the importance of ‘positioning’ in context of marketing.

What is the meaning of marketing communication? Which are the distinct subsets in it?

What is the concept of Advertisement?

Explain the concept of Marketing Planning.

What is meant by product life cycle?

Explain customer focus in respect of market orientation.

What is the SIVA model in respect of the 4P supply side model?

1.05 MARKETING MANAGEMENT

Marketing management is the organizational discipline which focuses on the practical application of marketing orientation, techniques and methods inside enterprises and organizations and on the management of a firm's marketing resources and activities.

Structure

Marketing management employs tools from economics and competitive strategy to analyze the industry context in which the firm operates. These include Porter's five forces, analysis of strategic groups of competitors, value chain analysis and others. Depending on the industry, the regulatory context may also be important to examine in detail.

In competitor analysis, marketers build detailed profiles of each competitor in the market, focusing on their relative competitive strengths and weaknesses using SWOT analysis. Marketing managers will examine each competitor's cost structure, sources of profits, resources and competencies, competitive positioning and product differentiation, degree of vertical integration, historical responses to industry developments, and other factors.

Marketing management often conduct market research and marketing research to perform marketing analysis. Marketers employ a variety of techniques to conduct market research, but some of the more common include:

Qualitative marketing research, such as focus groups and various types of interviews
Quantitative marketing research, such as statistical surveys
Experimental techniques such as test markets
Observational techniques such as ethnographic (on-site) observation

Marketing managers may also design and oversee various environmental scanning and competitive intelligence processes to help identify trends and inform the company's marketing analysis.

Brand audit

A brand audit is a thorough examination of a brand's current position in an industry compared to its competitors and the examination of its effectiveness. When it comes to brand auditing, five questions should be carefully examined and assessed:

1. how well the business’ current brand strategy is working,
2. what the company's established resource strengths and weaknesses are,
3. what its external opportunities and threats are,
4. how competitive the business’ prices and costs are,
5. how strong the business’ competitive position in comparison to its competitors is, and
6. what strategic issues are facing the business.

When a business is conducting a brand audit, the goal is to uncover business' resource strengths, deficiencies, best market opportunities, outside threats, future profitability, and its competitive standing in comparison to existing competitors. A brand audit establishes the strategic elements needed to improve brand position and competitive capabilities within the industry. Once a brand is audited, any business that ends up with a strong financial performance and market position is more likely than not to have a properly conceived and effectively executed brand strategy.

A brand audit examines whether a business' share of the market is increasing, decreasing, or stable. It determines if the company's margin of profit is improving, decreasing, and how much it is in comparison to the profit margin of established competitors. Additionally, a brand audit investigates trends in a business' net profits, the return on existing investments, and its established economic value. It determines whether or not the business' entire financial strength and credit rating is improving or getting worse. This kind of audit also assesses a business' image and reputation with its customers. Furthermore, a brand audit seeks to determine whether or not a business is perceived as an industry leader in technology, offering product or service innovations, along with exceptional customer service, among other relevant issues that customers use to decide on a brand of preference.

A brand audit usually focuses on a business' strengths and resource capabilities because these are the elements that enhance its competitiveness. A business' competitive strengths can exist in several forms. Some of these forms include skilled or pertinent expertise, valuable physical assets, valuable human assets, valuable organizational assets, valuable intangible assets, competitive capabilities, achievements and attributes that position the business into a competitive advantage, and alliances or cooperative ventures.

The basic concept of a brand audit is to determine whether a business' resource strengths are competitive assets or competitive liabilities. This type of audit seeks to ensure that a business maintains a distinctive competence that allows it to build and reinforce its competitive advantage. What's more, a successful brand audit seeks to establish what a business capitalizes on best, its level of expertise, resource strengths, and strongest competitive capabilities, while aiming to identify a business' position and future performance.

Marketing strategy

Two customer segments are often selected as targets because they score highly on two dimensions:

1. The segment is attractive to serve because it is large, growing, makes frequent purchases, is not price sensitive (i.e. is willing to pay high prices), or other factors; and
2. The company has the resources and capabilities to compete for the segment's business, can meet their needs better than the competition, and can do so profitably.

A commonly cited definition of marketing is simply "meeting needs profitably".

The implication of selecting target segments is that the business will subsequently allocate more resources to acquire and retain customers in the target segment(s) than it will for other, non-targeted customers. In some cases, the firm may go so far as to turn away customers who are not in its target segment.The doorman at a swanky nightclub, for example, may deny entry to unfashionably dressed individuals because the business has made a strategic decision to target the "high fashion" segment of nightclub patrons.

In conjunction with targeting decisions, marketing managers will identify the desired positioning they want the company, product, or brand to occupy in the target customer's mind. This positioning is often an encapsulation of a key benefit the company's product or service offers that is differentiated and superior to the benefits offered by competitive products. For example, Volvo has traditionally positioned its products in the automobile market in North America in order to be perceived as the leader in "safety", whereas BMW has traditionally positioned its brand to be perceived as the leader in "performance".

Ideally, a firm's positioning can be maintained over a long period of time because the company possesses, or can develop, some form of sustainable competitive advantage. The positioning should also be sufficiently relevant to the target segment such that it will drive the purchasing behavior of target customers. To sum up,the marketing branch of a company is to deal with the selling and popularity of its products among people and its customers,as the central and eventual goal of a company is customer satisfaction and the return of revenue.

Implementation planning

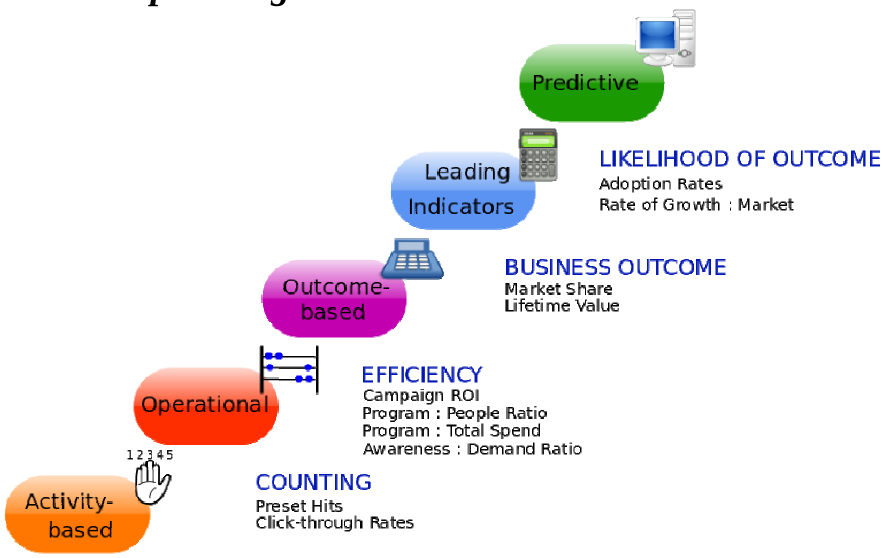

Fig 1.09: The Marketing Metrics Continuum provides a framework for how to categorize metrics from the tactical to strategic.

If the company has obtained an adequate understanding of the customer base and its own competitive position in the industry, marketing managers are able to make their own key strategic decisions and develop a marketing strategy designed to maximize the revenues and profits of the firm. The selected strategy may aim for any of a variety of specific objectives, including optimizing short-term unit margins, revenue growth, market share, long-term profitability, or other goals.

After the firm's strategic objectives have been identified, the target market selected, and the desired positioning for the company, product or brand has been determined, marketing managers focus on how to best implement the chosen strategy. Traditionally, this has involved implementation planning across the "4 Ps" of : product management, pricing (at what price slot does a producer position a product, e.g. low, medium or high price), place (the place or area where the products are going to be sold, which could be local, regional, countrywide or international) (i.e. sales and distribution channels), and Promotion.

Taken together, the company's implementation choices across the 4 Ps are often described as the marketing mix, meaning the mix of elements the business will employ to "go to market" and execute the marketing strategy. The overall goal for the marketing mix is to consistently deliver a compelling value proposition that reinforces the firm's chosen positioning, builds customer loyalty and brand equity among target customers, and achieves the firm's marketing and financial objectives.

In many cases, marketing management will develop a marketing plan to specify how the company will execute the chosen strategy and achieve the business' objectives. The content of marketing plans varies from firm to firm, but commonly includes:

- An executive summary
- Situation analysis to summarize facts and insights gained from market research and marketing analysis
- The company's mission statement or long-term strategic vision
- A statement of the company's key objectives, often subdivided into marketing objectives and financial objectives
- The marketing strategy the business has chosen, specifying the target segments to be pursued and the competitive positioning to be achieved
- Implementation choices for each element of the marketing mix (the 4 Ps)

PROJECT, PROCESS, AND VENDOR MANAGEMENT

More broadly, marketing managers work to design and improve the effectiveness of core marketing processes, such as new product development, brand management, marketing communications, and pricing. Marketers may employ the tools of business process reengineering to ensure these processes are properly designed, and use a variety of process management techniques to keep them operating smoothly.

Effective execution may require management of both internal resources and a variety of external vendors and service providers, such as the firm's advertising agency. Marketers may therefore coordinate with the company's Purchasing department on the procurement of these services. Under the area of marketing agency management (i.e. working with external marketing agencies and suppliers) are techniques such as agency performance evaluation, scope of work, incentive compensation, RFx's and storage of agency information in a supplier database.

Reporting, measurement, feedback and control systems

Marketing management employs a variety of metrics to measure progress against objectives. It is the responsibility of marketing managers to ensure that the execution of marketing programs achieves the desired objectives and does so in a cost-efficient manner.

Marketing management therefore often makes use of various organizational control systems, such as sales forecasts, and sales force and reseller incentive programs, sales force management systems, and customer relationship management tools (CRM). Some software vendors have begun using the term *marketing operations management* or *marketing resource management* to describe systems that facilitate an integrated approach for controlling marketing resources. In some cases, these efforts may be linked to various supply chain management systems, such as enterprise resource planning (ERP), material requirements planning (MRP), efficient consumer response (ECR), and inventory management systems.

International marketing management

Globalization has led some firms to market beyond the borders of their home countries, making international marketing a part of those firms' marketing strategy. Marketing managers are often responsible for influencing the level, timing, and composition of customer demand. In part, this is because the role of a marketing manager (or sometimes called managing marketer in small- and medium-sized enterprises) can vary significantly based on a business's size, corporate culture, and industry context. For example, in a small- and medium-sized enterprises, the managing marketer may contribute in both managerial and marketing operations roles for the company brands. In a large consumer products company, the marketing manager may act as the overall general manager of his or her assigned product. To create an effective, cost-efficient marketing management strategy, firms must possess a detailed, objective understanding of their own business and the market in which they operate. In analyzing these issues, the discipline of marketing management often overlaps with the related discipline of strategic planning.

CHECK YOUR PROGRESS

What is meant by marketing management?

Explain the concept of brand audit.

Elaborate on Marketing Strategy.

Explain how planning done in Marketing Strategy is executed.

Discuss Project, process and vendor management.

1.06 MARKETING MIX

The '**marketing mix**' (also known as the **4 Ps**) is a foundation model in marketing. The marketing mix has been defined as the "*set of marketing tools that the firm uses to pursue its marketing objectives in the target market*". Thus the marketing mix refers to four broad levels of marketing decision, namely: product, price, promotion, and place. Marketing practice has been occurring for millennia, but marketing theory emerged in the early twentieth century. The contemporary marketing mix, or the 4 Ps, which has become the dominant framework for marketing management decisions, was first published in 1960. In services marketing, an extended marketing mix is used, typically comprising **7 Ps**, made up of the original 4 Ps extended by process, people, and physical evidence. Occasionally service marketers will refer to **8 Ps**, comprising these 7 Ps plus performance.

In the 1990s, the model of **4 Cs** was introduced as a more customer-driven replacement of the 4 Ps. There are two theories based on 4 Cs: Lauterborn's 4 Cs (*consumer*, *cost*, *communication*, *convenience*), and Shimizu's 4 Cs (commodity, cost, communication, and channel).

Given the valuation of customers towards potential product attributes (in any category, e.g. product, promotion, etc.) and the attributes of the products sold by other companies, the problem of selecting the attributes of a product to maximize the number of customers preferring it is a computationally intractable problem.

Emergence and growth of the marketing mix

The origins of the 4 Ps can be traced to the late 1940s. The first known mention of a mix has been attributed to a Professor of Marketing at Harvard University, Prof. James Culliton. In 1948, Culliton published an article entitled, *The Management of Marketing Costs* in which Culliton describes marketers as 'mixers of ingredients'. Some years later, Culliton's colleague, Professor Neil Borden, published a retrospective article detailing the early history of the marketing mix in which he claims that he was inspired by Culliton's idea of 'mixers', and credits himself with popularising the concept of the 'marketing mix'. According to Borden's account, he used the term, 'marketing mix' consistently from the late 1940s. For instance, he is known to have used the term 'marketing mix' in his presidential address given to the American Marketing Association in 1953.

Although the idea of marketers as 'mixers of ingredients' caught on, marketers could not reach any real consensus about what elements should be included in the mix until the 1960s. The 4 Ps, in its modern form, was first proposed in 1960 by E. Jerome McCarthy; who presented them within a managerial approach that covered analysis, consumer behavior, market research, market segmentation, and planning. Phillip Kotler, popularised this approach and helped spread the 4 Ps model. McCarthy's 4 Ps have been widely adopted by both marketing academics and practitioners.

The prospect of extending the marketing mix first took hold at the inaugural AMA Conference dedicated to Services Marketing in the early 1980s, and built on earlier theoretical works pointing to many important limitations of the 4 Ps model. Taken collectively, the papers presented at that conference indicate that service marketers were thinking about a revision to the general marketing mix based on an understanding that services were fundamentally different to products, and therefore required different tools and strategies. In 1981, Booms and Bitner proposed a model of 7 Ps, comprising the original 4 Ps extended by process, people and physical evidence, as being more applicable for services marketing.

Since then there have been a number of different proposals for a service marketing mix (with various numbers of Ps), most notably the 8 Ps, comprising the 7 Ps above extended by 'performance'.

McCarthy's 4 Ps

The original marketing mix, or 4 Ps, as originally proposed by marketer and academic E. Jerome McCarthy, provides a framework for marketing decision-making. McCarthy's marketing mix has since become one of the most enduring and widely accepted frameworks in marketing.

Table 1: Brief Outline of 4 Ps

Category	Definition/ Explanation	Typical Marketing Decisions
Product	A product refers to an item that satisfies the consumer's needs or wants. Products may be tangible (goods) or intangible (services, ideas or experiences).	• Product design – features, quality • Product assortment – product range, product mix, product lines • Branding • Packaging and labeling • Services (complementary service, after-sales service, service level) • Guarantees and warranties • Returns • Managing products through the life-cycle
Price	Price refers to the amount a customer pays for a product. Price may also refer to the sacrifice consumers are prepared to make to acquire a product. (e.g. time or effort) Price is the only variable that has implications for revenue. Price also includes considerations of customer perceived value.	• Price strategy • Price tactics • Price-setting • Allowances – e.g. rebates for distributors • Discounts – for customers • Payment terms – credit, payment methods
Place	Refers to providing customer access Considers providing convenience for consumer.	• Strategies such as intensive distribution, selective distribution, exclusive distribution • Franchising; • Market coverage • Channel member selection and channel member relationships • Assortment • Location decisions • Inventory • Transport, warehousing and logistics
Promotion	Promotion refers to marketing communications May comprise elements such as:	• Promotional mix - appropriate balance of advertising, PR, direct marketing and sales promotion • Message strategy - what is to be communicated

	advertising, PR, direct marketing and sales promotion.	• Channel/ media strategy - how to reach the target audience • Message Frequency - how often to communicate

Fig 1.10: The 4Ps have been the cornerstone of the managerial approach to marketing since the 1960s

Product refers to what the business offers for sale and may include products or services. Product decisions include the "quality, features, benefits, style, design, branding, packaging, services, warranties, guarantees, life cycles, investments and returns".

Price refers to decisions surrounding "list pricing, discount pricing, special offer pricing, credit payment or credit terms". Price refers to the total cost to customer to acquire the product, and may involve both monetary and psychological costs such as the time and effort expended in acquisition.

Place is defined as the "direct or indirect channels to market, geographical distribution, territorial coverage, retail outlet, market location, catalogues, inventory, logistics and order fulfilment". Place refers either to the physical location where a business carries out business or the distribution channels used to reach markets. Place may refer to a retail outlet, but increasingly refers to virtual stores such as "a mail order catalogue, a telephone call centre or a website".

Promotion refers to "the marketing communication used to make the offer known to potential customers and persuade them to investigate it further". Promotion elements include "advertising, public relations, direct selling and sales promotions.

Modified and Expanded Marketing Mix: 7 Ps

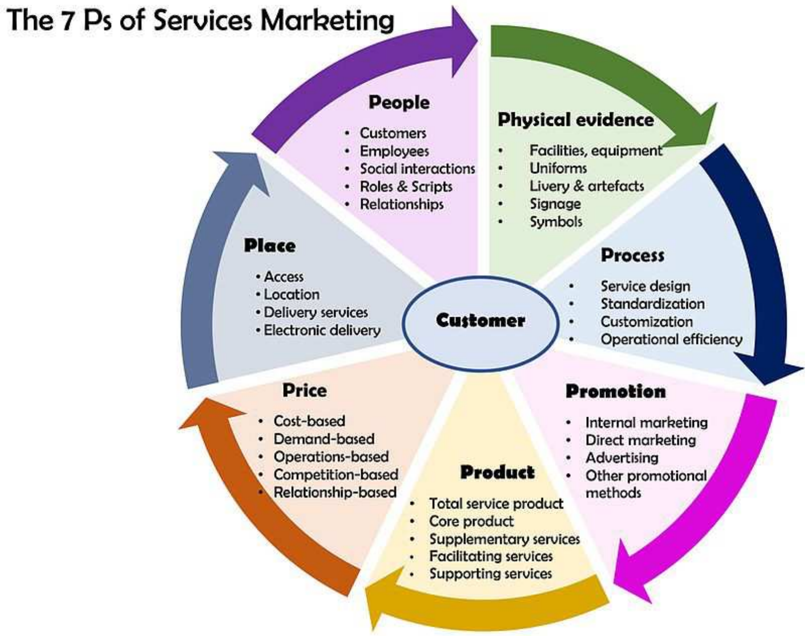

Fig 1.11 The 7 Ps of Services Marketing

By the 1980s, a number of theorists were calling for an expanded and modified framework that would be more useful to service marketers. The prospect of expanding or modifying the marketing mix for services was a core discussion topic at the inaugural AMA Conference dedicated to Services Marketing in the early 1980s, and built on earlier theoretical works pointing to many important limitations of the 4 Ps model. Taken collectively, the papers presented at that conference indicate that service marketers were thinking about a revision to the general marketing mix based on an understanding that services were fundamentally different to products, and therefore required different tools and strategies. In 1981, Booms and Bitner proposed a model of 7 Ps, comprising the original 4 Ps plus *process, people* and *physical evidence*, as being more applicable for services marketing.

Table 2: Outline of the Modified and Expanded Marketing Mix

Category	Definition/ Explanation	Typical Marketing Decisions
Physical evidence	The environment in which service occurs. The space where customers and service personnel interact. Tangible commodities (e.g. equipment, furniture) that facilitate	• Facilities (e.g. furniture, equipment, access) • Spatial layout (e.g. functionality, efficiency) • Signage (e.g. directional signage, symbols, other signage) • Interior design (e.g. furniture, color schemes) • Ambient conditions (e.g. noise,

	service performance. Artifacts that remind customers of a service performance.	air, temperature) • Design of livery (e.g. stationery, brochures, menus, etc.) • Artifacts: (e.g. souvenirs, mementos, etc.)
People	Human actors who participate in service delivery. Service personnel who represent the company's values to customers. Interactions between customers. Interactions between employees and customers.	• Staff recruitment and training • Uniforms • Scripting • Queuing systems, managing waits • Handling complaints, service failures • Managing social interactions
Process	The procedures, mechanisms and flow of activities by which service is delivered.	• Process design • Blueprinting (i.e. flowcharting) service processes • Standardization vs customization decisions • Diagnosing fail-points, critical incidents and system failures • Monitoring and tracking service performance • Analysis of resource requirements and allocation • Creation and measurement of key performance indicators (KPIs) • Alignment with Best Practices • Preparation of operations manuals

People are essential in the marketing of any product or service. Personnel stand for the service. In the professional, financial or hospitality service industry, people are not producers, but rather the products themselves. When people are the product, they impact public perception of an organization as much as any tangible consumer goods. From a marketing management perspective, it is important to ensure that employees represent the company in alignment with broader messaging strategies. This is easier to ensure when people feel as though they have been treated fairly and earn wages sufficient to support their daily lives.

Process refers a "the set of activities that results in delivery of the product benefits". A process could be a sequential order of tasks that an employee undertakes as a part of their job. It can represent sequential steps taken by a number of various employees while attempting to complete a task. Some people are responsible for managing multiple processes at once. For example, a restaurant manager should monitor the performance of employees, ensuring that processes are followed. (S)he is also expected to supervise while customers are promptly greeted, seated, fed, and led out so that the next customer can begin this process.

Physical evidence refers to the non-human elements of the service encounter, including equipment, furniture and facilities. It may also refer to the more abstract components of the environment in which the service encounter occurs including interior design, colour schemes and layout. Some aspects of physical evidence provide lasting proof that the service has occurred, such as souvenirs, mementos, invoices and other livery of artifacts. According to Booms and Bitner's framework, the physical evidence is "the service delivered and any tangible goods that facilitate the performance and communication of the service". Physical evidence is important to customers because the tangible goods are evidence that the seller has (or has not) provided what the customer was expecting.

Lauterborn's 4 Cs (1990)

Robert F. Lauterborn proposed a 4 Cs classification in 1990. His classification is a more consumer-orientated version of the 4 Ps that attempts to better fit the movement from mass marketing to niche marketing:

4 Ps	4 Cs	Definition
Product	Consumer wants and needs	A company will only sell what the consumer *specifically* wants to buy. So, marketers should study consumer wants and needs in order to attract them one by one with something he/she wants to purchase.
Price	Cost	Price is only a part of the total *cost to satisfy* a want or a need. The total cost will consider for example the *cost of time* in acquiring a good or a service, a *cost of conscience* by consuming that or even a *cost of guilt* "for not treating the kids". It reflects the total cost of ownership. Many factors affect cost, including but not limited to the customer's cost to change or implement the new product or service and the customer's cost for not selecting a competitor's product or service.
Promotion	Communication	While promotion is "manipulative" and from the seller, communication is "cooperative" and from the buyer with the aim to create a dialogue with the potential customers based on their needs and lifestyles. It represents a broader focus. Communications can include advertising, public relations, personal selling, viral advertising, and any form of communication between the organization and the consumer .
Place	Convenience	In the era of Internet, catalogues, credit cards and phones people neither need to go anywhere to satisfy a want or a need nor are limited to a few places to satisfy them. Marketers should know how the target market prefers to buy, how to be there and be ubiquitous, in order to guarantee *convenience to buy.* With the rise of Internet and hybrid models of purchasing, Place is becoming less relevant. Convenience takes into

		account the ease of buying the product, finding the product, finding information about the product, and several other factors.

Shimizu's 4 Cs: in the 7Cs Compass Model

After Koichi Shimizu proposed a 4 Cs classification in 1973, it was expanded to **the 7Cs Compass Model** to provide a more complete picture of the nature of marketing in 1979. The 7Cs Compass Model is a framework of co-marketing (commensal marketing or Symbiotic marketing). Also the Co-creative marketing of a company and consumers are contained in the co-marketing. Co-marketing (collaborate marketing) is a marketing practice where two companies cooperate with separate distribution channels, sometimes including profit sharing. It is frequently confused with co-promotion. Also commensal (symbiotic) marketing is a marketing on which both corporation and a corporation, a corporation and a consumer, country and a country, human and nature can live.

- The 7Cs Compass Model comprises:

(C1) Corporation – The core of *4 Cs* is corporation (company and non profit organization). C-O-S (competitor, organization, stakeholder) within the corporation. The company has to think of compliance and accountability as important. The competition in the areas in which the company competes with other firms in its industry.

The 4 elements in the 7Cs Compass Model are:

A formal approach to this customer-focused marketing mix is known as *4 Cs* (commodity, cost, communication, channel) in the *7 Cs Compass Model*. The *4 Cs* model provides a demand/customer centric version alternative to the well-known *4 Ps* supply side model (product, price, promotion, place) of marketing management.

- Product → Commodity
- Price → Cost
- Promotion → Communication
- Place → Channel

"P" category (narrow)	**"C" category (broad)**	**"C" definition**
Product	(C2) Commodity	(Latin derivation: commodus=convenience,happiness) : Co-creation.It is not "product out". The goods and services for the consumers or citizens. Steve Jobs has been making the goods with which people are pleased. It will not become commoditization if a commodity is built starting.

Price	(C3) Cost	(Latin derivation: constare= It makes sacrifices) : There is not only producing cost and selling cost but purchasing cost and social cost.
Promotion	(C4) Communication	(Latin derivation: communis=sharing of meaning) : marketing communication : Not only promotion but communication is important. Communications can include advertising, sales promotion, public relations, publicity, personal selling, corporate identity, internal communication, SNS, MIS.
Place	(C5) Channel	(Latin derivation: canal) : marketing channels. Flow of goods.

The compass of consumers and circumstances (environment) are:

- **(C6) Consumer** – (Needle of compass to consumer)

  The factors related to consumers can be explained by the first character of four directions marked on the compass model. These can be remembered by the cardinal directions, hence the name *compass model*:

  - N = Needs
  - S = Security
  - E = Education: (consumer education)
  - W = Wants

- **(C7) Circumstances** – (Needle of compass to circumstances)

  In addition to the consumer, there are various uncontrollable external environmental factors encircling the companies. Here it can also be explained by the first character of the four directions marked on the compass model:

  - N = National and International (Political, legal and ethical) environment
  - S = Social and cultural
  - E = Economic
  - W = Weather

EXHIBIT: Shimizu's 7Cs Compass Model (Courtesy: © Koichi Shimizu, Japan)

These can also be remembered by the cardinal directions marked on a compass. The *7 Cs Compass Model* is a framework in co-marketing (symbiotic marketing). It has been criticized for being little more than the *4 Ps* with different points of emphasis. In particular, the *7 Cs* inclusion of consumers in the marketing mix is criticized, since they are a *target* of marketing, while the other elements of the marketing mix are *tactics*. The 7 Cs also include numerous strategies for product development, distribution, and pricing, while assuming that consumers want two-way communications with companies.

An alternative approach has been suggested in a book called '*Service 7*' by Australian Author, Peter Bowman. Bowman suggests a values based approach to service marketing activities. Bowman suggests implementing seven service marketing principles which include value, business development, reputation, customer service and service design. Service 7 has been widely distributed within Australia.

Difficulty of computational methods

Automatically selecting the attributes of a product (in any category, i.e. product, promotion, etc.) to maximize the number of customers preferring the resulting product is a computationally intractable problem. Given some customer profiles (i.e., customers sharing some features such as e.g. gender, age, income, etc.), the valuations they give to each potential product attribute (e.g. females aged 35–45 give a 3 out of 5 valuation to "it is green"; males aged 25–35 give 4/5 to "it can be paid in installments"; etc.), the attributes of the products sold by the other producers, and the attributes each producer can give to its products, the problem of deciding the attributes of our product to maximize the number of customers who will prefer it is Poly-APX-complete. This implies that, under the standard computational assumptions, no efficient algorithm can guarantee that the ratio between the number of customers preferring the product returned by the algorithm and the number of customers that would prefer the actual optimal product will always reach some constant, for any constant. Moreover, the problem of finding a strategy such that, for any strategy of the other producers, our product will always reach some minimum average number of customers over some period of time is an EXPTIME-complete problem, meaning that it cannot be efficiently solved. However, heuristic (sub-optimal) solutions to these problems can be found by means of genetic algorithms, particle swarm optimization methods, or minimax algorithms.

1.07 TRENDS IN HOSPITALITY MARKETING IN 2017

2017 is set to be a rewarding year full of growth for property owners around the world. This year, your property’s marketing will be more important than ever and more influential to your business practices. Last year, we predicted what we thought would have the most marketing influence in 2016. Everything from video to online reviews had a huge impact on the competitive landscape. We’ve refreshed our list for 2017 with 16 marketing trends we expect to see this year.

1. CONTENT IS KING

Content remains king of the castle this year. To stay relevant and top of mind, your property should regularly produce new content. Produce content for your website, social media, travel blogs to expand your digital footprint and reach more potential travelers. Google and other search engines love new content and that’s because consumers (travelers!) are searching for new stuff to read, watch, and share.

Keep people in the know with your blog, videos, social media posts, event calendars, city guides and more.

2. VIDEO WILL DOMINATE THE WEB

Using videos to market your property will remain popular in 2017. Facebook now gives preference to video content and YouTube remains one of the strongest platforms. Video content comes in many different forms and your property can experiment with it different ways. People and businesses are now using video on all sorts of different platforms to entice and educate potential consumers.

As a travel brand, there are an endless amount of videos that you can produce to grab the attention of the consumer. Showcase your property, city, staff, local events, your restaurant's recipes and more. Most importantly, you should experiment and see what works.

3. MICRO-CONTENT

When we create content, we often think of the lasting impacts or evergreen effects it will have. But, this year, we should embrace short-lived and micro content that may only be helpful or interesting for a short duration of time.

For example, creating content around a local event may generate a lot of traffic and conversation that could produce real benefits for your property. Videos, helpful guides, Instagram posts, tweets don't have to be long and complicated to make a big impact.

4. EMAIL MARKETING LIVES ON

Email marketing remains one of the cheapest and most effective ways to market to your guests. Email allows you to market to communicate especially well with your existing guests before, during, and after their trip. Use email to send them helpful information about your property, your location (events, city favorites, etc), and gives you an opportunity to present upsells.

This year, put some more structure behind your email strategy and decide how often and at what intervals you want to send emails.

5. MOBILE WILL TAKE OVER DESKTOP

It has long been predicted that mobile bookings will exceed desktop bookings as smartphones and tablets take control of our lives. Even if guests do not book their trip on mobile, it's highly likely to interact with you at some point on mobile. If your website is not mobile optimized, you need to make plans to fix your site in the near future.

Google, travelers, and just about everyone else does not enjoy accessing non-mobile optimized websites. Your booking engine should also be mobile-optimized so that guests can complete their bookings in one session. If potential travelers are unable to complete bookings on your site, you run the risk of them booking somewhere else.

6. MAKE YOUR GUESTS FEEL SPECIAL WITH PERSONALIZATION

2017 will be all about personalization. In hospitality-centric businesses especially, making each guest feel special is important. There are endless amounts of ways you add personal touches to your guests' stay.

For example, create fields in your booking engine that allow guests to explain the purpose of their trip. Special events like honeymoons, anniversaries, birthdays, and the like can and should have some sort of personalization added to them.

Treating guests like they are individuals gives them a story to tell and spread to their friends. These word-of-mouth moments go a long way.

7. Reputation Management Takes Center Stage

Online review websites have done an incredible job at building loyal fan bases and generating a lot of traffic. It's important to keep an eye on all of your online platforms and ensure that you're staying ahead of any negative reviews. We believe it's good practice to respond to all of your reviews, but at the very least, all user-generated negative reviews should be addressed.

8. Maturing and Growth of Social Media Platforms

As we mentioned in our 2017 hospitality trends article, we expect 2017 to be a year where existing platforms of all types will start to mature. Social media platforms, especially, will start to mature and we'll see fewer new services start to popup. Depending on how much effort your property has put into social media, you may have a lot of work to do, or you may just need to continue doing what you've already planned.

Social media is incredibly important during the research and discovery stages of travel. When a potential guest is doing research on your property, they are more than likely going to glance at your online channels. Social is also a great way to gain someone's attention before they even know who you are.

9. Print Isn't Dead Afterall

In late 2016, Airbnb announced that they would begin to produce print travel guides, which seems like an odd thing to do in 2017. The world has already gone digital and we rely on the internet for all types of information. But, companies like Airbnb are making a bet that print might not be ready to go away forever just yet.

We don't suggest that you go out and produce your own full-length travel guide, but it may be a good idea to produce physical maps, brochures, and other helpful guides for your city. Our post on how to make a city guide can help steer you in the right direction.

10. Distribution Channels

New distribution channels are a great way to market your property. A healthy distribution strategy is essential to a successful marketing strategy in 2017. Direct bookings and third party distribution channels both have their place for almost all types of properties. Third party channels, like Expedia and Booking.com, spend a significant amount of money advertising their listings online. Use these channels to your advantage and consider adding a few in the new year.

Adding new distribution channels is easy with channel managers like myallocator.

11. Focus on Location

We predict that local and shared experiences will be at the forefront of hospitality trends in 2017, which means that your property should capitalize on the local area. There are a few different ways you can bring focus to your location's unique aspects. First and foremost, create trainings for your staff and concierge so that you're up-to-date on local trends and the best spots for different types of guests. Many properties have staff from all over the country and world, so they may not always know the area well.

Second, as a part of your content strategy, include guides and posts about your location. Not only is this good for search engine optimization purposes, but also for your staff to direct guests while they are at your property. Maps and city guides are especially helpful for guests who are on the go. Don't forget that physical guides are a good idea too, especially if your property attracts a lot of international guests.

12. Powerful Software

Every year, software innovations make doing business easier and more efficient. In 2017, we expect software to continue to fuel marketing strategies with new tools that help us do better work faster. Everything from email distribution platforms to revenue management modules will surely make an impact on marketing strategies.

Cloudbeds is a hospitality management software solution that helps properties of all sizes run more efficient, profitable businesses.

13. Automation to Eliminate Busy Work

Directly related to powerful software, there are countless solutions out there that help us eliminate busy work. Scheduling content, social media posts, press releases, partnership announcements, and the likes can all use a little automation. We never suggest robots or software automate tasks that require a certain level of creative input. Automation should be used for things like pre-arrival and post-stay emails, confirmations, and reminders.

14. Data Driven Marketing

When making marketing decisions, there are a number of metrics that you should look at. For any type of property, you want to know how your guests are finding you, where they're booking, and the different profit margins by channel, just to name a few.

Choose a property management system, like Cloudbeds, that has powerful reporting capabilities. In the case of Cloudbeds, we have reports that give a high-level and detailed reporting giving property owners and managers a more holistic view of their business.

Keep track of data over time so that you pull insights into whether certain marketing activities are paying off over time. You should analyze fluctuations so you're making the most informed decisions.

15. CONVERSIONS THROUGH SOCIAL MEDIA

Facebook, Instagram, and other social platforms can be optimized to drive bookings, even without advertising. For example, Facebook has a button that you can customize with a number of different call-to-actions including Book Now. You can direct the URL to any destination. For your property's page, you should direct them to your direct booking engine or website. You shouldn't send them to a third-party channel because then you have to pay commission and you earned that booking all on your own.

16. HAVE FUN!

Travel marketing should be fun! Travel and wanderlust are everlasting themes of the internet and your property can greatly benefit from these trends. Independent hoteliers and operators are some of the most passionate people we've met and if you infuse that into your marketing, you'll reap the benefits. When making your plans this year, don't forget to let your own passion shine through.

1.08 END QUESTIONS

1. What is the importance of marketing in hospitality?
2. What is the difference between 'hospitality sale' and 'goods sale'?
3. Explain at least five strategies for making brand success for hotels.
4. If we classify markets according to types of commodity traded, what would be the major categories?
5. If we classify markets by the locations what would be the various categories?
6. What are five major categories into which a market can be classified?
7. Consider a five star hotel in New York, what is the nature of (a) commodity traded (b)location (c) type of participants (d)scale of trade (e) geographical outreach to its participants/customers
8. Explain the concept of Market.
9. Explain various ways in which markets can be classified.
10. How can we apply concept of market in leaning 'hospitality' science?
11. How can we say that a hotel is a market? Explain.
12. Explain the concept of "free market" and how marker prices are distorted by sellers or buyer by monopoly or monopsony.
13. What is meant by market failure? How market failure can occur if customers do not have "equal" and "fair" access to information.
14. Explain how "Market failure' can occur in Hotel industry under various circumstances.
15. What is meant by "microeconomics" and "macroeconomics" and what is the difference in these concepts?
16. Explain the contribution of Alfred Marshall in the field of economics.
17. How asymmetry in information availability may lead to market failure where "bad quality" hotels may outsell the "good" quality ones?

18. How does a college degree in hospitality can act as a ‘signalling” device in selection of persons in hotels?
19. What is meant by “Marketing Mix”?
20. What are the four P’s according to McCarthy?
21. What are the four Cs in classification according to Lauterborn?
22. What are the seven Cs in Shimizu’s compass model?
23. What would be the four Ps as applied to Hotel industry?
24. Describe how we may apply the 4Cs classification to the hospitality sector.
25. Apply 7Cs compass model to the hotel industry and explain its implications.

26. What is the definition of Marketing as per Amierican Marketing Association? Elaborate
27. Exaplin what is meant by ‘marketing concept’.
28. What is meant by ‘Marketing orientation’ of a firm?

29. What happens when a hotel has Product orientation as its operational philosophy?
30. What happens when a hotel has Sales orientation as its operational philosophy?
31. What happens when a hotel has Production orientation as its operational philosophy?
32. What happens when a hotel has Marketing orientation as its operational philosophy?
33. What happens when a hotel has Customer orientation as its operational philosophy?
34. What happens when a hotel has Organisational orientation as its operational philosophy?
35. Explain the concept of **Process**, **Physical Evidence** and **People** (as envisaged in extended 7P Model) as may be used for Tourism industry.
36. Explain the concept of **Process**, **Physical Evidence** and **People** (as envisaged in extended 7P Model) as may be used for Hotel industry.
37. Elaborate how the concept of **Packaging** may be used in context of marketing in Hotel industry.
38. Elaborate how the concept of **Packaging** may be used in context of marketing in Tourism industry.

39. What is meant by marketing environment? What are the three areas which comprise marketing environment?
40. What is meant by marketing research?
41. Explain the concept of market segmentation.
42. What is meant by DAMP in context of gauging viability of target market?
43. What is the importance of ‘positioning’ in context of marketing.
44. What is the meaning of marketing communication? Which are the distinct subsets in it?
45. What is the concept of Advertisement?
46. Explain the concept of Marketing Planning.
47. What is meant by product life cycle?
48. Explain customer focus in respect of market orientation.
49. What is the SIVA model in respect of the 4P supply side model?
50. What is meant by marketing management?
51. Explain the concept of brand audit.

52. Elaborate on Marketing Strategy.
53. Explain how planning done in Marketing Strategy is executed.
54. Discuss Project, process and vendor management.

1.09 REFERENCES AND FURTHER READING

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UNIT 2 SERVICES MARKETING

2.00 INTRODUCTION

This is a very interesting Unit in which we will be studying the core areas of marketing. As you know the hospitality and tourism industries try to sell what is called ‘services’ and not ‘goods’. The tourism experience is the product which is sold by the tourism organizations. This experience can not be captured, stored or felt like we feel a physical product. Hence we will begin our study with studying the service concept. What distinguishes services from goods will be our focus. We will study parameters called five Is which feature services. We will see that most commodity are neither pure ‘goods’ nor pure ‘services’ but a combination of the two.

The service sector across the world is the most promising sector of economy. There are three or four sectors of economics; primary (consisting of raw material or agriculture, fishing farming etc), secondary (consisting of manufacturing industries) tertiary (services industry) and quadrunary(consisting of IT software or financial services). The service secor is the most booming sector of economy.

We will study various concepts like customer behavior, how customer takes purchase decisions, what are the various styles of customers buying patterns, what affects a customer’s purchase decisions, etc. This Unit is extremely important in understanding customer’s psych. You will study various considerations which any industry can study to enhance its performance.

2.01 UNIT OBJECTIVES

After completing this Unit, you will be able to:

- Explain what is meant by Service in economics
- Elaborate on the importance of Service sector
- Explain what is meant by Market environment
- Elaborate on the concept of Customer Behavior
- Discuss the various concepts covered under Market Segmentation

2.02 WHAT IS THE CONCEPT OF ‘SERVICE’ IN ECONOMICS?

In economics, a **service** is a transaction in which no physical goods are transferred from the seller to the buyer. The benefits of such a service are held to be demonstrated by the buyer's willingness to make the exchange. Public services are those that society (nation state, fiscal union, region) as a whole pays for. Using resources, skill, ingenuity, and experience, service providers benefit service consumers.

Five I's

Services can be described in terms of their key characteristics, sometimes called the "Five I's of Services".

Intangibility

Services are by definition intangible. They are not manufactured, transported or stocked.

Inventory (perishability)

Services cannot be stored for a future use. They are produced and consumed simultaneously.

Services are perishable in two regards:

- Service-relevant resources, processes and systems are assigned for service delivery during a specific period in time. If the service consumer does not request and consume the service during this period, the related resources may go unused. From the perspective of the service provider, this is a lost business opportunity if no other use for those resources is available. Examples: A hairdresser serves another client. An empty seat on an airplane cannot be filled after departure.
- When the service has been completely rendered to the consumer, this particular service irreversibly vanishes. Example: a passenger has been transported to the destination and the flight is over.

Inseparability

The service provider must deliver the service at the time of service consumption. The service is not manifested in a physical object that is independent of the provider. The service consumer is also inseparable from service delivery. Examples: The service consumer must sit in the hairdresser's chair, or in the airplane seat. Correspondingly, the hairdresser or the pilot must be in the shop or plane, respectively, to deliver the service.

Inconsistency (variability)

Each service is unique. It can never be exactly repeated as the time, location, circumstances, conditions, current configurations and/or assigned resources are different for the next delivery, even if the same service consumer requests the same service. Many services are regarded as heterogeneous and are typically modified for each service consumer or each service context. Example: The taxi service which transports the service consumer from home to work is different from the taxi service which transports the same service consumer from work to home – another point in time, the other direction, possibly another route, probably another taxi driver and cab. Another and more common term for this is heterogeneity.

Involvement

Both service provider and service consumer participate in the service provision.

CHECK YOUR PROGRESS

What is meant by "services" in economics?

What are the five I's which distinguishes service?

Elaborate what is meant by Intangibility characteristics of Services. Elaborate what is meant by Inventory (perishables) characteristics of Services. Elaborate what is meant by inseparability characteristics of Services. Elaborate what is meant by inconsistency (variability) characteristics of Services. Elaborate what is meant by involvement characteristics of Services.

Service quality

Mass generation and delivery of services must be mastered for a service provider to expand. This can be seen as a problem of service quality. Both inputs and outputs to the processes involved providing services are highly variable, as are the relationships between these processes, making it difficult to maintain consistent service quality. Many services involve variable human activity, rather than a precisely determined process; exceptions include utilities. The human factor is often the key success factor in service provision. Demand can vary by season, time of day, business cycle, etc. Consistency is necessary to create enduring business relationships.

Specification

Any service can be clearly and completely, consistently and concisely specified by means of standard attributes that conform to the MECE principle (Mutually Exclusive, Collectively Exhaustive).

- Service consumer benefits – (set of) benefits that are triggerable, consumable and effectively utilizable for any authorized service consumer and that are rendered upon request. These benefits must be described in terms that are meaningful to consumers.
- Service-specific functional parameters – parameters that are essential to the respective service and that describe the important dimension(s) of the service-scape, the service output or the service outcome, e.g. whether the passenger sits in an aisle or window seat.
- Service delivery point – the physical location and/or logical interface where the benefits of the service are rendered to the consumer. At this point the service delivery preparation can be assessed and delivery can be monitored and controlled.
- Service consumer count – the number of consumers that are enabled to consume a service.
- Service delivery readiness time – the moments when the service is available and all the specified service elements are available at the delivery point
- Service consumer support times – the moments when the support team ("service desk") is available. The service desk is the Single Point of Contact (SPoC) for service inquiries. At those times, the service desk can be reached via commonly available communication methods (phone, web, etc.)
- Service consumer support language – the language(s) spoken by the service desk.

Service fulfillment target – the provider's promise to deliver the service, expressed as the ratio of the count of successful service deliveries to the count of service requests by a single consumer or consumer group over some time period.
Service impairment duration – the maximum allowable interval between the first occurrence of a service impairment and the full resumption and completion of the service delivery.
Service delivery duration – the maximum allowable period for effectively rendering all service benefits to the consumer.
Service delivery unit – the scope/number of action(s) that constitute a delivered service.Serves as the reference object for the Service Delivering Price, for all service costs as well as for charging and billing.
Service delivery price – the amount of money the customer pays to receive a service. Typically, the price includes a service access price that qualifies the consumer to request the service and a service consumption price for each delivered service.

Delivery

Fig 2.01: Coffee house - a type of service delivery.

The delivery of a service typically involves six factors:

Service provider (workers and managers)
Equipment used to provide the service (e.g. vehicles, cash registers, technical systems, computer systems)
Physical facilities (e.g. buildings, parking, waiting rooms)

Service consumer
Other customers at the service delivery location
Customer contact

The service encounter is defined as all activities involved in the service delivery process. Some service managers use the term "moment of truth" to indicate that point in a service encounter where interactions are most intense.

Many business theorists view service provision as a performance or act (sometimes humorously referred to as *dramalurgy*, perhaps in reference to dramaturgy). The location of the service delivery is referred to as the stage and the objects that facilitate the service process are called props. A script is a sequence of behaviors followed by those involved, including the client(s). Some service dramas are tightly scripted, others are more ad lib. Role congruence occurs when each actor follows a script that harmonizes with the roles played by the other actors.

In some service industries, especially health care, dispute resolution and social services, a popular concept is the idea of the caseload, which refers to the total number of patients, clients, litigants, or claimants for which a given employee is responsible. Employees must balance the needs of each individual case against the needs of all other current cases as well as their own needs.

Under English law, if a service provider is induced to deliver services to a dishonest client by a deception, this is an offence under the Theft Act 1978.

Lovelock used the number of delivery sites (whether single or multiple) and the method of delivery to classify services in a 2 x 3 matrix. Then implications are that the convenience of receiving the service is the lowest when the customer has to come to the service and must use a single or specific outlet. Convenience increases (to a point) as the number of service points increase.

CHECK YOUR PROGRESS

Explain the concept of service quality and the various issues involved in it.

Explain how a service can be specified by means of MECE (Mutually Exclusive Collectively Exclusive) principle.

Explain the six factors involved in the delivery of a service.

Elaborate how service provision may be visualized as a performance like that of a drama.

Service-commodity goods continuum

Fig 2.02: Service-Commodity Goods continuum

Sometimes it becomes very difficult to classify a commodity as a Service or as a Goods. This is because the commodity may have a combination of characteristic features of both these. Normally tangibility is taken as the distinguishing parameter for such classification. If you consider a commodity like salt, it is totally tangible and hence a goods. Similarly 'teaching' in classroom is an extreme example of Service, as the learning experience is an internal, intangible entity. A soft drink, on the other hand is mostly tangible, but the experience of consuming the soft drink also needs a small amount of intangibility of how it was served (whether chilled). Hence it is largely a goods with a small fraction of service feature. Enjoying radio involves intangibility (the aesthetics of presentation of radio program, the 'static', the 'noise', etc) which is intermixed with the tangible features of the instrument (like its look, ease of use etc). You can appreciate the above diagram by analyzing the other commodities in the similar way. Most modern business theorists describe a continuum with pure service on one terminal point and pure commodity good on the other. Most products fall between these two extremes. For example, a restaurant provides a physical good (the food), but also provides services in the form of ambience, the setting and clearing of the table, etc. And although some utilities actually deliver physical goods — like water utilities that deliver water — utilities are usually treated as services.

The distinction between a good and a service remains disputed. The perspective in the late-eighteenth and early-nineteenth centuries focused on creation and possession of wealth. Classical economists contended that goods were objects of value over which ownership rights could be established and exchanged. Ownership implied tangible possession of an object that had been acquired through purchase, barter or gift from the producer or previous owner and was legally identifiable as the property of the current owner.

Adam Smith's famous book, *The Wealth of Nations*, published in 1776, distinguished between the outputs of what he termed "productive" and "unproductive" labor. The former, he stated, produced goods that could be stored after production and subsequently exchanged for money or other items of value. The latter, however useful or necessary, created services that perished at the time of production and therefore did not contribute to wealth. Building on this theme, French economist Jean-Baptiste Say argued that production and consumption were inseparable in services, coining the term "immaterial products" to describe them.

In a narrower sense, service refers to quality of customer service: the measured appropriateness of assistance and support provided to a customer. This particular usage occurs frequently in retailing.

Service types

The following is a list of service industries, grouped into sectors. Parenthetical notations indicate how specific occupations and organizations can be regarded as service industries to the extent they provide an intangible service, as opposed to a tangible good.

Business functions (that apply to all organizations in general)
Consulting
Customer service
Human resources administrators (providing services like ensuring that employees are paid accurately)
Childcare
Cleaning, repair and maintenance services
Gardeners
Janitors (who provide cleaning services)
Mechanics
Construction
Carpentry
Electricians (offering the service of making wiring work properly)
Plumbing
Death care
Coroners (who provide the service of identifying cadavers and determining time and cause of death)
Funeral homes (who prepare corpses for public display, cremation or burial)
Dispute resolution and prevention services
Arbitration
Courts of law (who perform the service of dispute resolution backed by the power of the state)
Diplomacy
Incarceration (provides the service of keeping criminals out of society)
Law enforcement (provides the service of identifying and apprehending criminals)
Lawyers (who perform the services of advocacy and decisionmaking in many dispute resolution and prevention processes)
Mediation
Military (performs the service of protecting states in disputes with other states)

Negotiation (not really a service unless someone is negotiating on behalf of another)
Education (institutions offering the services of teaching and access to information)
Library
Museum
School
Entertainment (when provided live or within a highly specialized facility)
Gambling
Movie theatres (providing the service of showing a movie on a big screen)
Performing arts productions
Sport
Television
Fabric care
Dry cleaning
Self-service laundry (offering the service of automated fabric cleaning)
Financial services
Accountancy
Banks and building societies (offering lending services and safekeeping of money and valuables)
Real estate
Stock brokerages
Tax preparation
Valuation
Foodservice industry
Health care (all health care professions provide services)
Hospitality industry
Information services
Data processing
Database services
Interpreting
Translation
Personal grooming
Body hair removal
Dental hygienist
Hairdressing
Manicurist / pedicurist
Public utility
Electric power
Natural gas
Telecommunications
Waste management
Water industry
Risk management
Insurance
Security
Social services
Social work
Transport

CHECK YOUR PROGRESS

Explain why it may be difficult to classify a commodity as a Service or Goods.

What is the implication of the fact that most commodities have elements of 'service' and 'goods' in them?

How can you say that electrician provides a service to the customer?

2.03 SERVICE SECTOR OF THE ECONOMY

The **tertiary sector** or **service sector** is the third of the three economic sectors of the three-sector theory. The others are the secondary sector (approximately the same as manufacturing), and the primary sector (raw materials).

The service sector consists of the production of services instead of end products. Services (also known as "intangible goods") include attention, advice, access, experience, discussion, and affective labor. The production of information has long been regarded as a service, but some economists now attribute it to a fourth sector, the quaternary sector.

The tertiary sector of industry involves the provision of services to other businesses as well as final consumers. Services may involve the transport, distribution and sale of goods from producer to a consumer, as may happen in wholesaling and retailing, or may involve the provision of a service, such as in pest control or entertainment. The goods may be transformed in the process of providing the service, as happens in the restaurant industry. However, the focus is on people interacting with people and serving the customer rather than transforming physical goods.

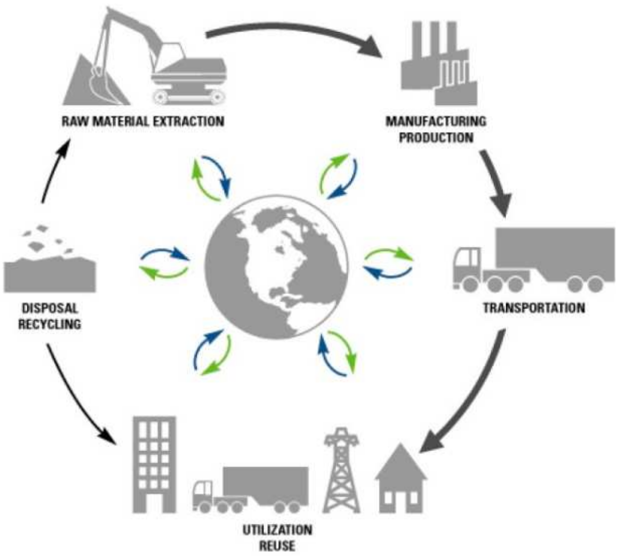


Fig 2.03:Product's lifecycle

Difficulty of definition

Fig 2.04: Bankers in Delhi, 1870

It is sometimes hard to define whether a given company is part of the secondary or tertiary sector. And it is not only companies that have been classified as part of that sector in some schemes; government and its services such as police or military, and non-profit organizations such as charities or research associations can also be seen as part of that sector.

In order to classify a business as a service, one can use classification systems such as the United Nations' International Standard Industrial Classification standard, the United States' Standard Industrial Classification (SIC) code system and its new replacement, the North American Industrial Classification System (NAICS), the Statistical Classification of Economic Activities in the European Community (NACE) in the EU and similar systems elsewhere. These governmental classification systems have a first-level hierarchy that reflects whether the economic goods are tangible or intangible.

For purposes of finance and market research, market-based classification systems such as the Global Industry Classification Standard and the Industry Classification Benchmark are used to classify businesses that participate in the service sector. Unlike governmental classification systems, the first level of market-based classification systems divides the economy into functionally related markets or industries. The second or third level of these hierarchies then reflects whether goods or services are produced.

Theory of progression

For the last 100 years, there has been a substantial shift from the primary and secondary sectors to the tertiary sector in industrialised countries. This shift is called **tertiarisation**. The tertiary sector is now the largest sector of the economy in the Western world, and is also the fastest-growing sector. In examining the growth of the service sector in the early Nineties, the globalist Kenichi Ohmae noted that:

"In the United States 70 percent of the workforce works in the service sector; in Japan, 60 percent, and in Taiwan, 50 percent. These are not necessarily busboys and live-in maids. Many of them are in the professional category. They are earning as much as manufacturing workers, and often more."

Economies tend to follow a developmental progression that takes them from a heavy reliance on agriculture and mining, toward the development of manufacturing (e.g. automobiles, textiles, shipbuilding, steel) and finally toward a more service-based structure. The first economy to follow this path in the modern world was the United Kingdom. The speed at which other economies have made the transition to service-based (or "post-industrial") economies has increased over time.

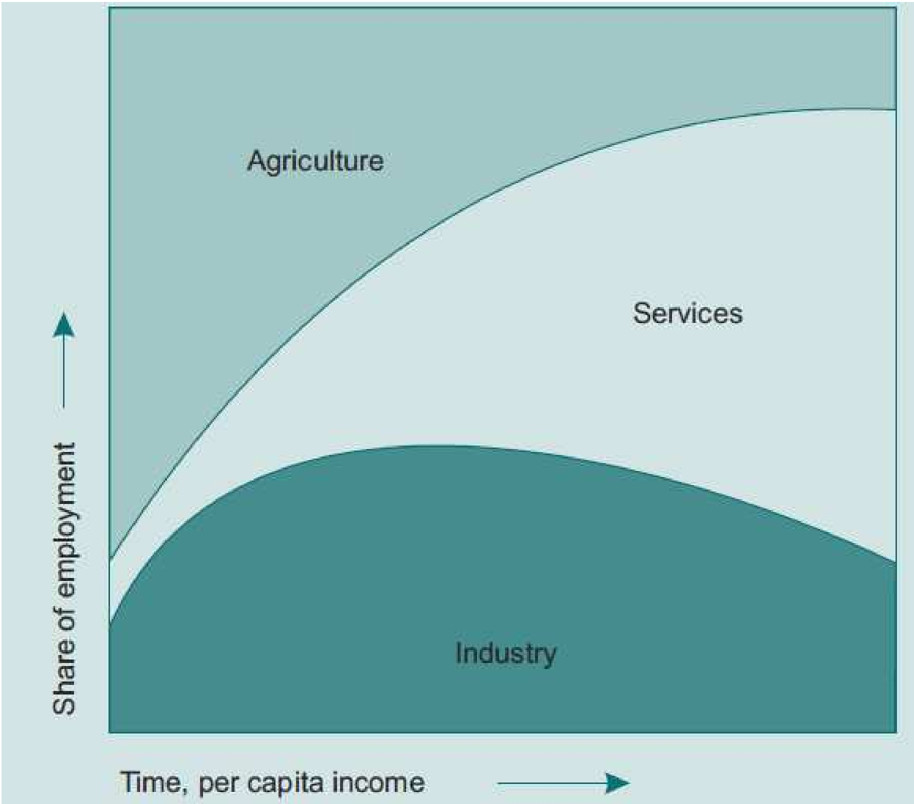


Fig 2.05: The schematic showing the progress of service sector as dominating force of economics

Historically, manufacturing tended to be more open to international trade and competition than services. However, with dramatic cost reduction and speed and reliability improvements in the transportation of people and the communication of information, the service sector now includes some of the most intensive international competition, despite residual protectionism.

CHECK YOUR PROGRESS

What is the tertiary sector of economics? Which are the other sectors?

Explain why tertiary sector is playing a dominant role in economics?

Draw a schematic diagram showing growth of the service sector over the period of time.

Which are the various standards which are used to classify a company as service sector organization?

Issues for service providers

Fig 2.06: Surgery team at work

Fig 2.07: Testing telephone lines in London in 1945.

Service providers face obstacles selling services that goods-sellers rarely face. Services are intangible, making it difficult for potential customers to understand what they will receive and what value it will hold for them. Indeed, some, such as consultants and providers of investment services, offer no guarantees of the value for price paid.

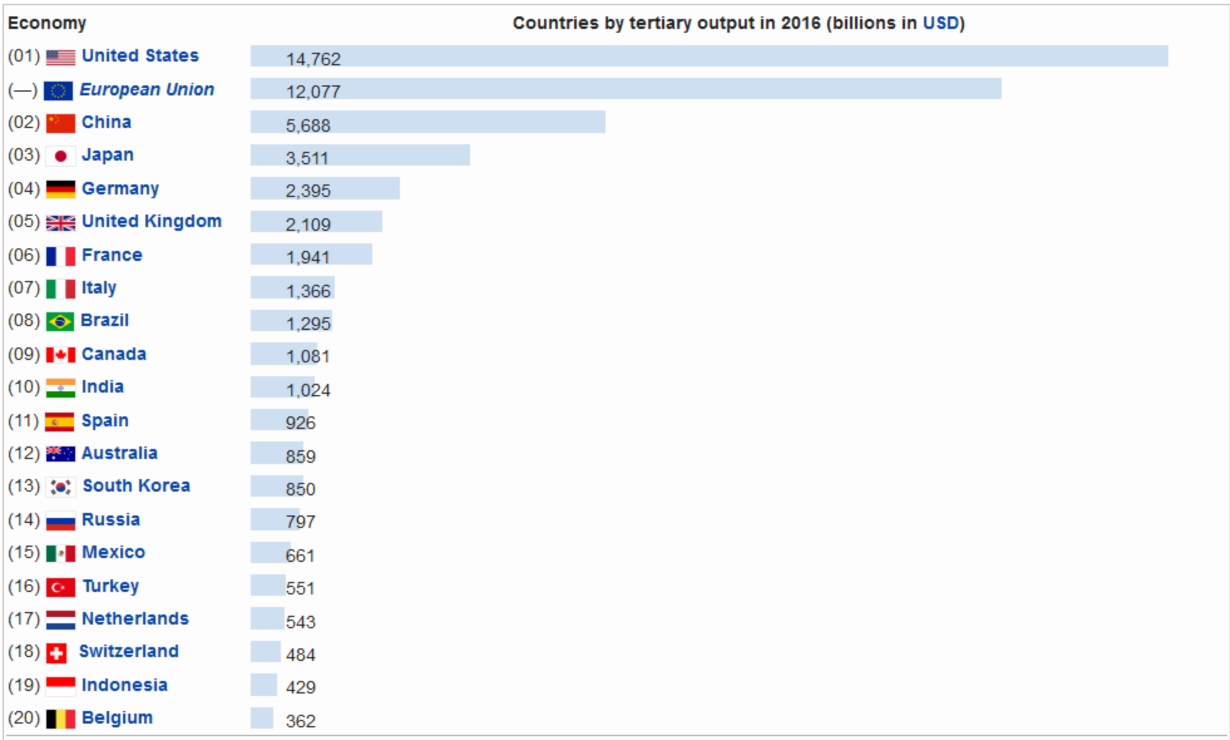
Since the quality of most services depends largely on the quality of the individuals providing the services, "people costs" are usually a high fraction of service costs. Whereas a manufacturer may use technology, simplification, and other techniques to lower the cost of goods sold, the service provider often faces an unrelenting pattern of increasing costs.

Product differentiation is often difficult. For example, how does one choose one investment adviser over another, since they are often seen to provide identical services? Charging a premium for services is usually an option only for the most established firms, who charge extra based upon brand recognition.

List of countries by tertiary output

Below is a list of countries by service output at market exchange rates in 2016.

Largest countries by tertiary output in Nominal GDP, according to IMF and CIA World Factbook, 2016



The twenty largest countries by tertiary output in 2016, according to the IMF and CIA World Factbook.

CHECK YOUR PROGRESS

What is the various issues faced by the service providers?

Which are the top 5 nations by tertiary output by nominal GDP as per IMF in 2016?

2.04 MARKET ENVIRONMENT

The **business environment** is a marketing term and refers to factors and forces that affect a firm's ability to build and maintain successful customer relationships. The three levels of the environment are:

Micro (internal) environment – small forces within the company that affect its ability to serve its customers.
Meso environment – the industry in which a company operates and the industry's market(s).
Macro (national) environment – larger societal forces that affect the microenvironment.

Micro-environment

Company aspect of micro-environment refers to the internal environment of the company. This includes all departments, such as management, finance, research and development, purchasing, operations and accounting. Each of these departments influences marketing decisions. For example, research and development have input as to the features a product can perform and accounting approves the financial side of marketing plans and budget in customer dissatisfaction. Marketing managers must watch supply availability and other trends dealing with suppliers to ensure that product will be delivered to customers in the time frame required in order to maintain a strong customer relationship.

Marketing intermediaries refers to resellers, physical distribution firms, marketing services agencies, and financial intermediaries. These are the people that help the company promote, sell, and distribute its products to final buyers. Resellers are those that hold and sell the company's product. They match the distribution to the customers and include places such as Wal-Mart, Target, and Best Buy. Physical distribution firms are places such as warehouses that store and transport the company's product from its origin to its destination. Marketing services agencies are companies that offer services such as conducting marketing research, advertising, and consulting. Financial intermediaries are institutions such as banks, credit companies and insurance companies.

Another aspect of micro-environment is the customer market. There are different types of customer markets including consumer markets, business markets, government markets, international markets, and reseller markets. The consumer market is made up of individuals who buy goods and services for their own personal use or use in their household. Business markets include those that buy goods and services for use in producing their own products to sell. This is different from the reseller market which includes businesses that purchase goods to resell as is for a profit. These are the same companies mentioned as market intermediaries. The government market consists of government agencies that buy goods to produce public services or transfer goods to others who need them. International markets include buyers in other countries and includes customers from the previous categories.

Competitors are also a factor in the micro-environment and include companies with similar offerings for goods and services. To remain competitive a company must consider who their biggest competitors are while considering its own size and position in the industry. The company should develop a strategic advantage over their competitors.

The final aspect of the micro environment is publics, which is any group that has an interest in or effect on the organization's ability to meet its goals. For example, financial publics can hinder a company's ability to obtain funds affecting the level of credit a company has. Media public include newspapers and magazines that can publish articles of interest regarding the company and editorials that may influence customers' opinions. Government public can affect the company by passing legislation and laws that put restrictions on the company's actions. Citizen-action publics include environmental groups and minority groups and can question the actions of a company and put them in the public spotlight. Local publics are neighborhood and community organizations and will also question a company's effect on the local area and the level of responsibility of their actions. The general public can affect the company as any change in their attitude, whether positive or negative, can cause sales to go up or down because the general public is often the company's customer base. And finally those who are employed within the company and deal with the organization and construction of the company's product.

CHECK YOUR PROGRESS

Briefly describe the micro-, meso- and macro- levels of business environments, clearly distinguing the difference among them.

Apply the concept of micro-environment to a tourism sector company.

Explain what is meant by marketing intermediaries especially in the hospitality industry.

Explain the concept of customer market, business market, government market, international market and reseller markets as applied to accommodation industries.

Explain the importance of study of competitors in micro-environment analysis.

Elaborate on the importance of publics in the study of micro-environment.

Macro-environment

The macro-environment refers to all forces that are part of the larger society and affect the micro-environment. It includes concepts such as demography, economy, natural forces, technology, politics, and culture.

Factors affecting organization in Macro environment are known as PESTEL, that is: Political, Economical, Social, Technological, Environmental and Legal.

Demography refers to studying human populations in terms of size, density, location, age, gender, race, and occupation. This is a very important factor to study for marketers and helps to divide the population into market segments and target markets. An example of demography is classifying groups of people according to the year they were born. These classifications can be referred to as baby boomers, who are born between 1946 and 1964, generation X, who are born between 1965 and 1976, and generation Y, who are born between 1977 and 1994. Each classification has different characteristics and causes they find important. This can be beneficial to a marketer as they can decide who their product would benefit most and tailor their marketing plan to attract that segment. Demography covers many aspects that are important to marketers including family dynamics, geographic shifts, work force changes, and levels of diversity in any given area.

Another aspect of the macro-environment is the economic environment. This refers to the purchasing power of potential customers and the ways in which people spend their money. Within this area are two different economies, subsistence and industrialized. Subsistence economies are based more in agriculture and consume their own industrial output. Industrial economies have markets that are diverse and carry many different types of goods. Each is important to the marketer because each has a highly different spending pattern as well as different distribution of wealth.

The natural environment is another important factor of the macro-environment. This includes the natural resources that a company uses as inputs that affects their marketing activities. The concern in this area is the increased pollution, shortages of raw materials and increased governmental intervention. As raw materials become increasingly scarcer, the ability to create a company's product gets much harder. Also, pollution can go as far as negatively affecting a company's reputation if they are known for damaging the environment. The last concern, government intervention can make it increasingly harder for a company to fulfill their goals as requirements get more stringent.

The technological environment is perhaps one of the fastest changing factors in the macro-environment. This includes all developments from antibiotics and surgery to nuclear missiles and chemical weapons to automobiles and credit cards. As these markets develop it can create new markets and new uses for products. It also requires a company to stay ahead of others and update their own technology as it becomes outdated. They must stay informed of trends so they can be part of the next big thing, rather than becoming outdated and suffering the consequences financially.

The political environment includes all laws, government agencies, and groups that influence or limit other organizations and individuals within a society. It is important for marketers to be aware of these restrictions as they can be complex. Some products are regulated by both state and federal laws. There are even restrictions for some products as to who the target market may be, for example, cigarettes should not be marketed to younger children. There are also many restrictions on subliminal messages and monopolies. As laws and regulations change often, this is a very important aspect for a marketer to monitor.

The final aspect of the macro-environment is the cultural environment, which consists of institutions and basic values and beliefs of a group of people. The values can also be further categorized into core beliefs, which passed on from generation to generation and very difficult to change, and secondary beliefs, which tend to be easier to influence. As a marketer, it is important to know the difference between the two and to focus your marketing campaign to reflect the values of a target audience.

When dealing with the marketing environment it is important for a company to become proactive. By doing so, they can create the kind of environment that they will prosper in and can become more efficient by marketing in areas with the greatest customer potential. It is important to place equal emphasis on both the macro and micro environment and to react accordingly to changes within them.

Mesoenvironment

The meso-level is settled between the macro- and the micro- level. This field deals with the design of the specific environment of the enterprises. It is of decisive importance that the layout of the physical infrastructure (transport, communication and power distribution systems) and of the sector policies, especially of the education, research and technology policy, are oriented towards competitiveness. In addition, the design of the trade policy and systems of rules (for example: environmental norms and technical safety standards), which contributes to the development of national advantages of competition, is relevant. Like on the micro-level, on the meso-level new patterns of organisation and steering must be developed. The state shall give impulses and mediate between enterprises, associations, science and intermediate institutions. "The design of locations becomes like that a continuous process on the basis of the efforts of enterprises, science and state as well as of the determined cooperation of private and public agents".

CHECK YOUR PROGRESS

Explain the PESTEL model of study of macro environment.

Elaborate on what is meant by demography in study of macro-environment.

Discuss how the economic environment affects the study of macro-environment.

What parameters should be studies while considering the natural environment as a factor of macro-environment?

What constitutes the poetical environment while studying the macro-environment?

What cultural aspects should be studied while studying the viability of a hotel development prospects?

What is the importance of meso-environment?

2.05 ENVIRONMENTAL SCANNING

Environmental scanning is one of the essential components of the **global environmental analysis**. Environmental monitoring, environmental forecasting and **environmental assessment** complete the global environmental analysis. The global environment refers to the macro environment which comprises industries, markets, companies, clients and competitors. Consequently, there exist corresponding analyses on the micro-level. Suppliers, customers and competitors representing the micro environment of a company are analyzed within the industry analysis.

Environmental scanning can be defined as 'the study and interpretation of the political, economic, social and technological events and trends which influence a business, an industry or even a total market'. The factors which need to be considered for environmental scanning are events, trends, issues and expectations of the different interest groups. Issues are often forerunners of trend breaks. A trend break could be a value shift in society, a technological innovation that might be permanent or a paradigm change. Issues are less deep-seated and can be 'a temporary short-lived reaction to a social phenomenon'. A trend can be defined as an 'environmental phenomenon that has adopted a structural character'.

Environmental scanning is an ongoing process and organizations are always refining the way their particular company or business goes through the process. Environmental scanning reinforces productive strategic plans and policies that can be implemented to make the organization get the maximum use of the business environment they are in. Environmental scanning not only helps the business find its strengths in its current environment but it also finds the weakness of competitors, identifies new markets, potential customers and up and coming technological platforms and devices that can be best used to sell/market the product or service. Environmental scanning helps a business improve their decision-making process in times of risk to the external and internal environments the business is in.

Process

When scanning the environment, the organization need to look at all the influences of the company. The scanning process makes the organization aware of what the business environment is about. It allows the organization to adapt and learn from that environment. When the company responds to an environmental scanning process it allows them to easily respond and react to any changes to both the internal and external business environment. Environmental scanning is a useful tool for strategic management as it helps them to create and develop the aims and objectives of the company which assists with the production of the company or organization.

When looking at the weaknesses of the organization's placing in the current business environment a formal environmental scanning is used. A common formal environmental scanning process has five steps. The five steps are fundamental in the achievement of each step and may develop each other in some form:

The first step of the environmental scanning process requires the identification of the needs and the issues that have occurred that caused the organization to decide an environmental scanning is required. Before starting the process there are several factors that need to be considered which include the purpose of the scanning, who will be participating in the processes and the amount of time and the resources that will be allocated for the duration of the scanning process.

The second step of the scanning process is gathering the information. All the needs of the organization are translated into required pieces of information that will be useful in the process.

The third steps analyzing all the information that the business have collected. When analyzing the information organizations are made aware of the trends or issues that the organizations may be influenced by.

The step four of the environmental scanning process is all about the communication of the results obtained in step three. The appropriate decision makers analyze the translated information of the potential effects of the organization. All the information is presented in a simple and concise format

With all the information obtained from steps three and four, step five is all about making informed decisions. Management creates appropriate steps that will position the organization in the current business environment.

Information sources used

The information sources used to gain knowledge and understanding of the current business environment the organization is in can be split into two categories. The external and internal information sources. The external sources aren't always those in a published form and can include verbal sources such as 'word of mouth'. The external information sources includes:

- Personal contacts
- Journals/magazines
- Books
- Newspapers
- Professional conferences/ meetings
- Radio, television and internet
- Professional colleagues
- Customers
- Commercial databases.

The internal information is all information that is specific to the organization. This information can be compared with the external sources to get the maximum use out of both types of sources for the organization, internal information includes:

- Personal contacts
- Internal reports
- Conference papers
- Internal memoranda
- Committees/ meetings
- Sales staff
- Other managers
- Other employees
- Internal databases.
- Barriers

Environmental scanning isn't always as effective or useful in an organizational setting for several reasons. The volume of the information received through the scanning process can be disadvantageous when attempting to translate and make sense of the information as some information may get overlooked or just missed entirely. Because of the volume of information its hard to decipher what is important or not so management and key information may be missed. Another way vital information can be missed is if the information is unordered and unorganized. Due to ever changing environment all information runs under a time limit of validity. Another barrier to environment scanning is the interpretation of information that has been collected. Undetermined sources can cause confusion and irrelevance to the process.

Macro environment

There are a number of common approaches how the external factors, which are mentioned in the definition of Kroon and which describe the macro environment, can be identified and examined. These factors indirectly affect the organization but cannot be controlled by it. One approach could be the PEST analysis. PEST stands for political, economic, social and technological. Two more factors, the environmental and legal factor, are defined within the **PESTEL analysis** (or PESTLE analysis).

The segmentation of the macro environment according to the six presented factors of the PESTEL analysis is the starting point of the global environmental analysis.

PESTEL analysis

The six environmental factors of the PESTEL analysis are the following:

Political factors

The company/organization needs to consider the political environment when creating business strategies. The entire political environment includes looking at government policies and the risk and instability of current political factors. Political risks can include an unexpected loss of ownership due to government takeover (nationalization), or changes in labour laws which might increase the cost of the company's workforce. However often business can anticipate issues by performing a political risk analysis. The political instability can influence the business and the duration of time that business/ organization is profitable.

- Taxation Policy
- Trade regulations
- Governmental stability
- Unemployment Policy, etc.
- political stability

Economical factors

The economic factors of the business environment are all the variables that impact how the consumer spends their money and the power of that purchase. There are multiple factors that exist at any time. An example of an economic factor is the recent recession influenced people to spend less and save more which has impacted current consumer spending patterns. The economic development of a country Is an important element when scanning the economic environment. Countries are often categorized as either 'developing' or 'developed'. The exchange rate of a country can have an extensive impact on the profitability of a business. Relatively small changes in the exchange rate may be the difference between profit and loss. When promoting, selling a product it is important for an organization to consider the extra financial information including current rates, taxes etc. in the economy of the country.

- Interest rate
- Inflation rate
- Growth in spending power
- Rate of people in a pensionable age
- Recession or Boom
- Customer liquidations
- Balances of Sharing
- Socio-cultural

The socio-cultural environment looks at the demographic characteristics of the current business environment. It looks at the values, customs and norms of the environment of which a company or organisation is placed. When looking at the socio-cultural environment it is important to consider the social values of the environment. Organizations look at the cultural characteristics of the society and consider all values and customs that are often associated with the culture while they try to market and sell the product or service, such as:

- values, beliefs
- language
- religion
- education
- literacy
- time orientation
- lifestyle.

Technological factors

The technological environment is becoming a lot more important in the modern day business environment. New technology produces new opportunities for companies and organizations to create, sell and promote a product. Technology is rapidly growing and forever changing. Telecommunication technology e.g. cellphones and laptops are increasing the opportunity within an organization to promote and sell a product. The internet has made information available to the consumer to easily compare current prices of a product or service with the price of the competitors of the same product or service. The internet has also created more opportunity to market the product or service via the use of social media.

- Internet
- E-commerce
- Social Media
- Electronic Media
- Research and Development
- Rate of technological change.

Environmental factors

The environmental factors of the PESTLE analysis include natural resources that are affected by the processes of selling and marketing products or services. The two main environmental trends that need to be considered when evaluating the natural environment is the increased pollution and growing shortage of raw materials, Government regulations are creating practices that encourage environmental sustainability. A business might for example utilize recyclable and biodegradable packaging, thus making the most of the environmental opportunities to create a sustainable organizational in the current natural environment.

- Competitive advantage
- Waste disposal
- Energy consumption
- Pollution monitoring, etc.

Legal factors

The legal environment includes the laws and regulations of a state. The laws and regulations will influence the way in which an organization will market or sell the product and services. The legal factors influence trade agreements between different governments and states. The governments that have a well developed public policy about selling and marketing goods may limit competition and place other obligations on retailers.

- Employment law
- Health and safety
- Product safety
- Advertising regulations
- Product labeling
- Labour laws etc.

CHECK YOUR PROGRESS

Describe what is meant by environmental scanning.

Elaborate the importance of environmental scanning.

Discuss the process of environmental scanning.

Describe the various internal information sources used in environmental scanning for a hotel.

Describe the various external information sources used in environmental scanning for a tourism operation.

Describe the various political factors considered in environmental scanning for a hotel/tourism/catering operation.

Describe the various economic factors considered in environmental scanning for a hotel/tourism/catering operation.

Describe the various social factors considered in environmental scanning for a hotel/tourism/catering operation.

Describe the various technological factors considered in environmental scanning for a hotel/tourism/catering operation.

Describe the various environmental factors considered in environmental scanning for a hotel/tourism/catering operation.

Describe the various legal factors considered in environmental scanning for a hotel/tourism/catering operation.

SWOT analysis

SWOT or situation analysis is used when without to look at both the internal and external environment. SWOT stands for **Strength**, **Weakness**, **Opportunity** and **Threat**. The internal factors considered are the strengths and weaknesses where the opportunities and threats are external factors that are all used and considered to help improve the overall decision making process in dynamic strategic situations the business is facing.

The strengths are positive characteristics in the internal business environment which can be capitalized on to increase the overall organizations performance. The weakness are factors of the internal environment which may restrict and interfere with the positive organizational performance. The internal environment factors will include finance, production, research, development and marketing. The opportunities include factors of the external environment that act like stepping stones for the organization in order to achieve their current strategic goals. The threats include the factors that have an effect and may interrupt the organization from achieving the goals. Often threats will come out of the external business environment.

CHECK YOUR PROGRESS

Describe what is meant by SWOT analysis.

Describe the various factors considered under Strengths part of SWOT analysis for a hotel/tourism/catering operation.

Describe the various factors considered under Weaknesses part of SWOT analysis for a hotel/tourism/catering operation.

Describe the various factors considered under Opportunities part of SWOT analysis for a hotel/tourism/catering operation.

Describe the various factors considered under Threats part of SWOT analysis for a hotel/tourism/catering operation.

2.06 CONSUMER BEHAVIOUR

Consumer behaviour is the study of individuals, groups, or organizations and the processes they use to select, secure, use, and dispose of products, services, experiences, or ideas to satisfy their needs and wants. It is also concerned with the social and economic impacts that purchasing and consumption behaviour has on both the individual consumer and on broader society. Consumer behaviour blends elements from psychology, sociology, social anthropology, marketing and economics, especially behavioural economics. It examines how emotions, attitudes and preferences affect buying behaviour. Characteristics of individual consumers such as demographics, personality lifestyles and behavioural variables such as usage rates, usage occasion, loyalty, brand advocacy, willingness to provide referrals, in an attempt to understand people's wants and consumption are all investigated in formal studies of consumer behaviour. The study of consumer behaviour also investigates the influences, on the consumer, from groups such as family, friends, sports, reference groups, and society in general.

The study of consumer behaviour is concerned with all aspects of purchasing behaviour - from pre-purchase activities through to post-purchase consumption and evaluation activities. It is also concerned with all persons involved, either directly or indirectly, in purchasing decisions and consumption activities including brand-influencers and opinion leaders. Research has shown that consumer behaviour is difficult to predict, even for experts in the field. However, new research methods such as ethnography and consumer neuroscience are shedding new light on how consumers make decisions.

Customer relationship management (CRM) databases have become an asset for the analysis of customer behaviour. The voluminous data produced by these databases enables detailed examination of behavioural factors that contribute to customer re-purchase intentions, consumer retention, loyalty and other behavioural intentions such as the willingness to provide positive referrals, become brand advocates or engage in customer citizenship activities. Databases also assist in market segmentation, especially behavioural segmentation such as developing loyalty segments, which can be used to develop tightly targeted, customized marketing strategies on a one-to-one basis. (Also see relationship marketing)

The purchase decision and its context

Fig 2.08: Shoppers inspect the quality of fresh produce at a market in Jerusalem.

Understanding purchasing and consumption behaviour is a key challenge for marketers. Consumer behaviour, in its broadest sense, is concerned with understanding both how purchase decisions are made and how products or services are consumed or experienced.

Some purchase decisions involve long, detailed processes that include extensive information search to select between competing alternatives. Other purchase decisions, such as impulse buys, are made almost instantaneously with little or no investment of time or effort in information search.

Some purchase decisions are made by groups (such as families, households or businesses) while others are made by individuals. When a purchase decision is made by a small group, such as a household, different members of the group may become involved at different stages of the decision process and may perform different roles. For example, one person may suggest the purchase category, another may search for product-related information while yet another may physically go to the store, buy the product and transport it home. It is customary to think about the types of decision roles; such as:

Fig 2.09: In a family unit, the adult female often makes brand choices on behalf of the entire household, while children can be important influencers

The Initiator

the person who proposes a brand (or product) for consideration (something in return);

The Influencer

someone who recommends a given brand;

The Decider

the person who makes the ultimate purchase decision;

The Purchaser

the one who orders or physically buys it;

The User

the person who uses or consumes the product.

For most purchase decisions, each of the decision roles must be performed, but not always by the same individual. For example, in the case of family making a decision about a dining-out venue, the father or mother may initiate the process by intimating that he/she is too tired to cook, the children are important influencers in the overall purchase decision, but both parents may act as joint deciders performing a gate-keeping role by vetoing unacceptable alternatives and encouraging more acceptable alternatives. The importance of children as influencers in a wide range of purchase contexts should never be underestimated and the phenomenon is known as pester power.

CHECK YOUR PROGRESS

Discuss what is studied under ‘consumer behavior’.

Explain the importance of studying ‘consumer behavior’.

Explain the importance of studying Customer relationship management (CRM) databases.

Discuss the roles of the initiator, the influencer, the decider, the purchaser and the user in making a purchase decision.

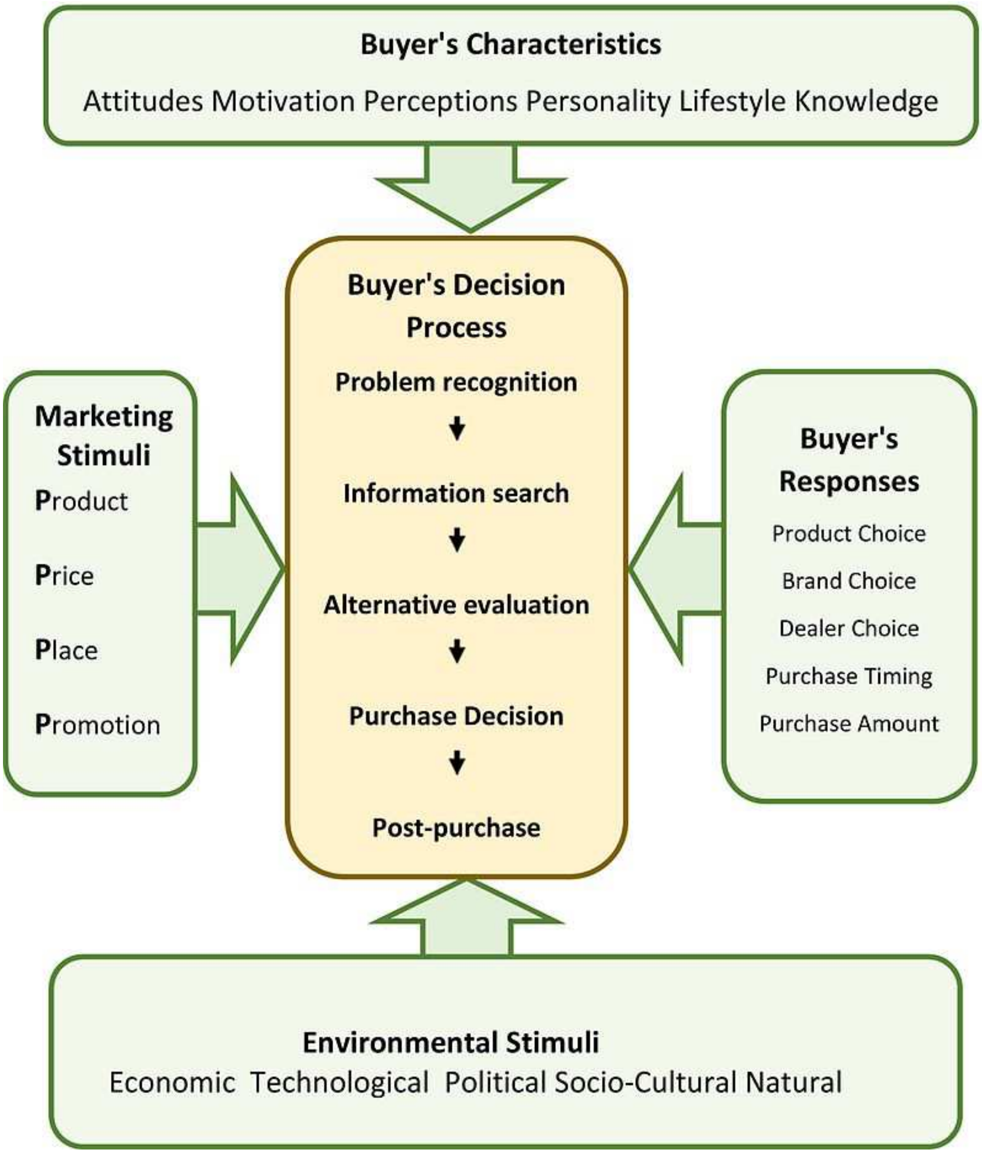


Fig 2.10: The purchasing decision model

To understand the mental processes used in purchasing decisions, some authors employ the concept of the "black box"; a figurative term used to describe the cognitive and affective processes used by a consumer during a purchase decision. The decision model situates the black box in a broader environment which shows the interaction of external and internal stimuli (e.g.consumer characteristics, situational factors, marketing influences and environmental factors) as well as consumer responses. The black box model is related to the black box theory of behaviourism, where the focus extends beyond processes occurring *inside* the consumer, and also includes the *relation* between the stimuli and the consumer's response.

The decision model assumes that purchase decisions do not occur in a vacuum. Rather they occur in real time and are affected by other stimuli, including external environmental stimuli and the consumer's momentary situation. The elements of the model include: interpersonal stimuli (between people) or intrapersonal stimuli (within people), environmental stimuli and marketing stimuli. Marketing stimuli include actions planned and carried out by companies, whereas environmental stimuli include actions or events occurring in the wider operating environment and include social factors, economic, political and cultural dimensions. In addition, the buyer's black box includes buyer characteristics and the decision process, which influence the buyer's responses.

Fig 2.11: The purchase of up-market perfumes, often bought as gifts, are high involvement decisions because the gift symbolises the relationship between the giver and the intended recipient

The black box model considers the buyer's response as a result of a conscious, rational decision process, in which it is assumed that the buyer has recognized a problem, and seeks to solve it through a commercial purchase. In practice some purchase decisions, such as those made routinely or habitually, are not driven by a strong sense of problem-solving. Such decisions are termed *low-involvement* and are characterized by relatively low levels of information search/ evaluation activities. In contrast, *high involvement* decisions require a serious investment of time and effort in the search/ evaluation process. Low involvement products are typically those that carry low levels of economic or psycho-social risk. High involvement products are those that carry higher levels of risk and are often expensive, infrequent purchases. Regardless of whether the consumer faces a high or low involvement purchase, he or she needs to work through a number of distinct stages of a decision process.

CHECK YOUR PROGRESS

Discuss the purchasing decision model.

What is meant by ‘black box’ in context to the purchasing decision model?

What are the main characteristics of ‘low involvement’ purchase decisions?

What are the main characteristics of ‘high involvement’ purchase decisions?

Overview of the consumer's purchase decision process

The consumer buying process is usually depicted as consisting of 5 distinct stages:

The purchase decision begins with the *problem recognition* stage which occurs when the consumer identifies a need, typically defined as the difference between the consumer's current state and their desired state. The strength of the need drives the entire decision process. *Information search* describes the phase where consumers scan both their internal memory and external sources for information about products or brands that will potentially satisfy their need. The aim of the information search is to identify a list of options that represent realistic purchase options. Throughout the entire process, the consumer engages in a series of mental *evaluations of alternatives*, searching for the best value. Towards the end of the evaluation stage, consumers form a purchase intention, which may or may not translate into an actual *product purchase*. Even when consumers decide to proceed with an actual purchase, the decision-process is not complete until the consumer consumes or experiences the product and engages in a final *post purchase evaluation*; a stage in which the purchaser's actual experience of the product is compared with the expectations formed during the information search and evaluation stages. The stages of the decision process normally occur in a fixed sequence. However it should be noted that information search and evaluation can occur throughout the entire decision process, including post-purchase.

Problem recognition

The first stage of the purchase decision process begins with *problem recognition* (also known as category need or need arousal). This is when the consumer identifies a need, typically defined as the difference between the consumer's current state and their desired or ideal state. A simpler way of thinking about problem recognition is that it is where the consumer decides that he or she is 'in the market' for a product or service to satisfy some need or want. The strength of the underlying need drives the entire decision process.

Theorists identify three broad classes of problem-solving situation relevant for the purchase decision:

Extensive problem-solving

Purchases that warrant greater deliberation, more extensive information search and evaluation of alternatives. These are typically expensive purchases, or purchases with high social visibility e.g. fashion, cars

Limited problem-solving

Known or familiar purchases, regular purchases, straight re-buys. Typically low-priced items.

Routinized problem-solving

Repeat purchases or habitual purchases

Consumers become aware of a problem in a variety of ways including:

Fig 2.12: The purchase of a mobile phone may trigger the desire for accessories such as this phone mount for use in a car

Out-of-Stock/ Natural Depletion

When a consumer needs to replenish stocks of a consumable item e.g. ran out of milk or bread.

Regular purchase

When a consumer purchases a product on a regular basis e.g. newspaper, magazine.

Dissatisfaction

When a consumer is not satisfied with the current product or service.

New Needs or Wants

Lifestyle changes may trigger the identification of new needs e.g. the arrival of a baby may prompt the purchase of a cot, stroller and car-seat for baby.

Related products

The purchase of one product may trigger the need for accessories, spare parts or complementary goods and services e.g. the purchase of a printer leads to the need for ink cartridges; the purchase of a digital camera leads to the need for memory cards.

Marketer-induced problem recognition

When marketing activity persuades consumers of a problem (usually a problem that the consumer did not realise they had).

New Products or Categories

When consumers become aware of new, innovative products that offer a superior means of fulfilling a need. Disruptive technologies such as the advent of wireless free communications devices can trigger a need for plethora of products such as a new mouse or printer.

Information search and evaluation of alternatives

Fig 2.13: Consumers shopping at London's Burlington Arcade engage in a variety of recreational and functional purchasing activities - from window shopping through to transporting their purchases homewards

During the information search and evaluation stages, the consumer works through processes designed to arrive at a number of brands (or products) that represent viable purchase alternatives. Typically consumers first carry out an *internal search*; that is a scan of memory for suitable brands. The **evoked set** is a term used to describe the set of brands that a consumer can elicit from memory and is typically a very small set of some 3- 5 alternatives. Consumers may choose to supplement the number of brands in the evoked set by carrying out an *external search* using sources such as the Internet, manufacturer/brand websites, shopping around, product reviews, referrals from peers and the like.

Consumer evaluation can be viewed as a distinct stage. Alternatively, evaluation may occur continuously throughout the entire decision process. The fact that a consumer is aware of a brand does not necessarily mean that it is being considered as a potential purchase. For instance, the consumer may be aware of certain brands, but not favorably disposed towards them (known as the *inept set*). Such brands will typically be excluded from further evaluation as purchase options. For other brands, the consumer may have indifferent feelings (the *inert set*). As the consumer approaches the actual purchase, he or she distills the mental list of brands into a set of alternatives that represent realistic purchase options, known as the *consideration set*. By definition, the consideration set refers to the “small set of brands which a consumer pays close attention to when making a purchase decision”.

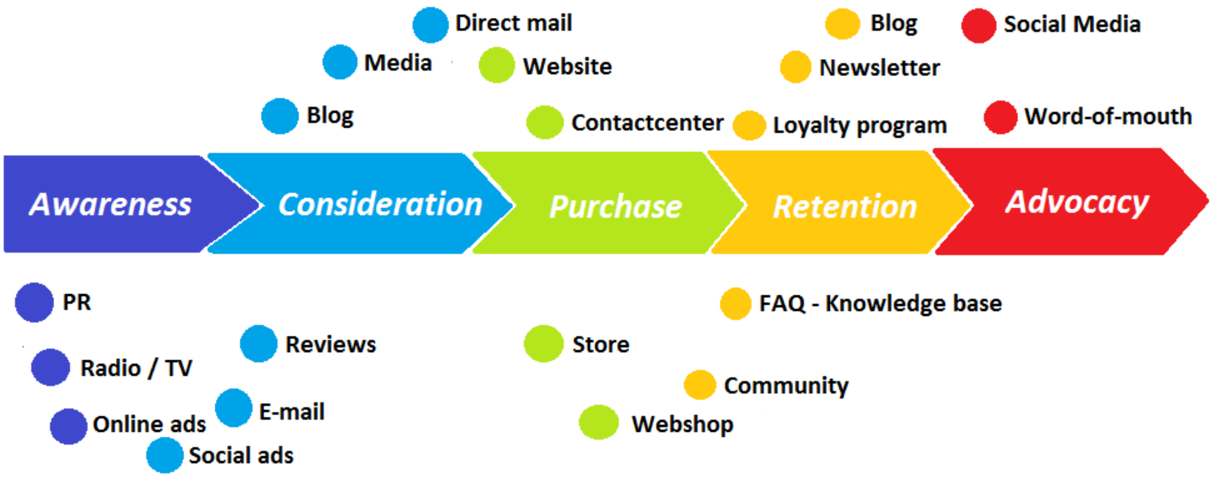


Fig 2.14: Customer purchase decision, illustrating different communications touchpoints at each stage

Specific brand names enter the consumer's consideration set based on the extent to which they satisfy the consumer's purchasing objectives and/or the salience or accessibility of the brand at the time of making the purchase decision. By implication, brand names that are more memorable are more likely to be accessible. Traditionally, one of the main roles of advertising and promotion was to increase the likelihood that a brand name was included in the consumer's evoked set. Repeated exposure to brand names through intensive advertising was the primary method for increasing *top-of-mind brand awareness*. However, the advent of the Internet means that consumers can obtain brand/product information from a multiplicity of different platforms. In practice, this means that the consideration set has assumed greater importance. The implication for marketers is that relevant brand information should be disseminated as widely as possible and included on any forum where consumers are likely to search for product or brand information. Thus, marketers require a rich understanding of the typical consumer's touchpoints.

Consumers evaluate alternatives in terms of the **functional** and **psycho-social** benefits offered. Functional benefits are the tangible outcomes that can be experienced by the consumer such as taste or appearance. Psycho-social benefits are the more abstract outcomes such as the social currency that might accrue from wearing an expensive suit, designer label or driving a 'hot' car. Brand image is an important psycho-social attribute. Consumers have both positive and negative beliefs about a given brand. Consumer beliefs may differ depending on the consumer's prior experience and the effects of selective perception, distortion and retention.

The marketing organization needs a deep understanding of the benefits most valued by consumers and therefore which attributes are most important in terms of the consumer's purchase decision. It also needs to monitor other brands in the customer's consideration set to optimise planning for its own brand.

During the evaluation of alternatives, the consumer ranks or assesses the relative merits of different options available. No universal evaluation process is used by consumers across all-buying situations. Instead, consumers generate different evaluation criteria depending on each unique buying situation. Thus the relevant evaluation attributes vary according to across different types of consumers and purchase contexts. For example, attributes important for evaluating a restaurant would include food quality, price, location, atmosphere, quality of service and menu selection. Consumers, depending on their geographic, demographic, psychographic and behavioural characteristics, will decide which attributes are important to them. Potential patrons seeking a hedonic dining experience may be willing to travel further distances to patronise a fine-dining venue compared to those wanting a quick meal at a more utilitarian eatery. After evaluating the different product attributes, the consumer ranks each attribute from highly important to least important. These priorities are directly related to the consumer's needs and wants. Thus, the consumer arrives at a weighted score for each product or brand - representing the consumer's subjective assessment of individual attribute scores weighted in terms of their importance, to arrive at a total mental score or rank for each product/brand under consideration.

Purchase decision

Once the alternatives have been evaluated, the consumer is ready to make a purchase decision. Sometimes purchase intention does not translate into an actual purchase. The extent to which purchase intentions result in actual sales is known as the *sales conversion* rate.

Fig 2.15: Happy hour, where two drinks can be purchased for the price of one, is a strong call-to-action because it encourages consumers to buy now rather than defer purchasing to a later time

Organizations use a variety of techniques to improve conversion rates. The provision of easy credit or payment terms may encourage purchase. Sales promotions such as the opportunity to receive a premium or enter a competition may provide an incentive to buy now rather than defer purchases for a later date. Advertising messages with a strong *call-to-action* are yet another device used to convert customers. A call-to-action is any device designed to encourage immediate sale. Typically, a call-to-action includes specific wording in an advertisement or selling pitch that employs imperative verbs such as "Buy now" or "Don't wait". Other types of calls-to-action might provide consumers with strong reasons for purchasing immediately such an offer that is only available for a limited time (e.g. 'Offer must expire soon'; 'Limited stocks available') or a special deal usually accompanied by a time constraint (e.g. 'Order before midnight to receive a free gift with your order'; 'Two for the price of one for first 50 callers only'). The key to a powerful call-to-action is to provide consumers with compelling reasons to purchase promptly rather than defer purchase decisions.

As consumers approach the actual purchase decision, they are more likely to rely on personal sources of information. For this reason, personal sales representatives must be well versed in giving sales pitches and in tactics used to close the sale. Methods used might include: ‘social evidence’, where the salesperson refers to previous success and satisfaction from other customers buying the product. ‘Scarcity attraction’ is another technique, where the salesperson mentions that the offer is limited, as it forces the consumer to make a quicker decision, and therefore less time evaluating alternatives.

Post-purchase evaluation

Following purchase and after experiencing the product or service, the consumer enters the final stage, namely post-purchase evaluation. The consumer's purchase and post-purchase activities have the potential to provide important feedback to marketers. Foxall suggested that post-purchase evaluation provides key feedback because it influences future purchase patterns and consumption activities.

The post purchase stage is where the consumer examines and comparies product features, such as price, functionality, and quality with their expectations. Post purchase evaluation can be viewed as the steps taken by consumers to correlate their expectations with perceived value, and thus influences the consumer’s next purchase decision for that good or service. For example, if a consumer buys a new phone and his or her post-purchase evaluation is positive, he/she will be encouraged to purchase the same brand or from the same company in the future. This is also known as "post-purchase intention". On the contrary, if a consumer is dissatisfied with the new phone, he or she may take actions to resolve the dissatisfaction. Consumer actions, in this instance, could involve requesting a refund, making a complaint, deciding not to purchase the same brand or from the same company in the future or even spreading negative product reviews to friends or acquaintances, possibly via social media.

After acquisition, consumption or disposition, consumers may feel some uncertainty in regards to the decision made, generating in some cases regret. **Post-decision dissonance** (also known as cognitive dissonance) is the term used to describe feelings of anxiety that occur in the post purchase stage; and refers to the consumer's uneasy feelings or concerns as to whether or not the correct decision was made at purchase. Some consumers, for instance, may regret that they did not purchase one of the other brands they were considering.This type of anxiety can affect consumers' subsequent behaviour and may have implications for repeat patronage and customer loyalty.

Consumers use a number of strategies to reduce post purchase dissonance. A typical strategy is to look to peers or significant others for validation of the purchase choice. Marketing communications can also be used to remind consumers that they made a wise choice by purchasing Brand X.

When consumers make unfavorable comparisons between the chosen option and the options forgone, they may feel post-decision regret or buyer's remorse. Consumers can also feel short-term regret when they avoid making a purchase decision, however this regret can dissipate over time. Through their experiences consumers can learn and also engage in a process that's called *hypothesis testing*. This refers to the formation of hypotheses about the products or a service through prior experience or word of mouth communications. There are four stages that consumers go through in the hypothesis testing: Hypothesis generation, exposure of evidence, encoding of evidence and integration of evidence.

CHECK YOUR PROGRESS

Discuss the consumer's purchase decision process.

Give a detailed account of the 'Problem recognition' stage of purchase decision process.

Give a detailed account of the 'Information search' stage of purchase decision process.

Give a detailed account of the 'evaluation of alternatives' stage of purchase decision process.

Give a detailed account of the 'purchase decision' stage of purchase decision process.

Give a detailed account of the 'post-purchase evaluation' stage of purchase decision process.

Internal influences on purchase decision

Purchasing behaviour is also influenced by a range of internal influences such as psychological, demographic and personality factors. Demographic factors include income level, psychographics (lifestyle), age, occupation and socio-economic status. Personality factors include knowledge, attitudes, personal values, beliefs, emotions and feelings. Psychological factors include an individual's motivation, attitudes, personal values and beliefs. Other factors that may affect the purchase decision include the environment and the consumer's prior experience with the category or brand.

Motivations and emotions

Fig 2.16: Maslow's hierarchy suggests that people seek to satisfy basic needs such as food and shelter before higher order needs become meaningful

The consumer's underlying motivation drives consumer action, including information search and the purchase decision. The consumer's attitude to a brand (or *brand preference*) is described as a link between the brand and a purchase motivation. These motivations may be negative - that is to avoid pain or unpleasantness, or positive - that is to achieve some type of reward such as sensory gratification.

One approach to understanding motivations, was developed by Abraham Maslow. Maslow's hierarchy of needs is based on five levels of needs, organized accordingly to the level of importance.

Maslow's five needs are:

Physiological

basic levels of needs such as food, water and sleep

Safety

the need for physical safety, shelter and security

Belonging

the need for love, friendship and also a desire for group acceptance

Esteem

The need for status, recognition and self-respect

Self-actualization

The desire for self-fulfillment (e.g. personal growth, artistic expression)

Physiological needs and safety needs are the so-called lower order needs. Consumers typically use most of their resources (time, energy and finances) attempting to satisfy these lower order needs before the higher order needs of belonging, esteem and self-actualization become meaningful. Part of any marketing program requires an understanding of which motives drive given product choices. Marketing communications can illustrate how a product or brand fulfills these needs. Maslow's approach is a generalised model for understanding human motivations in a wide variety of contexts, but is not specific to purchasing decisions.

Fig 2.17: A decision to purchase an analgesic preparation is motivated by the desire to avoid pain (negative motivation)

Fig 2.18: A decision to buy an ice-cream sundae is motivated by the desire for sensory gratification (positive motivation)

Another approach proposes eight *purchase* motivations, five negative motives and three positive motives, which energise purchase decisions as illustrated in the table below. These motivations are believed to provide positive reinforcement or negative reinforcement.

Rossiter and Percy's Purchase Motivations & Emotions	
Motivation	Emotional Sequence
NEGATIVE	
Problem removal	Annoyance → Relief
Problem avoidance	Fear → Relaxation
Incomplete satisfaction	Disappointment → Optimism
Mixed approach avoidance	Conflict → Peace-of-mind
Normal depletion	Mild annoyance → Convenience
POSITIVE	
Sensory gratification	Dull (or neutral) → Sensory anticipation
Intellectual simulation	Bored (or neutral) → Excited
Social approval/ conformity	Apprehensive (or ashamed) → Flattered/ proud

In the marketing literature, the consumer's motivation to search for information and engage in the purchase decision process is sometimes known as *involvement*. Consumer involvement has been defined as "the personal relevance or importance of a message [or a decision]". Purchase decisions are classified as **low involvement** when consumers suffer only a small psycho-social loss in the event that the make a poor decision. On the other hand, a purchase decision is classified as **high involvement** when psycho-social risks are perceived to be relatively high. The consumer's level of involvement is dependent on a number of factors including, perceived risk of negative consequences in the event of a poor decision, the product category - especially the social visibility of the product and the consumer's prior experience with the category.

Perception

Part of marketing strategy is to ascertain how consumers gain knowledge and use information from external sources. The perception process is where individuals receive, organize and interpret information in order to attribute some meaning. Perception involves three distinct processes: sensing information, selecting information and interpreting information. Sensation is also part of the perception process, and it is linked direct with responses from the senses creating some reaction towards the brand name, advertising and packaging. The process of perception is uniquely individual and may depend on a combination of internal and external factors such as experiences, expectations, needs and the momentary set.

When exposed to a stimulus, consumers may respond in entirely different ways due to individual perceptual processes. A number of processes potentially support or interfere with perception. *Selective exposure* occurs when consumers decide whether to be exposed to information inputs. *Selective attention* occurs when consumers focus on some messages to the exclusion of others. *Selective comprehension* is where the consumer interprets information in a manner that is consistent with their own beliefs. *Selective retention* occurs when consumers remember some information while rapidly forgetting other information. Collectively the processes of selective exposure, attention, comprehension and retention lead individual consumers to favor certain messages over others. The way that consumers combine information inputs to arrive at a purchase decision is known as *integration*.

Marketers are interested in consumer perceptions of brands, packaging, product formulations, labeling and pricing. Of special interest is the *threshold of perception* (also known as the *just noticeable difference*) in a stimulus. For example, how much should a marketer lower a price before consumers recognize it as a bargain? In addition, marketers planning to enter global markets need to be aware of cultural differences in perception. For example, westerners associate the color white with purity, cleanliness and hygiene, but in eastern countries white is often associated with mourning and death. Accordingly, white packaging would be an inappropriate color choice for food labels on products to be marketed in Asia.

Prior experience

The consumer's prior experience with the category, product or brand can have a major bearing on purchase decision-making. Experienced consumers (also called experts) are more sophisticated consumers; they tend to be more skillful information searchers, canvass a broader range of information sources and use complex heuristics to evaluate purchase options. Novice consumers, on the other hand, are less efficient information searchers and tend to perceive higher levels of purchase risk on account of their unfamiliarity with the brand or category. When consumers have prior experience, they have less motivation to search for information, spend less effort on information search but can process new information more efficiently. One study, for example, found that as consumer experience increases, consumers consider a wider range of purchase alternatives (that is, they generate a larger consideration set, but only at the product category level).

CHECK YOUR PROGRESS

Discuss the various internal factors which affect the purchase decision.

Explain the five needs proposed by Maslow.

Elaborate on the eight *purchase* motivations proposed by Rossiter and Percy.

Discuss the importance of perception of the product on the purchase decision.

Discuss the concept of involvement of the customer in the purchase process.

Discuss the importance of prior experience of the same/similar product on the purchase decision.

External influences on purchase decision

Purchasing behaviour can also be affected by external influences, such as culture, sub-culture, social class, reference groups, family and situational determinants.

Culture

Culture is the broadest and most abstract of the external factors. Culture refers to the complexity of learning meanings, values, norms, and customs shared by members of a society. Cultural norms are relatively stable over time, therefore, culture has a major impact on consumer behaviour. Marketers interested in global expansion are especially interested in understanding cross-cultural differences in purchasing and consumption. For instance, Ferrari, one of the world's top brands found that Chinese consumers are very different from their Western counterparts. Whereas consumers in the US, UK and Australia expect to wait 12 months for a custom-made Ferrari, prospective Chinese buyers want to drive the vehicle off the showroom floor. China is an ‘instant-gratification market’. Buyers see their friends riding around in a luxury car and want to have the same as quickly as possible. To meet the growing demand for luxury goods, Ferrari and other luxury car makers have been forced to modify their production processes for Asian markets.

Subcultures

Fig 2.19: People with shared interests, such as skaters and bladers, tend to form informal groups known as subcultures

Subcultures may be based on age, geographic, religious, racial, and ethnic differences. More often, however, a subculture occurs when people with shared interests form a loose-knit group with a distinctive identity (sometimes called *consumer tribes*). Members of subcultures are self-selected, and signal their membership status by adopting symbols, rituals or behaviours that are widely understood by other members of the tribe (e.g. a dress code, hairstyle or even a unique way of speaking). For example, within youth culture it is possible to identify a number of sub-groups with common interests such as skaters and bladers, surfers, ravers, punks, skin-heads, Goths, homies and others.

Fig 2.20: Harley-Davidson enthusiasts are an example of a consumption subculture

A different type of subculture is a *consumption subculture* which is based on a shared commitment to a common brand or product. In other words, consumption subcultures cut across demographic, geographic and social boundaries. The most well-known example of a consumption subculture is that of Harley-Davidson motorcycle owners. Ethnographic researchers who have studied Harley riders believe that there are only two types of motor cyclists, Harley owners and the rest. Harley-Davidson has leveraged the values of this subculture by establishing the Harley Owners Group (HOG).

Subcultures are important to marketers for several reasons. Firstly. given that subcultures can represent sizeable market segments which are profitable and influential, there are obvious advantages in developing and selling products and services that meet the needs of subculture members. Secondly, and perhaps less obviously, many new fads and fashions emerge spontaneously from within these tribal groups. Trend-spotters are accordingly interested in studying the lifestyles and activities of tribes in an effort to spot new trends before they go mainstream

Social class

Social class refers to relatively homogenous divisions in a society, typically based on socio-economic variables such as educational attainment, income and occupation. Social class can be very difficult to define and measure, however marketers around the world tend to use a conventional classification which divides any given population into five socio-economic quintiles (e.g. In Australia the groups AB, C, D, E and FG, where AB is the top socio-economic quintile, but in much of Asia the quintiles are labelled I, II, III, IV and V where I is the top quintile). In Australia, for example, the AB socio-economic group account for just 24% of the population, but control 50% of discretionary spending. The top quintiles (i.e. AB socio-economic segments) are of particular interest to marketers of luxury goods and services such as travel, dining-out, entertainment, luxury cars, investment or wealth management services, up-market consumer electronics and designer labels (e.g. Louis Vuitton).

Reference groups

A reference group is defined as "a group whose presumed perspectives or values are being used by an individual as the basis for his or her judgment, opinions, and actions." Reference groups are important because they are used to guide an individual’s attitudes, beliefs and values. Insights into how consumers acquire a given value system can obtained from an understanding of group influence and group socialisation processes.

The literature identifies five broad types of reference group; primary, secondary, aspirational, dissociative and formal:

Primary groups: groups, such as family, that exert a strong influence on attitudes and behaviours

Secondary groups: groups such as clubs, societies, sports teams, political parties, religions that align with a person's ideas or values, but exert a less fundamental influence on the formation of attitudes and behaviours

Aspirational groups groups to which an individual does not currently belong, but possibly aspires to become a member because the group possesses characteristics which are admired.

Disassociative reference groups - a group which has a negative image; individuals may disapprove of the disassociative group's values, attitudes or behaviours and may seek to distance themselves from such groups.

Opinion Leaders can act like reference groups in that they exert considerable social influence because of their product knowledge, expertise and credibility. In the marketing literature, opinion leaders are also known as influencers, mavens and even hubs. Opinion leaders are specific to a product category, so that an opinion leader for computers is not likely to be an opinion leader for fashion. Typically, opinion leaders have high levels of involvement with the product category, are heavy users of the category and tend to be early adopters of new technologies within the category. Journalists, celebrities and bloggers are good examples of an opinion leader due to their broad social networks and increased ability to influence people’s decisions . Indeed, recent evidence suggests that bloggers may be emerging as a more important group of opinion leaders than celebrities.

In order to leverage the value of opinion leaders in marketing strategies, it is important to be able to identify the unique opinion leaders for each category or situation and this can be very challenging. Some techniques that can be used are through key informants, socio-metric techniques and self-questionnaires. More often, however, marketers use gut instinct to identify opinion leaders. For example, marketers of athletic shoes have been known to provide gym/ aerobic instructors with free shoes in the hope that class members will adopt the same brand as the instructor. Marketers of cosmetics and skincare preparations regularly provide fashion editors with free samples in the hope that their products will be mentioned in fashion magazines.

CHECK YOUR PROGRESS

Discuss the various external factors which affect the purchase decision.

Discuss the importance of culture of the social environment of customer on the purchase decision.

Discuss the importance of sub-culture of the social environment of customer on the purchase decision.

Discuss the importance of social class of the social environment of customer on the purchase decision.

Discuss the importance of reference groups of the social environment of customer on the purchase decision.

Consumer decision styles

A number of theorist have argued that certain fundamental decision-making styles can be identified. A decision-making style is defined as a "mental orientation characterising a consumer's approach to making choices." Sproles and Kendall (1986) developed a consumer style inventory (CSI) consisting of eight factors, such as price-sensitivity, quality-consciousness, brand-consciousness, novelty-seeking, fashion-consciousness and habit. Based on these factors, the authors developed a typology of eight distinct decision-making styles:

Fig 2.21: Those who shop for pleasure are known as recreational shoppers

Quality conscious/Perfectionist: Quality-consciousness is characterised by a consumer's search for the very best quality in products; quality conscious consumers tend to shop systematically making more comparisons and shopping around.

Brand-conscious: Brand-consciousness is characterised by a tendency to buy expensive, well-known brands or designer labels. Those who score high on brand-consciousness tend to believe that the higher prices are an indicator of quality and exhibit a preference for department stores or top-tier retail outlets.

Recreation-conscious/ Hedonistic: Recreational shopping is characterised by the consumer's engagement in the purchase process. Those who score high on recreation-consciousness regard shopping itself as a form of enjoyment.

Price-conscious: A consumer who exhibits price-and-value consciousness. Price-conscious shoppers carefully shop around seeking lower prices, sales or discounts and are motivated by obtaining the best value for money

Novelty/fashion-conscious: characterised by a consumer's tendency to seek out new products or new experiences for the sake of excitement; who gain excitement from seeking new things; they like to keep up-to-date with fashions and trends, variety-seeking is associated with this dimension.

Impulsive: Impulsive consumers are somewhat careless in making purchase decisions, buy on the spur of the moment and are not overly concerned with expenditure levels or obtaining value. Those who score high on impulsive dimensions tend not to be engaged with the object at either a cognitive or emotional level.

Confused (by over-choice): characterised by a consumer's confusion caused by too many product choices, too many stores or an overload of product information; tend to experience information overload.

Habitual / brand loyal: characterised by a consumer's tendency to follow a routine purchase pattern on each purchase occasion; consumers have favourite brands or stores and have formed habits in choosing, the purchase decision does not involve much evaluation or shopping around.

The Consumer Styles Inventory (CSI) has been extensively tested and retested in a wide variety of countries and purchasing contexts. Many empirical studies have observed cross-cultural variations in decisions styles, leading to numerous adaptations or modifications of the CSI scale for use in specific countries. Consumer decision styles are important for marketers because they describe behaviours that are relatively stable over time and for this reason, they are useful for market segmentation.

CHECK YOUR PROGRESS

Discuss the various purchase decision styles of customers.

Elaborate on the **Quality conscious/Perfectionist** style of customers.

Elaborate on the **Brand-conscious** style of customers.

Elaborate on the **Recreation-conscious/ Hedonistic** style of customers.

Elaborate on the **Price-conscious** style of customers.

Elaborate on the **Novelty/fashion-conscious** style of customers.

Elaborate on the **Impulsive** style of customers.

Elaborate on the **Confused (by over-choice)** style of customers.

Elaborate on the **Habitual / brand loyal** style of customers.

Explain the importance of Consumer Styles Inventory (CSI) in designing a product.

Other topics in consumer behaviour

Fig 2.22: The purchase of an up-market sports car carries both financial risk and social risk, because it is an expensive purchase and it makes a highly visible statement about the driver

In addition to understanding the purchasing decision, marketers are interested a number of different aspects of consumer behaviour that occur before, during and after making a purchase choice. Areas of particular interest include: risk perception and risk reduction activities; brand switching, channel switching, brand loyalty, customer citizenship behaviours and post purchase behavioural intentions and behaviours, including brand advocacy, referrals, word of mouth activity etc.

Risk perception and risk reduction activities

The consumer's perceptions of risk are a major consideration in the pre-purchase stage of the purchasing decision. Perceived risk is defined as "the consumer's perceptions of the uncertainty and adverse consequences of engaging in an activity". Risk consists of two dimensions: *consequences* - the degree of importance or the severity of an outcome and *uncertainty* - the consumer's subjective assessment of the likelihood of occurrence. For example, many tourists are fearful of air travel because, although the probability of being involved in an airline accident is very low, the consequences are potentially dire.

The marketing literature identifies many different types of risk, of which five are the most frequently cited:

Fig 2.23: Facilitating trial of a product may help to alleviate risk perceptions

Financial Risk: the potential financial loss in the event of a poor decision

Performance Risk (also known as *functional risk*): The idea that a product or service will not perform as intended

Physical Risk: the potential for physical harm if something goes wrong with a purchase

Social Risk: the potential for loss of social status associated with a purchase

Psychological Risk: the potential for a purchase to result in a loss of self-esteem

If a consumer perceives a purchase to be risky, he or she will engage in strategies to reduce the perceived risk until it is within their tolerance levels or, if they are unable to do so, withdraw from the purchase. Thus, the consumer's perceptions of risk drive information search activities.

Services marketers have argued that risk perception is higher for services because they lack the search attributes of products (i.e. tangible properties that can be inspected prior to consumption). In terms of risk perception, marketers and economists identify three broad classes of purchase; search goods, experience goods and credence goods with implications for consumer evaluation processes. Search goods, which include most tangible products, possess tangible characteristics that allow consumers to evaluate quality prior to purchase and consumption. Experience goods, such as restaurants and clubs, can only be evaluated with certainty after purchase or consumption. In the case of credence goods, such as many professional services, the consumer finds it difficult to fully appreciate the quality of the goods even after purchase and consumption has occurred. Difficulties evaluating quality after consumption may arise because the cost of obtaining information is prohibitive, or because the consumer lacks the requisite skills and knowledge to undertake such evaluations. These goods are called credence products because the consumer's quality evaluations depend entirely on the trust given to the product manufacturer or service provider.

Typical risk-reduction strategies used include:

Prospective purchasers carefully inspect the merchandise before purchasing expensive gold jewellery

Advertising and Promotional Messages: Pay closer attention to product or brand related promotion including advertising messages

Shopping Around: Comparing offers and prices, inspecting the merchandise

Buy Known Brand: Using a known, reputable brand as an indicator of quality merchandise

Buy from Reputable Store: Relying on a reputable retail outlet as an indicator of quality

Product Reviews: Reading independent reviews in main media (e.g. newspapers, magazines), written by independent experts

Online product reviews or consumer-generated testimonials: Reading about the experiences of other consumers (e.g. TripAdvisor, Amazon customer reviews)

Sampling or Limited-scale Trial: Where practical, obtaining samples, free trial or a 'test-drive' prior to purchase

Manufacturer Specifications: Reading information provided by manufacturers e.g. brochures or specs

Referrals: Obtaining referrals from friends or relatives

Sales Representatives: Talking to sales reps in retail outlets

Product Guarantees: Looking for formal guarantees or warranties

New product adoption and diffusion of innovations

Within consumer behaviour, a particular area of interest is the study of how innovative new products, services, ideas or technologies spread through groups. Insights about how innovations are diffused (i.e., spread) through populations can assist marketers to speed up the new product adoption process and fine-tune the marketing program at different stages of the diffusion process. In addition, diffusion models provide benchmarks against which new product introductions can be tracked.

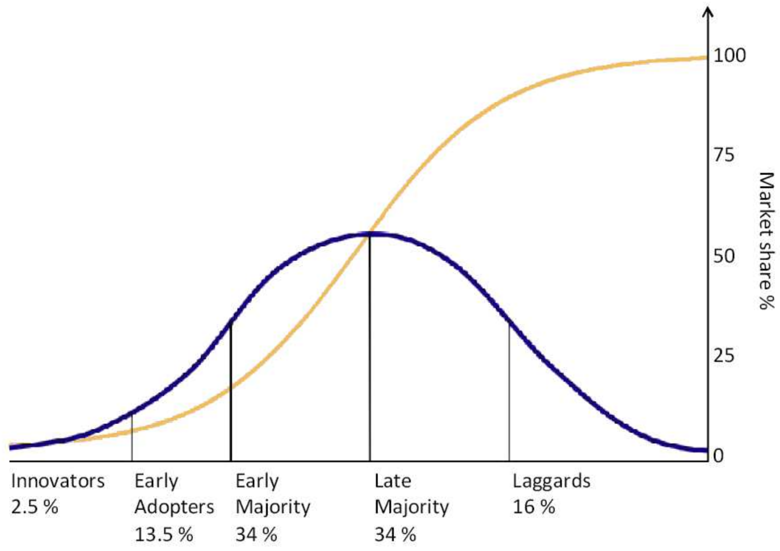


Fig 2.24: The diffusion of innovations according to Rogers. As successive groups of consumers adopt the innovation (shown in blue), its market share (yellow) will eventually reach saturation level

A sizeable body of literature has been devoted to the diffusion of innovation. Research studies tend to fall into two broad categories; general diffusion research - an approach that seeks to understand the general process of diffusion and applied diffusion research - studies that describe the diffusion of specific products at particular moments in time or within given social communities. Collectively these studies suggest a certain regularity in the adoption process; initially few members adopt the innovation but over time, successive, overlapping waves of people begin to adopt the innovation. This pattern contributes to a generalised S-shaped curve, as shown in the figure at right. However, the exact shape and timing of curves varies in different product markets such that some innovations are diffused relatively quickly, while others can take many years to achieve broad market acceptance.

The diffusion model developed by Everett Rogers is widely used in consumer marketing because it segments consumers into five groups, based on their rate of new product adoption. Rogers defines the diffusion of innovation as the process by which that innovation is "communicated through certain channels over time among the members of a social system." Thus the diffusion process has a number of elements, the innovation, the communication channels, time and the social system. An innovation is any new idea, object or process that is perceived as new by members of the social system. Communication channels are the means by which information about the innovation is transmitted to members of the social system and may include mass media, digital media and personal communications between members of the social system. Time refers to the rate at which the innovation is picked up by the members of the social system.

Table 1:Adopter Categories

Adopter Group	Proportion of All Adopters	Psycho-social and Demographic Characteristics
Innovators	2.5%	adopt new products or concepts well ahead of the social community

		venturesome; like new ideas are willing to accept some uncertainty/ risk in purchase decision-making are active information seekers cosmopolitan; move in broad social circles have access to financial resources (which helps absorb potential losses when innovations fail) tend to be heavy users or category enthusiasts (e.g. tech-heads are the first to adopt new communications technologies) tend to be younger, well-educated and affluent
Early adopters	13.5%	second group to adopt new products or concepts not too far ahead of the community in terms of innovativeness have the respect of their social communities potential adopters look to early adopters as role models are important opinion leaders higher social status and well-educated
Early majority	34%	third group to adopt new products or concepts adopt innovations only marginally ahead of the community average tend to be more deliberate in purchase decision-making average social status and education levels
Late majority	34%	adopt new products or concepts slightly later than average skeptical in purchase decision-making adoption is often a response to social community pressures
Laggards	16%	last group to adopt new products or concepts highly cautious; need to be confident that an innovation will not fail before purchasing

		are the most risk-averse of all adopter segments; dislike change traditionalists; resistant to change; look to the past somewhat isolated within their social community often adopt innovations when they are becoming obsolete tend to be older, less well educated and less affluent

A number of factors contribute to the rate at which innovations are diffused through a social community.

Facilitating a 'test-drive' can encourage consumers to speed up adoption rates

- **Relative advantage**: the degree to which an innovation is perceived to be superior to alternatives
- **Compatibility**: the extent to which an innovation fits in with an individual's values, lifestyles and past experiences
- **Complexity**: the degree to which an innovation is perceived to be easy or difficult to understand and use
- **Trialability**: the extent to which an individual can experiment with the innovation, on a limited scale, prior to adoption
- **Observability**: the degree to which the results of the innovation are visible to other members of the social community

Innovations with some or all of these factors are more likely to be adopted quickly. Accordingly, marketing communications may stress the innovation's relative benefits over other solutions to the consumer's problem. Marketing messages may also focus on compatibility and observability. Marketers can also facilitate adoption by offering limited scale trial (e.g. samples, test drives, sale on approval), enabling consumers to develop and understanding of the innovation and how it is used prior to purchase.

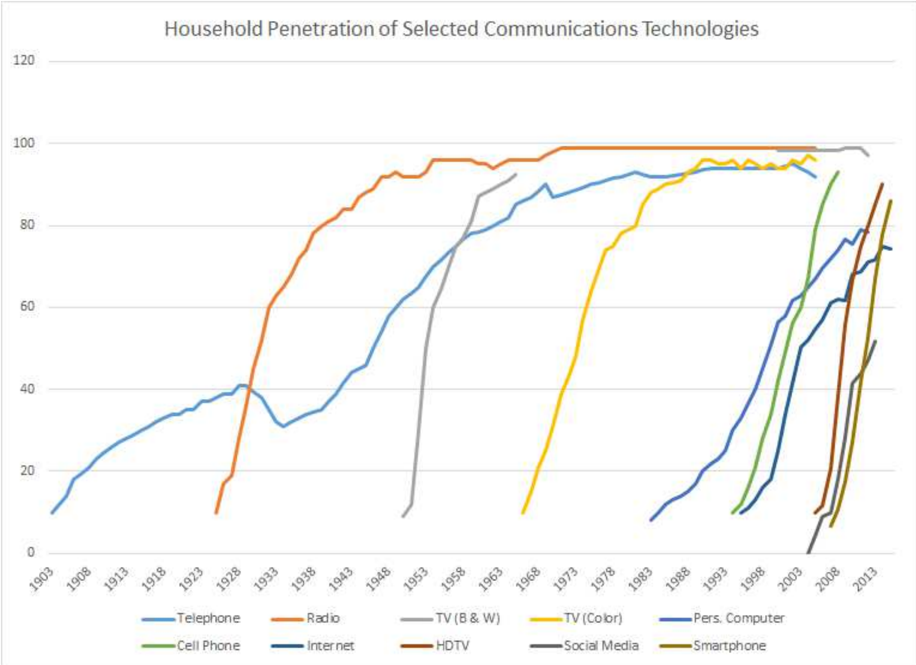


Fig 2.25: The rate of diffusion is speeding up

Studies have shown that the diffusion rate for many new technologies is speeding up. The figure, *Household Penetration of Selected Communications Technologies* (Fig 2.25), illustrates U.S. household penetration rates of selected communications technologies, measured as a percentage of all households. The slope of the curve becomes steeper with each successive innovation indicating a more rapid diffusion rate. For example, it took decades for the telephone to achieve 50 percent penetration rates beginning in around 1900, but it took less than five years for cellphones to achieve the same penetration rates. In order to explain the increasing pace of adoption, some have pointed to supply-side issues such as reduced barriers to entry and lower costs of innovation, while others have argued that consumers drive adoption rates because they place a high value on the convenience of new innovations.

CHECK YOUR PROGRESS

Discuss the Risk perception and risk reduction activities of customers in pre-purchase stages.

Elaborate on new product adoption and diffusion of innovations style of customers.

Give detailed characterizes of Innovators type of technology adopters.

Give detailed characterizes of Early adopters type of technology adopters.

Give detailed characterizes of Early majority type of technology adopters.

Give detailed characterizes of Late majority type of technology adopters. Give detailed characterizes of Laggards type of technology adopters.

Brand-switching

Brand-switching occurs when a consumer chooses to purchase a brand that is different to the regular or customary brand purchased. Consumers switch brands for a variety of reasons including that the store did not have the regular brand or the consumer's desire for variety or novelty in brand choice. In the fast moving consumer goods market (FMCG), the incidence of switching is relatively high. A great deal of marketing activity is targeted at brand-switchers. Rossiter and Bellman have proposed a classification of consumers based on brand-loyalty/ switching behaviour:

Brand Loyals

Purchase preferred brand on almost every purchase occasion

Favourable Brand Switchers

Exhibit moderate preference for the brand or brands that they buy and can be readily enticed to purchase competing brands

Other Brand Switchers

Normally purchase a competing brand, possibly because they are unaware of our brand or due to a negative experience with our brand

New Category Users

Those who are unaware of a category but have potential to become new users

Marketers are particularly interested in understanding the factors that lead to brand-switching. A global, large sample survey carried out by Nielsen shows that four in 10 shoppers (41%) said that getting a better price would encourage them to switch brands (or service provider/retailer); 26% said quality was an incentive to switch; 15% looked for a better service agreement and 8% said that improved features are a switching incentive. However, it should be noted that cross-cultural differences were observed among respondents. Price was the major switch incentive for more than half of North Americans (61%) and Europeans (54%) but price and quality held equal sway in Asia-Pacific and Middle East/Africa, with roughly one-third of respondents each in both regions reporting that both price and quality were the major incentives to switching.

The concept of *switching costs* (also known as switching barriers) is pertinent to the understanding of brand switching. Switching costs refer to the costs incurred by a consumer when he or she switches from one supplier to another (or from one brand to another). Although switching costs are often monetary, the concept can also refer to psychological costs such as time, effort and inconvenience incurred as a result of switching. When switching costs are relatively low, as in the case of many fast moving consumer goods (FMCG), the incidence of brand switching tends to be higher. An example of switching that includes both monetary and psychological costs is when Android or Apple users wish to switch to a different platform, they would need to sacrifice their data, including purchased music tracks, apps or media and may also need to learn new routines to become an efficient user.

Channel-switching

Fig 2.26: The advent of "category killers", such as Australia's Officeworks, has contributed to an increase in channel switching behaviour

Channel-switching (not to be confused with zapping or channel surfing on TV) is the action of consumers switching to a different purchasing environment (or distribution channel) to purchase goods, such as switching from brick-and-mortar stores to online catalogues, or the internet. A number of factors have led to an increase in channel switching behaviour; the growth of e-commerce, the globalization of markets, the advent of Category killers (such as Officeworks and Kids 'R Us) as well as changes in the legal/ statutory environment. For instance, in Australia and New Zealand, following a relaxation of laws prohibiting supermarkets from selling therapeutic goods, consumers are gradually switching away from pharmacies and towards supermarkets for the purchase of minor analgesics, cough and cold preparations and complementary medicines such as vitamins and herbal remedies.

For the consumer, channel switching offers a more diverse shopping experience. However, marketers need to be alert to channel switching because of its potential to erode market share. Evidence of channel switching can suggest that disruptive forces are at play, and that consumer behaviour is undergoing fundamental changes. A consumer may be prompted to switch channels when the product or service can be found cheaper, when superior models become available, when a wider range is offered, or simply because it is more convenient to shop through a different channel (e.g. online or one-stop shopping). As a hedge against market share losses due to switching behaviour, some retailers engage in multi-channel retailing.

Impulse buying

Impulse purchases are unplanned purchases. Impulse buying can be defined as “a sudden and powerful urge to buy immediately” and occurs when a consumer purchases an item which they had no intention of purchasing prior to entering the store. Impulse buying can be influenced by external stimuli such as store characteristics and sale promotions, internal stimuli such as enjoyment and self-identity, situational and product related factors such as time and money available, and demographic and socio-cultural factors such as gender, age, and education. Stern introduced the four broad classifications of impulse buying including pure impulse buying, reminded impulse buying, suggestion impulse buying, and planned impulse buying:

Fig 2.27: Large family-sized cakes are more likely to be a planned purchase, while the individual portions are much more likely to be an unplanned purchase

Pure impulse buying

Occurs outside of the normal purchase behaviour where a consumer experiences a strong emotion of desire towards a product that he/she did not initially plan to buy. This is type of impulse buying is commonly influenced by low prices and even the approval to touch the product as this will create the imagine of actually owning the product.

Reminded impulse buying

Occurs when a consumer remembers the need for a product by seeing it in a store. This is triggered through various techniques such as in-store advertising or sensory marketing. For example, a consumer may be reminded to buy ingredients for a barbecue when he/she drives past a butcher store.

Suggestion impulse buying

Occurs when a consumer sees a product that they have no prior knowledge about, envisions a use for it, and decides that they need it. An example of suggestion impulse buying is when a consumer is encouraged to purchase an electric hand-mixer after having picked up a brochure from the baking department of a home-ware store. The brochure convinces the consumer of the hand-mixer's superiority over the wooden spoon she has been using. Marketing techniques that can also trigger suggestion impulse buying include long-term warranties or a free trial period.

Planned impulse buying

Involves a partially planned intention of buying, however specific product or categories are not yet determined. In this case, the consumer's purchasing decision can be encouraged by retailing staff, or even their peers who can persuade the consumer to purchase a substitute or provide reassurance about an alternative brand choice.

Recent research carried out by Nielsen International suggests that about 72 percent of FMCG purchases are planned, but that 28 percent of supermarket purchases are unplanned or impulse purchases. The top unplanned purchases in the food category are candy (lollies), chocolate, cookies (biscuits), frozen desserts and snacks and the top unplanned purchases in the non-food category are cosmetics, air-fresheners, toothbrushes, hand-soaps and hand/body lotions. This explains why supermarkets place these types of products at the front of the store or near the checkout where the consumer spends more time and is more likely to notice them and therefore more likely to pop them into the shopping basket. Retailers use insights from this type of research to design stores in ways that maximise opportunities for impulse-buying.

Affect: Emotions, feelings and mood

The consumer's affective state has implications for a number of different dimensions of consumer behaviour, including information search, evaluation of alternatives; product choice, service encounters, complaining and also in advertising responses. Westbrook (1987, p. 259) defines affect as a "class of mental phenomena uniquely characterised by a consciously experienced, subjective feeling state, commonly accompanying emotions and moods" suggesting that these concepts are closely related. Research suggests that affect plays an important role in underlying attitudes, as well as shaping evaluation and decision-making.

Consumer researchers have noted the difficulties separating the concepts of affect, emotions, feelings and mood. The line between emotions and mood is difficult to draw and consumer researchers often use the concepts interchangeably. Yet other researchers note that a detailed understanding of the relationship between affect and consumer behaviour has been hampered by the lack of research in the area. Indeed, within the consumer behaviour literature, there is widespread agreement that the role of emotions is an area that is currently under-researched and is in need of greater attention, both theoretically and empirically.

Information search

Studies have found that people in a positive mood are more efficient at information search activities. That, is they are more efficient at processing information, are able to integrate information by identifying useful relationships and arrive at creative solutions to problems. Due to their efficiency processing information, those who are in a positive mood are generally quicker to make decisions and easier to please. Research consistently shows that people in a positive mood are more likely to evaluate information positively. As online environments become more important as a consumer search tool, it may be prudent for web designers to consider site-design issues such as ease of navigation, lest poor design contribute to customer frustration thereby engendering a bad mood and ultimately leading to unfavourable product/brand evaluations.

Choice

Fig 2.28: The immediate hedonic pleasure of eating candy often outweighs the longer term benefit of a healthier food choice

Affect may play an important role in impulse-buying decisions. Research suggests that consumers place higher weightings on immediate affective rewards and punishments, while delayed rewards receive less weighting. For instance, the immediate hedonic pleasure of eating a sweet treat often outweighs the longer term benefits of eating a healthy alternative such as fruit. This occurs because the immediate emotional gain is a strong driver, and one that consumers can readily visualise whereas the more distant goal lacks sufficient strength to drive choice.

Customer satisfaction

The relationship between affect and customer satisfaction is an area that has received considerable academic attention, especially in the services marketing literature. The proposition that there is a positive relationship between affect and satisfaction is well supported in the literature. In a meta-analysis of the empirical evidence, carried out in 2001, Szymanski et al., suggest that affect may be both an antecedent to and an outcome of satisfaction. Emotions elicited during consumption are proposed to leave affective traces in memory, traces that are available for consumers to access and integrate into their satisfaction assessments.

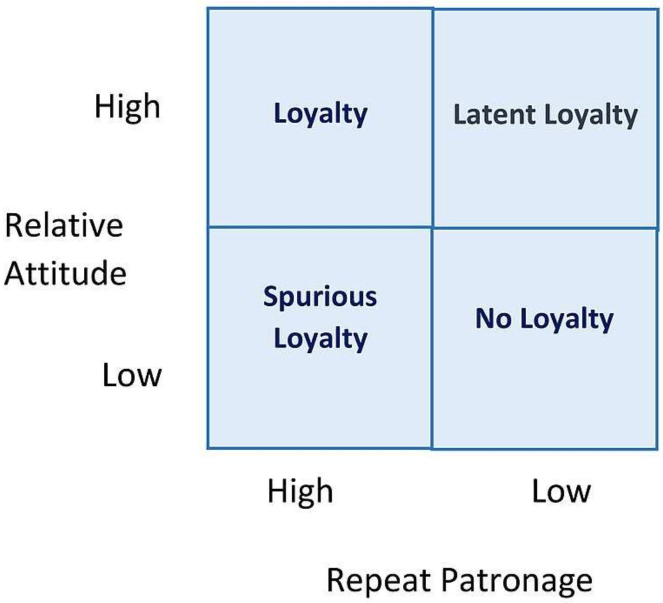
Advertising

Emotion can play an important role in advertising. In advertising, it is common to identify advertising with two different approaches to persuasion: (a) *thinking ads*- those that require cognitive processing (also known as the *central route to persuasion*) and, (b) *feeling ads* - those that are processed at an emotional level (also known as the *peripheral route*). Advertisers can bypass cognitive, rational processing which can lead to counter-arguing by simply appealing to the emotions. Neuro-imaging studies suggest that when evaluating brands, consumers primarily use emotions (personal feelings and experiences) rather than information (brand attributes, features, and facts).

It is relatively widely accepted that emotional responses require fewer processing resources (i.e. are easier) and also result in more enduring associations with the brand being advertised. Feelings elicited by the advertising message can shape attitudes towards the brand and to the advertisement.

Customer loyalty

Customer loyalty, defined as "the relationship between an individual's relative attitude and repeat patronage" (Dick and Basu, 1994: p. 99). Thus, by definition, loyalty has both an attitudinal component and a behavioural component. Dick and Basu proposed four types of loyalty based on relative attitude and patronage behaviour:



Source: Dick, A.S. and Basu, K. "Customer Loyalty: Toward an Integrated Conceptual Framework," *Journal of the Academy of Marketing Science*, Vol. 22, no. 2, 1994, p. 101

Fig 2.29: Dick and Basu's Loyalty Matrix

No Loyalty

Characterised by low relative attitude and low repeat patronage behaviour. May occur when competing brands are seen as similar or in the case of new brands (or categories) where insufficient time has elapsed for loyalty to become established.

Spurious Loyalty

Characterised by low relative attitude and high repeat patronage. Spurious loyalty occurs when the consumer undertakes repeat purchasing due to situational factors such as access, convenience or shelf placement. Spurious loyalty can also occur when there are no genuine alternatives or the consumer is 'locked-in' to purchasing a given brand due to some quasi-contractual arrangement or membership status which creates difficulties for switching. In other words, where switching costs are relatively high, high patronage behaviour may be observed despite the absence of a favourable attitude towards the brand. An example would be a consumer who always purchases petrol from the same outlet on the way to work because there are no other outlets in the vicinity.

Latent Loyalty

Characterised by high relative attitude and low repeat patronage. Latent loyalty occurs when situational factors over-ride strong favourable attitudes. For example, a person may have a preferred restaurant but may not patronize it, due to the preferences of dining companions.

Loyalty

(i.e. true loyalty) Characterised by favourable attitude and favourable patronage behaviour. For marketers, true loyalty is the ideal situation.

Fig 2.30: Frequent flyer schemes are among the most well known of the reward programs

Rewards Card Programs - explained

Loyalty marketing programs are built on the insight that it costs 5-20 times more to acquire a new customer than to retain an existing customer. Marketers use a variety of loyalty programs to strengthen customer attitudes towards the brand (or service provider/ retailer) in order to retain customers, minimise customer defections and strengthen loyalty bonds with existing customers. Broadly there are two types of program: reward and recognition programs. In a **Reward Program**, the customer accumulates points for each purchase, and the points can subsequently be exchanged for goods or services. **Recognition Programs** operate on a quasi-membership basis where the consumer is issued with a card that upon presentation leads to various entitlements such as free upgrades, special privileges or access to products/services that are not normally available to non- members, and that acknowledge the loyal customer's "VIP" status. For example, a hotel might recognise loyal patrons by providing a complimentary fruit bowl and bottle of champagne in the room on arrival. Whereas reward programs are motivated by the consumer's desire for material possessions, recognition programs are motivated by the consumer's need for esteem, recognition and status. Many commercial loyalty programs are hybrid schemes, combining elements of both reward and recognition. In addition, not all reward programs are designed to encourage loyalty. Certain reward programs are designed to encourage other types of positive customer behaviour such as the provision of referrals or providing positive word-of-mouth (WOM) recommendations.

Loyalty marketing can involve the use of databases and sophisticated software to analyse and profile customer loyalty segments with a view to identifying the most desirable segments, setting goals for each segment and ultimately attempting to increase the size of the loyal customer base.

Customer citizenship behaviour

Customer citizenship behaviour refers to actions that are not part of the customer's normal behaviour, that are of a voluntary or discretionary in nature and which are thoughtful, considerate and helpful. Citizenship behaviour often requires some type of sacrifice on the part of customers. Service marketers are particularly interested in citizenship behaviour because it harnesses the consumer's labour power, and therefore increases organisational efficiency. It also has the potential to improve service quality.

The service marketing literature identifies a number of distinct types of citizenship behaviour:

Voice

When customers direct their complaint to the service provider in order to rectify and maintain the relationship

Display of Affiliation

When customers communicate with others their relationship with the organization e.g. provide word-of-mouth referrals.

Policing

The observation of other customers to ensure their appropriate behaviour

Flexibility

Customer willingness to adapt to situations beyond their control.

Service Improvement

Providing ideas and suggestions which may aid in the organization's improvement.

Positive Word-of-mouth Referral or Recommendation

Favourable communication regarding brand, product, an organization or a service.

Benevolent Act of Service

A willingness to help employees in performing service.

Suggestions for Service Improvement

Suggestions that do not arise from specific service failures

Internet consumer behaviour

Traditional models of consumer behaviour were developed by scholars such as Fishbein and Ajzen and Howard and Sheth in the 1960s and 70s. More recently, Shun and Yunjie have argued that online consumer behaviour is different to offline behaviour and as a consequence requires new theories or models.

Research has identified two types of consumer value in purchasing, namely product value and shopping value. Product value is likely to be similar for both online and offline shoppers. However, the shopping experience will be substantially different for online shoppers. In an offline shopping environment, consumers derive satisfaction from being within the physical store environment or retail landscape (hedonic motivations). In the case of online purchasing, shoppers derive satisfaction from their ability to navigate a website and the convenience of online searching which allows them to compare prices and 'shop around' with minimal time commitment. Thus the online consumer is motivated by more utilitarian factors.

Different types of online behaviour

Consumers may use online platforms for various stages of the purchase decision. Some consumers use online sources simply to acquire information about planned purchases. Others use online for making the actual purchase. In yet other situations, consumers may use online platforms to engage in post purchase behaviours such as staying connected with a brand by joining a brand community or by becoming a brand advocate by posting a product review or providing brand referrals vis social media. A particular problem that some e-commerce providers have encountered is that consumers who seek information online, turn to bricks and mortar retailers for the actual purchase. Marketers have segmented consumer markets into different kinds of online behaviour in accordance with their behavioural characteristics online. Lewis and Lewis (1997) identified five segments based on the way that consumers use the Internet in the purchase decision process:

- "Directed Information-seekers" belongs to the kind of users that primarily look for information of the product or service and there is no guarantee that they could be converted to online buyers.
- "Undirected Information-seekers" are always the new comers of the Internet. They are more likely to click through the web pages and have more willing to interact with the online advertisement designed by online marketers.
- "Directed Buyers" have a straightforward mind to purchase a specific product or service online.
- "Bargain Hunters" are the price-sensitive users that always like to find products from sales promotions. For these users, discount could be a major attraction to convert them to purchase online.
- "Entertainment Seekers" are the online consumers that basically seek anything involved with fun activities. Online games which are often interactive could be a useful means to attract this kind of potential customer.

A typology of online consumer behaviour

Wendy Moe (2003) argues that in the offline environment, consumers who are shopping in stores can be easily classified by experienced sales employees only by watching their shopping behaviours. These sales will approach them initiatively because they knew they look like the kind of consumers who are really seeking something to purchase, while other "hanging around" shoppers will generally be ignored by the experienced sales. Such classification may not appear online, but Moe and Fader argued that by it is feasible to predict practical buying, surfing and searching action online by investigating click patterns and repetition of visit within online behaviour. In addition, a report of E-consultancy about "benchmarking of user experience" outlined three kinds of online consuming behaviour as a valuable classification for the research of design of web pages to better serve different kinds of consuming behaviour. The three categories are:"trackers","hunters" and "explorers".

- "Trackers" are the online consumers who are exactly looking for a product that they definitely wish to buy. They use the Internet for the information about its price, delivery methods post-purchase service and so on. Once they have found the proper information, little effort is needed to let them do the business.
- "Hunters" just know the categories of the product that they need, for instance, a novel for leisure time. However, they haven't made specific decision on whose novel to buy. They use the Internet to find a list of product of their needed categories to make comparison. This kind of online consumer needs advice and help to do their business.
- "Explorers" don't even have the categories of product on their minds. In fact, they just want to buy something online. There is more uncertainty of this type of online consumers.

Influence of the Internet on buying process

Table Internet's impact on buying process

Stage in buying process	1 Unaware	2 Aware of product need develop specification	3 Supplier search	4 Evaluate and select	5 Purchase	6 Post-purchase evaluation and feedback
Communications objectives	Generate awareness	Position features, benefit and brand	Lead generation (from range of customers)	Assist purchase decision	Facilitate purchase	Support use and retain business
Internet marketing techniques	Banner advertising, PR, links	Web site content (plus search support)	Search engines, intermediates	Web site content intermediates	Web site content	Personalised web site content and interaction

As the table above shows, the first row indicates the process of a consumer buying a new product, while the second and third row illustrates the positive influences the Internet could have on buying process by creating effective communications with online consumers. For example, suppose a consumer carelessly see an advertisement about laptops on Wechat, a popular Chinese social media developed by Tecent. He begins to feel that his laptop is a bit out of date and want to buy a new one, which the outcome of good advertisement placed on the daily Internet tool. He doesn't know anything about how to buy a new one as business change so fast today, so he search on Google to find out the answer. On the result page, what he finds out is the promotional ads which mainly come from JD.com and Taobao, two main Chinese competitors of online retailer at this field. As always, he used to prefer JD.com, which provides comparison in detail on brands, price, place and ways of payment and delivery. After careful selection, he makes his order through payment of Wechat, which was placed inside of JD.com. JD.com has one of the fastest distribition channels within China and it support excellent post-purchase service to maintain its position in the market.

Research methods used

To gain insights into consumer behaviour, researchers uses the standard battery of market research methods such as surveys, depth interviews and focus groups. Increasingly, researchers are turning to newer methodologies and technologies in an effort to seek deeper understandings of why consumers behave in certain ways. These newer methods include *ethnographic research* (also known as participant observation) and *neuroscience* as well as experimental lab designs. In addition, researchers often turn to separate disciplines for insights with potential to inform the study of consumer behaviour. For instance, behavioural economics is adding fresh, new insights into certain aspects of consumer behaviour.

Ethnographic research

Fig 2.31: Product usage studies are used to improve packaging design

Ethnographic research or ethnography has its origins in anthropology. However, marketers use ethnographic research to study the consumer in terms of cultural trends, lifestyle factors, attitudes and the way that social context influences product selection, consumption and usage. Ethnographic research, also called *participant observation*, attempts to study consumer behaviour in natural settings rather than in artificial environment such as labs. Different types of ethnographic research are used in marketing including;

- Observed product usage: observing regular product usage at home or work, to gain insights into how products are opened, prepared, consumed, stored, disposed etc. to gain insights into the usefulness of packaging, labelling and general usage
- Day-in-the-life studies: extended visits during product usage situations to gain insights into norms and consumer expectations
- Accompanied purchase or shop-alongs: researcher accompanies a shopper on a purchase expedition to gain insights into consumer responses to merchandising and other sales tactics
- Cultural studies: similar to traditional ethnography; extended stays with a group or tribe with a view to uncovering the fundamental rules and conventions that govern behaviour
- Guerilla ethnography: random observations in public settings to help establish research questions or to gain quick insights into specific behaviours
- Mystery shopping: observations in the retail context with a view to gaining insights into the customer's service experience
- Multiple methodologies: combining ethnographic research methods with conventional research techniques with a view to triangulating results

Trendspotters such as Faith Popcorn's BrainReserve make extensive use of ethnographic research to spot emergent trends.

Consumer neuroscience

Fig 2.32: Neuromarketing uses sophisticated biometric sensors such as EEG to study consumer responses to specific stimuli

Consumer neuroscience (also known as neuromarketing) refers to the commercial use of neuroscience when applied to the investigation of marketing problems and consumer research. Some researchers have argued that the term *consumer neuroscience* is preferred over neuromarketing or other alternatives.

Consumer neuroscience employs sophisticated bio-metric sensors, such as electroencephalography (EEG), functional magnetic resonance imaging (fMRI) and eye-tracking, to study the ways that consumers respond to specific stimuli such as product displays, brands, packaging information or other marketing signals. Such tests reveal stimuli that trigger the brain's pleasure centre.

Consumer neuroscience has become a mainstream component of consumer research methods. International market research company, Nielsen Research, has recently added neuromarketing to its services by acquiring Innerscope, a company specialising in neuromarketing research thus enabling Nielsen to add neuromarketing research to the suite of services available to clients.

Consumer neuroscience research has led to some surprising findings:

Framing price or value

For example, one study reported on a magazine subscription where potential subscribers were offered two options: an online subscription for $59, or a combined online and print for $129 a year. Most people chose the online only option. However, when a third option was introduced: print only for $129 (i.e. *the decoy*), the online and print option seemed like better value and a significant number of people switched to that option. In other words, the *decoy* price assists in framing value. Marketers use a variety of methods to *frame value*: e.g. quote monthly payment options rather than a single all-inclusive price.

Choice Fatigue

Research by Sheena Iyengar experimented with the number of gourmet jams on display. When consumers were faced with a large number of alternatives (24 jams), 60% of consumers stopped and looked but only a few (3%) actually made a purchase. However, when consumers faced with fewer brands (6 jams), were more likely to make a purchase with 30% going on to buy something. Similar results have been observed in other categories. The findings suggest that while consumers appreciate being given some choice, the process of making a selection is painful and can lead to choice fatigue. An issue for marketers and retailers is to determine the ‘sweet spot’ where consumers are given sufficient choice to satisfy their desire for variety, but not become overwhelmed by it.

Decision Paralysis

One study examined the wording used to solicit philanthropic donations. Consumers were exposed to variants in the advertising copy execution: "Would you be willing to help by giving a donation?" and "Would you be willing to help by giving a donation? Every penny will help." Those given the second option were almost twice as likely to donate. The researchers concluded that people are more likely to take action when given parameters. By clarifying that “even a penny” could make a difference, the second line provides guidance and makes the request more achievable. For marketers, the implication is that when asking consumers to take an action, specifying a small step helps to break through the action paralysis. This finding also suggests that even small differences in advertising copy can lead to improved outcomes.

2.07 MARKET SEGMENTATION

Market segmentation is the process of dividing a broad consumer or business market, normally consisting of existing and potential customers, into sub-groups of consumers (known as *segments*) based on some type of shared characteristics. In dividing or segmenting markets, researchers typically look for shared characteristics such as common needs, common interests, similar lifestyles or even similar demographic profiles. The overall aim of segmentation is to identify *high yield segments* – that is, those segments that are likely to be the most profitable or that have growth potential – so that these can be selected for special attention (i.e. become target markets).

Many different ways to segment a market have been identified. Business-to-business (B2B) sellers might segment the market into different types of businesses or countries. While business to consumer (B2C) sellers might segment the market into demographic segments, lifestyle segments, behavioral segments or any other meaningful segment.

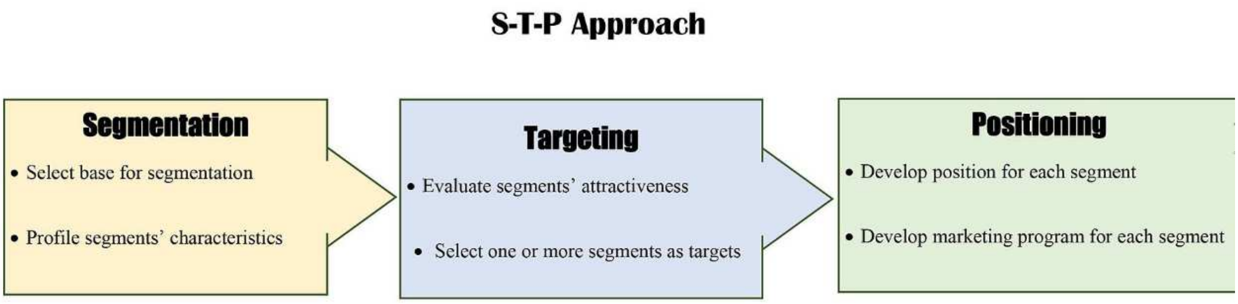


Fig 2.33: The STP approach highlights the three areas of decision-making

Market segmentation assumes that different market segments require different marketing programs – that is, different offers, prices, promotion, distribution or some combination of marketing variables. Market segmentation is not only designed to identify the most profitable segments, but also to develop profiles of key segments in order to better understand their needs and purchase motivations. Insights from segmentation analysis are subsequently used to support marketing strategy development and planning. Many marketers use the S-T-P approach; **S**egmentation→ **T**argeting → **P**ositioning to provide the framework for marketing planning objectives. That is, a market is segmented, one or more segments are selected for targeting, and products or services are positioned in a way that resonates with the selected target market or markets.

History

The business historian, Richard S. Tedlow, identifies four stages in the evolution of market segmentation:

Fragmentation (pre 1880s): The economy was characterised by small regional suppliers who sold goods on a local or regional basis

Unification or Mass Marketing (1880s–1920s): As transportation systems improved, the economy became unified. Standardised, branded goods were distributed at a national level. Manufacturers tended to insist on strict standardisation in order to achieve scale economies with a view to penetrating markets in the early stages of a product's life cycle. e.g. the Model T Ford

Segmentation (1920s–1980s): As market size increased, manufacturers were able to produce different models pitched at different quality points to meet the needs of various demographic and psychographic market segments. This is the era of market differentiation based on demographic, socio-economic and lifestyle factors.

Hyper-segmentation (1980s+): a shift towards the definition of ever more narrow market segments. Technological advancements, especially in the area of digital communications, allow marketers to communicate with individual consumers or very small groups. This is sometimes known as *one-to-one* marketing.

The practice of market segmentation emerged well before marketers thought about it at a theoretical level. Evidence suggests that the practice of market segmentation was developed incrementally from the 16th century onwards. Retailers, operating outside the major metropolitan cities, could not afford to serve one type of clientele exclusively, yet retailers needed to find ways to separate the wealthier clientele from the "riff raff." One simple technique was to have a window opening out onto the street from which customers could be served. This allowed the sale of goods to the common people, without encouraging them to come inside. Another solution, that came into vogue from the late sixteenth century was to invite favoured customers into a back-room of the store, where goods were permanently on display. Yet another technique that emerged around the same time was to hold a showcase of goods in the shopkeeper's private home for the benefit of wealthier clients. Samuel Pepys, for example, writing in 1660, describes being invited to the home of a retailer to view a wooden jack. The eighteenth century English entrepreneurs, Josiah Wedgewood and Matthew Boulton, both staged expansive showcases of their wares in their private residences or in rented halls to which only the upper classes were invited while Wedgewood used a team of itinerant salesmen to sell wares to the masses. Evidence of early marketing segmentation have also been noted in other parts of Europe. A study of the German book trade found examples of both product differentiation and market segmentation in the 1820s.

Wendell R. Smith is generally credited with being the first to introduce the concept of market segmentation into the marketing literature in 1956 with the publication of his article, "Product Differentiation and Market Segmentation as Alternative Marketing Strategies." Smith's article makes it clear that he had observed "many examples of segmentation" emerging and to a certain extent saw this as a natural force in the market that would "not be denied." As Schwarzkopf points out, Smith was codifying implicit knowledge that had been used in advertising and brand management since the 1920s.

Contemporary market segmentation emerged in the twentieth century as marketers responded to two pressing issues. Demographic and purchasing data were available for groups but rarely for individuals and secondly, advertising and distribution channels were available for groups, but rarely for single consumers. Between 1902 and 1910, George B Waldron, working at Mahin's Advertising Agency in the United States used tax registers, city directories and census data to show advertisers the proportion of educated vs illiterate consumers and the earning capacity of different occupations etc. in a very early example of simple market segmentation. In 1924 Paul Cherington developed the 'ABCD' household typology; the first socio-demographic segmentation tool. With access to group level data only, brand marketers approached the task from a tactical viewpoint. Thus, segmentation was essentially a brand-driven process.

Until relatively recently, most segmentation approaches have retained this tactical perspective in that they address immediate short-term decisions; such as describing the current “market served” and are concerned with informing marketing mix decisions. However, with the advent of digital communications and mass data storage, it has been possible for marketers to conceive of segmenting at the level of the individual consumer. Extensive data is now available to support segmentation at very narrow groups or even for the single customer, allowing marketers to devise a customised offer with an individual price which can be disseminated via real-time communications.

Criticisms of market segmentation

The limitations of conventional segmentation have been well documented in the literature. Perennial criticisms include:

that it is no better than mass marketing at building brands

that in competitive markets, segments rarely exhibit major differences in the way they use brands
that it fails to identify sufficiently narrow clusters
geographic/demographic segmentation is overly descriptive and lacks sufficient insights into the motivations necessary to drive communications strategy
difficulties with market dynamics, notably the instability of segments over time and structural change which leads to segment creep and membership migration as individuals move from one segment to another

Market segmentation has many critics. But in spite of its limitations, market segmentation remains one of the enduring concepts in marketing and continues to be widely used in practice. One American study, for example, suggested that almost 60 percent of senior executives had used market segmentation in the past two years.

Market segmentation strategy

A key consideration for marketers is whether to segment or not to segment. Depending on company philosophy, resources, product type or market characteristics, a businesses may develop an undifferentiated approach or *differentiated approach*. In an undifferentiated approach, the marketer ignores segmentation and develops a product that meets the needs of the largest number of buyers. In a differentiated approach the firm targets one or more market segments, and develops separate offers for each segment.

Fig 2.34: Even simple products like salt, which might be considered as commodities, are highly differentiated in practice.

In consumer marketing, it is difficult to find examples of undifferentiated approaches. Even goods such as salt and sugar, which were once treated as commodities, are now highly differentiated. Consumers can purchase a variety of salt products; cooking salt, table salt, sea-salt, rock salt, kosher salt, mineral salt, herbal or vegetable salts, iodized salt, salt substitutes and many more. Sugar also comes in many different types - cane sugar, beet sugar, raw sugar, white refined sugar, brown sugar, caster sugar, sugar lumps, icing sugar (also known as milled sugar), sugar syrup, invert sugar and a plethora of sugar substitutes including *smart sugar* which is essentially a blend of pure sugar and a sugar substitute. Each of these product types is designed to meet the needs of specific market segments. Invert sugar and sugar syrups, for example, are marketed to food manufacturers where they are used in the production of conserves, chocolate and baked goods. Sugars marketed to consumers appeal to different usage segments - refined sugar is primarily for use on the table, while caster sugar and icing sugar are primarily designed for use in home-baked goods.

Fig 2.35: Different types of sugar: clockwise from top-left: White refined, unrefined, brown, unprocessed cane

Main Strategic Approaches to Segmentation		
Number of segments	Segmentation strategy	Comments
Zero	Undifferentiated strategy	Mass marketing: no segmentation
One	Focus strategy	Niche marketing: focus efforts on a small, tightly defined target market
Two or more	Differentiated strategy	Multiple niches: focus efforts on 2 or more, tightly defined targets
Thousands	Hypersegmentation	One-to-one marketing: customise the offer for each individual customer

A number of factors are likely to affect a company's segmentation strategy:

- Company resources: When resources are restricted, a concentrated strategy may be more effective.
- Product variability: For highly uniform products (such as sugar or steel) an undifferentiated marketing may be more appropriate. For products that can be differentiated, (such as cars) then either a differentiated or concentrated approach is indicated.
- Product life cycle: For new products, one version may be used at the launch stage, but this may be expanded to a more segmented approach over time. As more competitors enter the market, it may be necessary to differentiate.
- Market characteristics: When all buyers have similar tastes, or are unwilling to pay a premium for different quality, then undifferentiated marketing is indicated.
- Competitive activity: When competitors apply differentiated or concentrated market segmentation, using undifferentiated marketing may prove to be fatal. A company should consider whether it can use a different market segmentation approach.

Segmentation, targeting, positioning

The process of segmenting the market is deceptively simple. Seven basic steps describe the entire process including segmentation, targeting and positioning. In practice, however, the task can be very laborious since it involves poring over loads of data, and requires a great deal of skill in analysis, interpretation and some judgement. Although a great deal of analysis needs to be undertaken, and many decisions need to be made, marketers tend to use the so-called S-T-P process, that is **S**egmentation→ **T**argeting → **P**ositioning, as a broad framework for simplifying the process. Segmentation comprises identifying the market to be segmented; identification, selection, and application of bases to be used in that segmentation; and development of profiles. Targeting comprises an evaluation of each segment's attractiveness and selection of the segments to be targeted. Positioning comprises identification of optimal position and development of the marketing program.

Identifying the market to be segmented

The market for a given product or service known as the *market potential* or the *total addressable market (TAM).* Given that this is the market to be segmented, the market analyst should begin by identifying the size of the potential market. For existing products and services, estimating the size and value of the market potential is relatively straight forward. However, estimating the market potential can be very challenging when a product or service is totally new to the market and no historical data on which to base forecasts exists.

A basic approach is to first assess the size of the broad population, then estimate the percentage likely to use the product or service and finally to estimate the revenue potential.

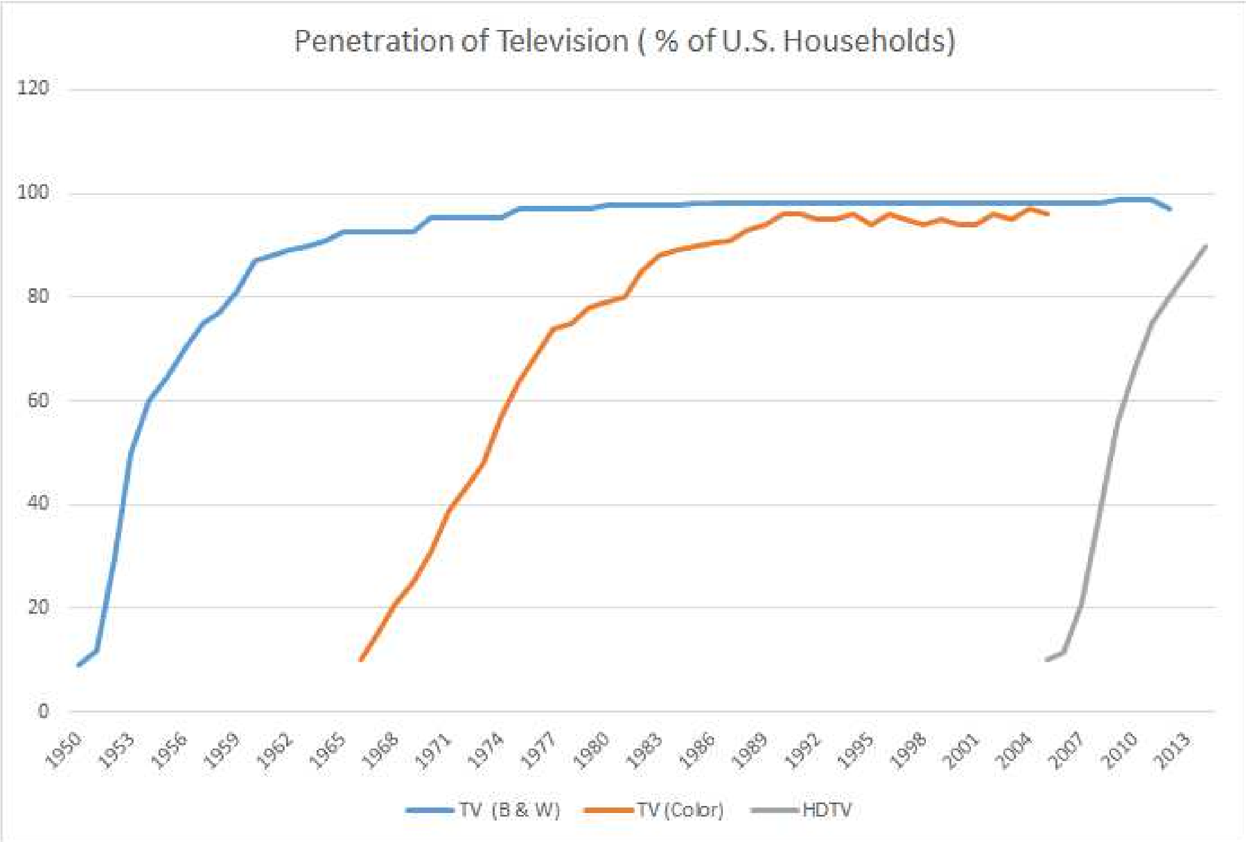


Fig 2.36: To estimate market size, a marketer might evaluate adoption and growth rates of comparable technologies.

Another approach is to use historical analogy. For example, the manufacturer of HDTV might assume that the number of consumers willing to adopt high definition TV will be similar to the adoption rate for Color TV. To support this type of analysis, data for household penetration of TV, Radio, PCs and other communications technologies is readily available from government statistics departments. Finding useful analogies can be challenging because every market is unique. However, analogous product adoption and growth rates can provide the analyst with benchmark estimates, and can be used to cross validate other methods that might be used to forecast sales or market size.

A more robust technique for estimating the market potential is known as the Bass diffusion model, the equation for which follows:

$N(t) – N(t−1) = [p + qN(t−1)/m] \times [m – N(t−1)]$

Where:

- $N(t)$= the number of adopters in the current time period, (*t*)
- $N(t−1)$= the number of adopters in the previous time period, (*t-1*)
- p = the coefficient of innovation
- q = the coefficient of imitation (the social contagion influence)

m = an estimate of the number of eventual adopters
The major challenge with the Bass model is estimating the parameters for *p* and *q*. However, the Bass model has been so widely used in empirical studies that the values of *p* and *q* for more than 50 consumer and industrial categories have been determined and are widely published in tables. The average value for p is 0.037 and for q is 0.327.

Bases for segmenting consumer markets

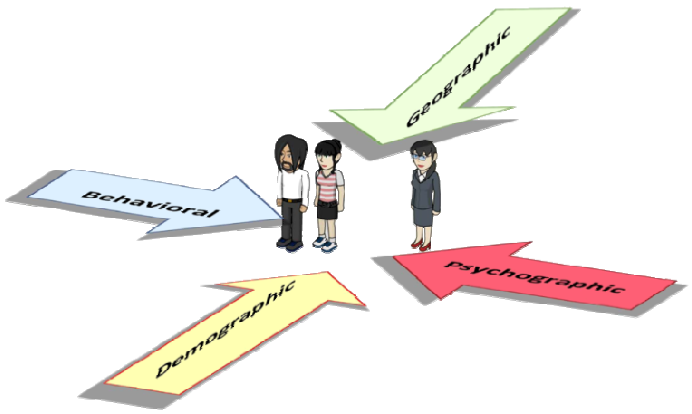


Fig 2.37: Major bases used for segmenting a market

A major step in the segmentation process is the selection of a suitable base. In this step, marketers are looking for a means of achieving internal homogeneity (similarity within the segments), and external heterogeneity (differences between segments). In other words, they are searching for a process that minimises differences between members of a segment and maximises differences between each segment. In addition, the segmentation approach must yield segments that are meaningful for the specific marketing problem or situation. For example, a person's hair colour may be a relevant base for a shampoo manufacturer, but it would not be relevant for a seller of financial services. Selecting the right base requires a good deal of thought and a basic understanding of the market to be segmented.

In reality, marketers can segment the market using any base or variable provided that it is identifiable, measurable, actionable and stable. For example, some fashion houses have segmented the market using women's dress size as a variable. However, the most common bases for segmenting consumer markets include: geographics, demographics, psychographics and behavior. Marketers normally select a single base for the segmentation analysis, although, some bases can be combined into a single segmentation with care. For example, geographics and demographics are often combined, but other bases are rarely combined. Given that psychographics includes demographic variables such as age, gender and income as well as attitudinal and behavioral variables, it makes little logical sense to combine psychographics with demographics or other bases. Any attempt to use combined bases needs careful consideration and a logical foundation.

Segmentation base	Brief explanation of base (and example)	Typical segments

Demographic	Quantifiable population characteristics. (e.g. age, gender, income, education, socio-economic status, family size or situation).	e.g. Young, Upwardly-mobile, Prosperous, Professionals (YUPPY); Double Income No Kids (DINKS); Greying, Leisured And Moneyed (GLAMS); Empty- nester, Full-nester
Geographic	Physical location or region (e.g. country, state, region, city, suburb, postcode).	e.g. New Yorkers; Remote, outback Australians; Urbanites, Inner-city dwellers
Geo-demographic or geoclusters	Combination of geographic & demographic variables.	e.g. Rural farmers, Urban professionals, 'sea-changers', 'tree-changers'
Psychographics	Lifestyle, social or personality characteristics. (typically includes basic demographic descriptors)	e.g. Socially Aware; Traditionalists, Conservatives, Active 'club-going' young professionals
Behavioural	Purchasing, consumption or usage behaviour. (e.g. Needs-based, benefit-sought, usage occasion, purchase frequency, customer loyalty, buyer readiness).	e.g. Tech-savvy (aka tech-heads); Heavy users, Enthusiasts; Early adopters, Opinion Leaders, Luxury-seekers, Price-conscious, Quality-conscious, Time-poor

Source: Based on Wikiversity, Marketing [E-Book], c. 2015

The following sections provide a detailed description of the most common forms of consumer market segmentation.

Geographic segmentation

Geographic segmentation divides markets according to geographic criteria. In practice, markets can be segmented as broadly as continents and as narrowly as neighborhoods or postal codes. Typical geographic variables include:

- **Country** e.g. USA, UK, China, Japan, South Korea, Malaysia, Singapore, Australia, New Zealand
- **Region** e.g. North, North-west, Mid-west, South, Central
- **Population density**: e.g. central business district (CBD), urban, suburban, rural, regional
- **City or town size**: e.g. under 1,000; 1,000–5,000; 5,000–10,000 ... 1,000,000–3,000,000 and over 3,000,000
- **Climatic zone**: e.g. Mediterranean, Temperate, Sub-Tropical, Tropical, Polar,

The geo-cluster approach (also called *geodemographic segmentation*) combines demographic data with geographic data to create richer, more detailed profiles. Geo-cluster approaches are a consumer classification system designed market segmentation and consumer profiling purposes. They classify residential regions or postcodes on the basis of census and lifestyle characteristics obtained from a wide range of sources. This allows the segmentation of a population into smaller groups defined by individual characteristics such as demographic, socio-economic or other shared socio-demographic characteristics.

Geographic segmentation may be considered the first step in international marketing, where marketers must decide whether to adapt their existing products and marketing programs for the unique needs of distinct geographic markets. Tourism Marketing Boards often segment international visitors based on their country of origin.

A number of proprietary geo-demographic packages are available for commercial use. Geographic segmentation is widely used in direct marketing campaigns to identify areas which are potential candidates for personal selling, letter-box distribution or direct mail. Geo-cluster segmentation is widely used by Governments and public sector departments such as urban planning, health authorities, police, criminal justice departments, telecommunications and public utility organisations such as water boards.

Demographic segmentation

Segmentation according to demography is based on consumer- demographic variables such as age, income, family size, socio-economic status, etc. Demographic segmentation assumes that consumers with similar demographic profiles will exhibit similar purchasing patterns, motivations, interests and lifestyles and that these characteristics will translate into similar product/brand preferences. In practice, demographic segmentation can potentially employ any variable that is used by the nation's census collectors. Typical demographic variables and their descriptors are as follows:

- **Age**: e.g. Under 5, 5–8 years, 9–12 years, 13–17 years, 18–24, 25–29, 30–39, 40–49, 50–59, 60+
- **Gender**: Male, Female
- **Occupation**: Professional, self-employed, semi-professional, clerical/ admin, sales, trades, mining, primary producer, student, home duties, unemployed, retired
- **Social class** (or socio-economic status): A, B, C, D, E, or I, II, III, IV or V (normally divided into quintiles)
- **Marital Status**: Single, married, divorced, widowed
- **Family Life-stage**: Young single; Young married with no children; Young family with children under 5 years; Older married with children; Older married with no children living at home, Older living alone
- Family size/ number of dependants: 0, 1–2, 3–4, 5+
- **Income**: Under $10,000; 10,000–20,000; 20,001–30,000; 30,001–40,000, 40,001–50,000 etc.
- **Educational attainment**: Primary school; Some secondary, Completed secondary, Some university, Degree; Post graduate or higher degree
- **Home ownership**: Renting, Own home with mortgage, Home owned outright
- **Ethnicity**: Asian, African, Aboriginal, Polynesian, Melanesian, Latin-American, African-American, American Indian etc.
- **Religion**: Catholic, Protestant, Muslim, Jewish, Buddhist, Hindu, Other

In practice, most demographic segmentation utilises a combination of demographic variables.

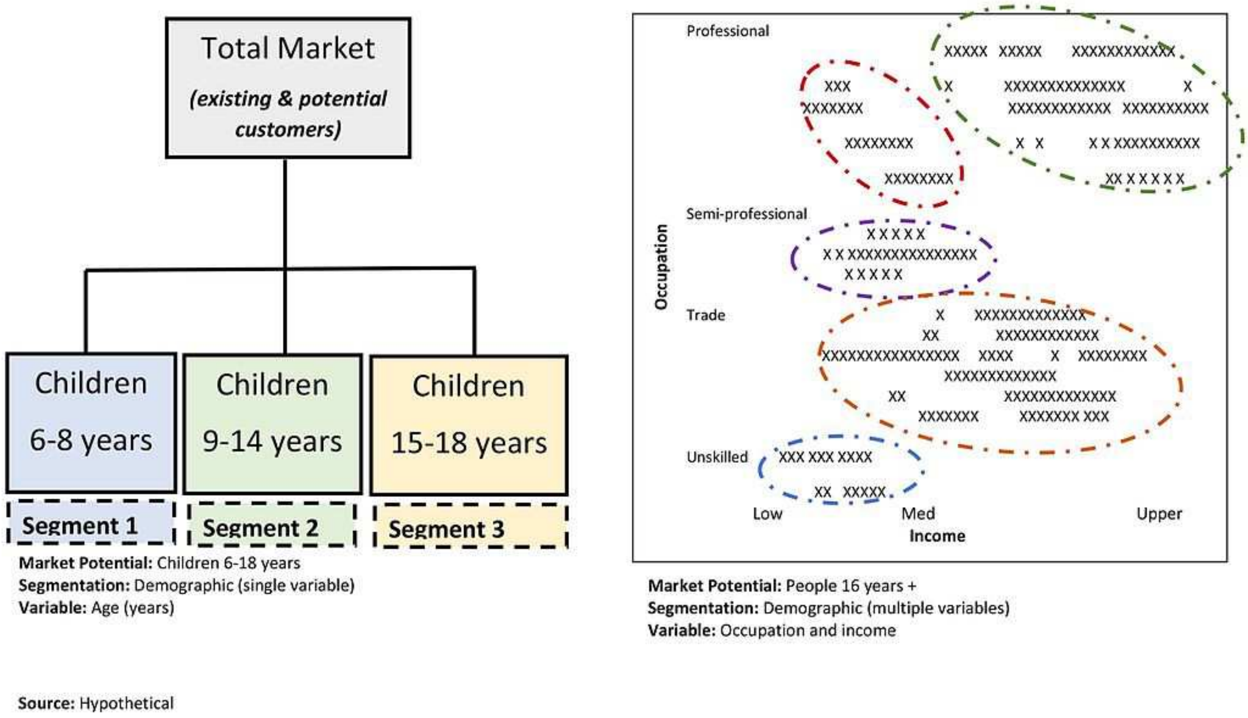


Fig 2.38: Visualisation of two approaches to demographic segmentation using one and two variables

The use of multiple segmentation variables normally requires analysis of databases using sophisticated statistical techniques such as cluster analysis or principal components analysis. It should be noted that these types of analysis require very large sample sizes. However, data-collection is expensive for individual firms. For this reason, many companies purchase data from commercial market research firms, many of whom develop proprietary software to interrogate the data.

The labels applied to some of the more popular demographic segments began to enter the popular lexicon in the 1980s. These include the following:

DINK: Double (or dual) Income, No Kids, describes one member of a couple with above average household income and no dependent children, tend to exhibit discretionary expenditure on luxury goods and entertainment and dining out

GLAM: Greying, Leisured and Moneyed. Retired older persons, asset rich and high income. Tend to exhibit higher spending on recreation, travel and entertainment

GUPPY: (aka GUPPIE) Gay, Upwardly Mobile, Prosperous, Professional; blend of gay and YUPPY (can also refer to the London-based equivalent of YUPPY)

MUPPY: (aka MUPPIE) Mid-aged, Upwardly Mobile, Prosperous, Professional

Preppy: (American) Well educated, well-off, upper class young persons; a graduate of an expensive school. Often distinguished by a style of dress.

SITKOM: Single Income, Two Kids, Oppressive Mortgage. Tend to have very little discretionary income, struggle to make ends meet

Tween: Young person who is approaching puberty, aged approximately 9–12 years; too old to be considered a child, but too young to be a teenager.

WASP: (American) White, Anglo-Saxon Protestant. Tend to be high-status and influential white Americans of English Protestant ancestry.

YUPPY: (aka yuppie) Young, Urban/ Upwardly-mobile, Prosperous, Professional. Tend to be well-educated, career-minded, ambitious, affluent and free spenders.

Psychographic segmentation

Psychographic segmentation, which is sometimes called lifestyle segmentation, is measured by studying the activities, interests, and opinions (AIOs) of customers. It considers how people spend their leisure, and which external influences they are most responsive to and influenced by. Psychographics is a very widely used basis for segmentation, because it enables marketers to identify tightly defined market segments and better understand consumer motivations for product or brand choice.

While many of these proprietary psychographic segmentation analyses are well-known, the majority of studies based on psychographics are custom designed. That is, the segments are developed for individual products at a specific time. One common thread among psychographic segmentation studies is that they use quirky names to describe the segments.

Behavioral segmentation

Behavioral segmentation divides consumers into groups according to their observed behaviors. Many marketers believe that behavioral variables are superior to demographics and geographics for building market segments. Typical behavioral variables and their descriptors include:

Purchase/Usage Occasion: e.g. regular occasion, special occasion, festive occasion, gift-giving
Benefit-Sought: e.g. economy, quality, service level, convenience, access
User Status: e.g. First-time user, Regular user, Non-user
Usage Rate/ Purchase Frequency: e.g. Light user, heavy user, moderate user
Loyalty Status: e.g. Loyal, switcher, non-loyal, lapsed
Buyer Readiness: e.g. Unaware, aware, intention to buy
Attitude to Product or Service: e.g. Enthusiast, Indifferent, Hostile; Price Conscious, Quality Conscious
Adopter Status: e.g. Early adopter, late adopter, laggard

Note that these descriptors are merely commonly used examples. Marketers customize the variable and descriptors for both local conditions and for specific applications. For example, in the health industry, planners often segment broad markets according to 'health consciousness' and identify low, moderate and highly health conscious segments. This is an applied example of behavioral segmentation, using attitude to product or service as a key descriptor or variable which has been customised for the specific application.

Purchase/ usage occasion

Purchase or usage occasion segmentation focuses on analyzing occasions when consumers might purchase or consume a product. This approach customer-level and occasion-level segmentation models and provides an understanding of the individual customers' needs, behavior and value under different occasions of usage and time. Unlike traditional segmentation models, this approach assigns more than one segment to each unique customer, depending on the current circumstances they are under.

Benefit-Sought

Benefit sought (sometimes called *needs-based segmentation*) divides markets into distinct needs, perceived value, benefits sought or advantage that accrues from the purchase of a product or service. Marketers using benefit-sought segmentation might develop products with different quality levels, performance, customer service, special features or any other meaningful benefit and pitch different products at each of the segments identified. Benefit segmentation is one of the more commonly used approaches to segmentation and is widely used in many consumer markets including motor vehicles, fashion and clothing, furniture, consumer electronics and holiday-makers.

Loker and Purdue, for example, used benefit segmentation to segment the pleasure holiday travel market. The segments identified in this study were the naturalists, pure excitement seekers, escapists,

Attitudinal segments

Attitudinal segmentation provides insight into the mindset of customers, especially the attitudes and beliefs that drive consumer decision-making and behavior. An example of attitudinal segmentation comes from the UK's Department of Environment which segmented the British population into six segments, based on attitudes that drive behavior relating to environmental protection:

Greens: Driven by the belief that protecting environment is critical; try to conserve whenever they can
Conscious with a conscience: Aspire to be *green*; primarily concerned with wastage; lack awareness of other behaviors associated with broader environmental issues such as climate change
Currently constrained: Aspire to be *green* but feel they cannot afford to purchase organic products; pragmatic realists
Basic contributors: Sceptical about the need for behavior change; aspire to conform to social norms; lack awareness of social and environmental issues
Long-term resistance: Have serious life priorities that take precedence before behavioral change is a consideration; their every day behaviors often have low impact on the environment but for other reasons than conservation
Disinterested: View *greenies* as an eccentric minority; exhibit no interest in changing their behavior; may be aware of climate change but have not internalised it to the extent that it enters their decision-making process.

Other types of consumer segmentation

In addition to geographics, demographics, pyschographics and behavioral bases, marketers occasionally turn to other means of segmenting the market, or to develop segment profiles.

Generational segments

A generation is defined as "a cohort of people born within a similar span of time (15 years at the upper end) who share a comparable age and life stage and who were shaped by a particular span of time (events, trends and developments)." Generational segmentation refers to the process of dividing and analysing a population into cohorts based on their birth date. Generational segmentation assumes that people's values and attitudes are shaped by the key events that occurred during their lives and that these attitudes translate into product and brand preferences.

Demographers, studying population change, disagree about precise dates for each generation. Dating is normally achieved by identifying population peaks or troughs, which can occur at different times in each country. For example, in Australia the post-war population boom peaked in 1960, while the peak occurred somewhat later in the USA and Europe, with most estimates converging on 1964. Accordingly, Australian Boomers are normally defined as those born between 1945–1960; while American and European Boomers are normally defined as those born between 1945–64. Thus, the generational segments and their dates discussed here must be taken as approximations only.

The primary generational segments identified by marketers are:

Builders: born 1920 to 1945
Baby boomers: born about 1945–1965
Generation X: born about 1966–1976
Generation Y: also known as Millennials; born about 1977–1994
Generation Z: also known as Centennials; born 1995–2015

Unique characteristics of selected generations		
Millennials	Generation X	Baby Boomers
Technology use (24%)	Technology use (12%)	Work ethic (17%)
Music/ popular culture (11%)	Work ethic (11%)	Respectful (14%)
Liberal/ tolerant (7%)	Conservative/ traditional (7%)	Values/ morals (8%)
Smarter (6%)	Smarter (6%)	Smarter (5%)
Clothes (5%)	Respectful (5%)	n.a.

Cultural segmentation

Cultural segmentation is used to classify markets according to cultural origin. Culture is a major dimension of consumer behavior and can be used to enhance customer insight and as a component of predictive models. Cultural segmentation enables appropriate communications to be crafted to particular cultural communities. Cultural segmentation can be applied to existing customer data to measure market penetration in key cultural segments by product, brand, channel as well as traditional measures of recency, frequency and monetary value. These benchmarks form an important evidence-base to guide strategic direction and tactical campaign activity, allowing engagement trends to be monitored over time.

Cultural segmentation can also be mapped according to state, region, suburb and neighborhood. This provides a geographical market view of population proportions and may be of benefit in selecting appropriately located premises, determining territory boundaries and local marketing activities.

Census data is a valuable source of cultural data but cannot meaningfully be applied to individuals. Name analysis (onomastics) is the most reliable and efficient means of describing the cultural origin of individuals. The accuracy of using name analysis as a surrogate for cultural background in

Australia is 80–85%, after allowing for female name changes due to marriage, social or political reasons or colonial influence. The extent of name data coverage means a user will code a minimum of 99 percent of individuals with their most likely ancestral origin.

On-line customers' segmentation

On-line market segmentation is similar to the traditional approaches in that the segments should be identifiable, substantial, accessible, stable, differentiable and actionable. However, on-line segmentation is used with eCRM and addresses on-line consumer behaviours. Forsyth et al, in an article ‘Internet research’ grouped current active on-line consumers into six groups: Simplifiers, Surfers, Bargainers, Connectors, Routiners, and Sportsters. The segments differs regarding four customers’ behaviours, namely:

the amount of time they actively spend on-line,
the number of pages and sites they access,
the time they spend actively viewing each page,
and the kinds of sites they visit.

For example, *Simplifiers* make over 50 percent of all on-line transactions. Their main characteristic is that they need easy (one-click) access to information and products as well as easy and quickly available service regarding products. Amazon.com is a good example of a company who created great on-line environment for Simplifiers. They also ‘dislike unsolicited e-mail, uninviting chat rooms, pop-up windows intended to encourage impulse buys, and other features that complicate their on- and off-line experience’. Surfers like to spend lot of time online, thus companies must have a variety of products to offer and constant update, *Bargainers* are looking for the best price, Connectors like to relate to others, *Routiners* want content and *Sportsters* like sport and entertainment sites.

Selecting target markets

Fig 2.39: In targeting, a group of consumers is selected to become the focus of the marketing program

Another major decision in developing the segmentation strategy is the selection of market segments that will become the focus of special attention (known as *target markets*). The marketer faces a number of important decisions:

What criteria should be used to evaluate markets?
How many markets to enter (one, two or more)?

- Which market segments are the most valuable?

When a marketer enters more than one market, the segments are often labelled the *primary target market*, *secondary target market.* The primary market is the target market selected as the main focus of marketing activities. The secondary target market is likely to be a segment that is not as large as the primary market, but has growth potential. Alternatively, the secondary target group might consist of a small number of purchasers that account for a relatively high proportion of sales volume perhaps due to purchase value or purchase frequency.

In terms of evaluating markets, three core considerations are essential:

- Segment size and growth
- Segment structural attractiveness
- Company objectives and resources.

Criteria for evaluating segment attractiveness

There are no formulas for evaluating the attractiveness of market segments and a good deal of judgement must be exercised. Nevertheless, a number of considerations can be used to assist in evaluating market segments for overall attractiveness. The following lists a series of questions that can be asked.

Segment size and growth

- How large is the market?
- Is the market segment substantial enough to be profitable? (Segment size can be measured in number of customers, but superior measures are likely to include sales value or volume)
- Is the market segment growing or contracting?
- What are the indications that growth will be sustained in the long term? Is any observed growth sustainable?
- Is the segment stable over time? (Segment must have sufficient time to reach desired performance level)

Segment structural attractiveness

- To what extent are competitors targeting this market segment?
- Do buyers have bargaining power in the market?
- Are substitute products available?
- Can we carve out a viable position to differentiate from any competitors?
- How responsive are members of the market segment to the marketing program?
- Is this market segment reachable and accessible? (i.e., with respect to distribution and promotion)

Company objectives and resources

- Is this market segment aligned with our company's operating philosophy?
- Do we have the resources necessary to enter this market segment?
- Do we have prior experience with this market segment or similar market segments?
- Do we have the skills and/or know-how to enter this market segment successfully?
- Developing the marketing program and positioning strategy

Developing the marketing program and positioning strategy

Fig 2.40: The marketing program is designed with the needs of the target market in mind

When the segments have been determined and separate offers developed for each of the core segments, the marketer's next task is to design a marketing program (also known as the marketing mix) that will resonate with the target market or markets. Developing the marketing program requires a deep knowledge of key market segment's purchasing habits, their preferred retail outlet, their media habits and their price sensitivity. The marketing program for each brand or product should be based on the understanding of the target market (or target markets) revealed in the market profile.

Positioning is the final step in the S-T-P planning approach; Segmentation→ Targeting → Positioning; a core framework for developing marketing plans and setting objectives. Positioning refers to decisions about how to present the offer in a way that resonates with the target market. During the research and analysis that forms the central part of segmentation and targeting, the marketer will have gained insights into what motivates consumers to purchase a product or brand. These insights will form part of the positioning strategy.

According to advertising guru, David Ogilvy, "Positioning is the act of designing the company's offering and image to occupy a distinctive place in the minds of the target market. The goal is to locate the brand in the minds of consumers to maximize the potential benefit to the firm. A good brand positioning helps guide marketing strategy by clarifying the brand's essence, what goals it helps the consumer achieve, and how it does so in a unique way."

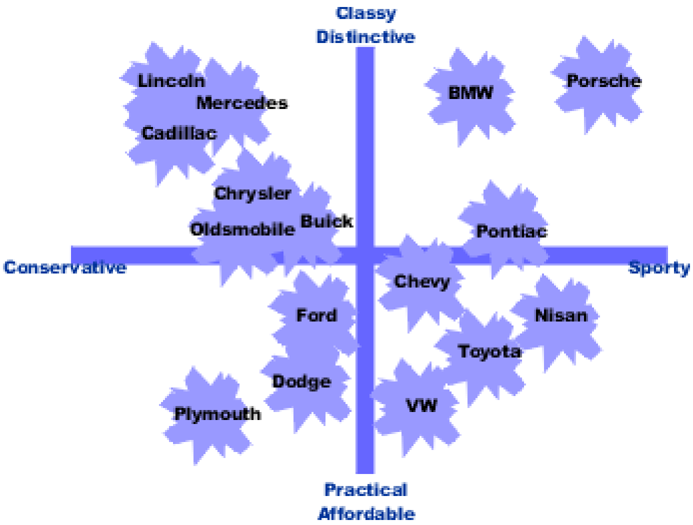


Fig 2.41: Perceptual map of the U.S. motor vehicle category

The technique known as perceptual mapping is often used to understand consumers' mental representations of brands within a given category. Traditionally two variables (often, but not necessarily, price and quality) are used to construct the map. A sample of people in the target market are asked to explain where they would place various brands in terms of the selected variables. Results are averaged across all respondents, and results are plotted on a graph, as illustrated in the figure. The final map indicates how the *average* member of the population views the brand that make up a category and how each of the brands relates to other brands within the same category. While perceptual maps with two dimensions are common, multi-dimensional maps are also used.

There are a number of different approaches to positioning:

- Against a competitor
- Within a category
- According to product benefit
- According to product attribute
- For usage occasion
- Along price lines e.g. a luxury brand or premium brand
- For a user
- Cultural symbols e.g. Australia's Easter Bilby (as a culturally appropriate alternative to the Easter Bunny).

Bases for segmenting business markets

Segmenting business markets is more straightforward than segmenting consumer markets. Businesses may be segmented according to industry, business size, business location, turnover, number of employees, company technology, purchasing approach or any other relevant variables.

Firmographics (also known as *emporographics* or *feature based segmentation*) is the business community's answer to demographic segmentation. It is commonly used in business-to-business markets (it's estimated that 81% of B2B marketers use this technique). Under this approach the target market is segmented based on features such as company size (either in terms of revenue or number of employees), industry sector or location (country and/or region).

In sales territory management, using more than one criterion to characterize the organization's accounts,such as segmenting sales accounts by government, business, customer, etc. and account size or duration, in effort to increase time efficiency and sales volume.

Use in customer retention

The basic approach to retention-based segmentation is that a company tags each of its active customers on four axes:

Risk of customer cancellation of company service

One of the most common indicators of high-risk customers is a drop off in usage of the company's service. For example, in the credit card industry this could be signaled through a customer's decline in spending on his or her card.

Risk of customer switching to a competitor

Many times customers move purchase preferences to a competitor brand. This may happen for many reasons those of which can be more difficult to measure. It is many times beneficial for the former company to gain meaningful insights, through data analysis, as to why this change of preference has occurred. Such insights can lead to effective strategies for winning back the customer or on how not to lose the target customer in the first place.

Customer retention worthiness

This determination boils down to whether the post-retention profit generated from the customer is predicted to be greater than the cost incurred to retain the customer, and includes evaluation of customer lifecycles.

Tactics to use for retention of customer

This analysis of customer lifecycles is usually included in the growth plan of a business to determine which tactics to implement to retain or let go of customers. Tactics commonly used range from providing special customer discounts to sending customers communications that reinforce the value proposition of the given service.

Segmentation: algorithms and approaches

The choice of an appropriate statistical method for the segmentation, depends on a number of factors including, the broad approach (a-priori or post-hoc), the availability of data, time constraints, the marketer's skill level and resources.

A-priori segmentation

A priori research occurs when "a theoretical framework is developed before the research is conducted". In other words, the marketer has an idea about whether to segment the market geographically, demographically, psychographically or behaviorally before undertaking any research. For example, a marketer might want to learn more about the motivations and demographics of light and moderate users in an effort to understand what tactics could be used to increase usage rates. In this case, the target variable is known – the marketer has already segmented using a behavioral variable – **user status**. The next step would be to collect and analyse attitudinal data for light and moderate users. Typical analysis includes simple cross-tabulations, frequency distributions and occasionally logistic regression or one of a number of proprietary methods.

The main disadvantage of a-priori segmentation is that it does not explore other opportunities to identify market segments that could be more meaningful.

Post-hoc segmentation

In contrast, post-hoc segmentation makes no assumptions about the optimal theoretical framework. Instead, the analyst's role is to determine the segments that are the most meaningful for a given marketing problem or situation. In this approach, the empirical data drives the segmentation selection. Analysts typically employ some type of clustering analysis or structural equation modeling to identify segments within the data. The figure alongside illustrates how segments might be formed using clustering, however note that this diagram only uses two variables, while in practice clustering employs a large number of variables. Post-hoc segmentation relies on access to rich data sets, usually with a very large number of cases.

Statistical techniques used in segmentation

Marketers often engage commercial research firms or consultancies to carry out segmentation analysis, especially if they lack the statistical skills to undertake the analysis. Some segmentation, especially post-hoc analysis, relies on sophisticated statistical analysis.

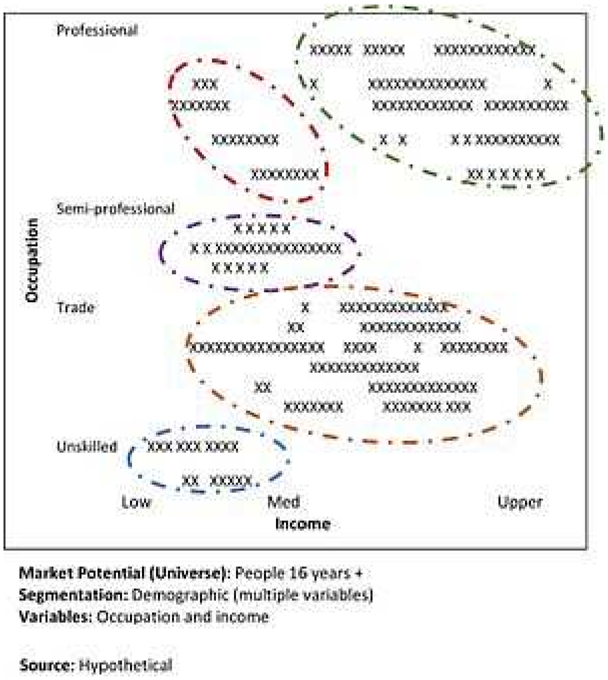


Fig 2.42: Visualisation of market segments formed using clustering methods

Common statistical approaches and techniques used in segmentation analysis include:

- Clustering algorithms – overlapping, non-overlapping and fuzzy methods; e.g. K-means or other Cluster analysis
- Conjoint analysis
- Ensemble approaches – such as random forests
- Chi-square automatic interaction detection – a type of decision-tree
- Factor analysis or principal components analysis
- Logistic regression
- Multidimensional scaling and canonical analysis
- Mixture models – e.g., EM estimation algorithm, finite-mixture models for simple Latent Class Analysis
- Model based segmentation using simultaneous and structural equation modeling e.g. LISREL
- Other algorithms such as artificial neural networks.

Data sources used for segmentation

Marketers use a variety of data sources for segmentation studies and market profiling. Typical sources of information include:

Internal sources

- Customer transaction records e.g. sale value per transaction, purchase frequency
- Patron membership records e.g. active members, lapsed members, length of membership
- Customer relationship management (CRM) databases
- In-house surveys

Customer self-completed questionnaires or feedback forms

External sources

Proprietary surveys or tracking studies
Proprietary databases/ software
Omnibus surveys
Government agencies and departments
Government statistics
Professional/ Industry associations/ Employer associations
Census data
Observed purchase behaviors
Data-mining techniques
Commissioned research

2.08 WHAT IS SERVICE IN HOSPITALITY INDUSTRY?

Let us now discuss what is service in the hospitality industry? So, let's begin with a quick question.

What is the most important thing in the hospitality industry? Is it infrastructure, sales and marketing, technology, automation or strategy? Is there anything more important that these in the hospitality industry?

Yes, you got that right. It's the customer service which acts as the soul of hospitality. There is no doubt that customer service is the name of the game in the hospitality industry. And for good reasons.

"It's customer service that makes top-notch hotels stand out from fly-by-nights."

If we look at the historical background of the hospitality industry, service has always been an integral part of the hospitality ecosystem. In essence, providing world-class customer service strengthens customer relationships which are an invaluable asset to a hotel or any hospitality venture.

Nowadays, service in the hospitality industry goes beyond a smile or a simple "thank you"; you need to create a dynamic, ambient and unforgettable experience for your customers to stay ahead on competition in the hotel sector. Also, Service in hospitality industry might mean more than customer service. Services also include back of the house and non-customer facing activities but they all contribute to the overall experience of customers.

Customers again are both external and internal with external customers as guests and internal as staff and stakeholders.

Defining Service in the Hotel Industry

It's undeniable that competition in the hospitality industry is as cut-throat as ever, making high-quality customer service indispensable. Here's the thing: most people don't get what service is all about. Which begs the big question: what is service in the hospitality industry?

Largest Hotel Chains across the globe would agree that it is the customer service that has helped them gain the competitive advantages they hold. Service in the hotel industry is even more important and in this post, we dare to use hotel industry as a service prototype of the hospitality industry. This is due to the facts that service in the hotel industry is the most visible one for evaluation.

Simply put, service in the hospitality industry is the level of assistance provided by a hotel staff to facilitate the purchase by the client. It also encompasses a raft of efforts hotels makes to achieve pleasant customer experience for guests. Of more importance, however, is the fact that customer experience goes hand in hand with customer service. In principle, customer experience can be negative, indifferent or positive. Needless to say, everyone in the hospitality industry is gunning for a positive one.

In the section below, we have tried to define the purpose of service in hotel industry together with providing tips to ensure the purpose is met.

The Role of Service in the Hospitality Industry and the purpose

1. Measure Customer Mood

A recent study by industry's bigwigs shows that the clients aren't impressed by what you can offer or even what you know until they see that you actually care. So, personable service is a sure way to improve your client's mood.

2. Judging the Customer's Needs

This is similar to point one or a subset of point one but deserves a special mention. It is very important to judge the needs of your customers without their asking. For instance, if a family staying at your hotel has children then you should provide them children supplies without a need of them chasing you for everything. It is important to ask yourself the question as well. What is service in the hospitality industry? Service is an act of respect, kindness and love. Service is the heart of hospitality industry. This will help them get comfortable as they will feel more respected.

3. Improve Customer Loyalty

An excellent customer service goes the extra mile to ensure that customers are happy and well taken care of. Remember that a satisfied customer is a loyal customer. And, customers are a vital part of the business in the hospitality industry. So, make them your centre of attention – at all times – and they will certainly be happy.

4. Feedback as a Crucial part of customer service in the hospitality industry

Sure you business model is water-tight. Sure your staff is top-notch. But, without general feedback from the customers, you wouldn't know if your business approach is actually working. A famous Quote of Bill Gates would set things up here. "Your Most unhappy customers are your greatest source of learning".

Customer Service, however, offers you an opportunity to measure how you are performing. It allows customers to communicate their experience – both bad and good. With this feedback, you will know what to fix. Maintaining an updated information book helps you improve the quality of customer service in the hospitality industry. You should know about the time of their stay, so you could help them plan their stay in a better way. You should recommend them good restaurants and guide them about other entertainment options.

5. On Time Services are crucial in hotels and in overall hospitality industry

Time is the key to success when you're running a hospitality business. If you aren't able to provide on-time services to your valued customers then this will hurt your business. Give individual priority to each customer. If you set customer satisfaction as your basic priority then you will be able to develop a loyal customer base. Resultantly, your customers will not only come back again but will suggest your services to their friends and family members as well.

6. Following the Etiquette of Service in the Hospitality industry

Apart from ensuring that every service is being supplied on time, it is important to make sure that etiquettes of the service sector are also met. This includes both on-call and in-person services. While conversing with customers it is important to maintain a level of respect. Moreover, provide proper follow-up to make sure they are enjoying their stay at the hotel. If they have any complaints, get them sorted out at the earliest.

7. Meeting Customer Expectations

Hotel customers are always seeking an energetic service and memorable experience. And, excellent service will enable you to do exactly that. On the whole, service in the hospitality industry allows hoteliers to meet – and possibly surpass – customer expectations. Positive endings are extremely important in the hospitality industry as they are like fresh beginning that ensures patronage of a lifetime.

Always end things on a positive note. Always smile and greet when you see them. Call them by their name and maintain a good sense of humour when talking to them. These are some of the things which must be ensured to understand and improve customer service in your hospitality business. If you don't pay much-needed heed to the improvement of customer service then levels of customer satisfaction will fall as well.

In contemporary times, the hospitality industry has emerged as one of the largest business domains in the world. With more people travelling around the globe, this industry is expected to grow in future as well. To succeed in hospitality industry customer service is the key and thus focus should be on the customers. The Hospitality industry in future would be more inclined towards technology but service would still hold the key to success within the hospitality industry. While all customers are not the same it is one thing that makes them all happy, superior service. So if they get something without asking, it makes them feel special.

When properly ensured, these services help businesses maintain a good environment. As a result, they are able to develop a loyal customer base which is essential for the growth and expansion of the business.

2.09 END QUESTIONS

1. What is meant by “services” in economics?
2. What are the five I’s which distinguishes service?
3. Elaborate what is meant by Intangibility characteristics of Services.
4. Elaborate what is meant by Inventory (perishables) characteristics of Services.
5. Elaborate what is meant by inseparability characteristics of Services.
6. Elaborate what is meant by inconsistency (variability) characteristics of Services.
7. Elaborate what is meant by involvement characteristics of Services.
8. Explain the concept of service quality and the various issues involved in it.
9. Explain how a service can be specified by means of MECE (Mutually Exclusive Collectively Exclusive) principle.
10. Explain the six factors involved in the delivery of a service.
11. Elaborate how service provision may be visualized as a performance like that of a drama.
12. Explain why it may be difficult to classify a commodity as a Service or Goods.
13. What is the implication of the fact that most commodities have elements of ‘service’ and ‘goods’ in them?
14. How can you say that electrician provides a service to the customer?
15. What is the tertiary sector of economics? Which are the other sectors?
16. Explain why tertiary sector is playing a dominant role in economics?
17. Draw a schematic diagram showing growth of the service sector over the period of time.
18. Which are the various standards which are used to classify a company as service sector organization?
19. Briefly describe the micro-, meso- and macro- levels of business environments, clearly distinguing the difference among them.
20. Apply the concept of micro-environment to a tourism sector company.
21. Explain what is meant by marketing intermediaries especially in the hospitality industry.
22. Explain the concept of customer market, business market, government market, international market and reseller markets as applied to accommodation industries.
23. Explain the importance of study of competitors in micro-environment analysis.
24. Elaborate on the importance of publics in the study of micro-environment.
25. Explain the PESTEL model of study of macro environment.
26. Elaborate on what is meant by demography in study of macro-environment.
27. Discuss how the economic environment affects the study of macro-environment.
28. What parameters should be studies while considering the natural environment as a factor of macro-environment?
29. What constitutes the poetical environment while studying the macro-environment?
30. What cultural aspects should be studied while studying the viability of a hotel development prospects?
31. What is the importance of meso-environment?
33. Elaborate the importance of environmental scanning.
32. Describe what is meant by environmental scanning.
34. Discuss the process of

environmental scanning.

35. Describe the various internal information sources used in environmental scanning for a hotel.
36. Describe the various external information sources used in environmental scanning for a tourism operation.
37. Describe the various political factors considered in environmental scanning for a hotel/tourism/catering operation.
38. Describe the various economic factors considered in environmental scanning for a hotel/tourism/catering operation.
39. Describe the various social factors considered in environmental scanning for a hotel/tourism/catering operation.
40. Describe the various technological factors considered in environmental scanning for a hotel/tourism/catering operation.
41. Describe the various environmental factors considered in environmental scanning for a hotel/tourism/catering operation.
42. Describe the various legal factors considered in environmental scanning for a hotel/tourism/catering operation.
43. Describe what is meant by SWOT analysis.
44. Describe the various factors considered under Strengths part of SWOT analysis for a hotel/tourism/catering operation.
45. Describe the various factors considered under Weaknesses part of SWOT analysis for a hotel/tourism/catering operation.
46. Describe the various factors considered under Opportunities part of SWOT analysis for a hotel/tourism/catering operation.
47. Describe the various factors considered under Threats part of SWOT analysis for a hotel/tourism/catering operation.
48. Discuss what is studied under ‘consumer behavior’.
49. Explain the importance of studying ‘consumer behavior’.
50. Explain the importance of studying Customer relationship management (CRM) databases.
51. Discuss the roles of the initiator, the influencer, the decider, the purchaser and the user in making a purchase decision.
52. Discuss the purchasing decision model.
53. What is meant by ‘black box’ in context to the purchasing decision model?
54. What are the main characteristics of ‘low involvement’ purchase decisions?
55. What are the main characteristics of ‘high involvement’ purchase decisions?
56. Discuss the consumer's purchase decision process.
57. Give a detailed account of the ‘Problem recognition’ stage of purchase decision process.
58. Give a detailed account of the ‘Information search’ stage of purchase decision process.
59. Give a detailed account of the ‘evaluation of alternatives’ stage of purchase decision process.
60. Give a detailed account of the ‘purchase decision’ stage of purchase decision process.
61. Give a detailed account of the ‘post-purchase evaluation’ stage of purchase decision process.
62. Discuss the various internal factors which affect the purchase decision.
63. Explain the five needs proposed by Maslow.
64. Elaborate on the eight *purchase* motivations proposed by Rossiter and Percy.

65. Discuss the importance of perception of the product on the purchase decision.
66. Discuss the concept of involvement of the customer in the purchase process.
67. Discuss the importance of prior experience of the same/similar product on the purchase decision.
68. Discuss the various external factors which affect the purchase decision.
69. Discuss the importance of culture of the social environment of customer on the purchase decision.
70. Discuss the importance of sub-culture of the social environment of customer on the purchase decision.
71. Discuss the importance of social class of the social environment of customer on the purchase decision.
72. Discuss the importance of reference groups of the social environment of customer on the purchase decision.
73. Discuss the various purchase decision styles of customers.
74. Elaborate on the **Quality conscious/Perfectionist** style of customers.
75. Elaborate on the **Brand-conscious** style of customers.
76. Elaborate on the **Recreation-conscious/ Hedonistic** style of customers.
77. Elaborate on the **Price-conscious** style of customers.
78. Elaborate on the **Novelty/fashion-conscious** style of customers.
79. Elaborate on the **Impulsive** style of customers.
80. Elaborate on the **Confused (by over-choice)** style of customers.
81. Elaborate on the **Habitual / brand loyal** style of customers.
82. Explain the importance of Consumer Styles Inventory (CSI) in designing a product.
83. Discuss the Risk perception and risk reduction activities of customers in pre-purchase stages.
84. Elaborate on new product adoption and diffusion of innovations style of customers.
85. Give detailed characterizes of Innovators type of technology adopters.
86. Give detailed characterizes of Early adopters type of technology adopters.
87. Give detailed characterizes of Early majority type of technology adopters.
88. Give detailed characterizes of Late majority type of technology adopters.
89. Give detailed characterizes of Laggards type of technology adopters.

2.10 REFERENCES AND FURTHER READING

1. https://en.wikipedia.org/wiki/Service_(economics)
2. https://en.wikipedia.org/wiki/Tertiary_sector_of_the_economy
3. https://en.wikipedia.org/wiki/Market_environment
4. https://en.wikipedia.org/wiki/Consumer_behaviour
5. https://en.wikipedia.org/wiki/Market_segmentation

UNIT 3 SALES PROMOTION AND MERCHANDISING

3.00 INTRODUCTION

We have seen in the Unit 1, the basic concepts of Market and market management. In the second Unit we studied Service sector. We learned that Service is characterized by intangibility, which simply means that services are abstract and not concrete. You can hold a radio receiver or a smart-phone in your hand. For any physical or concrete thing, you can touch it, feel its texture or temperature, smell it, taste it and see it. But you can not capture, see, feel the texture or temperature of abstract concept like beauty or bravery. You can see a beautiful object, person or place. But, you cannot as it is perceive the beauty itself. The tourism product is the psychological experience of visiting a place. It may consist of various concrete phenomena like sitting in a train or plane or fireplace or mountains or desert. All of which are concrete. But the net psychological experience is an abstract entity. Similarly the accommodation experience of tourist when they stay in a hotel is also a psychological concept which is not concrete. Since we study hospitality, tourism and catering in the present program, we have studied the evolution of service sector.

In this unit we will study the abstract concepts like Promotion, Marketing strategies, Advertising, Sales, Sales promotion, Personal selling, Sales process engineering, Sales management. In any business venture you have to produce a service or goods and sell it. As there are competitions in the market, you have to make sure that your customer knows about your product, is convinced that his specific needs shall be met by the product you have developed and he spends his money to purchase your product. The activities which you do to this end may be called promotion of your product. We will study various marketing strategies in this unit. Advertisement is one of the marketing strategies, which we will study in details. WE will also study Sales in details. You may sell your product directly to your buyer or you may use agents or intermediaries to get it done. There are a number of Sales methods. You may use internet web portals for sale activities. The customer pays you through online payment gateways and get a receipt on his moble phone or on his email. In travel and tourism sector, the customer may use intermediaries who use web portals to sell the accommodation or travel tickets.

The concepts which you learn in this unit will be of great value to you as a hospitality expert. So enjoy learning them.

3.01 UNIT OBJECTIVES

After completing this Unit, you will be able to:

- Explain the concept of Promotion as used in marketing
- Elaborate on the techniques and concepts of Marketing strategy
- Discuss the concept of Advertising
- Elaborate on what is meant by Sales
- Describe the various concepts related to Sales promotion
- Elaborate on the concepts of Personal selling

Discuss the Sales process engineering
Discuss various issues related to Sales management

3.02 WHAT IS MEANT BY 'PROMOTION' IN MARKETING

In marketing, **promotion** is advertising a product or brand, generating sales, and creating brand loyalty. It is one of the four basic elements of the market mix, which includes the four P's: price, product, promotion, and place.

Promotion is also defined as one of five pieces in the promotional mix or promotional plan. These are personal selling, advertising, sales promotion, direct marketing, and publicity. A promotional mix specifies how much attention to pay to each of the five factors, and how much money to budget.

Promotion covers the methods of communication that a marketer uses to provide information about it's product. Information can be both verbal and visual.

Purpose

There are three objectives of promotion. These are:

To present information to consumers and others.
To increase demand.
To differentiate a product.

The purpose of a promotion and thus its promotional plan can have a wide range, including: sales increases, new product acceptance, creation of brand equity, positioning, competitive retaliations, or creation of a corporate image.

The term 'promotion' tends to be used internally by the marketing function. To the public or the market, phrases like "special offer" are more common. Examples of a fully integrated, long-term, and large-scale promotion are My Coke Rewards in the USA or Coke Zone in the UK and Pepsi Stuff.

Types

There have been different ways to promote a product in person or with different media. Both person and media can be either physically real or virtual/electronic.

In a physical environment
Promotions can be held in physical environments at special events such as concerts, festivals, trade shows, and in the field, such as in grocery or department stores. Interactions in the field allow immediate purchases. The purchase of a product can be incentive with discounts (i.e., coupons), free items, or a contest. This method is used to increase the sales of a given product. Interactions between the brand and the customer are performed by a brand ambassador or promotional model who represents the product in physical environments. Brand ambassadors or promotional models are hired by a marketing company, which in turn is booked by the brand to represent the product or service.

Person-to-person interaction, as opposed to media-to-person involvement, establishes connections that add another dimension to promotion. Building a community through promoting goods and services can lead to brand loyalty.

Traditional media

Examples of traditional media include print media such as newspapers and magazines, electronic media such as radio and television, and outdoor media such as banner or billboard advertisements. Each of these platforms provide ways for brands to reach consumers with advertisements.

'Digital media'

Digital media, which includes Internet, social networking and social media sites, is a modern way for brands to interact with consumers as it releases news, information and advertising from the technological limits of print and broadcast infrastructures. Digital media is currently the most effective way for brands to reach their consumers on a daily basis. Over 2.7 billion people are online globally, which is about 40% of the world's population. 67% of all Internet users globally use social media.

Mass communication has led to modern marketing strategies to continue focusing on brand awareness, large distributions and heavy promotions. The fast-paced environment of digital media presents new methods for promotion to utilize new tools now available through technology. With the rise of technological advances, promotions can be done outside of local contexts and across geographic borders to reach a greater number of potential consumers. The goal of a promotion is then to reach the most people possible in a time efficient and a cost efficient manner.

Social media, as a modern marketing tool, offers opportunities to reach larger audiences in an interactive way. These interactions allow for conversation rather than simply educating the customer. Facebook, Snapchat, Instagram, Twitter, Pinterest, Google Plus, Tumblr, as well as alternate audio and media sites like SoundCloud and Mixcloud allow users to interact and promote music online with little to no cost. You can purchase and buy ad space as well as potential customer interactions stores as Likes, Followers, and clicks to your page with the use of third parties. As a participatory media culture, social media platforms or social networking sites are forms of mass communication that, through media technologies, allow large amounts of product and distribution of content to reach the largest audience possible. However, there are downsides to virtual promotions as severs, systems, and websites may crash, fail, or become overloaded with information. You also can stand risk of losing uploaded information and storage and at a use can also be effected by a number of outside variables.

Brands can explore different strategies to keep consumers engaged. One popular tool is branded entertainment, or creating some sort of social game for the user. The benefits of such a platform include submersing the user in the brand's content. Users will be more likely to absorb and not grow tired of advertisements if they are, for example, embedded in the game as opposed to a bothersome pop-up ad.

Personalizing advertisements is another strategy that can work well for brands, as it can increase the likelihood that the brand will be anthropomorphized by the consumer. Personalization increases click-through intentions when data has been collected about the consumer.

Brands must navigate the line between effectively promoting their content to consumers on social media and becoming too invasive in consumers' lives. Vivid Internet ads that include devices such as animation might increase a user's initial attention to the ad. However, this may be seen as a distraction to the user if they are trying to absorb a different part of the site such as reading text. Additionally, when brands make the effort of overtly collecting data about their consumers and then personalizing their ads to them, the consumer's relationship with the advertisements, following this data collection, is frequently positive. However, when data is covertly collected, consumers can quickly feel like the company betrayed their trust. It is important for brands to utilize personalization in their ads, without making the consumer feel vulnerable or that their privacy has been betrayed.

CHECK YOUR PROGRESS

What is meant by promotion in context of marketing ?

What is the purpose of promotion?

What are the types of promotions in marketing?

3.03 MARKETING STRATEGY

Marketing strategy has the fundamental goal of increasing sales and achieving a sustainable competitive advantage. Marketing strategy includes all basic, short-term, and long-term activities in the field of marketing that deal with the analysis of the strategic initial situation of a company and the formulation, evaluation and selection of market-oriented strategies that contribute to the goals of the company and its marketing objectives. *Marketing strategies* cover everything from Pay per click, search engine marketing, public relations (PR), Engineering with Marketing & the much more.

Marketing management versus marketing strategy

The distinction between “strategic” and “managerial” marketing is used to distinguish "two phases having different goals and based on different conceptual tools. Strategic marketing concerns the choice of policies aiming at improving the competitive position of the firm, taking account of challenges and opportunities proposed by the competitive environment. On the other hand, managerial marketing is focused on the implementation of specific targets." Marketing strategy is about "lofty visions translated into less lofty and practical goals [while marketing managment] is where we start to get our hands dirty and make plans for things to happen."

Developing a marketing strategy

Strategic planning begins with a scan of the business environment, both internal and external, this includes understanding strategic constraints. An understading of the external operating environment, including political, economic, social and technological which includes demographic and cultural aspects, is necessary for the identification of business opportunities and threats. This analysis is called PEST, it stand for **P**olitical, **E**conomic, **S**ocial and **T**echnological. A number of variants of the PEST analysis can be identified in literature, including: PESTLE analysis (Political, Economic, Social, Legal and Environmental); STEEPLE (adds ethics); STEEPLED (adds demographics) and STEER (adds regulatory).

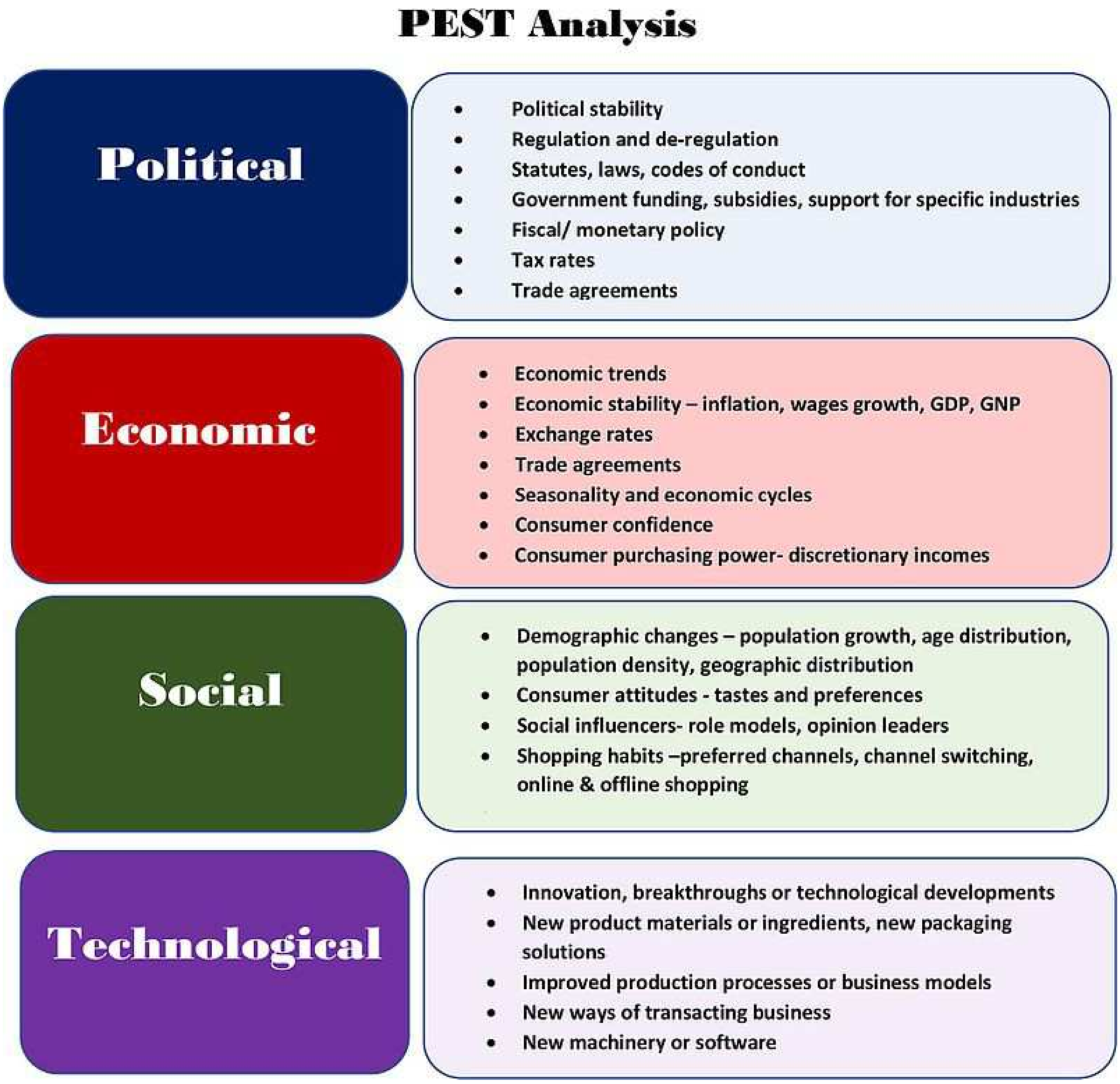


Fig 3.01:PEST analysis: variables that may be considered in the environmental scan

The aim of the PEST

The aim of PEST analysis is to identify opportunities and threats in the wider operating environment. Firms try to leverage opportunities while trying to buffer themselves against potential threats. Basically, the PEST analysis guides strategic decision-making. The main elements of the PEST analysis are:

Political: political interventions with the potential to disrupt or enhance trading conditions e.g. government statutes, policies, funding or subsidies, support for specific industries, trade agreements, tax rates and fiscal policy.

Economic: economic factors with the potential to affect profitability and the prices that can be charged, such as, economic trends, inflation, exchange rates, seasonality and economic cycles, consumer confidence, consumer purchasing power and discretionary incomes.

Social: social factors that affect demand for products and services, consumer attitudes, tastes and preferences like demographics, social influencers, role models, shopping habits.

Technological: Innovation, technological developments or breakthroughs that create opportunities for new products, improved production processes or new ways of transacting business e.g. new materials, new ingredients, new machinery, new packaging solutions, new software and new intermediaries.

When carrying out a PEST analysis, planners and analysts may consider the operating environment at three levels, namely *the supranational*; *the national* and *subnational* or local level. As businesses become more globalized, they may need to pay greater attention to the supranational level.

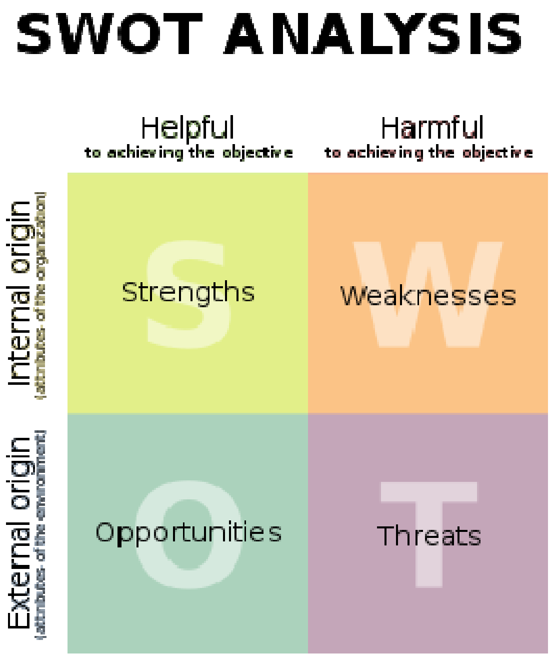


Fig 3.02: A SWOT analysis, with its four elements in a 2×2 matrix.

In addition to the PEST analysis, firms carry out a Strengths, Weakness, Opportunities and Threats (SWOT) analysis. A SWOT analysis identifies:

Strengths: distinctive capabilities, competencies, skills or assets that provide a business or project with an advantage over potential rivals; internal factors that are favourable to achieving company objectives

Weaknesses: internal deficiencies that place the business or project at a disadvantage relative to rivals; or deficiencies that prevent an entity from moving in a new direction or acting on opportunities. internal factors that are unfavourable to achieving company objectives

Opportunities: elements in the environment that the business or project could exploit to its advantage

Threats: elements in the environment that could erode the firm's market position; external factos that prevent or hinder an entity from moving in a desired direction or achieveing its goals

After setting the goals marketing strategy or marketing plan should be developed. This is an explanation of what specific actions will be taken over time to achieve the objectives. Plans can be extended to cover many years, with sub-plans for each year. Although, as the speed of change in the merchandising environment quickens, time horizons are becoming shorter. Ideally, strategies are both dynamic and interactive, partially planned and partially unplanned. To enable a firm to react to unforeseen developments while trying to keep focused on a specific pathway, a longer time frame is preferred. There are simulations such as customer lifetime value models which can help marketers conduct "what-if" analyses to forecast what might happen based on possible actions, and gauge how specific actions might affect such variables as the revenue-per-customer and the churn rate. Strategies often specify how to adjust the marketing mix; firms can use tools such as Marketing Mix Modeling to help them decide how to allocate scarce resources for different media, as well as how to allocate funds across a portfolio of brands. In addition, firms can conduct analyses of performance, customer analysis, competitor analysis, and target market analysis. A key aspect of marketing strategy is often to keep marketing consistent with a company's overarching mission statement.

Marketing strategy should not be confused with a marketing objective or mission. For example, a goal may be to become the market leader, perhaps in a specific niche; a mission may be something along the lines of "to serve customers with honor and dignity"; in contrast, a marketing strategy describes how a firm will achieve the stated goal in a way which is consistent with the mission, perhaps by detailed plans for how it might build a referral network. Strategy varies by type of market. A well-established firm in a mature market will likely have a different strategy than a start-up. Plans usually involve monitoring, to assess progress, and prepare for contingencies if problems arise.

The customised target strategy

The requirements of individual customer markets are unique, and their purchases sufficient to make viable the design of a new marketing mix for each customer.

If a company adopts this type of market strategy, a separate marketing mix is to be designed for each customer.

The differentiated strategy

Specific marketing mixes can be developed to appeal to most of the segments when market segmentation reveals several potential targets.

Diversity of strategies

Marketing strategies may differ depending on the unique situation of the individual business. However, there are a number of ways of categorizing some generic strategies. A brief description of the most common categorizing schemes is presented below:

Strategies based on market dominance

In this scheme, firms are classified based on their market share or dominance of an industry. Typically there are four types of market dominance strategies:

- Leader
- Challenger
- Follower
- Nicher

Entrant strategies

According to Lieberman and Montgomery, every entrant into a market – whether it is new or not – is classified under a Market Pioneer, Close Follower or a Late follower

Pioneers
Market Pioneers are known to often open a new market to consumers based off a major innovation. They emphasise these product developments, and in a significant amount of cases, studies have shown that early entrants – or pioneers – into a market have serious market-share advantages above all those who enter later. Pioneers have the first-mover advantage, and in order to have this advantage, business' must ensure they have at least one or more of three primary sources: Technological Leadership, Preemption of Assets or Buyer Switching Costs. Technological Leadership means gaining an advantage through either Research and Development or the "learning curve". This lets a business use the research and development stage as a key point of selling due to primary research of a new or developed product. Preemption of Assets can help gain an advantage through acquiring scarce assets within a certain market, allowing the first-mover to be able to have control of existing assets rather than those that are created through new technology. Thus allowing pre-existing information to be used and a lower risk when first entering a new market. By being a first entrant, it is easy to avoid higher switching costs compared to later entrants. For example, those who enter later would have to invest more expenditure in order to encourage customers away from early entrants). However, while Market Pioneers may have the "highest probability of engaging in product development" and lower switching costs, to have the first-mover advantage, it can be more expensive due to product innovation being more costly than product imitation. It has been found that while Pioneers in both consumer goods and industrial markets have gained "significant sales advantages", they incur larger disadvantages cost-wise.

Close followers
Being a Market Pioneer can more often than not, attract entrepreneurs and/or investors depending on the benefits of the market. If there is an upside potential and the ability to have a stable market share,

many businesses would start to follow in the footsteps of these pioneers. These are more commonly known as Close Followers. These entrants into the market can also be seen as challengers to the Market Pioneers and the Late Followers. This is because early followers are more than likely to invest a significant amount in Product Research and Development than later entrants. By doing this, it allows businesses to find weaknesses in the products produced before, thus leading to improvements and expansion on the aforementioned product. Therefore, it could also lead to customer preference, which is essential in market success. Due to the nature of early followers and the research time being later than Market Pioneers, different development strategies are used as opposed to those who entered the market in the beginning, and the same is applied to those who are Late Followers in the market. By having a different strategy, it allows the followers to create their own unique selling point and perhaps target a different audience in comparison to that of the Market Pioneers. Early following into a market can often be encouraged by an established business' product that is "threatened or has industry-specific supporting assets".

Late followers

Those who follow after the Close Followers are known as the Late Entrants. While being a Late Entrant can seem very daunting, there are some perks to being a latecomer. For example, Late Entrants have the ability to learn from those who are already in the market or have previously entered. Late Followers have the advantage of learning from their early competitors and improving the benefits or reducing the total costs. This allows them to create a strategy that could essentially mean gaining market share and most importantly, staying in the market. In addition to this, markets evolve, leading to consumers wanting improvements and advancements on products. Late Followers have the advantage of catching the shifts in customer needs and wants towards the products. When bearing in mind customer preference, customer value has a significant influence. Customer value means taking into account the investment of customers as well as the brand or product. It is created through the "perceptions of benefits" and the "total cost of ownership". On the other hand, if the needs and wants of consumers have only slightly altered, Late Followers could have a cost advantage over early entrants due to the use of product imitation. However, if a business is switching markets, this could take the cost advantage away due to the expense of changing markets for the business. Late Entry into a market does not necessarily mean there is a disadvantage when it comes to market share, it depends on how the marketing mix is adopted and the performance of the business. If the marketing mix is not used correctly – despite the entrant time – the business will gain little to no advantages, potentially missing out on a significant opportunity.

Raymond Miles' strategy categories

In 2003, Raymond Miles proposed a more detailed scheme using the categories:*Miles, Raymond (2003). Organizational Strategy, Structure, and Process. Stanford: Stanford University Press. ISBN 0-8047-4840-3.*

- Prospector
- Analyzer
- Defender
- Reactor

Marketing warfare strategies

This scheme draws parallels between marketing strategies and military strategies.

Growth strategies

Growth of a business is critical for business success, so using strategies such as horizontal integration, vertical integration, diversification and intensification will all benefit a business's growth, be it long term or short term. Refer to Ansoff's Matrix for a simpler explanation of the various growth strategies if those mentioned below are difficult to understand.

Horizontal integration
Some benefits of the horizontal integration strategy is that it is good for fast changing work environments as well as providing a broad knowledge base for the business and employees. High levels of horizontal integration leads to high levels of communication within the business. Another benefit of using this strategy is that it leads to a larger market for merged businesses, and it is easier to build good reputations for a business when using this strategy. A disadvantage of using the horizontal integration strategy is that this limits and restricts the field of interest that the business is expanding the new products into. Horizontal integration can affect a business's reputation, especially after a merge has happened between two or more businesses. There are three main benefits to a business's reputation after a merge. A larger business helps the reputation and increases the severity of the punishment. As well as the merge of information after a merge has happened, this increases the knowledge of the business and marketing area they are focused on. The last benefit is more opportunities for deviation to occur in merged businesses rather than independent businesses.

Vertical integration
Vertical integration is when business is expanded through the vertical production line on one business. An example of a vertically integrated business could be Apple. Apple owns all their own software, hardware, designs and operating systems instead of relying on other businesses to supply these. By having a highly vertically integrated business this creates different economies therefore creating a positive performance for the business. Vertical integration is seen as a business controlling the inputs of supplies and outputs of products as well as the distribution of the final product. Some benefits of using a Vertical integration strategy is that costs may be reduced because of the reducing transaction costs which include finding, selling, monitoring, contracting and negotiating with other firms. Also by decreasing outside businesses input it will increase the efficient use of inputs into the business. Another benefit of vertical integration is that it improves the exchange of information through the different stages of the production line. Some competitive advantages could include; avoiding foreclosures, improving the business marketing intelligence, and opens up opportunities to create different products for the market. Some disadvantages of using a Vertical Integration Strategy include the internal costs for the business and the need for overhead costs. Also if the business is not well organised and fully equipped and prepared the business will struggle using this strategy. There are also competitive disadvantages as well, which include; creates barriers for the business, and loses access to information from suppliers and distributors.

Diversification
Diversification is an area included in the Ansoff Matrix strategy, where the most risk for a business is situated. This is due to the use of a new product being introduced to a new market, so there are no already existing target markets or competition. There are two types of diversification, vertical and horizontal. Horizontal diversification is when a new product is introduced but doesn't contribute to the already existing product line. Meaning horizontal diversification focuses more on product that the business has knowledge about, whereas vertical diversification focuses more on the introduction of new product onto new markets, where the business could have less knowledge of the ne market. A

benefit of horizontal diversification is that it is an open platform for a business to expand and build away from the already existing market. A disadvantage of using a Diversification strategy is that the benefits could take a while to start showing, which could lead the business to believing that the strategy doesn't work. Another disadvantage or risk is, it has been shown that using the horizontal diversification method has become harmful for stock value, but using the vertical diversification had the best effects.

Strategic models

Marketing businesses often use strategic models and tools to analyze marketing decisions. There are three main models that can be applied and used within a business to receive better results and reach business goals. These include:

The 3C's

The 3C's stand for: Customer, Corporation and Competitor, is a strategic model that uses these three key factors which lead to a sustainable competitive market. This strategy was developed by a Japanese strategy guru called Kenichi Ohmae. Each factor is key to the success of this strategy; The corporation factor mainly focuses on maximizing the strengths of the business from which the business can influence the relevant areas of the competition to achieve success within the industry. Customers are the basis to any business. The most important factors of customers and the wants, needs and requirements that the business needs to fulfill in order to attract buyers. The competition can be looked at in various different ways such as; purchasing, design, image and maintenance. The more unique steps a business takes the less competition a business will face in that field.

The Ansoff Matrix

The Ansoff Matrix model invented by H. Igor Ansoff; is a model that focuses on four main areas; Market penetration, Product development, Market development and Market Diversification. These are further split into two areas known as the 'New' and 'Present'. From this strategy, businesses are able to determine the product and market growth. This is done by focusing on whether the market is a new market or an already existing one, and whether the products are new or not. Market penetration covers products that are familiar to the consumers, this creates a low risk as the product is already on the established market. Product development is the introduction of a new product into an existing market. This can include modifications to an already existing market which can create a product that has more appeal. Market development, also known as market extension, is when an already existing product is introduced to a new market in order to identify and build a new clientele base. This can include new geographical markets, new distribution channels, and different pricing policies. Diversification, is the riskiest area for a business. This is where a new product is sold to a new market. There are two type of Diversification "Related" which means the business remains in the same industry that they are familiar with. The other is "Unrelated" which is when there are no previous relations or market experiences for the business.

Marketing Mix Model (4P's)

The 4P's also known as Price, Product, Place and Promotion is a strategy that originated from the single P meaning Price. This strategy was designed as an easy way to turn marketing planning into practice. This strategy is used to find and meet the consumer needs and can be used for long term or short term purposes. The proportions of the marketing mix can be altered to meet different requirements for each product produced.

Real-life marketing

Real-life marketing revolves around the application of a great deal of common-sense; dealing with a limited number of factors, in an environment of imperfect information and limited resources complicated by uncertainty and tight timescales. Use of classical marketing techniques, in these circumstances, is inevitably partial and uneven.

Thus, for example, many new products will emerge from irrational processes and the rational development process may be used (if at all) to screen out the worst non-runners. The design of the advertising, and the packaging, will be the output of the creative minds employed; which management will then screen, often by 'gut-reaction', to ensure that it is reasonable.

For most of their time, marketing managers use intuition and experience to analyze and handle the complex, and unique, situations being faced. This will often intuition coupled with the knowledge of the customer which has been absorbed almost by a process of osmosis. This will determine the quality of the marketing executed. This almost instinctive management, is what is sometimes called 'coarse marketing'; to distinguish it from the refined, aesthetically pleasing, form favored by the theorists.

Few notable exceptions of "Real life marketing" are based on gut instinct as opposed to trained, vetted and backed by high investment data. This may lead to producing low results and income.

Many entrepreneurs and small companies think they can manage the marketing sector without training but this is to the detriment of their business.

A Start up or a company's strategy combines all of its marketing goals into one comprehensive plan. A good marketing strategy should be drawn from market research and focus on the product mix in order to achieve the maximum profit and sustain the business. The marketing strategy is the foundation of a marketing plan.

CHECK YOUR PROGRESS

What is meant by marketing strategies?

Distinguish between marketing strategy and marketing promotion.

How is the PEST analysis is useful in developing marketing strategies?

Describe the application of SWOT analysis in developing marketing strategies.

Describe the entrant strategy as espoused by Lieberman and Montgomery.

Briefly describe The customized target strategy.

Briefly describe The differentiated strategy.

Briefly describe Strategies based on market dominance

Explain the Raymond Miles' strategy categories.

Elaborate on the various Growth strategies.

What are the various Strategic models.

Describe the Ansoff Matrix.

Elaborate on 4Ps as marketing strategy model.

Describe the 3Cs marketing strategy model.

3.04 ADVERTISING

Advertising is an audio or visual form of marketing communication that employs an openly sponsored, nonpersonal message to promote or sell a product, service or idea. [:465] Sponsors of advertising are often businesses who wish to promote their products or services. Advertising is differentiated from public relations in that an advertiser usually pays for and has control over the message. It is differentiated from personal selling in that the message is nonpersonal, i.e., not directed to a particular individual. [:661,672] Advertising is communicated through various mass media, including old media such as newspapers, magazines, Television, Radio, outdoor advertising or direct mail; or new media such as search results, blogs, websites or text messages. The actual presentation of the message in a medium is referred to as an advertisement or "ad".

Commercial ads often seek to generate increased consumption of their products or services through "branding," which associates a product name or image with certain qualities in the minds of consumers. On the other hand, ads that intend to elicit an immediate sale are known as direct response advertising. Non-commercial advertisers who spend money to advertise items other than a consumer product or service include political parties, interest groups, religious organizations and governmental agencies. Non-profit organizations may use free modes of persuasion, such as a public service announcement. Advertising may also be used to reassure employees or shareholders that a company is viable or successful.

Modern advertising was created with the techniques introduced with tobacco advertising in the 1920s, most significantly with the campaigns of Edward Bernays, considered the founder of modern, "Madison Avenue" advertising.

In 2015, the world spent an estimate of US$529.43 billion on advertising. Its projected distribution for 2017 is 40.4% on TV, 33.3% on digital, 9% on newspapers, 6.9% on magazines, 5.8% on outdoor and 4.3% on radio. Internationally, the largest ("big four") advertising conglomerates are Interpublic, Omnicom, Publicis, and WPP.

In Latin, *ad vertere* means "to turn toward".

History

Fig 3.03: Bronze plate for printing an advertisement for the Liu family needle shop at Jinan, Song dynasty China. It is considered the world's earliest identified printed advertising medium.

Egyptians used papyrus to make sales messages and wall posters. Commercial messages and political campaign displays have been found in the ruins of Pompeii and ancient Arabia. Lost and found advertising on papyrus was common in ancient Greece and ancient Rome. Wall or rock painting for commercial advertising is another manifestation of an ancient advertising form, which is present to this day in many parts of Asia, Africa, and South America. The tradition of wall painting can be traced back to Indian rock art paintings that date back to 4000 BC.

In ancient China, the earliest advertising known was oral, as recorded in the Classic of Poetry (11th to 7th centuries BC) of bamboo flutes played to sell candy. Advertisement usually takes in the form of calligraphic signboards and inked papers. A copper printing plate dated back to the Song dynasty used to print posters in the form of a square sheet of paper with a rabbit logo with "Jinan Liu's Fine Needle Shop" and "We buy high-quality steel rods and make fine-quality needles, to be ready for use at home in no time" written above and below is considered the world's earliest identified printed advertising medium.

In Europe, as the towns and cities of the Middle Ages began to grow, and the general population was unable to read, instead of signs that read "cobbler", "miller", "tailor", or "blacksmith", images associated with their trade would be used such as a boot, a suit, a hat, a clock, a diamond, a horse shoe, a candle or even a bag of flour. Fruits and vegetables were sold in the city square from the backs of carts and wagons and their proprietors used street callers (town criers) to announce their whereabouts for the convenience of the customers. The first compilation of such advertisements was gathered in "Les Crieries de Paris", a thirteenth-century poem by Guillaume de la Villeneuve.

In the 18th century advertisements started to appear in weekly newspapers in England. These early print advertisements were used mainly to promote books and newspapers, which became increasingly affordable with advances in the printing press; and medicines, which were increasingly sought after as disease ravaged Europe. However, false advertising and so-called "quack" advertisements became a problem, which ushered in the regulation of advertising content.

19th century

Fig 3.04: Edo period LEL flyer from 1806 for a traditional medicine called Kinseitan.

Thomas J. Barratt from London has been called "the father of modern advertising". Working for the Pears Soap company, Barratt created an effective advertising campaign for the company products, which involved the use of targeted slogans, images and phrases. One of his slogans, "Good morning. Have you used Pears' soap?" was famous in its day and into the 20th century.

Barratt introduced many of the crucial ideas that lie behind successful advertising and these were widely circulated in his day. He constantly stressed the importance of a strong and exclusive brand image for Pears and of emphasizing the product's availability through saturation campaigns. He also understood the importance of constantly reevaluating the market for changing tastes and mores, stating in 1907 that "tastes change, fashions change, and the advertiser has to change with them. An idea that was effective a generation ago would fall flat, stale, and unprofitable if presented to the public today. Not that the idea of today is always better than the older idea, but it is different – it hits the present taste."

As the economy expanded across the world during the 19th century, advertising grew alongside. In the United States, the success of this advertising format eventually led to the growth of mail-order advertising.

In June 1836, French newspaper *La Presse* was the first to include paid advertising in its pages, allowing it to lower its price, extend its readership and increase its profitability and the formula was soon copied by all titles. Around 1840, Volney B. Palmer established the roots of the modern day advertising agency in Philadelphia. In 1842 Palmer bought large amounts of space in various newspapers at a discounted rate then resold the space at higher rates to advertisers. The actual ad – the copy, layout, and artwork – was still prepared by the company wishing to advertise; in effect, Palmer was a space broker. The situation changed in the late 19th century when the advertising agency of N.W. Ayer & Son was founded. Ayer and Son offered to plan, create, and execute complete advertising campaigns for its customers. By 1900 the advertising agency had become the focal point of creative planning, and advertising was firmly established as a profession.

Around the same time, in France, Charles-Louis Havas extended the services of his news agency, Havas to include advertisement brokerage, making it the first French group to organize. At first, agencies were brokers for advertisement space in newspapers. N. W. Ayer & Son was the first full-service agency to assume responsibility for advertising content. N.W. Ayer opened in 1869, and was located in Philadelphia.

20th century

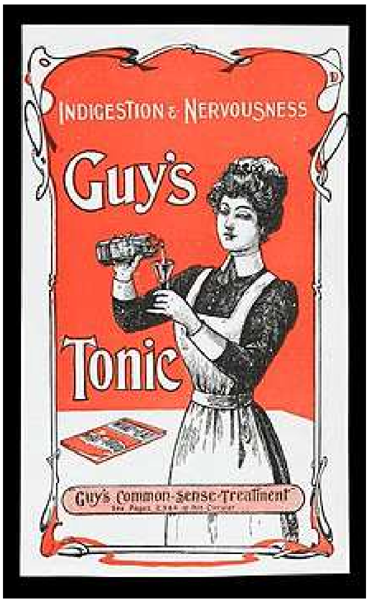


Fig 3.05: Advert for Guy's Tonic Wellcome in 1900's

Fig 3.06: A print advertisement for the 1913 issue of the Encyclopædia Britannica.

Advertising increased dramatically in the United States as industrialization expanded the supply of manufactured products. In order to profit from this higher rate of production, industry needed to recruit workers as consumers of factory products. It did so through the invention of mass marketing designed to influence the population's economic behavior on a larger scale. In the 1910s and 1920s, advertisers in the U.S. adopted the doctrine that human instincts could be targeted and harnessed – "sublimated" into the desire to purchase commodities. Edward Bernays, a nephew of Sigmund Freud, became associated with the method and is sometimes called the founder of modern advertising and public relations.

In the 1920s, under Secretary of Commerce Herbert Hoover, the American government promoted advertising. Hoover himself delivered an address to the Associated Advertising Clubs of the World in 1925 called 'Advertising Is a Vital Force in Our National Life." In October 1929, the head of the U.S. Bureau of Foreign and Domestic Commerce, Julius Klein, stated "Advertising is the key to world prosperity." This was part of the "unparalleled" collaboration between business and government in the 1920s, according to a 1933 European economic journal.

The tobacco companies became major advertisers in order to sell packaged cigarettes. The tobacco companies pioneered the new advertising techniques when they hired Bernays to create positive associations with tobacco smoking.

Advertising was also used as a vehicle for cultural assimilation, encouraging workers to exchange their traditional habits and community structure in favor of a shared "modern" lifestyle. An important tool for influencing immigrant workers was the American Association of Foreign Language Newspapers (AAFLN). The AAFLN was primarily an advertising agency but also gained heavily centralized control over much of the immigrant press.

Fig 3.07: 1916 Ladies' Home Journal version of the famous ad by Helen Lansdowne Resor of the J. Walter Thompson Agency

At the turn of the 20th century, there were few career choices for women in business; however, advertising was one of the few. Since women were responsible for most of the purchasing done in their household, advertisers and agencies recognized the value of women's insight during the creative process. In fact, the first American advertising to use a sexual sell was created by a woman – for a soap product. Although tame by today's standards, the advertisement featured a couple with the message "A skin you love to touch".

In the 1920s psychologists Walter D. Scott and John B. Watson contributed applied psychological theory to the field of advertising. Scott said, "Man has been called the reasoning animal but he could with greater truthfulness be called the creature of suggestion. He is reasonable, but he is to a greater extent suggestible". He demonstrated this through his advertising technique of a direct command to the consumer.

On the radio from the 1920s

Fig 3.08: Advertisement for a live radio broadcast, sponsored by a milk company, Adohr milk, and published in the Los Angeles Times on May 6, 1930

In the early 1920s, the first radio stations were established by radio equipment manufacturers and retailers who offered programs in order to sell more radios to consumers. As time passed, many non-profit organizations followed suit in setting up their own radio stations, and included: schools, clubs and civic groups.

When the practice of sponsoring programs was popularized, each individual radio program was usually sponsored by a single business in exchange for a brief mention of the business' name at the beginning and end of the sponsored shows. However, radio station owners soon realized they could earn more money by selling sponsorship rights in small time allocations to multiple businesses throughout their radio station's broadcasts, rather than selling the sponsorship rights to single businesses per show.

Commercial television in the 1950s
In the early 1950s, the DuMont Television Network began the modern practice of selling advertisement time to multiple sponsors. Previously, DuMont had trouble finding sponsors for many of their programs and compensated by selling smaller blocks of advertising time to several businesses. This eventually became the standard for the commercial television industry in the United States. However, it was still a common practice to have single sponsor shows, such as The United States Steel Hour. In some instances the sponsors exercised great control over the content of the show – up to and including having one's advertising agency actually writing the show. The single sponsor model is much less prevalent now, a notable exception being the Hallmark Hall of Fame.

Cable television from the 1980s
The late 1980s and early 1990s saw the introduction of cable television and particularly MTV. Pioneering the concept of the music video, MTV ushered in a new type of advertising: the consumer tunes in *for* the advertising message, rather than it being a by-product or afterthought. As cable and satellite television became increasingly prevalent, specialty channels emerged, including channels entirely devoted to advertising, such as QVC, Home Shopping Network, and ShopTV Canada.

On the Internet from the 1990s
With the advent of the ad server, online advertising grew, contributing to the "dot-com" boom of the 1990s. Entire corporations operated solely on advertising revenue, offering everything from coupons to free Internet access. At the turn of the 21st century, some websites, including the search engine Google, changed online advertising by personalizing ads based on web browsing behavior. This has led to other similar efforts and an increase in interactive advertising.

The share of advertising spending relative to GDP has changed little across large changes in media since 1925. In 1925, the main advertising media in America were newspapers, magazines, signs on streetcars, and outdoor posters. Advertising spending as a share of GDP was about 2.9 percent. By 1998, television and radio had become major advertising media. Nonetheless, advertising spending as a share of GDP was slightly lower – about 2.4 percent.

Guerrilla marketing involves unusual approaches such as staged encounters in public places, giveaways of products such as cars that are covered with brand messages, and interactive advertising where the viewer can respond to become part of the advertising message. This type of advertising is unpredictable, which causes consumers to buy the product or idea. This reflects an increasing trend of interactive and "embedded" ads, such as via product placement, having consumers vote through text messages, and various campaigns utilizing social network services such as Facebook or Twitter.

The advertising business model has also been adapted in recent years. In media for equity, advertising is not sold, but provided to start-up companies in return for equity. If the company grows and is sold, the media companies receive cash for their shares.

Domain name registrants (usually those who register and renew domains as an investment) sometimes "park" their domains and allow advertising companies to place ads on their sites in return for per-click payments. These ads are typically driven by pay per click search engines like Google or Yahoo, but ads can sometimes be placed directly on targeted domain names through a domain lease or by making contact with the registrant of a domain name that describes a product. Domain name registrants are generally easy to identify through WHOIS records that are publicly available at registrar websites.

Classification

Fig 3.09: An advertisement for the Wikimedia Foundation.

Fig 3.10: An advertisement for a diner. Such signs are common on storefronts.

Fig 3.11: Paying people to hold signs is one of the oldest forms of advertising, as with this human billboard.

Fig 3.12: A taxicab with an advertisement for Allianz in Singapore. Buses and other vehicles are popular media for advertisers.

Fig 3.13: Mobile Billboard in East Coast Park, Singapore.

Fig 3.14: A DBAG Class 101 with UNICEF ads at Ingolstadt main railway station.

Fig 3.15: A London Bus, with a film advertisement along its side.

Fig 3.16: Hot air balloon displays advertising for GEO magazine

Advertising may be categorized in a variety of ways, including by style, target audience, geographic scope, medium, or purpose. [:9–15] For example, in print advertising, classification by style can include display advertising (ads with design elements sold by size) vs. classified advertising (ads without design elements sold by the word or line). Advertising may be local, national or global. An ad campaign may be directed toward consumers or to businesses. The purpose of an ad may be to raise awareness (brand advertising), or to elicit an immediate sale (direct response advertising).

Traditional media

Virtually any medium can be used for advertising. Commercial advertising media can include wall paintings, billboards, street furniture components, printed flyers and rack cards, radio, cinema and television adverts, web banners, mobile telephone screens, shopping carts, web popups, skywriting, bus stop benches, human billboards and forehead advertising, magazines, newspapers, town criers, sides of buses, banners attached to or sides of airplanes ("logojets"), in-flight advertisements on seatback tray tables or overhead storage bins, taxicab doors, roof mounts and passenger screens, musical stage shows, subway platforms and trains, elastic bands on disposable diapers, doors of bathroom stalls, stickers on apples in supermarkets, shopping cart handles (grabertising), the opening section of streaming audio and video, posters, and the backs of event tickets and supermarket receipts. Any place an "identified" sponsor pays to deliver their message through a medium is advertising.

Share of global adspend		
medium	2015	**2017**
Television advertisement	37.7%	34.8%
Desktop online advertising	19.9%	18.2%
Mobile advertising	9.2%	18.4%
Newspaper#Advertising	12.8%	10.1%
Magazines	6.5%	5.3%
Outdoor advertising	6.8%	6.6%
Radio advertisement	6.5%	5.9%
Cinema	0.6%	0.7%

Television

Television advertising is one of the most expensive types of advertising; networks charge large amounts for commercial airtime during popular events. The annual Super Bowl football game in the United States is known as the most prominent advertising event on television – with an audience of over 108 million and studies showing that 50% of those only tuned in to see the advertisements. The average cost of a single thirty-second television spot during this game reached US$4 million & a 60-second spot double that figure in 2014. Virtual advertisements may be inserted into regular programming through computer graphics. It is typically inserted into otherwise blank backdrops or used to replace local billboards that are not relevant to the remote broadcast audience. More controversially, virtual billboards may be inserted into the background where none exist in real-life. This technique is especially used in televised sporting events. Virtual product placement is also possible. An infomercial is a long-format television commercial, typically five minutes or longer. The word "infomercial" is a portmanteau of the words "information" and "commercial". The main objective in an infomercial is to create an impulse purchase, so that the target sees the presentation and then immediately buys the product through the advertised toll-free telephone number or website. Infomercials describe, display, and often demonstrate products and their features, and commonly have testimonials from customers and industry professionals.

Fig 3.17: Television commercial 1948

Radio

Radio advertisements are broadcast as radio waves to the air from a transmitter to an antenna and a thus to a receiving device. Airtime is purchased from a station or network in exchange for airing the commercials. While radio has the limitation of being restricted to sound, proponents of radio advertising often cite this as an advantage. Radio is an expanding medium that can be found on air, and also online. According to Arbitron, radio has approximately 241.6 million weekly listeners, or more than 93 percent of the U.S. population.

Online

Online advertising is a form of promotion that uses the Internet and World Wide Web for the expressed purpose of delivering marketing messages to attract customers. Online ads are delivered by an ad server. Examples of online advertising include contextual ads that appear on search engine results pages, banner ads, in pay per click text ads, rich media ads, Social network advertising, online classified advertising, advertising networks and e-mail marketing, including e-mail spam. A newer form of online advertising is Native Ads; they go in a website's news feed and are supposed to improve user experience by being less intrusive. However, some people argue this practice is deceptive.

Domain names
Domain name advertising is most commonly done through pay per click web search engines, however, advertisers often lease space directly on domain names that generically describe their products. When an Internet user visits a website by typing a domain name directly into their web browser, this is known as "direct navigation", or "type in" web traffic. Although many Internet users search for ideas and products using search engines and mobile phones, a large number of users around the world still use the address bar. They will type a keyword into the address bar such as "geraniums" and add ".com" to the end of it. Sometimes they will do the same with ".org" or a country-code Top Level Domain (TLD such as ".co.uk" for the United Kingdom or ".ca" for Canada). When Internet users type in a generic keyword and add .com or another top-level domain (TLD) ending, it produces a targeted sales lead. Domain name advertising was originally developed by Oingo (later known as Applied Semantics), one of Google's early acquisitions.

Product placements
Covert advertising is when a product or brand is embedded in entertainment and media. For example, in a film, the main character can use an item or other of a definite brand, as in the movie *Minority Report*, where Tom Cruise's character John Anderton owns a phone with the *Nokia* logo clearly written in the top corner, or his watch engraved with the *Bulgari* logo. Another example of advertising in film is in *I, Robot*, where main character played by Will Smith mentions his *Converse* shoes several times, calling them "classics", because the film is set far in the future. *I, Robot* and *Spaceballs* also showcase futuristic cars with the *Audi* and *Mercedes-Benz* logos clearly displayed on the front of the vehicles. Cadillac chose to advertise in the movie *The Matrix Reloaded*, which as a result contained many scenes in which Cadillac cars were used. Similarly, product placement for Omega Watches, Ford, VAIO, BMW and Aston Martin cars are featured in recent James Bond films, most notably *Casino Royale*. In "Fantastic Four: Rise of the Silver Surfer", the main transport vehicle shows a large Dodge logo on the front. *Blade Runner* includes some of the most obvious product placement; the whole film stops to show a Coca-Cola billboard.

Print
Print advertising describes advertising in a printed medium such as a newspaper, magazine, or trade journal. This encompasses everything from media with a very broad readership base, such as a major national newspaper or magazine, to more narrowly targeted media such as local newspapers and trade journals on very specialized topics. One form of print advertising is classified advertising, which allows private individuals or companies to purchase a small, narrowly targeted ad paid by the word or line. Another form of print advertising is the display ad, which is generally a larger ad with design elements that typically run in an article section of a newspaper. [:14]

Outdoor
Billboards, also known as hoardings in some parts of the world, are large structures located in public places which display advertisements to passing pedestrians and motorists. Most often, they are located on main roads with a large amount of passing motor and pedestrian traffic; however, they can be placed in any location with large amounts of viewers, such as on mass transit vehicles and in stations, in shopping malls or office buildings, and in stadiums. The form known as street advertising first came to prominence in the UK by Street Advertising Services to create outdoor advertising on street furniture and pavements. Working with products such as Reverse Graffiti, air dancers and 3D pavement advertising, for getting brand messages out into public spaces. Sheltered outdoor advertising combines outdoor with indoor advertisement by placing large mobile, structures (tents) in public places on temporary bases. The large outer advertising space aims to exert a strong pull on the observer, the product is promoted indoors, where the creative decor can intensify the impression.

Mobile billboards are generally vehicle mounted billboards or digital screens. These can be on dedicated vehicles built solely for carrying advertisements along routes preselected by clients, they can also be specially equipped cargo trucks or, in some cases, large banners strewn from planes. The billboards are often lighted; some being backlit, and others employing spotlights. Some billboard displays are static, while others change; for example, continuously or periodically rotating among a set of advertisements. Mobile displays are used for various situations in metropolitan areas throughout the world, including: target advertising, one-day and long-term campaigns, conventions, sporting events, store openings and similar promotional events, and big advertisements from smaller companies.

Fig 3.18: The RedEye newspaper advertised to its target market at North Avenue Beach with a sailboat billboard on Lake Michigan.

Point-of-sale
In-store advertising is any advertisement placed in a retail store. It includes placement of a product in visible locations in a store, such as at eye level, at the ends of aisles and near checkout counters (a.k.a. POP – point of purchase display), eye-catching displays promoting a specific product, and advertisements in such places as shopping carts and in-store video displays.

Novelties
Advertising printed on small tangible items such as coffee mugs, T-shirts, pens, bags, and such is known as novelty advertising. Some printers specialize in printing novelty items, which can then be distributed directly by the advertiser, or items may be distributed as part of a cross-promotion, such as ads on fast food containers.

Celebrity branding
This type of advertising focuses upon using celebrity power, fame, money, popularity to gain recognition for their products and promote specific stores or products. Advertisers often advertise their products, for example, when celebrities share their favorite products or wear clothes by specific brands or designers. Celebrities are often involved in advertising campaigns such as television or print

adverts to advertise specific or general products. The use of celebrities to endorse a brand can have its downsides, however; one mistake by a celebrity can be detrimental to the public relations of a brand. For example, following his performance of eight gold medals at the 2008 Olympic Games in Beijing, China, swimmer Michael Phelps' contract with Kellogg's was terminated, as Kellogg's did not want to associate with him after he was photographed smoking marijuana. Celebrities such as Britney Spears have advertised for multiple products including Pepsi, Candies from Kohl's, Twister, NASCAR, and Toyota.

Aerial

Using aircraft, balloons or airships to create or display advertising media. Skywriting is a notable example.

Fig 3.19: An Allegiant Air aircraft in the special Blue Man Group livery.

New media and advertising approaches

Increasingly, other media are overtaking many of the "traditional" media such as television, radio and newspaper because of a shift toward the usage of the Internet for news and music as well as devices like digital video recorders (DVRs) such as TiVo.

Online advertising began with unsolicited bulk e-mail advertising known as "e-mail spam". Spam has been a problem for e-mail users since 1978. As new online communication channels became available, advertising followed. The first banner ad appeared on the World Wide Web in 1994. Prices of Web-based advertising space are dependent on the "relevance" of the surrounding web content and the traffic that the website receives.

In online display advertising, display ads generate awareness quickly. Unlike search, which requires someone to be aware of a need, display advertising can drive awareness of something new and without previous knowledge. Display works well for direct response. Display is not only used for generating awareness, it's used for direct response campaigns that link to a landing page with a clear 'call to action'.

As the mobile phone became a new mass medium in 1998 when the first paid downloadable content appeared on mobile phones in Finland, mobile advertising followed, also first launched in Finland in 2000. By 2007 the value of mobile advertising had reached $2 billion and providers such as Admob delivered billions of mobile ads.

More advanced mobile ads include banner ads, coupons, Multimedia Messaging Service picture and video messages, advergames and various engagement marketing campaigns. A particular feature driving mobile ads is the 2D barcode, which replaces the need to do any typing of web addresses, and uses the camera feature of modern phones to gain immediate access to web content. 83 percent of Japanese mobile phone users already are active users of 2D barcodes.

Some companies have proposed placing messages or corporate logos on the side of booster rockets and the International Space Station.

Unpaid advertising (also called "publicity advertising"), can include personal recommendations ("bring a friend", "sell it"), spreading buzz, or achieving the feat of equating a brand with a common noun (in the United States, "Xerox" = "photocopier", "Kleenex" = tissue, "Vaseline" = petroleum jelly, "Hoover" = vacuum cleaner, and "Band-Aid" = adhesive bandage). However, some companies oppose the use of their brand name to label an object. Equating a brand with a common noun also risks turning that brand into a generic trademark – turning it into a generic term which means that its legal protection as a trademark is lost.

From time to time, The CW Television Network airs short programming breaks called "Content Wraps", to advertise one company's product during an entire commercial break. The CW pioneered "content wraps" and some products featured were Herbal Essences, Crest, Guitar Hero II, CoverGirl, and recently Toyota.

A new promotion concept has appeared, "ARvertising", advertising on Augmented Reality technology.

Controversy exists on the effectiveness of subliminal advertising (see mind control), and the pervasiveness of mass messages (Propaganda).

Rise in new media

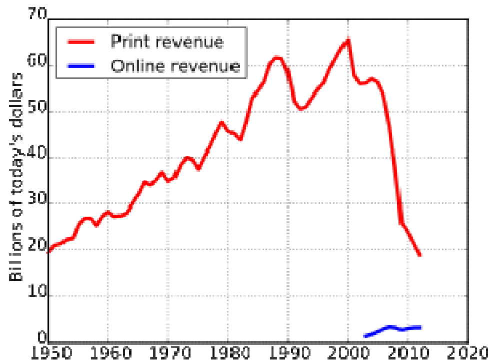


Fig 3.20: US Newspaper Advertising Revenue (Newspaper Association of America published data)

With the Internet came many new advertising opportunities. Popup, Flash, banner, Popunder, advergaming, and email advertisements (all of which are often unwanted or spam in the case of email) are now commonplace. Particularly since the rise of "entertaining" advertising, some people may like an advertisement enough to wish to watch it later or show a friend. In general, the advertising community has not yet made this easy, although some have used the Internet to widely distribute their ads to anyone willing to see or hear them. In the last three-quarters of 2009 mobile and internet advertising grew by 18% and 9% respectively. Older media advertising saw declines: −10.1% (TV), −11.7% (radio), −14.8% (magazines) and −18.7% (newspapers).

Niche marketing
Another significant trend regarding future of advertising is the growing importance of the niche market using niche or targeted ads. Also brought about by the Internet and the theory of the long tail, advertisers will have an increasing ability to reach specific audiences. In the past, the most efficient way to deliver a message was to blanket the largest mass market audience possible. However, usage tracking, customer profiles and the growing popularity of niche content brought about by everything from blogs to social networking sites, provide advertisers with audiences that are smaller but much better defined, leading to ads that are more relevant to viewers and more effective for companies' marketing products. Among others, Comcast Spotlight is one such advertiser employing this method in their video on demand menus. These advertisements are targeted to a specific group and can be viewed by anyone wishing to find out more about a particular business or practice, from their home. This causes the viewer to become proactive and actually choose what advertisements they want to view.

Google AdSense is an example of niche marketing. Google calculates the primary purpose of a website and adjusts ads accordingly; it uses key words on the page (or even in emails) to find the general ideas of topics disused and places ads that will most likely be clicked on by viewers of the email account or website visitors.

Crowdsourcing
The concept of crowdsourcing has given way to the trend of user-generated advertisements. User-generated ads are created by people, as opposed to an advertising agency or the company themselves, often resulting from brand sponsored advertising competitions. For the 2007 Super Bowl, the Frito-Lays division of PepsiCo held the *Crash the Super Bowl* contest, allowing people to create their own Doritos commercial. Chevrolet held a similar competition for their Tahoe line of SUVs. Due to the success of the Doritos user-generated ads in the 2007 Super Bowl, Frito-Lays relaunched the competition for the 2009 and 2010 Super Bowl. The resulting ads were among the most-watched and most-liked Super Bowl ads. In fact, the winning ad that aired in the 2009 Super Bowl was ranked by the USA Today Super Bowl Ad Meter as the top ad for the year while the winning ads that aired in the 2010 Super Bowl were found by Nielsen's BuzzMetrics to be the "most buzzed-about". Another example of companies using crowdsourcing successfully is the beverage company Jones Soda that encourages consumers to participate in the label design themselves.

This trend has given rise to several online platforms that host user-generated advertising competitions on behalf of a company. Founded in 2007, Zooppa has launched ad competitions for brands such as Google, Nike, Hershey's, General Mills, Microsoft, NBC Universal, Zinio, and Mini Cooper. Crowdsourced remains controversial, as the long-term impact on the advertising industry is still unclear.

Global advertising
Advertising has gone through five major stages of development: domestic, export, international, multi-national, and global. For global advertisers, there are four, potentially competing, business objectives that must be balanced when developing worldwide advertising: building a brand while speaking with one voice, developing economies of scale in the creative process, maximising local

effectiveness of ads, and increasing the company's speed of implementation. Born from the evolutionary stages of global marketing are the three primary and fundamentally different approaches to the development of global advertising executions: exporting executions, producing local executions, and importing ideas that travel.

Advertising research is key to determining the success of an ad in any country or region. The ability to identify which elements and/or moments of an ad contribute to its success is how economies of scale are maximized. Once one knows what works in an ad, that idea or ideas can be imported by any other market. Market research measures, such as Flow of Attention, Flow of Emotion and branding moments provide insight into what is working in an ad in any country or region because the measures are based on the visual, not verbal, elements of the ad.

Foreign public messaging
Foreign governments, particularly those that own marketable commercial products or services, often promote their interests and positions through the advertising of those goods because the target audience is not only largely unaware of the forum as a vehicle for foreign messaging but also willing to receive the message while in a mental state of absorbing information from advertisements during television commercial breaks, while reading a periodical, or while passing by billboards in public spaces. A prime example of this messaging technique is advertising campaigns to promote international travel. While advertising foreign destinations and services may stem from the typical goal of increasing revenue by drawing more tourism, some travel campaigns carry the additional or alternative intended purpose of promoting good sentiments or improving existing ones among the target audience towards a given nation or region. It is common for advertising promoting foreign countries to be produced and distributed by the tourism ministries of those countries, so these ads often carry political statements and/or depictions of the foreign government's desired international public perception. Additionally, a wide range of foreign airlines and travel-related services which advertise separately from the destinations, themselves, are owned by their respective governments; examples include, though are not limited to, the Emirates airline (Dubai), Singapore Airlines (Singapore), Qatar Airways (Qatar), China Airlines (Taiwan/Republic of China), and Air China (People's Republic of China). By depicting their destinations, airlines, and other services in a favorable and pleasant light, countries market themselves to populations abroad in a manner that could mitigate prior public impressions.

Diversification
In the realm of advertising agencies, continued industry diversification has seen observers note that "big global clients don't need big global agencies any more". This is reflected by the growth of non-traditional agencies in various global markets, such as Canadian business TAXI and SMART in Australia and has been referred to as "a revolution in the ad world".

New technology
The ability to record shows on digital video recorders (such as TiVo) allow watchers to record the programs for later viewing, enabling them to fast forward through commercials. Additionally, as more seasons of pre-recorded box sets are offered for sale of television programs; fewer people watch the shows on TV. However, the fact that these sets are **sold**, means the company will receive additional profits from these sets.

To counter this effect, a variety of strategies have been employed. Many advertisers have opted for product placement on TV shows like Survivor. Other strategies include integrating advertising with internet-connected EPGs, advertising on companion devices (like smartphones and tablets) during the show, and creating TV apps. Additionally, some like brands have opted for social television sponsorship.

Advertising education
Advertising education has become popular with bachelor, master and doctorate degrees becoming available in the emphasis. A surge in advertising interest is typically attributed to the strong relationship advertising plays in cultural and technological changes, such as the advance of online social networking. A unique model for teaching advertising is the student-run advertising agency, where advertising students create campaigns for real companies. Organizations such as the American Advertising Federation establish companies with students to create these campaigns.

Purposes
Advertising is at the front of delivering the proper message to customers and prospective customers. The purpose of advertising is to convince customers that a company's services or products are the best, enhance the image of the company, point out and create a need for products or services, demonstrate new uses for established products, announce new products and programs, reinforce the salespeople's individual messages, draw customers to the business, and to hold existing customers.

Sales promotions and brand loyalty
Sales promotions are another way to advertise. Sales promotions are double purposed because they are used to gather information about what type of customers one draws in and where they are, and to jump start sales. Sales promotions include things like contests and games, sweepstakes, product giveaways, samples coupons, loyalty programs, and discounts. The ultimate goal of sales promotions is to stimulate potential customers to action.

One way to create brand loyalty is to reward consumers for spending time interacting with the brand. This method may come in many forms like rewards card, rewards programs and sampling.

Criticisms

Fig 3.21 Mobstr - Visual Pollution, London (5914547783)

While advertising can be seen as necessary for economic growth, it is not without social costs. Unsolicited commercial e-mail and other forms of spam have become so prevalent as to have become a major nuisance to users of these services, as well as being a financial burden on internet service providers. Advertising is increasingly invading public spaces, such as schools, which some critics argue is a form of child exploitation.

One of the most controversial criticisms of advertisement in the present day is that of the predominance of advertising of foods high in sugar, fat, and salt specifically to children. Critics claim that food advertisements targeting children are exploitive and are not sufficiently balanced with proper nutritional education to help children understand the consequences of their food choices. Additionally, children may not understand that they are being sold something, and are therefore more impressionable. Michelle Obama has criticized large food companies for advertising unhealthy foods largely towards children and has requested that food companies either limit their advertising to children or advertise foods that are more in line with dietary guidelines. The other criticisms include the change that are brought by those advertisements on the society and also the deceiving ads that are aired and published by the corporations. Cosmetic and health industry are the ones which exploited the highest and created reasons of concern.

Regulation

There have been increasing efforts to protect the public interest by regulating the content and the influence of advertising. Some examples include restrictions for advertising alcohol, tobacco or gambling imposed in many countries, as well as the bans around advertising to children, which exist in parts of Europe. Advertising regulation focuses heavily on the veracity of the claims and as such, there are often tighter restrictions placed around advertisements for food and healthcare products.

The advertising industries within some countries rely less on laws and more on systems of self-regulation. Advertisers and the media agree on a code of advertising standards that they attempt to uphold. The general aim of such codes is to ensure that any advertising is 'legal, decent, honest and truthful'. Some self-regulatory organizations are funded by the industry, but remain independent, with the intent of upholding the standards or codes like the Advertising Standards Authority in the UK.

In the UK, most forms of outdoor advertising such as the display of billboards is regulated by the UK Town and County Planning system. Currently, the display of an advertisement without consent from the Planning Authority is a criminal offense liable to a fine of £2,500 per offense. In the US, many communities believe that many forms of outdoor advertising blight the public realm. As long ago as the 1960s in the US there were attempts to ban billboard advertising in the open countryside. Cities such as São Paulo have introduced an outright ban with London also having specific legislation to control unlawful displays.

Some governments restrict the languages that can be used in advertisements, but advertisers may employ tricks to try avoiding them. In France for instance, advertisers sometimes print English words in bold and French translations in fine print to deal with Article 120 of the 1994 Toubon Law limiting the use of English).

The advertising of pricing information is another topic of concern for governments. In the United States for instance, it is common for businesses to only mention the existence and amount of applicable taxes at a later stage of a transaction. In Canada and New Zealand, taxes can be listed as separate items, as long as they are quoted up-front. In most other countries, the advertised price must include all applicable taxes, enabling customers to easily know how much it will cost them.

Theory

Hierarchy-of-effects models
Various competing models of hierarchies of effects attempt to provide a theoretical underpinning to advertising practice.

The model of Clow and Baack clarifies the objectives of an advertising campaign and for each individual advertisement. The model postulates six steps a buyer moves through when making a purchase:

Awareness
Knowledge
Liking
Preference
Conviction
Purchase

Means-End Theory suggests that an advertisement should contain a message or means that leads the consumer to a desired end-state.

Leverage Points aim to move the consumer from understanding a product's benefits to linking those benefits with personal values.

Marketing mix
The marketing mix was proposed by professor E. Jerome McCarthy in the 1960s. It consists of four basic elements called the "**four Ps**". **Product** is the first P representing the actual product. **Price** represents the process of determining the value of a product. **Place** represents the variables of getting the product to the consumer such as distribution channels, market coverage and movement organization. The last P stands for **Promotion** which is the process of reaching the target market and convincing them to buy the product.

In the 1990s, the concept of **four Cs** was introduced as a more customer-driven replacement of four P's. There are two theories based on four Cs: Lauterborn's four Cs (*consumer*, *cost*, *communication*, *convenience*) and Shimizu's four Cs (*commodity*, *cost*, *communication*, *channel*) in the **7Cs Compass Model** (Co-marketing). Communications can include advertising, sales promotion, public relations, publicity, personal selling, corporate identity, internal communication, SNS, MIS.

Advertising research

Advertising research is a specialized form of research that works to improve the effectiveness and efficiency of advertising. It entails numerous forms of research which employ different methodologies. Advertising research includes pre-testing (also known as copy testing) and post-testing of ads and/or campaigns.

Pre-testing includes a wide range of qualitative and quantitative techniques, including: focus groups, in-depth target audience interviews (one-on-one interviews), small-scale quantitative studies and physiological measurement. The goal of these investigations is to better understand how different groups respond to various messages and visual prompts, thereby providing an assessment of how well the advertisement meets its communications goals.

Post-testing employs many of the same techniques as pre-testing, usually with a focus on understanding the change in awareness or attitude attributable to the advertisement. With the emergence of digital advertising technologies, many firms have begun to continuously post-test ads using real-time data. This may take the form of A/B split-testing or multivariate testing.

Continuous ad tracking and the Communicus System are competing examples of post-testing advertising research types.

Semiotics

Meanings between consumers and marketers depict signs and symbols that are encoded in everyday objects. Semiotics is the study of signs and how they are interpreted. Advertising has many hidden signs and meanings within brand names, logos, package designs, print advertisements, and television advertisements. Semiotics aims to study and interpret the message being conveyed in (for example) advertisements. Logos and advertisements can be interpreted at two levels – known as the surface level and the underlying level. The surface level uses signs creatively to create an image or personality for a product. These signs can be images, words, fonts, colors, or slogans. The underlying level is made up of hidden meanings. The combination of images, words, colors, and slogans must be interpreted by the audience or consumer. The "key to advertising analysis" is the signifier and the signified. The signifier is the object and the signified is the mental concept. A product has a signifier and a signified. The signifier is the color, brand name, logo design, and technology. The signified has two meanings known as denotative and connotative. The denotative meaning is the meaning of the product. A television's denotative meaning might be that it is high definition. The connotative meaning is the product's deep and hidden meaning. A connotative meaning of a television would be that it is top-of-the-line.

Apple's commercials used a black silhouette of a person that was the age of Apple's target market. They placed the silhouette in front of a blue screen so that the picture behind the silhouette could be constantly changing. However, the one thing that stays the same in these ads is that there is music in the background and the silhouette is listening to that music on a white iPod through white headphones. Through advertising, the white color on a set of earphones now signifies that the music device is an iPod. The white color signifies almost all of Apple's products.

The semiotics of gender plays a key influence on the way in which signs are interpreted. When considering gender roles in advertising, individuals are influenced by three categories. Certain characteristics of stimuli may enhance or decrease the elaboration of the message (if the product is perceived as feminine or masculine). Second, the characteristics of individuals can affect attention and elaboration of the message (traditional or non-traditional gender role orientation). Lastly, situational factors may be important to influence the elaboration of the message.

There are two types of marketing communication claims-objective and subjective. Objective claims stem from the extent to which the claim associates the brand with a tangible product or service feature. For instance, a camera may have auto-focus features. Subjective claims convey emotional, subjective, impressions of intangible aspects of a product or service. They are non-physical features of a product or service that cannot be directly perceived, as they have no physical reality. For instance the brochure has a beautiful design. Males tend to respond better to objective marketing-communications claims while females tend to respond better to subjective marketing communications claims.

Voiceovers are commonly used in advertising. Most voiceovers are done by men, with figures of up to 94% having been reported. There have been more female voiceovers in recent years, but mainly for food, household products, and feminine-care products.

Gender effects in the processing of advertising

According to a 1977 study by David Statt, females process information comprehensively, while males process information through heuristic devices such as procedures, methods or strategies for solving problems, which could have an effect on how they interpret advertising. According to this study, men prefer to have available and apparent cues to interpret the message, whereas females engage in more creative, associative, imagery-laced interpretation. Later research by a Danish team found that advertising attempts to persuade men to improve their appearance or performance, whereas its approach to women aims at transformation toward an impossible ideal of female presentation.In Paul Suggett's article "The Objectification of Women in Advertising" he discusses the negative impact that these women in advertisements, who are too perfect to be real, have on women in real life. And gives men and young men a skewed and unrealistic expectation of women. Advertising's manipulation of women's aspiration to these ideal types as portrayed in film, in erotic art, in advertising, on stage, within music videos, and through other media exposures requires at least a conditioned rejection of female reality, and thereby takes on a highly ideological cast. Studies show that these expectations of women and young girls negatively impact their views about their bodies and appearances.These advertisements are directed towards men Not everyone agrees: one critic viewed this monologic, gender-specific interpretation of advertising as excessively skewed and politicized. There are some companies however like Dove and Aerie that are creating commercials to portray more natural women that are less photo shopped so more women and young girls are able to relate to them. These commercials give more natural beauty standards.

More recent research by Martin (2003) reveals that males and females differ in how they react to advertising depending on their mood at the time of exposure to the ads, and on the affective tone of the advertising. When feeling sad, males prefer happy ads to boost their mood. In contrast, females prefer happy ads when they are feeling happy. The television programs in which ads are embedded influence a viewer's mood state. Susan Wojcicki, author of the article "Ads that Empower Women don’t just Break Stereotypes—They’re also Effective" discusses how advertising to women has changed since the first Barbie commercial where a little girl tells the doll that, she wants to be just like her. Little girls grow up watching advertisements of scantily clad women advertising things from trucks to burgers and Wojcicki states it shows girls that they're either arm candy or eye candy. But in recent studies, ads that are shown empowering women such as the #Like A Girl ad campaign by Always have a better effect on women. When women see women being empowered on these ads, they're more likely to watch and share the videos. The views of these ads on sites like YouTube doubled and are more likely to be watched and shared by women.

CHECK YOUR PROGRESS

Elaborate on the concept of Advertisement.

Describe the historical background of Advertisement.

Discuss the cultural impact of advertisement.

Describe the impact of commercial television on advertisement. Explain various schemes of classification for advertisement. Describe the media used in advertisement and their relative distribution. Describe the features of advertisements on TV. Describe the features of advertisements on radio. Describe the features of advertisements on internet. Explain the concept of Covert advertising. Describe the features of advertisements on Print media. Describe the features of advertisements on outdoor locations. Explain how novelty items are used for advertisement. Elaborate on the concept of celebrity branding. Discuss the rise of new media in advertisement. Elaborate on the concept of niche marketing. Discuss the concept of crowdsourcing. Discuss the criticism to advertisement. What are the various regulations to the business of advertisement. Explain the Hierarchy-of-effects models. Discuss the concept advertisement research. Discuss the concept of Semiotics. Elaborate the study which shows that women respond differently to the advertisements than men.

3.05 SALES

Sales is activity related to selling or the amount of goods or services sold in a given time period.

The *seller* or the provider of the goods or services completes a sale in response to an acquisition, appropriation, requisition or a direct interaction with the *buyer* at the point of sale. There is a passing of title (property or ownership) of the item, and the settlement of a price, in which agreement is reached on a price for which transfer of ownership of the item will occur. The *seller*, not the purchaser generally executes the sale and it may be completed prior to the obligation of payment. In the case of indirect interaction, a person who sells goods or service on behalf of the owner is known as a **salesman** or **saleswoman** or **salesperson**, but this often refers to someone selling goods in a store/shop, in which case other terms are also common, including *salesclerk, shop assistant*, and *retail clerk*.

In common law countries, sales are governed generally by the common law and commercial codes. In the United States, the laws governing sales of goods are somewhat uniform to the extent that most jurisdictions have adopted Article 2 of the Uniform Commercial Code, albeit with some non-uniform variations.

Definition

A person or organization expressing an interest in acquiring the offered item of value is referred to as a potential buyer, prospective customer or prospect. Buying and selling are understood to be two sides of the same "coin" or transaction. Both seller and buyer engage in a process of negotiation to consummate the exchange of values. The exchange, or selling, process has implied rules and identifiable stages. It is implied that the selling process will proceed fairly and ethically so that the parties end up nearly equally rewarded. The stages of selling, and buying, involve getting acquainted, assessing each party's need for the other's item of value, and determining if the values to be exchanged are equivalent or nearly so, or, in buyer's terms, "worth the price". Sometimes, sellers have to use their own experiences when selling products with appropriate discounts.

From a management viewpoint it is thought of as a part of marketing, although the skills required are different. Sales often forms a separate grouping in a corporate structure, employing separate specialist operatives known as *salespersons* (singular: *salesperson*). Selling is considered by many to be a sort of persuading "art". Contrary to popular belief, the methodological approach of selling refers to a *systematic process of repetitive and measurable milestones, by which a salesman relates his or her offering of a product or service in return enabling the buyer to achieve their goal in an economic way*. While the sales process refers to a systematic process of repetitive and measurable milestones, the definition of the selling is somewhat ambiguous due to the close nature of advertising, promotion, public relations, and direct marketing.

Selling is the profession-wide term, much like marketing defines a profession. Recently, attempts have been made to clearly understand who is in the sales profession, and who is not. There are many articles looking at marketing, advertising, promotions, and even public relations as ways to create a unique transaction.

Two common terms used to describe a salesperson are "Farmer" and "Hunter". The reality is that most professional sales people have a little of both. A hunter is often associated with aggressive personalities who use aggressive sales technique. In terms of sales methodology a hunter refers to a person whose focus is on bringing in and closing deals. This process is called "sales capturing". An example is a commodity sale such as a long distance sales person, shoe sales person and to a degree a car sales person. Their job is to find and convert buyers. A sales farmer is someone who creates sales demand by activities that directly influence and alter the buying process.

Many believe that the focus of selling is on the human agents involved in the exchange between buyer and seller. Effective selling also requires a systems approach, at minimum involving roles that sell, enable selling, and develop sales capabilities. Selling also involves salespeople who possess a specific set of sales skills and the knowledge required to facilitate the exchange of value between buyers and sellers that is unique from marketing, advertising, etc.

Within these three tenets, the following definition of professional selling is offered by the American Society for Training and Development (ASTD):

> “ The holistic business system required to effectively develop, manage, enable, and execute a mutually beneficial, interpersonal exchange of goods and/or services for equitable value. ”

Team selling is one way to influence sales. Team selling is "a group of people representing the sales department and other functional areas in the firm, such as finance, production, and research and development". (Spiro) Team selling came about in the 1990s through total quality management (TQM). TQM occurs when companies work to improve their customer satisfaction by constantly improving all of their operations.

Relationships with marketing

Marketing and sales differ greatly, but generally have the same goal. Selling is the final stage in marketing, which also includes pricing, promotion, place and product (the 4 P's). A marketing department in an organization has the goals of increasing the desirability and value to the customer and increasing the number and engagement of interactions between potential customers and the organization. Achieving this goal may involve the sales team using promotional techniques such as advertising, sales promotion, publicity, and public relations, creating new sales channels, or creating new products (new product development), among other things. It can also include bringing the potential customer to visit the organization's website(s) for more information, or to contact the organization for more information, or to interact with the organization via social media such as Twitter, Facebook and blogs. Social values also play a major role in consumer decision processes.

The field of sales process engineering views "sales" as the output of a larger system, not just as the output of one department. The larger system includes many functional areas within an organization. From this perspective, "sales" and "marketing" (among others, such as "customer service") label for a number of processes whose inputs and outputs supply one another to varying degrees. In this context, improving an "output" (such as sales) involves studying and improving the broader sales process, as in any system, since the component functional areas interact and are interdependent.

Many large corporations structure their marketing departments so they are directly integrated with all lines of business. They create multiple teams with a singular focus and the managers of these teams must coordinate efforts in order to drive profits and business success. For example, an "inbound" focused campaign seeks to drive more customers "through the door", giving the sales department a better chance of selling their product to the consumer. A good marketing program would address any potential downsides as well.

The sales department would aim to improve the interaction between the customer and the sales facility or mechanism (example, web site) and/or salesperson.As Sales is the forefront of any organization, this would always need to take place before any other business process may begin. Sales management would break down the selling process and then increase the effectiveness of the discrete processes as well as the interaction between processes. For example, in many out-bound sales environments, the typical process includes out-bound calling, the sales pitch, handling objections, opportunity identification, and the close. Each step of the process has sales-related issues, skills, and training needs, as well as marketing solutions to improve each discrete step, as well as the whole process. In many cases becoming a salesperson is a default career as not many people aspire to be a salesman but rather fall into the job due to circumstances. It can be highly rewarding as you receive remuneration in the form of a salary and also commission.

One further common complication of marketing involves the inability to measure results for a great deal of marketing initiatives. In essence, many marketing and advertising executives often lose sight of the objective of sales/revenue/profit, as they focus on establishing a creative/innovative program, without concern for the top or bottom lines – a fundamental pitfall of marketing for marketing's sake.

Many companies find it challenging to get marketing and sales on the same page. The two departments, although different in nature, handle very similar concepts and have to work together for sales to be successful. Building a good relationship between the two that encourages communication can be the key to success – even in a down economy.

Industrial marketing

The idea that marketing can potentially eliminate the need for sales people depends entirely on context. For example, this may be possible in some B2C situations; however, for many B2B transactions (for example, those involving industrial organizations) this is mostly impossible. Another dimension is the value of the goods being sold. Fast-moving consumer-goods (FMCG) require no sales people at the point of sale to get them to jump off the supermarket shelf and into the customer's trolley. However, the purchase of large mining equipment worth millions of dollars will require a sales person to manage the sales process – particularly in the face of competitors. Small and medium businesses selling such large ticket items to a geographically-disperse client base use manufacturers' representatives to provide these highly personal service while avoiding the large expense of a captive sales force.

Sales and marketing alignment and integration

Another area of discussion involves the need for alignment and integration between corporate sales and marketing functions. According to a report from the Chief Marketing Officer (CMO) Council, only 40 percent of companies have formal programs, systems or processes in place to align and integrate the two critical functions.

Traditionally, these two functions, as referenced above, have operated separately, left in siloed areas of tactical responsibility. Glen Petersen's book *The Profit Maximization Paradox* sees the changes in the competitive landscape between the 1950s and the time of writing as so dramatic that the complexity of choice, price and opportunities for the customer forced this seemingly simple and integrated relationship between sales and marketing to change forever. Petersen goes on to highlight that salespeople spend approximately 40 percent of their time preparing customer-facing deliverables while leveraging less than 50 percent of the materials created by marketing, adding to perceptions that marketing is out of touch with the customer and that sales is resistant to messaging and strategy.

Methods

List of methods

A sale can take place through:

- **Direct sales**, involving person to person contact (Modern direct selling includes sales made through the party plan, one-on-one demonstrations, and other personal contact arrangements as well as internet sales. Some sources have defined direct selling as: "The direct personal presentation, demonstration, and sale of products and services to consumers, usually in their homes or at their jobs."
  Direct selling consists of two main business models: single-level marketing, in which a direct seller makes money by buying products from a parent organization and selling them directly to customers, and multi-level marketing (also known as *network marketing* or *person-to-person marketing*), in which the direct seller may earn money from both direct sales to customers and by sponsoring new direct sellers and potentially earning a commission from their efforts)

- Channel sales, an indirect sales model, which differs from direct sales. Channel selling is a way for ("B2B") sellers to reach the ("B2B") and ("B2C") markets through distributors, re-sellers or value added re-sellers VARS.
- Pro forma sales
- Agency-based
  - Sales agents (for example in real estate or in manufacturing)
  - Sales outsourcing through direct branded representation
  - Transaction sales
  - Consultative sales
  - Complex sales (**Complex sales**, also known as **Enterprise sales**, can refer to a method of trading sometimes used by organizations when procuring large contracts for goods and/or services where the customer takes control of the selling process by issuing a Request for Proposal (RFP) and requiring a proposal response from previously identified or interested suppliers. Complex sales involve long sales cycles with multiple decision makers. Multiple stakeholders and stakeholder groups contribute to every complex sale.)
  - Consignment
  - Telemarketing or telesales
  - Retail or consumer
- Traveling salesman
  - Door-to-door methods
  - Hawking
- Request for proposal – An invitation for suppliers, through a bidding process, to submit a proposal on a specific product or service. An RFP usually represents part of a complex sales process, also known as "enterprise sales".
- Business-to-business – Business-to-business ("B2B") sales are likely to be larger in terms of volume, economic value and complexity than business-to-consumer ("B2C") sales. Because of this complexity, there is a need to manage the relationships between the buying and selling organisations, for example using Peter Cheverton's relationship models and the stakeholder map by Anderson, Bryson and Crosby
- Electronic
  - Web – Business-to-business ("B2B") and business-to-consumer ("B2C")
  - Electronic Data Interchange (EDI) – A set of standard for structuring information to be electronically exchanged between and within businesses

Indirect, human-mediated but with indirect contact
- Mail-order
- vending machine

Sales Techniques:

- Selling technique
- Consultative selling
- Sales enablement
- Solution selling
- Conceptual selling
- Strategic selling
- Transactional selling
- Sales Negotiation
- Reverse Selling
- Upselling
- Cross-selling
- Paint-the-Picture
- take away
- Sales Habits
- Relationship Selling
- Sales outsourcing
- Cold calling
- Guaranteed sale
- Needs-based selling
- Professional Selling Skills
- Persuasive selling
- Hard Selling
- Price based selling
- Target account selling
- Sandler Selling System
- Challenger Sales
- Action Selling
- Auctions
- Social Selling
- Personal selling

Sales agents

Agents in the sales process can represent either of two parties in the sales process; for example:

- Sales broker, seller agency, seller agent, seller representative: This is a traditional role where the salesman represents a person or company on the selling end of a deal.
- Buyers broker or Buyer brokerage: This is where the salesman represents the consumer making the purchase. This is most often applied in large transactions.
- Disclosed dual agent:This is where the salesman represents both parties in the sale and acts as a mediator for the transaction. The role of the salesman here is to oversee that both parties receive an honest and fair deal, and is responsible to both.
- Transaction broker: This is where the salesperson represents neither party but handles the transaction only. The seller owes no responsibility to either party getting a fair or honest deal, just that all of the papers are handled properly.
- Sales outsourcing involves direct branded representation where the sales representatives are recruited, hired, and managed by an external entity but hold quotas, represent themselves

as the brand of the client, and report all activities (through their own sales management channels) back to the client. It is akin to a virtual extension of a sales force (see sales outsourcing).

Sales managers aim to implement various sales strategies and management techniques in order to facilitate improved profits and increased sales volume. They are also responsible for coordinating the sales and marketing department as well as oversight concerning the fair and honest execution of the sales process by their agents.

Salesperson: The primary function of professional salespeople is to generate and close business resulting in revenue. The sales person will accomplish their primary function through a variety of means including phone calls, email, social media, networking, and cold calling. The primary objective of the successful salesperson is to find the consumers to sell to. Sales is often referred to as a "numbers game" because a general law of averages and pattern of successful closing of business will emerge through heightened sales activity. These activities include but are not limited to: locating prospects, fostering relationships with prospects, building trust with future clients, identifying and filling needs of consumers, and therefore turning prospective customers into actual ones. Many tools are used by successful salespeople, the most important of which is questioning which can be defined as a series of questions and resulting answers allowing the salesperson to understand a customer's goals and requirements relevant to the product. The creation of value or perceived value is the result of taking the information gathered, analyzing the goals and needs of the prospective customer and leveraging the products and/or services the salesperson's firm represents or sells in a way that most effectively achieves the prospective clients goals and/or suits their needs. Effective salespeople will package their offering and present their proposed solution in a way that leads the prospective customer to the conclusion that they acquire the solution, resulting in revenue and profit for the salesperson and the organization they represent.

Internet Sales Professionals: These people are primarily responsible for ensuring immediate response to the leads generated via social media, website or email campaigns.

Inside sales vs. outside sales

Since the advent of the telephone, a distinction has been made between "inside sales" and "outside sales" although it is generally agreed that those terms have no hard-and-fast definition. In the United States, the Fair Labor Standards Act defines outside sales representatives as "employees [who] sell their employer's products, services, or facilities to customers away from their employer's place(s) of business, in general, either at the customer's place of business or by selling door-to-door at the customer's home" while defining those who work "from the employer's location" as inside sales. Inside sales generally involves attempting to close business primarily over the phone via telemarketing, while outside sales (or "field" sales) will usually involve initial phone work to book sales calls at the potential buyer's location to attempt to close the deal in person. Some companies have an inside sales department that works with outside representatives and book their appointments for them. Inside sales sometimes refers to upselling to existing customers.

CHECK YOUR PROGRESS

Describe the concept of sales.

Explain the relationship between marketing and sales.

Elaborate the concept of industrial marketing.

Describe the various ways in which sales can take place.

Describe at least five sales techniques.

Explian the various sales agents.

Explain the roles of salespersons and sales managers.

Distinguish between inside sales and outside sales.

3.06 SALES PROMOTION

Sales promotion is one of the five aspects of the promotional mix. (The other 4 parts of the promotional mix are advertising, personal selling, direct marketing and publicity/public relations.) Media and non-media marketing communication are employed for a pre-determined, limited time to increase consumer demand, stimulate market demand or improve product availability. Examples include contests, coupons, freebies, loss leaders, point of purchase displays, premiums, prizes, product samples, and rebates.

Sales promotions can be directed at either the customer, sales staff, or distribution channel members (such as retailers). Sales promotions targeted at the consumer are called **consumer sales promotions**. Sales promotions targeted at retailers and wholesale are called **trade sales promotions**. Some sale promotions, particularly ones with unusual methods, are considered gimmicks by many.

Sales promotion includes several communications activities that attempt to provide added value or incentives to consumers, wholesalers, retailers, or other organizational customers to stimulate immediate sales. These efforts can attempt to stimulate product interest, trial, or purchase. Examples of devices used in sales promotion include coupons, samples, premiums, point-of-purchase (POP) displays, contests, rebates, and sweepstakes.

Sales promotion is implemented to attract new customers, to hold present customers, to counteract competition, and to take advantage of opportunities that are revealed by market research. It is made up of activities, both outside and inside activities, to enhance company sales. Outside sales promotion activities include advertising, publicity, public relations activities, and special sales events. Inside sales promotion activities include window displays, product and promotional material display and promotional programs such as premium awards and contests.

Sale promotions often come in the form of discounts. Discounts impact the way consumers think and behave when shopping. The type of savings and its location can affect the way consumers view a product and affect their purchase decision. The two most common discounts are price discounts ("on sale items") and bonus packs ("bulk items"). Price discounts are the reduction of an original sale by a certain percentage while bonus packs are deals in which the consumer receives more for the original price. Many companies present different forms of discounts in advertisements, hoping to convince consumers to buy their products.

Consumer sales promotion types

Short term sales to achieve short term objectives

- Price deal: A temporary reduction in the price, such as 50% off.
- Loyal Reward Program: Consumers collect points, miles, or credits for purchases and redeem them for rewards.
- Cents-off deal: Offers a brand at a lower price. Price reduction may be a percentage marked on the package.
- Price-pack/Bonus packs deal: The packaging offers a consumer a certain percentage more of the product for the same price (for example, 25 percent extra). This is another type of deal "in which customers are offered more of the product for the same price". For example, a sales company may offer their consumers a bonus pack in which they can receive two products for the price of one. In these scenarios, this bonus pack is framed as a gain because buyers believe that they are obtaining a free product. The purchase of a bonus pack, however, is not always beneficial for the consumer. Sometimes consumers will end up spending money on an item they would not normally buy had it not been in a bonus pack. As a result, items bought in a bonus pack are often wasted and is viewed as a "loss" for the consumer.
- Coupons: coupons have become a standard mechanism for sales promotions.
- Loss leader: the price of a popular product is temporarily reduced below cost in order to stimulate other profitable sales
- Free-standing insert (FSI): A coupon booklet is inserted into the local newspaper for delivery.
- Checkout dispensers: On checkout the customer is given a coupon based on products purchased.
- Mobile couponing: Coupons are available on a mobile phone. Consumers show the offer on a mobile phone to a salesperson for redemption.
- Online interactive promotion game: Consumers play an interactive game associated with the promoted product.
- Rebates: Consumers are offered money back if the receipt and barcode are mailed to the producer.
- Contests/sweepstakes/games: The consumer is automatically entered into the event by purchasing the product.
- Point-of-sale displays:-
    - Aisle interrupter: A sign that juts into the aisle from the shelf.
    - Dangler: A sign that sways when a consumer walks by it.
    - Dump bin: A bin full of products dumped inside.
    - Bidding portals: Getting prospects
    - Glorifier: A small stage that elevates a product above other products.
    - Wobbler: A sign that jiggles.
    - Lipstick Board: A board on which messages are written in crayon.
    - Necker: A coupon placed on the 'neck' of a bottle.
    - YES unit: "your extra salesperson" is a pull-out fact sheet.
    - Electroluminescent: Solar-powered, animated light in motion.
- Kids eat free specials: Offers a discount on the total dining bill by offering 1 free kids meal with each regular meal purchased.

- Sampling: Consumers get one sample for free, after their trial and then could decide whether to buy or not.

Online deals vs. In-store deals

There are different types of discounts available online versus in the stores. On-shelf couponing: Coupons are present at the shelf where the product is available. * On-line couponing: Coupons are available online. Consumers print them out and take them to the store.Although discounts can be found online and in stores, there is a different thought process when shopping in each location. For example, "online shoppers are more price-sensitive because of the readily available low search cost and direct price comparisons". Consumers can easily go to other websites and find better deals as opposed to physically going to various stores. In addition, buyers tend to refrain from purchasing bonus packs online because of the skepticism (of fraud and scams) that may come with the deal. Since "…bonus packs are more difficult than price discounts to process online, they are more difficult and effortful for the consumer to understand". For example, a buy-one-get-one-free deal on a website requires more work than the same bonus pack offered in a store. Online, consumers have to deal with payment processing, shipping and handling fees, and days waiting for the products' arrival, while in a store, the products are available without those additional steps and delays.

Trade sales promotion techniques

- Trade allowances: short term incentive offered to induce a retailer to stock up on a product.
- Dealer loader: An incentive given to induce a retailer to purchase and display a product.
- Trade contest: A contest to reward retailers that sell the most product.
- Point-of-purchase displays: Used to create the urge of "impulse" buying and selling your product on the spot.
- Training programs: dealer employees are trained in selling the product.
- Push money: also known as "spiffs". An extra commission paid to retail employees to push products.
- Trade discounts (also called functional discounts): These are payments to distribution channel members for performing some function .

Retail Mechanics

Retailers have a stock number of retail 'mechanics' that they regularly roll out or rotate for new marketing initiatives.

- Buy x get y free a.k.a. BOGOF for Buy One Get One Free
- Three for two
- Buy a quantity for a lower price
- Get x% of discount on weekdays.
- Free gift with purchase

Consumer Thought Process

Meaningful Savings: Gain or Loss

Many discounts are designed to give consumers the perception of saving money when buying products, but not all discounted prices are viewed as favorable to buyers. Therefore, before making a purchase, consumers may weigh their options as either a gain or a loss to avoid the risk of losing money on a purchase. A "gain" view on a purchase results in chance taking. For example, if there is a buy-one-get-one-half-off discount that seems profitable, a shopper will buy the product. On the other hand, a “loss” viewpoint results in consumer aversion to taking any chances. For instance, consumers will pass on a buy-three-get-one-half-off discount if they believe they are not benefitting from the deal. Specifically, consumers will consider their options because “…the sensation of loss is 2.5 times greater than the sensation of gain for the same value”.

Impulse Buying
Impulse buying results from consumers’ failure to weigh their options before buying a product. Impulse buying is “any purchase that a shopper makes that has not been planned… [and is] sudden and immediate”. For example, if a consumer has no intention of buying a product before entering a store, but purchases an item without any forethought, that is impulse buying. Product manufactures want to promote and encourage this instant purchase impulse in consumers. Buyers can be very quick to make purchases without thinking about the consequences when a product is perceived to be a good deal. Therefore, sales companies “increasingly implement promotional campaigns that will be effective in triggering consumer impulse buying behavior” to increase sales and profit.

Comparing Prices
Many consumers read left-to-right, and therefore, compare prices in the same manner. For example, if the price of a product is $93 and the sales price is $79, people will initially compare the left digits first (9 and 7) and notice the two digit difference. However, because of this habitual behavior, “consumers may perceive the ($14) difference between $93 and $79 as greater than the ($14) difference between $89 and $75”. As a result, consumers often mistakenly believe they are receiving a better deal with the first set of prices based on the left digits solely. Because of that common misconception, companies capitalize on this sales pricing strategy more often than not to increase sales.

Right Digit Effect
The right digit effect focuses on the right digits of prices when the left digits are the same. In other words, prices like $45 and $42 force consumers to pay more attention to the right digits (the 2 and 5) to determine the discount received. This effect also “implies that consumers will perceive larger discounts for prices with small right digit endings, than for large right digit endings. For example, in a $32-to-$31 price reduction, consumers will believe to have received a greater deal than a $39-to-$38 price reduction. As a result, companies may use discounts with smaller right digits to mislead consumers into thinking they are receiving a better deal and increasing profit. However, consumers also are deceived by the infamous 9-ending prices. “The right digit effect [also] relates to consumers’ tendency to identify 9-ending prices as sale (rather than regular) prices or to associate them with a discount. For example, a regular price of $199 is mistakenly viewed as a sale or discount by consumers. Sales companies most commonly use this approach because the misinterpretation of consumers usually results in an increase of sales and profit.

Framing Effect
The Framing Effect is “the phenomenon that occurs when there is a change in an individual’s preference between two or more alternatives caused by the way the problem is presented”. In other words, the format in which something is presented will affect a person’s viewpoint. This theory consists of three subcategories: risky choice framing, attribute framing and goal framing. Risky choice framing references back to the gain-or-loss thought processes of consumers. Consumers will take chances if the circumstance is profitable for them and avoid chance-taking if it is not. Attribute framing deals with one key phrase or feature of a price discount that is emphasized to inspire consumer shopping. For example, the terms “free” and “better” are used commonly to lure in shoppers to buy a product. Goal framing places pressure on buyers to act hastily or face the

consequences of missing out on a definite price reduction. A "limited time only" deal, for example, attempts to motivate buyers to make a purchase quickly, or buy on impulse, before the time runs out.

Outside Forces

Although there are aspects that can determine a consumer's shopping behavior, there are many outside factors that can influence the shoppers' decision in making a purchase. For example, even though a product's price is discounted, the quality of that product may dissuade the consumer from buying the item. If the product has poor customer reviews or has a short "life span," shoppers will view that purchase as a loss and avoid taking a chance on it. A product can also be viewed negatively because of consumers' past experiences and expectations. For example, if the size of a product is misleading, buyers will not want to buy it. An item advertised as "huge," but is only one inch tall, will ward off consumers. Also, "the effects of personal characteristics, such as consumers' gender, subjective norms, and impulsivity" can also affect a consumer's purchase intentions. For example, a female will, generally, purchase a cosmetic product more often than a male. In addition, "some…shoppers may be unable to buy [a product]…because of financial constraints". Neither a discounted price nor a bonus pack has the ability to entice consumers if they cannot afford the product.

Political issues

Sales promotions have traditionally been heavily regulated in many advanced industrial nations, with the notable exception of the United States. For example, the United Kingdom formerly operated under a resale price maintenance regime in which manufacturers could legally dictate the minimum resale price for virtually all goods; this practice was abolished in 1964.

Most European countries also have controls on the scheduling and permissible types of sales promotions, as they are regarded in those countries as bordering upon unfair business practices. Germany is notorious for having the most strict regulations. Famous examples include the car wash that was barred from giving free car washes to regular customers and a baker who could not give a free cloth bag to customers who bought more than 10 rolls

3.07 PERSONAL SELLING

Personal selling refers to a occurs when a sales representative meets with a potential client for the purpose of transacting a sale. Many sales representatives rely on a sequential sales process that typically includes nine steps. Some sales representatives develop scripts for all or part of the sales process. The sales process can be used in face-to-face encounters and in telemarketing.

Definition

Personal selling can be defined as "the process of person-to-person communication between a salesperson and a prospective customer, in which the former learns about the customer's needs and seeks to satisfy those needs by offering the customer the opportunity to buy something of value, such as a good or service." The term may also be used to describe a situation where a company uses a sales force as one of the main ways it communicates with customers.

Selling roles

Sales activity can occur in the field by representatives who call on clients, in a retail or wholesale environment where sales personnel attend to customers by processing orders or in a telemarketing environment where the sales person makes telephone calls to prospects. Different types of sales roles can be identified:

Order takers refers to selling that occurs primarily at the wholesale or retail levels. Order processing involves determining the customer needs, pointing to inventory that meets the customer needs and completing the order.

Order getters refers to the in-field sales activity where a sales representative travels to the client's home or work place to makes a sales presentation in order to win new business or to maintain relations with existing clients.

Missionary selling is often seen as a sales support role. The missionary sales person distributes information about products or services, describes product attributes and leaves materials but does not normally close the sale. The missionary sales person often prepares the way for a field sales person. For example, a pharmaceutical sales representative may call on doctors and leave samples, manufacturer information such as results of clinical trials, copies of relevant journal articles etc. in an effort to persuade doctors to prescribe a medication or course of treatment.

Cold calling refers to a situation when a sales representative telephones or visits a customer without a prior appointment. Cold calling is often considered to be the most challenging of the sales activities. In a cold calling situation, the sales representative is likely to be more conscious of the client's time, and may seek to condense the sales process by combining the approach and the sales presentation into a single step.

Relationship selling (also known as *consultative selling*) refers to a sales practice that involves building and maintaining interactions with customers in order to enhance long term relationships. Relationship selling often involves a problem solving approach where the sales representative acts in a consultative role and becomes a partner in the client's problem-solving exercise. Relationship selling is often found in high-tech selling environments.

Fig 3.22 A counter sales assistant in a delicatessen offers a taste tests and provides expert advice on products and uses

Fig 3.23 A counter attendant in a fast food operation may be involved primarily in order taking

Call centres are primarily involved in cold-calling and work from prepared scripts

Fig 3.24 Missionary selling occurs when a salesperson makes a presentation in order to win new business

Fig 3.25 Breton onion salesman with bicycle travelling through Wales may be involved in cold calling on new clients and relationship selling for existing clients

Fig 3.26 A street hawker in Indonesia is engaged in direct selling

The nine step sales process

The first text to outline the steps in the selling process was published in 1918 by Norval Watkins. The basic steps, which have changed only a little since Watkins first proposed them, are prospecting, qualifying leads, preapproach, approach, need assessment, presentation, meeting objections, closing the sale and following up.

Fig 3.27: Steve Jobs delivers one of his impressive sales presentations

Prospecting–Identifying prospects or prospecting occurs when the sales person seeks to identify leads or prospects (i.e., people who are likely to be in the market for the offer). To identify prospects, sales representatives might use a variety of sources such as business directories (for corporate clients), commercial databases or mailing lists or simply look at internal records such as lists of lapsed customers. The aim of prospecting is to increase the likelihood that sales staff spend time with potential clients who have an interest in the product or service.

Qualifying leads–After identifying potential customers, the sales team must determine whether prospects represent genuine potential customers. This part of the process is known as qualifying leads, or leads who are likely to buy. Qualified leads are those who have a need for the product, a capacity to pay and a willingness to pay for the product, and are willing to be contacted by the salesperson.

Pre-approach–Refers to the process of preparing for the presentation. This consists of customer research, goal planning, scheduling an appointment and any other tasks necessary to prepare for the sales presentation.

Approach–Refers to the stage when the salesperson initially meets with the customer. Since first contact leaves an impression on the buyer, professional conduct, including attire, a handshake, and eye contact, is advised.

Need assessment–An important component of the sales presentation is the assessment of the customer's needs. Salespeople should evaluate the customer based on the need for the product. Sales representatives typically ask questions designed to reveal the prospective client's current situation, the source of any problems, the impact of the problems, the benefits of the solution, the client's prior experience with the brand or the category, the prospect's general level of interest and readiness to purchase. In the case of corporate clients, it may be necessary to ascertain any limitations on the prospect's authority to make a purchase (e.g. financial restrictions).

Sales presentation–Once the salesperson knows the needs, he or she is ready for the presentation. Sales representatives often follow the AIDA model, which allows them to lead the prospect through the standard stages of the purchase decision process. The steps in the AIDA process are to grab the customer's **A**ttention, ignite **I**nterest, create **D**esire, and inspire **A**ction (AIDA). The salesperson can do this through product demonstrations and presentations that show the features, advantages and benefits of the product.

Handling objections–After the presentation, the sales person must be ready to handle any objections. Customers who are interested will voice their concerns, usually in one of four ways. They might question the price or value of the product, dismiss the product/service as inadequate, avoid making a commitment to buy, or refuse because of an unknown factor. Salespeople should do their best to anticipate objections and respectfully respond to them.

Closing–When the sales person feels that the prospect is ready, they will seek to gain commitment and close the sale. If the sales person is unsure about the prospect's readiness to buy, they might consider using a 'trial close.' The salesperson can use several different techniques to close the sale; including the 'alternative close', the 'assumptive close', the 'summary close', or the 'special-offer close', among others.

Follow-up–Finally, the salesperson must remember to follow up. Following up will ensure customer satisfaction and help establish a relationship with the customer.

Sales scripts

Fig 3.28 Historically, itinerant medicine salesmen used tightly written scripts that induced audiences to buy

The use of tightly written sales scripts has been known for hundreds of years. Itinerant medicine salesmen were known to use sales scripts in the seventeenth and eighteenth centuries. Experienced sales representatives soon recognise that specific words and phrases have the capacity to elicit desirable behaviours on the part of the prospect. Research studies can also be carried out to determine the most effective words/phrases or the optimal sequence of words/phrases for use in effective sales scripts. A number of research studies have focussed on the types of the use of verbal persuasive techniques that can be used to convince prospects such as information exchange, the use of recommendations, requests, promises, or ingratiation. Other research has focused on influence techniques employed. Well-known examples include the:

- Door-In-The-Face–technique (DITF): where the target request is presented as a concession to an unreasonably large initial request
- Disrupt-Then-Reframe–technique (DTR): where a conventional sales script is interrupted by a subtle, odd element (i.e., a disruptive element) and then followed by a persuasive phrase that concludes the script (i.e., “reframing”)

Once identified, these words, phrases and techniques can be used to build highly effective sales scripts that are known to work. The most effective sales scripts can codified and used by other sales persons or in sales training.

Fig 3.29 A brush salesman and his bicycle in the 1950s

Many sales scripts are designed to move the prospect sequentially through the cognitive, affective and behavioural stages of the purchase decision process and are designed around the AIDA model (attention →interest →desire →action. Most sales representatives include a greeting, closing and call to action in their scripts. A *call to action* (CTA) is simply an instruction to the prospect designed to prompt an immediate response. It often involves the use of an imperative verb such as "try it now" or "find out more." Other types of calls-to-action might provide consumers with strong reasons for purchasing immediately such an offer that is only available for a limited time, e.g. 'Limited stocks available' or a special deal usually accompanied by a time constraint, e.g. 'Order before midnight to receive a free gift with your order'. The key to a powerful call-to-action is to provide consumers with compelling reasons to purchase promptly rather than defer purchase decisions.

Sales representatives also learn to recognise specific verbal and non-verbal cues that potentially signal the prospect's readiness to buy. For instance, if a prospect begins to handle the merchandise, this may indicate a state of buyer interest. Clients also tend to employ different types of questions throughout the sales process. General questions such as, "Does it come in any other colours (or styles)? indicate only a moderate level of interest. However, when clients begin to ask specific questions, such as "Do you have this model in black?" then this indicates that the prospect is approaching readiness to buy. When the sales person believes that the prospective buyer is ready to make the purchase, a *trial close* might be used to test the waters. A trial close is simply any attempt to confirm the buyer's interest in finalising the sale. An example of a trial close, is "Would you be requiring our team to install the unit for you?" or "Would you be available to take delivery next Thursday?"

Sales scripts are used for both inbound and outbound sales. Sales scripts are commonly used in cold calling, especially phone-based cold calling such as telemarketing (outbound selling) and can also be found in chat-based customer care centres (inbound calling). In such cases, the sales script might be confined to a simple list of talking points that the sales person uses as a reference during their conversation with the prospect.

Types of sales scripts

Fig 3.30 By 1915, an estimated 2,000 "Rawleigh men" distributed Rawleigh products while visiting approximately 20,000 customers daily

Some sales pitches are entirely scripted while others are only partially scripted allowing the individual sales representatives the flexibility to vary the presentation according to their assessment of the client's needs and interests. However, most effective sales representatives develop scripts for handling common objections and almost always have a number of different trial closes at hand.

There are three broad types of sales script:

Prescribed scripts
Prescribed scripts are highly detailed scripts which specify precise phrases to be used in given situations. Prescribed scripts are widely used in a variety of contexts including direct selling, market research, fast food service.

The main advantages of prescribed scripts are:

can enable speedy transactions
provides uniform uniform delivery.

The main disadvantages of a prescribed script is the tendency for the delivery to become robotic and lacking in authenticity

Goal-driven scripts
Goal driven scripts are more flexible. This type of script defines the goals for each type of transaction and allow employees to use their own phrases during the encounter. Provided that employees have a clear picture of the goals and purpose, goal-driven scripts can appear more natural and authentic. However the use of goal-driven scripts requires employees with well developed communication skills.

Hybrid approach
The hybrid approach offers a choice within a range of scripts. This approach is neither prescribed nor totally flexible. It provides a range of scripts from which employees select an option with which they feel comfortable.

Fig 3.31 Street peddlers are a relatively common sight across Asia

Influential salesmen and sales theorists

Dale Carnegie - author and lecturer; proponent of salesmenship, public speaking and self improvement

E. St. Elmo Lewis - salesmen for NCR and developer of the AIDA model of selling

Thomas J. Watson -salesman at NCR and CEO of IBM; often described as the "greatest American salesman"

Walter Dill Scott - psychologist and author; wrote a number of books on the psychology of selling in the early twentieth century

William Thomas Rawleigh -founder of Rawleigh's company with one of the largest travelling salesteams in the United States

3.08 SALES PROCESS ENGINEERING

Sales process engineering is the engineering of better sales processes. It is intended to design better ways of selling, making salespeople's efforts more productive. It has been described as "the systematic application of scientific and mathematical principles to achieve the practical goals of a particular sales process". Selden pointed out that in this context, sales referred to the output of a process involving a variety of functions across an organization, and not that of a "sales department" alone. Primary areas of application span functions including sales, marketing, and customer service.

Also known as "sales funnel engineering" and "sales pipeline engineering".

History

As early as 1900–1915, advocates of scientific management, such as Frederick Winslow Taylor and Harlow Stafford Person, recognized that their ideas could be applied not only to manual labour and skilled trades but also to management, professions, and sales. Person promoted an early form of sales process engineering. At the time, postwar senses of the terms *sales process engineering* and *sales engineering* did not yet exist; Person called his efforts "sales engineering".

The evolution of modern corporate life in the 1920s through 1960s, sought to apply analysis and synthesis to improve the methods of all functions within a business. After the famous NBC

Whitepaper in 1980 titled "If Japan Can... Why Can't We?" the 1980s and 1990s saw the emergence of a variety of approaches, such as business process reengineering, Total Quality Management, Six Sigma, and Lean Manufacturing. Inevitably some of the people involved in these initiatives tried to begin applying what they learned to sales and marketing.

For instance, Cas Welch was instrumental in designing and installing Westinghouse Electric's Total Quality program. As one of the first such programs in American industry, it was emulated by other firms and government agencies. His audits of Westinghouse sales offices caused him to realize companies were mistaken in their assumption that quality applied primarily to products. "Their focus has been to remove the flies from the soup after the customer complains; not to cook the soup without flies in the first place ... when it would be less expensive and time-consuming for the sales person to do it right the first time."

James Cortada was one of IBM's management consultants on market driven quality. His book *TQM for Sales and Marketing Management* was the first attempt to explain the theory of TQM in a sales and marketing context. George Antoin Smith, Jr. in Naperville, IL, an Electrical Engineering graduate of Purdue University, had been a successful Field Sales Engineer and District Sales Manager of Hewlett Packard electronic components to OEMs. In 1989 George Smith received the HP President's Club Award for career excellence in HP*s sales organization. In 1992, he started a consulting company to demonstrate to sales managers how they could tactically measure and improve sales productivity. He also wrote the* Sales Quality Audit*. Todd Youngblood, another ex-IBMer, in his book* The Dolphin and the Cow *(2004) emphasized "three core principles": continuous improvement of the sales process, metrics to quantitatively judge the rate and degree of improvement, and a well-defined sales process.*

Meanwhile, another executive from IBM, Daniel Stowell, had participated in IBM's expansion from selling hardware in the 1960s and '70s "the only way it knew how, through face-to-face sales" to the company's first use of a market channel in a project known as the "Alternate Channels Marketing Test." The idea was to incorporate direct response marketing techniques to accomplish the job of direct salespeople, and the initiative was quite successful. Notably his story illustrated the need for "consensus management" of the sales team. Traditional ways of managing sales people did not work when team members who had to develop a new way of selling were embedded in 14 different sales offices around the US.

The culture of sales was based on intuition and gut feel, not on data and mathematical logic like the culture of operational excellence. However, many people inside the quality movement could see that the scientific mindset ought to apply to sales and marketing. Paul Selden's "*Sales Process Engineering, A Personal Workshop*" was a further attempt to demonstrate the applicability of the theory and tools of quality management to the sales function. The book applied Deming's 14 Points and the tools of quality measurement (such as check sheets, run charts, histograms, etc.), in a sales context. While the book did a great job of explaining the management theory, like most of the other books up until this time, it suffered from a lack of real examples demonstrating how such measures had actually helped salespeople sell things.

Then In 2006, Michael Webb wrote *Sales and Marketing the Six Sigma Way*. With more than 20 years of field sales, management and B2B sales training experience, Webb was the first to explain how the scientific, measurement orientation of process excellence could help salespeople sell.

He pointed out that the purpose of sales is to get customers to take actions, and this is fundamentally different than the purpose of manufacturing. Salespeople have always known they must earn the customer's attention, their time, and their trust if they ever are to get a chance to earn any of their money. Webb pointed out the customer's actions determined whether value or waste had been created. He included case examples of B2B companies whose management used data to make changes that improved conversions by 100% or more. It proved (both to the quality community and to the sales community) that the data-oriented tools of science could help customers buy and salespeople sell. It demonstrated a valuable alternative to management's usual approach of just repeating the "Usual Fixes" such as sales training or CRM, which typically have little measurable or sustainable effect on productivity. The book earned 4.5 stars on Amazon and sold more than 21k copies.

Brent Wahba, an engineer with a background in Lean at GM and Delphi Automotive, also saw that root cause thinking had not yet penetrated the culture of sales and marketing management. His book "The Fluff Cycle," criticized business writers in sales and marketing. He observed that traditional "best practices" approach as well as the insights of sales consultants usually do not work for very long. His point was that this is *precisely because* they are transplanted from outside the company, rather than being the result of people inside the company improving their thinking about the problems they face.

Wahba's point was not a new one, however. In his book *High-Impact Consulting*, Robert Shaffer made a resounding statement about all kinds of consulting - not just sales and marketing: "No matter how wise and creative the consultant's analysis and recommendations, they pay off only to the extent that the client does what is necessary to benefit from them. The result is that many consulting projects fail to contribute nearly as much as they might because of the implementation gap, and a great many produce virtually no lasting benefit." As Edwards Deming said "It does not happen all at once. There is no instant pudding."

Scientific methods enable individuals to solve problems. When an engineer succeeds with a difficult problem, he or she can become a hero to his company. It may not really matter if no one else understands how they did it. However, companies require many different people to collaborate if sales and marketing problems are to be solved. And people cannot collaborate without learning and sharing an explicit approach for identifying evidence, generating theories, and experimenting.

Most executives are not taught to pay attention to how their employees think and solve problems. Instead, as described by Brian Joiner in his book *Fourth Generation Management*, they tend to either dictate the activities they want their people to follow (called "2nd generation" management), or (when that fails) hand down objectives without regard for how they will be achieved (called "3rd generation" management).

Sales productivity has been declining due to changes in their customer's behaviors. For example, Google and the CEB recently reported that B2B companies are avoiding salespeople until as much as 60 to 70% of their company's decision-making process is complete. Companies who study sales and marketing, such as Forrester, commonly admit that chief sales officers are expecting difficulty securing revenue targets. CSO Insights reported that the average sales forecast has a lower probability of winning than a pass bet at the craps tables in Las Vegas. Perhaps it is no wonder the turnover rates of salespeople are often 40% or more.

In this environment, some companies are looking for alternatives. Robert Pryor points out in his book, *Lean Selling*, that "Lean is a methodology that revolutionizes the processes for producing products and for delivering services, and the Lean Thinking that captures its principles are the most disruptive and transformational management ideas since the Industrial Revolution that began over 100 years ago."

Such advanced management thinking is demonstrating that the principles underlying operational excellence are crucially important to CEOs. That's because the vocabulary and the concepts of operational excellence provides CEOs with the framework to engage their people to improve their thinking. For example, recognizing that results in business are caused by people's behaviors, The Shingo Prize for excellence in manufacturing focuses on the beliefs which cause people's behaviors. The Shingo Model does not begin by teaching people the tools used in process excellence, as has been the norm for 50 years in all forms of process improvement. Instead, it starts by helping people to understand the underlying principles that explain WHY those tools work. For example, "Seek Perfection" is a principle that capitalizes on the natural human desire to want their life to be better. "Embrace Scientific Thinking" is a principle that demonstrates how we all naturally learn. With principles as the foundation, when people find themselves in an area where the tools that were invented for manufacturing don't easily apply (like sales and marketing), they can use those principles to develop tools that are appropriate to solving the problems at hand.

Such an approach does not assume (as most sales training and CRM companies assume) that a process is something handed down to a sales team from outside the company or from someone higher in the organization. Instead, it recognizes that the process must be originated by the people responsible for doing the work. It is *their best understanding* of how to achieve the objectives the company desires.

This presents unique challenges to managers, and opportunities for businesses. The Internet has revolutionized how companies buy and sell. It is time for sales and marketing management to revolutionize itself through application of rational principles. This is what sales process engineering is about.

Examples of this are found in Michael Webb's 2014 book on the topic, *Sales Process Excellence*. This privately published work presents more than 40 industry examples from Webb's client case files illustrating in detail why sales and marketing needs operational excellence, and how operational excellence changes and improves sales and marketing management.

Future directions

"[http://www.mckinsey.com/business-functions/marketing-and-sales/our-insights/competing-through-data-three-experts-offer-their-game-plans Most breakthroughs in performance� are preceded by revolutions in measurement.]" Such revolutions will be enabled by two fundamentally different trends.

The first trend is for businesses to be more deliberately rational in their use of language to define the evidence their marketers and sellers are seeing. No longer can business leaders afford to allow their people to throw around terms such as "customer" or "qualified prospect" without operationally defining them.

Then, as the clarity and consistency of what these terms refer to in reality, the second trend will become incredibly powerful. That trend is the ability to "instrument" the interactions between salespeople and their customers in order to provide visibility to where the problems in the sales and buying processes are located.

For example, today's software products are enabling sales teams to track their activities and the customer's responses at a much higher level of granularity than has ever been possible before. This kind of feedback if used effectively by sales managers has a powerful ability to elevate and sustain a sales team's performance. Examples of this can be found at www.amacus.com and www.hubspot.com.

Sales process

Generally speaking, a process is set of activities, through which work flows, aimed at a common result. Processes define the best known way of doing the work or of accomplishing a goal. Processes are used to create products or to deliver services to customers.

Sales processes are simply a special kind of service. They differ from other service processes in one primary respect. The value created by a sales process is determined by whether or not the recipient of the service takes the action you want them to take. For example, a landing page on a website could be considered a kind of sales process. The headline, body copy, testimonials, and call to action create value to the extent they get visitors to the page to provide the requested information (usually their name and email address, etc.). Likewise a proposal presentation from a sales person creates value to the extent the recipients accept the proposal and buy what is offered.

Rationale

Reasons for having a well-thought-out sales process include seller and buyer risk management, standardized customer interaction during sales, and scalable revenue generation. Approaching the subject from a "process" point of view offers an opportunity to use design and improvement tools from other disciplines and process-oriented industries. Joseph Juran observed that "there should be no reason our familiar principles of quality and process engineering would not work in the sales process".

Unfortunately, while this is true, he failed to also recognize the unique challenge presented by the selling environment, which has made it much less receptive to process thinking. For example, In *Management of a Sales Force* (12th Ed. p. 66) by Rich, Spiro and Stanton a "sales process" is presented as consisting of eight steps. These are:

Prospecting / initial contact
Preapproach - planning the sale
Identifying and cross questioning
Need assessment
Presentation
Meeting objections
Gaining commitment
Follow-up

Such a depiction of the sales process is from the seller's point of view only. This is a huge problem, because customers will not follow a process that does not create value for them. This lack of customer value presents a special dilemma for salespeople. That's because when managers assume processes are to be followed without regard to the value they create for customers, the processes become increasingly difficult to follow. Due to human nature, this arrangement generally guarantees a decay in performance over time.

The more productive arrangement is to provide workers with an objective, along with a process for achieving it, and then to ask them if they can improve the process so as to exceed the objective, or achieve it more easily. This engages the minds of the participants in a self-interested manner that serves workers, managers, and customers alike.

Once salespeople are challenged, as a team, to find better ways to sell, process language is the indispensable means of enabling them to measure cause and effect, identify steps that are problematic, and develop creative ways of improving. They allow the prediction of numbers of sales based on customer actions

3.09 SALES MANAGEMENT

Sales management is a business discipline which is focused on the practical application of sales techniques and the management of a firm's sales operations. It is an important business function as net sales through the sale of products and services and resulting profit drive most commercial business. These are also typically the goals and performance indicators of sales management.

Sales manager is the typical title of someone whose role is sales management. The role typically involves talent development and leadership.

Sales planning

Sales planning involves strategy, setting profit-based sales targets, quotas, sales forecasting, demand management and the execution of a sales plan.

A **sales plan** is a strategic document that outlines the business targets, resources and sales activities. It typically follows the lead of the marketing plan, strategic planning and the business plan with more specific detail on how the objectives can be achieved through the actual sale of products and services.

Recruitment of sales staff

The three recruitment tasks used in sales management are Job analysis; Job description and Job qualifications.

Job analysis is performed to specify the certain tasks that a salesperson would be responsible for on a daily basis. It should identify what activities are deemed as being vital to the success of the company. Any person associated with the sales organization or the human resources department could carry out the analysis as well as an outside specialist (Spiro, pp.134). The person that is responsible for completing a job analysis should have an in-depth comprehension of the daily activities of the salespeople.

This job analysis is then written in an explicit manner as a job description. The general information consists of:

Title of job
Organizational relationship
Types of products and services sold
Types of customers called on
Duties and responsibilities related to the job
Job demands.

An effective job description will identify compensation plans, size of workload, and the salespeople's duties. It is also primarily responsible for hiring tools such as application forms and psychological tests.

The most difficult part of this process would be the determination of job qualifications. A reason for this difficulty is because hiring affects a company's competitive advantage in the market as well as the amount of revenue. Additionally, there should be a set of hiring attributes that is associated with each sales job that is within a company. If an individual does not excel in their assigned territory, it could be due to external factors relating to that person's environment.

Let it be noted that a company should be careful not to submit to discrimination in regards to employment. A number of qualifications (ethnic background, age, etc.) can not be used in the selection process of hiring.

Sales reporting

The sales reporting includes the key performance indicators of the sales force.

The Key Performance Indicators indicate whether or not the sales process is being operated effectively and achieves the results as set forth in sales planning. It should enable the sales managers to take timely corrective action deviate from projected values. It also allows senior management to evaluate the sales manager.

More "results related" than "process related" are information regarding the sales funnel and the hit rate.

Sales reporting can provide metrics for sales management compensation. Rewarding the best managers without accurate and reliable sales reports is not objective.

Also, sales reports are made for internal use for top management. If other divisions' compensation plan depends on final results, it is needed to present results of sales department's work to other departments.

Finally, sales reports are required for investors, partners and government, so the sales management system should have advanced reporting capabilities to satisfy the needs of different stakeholders.

3.10 END QUESTIONS

1. What is meant by promotion in context of marketing ?
2. What is the purpose of promotion?
3. What are the types of promotions in marketing?
4. Describe the entrant strategy as espoused by Lieberman and Montgomery.
5. Briefly describe The customized target strategy.
6. Briefly describe The differentiated strategy.
7. Briefly describe Strategies based on market dominance
8. Explain the Raymond Miles' strategy categories.
9. Elaborate on the various Growth strategies.
10. What are the various Strategic models.
11. Describe the Ansoff Matrix.
12. Elaborate on 4Ps as marketing strategy model.
13. Describe the 3Cs marketing strategy model.
21. Describe the features of advertisements on radio.
22. Describe the features of advertisements on internet.
23. Explain the concept of Covert advertising.
24. Describe the features of advertisements on Print media.
25. Describe the features of advertisements on outdoor locations.
26. Explain how novelty items are used for advertisement.

14. Elaborate on the concept of Advertisement.
15. Describe the historical background of Advertisement.
16. Discuss the cultural impact of advertisement.
17. Describe the impact of commercial television on advertisement.
18. Explain various schemes of classification for advertisement.
19. Describe the media used in advertisement and their relative distribution.
20. Describe the features of advertisements on TV.
27. Elaborate on the concept of celebrity branding.
28. Discuss the rise of new media in advertisement.
29. Elaborate on the concept of niche marketing.
30. Discuss the concept of crowdsourcing.
31. Discuss the criticism to advertisement.
32. What are the various regulations to the business of advertisement.
33. Explain the Hierarchy-of-effects models.
34. Discuss the concept advertisement research.
35. Discuss the concept of Semiotics.
36. Elaborate the study which shows that women respond differently to the advertisements than men.
37. Describe the concept of sales.
38. Explain the relationship between marketing and sales.
39. Elaborate the concept of industrial marketing.
40. Describe the various ways in which sales can take place.
41. Describe at least five sales techniques.

42. Explain the various sales agents.
43. Explain the roles of salespersons and sales managers.
44. Distinguish between inside sales and outside sales.

3.11 REFERENCES AND FURTHER READING

1. https://en.wikipedia.org/wiki/Promotion_(marketing)
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4. https://en.wikipedia.org/wiki/Sales
5. https://en.wikipedia.org/wiki/Sales_promotion
6. https://en.wikipedia.org/wiki/Personal_selling
7. https://en.wikipedia.org/wiki/Sales_process_engineering
8. https://en.wikipedia.org/wiki/Sales_management

UNIT 4: PRODUCT, BRAND, PRICE AND DISTRIBUTION

4.00 INTRODUCTION

We are concluding this course through the fourth and last unit. This unit is going to cover four very important concepts in business management, namely product, brand, price and distribution. As a students of hospitality, catering and tourism industry, it is crucial for you to internalize the concepts of business administration and apply them to your core areas. The discussion of these topics is very general and applicable to almost any industry including hospitality, catering and tourism industry.

We have come across Product as one of the 4Ps of the marketing mix. WE will study how a product is conceived, designed, manufactured, serviced. We will learn about the product lifecycle management. We will study a very important concept of 'brand'. When industrial house has invested money and energy to promote a brand and when the product has earned a lot of praise from the satisfied customer, it earns a brand value or brand equity. This adds to the asset of the business house in an intangible way. If the compay is to be sold, a company which has earned more praise (or has more brand equity/value) will be sold at much higher value in comparison to a similar company with identical set of machinery, physical infrastructure and human resources. We will learn ways to build brands. We will study various brands and try to find patterns which led to their success.

We will also learn about pricing and distribution. All the concepts explained in this unit are very important in operation of a business house. You will learn them as generic concepts but will have to apply them to the industry of hospitality, catering and tourism industry which you have chosen to be an expert in.

4.01 UNIT OBJECTIVES

After completing this Unit, you will be able to

- Describe the concept of Product as used in business.
- Explain the concepts under Product lifecycle
- Elaborate the idea behind Brand
- Discuss what is meant by Pricing
- Describe the various concepts related to Distribution in context of business

4.02 WHAT IS THE CONCEPT OF PRODUCT?

In marketing, a product is anything that can be offered to a market that might satisfy a want or need. In retailing, products are called merchandise. In manufacturing, products are bought as raw materials and sold as finished goods. A service is another common product type.

Commodities are usually raw materials such as metals and agricultural products, but a commodity can also be anything widely available in the open market. In project management, products are the formal definition of the project deliverables that make up or contribute to delivering the objectives of the project. In insurance, the policies are considered products offered for sale by the insurance company that created the contract. In economics and commerce, products belong to a broader category of goods. The economic meaning of product was first used by political economist Adam Smith.

A related concept is that of a sub-product, a secondary but useful result of a production process.

Dangerous products, particularly physical ones, that cause injuries to consumers or bystanders may be subject to product liability.

Product classification

A product can be classified as tangible or intangible. A tangible product is a physical object that can be perceived by touch such as a building, vehicle, gadget, or clothing. An intangible product is a product that can only be perceived indirectly such as an insurance policy. Services can be broadly classified under intangible products which can be durable or non durable.

By use

In its online product catalog, retailer Sears, Roebuck and Company divides its products into "departments", then presents products to potential shoppers according to (1) function or (2) brand. Each product has a Sears item-number and a manufacturer's model-number. Sears uses the departments and product groupings with the intention of helping customers browse products by function or brand within a traditional department-store structure.

By association

A product line is "a group of products that are closely related, either because they function in a similar manner, are sold to the same customer groups, are marketed through the same types of outlets, or fall within given price ranges." Many businesses offer a range of product lines which may be unique to a single organization or may be common across the business's industry. In 2002 the US Census compiled revenue figures for the finance and insurance industry by various product lines such as "accident, health and medical insurance premiums" and "income from secured consumer loans". Within the insurance industry, product lines are indicated by the type of risk coverage, such as auto insurance, commercial insurance and life insurance.

National and international product classifications

Various classification systems for products have been developed for economic statistical purposes. The NAFTA signatories are working on a system that classifies products called NAPCS as a companion to North American Industry Classification System (NAICS). The European Union uses a "Classification of Products by Activity" among other product classifications. The United Nations also classifies products for international economic activity reporting.

The **Aspinwall Classification System** classifies and rates products based on five variables:

Replacement rate (How frequently is the product repurchased?)

Gross margin (How much profit is obtained from each product?)
Buyer goal adjustment (How flexible are the buyers' purchasing habits with regard to this product?)
Duration of product satisfaction (How long will the product produce benefits for the user?)
Duration of buyer search behavior (How long will consumers shop for the product?)

The National Institute of Governmental Purchasing (NIGP) developed a commodity and services classification system for use by state and local governments, the NIGP Code. The NIGP Code is used by 33 states within the United States as well as thousands of cities, counties and political subdivisions. The NIGP Code is a hierarchical schema consisting of a 3 digit class, 5 digit class-item, 7 digit class-item-group and an 11 digit class-item-group-detail. Applications of the NIGP Code include vendor registration, inventory item identification, contract item management, spend analysis and strategic sourcing.

Product model

A manufacturer usually provides an identifier for each particular type of product they make, known as a **model**, **model variant**, or **model number** (often abbreviated as **MN**, **M/N** or **model no.**). For example, Dyson Ltd, a manufacturer of appliances (mainly vacuum cleaners), requires customers to identify their model in the support section of the website. Brand and model can be used together to identify products in the market. The model number is not necessarily the same as the manufacturer part number (MPN).

Because of the huge amount of similar products in the automotive industry, there is a special kind of defining a car with options (marks, attributes), that represent the characteristics features of the vehicle. A model of a car is defined by some basic options like body, engine, gear box and axles. The variants of a model are built by some additional options like color, seats, wheels, mirrors, trims, entertainment and assistant systems etc. Options, that exclude each other (pairwise) build an option-family. That means, that you can choose only one option by each family and you have to choose exactly one option. This kind of product definition fulfill the requirements of an ideal Boolean Algebra and can be helpful to construct a product configurator. Sometimes, a set of options (car features) are combined to an automotive package and are offered by a lower price. A consistent car definition is essential for the production planning and control in the automotive industry, to generate a master production schedule, which is the fundamental for the enterprise resource planning.

In addition, a specific unit of a product is usually (and has to be) identified by a serial number, which is necessary to distinguish products with the same product definition. In the case of automotive products it's called the Vehicle Identification Number VIN, an international standardized format.

CHECK YOUR PROGRESS

Describe the concept of product in marketing.

Explain the various schemes of classification of product.

Elaborate the concept of **Aspinwall Classification System** for products.

Describe the concept of product models.

4.03 PRODUCT LIFECYCLE MANAGEMENT (PLM)

In industry, **product lifecycle management** (**PLM**) is the process of managing the entire lifecycle of a product from inception, through engineering design and manufacture, to service and disposal of manufactured products. PLM integrates people, data, processes and business systems and provides a product information backbone for companies and their extended enterprise.

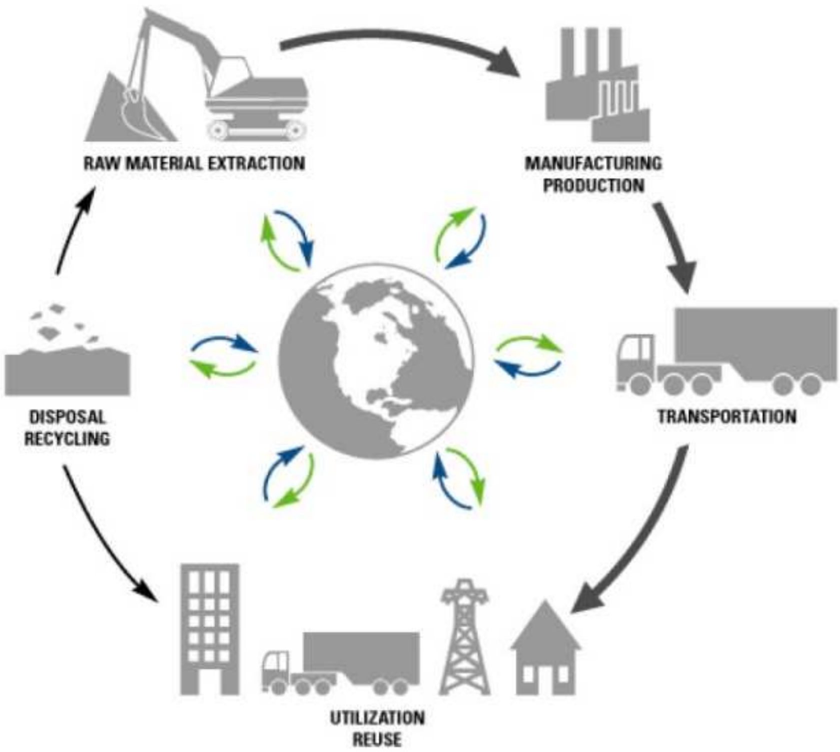

Fig 4.01: A generic lifecycle of products

History

The inspiration for the burgeoning business process now known as PLM came from American Motors Corporation (AMC). The automaker was looking for a way to speed up its product development process to compete better against its larger competitors in 1985, according to François Castaing, Vice President for Product Engineering and Development. Lacking the "massive budgets of General Motors, Ford, and foreign competitors … AMC placed R&D emphasis on bolstering the product life cycle of its prime products (particularly Jeeps)." After introducing its compact Jeep Cherokee (XJ), the vehicle that launched the modern sport utility vehicle (SUV) market, AMC began development of a new model, that later came out as the Jeep Grand Cherokee. The first part in its quest for faster product development was computer-aided design (CAD) software system that make engineers more productive. The second part in this effort was the new communication system that allowed conflicts to be resolved faster, as well as reducing costly engineering changes because all drawings and documents were in a central database. The product data management was so effective that after AMC was purchased by Chrysler, the system was expanded throughout the enterprise connecting everyone involved in designing and building products. While an early adopter of PLM technology, Chrysler was able to become the auto industry's lowest-cost producer, recording development costs that were half of the industry average by the mid-1990s.

During 1982-83, Rockwell International developed initial concepts of PDM and PLM for the B-1B bomber program. The system called Engineering Data System (EDS) was augmented to interface with Computervision and CADAM systems to track part configurations and lifecycle of components and assemblies. Computervison later released implementing only the PDM aspects as the lifecycle model was specific to Rockwell and aerospace needs.

Forms

PLM systems help organizations in coping with the increasing complexity and engineering challenges of developing new products for the global competitive markets.

Product lifecycle management (PLM) should be distinguished from 'product life-cycle management (marketing)' (PLCM). PLM describes the engineering aspect of a product, from managing descriptions and properties of a product through its development and useful life; whereas, PLCM refers to the commercial management of life of a product in the business market with respect to costs and sales measures.

Product lifecycle management can be considered one of the four cornerstones of a manufacturing corporation's information technology structure. All companies need to manage communications and information with their customers (CRM-customer relationship management), their suppliers and fulfillment (SCM-supply chain), their resources within the enterprise (ERP-enterprise resource planning) and their product planning and development (PLM).

One form of PLM is called people-centric PLM. While traditional PLM tools have been deployed only on release or during the release phase, people-centric PLM targets the design phase.

As of 2009, ICT development (EU-funded PROMISE project 2004–2008) has allowed PLM to extend beyond traditional PLM and integrate sensor data and real time 'lifecycle event data' into PLM, as well as allowing this information to be made available to different players in the total lifecycle of an individual product (closing the information loop). This has resulted in the extension of PLM into closed-loop lifecycle management (CL_2M).

Benefits

Documented benefits of product lifecycle management include:

- Reduced time to market
- Increase full price sales
- Improved product quality and reliability
- Reduced prototyping costs
- More accurate and timely request for quote generation
- Ability to quickly identify potential sales opportunities and revenue contributions
- Savings through the re-use of original data
- A framework for product optimization
- Reduced waste
- Savings through the complete integration of engineering workflows
- Documentation that can assist in proving compliance for RoHS or Title 21 CFR Part 11
- Ability to provide contract manufacturers with access to a centralized product record
- Seasonal fluctuation management
- Improved forecasting to reduce material costs
- Maximize supply chain collaboration

Areas of PLM

Within PLM there are five primary areas;

- Systems engineering (SE) is focused on meeting all requirements, primarily meeting customer needs, and coordinating the systems design process by involving all relevant disciplines. An important aspect for life cycle management is a subset within Systems Engineering called Reliability Engineering.
- Product and portfolio m² (PPM) is focused on managing resource allocation, tracking progress, plan for new product development projects that are in process (or in a holding status). Portfolio management is a tool that assists management in tracking progress on new products and making trade-off decisions when allocating scarce resources.
- Product design (CAx) is the process of creating a new product to be sold by a business to its customers.
- Manufacturing process management (MPM) is a collection of technologies and methods used to define how products are to be manufactured.
- Product data management (PDM)is focused on capturing and maintaining information on products and/or services through their development and useful life. Change management is an important part of PDM/PLM.

Note: While application software is not required for PLM processes, the business complexity and rate of change requires organizations execute as rapidly as possible.

Introduction to development process

The core of PLM (product lifecycle management) is in the creation and central management of all product data and the technology used to access this information and knowledge. PLM as a discipline emerged from tools such as CAD, CAM and PDM, but can be viewed as the integration of these tools with methods, people and the processes through all stages of a product's life. It is not just about software technology but is also a business strategy.

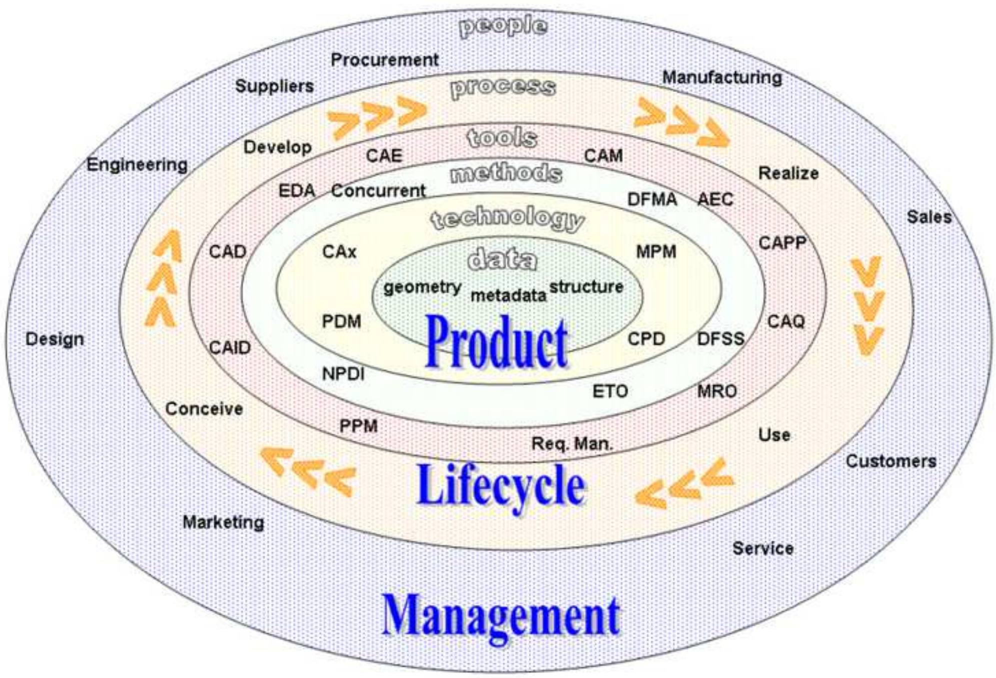

Fig 4.02: Product lifecycle management

For simplicity the stages described are shown in a traditional sequential engineering workflow. The exact order of event and tasks will vary according to the product and industry in question but the main processes are:

- Conceive
- Specification
- Concept design
- Design
- Detailed design
- Validation and analysis (simulation)
- Tool design
- Realise
- Plan manufacturing
- Manufacture
- Build/Assemble
- Test (quality control)

Service
Sell and deliver
Use
Maintain and support
Dispose
The major key point events are:
Order
Idea
Kickoff
Design freeze
Launch

The reality is however more complex, people and departments cannot perform their tasks in isolation and one activity cannot simply finish and the next activity start. Design is an iterative process, often designs need to be modified due to manufacturing constraints or conflicting requirements. Whether a customer order fits into the time line depends on the industry type and whether the products are for example, built to order, engineered to order, or assembled to order.

Phases of product lifecycle and corresponding technologies

Many software solutions have been developed to organize and integrate the different phases of a product's lifecycle. PLM should not be seen as a single software product but a collection of software tools and working methods integrated together to address either single stages of the lifecycle or connect different tasks or manage the whole process. Some software providers cover the whole PLM range while others single niche application. Some applications can span many fields of PLM with different modules within the same data model. An overview of the fields within PLM is covered here. It should be noted however that the simple classifications do not always fit exactly, many areas overlap and many software products cover more than one area or do not fit easily into one category. It should also not be forgotten that one of the main goals of PLM is to collect knowledge that can be reused for other projects and to coordinate simultaneous concurrent development of many products. It is about business processes, people and methods as much as software application solutions. Although PLM is mainly associated with engineering tasks it also involves marketing activities such as product portfolio management (PPM), particularly with regards to new product development (NPD). There are several life-cycle models in industry to consider, but most are rather similar. What follows below is one possible life-cycle model; while it emphasizes hardware-oriented products, similar phases would describe any form of product or service, including non-technical or software-based products:

Phase 1: Conceive
Imagine, specify, plan, innovate
The first stage is the definition of the product requirements based on customer, company, market and regulatory bodies' viewpoints. From this specification, the product's major technical parameters can be defined. In parallel, the initial concept design work is performed defining the aesthetics of the product together with its main functional aspects. Many different media are used for these processes, from pencil and paper to clay models to 3D CAID computer-aided industrial design software.

In some concepts, the investment of resources into research or analysis-of-options may be included in the conception phase – e.g. bringing the technology to a level of maturity sufficient to move to the next phase. However, life-cycle engineering is iterative. It is always possible that something doesn't work well in any phase enough to back up into a prior phase – perhaps all the way back to conception or research. There are many examples to draw from.

Phase 2: Design
Describe, define, develop, test, analyze and validate
This is where the detailed design and development of the product's form starts, progressing to prototype testing, through pilot release to full product launch. It can also involve redesign and ramp for improvement to existing products as well as planned obsolescence. The main tool used for design and development is CAD. This can be simple 2D drawing / drafting or 3D parametric feature based solid/surface modeling. Such software includes technology such as Hybrid Modeling, Reverse Engineering, KBE (knowledge-based engineering), NDT (Nondestructive testing), and Assembly construction.

This step covers many engineering disciplines including: mechanical, electrical, electronic, software (embedded), and domain-specific, such as architectural, aerospace, automotive, ... Along with the actual creation of geometry there is the analysis of the components and product assemblies. Simulation, validation and optimization tasks are carried out using CAE (computer-aided engineering) software either integrated in the CAD package or stand-alone. These are used to perform tasks such as:- Stress analysis, FEA (finite element analysis); kinematics; computational fluid dynamics (CFD); and mechanical event simulation (MES). CAQ (computer-aided quality) is used for tasks such as Dimensional tolerance (engineering) analysis. Another task performed at this stage is the sourcing of bought out components, possibly with the aid of procurement systems.

Phase 3: Realize
Manufacture, make, build, procure, produce, sell and deliver
Once the design of the product's components is complete, the method of manufacturing is defined. This includes CAD tasks such as tool design; including creation of CNC Machining instructions for the product's parts as well as creation of specific tools to manufacture those parts, using integrated or separate CAM (computer-aided manufacturing) software. This will also involve analysis tools for process simulation of operations such as casting, molding, and die-press forming. Once the manufacturing method has been identified CPM comes into play. This involves CAPE (Computer Aided Production Engineering) or CAP/CAPP (Computer Aided production planning) tools for carrying out factory, plant and facility layout and production simulation e.g. press-line simulation, industrial ergonomics, as well as tool selection management. Once components are manufactured, their geometrical form and size can be checked against the original CAD data with the use of computer-aided inspection equipment and software. Parallel to the engineering tasks, sales product configuration and marketing documentation work take place. This could include transferring engineering data (geometry and part list data) to a web based sales configurator and other desktop publishing systems.

Phase 4: Service
Use, operate, maintain, support, sustain, phase-out, retire, recycle and disposal
The final phase of the lifecycle involves managing "in-service" information. This can include providing customers and service engineers with the support and information required for repair and maintenance, as well as waste management or recycling. This can involve the use of tools such as Maintenance, Repair and Operations Management (MRO) software.

There is an end-of-life to every product. Whether it be disposal or destruction of material objects or information, this needs to be carefully considered since it may be legislated and hence not free from ramifications.

All phases: product lifecycle
Communicate, manage and collaborate
None of the above phases should be considered as isolated. In reality a project does not run sequentially or separated from other product development projects, with information flowing between different people and systems. A major part of PLM is the co-ordination and management of product definition data. This includes managing engineering changes and release status of components; configuration product variations; document management; planning project resources as well as timescale and risk assessment.

For these tasks data of graphical, textual and meta nature — such as product Bills Of Materials (BOMs) — needs to be managed. At the engineering departments level this is the domain of Product Data Management (PDM) software, or at the corporate level Enterprise Data Management (EDM) software; such rigid level distinctions may not be consistently used, however it is typical to see two or more data management systems within an organization. These systems may also be linked to other corporate systems such as SCM, CRM, and ERP. Associated with these system are project management systems for project/program planning.

This central role is covered by numerous collaborative product development tools which run throughout the whole lifecycle and across organizations. This requires many technology tools in the areas of conferencing, data sharing and data translation. This specialised field is referred to as product visualization which includes technologies such as DMU (digital mock-up), immersive virtual digital prototyping (virtual reality), and photo-realistic imaging.

User skills
The broad array of solutions that make up the tools used within a PLM solution-set (e.g., CAD, CAM, CAx...) were initially used by dedicated practitioners who invested time and effort to gain the required skills. Designers and engineers worked wonders with CAD systems, manufacturing engineers became highly skilled CAM users while analysts, administrators and managers fully mastered their support technologies. However, achieving the full advantages of PLM requires the participation of many people of various skills from throughout an extended enterprise, each requiring the ability to access and operate on the inputs and output of other participants.

Despite the increased ease of use of PLM tools, cross-training all personnel on the entire PLM tool-set has not proven to be practical. Now, however, advances are being made to address ease of use for all participants within the PLM arena. One such advance is the availability of "role" specific user interfaces. Through tailorable user interfaces (UIs), the commands that are presented to users are appropriate to their function and expertise.

These techniques include:-

- Concurrent engineering workflow
- Industrial design
- Bottom–up design
- Top–down design

- Both-ends-against-the-middle design
- Front-loading design workflow
- Design in context
- Modular design
- NPD new product development
- DFSS design for Six Sigma
- DFMA design for manufacture / assembly
- Digital simulation engineering
- Requirement-driven design
- Specification-managed validation
- Configuration management

Concurrent engineering workflow

Concurrent engineering (British English: **simultaneous engineering**) is a workflow that, instead of working sequentially through stages, carries out a number of tasks in parallel. For example: starting tool design as soon as the detailed design has started, and before the detailed designs of the product are finished; or starting on detail design solid models before the concept design surfaces models are complete. Although this does not necessarily reduce the amount of manpower required for a project, as more changes are required due to the incomplete and changing information, it does drastically reduce lead times and thus time to market.

Feature-based CAD systems have for many years allowed the simultaneous work on 3D solid model and the 2D drawing by means of two separate files, with the drawing looking at the data in the model; when the model changes the drawing will associatively update. Some CAD packages also allow associative copying of geometry between files. This allows, for example, the copying of a part design into the files used by the tooling designer. The manufacturing engineer can then start work on tools before the final design freeze; when a design changes size or shape the tool geometry will then update. Concurrent engineering also has the added benefit of providing better and more immediate communication between departments, reducing the chance of costly, late design changes. It adopts a problem prevention method as compared to the problem solving and re-designing method of traditional sequential engineering.

Bottom–up design

Bottom–up design (CAD-centric) occurs where the definition of 3D models of a product starts with the construction of individual components. These are then virtually brought together in sub-assemblies of more than one level until the full product is digitally defined. This is sometimes known as the "review structure" which shows what the product will look like. The BOM contains all of the physical (solid) components of a product from a CAD system; it may also (but not always) contain other 'bulk items' required for the final product but which (in spite of having definite physical mass and volume) are not usually associated with CAD geometry such as paint, glue, oil, adhesive tape and other materials.

Bottom–up design tends to focus on the capabilities of available real-world physical technology, implementing those solutions which this technology is most suited to. When these bottom–up solutions have real-world value, bottom–up design can be much more efficient than top–down design. The risk of bottom–up design is that it very efficiently provides solutions to low-value problems. The focus of bottom–up design is "what can we most efficiently do with this technology?" rather than the focus of top–down which is "What is the most valuable thing to do?"

Top–down design

Top–down design is focused on high-level functional requirements, with relatively less focus on existing implementation technology. A top level spec is repeatedly decomposed into lower level structures and specifications, until the physical implementation layer is reached. The risk of a top–down design is that it may not take advantage of more efficient applications of current physical technology, due to excessive layers of lower-level abstraction due to following an abstraction path which does not efficiently fit available components e.g. separately specifying sensing, processing, and wireless communications elements even though a suitable component that combines these may be available. The positive value of top–down design is that it preserves a focus on the optimum solution requirements.

A part-centric top–down design may eliminate some of the risks of top–down design. This starts with a layout model, often a simple 2D sketch defining basic sizes and some major defining parameters, which may include some Industrial design elements. Geometry from this is associatively copied down to the next level, which represents different subsystems of the product. The geometry in the sub-systems is then used to define more detail in levels below. Depending on the complexity of the product, a number of levels of this assembly are created until the basic definition of components can be identified, such as position and principal dimensions. This information is then associatively copied to component files. In these files the components are detailed; this is where the classic bottom–up assembly starts.

The top–down assembly is sometime known as a "control structure". If a single file is used to define the layout and parameters for the review structure it is often known as a skeleton file.

Defense engineering traditionally develops the product structure from the top down. The system engineering process prescribes a functional decomposition of requirements and then physical allocation of product structure to the functions. This top down approach would normally have lower levels of the product structure developed from CAD data as a bottom–up structure or design.

Both-ends-against-the-middle design

Both-ends-against-the-middle (BEATM) design is a design process that endeavors to combine the best features of top–down design, and bottom–up design into one process. A BEATM design process flow may begin with an emergent technology which suggests solutions which may have value, or it may begin with a top–down view of an important problem which needs a solution. In either case the key attribute of BEATM design methodology is to immediately focus at both ends of the design process flow: a top–down view of the solution requirements, and a bottom–up view of the available technology which may offer promise of an efficient solution. The BEATM design process proceeds from both ends in search of an optimum merging somewhere between the top–down requirements, and bottom–up efficient implementation. In this fashion, BEATM has been shown to genuinely offer the best of both methodologies. Indeed some of the best success stories from either top–down or bottom–up have been successful because of an intuitive, yet unconscious use of the BEATM methodology. When employed consciously, BEATM offers even more powerful advantages.

Front loading design and workflow

Front loading is taking top–down design to the next stage. The complete control structure and review structure, as well as downstream data such as drawings, tooling development and CAM models, are constructed before the product has been defined or a project kick-off has been authorized. These assemblies of files constitute a template from which a family of products can be constructed. When the decision has been made to go with a new product, the parameters of the product are entered into the template model and all the associated data is updated. Obviously predefined associative models will not be able to predict all possibilities and will require additional work. The main principle is that a lot of the experimental/investigative work has already been completed. A lot of knowledge is built into these templates to be reused on new products. This does require additional resources "up front" but can drastically reduce the time between project kick-off and launch. Such methods do however require organizational changes, as considerable engineering efforts are moved into "offline" development departments. It can be seen as an analogy to creating a concept car to test new technology for future products, but in this case the work is directly used for the next product generation.

Design in context

Individual components cannot be constructed in isolation. CAD and CAID models of components are created within the context of some or all of the other components within the product being developed. This is achieved using assembly modelling techniques. Geometry of other components can be seen and referenced within the CAD tool being used. The other referenced components may or may not have been created using the same CAD tool, with their geometry being translated from other collaborative product development (CPD) formats. Some assembly checking such as DMU is also carried out using product visualization software.

Product and process lifecycle management (PPLM)

Product and process lifecycle management **(PPLM)** is an alternate genre of PLM in which the process by which the product is made is just as important as the product itself. Typically, this is the life sciences and advanced specialty chemicals markets. The process behind the manufacture of a given compound is a key element of the regulatory filing for a new drug application. As such, PPLM seeks to manage information around the development of the process in a similar fashion that baseline PLM talks about managing information around development of the product.

One variant of PPLM implementations are Process Development Execution Systems (PDES). They typically implement the whole development cycle of high-tech manufacturing technology developments, from initial conception, through development and into manufacture. PDES integrate people with different backgrounds from potentially different legal entities, data, information and knowledge and business processes.

Market size

Total spending on PLM software and services was estimated in 2006 to be above $30 billion a year. Market growth estimates are in the area of 10%. There are several PLM Vendors in the market but the primary players include Dassault Systemes, Siemens, Oracle, Product Dossier, PTC and ARAS Innovator.

Pyramid of Production Systems

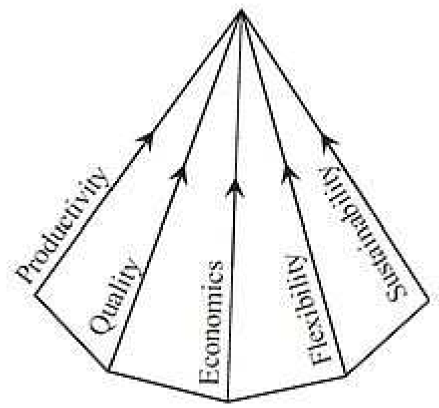

Fig 4.03: Pyramid of Production Systems

According to Malakooti (2013), there are five long-term objectives that should be considered in production systems:

- Cost: Which can be measured in terms of monetary units and usually consists of fixed and variable cost.
- Productivity: Which can be measured in terms of the number of products produced during a period of time.
- Quality: Which can be measured in terms of customer satisfaction levels for example.
- Flexibility: Which can be considered the ability of the system to produce a variety of products for example.
- Sustainability: Which can be measured in terms ecological soundness i.e. biological and environmental impacts of a production system.

The relation between these five objects can be presented as pyramid with its tip associated with the lowest Cost, highest Productivity, highest Quality, most Flexibility, and greatest Sustainability. The points inside of this pyramid are associated with different combinations of five criteria. The tip of the pyramid represents an ideal (but likely highly unfeasible) system whereas the base of the pyramid represents the worst system possible.

CHECK YOUR PROGRESS

Describe the concept of product lifecycle management (PLM) in marketing.

Explain the various forms of product lifecycle management (PLM).

Explain the various benefits of product lifecycle management (PLM).

Elaborate the various areas of product lifecycle management (PLM).

Explain the various development process under product lifecycle management (PLM).

Explain the various technologies used corresponding to the various development process under product lifecycle management (PLM).

Explain the importance of ‘Imagine, specify, plan, innovate’ during the ‘Conceive’ phase of product lifecycle management (PLM).
Explain the importance of ‘Describe, define, develop, test, analyze and validate’ activities during the ‘Design’ phase of product lifecycle management (PLM).
Explain the importance of ‘Manufacture, make, build, procure, produce, sell and deliver’ activities during the ‘Realize’ phase of product lifecycle management (PLM).
Explain the importance of ‘Use, operate, maintain, support, sustain, phase-out, retire, recycle and disposal’ activities during the ‘Service’ phase of product lifecycle management (PLM).
Explain the importance of ‘Communicate, manage and collaborate’ activities during all the phase of product lifecycle management (PLM).
Elaborate on the concept of Concurrent engineering workflow as used in product lifecycle management (PLM).
Elaborate on the concept of Bottom–up design as used in product lifecycle management (PLM).
Elaborate on the concept of Top–down design as used in product lifecycle management (PLM).
Elaborate on the concept of Both-ends-against-the-middle design as used in product lifecycle management (PLM).
Elaborate on the concept of Front loading design and workflow as used in product lifecycle management (PLM).
Elaborate on the concept of Product and process lifecycle management (PPLM) as used in product lifecycle management (PLM).

Explain the five long-term objectives for product lifecycle management (PLM) proposed by Malakooti .

4.04 BRAND

A **brand** is a name, term, design, symbol, or other feature that distinguishes an organization or product from its rivals in the eyes of the customer. Brands are used in business, marketing, and advertising.

Initially, livestock branding was adopted to differentiate one person’s cattle from another's by means of a distinctive symbol burned into the animal’s skin with a hot branding iron. If a person would steal the animals, anyone could detect the symbol and deduce the actual owner. However, the term has been extended to mean a strategic personality for a product or company, so that ‘brand’ now suggests the values and promises that a consumer may perceive and buy into.

Branding is a set of marketing and communication methods that help to distinguish a company or products from competitors, aiming to create a lasting impression in the minds of customers. The key components that form a brand's toolbox include a brand’s identity, brand communication (such as by logos and trademarks), brand awareness, brand loyalty, and various branding (brand management) strategies.

Brand equity is the measurable totality of a brand's worth and is validated by assessing the effectiveness of these branding components. As markets become increasingly dynamic and fluctuating, brand equity is a marketing technique to increase customer satisfaction and customer loyalty, with side effects like reduced price sensitivity. A brand is in essence a promise to its customers of they can expect from their products, as well as emotional benefits. When a customer is familiar with a brand, or favours it incomparably to its competitors, this is when a corporation has reached a high level of brand equity.

Many companies believe that there is often little to differentiate between several types of products in the 21st century, and therefore branding is one of a few remaining forms of product differentiation.

In accounting, a brand defined as an intangible asset is often the most valuable asset on a corporation’s balance sheet. Brand owners manage their brands carefully to create shareholder value, and brand valuation is an important management technique that ascribes a money value to a brand, and allows marketing investment to be managed (e.g.: prioritized across a portfolio of brands) to maximize shareholder value. Although only acquired brands appear on a company's balance sheet, the notion of putting a value on a brand forces marketing leaders to be focused on long term stewardship of the brand and managing for value.

The word ‘brand’ is often used as a metonym referring to the company that is strongly identified with a brand.

Marque or make are often used to denote a brand of motor vehicle, which may be distinguished from a car model. A *concept brand* is a brand that is associated with an abstract concept, like breast cancer awareness or environmentalism, rather than a specific product, service, or business. A *commodity brand* is a brand associated with a commodity.

History

The word, *brand*, derives from the ancient North Scandavian term “brandr” meaning "to burn." It is a reference to the practice of using branding irons to burn a mark into the hides of livestock, and may also refer to the practice of craftsmen engraving brand names into products, tools or personal belongings.

The oldest generic brand, in continuous use in India since the Vedic period (ca. 1100 B.C.E to 500 B.C.E), is the herbal paste known as *Chyawanprash*, consumed for its purported health benefits and attributed to a revered *rishi* (or seer) named Chyawan. This product was developed at Dhosi Hill, an extinct volcano in northern India.

Roman glassmakers branded their works, with Ennion being the most prominent.

The Italians used brands in the form of watermarks on paper in the 13th century. Blind Stamps, hallmarks, and silver-makers' marks are all types of brand.

Although connected with the history of trademarks and including earlier examples which could be deemed *protobrands* (such as the marketing puns of the *Vesuvinum* wine jars found at Pompeii), brands in the field of mass-marketing originated in the 19th century with the advent of packaged goods. Industrialization moved the production of many household items, such as soap, from local communities to centralized factories. When shipping their items, the factories would literally brand their logo or insignia on the barrels used, extending the meaning of *brand* to that of a trademark.

Bass & Company, the British brewery, claims their red-triangle brand as the world's first trademark. Tate & Lyle of Lyle's Golden Syrup makes a similar claim, having been recognized by Guinness World Records as Britain's oldest brand, with its green-and-gold packaging having remained almost unchanged since 1885. Another example comes from Antiche Fornaci Giorgi in Italy, which has stamped or carved its bricks (as found in Saint Peter's Basilica in the Vatican City) with the same proto-logo since 1731.

Cattle-branding has been used since Ancient Egypt. The term, *maverick*, originally meaning an un-branded calf, came from a Texas pioneer rancher, Sam Maverick, whose neglected cattle often got loose and were rounded up by his neighbors. Use of the word maverick spread among cowboys and came to apply to unbranded calves found wandering alone.

Factories established during the Industrial Revolution introduced mass-produced goods and needed to sell their products to a wider market - to customers previously familiar only with locally produced goods. It quickly became apparent that a generic package of soap had difficulty competing with familiar, local products. The packaged-goods manufacturers needed to convince the market that the public could place just as much trust in the non-local product. Pears soap, Campbell's soup, soft drink Coca-Cola, Juicy Fruit chewing gum, Aunt Jemima pancake mix, and Quaker Oats oatmeal were among the first products to be "branded" in an effort to increase the consumer's familiarity with their merits. Other brands which date from that era, such as Uncle Ben's rice and Kellogg's breakfast cereal, furnish illustrations of the trend.

Around 1900, James Walter Thompson published a house ad explaining trademark advertising. This was an early commercial explanation of what we now know as branding. Companies soon adopted slogans, mascots, and jingles that began to appear on radio and early television. By the 1940s, manufacturers began to recognize the way in which consumers were developing relationships with their brands in a social/psychological/anthropological sense.

Manufacturers quickly learned to build their brands' identity and personality such as youthfulness, fun or luxury. This began the practice we now know as *branding* today, where the consumers buy *the brand* instead of the product. This trend continued to the 1980s, and is now quantified in concepts such as brand value and brand equity. Naomi Klein has described this development as "brand equity mania". In 1988, for example, Philip Morris purchased Kraft for six times what the company was worth on paper; it was felt that what they really purchased was its brand name.

April 2, 1993, or Marlboro Friday, is often considered the death of the brand – the day Philip Morris declared that they were cutting the price of Marlboro cigarettes by 20% in order to compete with bargain cigarettes. Marlboro cigarettes were noted at the time for their heavy advertising campaigns and well-nuanced brand image. In response to the announcement, Wall Street stocks nose-dived for a large number of branded companies: Heinz, Coca-Cola, Quaker Oats, PepsiCo, Tide, and Lysol.

Many thought the event signalled the beginning of a trend towards "brand blindness" (Klein 13), questioning the power of "brand value".

Fig 4.04: Ferrari is the world's most powerful brand according to Brand Finance.

Concepts

Effective branding can result in higher sales of not only one product, but of other products associated with that brand. If a customer loves Pillsbury biscuits and trusts the brand, he or she is more likely to try other products offered by the company - such as chocolate-chip cookies, for example. Brand development, often the task of a design team, takes time to produce. Brand is the personality *that identifies* a product, service or company (name, term, sign, symbol, or design, or combination of them) and how it relates to key constituencies: customers, staff, partners, investors, etc.

Some people distinguish the psychological aspect (brand associations like thoughts, feelings, perceptions, images, experiences, beliefs, attitudes, and so on that become linked to the brand) of a brand from the experiential aspect. The experiential aspect consists of the sum of all points of contact with the brand and is known as the *brand experience*. The brand experience is a brand's action perceived by a person. The psychological aspect, sometimes referred to as the *brand image*, is a symbolic construct created within the minds of people, consisting of all the information and expectations associated with a product, with a service, or with the companyies providing them.

People engaged in branding seek to develop or align the expectations behind the brand experience, creating the impression that a brand associated with a product or service has certain qualities or characteristics that make it special or unique. A brand can therefore become one of the most valuable elements in an advertising theme, as it demonstrates what the brand owner is able to offer in the marketplace. The art of creating and maintaining a brand is called brand management. Orientation of an entire organization towards its brand is called brand orientation. Brand orientation develops in response to market intelligence.

Careful brand management seeks to make products or services relevant to a target audience. Brands should be seen as more than the difference between the actual cost of a product and its selling price – they represent the sum of all valuable qualities of a product to the consumer.

A widely known brand is said to have "brand recognition". When brand recognition builds up to a point where a brand enjoys a critical mass of positive sentiment in the marketplace, it is said to have achieved brand franchise. Brand recognition is most successful when people can state a brand without being explicitly exposed to the company's name, but rather through visual signifiers like logos, slogans, and colors. For example, Disney successfully branded its particular script font (originally created for Walt Disney's "signature" logo), which it used in the logo for go.com.

Fig 4.05: Visual Identity (example) created by Przemek Kowal

Consumers may look on branding as an aspect of products or services, as it often serves to denote a certain attractive quality or characteristic (see also brand promise). From the perspective of brand owners, branded products or services can command higher prices. Where two products resemble each other, but one of the products has no associated branding (such as a generic, store-branded product), potential purchasers may often select the more expensive branded product on the basis of the perceived quality of the brand or on the basis of the reputation of the brand owner.

Corporate brand identity

Brand identity is the embodiment behind a corporation's reason for existence. Simply, the brand identity is a set of individual components, such as a name, a design, a set of imagery, a slogan, a vision, etc. which set the brand aside from others. In order for a company to exude a strong sense of brand identity, it must have an in-depth understanding of its target market, competitors and the surrounding business environment. Brand identity includes both the core identity and the extended identity. The core identity reflects consistent long-term associations with the brand; whereas the extended identity involves the intricate details of the brand that help generate a constant motif.

According to Kotler et al. (2009), a brand's identity may deliver four levels of meaning:

- attributes
- benefits
- values
- personality

A brand's **attributes** are a set of labels with which the corporation wishes to be associated. For example, a brand may showcase its primary attribute as environmental friendliness. However, a brand's attributes alone are not enough to persuade a customer into purchasing the product. These attributes must be communicated through **benefits**, which are more emotional translations. If a brand's attribute is being environmentally friendly, customers will receive the benefit of feeling that they are helping the environment by associating with the brand. Aside from attributes and benefits, a brand's identity may also involve branding to focus on representing its core set of **values**. If a company is seen to symbolise specific values, it will, in turn, attract customers who also believe in these values. For example, Nike's brand represents the value of a "just do it" attitude. Thus, this form of brand identification attracts customers who also share this same value. Even more extensive than its perceived values is a brand's **personality**. Quite literally, one can easily describe a successful brand identity as if it were a person. This form of brand identity has proven to be the most advantageous in maintaining long-lasting relationships with consumers, as it gives them a sense of personal interaction with the brand Collectively, all four forms of brand identification help to deliver a powerful meaning behind what a corporation hopes to accomplish, and to explain why customers should choose one brand over its competitors.

Brand awareness

Brand awareness involves a customers' ability to recall and/or recognise brands, logos and branded advertising. Brands helps customers to understand which brands or products belong to which product or service category. Brands assist customers to understand the constellation of benefits offered by individual brands, and how a given brand within a category is differentiated from competing brands, and thus the brand helps customers understand which brand satisfies their needs. Thus, the brand offers the customer a short-cut to understanding the different product or service offerings that make up a category.

Brand awareness is a key step in the customer's purchase decision process, since some kind of awareness is a precondition to purchasing. That is, customers will not consider a brand if they are not aware of it. Brand awareness is a key component in understanding the effectiveness both of a brand's identity and of its communication methods. Successful brands are those that consistently generate a high level of brand awareness, as this can often be the pivotal factor in securing customer transactions. Various forms of brand awareness can be identified. Each form reflects a different stage in a customer's cognitive ability to address the brand in a given circumstance.

Most companies aim for "**Top-of-Mind**". Top-of-mind awareness occurs when a brand pops into a consumer's mind when asked to name brands in a product category. For example, when someone is asked to name a type of facial tissue, the common answer, "Kleenex", will represent a top-of-mind brand.

Unaided awareness (also known as *brand recall* or *spontaneous awareness*) refers to the brand or set of brands that a consumer can elicit from memory when prompted with a product category

Aided awareness (also known as *brand recognition*) occurs when consumers see or read a list of brands, and express familiarity with a particular brand only after they hear or see it as a type of memory aide.

Strategic awareness occurs when a brand is not only top-of-mind to consumers, but also has distinctive qualities which consumers perceive as making it better than other brands in the particular market. The distinction(s) that set a product apart from the competition is/are also known as the unique selling point or USP.

Brand recognition is the initial phase of brand awareness and validates whether or not a customer remembers being pre-exposed to the brand. When customers experience brand recognition, they are triggered by either a visual or verbal cue. For example, when looking to satisfy a category need such as toilet paper, the customer would firstly be presented with multiple brands to choose from. Once the customer is visually or verbally faced with a brand, he/she may remember being introduced to the brand before. This would be classified as brand recognition, as the customer can retrieve the particular memory node that referred to the brand, once given a cue. Often, this form of brand awareness assists customers in choosing one brand over another when faced with a low-involvement purchasing decision.

Unlike brand recognition, **brand recall** is not triggered by a visual or verbal cue. Instead, brand recall "requires that the consumers correctly retrieve the brand from memory". Rather than being given a choice of multiple brands to satisfy a need, consumers are faced with a need first, and then must recall a brand from their memory to satisfy that need. This level of brand awareness is stronger than brand recognition, as the brand must be firmly cemented in the consumer's memory to enable unassisted remembrance. Thus, brand recall is a confirmation that previous branding touchpoints have successfully fermented in the minds of its consumers.

Marketing-mix modeling can help marketing leaders optimize how they spend marketing budgets to maximize the impact on brand awareness or on sales. Managing brands for value creation will often involve applying marketing-mix modeling techniques in conjunction with brand valuation.

Brand elements
Brands typically comprise various elements, such as:

- name: the word or words used to identify a company, product, service, or concept
- logo: the visual trademark that identifies a brand
- tagline or catchphrase: "The Quicker Picker Upper" is associated with Bounty paper towels
- graphics: the "dynamic ribbon" is a trademarked part of Coca-Cola's brand
- shapes: the distinctive shapes of the Coca-Cola bottle and of the Volkswagen Beetle are trademarked elements of those brands

colors: the instant recognition consumers have when they see Tiffany & Co.'s robin's egg blue (Pantone No. 1837). Tiffany & Co.'s trademarked the color in 1998.
sounds: a unique tune or set of notes can denote a brand. NBC's chimes provide a famous example.
scents: the rose-jasmine-musk scent of Chanel No. 5 is trademarked
tastes: Kentucky Fried Chicken has trademarked its special recipe of eleven herbs and spices for fried chicken
movements: Lamborghini has trademarked the upward motion of its car doors

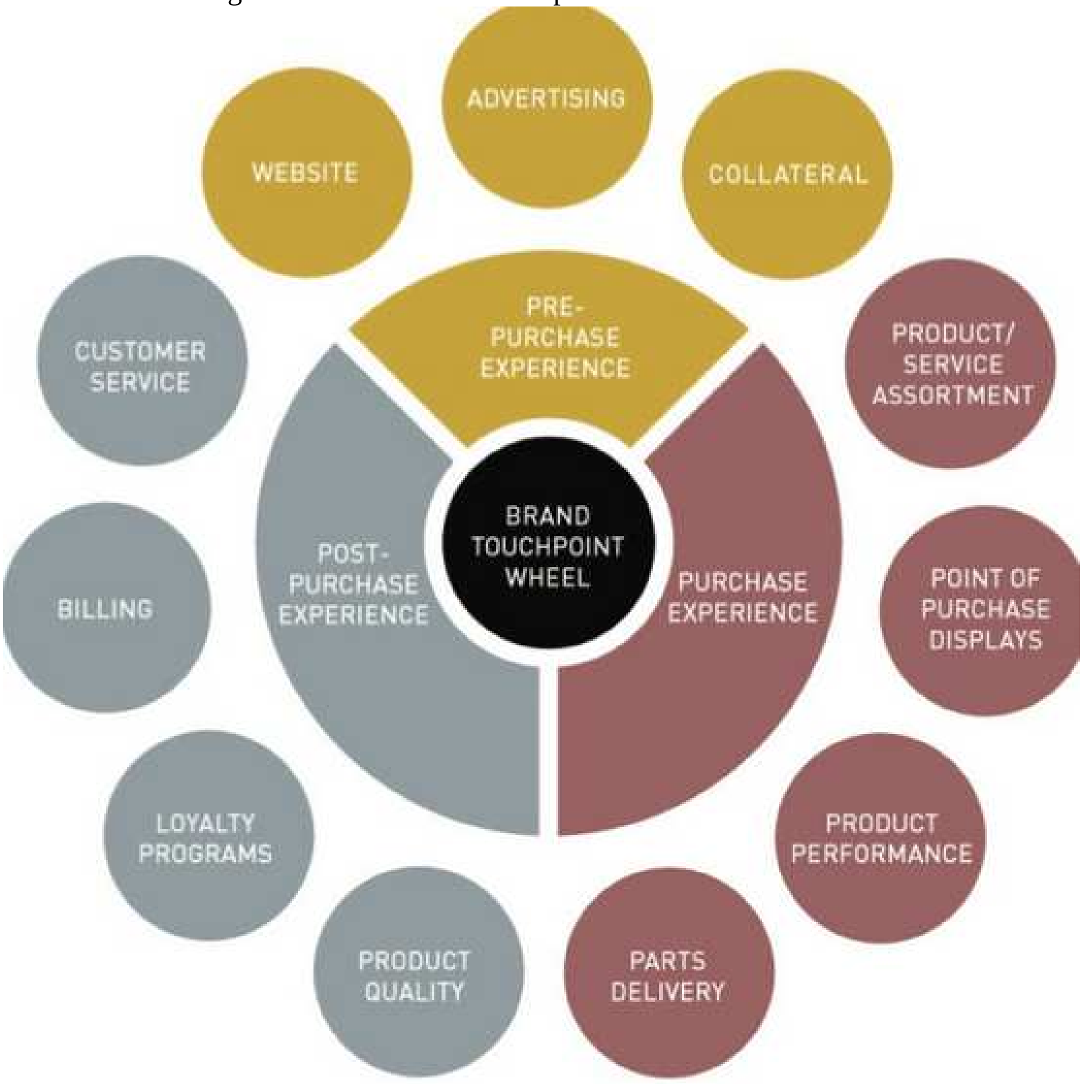

Fig 4.06: Demonstrating touch points associated with purchase experience stages

Brand communication

Although brand identity is regarded as the most fundamental asset to a brand's equity, the worth of a brand's identity would become obsolete without ongoing brand communication. Integrated marketing communications (IMC) relates to how a brand transmits a clear consistent message to its stakeholders . Five key components comprise IMC:

- advertising
- sales promotions
- direct marketing
- personal selling
- public relations

The effectiveness of a brand's communication is determined by how accurately the customer perceives the brand's intended message through its IMC. Although IMC is a broad strategic concept, the most crucial brand communication elements are pinpointed to how the brand sends a message and what touch points the brand uses to connect with its customers.

One can analyse the traditional communication model (Shannon-Weaver Model) into several consecutive steps:

- Firstly, a source/sender wishes to convey a message to a receiver. This source must encode the intended message in a way that the receiver will potentially understand.
- After the encoding stage, the forming of the message is complete and is portrayed through a selected channel. In IMC, channels may include media elements such as advertising, public relations, sales promotions, etc.
- It is at this point where the message can often deter from its original purpose as the message must go through the process of being decoded, which can often lead to unintended misinterpretation.
- Finally, the receiver retrieves the message and attempts to understand what the sender was aiming to render. Often, a message may be incorrectly received due to noise in the market, which is caused by "…unplanned static or distortion during the communication process".
- The final stage of this process is when the receiver responds to the message, which is received by the original sender as feedback.

When a brand communicates a brand identity to a receiver, it runs the risk of the receiver incorrectly interpreting the message. Therefore, a brand should use appropriate communication channels to positively "…affect how the psychological and physical aspects of a brand are perceived"

In order for brands to effectively communicate to customers, marketers must "…consider all touch points, or sources of contact, that a customer has with the brand". Touch points represent the channel stage in the traditional communication model, where a message travels from the sender to the receiver. Any point where a customer has an interaction with the brand - whether watching a television advertisement, hearing about a brand through word of mouth, or even noticing a branded license plate - defines a touch point. According to Dalen *et al.* (2010), every touch point has the "…potential to add positive - or suppress negative - associations to the brand's equity" Thus a brand's IMC should cohesively deliver positive messages through appropriate touch points associated with its target market. One methodology involves using sensory stimuli touch points to activate customer emotion. For example, if a brand consistently uses a pleasant smell as a primary touch point, the brand has a much higher chance of creating a positive lasting effect on its customers' senses as well as memory. Another way a brand can ensure that it is utilising the best communication channel, is by focusing on touch points that suit particular areas associated with customer experience. As suggested Figure 2, certain touch points link with a specific stage in customer-brand-involvement. For example, a brand may recognise that advertising touch points are most effective during the pre-purchase experience stage therefore they may target their advertisements to new customers rather than to existing customers. Overall, a brand has the ability to strengthen brand equity by using IMC branding communications through touch points.

Brand communication is important in ensuring brand success in the business world and refers to how businesses transmit their brand messages, characteristics and attributes to their consumers. One method of brand communication which companies can exploit involves electronic word-of mouth (eWOM). EWoM is a relatively new approach identified to communicate with consumers. One popular method of eWOM involves social networking sites (SNSs) such as Twitter. A study found that consumers classed their relationship with a brand as closer if that brand was active on a specific social media site (Twitter). Research further found that the more consumers "retweeted" and communicated with a brand, the more they trusted the brand. This suggests that a company could look to employ a social-media campaign to gain consumer trust and loyalty as well as in the pursuit of communicating brand messages.

McKee (2014) also looked into brand communication and states that when communicating a brand, a company should look to simplify its message as this will lead to more value being portrayed as well as an increased chance of target consumers recalling and recognising the brand.

In 2012 Riefler stated that if the company communicating a brand is a global organisation or has future global aims, that company should look to employ a method of communication which is globally appealing to their consumers, and subsequently choose a method of communication with will be internationally understood. One way a company can do this involves choosing a product or service's brand name, as this name will need to be suitable for the marketplace that it aims to enter.

It is important that if a company wishes to develop a global market, the company name will also need to be suitable in different cultures and not cause offense or be misunderstood. It has also been found that when communicating a brand a company needs to be aware that they must not just visually communicate their brand message and should take advantage of portraying their message through multi-sensory information. One article suggests that other senses, apart from vision, need to be targeted when trying to communicate a brand with consumers. For example, a jingle or background music can have a positive effect on brand recognition, purchasing behaviour and brand recall.

Therefore, when looking to communicate a brand with chosen consumers, companies should investigate a channel of communication which is most suitable for their short-term and long-term aims and should choose a method of communication which is most likely to be adhered to by their chosen consumers. The match-up between the product, the consumer lifestyle, and the endorser is important for effectiveness of brand communication.

Global brand variables

Brand name

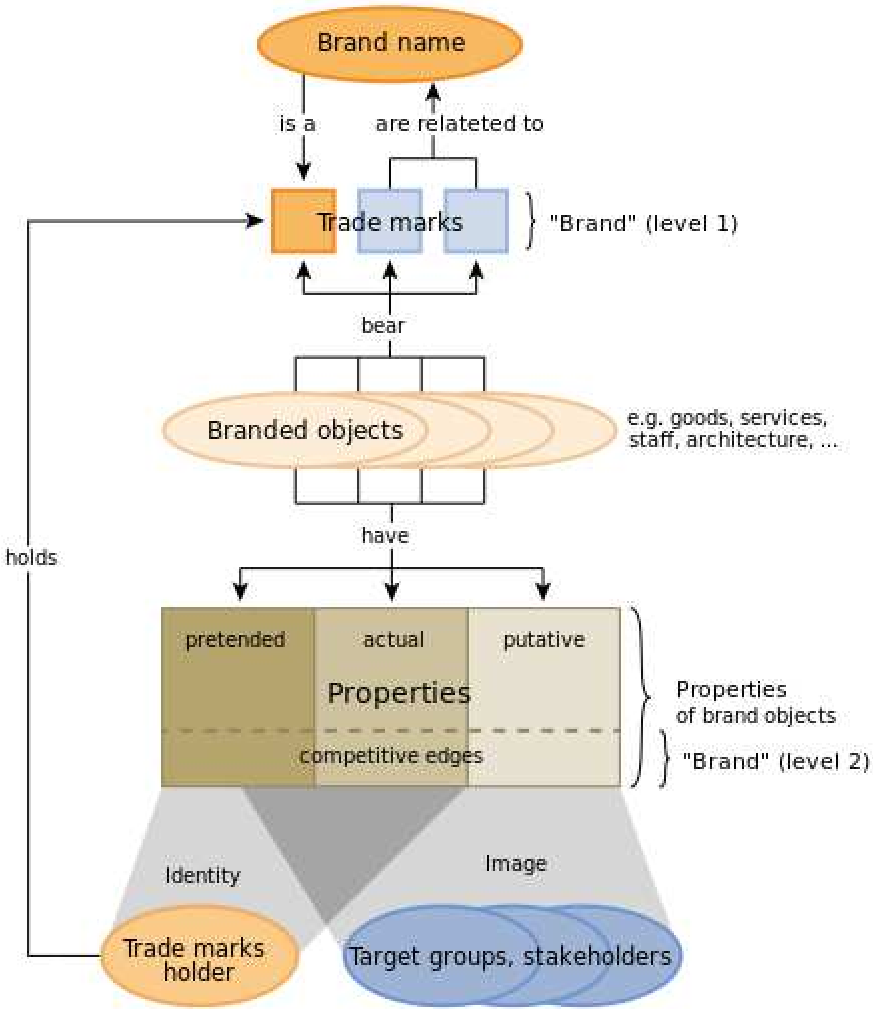

Fig 4.07: Relationship between trade marks and brand

The term "brand name" is quite often used interchangeably with "brand", although it is more correctly used to specifically denote written or spoken linguistic elements of any product. In this context a "brand name" constitutes a type of trademark, if the brand name exclusively identifies the brand owner as the commercial source of products or services. A brand owner may seek to protect proprietary rights in relation to a brand name through trademark registration - such trademarks are called "Registered Trademarks". Advertising spokespersons have also become part of some brands, for example: Mr. Whipple of Charmin toilet tissue and Tony the Tiger of Kellogg's Frosted Flakes. Putting a value on a brand by brand valuation or using marketing mix modeling techniques is distinct to valuing a trademark.

Types of brand names

Brand names come in many styles. A few include:

initialism: a name made of initials, such as "UPS" or "IBM"
descriptive: names that describe a product benefit or function, such as "Whole Foods" or "Toys R' Us"
alliteration and rhyme: names that are fun to say and which stick in the mind, such as "Reese's Pieces" or "Dunkin' Donuts"
evocative: names that can evoke a vivid image, such as "Amazon" or "Crest"
neologisms: completely made-up words, such as "Wii" or "Häagen-Dazs"
foreign word: adoption of a word from another language, such as "Volvo" or "Samsung"
founders' names: using the names of real people, (especially a founder's name), such as "Hewlett-Packard", "Dell", "Disney", "Stussy" or "Mars"
geography: naming for regions and landmarks, such as "Cisco" or "Fuji Film"
personification: taking names from myths, such as "Nike"; or from the minds of ad execs, such as "Betty Crocker"
punny: some brands create their name by using a silly pun, such as "Lord of the Fries", "Wok on Water" or "Eggs Eggscetera"
combination: combining multiple words together to create one, such as "Microsoft" ("microcomputer" and "software"), "Comcast" ("communications" and "broadcast"), "Evernote" ("forever" and "note"), "Vodafone" ("voice", "data", "telephone")

The act of associating a product or service with a brand has become part of pop culture. Most products have some kind of brand identity, from common table salt to designer jeans. A brandnomer is a brand name that has colloquially become a generic term for a product or service, such as Band-Aid, Nylon, or Kleenex—which are often used to describe any brand of adhesive bandage; any type of hosiery; or any brand of facial tissue respectively. Xerox, for example, has become synonymous with the word "copy".

Brand line

A brand line allows the introduction of various subtypes of a product under a common, ideally already established, brand name. Examples would be the individual Kinder Chocolates by Ferrero SA, the subtypes of Coca-Cola, or special editions of popular brands. See also brand extension.

Brand identification

Open Knowledge Foundation created in December 2013 the BSIN (Brand Standard Identification Number). BSIN is universal and is used by the Open Product Data Working Group of the Open Knowledge Foundation to assign a brand to a product. The OKFN Brand repository is critical for the Open Data movement.

Brand identity

The outward expression of a brand – including its name, trademark, communications, and visual appearance – is brand identity. Because the identity is assembled by the brand owner, it reflects how the owner *wants* the consumer to perceive the brand – and by extension the branded company, organization, product or service. This is in contrast to the brand image, which is a customer's mental picture of a brand. The brand owner will seek to bridge the gap between the brand image and the brand identity. Brand identity is fundamental to consumer recognition and symbolizes the brand's differentiation from competitors.

Brand identity is what the owner wants to communicate to its potential consumers. However, over time, a product's brand identity may acquire (evolve), gaining new attributes from consumer perspective but not necessarily from the marketing communications an owner percolates to targeted consumers. Therefore, businesses research consumer's brand associations.

Visual brand identity

Fig 4.08: The visual brand identity manual for Mobil Oil (developed by Chermayeff & Geismar & Haviv), one of the first visual identities to integrate logotype, icon, alphabet, color palette, and station architecture.

A brand can also be used to attract customers by a company, if the brand of a company is well established and has goodwill. The recognition and perception of a brand is highly influenced by its visual presentation. A brand's visual identity is the overall look of its communications. Effective visual brand identity is achieved by the consistent use of particular visual elements to create distinction, such as specific fonts, colors, and graphic elements. At the core of every brand identity is a brand mark, or logo. In the United States, brand identity and logo design naturally grew out of the Modernist movement in the 1950s and greatly drew on the principles of that movement – simplicity (Mies van der Rohe's principle of "Less is more") and geometric abstraction. These principles can be observed in the work of the pioneers of the practice of visual brand identity design, such as [Lippincott and Margulies], Paul Rand, Chermayeff & Geismar (later Chermayeff, Geismar & Haviv), and Saul Bass. As part of a company's brand identity, a logo should complement the company's message strategy. An effective logo is simple, memorable, and works well in any medium including both online and offline applications.

Color is a particularly important element of visual brand identity and color mapping provides an effective way of ensuring color contributes to differentiation in a visually cluttered marketplace (O'Connor, 2011).

Brand trust

Brand trust is the intrinsic 'believability' that any entity evokes. In the commercial world, the intangible aspect of brand trust impacts the behavior and performance of its business stakeholders in many intriguing ways. It creates the foundation of a strong brand connect with all stakeholders, converting simple awareness to strong commitment. This, in turn, metamorphoses normal people who have an indirect or direct stake in the organization into devoted ambassadors, leading to concomitant advantages like easier acceptability of brand extensions, perception of premium, and acceptance of temporary quality deficiencies.

The Brand Trust Report is a syndicated primary research that has elaborated on this metric of brand trust. It is a result of action, behavior, communication and attitude of an entity, with the most trust results emerging from its action component. Action of the entity is most important in creating trust in all those audiences who directly engage with the brand, the primary experience carrying primary audiences. However, the tools of communications play a vital role in the transferring the trust experience to audiences which have never experienced the brand, the all important secondary audience.

Brand parity
Brand parity is the perception of the customers that some brands are equivalent. This means that shoppers will purchase within a group of accepted brands rather than choosing one specific brand. When brand parity operates, quality is often not a major concern because consumers believe that only minor quality differences exist.

Expanding role of brand

Branding was meant to make identifying and differentiating a product easier, while also providing the benefit of letting the name sell a second rate product. Over time, brands came to embrace a performance or benefit promise, for the product, certainly, but eventually also for the company behind the brand.

Today, brand plays a much bigger role. Brands have been co-opted as powerful symbols in larger debates about economics, social issues, and politics. The power of brands to communicate a complex message quickly, with emotional impact and with the ability of brands to attract media attention makes them ideal tools in the hands of activists. Cultural conflict over a brand's meaning have also been shown to influence the diffusion of an innovation.

Branding strategies

Company name
Often, especially in the industrial sector, it is just the company's name which is promoted (leading to one of the most powerful statements of branding: saying just before the company's downgrading. This approach has not worked as well for General Motors, which recently overhauled how its corporate brand relates to the product brands. Exactly how the company name relates to product and services names is known as brand architecture. Decisions about company names and product names and their relationship depends on more than a dozen strategic considerations.

In this case, a strong brand name (or company name) is made the vehicle for a range of products (for example, Mercedes-Benz or Black & Decker) or a range of subsidiary brands (such as Cadbury Dairy Milk, Cadbury Flake, or Cadbury Fingers in the UK).

Individual branding
Each brand has a separate name (such as Seven-Up, Kool-Aid, or Nivea Sun (Beiersdorf), which may compete against other brands from the same company (for example, Persil, Omo, Surf, and Lynx are all owned by Unilever).

Challenger brands
A challenger brand is a brand in an industry where it is neither the market leader or a niche brand. Challenger brands are categorised by a mindset which sees them have business ambitions beyond conventional resources and an intent to bring change to an industry.

Multiproduct branding strategy
Multiproduct branding strategy is when a company uses one name across all their products in a product class. When the company's trade name is used, multiproduct branding is also known as corporate branding, family branding or umbrella branding. Examples of companies that use corporate branding are Microsoft, Samsung, Apple, and Sony as the company's brand name is identical to their trade name. Other examples of multiproduct branding strategy include Virgin and Church & Dwight. Virgin, a multination conglomerate uses the punk inspired, handwritten red logo with the iconic tick for all its products ranging from airlines, hot air balloons, telecommunication to healthcare. Church & Dwight, a manufacturer of household products displays the Arm & Hammer family brand name for all its products containing baking soda as the main ingredient. Multiproduct branding strategy has many advantages. It capitalises on brand equity as consumers that have a good experience with the product will in turn pass on this positive opinion to supplementary objects in the same product class as they share the same name. Consequently, the multiproduct branding strategy makes product line extension possible.

Product line extension
Product line extension is the procedure of entering a new market segment in its product class by means of using a current brand name. An example of this is the Campbell Soup Company, predominately a producer of canned soups. They utilize a multiproduct branding strategy by way of soup line extensions. They have over 100 soup flavours putting forward varieties such as regular Campbell soup, condensed, chunky, fresh-brewed, organic, and soup on the go. This approach is seen as favourable as it can result in a lower promotion costs and advertising due to the same name being used on all products, therefore increasing the level of brand awareness. Although, line extension has potential negative outcomes with one being that other items in the company's line may be disadvantaged because of the sale of the extension. Line extensions work at their best when they deliver an increase in company revenue by enticing new buyers or by removing sales from competitors.

Subbranding
Subbranding is used by certain multiproduct branding companies. Subbranding merges a corporate, family or umbrella brand with the introduction of a new brand in order to differentiate part of a product line from others in the whole brand system. Subbranding assists to articulate and construct offerings. It can alter a brand's identity as subbranding can modify associations of the parent brand. Examples of successful subbranding can be seen through Gatorade and Porsche. Gatorade, a manufacturer of sport-themed food and beverages effectively introduced Gatorade G2, a low-calorie line of Gatorade drinks. Likewise, Porsche, a specialised automobile manufacturer successfully markets its lower-end line, Porsche Boxster and higher-end line, Porsche Carrera.

Brand extension
Brand extension is the system of employing a current brand name to enter a different product class. Having a strong brand equity allows for brand extension. Nevertheless, brand extension has its disadvantages. There is a risk that too many uses for one brand name can oversaturate the market resulting in a blurred and weak brand for consumers. Examples of brand extension can be seen through Kimberly-Clark and Honda. Kimberly-Clark is a corporation that produces personal and health care products being able to extend the Huggies brand name across a full line of toiletries for toddlers and babies. The success of this brand extension strategy is apparent in the $500 million in annual sales generated globally. Similarly, Honda using their reputable name for automobiles has spread to other products such as motorcycles, power equipment, engines, robots, aircraft, and bikes.

Co-branding
Co-branding is a variation of brand extension. It is where a single product is created from the combining of two brand names of two manufacturers. Co-branding has its advantages as it lets firms enter new product classes and exploit a recognized brand name in that product class. An example of a co-branding success is Whitaker's working with Lewis Road Creamery to create a co-branded beverage called Lewis Road Creamery and Whittaker's Chocolate Milk. This product was a huge success in the New Zealand market with it going viral.

Multibranding strategy
Multibranding strategy is when a company gives each product a distinct name. Multibranding is best used as an approach when each brand in intended for a different market segment. Multibranding is used in an assortment of ways with selected companies grouping their brands based on price-quality segments. Procter & Gamble (P&G), a multinational consumer goods company that offers over 100 brands, each suited for different consumer needs. For instance, Head & Shoulders that helps consumers relieve dandruff in the form of a shampoo, Oral-B which offers inter-dental products, Vicks which offers cough and cold products, and Downy which offers dryer sheets and fabric softeners. Other examples include Coca-Cola, Nestlé, Kellogg's, and Mars.

This approach usually results in higher promotion costs and advertising. This is due to the company being required to generate awareness among consumers and retailers for each new brand name without the benefit of any previous impressions. Multibranding strategy has many advantages. There is no risk that a product failure will affect other products in the line as each brand is unique to each market segment. Although, certain large multiband companies have come across that the cost and difficulty of implementing a multibranding strategy can overshadow the benefits. For example, Unilever, the world's third-largest multination consumer goods company recently streamlined its brands from over 400 brands to centre their attention onto 14 brands with sales of over 1 billion euros. Unilever accomplished this through product deletion and sales to other companies. Other multibrand companies introduce new product brands as a protective measure to respond to competition called fighting brands or fighter brands.

Fighting brands
The main purpose of fighting brands is to challenge competitor brands. For example, Qantas, Australia's largest flag carrier airline, introduced Jetstar to go head-to-head against the low-cost carrier, Virgin Australia (formerly known as Virgin Blue). Jetstar is an Australian low-cost airline for budget conscious travellers, but it receives many negative reviews due to this. The launching of Jetstar allowed Qantas to rival Virgin Australia without the criticism being affiliated with Qantas because of the distinct brand name.

Private branding strategy
Private branding is also known as reseller branding, private labelling, store brands, or own brands have increased in popularity. Private branding is when a company manufactures products but it is sold under the brand name of a wholesaler or retailer. Private branding is popular because it typically produces high profits for manufacturers and resellers. The pricing of private brand product are usually cheaper compared to competing name brands. Consumers are commonly deterred by these prices as it sets a perception of lower quality and standard but these views are shifting.

In Australia, their leading supermarket chains, both Woolworths and Coles are saturated with store brands (or private labels). For example, in the United States, Paragon Trade Brands, Ralcorp Holdings, and Rayovac are major suppliers of diapers, grocery products, and private label alkaline batteries, correspondingly. Costco, Walmart, RadioShack, Sears, and Kroger are large retailers that have their own brand names. Similarly, Macy's, a mid-range chain of department stores offers a wide catalogue of private brands exclusive to their stores, from brands such as First Impressions which supply newborn and infant clothing, Hotel Collection which supply luxury linens and mattresses, and Tasso Elba which supply European inspired menswear. They use private branding strategy to specifically target consumer markets.

Mixed branding strategy
Mixed branding strategy is where a firm markets products under its own name(s) and that of a reseller because the segment attracted to the reseller is different from its own market. For example, Elizabeth Arden, Inc., a major American cosmetics and fragrance company, uses mixed branding strategy. The company sells its Elizabeth Arden brand through department stores and line of skin care products at Walmart with the "skin simple" brand name. Companies such as Whirlpool, Del Monte, and Dial produce private brands of home appliances, pet foods, and soap, correspondingly. Other examples of mixed branding strategy include Michelin, Epson, Microsoft, Gillette, and Toyota. Michelin, one of the largest tire manufacturers allowed Sears, an American retail chain to place their brand name on the tires. Microsoft, a multinational technology company is seriously regarded as a corporate technology brand but it sells its versatile home entertainment hub under the brand Xbox to better align with the new and crazy identity. Gillette catered to females with Gillette for Women which has now become known as Venus. The launch of Venus was conducted in order to fulfil the feminine market of the previously dominating masculine razor industry. Similarly, Toyota, an automobile manufacturer used mixed branding. In the U.S., Toyota was regarded as a valuable car brand being economical, family orientated and known as a vehicle that rarely broke down. But Toyota sought out to fulfil a higher end, expensive market segment, thus they created Lexus, the luxury vehicle division of premium cars.

Attitude branding and iconic brands
Attitude branding is the choice to represent a larger feeling, which is not necessarily connected with the product or consumption of the product at all. Marketing labeled as attitude branding include that of Nike, Starbucks, The Body Shop, Safeway, and Apple Inc.. In the 2000 book *No Logo*, Naomi Klein describes attitude branding as a "fetish strategy". Schaefer and Kuehlwein analyzed brands such as Apple, Ben & Jerry's or Chanel describing them as 'Ueber-Brands' - brands that are able to gain and retain "meaning beyond the material."

“A great brand raises the bar – it adds a greater sense of purpose to the experience, whether it's the challenge to do your best in sports and fitness, or the affirmation that the cup of coffee you're drinking really matters.” – Howard Schultz (president, CEO, and chairman of Starbucks)

Fig 4.09: The color, letter font and style of the Coca-Cola and Diet Coca-Cola logos in English were copied into matching Hebrew logos to maintain brand identity in Israel.

Iconic brands are defined as having aspects that contribute to consumer's self-expression and personal identity. Brands whose value to consumers comes primarily from having identity value are said to be "identity brands". Some of these brands have such a strong identity that they become more or less cultural icons which makes them "iconic brands". Examples are: Apple, Nike, and Harley-Davidson. Many iconic brands include almost ritual-like behaviour in purchasing or consuming the products.

There are four key elements to creating iconic brands (Holt 2004):

- "Necessary conditions" – The performance of the product must at least be acceptable, preferably with a reputation of having good quality.
- "Myth-making" – A meaningful storytelling fabricated by cultural insiders. These must be seen as legitimate and respected by consumers for stories to be accepted.
- "Cultural contradictions" – Some kind of mismatch between prevailing ideology and emergent undercurrents in society. In other words, a difference with the way consumers are and how they wish they were.
- "The cultural brand management process" – Actively engaging in the myth-making process in making sure the brand maintains its position as an icon.

Schaefer and Kuehlwein propose the following 'Ueber-Branding' principles. They derived them from studying successful modern Prestige brands and what elevates them above mass competitors and beyond considerations of performance and price (alone) in the minds of consumers:

- "Mission Incomparable" - Having a differentiated and meaningful brand purpose beyond 'making money.' Setting rules that follow this purpose - even when it violates the mass marketing mantra of "Consumer is always Boss/right".
- "Longing versus Belonging" - Playing with the opposing desires of people for Inclusion on the one hand and Exclusivity on the other.

- "Un-Selling" – First and foremost seeking to seduce through pride and provocation, rather than to sell through arguments.
- "From Myth To Meaning" - Leveraging the power of myth - 'Ueber-Stories' that have fascinated- and guided humans forever.
- "Behold!" - Making product and associated brand rituals reflect the essence of the brand mission and myth. Making it the center of attention, while keeping it fresh.
- "Living the Dream" - Living the brand mission as an organization and through its actions. Thus radiating the brand myth from the inside out, consistently and through all brand manifestations. - For "Nothing is as volatile than a dream."
- "Growth without End" - Avoiding to be perceived as omnipresent, diluting brand appeal. Instead 'growing with gravitas' by leveraging scarcity/high prices, 'sideways expansion' and other means.

"No-brand" branding

Recently, a number of companies have successfully pursued "no-brand" strategies by creating packaging that imitates generic brand simplicity. Examples include the Japanese company Muji, which means "No label" in English (from 無印良品 – "Mujirushi Ryohin" – literally, "No brand quality goods"), and the Florida company No-Ad Sunscreen. Although there is a distinct Muji brand, Muji products are not branded. This no-brand strategy means that little is spent on advertisement or classical marketing and Muji's success is attributed to the word-of-mouth, a simple shopping experience and the anti-brand movement. "No brand" branding may be construed as a type of branding as the product is made conspicuous through the absence of a brand name. "Tapa Amarilla" or "Yellow Cap" in Venezuela during the 1980s is another good example of no-brand strategy. It was simply recognized by the color of the cap of this cleaning products company.

Derived brands

In this case the supplier of a key component, used by a number of suppliers of the end-product, may wish to guarantee its own position by promoting that component as a brand in its own right. The most frequently quoted example is Intel, which positions itself in the PC market with the slogan (and sticker) "Intel Inside".

Brand extension and brand dilution

The existing strong brand name can be used as a vehicle for new or modified products; for example, many fashion and designer companies extended brands into fragrances, shoes and accessories, home textile, home decor, luggage, (sun-) glasses, furniture, hotels, etc.

Mars extended its brand to ice cream, Caterpillar to shoes and watches, Michelin to a restaurant guide, Adidas and Puma to personal hygiene. Dunlop extended its brand from tires to other rubber products such as shoes, golf balls, tennis racquets, and adhesives. Frequently, the product is no different from what else is on the market, except a brand name marking. Brand is product identity.

There is a difference between brand extension and line extension. A line extension is when a current brand name is used to enter a new market segment in the existing product class, with new varieties or flavors or sizes. When Coca-Cola launched "Diet Coke" and "Cherry Coke", they stayed within the originating product category: non-alcoholic carbonated beverages. Procter & Gamble (P&G) did likewise extending its strong lines (such as Fairy Soap) into neighboring products (Fairy Liquid and Fairy Automatic) within the same category, dish washing detergents.

The risk of over-extension is brand dilution where the brand loses its brand associations with a market segment, product area, or quality, price or cachet.

Social media brands

In 'The Better Mousetrap: Brand Invention in a Media Democracy' (2012), author and brand strategist Simon Pont posits that social media brands may be the most evolved version of the brand form, because they focus not on themselves but on their users. In so doing, social media brands are arguably more charismatic, in that consumers are compelled to spend time with them, because the time spent is in the meeting of fundamental human drivers related to belonging and individualism. "We wear our physical brands like badges, to help define us – but we use our digital brands to help express who we are. They allow us to be, to hold a mirror up to ourselves, and it is clear. We like what we see."

Multi-brands

Alternatively, in a market that is fragmented amongst a number of brands a supplier can choose deliberately to launch totally new brands in apparent competition with its own existing strong brand (and often with identical product characteristics); simply to soak up some of the share of the market which will in any case go to minor brands. The rationale is that having 3 out of 12 brands in such a market will give a greater overall share than having 1 out of 10 (even if much of the share of these new brands is taken from the existing one). In its most extreme manifestation, a supplier pioneering a new market which it believes will be particularly attractive may choose immediately to launch a second brand in competition with its first, in order to pre-empt others entering the market. This strategy is widely known as multi-brand strategy.

Individual brand names naturally allow greater flexibility by permitting a variety of different products, of differing quality, to be sold without confusing the consumer's perception of what business the company is in or diluting higher quality products.

Once again, Procter & Gamble is a leading exponent of this philosophy, running as many as ten detergent brands in the US market. This also increases the total number of "facings" it receives on supermarket shelves. Sara Lee, on the other hand, uses it to keep the very different parts of the business separate—from Sara Lee cakes through Kiwi polishes to L'Eggs pantyhose. In the hotel business, Marriott uses the name Fairfield Inns for its budget chain (and Choice Hotels uses Rodeway for its own cheaper hotels).

Cannibalization is a particular problem of a multi-brand strategy approach, in which the new brand takes business away from an established one which the organization also owns. This may be acceptable (indeed to be expected) if there is a net gain overall. Alternatively, it may be the price the organization is willing to pay for shifting its position in the market; the new product being one stage in this process.

Private labels

Private label brands, also called own brands, or store brands have become popular. Where the retailer has a particularly strong identity (such as Marks & Spencer in the UK clothing sector) this "own brand" may be able to compete against even the strongest brand leaders, and may outperform those products that are not otherwise strongly branded.

Designer Private Labels

A relatively recent innovation in retailing is the introduction of designer private labels. Designer-private labels involve a collaborative contract between a well-known fashion designer and a retailer. Both retailer and designer collaborate to design goods with popular appeal pitched at price points that fit the consumer's budget. For retail outlets, these types of collaborations give them greater control over the design process as well as access to exclusive store brands that can potentially drive store traffic.

In Australia, for example, the department store, Myer, now offers a range of exclusive designer private labels including Jayson Brundson, Karen Walker, Leona Edmiston, Wayne Cooper, Fleur Wood and 'L' for Lisa Ho. Another up-market department store, David Jones, currently offers 'Collette' for leading Australian designer, Collette Dinnigan, and has recently announced its intention to extend the number of exclusive designer brands. Target has teamed up with Danii Minogue to produce her "Petites' range. Specsavers has joined up with Sydney designer, Alex Perry to create an exclusive range of spectacle frames while Big W stocks frames designed by Peter Morrissey.

Individual and organizational brands

With the development of brand, Branding is no longer limited to a product or service. There are kinds of branding that treat individuals and organizations as the products to be branded. Most NGOs and non-profit organizations carry their brand as a fundraising tool. The purpose of most NGOs is leave social impact so their brand become associated with specific social life matters. Amnesty International, Habitat for Humanity, World Wildlife Fund and AIESEC are among the most recognized brands around the world. NGOs and non-profit organizations moved beyond using their brands for fundraising to express their internal identity and to clarify their social goals and long-term aims. Organizational brands have well determined brand guidlines and logo variables.

Crowd sourced branding

These are brands that are created by "the public" for the business, which is opposite to the traditional method where the business create a brand.

Personalised branding

Many businesses have started to use elements of personalisation in their branding strategies, offering the client or consumer the ability to choose from various brand options or have direct control over the brand. Examples of this include the #ShareACoke campaign by Coca-Cola which printed people's names and place names on their bottles encouraging people. AirBNB has created the facility for users to create their own symbol for the software to replace the brand's mark known as The Bélo.

Nation branding (place branding and public diplomacy)

Nation branding is a field of theory and practice which aims to measure, build and manage the reputation of countries (closely related to place branding). Some approaches applied, such as an increasing importance on the symbolic value of products, have led countries to emphasise their distinctive characteristics. The branding and image of a nation-state "and the successful transference of this image to its exports – is just as important as what they actually produce and sell."

Destination branding

Destination branding is the work of cities, states, and other localities to promote to themselves. This work is designed to promote the location to tourists and drive additional revenues into a tax base. These activities are often undertaken by governments, but can also result from the work of community associations. The Destination Marketing Association International is the industry leading organization.

Doppelgänger brand image (DBI)
A doppelgänger brand image or "DBI" is a disparaging image or story about a brand that it circulated in popular culture. DBI targets tend to be widely known and recognizable brands. The purpose of DBIs is to undermine the positive brand meanings the brand owners are trying to instill through their marketing activities.

The term stems from the combination of the German words *doppel* (double) and *gänger* (walker).

Doppelgänger brands are typically created by individuals or groups to express criticism of a brand and its perceived values, through a form of parody, and are typically unflattering in nature.

Due to the ability of Doppelgänger brands to rapidly propagate virally through digital media channels, they can represent a real threat to the equity of the target brand. Sometimes the target organization is forced to address the root concern or to re-position the brand in a way that defuses the criticism.

Examples include:

- **Joe Chemo** campaign organized to criticize the marketing of tobacco products to children and their harmful effects.
- Version of the **Coca-Cola** logo crafted to protest their sponsorship of the **2022 FIFA World Cup in Qatar** and associated human rights abuses (see citation for original Reddit thread featuring the image).
- Parody of the **Pepsi logo as an obese man** to highlight the relationship between soft drink consumption and obesity.
- The **FUH2 campaign** protesting the Hummer SUV as a symbol of corporate and consumer irresponsibility toward public safety and the environment.

In the 2006 article "Emotional Branding and the Strategic Value of the Doppelgänger Brand Image", Thompson, Rindfleisch, and Arsel suggest that a doppelgänger brand image can be a benefit to a brand if taken as an early warning sign that the brand is losing emotional authenticity with its market.

CHECK YOUR PROGRESS

Explain the concepts of ‘brand’ and ‘branding’ as used in marketing.

Elaborate on the concept of ‘brand equity’.

Discuss the concept of ‘corporate brand identity’.

Discuss the various elements of a brand.

Explain the various brand touch points during pre-purchase, pos-purchase and purchase phases.

Discuss the traditional (Shannon-weaver) model of communication to explain brand communication.

Discuss the relationship between trade mark and brand.

Describe at least five styles of brand names.

Elaborate the concept of visual brand identity.

Discuss the various branding strategies.

Discuss four elements in building iconic brand according to Holt.

4.05 PRICING

Pricing is the process whereby a business sets the price at which it will sell its products and services, and may be part of the business's marketing plan. In setting prices, the business will take into account the price at which it could acquire the goods, the manufacturing cost, the market place, competition, market condition, brand, and quality of product.

Pricing is a fundamental aspect of financial modeling and is one of the four Ps of the marketing mix. (The other three aspects are product, promotion, and place.) Price is the only revenue generating element amongst the four Ps, the rest being cost centers. However, the other Ps of marketing will contribute to decreasing price elasticity and so enable price increases to drive greater revenue and profits.

Pricing can be a manual or automatic process of applying prices to purchase and sales orders, based on factors such as: a fixed amount, quantity break, promotion or sales campaign, specific vendor quote, price prevailing on entry, shipment or invoice date, combination of multiple orders or lines, and many others. Automated systems require more setup and maintenance but may prevent pricing errors. The needs of the consumer can be converted into demand only if the consumer has the willingness and capacity to buy the product. Thus, pricing is the most important concept in the field of marketing, it is used as a tactical decision in response to comparing market situations.

Fig 4.10: A price tag is a highly visual and objective guide to value

Objectives of pricing

The objectives of pricing should consider:

- the financial goals of the company (i.e. profitability)
- the fit with marketplace realities (will customers buy at that price?)
- the extent to which the price supports a product's market positioning and be consistent with the other variables in the marketing mix

Price is influenced by the type of distribution channel used, the type of promotions used, and the quality of the product. Where manufacturing is expensive, distribution is exclusive, and the product is supported by extensive advertising and promotional campaigns, then prices are likely to be higher. Price can act as a substitute for product quality, effective promotions, or an energetic selling effort by distributors in certain markets.

From the marketer's point of view, an **efficient price** is a price that is very close to the maximum that customers are prepared to pay. In economic terms, it is a price that shifts most of the consumer economic surplus to the producer. A good pricing strategy would be the one which could balance between the price floor (the price below which the organization ends up in losses) and the price ceiling (the price by which the organization experiences a no-demand situation).

Pricing strategies

Marketers develop an overall pricing strategy that is consistent with the organisation's mission and values. This pricing strategy typically becomes part of the company's overall long -term strategic plan. The strategy is designed to provide broad guidance to price-setters and ensures that the pricing strategy is consistent with other elements of the marketing plan. While the actual price of goods or services may vary in response to different conditions, the broad approach to pricing (i.e., the pricing strategy) remains a constant for the planning outlook period which is typically 3–5 years, but in some industries may be a longer period of 7–10 years.

Broadly, there are six approaches to pricing strategy mentioned in the marketing literature:

Operations-oriented pricing: where the objective is to optimise productive capacity, to achieve operational efficiencies or to match supply and demand through varying prices. In some cases, prices might be set to de-market.

Revenue-oriented pricing: (also known as *profit-oriented pricing* or *cost-based pricing*) - where the marketer seeks to maximise the profits (i.e., the surplus income over costs) or simply to cover costs and break even. For example, dynamic pricing (also known as yield management is a form of revenue oriented pricing.

Customer-oriented pricing: where the objective is to maximise the number of customers; encourage cross-selling opportunities or to recognise different levels in the customer's ability to pay.

Value-based pricing: (also known as *image-based pricing*) occurs where the company uses prices to signal market value or associates price with the desired value position in the mind of the buyer. The aim of value-based pricing is to reinforce the overall positioning strategy e.g. premium pricing posture to pursue or maintain a luxury image.

Relationship-oriented pricing: where the marketer sets prices in order to build or maintain relationships with existing or potential customers.

Socially-oriented pricing: Where the objective is to encourage or discourage specific social attitudes and behaviours. e.g. high tariffs on tobacco to discourage smoking.

Pricing tactics

When decision-makers have determined the broad approach to pricing (i.e., the pricing strategy), they turn their attention to pricing tactics. Tactical pricing decisions are shorter term prices, designed to accomplish specific short-term goals. The tactical approach to pricing may vary from time to time, depending on a range of internal considerations (e.g. such as the need to clear surplus inventory) or external factors (e.g. a response to competitive pricing tactics). Accordingly, a number of different pricing tactics may be employed in the course of a single planning period or across a single year. Typically line managers are given the latitude necessary to vary individual prices providing that they operate within the broad strategic approach. For example, some premium brands never offer discounts because the use of low prices may tarnish the brand image. Instead of discounting, premium brands are more likely to offer customer value through price-bundling or give-aways.

When setting individual prices, decision-makers require a solid understanding of pricing economics, notably break-even analysis, as well as an appreciation of the psychological aspects of consumer decision-making including reservation prices, ceiling prices and floor prices. The marketing literature identifies literally hundreds of pricing tactics. It is difficult to do justice to the variety of tactics in widespread use. Rao and Kartono carried out a cross-cultural study to identify the pricing strategies and tactics that are most widely used. The following listing is largely based on their work.

ARC/RRC Pricing
A traditional tactic used in outsourcing that uses a fixed fee for a fixed volume of services, with variations on fees for volumes above or below target thresholds. Charges for additional resources ("ARC's") above the threshold are priced at rates to reflect the marginal cost of the additional production plus a reasonable profit. Credits ("RRC's") granted for reduction in resources consumed or provided offer the enterprise customer some comfort, but the savings on credits tend not to be equivalent to the increased costs when paying for incremental resources in excess of the threshold.

Complementary Pricing

Fig 4.11: The purchase of a printer leads to a lifetime of purchases of replacement parts. In such cases, complementary pricing may be considered.

Complementary pricing is a collective term used to describe `captive-market' pricing tactics. It refers to a method in which one of two or more complementary products (a deskjet printer, for example) is priced to maximise sales volume, while the complementary product (printer ink cartridges) are priced at a much higher level in order to cover any shortfall sustained by the first product.

Contingency Pricing

Contingency pricing describes the process where a fee is only charged continent on certain results. Contingency pricing is widely used in professional services such as legal services and consultancy services. In the United Kingdom, a contingency fee is known as a conditional fee.

Differential pricing
Differential pricing is also known as *flexible pricing*, *multiple pricing* or *price discrimination* is where different prices dependent on the service provider's assessment of the customer's willingness or ability to pay. There are various forms of price difference including: the type of customer, quantity ordered, delivery time, payment terms, etc.

Discrete pricing
Discrete Pricing occurs when prices are set at a level that the price comes within the competence of the decision making unit (DMU). This method of pricing is often used in B2B contexts where the purchasing officer may be authorised to make purchases up to a predetermined level, beyond which decisions must go to a committee for authorisation.

Discount pricing

Fig 4.12: A discount is any form of reduction in price

Discount pricing is where the marketer or retailer offers a reduced price. Discounts in a variety of forms - e.g. quantity rebates, loyalty rebates, seasonal discounts, periodic or random discounts etc.

Diversionary pricing
Diversionary Pricing is a variation of loss leadering used extensively in services; a low price is charged on a basic service with the intention of recouping on the extras; can also refer to low prices on some parts of the service to develop an image of low price.

Everyday low prices (EDLP)

Fig 4.13: Everyday Low Prices" are widely used in supermarkets

Everyday low prices refers to the practice of maintaining a regular low price-low price - in which consumers are not forced to wait for discounting or specials. This method is used by supermarkets.

Exit fees
Exit Fees refer to a fee charged for customers who depart the service process prior to natural completion. The objective of exit fees is to deter premature exit. Exit fees are often round in financial services, telecommunications services and aged care facilities. Regulatory authorities, around the globe, have often expressed their discontent with the practice of exit fees as it has the potential to be anti-competitive and restricts consumers' abilities to switch freely, but the practice has not been proscribed.

Experience curve pricing
Experience curve pricing occurs when a manufacturer prices a product or service at a low rate in order to obtain volume and with the expectation that the cost of production will decrease with the acquisition of manufacturing experience. This approach which is often used in the pricing of high technology products and services, is based on the insight that manufacturers learn to trim production costs over time in a phenomenon known as experience effects.

Geographic pricing
Geographic pricing occurs when different prices are charged in different geographic markets for an identical product. For example, publishers often make text-books available at lower prices in Asian countries because average wages tend to be lower with implications for the customer's ability to pay.

Guaranteed pricing
Guaranteed pricing is a variant of contingency pricing. It refers to the practice of including an undertaking or promise that certain results or outcomes will be achieved. For instance, some business consultants undertake to improve productivity or profitability by 10%. In the event that the result is not achieved, the client does not pay for the service.

High-low pricing
High-low pricing refers to the practice of offering goods at a high price for a period of time, followed by offering the same goods at a low price for a predetermined time. This practice is widely used by chain stores selling homewares. The main disadvantage of the high-low tactic is that consumers tend to become aware of the price cycles and time their purchases to coincide with a low-price cycle.

Honeymoon pricing
Honeymoon Pricing refers to the practice of using a low introductory price with subsequent price increases once relationship is established. The objective of honeymoon pricing is to "lock" customers into a long-term association with the vendor. This approach is widely used in situations where customer switching costs are relatively high such as in home loans and financial investsments.

Loss leader
A loss leader is a product that has a price set below the operating margin. Loss leadering is widely used in supermarkets and budget-priced retail outlets where the store as a means of generating store traffic. The low price is widely promoted and the store is prepared to take a small loss on an individual item, with an expectation that it will recoup that loss when customers purchase other higher priced-higher margin items. In service industries, loss leadering may refer to the practice of charging a reduced price on the first order as an inducement and with anticipation of charging higher prices on subsequent orders.

Offset pricing
Offset pricing (also known as *diversionary pricing*) is the service industry's equivalent of loss leadering. A service may price one component of the offer at a very low price with an expectation that it can recoup any losses by cross-selling additional services. For example, a carpet steam cleaning service may charge a very low basic price for the first three rooms, but charges higher prices for additional rooms, furniture and curtain cleaning. The operator may also try to cross-sell the client on additional services such as spot-cleaning products, or stain-resistant treatments for fabrics and carpets.

Parity pricing
Parity pricing refers to the process of pricing a product at or near a rival's price in order to remain competitive.

Price bundling

Fig 4.14: Xbox price bundle price

Price bundling (also known as product bundling occurs where two or more products or services are priced as a package with a single price. There are several types of bundles: *pure bundles* where the goods can only be purchased as package or *mixed bundles* where the goods can be purchased individually or as a package. The prices of the bundle is typically less than when the two items are purchased separately.

Peak and off-peak pricing
Peak and off-peak pricing is a form of price discrimination where the price variation is due to some type of seasonal factor. The objective of peak and off peak pricing is to use prices to even out peaks and troughs in demand. Peak and off-peak pricing is widely used in tourism, travel and also in utilities such as electricity providers. Peak pricing has caught the public's imagination since the ride-sharing service provider, Uber, commenced using *surge pricing* and has sought to patent the technologies that support this approach.

Price discrimination
Price discrimination is also known as variable pricing or *differential pricing*.

Price lining
Price lining is the use of a limited number of prices for all product offered by a business. Price lining is a tradition started in the old five and dime stores in which everything cost either 5 or 10 cents. In price lining, the price remains constant but quality or extent of product or service adjusted to reflect changes in cost. The underlying rationale of this tactic is that these amounts are seen as suitable price points for a whole range of products by prospective customers. It has the advantage of ease of administering, but the disadvantage of inflexibility, particularly in times of inflation or unstable prices. Price lining continues to be widely used in department stores where customers often note racks of garments or accessories priced at predetermined price points e.g. separate racks of men's ties, where each rack is priced at $10, $20 and $40.

Penetration pricing
Penetration pricing is an approach that can be considered at the time of market entry. In this approach, the price of a product is initially set low in an effort to penetrate the market quickly. Low prices and low margins also act as a deterrent, preventing potential rivals from entering the market since they would have to undercut the low margins to gain a foothold.

Prestige pricing

Premium brands rarely discount due to the potential to tarnish the brand. Instead they offer gift packs to provide customers with value

Prestige pricing is also known as *premium pricing* and occasionally *luxury pricing* or *high price maintenance* refers to the deliberate pursuit of a high price posture to create an image of quality

Price signalling
Price signalling is where the price is used as an indicator of some other attribute. For example, some travel resorts promote that when two adults make a booking, the kids stay for free. This type of pricing is designed to signal that the resort is a family friendly operation.

Price skimming
Price skimming, also known as *skim-the-cream pricing* is a tactic that might be considered at market entry. The objective is to charge relatively high prices in order to recoup the cost of product development early in the life-cycle and before competitors enter the marktet.

Promotional pricing
Promotional pricing is a temporary measure that involves setting prices at levels lower than normally charged for a good or service. Promotional pricing is sometimes a reaction to unforeseen circumstances, as when a downturn in demand leaves a company with excess stocks; or when competitive activity is making inroads into market share or profits.

Two-part pricing
Two-part pricing is a variant of captive-market pricing used in service industries. Two part pricing breaks the actual price into two parts; a fixed service fee plus a variable consumption rate. Two- part pricing tactics are widely used by utility companies such as electricity, gas and water and services where there is a quasi- membership type relationship, credit cards where an annual fee is charged and theme parks where an entrance fee is charged for admission while the customer pays for rides and extras. One part of the price represents a membership fee or joining fee, while the second part represents the usage component.

Psychological pricing

Fig 4.15: Extensive use of the terminal digit 'nine' suggests that psychological pricing is at play

Psychological pricing is a collective term that refers to a range of tactics designed to have a positive psychological impact. Price tags using the terminal digit "9", ($9.99, $19.99 or $199.99) can be used to signal price points and bring an item in at just under the consumer's reservation price. Psychological pricing is widely used in a variety of retail settings.

Premium pricing

Premium pricing (also called prestige pricing) is the strategy of consistently pricing at, or near, the high end of the possible price range to help attract status-conscious consumers. The high pricing of a premium product is used to enhance and reinforce a product's luxury image. Examples of companies which partake in premium pricing in the marketplace include Rolex and Bentley. As well as brand, product attributes such as eco-labelling and provenance (e.g. 'certified organic' and 'product of Australia') may add value for consumers and attract premium pricing. A component of such premiums may reflect the increased cost of production. People will buy a premium priced product because:

- They believe the high price is an indication of good quality
- They believe it to be a sign of self-worth - "They are worth it;" it authenticates the buyer's success and status; it is a signal to others that the owner is a member of an exclusive group
- They require flawless performance in this application - The cost of product malfunction is too high to buy anything but the best - for example, a heart pacemaker.

The old association of luxury only being for the kings and queens of the world is almost non-existent in today's world. People have generally become wealthier, therefore the mass marketing phenomenon of luxury has simply become a part of everyday life, and no longer reserved for the elite. Since consumers have a larger source of disposable income, they now have the power to purchase products that meet their aspirational needs. This phenomenon enables premium pricing opportunities for marketers in luxury markets. Luxurification in society can be seen when middle class members of society, are willing to pay premium prices for a service or product of the highest quality when compared with similar goods. Examples of this can be seen with items such as clothing and electronics. Charging a premium price for a product also makes it more inaccessible and helps it gain an exclusive appeal. Luxury brands such as Louis Vuitton and Gucci are more than just clothing and become more of a status symbol. (Yeoman, 2011).

Prestige goods are usually sold by companies that have a monopoly on the market and hold competitive advantage. Due to a firm having great market power they are able to charge at a premium for goods, and are able to spend a larger sum on promotion and advertising. According to Han, Nunes and Dreze (2015) figure on "signal preference and taxonomy based on wealth and need for status" two social groups known as "Parvenus" and "Poseurs" are individuals generally more self-conscious, and base purchases on a need to reach a higher status or gain a social prestige value. Further market research shows the role of possessions in consumer's lives and how people make assumptions about others solely based on their possessions. People associate high priced items with success. (Han et al., 2010). Marketers understand this concept, and price items at a premium to create the illusion of exclusivity and high quality. Consumers are likely to purchase a product at a higher price than a similar product as they crave the status, and feeling of superiority as being part of a minority that can in fact afford the said product. (Han et al., 2010).

A price premium can also be charged to consumers when purchasing eco-labelled products. Market based incentives are given in order to encourage people to practice their business in an eco-friendly way in regard to the environment. Associations such as the MSC's fishery certification programme and seafood ecolabel reward those who practice sustainable fishing. Pressure from environmental groups have caused the implementation of Associations such as these, rather than consumers demanding it. The value consumer's gain from purchasing environmentally conscious products may create a premium price over non eco-labelled products. This means that producers have some sort of incentive for suppling goods worthy of eco-labelling standard. Usually more costs are incurred when practicing sustainable business, and charging at a premium is a way businesses can recover extra costs.

Methods of setting prices

Demand-based pricing

Demand-based pricing, also known as dynamic pricing, is a pricing method that uses consumer demand - based on perceived value - as the central element. These include price skimming, price discrimination and yield management, price points, psychological pricing, bundle pricing, penetration pricing, price lining, value-based pricing, geo and premium pricing.

Pricing factors are manufacturing cost, market place, competition, market condition, quality of product.

Price modeling using econometric techniques can help measure price elasticity, and computer based modeling tools will often facilitate simulations of different prices and the outcome on sales and profit. More sophisticated tools help determine price at the SKU level across a portfolio of products. Retailers will optimize the price of their private label SKUs with those of National Brands.

An example of demand-based pricing is the Uber car-ride service company's use of an automated algorithm to increase prices to "surge price" levels, responding rapidly to changes of supply and demand in the market. By responding in realtime, an equilibrium between demand and supply of drivers can be approached. Customers receive notice when making an Uber reservation that prices have increased. The company applied for a U.S. patent on surge pricing in 2013, though airlines are known to have been using similar techniques in seat pricing for years.

The practice has often caused passengers to become upset and invited criticism when it happens as a result of holidays, inclement weather, natural disasters or other factors. During New Year's Eve 2011, Uber prices were as high as seven times normal rates, causing outrage. During the 2014 Sydney hostage crisis, Uber implemented surge pricing, resulting in fares of up to four times normal charges; while it defended the surge pricing at first, it later apologized and refunded the surcharges. Uber CEO Travis Kalanick has responded to criticism by saying: "...because this is so new, it's going to take some time for folks to accept it. There's 70 years of conditioning around the fixed price of taxis."

Multidimensional pricing

Multidimensional pricing is the pricing of a product or service using multiple numbers. In this practice, price no longer consists of a single monetary amount (e.g., sticker price of a car), but rather consists of various dimensions (e.g., monthly payments, number of payments, and a downpayment). Research has shown that this practice can significantly influence consumers' ability to understand and process price information.

Micromarketing

Micromarketing is the practice of tailoring products, brands (microbrands), and promotions to meet the needs and wants of microsegments within a market. It is a type of market customization that deals with pricing of customer/product combinations at the store or individual level.

Theoretical considerations in pricing

Price/quality relationship

The *price/quality relationship* refers to consumers' perceptions of value. High price are often taken as a sign of quality, especially when the product or service lacks search qualities that can be inspected prior to purchase. Understanding consumers perceptions of the price quality relationship is most important in the case of complex products that are hard to test, and experiential products that cannot be tested until used (such as most services). The greater the uncertainty surrounding a product, the more consumers depend on the price/quality signal and the greater premium they may be prepared to pay.

Consumers can have different perceptions on premium pricing, and this factor makes it important for the marketer to understand consumer behaviour. According to Vigneron and Johnson's figure on "Prestige-Seeking Consumer Behaviours", Consumers can be categorised into four groups. These groups being; Hedonist & Perfectionist, snob, bandwagon and veblenian. These categories rank from level of self-consciousness, to importance of price as an indicator of prestige. The Veblen Effect explains how this group of consumers makes purchase decisions based on conspicuous value, as they tend to purchase publicly consumed luxury products. This shows they are likely to make the purchase to show power, status and wealth. Consumers that fall under the "Snob Effect" can be described as individuals that search for perceived unique value, and will purchase exclusive products in order to be the first or very few who has it. They will also avoid purchasing products consumed by a general mass of people, as it is perceived that items in limited supply hold a higher value than items that do not. (Vigneron & Johnson, 1999). The bandwagon effect explains that consumers that fit into this category make purchasing decisions to fit into a social group, and gain a perceived social value out of purchasing popular products within said social group at premium prices. Research shows that people will often conform to what the majority of the group they are a member of thinks when it comes to the attitude of a product. Paying a premium price for a product can act as a way of gaining acceptance, due to the pressure placed on them by their peers. The Hedonic effect can be described as a certain group of people whose purchasing decisions are not affected by the status and exclusivity gained by purchasing a product at a premium, nor susceptible to the fear of being left out and peer pressure. Consumers who fit into this category base their purchasing decisions on a perceived emotional value, and gain intangible benefits such as sensory pleasure, aesthetic beauty and excitement. Consumers of this type have a higher interest on their own wellbeing. (Vigneron & Johnson, 1999). The last category on Vigneron and Johnson's figure of "Prestige-Seeking Consumer Behaviours" is the perfectionism effect. Prestige brands are expected to show high quality, and it's this reassurance of the highest quality that can actually enhance the value of the product. According to this effect, those that fit into this group value the prestige's brands to have a superior quality and higher performance than other similar brands. Research has indicated that consumer's perceive quality of a product to be relational to its price. Consumers often believe a high price of a product indicates a higher level of quality.

Even though it is suggested that high prices seem to make certain products more desirable, consumers that fall in this category have their own perception of quality and make decisions based upon their own judgement. They may also use the premium price as an indicator of the products level of quality.

Price sensitivity and consumer psychology
In their book, *The Strategy and Tactics of Pricing*, Thomas Nagle and Reed Holden outline nine laws or factors that influence how a consumer perceives a given price and how price-sensitive s/he is likely to be with respect to different purchase decisions:

- **Reference price effect**: Buyer's price sensitivity for a given product increases the higher the product's price relative to perceived alternatives. Perceived alternatives can vary by buyer segment, by occasion, and other factors.
- **Difficult comparison effect** Buyers are less sensitive to the price of a known / more reputable product when they have difficulty comparing it to potential alternatives.
- **Switching costs effect**: The higher the product-specific investment a buyer must make to switch suppliers, the less price sensitive that buyer is when choosing between alternatives.
- **Price-quality effect**: Buyers are less sensitive to price the more that higher prices signal higher quality. Products for which this effect is particularly relevant include: image products, exclusive products, and products with minimal cues for quality.
- **Expenditure effect**: Buyers are more price sensitive when the expense accounts for a large percentage of buyers' available income or budget.
- **End-benefit effect**: The effect refers to the relationship a given purchase has to a larger overall benefit, and is divided into two parts:
  - **Derived demand**: The more sensitive buyers are to the price of the end benefit, the more sensitive they will be to the prices of those products that contribute to that benefit.
  - **Price proportion cost**: The price proportion cost refers to the percent of the total cost of the end benefit accounted for by a given component that helps to produce the end benefit (e.g., think CPU and PCs). The smaller the given components share of the total cost of the end benefit, the less sensitive buyers will be to the component's price.
- **Shared-cost effect**: The smaller the portion of the purchase price buyers must pay for themselves, the less price sensitive they will be.
- **Fairness effect**: Buyers are more sensitive to the price of a product when the price is outside the range they perceive as "fair" or "reasonable" given the purchase context.
- **Framing effect**: Buyers are more price sensitive when they perceive the price as a loss rather than a forgone gain, and they have greater price sensitivity when the price is paid separately rather than as part of a bundle.

Approaches

Pricing is the most effective profit lever. Pricing can be approached at three levels: the industry, market, and transaction level.

- Pricing at the industry level focuses on the overall economics of the industry, including supplier price changes and customer demand changes.
- Pricing at the market level focuses on the competitive position of the price in comparison to the value differential of the product to that of comparative competing products.
- Pricing at the transaction level focuses on managing the implementation of discounts away from the reference, or list price, which occur both on and off the invoice or receipt.

A "price waterfall" analysis helps businesses and sales personnel to understand the differences which arise between the reference or list price, the invoiced sale price and the actual price paid by a customer taking account of contract, sales and payment discounts.

Pricing mistakes

Many companies make common pricing mistakes. Jerry Bernstein's article *Use Suppliers' Pricing Mistakes* outlines several sales errors, which include:

- Weak controls on discounting (price override)
- Inadequate systems for tracking competitors' selling prices and market share (Competitive intelligence)
- Cost-plus pricing
- Price increases poorly executed
- Worldwide price inconsistencies
- Paying sales representatives on sales volume vs. addition of revenue measures

CHECK YOUR PROGRESS

Explain the concepts of 'pricing' as used in marketing.

Elaborate on the objectives of pricing.

Discuss the concept of 'pricing strategies'.

Explain at least five of the various pricing tactics.

Explain the pricing tactics of Multidimensional pricing.
Explain the pricing tactics of Micromarketing.
Explain the pricing tactics of Demand-based pricing.
Elaborate the nine laws or factors that influence how a consumer perceives a given price as espoused by Thomas Nagle and Reed Holden.

4.06 WHAT IS DISTRIBUTION IN BUSINESS?

Distribution (or **place**) is one of the four elements of the marketing mix. Distribution is the process of making a product or service available for the consumer or business user that needs it. This can be done directly by the producer or service provider, or using indirect channels with intermediaries.

The other three parts of the marketing mix are product, pricing, and promotion.

Distribution strategies

Prior to designing a distribution system, the planner needs to determine what the distribution channel is to achieve in broad terms. The overall approach to distributing products or services depends on a number of factors including the type of product, especially perishability; the market served; the geographic scope of operations and the firm's overall mission and vision. The process of setting out a broad statement of the aims and objectives of a distribution channel is a strategic level decision.

Fig 4.16: In an intensive distribution approach, the marketer relies on chain stores to reach broad markets in a cost efficient manner

Strategically, there are three approaches to distribution:

Mass distribution
Selective distribution
Exclusive distribution

Intensive distribution: (also known as *mass distribution*) When products are destined for a mass market, the marketer will seek out intermediaries that appeal to a broad market base. For example, snack foods and drinks are sold via a wide variety of outlets including supermarkets, convenience stores, vending machines, cafeterias and others. The choice of distribution outlet is skewed towards those than can deliver mass markets in a cost efficient manner.

Selective distribution: A manufacturer may choose to restrict the number of outlets handling a product. For example, a manufacturer of premium electrical goods may choose to deal with department stores and independent outlets that can provide added value service level required to support the product. Dr Scholl orthopedic sandals, for example, only sell their product through pharmacies because this type of intermediary supports the desired *therapeutic* positioning of the product. Some of the prestige brands of cosmetics and skincare, such as Estee Lauder, Jurlique and Clinique, insist that sales staff are trained to use the product range. The manufacturer will only allow trained clinicians to sell their products.

Exclusive distribution: In an exclusive distribution approach, a manufacturer chooses to deal with one intermediary or one type of intermediary. The advantage of an exclusive approach is that the manufacturer retains greater control over the distribution process. In exclusive arrangements, the distributor is expected to work closely with the manufacturer and add value to the product through service level, after sales care or client support services. The most common type of exclusive arrangement an agreement between a supplier and a retailer granting the retailer exclusive rights within a specific geographic area to carry the supplier's product.

Type	Definition
Intensive distribution	The producer's products are stocked in the majority of outlets. This strategy is common for basic supplies, snack foods, magazines and soft drink beverages.
Selective distribution	Means that the producer relies on a few intermediaries to carry their product. This strategy is commonly observed for more specialised goods that are carried through specialist dealers, for example, brands of craft tools, or large appliances.
Exclusive distribution	Means that the producer selects only very few intermediaries. Exclusive distribution occurs where the seller agrees to allow a single retailer the right to sell the manufacturer's products. This strategy is typical of luxury goods retailers such as Gucci.

Channels and intermediaries

Fig 4.17: A wholesale fish market at Haikou, New Port

Distribution of products takes place by means of channels to become available on markets, in stores or in web-shops. Channels are sets of interdependent organizers (called intermediaries) involved in making the product available for consumption to end-user. This is mostly done by merchants or distributors, or in international context by importers.

Fig 4.18: Harrod's food hall - a major retailer in London

Typical intermediaries involved in distribution include:

- Wholesaler: A merchant intermediary who sells chiefly to retailers, other merchants, or industrial, institutional, and commercial users mainly for resale or business use. Wholesalers typically sell in large quantities. (Wholesalers, by definition, do not deal directly with the public).
- Retailer: A merchant intermediary who sells direct to the public. There are many different types of retail outlet - from hypermarts and supermarkets to small, independent stores.
- Agent: An intermediary who is authorised to act for a principal in order to facilitate exchange. Unlike merchant wholesalers and retailers, agents do not take title to goods, but simply put buyers and sellers together. Agents are typically paid via commissions by the principal. For example, travel agents are paid a commission of around 15% for each booking made with an airline or hotel operator.
- Jobber: A jobber is a special type of wholesaler, typically one who operates on a small scale and sells only to retailers or institutions. For example, rack jobbers are small independent wholesalers who operate from a truck, supplying convenience stores with snack foods and drinks on a regular basis.

Channel design

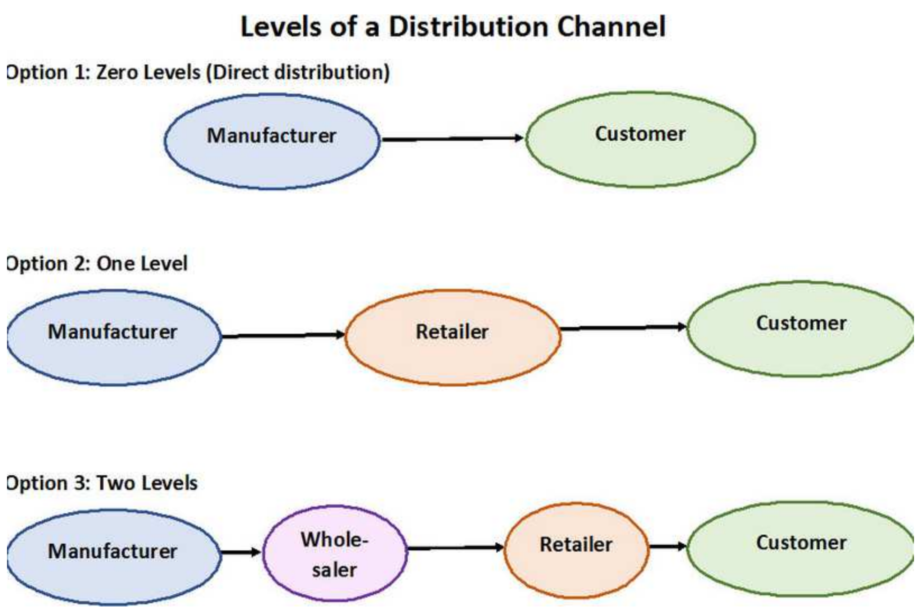

Fig 4.19: Different types of distribution systems

A firm can design any number of channels they require. Channels can be distinguished by the number of intermediaries between producer and consumer. If there are no intermediaries then this is known as a zero-level distribution system or direct marketing. A level one channel has a single intermediary. This flow is typically from manufacturer to retailer to consumer, but may involve other types of intermediaries. In practice, distribution systems for perishable goods tend to be shorter - direct or single intermediary. In other cases, distribution systems can become quite complex involving many levels and different types of intermediaries.

Channel mix

In practice, many organizations use a mix of different channels; in particular, they may complement a direct sales-force who typically call on larger customers with agents who cover the smaller customers and prospects. In addition, online retailing or e-commerce is leading to disintermediation. Retailing via smartphone or m-commerce is also a growing area.

Managing channels

The firm's marketing department needs to design the most suitable channels for the firm's products, then select appropriate channel members or intermediaries. The firm needs to train staff of intermediaries and motivate the intermediary to sell the firm's products. The firm should monitor the channel's performance over time and modify the channel to enhance performance.

Channel motivation
To motivate intermediaries the firm can use positive actions, such as offering higher margins to the intermediary, special deals, premiums and allowances for advertising or display. On the other hand, negative actions may be necessary, such as threatening to cut back on margin, or hold back delivery of product.

Channel conflict
Channel conflict can arise when one intermediary's actions prevent another intermediary from achieving their objectives. Vertical channel conflict occurs between the levels within a channel and horizontal channel conflict occurs between intermediaries at the same level within a channel.

CHECK YOUR PROGRESS

Explain the concept of distribution in business.

Describe the various strategies of distribution.

Discuss the concept of channels in context to distribution in a business.

Discuss the concept of intermediaries in context to distribution in a business.

Explain the various ways in which the channels are mixed.

Explain the various ways in which the channels are managed.

4.07 END QUESTIONS

1. Describe the concept of product in marketing.
2. Explain the various schemes of classification of product.
3. Elaborate the concept of **Aspinwall Classification System** for products.

4. Describe the concept of product models.
5. Describe the concept of product lifecycle management (PLM) in marketing.
6. Explain the various forms of product lifecycle management (PLM).
7. Explain the various benefits of product lifecycle management (PLM).
8. Elaborate the various areas of product lifecycle management (PLM).
9. Explain the various development process under product lifecycle management (PLM).
10. Explain the various technologies used corresponding to the various development process under product lifecycle management (PLM).
11. Explain the importance of 'Imagine, specify, plan, innovate' during the 'Conceive' phase of product lifecycle management (PLM).
12. Explain the importance of 'Describe, define, develop, test, analyze and validate' activities during the 'Design' phase of product lifecycle management (PLM).
13. Explain the importance of 'Manufacture, make, build, procure, produce, sell and deliver' activities during the 'Realize' phase of product lifecycle management (PLM).
14. Explain the importance of 'Use, operate, maintain, support, sustain, phase-out, retire, recycle and disposal' activities during the 'Service' phase of product lifecycle management (PLM).
15. Explain the importance of 'Communicate, manage and collaborate' activities during all the phase of product lifecycle management (PLM).
16. Elaborate on the concept of Concurrent engineering workflow as used in product lifecycle management (PLM).
17. Elaborate on the concept of Bottom–up design as used in product lifecycle management (PLM).
18. Elaborate on the concept of Top–down design as used in product lifecycle management (PLM).
19. Elaborate on the concept of Both-ends-against-the-middle design as used in product lifecycle management (PLM).
20. Elaborate on the concept of Front loading design and workflow as used in product lifecycle management (PLM).
21. Elaborate on the concept of Product and process lifecycle management (PPLM) as used in product lifecycle management (PLM).
22. Explain the five long-term objectives for product lifecycle management (PLM) proposed by Malakooti .
23. Explain the concepts of 'brand' and 'branding' as used in marketing.
24. Elaborate on the concept of 'brand equity'.
25. Discuss the concept of 'corporate brand identity'.
26. Discuss the various elements of a brand.
27. Explain the various brand touch points during pre-purchase, pos-purchase and purchase phases.
28. Discuss the traditional (Shannon-weaver) model of communication to explain brand communication.
29. Discuss the relationship between trade mark and brand.
30. Describe at least five styles of brand names.
31. Elaborate the concept of visual brand identity.

32. Discuss the various branding strategies.
33. Discuss four elements in building iconic brand according to Holt.
34. Explain the concepts of ‘pricing’ as used in marketing.
35. Elaborate on the objectives of pricing.
36. Discuss the concept of ‘pricing strategies’.
37. Explain at least five of the various pricing tactics.
38. Explain the pricing tactics of Multidimensional pricing.
39. Explain the pricing tactics of Micromarketing.
40. Explain the pricing tactics of Demand-based pricing.
41. Elaborate the nine laws or factors that influence how a consumer perceives a given price as espoused by Thomas Nagle and Reed Holden.
42. Explain the concept of distribution in business.
43. Describe the various strategies of distribution.
44. Discuss the concept of channels in context to distribution in a business.
45. Discuss the concept of intermediaries in context to distribution in a business.
46. Explain the various ways in which the channels are mixed.
47. Explain the various ways in which the channels are managed.

4.08 REFERENCES AND FURTHER READING

1. https://en.wikipedia.org/wiki/Product_(business)
2. https://en.wikipedia.org/wiki/Product_lifecycle
3. https://en.wikipedia.org/wiki/Brand
4. https://en.wikipedia.org/wiki/Pricing
5. https://en.wikipedia.org/wiki/Distribution_(business)