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Principles of Mar-keting

Unit 3

Product, Promotion, Price, and Place

Unit Introduction

In this last unit, we will be exploring next-level marketing concepts. We will look at product marketing, services marketing, pricing, integrated marketing communications, the promotion mix, social media marketing, distribution, retailing and wholesaling, and sustainability.

Enjoy the topics and their corresponding examples!

9

Products: Consumer Offerings

Figure 9.1 Marketing strategies define and support the product life cycle and brand, such as Peloton's approach to bundling fitness products and online classes. (credit: modification of work "Woman Riding Exercise Bike" by onthegosports.com.au/SportsFanaticAustralia/flickr, CC BY 2.0)

Chapter Outline

In the Spotlight

Peloton, producer of high-end home fitness equipment and streaming fitness classes, has taken advantage of the tech boom to bundle its products and service for a recurring revenue source. Peloton is known for its expensive at-home fitness bikes and treadmills aimed at a high-end target audience. Once a customer purchases a bike for $1,500–$2,600 and/or a treadmill for $3,500,[1] most fitness companies would not expect additional revenue from a customer for several years.

But Peloton sees itself as a technology company that facilitates service. Peloton CEO John Foley has said that "we see ourself more akin to an Apple, a Tesla, or a Nest or a GoPro—where it's a consumer product that has a foundation of sexy hardware technology and sexy software technology."[2] In the case of Peloton, that sexy software technology comes in the form of streaming workout classes including cycling, strength, boot camp, yoga, and meditation taught by charismatic instructors who have become social media influencers. The price tag for Peloton customers is a recurring $39 monthly fee for all access on top of the cost of the product.

Peloton customers are purchasing more than a one-time durable good. Instead, they are buying a networked effect in which they are connected to fitness instructors and one another. Hailed the new form of competitive advantage, networked effects bring customers closer to the brand through personal connections between the brand and customers and between customers. Once a customer is a loyal part of the network, the cost to switch brands in terms of habit and lifestyle is high. As a result, loyal customers are less likely to brand switch and are less price sensitive.

While product bundling isn't a new concept—think about a value meal at a restaurant that includes a sandwich, fries, and a beverage—the product-service bundle is an emerging trend among technology companies. It provides recurring revenue for the brand while bringing the customer into a more intimate customer experience, leading to brand loyalty. Typically, the service fees ultimately provide more revenue per customer than the one-time product purchase in this model. The recurring revenue model makes the product facilitate the service exchange, blurring the traditional product-service lines.

What examples come to mind when you think of product-service bundles? Do you have a prediction for how this trend may shape product development in the future?

9.1 Products, Services, and Experiences

Learning Outcomes

By the end of this section, you will be able to:

- LO **1** Differentiate between products, services, and experiences.
- LO **2** Describe how consumer and business/industrial products are classified.
- LO **3** Identify the four levels of a product.

Products and Services Defined

When a customer makes a purchase, they expect value from that exchange. Think about what you ate for breakfast today. You paid money to receive a product that satisfied your hunger. Is that all the value you received? Perhaps not. If you ate eggs, bacon, and coffee at a restaurant, you had both a product and a service experience. Maybe someone at the restaurant handed you a menu, took your order, brought your food, refilled your coffee, cleaned up dishes, and collected payment for your meal. The eggs, bacon, and coffee were the product, while the acts of the restaurant staff were a service. And the summation of it all was the product–service experience.

Products are tangible items that are part of an exchange between a buyer and seller. Products can be seen, touched, owned, and stored. For example, the computer or tablet you're using to read this textbook is a product. You may have visited a store to see and touch the product before purchasing to ensure it met your needs. Post-purchase, the computer or tablet is yours to own and store for later use as you please. The tangible nature of the product allows the consumer to possess it.

Services are intangible solutions that are also an exchange between buyer and seller. Unlike products, services cannot be touched, owned, or stored for later use. For example, a college course on marketing is a service. Students cannot own the course; they cannot store it for later, nor will they have a tangible object representing the course. Another defining feature of a service is the customer is typically a part of the service experience. Imagine buying tickets to your favorite band in concert. You will have to attend the concert to realize the full benefit of the service experience.

While a computer is a true product and a marketing class is a true service, many exchanges between buyer and seller fall somewhere in the middle of the product–service continuum (see Figure 9.2). Think back to the restaurant breakfast at the top of this section; restaurants are a prime example of an exchange that includes products and services. Marketers are typically working with an offering that falls on the product–service continuum. This means that they need to understand how to influence consumer behavior in the search for products and services.

Figure 9.2 The Product–Service Continuum (attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)

Customer Experience

Customer experience (CX) is the overarching impression that customers have of a brand. Therefore, each touchpoint with a product or service becomes a part of the customer experience. A strong customer experience integrates technology, marketing, sales, and customer service to deliver a strong brand perception.

For example, if you have ever visited an Apple Store, you probably have experienced one of the most lauded customer experiences there is. From the moment you walk in, you are surrounded by products and transported into a world of technology. Each touchpoint, from the check-in on an iPad to the latest products that are available for use, reinforces the brand through customer experience. Brands with strong customer experience tend to have more loyal customers who become brand advocates.

MARKETING IN PRACTICE

Netflix

Netflix has perfected the customer experience (see Figure 9.3). Using technology as a driver, Netflix predicts its customers' viewing preferences using an algorithm, removing friction from the user experience and making the brand an essential part of its customers' lives. Netflix's use of personalization is common among companies that excel in customer experience. The customer is at the center of the experience that is entirely tailored to them.

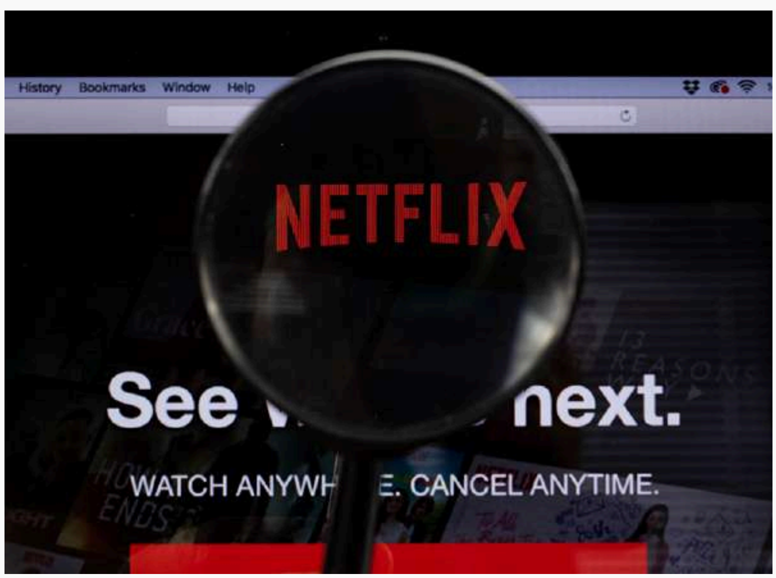

Figure 9.3 The Netflix brand is known for perfecting the streaming business by optimizing usage data to create an individualized and customized user experience. (credit: "Netflix Logo on the PC Monitor, Photographed through a Magnifying Glass" by Marco Verch/flickr, CC BY 2.0)

Once users enter the Netflix website, they see an experience that makes their viewing opportunity seamless and flexible. Netflix lets the user know right away that it streams thousands of movies and television shows on various devices. The sign-up involves three easy steps, and then the customer is brought into a viewing world built around them.

The Netflix algorithm analyzes viewing habits based on a variety of factors, including:

- Viewing history
- Genre or category
- Time of day watched
- How long the user watched
- Devices currently streaming
- Rating history for similar content
- Other Netflix users with similar preferences on the platform[3]

As the algorithm learns more about the viewer, the customer experience improves, becoming essential to customers' lives and building brand loyalty.

Classifications of Consumer and Business Products

Product managers classify products first by whether they are consumer products or industrial products. This classification is essential because businesses typically make product purchase decisions to create a consumer good. Meanwhile, consumers are buying products for their personal use. Therefore, this distinction impacts how product managers design, market, and sell products.

Consumer products are classified into four main categories (see Table 9.1):

1. **Convenience products** are products that consumers can purchase easily, quickly, and without a lot of thoughtful decision-making. Convenience product purchases may be habitual in that the consumer buys the same brand each time. In addition, they are typically lower-priced and have wide distribution, so they are easily accessible to consumers. Frozen waffles, bar soap, milk, and bathroom cleaners are examples of convenience products.
2. **Shopping products** require more thought from the consumer. Consumers may research and shop around for shopping products, seeking the best quality or price. Shopping products are typically available at a few retail stores and online, and they may be priced higher than convenience products. Exercise equipment, technology, clothing, and airline tickets are shopping products.
3. **Specialty products** have unique qualities that consumers will make an extra effort to seek out. The product's unique nature typically means that the consumer will not comparison shop and will spend a significant amount of time and money to procure the product. Luxury cars, rare breeds of saltwater fish, fine art, and jewelry are examples of specialty products.
4. **Unsought products** are consumer goods that a buyer doesn't anticipate purchasing. As a result, the consumer is often not aware of the product or does not think it is needed. A flat tire that needs repairing, a roof damaged in a storm that needs to be replaced, and funeral services are examples of unsought products.

Type of Product	Price	Consumer Decision-Making Process	Distribution
Convenience	Low	This is a habitual/automatic purchase process that involves little comparison shopping.	Widespread distribution at several retail outlets
Shopping	Low-Mid	There is time spent on the consumer decision-making process and comparison shopping for price and quality.	Selective distribution at retail outlets that match customer and brand type
Specialty	High	Having a specific brand or product in mind means little comparison shopping. Typically, this is a special purchase with a lot of planning.	Exclusive distribution at one or a select few retail outlets
Unsought	Variable	The consumer is unaware or uninterested, so they exert little thought or comparison shopping.	Variable distribution depends on the product

Table 9.1 Types of Products

Classifications of Business and Industrial Products

Businesses purchase products to aid in manufacturing or creating consumer products or services. For example, if you have ever been to a doughnut shop, you might think about how the bakers produce a doughnut. The bakers have probably purchased baking equipment, ingredients for the doughnuts, boxes to package the doughnuts, and a service to make deliveries. Business and industrial products are classified as follows:

1. **Raw materials** are the products that a business needs to purchase in order to make a consumer good, such as flour, sugar, and yeast in our doughnut example.
2. **Manufactured materials and parts** are products used to create the product. For example, large baking sheets are manufactured materials specific to a bakery and purchased to enable product creation.
3. **Capital items** are assets that are valuable to the business and have tangible value. For example, our bakery's large ovens would be considered a capital item.
4. **Supplies and services** are goods and services that are typically disposed of and do not contain a tangible value. For example, the bakery's boxes are part of its supplies to package doughnuts.

The Three Levels of Product

In marketing, we often say that consumers do not make rational decisions—this consumer decision-making process ties directly to how we think about products. Therefore, product marketers should ask themselves, "What's the problem the consumer is trying to solve?" The answer to this question gets to the root of the core product. The **core product** is what your customer is actually buying: convenience, ego, ease, flexibility, etc. For example, if you have ever purchased single-use plastic water bottles, you were likely purchasing a core product of convenience.

The second level of a product is the **actual product**: a toaster, a waffle, or a sports car, for example. The actual product includes the product features, brand, level of quality, packaging, and design.

The third level of a product is the **augmented product**: warranties, customer service, product support, etc. The augmented product is the unseen aspects of the product essential to its service to you. For example, Butterball launches a turkey talk-line that provides tips on cooking the perfect Thanksgiving turkey each Thanksgiving. So if you have turkey roasting questions, the talk-line is ready and waiting to answer your questions in this augmented product. A hotel might provide concierge services to obtain tickets to events or limousine service, dry cleaning services, recommendations for local restaurants, etc. All of these would be augmented services. (see Figure 9.4).

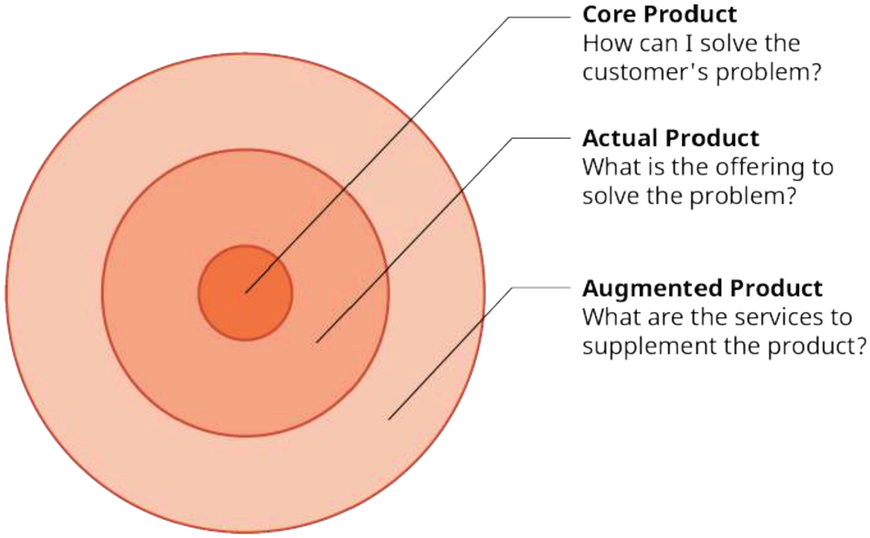

Figure 9.4 Three Levels of a Product (attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)

CAREERS IN MARKETING

Product Marketer

A product marketer, also sometimes known as a product marketing manager, promotes a product and its features to a target market. Learn more about this job role through this article from HubSpot (https://openstax.org/r/productmarketingmanager), including a job description, necessary qualifications, and job responsibilities. Also, check out this video from a Google employee about being a product marketer.

Click to view content (https://openstax.org/books/principles-marketing/pages/9-1-products-services-and-experiences)

If this job interests you, check out this article from Indeed (https://openstax.org/r/whatdoesaproductmarketingmanagerdo) that outlines more details, including the typical salary, necessary skills, and education requirements. Or refer to this guide on how to take the next step and get a job in product marketing (https://openstax.org/r/theultimateguidetogettingajobinproductmarketing).

Lastly, to start preparing for a job in this role, check out this mock interview for the product marketing manager role.

Click to view content (https://openstax.org/books/principles-marketing/pages/9-1-products-services-and-experiences)

Knowledge Check

It's time to check your knowledge on the concepts presented in this section. Refer to the Answer Key at the end of the book for feedback.

1. Which of the following is the best example of a pure service?
   a. Haircut
   b. Meal at a restaurant
   c. Frozen waffles

d. Sports car

2. Jorge visited his favorite retailer to find that the store had transformed into a space with product demonstrations, product trials, and technology, which improved his overall perception of the brand. This is called a(n) ________
   a. product
   b. service
   c. experience
   d. advertisement

3. A package of gum at the checkout of a grocery store is considered a(n) ________ product.
   a. convenience
   b. shopping
   c. specialty
   d. unsought

4. Potbelly Sandwich Shops use paper bags to hold customers' sandwiches. What type of industrial product is the bag?
   a. Raw materials
   b. Manufactured materials and parts
   c. Capital items
   d. Supplies and services

5. At the beginning of this chapter, we learned about the Peloton brand. Peloton users use not only the physical bike also but online classes with an instructor to stay fit within their own homes. This need represents the ________ product.
   a. core
   b. actual
   c. augmented
   d. valued

9.2 Product Items, Product Lines, and Product Mixes

Learning Outcomes

By the end of this section, you will be able to:

- LO 1 Define product items, product lines, and product mixes.
- LO 2 Describe product line length and depth.
- LO 3 Discuss product line filling and product line stretching.

Product Line Length and Depth

Companies typically sell many products, some of which are singular and some of which are part of a larger category of offerings. So let's start with a **product item**, a particular good that a company sells. For example, Domino's Pizza sells its original hand-tossed pizza as a product item on its menu.

A company will also sell a product item as a part of a broader **product line**. A product line is a set of products that are similar or complementary. For example, Domino's sells crunchy thin, handmade pan, Brooklyn style, and gluten-free crust along with its hand-tossed pizza crust as a part of a product line.

A **product mix** contains all the products that a company sells. In addition to pizza, Domino's sells salads, sandwiches, appetizers, pasta, desserts, and beverages. These products make up the product mix for Domino's

(Figure 9.5).

There are benefits to brands in organizing into product lines and mixes. For example, if you have ever added a chocolate lava cake to your Domino's order, you know firsthand that products within a mix are easily cross-sold. You may have also seen a commercial where Domino's promotes its product mix, creating efficiencies in its media advertising spend. In addition, breadth of products provides some assurance that competitors will not compete in the same space. Finally, you may have noticed that some appetizers and desserts are packaged in the same box, creating supply efficiencies.

On the flip side, if product offerings are too similar, they may cannibalize (or steal from) the original product, resulting in lower profitability. For example, if Domino's had 30 types of pizzas, the stores might have to stock extra ingredients to make those pizzas, but Domino's might not sell more pizzas as a whole because the product line offerings are too similar.

Figure 9.5 A product item, like a pizza from Domino's Pizza, is part of a company's product mix—all of the products it sells. (credit: "Saki's Pizza" by thepizzareview/flickr, CC BY 2.0; modification of work "Salad" by Jackie L Chan/flickr, CC BY 2.0; "Pasta with Homemade Baguette" by Stacy Spensley/flickr, CC BY 2.0; "Mmm... I Want Everything on Mine" by jeffreyw/flickr, CC BY 2.0; modification of work "Chocolate Fudge Brownies" by startcooking kathy & amandine/flickr, CC BY 2.0; modification of work "Fast Food Chicken Nuggets" by Walt Stoneburner/flickr, CC BY 2.0)

Product Line Depth and Product Mix Width

Product line depth refers to the number of products in the line. Using our previous example, Domino's carries five products in the pizza product line. Meanwhile, the **product mix width** refers to the number of product lines a brand carries. Domino's offers seven product lines within its product mix (pizza, salads, sandwiches, appetizers, pasta, desserts, and beverages).

The product line depth and product mix width allow a company to diversify its offerings to maximize customer loyalty and mitigate risk. For example, if a customer enjoys Domino's Pizza, they may extend their order to include one of the other offerings in the product mix. On the flip side, if a customer has a bad experience with the pizza, they might try chicken or pasta instead next time. However, it is essential to note that too many offerings can cannibalize one another and drive up the cost of goods sold because of the variations that each product requires.

Product Line Filling and Product Line Stretching

One of the reasons for an ample product line is to leave no room for competitors to solve a customer's need. Companies use a **product line filling** strategy when they add products to the product line to ensure that competitors do not enter their market. If you wonder why Domino's has so many pizza toppings, consider that it might be product line filling at work.

On the other hand, it might make more sense for a company to add product lines. The addition of product lines is a practice called **product line stretching**. There are three main ways to stretch a product line:

1. **Stretching Downward.** A brand introduces a product line that is less expensive than its current offering. This may open a new target market or change a brand's positioning in a competitive market. However, it is essential to consider whether stretching down might shift the brand's perception or take share from other product lines. Tesla introduced its Model 3 following its more expensive Model S, following the stretching downward strategy.[4]
2. **Stretching Upward.** A brand introduces a product line that is more expensive than its current offering. This may increase profitability or reposition the brand. First, however, it is essential to determine whether the brand has equity in the upward market. Godiva introduced its gold collection to stretch its product line upward.
3. **Stretching Up and Down.** A brand can stretch up and down simultaneously. While this has the potential for great rewards, it also introduces a fair amount of risk. Dell utilizes a strategy to stretch up and down with its everyday access laptops, creator laptops, and all the way up to its immersive gaming laptops.

Suppose Domino's wanted to join the wood-fired pizza trend. It could employ an upward product line stretching strategy to introduce Domino's to a more upscale market that appreciates wood-fired pizza.

Knowledge Check

It's time to check your knowledge on the concepts presented in this section. Refer to the Answer Key at the end of the book for feedback.

1. Oreo's selection of flavors would be considered a ________.
   a. product
   b. product line
   c. product mix
   d. product category

2. A product mix contains ________.
   a. a mix of the company's most popular products
   b. a singular product
   c. all the products that a company sells
   d. a group of similar products

3. If Domino's were to add a Chicago-style stuffed pizza to its menu, this would represent an expansion of the ________ of its pizza offerings.
   a. product line depth
   b. product mix width
   c. product items
   d. product differentiation

4. Product line depth refers to ________.
   a. product characteristics
   b. the number of product lines
   c. product assortment
   d. the number of products in the product line

5. Which of the following is a benefit of product line filling?
   a. Less money spent on research and development
   b. Protection against competitors

c. Creates a product line assortment
d. Stretches the product line

9.3 The Product Life Cycle

Learning Outcomes

By the end of this section, you will be able to:

LO 1 Define the product life cycle.
LO 2 List and describe the stages of the product life cycle.

The Product Life Cycle

Have you ever wondered what happens after a new product launch? Is the product successful right away, or does it need a little help from marketing to realize its potential? Then, as the product matures, does it stay on the shelf, or does it have a natural endpoint? The **product life cycle** (see Figure 9.6) maps the stages a product goes through, tracking its sales and profitability.

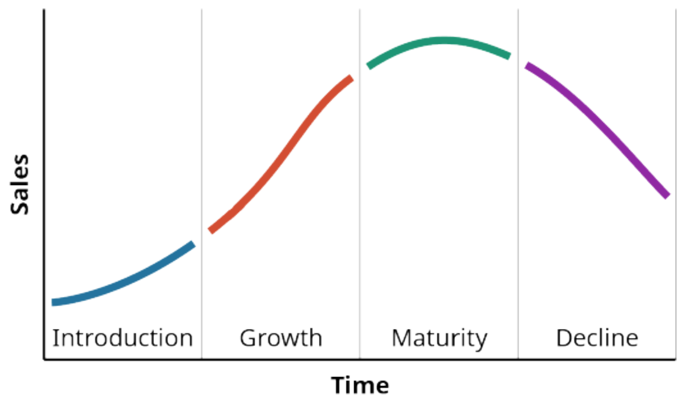

Figure 9.6 The Product Life Cycle (attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)

The Product Life Cycle Stages

The product life cycle begins in the **introduction stage**. This is when consumer awareness is building and sales are starting to grow. The marketing investment is high as brands invest heavily in advertising and sales promotion to encourage trial. Profitability is low due to costs to launch and scale a new product. What products can you think of that are in the introduction stage of the product life cycle?

Once a product catches on in the marketplace, it enters the **growth stage** of the product life cycle. The growth stage is characterized by increasing sales and the potential for copycat brands to enter the market once they see revenue and profitability. In addition, products require less marketing and distribution investments during the growth stage, making them more profitable. However, a brand can decide to invest in product improvements and distribution, which may decrease profitability in the short term in exchange for long-term gain. When hoverboards were new to the market, they experienced explosive growth that quickly tapered off.

The product enters the **maturity stage** when sales growth slows and profitability levels taper off. The maturity stage is typically the longest stage of the product life cycle, with products remaining in this stage for years or even decades. Profitability may remain if the brand has a solid competitive advantage or decline if too many competitors enter the market. Marketing investment can increase at this stage if the brand has a rival, and product modification can alter the product to meet consumers' needs. Yet often a brand will retain a low level of marketing during the maturity stage to remind consumers of its benefits. Kraft Macaroni & Cheese is an example of a product that has a solid place in the market and has stabilized as a mature product.

Eventually, most products enter the **decline stage**. The decline stage is characterized by a significant decrease in sales and profitability. Sometimes the decline occurs because the market has changed: technology has evolved, consumer tastes have shifted, or the need that the product satisfies is no longer relevant. Other times, the product is pushed out by rising costs or competitors. Many companies report their earnings quarterly and do not want to keep an unprofitable brand in their portfolio. As a result, companies typically try to divest a product in the decline stage. Another company may pick up the brand, invest in it, and bring the product back to a growth or maturity stage. Apple's iPod entered the decline stage when the popular iPhone was introduced, bringing a host of features plus music.

It is important to note that products do not always travel through the product life cycle at a linear rate, nor do they all travel through all product life cycle stages. For example, a product can be introduced and never gain traction, so it goes directly from introduction to decline. Or a product might gain popularity rapidly during the growth stage and then meet a quick decline. This phenomenon occurs when products are fads.

Knowledge Check

It's time to check your knowledge on the concepts presented in this section. Refer to the Answer Key at the end of the book for feedback.

1. Which of the following is NOT a stage of the product life cycle?
   a. Introduction
   b. Growth
   c. Maturity
   d. Profitability

2. Which criterion does the product life cycle use?
   a. Sales
   b. Profitability
   c. A and B
   d. None of these are correct.

3. Which stage of the product life cycle is characterized by a rapid increase in sales?
   a. Introduction
   b. Growth
   c. Maturity
   d. Decline

4. Which stage of the product life cycle is characterized by stable sales and profitability?
   a. Introduction
   b. Growth
   c. Maturity
   d. Decline

5. Which of the following is a reason that brands may not follow the product life cycle sequentially?
   a. Brands can grow rapidly.
   b. Brands can skip the product life cycle all together.
   c. Brands can be a fad.
   d. Brands can skip to maturity right away.

9.4 Marketing Strategies at Each Stage of the Product Life Cycle

Learning Outcomes

By the end of this section, you will be able to:

- LO 1 Discuss marketing strategies in the introduction stage of the product life cycle.
- LO 2 Classify marketing strategies used in the growth stage of the product life cycle.
- LO 3 Characterize marketing strategies used in the maturity stage of the product life cycle.
- LO 4 Identify marketing strategies used in the decline stage of the product life cycle.

Marketing Strategies in the Introduction Stage

The introduction stage is characterized by awareness-building to encourage trial. There is a significant investment in marketing activities at this stage to make the shift from early adopters to a broader audience, and pricing is a means of enticing trial.

A **rapid skimming strategy** sets a high price along with extensive advertising and sales promotion to establish the product in the marketplace. This strategy allows a product to gain share quickly and fend off potential competitors. Technology innovations typically use a rapid skimming strategy to attract early adopters who are willing to pay a higher price.

In contrast, a slow skimming strategy may be utilized when there is not an anticipated influx of competitors. The **slow skimming strategy** sets high prices with low advertising and sales promotion investment. For example, we may see a rapid skimming strategy for the new model of a truck or SUV in the automobile market because competition is high and the barrier to entry is low. On the other hand, the Tesla brand used a slow skimming strategy in its initial launch with a high-priced offering making it exclusive.

A **rapid penetration pricing strategy** is appropriate when volume sales will increase market share quickly, and a lower-priced strategy is employed. Rapid penetration pricing strategies encourage customers to try a product and switch to a new brand. This strategy works well with product categories with many competitors and price-sensitive customers. For example, Old Navy used a rapid penetration pricing strategy when it opened its stores in 1994 with an $8 jeans promotion under the assumption that if customers tried its jeans, they would be hooked and become brand advocates.

In contrast, a **slow penetration pricing strategy** establishes low prices and low promotion to capture share more slowly in a market that typically does not readily react to promotion. Products that do not have a lot of brand equity and are necessities do not respond to promotion readily and are appropriate for a slow penetration pricing strategy. For example, if a store brand of butter were to establish an everyday low price without the use of promotion, it would be adopting a slow penetration pricing strategy.

Marketing Strategies in the Growth Stage

The growth stage is characterized by growing sales and increasing competition in the marketplace. Investment in product and place is essential at the growth stage to maximize market share and scale quickly.

Brands may improve product quality or add new features in the growth stage based on early lessons from the introduction stage and to fend off competitors. Products with a first-mover advantage may find competitors who replicate their products entering the market, so product improvement is essential. For example, OXO is a brand that uses universal design to innovate products to make them easier to use. This continuous product improvement makes it a leader in the kitchenware market.

Once a product becomes mainstream in the growth stage, expanding distribution channels can increase market share. While expanded distribution adds expense, it also brings the product to more customers in various settings. For example, Chicago-based Home Run Inn Pizza was so famous in the restaurant format that it expanded to grocery stores to increase share.

Finally, brands use promotion to shift their message from awareness to preference. The shift from a niche market to a mass market typically involves an advertising investment. In 2021, TikTok moved from awareness to preference, and its promotion followed suit, reminding users why they enjoy using the platform.

Marketing Strategies in the Maturity Stage

Stability characterizes the maturity stage: profits, customers, and pricing. While this sounds like good news, brands must defend their market share from increasing product replication and product innovation from competitors.

Products in the maturity stage may engage in **market modification**, an extension of the product to new customers. For example, Cheerios adopted a market modification strategy when it positioned its cereal to the aging baby boomer demographic as a heart-healthy breakfast. This strategy opened a new market for Cheerios to increase its market share.

Products in the maturity stage may also engage in **product modification**, altering products to fit the market. Modifications may be made to the function of the product, the quality of the product, and/or the style of the product. For example, Chobani modified its yogurt product in 2015 by altering the container, allowing the customer to flip toppings into yogurt, and changing the functionality of the yogurt and topping product.[5]

Marketing Strategies in the Decline Stage

The decline stage of the product life cycle is characterized by declining sales and profitability. The product is at the end of its life cycle and is no longer sustainable or a good investment. Brands reduce to a core set of activities and set out to divest the brand asset.

A brand might **divest** a product to protect the rest of its portfolio, either by selling the brand or discontinuing it. For example, the Coca-Cola brand divested New Coke in 2002 after 17 years on the market in various forms.[6] The product was taken off the shelves because it was unsuccessful in the marketplace.

A brand might also choose to **harvest** an unsuccessful product. Harvesting involves reducing all unnecessary expenses to retain any remaining revenue. In addition, harvesting allows the brand to invest cash in its more profitable products. Typically, products do not reemerge after harvesting and more often are divested over time. Technology products, such as smartphones, are often harvested as their up-to-date replacements hit the market. Refurbished products may be sold at a discount or used for parts for new models.

Knowledge Check

It’s time to check your knowledge on the concepts presented in this section. Refer to the Answer Key at the end of the book for feedback.

1. Mohammad's Shoe Company is expanding distribution for its most popular shoe line. The shoe line is in the ________ stage of the product life cycle.
   a. introduction
   b. growth
   c. maturity
   d. decline

2. Jia has established a rapid skimming strategy for her ice cream shop. The ice cream shop is in the ________ stage of the product life cycle.
   a. introduction
   b. growth
   c. maturity
   d. decline

3. Carlos has ceased all nonessential spending for his computer repair business. The computer repair

business is in the ________ stage of the product life cycle.
a. introduction
b. growth
c. maturity
d. decline

4. LaToya has found a new market for her restaurant by expanding to catering. The restaurant is in the ________ stage of the product life cycle.
a. introduction
b. growth
c. maturity
d. decline

5. Jamie's legal business has had some early success and decided to add estate planning to its business portfolio. The legal business is in the ________ stage of the product life cycle.
a. introduction
b. growth
c. maturity
d. decline

9.5 Branding and Brand Development

Learning Outcomes

By the end of this section, you will be able to:

LO **1** Define branding and discuss its benefits.
LO **2** Discuss ways in which an organization can build strong brands.

Branding

A **brand** is an intangible asset with tangible value. We cannot see, touch, or put a brand on a balance sheet. Rather, a brand is a feeling that is made up of the organization's promotion efforts along with consumer meaning. The value of a brand is challenging to measure, but it is often the most valuable part of a company.

Think about the Harley-Davidson brand (see Figure 9.7). What images and feelings does it evoke? Those images and feelings are its brand, and companies spend a lot of resources developing and nurturing their brands. The brand is the reason that customers purchase and advocate. A brand is the feeling associated with a product or service that gives it currency in the marketplace. The brand is the essence of the product or service and must be reinforced at every touchpoint. The marketing team at Harley-Davidson knows this all too well. Brand is Harley's business, and the company knows that every product, every promotion, and every event must reinforce the brand, which will build value over time to become a significant asset.

Figure 9.7 A brand like Harley-Davidson is an intangible and valuable asset whose tangible value to a company is created by an organization's promotional efforts. (credit: "Harley Davidson" by informedmag.com/flickr, CC BY 2.0)

Branding is the process of developing a brand. Successful brands engage their customers on a personal level, connecting to their emotions and needs. Some of the assets of a brand, such as the brand name, brand mark, or brand positioning, can be influential in creating a feeling about a brand.

LINK TO LEARNING

Logos

Visit the Harley-Davidson website (https://openstax.org/r/harleydavidson) for more logo examples. While looking at the logos, think about its name. What emotions are associated with the brand name and mark? While marketing teams can influence how a brand is seen in the marketplace, consumers often define the brand.

Did you know that the colors used in logos have meaning? This website shares a handful of stories (https://openstax.org/r/webfxlogocolors) behind the colors of famous logos.

Brands are created experiences that are shared among most loyal customers. Harley-Davidson customers experience the brand together through events and organized rides, creating brand meaning and contributing to the overall feeling.

Benefits of Branding

The central benefit of branding is establishing a connection with customers that encourages them to purchase the brand, creating a financial return. But you may be wondering how companies can measure the impact of their brand. **Brand value** is the financial asset associated with a brand. Brand valuation occurs when a company is sold and becomes a part of the financial transaction, along with the assets and liabilities on the company's financial statements. There is no singular measure of brand value, so the valuation process is subjective and may be based on brand visibility, customer loyalty, and perception of the brand, along with financial measures such as revenue.

Brand equity is the additional value that a brand has over a substitute. If a consumer will pay more for one similar product over another because of the brand, that difference represents its brand equity. For example, Tide, owned by Procter & Gamble, is the market leader in the laundry space.[7] While its product may not differ significantly from its competitors, Tide demands a higher price because of its brand equity. The brand equity measure is the amount that a brand with equity can charge over its counterparts. Take a moment and look up the price of Tide and a few competitors. What does that tell you about Tide's brand equity?

Kevin Lane Keller developed the brand equity model to illustrate how brands can develop equity. He postulated that if a brand could develop positive associations, it could charge more than its competitors. The model begins with defining a brand through its identity. Brands should answer the question, Who are you and how do you solve the consumers' needs? The next level of the model determines a brand's meaning. On one hand, how well does the brand perform, and on the other, how does it meet consumers' social and psychological needs? The third level of the framework is about feelings and thoughts. In other words, What do consumers think of your brand and what judgements do they make about it? Finally, the top of the pyramid examines brand resonance, or how much connection, engagement, or loyalty the brand has with its consumers.[8]

LINK TO LEARNING

Keller's Brand Equity Model

Keller's brand equity model is a prevailing framework that scholars use to think about the concept of brand equity. Check out this article (https://openstax.org/r/kellerbrandequitymodel) to learn more about the model and how you could apply it to a brand.

Building Strong Brands

If a brand is a combination of the efforts made by the marketing team and how consumers think, feel, and act, then there is some room for the marketing team to build a strong brand. A strong brand is resonant in the minds of consumers and solves their problems.

Building a strong brand begins with **brand positioning**, or the way the brand signals emotions in consumers' minds. Brands can position themselves based on an attribute—one aspect of the product or service. For example, Taco Bell has positioned itself as the option for late-night cravings. This singular aspect defines its positioning. The problem with positioning based on an attribute is that it is easily replicable by competitors.

The second method of positioning is benefiting the consumer—how the product or service solves the consumer's problem. For example, the Eggo brand's positioning is convenience. The brand solves the consumer's morning rush issue by providing a convenient breakfast solution. The benefits positioning works well for convenience products.

Lastly, a brand can position itself based on values. Values-based positioning is the most robust brand positioning because it links to a consumer's personal beliefs. For example, Ford uses the language "Built Ford Tough" in its advertising to connect to American values of hard work and determination. Ford's strategy is particularly effective because brands can connect to consumers' sense of self and how they show up to the world.

A product's **brand name** also clues consumers in to feelings, thoughts, and attitudes. Therefore, marketing teams spend a lot of time selecting brand names that evoke a feeling harmonious with the brand. A strong brand name also helps consumers see the benefit of the brand. For example, a favorite of many, Kellogg's Frosted Mini-Wheats, tells the consumer that they are eating something made of wheat with a touch of sugar.

A brand name should also translate effectively into a variety of languages. Finally, a brand name should be unique to that product. For example, we all know that the brand Pop-Tarts is a toaster pastry that pops out of a toaster. This is a distinctive element of the Pop-Tarts brand that is exemplified by its name.

Brands use **trademarks (service marks)** to ensure that they are protected under the law. According to the United States Patent and Trademark Office, a trademark can be any "word, phrase, symbol, design or a combination of these things that identified your goods and services.”[9] Brands can trademark their names, logos, packaging, or even specific colors that represent the brand. This ensures that competitors do not replicate a known brand and cause confusion among customers. You will know that a brand is trademarked if you see a “TM” or “R” near the name or logo. Take a peek in your pantry to view trademarks on food packaging.

Brands can be owned in one of four ways: national brand, private brand, licensed brand, or co-brand. Each has its unique set of advantages and disadvantages, which will be discussed in this section.

National brands are the name brands that sell a product or service under its corporate name and identity. Brands like Heinz, Smartwater, and Morton’s Salt are examples of name brands. Brand equity commands higher prices, so national brands typically charge higher prices than their private brand counterparts. National brands often pay for premium retail space, making them a convenient choice for shoppers. However, price-sensitive shoppers may be turned off by the higher prices of national brands.

Private-label brands are store brands that are similar products to a national brand and labeled privately. If you have shopped at a Walgreens, you may have seen its private-label brand of products that begin with the prefix *Wal-*. A McKinsey study indicates that price accounted for 45 percent of brand switchers from national to private brands, while lack of availability was a secondary reason.[10] The same study suggests that customers can develop loyalty to private-label brands. However, the private-label brand must create a point of differentiation relevant to the target audience in the same way that a national brand would.

Licensed brands provide the likeness of their brand as a fee for use. If you wear eyeglasses, you likely have a licensed brand name on your eyeglasses frame. Brands like Tiffany & Co., Kate Spade, and Tommy Hilfiger do not produce eyeglasses frames. Rather, they license their brand to manufacturers like Luxottica, an Italian eyewear company that makes the product with the licensed brand name. Licensing a brand is a quick way to gain recognition and benefit from the brand’s equity. On the other hand, licensing fees can be costly and ultimately reduce profitability for manufacturers.

Finally, two or more brands may collaborate to **co-brand**; a product. Co-branding brings the equity of each brand together for greater value. For example, Doritos and Taco Bell developed Doritos Locos Tacos, a co-branded line of tacos that feature Doritos as the shell and Taco Bell ingredients as the toppings. In this case, the two brands had a similar target audience and could benefit from the awareness and equity of the other. However, co-branding necessitates a revenue split, which could impact financial results for each brand. Table 9.2 lists the advantages and

Brand Type	Advantages	Disadvantages
National brands	Well-known by consumers; OK to charge more	Some consumers unwilling to pay more than for private-label brands
Private brands	Attract price-sensitive customers	More difficult to build brand equity
Licensed brands	Gain brand recognition and benefit from brand equity	Expensive licensing fees
Co-brands	Benefit from the equity of both brands	Revenue split between two or more brands

Table 9.2 Types of Brands: Advantages and Disadvantages

MARKETING IN PRACTICE

Trader Joe's

Most of us do not love our weekly grocery shopping trip. Aisles upon aisles of boxes, cans, and cartons lining shelves create monotony in shopping for the food that nourishes us. We have trudged through supermarkets, pilling items into our carts uninspired—until Trader Joe's entered the scene.

Trader Joe's has taken the drudgery of grocery shopping and created a customer experience. Using the tenets of the Blue Ocean Strategy, Trader Joe's removed the costly parts of the traditional grocery store such as a large footprint and overwhelming stock that do not add to the customer experience. And it added Hawaiian shirts, friendly employees, interesting food selections, and a much smaller store. The result is a true neighborhood store that is so popular that Trader Joe's fan groups have popped up all over the Internet, and the cult brand has continued growth since its inception.

So what's the magic in creating an experience out of what used to be a chore? Trader Joe's looked at the customer experience from beginning to end to determine what its shopper values and what can go by the wayside.

Trader Joe's prioritized building its culture through empowering its "crew members." Employees at Trader Joe's are interviewed for enthusiasm and cross-trained throughout the store's operations.[11] Crew members are Trader Joe's fans themselves and are known for giving recommendations to customers and are empowered to connect with the customers, adding to the neighborhood feel of the store. The food at Trader Joe's is interesting to the shopper, much of it convenient and ready to eat. Trader Joe's leverages social media to put its food front and center with recipes and easy-to-prepare pairings. Trader Joe's thinks about the in-store experience and stocks about 10 percent of the food of a normal supermarket,[12] making choices easier on the customer.

LINK TO LEARNING

Interbrand's Best Global Brands

Interbrand ranks the best global brands annually. Take a look at the Interbrand website to see which brands make the top 100 (https://openstax.org/r/interbrandbestbrands) and consider what attributes led them to the top of the list.

Knowledge Check

It's time to check your knowledge on the concepts presented in this section. Refer to the Answer Key at the end of the book for feedback.

1. Which of the following is a benefit of a brand?
   a. Consumers always choose name brands.
   b. Brands can command higher prices.
   c. Shareholders demand strong brands.
   d. Every company must have a brand.

2. Which of the following describes the financial asset associated with a brand?
   a. Brand price

b. Brand name
c. Brand equity
d. Brand value

3. Which of the following is NOT a means of brand positioning?
a. Value
b. Benefits
c. Brand equity
d. Attributes

4. The Whole Foods 365 brand is an example of a ________.
a. national brand
b. private brand
c. licensed brand
d. co-brand

5. Uber and Spotify teamed up to bring custom playlists to Uber rides. This is an example of a ________.
a. national brand
b. private brand
c. licensed brand
d. co-brand

9.6 Forms of Brand Development, Brand Loyalty, and Brand Metrics

Learning Outcomes

By the end of this section, you will be able to:
- LO 1 Identify branding strategies.
- LO 2 Describe degrees of brand loyalty.
- LO 3 Discuss metrics that can be used to measure brand strength and value.

Brand Development

New products can be added to a brand at any time. There are a few ways to add products that are classified on two measures: new/existing brand name and new/existing product category (see Figure 9.8).

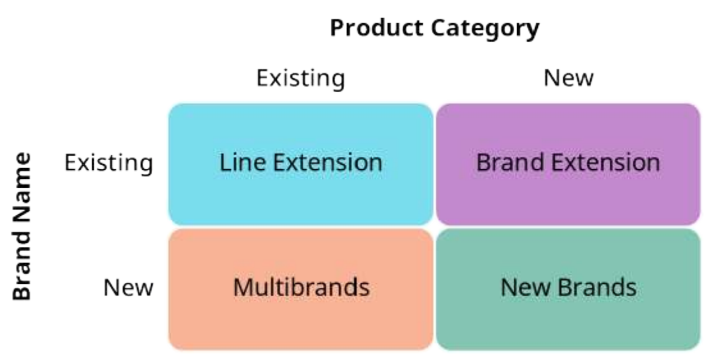

Figure 9.8 Brand Development Matrix (attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)

Line extensions create new opportunities for an existing product and brand to serve customers. For example, the Oreo brand adds flavors to its product line for holidays. These line extensions provide the existing brand with an extension of its current product. As a result, a line extension may sell more products to already-aware and interested customers without many risks. However, sometimes brands may overextend their product lines and products may be too similar, failing to increase sales.

Brand extensions leverage the brand name to new product categories. For example, Starbucks developed a line of bottled coffees under its corporate brand name. A brand extension uses awareness and equity in the brand to gain instant recognition and affinity for the new product, which may increase sales rapidly. However, if the new product is inferior to the brand's known quality, the entire brand portfolio may be at risk.

Multibrands are new brand names within a company's existing product category. For example, Nabisco manufactures various cookies within a product line but is marketed with different brand names. In this case, Chips Ahoy, Oreo, and Teddy Grahams all have brand equity on their own and do not need the benefit of the Nabisco brand. Each of these brands has a significant market share, so there is a benefit to retaining a multibranding approach. However, a multibranding approach does not work when the products have a small market share or fail to gain favorable retail shelf space to encourage sales.

New brands are an entirely different entity from the parent company. A new brand strategy can be effective if the new product or service is markedly different from the existing offering and benefits from its own branding. For example, the Starbucks brand owns Ethos Water. Ethos is in a beverage category other than Starbucks's primary offering and retains its name. A new brand strategy works well when the new brand is distinct from the parent brand and has a defined target market and positioning; however, a marketing strategy for a new brand can be expensive to maintain over time.

Brand Loyalty Levels

As you can see, brands spend time and resources to gain loyal customers. Loyal customers are the holy grail of marketing because they will purchase your brand and advocate for the brand to others. Loyal customers become instant word of mouth, spreading the positive attributes of a brand. However, not all customers are intensely loyal to one brand. Instead, customers fit into one of four loyalty categories (see Figure 9.9).

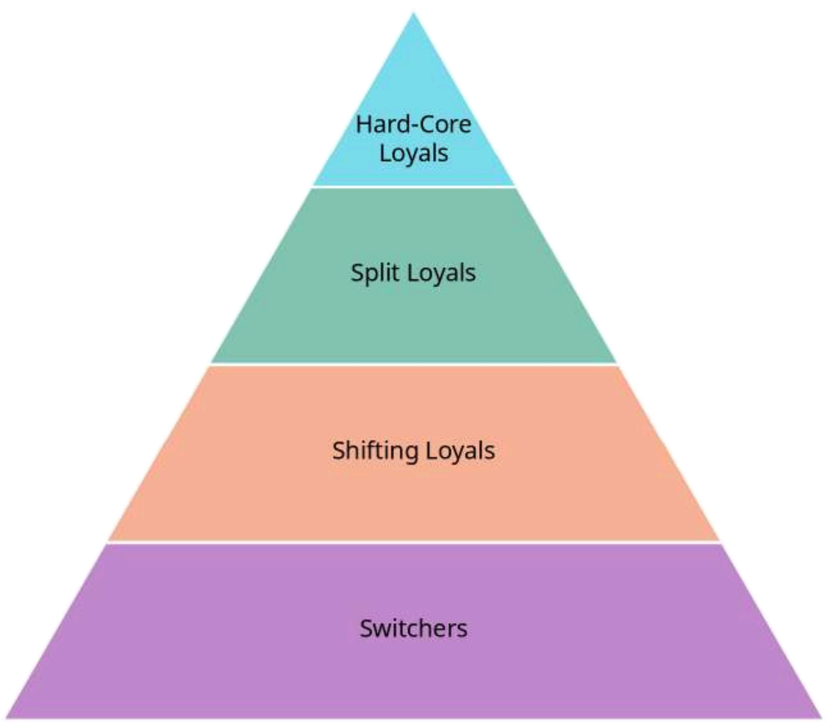

Figure 9.9 Loyalty Categories (attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)

Switchers are customers who continually change their purchasing behaviors. Switchers may be motivated by price, convenience, or innovation. Therefore, it is essential to develop a product or service that meets the switching consumers' needs to retain them as customers. For example, a switcher might purchase the lowest-price laundry detergent each time they are at the store.

Shifting loyals are customers who are loyal to one product or service for a time, then turn their loyalty to a different product or service for the second period. Brands can expect that shifting loyal customers will move back and forth between products and services. For example, a shifting loyal might purchase a Toyota followed by a Honda, then turn their loyalty back to Toyota for a third purchase.

Split loyals are customers who have a consideration set of two to three products or services in the category. The split loyal is willing to buy this select set of brands on any occasion without hard-core loyalty to any in the group. However, brands can convert split loyals into hard-core loyals with product/service consistency, loyalty programs, and marketing efforts. For example, customers may have loyalty to Gap, Banana Republic, and J.Crew for workwear.

Hard-core loyals are the customers that every brand wants. They are tried-and-true customers who will generally only purchase one brand in a category. For example, when purchasing from a catalog, they tend to make a purchase with less concern about price. In addition, hard-core loyals often tell friends and family about their purchases, extending word-of-mouth marketing for the brand. Brands need to retain hard-core loyal customers. For example, Dunkin' knows that loyalty is essential to its business, so it rewards its loyal customers with free food and coffee through its DD Perks program.

Metrics to Measure Brand Effectiveness

Brand sentiment is challenging to measure. Unlike sales or revenue, sentiment is not easily quantifiable. However, brands must measure their effectiveness because organizations invest heavily in building brands. There are three ways to quantify a brand's impact: brand lift, brand engagement, and brand preference.

Brand lift measures perception over time. To determine whether the campaign improved perceptions, brands can survey customers and noncustomers about their perception of a brand pre-campaign and again post-campaign. Keep in mind that positive perception doesn't necessarily mean that people will make a purchase; it simply indicates a positive affect toward the brand.

Brand engagement measures how deeply the customer identifies emotionally with a brand. Deeply engaged customers typically make more purchases, advocate for the brand, and become loyal customers. Social media metrics, time spent on site, subscriptions, and bounce rate are ways to measure brand engagement.

Brand preference measures consumer behavior by determining the degree to which a brand is preferred over others in the category. Brand preference is the most accurate of the three measures in predicting sales, as its focus is on behavior over attitudes. Marketing research is the best way to assess brand preference.

MARKETING DASHBOARD

Profit Margins

Profit margins are a widely used financial measure to determine the profitability of a business, considering the cost to manufacture and sell a product or service and measuring how much of every dollar in sales or services your company keeps from its earnings. **Cost of goods sold**, or COGS, describes expenses directly attributable to the product or service. It is important to deduct COGS from profitability to fully understand how much direct costs impact profitability. However, expenses don't end once manufacturing costs are considered. Companies pay for overhead, such as office space, trucks, and warehouses. They also account for depreciation on their assets, pay taxes, and incur costs for employee salaries. All of these expenses chip away at profitability. Profit margin calculates profitability after expenses.

There are two types of profit margin on an income statement: gross profit and net profit.

Gross profit margin equates to net sales minus the cost of goods sold. The gross margin shows the amount of profit made before deducting selling, general, and administrative (SG&A) costs. The formula for gross profit margin is

$$\text{Gross Profit Margin} = \frac{(\text{Net Sales} - \text{COGS})}{\text{Net Sales}} \times 100$$

The calculation is expressed as a percentage.

Net profit margin takes the calculation one step further. It deducts all expenses from profitability, including administrative, sales, amortization, debt payments, taxes, income, and asset depreciation. This provides a more accurate look at profitability because it considers all the costs associated with producing and selling the product or service. The formula for net profit margin is

$$\text{Net Profit Margin} = \frac{(\text{Revenue} - \text{COGS} - \text{Other Taxes \& Expenses})}{\text{Revenue}} \times 100$$

The calculation is expressed as a percentage.

Suppose your sandwich shop is interested in its profit margins for a single order. Look at the chart and calculate the gross and net profit margins.

Total revenue	$6.25
COGS	$3.50
Administrative, sales	$0.75
Taxes, depreciation, debt payments, amortization	$0.50

Table 9.3

Solution
Gross profit margin: 44%

Net profit margin: 24%

Which measure is more accurate?

Solution
Net profit margin considers all expenses, so it is a more accurate measure than gross profit margin that only considers COGS.

Your business partner, Priya, wants to decrease the revenue of a single order to $5.50. How will that impact your profit margins?

Solution
Profitability per order will decrease if revenue decreases unless COGS or other expenses are reduced in turn.

Knowledge Check

It’s time to check your knowledge on the concepts presented in this section. Refer to the Answer Key at the end of the book for feedback.

1. Domino's Pizza recently added sandwiches to its menu. This is an example of a ________.
   a. line extension

b. brand extension
c. multibrand
d. new brand

2. The North Face adds a new parka to its line of North Face–branded winter coats. This is an example of a ________.
   a. line extension
   b. brand extension
   c. multibrand
   d. new brand

3. Bethany purchases a different bar soap every time she shops based on what is on sale. Bethany can be considered a ________.
   a. switcher
   b. shifting loyal
   c. split loyal
   d. hard-core loyal

4. Jorge only purchases Apple computers and will not accept a substitute. Jorge can be considered a ________.
   a. switcher
   b. shifting loyal
   c. split loyal
   d. hard-core loyal

5. Which of the following brand metrics measures intended behavior?
   a. Brand lift
   b. Brand engagement
   c. Brand preference
   d. Brand equity

9.7 Creating Value through Packaging and Labeling

Learning Outcomes

By the end of this section, you will be able to:

LO 1 Describe how an organization creates value through packaging and labeling.
LO 2 Explain how packaging is used as a marketing tool.

Creating Value through Packaging and Labeling

If you have ever purchased from Apple, you know the power of sleek packaging. Apple is known for its simple white design packaging with metallic logos. Products are visually appealing in their packages, and unboxing an Apple product feels like an experience. Apple's packaging is as innovative as its products, which brings us to an important lesson in packaging. The package and label must represent the brand effectively (see Figure 9.10). While not one of the 4Ps of marketing, packaging is an important element of the marketing mix based on its close tie to the product. Packaging is also a critical shopper marketing tool as related to place. And, certainly, effective packaging can be its own form of promotion.

Figure 9.10 Product packaging can be a powerful promotional tool because of its close product connection, as demonstrated by Apple packaging. (credit: “iPad Pro & Apple Pencil” by Brett Jordan/flickr, CC BY 2.0)

A package essentially serves as a container for the product. It has a functional purpose to protect the product from harm. Package designers are first and foremost concerned with protecting the product and secondarily with designing an appealing package and label that piques interest on store shelves and online retailers’ websites.

There are a variety of benefits to effective packaging and labeling. The first is that consumers see packaging before seeing a product. This provides a sensory experience that can influence a purchase. Colors, fonts, and logos can appeal to the eye, while packaging material can appeal to the sense of touch. These clues give a customer a sense of what to expect inside the package.

Additionally, the package reflects the brand, cuing the customer in to the brand feeling. For example, LaCroix is flavored carbonated water sold in brightly colored cans. The cans, as seen below, attempt to make the customer feel the excitement of opening a tasty carbonated beverage (see Figure 9.11).

Figure 9.11 The LaCroix can is a product container that reflects the brand and creates a feeling of fun and excitement for the customer. (credit: “Grapefruit La Croix + Flowers” by www.quotecatalog.com/quotes/inspirational/flickr, CC BY 2.0)

The functional benefits of packaging are numerous. First, a package serves to store the product to protect it from harm in transit from manufacturer to customer. Items such as foam and cardboard shield the product from damage and keep it clean. Second, packaging can also serve as convenience and safety for customers to carry items and store them in the home. For example, Tide Pods are sold in a plastic container with a child-locked lid. This packaging is convenient for customers to safely store the pods in their home.

Third, packaging can aid in the product's usability or become a part of the product experience itself. For example, drinkable yogurt is sold in small bottles. The bottles become part of the product experience when a consumer takes a sip of the yogurt. Fourth, packaging and labeling can aid in a brand's compliance with the law. For example, the Federal Trade Commission Act of 1914 stipulates that false, misleading, or deceptive labels or packaging may be upheld as unfair competition.[13] Thus, packaging and labeling allow a brand to be clear, accurate, and transparent in communication with customers.

Packaging can also have perceptual benefits to customers as they seek to associate with brands. Brand packaging containing logos might indicate status of the customer or signal the customer's values pertaining to quality. Tiffany & Co. is known for its "little blue box," a package that indicates status and a quality product inside (see Figure 9.12). The blue color of the box is a copyrighted by Tiffany as part of its brand's intellectual property.[14]

Figure 9.12 Known for its distinctive shade of blue, Tiffany's little blue box shares the company's brand value with consumers via a perceptual connection. (credit: "Tiffany & Co - Boxes" by ajay_suresh/flickr, CC BY 2.0)

Packaging Used as a Marketing Tool

Packaging can be used to differentiate a brand, either through design or functionality. For example, beautifully designed packages, such as Tiffany's little blue box, differentiate the brand through its status. Meanwhile, functional packaging, such as potato chip bags filled with air, serves as differentiation to deliver uncrushed chips.

Packaging can also create a customer experience. Unboxing a product can contribute to the positive emotions associated with a brand. Artisans who sell goods on Etsy understand packaging as a contributor to customer experience. Artisans will often take special care to package goods beautifully with a handwritten note of gratitude. Personalization and packaging make Etsy customers feel involved in an experience.

Packaging can display the value of a product. A well-designed, attractive package demonstrates value instead of a package that frustrates a consumer. For example, American Girl dolls are packaged in a box with a window to show the doll's face and serve as a keepsake for the owner. The packaging is so popular that some collectors purchase the package without a doll.

Knowledge Check

It's time to check your knowledge on the concepts presented in this section. Refer to the Answer Key at the end of the book for feedback.

1. How can a brand capture attention with packaging?
   a. Location in store
   b. Supply chain
   c. Colors, fonts, and logos
   d. Printing the price on the package

2. Which of the following functional benefits of packaging is at play when the package becomes a part of the product?
   a. Storage
   b. Convenience
   c. Safety
   d. Usability

3. Which of the following functional benefits of packaging is at play when the package protects the customer from personal harm?
   a. Storage
   b. Convenience
   c. Safety
   d. Usability

4. Maria purchased a Louis Vuitton purse for her mom because of the dust cover that protects the purse from wear and tear. This is an example of packaging used as a marketing tool for ________.
   a. brand differentiation
   b. creating customer experience
   c. displaying value
   d. encouraging people to purchase

5. The brand team at a technology company created product packaging that was enjoyable to unbox. This is an example of packaging used as a marketing tool for ________.
   a. brand differentiation
   b. creating customer experience
   c. displaying value
   d. encouraging people to purchase

9.8 Environmental Concerns Regarding Packaging

Learning Outcomes

By the end of this section, you will be able to:

- LO 1 Describe environmental concerns with respect to product packaging.
- LO 2 Discuss strategies that are being used to address environmental concerns.

Environmental Concerns in Product Packaging

Consumers are increasingly concerned about the environmental impact of packaging and its contribution to waste. A study by McKinsey indicates that more than half of US consumers are highly concerned about the impact of product packaging. While it is not a top criterion for purchase, product packaging is a consideration among consumers. Furthermore, consumers are willing to purchase products that have green packaging, such as recycled plastics and fiber-based substitutes.[15]

Groceries are typically packaged in glass, cardboard, plastic, and metal cans. Single-serve plastics are a concern when used for groceries, as they cannot be recycled. Electronics and other fragile products may be packaged with cardboard and foam, which can find their way into landfills. In addition to the energy used to manufacture the product, packaging adds to the environmental burden. Discarded product packaging can be found in landfills, as street litter, and in water sources, harming the environment. Creation of product packaging depletes critical resources, such as trees, and adds to air pollution.

LINK TO LEARNING

How Much Plastic Floats in the Great Pacific Garbage Patch?

Check out this website that describes the impact (https://openstax.org/r/theoceancleanup) of the Great Pacific Garbage Patch. Think about the impact that packaging has on the environment and what you can do to reduce your personal plastic waste.

Companies are innovating on packaging to make it sustainable. As you may see at a restaurant like Chipotle, brands are adopting more fiber-based packaging and compostable, and recyclable options (see Figure 9.13).

Figure 9.13 Chipotle's commitement to the environment through sustainable packaging and reuse is a strong part of its brand. (credit: "Quesadilla Steak Burrito + Carnitas Bowl" by punctuated/flickr, CC BY 2.0)

Companies are also looking at ways to reduce packaging to only its necessary components. Boxed Water Is Better has adopted a cardboard box for its water that is 75 percent paper and 100 percent recyclable (see Figure 9.14). The packaging is free of BPA and other chemicals. The paper is ethically sourced and shipped flat to reduce the amount of space in a truck, further reducing the company's carbon footprint.[16]

Figure 9.14 Boxed Water Is Better makes sustainable packaging decisions in order to be environmentally responsible. (credit: "Boxed Water, Complete with an Expiry Date. Meanwhile, There's a Drought in California" by Schill/flickr, CC BY 2.0)

Cradle-to-cradle packaging design takes the waste out of the life cycle of a package. The package is designed to be something that can be reused or 100 percent recycled. It is meant to imitate nature's processes by being regenerative. A cradle-to-cradle approach uses renewable energy and keeps parts of the biological world within the biological world. In a similar way, some consumer goods flow in a technical cycle, so that the material resources can be generated into new products (see Figure 9.15).

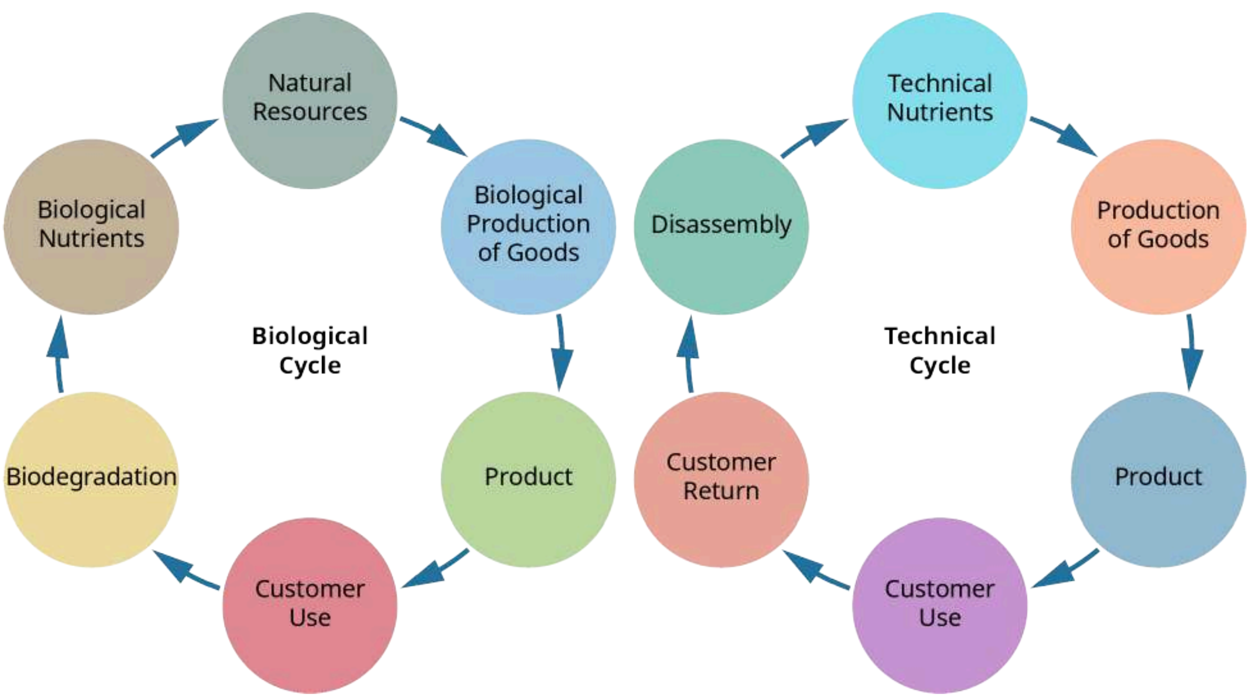

Figure 9.15 The Cradle-to-Cradle Approach (attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)

E-commerce introduces an additional challenge: How can companies sustainably ship single products to a customer? Companies must consider protecting the item, efficiency, cost, and sustainability in their e-commerce packaging. Companies can reduce packaging and use recycled or recyclable materials in their packaging. Additionally, companies can provide return-ready packaging so packages that need to be returned to the manufacturer are the same packages that arrive with the product.

Knowledge Check

It's time to check your knowledge on the concepts presented in this section. Refer to the Answer Key at the end of the book for feedback.

1. Which of the following is not a type of grocery product packaging?
   a. Paper
   b. Plastic
   c. Metal
   d. Wood

2. Which of the following is not part of the technical cycle?
   a. Product
   b. Use
   c. Disassembly
   d. Natural resources

3. Which of the following is a trend in sustainable packaging?
   a. Increasing the amount of packaging
   b. Using boxes
   c. Using only necessary resources
   d. Using plastic

4. Where can discarded packaging be found?
   a. Water sources
   b. Landfills
   c. On the ground
   d. All of these are correct.

5. Which part of the cradle-to-cradle approach is regenerative?
   a. Production
   b. Product
   c. Use
   d. Biodegradation

9.9 Ethical Issues in Packaging

Learning Outcomes

By the end of this section, you will be able to:

- LO 1 Explain ethical issues with respect to product packaging.
- LO 2 Discuss product safety and ethical packaging trends.

The Importance of Ethics in Product Packaging

In addition to concerns about sustainability, marketing professionals must be mindful of ethical concerns regarding packaging. Remember, a consumer can see the package on the store shelf, not the product inside.

The customer is seeking guidance, explanation, and assurance of a product's quality from the packaging. The package must not mislead customers about the size, quality, ingredients, or health claims. The graphics on a package must also properly represent the product inside. For example, a package might display a photo of a product that is larger or more substantial than the product inside, leading the consumer to erroneously believe that the product matches the photo.

Product packaging should be effective in protecting the product. Therefore, brands have a responsibility beyond sustainability to design packaging that ensures that the product survives transport from the manufacturer, to the wholesaler, to the retailer, and finally home with the customer. Think about the last time you purchased eggs at the grocery store. The eggs are quite fragile, but they are packaged in such a way that minimizes damage as the container travels from the farm to your home. It would be unethical for a brand to reduce packaging to save money and leave the consumer with a damaged product.

Additionally, product packaging informs the customer of important safety issues. For example, a package with small parts might have a warning that it is a choking hazard for children under the age of three.

Companies must consider groups beyond their customers. Government, advocacy groups, and NGOs may influence ethical packaging. Some experts predict that ethical packaging will become a legal mandate, so brands have an incentive to think about packaging today and prepare for a more sustainable future.

Chapter Summary

Products are the consumer offering. They are the reason that the customer is making a value exchange. Products and services differ but are inextricably linked through experiences. Consumer products are classified in four ways based on consumer behavior, price, and distribution. Meanwhile, business and industrial products are classified by materials, parts, capital items, and supplies/services.

Products are often not the only offering for a company. Rather, products are sold in product lines and mixes to maximize consumer choice and profitability. Companies may stretch or fill their product lines to appeal to new customers or create new options for existing offerings. A product lives through a product life cycle, including introduction, growth, maturity, and decline, all of which consider revenue and growth. Marketing decisions are often made based on where a product is in the product life cycle. Companies may use levers such as product innovation, pricing, and promotion to encourage purchase.

Ultimately, products become part of a brand. A brand is a feeling that is evoked and a reason that consumers might make a purchase. Brand equity is an intangible asset with tangible value for a company, so it must be protected. Brands position themselves in consumers' minds to capture brand equity. Developing a brand can occur through extension or creating a new offering. Consumers have varying degrees of brand loyalty, which can be measured through preference, lift, and engagement.

Packages are more than containers for products, they are also an extension of the brand. They are useful in brand identity, differentiation, and customer experience. Packaging and labeling also serve functional benefits such as storage, convenience, protection, safety, usability, and legality. Brands should be mindful that packaging has an environmental impact. Brands are continually innovating their packaging designs to meet sustainability expectations.

Key Terms

actual product product available for purchase
augmented product product having unseen aspects essential to customers
brand an intangible asset with tangible value; made up of promotion efforts and customer meaning
brand engagement measure of how deeply the customer identifies emotionally with a brand
brand equity the additional value that a brand has over a substitute
brand extensions products that leverage the brand name to new product categories
brand lift measure of customer and noncustomer perception of a product over time
brand name the official name of a brand
brand positioning the way a brand signals emotions in consumers' minds
brand preference measure of the degree to which a brand is preferred over others in the category
brand value the financial asset associated with a brand
branding the process of developing a brand
capital items assets valuable to a business that also have tangible value
co-brand to bring the equity of two brands together for greater value
convenience products products that consumers can purchase easily, quickly, and without a lot of thoughtful decision-making
core product product solution that the customer is actually buying: convenience, ego, ease, flexibility, etc.
cost of goods sold expenses directly attributable to the product or service
cradle-to-cradle packaging design product design that eliminates waste from the life cycle of package
customer experience the overarching impression that customers have of a brand
decline stage part of the product life cycle characterized by a significant decrease in sales and profitability
divest to sell a brand or discontinue a product to protect a portfolio
gross profit margin comparison of profit before expenses to total revenue
growth stage part of the product life cycle characterized by increasing sales; stage when copycat brands may

enter the market

hard-core loyals tried-and-true customers who will generally only purchase one brand in a category

harvest to reduce all unnecessary expenses to retain any remaining revenue

introduction stage part of the product life cycle when consumer awareness is building and sales are starting to grow

licensed brands brands that provide the likeness of their brand as a fee for use

line extensions products that create new opportunities for an existing product and brand

manufactured materials and parts products used to create a product

market modification an extension of a product to new customers

maturity stage part of the product life cycle when sales growth slows and profitability levels off

multibrands new brand names within a company's existing product category

national brands name brands that sell a product or service under its corporate name and identity

net profit margin calculation that deducts all expenses from profitability

new brands an entirely different brand entity from a parent company

private-label brands store brands that are similar products to a national brand and labeled privately

product item a particular good that a company sells

product life cycle the stages a product goes through, tracking its sales and profitability

product line a set of products that are similar or complementary

product line depth the number of products in a line

product line filling products added to a product line to keep competitors from entering the market

product line stretching addition of product lines

product mix all the products a company sells

product mix width the number of product lines a brand carries

product modification alteration of products to fit the market

products tangible items that are part of an exchange between a buyer and a seller

profit margins a widely used financial measure to determine the profitability of a business; considers costs to manufacture and sell a product or service

rapid penetration pricing strategy strategy that sets a lower-price strategy; appropriate when volume sales will increase market share quickly

rapid skimming strategy strategy that sets a high price along with extensive advertising and sales promotion to establish a product in the marketplace

raw materials products that a business needs to purchase in order to make a consumer good

services intangible solutions that are an exchange between buyer and seller

shifting loyals customers who are loyal to one product or service for a time, then turn their loyalty to a different product or service at another time

shopping products products that require more thought from the consumer as they seek the best quality or price

slow penetration pricing strategy strategy that sets low prices and little promotion to capture market share slowly in a market not susceptible to promotion

slow skimming strategy strategy that sets high prices with low advertising and sales promotion investment

specialty products products that have unique qualities that consumers will make an extra effort to seek out

split loyals customers who have a consideration set of two or three products or services in a category

supplies and services goods and services that are typically disposed of and do not contain a tangible value

switchers customers who continually change their purchasing behaviors

trademarks (service marks) symbols that show legal ownership of a brand name or brand mark

unsought products consumer goods that a buyer doesn't anticipate purchasing

Applied Marketing Knowledge: Discussion Questions

1. Think of a product that you have used recently. What are the core, actual, and augmented products?

2. How would you promote a shopping product differently than a specialty product?
3. Look at the Oreo product line. Why are there so many products? What purpose does this variety serve?
4. Consider the Sears brand. Which stage of the product life cycle is Sears currently in? What do you recommend it do to change this stage?
5. Discuss a brand to which you are loyal. Why are you loyal to the brand? How does the brand contribute to your loyalty?
6. Would you consider yourself a switcher, shifting loyal, split loyal, or hard-core loyal for your favorite brand? Why?
7. Look at the Apple brand packaging in this chapter. How does this packaging meet the criteria that we discuss in the chapter?
8. Review Boxed Water Is Better's website (https://openstax.org/r/boxedwaterisbetter). How do the website and packaging address environmental concerns?
9. Discuss a brand's packaging. How could the brand reduce its packaging or introduce recyclable packaging?
10. Why are safety statements important on packaging? What might you add to product safety statements?

Critical Thinking Exercises

1. Brainstorm purchases that you have made this week. Classify each into convenience products, shopping products, specialty products, or unsought products.
2. Explain the product life cycle. How and why might it change based on certain criteria?
3. Examine the package of a product that you have in your pantry at home. Determine how the packaging aligns with the brand, protects the product, and displays value.

Building Your Personal Brand

Can you honestly say that you "own" who you are? Do your habits and mannerisms belong to you? Are you comfortable in your skin?

In her TED Talk, Harvard professor Amy Cuddy discusses how body language impacts how others perceive you. Our nonverbals give others a perception about who we are and how we are feeling. Our body language conveys dominance, much like animals do to show their power. Our posture and the space that we take up signals confidence. But sometimes we take cues from others. If our conversation partner is showing dominance, our body language might shrink in response. It turns out that posing for dominance changes the way we think and act. So use body language to your advantage next time you are trying to make an impression.[17]

Watch Amy Cuddy's video "Your Body Language May Shape Who You Are" and develop a perspective on how you can use body language to develop your personal brand. Specifically, write a 1-to-2-page document outlining what you will start doing and what you will stop doing, and explain why. Your professor might even enjoy seeing a photo of your "power pose."

Click to view content (https://openstax.org/books/principles-marketing/pages/9-building-your-personal-brand)

What Do Marketers Do?

A product manager is the keeper of a brand. Their job is to develop the product strategy—the what, where, when, and how much of a product. Then, a product manager coordinates a cross-functional team of professionals from marketing, development, finance, legal, operations, manufacturing, supply chain, and more to bring the product to market successfully and shepherd the product through its life cycle. Product managers understand how strategy underpins a product's success in the market and serves as a path to grow the brand.

Interview a product manager to determine the following:

1. What is their philosophy on successful product management from launch through the product life cycle?
2. What does their job entail? Who are the key members of their product ecosystem?
3. What is the career path that led them to this role?

Product managers can be found at companies of all sizes, including both B2B and B2C. You can use your network on LinkedIn or your professor to source an interviewee.

Marketing Plan Exercise

Complete the following information about the company and products/services you chose to focus on as you develop the marketing plan throughout the course. You may need to conduct research in order to obtain necessary information.

Instructions: Using the Marketing Plan Template file you created from the Marketing and Customer Value assignment and expanded upon in Strategic Planning in Marketing, Market Segmentation, Targeting, and Positioning, and Marketing Research and Market Intelligence, complete the following section of your marketing plan:

- Marketing Strategy: Product

Submit the marketing plan to your instructor for grading and feedback.

Closing Company Case

Ramblewood

In 2018, husband and wife duo Zach and Riley McDonald began getting a flood of requests to help with events. Each of them individually had significant talents. They were great foodies, and they understood good food both in taste and in presentation. Their combined skill for aesthetics in design, display, color, and texture was remarkable. And they were both gifted at bringing everything together and staging it all like a flawlessly produced Broadway show.

When the idea to create a business doing event planning started to become a reality, both were employed full-time while also tending to their young family. To say their plates were full was an understatement. However, after helping with a few events, the duo realized they had a passion for event planning, and they both really enjoyed working with people, helping others to bring their dreams to reality.

Figure 9.16 Ramblewood's unique value proposition is that it is a one-stop shop for the various components involved in hosting an

event, like a wedding. (credit: “Taipei Sheraton Taipei Sheraton” by spongebabyalwaysfull/flickr, CC BY 2.0)

Zach and Riley were both very involved in their community, and they were often guests at events around town. They noticed a lack of coordination between all the moving event components—planning, floral design, event rentals, decor, and catering. Was there a marketplace need to coordinate an event from beginning to end?

After putting together a few events for friends and acquaintances, they received rave reviews. Requests started pouring in for their services. With a keen eye for every detail and methodical oversight for all facets of an event, the Ramblewood team had a unique niche in its market. And with a robust start, Ramblewood came to life.

Ramblewood had a compelling value proposition in that it was a one-stop-shop for all event components. It was not uncommon for an event host to research, interview, and coordinate with musicians, furniture and linen rentals, caterers, florists, bakers, digital designers, and printers. Ramblewood would do it all and coordinate it seamlessly to take some of the stress off the work of an event.

While weddings might be the primary event market, Ramblewood had a strong following with corporations, family reunions, baby showers, bridal showers, and birthday parties. No event was too big or small for Ramblewood. If clients wanted to host an event to flawlessly match a vision, Ramblewood could make it a reality.

With over a decade of art and design experience, Zach and Riley were able to sit down with their clients and hear about their dreams and visions to bring them to reality. The team had a special skill for looking at creative ways to stretch the budgets and create focal points that would make an experience unforgettable.

As the business was getting off the ground, Zach and Riley wondered how to scale and still create the unique experience expected by every event. However, they were worried that quick growth might damage their unique brand. The two wanted to maintain the integrity of the brand. Every event deserved to have the same attention to detail and beauty they had built in to their very first event.

Zach and Riley quickly realized that every event they managed was in fact their “calling card.” Guests who attended Ramblewood events talked about the experience. Guests discussed the beauty of the flowers, the exceptional food, the layout and decor, and most importantly, how well the event flowed. Each event had elements that created “oohs” and “ahs” that prompted the question, Who created this event? Marketing through word of mouth and social media seemed to be creating the growth engine Zach and Riley were seeking.

The essence of the Ramblewood brand was to create the vision and develop a magical experience for every guest in attendance. “From small intimate home parties or dinners, to large upscale corporate events, we love them all. We love hearing what the event is about and who it is for and then custom building your event into a true lasting experience”[18] was Ramblewood’s mission.

After four years of unforgettable events, the duo chose to extend their brand with an upscale gourmet grocery market to deliver event elements in one location. Market customers could stop in and take a little bit of Ramblewood home. Ramblewood created RMarket—a place for a few magical moments available for everyone, including napkins, flowers, food, decor, and dishes.

The small company Zach and Riley launched was growing rapidly, and its brand was associated with the best events in the South. Growth was coming with the addition of its gourmet food market, and the two were looking for the next steps for their business. [19]

To learn more about Ramblewood, [visit its website (https://openstax.org/r/ramblewoodco)](https://openstax.org/r/ramblewoodco).

Case Questions

1. Ramblewood provides many benefits to its customers. What are the four levels of product provided by Ramblewood?

2. Products are tangible items offered for exchange between a buyer and seller. Services are intangible solutions that are also an exchange between buyer and seller. Ramblewood provides event planning. As part of its "offering," it also supplies flowers, decor, and food. Where does the Ramblewood offering fall on the product–service continuum?
3. Ramblewood was able to capitalize on positive word of mouth to build its business at the introduction stage. As it entered the growth phase, it incorporated some marketing strategies used by many companies. What did Ramblewood do to fuel growth?
4. Brands are built in the hearts and minds of the customers. Successful brands engage customers on a personal level, connecting to their emotions and needs. Name some of the strategies Ramblewood uses to create its brand.

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10

Maintaining a Competitive Edge with New Offerings

Figure 10.1 A new product's success is dependent on the product development cycle and why consumers adopt new products. New product development involves a process of stages. (credit: "Chandelier" by Drew Coffman/flickr, CC BY 2.0)

Chapter Outline

In the Spotlight

Swarovski, a well-known company that specializes in crystal cutting, developed a campaign around diversity and acceptance a few years ago in an effort to reach worldwide customers. One such campaign that was launched during the holiday season in China focused on the Advent calendar despite the fact that the observance of Advent is primarily a Western tradition. If you're not familiar with Advent calendars, they're a type of calendar that counts down the days from December 1 to December 25, Christmas day. On each day in December, you open a pouch or flap on the calendar where a small candy or toy is included. Swarovski took the concept to a whole new level.

The Swarovski Advent calendar retailed for $458 and contained 25 individual compartments with Swarovski crystals. You might be thinking that the price is a little high, but think again—the market supported the price, and the calendars sold out quickly. While the physical Advent calendars took off in the market, so did the digital version. With the digital calendar, users would play interactive games, earn game cards, and then swap the cards with other people. After they collected seven unique cards, they could turn them in to Swarovski for a gift.

Later in this chapter, we're going to explore some measurement metrics for determining the success of new product launches, but one immediate indicator that a product launch was successful is a quick sellout. For Swarovski, the fact that their Advent calendar sold out so quickly is a testament to the successful product launch.[1]

10.1 New Products from a Customer's Perspective

Learning Outcomes

By the end of this section, you will be able to:

- LO **1** Define a new product.
- LO **2** Explain "newness" from the perspective of the customer.
- LO **3** Explain the risks and rewards of developing new products.

New Product Defined

You've probably watched at least one episode of the popular television show *Shark Tank*, where budding entrepreneurs pitch their business plans to a panel of investors in return for funding. To date, over 1,000 sales pitches have been made on the show—some forgettable, others memorable—and some pitches have resulted in wildly successful businesses. Some of Shark Tank's most successful products include the Squatty Potty (over $200 million in sales since appearing on *Shark Tank*), Bombas Socks (over $225 million), and Scrub Daddy (over $330 million).[2]

LINK TO LEARNING

Shark Tank

You will learn a lot about new products and their development by watching *Shark Tank*. You can watch the episodes online here (https://openstax.org/r/sharktank). Interested in learning which *Shark Tank* products have been most successful? Check out these stories:

- Shark Tank Tales: "12 Most Successful Shark Tank Products" (https://openstax.org/r/bestsellingsharktank)
- Good Housekeeping: "Top 42 Gifts That Got Their Start on Shark Tank" (https://openstax.org/r/homeproducts)
- Entrepreneur: "Shark Tank" (https://openstax.org/r/sharktanktopic)
- Vulture: "Shark Tank Contestant Who Pitched Face Masks in 2009 Has No Regrets" (https://openstax.org/r/sharktankirina)
- Looper: "The Most Expensive Deals on Shark Tank" (https://openstax.org/r/themostexpensivedeals)
- Hustle Story: "21 Most Famous Shark Tank Failures in 2022" (https://openstax.org/r/the21mostfamoussharktank)
- Failory: "Shark Tank: 7 Products That Failed & Their 3 Biggest Mistakes" (https://openstax.org/r/sharktankfailures)
- Bplans: "5 Lessons Shark Tank Can Teach You About Pitching to Angel Investors" (https://openstax.org/r/5sharktanklessons)

Perhaps you've got an idea for a new product that's going to take the world by storm. If so, this chapter will be especially relevant for you. We're going to explore everything about new products in this chapter: the stages of new product development, what facets of those new products contribute to their success or failure, how consumers adopt new products, and more.

You would think that a "new product" would be an easy definition, but the term can mean different things. In fact, there are five different categories of new products (see Figure 10.2), each one unique.

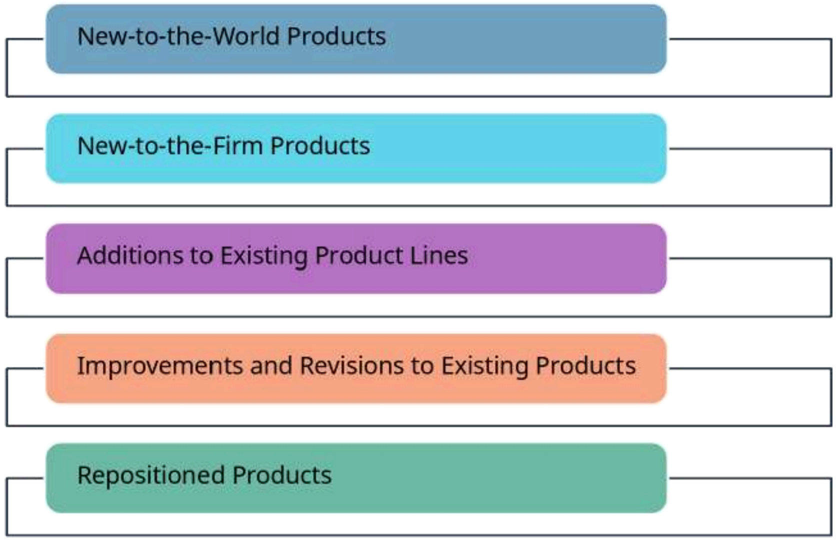

Figure 10.2 Categories of New Products (attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)

Let's look at these new product categories in more detail.

- **New-to-the-World Products**: New-to-the-world products essentially are new inventions that create new markets. Some examples from products recently introduced include biomagnetic ear stickers for weight loss, cat self-groomers, and portable blenders.[3]
- **New-to-the-Firm Products**: These are products that are new to a company but not to the world. It's likely that marketers have seen a gap in the market and their product line and attempted to fill that void by adding a "me-too" type of product to their product line. For example, Nature Valley originally only made granola cereal but later introduced granola bars that could be eaten "on the go."[4] There's a perfect example of a company that saw a gap in the market and added a product that wasn't new to the world, but it certainly was new to Nature Valley.
- **Additions to Existing Product Lines**: Recall that a product line is a group of related products marketed under a single brand. Additions to existing product lines are simple product line extensions, designed to "flesh out" the product line. During its 130+ years in business, Coca-Cola has launched a number of product line extensions. The next time you're in a supermarket, look on the shelves in the soft drink aisle. You'll likely see a number of different flavors and styles of Coca-Cola varieties, such as Coca-Cola Cherry, Coca-Cola Cherry Vanilla, Coca-Cola Vanilla, Coca-Cola Zero, and more.[5]
- **Improvements and Revisions to Existing Products**: This is when existing products are improved. Think about how many times you've seen "new and improved" on the packaging of a product that you've been using for a while, like laundry detergent. As a concrete example, Meta (formerly Facebook) released its Oculus Quest 2 VR (virtual reality) headset and controllers late in 2021, which was simply an updated version of its original Oculus Quest.[6]

LINK TO LEARNING

Oculus Quest 2

Are you new to VR and would like to see what you can do with the Oculus Quest 2 device? Check out this short video where Meta Quest uses YouTube to market the features and benefits of using the Oculus 2. Meta Quest also provides tons of videos about how you can use the Oculus 2 in fitness, gaming, social experiences, and space exploration. Check out those Meta Quest videos here. (https://openstax.org/r/metaquestvr)

Click to view content (https://openstax.org/books/principles-marketing/pages/10-1-new-products-from-a-customers-perspective)

- **Repositioned Products**: Another reminder: product positioning is the process that defines how your product is different from others on the market.[7] Repositioned products are those that are retargeted for a new use or application. For example, Bayer repositioned its aspirin from treating headaches, fever, and inflammation to also safeguarding against heart attacks.[8]

Customer Perceptions of Newness

Just as there are different ways to categorize new products, there are different customer perceptions of newness. The difference in these perceptions is the result of how much change they cause in a consumer's existing habits. Newness can be categorized three ways:

- **Discontinuous Innovation:** Sometimes referred to as radical or disruptive innovations, discontinuous innovations consist of new-to-the-world products that are so different from products currently existing in the market that they require a significant change in consumer behavior when adopted. For example, think about how cell phones have changed the way we communicate today. Older cell phones did one thing—make and receive phone calls. With a smartphone, you can still make phone calls, but you can also listen to music, send and receive emails, surf the Internet, conduct online banking, and get driving directions, to name just a few. Consider how learning to operate all the features on your smartphone required you to change your behavior.[9]
- **Continuous Innovation:** This is the other end of the spectrum from discontinuous innovation. With continuous innovation, the existing product undergoes marginal changes and doesn't alter customer habits. For example, when Sony introduced new TVs that promised sharper, brighter TV pictures, the picture quality was better, but as a consumer, it didn't require you to change your TV viewing habits.[10]
- **Dynamically Continuous Innovation:** With dynamically continuous innovation, some changes in consumer habits are necessary, but the changes aren't as large or small as you see with the two other types of innovation. For example, manual and even electric typewriters have gone the way of the dinosaur since the advent of PCs, but the keyboard layout remained the same, so little change was required with consumer habits.

Risks and Rewards of Developing New Products

We started this chapter with a discussion of *Shark Tank* and some of the products that have been successful in the market as a result of the television show. However, not all products are successful, and there are both risks and rewards when developing new products.

Rewards of Developing New Products

You have probably heard the saying "No risk, no reward," and nothing could be truer in terms of new product development. However, a company's ability to maintain its competitive edge in the market requires a delicate balance between the necessity and the challenges of new product development.

We've already looked at Swarovski's successful product launch of its Advent calendar, but let's consider a few other examples to show you just how rewarding a well-executed product launch can be. Instagram, the social networking platform that allows users to share photos and videos, was first released in October 2010, and it quickly racked up 25,000 users in one day. The company now boasts that it has more than 1 billion (that's with a "b") monthly active users. Instagram succeeded by introducing bold features in its platform, from video editing features to interactive features like face filters and polling.[11]

And, of course, we can't talk about successful product launches without mentioning Apple, whose original iPhone was one of the most successful product launches in history—racking up 1 million units sold within just 74 days of its launch.[12]

Keeping the success of these products in mind, let's look at the reasons why products succeed.

- **Targeting New Markets:** New product development gives businesses the opportunity to expand into new markets, providing an opportunity to connect with different target markets. This creates the added benefit of growing their customer base. For example, research from the Centers for Disease Control and Prevention (CDC) indicated that Americans were reporting symptoms of anxiety and depression since COVID-19 came about, so PepsiCo launched two new drinks that claim to support relaxation—Driftwell and Soulboost.[13]
- **Increasing Market Share:** Think about market share as a pizza, and every company that participates in the market has a slice (obviously some slices are bigger than others). As the market grows, a company needs to expand with it in order to keep its share of that pizza, but it can also increase its market share—and take another slice or two of pizza—through new product development.
- **Increasing Revenue Stream:** Revenue streams are all the ways a company can generate cash from the sale of its products or services. New products and/or services will create additional revenue streams that will generate extra income for the business, perhaps spurring even more new product development. For example, Apple generates revenue streams by developing new hardware products such as the Apple Watch and AirPods wireless headphones, and the company enjoys recurring revenues from services such as iCloud, Apple Music, and Apple TV+.

Risks of Developing New Products

Developing new products has many unforeseen issues and surprises, so it should come as no surprise to you that there are some significant risks associated with these efforts.

- **Lack of Differentiation:** There can be many problems with the design of a product, including insufficient differentiation from competitors' products. Perhaps the product or service did not solve enough problems or did not solve them sufficiently, or the product incompletely addresses the needs of the target market.

  For example, in 2021 Apple discontinued its HomePod smart speaker, which was not perceived as being sufficiently different from Amazon's Echo despite offering high-quality music playback.

- **Financial Feasibility:** New product development is expensive and can be financially risky for companies. It's important that a financial feasibility study is conducted in the earliest stages of new product development to determine whether it's worth launching the product or service in the context of sales and revenues.

  Financial feasibility is the primary reason why pharmaceutical companies typically don't invest large amounts of money in developing a new drug if the market for the drug is small. Novartis was the exception to this rule. The company developed a drug that treats children under the age of two suffering from spinal muscular atrophy (SMA). According to the Cleveland Clinic, only 1 in 10,000 children suffer from this rare genetic mutation, but Novartis went ahead and developed the drug anyway.[14] With a price tag of $2,125,000 for a one-dose treatment, it's the most expensive drug the world has ever seen.[15] You may be asking yourself, Is it worth it? Just ask the parents of a child suffering from SMA.

- **Technical Feasibility:** Technical feasibility studies are equally important as a financial feasibility study. Does the organization have the technical resources to meet capacity? Can the technical team convert the idea into a working product or service?

  For example, while Taco Bell's Doritos Loco Taco was in development, the team wasn't sure it was technically possible to coat a taco shell with the iconic Doritos flavoring. Its research and development (R&D) department spent approximately two years developing over 40 prototype taco shells before it found the right combination of crunch, seasoning, and flavor.[16]

- **Poor Timing:** Author Joshua Harris once wrote, "The right thing at the wrong time is the wrong thing." This couldn't be truer when it comes to new product development. You may have developed the best product or service, but if it's introduced to the market at the wrong time, it's likely to fail. The product development process can take a year or longer, and imagine the market changes that can take place during that time. A new competitor may enter the market before you do, consumer preferences and needs can change, legislative or environmental regulations can change, or the economy can go south before you're ready to launch.

The situation with in-home COVID-19 testing kits is a perfect example of poor timing. By the time the US government made these kits widely available to the public, the need for these tests had greatly diminished because the majority of the population had already been vaccinated.

Knowledge Check

It's time to check your knowledge on the concepts presented in this section. Refer to the Answer Key at the end of the book for feedback.

1. Many years ago, liquid soap was introduced in place of traditional bar soaps. This innovation changed an intrinsic feature of the product, but it's used for the same purpose. This is an example of ________.
   a. discontinuous innovation
   b. continuous innovation
   c. dynamically continuous innovation
   d. noncontinuous innovation

2. Coca-Cola, a behemoth in the soft drink market, decides that it is going to develop and market Coca-Cola popsicles. What type of new product would this constitute?
   a. New-to-the-world
   b. New-to-the-firm
   c. Improvements and revision to existing products
   d. Repositioned product

3. Saundra went to the grocery store and purchased the same laundry detergent she's been buying for years, but she noticed that the packaging had been changed and the label indicated that the laundry detergent was "new and improved." What category of new products would the laundry detergent likely fall under?
   a. New-to-the-world products
   b. New-to-the-firm products
   c. Repositioned products
   d. Improvements and revisions to existing products

4. Hoffman Enterprises has introduced a new product to the market that has undergone only marginal changes and doesn't alter consumer use habits. What type of product has Hoffman Enterprises introduced?
   a. Discontinuous innovation
   b. Continuous innovation
   c. Intermittent innovation
   d. Dynamically continuous innovation

5. Sources through which a business earns income from the sales of goods or services are known as ________.
   a. capital gains
   b. incremental income
   c. profits
   d. revenue streams

10.2 Stages of the New Product Development Process

Learning Outcomes

By the end of this section, you will be able to:

- LO 1 Identify the stages of the new product development process.
- LO 2 Define and describe the important factors of each stage of development.

The New Product Development Process

The new product development process involves activities where a company thinks of a new product concept and introduces a new product offering. New product development usually follows a process divided into stages (see Figure 10.3).

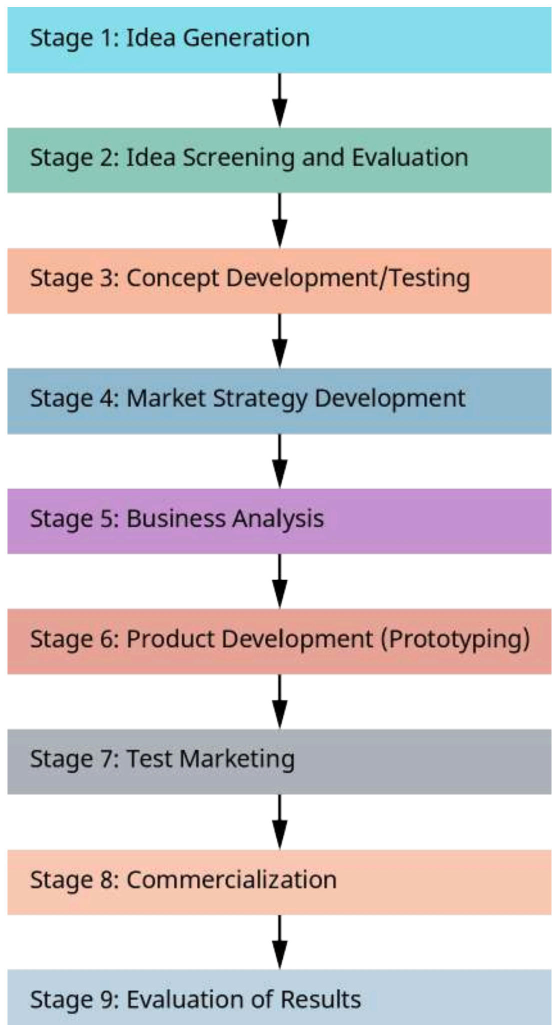

Figure 10.3 Stages in the New Product Development Process (attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)

Stage 1: Idea Generation. With idea generation, you are working to create as many ideas as you can. The purpose of this stage is to focus on the products that are more likely to turn a profit so you can reduce the product development expense later in the process and develop profitable products.[17]

Instead of looking at the new product development process in abstract terms, let's discuss a potential product idea and follow it through all the steps of the process. Imagine that you're a marketer for a food processing company, and you believe there is a gap in the market for a high-protein freeze-dried yogurt powder that can be added to juice to make a nutritious, low-fat, fruit-flavored smoothie. This is what's known as a **product idea**—a new product that a company could potentially offer to the market. This idea may have been generated by **internal sources** such as research and development (R&D), market research, or employees who are not part of R&D. On the other hand, the idea may have come from **external sources** such as customers, suppliers, distributors, or even competitors.

Stage 2: Idea Screening and Evaluation. This is the process of filtering through the ideas brought to the table by your team, picking the ones that are most likely to turn a profit, and dropping the less favorable ones. For example, with our high-protein freeze-dried yogurt powder, the team would create numerous product concepts that they then sift through to reach the best idea.

Stage 3: Concept Development and Testing. In this stage, a product idea can be turned into several **product concepts**—the perception of a new idea or innovation. The product team will consider *who* will use the product (e.g., children, athletes, or adults), *what* benefits the product will provide (e.g., meal replacement, a snack, nutrition, or energy), and *when* consumers would typically consume the product (e.g., for breakfast, as a midmorning or afternoon snack, or after a workout or exercise).

For example, your product team may come up with the following product concepts for our yogurt powder:

1. The yogurt powder would be marketed as an instant, on-the-go breakfast drink.
2. The yogurt powder would be marketed as a high-protein snack that is more nutritious than plain juice or milk.
3. The yogurt powder would be marketed to adults or athletes who work out and want to replenish the body's loss of protein during exercise.

It's important to develop these product concepts because each concept defines the product's competition. For example, Concept #1 would compete against other breakfast foods such as cereal, breakfast bars, toast, and bacon and eggs. Concept #2 would compete against juice, soft drinks, and plain milk. Concept #3 would compete against protein shakes.

Once you've developed your product concept, it's time to test that concept with consumers in what you believe to be your target market. This is what's known as **concept testing**. Concept testing is a market research method in which customers are presented with a description of a product or service.

Let's assume that the product concept we've chosen is the instant, on-the-go breakfast drink. Customers in the target market would be presented with a description of the product that may read something like: "Our product is a high-protein powdered yogurt mixture that is added to juice to make an instant breakfast smoothie that provides nutrition, good taste, and convenience. The product will be offered in individual packages, six to a box, priced at $3.49 per box."

Potential customers will then be asked a series of screening or qualifying questions, such as:

- To what extent do you like or dislike this product?
- How appealing are the attributes of the product?
- How likely would you be to purchase this product?

Quite often, these (and other) questions are scored using a five-point Likert Scale. For example, the last question might be scored on the basis of these five options: definitely would purchase; likely would purchase; may or may not purchase; unlikely to purchase; and definitely would not purchase. The answers to these questions suggest if the product will likely be successful in the market or not. If the answers are generally positive, the product concept will move to the next stage; if the answers are less than positive, the product concept will likely be rejected.

Stage 4: Market Strategy Development. Once concept testing has been completed and the decision has been made to proceed further, it's time for the product team to develop a preliminary marketing strategy plan. This plan will address the target market for the product. It will outline product positioning, pricing, distribution, promotion, budget, and both short- and long-term goals for sales, market share, and profit.

Stage 5: Business Analysis. Armed with the preliminary marketing strategy plan, the company now needs to assess the new product's business appeal. For example, the company will want to know if sales will be sufficient for the company to make the desired profit. The company will need to understand the costs involved in the new product development in terms of research and development, manufacturing, and marketing.

There are a couple of different analyses that can be done:

- Payback: This simply refers to the time frame within which the company can expect to recover the investment it made in the product development process.
- Break-even analysis: This analysis determines how many units must be sold before the company recoups its costs and starts making a profit.

These analyses are performed so that management can now determine if anticipated profits from the sale of the breakfast drink mix will satisfy company objectives. If the answer is yes, the product concept moves on to the next stage, product development. If the answer is no, the product concept is shelved.

Stage 6: Product Development. Remember that, until now, our product concept has existed only as words or perhaps a drawing. If our breakfast drink mix has passed the business analysis test, it will now move into the product development stage, and engineering will develop a physical version of the product, called a **prototype**.[18]

It's important to note that sometimes the company realizes in this stage that the product concept simply can't be translated into a commercially feasible product. For example, through market research, Maxwell House determined that consumers wanted a coffee that was "bold, vigorous, and deep tasting." However, after working with coffee blends for four months, the company determined that it was too expensive to commercially produce the formula, so Maxwell House changed the blend to meet its targeted manufacturing cost. Unfortunately, the taste of the new blend didn't meet consumers' expectations, and the new product flopped.[19]

The prototype is then put through functional and customer tests to see how well it perform. For example, at carpet manufacturer Shaw Industries, temporary employees are paid to walk on carpet samples for eight hours a day to see how the carpet holds up.[20] At Gillette, volunteers come to work unshaven so they can use certain razors, shaving cream, or aftershave and complete questionnaires. (The "motto" of this group is "We bleed so you'll get a good shave at home.")[21]

Stage 7: Test-Marketing. If the product team is satisfied with how the prototype performs functionally, the product concept is then test-marketed to determine its viability before it's launched on a large scale. Typically, the product is introduced in a limited number of stores or in a few geographic regions in order to gauge customer acceptance. There are several methods of consumer-goods marketing testing, but we'll just cover a few here:

- **Sales-Wave Research**: This is the least costly method of test-marketing. With this method, consumers are initially allowed to try the product at no cost. They are then reoffered the product (or a competitor's product) at a reduced price a number of times (i.e., sales waves). The point of this research is to see how many consumers select the new product and record their reported levels of satisfaction with the product.[22]
- **Controlled Test-Marketing**: In this type of test-marketing, the company arranges for a certain number of stores to carry the new product. The new product is delivered to the store, and marketers manage shelf position in the store, pricing, point-of-purchase displays, and more. The company then measures sales results through the scanners at checkout.
- **Test-Marketing**: Of course, the best (but also the most expensive) way to test a product concept is with a full-blown market test. The company will select a few representative cities (markets that closely resemble

the target customers) and introduce the product with a full advertising and promotional campaign. In essence, the company is measuring the success of the new product on a smaller scale before launching it on a national or even global scale. Curious to know the top cities to test-market a national product? They are Nashville, Tennessee; Cincinnati, Ohio; Indianapolis, Indiana; Charleston, South Carolina; and Jacksonville, Florida.[23]
- **Simulated Test-Markets**: With this method, consumers are exposed to simulated market situations in order to gauge their reactions. Marketers interview consumers in two stages: concept stage and after use. The concept stage interviews provide the marketer with information about the product's appeal and trial rate, whereas the post-usage interviews determine consumers' likelihood of purchasing the product again.
- **Crowdsourcing**: Crowdsourcing is the practice of using the input of a large group of people. This form of market testing would be particularly useful if your product includes mobile apps, web apps, or websites. The product team would choose a crowdsource testing platform, test the product, analyze the results, and tweak the product accordingly.[24]

Stage 8: Commercialization. In this stage, the company launches the product, complete with full-scale production, distribution, advertising, and sales promotion. The cost of launching a new product varies depending on the product itself, the industry, and the competition.

Stage 9: Evaluation of Results. As we've pointed out with the marketing metrics features in this textbook, you can't fix what you don't measure, so it's important after commercialization for the company to review the marketing performance of the new product. Is the new product accepted by consumers? Is there sufficiently high demand, sales, and profits? Are there competitors who are introducing a similar new product in the market? Depending on the answers to these questions, savvy marketers will closely monitor the performance of the new product and make changes as needed in both the marketing plan and the marketing mix strategy.[25]

CAREERS IN MARKETING

Product Development as a Career

Most companies have product manager (PM) as a job role. In this job, you manage the product creation or further development. Check out this summary of what a product developer position (https://openstax.org/r/productdeveloperjobs) entails, including average salaries.

This article from Stanford online (https://openstax.org/r/whatyouneed) outlines what you need to know to have a career in product management. ZipRecruiter also outlines skills and training needed (https://openstax.org/r/whatishowtobecome) for this job role.

Many companies post job descriptions to help you prepare. Here are a few for the product manager job role:

- Google PM (https://openstax.org/r/careersgoogle)
- Facebook (Meta) PM (https://openstax.org/r/productmanagement)
- Twitter PM (https://openstax.org/r/twitterproductmanager)
- Amazon PM (https://openstax.org/r/projectprogram)

If you're interested in learning more about the product manager job role and career, read here about the typical path you can expect (https://openstax.org/r/productmanagercareerpath).

Knowledge Check

It's time to check your knowledge on the concepts presented in this section. Refer to the Answer Key at the end of the book for feedback.

1. A physical version of the product concept that is developed during the new product development process is called a ________.
   a. mock-up
   b. model
   c. prototype
   d. precedent

2. You've gathered customers in the target market and presented them with a description of the product concept you have selected. This process is known as ________.
   a. prototyping
   b. concept testing
   c. test-marketing
   d. crowdsourcing

3. At what stage in the new product development process would you launch the product, complete with full-scale production, distribution, advertising, and sales promotion?
   a. Test-marketing
   b. Product development
   c. Business analysis
   d. Commercialization

4. The least costly method of test-marketing is known as ________.
   a. controlled test-marketing
   b. sales-wave research
   c. simulated test-marketing
   d. crowdsourcing

5. What is the first stage in the new product development process?
   a. Idea screening and evaluation
   b. Market strategy development
   c. Commercialization
   d. Idea generation

10.3 The Use of Metrics in Evaluating New Products

Learning Outcomes

By the end of this section, you will be able to:

LO 1 Explain the importance of establishing new product metrics.
LO 2 Describe metrics used to evaluate the success or failure of new products.

The Importance of Establishing New Product Metrics

There are few marketing activities that are as difficult to manage as new product development. Not only does a company have to juggle multiple tasks like new features and innovative technologies against factors like cost, risk, and time to market, but it has to ensure that it's making the most efficient use of its limited resources on new products that will meet both its short-term and long-term strategic goals. In this section we're going to review product development metrics that can measure the success (or failure) of your new product launch.

Product metrics are quantifiable data that a business tracks and analyzes to determine how successful its new product(s) are. One way that companies accomplish this is by using key performance indicators (KPIs). KPIs are target metrics set by a company as a way to measure if the product is delivering on expectations. An example of a KPI could be targeted new customers per month or revenue growth.

LINK TO LEARNING

KPIs

If you haven't already heard the term KPI, and you plan on working at a business, it will become a part of your language. No matter what job role you hold in a company, KPIs are important to understand. Learn more about KPIs from there resources:

- KPI.org: "What Is A Key Performance Indicator (KPI)? (https://openstax.org/r/kpibasics)"
- HubSpot: "How to Choose the Right KPIs for Your Business" (https://openstax.org/r/choosingkpis)
- Toucan Toco: "The Most Important KPIs to Track for Improved Marketing Efficiency" (https://openstax.org/r/mostimportantkpis)
- The Marketing Journal: "5 Marketing KPIs You Cannot Measure but Should Care About" (https://openstax.org/r/marketingjournal)
- Virtual Strategist Video: "How to Develop Key Performance Indicators"
  Click to view content (https://openstax.org/books/principles-marketing/pages/10-3-the-use-of-metrics-in-evaluating-new-products)

Specific Metrics Used to Evaluate New Products

There are any number of metrics you can use to measure the success of a new product. For our purposes, we're going to focus on just a few of the more common KPIs (see Figure 10.4).

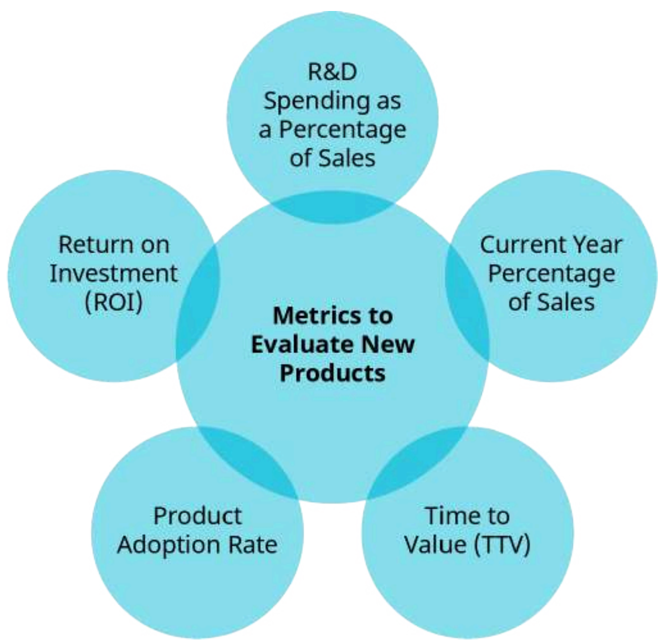

Figure 10.4 Metrics to Evaluate New Products (attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)

- **Research and Development Spending as a Percentage of Sales:** This metric is used to compare the effectiveness of R&D expenditures between companies in the same industry. It's important to use companies within the same industry because R&D numbers vary widely based upon the industry. For example, pharmaceutical and software companies tend to spend considerable dollars on R&D, whereas consumer product companies generally spend less. The percentage is calculated as R&D dollars spent divided by total sales.

- **Current Year Percentage of Sales:** This method calculates cost of goods sold, inventory, cash, and other financial line items as a percentage of sales and then applies that percentage to future sales estimates. It's a "quick and dirty" way to estimate the product's future value.[26]
- **Time to Value (TTV)**: Time to value refers to how long it takes new users to recognize your product's value (sometimes referred to as the "aha!" moment in marketing). Obviously, the sooner this occurs, the better, although time to value varies widely depending upon the product itself.[27] For example, if you purchase a new book for your Kindle, it's a matter of seconds before the book is available to you. On the other hand, if you subscribe to a magazine, it may be days or weeks before you see your first issue.
- **Product Adoption Rate:** When launching a new product, this metric is almost always at or near the top of the product team's list of KPIs to track. Product adoption (or user adoption) is the process by which people learn about a product and start using its features to meet their needs.[28] The formula for calculating the adoption rate: divide the number of new users by the total number of users.
- **Return on Investment (ROI):** This is a metric formula used to evaluate the profitability, or overall value, of an investment. In marketing, you can use ROI to measure the profitability of a new product launch. To calculate the marketing ROI, you would take the sales from that product, subtract the marketing costs, divide by the marketing costs, and multiply by 100.[29]
  For example, if sales grew by $100,000 as a result of the new product launch, but the cost of the marketing campaign was $20,000, the ROI would be:

$$\text{Return on Investment (ROI)} = \frac{(\text{Sales} - \text{Costs})}{\text{Costs}} \times 100$$

$$\text{Return on Investment (ROI)} = \frac{(\$100,000 - \$20,000)}{\$20,000} \times 100 = 400\%$$

Knowledge Check

It's time to check your knowledge on the concepts presented in this section. Refer to the Answer Key at the end of the book for feedback.

1. Data measurements that businesses use to evaluate the success of new products are called ________.
   a. ROI
   b. product adoption rates
   c. R&D
   d. product metrics

2. Which method calculates cost of goods sold, inventory, cash, and other financial line items as a percentage of sales and then applies that percentage to future sales estimates?
   a. Product adoption rate
   b. Current year percentage of sales
   c. Time to value (TTV)
   d. Revenue growth rate

3. To calculate this metric, the return of the investment is divided by its cost.
   a. Time to value (TTV)
   b. R&D spending as a percentage of sales
   c. ROI
   d. Revenue growth rate

4. This metric measures how long it takes new users to recognize the value of a new product.

a. Product adoption rate
b. ROI
c. Time to value (TTV)
d. Revenue growth rate

5. Which of the following metrics would likely NOT be used to evaluate the effectiveness of new products?
a. R&D spending as a percentage of sales
b. Time to value (TTV)
c. Return on investment (ROI)
d. Annual recurring revenue (ARR)

10.4 Factors Contributing to the Success or Failure of New Products

Learning Outcomes

By the end of this section, you will be able to:

LO **1** Identify and discuss factors that contribute to the success of a new product.
LO **2** Identify and discuss factors that contribute to the failure of a new product.

What Factors Contribute to the Success of New Products?

The story about how the Dollar Shave Club was started is more than just urban legend. Founders Mark Levin and Michael Dubin met at a party and commiserated about how expensive razor blades were. After that party, using their own money and investments from start-up incubator Science Inc., they launched their website that sold razor blades much more cheaply starting in April 2011. These founders seized an opportunity based on several insights: that prices for blades charged by market leader Gillette were perceived as too high; that most men do not want to shop in stores for shaving supplies; and lastly, that the move to online/subscription boxes was gaining traction. Five years later, the company was bought by Unilever for an astounding $1 billion.[30]

LINK TO LEARNING

Direct-to-Customer Sales

Watch this viral video of the founders speaking about the virtues of direct-to-customer sales. It's funny and informative. Check it out!

Click to view content (https://openstax.org/books/principles-marketing/pages/10-4-factors-contributing-to-the-success-or-failure-of-new-products)

Instant, phenomenal, new product success is what every marketer wants to achieve when launching a new product. But the reality is quite different. When you look objectively at new product introduction success or failure, significant differences emerge between successful and unsuccessful product launches. There's a similar pattern or a recipe for success. Figure 10.5 outlines the key factors that strongly influence new product success.

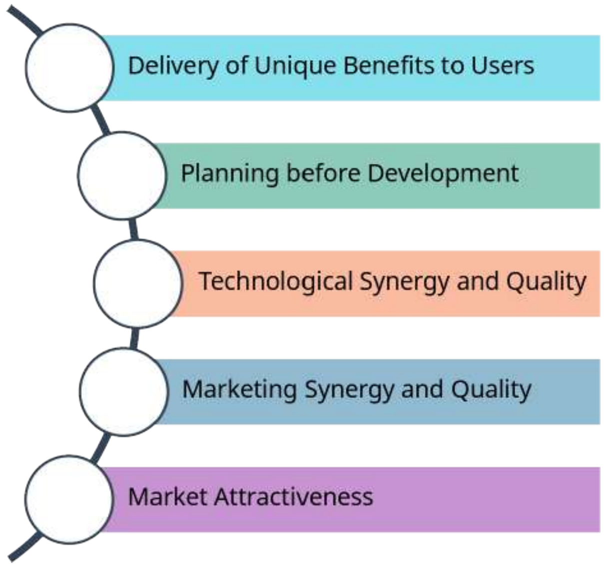

Figure 10.5 Factors Contributing to the Success of a New Product Launch (attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)

Let's explore each of these factors:

- **Delivering Unique Benefits to Users:** The product itself—in terms of its design, features, and benefits to customers—is the often the bellwether of new product success. Are you introducing a "me too" product vis-à-vis the competition, or does the new product deliver unique benefits to the consumer? It probably comes as no surprise that innovative products typically fare better than those that have few elements of differentiation. As a matter of fact, research has shown that innovative products that offer unique benefits versus the competition have five times the success rate of products with fewer elements of differentiation.[31]
- **Planning before Development:** This would seem almost intuitive, but unfortunately, many companies fail to plan properly before developing a new product. Remember the old phrase "If you fail to plan, you plan to fail." The "rule of thumb" in successful new product development is to thoroughly define the product before development gets underway. This means defining the target market, the product concept, customer needs and wants, and product requirements. Numbers don't lie. Research has demonstrated that new products in which predevelopment activities were well-defined and executed had a success rate of 75 percent versus just over 31 percent for products in which those predevelopment activities were lacking.[32]
- **Technological Synergy and Quality: Technological synergy** is when a new product is built on the firm's existing technological resources. The bottom line is that new products that have a strong fit between the project needs and the company's existing technological and production resources are typically much more successful in the marketplace. The further away the product strays from the company's current technology, the less likely it is that the product will be successful.[33]
- **Marketing Synergy and Quality:** Like technological synergy, marketing synergy is also an important factor in new product success. **Marketing synergy** examines the fit between the needs of the new product development project and the company's sales, advertising resources, customer service capabilities, distribution, and marketing research. The closer the fit, the more successful the product will likely be in the marketplace. As a matter of fact, according to research, new products in which marketing synergy existed were 2.3 times more likely to be successful than products where marketing synergy was lacking.[34]
- **Market Attractiveness:** Market attractiveness is a measure of potential value and considers factors like short- and long-term profit, market growth rate, how much competition currently exists in the market, the cost of entry into the market, and how much the product satisfies the needs of customers in the target market.[35]

MARKETING IN PRACTICE

Kentucky Fried Chicken (KFC)

Figure 10.6 To address falling sales in the latter part of the year, KFC developed a new product that appeals to customers during the holiday season. (credit: "Food Photo of Fried Chicken Wings with Cucumber Slices and Lettuce on a Wooden Table with Tomato Ketchup and Chili Sauce" by Marco Verch/flickr, CC BY 2.0)

If you were to ask people what they eat during the holiday season, you'd probably get answers like turkey or ham. It's not likely that many of them will say fried chicken (see Figure 10.6). That's less than ideal for Kentucky Fried Chicken (KFC) because despite the fact that consumer spending typically spikes during the last six weeks of the year, KFC's sales typically falter.

Fortunately, savvy marketers at KFC came up with a new product designed to remind consumers of KFC during the holiday season: the KFC 11 Herbs and Spices Firelog that, when ignited, makes your house smell like fried chicken.[36] The idea behind this new product was twofold. First, a home's fireplace usually plays an important role in the holiday season. Second (and perhaps more importantly for KFC), hopefully the smell of fried chicken makes people want to *eat* fried chicken!

Some of KFC's promotional efforts involved discussions on TV talk shows and magazines. From these initiatives came 5,000 user-generated social posts and the logs being sold out in three hours![37] How's that for a successful product launch?

What Causes New Products to Fail?

We've just examined the factors that are favorable to the success of a new product, but what about the reverse? Those failure rates we mentioned in the previous section aren't to be taken lightly.

Statistics on New Product Failure

So, you've made it through all the stages of new product development, and you think your troubles are over. Think again! Just because something is new, improved, or changed doesn't guarantee that consumers will accept it or even hear about it. Every person reacts differently in how they hear about innovation, how they understand it, and whether they accept it.

Harvard Business School professor Clayton Christensen has been quoted as suggesting that approximately 30,000 new products are launched each year, and 95 percent of them fail. A study by the Product Development and Management Association found that new product failure rates varied among industries, ranging from 35 percent for health care products to 49 percent for consumer goods. Although those numbers are significantly lower than that proposed by Professor Christensen, the message remains the same: successful product launches shouldn't be taken for granted.[38]

What causes new products to fail? The reasons are likely different from one product to the next, but certain key factors appear to contribute heavily to the failure (see Figure 10.7).

Figure 10.7 Contributing Factors to the Failure of a New Product (attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)

Let's review each of these factors more closely.

- **Failure to Understand Consumer Needs and Wants:** Let's illustrate this with a real-life scenario that some of you may recall: Google Glass "smart glasses," which were like eyeglasses with smartphone capabilities (i.e., wearable technology). When Google announced the product in 2013, it issued a statement of principle reading, "We think technology should work for you — to be there when you need it and get out of your way when you don't." However, sales were disappointing despite the company's usual market hype, and it quickly became clear that consumers didn't want or need the product. There were other devices with longer battery life, faster processors, and better cameras, and most had lower prices. Google discontinued the product's development in 2015.[39]
- **Targeting the Wrong Market:** It doesn't matter how incredible your technology is or how phenomenal you think your product is. If you can't reach the right people in the right market at the right time to buy your product, it's likely going to fail. Even Microsoft fell prey to this mistake. The company decided to challenge the Apple iPod and launched Zune in 2006. The product failed, and Microsoft later admitted that it was just chasing Apple, and its product gave consumers little incentive to switch from the iPod to Zune.[40]
- **Lack of Product Point of Difference:** This could also be referred to as a lack of product uniqueness. If a new product doesn't satisfy a unique need of consumers, it's unlikely to dislodge existing brands that are available. The bottom line is that, to succeed in the market, a product has to either satisfy a new function or satisfy an existing function in new ways. For example, Google launched Google+, its own social media site, in 2011 to compete with Facebook. However, Google+ was unable to distinguish itself from Facebook, and the site never garnered the market share Google anticipated. The company shut down personal accounts in 2019.[41]
- **Prolonged Development/Delayed Market Entry:** You've probably heard the idiom that "time is money," and this is especially true in new product development. If a company takes too long to launch a product, it often spells doom for the product launch. By the time the product hits the market, the economy may have taken a downturn, consumer needs may have changed, or new competitors may have entered the market.

That's what happened to Amazon when it introduced its Fire Phone after four years of development. CEO Jeff Bezos had said at the time, "Our job is to build the greatest device we know how to build, and then customers will choose. The other job we have is to be patient."[42] Apparently, that patience didn't pay off, because by the time the phone was introduced to the market in 2014, Apple and Android already had several generations of smartphones on the market. Amazon ceased production of the Fire Phone just a year later and discontinued sales soon thereafter. Sometimes, timing is everything!

- **Poor Pricing or Cost Structure:** Unfortunately, many new products suffer from a poor pricing or cost structure. Perhaps the company designed the product with a number of innovative features to try to bring "something new and different" to the market, but the inclusion of all those features made the product more costly to produce. You may be keeping your fingers crossed that the market will be willing to pay more for that "new and improved" product, but the reality is that this may not be the case.

Knowledge Check

It's time to check your knowledge on the concepts presented in this section. Refer to the Answer Key at the end of the book for feedback.

1. The degree to which a new product is built on the firm's existing technological resources is known as ________.
   a. market attractiveness
   b. marketing synergy
   c. technological synergy
   d. cost-benefit analysis

2. A study by the Product Development and Management Association found that new product failure rates varied among industries, ranging from 35 percent for ________ to 49 percent for ________.
   a. health care products; consumer goods
   b. consumer goods; pharmaceuticals
   c. consumer goods; technology products
   d. technology products; health care products

3. Graham, a marketer for ABC Corporation, was concerned about the new product launch because R&D was months behind in development and the economy appeared to be heading toward a recession. Which factor contributing to the failure of new products is Graham's concern?
   a. Lack of product differentiation
   b. Prolonged development/delayed market entry
   c. Targeting the wrong market
   d. Failure to understand customer needs/wants

4. Your company has added so many features to the new product you're launching that the price point when it hits the market is going to be significantly higher than originally anticipated. Which factor contributing to the failure of new products is at play here?
   a. Lack of product differentiation
   b. Prolonged development/delayed market entry
   c. Targeting the wrong market
   d. Poor pricing or cost structure

5. The FurZapper, which removes pet hair from laundry in the washing machine, was introduced on *Shark Tank* and became an immediate hit. It garnered over 5,000 five-star reviews on Amazon because customers were amazed at how much pet hair it trapped in the washer. Which factor contributing to the success of new products is likely at play here?

a. Delivering unique benefits to users
b. Technology synergy
c. Planning before development
d. Market attractiveness

10.5 Stages in the Consumer Adoption Process for New Products

Learning Outcomes

By the end of this section, you will be able to:

LO 1 Describe the stages in the adoption process for new products.
LO 2 Identify and define new product adopter categories.

Stages in the Adoption Process

Consumers go through five stages in the process of adopting a new product (see Figure 10.8).

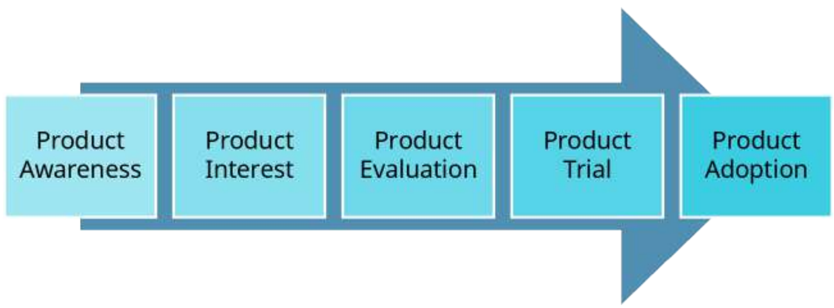

Figure 10.8 Stages in the Consumer Adoption Process (attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)

Let's look at each of these stages in the **consumer adoption process** (often referred to as the "hierarchy of effects model") in some detail.

- **Stage 1: Product Awareness**. The first stage in the consumer adoption process is simply creating awareness that the product is available, so the company develops a successful marketing strategy to make customers cognizant of the new product. This strategy might include creating a strong presence for the product in social media, for example. The goal here is to reach as many customers as possible at a relatively low cost. Let's assume for a minute that you're watching a football game on Saturday afternoon, and you see a television commercial for a mouthwash that whitens your teeth while you rinse. You're now aware of the product, thanks to that commercial!
- **Stage 2: Product Interest**. In this stage, consumers are aware of the product, and it has piqued their interest. The company should guide consumers by providing easily accessible information on the product, such as a website, blog posts, tutorials, or instructional videos. Let's go back to our mouthwash example. You're intrigued with the concept that a mouthwash can whiten your teeth, so you call your brother who's a dentist to ask if he's familiar with the product and what he has to say about it. That's product interest.
- **Stage 3: Product Evaluation**. Before they buy it, consumers will typically examine, compare, and evaluate the product. They haven't purchased it yet, and they often look to social media channels, such as online reviews and recommendations, to see how other consumers feel about the product or service. Think about it: How many times have you viewed customer reviews on Amazon prior to purchasing a product? In our example of the mouthwash, you might do an Internet search to read reviews of the product before you actually purchase it. That's product evaluation.
- **Stage 4: Product Trial**. This is the stage in the consumer adoption process where the consumer actually tries the product out. It might be a free sample in a retail store or a "100 percent money-back guarantee" trial purchase of an online product. This is also the stage in which marketers are hoping that the product will deliver on consumer expectations.

- **Stage 5: Product Adoption**. When consumers enter this phase, they're ready to buy, whether it's online or in a retail store. As a marketer, hopefully you've made the acquisition and payment process as seamless as possible so that your customers can easily obtain your product.

It should be noted that there are five characteristics of innovation, and each affects the rate of adoption differently. This is also known as the process of **diffusion of innovation**—the process through which new products are adopted (or not) by customers. Let's take a look:

- **Relative Advantage**: How much is the new product "better than" what it replaces? This is, of course, based entirely on a consumer's perception, but as a general rule, the easier it is to recognize the advantages of using the product, the more quickly it will be adopted.
- **Compatibility**: This is the level at which the innovation fits into a specific society due to economic, lifestyle, and cultural reasons. For example, PCs were very compatible with middle-class lifestyles, so the product was quickly adopted. On the other hand, the diffusion of birth control in parts of the world is not compatible with social mores due to religious beliefs and cultural values.
- **Complexity**: How difficult is the new product for the adopter to understand and use? If the difficulty level is too high, it is less likely that adoption/diffusion will take place. Think about your own experiences: Have you ever returned a product because it was too complicated to use?
- **Divisibility**: Divisibility is the ability to give the product a "test run" before putting down your hard-earned cash. For example, in no small part due to the COVID-19 pandemic, some online car sellers like Carvana and Shift, as well as some car dealerships, have adopted touchless test drives. The car is brought to the shopper's home, it's wiped down with disinfectant, and the consumer takes the car for a test drive alone while the delivery person waits.[43]
- **Communicability**: You may know your product is great, but you need to be able to effectively communicate to your audience. Communicability is the ability to effectively communicate the benefits and results of using the product, and when those benefits and results are both observable and describable to others. Let's imagine for a moment that you've purchased an expensive Peloton bike to get in shape after the new year. Would you continue to use it if you didn't see the desired results? Perhaps even more importantly in terms of communicability, would you be willing to share your results with others if those results weren't favorable?

  It was first thought that diffusion was a one-step process: from mass media (i.e., advertising) to the individual. Marketers now recognize that it is a two-step process, and the second step is **personal influence**—that is, communication between individuals in which individuals can affect the purchasing decision of others because of their authority, knowledge, or position. For example, Kylie Jenner is a powerful social media influencer with over 250 million followers on Instagram.[44]

New Product Adopter Categories

Consumers adopt new products at their own speed. Some want to have the "latest and the greatest" as soon as it is available. If you doubt that, just look at the lines around any Apple store on the day of a new product release. Others tend to wait a while before buying. Scholar and professor of sociology at The Ohio State University Everett Rogers is credited with introducing the diffusion of innovation theory in 1962, in which he explained how a product or idea gains momentum and spreads through a population or society. In his theory, he identified five adopter categories (see Figure 10.9).[45]

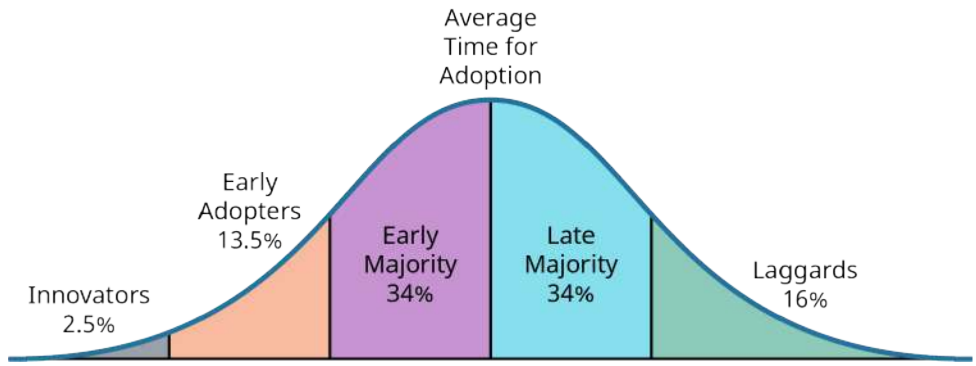

Figure 10.9 Categories of Adopters of New Products (attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)

Let's look at each of these categories in a little more depth.

- **Innovators**: Innovators are the risk-takers in the market. As a general rule, they have higher-than-average income and are typically well-educated. They enjoy the "rush" of taking risk but are also willing to accept the consequences of failure. It's the innovators who buy new products as soon as they hit the market.
- **Early Adopters**: Early adopters are actually the best target market for new innovations. These people tend to be well-educated "opinion leaders" with neighbors and friends, and their product advice is generally accepted more readily than product advice provided by innovators.
- **Early Majority**: The early majority typically look to the innovators and early adopters to determine if the new product meets expectations because they don't want to take the risk of being the first to adopt the new product, but they do accept innovation before the "average person." This group of consumers is typically above average in terms of education and income but also tend to be "followers" in their social group.
- **Late Majority**: Consumers in the late majority category are typically slow to catch on to the popularity of new services, products, ideas, or solutions. About 34 percent of the population will buy a new product only after about half of the population does. They're not interested in the "bells and whistles" (i.e., functionality and benefits) of the "latest model" and want simple, cost-effective products that focus on specific uses. As a general rule, their income and education are limited, and they're typically unwilling to take a chance with a new product unless the majority of consumers has already adopted the innovation.[46]
- **Laggards**: Laggards are more in tune with the past than the future, and they're leery of new ideas. By the time they adopt a product, there's probably already a new version or innovation taking its place.

Knowledge Check

It's time to check your knowledge on the concepts presented in this section. Refer to the Answer Key at the end of the book for feedback.

1. Garrett is the type of consumer who has to have the absolute "latest and greatest" technology products on the market. He is often the very first of his group of friends to acquire the newest smartphone or other gadget. Garrett would be considered a(n) ________.
   a. early adopter
   b. laggard
   c. late majority
   d. innovator

2. What is the first stage in the consumer adoption process?
   a. Product awareness
   b. Product evaluation
   c. Product trial
   d. Product interest

3. The extent to which the beneficial results of using a new product are observable or describable to others is referred to as ________.
   a. divisibility
   b. product awareness
   c. marketing synergy
   d. communicability

4. Bob refuses to get "on board" with smartphones. He insists on having a landline in his apartment. In terms of the new product adopter categories, Bob would be considered a(n) ________.
   a. early adopter
   b. innovator
   c. laggard
   d. late adopter

5. Which group of consumers tends to be unwilling to take a chance on a new product or innovation until the majority of consumers has already adopted the product?
   a. Innovators
   b. Early majority
   c. Laggards
   d. Late majority

10.6 Ethical Considerations in New Product Development

Learning Outcomes

By the end of this section, you will be able to:

- LO 1 Discuss violations of patents, trademarks, and/or copyrights.
- LO 2 Describe ways to exercise due care in product development.

Violations of Patents, Trademarks, and/or Copyrights

Before we proceed with a discussion of the areas of concern with respect to patents, trademarks, and copyrights in new product development, it would probably be helpful to have some definitions. **Patents** secure the right to exclude others from making, using, or offering for sale the invention you've developed. As a general rule, US patents last 20 years from when the application is filed with the US Patent Office. **Copyrights** are original works of authorship that include software, songs, television shows, and motion pictures. **Trademarks** are words or symbols legally registered or established by use as representing a company or product. Collectively, these terms are referred to as **intellectual property (IP)**.

You may think that intellectual property infringements are uncommon or, at least, limited to new product development by smaller companies, but nothing could be further from the truth. Patent lawsuits and ever-increasing scrutiny for anticompetitive behavior have cost "Big Tech" companies like Apple, Microsoft, and Google hundreds of millions of dollars.

For example, in March 2021, a jury ruled against Apple for patent infringement and ordered it to pay over $300 million to Personalized Media Communications LLC. That same year, a judge ruled that Google had infringed on five patents owned by Sonos, and if the ruling is upheld, it may result in the ban of imports of products like Google Home and Pixel smartphones.[47]

Intellectual property infringement can have serious consequences in terms of both monetary fines and, of course, the reputation of the company. Penalties can include civil damages, lost profits, injunctions, payment of the other damaged party's attorneys' fees, and even felony charges with prison time.[48]

Methods of Exercising Due Care During Product Development

Intellectual property rights add immense value to a company's assets. Imagine having a product team invest time, energy, and money developing and then launching a new product only to discover that the company's intellectual property rights aren't protected or—worse yet—that the product team has infringed on another company's intellectual property rights. That's why it's important in the product development stage to do three things:

- **Conduct a Trademark Search:** It's critical to know whether anyone else is already using the mark *before* time and resources are invested into developing a name and market recognition. For example, Takeda Pharmaceuticals was required to change the name of its antidepressant drug Brintellix to Trintellix because of consumer confusion between Brintellix and an anti-blood-clotting drug named Brilinta.[49]
- **File a Trademark Application:** Filing a trademark application provides the company with a bona fide statement of intention to use the mark within six months of the application.
- **Conduct a Patent Search:** If the product relates to a technological or scientific invention, the company should also conduct a patent search. As noted above, the patent excludes others from making, using, or selling a claimed invention for 20 years.[50]

Another issue that you may hear a lot about is the control or lack of control users have over their personal data. Companies that collect personal data have to carefully (and ethically) consider what information is embedded in systems design, how much data is really needed from users, where that data will be stored, and when and how it will be disposed of after use.[51]

COMPANIES WITH A CONSCIENCE

Meta

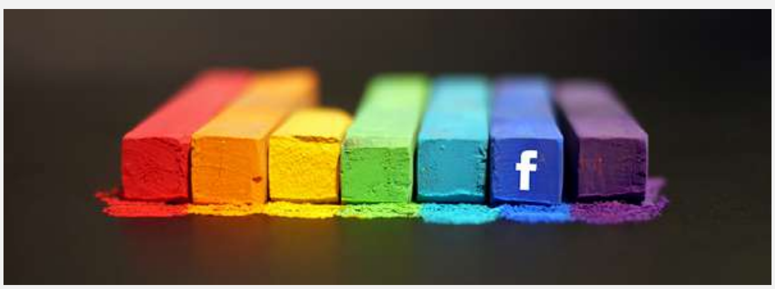

Figure 10.10 Meta is taking steps to better address ethical issues regarding users' personal data. (credit: "The Art of Facebook" by mkhmarketing.wordpress.com/about/flickr, CC BY 2.0)

Meta (formerly Facebook) has come under fire for several reasons recently, including a scandal that involved a whistleblower (see Figure 10.10). This person revealed that the tech giant "chooses profits over safety" when they released internal research and documents and testified before the United States Senate.[52]

However, the company took steps to ensure ethics in its new product development by hiring Zvika Krieger to its Responsible Innovation Team (RIT). Although the team had been in existence for some time, it's growing in size with the emergence of new ethical issues. Krieger's role focused on ethical issues in both the engineering and the design processes. For example, the RIT was involved in the decision to disallow filtering dating app results by race.

The RIT focused on the design and development stage of product development with the specific role of identifying ethical issues. Krieger departed Meta, and the RIT was dissolved in 2022; most members moved into other areas of the company, where they may be able to influence decisions more directly.

Chapter Summary

In this chapter we discussed the different forms of innovation as applied to new product development. The rewards of this development can include means to target a new market, to increase market share, and to increase revenue streams. Included in the risks are financial and technical feasibility and a lack of differentiation from existing products. There are seven stages to developing new products that include idea generation, idea screening and evaluation, concept development and testing, marketing strategy development, business analysis, product development, and test-marketing. The stages are followed by commercialization and evaluation of results.

Metrics are used to evaluate such things as R&D spending as a percentage of sales, return on investment (ROI), the percentage of sales due to the new product release, and other key concepts.

New products succeed when there is synergy and quality of technology and marketing and when the product delivers benefits to users. By contrast, failure can be due to targeting the wrong market and misunderstanding consumer needs/wants. The adoption process was discussed and includes different categories of consumers.

Key Terms

additions to existing product lines product line extensions that involve changes to styles or flavors

business analysis the fifth step in the new product development process, in which a potential new product is evaluated

commercialization the eighth step in the new product development process, in which the product is launched with full-scale production, distribution, advertising, and sales promotion

communicability the ability to communicate to the audience the benefits of using a particular product or service

concept development and testing the third step in the new product development process, in which a product concept is developed into a detailed idea

concept testing market research method in which customers are presented with a description of a product or service

consumer adoption process stages consumers go through in adopting a new product

continuous innovation category of "newness" in which the existing product undergoes only marginal changes that do not alter consumer habits

copyrights original works of authorship that include software, songs, television shows, and motion pictures

crowdsourcing using the input of a large group of people for market testing

diffusion of innovation theory about how products gain momentum and spread through a population or society

discontinuous innovation new-to-the-world products that require a significant change in consumer behavior when adopted

divisibility the ability of a consumer to give a product a "test run" before purchasing it

dynamically continuous innovation changes to a product or service that require little change to consumer habits

early adopters consumers who are willing to try new products typically before others but not as early as innovators

early majority consumers who are initially reluctant to risk trying a new product but accept innovation

evaluation of results the ninth and final step in the new product development process, in which a company evaluates product launch performance based on predetermined metrics

external sources in product development, sources of ideas for new products or services from those outside the organization

idea generation the first step in the new product development process, in which many new ideas for a product are developed

idea screening and evaluation the second step in the new product development process, in which ideas are

filtered to those most likely to turn a profit
improvements and revisions to existing products improvements to existing products that fine tune or perfect them
innovators consumers who are the first to take a risk and buy new products as soon as they are available
intellectual property collective term used to describe patents, copyrights, and trademarks
internal sources in product development, sources of ideas for new products or services from those inside the organization
laggards consumers who are skeptical of new ideas and are reluctant to try new products
late majority consumers who are slow to catch on to the popularity of new services, products, ideas, or solutions
market attractiveness the measure of potential value; considers factors like short- and long-term profit, market growth rate, how much competition currently exists in the market, the cost of entry into the market, and how much the product satisfies the needs of customers in the target market
market strategy development the fourth step in the new product development process, in which a preliminary marketing strategy is developed
marketing synergy the fit between the needs of the new product development project and the company's marketing capabilities
new-to-the-firm products products that are new to a company but not to the world
new-to-the-world products new product inventions that create new markets
patents the right to exclude others from making, using, or offering for sale an invention
personal influence communication between individuals in which individuals can affect the purchasing decision of others because of their authority, knowledge, or position
product adoption the fifth stage in the consumer adoption process, also known as user adoption, in which people learn about a product and start using its features
product awareness the first stage in the consumer adoption process, in which a company creates awareness that the product is available
product concepts perceptions of a new idea or innovation
product development the sixth step in the new product development process, in which a potential new product undergoes development; may include the creation of a prototype
product evaluation the third stage in the consumer adoption process, in which consumers examine, compare, and evaluate the product prior to purchase
product idea concept of a new product that a company could potentially offer to the market
product interest stage in the consumer adoption process in which the product has piqued the consumer's interest
product metrics quantifiable data that a business tracks and analyzes to determine how successful its new products are
product trial the fourth stage in the consumer adoption process, in which the consumer tries the product out
prototype in new product development, the creation of a physical version of the product
repositioned products products that are retargeted for a new use
return on investment (ROI) a metric formula used to evaluate the profitability of an investment and, in marketing, the measurement of the profitability of a new product launch
revenue streams all the ways in which a company can generate cash flow from the sale of its products or services
technological synergy the extent to which a new product is built on the firm's existing technological resources
test-marketing the seventh step in the new product development process, in which a product concept is test-marketed to determine its viability before launch to market
trademarks words or symbols legally registered or established by use as representing a company or product

Applied Marketing Knowledge: Discussion Questions

1. Explain the differences in:
   a. Continuous innovation
   b. Dynamically continuous innovation
   c. Discontinuous innovation

2. List the stages of new product development.

3. Consider new product adopter categories and answer the following questions.
   a. Do you believe that consumers are always in the same category? For example, once a laggard, always a laggard? Can someone be a laggard in one category and an early majority in another?
   b. What impact do these categories have on new product development?
   c. Can you think of a time or product category where marketing would want to push more consumers into one category?

Critical Thinking Exercises

1. From a consumer perspective, what motivates you to try a new product? What new products have you tried in the last year? Did you continue to purchase them after the initial trial?

2. Idea generation is the first step in new product development. Where do those ideas come from? Do all the ideas that are suggested make it to the prototype stage? Explain your answers.

3. Success and failure are always possible outcomes of new product development. Describe two factors that may lead to success and two factors that may lead to failure of a new product.

4. Ethical considerations of new product development include avoiding violations of patents, trademarks, and/or copyrights. How can marketing and R&D departments work to make sure that they do not violate these standing rights?

Building Your Personal Brand

Review this Ascent article by Aaron Weber (https://openstax.org/r/the5psofpersonalbranding) and pay attention to his explanation of the 5 Ps for building your personal brand. Write two paragraphs on what you feel your personal brand is today. Is it what you want it to be? Interview three colleagues, classmates, or family members and ask them to describe how they see your brand. Add a paragraph to your write-up describing their assessment.

Add another paragraph discussing your brand assessment compared to those you interviewed. Is it the same or different? Include changes you would like to make and the impact it would have on your personal brand.

What Do Marketers Do?

Using an online networking platform—for example, LinkedIn—network and connect with someone in product development. Explain that you have a college project and that you'd like to interview them. There are hundreds of product development professionals, and you will quickly find that professionals in this field love to talk about their products and ideas.

Use the following questions as a guide to dig deeper into their job responsibilities.

1. Could you please outline your career and how you got started on this path?
2. Please outline for me your current job responsibilities.
3. Do you specialize in a particular product concept (food, fashion, etc.)?
4. How do you interact with and support your team or clients in this role?

5. What product have you worked on that you are most proud of or excited about?
6. What product did you work on that failed? What did you learn in that process?
7. What advice can you offer me if I choose to pursue product development as my career path?

As always, follow up with any questions that you have, being respectful of their time, and be sure to thank them for their information and help!

Closing Company Case

Maintaining a Competitive Edge with New Offerings—Ember

Every morning, millions of Americans wake up and prepare a cup of coffee. But as they sit down to drink it, the deluge of interruptions begins. Once the interruptions begin, that delicious dark roast often goes cold. Within the United States there are approximately 150 million coffee drinkers.[53] Throughout the day, people pour a cup of coffee, a cup of tea, or a variety of other hot drinks, only to be distracted and come back to a cold beverage. Many hot beverage drinkers have transitioned to the insulated travel mug where the drink stays hot for a while, but it too eventually gets cold.

Back in 2009, Clay Alexander was eating his breakfast. By the time he took his last bite, his scrambled eggs were cold. Alexander began experimenting with dinner plates that could stay hot and keep food at the same temperature throughout the meal. Then, one day as he was drinking coffee, he realized that using the same the technology with a coffee mug would be a transformative experience. In playing with the technology, he developed the Ember mug. (Watch this video for more information on the Ember mug development story.)

[Click to view content (https://openstax.org/books/principles-marketing/pages/10-closing-company-case)](https://openstax.org/books/principles-marketing/pages/10-closing-company-case)
Alexander's first version of the Ember mug looked like something from *Weird Science*. The prototype mug was not sleek or stylish and definitely was not easy to clean. But as he carried his early version of the Ember mug to work and around town, curious commuters began to ask questions. Alexander was raising awareness and piquing the interest of potential new consumers. Through his interactions, he knew that there was definitely interest in a product that could keep beverages at a constant temperature for a long period of time.

This new innovation was a juncture of cutting-edge digital technology and the low-tech coffee mug. Using technology to warm the cup and keep a hot beverage at a constant temperature, Ember transformed the common mug. The Ember mug was able to keep hot beverages at a constant temperature for hours.

Creating the new product required hours of development. Building the product meant developing, testing, creating more prototypes, more testing, and running a business analysis. The new product was great. There was nothing like it on the market. But would customers buy it? A new entrant in the market often comes with a high price tag. All the hours, months, and years of development are coupled with the high cost of creating brand awareness.

The biggest question with the Ember mug was, How would the customer respond? Innovators are the first to purchase new market entry products, and they typically look for and buy new products before the rest of the market. And for this product, that market would probably include the coffee connoisseur and die-hard coffee drinkers. As with any new product, the biggest obstacle would be creating awareness and connecting with consumers about the benefits of the Ember mug.

Alexander knew that consumers were already attached to their smartphones, so he incorporated the Ember technology into something they already used. Consumers could control the temperature of their Ember mug beverages through the Ember app on their smart phones. With dozens of settings to create and keep the perfect temperature, Ember technology was easy and very customizable.

Getting the product to market meant getting it right and easily educating the consumer on the benefits of the Ember mug. The Ember mug incorporates smart LEDs to indicate when the mug has the beverage at the perfect temperature. Using a built-in battery, the Ember mug can work all day if placed on its charging coaster or upward of two hours without the coaster after being fully charged. The Ember mug also comes with auto-sleep technology to know when to turn off as well as built-in temperature controls for the variable preferences of consumers.

Figure 10.11 Product innovation focused on keeping coffee warm for long periods of time. (credit: "coffepour.jpg" by Eric McGregor/flickr, CC BY 2.0)

Initially the Ember was only available for sale on the company's website; however, as brand awareness increased and consumer demand picked up, the Ember could be purchased through both online and in-store retailers. The mug can now be purchased at Amazon, Best Buy, Costco, Starbucks, and several other locations.[54]

Ember has been featured in leading publications such as *Forbes*, *Fast Company*, and *People* as well as broadcast and digital media including *Today*. With many positive reviews, excellent public relations, and organic word of mouth from customers, the Ember mug saw positive growth. Since the introduction of the original 10-ounce mug, Ember added a 14-ounce version as well as a travel mug and plenty of added charging options.

Case Questions

1. How did the Ember mug redefine the coffee-drinking experience?
2. What was the first step Alexander needed to do in developing the Ember mug?
3. What three things helped drive sales of the Ember mug?
4. How would you describe the first customers of the Ember mug?

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11

Services: The Intangible Product

Figure 11.1 Services are intangible, nonphysical products, such as childcare, and they make up the majority of the US GDP. (credit: “DSC_1551” by Josh Ward/flickr, CC BY 2.0)

Chapter Outline

In the Spotlight

Services are acts a consumer is willing to pay for, and there are hundreds of different types. One such service is day care. According to the US Chamber of Commerce, 88 percent of two-parent families and 83 percent of single-parent families relied on non-parental care prior to the COVID-19 pandemic and spent approximately $42 million on early care and education.[1]

Sara Bullock, who has a background in early childhood education and four children of her own, owned a childcare business in Maryland for more than 10 years. When her husband was required to move to Tennessee for his job, she closed her business and started a new childcare business using a different business model. She changed it from a conventional daycare center to a “drop-in” center, allowing parents to bring in their children for short periods of time (anywhere from one to seven hours) without requiring them to make a monthly commitment. That was the birth of MeTime Drop-In Child Care. The concept has been so successful that Bullock has already begun plans to open a second location.[2]

11.1 Classification of Services

Learning Outcomes

By the end of this section, you will be able to:

- LO 1 Define services.
- LO 2 List the classification of services.
- LO 3 Describe the characteristics of services.

Services Defined

You may have heard that the United States' economy is primarily considered a service economy. But do you know why this is? Figure 11.2 provides the answer. It outlines the percentage each industry contributed to the gross domestic product (GDP) in 2020.[3] (A quick refresher from your economics course: the GDP is a measure of the total monetary value of all finished goods and services generated within a country's borders during a specified period of time.) Which industries are the largest contributor to the GDP? Service industries. (Note that this figure does not include smaller industries such as utilities, or mining and agriculture.) When you total the service industries, they make up a whopping 67 percent of GDP versus only 10.8 percent for manufacturing.

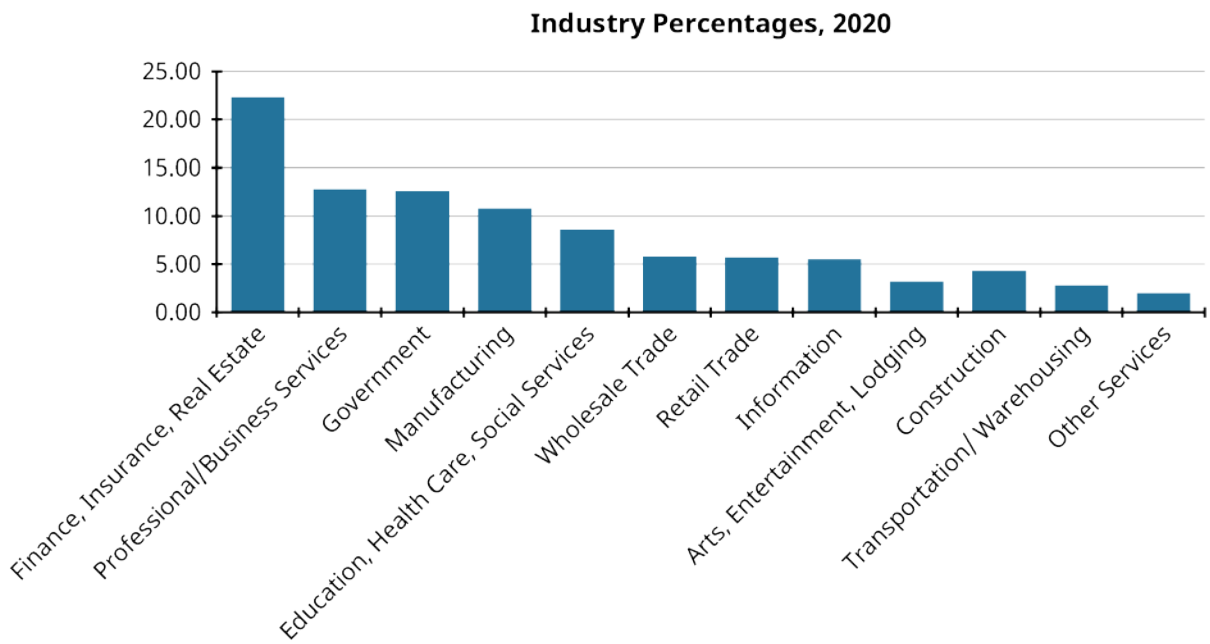

Figure 11.2 Percentages Added by Industry to the US GDP in 2020 (data source: BEA; US Department of Commerce; attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)

In a nutshell, **services** are the nonphysical, intangible economic activities. On the other hand, physical goods are the things we can touch or handle, commonly called tangibles. Do you realize that, as you read this textbook, you're participating in the services sector of the economy? That's because education is considered part of the service sector. The service sector also includes things like banking, medical treatment, transportation, insurance, and many more categories. Based on the fact that the majority of contributions to the GDP in the United States are services, and more than half of the country's workforce is employed in producing "intangibles," it's critical to understand this important sector from a marketing perspective.

Consider the challenges to marketers when selling services as opposed to products. A consumer can't touch or see the service before they purchase, so it's difficult to examine or evaluate benefits. Think about it: you can't take a service out for a test drive the way you might if you were buying a new car. Yet it's just as crucial for organizations that provide services to build brand awareness and brand loyalty.

Classification of Services

Services are classified as people-based services or equipment-based services. And within those classifications, there are subcategories (see Figure 11.3).

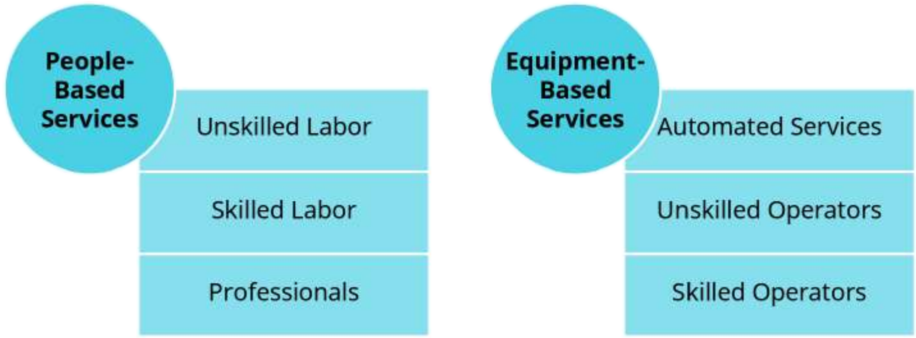

Figure 11.3 Services Classifications (attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)

People-Based Services

People-based services are when people primarily deliver the service, rather than equipment or machinery (see Figure 11.4 for examples). It's the individuals delivering the service, and the knowledge and skills that they possess, that add value and allow the service to be performed. People-based services can be broken down further into these subcategories:

- services provided by unskilled labor: parking lot attendants, babysitters, and janitors
- services provided by skilled labor: plumbers, caterers, and hairstylists
- services provided by professionals: doctors, attorneys, college professors, and accountants

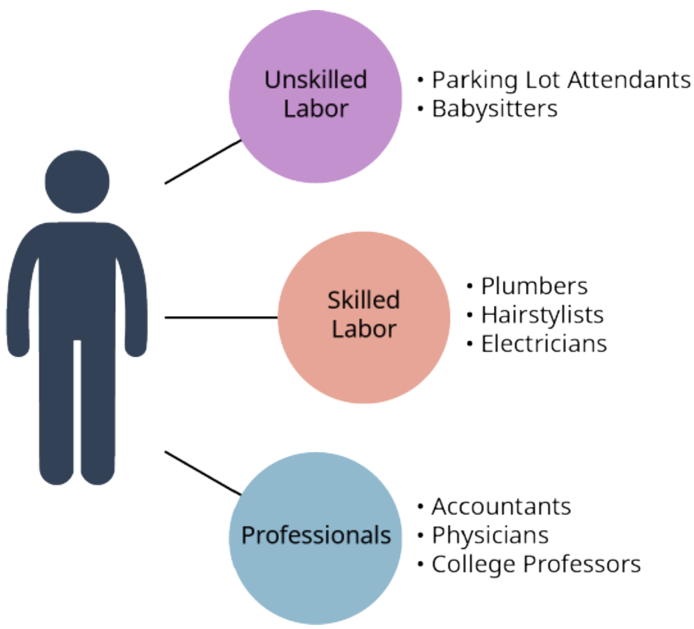

Figure 11.4 People-Based Services (attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)

Equipment-Based Services

Equipment-based service firms utilize equipment, machinery, and other forms of technology to perform service tasks (see Figure 11.5). Similar to people-based services, equipment-based services can be further broken down into subcategories:

- automated services: car washes and parking meters
- equipment-based services operated by relatively unskilled operators: dry-cleaning equipment

- equipment-based services operated by skilled operators: X-ray machines and ultrasound equipment

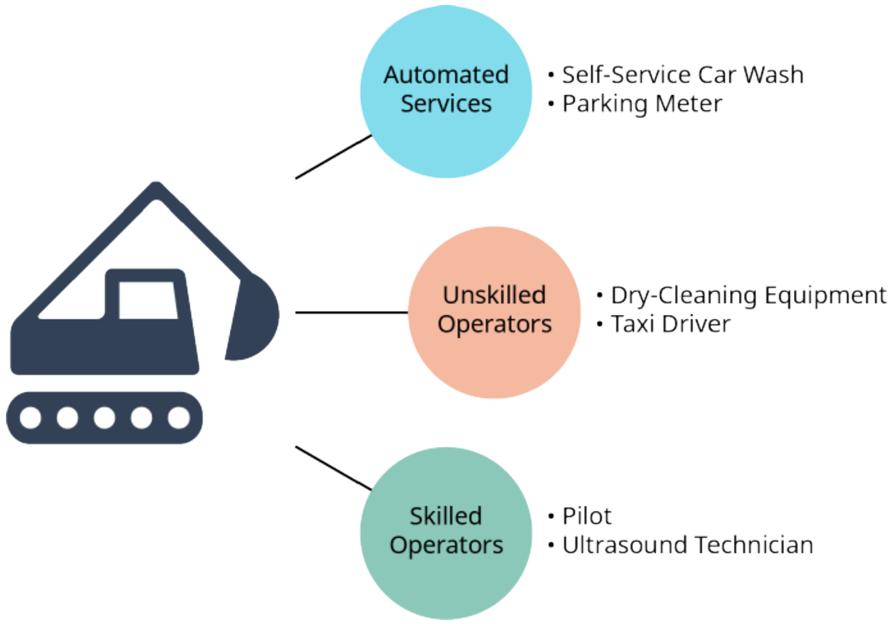

Figure 11.5 Equipment-Based Services (attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)

There is another way to categorize services, according to well-known author and professor Christopher Lovelock (1940–2008). He proposed four broad categories of services:

- people processing: services toward people's bodies
- possession processing: services toward possessions
- mental stimulus processing: services toward people's mind
- information processing: services toward intangible assets[4]

In Figure 11.6, the categories are defined on a two-dimensional matrix, wherein one of the dimensions is the direct recipient of the service and the other is the nature of the service act.[5]

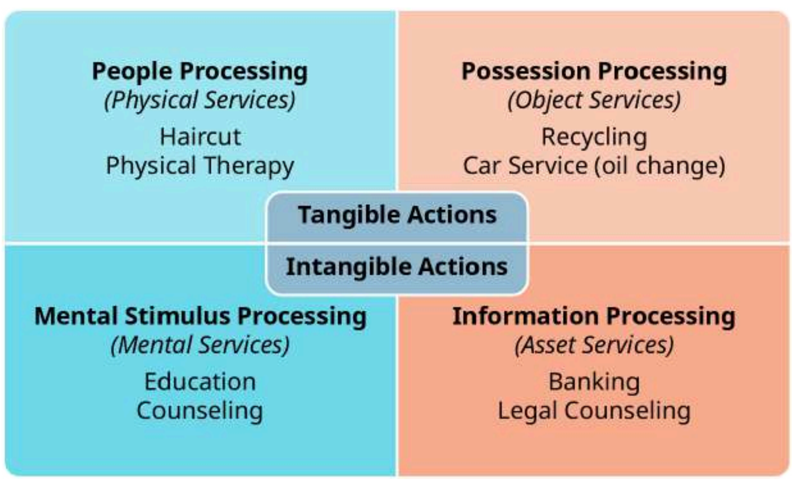

Figure 11.6 Lovelock's Categories of Service (attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)

LINK TO LEARNING

Lovelock

If you plan to continue toward a marketing degree, you'll want to familiarize yourself with Christopher Lovelock's work. You can run a search on Amazon.com for his books or a search in your browser for articles and more information. Start by reading his Wikipedia page (https://openstax.org/r/christopherlovelock) to learn about his academic background and achievements.

Let's look at each of these categories in more depth. The first two categories (people processing and possession processing) involve tangible actions directed toward a person's physical body or property, whereas mental stimulus processing and information processing involve intangible actions directed toward a person's mind or information. We'll expand on this in the following sections.

People Processing

In **people processing** services, the customer is a direct recipient of the service, and the production and consumption of the service are simultaneous. Consider examples of services where you must be present in the service facility in order to interact with the service provider and receive the service, such as barbershops or hair salons, physical therapists' offices, or restaurants.

Possession Processing

The difference between people processing and **possession processing** is that the service is directed toward the customer's physical possessions. In other words, production and consumption are separate. Your only involvement is dropping off the item that requires service or repair and explaining the problem. For example, once you have taken your car in for an oil change, you do not need to be physically at the location for the oil change to occur. Similarly, once you've dropped your clothes off at the dry cleaner's, you don't need to be physically present when the cleaning process is performed. These services are tangible because the direct recipient is one of your possessions rather than you as a person.

Mental Stimulus Processing

In its simplest explanation, **mental stimulus processing** is when the services interact with your mind rather than your body. Time and mental effort are required from the customer to receive this type of service. What you're doing right now—reading this textbook—is a prime example of mental stimulus processing. Other examples include psychotherapy or counseling services. The key here is that services rendered in this category are intangible.

Information Processing

Information processing is the most intangible form of service, although it can be transformed into a tangible service output like reports, books, letters, DVDs, etc. Some examples of information processing services are things like meeting with your financial advisor regarding investment advice, legal services, and banking.[6]

LINK TO LEARNING

Service Industry Stats and a Changing Industry

If you'd like more insight into service industries, check out the US Bureau of Labor Statistics website (https://openstax.org/r/blsgov). It categorizes industries and provides interesting statistics on employment.

Companies are launching new services every day. Think about it—services like Uber didn't exist 20 years ago. As a marketer, understanding services and their business models is critical. Start here and read about on-demand service companies (https://openstax.org/r/serviceindustries) and how services—and apps—are changing the industry. And also check out this article about the top 15 service businesses for 2022 (https://openstax.org/r/articlesmallbusiness).

Characteristics of Services

As outlined in Figure 11.2, service industries contribute the major percentage of the US GDP. It's important to understand that this shift from the manufacturing sector to the service sector isn't limited to the United States. Increasingly, the world economy is being characterized as a service economy. Looking at economic history, we can see a natural evolution in developing countries from the agricultural industry to the service sector as the mainstay of the economy. That's why it's critical for marketers to understand the characteristics of services.

As we pointed out above, some services come from physical products, such as getting a haircut or having your income tax return prepared by a professional. But other services are completely intangible. When you rent a hotel room, travel on an airplane, visit your doctor, attend a professional sporting event, or get advice from a lawyer or an accountant, you're buying a service, so a marketer needs to consider the characteristics of services in order to get the right marketing messages to the right target market (see Figure 11.7).

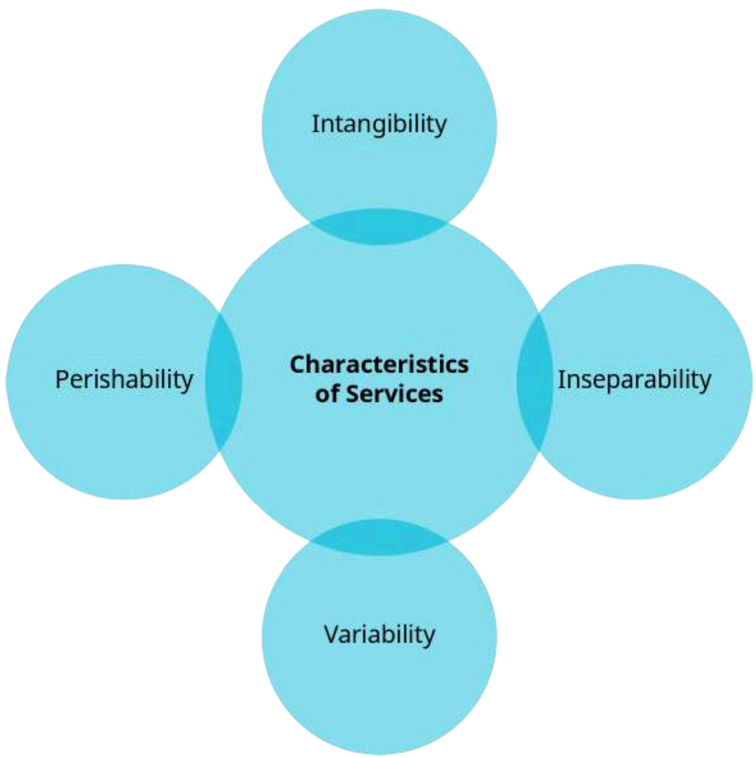

Figure 11.7 Characteristics of Services (attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)

Service Intangibility

By their very nature, services are **intangible**. This means they can't be seen, tasted, felt, smelled, or heard before they are purchased. Consider the last time you purchased automobile insurance for your car. Other than the physical policy the company sends you (the only tangible asset), what you've paid for is completely intangible—it's the company's promise to pay claims against the policy.

Intangible services have a number of implications in marketing. The very fact that there's nothing to touch, hear, smell, and so on typically increases the level of uncertainty that a consumer faces when choosing between services offered by your organization or those of competitors. Intangible services can seldom be tried out, inspected, or even given a "test drive" by a customer. Customers have to rely on the word of the marketers in order to assess what they're actually going to get in return for what they've paid. In effect, they are buying a promise.

Savvy marketers reduce this uncertainty by creating physical "evidence" that allows the consumer to picture the service before it is purchased. For example, a hair salon may have imaging software that predicts how you would look with different hairstyles or colors. Companies like Zenni and Eyebuydirect have a virtual mirror that allows you to "try on eyeglasses" and see how the selected frames look on your face before you purchase.[7]

Service Inseparability

The order of production and consumption between a physical product and a service differs. Think about a box of Girl Scout cookies, a physical good or product. The cookies were produced, stored, sold, and finally consumed. That's not the way it works with services. Like goods, services are sold, but they are produced and consumed simultaneously. They can't be separated from the service providers, whether they are people or equipment.[8] For example, try to get money out of your bank on a weekend or evening without an ATM, or try to get a haircut without the physical presence of your stylist. That's the concept of **service inseparability**—you can't separate the delivery of the service from the presence of the customer. In other words, the service provider is physically connected to the service and is evaluated on the basis of their communication skills, language, demeanor, personal hygiene, and clothing.

The impact to the marketer in these services—in which the service provider and customer must both be present—is how service providers (sometimes called frontline employees) conduct themselves in the presence of the customer because it may determine the likelihood of repeat business.[9] There are also other marketing implications with this concept, such as customer cooperation and participation, not to mention the influence from other customers who may be present.

Service Variability

Have you ever gone to a restaurant and had stellar customer service? You were seated promptly by a cheerful hostess; the busser filled up your water glass and refilled it several times during the evening; the waitstaff was attentive but not to the point of being annoying; and your dirty dishes were cleared promptly. But perhaps the next time you visit the same restaurant, your experience isn't quite as amazing. The hostess isn't as cheerful, and it takes her several minutes to seat you. It takes a while for someone to refill your water glass. The waitstaff isn't nearly as attentive as they were during your first visit. What went wrong?

Perhaps what you've experienced is what's known as **service variability**—the quality of the service depends on who provides it, when it is provided, and how it is provided. For example, Delta Air Lines prides itself on improving peoples' lives and exceeding customer expectations.[10] However, because services are provided by humans who have human experiences where they may not be feeling well or they are having a bad day, the service may be variable between employees. One Delta employee may be cheerful and efficient, while another lags due to their energy and state of mind.

This is a challenge to marketers because products generally have little variability: each unit is built to certain specifications. For example, if you buy an Apple iPad Pro and your classmate purchases the same model, it's likely that the two iPads will be virtually identical. The case color may be different, but otherwise they are the same. That's not the case with a service, where there will undoubtedly be variations in the quality of the service depending on who offers the service, when it is offered, and at which location. Service-based companies need to rely on standardizing processes to the extent possible, frequent audits, customer surveys, and most importantly, customer feedback.

Service Perishability

Unlike most goods, services can't be produced and stored for later use or sale. Services are, in effect, performances by the service provider. That's the concept of **service perishability**. Did you miss tonight's concert because of traffic? Too bad, because a ticket for tonight's concert can't be used for tomorrow night's performance. Hotel rooms that are not occupied, airline seats that are not purchased, and unused gym memberships cannot be reclaimed.[11] Because these items can't be stored for later use, they are considered a perishable service. This is particularly important for marketers because the perishability factor and the fluctuating demand poses special problems in capacity planning, scheduling, product planning, and pricing.[12]

One way that marketers deal with this problem is by manipulating demand. Consider how many restaurants offer "happy hours" with discounted food and drinks during the late afternoon or early evening. Restaurants do this because this time is typically the period where there is a lull before the start of the dinner rush.

CAREERS IN MARKETING

Salaries

You might be curious about the salaries of marketing jobs. There are numerous online resources that provide guides, but the best step to take is to check out popular sites like Monster, Indeed, and LinkedIn to view current job positions. They may not all include the salary, but most will include salary ranges. The following is a list of a few of resources to get you started.

- Monster: "High-Paying Marketing Jobs" (https://openstax.org/r/highpayingmarketingjobs)
- Acadium: "How Much Do Marketers Make? Marketing Job Salaries in 2022" (https://openstax.org/r/marketingjobsalaries)
- All Business Schools: "Marketing Manager Salaries and Job Outlook" (https://openstax.org/r/allbusinessschools)
- Indeed: "Entry Level Marketing Salary in United States" (https://openstax.org/r/entrylevelmarketing)

Knowledge Check

It's time to check your knowledge on the concepts presented in this section. Refer to the Answer Key at the end of the book for feedback.

1. You purchased an airline ticket to go on vacation, but on the way to the airport, you get a flat tire and miss your flight. Which characteristic of service does this example illustrate?
  a. Service variability
  b. Service inseparability
  c. Service perishability
  d. Service intangibility

2. You go to a new hairstylist, and he suggests that you add highlights to your hair, cut off a few inches, and add some layers. You're hesitant to do so because you can't imagine what you're going to look like with your new hairstyle. What characteristic of service does this example illustrate?
  a. Service intangibility
  b. Service variability
  c. Service perishability
  d. Service inseparability

3. You go to the spa to get a massage, but your regular massage therapist is off for the day. The massage therapist to whom you're assigned does an adequate job, but they don't have the same technique as your regular massage therapist. What characteristic of service does this example illustrate?

a. Service inseparability
b. Service perishability
c. Service variability
d. Service intangibility

4. You go to your Certified Public Accountant (CPA) to have your tax return prepared and filed for the year. How would this service be characterized in terms of classifications of services?
a. People-based services: unskilled labor
b. Equipment-based services: unskilled operator
c. People-based services: professionals
d. Equipment-based services: skilled operator

5. You're headed to lunch with friends at a downtown restaurant. Because there is no restaurant parking lot, you have to park on the street and feed the parking meter or risk getting a parking ticket. How would the service provided to you by the parking meter be classified?
a. Equipment-based services: unskilled operator
b. People-based services: professionals
c. People-based services: skilled labor
d. Equipment-based services: automated service

11.2 The Service-Profit Chain Model and the Service Marketing Triangle

Learning Outcomes

By the end of this section, you will be able to:

LO **1** Define and explain the purpose of the service-profit chain model.
LO **2** Describe the steps in the service-profit chain model.
LO **3** Explain the Services Marketing Triangle.

Definition and Purpose of the Service-Profit Chain Model

Just like goods-producing businesses, service firms use marketing to position themselves in selected markets. These businesses position themselves in the market through marketing mix activities (i.e., product, price, place, and promotion). However, because of the inherent differences between services and tangible products, different marketing approaches may be required. Consider a product like a laptop or smartphone. The products are fairly standardized, so they can be produced and shipped to retailers and then sit on shelves in the store until purchased by a consumer. However, if you're a service business, it takes the interaction of the frontline employee and the customer to literally create the service. The interaction between the employee and customer is important in creating the value of that service.

The **service-profit chain model**, created by a group of Harvard researchers in the 1990s, establishes relationships between profitability, employee satisfaction, loyalty, and productivity. The concept is reasonably simple: happy workers make happy customers who keep coming back and tell their friends. The model itself is a little more complicated and states the following:

- Internal service quality (the support received by frontline employees from the rest of the organization) leads to employee satisfaction.
- Employee satisfaction results in employee loyalty, productivity, and the willingness to go that "extra mile" for the customer, which creates value.
- Value contributes to customer satisfaction, resulting in customer loyalty.
- Customer loyalty translates to profitability and growth for the organization.

Perhaps the most critical aspect of this model is that all of these points link together, are equally important, and depend on one another. There are no shortcuts to increasing profitability. Didn't quite follow that? Refer to Figure 11.8 for a visual depiction.

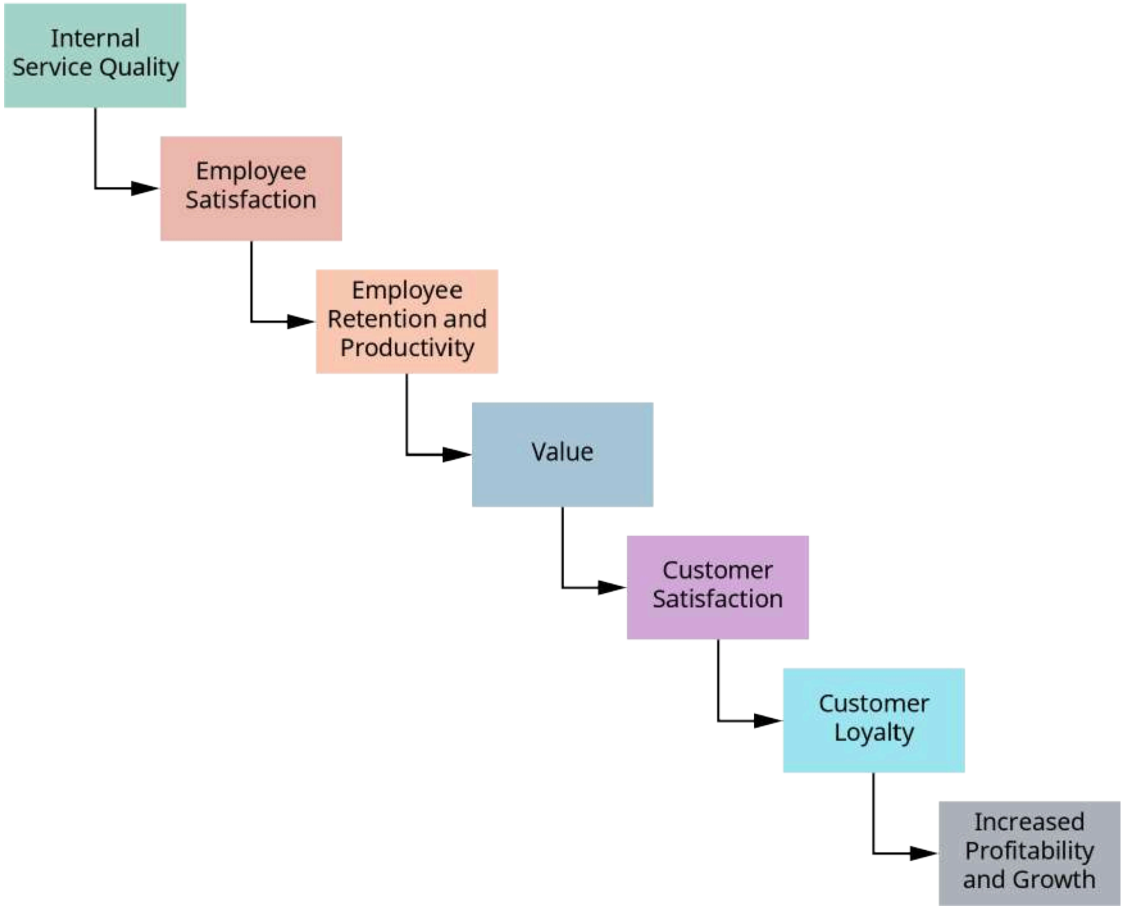

Figure 11.8 The Service-Profit Chain Model (attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)

Steps in the Service-Profit Chain Model

The service-profit chain model connects the interworkings and relationships between the different parts of a business. It impacts employee satisfaction and retention, customer satisfaction, customer loyalty, and profitability. Let's take a closer look.

Internal Service Quality

Internal service quality refers to the perceived satisfaction frontline employees experience when they are supported by effective policies and service from the organization. If you've ever worked in a restaurant, you'll be familiar with the terms "back of house" and "front of house." Front-of-house employees are "guest-facing" roles like hosts/hostesses and servers—those who intentionally interact with the customer. Back-of-house employees like bussers, dishwashers, and cooks typically don't have direct interaction with the customer. Rather, it's their work that supports the front-of-house employees. Even if your server may is friendly, attentive, and efficient, if your silverware is dirty or your steak isn't prepared as ordered, the overall dining experience is going to be less than optimal. In addition to the customer dissatisfaction, server/employee satisfaction will also suffer due to the lack of support from the back-of-house staff.

Consider another example. Your flight was delayed, and it took forever to get your luggage and rental car. By the time you get to your hotel, you're tired and cranky, and you just want to check in and get some rest. The front desk clerk is cordial and efficient. However, your room isn't available because the housekeeping staff hasn't cleaned the room yet. Who gets the brunt of your anger? Imagine the lack of job satisfaction on the part of the front desk clerk who's tried to do everything right and was thwarted by the lack of support from housekeeping.

One of the ways that this problem can be alleviated within an organization is to create an employee feedback loop in which frontline employees can communicate problems that hurt productivity, satisfaction, and loyalty. The feedback loop is a critical element because, as consultant Sidney Yoshida reports in his study “The Iceberg of Ignorance,” 4 percent of an organization’s frontline problems are known by top management, 9 percent are known by middle management, 74 percent are known by supervisors, and 100 percent are known by employees.[13]

Employee Satisfaction

Employee satisfaction is the level of happiness or contentment employees have with their jobs and work environment. It’s often the direct result of company policies and support services that empower employees to deliver quality products and services. If employees are satisfied with the company’s policies, it’s easier to facilitate a happy attitude that helps consumers have pleasurable experiences with the organization.

For several years, Zappos has made Fortune’s list of “100 Best Companies to Work For.” The late CEO Tony Hsieh focused so much on the happiness of his team and customers that he wrote a series of books about it, including *Delivering Happiness: A Path to Profits, Passion, and Purpose*. He recognized that the only person-to-person contact a customer would have with an online retailer would be with customer service personnel, so he encouraged his employees to go above and beyond for the customer.[14]

Employee Retention and Productivity

Employee turnover is one of the most frustrating and recurring problems that organizations face. Turnover is costly regardless of whether it’s involuntary (such as termination due to poor performance) or voluntary (such as employee-decided resignation or retirement). The conservative estimate from the Society of Human Resource Management (SHRM) is that it costs six to nine months of an employee’s annual salary to replace that person.[15] That’s why **employee retention**—keeping employees motivated so that they choose to remain with the company—is so critical.

The good news is that employee satisfaction is inversely related to employee turnover. In other words, an increase in employee satisfaction brings about a decrease in employee turnover. Perhaps even more importantly, studies have shown that low turnover leads to an increase in organizational **productivity** (the efficiency and output of employees) and performance. For example, some time ago, Taco Bell discovered that its restaurants with high employee retention had twice as many sales as other stores and had 55 percent higher profits than restaurants with high turnover. In response to these findings, the company enhanced its internal service quality by giving employees more latitude for on-the-job decision-making.[16]

LINK TO LEARNING

The Great Resignation

You may be aware of the Great Resignation, in which employees are leaving their jobs in large numbers. Because of the cost to hire, train, and retain employees, employee retention is a major concern for organizations. There are many reasons why this is happening, and there are ways companies can improve to help them retain their employees. Read these articles from the Pew Research Center (https://openstax.org/r/majorityofworkers), Forbes (https://openstax.org/r/workersarequitting), and Mashable (https://openstax.org/r/2022greatresignation) about this shift in employee thinking.

There are corporate strategies companies can take to counteract this resignation trend. Learn about these strategies from LinkedIn (https://openstax.org/r/talentengagement) and Family Business (https://openstax.org/r/familybusinessmagazine).

External Service Value Proposition

Customer value is also known as **external value proposition**. It's the promise of value that a customer expects a business to deliver.[17]

Think about your last haircut. Why did you choose to get your hair cut at that particular salon versus a competitor? Certainly, the quality of the haircut itself was important, but the customer value you experienced from your stylist played a role. What else factored into your experience? How about the other behind-the-scenes employees who made it easy for you to book an appointment or who checked you in efficiently, the person who kept the salon clean and attractive, and the person who made it easy for you to pay and perhaps book another appointment when you were leaving?

That's why employees (both frontline and behind the scenes) play a major role in ensuring customer value. Satisfied, motivated employees generally (and genuinely) care about the company and the services it provides and can convey this to consumers in an honest, positive manner.[18]

Customer Satisfaction

The next two steps (customer satisfaction and customer loyalty) in the service-profit chain model are related and directly linked. A dissatisfied customer will not be loyal and will likely not do business with the company in the future. Conversely, **customer loyalty**—the ongoing positive relationship between a customer and business—is a result of **customer satisfaction**—or the measure of how happy customers are with the company's products, services, and capabilities.

The greater the satisfaction from a customer, the more likely they will return. Additionally, satisfied customers often serve as unofficial "ambassadors" of the company and will spread the word about their positive experience.[19]

Customer Loyalty

The definition of customer loyalty is when a person goes to the same company for subsequent services, even if that service is more expensive than those of the competitor. The customer makes a deliberate choice to do repeat business with a company with which they have had positive experiences, resulting in growth and higher profits for the company.[20]

Profit and Growth

In terms of the service-profit chain model, profit isn't the goal; it's the result. The formula is really quite simple:

- Happy employees result in happy customers.
- Happy customers mean repeat business and spreading the word about your organization.
- Repeat (and new) business mean profit and growth for the organization.

The key is to keep employees happy because it leads to company profits.

LINK TO LEARNING

Putting the Service-Profit Chain to Work

Learn from this *Harvard Business Review* article (https://openstax.org/r/puttingtheservice) about the connectivity of the service-profit chain links.

Interested in understanding how the model works in other industries? Read this *Hospitality News and Business* (https://openstax.org/r/serviceprofitchain) article about why the service profit chain is important in the hospitality industry.

MARKETING IN PRACTICE

Ritz-Carlton

Figure 11.9 The Ritz-Carlton Hotel directly impacts its service-profit model by empowering its employees to provide a positive experience for customers. (credit: “Cannes” by Fred Romero/flickr, CC BY 2.0)

Employee empowerment is one of those buzzwords that has become popular over the last few decades. It’s defined as the ways in which an organization provides its employees with some autonomy and freedom to make decisions and have some control in their day-to-day activities. For example, a supermarket may empower its cashiers to match competitors’ ads without approval from a manager for up to a certain dollar amount.

If you were the owner of a business, how much latitude would you give your employees in helping customers? A lot? A little? None? The Ritz-Carlton, considered a gold standard for hospitality (see Figure 11.9), allows its employees to spend up to $2,000 to solve customer problems without manager approval.[21]

You might be shaking your head right now, trying to understand this. Two thousand dollars seems like a lot of money to be left to the discretion of employees, doesn’t it? But you may not realize that the average Ritz-Carlton customer will spend approximately a quarter of a million dollars with the hotel chain over their lifetime. When you consider that the customer lifetime value (CLV) of a Ritz-Carlton guest is $250,000, that $2,000 doesn’t seem hard to believe, does it?[22]

For more information about Ritz-Carlton and its commitment to customer service, watch this brief video with Ritz-Carlton founder Horst Schulze and Yahoo! Finance where he discusses the importance of and value in caring for customers.

Click to view content (https://openstax.org/books/principles-marketing/pages/11-2-the-service-profit-chain-model-and-the-service-marketing-triangle)

The Service Marketing Triangle

The **Service Marketing Triangle** is a visual image of a model that speaks to the importance of people in a company’s ability to keep its service promises (see Figure 11.10). It might help to imagine the Service Marketing Triangle as a three-legged stool. Take out one of the legs, and the stool won’t stand for long. That’s the premise and the importance of the Service Marketing Triangle—all three aspects must be achieved or exceeded for the customer to be delighted.

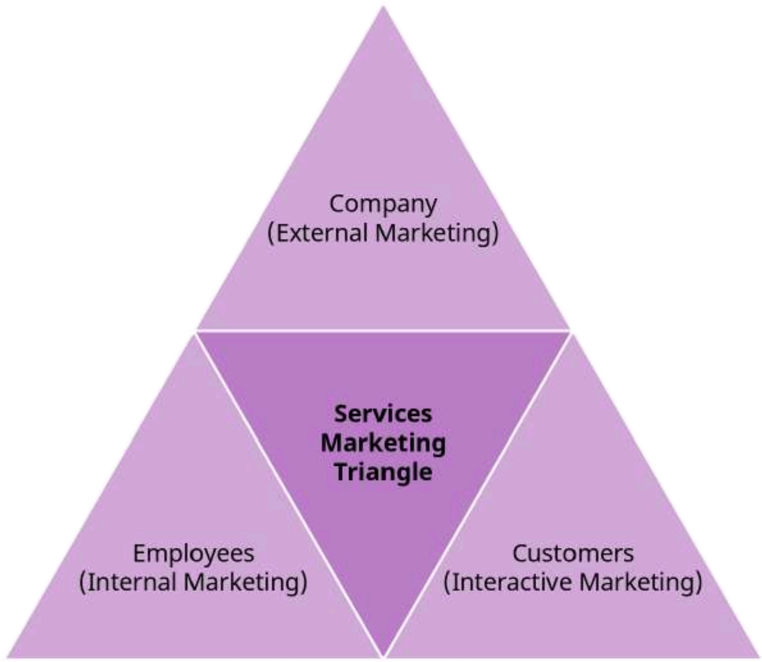

Figure 11.10 The Services Marketing Triangle (attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)

External Service Marketing—Making Promises

External service marketing refers to the promotion of an organization's services in an external environment where the company promotes its services to customers through various traditional techniques like pricing, advertising, direct marketing, public relations, and personal selling. These marketing techniques are intended to achieve multiple aims, such as creating and increasing awareness, setting price expectations, and setting expectations for the level of service to be delivered.[23]

Internal Service Marketing—Enabling Promises

In a service business, employees are seen as "internal customers." As you've seen from the discussion on the service-profit chain model, if a company wants to better serve its customers, it has to start with satisfying its employees so that they're committed to delivering the best service possible to external customers. That's the essence of internal service marketing.

Internal service marketing is the process of motivating employees to deliver customer value and ensure customer satisfaction by acting as a team. While that is obviously true for frontline employees who interact with the customer, it is equally applied to all employees, including those behind-the-scenes employees who support the frontline employees. In other words, all employees of an organization need to be empowered so they can deliver great customer service.

Key components of internal service marketing include motivating employees, training them in customer satisfaction techniques, ongoing communication of company goals and objectives, and (of course) good pay and working conditions.[24]

Interactive Service Marketing—Keeping Promises

Interactive service marketing is the communication between the service provider and the customer, called a **service encounter**. The service encounter is where external marketing promises are either upheld, exceeded, or broken by employees.

Interactive service marketing is critical because it sets short-term and long-term customer satisfaction. In its simplest terms, when a customer is happy in the short term, they are more likely to be happy over the long term.[25]

Let's review the elements of the Service Marketing Triangle with an example of a fine-dining restaurant in a major metropolitan area. The three "parties" involved in the Service Marketing Triangle are the owner of the restaurant, the restaurant employees, and the diners. As part of *internal marketing*, the owner may offer training to servers about the pairing of certain dishes on the menu with wines offered by the restaurant or hold a "huddle" at the beginning of each shift to train servers about daily specials and wine pairings. As part of *external marketing*, diners might be lured to the restaurant through the restaurant's Facebook page, which touts its extensive list of wines and the fact that servers are experienced in recommending wines to enhance the flavor of the menu items. Finally, as part of interactive marketing, servers are encouraged to give diners full descriptions of all menu items and daily specials and recommend which wines to pair with their food choices, leading to a more satisfying dining experience.[26]

LINK TO LEARNING

Service Marketing Triangle

Check out this brief video about the Service Marketing Triangle model to gain a better understanding.

[Click to view content (https://openstax.org/books/principles-marketing/pages/11-2-the-service-profit-chain-model-and-the-service-marketing-triangle)](https://openstax.org/books/principles-marketing/pages/11-2-the-service-profit-chain-model-and-the-service-marketing-triangle)

Knowledge Check

It's time to check your knowledge on the concepts presented in this section. Refer to the Answer Key at the end of the book for feedback.

1. According to the service-profit chain model, what drives organizational profitability and growth?
   a. Internal service quality
   b. Employee satisfaction
   c. Customer loyalty
   d. Value

2. The extent to which employees are happy or content with their work environment is known as which of the following in the service-profit chain model?
   a. Employee satisfaction
   b. Internal service quality
   c. External value proposition
   d. Customer loyalty

3. Which two steps in the service-profit chain model are related and directly linked?
   a. Internal service quality and value
   b. Value and customer satisfaction
   c. Customer satisfaction and customer loyalty
   d. Internal service quality and increased productivity and growth

4. In the Service Marketing Triangle, ________ occurs when employees and customers associate and communicate.
   a. internal marketing
   b. external marketing
   c. interactive marketing
   d. customer satisfaction

5. In the service-profit chain model, there is a(n) ________ relationship between employee satisfaction and employee turnover.
   a. behavioral
   b. equivalent
   c. parallel
   d. inverse

11.3 The Gap Model of Service Quality

Learning Outcomes

By the end of this section, you will be able to:

LO 1 Describe the Gap Model of Service Quality.
LO 2 List and describe the dimensions of service quality.

Dimensions of Service Quality

While we're still on the subject of customer satisfaction, let's take a look at still another model that aids marketers in better understanding customer satisfaction: the **Gap Model of Service Quality** (sometimes also known as the Customer Service Gap Model or the Five-Gap Model), first proposed in 1985. The importance of this model is that it demonstrates that customer satisfaction is essentially a function of perception. In other words, if the service provided meets or exceeds customers' expectations, they will be satisfied; if not, they will be dissatisfied, likely as a result of one of the customer service gaps presented below.[27]

According to the model (see Figure 11.11), there are five major gaps or potential inconsistencies organizations encounter in seeking to meet customers' expectations of the customer experience.[28]

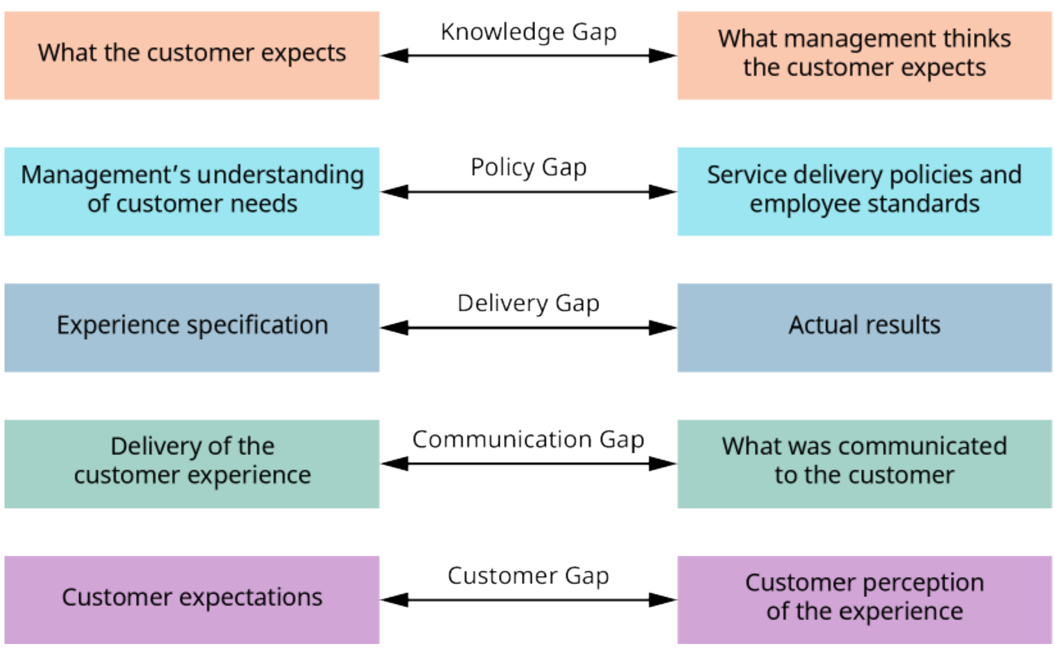

Figure 11.11 Gap Model of Service Quality (attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)

The gaps are:

- Gap 1—knowledge gap: the difference between customer expectations and what managers *think* they expect
- Gap 2—policy gap: the difference between management's understanding of the customer's needs and how they translate that understanding into service delivery policies and standards for employees
- Gap 3—delivery gap: the difference between the experience specification and the actual results of the

service

- Gap 4—communication gap: the difference between the delivery of the customer experience and what is communicated to the customer
- Gap 5—customer gap: the difference between the customer's expectations of the service or experience and their perception of the experience

Let's look at each one of these gaps in a little more detail.

Gap 1: The Knowledge Gap

The **knowledge gap** is the difference between what customers expect and what the company *thinks* they expect.[29] The bottom line here is that the company doesn't know exactly what customers want. This could be due to a variety of factors—lack of communication between frontline employees and management, inadequate market research, or simply a failure to listen to customer feedback, including complaints. For example, a hotel manager may think that guests want a hot breakfast instead of a continental breakfast, but the reality is that guests are more concerned with the cleanliness of their rooms or the speed of the Internet service at the hotel than they are with breakfast.

Gap 2: The Policy Gap

The **policy gap** reflects the difference between management's perception of the customer's needs and the translation of that understanding into its service delivery policies and standards. Typically, management has an accurate understanding of what the customer wants, but performance standards haven't been established that ensure the appropriate employee behaviors are displayed.[30] Using the hotel example again, assume that a number of customers have complained that the phone rings innumerable times before it is answered. Management wants to address this issue, so it establishes a policy that phones must be answered "quickly." What's your interpretation of the word *quickly*—two rings, four rings, six rings? Specificity here is the key.

Gap 3: The Delivery Gap

The **delivery gap** is the difference between service standards and policies and the actual delivery of the service. In this situation, frontline service workers *know* what to do to delight the customer; they simply aren't doing it. For instance, management may have established a policy that the front desk phones get answered on or before the second ring, but the front desk employees are allowing phones to ring much longer before answering. This gap may arise due to improper training, lack of capability on the part of employees, unwillingness to meet the established service standards, or staff shortages.

Southwest Airlines is a great example of this. According to its website, the mission of the company is "dedication to the highest quality of Customer Service delivered with a sense of warmth, friendliness, individual pride and Company Spirit."[31] The company doesn't "overhype" its service, so there is no delivery gap—the difference between the experience specification and the actual delivery of its service. This is demonstrated by the fact that, compared to other airlines, Southwest has the greatest customer service rating, earning a 33.9 percent excellence rating.[32]

Gap 4: The Communication Gap

If marketers are doing an effective job in terms of their promotion efforts, the customer is likely to be highly influenced by that promotion. The problem now becomes, the company had better deliver. The **communication gap** is the difference between the delivery of the service and what is communicated to the customer. In other words, what did the company promise versus what did it deliver?

For example, if your coffee shop asserts in its advertising and on its menu that its food is gluten-free, and it isn't, customer expectations won't be met. Failure to deliver on a promise hurts the company's credibility. Former US President Donald Trump wrote, "A brand is two words: the 'promise' you telegraph, and the 'experience' you deliver."[33]

Gap 5: The Customer Gap

The **customer gap** is the difference between the customer's expectations of the service or experience and their perception of the experience itself. In an ideal world, the customer's expectations would be nearly identical to their perception, but customer perception is totally subjective and has been shaped by word of mouth, their personal needs, and their own past experiences. The problem here is that each individual perceives their world through their own eyes, and everyone perceives reality differently. In other words, while reality is a fixed factor, perception of reality is a variable.

LINK TO LEARNING

Understanding the Gap Model

Watch this video and learn more about quality of service and the gap model from Jochen Wirtz, a well-known marketing author.

Click to view content (https://openstax.org/books/principles-marketing/pages/11-3-the-gap-model-of-service-quality)
Also check out this article from Indeed about the GAP Model of Service Quality (https://openstax.org/r/careerdevelopmentgapmodel), with examples.

The RATER Model

In their book *Delivering Quality Service,* researchers Valerie Zeithaml, A. Parasuraman, and Leonard Berry identified five dimensions of service that customers use when evaluating service quality. Their research pointed to the fact that these five dimensions result in service excellence and lead to higher customer loyalty. This model is sometimes known as the **RATER framework of service quality**.[34] Refer to Figure 11.12 for a visual representation of the RATER framework.

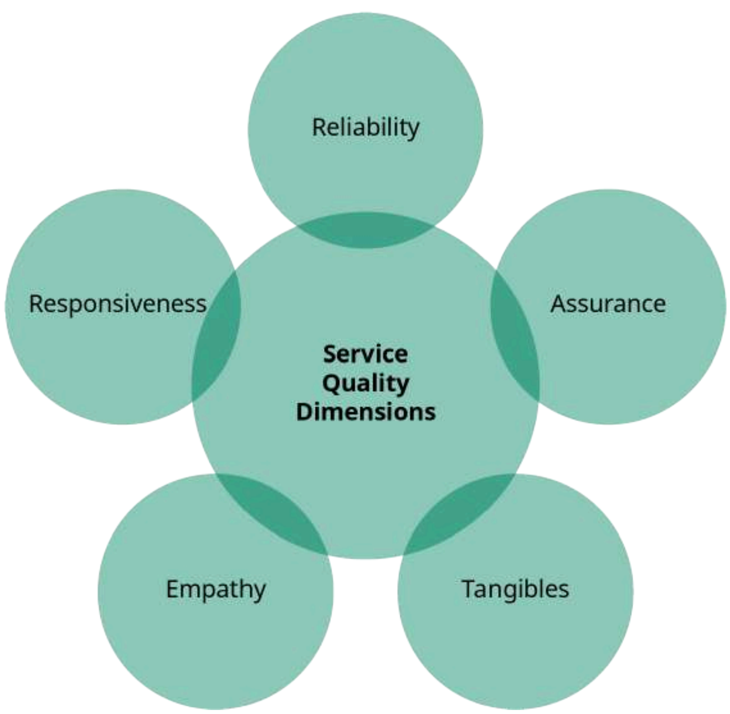

Figure 11.12 The RATER Framework of Service Quality (attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)

Let's explore each of these dimensions (represented by the acronym RATER) in some detail:

Reliability

R, for **reliability**, depicts the organization's capability to provide accurate, dependable, and on-time service.[35] Consistency is critical. Companies that provide on-time, error-free service to customers tend to have repeat customers. Research has shown that service reliability is three times more important to customers than the latest equipment or flashy uniforms.[36] The bottom line when it comes to service reliability and quality is: Do you deliver as promised?

Assurance

A, for **assurance**, is the degree to which the organization inspires trust in its customers. For example, when you take your sick pet to a veterinarian or have your income tax return prepared (or any other service, for that matter), you expect the service provider to be an expert in the service they're delivering. Research has shown that communicating this expertise to customers is important. If customers aren't aware of that expertise, they often have less confidence in that provider, which can lead to a low assessment of that provider's service.[37]

Does your organization inspire confidence in its service providers? Whether you're a hairstylist, a physical therapist, a tattoo artist, or any number of other service professions, it's important to communicate your expertise *before* you do the work. For example, a plumber's business card may contain the words "licensed, bonded, and insured." Hairstylists generally display their state licenses in their work space. Doctors often have framed diplomas in the office from medical school, residencies, and fellowships. These are all ways in which these service providers communicate their competencies. Communicating these competencies to customers helps shape expectations and influence assessments in advance of the service.[38]

Tangibles

When we talk about **tangibles** in the RATER model, we're focusing on factors such as the physical appearance of both the physical facility and employees. Does your organization present itself professionally? This is one of the factors in the RATER metric that is hard to define because it takes into account customers' perceptions, and different customers may respond in different, subjective ways to the environment created.

Let's imagine that you're taking that special someone out for a romantic or special-occasion dinner at a fine-dining restaurant. What tangibles contribute to that experience? You may expect a knowledgeable, uniformed staff; soft lighting and background music; an appealing menu; and clean restrooms. All of these tangibles will factor into your overall perception of the quality of service you receive.

Another good example of tangibles in terms of the RATER model is the Mayo Clinic in Rochester, Minnesota, where tangibles include Warhol prints on the wall, Chihuly sculptures hanging from the ceiling, and a professionally attired staff that projects a sense of caring and expertise. There are 500 original pieces of art from 70 US artists on display throughout the hospital.[39]

Customer perception isn't the only challenge marketers face in terms of tangibles. It's also the fact that, done right, customers may not even notice and point out the tangibles unless their feedback is negative. That's why listening and acting on customer complaints is critical in improving an organization's tangibles and promoting a strong customer service image.[40]

Empathy

Empathy in terms of the RATER model means focusing on customers attentively to ensure that they receive caring and distinguished service. It isn't enough to be efficient and thorough in delivering service to customers—it's also about service providers "connecting" with customers during delivery of the service and making them feel valued.

You may have heard the old saying that it's not *what* was said, it's *how* it was said. The same is true of providing service. For example, let's go back to the example of that special dinner in the fine-dining restaurant. Imagine that you accidently spill your beverage all over the table. A busser is called to clean the spill, change the tablecloth, and provide you with new silverware and napkins. That busser may have taken care of those tasks effectively and efficiently but didn't make eye contact, smile, or ask you if you needed anything else. In this hypothetical situation, the busser's tasks were performed fully, but you didn't feel that they cared about your predicament.[41]

Responsiveness

A service staff's desire to treat customers with respect and provide satisfactory and quick service speaks to their **responsiveness**. This dimension focuses on promptness and willingness. Accordingly, the organization has to ensure that customers are getting quick service, without delay, and with an effort that makes customers believe the company genuinely wants to help them.[42]

Responsiveness is directly in line with the amount of time that customers wait for an answer or a solution. Have you ever called an organization with a service question and had to play "20 Questions" with the company's automated phone system? You know the drill—press 1 for option A, press 2 for option B, press 3 for option C, etc. The chances are that your patience evaporated after about the fourth telephone prompt and you were left screaming "Representative" into your phone. That's a classic example of a company that needs to focus on its responsiveness if it wants to generate customer loyalty.

LINK TO LEARNING

Applying the RATER Model to Real-World Companies

Check out this video about Disney guest service and the RATER model.

Click to view content (https://openstax.org/books/principles-marketing/pages/11-3-the-gap-model-of-service-quality)
Also look at this article that applies the RATER model (https://openstax.org/r/ratermodel) to Amazon, Thermomix, Apple, and a bank.

Knowledge Check

It's time to check your knowledge on the concepts presented in this section. Refer to the Answer Key at the end of the book for feedback.

1. Which gap in the Gap Model of Service Quality represents the difference between what customers expect and what the company thinks they expect?
   a. Communication gap
   b. Customer gap
   c. Knowledge gap
   d. Policy gap

2. Management in a hotel perceives that the biggest problem in customer service is the length of time that it takes to check in guests, so they have established a policy that check-in will take no more than 5 minutes. Which gap in the Gap Model of Service Quality does this action illustrate?
   a. Policy gap
   b. Delivery gap
   c. Communication gap
   d. Customer gap

3. In the Gap Model of Service Quality, which dimension is the difference between the customer's expectation of the service and their perception of the experience?

a. Communication gap
b. Delivery gap
c. Customer gap
d. Knowledge gap

4. The acronym RATER in the RATER framework of service quality stands for which dimensions of service quality that result in service excellence and lead to higher customer loyalty?
a. Responsibility, accuracy, tangibles, empathy, and responsiveness
b. Risk, acceptance, transparency, earnings, and revenue
c. Reliability, assurance, tangibles, empathy, and responsiveness
d. Revenue, appreciation, trust, efficiency, and responsibility

5. Which dimension in the RATER model represents the physical facilities, employees' appearance, equipment, machinery, and information systems?
a. Assurance
b. Responsiveness
c. Transparency
d. Tangibles

11.4 Ethical Considerations in Providing Services

Learning Outcomes

By the end of this section, you will be able to:

LO 1 Describe the ethical considerations in providing services to customers.
LO 2 Discuss how ethics contribute to customer satisfaction.

How Do Ethics Contribute to Customer Satisfaction?

In 2019, AT&T ran a series of TV commercials featuring a variety of professionals who don't quite "make the grade." These commercials included a surgeon who has "almost" been reinstated and a tax professional who will get your taxes into an "okay" place when his audit is over. The catchphrase is each of these commercials was "Just OK is not OK." The same is true of an organization's ethical culture. Do you want your ethical culture to be "just OK"?

In this chapter, we've been talking about the importance of building customer loyalty, which drives profitability and growth. But what about the link between ethics and customer loyalty? Ethics are becoming central to consumers, employees, and a company's reputation (and hence its ability to gain customer loyalty). New research from Mintel, a market intelligence agency, reveals that over half of US consumers stop buying from companies they perceive to be unethical.[43] Talk about a wake-up call!

Service Excellence through Ethics

Obviously, ethics matter. But how do you ensure that those ethics are instilled and demonstrated by your employees, particularly those frontline employees who interact directly with the customer? The National Ethics Association (NEA) has two suggestions. First, within your ethics program, make customer service a core component. Second, promote values and ethics, and include them within the rules for your frontline workers along with the consequences if they aren't followed.[44]

According to the NEA, steps can include the following:

- Identifying customer service behaviors that are unethical, like lying to customers or failing to display sensitivity to customers with problems.
- Training employees on an ongoing basis in desired behaviors.

- Ensuring customers know that promises aren't empty words but rather a commitment to their satisfaction.
- Monitoring interactions between frontline employees and customers to spot ethical gaps, especially in times of high stress and work volume.
- Leading by example. It's not enough to just "talk the talk" when it comes to ethical behavior within the organization; managers also need to "walk the talk." It's important to "walk the talk" of ethical behavior as a model for employees when dealing with customers' complaints and problems.[45]

Royal Caribbean Group is another company that takes its ethical behavior seriously. It has a Code of Business Conduct and Ethics decree that connects its core values (fairness, integrity, honesty, and trustworthiness) to all of its actions. Chairman and CEO Richard Fain reaffirms its commitment to integrity and an ethical culture and states, "Simply complying with the law is not enough; we need to be ABC (Above and Beyond Compliance)."[46] Beyond just words, however, the company has established an ethics hotline managed by The Network, a leading third-party hotline provider. Through the use of this ethics hotline, employees can anonymously report their concerns about ethics violations 24 hours a day, 7 days a week, by either telephone or the Internet.[47]

LINK TO LEARNING

Royal Caribbean

Read more about Royal Caribbean's Code of Business Conduct and Ethics on its website (https://openstax.org/r/2019cleanfinal).

Also, read this article on the potential ethical issues (https://openstax.org/r/potentialethicalissues) specific to service marketing.

COMPANIES WITH A CONSCIENCE

Nasco Gulf

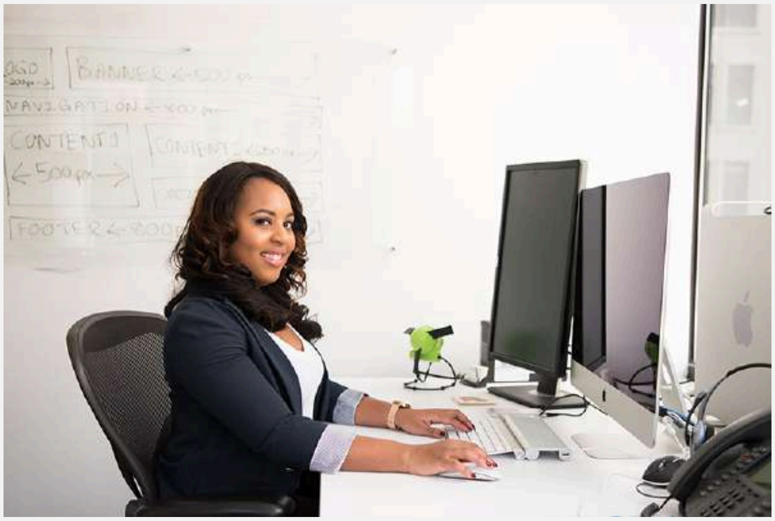

Figure 11.13 Ethics are becoming increasingly more important to customers and the services they use, so companies like Nasco Gulf, an insurance company, are focusing more on trust as a way to develop long-term loyalty. (credit: "WOCinTech Stock - 81" by WOCinTechChat.com/flickr, CC BY 2.0)

You may not be familiar with Nasco Gulf, a leading insurance agent in Dubai, but the company stands out in its Customer Service Code of Conduct (see Figure 11.13). The "customer service mission is to provide customers with timely, responsive service with integrity, simplicity, and a passion for excellence while meeting or exceeding the customer's expectations."[48]

The principles upon which Nasco serves its customers are trust, understanding, and resolve. The following is from its Customer Service Fundamental Principles:

- "Trust—I work hard to gain and maintain customer trust in us . . .
- Understand—I understand our customers and their needs . . .
- Resolve—I solve our customer's problems, even if the solution is difficult"[49]

Nasco lists its values on its website for all to see. The company outlines that its word is good, it is a bold partner, it works to earn loyalty, and it focuses on what matters. For more information about Nasco Gulf, visit the Nasco Gulf website. (https://openstax.org/r/nascogulf)

LINK TO LEARNING

When It Goes Wrong

We have all heard the stories where companies poorly handled a customer issue, and you can easily find numerous videos where customers have recorded a company's poor customer service. Here are a few articles that share some of the more well-known stories:

- CBS News (https://openstax.org/r/shockingviralvideos)
- RingCentral (https://openstax.org/r/badcustomerservice)
- Forbes (https://openstax.org/r/unethicalmarketing)

Chapter Summary

In this chapter, we explore services. One of the first concepts is that services are intangible, meaning that they cannot be felt, tasted, heard, or smelled before purchase. Customer satisfaction is dependent upon many factors, the first one being the communication of what can be expected by the customer and the actual customer experience. It can be considered a communication gap when customer expectations and experiences do not match. This gap is the first point in the Gap Model of Service Quality. The second point is based on the perception of service received versus customer expectations. Other issues covered in this model are service quality, knowledge, and policies.

Service goes a long way in building customer satisfaction and loyalty; without returning customers, a business is doomed to struggle and fail.

Employees are responsible for a sizable amount of what goes into satisfaction at the customer level. One of the key points is employee satisfaction and retention. A more engaged, happier employee delivers a higher level of customer service. This is an additional point that employers are measuring. The act of internal service marketing is a concept that many have not experienced. This covers the activities that the company engages in to keep employees involved with delivering the desired level of service.

External service marketing is the act of promoting or selling services to the customer. This is a well-known concept both inside and outside the company.

Services can be further examined with the understanding of the following concepts: Services are inseparable; they are produced and consumed at the same time. They are intangible, which means that they cannot be touched, felt, heard, tasted, or smelled before purchase. They are perishable, so they cannot be stored in inventory for future use or sale. They are variable, meaning that the service depends on who provides them, as well as when, where, and how. These concepts help to explain the complexities of marketing services and satisfying the consumer.

Key Terms

assurance in terms of the RATER model, the degree to which an organization inspires trust in its customers

communication gap in the Gap Model of Service Quality, the variance between what is communicated to the customer and their actual experience

customer gap in the Gap Model of Service Quality, the variance between the customer's expectations and their perception of the service

customer loyalty an ongoing positive relationship between a customer and a business that drives repeat purchases

customer satisfaction a measurement that determines how happy customers are with a company's products, services, and capabilities

delivery gap in the Gap Model of Service Quality, the difference between the experience specification and the actual delivery of the service

empathy in terms of the RATER model, focusing on customers attentively to assure they receive caring and distinguished service

employee retention an organization's ability to retain its employees and stop employees from leaving

employee satisfaction the level of happiness and contentment employees have about their jobs and the work environment

equipment-based services when machinery or equipment plays the primary role in the service delivery

external service marketing the action of promoting or selling services to customers and potential customers

external value proposition the value companies promise to deliver to customers post-purchase

GAP Model of Service Quality theoretical marketing model that helps to identify the gaps between the perceived service and the expected service

information processing intangible actions directed at a customer's assets, such as insurance or consulting
intangible unable to be seen, tasted, felt, smelled, or heard
interactive service marketing the communication between the service provider and the customer; also called a **service encounter**
internal service marketing satisfying employees to motivate them to work as a team to satisfy customers
internal service quality the perceived level of satisfaction an employee experiences with services offered by internal service providers
knowledge gap in the GAP Model of Service Quality, the difference between what customers expect and what managers think they expect
mental stimulus processing situation in which the services interact with the customer's mind rather than the body
people processing services in which the customer is the direct recipient of the service and production and consumption are simultaneous
people-based services tasks in which people, rather than equipment or machinery, play a major role in the delivery of the service
policy gap in the GAP Model of Service Quality, the difference between managers understanding customer needs and being able to turn that into service delivery practices
possession processing services in which the service is directed toward the customer's physical possessions
productivity the efficiency and output of employees
RATER framework of service quality theoretical model that focuses on the five dimensions of service excellence: reliability, assurance, tangibles, empathy, and responsiveness
reliability in terms of the RATER model, the organization's capability to produce an accurate, dependable, and on-time service
responsiveness in terms of the RATER model, promptness and willingness to provide satisfactory and quick service
service encounter a consumer's direct contact with a service provider
service inseparability concept where services must be produced and consumed concurrently
Service Marketing Triangle a visual representation of a strategic model that outlines the importance of people in a company's ability to keep its service promises
service perishability concept that states services cannot be stored in inventory for future use or sale
service variability concept that states the quality of the service depends on who, when, where, and how it is provided
service-profit chain model model that establishes relationships between profitability, employee satisfaction, loyalty, and productivity
services nonphysical, intangible economic activities
tangibles in terms of the RATER model, the physical appearance of both the facility and its employees

Applied Marketing Knowledge: Discussion Questions

1. Review this *Houston Chronicle* article about the eight elements of service marketing (https://openstax.org/r/8elementsservicemarketing). Pick two different service-oriented organizations and describe each of these eight elements as they relate to the service each company offers. Conduct additional research if needed to address these eight elements.

2. Take the information that you have learned about internal and external marketing and describe two instances where as a student you have noticed excellent and poor marketing strategies. Are they internal or external, and why did you feel the way you did about them?

3. Consider service variability instances where you were a customer and noticed exceptional service and poor service. For each instance, answer the following questions:
   a. Were you surprised?

b. What specifically made you notice?
c. Had you had this experience before with this company or another company?
d. What response did you have? For instance, did you compliment? Tip? Complain? Do nothing? And why?
e. If you were the company owner, what kind of training program would you develop to address the poor service you experienced? What might you implement as a reward for exceptional service? Why?

4. Analyze the differences between internal and external marketing.
   a. Define both terms.
   b. Consider and list the positive impact that both internal and external marketing can have on an organization.

Critical Thinking Exercises

1. Agree or disagree with the following statement: I tip for service based solely on the amount of the bill, not on things like quality of service, timing, etc. Discuss or make a list of the reasons why you agree or disagree.
2. Nordstrom's reputation was built upon its value proposition of superior service. The company has maintained a high level of service over the years. Research other retailers that have a similar service-oriented value proposition. It could be a car company, restaurant, clothing store, etc. In looking at the changing demographics, do you believe that this level of service will continue to be perceived as value? If not, what will take its place?
3. Have you ever experienced service that was so poor that you did not return? Compare your views with someone that you know. Is this a common service issue?

Building Your Personal Brand

"Communication is the act or process of using words, sounds, signs, or behaviors to express or exchange information or to express your ideas, thoughts, feelings, etc., to someone else."[50] What type of communicator are you? Analytical? Intuitive? Functional? Personal? Research communication styles and describe which best describes you. Outline a plan on how you might communicate with those who adhere to a different style. To get started, try this free communication style assessment (https://openstax.org/r/communicationstyles). There are also other assessments available online, so try a few and see and see if there are any differences.

Keep in mind that communication also includes nonverbal signs such as our facial expressions and body language. How does your body position change when communicating a happy story versus a sad story? Try this body language self-assessment (https://openstax.org/r/scienceofpeople).

A large percentage of our personal brand comes from how we communicate with others. Think about the people you admire; odds are they communicate in a way that you understand and relate to. Work on becoming comfortable in your style and recognizing the styles of others. If you do this, others will be comfortable with you, and they will remember you. Often, a key component to a promotion is being noticed and remembered for the personal brand you exhibit.

What Do Marketers Do?

Considering that "70% of small businesses are operated and owned by a single person," the question arises: Who is doing the marketing?[51]

Find at least two small service businesses, one that you know to be successful and one that might be hanging on by a thread (hair salons, dry cleaners, mechanics, party planners, florists, etc.). Call and see if you can arrange a time, either on the phone or in person, to ask questions about their marketing efforts. You might want to do a bit of homework before you do. Here are questions that will help you gather information:

1. Do they consider what they do to promote their business as marketing?
2. Do they have someone who helps them?
3. Do they have a website or Facebook page?
4. What are the main activities that they do to market their business?
5. Do they have a formal business plan? A budget?
6. How do they figure out what their budget should look like?
7. Are there efforts that they consider successful and anything that seriously did not work?
8. Do they respond to the marketing of their competitors?

Of course, there are additional questions that you can ask as time permits. The idea here is to get a good look at what the challenges are to marketing a small business. Is this something that you see yourself doing—perhaps even as a business of your own?

Closing Company Case

Adventist Health Castle

Adventist Health Castle in Kailua, Hawaii, is an award-winning hospital focused on serving the mind, body, and spirit of its patients. The 300 physicians provide services to the entire island of Oahu, following the mission to "care for the community and share God's love."[52]

Adventist Health Castle offers programs in wellness and lifestyle, cutting-edge weight-loss procedures, and advanced imaging techniques. All programs come with a patient-focused approach with compassion and dedication from its health team. The mission statement of "transforming the health experience of our community by improving health, enhancing interactions and making care more accessible" is accomplished through "integrity, compassion, respect, and excellence."[53] In 2017, it won the Malcolm Baldrige National Quality Award, an award that recognizes the excellent patient care the staff provides to the community.

Adventist Health Castle is proud of its Wellness and Lifestyle Medicine center because of the variety of health education and lifestyle resources it provides for the community. It offers classes, events, and services to the public for a small fee or often for free. Check out more here (https://openstax.org/r/adventisthealth) about the medical services it offers.

Health systems are a product of the community they serve, and Adventist Health Castle is no exception. To help with its cause, it developed a community needs assessment to understand the concerns and needs of the populations within its service area. From that work, it has developed numerous programs and events, including diabetes care classes and improved access to health services. It also added ENT, cardiology, and dental services to its Rural Health Clinic in Laie. With this addition of the new Rural Health Clinic, Adventist's system served 2,432 unique patients in its first year.[54]

With its work, Adventist Health Castle expanded access to classes to include a center in Kaneohe. Multiple locations allow the health system to extend its reach to the community with more classes and events. And it's working! Through a postcard mailing, Adventist received a positive response to class enrollment.

Another initiative created around better access to care included having physician practices add more office hours to include evenings and weekends. Through this effort, Adventist has been able to engage with more patients and coordinate care better for the populations it serves.

With this work, the community has seen many positive outcomes including increased overall health due to the greater availability of healthy center resources. Serving a community means adapting to the needs of the community and meeting the populations where they are most vulnerable.

Case Questions

1. Adventist Health Castle is a health system operating to serve the population of Oahu. How would you classify its services?
2. When community members choose to take a class on diabetes management, they are learning about diabetes from a clinical nurse instructor. The instructor informs the participants of the health risks associated with unhealthy lifestyle choices. Different clinical nurse instructors teach the classes each time. Depending on who teaches the course, the participants may learn the risks of a sedentary lifestyle. This is an example of which service characteristic?
3. Adventist Health Castle realized that access to health services was an important need in its community. To provide for that need, it developed a multidisciplinary clinic to serve rural communities. It immediately started seeing and treating patients. How does this fit into the service-profit chain?
4. When Adventist Health Castle added more hours to physician practices, what dimension of service quality was it addressing be

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12

Pricing Products and Services

Figure 12.1 Price is one of the marketing mix elements and a factor that impacts customer decisions. (credit: modification of work "Thrift Shop Helps Consumers, Community" by W. Wayne Marlow/USAGHumphreys/flickr, CC BY 2.0)

Chapter Outline

In the Spotlight

In February 2005, Amazon launched Amazon Prime, which offered unlimited two-day delivery for millions of items.[1] At a time when consumers were accustomed to paying high shipping fees and experiencing slow service, the membership service—$79 per year—offered a new alternative. It was a first-of-its-kind pricing structure that has sparked many companies to do the same. Today's subscription services cover everything from toilet paper to dog toys. Amazon Prime is still arguably the most prevalent subscription service in history. In 2021, Amazon reported its Amazon Prime members had reached 200 million worldwide.[2]

The membership, according to a public letter from Jeff Bezos, executive chair of the Amazon board, "takes the effort out of ordering; no minimum purchase and no consolidating orders. Two-day shipping becomes an everyday experience rather than an occasional indulgence."[3]

Since its first offering in 2005, Amazon has raised its prices only three times—in 2014 to $99 a year, in 2018 to $119, and most recently to $139/year.[4] While rumbles in the market suggested that these price increases might drive away customers, Amazon has proven this was not the case. The price increases through the years also included new benefits—Amazon Prime video, Prime Pantry, Prime Reading, and many others. The company demonstrates that consumers are, in fact, willing to pay higher prices—so long as they can perceive value that is added to the increase in price.

12.1 Pricing and Its Role in the Marketing Mix

Learning Outcomes

By the end of this section, you will be able to:

- LO 1 Define pricing.
- LO 2 Explain pricing and its role in the marketing mix.
- LO 3 Explain the psychology of pricing.

Pricing Defined

Anytime anything is sold, a price is involved. Recall that during the exchange process, a seller is offering something of value to a buyer in exchange for also something of value. This value to the seller is often referred to as price. The practice of pricing is not a new concept. Some of the oldest records of prices ever discovered were found on clay tablets with symbols in Uruk, located in modern-day Iraq. The records are written receipts of exchanges of sheep, beer, and barley and date back to 3300 BCE![5]

You may recall that price is one of the 4Ps of marketing, or one element in the marketing mix. Once a product has been developed, marketers must determine at which price the product or service will be offered to the target market. Today, pricing is one of the more difficult decisions that marketers must make in the marketing mix because it directly impacts the perception of value from the customer as well as the company's bottom line. Poor decisions in pricing can have immediate and catastrophic effects on profits that are difficult for companies to recover from. Price decisions must be linked to a product or service's real and perceived value while also considering competition, supply costs, and when discounts should be offered.

Simply put, **price** refers to the exchange of something of value between a buyer and a seller. The price determines how much revenue the company will earn and drives the financial health of the organization. However, marketers cannot simply price products and services based on the expected revenue of the organization. The price must be set so that the buyer sees value in the product offering and the price they will pay for it. In other words, marketers must put the perception of value in the product's price at the forefront while also considering the financial impact to the organization.

While price is what is referred to when discussing most goods and services, price can take on many terms depending on the exchange that is taking place. In higher education, you are paying tuition—the price—in exchange for your education. If you need an attorney, you are likely going to pay a fee—the price—for services rendered. When you are traveling and have to pay a toll, it is the price you pay for using the road or bridge. Regardless of the exact terminology used, pricing of goods and services have the same basic elements.

Elements of Pricing

While a marketer is determining the price of goods and services, they must keep in mind that pricing must benefit both parties involved in the exchange process: the seller (company) and the buyer (customer). Both parties must see value in the product process through pricing for the exchange process to be successful. We'll first discuss how price is an indicator of value to the buyer and then turn our attention to the seller.

Price as an Indicator of Value

When a buyer purchases a product or service, they seek to satisfy a need through the purchase. The customer will, consciously or not, use several criteria to determine the amount they are willing to spend to satisfy that need. These criteria ultimately lead to the value that the customer sees in the product.

The price-value equation is a subjective assessment by a consumer about what they deem as a value. The price-value equation states that as a customer's expectations are met at what they consider an acceptable price, value is realized. Value is related to the quality and price of the product, and the formula is

$$\text{Value} = \frac{\text{Quality}}{\text{Price}}$$

For example, if a consumer purchases a high-end designer Chanel handbag for $11,000, they might equate the value to a beautiful, high-end, well-made handbag that will last for many years. They may also subconsciously believe the bag will portray a certain social status while carrying it. For them, there is value and quality in the product, and they are willing to pay the high price.

Consider another example: you are in the middle of fixing dinner, and you realize you don't have enough milk for the dish you are preparing. There is a convenience store just a block away from your house and a grocery store five miles away. If you send your partner to walk to the closer convenience store, they will pay more for the milk than if they were to drive the extra five miles to the grocery store, which would be less expensive. With the higher-priced item at the convenience store, you are paying for the convenience. The value in this scenario is in the time saved even at a higher price.

With these two examples, the perceived benefits are directly related the price-value equation. Perceived benefits can include status, convenience, brand, quality, etc. and can vary from buyer to buyer or even situation to situation.

Perceived costs can also include a host of criteria in addition to the price printed on the price tag. Let's return to the milk purchase example. If the situation were different—say you were not in the middle of cooking dinner—would your decision change? Perhaps. You will still consider other factors before making the decision. How long does it take for you to drive that extra five miles? Is the grocery store known for having long lines during the time you will be shopping? Do you need other items you can only get at that store? Does the store carry the brand of milk you prefer? These are only a few of the many considerations you make before you decide to make the purchase. These are all perceived costs and are weighed against the perceived benefits the buyer considers when determining value.

MARKETING IN PRACTICE

Upside

Figure 12.2 Upside is an app that benefits both customers and businesses by playing on the psychological effects of pricing. (credit: "iPhone Home Screen" by freestocks.org/flickr, Public Domain)

Founded in 2016, Upside is an app that promotes itself as saving customers money on purchases at gas stations as well as helping local brick-and-mortar businesses earn more profit. Here's how it works: Upside links to gas stations, restaurants, and grocery stores within a specified mile-radius of the user. The user chooses to claim an offer on the app and has four hours to upload the receipt. The linked businesses are those that have contracted with Upside to drive business to their establishment. Once redeemed, cash is deposited into the user's account and can be cashed out for gift cards or to a PayPal account.

Upside is banking on the value equation as well as psychological factors of pricing to attract both buyers and sellers. Gas prices, for example, are relatively unchanged from station to station in a small geographical area. If the user is able to get 25 cents cash back per gallon on their fill-up, they may swap convenience of the closer station with that of getting a cash reward at a station a few miles away. If the buyer chooses the station with cash back over one without, the seller (gas station) also finds value in a one-time or new customer.

For more information about Upside, visit [the app's website (https://openstax.org/r/getupside)](https://openstax.org/r/getupside).

Price in the Marketing Mix

Recall that the marketing mix elements include product, price, promotion, and place. Marketers create value through the maximization of benefits within an acceptable price point using the marketing mix elements. Price, however, is the only element of the marketing mix that directly produces revenue for the company. The other elements are considered costs to organization. Another way to think of price as differing from the other elements is to understand the price not only creates perceived value for the customer but also harvests monetary value for the company. Because price is the revenue-generating element of the marketing mix, it is vital that marketers set the right price both to match buyer perceptions and to maximize company profits. Profit is determined by subtracting total expenses from total revenue.

The Profit Equation

Recall that the goal of any for-profit company is make a profit. The price marketers set for goods and services offered will have a direct impact on the company's profit-making ability. Therefore, it is imperative that the price set is one that achieves value not only for the buyer but also for the company. Certainly, buyers would prefer a lower price—or even free—for goods and services. It's simply not feasible for a company to give its products and services away for free; the company would cease to exist very quickly, which does not serve either the company or the buyer well. Rather, it is in the company's interest to set prices that create value for the buyer and profit maximization for the company, as this gives the organization the best chance of continuing to create value in the long term.

So what is the best price that creates value for the seller? In short, it's the one that creates value for the buyer and simultaneously generating the maximum profit. If a price is set too high, the buyer may refuse to purchase because they do not see the value; in turn, the company loses out on profit. Alternatively, if the price is set too low, the company may be losing out on profits when a buyer would be willing to pay a higher price.

Profit is the financial gain of a company, or the difference between the amount earned and the amount spent in buying, operating, or producing something. It is the difference between total revenue and total costs and is calculated with the profit equation.

$$\text{Profit} = \text{Total Revenue} - \text{Total Costs}$$

Let's look at this formula more closely.

- **Total revenue** is the money generated from normal business operations. It is calculated by the sales price of a product times the quantity of units sold. For example, a company selling wireless earbuds for $19.99 that sold 5,000 units in one period has revenues of $99,950.
- **Total costs** of a company are the costs of sales and operating expenses. It is all expenses related to operating the business that are directly related to producing a good or service and that are indirectly

related to producing goods and services. In other words, it includes items such as building leases, employee salaries, and electricity as well as direct costs in producing the product, such as component parts and equipment.

Total costs can be categorized as either fixed or variable. **Fixed costs** are those expenses that do not change regardless of the number of units sold. For example, if the company selling wireless earbuds makes one unit or one million units, the company still has to pay the mortgage for the building it is occupying; the mortgage payment does not increase or decrease based on the number of units produced. Alternatively, **variable costs** do change based on the number of units produced. In the wireless earbud example, the company would spend more per unit if it ordered fewer units. If it ordered a higher quantity of units, the unit price would decrease.

In determining profit, the total costs include both the fixed and variable costs. The formula is

$$\text{Total Costs} = \text{Fixed Costs} + \text{Variable Costs}$$

When setting prices, the marketer must determine how much profit can be made from the sale of goods and services. However, as mentioned earlier, profit is not the only deciding factor in price. Much research has been done on how psychology also effects the perception of pricing.

The Psychology of Pricing

From a marketer's standpoint, these are all factors that must be considered when setting price. In addition to the value perceived by the buyer, the marketer must also understand other psychological factors that influence the buyer's perception of price. Several psychological pricing examples are discussed next.

Price Anchoring

When Steve Jobs introduced the Apple iPad during a Keynote in 2010, he showed off the high-resolution screen and talked about its revolutionary features. "What should we price it at?" he asked. "If you listen to the pundits, we're going to price it at under $1,000, which is code for $999." He put a giant $999 on the screen. He finally went on: "I am thrilled to announce to you that iPad pricing starts not at $999, but at just $499." The screen then showed the $999 price being crushed with the $499 price.[6] The crowd went wild!

The concept of **price anchoring** relies on the first piece of information that a buyer sees. This acts as an anchor, or a frame of reference for what the buyer expects a price to be. Steve Jobs used this concept in his introduction of the iPad. The anchor price he quoted was $999. This immediately made buyers believe the product should be priced around $999. However, when Jobs showed the actual price, starting at $499, the buyers immediately believed, psychologically, that it was a great deal. Viewers did not know what the worth of the iPad was; they just believed they were saving nearly $500 by having the initial anchor of $999.

Artificial Time Constraints

Marketers—particularly retailers—often use the psychological strategy of **artificial time constraints**. These trigger a sense of urgency in the buyer; if they don't buy today, they'll miss out on a great deal. Whereas a consumer may have been on the fence about spending money, these artificial time constraints act as a catalyst for consumers to spend money right now. And there is a lot of power in artificial constraints: consumers are afraid of missing out and don't want to later regret not buying. But consumers can often find the same prices many times throughout the year because retailers use this tactic frequently.

Price Appearance

A study on the effects of auditory representation in pricing showed that buyers believed $1,555.83 was a very complicated price and difficult to comprehend quickly. The study further outlined that a price of $1,555 (no cents) was *better* but that buyers were able to more easily and quickly comprehend a price of $1555 (no commas) and thus more likely to pause and consider the product.[7]

If you've ever gone to a fancy restaurant, you may have noticed the prices on the menu are in a small font and don't have zeros at the end. The price will be listed as $29 instead of $29.00. Psychologically, longer prices appear to be more expensive because they take longer to read. This effect is augmented by the use of a dollar sign. Similarly, the use of prices with multiple syllables seems more expensive because consumers pronounce the prices in their head. In short, the longer it takes to read and pronounce, the more impact the buyer believes it has on their wallet,[8] which is explained by **price appearance**.[9]

Price Gouging

Price gouging is when companies or individuals take advantage of a situation, typically an emergency or natural disaster, and charge exceptionally high prices for products or services. In some states, like New York, it's illegal for businesses to price gouge during a state of emergency.[10] In fact, New York was the first state to enact a price gouging law. In 1978, when there was a shortage of oil for heating in the winter and the lives of young and elderly people were threatened, the state created a law where companies could not sell goods or services at excessive prices.[11]

Can you think of recent examples where price gouging was a potential concern? During the COVID-19 pandemic, several states posted on their government websites lists of items that couldn't be subject to price gouging. Currently, the US Department of Justice provides a list of items that can't be hoarded or subject to price gouging due to COVID-19 precautions, including masks and other personal protective equipment (PPE), respirators, ventilators, and medical gowns.[12] There have been other instances where price gouging was an issue. According to AccuWeather, "some of the most rampant examples of price gouging came during the most destructive storms in recent years, such as Hurricane Katrina, Hurricane Sandy, Hurricane Harvey, and Hurricane Irma."[13] After Hurricane Katrina, a hotel manager boosted room prices and was sentence to five years in jail.[14]

CAREERS IN MARKETING

Pricing Analyst

A pricing analyst studies the market and analyzes data to determine the best pricing for products. This article from Zippia provides helpful information about (https://openstax.org/r/pricinganalystjobs) the job role, including qualifications, career paths, salary, education, resume templates, and online courses to improve skills. Indeed.com also provides a thorough job description (https://openstax.org/r/descriptionpricinganalyst) that outlines top duties and qualifications.

The best way to understand the core of any job is to learn from people who have done the job. Watch this video from a pricing analyst where he discusses his career.

Click to view content (https://openstax.org/books/principles-marketing/pages/12-1-pricing-and-its-role-in-the-marketing-mix)
Also check out this article on what makes a great pricing analyst (https://openstax.org/r/whatmakesagreat). Some people wonder how a pricing analyst and a data analyst differ. Learn the answer to that question in this article (https://openstax.org/r/interviewquery).

Once you've determined this may be the career for you, prepare for an interview by watching this video.

Click to view content (https://openstax.org/books/principles-marketing/pages/12-1-pricing-and-its-role-in-the-marketing-mix)

Knowledge Check

It's time to check your knowledge on the concepts presented in this section. Refer to the Answer Key at the end of the book for feedback.

1. You receive an email from your favorite clothing store. It is having a one-day sale where everything is 50 percent off. The retailer is using a form of psychology known as ________.
   a. artificial time constraint
   b. price appearance
   c. profit
   d. fixed costs

2. Which of the following best describes the profit equation?
   a. Profit = Fixed Costs – Variable Costs
   b. Profit = Total Costs – Total Revenue
   c. Profit = Total Revenue – Total Costs
   d. Profit = Fixed Costs + Variable Costs

3. Marquis has decided to purchase a new kitchen table. He looks at various brands online and decides to purchase one that is $500 more than the others because it is a brand his parents had when he was growing up and they offer free delivery. These factors indicate Marquis has perceived ________ in the higher-priced table.
   a. value
   b. artificial time constraints
   c. costs
   d. profit

4. Kilee sees an advertisement for a new computer. The advertisement portrays an initial price of $699 that has a large red "X" through it with a new price of $499. The advertisement is utilizing which pricing concept?
   a. Artificial time constraints
   b. Price appearance
   c. Price gouging
   d. Price anchoring

5. The perception of a buyer's value includes which of the following?
   a. Profit a company can expect from sales
   b. Perceived benefits less the perceived costs associated with a purchase
   c. Revenue expected from a sale
   d. Costs of manufacturing the product

12.2 The Five Critical Cs of Pricing

Learning Outcomes

By the end of this section, you will be able to:

LO **1** List the five critical Cs of pricing.

LO **2** Characterize the five critical Cs of pricing.

Cost

What should you charge for a product or service? As you've probably discovered by now, pricing is not something that marketers approach without a lot of research. Using the five critical Cs of pricing can help to determine the *best* price—one that provides optimal value to the buyer and profit maximization for the company. Figure 12.3 illustrates the five critical Cs to consider when pricing: cost, customers, channels of distribution, competition, and compatibility.

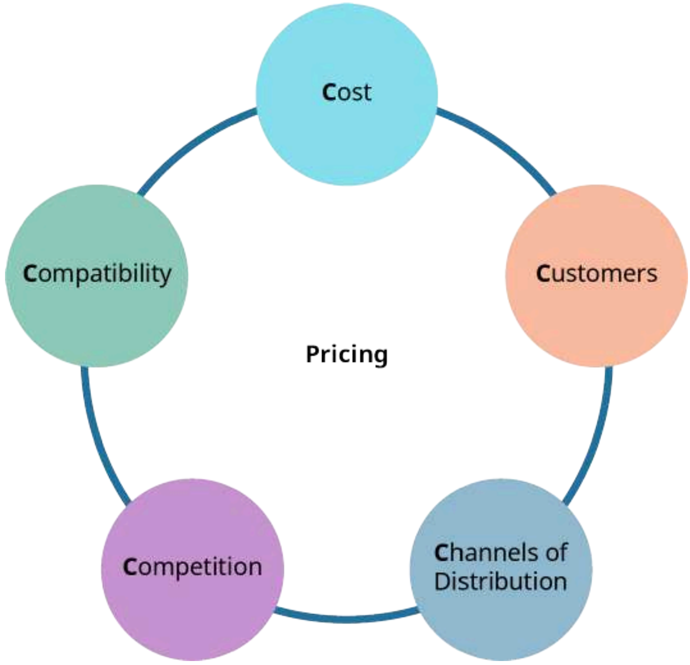

Figure 12.3 The Five Critical Cs of Pricing (attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)

Cost is the most obvious element of the pricing decisions. As we've already discussed, you must know the cost of doing business—both fixed and variable—before you can set an adequate price. However, cost alone cannot be the only basis on which a pricing decision made. After all, buyers never know (and don't care) how much it costs a business to produce its goods and services.

LINK TO LEARNING

The Five Critical Cs of Pricing

Scale Finance has provided an excellent article (https://openstax.org/r/the5criticalcs) that may help you get your mind around the five Cs of pricing.

Customers

Customers are another key element to pricing decisions, as you've learned already in this chapter. Marketers must determine not only what customers expect a product or service to be priced at but also what those customers are willing to pay. Toyota manufactures cars and markets them toward the middle class. Through research, it has determined what its target market is willing and able to pay for a particular vehicle. Alternatively, Lexus, which is marketed as more of a luxury car, has a higher price point and is marketed to a different market than that of Toyota.

Channels of Distribution

Many products are sold through channels of distribution—intermediaries who move products from manufacturer to end users. Intermediaries affect the prices of products because they also need to maximize their profits. Therefore, pricing decisions must consider profits, expenses, and the value they are adding to the product or service.

IKEA began as a mail-order catalog in 1953 in Älmhult, Sweden. Today, it is a global home furnishings brand that focuses on sustainability.[15] Its distribution channel consists of the manufacturer, dealer, wholesaler, and retailer. Each of these channel members are in business to make a profit. Therefore, the price strategy that

IKEA utilizes must help to ensure that each member is financially satisfied while making a profit itself and keeping the price that is of value to the end user. If any of the channel members (or the end user) does not find value in the price set by IKEA, the entire channel becomes weak and unsustainable.

LINK TO LEARNING

IKEA

IKEA is a very interesting company to study when you are learning about marketing and business. As this blog examines (https://openstax.org/r/marketingstrategyin), it has 1,600 suppliers for manufacturing products that deliver to 186 global stores. That's a complex—and successful—system!

The MBA Skool website (https://openstax.org/r/marketingmixservices) provides an explanation of the IKEA marketing strategy and the four Ps, including IKEA's distribution model.

The Contact Pigeon blog outlines (https://openstax.org/r/contactpigeon) IKEA's strategy that made it the successful company it is today.

Competition

Every company and product faces competition. Even the most unique products are competing for buyer dollars. Buyers' perception of one product in comparison to that of alternatives has an important impact on pricing decisions. Gazelle Bikes is a top-tier manufacturer of bicycles. The bikes offered by Gazelle have a starting price point of $1,499.[16] One of Gazelle's competitors, Giant, has a starting price point of $1,720.[17] For bicycle enthusiasts, these price points are important when comparing one brand with another; an enthusiast who comes across a new brand of bicycles with a starting price of just $200 would not position it with Gazelle and Giant bicycles.

Compatibility

Panama City Beach has been one of the most popular spring break destinations of college students for decades. In fact, it is considered the "Spring Break Capital of the World."[18] It is well-known for its late-night parties, concerts, and celebrity sightings. Hotels and clubs along the beach of Panama City drive their marketing efforts toward this segment of the market: college-aged spring break–goers. The prices they set for the weeks of spring break are compatible with both this segment of the market's ability to pay and the businesses' profitability. Conversely, hotels in areas of Florida that are more family-friendly set prices that are considered a value for families and promote the hotels toward families rather than college-aged partygoers.

Pricing decisions are not made in a vacuum. When marketers set a price for a good or service, it must be consistent with the other marketing objectives. Imagine if McDonald's starting offering a $20.00 ribeye steak. This decision would be inconsistent with the marketing of the company's low-priced fast food, would be confusing to customers, and thus would not be successful.[19]

MARKETING IN PRACTICE

The Five Cs of Pricing

The five Cs of pricing has long been a standard for marketing practitioners. However, some practitioners also consider another area when determining price: context. Context refers to a more complex strategy of pricing where marketers set—and change—prices according to variables external to the company. For example, an ice cream truck in the US Midwest would arguably have more traffic during the peak summer hours and less during the colder winter months. The owner of the ice cream truck would change their prices to best fit the context (in this case, weather). The product (ice cream) remains the same regardless of the price, but the price is changed to fit the context of the situation. The appropriateness of using this strategy depends on several factors, including the product category, market size, and other nuances of the industry.

Knowledge Check

It's time to check your knowledge on the concepts presented in this section. Refer to the Answer Key at the end of the book for feedback.

1. Which of the critical Cs of pricing includes taking into the consideration the value of the product to retailers and suppliers?
   a. Cost
   b. Competition
   c. Channels of distribution
   d. Customers

2. Amir is the head of marketing and is explaining to colleagues that the company's new boutique bed and breakfast near the ocean should not be priced similarly to the local Super 8 motel. Amir explains that the new bed and breakfast is of the highest quality, has posh amenities, and is therefore being marketed to upper- and upper-middle-class couples. Amir is explaining which of the critical Cs of pricing?
   a. Cost
   b. Competition
   c. Customer
   d. Compatibility

3. Kevin is a marketing intern at a large corporation. They are tasked with presenting a price for a new service the company will be offering. Which of the following would you recommend Kevin do first?
   a. Analyze the critical Cs of pricing
   b. Choose a pricing strategy
   c. Create an advertisement
   d. Ask his friends what price they would be willing to pay

4. Which of the following statements is false with regard to pricing?
   a. Customers are interested in the price of the product, not the cost to a company.
   b. Cost only includes the materials needed to produce a product.
   c. If cost is not considered in pricing, the company will likely be unsuccessful.
   d. Costs include both variable and fixed costs.

5. Which of the following is not a critical C of pricing?
   a. Customers
   b. Cost
   c. Competition
   d. Commitment

12.3 The Five-Step Procedure for Establishing Pricing Policy

Learning Outcomes

By the end of this section, you will be able to:

- LO 1 List the five-step procedure for establishing pricing policy.
- LO 2 Describe ways to determine the pricing objective.
- LO 3 Identify ways to estimate demand.
- LO 4 List ways to estimate costs.
- LO 5 Explain how to analyze the external environment.
- LO 6 Discuss selecting pricing strategies or tactics.

Determine Pricing Objectives

Whether a product is new to the market or established, marketers face the challenge of setting prices. Recall that the main objective for pricing is for the buyer to perceive value in the product while the company maximizes profits. Marketers often use a five-step approach for establishing pricing policies (see Figure 12.4).

Figure 12.4 The Five-Step Process for Establishing Pricing Policies (attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)

During the first step in establishing pricing policies, the marketing team will set the pricing objectives (see Table 12.1). The most common pricing objectives are based on customer value, cost, sales orientation, market share, target return, competition, and being customer-driven. It is not uncommon for more than one objective to be set within the company. Let's take a look at each of the pricing objectives in more detail.

Objective	Description
Customer value	Based on a product's added value
Cost	Based on the cost to produce a product
Sales orientation	Developed to boost sales volume(s) of a product
Market share	Focused on increasing market share
Target return	Focused on a specific profit at a specific time
Competition	Developed based on competitors' prices
Customer driven	Focus on what the customer is willing to pay

Table 12.1 Pricing Objectives

Customer Value–Based Objective

As you've already learned, it's essential to have a deep understanding of the value a product will provide for customers. Before Jim Semick and his team launched GoToMeeting, a conferencing app, they developed the pricing of $49 "all you can meet flat-rate pricing." This pricing was unique to the industry, and Semick stated that they determined this pricing structure based on dozens of interviews with potential customers. From these interviews, the GoToMeeting team discovered key areas that would provide value to customers not only through the product itself, but also through the flat-rate price structure that was easy to understand.[20] Semick utilized the **customer value–based objective**, one in which the company has a good understanding of the value-added benefits of a product and sets its price accordingly.

Cost-Based Objective

A fairly simple way to price products and services is using the **cost-based objective**. This pricing objective sets prices based on the costs of doing business, which were explained earlier in the chapter. The biggest pitfall of utilizing this pricing objective is that it might not align well with the customer's value perception. Remember, customers don't know (or care) what the cost of doing business is, so long as they receive value in their purchase. Therefore, marketers run the risk of overpricing the product. Marketers using this objective also run the risk of pricing their products too low and failing to maximize profits.

Consider the manufacturing of a smartphone. Assume the total cost to the manufacturer to produce one smartphone is $3,000. This cost includes all expenses to the company for producing this one smartphone (product costs, variable and fixed expenses). The company chooses to set the selling price of this smartphone to include these costs plus a profit of 10 percent, which sets the final price at $\$3,300\ (3,000\ +\ 10\%\ \times\ 3,000)$.[21]

Sales-Oriented Objective

A company may wish to seek a boost in sales volume of a product. In this case, marketers would choose the **sales-oriented objective**. The goal of a sales-oriented objective is to increase the volume, or units sold, of a product against the company's sales over a period of time. This objective is achieved by raising or lowering prices to increase sales. An increase in sales assumes a direct impact on profits, thus maximizing profits. Consider the smartphone manufacturer again. Executives have set a sales goal of 1,000 units within the first quarter. Marketers may choose to lower the price of the smartphone to meet the goal. So perhaps the company changes the price from $3,300 to $3,100 for a short period of time until the sales goal is reached. Note that it is still covering the cost to manufacture the product and still making some profit.

Market Share–Oriented Objective

A **market share–oriented objective** is one in which the company's pricing objective is to set prices based on those of the competition. This strategy involves comparing similar products being offered in the market and pricing at, below, or above those prices depending on the products offering. The cell phone market is one example of an industry that leans on market share orientation. The biggest suppliers of cell phones—Apple, Google, and Samsung —take their pricing cues from one another and are priced very similarly.[22]

Target Return Objective

A **target return objective** is one in which marketers calculate the price so that it returns a specific profit in a given period of time. Let's assume that a company has invested $1 million into a new product. Company executives wish to recuperate 10 percent of those costs in year one of sales. If it costs the company $2 to manufacture one unit of product and marketers estimate that it will sell 50,000 products in the first year, marketers know they will need to price the product high enough that it will yield the desired results. The obvious drawback to this objective is that much of the decision is based on estimations of units sold in a given time frame.

Competition Objective

A **competition-based objective**, as its name suggests, is when a company sets its prices according to the prices of its competitors. Amazon uses this pricing objective often with some of its most popular products.

Using data intelligence, the company gathers the prices of products of its competitors and sets its prices just below the price set by competitors.[23]

Customer-Driven Objective

Some companies choose to set prices based on **customer-driven objectives**—that is, what the customer is willing to pay for a product or service. Auctions, e-trades, and bids are common examples of customer-driven objectives. eBay, for example, allows a company (or individual) to place an item for sale on its website. Often, the interested buyer will bid on the item, thus stating what they are willing to pay. The highest bidder is then able to buy the product.

Estimate Demand

After setting the pricing objectives, marketers will estimate the product or services demand. **Demand** is an economic term that refers to the buyer's desire and willingness to purchase a product or service at various prices. All other factors being consistent, an increase in price will result in a decrease in demand. The demand curve is a visual representation to understand demand.

Understanding the Demand Curve

The **demand curve** is a graph that shows how the demand for a product or service varies with the change in price. As you can see from Figure 12.5, the price (p) is located on the vertical axis and the quantity (q) demanded is located on the horizontal axis. As the price of a product increases, the demand of the product decreases.

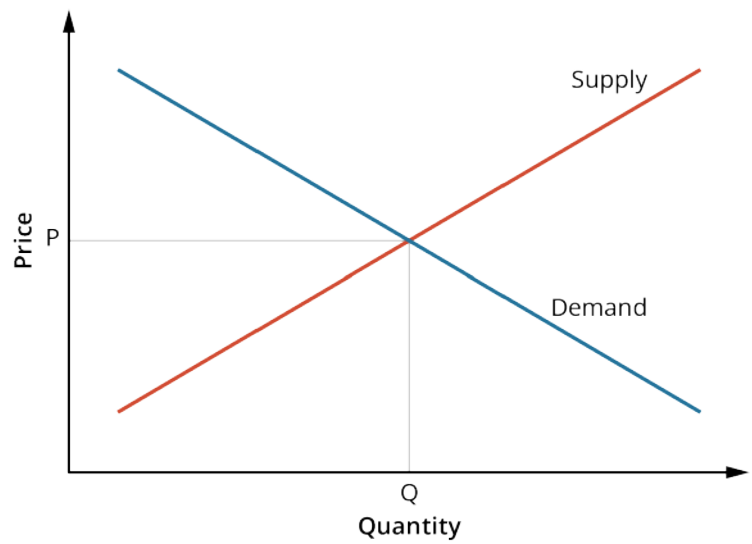

Figure 12.5 Demand Curve (attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)

The relationship between price and demand shown in the figure above is contingent on certain conditions remaining constant. Such conditions include substitute goods, personal income, and consumer tastes, which are discussed further below. Changes in these conditions can cause a change in demand that might not follow this basic concept of the demand curve.

The Demand Curve for Prestige Products

One pricing strategy that negates the demand curve is prestige pricing. **Prestige pricing** is a strategy that marketers use to set high prices knowing that demand will increase with higher prices because the higher price increases the perceived value of the product. Prestige pricing is closely tied to brand image and appeals to buyers who see value in elevated status. Consider these brands of shoes. The Adidas Yeezy Boost 750 costs around $76 to produce but sometimes sells for over $1,000, while the D Rose 5 Boost costs around $43 and sells for around $100. So why the large price difference? The Yeezy Boost 750 pricing strategy is that of prestige pricing. The allure and exclusivity of the Yeezy Boost 750 allowed the company to price the shoes at a much higher price.[24]

LINK TO LEARNING

Prestige Pricing

In this article, HubSpot explores (https://openstax.org/r/prestigepricing) the pros and cons to prestige pricing and things to consider when implementing this strategy. Included are several prestige pricing examples such as the Adidas Yeezy Boost and the D Rose 5 Boost, diamonds, cars, AirPods, and T-shirts.

Demand Elasticity

What will be the impact of demand for a product if the price is changed? If the product is discounted, will demand increase? If the price goes up, will demand decrease? The concept of demand elasticity helps marketers answer these questions. In short, **demand elasticity** is a measure of the change in the quantity demanded in relation to the change in its price. Mathematically, it is derived from the percent change in quantity demanded divided by the percent change in price. If you have been considering buying a new home, would the prices of homes sway your decision? Perhaps so. Home prices are considered elastic because the price has a huge impact on the demand for new homes. Additionally, there are many options for housing, including apartments, roommates, living with relatives, condos, etc.[25]

As a second example, consider gasoline. Since we need gasoline to get to work, school, the grocery store, and meetups with friends, it is considered relatively inelastic. There are very few substitutes for gasoline. Because gasoline has inelastic demand, the price may fluctuate considerably, but the demand for gasoline remains relatively the same. Consider the higher gas prices of 2022, averaging over $5.00/gallon across the United States and even higher globally. Even though the prices have risen, the demand for gasoline has not changed because people still must travel to work and other essential places.[26]

In summary, if a product is determined to be inelastic, the demanded quantity does not change with a change in price. Conversely, if the product is elastic, the demanded quantity will change with a change in price. You might be asking: What makes a product elastic or inelastic? There are several factors that will help determine how elastic a product or service will be.

Factors in Demand Elasticity

When determining the demand elasticity of products and services, there are several factors to keep in mind. These include substitutes, the effect of income, time, and cross-elasticity of demand (see Figure 12.6). Let's explore each of these in depth.

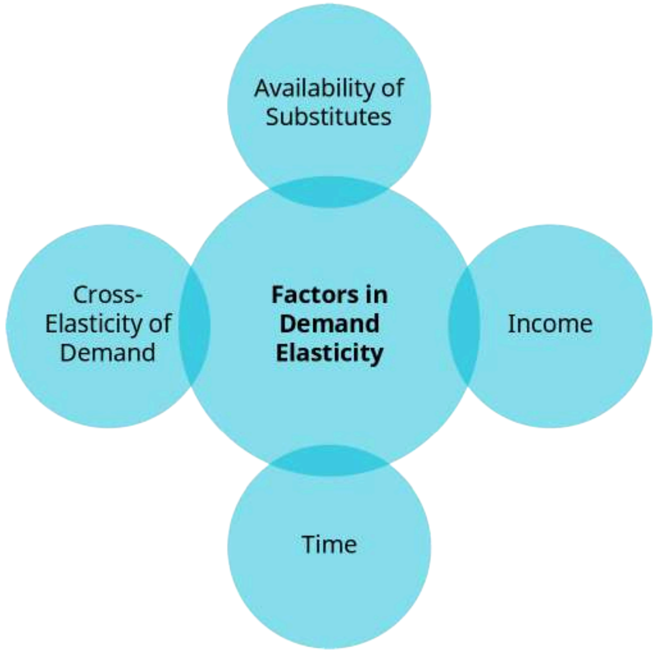

Figure 12.6 Factors in Demand Elasticity (attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)

Availability of Substitutes

Substitutes are products and services that are similar to the one being offered. If a buyer can easily choose a different product when the prices change, the demand will be more elastic. For example, if you are at the grocery store to buy English muffins but the store is out, you can easily choose to purchase bagels instead. Conversely, if there are relatively few or no alternatives, demand will be more inelastic. Consider the generic need for gasoline. It is fairly inelastic. The availability of substitutes for car travel is inconvenient. However, the demand for gasoline at specific gas stations is considered elastic because buyers can choose the gas station they prefer based on price. If two gas stations are located within a convenient geographic region to the buyer, they will choose the station that has lower prices.

Income

Buyers have limited money to spend on their needs and must make decisions on how the purchase of goods and services will impact their total income. The **income effect** is the way in which buyers see the change in price affecting their real income. Generally, an increase in price indicates that the buyer will have less money left over to spend; therefore, they will choose to buy less of a product, decreasing demand. The opposite is also true: the lower a price, the more money buyers have to buy more of the product, thus increasing demand. Consider the 8.6 percent inflation that the United States saw between May 2021 and May 2022. Because inflation is a general rise in prices, consumers noticed that their purchases of goods and services caused their real income to decline. In other words, consumers had less money to spend on products and ultimately chose to purchase less of those products.

Time

When the price of a good or service is changed, it takes time for buyers to adjust to the change in price. The time factor of price elasticity indicates that the product’s elasticity of demand is dependent upon the time it takes buyers to adjust to the new prices. For example, if there is a sharp decrease in the price of automobiles, buyers would not immediately go out and buy a new vehicle. Rather, it would take some time to save money for a down payment, secure a loan, and generally go through the buying process. Therefore, the demand for automobiles would increase, but over time rather than immediately.

Cross-Elasticity of Demand

What happens when one of two similar products has a price increase or decrease? If the price of coffee increases, it would be expected that the demand of tea (a substitute product) would also increase. Buyers see the price increase and look for lower-priced substitutes to replace the higher-priced item. The **cross-elasticity of demand** measures the amount demanded of one good when the price for a similar good or service changes.[27]

Estimate Costs

The next step in determining a pricing policy is to estimate the total cost of producing a product or service. Recall that maximizing profits is the goal of a pricing strategy and marketers must factor the cost of doing business into pricing considerations. When estimating total costs, it is important to divide costs into fixed and variable costs.

Fixed and Variable Costs

As mentioned earlier in this chapter, costs are categorized as either fixed or variable. Fixed costs are those expenses that do not change regardless of the number of units sold. Consider the example used earlier in the chapter of manufacturing a smartphone. If the company manufacturers 1,000 or 100,000 smartphones, the company must pay the same amount for its lease on the property the plant is located on. The lease payment does not change based on the number of units produced. Alternatively, variable costs do change based on the number of units produced. In this same example, the amount manufacturing spends is dependent on the number of smartphones produced.

Analyze the External Environment

The fourth step in determining prices is to analyze the external environment. The external environment is comprised of factors outside of the organization that impact marketing decisions. While marketers cannot directly change these factors, they should be aware of how they might impact pricing decisions.

One way to remember the factors of the external environment is through the acronym PESTLE: political, economic, social, technological, legal, and environmental.[28] Questions to consider in a PESTLE analysis when analyzing the external environment as it relates to pricing are included in Table 12.2.

Factors	Question	Example
Political	What is the current political situation as it relates to the market?	A price cap on certain pharmaceuticals would limit the price a company could charge.
Economic	What is the current economic climate?	During inflation or deflation, prices may need to increase or decrease.
Social	How is culture changing or shaping the industry?	During the latter months of the year, the Indian market purchases more vehicles than at other times of the year.
Technological	What technologies are trending?	If technology for a product is becoming obsolete, a decrease in price may be necessary.

Table 12.2 PESTLE Factors

Factors	Question	Example
Legal	What current legislation is impacting the industry?	A new vehicle emission law may require new technology, thus increasing the price of vehicles.
Environmental	What are the environmental concerns of the product?	A highly toxic product or process may need to have a higher price to properly and safely dispose of byproducts.

Table 12.2 PESTLE Factors

LINK TO LEARNING

PESTLE Analysis

There are hundreds of online resources that discuss PESTLE. Here are a few to start with:

- The Corporate Finance Institute provides a PESTLE walk-through (https://openstax.org/r/corporatefinanceinstitute).
- The Oxford College of Marketing outlines the advantages and disadvantages of a PESTLE analysis (https://openstax.org/r/oxfordcollegeofmarketing).
- Business-to-you provides a video, sample analysis, and a full list of PESTLE factors (https://openstax.org/r/scanningtheenvironment).

Competitors' Costs, Prices, and Products

It probably seems obvious by now that analyzing the competition is key in setting prices. Marketers must constantly analyze both current and potential competition in the market to understand how their products will measure up to that of the competition. If a competitor is planning to introduce a nearly identical product to one that your organization already has on the market—but at a much lower price—you will need to consider how that will affect your sales as well as analyze how it is offering such a lower price. Should you lower your price? Consider changing suppliers for lowered costs? Take a cut in profits to stay competitive? All of these questions, and more, will help you as a marketer determine what pricing strategy should be used.

Stage in the Product Life Cycle

How long a product—and its substitutes—have been in the market will have an impact on the marketer's choice of pricing strategies. Recall that the product life cycle consists of four stages: introduction, growth, maturity, and decline. During the introduction stage, marketers must choose pricing strategies wisely to capture the intended market and begin recuperating research and development costs. As a product moves through the other stages of the life cycle, prices may need to be changed in order to stay relevant to consumers.

Status of the Economy

As you can imagine, the state of the economy at any given time will have an impact on the buyer's ability to purchase products as well as their willingness to spend. Economic factors that marketers should specifically be aware of when considering demand for products include employment, inflation, interest rates, and consumer confidence.[29]

One of the main factors that influences consumer demand is the employment rate. The **unemployment rate** is a measure of the number of people who are not employed but are actively seeking work in a given period—usually one month. When buyers are employed and receiving steady income, they are more likely to use discretionary income. **Discretionary income** is the money left over after all taxes and necessities—such as food and housing—are paid. When discretionary income decreases, demand for nonessential items also decreases.

Inflation is an economic measure of the rate of rising prices of goods and services in an economy. When inflation incurs, prices for most goods and services rise. Therefore, the amount of discretionary income a buyer has decreases, and demand for nonessential goods and services also decreases. Consider the high inflation in the United States economy from 2021 to 2022, which was 8.6 percent as of May 2022.[30] The rate of inflation is currently the highest that it has been since 1981. Because of the higher price of goods and services within the economy, consumers are spending more of their earned income on necessities such as food and shelter. This, in turn, causes them to purchase fewer nonessential items such as vacations, toys, and the like. Inflation also impacts pensions and other retirement accounts, so as inflation rises considerably, people are even less likely to spend their discretionary income and more likely to save anything left over after essentials for future use.[31]

Even consumers who do not have a deep understanding of the economy have some degree of optimism regarding the overall state of the economy. This is known as **consumer confidence**—it measures how optimistic consumers are about the economy and their own finances.[32] When consumers have little optimism in the economy, they are more likely to save their discretionary income rather than spend it.

The overall status of the economy—both current and future—is important for marketers to be aware of as it has a direct impact on the ability and willingness of buyers to spend money. Choosing pricing strategies that are aligned with the health of economy will have a greater chance of success.

Select Pricing Strategies or Tactics

After gathering all the data explained in previous steps, marketers are ready to set specific pricing strategies or tactics. The strategies and tactics chosen for a product or service should align with the other marketing mix elements, create value for the customer, and maximize profits for the company. In the next section, we will discuss specific strategies and tactics and how to optimize each.

Knowledge Check

It's time to check your knowledge on the concepts presented in this section. Refer to the Answer Key at the end of the book for feedback.

1. Sam is explaining to her friend Beth that prices for video conferencing software is increasing because more people are working from home. This relationship can be described by ________.
   a. prestige pricing
   b. customer-driven pricing
   c. the demand curve
   d. the income effect

2. Each month you pay your rent. It is $800 and does not change based on the number of hours you work. This is known as a ________.
   a. variable cost
   b. fixed cost
   c. changing cost
   d. profit

3. Decreases in prices are most often associated with which stage of the product life cycle?
   a. Introduction

b. Growth
c. Maturity
d. Decline

4. Adding fixed costs to variable costs yields which of the following?
a. Total costs
b. Profit
c. Value
d. Inflation

5. When the price of a product increases and the demand for its substitute product increases, this is explained by ________.
a. elasticity
b. inelasticity
c. a change in income
d. cross-elasticity of demand

12.4 Pricing Strategies for New Products

Learning Outcomes

By the end of this section, you will be able to:

LO **1** List the pricing strategies for new products.
LO **2** Explain each pricing strategy for new products.

Price Skimming

When a new product is introduced to the market, marketers often use one of three pricing strategies. Remember that when a company introduces a new product to the market, a good deal of financial resources have already been used even before the first unit is sold. Therefore, it is important for marketers to choose an appropriate price that both appeals to buyers and helps to recuperate the costs of research and development so that the company can begin to maximize profits more quickly.

Price skimming is a new-product strategy in which marketers choose to initially set a high price for a product or service and lower it over time. The goal of price skimming is to attract the segment of the market that is willing to pay the highest possible price for the product. Once achieved, the price is lowered to attract another segment of the market and so on. The term *skimming* comes from the skimming the cream, layer by layer, from raw milk—or in this case, each segment of customers.

Innovative technology often uses price skimming. For example, when Sony launched the PlayStation 3, it was set at a fairly high price of $599. With little competition and a well-established brand, it was successful. Each year thereafter, it lowered the price—and gained new customers—until it eventually reached a price of $299.[33]

Market Penetration Pricing

The opposite of price skimming is **penetration pricing**. The penetration pricing strategy is one in which the new product or service is set at the lowest price possible. This strategy's objective is to penetrate the market, or gain as many customers in all segments as possible from the beginning of the product life cycle.

In the late 1990s, Netflix introduced its movie rental service. For a monthly subscription fee, users could rent four movies at a time with no return date. The low initial price targeted the most segments of the market and allowed customers to try the new service with little effort or financial impact.

Break-Even Pricing

Break-even pricing is a pricing strategy in which marketers choose a price that will cover all of the costs of manufacturing. The break-even point is when the number of units produced equals the revenue for the product. The break-even point will produce zero profit but will cover all associated costs.

The break-even formula is calculated by dividing the total fixed costs by the production unit price minus variable unit costs. The break-even point in units will tell a marketer exactly how many units must be sold in order to start making a profit.

$$\text{Break Even} = \frac{\text{Fixed Costs}}{(\text{Unit Price} - \text{Variable Unit Costs})}$$

Let’s look at an example. Assume you are opening a new gourmet cookie shop and you have estimated your projected costs. You’d like to know how many units you must sell in order to break even and then start making a profit. Let’s assume your fixed costs are $20,000. This includes rent, deliveries, ingredients, and new signage. You have estimated your variable costs to be $1.50 per unit, or cookie. You plan to charge $2.00 per cookie. How many units must you sell to break even? Using the formula above, you find that you must sell 40,000 cookies in order to break even.

$$\begin{aligned}\text{Break Even} &= \frac{\$20{,}000}{(\$2.00 - \$1.50)}\\ \text{Break Even} &= \frac{\$20{,}000}{(\$0.50)}\\ &= 40{,}000 \text{ Units}\end{aligned}$$

Knowledge Check

It’s time to check your knowledge on the concepts presented in this section. Refer to the Answer Key at the end of the book for feedback.

1. Luis is planning to introduce a new product to the market. Their aim is to gain as much of the market share as possible in the early introduction stage, so they are thinking of setting an initially low price. Which pricing strategy is Luis using?
   a. Break-even analysis
   b. Price skimming
   c. Penetration pricing
   d. Psychological pricing

2. Alexandra is working on the pricing strategy for her new food truck items. She is interested in knowing how many hamburgers she will need to sell in order to break even. Which formula should she use?
   a. $\text{Fixed Costs} + \text{Variable Costs}$
   b. $\text{Fixed Costs} - \text{Variable Costs}$
   c. $\text{Fixed Costs}/(\text{Unit Price} + \text{Variable Unit Cost})$
   d. $\text{Fixed Costs}/(\text{Unit Price} - \text{Variable Unit Cost})$

3. Tomas is selling his bottled sodas for $2.00 each at the vendor fair. His fixed costs are $100. He estimates that his variable costs are $0.25 per bottle. How many bottles of soda must Tomas sell to break even?
   a. 57
   b. 2
   c. Less than 1
   d. 25

4. Which of the following is true of price skimming?
   a. It captures the most market share in the introduction stage of a product.

b. It is setting an initially high price of a product.
c. It is setting an initially low price of a product.
d. It determines break-even units.

5. David hopes to capture as much of the market as possible with the company's new product. Which pricing strategy should David use?
   a. Price skimming
   b. Cost-based pricing
   c. Psychological pricing
   d. Penetration pricing

12.5 Pricing Strategies and Tactics for Existing Products

Learning Outcomes

By the end of this section, you will be able to:

LO 1 List the pricing strategies and tactics for existing products.
LO 2 Provide examples of each pricing strategy and tactic.

Product Line Pricing

More often than not, marketers must make pricing decisions on existing products rather than new products. As products go through the product life cycle, price changes will likely need to occur to maintain value for customers and continue to maximize profits. Some common strategies and tactics for existing products are discussed next.

Many large companies offer multiple products and product lines in their product mix. One strategy for pricing products is to price products in a product line the same or similar. For example, Unilever is the manufacturer of many brands that you've likely heard of: Dove, Axe, and Hellman's to name a few. Within its host of products, Unilever has divided its products into price categories; higher priced items have a higher perception of value and so on. (Recall that a product line is a group of related products differentiated by features and price.) Unilever sets a higher price for some of its product lines and lower price points for others in order to capture various target markets, known as **product line pricing** (see Figure 12.7).

Figure 12.7 Companies utilize pricing strategies like product line pricing to appeal to various target markets through multiple products. (credit: "d2590-1" by Stephen Ausmus/USDA/flickr, CC BY 2.0)

Captive Product Pricing

Assume you need to purchase a new printer for your home computer. Once you buy the printer, you're also going to need to purchase what? That's right, ink. Captive product pricing uses a strategy that requires both a core product and a captive product. In the above example, the core product is the printer and the captive product is the ink. When you are shopping for the printer, you are likely to take into consideration the price you will have to pay for ink as well. Marketers may price the printer at a very reasonable price, knowing it will catch your attention and thus make the price of the ink seem less expensive. Captive product pricing maximizes profits by intentionally pricing both the core and captive products at a level that will increase the perceived value to consumers.

Bundle Pricing

Bundle pricing is another popular pricing strategy that marketers use to promote purchasing multiple products at once. Consider when you go to the drive-through at your favorite fast-food establishment. Ever notice that it is cheaper or nearly so to purchase a "meal" than each item individually? Have you ever gone to the drive-through intending to get a cheeseburger but feel compelled to get the value meal instead because it only costs a little more? This strategy is used to prod customers to purchase (and spend) more than they may have otherwise.

Psychological Pricing (Odd/Even Pricing)

One popular form of psychological pricing is odd-even pricing. Similar to price appearance discussed earlier in this chapter, **odd-even pricing** banks on human motivation to lure in customers. The "odd" in this pricing tactic refers to the odd number at the end of a price, such as $19.95. Psychologically, the odd number in the price equates to value; the product is not $20.00, it is still in the "teens" at $19.95. Conversely, the "even" in the tactic utilizes even numbers at the end of the price, often zero, as in $50.00. This pricing tactic leads buyers to believe that the product is of higher quality because it is a nice, even number. Luxury items are often priced using the "even" side of odd-even pricing.

Ever wonder how odd-even pricing got its start? Decades ago, retailers began using this pricing strategy not to lure customers but rather to force cashiers to open their cash register drawers to make change—and thus record the sale. Over time, consumer psychologists studied the impact of odd-even pricing on consumption and found it to work!

Economy Pricing

When you are grocery shopping, are you surprised to see that name-brand products are priced much higher than store brands even though the product is essentially the same? Does the name brand really cost that much more to produce? Well, yes and no. Brand-name items spend considerably more on advertising than store brands. In order to recoup those costs (and based on the fact that name brands have a higher value perception to buyers), companies set prices higher for name brands. **Economy pricing**, on the other hand, is a tactic in which store brand prices are set much lower than their name-brand competitors. The focus on these products is selling in high volume by lowering prices and minimizing advertising costs.

Another example of economy pricing is used in the airline industry. Allegiant Air strives to offer no-frills air travel that is priced considerably lower than its competitors. But you have to get your seats fast at the lowest prices because the price increases as seats fill up. Oh, and if you want to travel with any luggage, you'll need to pay extra; Allegiant charges for any luggage other than one personal item.

Knowledge Check

It's time to check your knowledge on the concepts presented in this section. Refer to the Answer Key at the end of the book for feedback.

1. You are considering purchasing cable for your new apartment. You would really like to add HBO to your

cable plan, so you can watch some of the shows all of your friends are talking about. You can purchase basic cable for $49.99 per month and add HBO for an additional $12.99 month as a standalone addition. Alternatively, you can choose a package that includes HBO for $59.99. Obviously, you will choose the less expensive package. The cable company is using which of the following pricing tactics?
   a. Product line pricing
   b. Odd-even pricing
   c. Bundle pricing
   d. Economy pricing

2. Finley was tasked with setting the price of a new coffee maker that would utilize coffee pods instead of traditional coffee filters. Because customers would have to buy the pods in order to utilize the product, Finley should consider which pricing tactic?
   a. Captive pricing
   b. Odd-even pricing
   c. Bundle pricing
   d. Economy pricing

3. Thames is shopping for a new pair of jeans. He notices that one brand is priced at $49.99 and another is priced at $50.00. He immediately chooses the pair priced at $50.00 because he believes they are of better quality. Which pricing tactic was used to help Thames make his decision?
   a. Odd-even pricing
   b. Captive pricing
   c. Bundle pricing
   d. Economy pricing

4. Which of the following is NOT considered a pricing tactic for existing products?
   a. Odd-even pricing
   b. Price skimming
   c. Bundle pricing
   d. Captive pricing

5. Daphne often buys store or generic brand items at the grocery store because they are so much cheaper than name-brand items. Which pricing tactic is generally used for store or generic brands?
   a. Bundle pricing
   b. Cost-based pricing
   c. Psychological pricing
   d. Economy pricing

12.6 Ethical Considerations in Pricing

Learning Outcomes

By the end of this section, you will be able to:

LO 1 Identify ethical issues related to the pricing of products and services.
LO 2 Describe the different types of unethical practices.

Price Fixing

Recall that *ethics* is defined as behaviors based on values and beliefs of right and wrong. In marketing, unethical behavior can have catastrophic consequences. If a customer's trust is broken with a product, their likelihood of continuing to do business with that company dramatically decreases. Companies practicing unethical behavior run the risk of not only losing customers and profits, but also facing legal consequences. Let's explore some unethical (illegal) practices as they relate to pricing.

Price fixing occurs when two or more competitors agree to set prices at a specific level. The practice of price fixing force customers to pay higher prices than normal with no substitute alternatives. Consumers who purchased or leased certain automobiles were part of a class-action lawsuit involving several automobile manufactures. The brands, including Audi, BMW, Buick, Chevrolet, and many others agreed to pay into the settlement after being accused of conspiring together to artificially inflate the prices of various auto parts.[34]

Deceptive/Illegal Price Advertising

Deceptive price advertising is an unethical pricing practice in which the advertised price of a product is misleading to consumers. For example, let's assume a company advertised a product with a "suggested retail price" of $9.99 but is offering the same product for the "low price of only $4.99." If the same product is actually priced in a market in the same country for $9.99, it is not considered deceptive. However, if the product is not priced at $9.99 in any other market, it is considered deceptive.

Say you sell hats for a price of $29.99, but sales are sluggish. You decided to offer your hats "buy one get one free," but just before the sale starts, you raise the price of one hat to $59.99. Is this deceptive price advertising? Yes. This is not a bargain for consumers and is considered deceptive according to the Federal Trade Commission (FTC).

Predatory Pricing

Another unethical (and usually illegal) pricing strategy is that of predatory pricing. **Predatory pricing** occurs when a company prices goods or services so low that other companies cannot compete. Predatory pricing often entails a company selling products below its cost with the intent of driving out competition and creating a monopoly situation. Once competition is eliminated, the company will often increase the prices exponentially—not only to recuperate losses from the lower prices, but also to make more profit. Under various antitrust laws, this practice is illegal when it seeks to drive out competition and makes a market susceptible to monopolies.[35] In 2000, Walmart was accused by the Wisconsin Department of Agriculture, Trade, and Consumer Protection of predatory pricing practices. The complaint stated that the company was selling staple goods such as butter and milk below cost with a goal to drive out competition and create a monopoly.[36] In short, predatory pricing undermines the free market where supply and demand sets prices.

Price Discrimination

Price discrimination is a pricing strategy that charges different prices to customers based on what the seller believes it can get the customer to agree to. This pricing strategy is not illegal so long as it does not cause specific economic harm. But marketers should be wary of using this price tactic, as it could lead to disloyal customers if they feel they are not getting the best price.

Monopoly Gouging

Monopoly gouging is when a seller increases the prices of goods and services that are not considered fair or competitive. If there are no or very few substitutes, a company may be enticed to force buyers to pay a much higher price, leaving them no options. When there are very few competitors in a market, such as utilities, the industry is highly regulated by the government. For example, your electric company cannot choose to randomly increase prices to increase profits; it must follow a regulated process when increasing prices.

During the winter of 2020–2021, Texas experienced much colder and snowier conditions than usual. Millions were left without power, and dozens lost their lives. As hotels began to fill up, prices skyrocketed. A Super 8 motel was shown on Hotels.com at nearly $400/night, exponentially higher than in ordinary times. Identifying price gouging is a bit more complicated than it seems. While basic economics would expect higher demand to equal higher prices, the practice of price gouging is not only unethical but also illegal in many states when a disaster is announced.[37]

COMPANIES WITH A CONSCIENCE

Warby Parker

Warby Parker sought to find a solution to the problem of expensive eyeglasses—a medical necessity for many people. The company stated that “the eyewear industry [was] dominated by a single company that has been able to keep prices artificially high while reaping huge profits from consumer who have no other options.”[38] Warby Parker set out to change the way in which glasses were offered to consumers. The company’s direct-to-consumer approach and a uniform pricing strategy have made waves in the eyewear industry.

All of Warby Parker’s eyeglasses are not only priced lower than its competitors, but all of its eyeglasses are priced the same: $95. The average cost of eyewear was $263, making it difficult for some consumers to afford the needed glasses and making it difficult for people to distinguish the value between a $200 pair of glasses and a $400 pair of glasses.[39]

The company bypassed traditional supply chains and began making glasses in-house. It also talked directly to customers to understand the needs of the market and, in turn, is able to offer prescription eyeglasses at a fraction of the cost. In addition, it saw a global problem: too many people need glasses but cannot afford them. That’s why the company donates one pair of glasses for every pair sold.

Chapter Summary

In this chapter, we explored the process of setting pricing for products and services and the importance of pricing to the profitability of a business. We defined fixed and variable costs and how they factor into the break-even equation in initial pricing decisions. Commonly used pricing objectives were defined as cost based, sales oriented, market share, and target return. These objectives are used to set a clear pricing strategy for both products and services.

The new-product pricing strategies of price skimming and penetration pricing were defined, explaining common practices used based on the product type and placement in the market. The psychology of pricing based on consumer buying habits was identified and defined. Techniques include odd-even pricing, prestige pricing, and artificial time constraints.

The final concept we covered was ethics in pricing and how the consumer can identify unethical and/or illegal pricing practices. Price fixing, deceptive/illegal pricing in advertising, price discrimination, and monopoly/price gouging were discussed as practices that are used in an effort to increase profits.

Key Terms

artificial time constraints pricing strategy that creates a sense of urgency in buyers' minds
break-even pricing pricing strategy in which marketers choose a price that will cover all the costs of manufacturing
bundle pricing pricing strategy that promotes purchasing multiple items at once; used to prod customers to purchase (and spend) more than they may have otherwise
competition-based objective product pricing based on the prices of a company's competitors
consumer confidence an economic indicator that measures the degree of optimism that consumers have regarding the overall state of the country's economy and their own financial situations
cost-based objective product pricing based on the costs of doing business
cross-elasticity of demand the change in price of one good or service as a similar good or service's price changes
customer value–based objective product pricing based on a company's understanding of the value-added benefits of a product
customer-driven objective product pricing based on what a customer is willing to pay for a product or service
deceptive price advertising an unethical pricing practice in which the advertised price of a product is misleading to consumers
demand a buyer's ability and willingness to purchase a specific product or service
demand curve a graph that illustrates the relationship between demand and price
demand elasticity measure of the change in the quantity demanded in relation to the change in its price
discretionary income a household's money that is left over after all taxes and necessities are paid
economy pricing setting a price much lower than competitors to sell high volumes of a product
fixed costs costs of doing business that do not change based on number of units produced
income effect the perception buyers have of how price changes will affect their income
inflation an economic measure of the rate of rising prices of goods and services in an economy
market share–oriented objective setting prices at, below, or above competitors in an effort to increase market share
monopoly gouging when a seller increases the prices of goods and services that are not considered fair or competitive
odd-even pricing psychological pricing strategy that uses prices that end with odd or even numbers to attract customers
penetration pricing new product or service strategy that sets the lowest price possible in order to reach the majority of the market in the introduction stage

predatory pricing when a company prices goods or services so low that other companies cannot compete
prestige pricing a strategy marketers use to set high prices knowing that demand will increase with higher prices because the higher price increases the perceived value of the product
price the exchange of something of value between a buyer and seller
price anchoring a frame of reference for a buyer to set an expectation of a price
price appearance the way in which a customer perceives a price based on how it is visually represented
price discrimination selling goods and services at different prices to different customers
price fixing two or more companies agreeing to set certain prices in the market
price gouging when companies take advantage of a situation, typically an emergency or natural disaster, and charge exceptionally high prices for products or services
price skimming pricing strategy in which a company initially sets a high price for a product or service and lowers it over time as new segments of the market are reached
product line pricing setting a higher price for some product lines and lower price points for others in order to capture various target markets
profit the financial gain of a company
sales-oriented objective setting prices based on the goal of increasing the volume of sales
substitutes products and services that are similar to the one being offered
target return objective setting prices so they return a specific profit during a given period of time
total costs total expenses of doing business
total revenue the money generated from normal business operations
unemployment rate measure of the number of people not employed in an economy during a given period of time
variable costs costs that vary based on the number of units produced

Applied Marketing Knowledge: Discussion Questions

1. Choose a mass retailer such as Walmart or Target and look at its weekly advertisement. You can do this online, in the store, or with a physical flyer. Identify and analyze the pricing strategies used. Apply what you have learned to how you personally respond to those strategies.
2. Consider what products the penetration-price strategy and the price-skimming strategy work for. What are the advantages and disadvantages of these strategies?
3. Analyze the role pricing plays in strategic marketing.
4. Discuss with your family and friends what you have learned about pricing. Ask them how they respond to odd-even pricing, prestige pricing, and artificial time constraints. Note generational differences and possibly how family traditions can skew the answers.

Critical Thinking Exercises

1. Compose a 150–200-word paragraph using all the following terms as they relate to pricing. The goal is to prove you understand the meaning of each term.

   Terms to include:

   - Unemployment
   - Inflation
   - Discretionary income
   - Consumer confidence

2. Describe a break-even point and provide a mathematical example.
3. Pick one product that you would find at a grocery store, a mass merchandiser, and a convenience store.

Now go to each of these stores and check the price of the product you selected. Note if the product is on sale or listed at its regular price.

Are the prices consistent? Is one store higher or lower across the board? What would compel a consumer to pay higher prices for products when they can purchase them at a lower price?

Building Your Personal Brand

One of the most important tasks you have in establishing your personal brand is how you are going to communicate your skill level and experience to others. Let's start by developing a 30-second elevator pitch about yourself. An elevator pitch is what you would say about yourself if you were in an elevator with someone and only had the time between floors to share your message. What is the most important thing you would want to share about yourself and your personal brand if you were in an elevator with a hiring manager at company you want to work for? Things to consider covering include a quick introduction, your unique value or skill that would want to make them hire you, and something engaging about yourself to help them remember you.

What Do Marketers Do?

Using LinkedIn, find a pricing analyst. Reach out to them, introduce yourself, and let them know that you're a student wanting to know more about their job role. Then schedule an interview. Questions you may want to ask include:

- What is your background and education, and what brought you to this job?
- What do you feel are the pros and cons of this job role?
- Share with me what a typical day, week, and year look like in this job role.
- How has COVID-19 impacted your work?
- What advice do you have for someone interested in pursuing this job?

Marketing Plan Exercise

Complete the following information about the company and products/services you chose to focus on as you develop the marketing plan throughout the course. You may need to conduct research in order to obtain necessary information.

Instructions: Using the Marketing Plan Template file you created from the Marketing and Customer Value assignment and expanded upon in Strategic Planning in Marketing, Market Segmentation, Targeting, and Positioning, Marketing Research and Market Intelligence, and Products: Consumer Offerings, complete the following section of your marketing plan:

- Marketing Strategy: Pricing

Submit the marketing plan to your instructor for grading and feedback.

Closing Company Case

Naked Wines

Buying a good bottle of wine can be hit or miss. A consumer can pay a lot and not enjoy the wine or pay a little and really love the wine. As with any product, there are fixed costs and variable costs included in the price of a bottle of wine. Some of those expenses include the costs of production, the raw materials including grapes, barrels, bottles, utilities, and labor. Other costs include administrative overhead, sales, and marketing costs.[40]

Of course, distribution must be factored into the price of a bottle of wine. With an indirect distribution channel, wine often passes from the winemaker to a distributor, a wholesaler, and then a retailer. Macroenvironmental factors such as nature can affect pricing by affecting the grape supply, which will also add to the overall cost.

In addition to the obvious cost factors, there are psychological factors such as branding, exclusivity, and rating points. Wine rating points are awarded to wines based on input from industry experts and wine critics. Bottles with higher ratings points can generally command a higher price. In addition, a bottle with greater notoriety and awards will also be able to sell for significantly more than more obscure wines or those just starting out.

Breaking into the wine-making business can be incredibly challenging. All business start-ups face steep hurdles in the beginning stages. Wine making may well have more sunk costs than a typical start-up. With grapes taking years to grow and reach their peak and the labor for harvesting, juicing, and fermenting, entering the wine-making business can quickly burn through start-up cash. [41]

Getting money from a bank to start a business means business plans, initial investment, proven experience, and endless paperwork that takes up valuable time that could be spent tending the grapes. And making a name for yourself in the wine industry can take years. How do you get consumers to choose and buy your wine from the thousands of labels available?

Enter Naked Wines (https://openstax.org/r/nakedwines). The company was founded as a way to help small, independent winemakers break into the wine business. Started in 2008, Naked Wines had a mission to give consumers great wines at significantly reduced prices and help winemakers get the funding needed to start their business. [42]

Naked Wines thought it could break into the wine business by allowing consumers to join as investors. When a customer buys from Naked Wines, they become an investor. Each month investors purchase wine at a reduced cost from Naked Wines, which in turn invests in the winemakers it represents.

While the pricing is an advantage, being invested in the winemakers is a bigger advantage. Each month, investors get to choose which wines are delivered to them. The wines are carefully curated based on their wine preference profile along with the ratings they provide to the winemakers on previous purchases.

The Naked Wines business model allows the winemakers to have access to funding and market research, while the investors have access to great wines. As Naked Wines continues to grow from an initial start in the United Kingdom to operations in the United States, it continues to add winemakers and investors. Small winemakers who would otherwise not have had an opportunity to grow their business have found success and community through Naked Wines.

Case Questions

1. What are the psychological factors that affect the pricing of wine?
2. Name the five critical Cs of pricing evident in the Naked Wines pricing model.
3. What elements of the external environment are most evident in the pricing of a bottle of wine?
4. How might you best define the pricing strategy for Naked Wines?

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13

Integrated Marketing Communications

Figure 13.1 Peloton uses an integrated marketing strategy to reach consumers through multiple channels. (credit: modification of work “Going Backstage at Peloton HQ” by Jurvetson/flickr, CC BY 2.0)

Chapter Outline

In the Spotlight

Peloton started in 2012 with a group of ambitious people and the mission to “use technology and design to connect the world through fitness, empowering people to be the best version of themselves anywhere, anytime.”[1] In 2019, Peloton, still a relatively new company, released a holiday television ad that put it front and center in a very controversial spot. The ad opens with a mother and daughter walking down a set of stairs to open Christmas presents. You can see the snow outside through the windows of the house. At the bottom of the stairs is her husband waiting with a Christmas gift.

“A PELOTON?!?” she shrieks—but it isn’t immediately clear if she is happy with the gift. The commercial progresses with the mother documenting her fitness journey. She rides after work. She rides early in the morning. She rides through the seasons as you watch them change through the windows of the house.

The audience watches as she records her fitness journey on her Peloton. Toward the end of the ad, a Peloton instructor gives the young mother a name in a workout class by saying “Let’s go, Grace from Boston!” As the commercial comes to an end, Grace shares her journey with her husband. It turns out she was talking to him the whole time.

“A year ago, I didn’t realize how much this would change me,” she says, now a true believer. After her year-long journey and her new “fit” state, Grace thanks her husband for the gift and how it transformed her.

Consumers immediately took to social media to accuse Peloton of promoting a negative body image, economic privilege, and archaic marital relationships. The controversial ad sparked a significant spike in social media engagement. The brand and the ad were widely publicized in the media. The ad and the controversy definitely produced significant brand awareness and an intense interest in the benefits of using a Peloton.

Once the controversy died down, Peloton was a well-known brand name. And with the lockdowns that came with the COVID-19 pandemic, consumers around the world were seeking options for in-home exercise. Peloton was poised to become the market leader with a reputation as a premier means of in-home workouts.

Much of Peloton's success is a result of its robust integrated marketing strategy. Consumers learn about Peloton through a variety of methods: YouTube ads, television commercials, mall kiosks, social media posts, and web content. Though the organization does its best to develop its promotional messages, its best marketing strategy is the excellent word of mouth and rave reviews from all its loyal and satisfied customers. Using multiple avenues for reaching customers is known as an integrated marketing communication strategy, the core concept that you'll learn more about in this chapter.

Throughout 2020 and into 2021, during the height of the pandemic, Peloton experienced a 172 percent increase in sales.[2] But quick growth can create other problems. As Peloton's popularity exploded during the COVID-19 pandemic, management issues began to surface. In February of 2022, Peloton saw a 73 percent drop in its stock price, which led to the ousting of founding partner and CEO John Foley. Marketing communications can bring much-needed brand awareness, but it's been said that great marketing can quickly kill a bad company. What is next for the twice-named "CNBC Disrupter 50 Company"?[3]

13.1 The Promotion Mix and Its Elements

Learning Outcomes

By the end of this section, you will be able to:

- LO 1 Define the promotion mix and explain its importance.
- LO 2 List and describe the elements of the promotion mix.

What Is the Promotion Mix?

We are all consumers, and we have all been the target of promotional campaigns. To connect with consumers of a target market, companies conduct extensive market research so that they may better understand the consumer. When companies understand the consumer, they can better structure a message to appeal to the consumer and also find the best channels for reaching the customer.

The created messages aim to get consumers' attention. Sometimes they create awareness of a new event, a new product, a new idea, or a place to visit. Sometimes they are asking consumers to make a purchase. Marketing promotion is all around us.

According to the marketing firm Yankelovich Inc., the average digitally connected person is exposed to around 5,000 ads per day.[4] Among the biggest promotional spenders in the United States is Disney.[5] Disney produces ads for everything from its movies and toys to its vacation clubs and theme parks. While we should be flattered that these companies are thinking of us and trying to figure out how to reach us and what messages they should send, many consumers are busy trying to figure out how to shut out the messages.

When you sit down to watch television, you are typically exposed to ads that a company believes that you will respond to based on the research it has done about the audience watching the show you tuned in to watch. During your time scrolling through your news feed on Facebook, you are being served ads that correspond to your Internet search history and even products you may have mentioned while your phone was on and your news feed open. Digital advertising relies heavily on algorithms of your search history and site visits.

As recipients of these marketing messages, many consumers believe that marketing is only advertising or sales. However, advertising and sales are simply two options in a marketer's arsenal of communication tools used to connect with the target market. Developing a marketing communications strategy is something marketers should only do after they have developed the rest of the marketing mix.

In fact, marketers have a wide variety of strategies to use from the overall promotional mix (see Figure 13.2). Most companies choose to use a combination of the promotional mix methods to create an integrated marketing communication message that reaches the customer in many different ways. When the messaging is integrated, the consumer receives the same message no matter which method of promotion is chosen. If the consumer is watching the news and hears a story about the company or product, public relations has impacted them. If they then scroll through their social media accounts at the end of the day and they see an ad for the same product, advertising has impacted them. When they sort through their email and have a message from the company, they have received a direct marketing communication.

No longer does promotion need to rely heavily on just one method of marketing communication. Marketers can be much more targeted and more cost-effective in the promotional methods they choose. Using a combination of methods to send the same message allows the marketer to be more strategic in their messaging and in their budgeting.

The best products are nothing until the consumer knows about them. Without good promotion, the best products are just secrets. We all have things we want to say, and on any given day we make phone calls, create Instagram posts, upload TikTok videos, send emails, shoot off text messages, and talk face-to-face with people. And just like us, marketers also have things to say. Usually, they want to tell consumers about their new brand extension of Reese's, a trade-in allowance for a new Toyota Camry that just hit the car lot, or even a buy-one-get-one-free promotion for your Starbucks latte. How marketers decide to say and send the message is the promotion mix.

The **promotion mix** is the set of strategies marketers use to communicate with their customers. With combined strategies, the promotion mix creates a powerful method of connecting with the customer and conveying all the other marketing mix elements for a holistic marketing approach. The promotion mix allows marketers to reach customers in many different ways, ensuring that the message is seen, heard, and understood. After determining and defining the target market, creating a good product, selecting a pricing strategy and optimal price, and deciding on the distribution method, the marketer is ready to communicate with the customer.

Messages sent by multiple methods provide a better opportunity for consumers to see and hear the message and make the connection back to the company. When a message is only sent by one method, the potential for interference, noise, and avoidance is more likely to occur. Marketers use a multichannel approach to send an integrated message.

Figure 13.2 The Promotional Mix (attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)

Promotion Mix Defined

The full set of strategies that combine to make up the promotion mix include advertising, sales promotion, personal selling, public relations, direct marketing, and Internet/digital marketing. Each of these methods is intended to produce different results when used. Combining the elements creates an overall integrated message designed to reach consumers at various points in their path to purchase. Marketers call this integrated messaging integrated marketing communications.

The Importance of the Promotion Mix

Of all the marketing mix variables, the promotion mix can be further divided into different message channels that allow for connection and communication with the customer. When the promotion connects with the customer, it is the moment when all the marketing activities come together. When the messaging and method of delivery reach the customer and create the desired result, the marketing has achieved its purpose.

The strategies in the promotion mix provide the marketer with an arsenal of methods to achieve their marketing objectives, such as increasing sales or introducing a new product. However, consumers are bombarded with marketing messages throughout the day, and these are combined with the business of everyday life events like news, music, work, chores, family, and friends. With this busy pace and activity, the consumer is very difficult to reach. For the busy consumer, one communication method alone is not likely to cut through the clutter and noise to reach them and make an impact. Marketers must combine the various communication elements to connect with the customer and meet the communication objective.

Elements of the Promotion Mix

When analyzed individually, each of the **promotional mix elements** is powerful. They each have a part to play in the overall success of a company. When combined and carefully executed, they create powerful brands with legions of loyal fans and followers—the consumers. What do each of these promotional mix elements do, and how do they contribute to the whole process of connecting with the consumer?

Advertising

Advertising is a multibillion-dollar industry. According to Statista, in 2020 alone, worldwide advertising spending reached \$586 billion.[6] **Advertising** is paid, nonpersonal communication from an identified source that allows for creative messaging about all aspects of a product, service, idea, person, or place. Consumers are able to quickly point to advertising as a form of promotion. It is perhaps the element of the promotional mix that we are most familiar with and the one we have been most exposed to throughout every phase of our lives.

From our very first commercial showing how much fun it is to build with LEGO to imagery of a toddler walking the Disney streets with a costumed princess and Cinderella's castle in the foreground, we know what advertising looks like. And while advertising can take many forms, it is important to note that advertising consists of carefully designed messaging from the company to the consumer. Advertising is meant to produce a response in the viewer. And advertising is all about what the company wants to tell us.

Advertising can be the pop-up window while we are doing a Google search. It can be the Chick-fil-A billboard we pass every day on our way to work. Advertising can be the trailer we watch before our movie starts. And advertising can be the fun Doritos spots we look forward to during the annual Super Bowl.

While advertising can be a costly means of communication with the customer, it is relatively inexpensive based on the number of people reached. When NBC priced the 2021 Super Bowl at $6 million for a 30-second spot, with a record 96 million viewers, the price averaged out to around $0.06 per person reached.[7]

Advertising is effective based on the **frequency** with which it is usually viewed. And because of the media, the advertising message can usually be repeated many times, depending on the budget. Due to its repeatability, production costs have a better return on investment (ROI) the more an ad is used, and the recall of the ad increases significantly.

Sales Promotion

Most consumers love a **sales promotion**. It creates a feeling of excitement and often includes a bit of a gaming experience into the purchase decision. Marketers value the benefits of sales promotions because the results are immediate and they have a wide variety of options when using this promotional mix element. A sales promotion is a method for a marketer to induce sales in the short term. Sales promotion is not a long-term strategy but is geared toward specific calls to action, typically aimed at getting the consumer to buy something immediately or enter a sweepstakes or contest (see Figure 13.3).

Figure 13.3 Sales discounts are a promotional mix element that marketers use to appeal to customers and to deliver short-term sales for the company. (credit: "Sales Promotion at a Shop Window in Munich" by Henning Schlottmann/Wikimedia Commons, CC BY 4.0)

Using sales promotions can be an effective method of getting the consumer to try a product or buy more of a product, or it can be a way to quickly deplete an inventory to make way for new products.

While sales promotions have many tactics that the marketer can employ, several commonly used examples of sales promotion include the following:

- **Buy One Get One (BOGO)**. When Domino's Pizza offers the customer a free pizza when they buy a medium one-topping pizza, this BOGO deal is used to get an immediate increase in sales for Domino's pizza. Consumers may buy Domino's over other pizza brands because they can get more pizza for their money.

- **Enter to Win**. PepsiCo needed to gain traction with the millennial audience. It needed to boost the Lay's brand of potato chips and compete with new flavorful organic chips that were getting market share in the category once dominated by Lay's. To generate new interest in its brand, Lay's launched a campaign for consumers to create a new flavor. New flavors could be entered, Lay's would create samples, and the winner of the new chip flavor would win $1 million.
- **Coupons**. This method of promotion has come a long way with the use of technology. While consumers are still able to "clip" coupons and redeem them at the point of sale to receive savings on the products they are buying, many companies are making coupons available through mobile apps and discount codes to apply at the point of sale through an e-commerce store. Using coupons is a great method of inducing trial of a new product and increasing market share.

For National Ice Cream Day (see Figure 13.4), Cumberland Farms wanted to increase the sales of its house brand of ice cream, Ultimate Scoop.[8] It offered consumers a digital coupon for $1 off a pint of the ice cream. Cumberland Farms' existing customers received their coupon via text message, and new customers could text in to get the coupon.

Figure 13.4 Cumberland Farms used a coupon promotional strategy as a way to increase the price of its ice cream. (credit: "Ice Cream Cone" by Sean MacEntee/flickr, CC BY 2.0)

- **Rebates**. Companies offer rebates to induce purchase and generally to receive something in return besides the sale. When a rebate is offered for the purchase of an Energy Star–certified product, the consumer gets a designated dollar amount off the price of the product, and in turn they must submit the proof of purchase along with identifying information about themselves.

Personal Selling

Personal selling is one of the most expensive forms of promotion because it is a one-on-one, person-to-person form of communicating with the customer. The role of the salesperson is to inform and persuade the customer. This is usually done in what is termed an exchange situation. The salesperson is exchanging knowledge and something of value, while the customer is exchanging money for the item of value. Personal selling is ideal for products that can be customized, are complex, and have a relatively high price point.

Typically, personal selling is most often used in business-to-business (B2B) markets. Business buyers have longer buying cycles, more complex buying situations, and larger budgets. The pharmaceutical industry is well-known for using personal selling. Company representatives must have a high degree of training and knowledge about the products they are selling to physicians and hospitals. It is also very common to have a sales force to sell equipment and machinery to manufacturing plants. Businesses rely on the knowledge and service of the sales force selling them products.

In the business-to-consumer (B2C) market, personal selling is used for items that cost more or items that have a high degree of variation. We find sales representatives when we buy automobiles, home improvement products, and insurance. The job of the sales representative is to determine our needs and provide solutions that fill those needs.

When compared to advertising, which has a very general message directed to a very large audience, personal selling is an individualized message for one or several people within the buying group. When evaluating the costs of personal selling, it is typically hundreds to thousands of dollars per person reached.

The process of personal selling can be time-consuming. The process of selling and the tasks of the sales force can be complex. The sales professional is tasked with prospecting to identify the right customers and then qualifying them to make certain they are a good fit for the product.

It is not uncommon to hear people say, "You talk a good game. You could sell to anyone." In reality, salespeople do not want to talk people into a product. A good sales force only wants to sell to customers who want and need the product. The best sales force knows that when the customer is a good fit, they will bring repeat business and good word of mouth.

While some salespeople have a natural inclination for selling, others are highly skilled with the technical knowledge of the products they are selling. Understanding customers, the buying situation, and the product being sold are a few of the skills needed to master the art of selling. Good sales professionals know that the real work of the sale is to service the needs of the client long after the sale has been made.

Public Relations

Public relations is a nonpaid, nonpersonal form of promotion. Because it is nonpaid, it has a high degree of credibility and is beneficial because a typically credible, non-biased third party is the messenger. While there are many tactics that marketers might use for public relations, some of the most commonly used include press releases, press conferences, events, and annual reports.

Many of the other promotional tools focus specifically on communication with the customer. By contrast, public relations includes efforts to work with the community where it operates, media, government officials, educators, and potential investors.

When Nordstrom opened its flagship store in Manhattan, it unlocked the doors a few days early for a VIP celebration that included Vogue's editor, Anna Wintour, along with actresses, models, and designers. Some of the noted attendees included Zoe Saldana, Katie Holmes, Olivia Wilde, Karlie Kloss, Joan Smalls, Winnie Harlow, Tory Burch, Tommy Hilfiger, and Stacey Bendet of Alice + Olivia. Guests formed long lines around the store in an attempt to access the party.[9]

TOMS shoes has long been a leader in cause marketing (see Figure 13.5). When you buy from TOMS, one-third of the profits go to Grassroot Good.[10] TOMS' annual report highlights the people the company helps and how it helps them. Investors and any interested parties receive the annual report that details the work TOMS does right along with the profits it is making.

Figure 13.5 TOMS Shoes has effectively utilized a cause strategy, which has led to positive public relations with customers. (credit: "Toms Shoes at OhNo!Doom" by OhNo!Doom Collective/flickr, CC BY 2.0)

When celebrities wind up in the news, it is public relations, and it works to keep their name before the public and their fans. So the headline that hits the front page of the *New York Times* or is a leading story on the NBC nightly news both create publicity for the celebrity. Businesses also use publicity. A business might have a product as part of a movie, such as BMW vehicles showing up in 37 of the highest-grossing movies of 2018.[11]

Public relations can also include crisis communication when negative issues occur. One of the biggest public relations issues happened in 1982 to Tylenol. A malicious person or persons in the Chicago area tampered with a few bottles of Tylenol Extra Strength capsules by replacing the actual capsules with cyanide-laced capsules. Consumers who unwittingly bought the Tylenol ended up dead. Johnson & Johnson, the maker of Tylenol, was facing issues that could easily have destroyed its business. The issue was the leading story for every news outlet.

Johnson & Johnson faced the issue head-on and made the bold move to have Tylenol removed from all shelves. The recall resulted in the removal of 30 million products from store shelves.[12] In the end Tylenol was a hero and won the trust of a nation.

Direct Marketing

Direct marketing allows for direct communication with the customer. Messages can be tailored to specific market segments and even personalized toward individual consumers. Early tactics of direct marketing included telephone and mail; however, technology has allowed for new methods of connecting with the customer to include text messaging and email marketing.

In 2019, the Data & Marketing Association (DMA) reported that the direct mail industry was valued at $44.2 billion.[13] It's the second largest channel for ad spend in the United States, and it continues to grow. Transformed by technology, direct marketing is finding new methods to connect with the customer. Most connection includes a call to action that provides for immediate feedback on the effectiveness of the method.

Internet/Digital Marketing

Internet/digital marketing includes uses of technology to reach customers at many different points of interaction. Marketers have at their disposal a variety of methods to reach their customers and brand products. Some of the tools include websites, landing pages, social media pages, widgets, and customer relationship management (CRM) systems. All the digital properties work together to drive traffic to the branded properties and engage the consumers.

Digital marketing is geared toward very specific market segments and is primarily interactive. Think of digital marketing as the mechanism that produces the immediate interaction with the customer and produces some type of feedback. Digital is considered two-way communication between the company and the customer. During the early stages of launching the SPANX brand, Sara Blakely primarily used digital marketing with a heaving emphasis on social media.[14] She involved her women friends who were in her target market demographic and had them post about the brand through their social media.

By contrast, Internet marketing is sending a message to a mass audience. The Internet is used to for digital marketing and includes websites and digital ads as well as the two-way communication of social media. Other forms of digital marketing include mobile technology such as SMS and mobile apps.

When a consumer completes a Google search for shoes and then jumps to Facebook to scroll their feed and are served shoe ads from Nordstrom, Macy's, and Steve Madden, they have been targeted by these shoe companies. The targeting, immediacy, and changeability of the messaging makes digital a quick and efficient method of reaching consumers. Digital promotional tools are extremely effective and can cut through the clutter and reach the consumer when they are in the demand phase of the buying process and have signaled an intent to purchase.

According to a 2020 chief marketing officer (CMO) survey from Gartner, two-thirds of promotional budgets are being spent on digital.[15] Because of the tremendous analytics available, marketers are able to assess the effectiveness immediately. Messages can be tested for effectiveness and quickly changed if they are not producing results. It is very difficult to get the same quick feedback with any of the other forms of promotion. Through careful tracking and robust customer relationship management (CRM) systems, marketers are quickly able to promote products, increase brand awareness, and move consumers down the sales funnel to instantly purchase through online e-commerce sites.

Utilizing mobile app technology, marketers are able to push promotions to customers while segmenting them by their behaviors and simultaneously filling their CRM with insights and analytics that can help drive promotions and sales.

CAREERS IN MARKETING

Integrated Marketing Career

An integrated marketing communications (IMC) professional builds and manages campaigns that integrate all the facets of marketing—advertising, public relations, digital campaigns, sales, etc. If you're interested in this job role, check out this article to learn about the qualifications, experience, and salary (https://openstax.org/r/requirementsintegrated). You can also refer to programs offered by educational organizations that specialize in integrated marketing. A few examples of those educational organizations include San Diego State University (https://openstax.org/r/businesssdsuedu), Marist (https://openstax.org/r/integratedmarketingcomm), Northwestern (https://openstax.org/r/imcprofessionalinfo), and Eastern Michigan University, to name a few. Check out this list for the Best Marketing Communication Colleges according to Best Accredited Colleges (https://openstax.org/r/bestaccreditedcolleges).

Additional resources to explore include the following video:

- IMC Careers from Northwestern's IMC director
  Click to view content (https://openstax.org/books/principles-marketing/pages/13-1-the-promotion-mix-and-its-elements)
- Introduction to IMC geared toward marketing management students
  Click to view content (https://openstax.org/books/principles-marketing/pages/13-1-the-promotion-mix-and-its-elements)
- Evolution of IMC from Marist College
  Click to view content (https://openstax.org/books/principles-marketing/pages/13-1-the-promotion-mix-and-its-elements)

Knowledge Check

It's time to check your knowledge on the concepts presented in this section. Refer to the Answer Key at the end of the book for feedback.

1. The goal of an integrated marketing communications (IMC) program is to ________.
   a. have all of a company's marketing and promotional activities project a consistent image and message to its target market
   b. control all facets of a product's distribution
   c. communicate with customers only through television commercials
   d. have complete control over all facets of the marketing mix

2. One of the promotional mix methods is advertising. Advertising may be defined as any ________.
   a. communications about a good, service, or company
   b. paid forms of nonpersonal communication about a good, service, or company
   c. communication that moves the product from the wholesaler to the retailer
   d. communication from a company sales representative to a company buyer

3. If you have a new brand and you want to reach a large consumer audience, which promotional mix element would probably be used?
   a. Sales promotion
   b. Personal selling
   c. Advertising
   d. Public relations

4. Dunkin' includes coupons in its print magazine advertisements. This is an example of ________.
   a. sales promotion
   b. public relations
   c. personal selling
   d. Internet/digital promotion

5. When a singer who is voted off *The Voice* television series appears on *Today* to discuss the experience, it is an example of ________.
   a. advertising
   b. public relations
   c. sales promotion
   d. direct marketing

13.2 The Communication Process

Learning Outcomes

By the end of this section, you will be able to:

LO 1 Describe the communication process.
LO 2 Identify and discuss each element of the communication process.

Communication Process Defined

At first glance, the communication process seems simple. However, a deeper look shows the complexity and issues that are involved with communicating. When choosing how to send a message to the consumer, it is important to understand how the communication process works. All forms of marketing promotion are methods of communicating from the company to the consumer. No matter which method of promotion you use, the elements of the communication process are important to recognize and consider.

Understanding how communication flows helps the marketer to create better messaging, better media, and a response system that facilitates the communication objective. Sending and receiving a message are only two small parts of the complex system that marketers work with when trying to send promotional messages to consumers.

Within the complex system of communicating are the variables of the sender, encoding, messaging, media, the receiver, decoding, and the feedback loop—all while contending with constant noise. Out of all the elements of the communication process, only the sender, the encoding, the message, and the media are in the marketer's control. All of the other elements are outside of what marketing can control. Marketers must understand all of the other aspects of the communication process to mitigate the unknown and meet the campaign objectives.

When we consider communication, we are simply transmitting information. On the granular level, the communication process is how the message gets created, sent, and received. The elements of the communication process are consistent no matter what the message is or how you choose to send it. However, the variation in messaging, medium, and receiver all affect the encoding process and the feedback loop (see Figure 13.6).

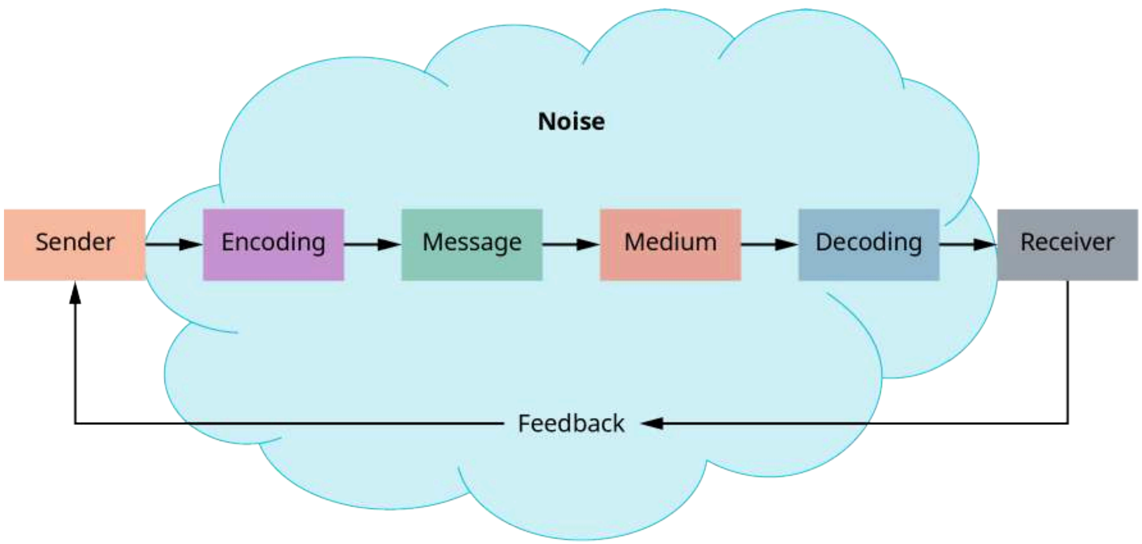


Figure 13.6 The Communication Process (attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)

The Elements of the Communication Process

In order for communication to happen, it must go through a process. Both personal and professional communication are comprised of several elements that occur in order for the exchange of information to take place. For communication to happen, there must be a sender of the message and a receiver of the message. Between the sender and the receiver is the message itself as well as the channel by which the message is sent. All the variables in between include the elements that are uncontrollable and, if not managed well, can cause issues. These elements include the encoding and decoding of the message as well as the noise that gets in the way and the feedback that helps us gauge the success or failure of the message.

The Sender

The **sender** is the source of the message. This can be the company, the marketer, or the hired talent for a commercial. For example, when PepsiCo signed a multiyear contract with Beyoncé to be a brand ambassador, Pepsi made Beyoncé the sender of its messaging.[16]

Encoding

How the message gets developed is the creative process marketers go through to put meaning behind the information they want to share with their customer. The process of creating the message is known as **encoding**. The process of putting the thoughts and ideas into words or symbols is encoding. Encoding could be writing a press release, developing a tag line, writing ad copy, creating a jingle, or designing a brand symbol. How a marketer chooses to encode the message should be dependent on the characteristics of the audience.

The Message

From the encoding process, a message is developed. For marketers, the goal is to have the message reflect the value the product provides to the consumer. When Nike tells its customers to “Just Do It,” it has created a message. Dove’s “Real Beauty” campaign created a message that beauty comes in many different forms.

The Medium

Once the marketer has the message developed, they need to send it. The **medium** is how the message is delivered. The message could be sent through the television in the form of an advertisement or a news story. The message could travel to the customer through an email directly in the customer’s inbox. Or the message could be a salesperson describing why the new Ford Broncos are safe and dependable.

The Receiver

In marketing, the customer is generally the **receiver**. However, messaging can also be delivered to groups and organizations. When Comcast develops its annual report and sends it to its group of investors, the investors are the receivers of the message. If Chick-fil-A creates a billboard saying to “Eat More Chicken,” the travelers passing the billboard are the receivers.

Decoding

Decoding is the process of unpacking the message and giving it meaning. It is the receiver’s understanding of the message that has been sent. Many things affect the process of decoding, some of which include the receiver’s knowledge and experience. To create the most effective messages and delivery, the marketer needs to have extensive research about and understanding of the receiver. When the consumer hears the message “Red Bull gives you wiings,” the company (sender) wants to convey that the product will give the customer (receiver) the energy to do whatever they want to do. If the receiver believes that they can actually fly after drinking Red Bull, there was an error in the decoding process.

Feedback

The **feedback loop** tells the sender if the receiver understood the message as they were intending it when they encoded the message. Feedback is the checkpoint on a specific call to action. It can be a return email, a click to a website, or a purchase using a coupon. When the feedback loop is complete, the marketer has data regarding the communication process.

Personal selling has the richest method of feedback. If the salesperson is in front of the receiver and can hear their voice when they respond and can see their body language, they have a complete understanding of whether the encoding was effective when the decoding takes place. If the marketer sends a coupon to a consumer via a mobile app and the consumer redeems the coupon at the point of purchase, the redemption is the feedback loop for the sales promotion.

Noise

In the communication process, many elements are outside of the marketer’s control. The biggest factor that can be a point of conflict for the marketer is the **noise** that interferes with the receiver’s ability to get the message, decode it, and provide feedback. All the elements that get in the way of the receiver getting the message are noise. Noise can be the distractions that happen while the ad plays during an episode of *Seal Team*—things such as getting a snack, talking to a family member or friend, or surfing channels just as the ad is playing. Noise can be the other thousands of messages targeting the same receiver and vying for their attention.

The marketer's job is to understand the various sources of noise and work to create encoding and mediums that will help to reduce the interference. It is typically believed that because of all the noise that exists, the receiver must be exposed to the message on average 7–10 times before they take action toward the message.

Knowledge Check

It's time to check your knowledge on the concepts presented in this section. Refer to the Answer Key at the end of the book for feedback.

1. When a message is created and the company chooses to have a celebrity as the spokesperson, what does the celebrity represent in the communication process?
   a. Sender
   b. Feedback loop
   c. Medium
   d. Noise

2. Which of the following is considered noise in the communication process?
   a. The sender sings a jingle.
   b. A special news bulletin interrupts a paid ad.
   c. The consumer calls the 800 telephone number displayed in the advertisement.
   d. The consumer clips the coupon from a mailer.

3. A popular form of communicating is through television advertisements. Which element of the communication process is the television advertisement?
   a. Noise
   b. Sender
   c. Medium
   d. Feedback loop

4. Putting thoughts, ideas, or information together in symbolic form is called ________.
   a. encoding
   b. noise
   c. decoding
   d. sender

5. The Tennessee Department of Tourist Development purchased and ad in *Southern Living.* The ad encouraged people to choose the state of Tennessee for summer vacations. Along with beautiful, scenic photos of Tennessee, the ad includes the tagline "Tennessee sounds good to me." In this print ad, the source of the advertising message is ________.
   a. the Tennessee Department of Tourist Development
   b. *Southern Living* magazine
   c. the people in the scenic pictures
   d. readers of the magazine

13.3 Integrated Marketing Communications

Learning Outcomes

By the end of this section, you will be able to:

- LO 1 Define integrated marketing communications (IMC).
- LO 2 Discuss why IMC is important in marketing.

Integrated Marketing Communications (IMC) Defined

Now that you are familiar with the various forms of marketing promotions, how do you use them? Because consumers are all different—no matter how they fit into your target market—it is important to reach them through a combined approach, using a variety of the methods in the marketing promotion mix.

The method of using various forms of the promotional mix to send the same message to the target audience is called **integrated marketing communications**.

Importance of IMC in Marketing

If a group of friends is planning to go out to dinner, as the group organizer you may find it best to text some friends and call others. The message is the same: "Let's meet for dinner at Chipotle at 6:00 p.m." The methods of communication are different depending on the traits and characteristics of the group. This works similarly in marketing. Marketers have many forms of communicating through the various methods available in the promotional mix. However, it is important to send the same message in different ways to reach different customers within the target market. And consumers need to hear the same message many times and in many different forms.

Benefits of IMC

Benefits of an integrated marketing campaign are many. As a marketer seeks to create awareness, stimulate demand, or even encourage product trial, they are continuously seeking methods of cutting through the clutter and noise and trying to reach their intended audience—the customer. When using one method, they may reach a few customers; when using two or more methods, the odds begin to increase; and when using all of their available promotional mix methods to reach the consumer with a consistent message, marketing becomes more effective. The benefits of the integrated approach are significant.

Better Results

Without an integrated approach, the marketing message and methods of delivery will be disjointed. Different members of the marketing team may be sending very different messages to the consumer. The consumer will then be confused as to what they should do. Think of it as a bike with all the pieces lying on the sidewalk—the bike doesn't work very well. However, when the pieces all come together to form the bike, it glides smoothly along the sidewalk. It is the same when the message comes together.

When Taco Bell (see Figure 13.7) wants to tell the consumer that the Grilled Steak Burrito is only available for a limited time, it can send the message many different ways. The consumer soon knows the Grilled Steak Burrito is only available for a limited time. They have received the same message through ads on television and radio, an email, a photo and reminder on Instagram, and a billboard on their way to work. After receiving the same message in many different ways, the consumer realizes there is some urgency in getting to Taco Bell to try the new Grilled Steak Burrito. When the customer is in physical proximity to their local Taco Bell, apps such as RetailMeNot can send push notifications to customers when they pass the location. The offer can include BOGO or other promotions to convince the customer the time to purchase a Grilled Steak Burrito meal is now.

Figure 13.7 Taco Bell effectively utilized an IMC strategy to tell customers that its Grilled Steak Burrito was available for a limited time. (credit: "Taco Bell" by JeepersMedia/flickr, CC BY 2.0)

Increased Efficiency

Having streamlined communication channels all working toward a unified goal reduces waste and increases productivity. The marketing effort should not create divergent messaging. Through integrated marketing communications, the creation of a clear and simple message allows the marketing team to focus on the single message while each team member uses their skills to push the message through their unique specialization, be it public relations or advertising. Everyone comes together through a shared goal.

Improved Brand Awareness

You can tell a small child to brush their teeth multiple times, and chances are good it still won't happen. But when a parent tells the child to brush their teeth, the dentist provides them with a toothbrush and tells them to brush their teeth, and Elmo shows them the importance of brushing their teeth, soon the child understands that it is a good idea to brush their teeth. The same thing happens when Southwest Airlines publishes all of its fares and fees on its website, broadcasts ads on television and radio, send emails to its Southwest Rapid Rewards customers, and advertises on its mobile app (see Figure 13.8).

Figure 13.8 An IMC strategy in which the consumer hears product or service benefits through multiple channels, as utilized by Southwest Airlines, allows a company to increase brand awareness. (credit: “Waikiki IMG_2379” by John Martinez Pavliga/flickr, CC BY 2.0)

Repeated Success

Through the use of an integrated approach, marketers are finding repeated success. Success is generally based on the metrics chosen for the campaign objectives. Typically, marketers are concerned with objectives such as return on investment, cost per impression, cost per lead, and customer lifetime value. With a truly integrated campaign, you will see the objectives remain the same while the execution strategies change across the various promotional methods.

Customer Satisfaction

When customers know the brand promise and they hear it repeated often with increased company connection, customers are more educated and have more realistic expectations. The combination of connection and knowledge leads to increased customer satisfaction.

Knowledge Check

It’s time to check your knowledge on the concepts presented in this section. Refer to the Answer Key at the end of the book for feedback.

1. British Airways used the James Bond movie *Die Another Day* to show that James Bond flies first class. The airline also ran ads with the slogan “Save your moneypennys, fly like Bond,” which referenced one of the main characters in the film. The airline also posted ads where consumers were watching the movie. This an example of ________.
   a. the marketing mix
   b. distribution
   c. integrated marketing communications
   d. advertising

2. The goal of integrated marketing communications is to ________.
   a. have all marketing and promotional activities project a consistent unified image
   b. gain control of the distribution process
   c. use only paid methods of promotion
   d. develop a competitive pricing structure

3. When Sally is able to quickly recall the Taco Bell ad and think about purchasing a Grilled Steak Burrito from Taco Bell when she is hungry, it indicates which of the following benefits of an integrated marketing communications approach?
   a. Increased efficiency
   b. Customer satisfaction
   c. Improved brand awareness
   d. Expense

4. Tina knows that when she goes to Walgreens, she can use coupons and her reward points. She is thrilled with the way she saves money at Walgreens, and she is happy to be able to use so many of the great promotional opportunities. She tells many of her family and friends about her savings and her experience. Which of the following integrated marketing communications benefits is Tina demonstrating?
   a. Better results
   b. Increased efficiency
   c. Improved brand awareness
   d. Customer satisfaction

5. When a marketer uses multiple promotional methods to send a consistent message to the consumer, they are demonstrating the use of ________.
   a. advertising
   b. public relations
   c. integrated marketing communications
   d. personal selling

13.4 Steps in the IMC Planning Process

Learning Outcomes

By the end of this section, you will be able to:

LO 1 List the steps in the IMC planning process.
LO 2 Summarize the details of each step in IMC planning.

Identify the Target Audience

All successful IMC campaigns start with a good foundation and a carefully written and executed plan. Every step in the marketing process should be driven by research; the same is true for the IMC planning process (see Figure 13.9).

Figure 13.9 The IMC Planning Process (attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)

Understanding the audience is integral to creating an effective IMC campaign. Using a variety of tools, marketers are able to identify the target audience. The more that is known about the target audience, the higher the likelihood is of making sure the message is coded correctly and the right medium for effective encoding and reduced noise is chosen.

Marketers employ many tools to understand the target audience. Both primary and secondary marketing research can provide significant insights. A clear understanding of the consumer allows the marketer to create messages that resonate with the needs and wants of the target audience.

Determine the Marketing Communications Objectives

Marketing campaigns must start with clear objectives. Objectives define what needs to be done, and they help to keep the strategy and tactics clearly aligned. Good objectives will help marketers create cohesive messaging across all the promotional mix methods. Objectives need to be simple, and they should be written in such a way that they provide opportunity for analysis. If done correctly, marketers should be able to analyze if the messaging and the medium are working. When creating objectives, follow the SMART guidelines: simple, measurable, actionable, realistic, and time-bound.

The 5A Framework

The **5A framework** is the map of the customer's needs. Through the 5A framework (see Figure 13.10), marketers create messaging that moves the customer through the funnel, or customer journey with the brand. The 5As provide the marketer with clear steps on the role of the messaging at each step of the framework.

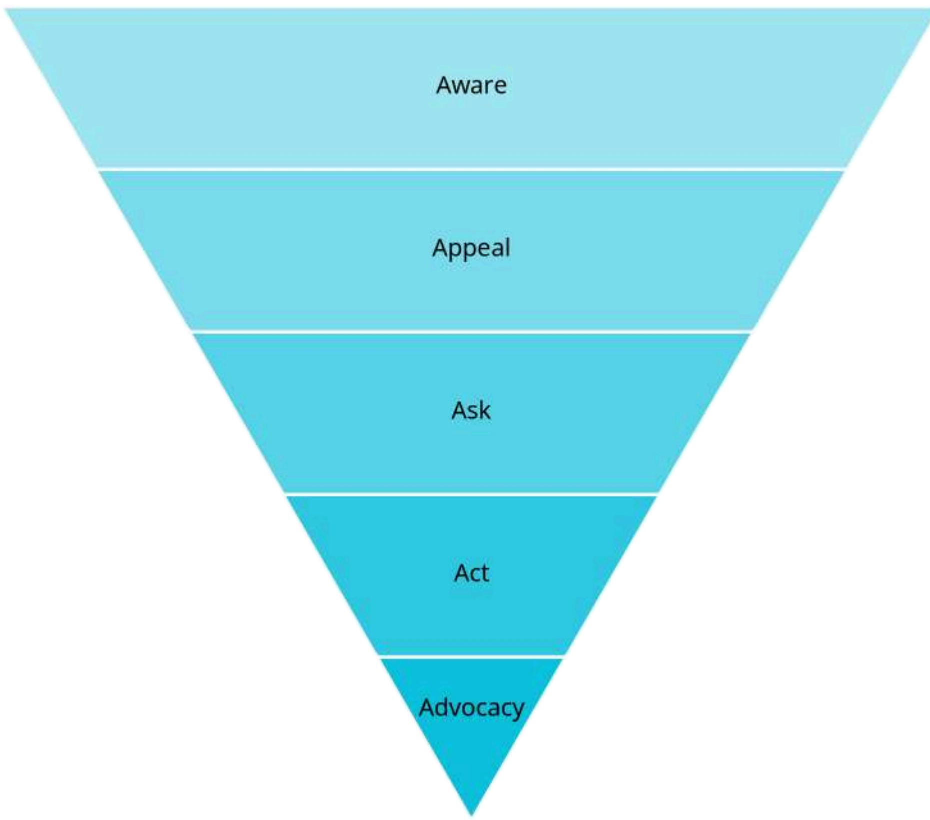


Figure 13.10 The 5A Framework (attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)

Let's look at the five steps of the 5A framework in more detail:

- **Aware**: The first stage in the customer journey with any product is to be aware that the product exists. It is difficult for a product to be desired by the customer if they don't know about it.
  When Angel Johnson launched her activewear company ICONI, she needed to stand out from more popular and well-funded activewear brands. As a Black woman–owned business, Angel wanted to appeal to other women, many of whom needed different types of activewear. Angel found success in creating awareness through running ads on Amazon, where customers could easily find and purchase her products.[17]
- **Appeal:** After becoming aware that a product exists, the consumer must gain some understanding of what the product can do for them. If the benefits are favorable for the consumer, they may put it in their consideration set of things that appeal to them.

- **Ask:** After the appeal stage, the consumer may become motivated to actively seek out information about the product. When the consumer asks the company about the product, they have opened the channels of communication. This is part of the feedback loop. Methods of asking include the consumer engaging online through a chatbot or a contact form or by calling a listed phone number.
- **Act:** Further down the customer journey funnel, if the customer has received information and they feel it is favorable, then they will act. The action can be to either purchase the product or not purchase the product. Either form of action must be evaluated by the marketing team. The marketer can determine if the messaging created a favorable or unfavorable reaction and then modify the messaging for the segment that acted not to buy the product.
- **Advocacy:** At the bottom of the funnel is the marketer's holy grail—the consumer becomes a loyal customer. The marketer can begin to calculate lifetime value, but most importantly the consumer becomes an advocate for the product. Through their advocacy, the consumer provides positive word of mouth and encourages purchase by other consumers.

Design the Message

A key element of integrated marketing communications is creating the message. Messages are designed to fulfill the established objectives. Depending upon the objective and the desired action of the consumer, the marketer may create the message to meet the various stages in the customer journey and have a call to action.

The biggest part of the message design is the content of the message. To move the consumer to the point where they act, marketers have at their disposal various forms of appeal. The appeal is the approach used to attract the attention of the target audience or to persuade it to take action.

Create the Message Content

When creating the message, the marketer has to consider not only the stage of the customer journey, but the product's features and benefits as well. Other factors to consider in the message content include the media and the traits and characteristics of the target market. All of the segmentation bases should be considered when creating the appeal.

Rational Appeals

When Toyota advertises the features of alternative-fuel vehicles and tells the consumer how those features benefit them, it is creating a rational appeal (see Figure 13.11). **Rational appeals** prompt the consumer to make the choice for the product because of all the ways they will benefit from using it.

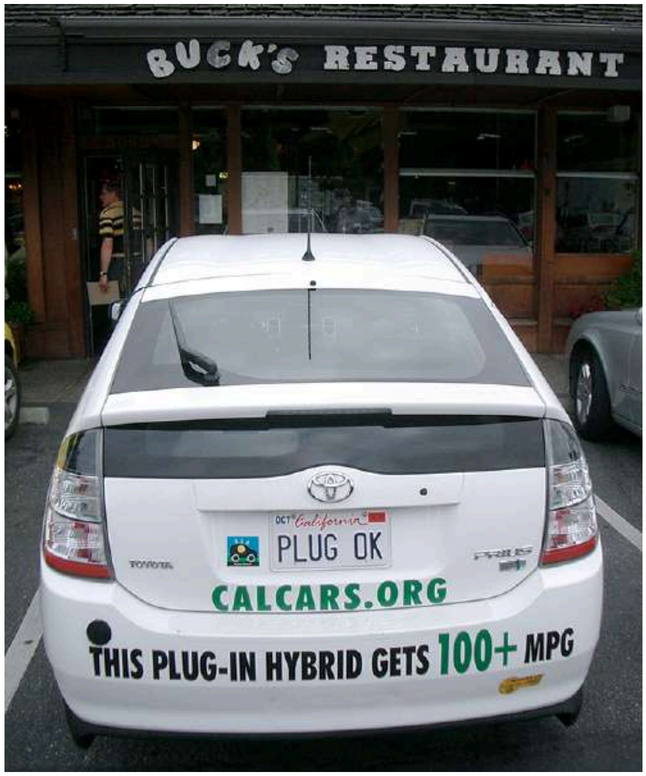


Figure 13.11 IMC messages that appeal to a consumer's rational side, like Toyota's alternative fuel vehicle, speak to the benefits the consumer will see from using the product or service. (credit: "Another Breakfast at Buck's" by Jurvetson/flickr, CC BY 2.0)

Emotional Appeals

Consumers have a wide variety of emotions. Advertising messages can play to all those emotions. A few of the typical **emotional appeals** include happiness, fear, trust, sadness, anger, and guilt. It can be quite effective to create fear if the customer doesn't purchase the product. Some examples of common fear appeals include skin care products and the fear of the effects of aging on skin. Vitamins and supplements use the fear of being unhealthy. And automobiles promote the fear of not being safe in a crash unless you drive a certain brand with a good crash-test rating.

LINK TO LEARNING

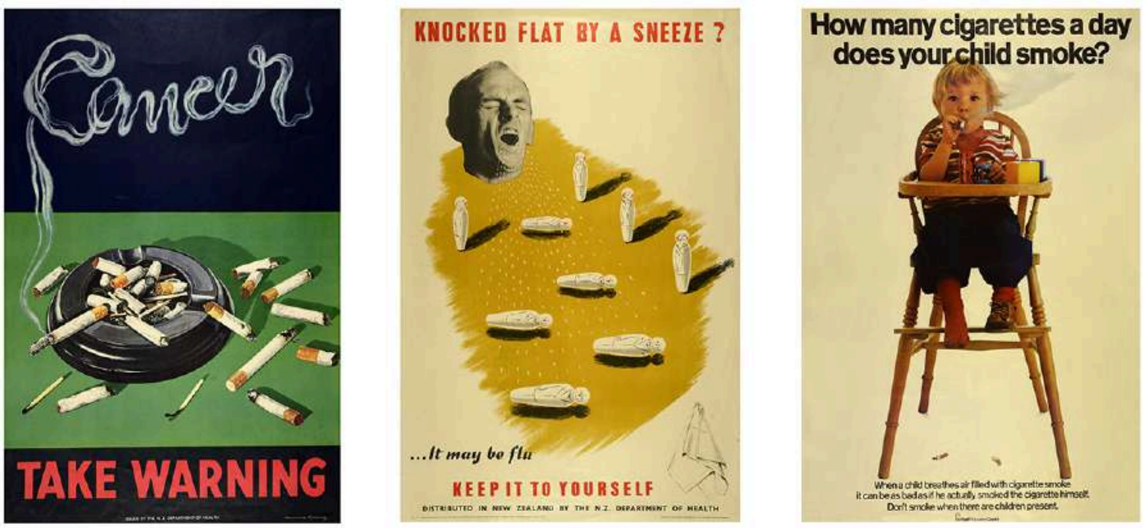
Happiness Campaign

Coca-Cola (see Figure 13.12) wanted to associate drinking a Coke with being happy and created a whole campaign on the emotion of happiness. Everything in the campaign was focused on drinking Coke and choosing to be happy. They created the #choosehappiness hashtag to be used in their social and digital promotions. Consumers would include their pictures drinking a Coke with friends and add #choosehappiness. Check out this commercial from the campaign.

Click to view content (https://openstax.org/books/principles-marketing/pages/13-4-steps-in-the-imc-planning-process)

Figure 13.12 IMC messages that speak to a consumer's emotional side, like Coca-Cola's "Happiness" campaign, influence purchasing behavior by playing to the wide variety of emotions that consumers have. (credit: "Coca Cola" by JeepersMedia/flickr, CC BY 2.0)

Public health campaigns often rely on **fear appeals** (see Figure 13.13). If you continue a behavior there may well be negative consequences, which can arouse fear in the consumer. These campaigns seek to change behavior through fear. Fear appeals can be very effective in some circumstances.



(a) (b) (c)

Figure 13.13 IMC messages that speak to consumers' fears create a sense of panic that if message isn't heeded, something bad may happen. (credit: "Cancer Take Warning" by Archives New Zealand's health poster collection, transferred by the Department of Health/ Railways Studios/Archives New Zealand/flickr, CC BY 2.0; "Knocked Flat by a Sneeze" by Archives New Zealand's health poster collection, transferred by the Department of Health/Archives New Zealand/flickr, CC BY 2.0; "How Many Cigarettes a Day Does Your Child Smoke?" by Archives New Zealand's health poster collection, transferred by the Department of Health/Archives New Zealand/ flickr, CC BY 2.0)

Moral Appeals

A **moral appeal** pushes the consumer to want the product because of a sense of morality or social good (see Figure 13.14). The messaging may encourage the consumer to do the "right thing." If they don't do what is being asked of them, the situation will get worse.

Figure 13.14 Messages based on morals encourage consumers to do what is considered right. (credit: "Beer Bottle Chained with Handcuffs and Don't Drink and Drive Text" by Marco Verch/flickr, CC BY 2.0)

Message Structure

Promotional messages generally have common elements, which include a slogan, the text or content, and the graphics. The graphics can include photos and brand identification. Messages can tell stories with words or lead the audience to their own conclusion based on the graphics.

When Apple first promoted its iPod, the company used the imagery of a very colorful background, a completely black silhouette, and the stark contrast of the all-white iPod with white headphones. The graphic alone conveyed the message that the iPod would allow consumers to "jam" to their own tunes through this new device.

Message Format

The format of the message depends largely on the media being used to send the message. For example, a television ad combines sight and sound, while radio is reliant only on sound. The same is true for print, billboards, and various digital campaigns. Formatting the message needs to take into consideration the target market as well as the medium of the message.

Determine the Budget

Promotional budgets are determined based on many variables. In developing the promotional budget, it is important to consider where the consumer is in their journey. Additional considerations include the current level of brand awareness for the product, accessibility of the target market, creation of the promotion, and specific media under consideration. There are several commonly used methods of creating promotional budgets.

- **Objective and Task:** This is perhaps the best method but is often used the least. With objective and task, the marketer determines the objectives of the IMC campaign and what tasks need to be done in order to complete the objectives. The tasks are priced, and the level of reach (number of consumers who will see the message) and the frequency (the number of times the consumer will see the message) are estimated. Based on the tasks necessary to achieve the campaign objectives, the budget is established.
- **Top Down:** With a top-down budgeting approach, the IMC campaign budget is issued from the operating budget based on input from the executives responsible for setting the budgets. While this method takes into consideration the overall organization, it pays little heed to the needs of the specific campaign.
- **Percent of Sales:** While personal selling is one of the methods included in the promotional mix, it is not the only method. A percent-of-sales approach attributes sales to all the functions of marketing. Generally, an organization may provide an arbitrary percent of overall sales as the total budget for the marketing promotions. Because many issues affect the sale of a product, it is difficult to make sales the only

determinant of the marketing activities and the promotional methods.

- **Affordable:** The affordable method allocates only the amount of money the company can provide to a marketing budget. This method does not create a mindset of growth within the organization. A robust marketing strategy is focused on the growth of the organization. Affordable only provides for what is left over after all the other expenses have been allocated.
- **Competitive Parity:** If you were to look at the advertising budgets of competitors in the same industry, you might very likely see that they are spending similar amounts on a very similar promotional mix. Companies of every size closely monitor the promotional activities of their competitors. With the competitive parity method of budgeting, the allocations essentially mirror whatever the closest competitor is spending on promotions. This method of budgeting doesn't allow for increased market share.

Develop Strategies and Tactics

The promotional strategies include the promotional methods the marketer chooses in order to achieve the objectives. Within the promotional methods, the tactics are the specifics the marketer must use to achieve the objectives. For example, if Panera Bread wants a 10 percent increase in brand awareness for its decorated Christmas sugar cookies from November 26 to December 30, it may choose to use the following strategy and corresponding tactics:

A strategy might be to create an Internet/digital messaging campaign focused on creating awareness with a message to try the Panera Christmas sugar cookies for a limited time. The tactics might then be developed as follows:

- Develop push ads through the Panera Bread mobile app
- Publish pop-up banner ads through Google
- Post campaign messages in Instagram
- Post campaign messages in Facebook

Select the Promotional Tools

The marketer must decide on the mix of promotional tools based on the established marketing objectives. Choosing the mix of promotional methods is also primarily dependent on the consumer and how best to reach them.

When Timmy Global Health, a not-for-profit organization, wanted to do an end-of-year fundraising ask, it chose to reach its donor base through direct mail. The organization chose an email campaign for the segment of its market that is responsive to email and has an email address in the CRM system. For a small segment of its market, those who are older and not responsive to digital marketing, it chose to do a direct mail campaign with a postcard mailed through the US Postal Service.[18]

LINK TO LEARNING

Direct Mail Examples

There are hundreds of examples where companies have used direct mail campaigns in their promotional mix. Check out some of the best as referenced in this article (https://openstax.org/r/bestdirectmail).

Designing the Promotion

In considering the target market and the message to send, the marketer must think of the desired response. Three important issues arise in the design of the promotion: what to say (message), how to say it (creative), and who should say it (source). This leads the marketer to the overall message strategy, which will look at the appeal as it relates to the brand positioning. A marketer will consider the following in designing a promotion:

- **Message Strategy:** A good **message strategy** must tie the brand to the target audience. What will appeal to them? What action do you want them to take? How does the brand positioning need to be portrayed? The marketer may choose to highlight how the product compares to the competition (points of parity), or the marketer may choose to focus on how the product is different (points of difference). In doing so, it is important to showcase the product or service through the value it will bring to the target market. Ultimately, the customer wants to know “What’s in it for me?”
- **Creative Strategy:** Through a **creative strategy**, the marketer is able to translate their message into words, images, and sounds. If the message and the creative do not match up, the communication objectives may miss their mark. The creative strategy helps the marketer cut through the clutter and get the attention of the target audience. A properly done creative strategy serves as the guiding principles to develop good content.
- **Communication Channel:** Think of the **communication channel** as the delivery mechanism, taking the message from the company to the consumer. Determining which channel is generally guided by the audience, the message, and the creative strategy. Channels can be nonpersonal or personal. The channel options are as varied as the consumers themselves.
  Personal communication channels can include social networks like friends, family, and neighbors. They can also include paid or unpaid experts and even the company’s own sales force. Nonpersonal communication channels include everything from television and radio to billboards and direct mail.

In designing the promotion, the marketer can mix and match the message, creative, and communication strategies until they have the right combination to execute on their objectives and connect with the target market.

For example, when World Food Championships wanted to reach home cooks, professional chefs, and aspiring chefs to participate in its Food Sport events, it enticed them with the opportunity for a big payout in winnings. And it created a connection with them through smaller local qualifying events. When the winners of smaller events received a Golden Ticket to compete, they were instantly excited. Then they realized the competition would allow them to meet with even bigger food celebrities and increase their chances of television fame (see Figure 13.15).

Figure 13.15 Designing a promotion involves developing a strategy around message, creativity, and communication—an approach that was effectively implemented by the World Food Championships when it wanted to reach a wider variety of cooks. (credit: “Cookin’ with Gas (Oh Wait, That’s Induction…)” by Shrie Bradford Spangler/flickr, CC BY 2.0)

Scheduling the Promotion

Knowing when to promote and how often to promote is a critical juncture in the promotional process. For scheduling purposes, it is important to understand the complexity of the message and the medium or channel for delivery. If the average of 5,000 promotional messages a day is correct, the consumer will need to see a message many times in order to become aware and act. To move them down through the customer journey, the message has to cut through the clutter and stick.

Reach is the number of consumers who will be exposed to the promotional message at any given time. Frequency is the number of times the consumer will be exposed to the message. Using the combination of reach times frequency, the marketer is able to determine the promotional schedule. Marketers typically work to create promotional schedules that optimize the exposure to the target market. Once again, we see that having extensive knowledge of the target market is critical to creating effective campaigns. There are three promotional schedules a marketer may consider:

- **Continuous:** With a **continuous promotional schedule**, the marketer will conduct the promotion year-round on a very regular schedule. Consumers will continuously see the ads.
- **Flighting**: Through a **flighting promotional schedule**, the marketer will run a period of heavy promotions and then go for a period of time without any promotional messaging. The idea is to give the target market a break and avoid potential wear-out of the message.
- **Pulsing:** If you see promotions on a regular basis and then suddenly you see them a lot during certain seasons, the sender is using a **pulsing schedule**.

For example, let’s consider the television commercial for MyPillow. Throughout a broadcast, the MyPillow commercial plays two or three times. The commercial plays every night on one broadcast station. However, during holiday seasons, the commercial plays more often. The commercial is often accompanied by a special code. With the code, viewers can receive a discount on the pillows. The viewer gets a discount, and MyPillow receives analytics to determine if its budget for this commercial television time is effective. In this example, MyPillow is utilizing a pulsing schedule for its promotional efforts.

Evaluate and Measure the Objectives

Before starting a promotional campaign, marketers must establish objectives. Including measurable and time-bound objectives is important. The marketer must evaluate the campaign on a continual basis to ensure that every element in the campaign is working to achieve the objective. Measuring and evaluating the campaign on a continual basis allows the marketer to evaluate the elements and make changes. Typically, objectives also have financial accountability. Changing elements of a campaign avoids overspending on components that are not working to meet the objectives.

Some common **key performance indicators (KPIs)** for evaluating promotional campaigns include the following:

- return on investment
- cost per lead
- cost per sale
- conversion
- engagement

Digital promotional campaigns allow marketers to track many analytics in real time and have the ability to make changes to the campaign in real time. The advantages of digital media include a host of valuable analytics, such as the following:

- website traffic
- page views
- bounce rate
- conversion rate
- impressions
- cost per click

MARKETING DASHBOARD

ROCI

IMC is centered on data-driven decision-making to drive organizational value. So it's no surprise that the founder of IMC, Don Schultz, determined a way to measure IMC campaigns. Schultz calls this metric **return on customer investment (ROCI)**. ROCI is a marginal analysis that shows the efficiency of marketing communications spending. We often think of effectiveness as the key measure of a campaign's success. But equally important is the efficiency of how we spend resources. We should consider how hard our resource works for us.

We should also be concerned about how well our investment does in the short term and the long term. After all, we are trying to build financial returns for our organizations. ROCI looks at short- and long-term value by considering the change in profitability and value during the period and overall.

IMC considers all aspects of the marketing communications relationship, not just a single campaign. The ROCI metric looks at how revenue grows over time and not just in response to one action.

The formula for ROCI is as follows:

$$\text{ROCI} = \text{Profit from Customer in Current Period} + \frac{\text{Change in the Customer's Value in Period}}{\text{Customer's Value at the Beginning of the Period}}$$

Let's say we own an ice cream shop and we are interested in the efficiency of our recent IMC campaign. So, we decide to conduct an ROCI calculation for an average customer using the following data. What is the ROCI?

Profit from the customer in the current period	$38.00
Change in customer's value in the current period	$10.00
Customer's value at the beginning of the period	$21.00

Table 13.1

Solution
$38.48

Last period, the ROCI was $37.50. What factors might impact the change from the previous period to this period?

Solution
ROCI considers all aspects of the IMC relationship, so as the relationship grows, the ROCI does as well.

What is the value of the ROCI calculation?

Solution
It determines the marketing communication campaigns that yield the most profitable customers.

LINK TO LEARNING

Don Schultz

Hear from Dr. Schultz directly about IMC trends in this video.

[Click to view content (https://openstax.org/books/principles-marketing/pages/13-4-steps-in-the-imc-planning-process)](https://openstax.org/books/principles-marketing/pages/13-4-steps-in-the-imc-planning-process)

Knowledge Check

It's time to check your knowledge on the concepts presented in this section. Refer to the Answer Key at the end of the book for feedback.

1. The first step in the IMC planning process is ________.
   a. determine the objectives
   b. determine the budget
   c. identify the target audience
   d. select the promotional tools

2. According to the 5A framework, when Jennifer uses the Panera Bread coupon sent through a text message to her mobile device, which stage of the customer journey is she in?
   a. Advocacy
   b. Aware

c. Appeal
d. Act

3. When advertising is scheduled to run constantly without variation, this is referred to as ________.
    a. flighting
    b. continuity
    c. reach
    d. pulsing

4. When Nestlé shows an advertisement that has children coming down the stairs on Christmas morning to the smell of freshly baked Nestlé Tollhouse chocolate chip cookies, this is an example of which method of message appeal?
    a. Rational
    b. Emotional
    c. Fear
    d. Moral

5. The CFO for Wendy's tells the CMO that after doing the annual budget, there is only $700,000 left for marketing promotions. Which form of budgeting is Wendy's using?
    a. Objective and task
    b. Competitive parity
    c. Affordable
    d. Percent of sales

13.5 Ethical Issues in Marketing Communication

Learning Outcomes

By the end of this section, you will be able to:

LO 1 Identify ethical issues with respect to marketing communications.
LO 2 Discuss ways to maintain and foster ethical marketing communications.

Socially Responsible Marketing Communications

While some argue that marketing makes people buy things they don't want, marketing cannot *make* someone buy something. The adage "buyer beware" still holds true. And while there are stories of rogue marketers not holding to the American Marketing Association (AMA) code of ethics, ultimately marketers want lifetime customers. The lifetime customer is easier to educate, more agreeable, and generally a good word-of-mouth testament for the company. It is difficult to get and keep customers without ethical marketing.

Marketers look to self-regulation as the first line of defense. It is in the marketer's best interest to always maintain a code of ethics in order to serve their customers and grow their organization. Good brands are always built on trust.

After self-regulation, there is regulation by trade associations, followed by federal regulation. The federal agencies with oversight for marketing promotions include the following:

- **Federal Trade Commission (FTC).** The FTC maintains oversight of commercial speech, unfair methods of competition, and deceptive advertising.
- **Federal Communications Commission (FCC).** The FCC regulates broadcast communication and has jurisdiction over the radio, television, and telephone sectors.
- **Food and Drug Administration (FDA).** This organization has authority over labeling, packaging, branding, ingredients lists, and advertising of packaged foods, pharmaceutical products, and cosmetics.

- **CAN-SPAM Act.** This regulation monitors commercial email practices and is one of the prominent regulations that affect many marketers across industries.

Companies have realized that when they are socially responsible, it benefits many of their customers, their communities, the environment, and their shareholders. Customers have come to expect more from the companies they purchase from, and they want to support companies that “do good.” When companies support and sponsor programs and charities that are important to their customers, their customers in turn support them.

In 2021, Subaru celebrated 14 years of its Share the Love event.[19] To celebrate this event, it debuted a national ad campaign highlighting the people, places, and pets that have been impacted by its social responsibility. Charities supported by Subaru include the American Society for the Prevention of Cruelty to Animals (ASPCA), Make-A-Wish Foundation, Meals on Wheels America, and the National Park Foundation. In its advertising, Subaru also showcases some of the local charities—selected by Subaru retailers—that benefit from the Subaru Share the Love event, as well as the impact of the automaker’s work with Feeding America to help address food insecurity.[20]

Maintaining and Fostering Ethical Marketing Communications

Ethical marketing communications includes avoiding activities that could mislead consumers—communication such as withholding information, making misleading claims, and misstating information. In an effort to make products be all that a consumer would want from them, marketers can easily go down the slippery slope that leads to ethical missteps. To make sure marketing communication doesn’t follow any of the common unethical practices, it is important to be aware of two of the most used and violated ethical issues:

- **Puffery** is when marketers exaggerate at extreme levels. For example, a marketer may say that a product is “10x stronger than the competition.” This is an unethical statement unless the marketer can support this claim through independent research from a third-party firm. Using general terms such as “awesome,” “fabulous,” and “best” are all acceptable, but making specific statements crosses the ethics threshold.
- **Paid sponsorship** is when a person promoting a product is paid by the company to make an endorsement. We’ve all seen the political ads describing who has paid for the ad and who has endorsed the ad. When we see a television commercial and it has a Ford truck driving over rugged terrain and we hear “Built Ford Tough,” we are certain the ad was paid for and sponsored by the Ford Motor Company. However, if we scroll through Instagram and we see one of our favorite Instagram accounts using the new Babyliss Pro Titanium Flat Iron for their styling hair, and they are extolling its many great features, we cannot be sure if this Instagram account simply really likes the flat iron or if they are a paid influencer. Paid influencers must disclose their relationship to the brand so the consumer is notified that the endorsement of the product is a business arrangement. Disclosing paid sponsorship is a big issue, particularly for advertorials, native advertising, paid links, influencer marketing, affiliate marketing, and any “pay for play” content.

COMPANIES WITH A CONSCIENCE

Farmer Direct Organic

This group of farmers in Canada and the United States banded together to provide better food and better prices. The mission of Farmer Direct Organic is not only to grow better food but to change the way consumers think about food and how they eat. The farmers who participate in the cooperative are focused on quality and transparency. All of their food is 100 percent organic and 100 percent farmer owned.

Through its Facebook and Pinterest accounts, Farmer Direct Organic showcases the family farms that grow the food it sells. Consumers can purchase Farmer Direct Organic at Fresh Market and Whole Foods locations throughout North America. In keeping with its mission to help consumers eat better food, the company shares recipes and serving suggestions on social media and the organization’s website.

With a vision of a “food future that is good for you, for your family, for farmers, and for the planet,” Farmer Direct Organic carefully monitors the food that bears its brand, and it has an unwavering commitment to pesticide monitoring, transparency, and traceability from the store back to the farm that grew the food that is now on your table.[21]

Chapter Summary

After the marketer has facilitated all the other marketing mix variables, they are ready to communicate with their intended target audience. Marketers have a set of promotional methods for communicating. This chapter explores the various methods of communication along with modeling the communication process.

Throughout the chapter we explore the various promotional methods: advertising, personal selling, sales promotion, public relations, direct marketing, and internet and digital marketing. The communication process has multiple steps: sender, receivers, message, medium, encoding, decoding, feedback, and noise. To get messages through the process, it is important for the marketer to have an extensive understanding of the intended target audience.

To reach the target audience and build value for an organization, the marketer typically sends a consistent message through multiple promotional methods; this is called integrated marketing communications (IMC).

Key Terms

5A framework map of the consumer's various need states as they find out about a product and finally decide to purchase

advertising a paid form of nonpersonal communication about a product, service, or idea

buy one get one (BOGO) promotion strategy in which consumers are offered the opportunity to buy one product at regular price and get a second item free

communication channel delivery mechanism that takes the message from the company to the consumer

continuous promotional schedule process of conducting promotions year-round on a regular schedule

coupons sales promotion strategy that works to induce a consumer to buy a product based on a price reduction

creative strategy method of translating a message into words, images, and sounds

decoding method of transforming and interpreting a message

direct marketing method of promotion that directly connects with the customer and generally requires a response or transaction

emotional appeals advertising messages that appeal to human emotions

encoding process of putting ideas and thoughts into a transmittable form

enter to win promotion strategy where consumers must complete entry requirements for a chance to win something of value from a company

fear appeals campaigns that seek to change behavior through fear

feedback loop notification that the message has been received between the sender and the receiver

flighting promotion schedule process of running a period of heavy promotions and then going for a period of time without any promotional messaging

frequency number of times the target market is exposed to a promotion

integrated marketing communications development and execution of multiple promotional methods that include a coordinated message

Internet/digital marketing promotional method that utilizes the Internet and digital technology such as text messaging, phone applications, and social media to reach consumers

key performance indicators (KPIs) methods of evaluating promotional campaigns

medium various methods of communicating with a target audience; may include broadcast, print, outdoor, and other forms

message strategy method of developing a message based on how the message will best tie the brand to the target market

moral appeal information communicated to the consumer to appeal to their sense of right and wrong

noise unplanned distractions that interfere with the communication between a sender and a receiver

paid sponsorship when a person promoting a product is paid by the company to make the endorsement

personal selling one-to-one communication between the seller and the buyer; used to inform and persuade the buyer

promotion mix tactics marketers use to communicate with the customer

promotional mix elements tactics to communicate with the customer including advertising, sales promotion, personal selling, public relations, and direct marketing

public relations nonpaid, nonpersonal communication

puffery providing unrealistic and unsubstantiated claims about a product

pulsing schedule process of running steady promotions followed by a period of heavy promotions

rational appeals information communicated to the consumer based on how they will benefit

rebates sales promotion strategy in which consumers must provide key information to a company in exchange for dollars off the product

receiver intended message recipient

return on customer investment (ROCI) a marginal analysis that shows the efficiency of marketing communication spending

sales promotion promotion that creates an incentive to purchase; provides for a fairly immediate increase in sales in the short term

sender source of a message; can be an organization or person

Applied Marketing Knowledge: Discussion Questions

1. Evaluate the skills that are required to be successful in a personal-selling position. What are they, and why do you believe they would be important?
2. Consider the communication process discussed in this chapter. Explain the process as you understand each step. Where do you believe the biggest challenges are from a marketing perspective?
3. Explain the ethical issues involved in the messaging that marketers create. How can they make sure that they are not crossing the line when it comes to these issues?
4. Identify some of the benefits and the pitfalls of paid sponsorships. Occasionally an issue hits the news about something that had a blowback effect on the company that sponsored a team, event, and/or product.

Critical Thinking Exercises

1. Compose a 150–200-word paragraph using all the following terms as they relate to integrated marketing communications. The goal is to prove you understand the meaning of each term.

   Terms:

   - advertising
   - digital marketing
   - frequency
   - reach
   - feedback loop
   - sales promotion

2. Several companies come to mind when we think about great integrated marketing communications; Target and Gap are two of those. Consider other companies that have campaigns that you recognize in any form of marketing that truly stand out. What makes them memorable?
3. Socially responsible marketing campaigns such as the Subaru one mentioned are becoming more visible over time. Identify two to three other campaigns that you have seen. What do they use as a motivator? Is it to give to a cause, to buy a product or service that they sell based on the fact that they make a donation in your name, or is it simply an informative campaign?

Building Your Personal Brand

One of the key ways that you can build your personal brand is by association. The following is a list of marketing associations. Research each of these to determine which organization(s) are most congruent with your goals. Many of these organizations have local chapters that you can join, where you can attend a function, or that you can simply use to gather additional information. These are great ways to network with other marketing professionals, organizations, and industry leaders. From this association you can continue to develop a network of peers that you can gather information, experiences, and ideas from.

- American Advertising Federation (AAF) is a leading professional organization that includes members across all disciplines and career levels in advertising.
- American Marketing Association (AMA) is the largest marketing association in North America with more than 30,000 members globally.
- Association of National Advertisers (ANA) is a leading marketing and advertising organization.
- Association of International Product Marketing and Management (AIPMM) is a membership-based professional organization for product managers, brand managers, and more.
- Association of Network Marketing Professionals (ANMP) is the premier association uniting network marketing professionals worldwide.
- Legal Marketing Association (LMA) is the universal voice of the legal marketing and business development profession.
- Social Media Association (SMA) informs, inspires, and empowers business through social, digital, and future media.
- Society for Marketing Professional Services (SMPS) is for marketing and business development professionals in the architecture, engineering, and construction industry.

What Do Marketers Do?

Using the same list of marketing associations above, contact the one that interests you the most and ask if it is possible to speak with a member. Explain that you are a student and you would like to interview someone in the field. Before the interview, consider what information you would like to leave the interview with. Below is a list to get you started, but be sure to add anything else that the list does not contain and be prepared to ask follow-up questions for clarity.

1. Tell me about yourself. What is your education, how long have you held this position, and how did you get here?
2. Can you outline your current job?
3. What does your typical day look like?
4. What do you like best and least?
5. What is the biggest challenge of this position?
6. What does a career path look like from where you are now?

Marketing Plan Exercise

Complete the following information about the company and products/services you chose to focus on as you develop the marketing plan throughout the course. You may need to conduct research in order to obtain necessary information.

Instructions: Using the Marketing Plan Template file you created from the Marketing and Customer Value assignment and expanded upon in Strategic Planning in Marketing, Market Segmentation, Targeting, and Positioning, Marketing Research and Market Intelligence, Products: Consumer Offerings, and Pricing Products and Services, complete the following section of your marketing plan:

- Marketing Strategy: Promotion

Submit the marketing plan to your instructor for grading and feedback.

Closing Company Case

Little Debbie

Part of your childhood nostalgia may include the Little Debbie Oatmeal Creme Pie, Nutty Buddy, or Swiss Roll. These much-loved products are from the family bakery known as McKee Foods. The company was founded in 1934 by O. D. and Ruth McKee. The company started out as Jack's Cookie Company, a small bakery in Chattanooga, Tennessee, that was bought by the couple to provide convenient snacks for school lunches.

Prior to McKee Foods, bakery or snack cake items were not individually wrapped and sold in a multipack carton. The snack cake brand was named Little Debbie after the founders' granddaughter. Her image is still the famous logo on all packaging. Back in the 1960s, a carton of 12 cakes and cookies had a suggested retail price of 49 cents.

Among the company's brands are Little Debbie, Sunbelt Bakery, Drake's Cakes, and Fieldstone Bakery. The largest brand is Little Debbie, with a wide range of favorites from Apple Fruit Pies to Zebra Cakes. Little Debbie offers seasonal items in rotation, such as Christmas Tree Cakes. Distribution extends to all 50 states, Mexico, and Canada.

The Little Debbie brand of products is widely available in grocery stores, convenience stores, and vending machines. The company has many best-selling products that are pantry mainstays in households throughout the markets they serve. Because the company is such an American icon, the products evoke a sense of nostalgia in many consumers. One such product: Christmas Tree Cakes. Debuting in 1985, the beloved product can be found on shelves to celebrate Christmas and is widely anticipated by consumers around the start of the Thanksgiving season. It is one of the best-selling holiday treats.

For the 2021 holiday season, Little Debbie launched a new Christmas treat, Christmas Tree Cake Ice Cream. To create this new confection, Little Debbie partnered with Hudsonville Ice Cream, a Michigan-based company that has been in business for over 90 years. The new product launched with a great deal of media attention. Public relations were in full swing with articles in newspapers across the country as well as trial of the product on live news broadcasts. Additional headlines appeared in digital media outlets to amplify the message that this new treat was available in stores for the holidays "while supplies last."[22]

Little Debbie featured the product in its social media with release information on all of its channels starting in October, well ahead of the holiday selling season. The company has a robust social media presence with over two million fans on Facebook, 85,000 followers on Instagram, and 200,000 followers on Twitter. The likes, shares, and positive comments had social media buzzing in anticipation of this new product.[23]

Case Questions

1. When Little Debbie creates its message about the Christmas Tree Cake Ice Cream, what is an example of the encoding?
2. Because this promotion was largely dependent on public relations and publicity, what is the potential noise that may interfere with the media?
3. How did Little Debbie integrate its communication for the introduction of the Christmas Tree Cake Ice Cream?
4. What type of appeal is Little Debbie using for the launch of the Little Debbie Christmas Tree Cake Ice Cream?

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14

The Promotion Mix: Advertising and Public Relations

Figure 14.1 Advertising is a form of promotion and can be presented in many channels; one example is the billboards in Times Square in New York City. (credit: modification of work "Times Square, NYC" by MK Feeney/flickr, CC BY 2.0)

Chapter Outline

In the Spotlight

Leo Burnett was a journalist for the *Peoria Times* in Illinois when he decided to start his own advertising firm with the same name in 1935.[1] His strategies were fairly simple: to utilize models who looked like ordinary people instead of Hollywood stars. His motto: "What helps people, helps business." That strategy paid off big for Philip Morris with the introduction of the iconic—albeit now considered unethical—Marlboro Man. In 1952, the ageless Tony the Tiger cartoon icon for Kellogg's Frosted Flakes was also born from the Leo Burnett ad agency. Other notable companies that have utilized the Leo Burnett ad agency include Procter & Gamble, McDonald's, and Fiat, to name just a few.

Today, the company has offices around the globe, and it still prides itself on aligning brands with human values. According the company, "Leo Burnett was built on a simple belief. That the most creative, most effective and most powerful work has people at its core—their needs, wants, dreams and hopes. It's a belief that can be seen in action in everything we make."[2]

In July of 2021, Leo Burnett London released a new advertisement for McDonald's—"Fancy a McDonald's?"—that showcases one of life's simpler pleasures: laughter. It featured a television advertisement with no dialogue, just some friends and family enjoying time together.[3] The advertisements, a big success, ultimately highlight Leo Burnett's ability to reach a multitude of audiences across cultures and generations.[4]

LINK TO LEARNING

Leo Burnett

There is a lot to learn from the Leo Burnett advertising agency. Check out the agency's website (https://openstax.org/r/leoburnett) to see the various kinds of campaigns the company has worked on. Be sure to check out the News section to read about several campaigns.

Interested in the campaigns mentioned in this section? Check out these websites:

- Fancy a McDonald's laughter commercial
  Click to view content (https://openstax.org/books/principles-marketing/pages/14-in-the-spotlight)
- Kellogg's discussion about the Tony the Tiger campaign (https://openstax.org/r/nutritionhowdidyoucome)
- Food nonfiction's history of Tony the Tiger (https://openstax.org/r/foodnonfiction)
- Video on the history of Tony the Tiger
  Click to view content (https://openstax.org/books/principles-marketing/pages/14-in-the-spotlight)

14.1 Advertising in the Promotion Mix

Learning Outcomes

By the end of this section, you will be able to:

LO 1 Define advertising and provide examples.
LO 2 Discuss the importance of advertising in the promotion mix.

Advertising and its Importance in the Promotion Mix

Marketers utilize a variety of ways—or media channels—to promote the organization's offerings. Regardless of the media channel used, marketers must be consistent in the communication they send to customers.

Advertising is paid communication messages that identify a brand or organization and is intended to reach a large number of recipients. The most traditional media that are used for advertising include newspapers, magazines, television, radio, Internet, and billboards (see Figure 14.2). The increase in the availability and use of the Internet and other technology has also led organizations to advertise on mobile phones, through email, on social media, and on other digital devices.

Figure 14.2 Billboards are one channel for advertising. (credit: “March04 015” by Lord Jim/flickr, CC BY 2.0)

Like every promotion mix element and media channel, advertising has its own advantages and disadvantages. Advertising is fairly expensive, so the cost to the organization is high. However, advertising reaches a large audience with one ad, so the cost per exposure is relatively low. For example, just one 30-second commercial during the 2021 Super Bowl cost companies around $6 million.[5] But with 96.4 million viewers, the cost per exposure (assuming every viewer sees the commercial) is only around 6 cents per viewer. Because advertising is nonpersonal and reaches a large audience, the message can get distorted from the marketer’s intention to that of the audience. For this reason, it is difficult to quickly change the message if it is misunderstood, and it also difficult to capture how well the message was received.

LINK TO LEARNING

Cost of Super Bowl Commercials over Time

Super Bowl ads have a large following, and the expense has increased each year. Check out this article from *The Sporting News* (https://openstax.org/r/superbowlcommercials) that compares the cost of commercials from 1967 to 2022.

Product Advertisements

Product advertisements are those that promote a specific product within the organization’s product mix. These advertisements focus on a singular product and intend to bring brand awareness to a product or to differentiate the brand from competitors. In 2013, PepsiCo created a print ad showing a can of Pepsi wearing a Coca-Cola cape, wishing the audience a Happy Halloween. In 2020, Coca-Cola used the same advertisement to counteract the original ad by stating: “Everyone wants to be a hero!” Both are examples of product advertisements, cheekily comparing two fiercely competing brands.[6]

LINK TO LEARNING

Pepsi versus Coke

Brands roasting one another through advertisements is not something that PepsiCo invented. It's been done many times. To see the Pepsi versus Coke campaigns as well as other big brands roasting their competitors, check out this Bulldog article (https://openstax.org/r/5brandsroasted).

Institutional Advertisements

Unlike product advertisements that focus on one product or brand in an organization's product mix, **institutional advertisements** focus on the organization. This differs also from public relations—discussed next—in that it is a paid form of communication. The goal of institutional advertising is to create a positive image or support for the entire organization. Institutional ads also have the advantage of creating a positive impact by attracting potential candidates and increasing employee engagement within the organization. At the start of the COVID-19 pandemic, many companies stepped up to help mitigate the effects the pandemic had on the country. Early on, Anheuser-Busch switched some of its operations from distilling beer to making hand sanitizer. In April 2020, just one month after the pandemic hit the United States, the company had already delivered over 500,000 bottle of hand sanitizer.[7] The company utilized both print and television advertisements to communicate its philanthropic efforts to consumers. It wasn't trying to sell the public a Budweiser, but rather was using the ads to help bolster its image to consumers.

Importance of Advertising

While there has been a major increase in commercial-free television and the ability to skip ads in multiple media platforms, advertising still remains an important part of the promotion mix. Advertising assists in consumer awareness—making sure the audience is aware of a product or service and its benefits. Advertising also helps to retain customers through reminders and can show audiences that a business aligns with their values. However, with the increase in society's reluctance to believe what they see in advertisements, it is more important than ever that marketers ensure they are sending the right message at the right time.

Knowledge Check

It's time to check your knowledge on the concepts presented in this section. Refer to the Answer Key at the end of the book for feedback.

1. Promoting a product in a television commercial aligns with which of the promotion mix elements?
   a. Advertising
   b. Public affairs
   c. Social media
   d. Institutional advertising

2. You see a television advertisement from Ford thanking frontline heroes during the pandemic. Which term best describes this advertisement?
   a. Product advertising
   b. Public relations
   c. Institutional advertising
   d. Press relations

3. As a new marketer in a firm, you are asked to provide the advantages of using advertising in an upcoming promotion strategy. Which of the following would be included in your list of advantages?

a. Advertising's per-exposure cost is an advantage.
b. Advertising is nonpaid, so it does not cost the company.
c. Advertising's message is easy to change.
d. Advertising's effectiveness is easy to capture early.

4. Breana sees an advertisement that compares Colgate toothpaste with that of Crest. She decides to change her toothpaste brand based on this new information. Which term best describes what Breana was exposed to?
a. Institutional advertisement
b. Public relations
c. Social media
d. Product advertisement

5. Which of the following is a false statement about advertising?
a. It is still as important to the promotion mix as other elements.
b. It is the least costly of all promotion mix elements.
c. It should always be a well-thought-out strategy.
d. It assists in consumer awareness and brand loyalty.

14.2 Major Decisions in Developing an Advertising Plan

Learning Outcomes

By the end of this section, you will be able to:
LO **1** List the steps involved in developing an advertising plan.
LO **2** Describe the details involved in each step of advertising development.
LO **3** Discuss methods for assessing and evaluating the advertising program.

Major Advertising Decisions in an Advertising Plan

As with any successful plan, certain decisions need to be made while creating an advertising plan. Advertising is expensive and should have specific objectives with clear communication to the audience to ensure the right message is being sent at the right time with the biggest impact. These steps include choosing the objective(s), choosing a push or pull strategy, establishing a budget, developing the strategy, executing the program, and assessing the impact (see Figure 14.3).

Figure 14.3 Decisions in an Advertising Plan (attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)

Establishing Advertising Objectives

The aim of advertising is to communicate something to an audience. The objectives of such communication can vary depending on the goals of the advertisement. Some common objectives of advertising include information, persuasion, comparisons, and reminders. Let's explore each of these types of advertising objectives in more detail.

Informative Advertising

Informative advertising is most often used as a new product is being introduced in the market. The goal of **informative advertising** is to bring awareness to a product through educational communication to increase demand for the product. A new product can only be successful if people know it exists and why.

Specific messages of informative advertising will vary depending on the product or service. A simple teaser of a new product is effective for some products, while for others, more detailed information may be necessary so the audience understands the product. For example, when the newest iPhone is about to be launched, Apple often uses a short and simple advertisement with only a photo of the phone and its available date. For an existing brand such as Apple, this works well because consumers are already familiar with the product's brand. Conversely, when a brand-new product is brought to market that consumers may not be aware of, more information may be necessary in the message.

Persuasive Advertising

The goal of **persuasive advertising** is to convince consumers to purchase by highlighting the benefits of a product or service being advertised. Whereas informative advertising often uses facts and figures to introduce a product, persuasive advertising often focuses more on the emotions of the audience. For example, when an automobile company advertises a brand of its SUV, it might include a scene with a family and focus on the safety of the vehicle (see Figure 14.4). This is an attempt to showcase the benefits of the automobile to the consumer on an emotional level.

Figure 14.4 Car advertisements are a form of persuasion intended to appeal to consumers' emotions by highlighting the product or service benefits to the consumer. (credit: "Audi Q5 Vs BMW X3 Vs Land Rover Freelander 2 - Comparison - NRMA New Cars" by The NRMA/flickr, CC BY 2.0)

Comparative Advertising

Comparative advertising's aim is to showcase the benefits and values of one product over its competitors. Wendy's, a fast-food burger establishment known for its "fresh never frozen" beef, has long used comparative advertising to showcase its freshness over competitors, particularly McDonald's—its biggest competitor. The marketing team at Wendy's often uses humorous advertisements to compare its food with competitors, and in recent years, the company has become known for its humorous social media posts.

Reminder Advertising

Reminder advertising is aimed at bringing a product back into the forefront of the consumer's mind. Typically, reminder advertising is used during the maturation stage of the product life cycle. For any well-established brand, most advertisements are considered reminder advertisements—unless the brand is introducing a new product or a change to an existing product. McDonald's 2021 advertisements that remind consumers to get their friends fries if they say they don't want them is an example of reminder advertising, as the company is not introducing a new product but rather reminding audiences that McDonald's is there as a choice in fast food.[8]

Push Strategy versus Pull Strategy

After choosing an objective for the advertising plan, marketers must determine whether a push or pull strategy will be most effective. A **push strategy** is aimed at pushing the brand in front of an audience. Often a push strategy will utilize multiple forms of advertising media so that the product or service is in front of the consumer at multiple times. Common push strategies involve sending postcards or emails and placing ads in print and television media.

Conversely, a **pull strategy** is intended to bring audiences to the product. For example, if a company is launching a new game app, the company may choose to advertise in another game app. The interested consumer would then click on the advertisement and be pulled into the new product (app).

LINK TO LEARNING

GameStop

GameStop is a great example of a company with push and pull strategies. Check out its website for examples (https://openstax.org/r/gamestopdeals).

Establishing the Advertising Budget

The next step in the advertising decision process is establishing an advertising budget. There are several approaches to this decision, but it is important to keep in mind that the advertising budget is just one component of the overall promotion budget. Table 14.1 outlines the most common approaches to budgeting.

Budget Approach	Definition
Percent of sales	Budgets are set as a percentage of prior years' sales or predicted future sales.
All you can afford	Budgets are set after all other necessary expenditures have been covered in the organizational budget.
Return on investment (ROI)	Budgets are set based on the expected return, in dollars, an advertising campaign will produce.
Competitive parity	Budgets are set based on predications of what competitors will spend.
Objective and task	Budgets are set based on the objectives set for activities planned.

Table 14.1 Advertising Plan Budget

Companies often use previous year (or period) data to set objectives for the current or future years. Marketing budgets can use the same approach. The **percentage-of-sales approach** utilizes prior years' sales or predicted year's sales and sets a percentage of those sales aside for advertising. This is a simple way to budget, particularly in stable markets. However, it is somewhat backward of what you have learned thus far in marketing: instead of advertising creating sales, it assumes sales creates advertisements.

Some companies choose to budget their advertising dollars after all other organizational budgeting is complete. The **all-you-can-afford approach** to budgeting ensures everything else in the organization is budgeted for and then sets aside the remaining funds for advertising. This is a practical and simple approach, but it can often lead to budgets that have less money than desired for much-needed advertising.

Unlike other approaches to budgeting, the return-on-investment (ROI) approach views advertising as an investment rather than a cost. The idea behind the **return-on-investment (ROI) approach** is that for every dollar spent on advertising, a return of that dollar—plus some—is expected. The disadvantage to this approach is the difficulty in determining exactly which ad, media, or campaign is specifically contributing to the return.

The **competitive-parity approach** relies on setting budgets based on the expected budgets of competitors. This approach works well in stable markets where competition is well established. However, with this approach, marketers are setting rather important budgetary decisions based on competition and can lose sight of internal objectives.

The final common approach to budgeting for advertising is the objective and task approach. The **objective-and-task approach** is budgeting based on the objectives set previously for the advertising plan. This approach does not consider previous sales or expected competitor budgets. However, marketers must be aware that this approach can lead to overspending when other factors are not considered.

Developing the Advertising Strategy

After marketers and other company executives set a budget for the advertising plan, it is time to work toward the advertising strategy. In this stage of planning, marketers will create the message and choose the appropriate media.

Creating the Advertising Message

Creating the advertising message can be a difficult task for marketers, particularly in the current climate of media. The advertising message is the visual or auditory information that is used in an advertisement to inform or persuade the audience regarding the product, service, or organization. Messages are usually broken down into five areas: the headline, subheading, copy, images, and call to action.[9] See Table 14.2. Each area must be consistent with one another and with the overall strategy of the advertising plan and the company's values and mission.

Message Component	Purpose	Example
Headline	Grabs the attention of the target audience	Buy One Get One Free! (BOGO)
Subheading	Clarifies the headline or provides attention details	Buy a couch, get a matching recliner free
Copy	Answers any immediate questions of the audience	Add a stylish yet comfortable look to your living room with our new rich brown couch and recliner in soft chenille fabric, built to last for generations
Image(s)	Visuals to enhance the message	An image of a family sitting on a new couch and recliner watching television
Call to action	Tells the audience what they need to do now that they have seen the advertisement	Come to our showroom today to select your couch!

Table 14.2 Advertising Message Components

LINK TO LEARNING

Advertising Messages

There are numerous examples of the message components listed in Table 14.2. Check out these articles discussing ways each of these can be successful:

- Live About article: "Buy One Get One Free (BOGO) Sales Events (https://openstax.org/r/buyonegetone)"
- Ecwid article: "5 Effective "Buy One, Get One Free" Promotions for an Online Store (https://openstax.org/r/5-typesofbogof)"
- Drip article: "Limited-Time Offers: 10 Creative Ways to Drive More Online Sales (https://openstax.org/r/limitedtimeoffers)"
- HubSpot article: "50 Call-to-Action Examples You Can't Help But Click (https://openstax.org/r/

calltoaction)"

Selecting Advertising Media

Once the message is determined, the marketer will select which advertising media is appropriate for the message. The selection of advertising media will often be determined based on reach, frequency, impact, and engagement that the marketer is hoping for.

Reach refers to the estimated number of potential customers that can be reached with an advertising campaign. **Frequency** refers to how many times someone is exposed to an advertisement in a given time period or how many times an advertisement is shown in a time period.

Impact refers to how quickly members of the audience receive an advertising message. The form of media that is used will help to determine the impact of the message. For example, a direct mailing may take longer to be received by the audience than a Facebook advertisement. Finally, **engagement** refers to any interaction with advertising content. This becomes particularly important in digital marketing. The number of times members of an audience click on an Internet ad would measure the engagement of that particular advertisement. Clearly, the more engagement, the more likely a consumer is to make a purchase. Keep in mind that engagement can also be negative—such as a "dislike" or negative comment on a social media advertisement.

There are trade-offs between reach and frequency. It seems obvious that marketers would want an advertising campaign to reach the greatest number of people possible with one advertisement. But is one exposure enough to call a person to purchase the product? Often, potential consumers need to be exposed to a message more than once before they will make a purchase. Therefore, the marketer must decide whether reaching the most people or reaching the same people the most is more beneficial to the advertising strategy.

Figure 14.5 Newspapers are a form of print media advertisement. (credit: "Business Newspaper" by bestpicko.com/flickr, CC BY 2.0)

Different Media Alternatives

As you learned earlier in this chapter, there are different forms of advertising media that marketers will choose from. Most marketing strategies do not focus on only one media but rather on a mix of media that are most likely to reach the target audience. Print media includes magazines, newspapers, brochures, and fliers (see Figure 14.5). Broadcast media includes radio and television.

Outdoor advertising is a very economical option because it has such a large reach. Banners, flags, wraps, events, billboards, and even automobiles are types of outdoor advertising. Most companies have shifted their budgets away from some of these more traditional media and moved to digital media. Digital media is any advertising done via the Internet, mobile phones, and other devices other than television and radio (Kindles, iPads, etc.).

LINK TO LEARNING

Car and Social Media Advertising

Have you ever seen a car drive by advertising a company or service? There are companies that will pay you to advertise on your car. Read more about three companies (https://openstax.org/r/getpaidtoadvertise) that will pay you to put their advertisement on your car.

Check out these thought leader articles on social media marketing trends in 2022 (https://openstax.org/r/digitalagencynetwork) from Digital Agency Network. And learn about the value and impact of social listening (https://openstax.org/r/whatissocial) here.

Each media has its own advantages and disadvantages and best uses. When marketers decide on media to be used, they must consider the product or service, the target market, and any budgetary constraints. For example, a product that is primarily targeted toward senior citizens would be best advertised through traditional media, while millennials are more likely to see advertisements in digital form.

Executing the Advertising Program

At this stage in the advertising plan, marketers are almost ready to release their advertisements to the chosen media. However, before doing so, most marketers will choose to test their advertising to a small group of the target audience to ensure all the messaging is clear and concise.

Pretesting the Advertising

Pretesting advertising involves research that predicts the performance of an advertisement before it airs. The three most common types of pretesting are portfolio tests, jury tests, and theater tests.

Portfolio tests consist of respondents browsing through various versions of an advertisement and then being asked to recall certain details from each. Respondents are chosen from the target audience, and those advertisements most recalled by participants are chosen to air for the entire target audience.

Similarly, **jury tests** are a form of pretesting in which the respondents discuss the advertisements most likely to induce a purchase.

Theater tests utilize a sample of the target audience as well. In this form of pretesting, the audience is shown advertisements—usually television ads—in the context that they would be shown to the entire target market.

Assessing and Evaluating the Advertising Program

After pretests are completed, it is time for the marketers to make any necessary changes and disseminate the ads to the target audiences through the chosen media. But the advertising planning does not end there. Once advertisement messages have been out, marketers then must assess and evaluate the programs. Even the best-planned and best-tested programs can still be failures.

Post-testing the Advertising

Post-testing simply refers to testing the effectiveness of a campaign after it has launched. Marketers have several ways in which they can post-test the advertising campaign.

Aided recall is a type of advertising posttest that uses cues to assist a sample audience in recalling brands and products in an advertisement.

The opposite of aided recall, **unaided recall** does not use any cues or prompts to test the recollection of the advertisement message. The respondent is typically asked open-ended questions to gauge information retained from the advertising message.

Attitude tests investigate the attitudes of a sample target audience toward a product or service. Often, the attitude test will ask the respondent to compare the advertised product with a competing product.

An **inquiry test** is a type of advertising posttest that runs two or more similar ads on a limited scale and determines which of the ads are most recalled by and effective for respondents.

Another form of advertising posttest is the sales test. The **sales test** determines how many sales will be made based on a test market. This test can be done as either a pretest or a posttest. As a pretest, it is used as an estimate or prediction of future sales that the advertisement will attract. As a posttest, it measures the actual sales that can be linked to the advertisement.

Knowledge Check

It's time to check your knowledge on the concepts presented in this section. Refer to the Answer Key at the end of the book for feedback.

1. Daved is a marketer looking to see how successful his new marketing campaign was. Which of the following would you suggest to Daved?
   a. Posttest
   b. Pretest
   c. Jury test
   d. Portfolio test

2. As a marketer in charge of a new advertising campaign, what is the first step you will utilize in planning?
   a. Determine a budget
   b. Decide on a push or pull strategy
   c. State the objectives
   d. Execute the plan

3. If the target market for a product or service is millennials, which advertising media would you most likely choose?
   a. Digital media
   b. Outdoor advertising
   c. Newspapers
   d. Billboards

4. Jamal is trying to explain the difference between reach and frequency to his classmates. Which of the following best describes *reach*?
   a. Interactions with an advertisement
   b. Estimated number of times a potential customer will see an advertisement
   c. How quickly the audience will be reached with an advertisement
   d. Estimated number of potential customers to see an advertisement

5. Which of the following is the final step in the advertising plan?
   a. Assessment
   b. Strategy
   c. Budgeting

d. Execution

14.3 The Use of Metrics to Measure Advertising Campaign Effectiveness

Learning Outcomes

By the end of this section, you will be able to:

- LO 1 List the key performance indicators (KPIs) for measuring the effectiveness of an advertising campaign.
- LO 2 Describe how each KPI is measured.

Key Metrics in Measuring Success

The most well-planned advertising campaigns are only effective if they bring about some result. Marketers use performance metrics to determine the effectiveness of a campaign.

Key performance indicators (KPIs) are indicators that measure how an advertising campaign is achieving certain goals or objectives. There are several KPIs marketers choose to measure to determine the impact of an advertising campaign. These metrics help marketers make changes to campaigns in order to meet the goals and objectives set forth.

Brand Recognition

Brand recognition refers to the ability of a campaign audience to recognize and identify a specific brand. It measures the extent to which an audience can identify a brand with only a logo or photo. Depending on the advertising media used, marketers will choose the most appropriate metric to measure brand recognition. There are also numerous brand-tracking software programs that will gather this data for marketers.

Brand Awareness

While brand recognition and brand awareness sound very similar, there is a distinct difference. **Brand awareness** takes recognition a step further to determine if audiences can recall information about the brand. Awareness often seeks to determine the emotions and impressions that a campaign has raised with specific advertisements.

Impressions (Ad Views)

During an advertising campaign, marketers are also interested in quantifying how many times an advertisement appears in a chosen medium, known as **impressions**. To calculate impressions, you need to first determine the rating of the advertisement. The rating is simply a percentage of the target audience that is reached with an advertisement. This data is often gathered by outside firms, such as Nielsen, a long-time marketing research firm.

The following is the accepted impressions formula:

$$\text{Impressions} = \text{Rating} \times \text{Target Population} \times \text{Number of Ads Run}$$

Let’s assume that one of your television advertisements ran 2 times this week. Your target audience is 1 million people. You discover that your ad has a rating of 30 percent, or 0.30. Using the impressions formula

$$\text{Impressions} = 0.30 \times 1{,}000{,}000 \times 2 = 600{,}000 \text{ Impressions}$$

LINK TO LEARNING

Nielsen

If you're going to be a marketer, you're going to need to know Nielsen Company, a "global leader in audience measurement, data and analytics, shaping the future of media."[10] To better understand what the Nielsen Company is about, read this Investopedia article. (https://openstax.org/r/investopedia)

Check out Nielsen's 2022 Global Annual Marketing Report (https://openstax.org/r/annualmarketingreport) about current trends.

Conversion Rate

A **conversion rate** refers to the percentage of an audience that has completed a desired action. The formula for conversion rate is

$$\text{Conversion Rate} = \frac{(\text{Number of Converts})}{(\text{Audience Size})} \times 100\%$$

For example, a web page advertisement may be attempting to get a viewer to click on the advertisement.

The conversion rate, then, would be the percentage of those viewers who clicked on the advertisement. Using our example of the web page advertisement, let's assume that our audience size 500,000 and the number of converts (that is, the number of viewers who click the ad) is 100,000. Our conversion rate would be

$$\text{Conversion Rate} = \left(\frac{100{,}000}{500{,}000}\right) \times 100\% = 0.020, \text{ or } 2.0\%$$

While industry averages can vary, generally a conversion rate somewhere between 2 percent and 5 percent for traditional marketing and above 10% for digital marketing is considered effective.[11]

Return on Ad Spend (ROAS)

Marketers are also often interested in calculating the return on advertising spending. **Return on ad spend (ROAS)** is a metric that measures the amount of revenue earned for every dollar spending on advertising. Unlike the other metrics discussed, ROAS utilizes the revenue from advertising. To calculate ROAS, you will simply divide the revenue for a given period by the advertising dollars in the period. The ROAS formula is

$$\text{ROAS} = \frac{\text{Revenue}}{\text{Advertising Dollars}}$$

Let's assume your company spent $1,000 on an online campaign in a given month. The revenue generated from this campaign was $5,000. Your ROAS for this campaign in this period would be $5, or a 5:1 ratio:

$$\text{ROAS} = \frac{\$5{,}000}{\$1{,}000} = \$5$$

In other words, for every $1 spent on advertisement, your company generated $5 in revenue.

Knowledge Check

It's time to check your knowledge on the concepts presented in this section. Refer to the Answer Key at the end of the book for feedback.

1. Ally is a new marketer trying to determine the return on ad spend that her first marketing campaign netted. She spent $500 on a Facebook advertisement, and the ad brought in $20 of revenue. Which of the following would be the return on ad spend (ROAS)?

a. $25
b. 5:1
c. 10,000
d. $2.50

2. You show your friend the Adidas logo and ask them which brand it identifies. This is an example of ________.
   a. brand impression
   b. brand awareness
   c. brand recognition
   d. conversion rate

3. Coco is trying to determine if the most recent ad she created and launched has been effective at increasing revenue. Which of the following metrics would you recommend Coco use?
   a. ROAS
   b. Impressions
   c. Brand awareness
   d. Brand recognition

4. Indicators that measure the effectiveness of an advertising campaign are known as ________.
   a. KMAs
   b. Recalls
   c. ROIs
   d. KPIs

5. Liam is interested in the ratings of a recent television advertisement. They are interested in calculating the impressions of this ad. Liam knows that the target population of this ad is 500,000, and the ad runs three times. Which information is Liam missing to calculate impressions?
   a. Converts
   b. Rating
   c. Conversion rate
   d. Number of weeks the ad ran

MARKETING DASHBOARD

Measuring the Impact of Advertising

When marketing professionals purchase advertising, they are primarily interested in who will see it. Advertising is dependent on views, as it is not direct response like search or email marketing. Therefore, marketing professionals are looking for the biggest bang for their buck. This is where cost per thousand (CPM) comes in. The “M” in cost per thousand represents the Latin term *mille*. CPM is the cost to advertise to 1,000 people.

An advertisement’s cost per thousand depends on a variety of factors. One such factor is how targeted an ad is to a given audience. Targetability increases the cost per thousand. Another factor is whether the media is digital or traditional. Traditional media (television, radio, print, and outdoor) have a higher CPM than digital advertising. Niche media may have higher CPM than mass media.

There are some legitimate criticisms of CPM. First, an ad view does not indicate an intent to purchase. It simply means that a prospective customer saw the ad. We have no way of knowing whether the ad was persuasive or changed behavior. CPM does not allow us to track behavior. Next, ad views may be duplicative or not properly targeted, potentially wasting the impression. For example, if you see an ad for the same running shoe three times and you're not a runner, the brand wasted three impressions on you because you have no intent to purchase. Finally, ads may not run or load as intended, wasting advertising dollars on a failed impression.

$$\text{CPM} = \frac{(\text{Campaign Cost})}{(\text{Impressions})} \times 1{,}000$$

Let's revisit our ice cream shop from Integrated Marketing Communications. We decided to run an advertising campaign in the local newspaper. We paid $1,000 for 2,000 impressions. What is our CPM?

Solution
$500

Last period, we acquired 15 customers from our advertising campaign with an average customer lifetime value of $50. Did our advertising campaign have a profitable result in the last period?

Solution
No. We spent $1,000 on advertising and gained $750 in revenue.

Let's say we decide to reallocate our $1,000 advertising spend on a more targeted campaign. Do you expect that our CPM will increase or decrease?

Solution
CPM will most likely increase because targeted media typically has a higher CPM.

14.4 Public Relations and Its Role in the Promotion Mix

Learning Outcomes

By the end of this section, you will be able to:

- LO **1** Define public relations and discuss its role in the promotion mix.
- LO **2** List and describe the tools of public relations.

Public Relations Defined

With today's ever-changing media landscape, maintaining a positive image with the public is of utmost importance. This is where public relations becomes an important tool in the promotion mix. **Public relations** is about creating and maintaining a favorable public image. Unlike other tools in the promotion mix, public relations is not paid for; it is earned media. The result of public relations is called **publicity**.

There are two sides to public relations. The first is considered the "fun" side, where marketers get to share stories of all the great things an organization is doing. This helps to promote the brand's image in a positive, feel-good way. The other side of public relations is damage control. This is when something negative happens within an organization and marketers must perform crisis communication—that is, addressing issues that could negatively impact the reputation of a brand. Consider in 2017, amid the height of Black Lives Matter protests, when PepsiCo aired a commercial featuring Kendall Jenner calming an angry crowd by simply handing a police officer a can of Pepsi.[12] Activists slammed Pepsi for trivializing such an important issue. Originally, Pepsi released a statement supporting its advertisement, but public backlash soon changed that position, and the company issued an apology, saying it had "missed the mark" with its intentions.

CAREERS IN MARKETING

Public Relations

A public relations professional is someone who shares information on behalf of a company. There are various types of public relation jobs, and knowing the types of skills you should have to get the job is important. Read this article to learn about the various types of jobs and the necessary (https://openstax.org/r/masterclass) skills needed.

Read this article from *Harvard Business Review* to gain insight (https://openstax.org/r/therightcareer) into whether a job in public relations is right for you. And learn from this expert guide on how to get a job in public relations (https://openstax.org/r/may18anexpertguide). Want to learn about what a day looks like for a public relations professional? Check out this video from a public relations professional about what a day in the life of a real-world public relations professional looks like.

Click to view content (https://openstax.org/books/principles-marketing/pages/14-4-public-relations-and-its-role-in-the-promotion-mix)

The Role of Public Relations in the Promotion Mix

In many organizations, public relations has been an afterthought or a sidebar to marketing, something used only when a crisis has occurred. However, public relations is more important than ever as the public seeks brands that have values aligned with their own and are not hesitant to boycott those who don't. In fact, according to a 2017 survey, 86 percent of consumers say that authenticity is a key factor when deciding which companies and brands they will support.[13] For example, in the past several years, the public has become more aware and vocal about the use of Photoshop in advertisements. In fact, many celebrities have spoken out about their own photos being Photoshopped in media and the unauthenticity it translates to the public. Similarly, companies such as CVS, Dove, and Target have stopped—or limited—the use of model editing to challenge unrealistic beauty standards.

The Tools of Public Relations

In an age of information access and sharing, companies can no longer afford to hide behind their mistakes, nor can they afford to miss opportunities to boast about their good deeds. Marketers need to be keenly aware of how the organization's image is portrayed publicly—to all interested parties. There are several tools that marketers should use to positively impact this image. While the goal of public relations and publicity is to promote positive images to the public, marketers must use public relations to minimize the impact of negative publicity as well.

Consider CNN's *Blackfish*, which aired in 2013. The documentary shed light on the consequences of keeping orcas in captivity, forcing them to perform for sightseers at sea parks. It takes a deep dive into the lives of these captive marine mammals and how sometimes such animals can be deadly, as was witnessed at SeaWorld in 2014.[14] The results of the negative publicity created by the documentary caused SeaWorld's park attendance, as well as its market value, to drop.[15]

LINK TO LEARNING

Examples of Bad Publicity

Watch the *Blackfish* official trailer and see for yourself the message behind this documentary, and read here about the impact (https://openstax.org/r/worldanimalprotection) this negative publicity had on SeaWorld.

Click to view content (https://openstax.org/books/principles-marketing/pages/14-4-public-relations-and-its-role-in-the-promotion-mix)

You can find numerous examples of bad publicity on the Internet. Check out this article that identifies (https://openstax.org/r/mediatoolkit) many from companies such as Easy Jet, Tinder, and Tesla.

Press Relations

Press relations entails establishing and maintaining positive relationships with those in the media, such as newspapers and television. Press relations are controlled internally by the marketing team and often include the marketer sending press releases and other stories that help to maintain a positive image of the brand. Although press relations are controlled internally, it is up to the media whether the stories will be disseminated to the public. Consider your local news station that covers a story of a local bakery raising money for charity. The bakery owner or marketer has most likely sent the news station a press release of the upcoming event. The local news station will decide if it will or will not cover the story in its newscast. The more positive relationships the bakery team has with the local news station, the more likely it is to receive media coverage.

Public Affairs

Another important tool of public relations is **public affairs**—efforts to influence public policy and engage with public officials and trade associations. Public affairs often align with noncorporate entities, such as nonprofits and government agencies. However, for-profit organizations are becoming more and more involved in public affairs. Organizational leaders and marketers often share their economic impact with legislators to help policy makers amend or set new policies. For example, when Walmart plans to open a new store, the executives often reach out to local legislators to explain the goodwill and positive impact on the local economy. They continue conversations with local politicians to show they are “good citizens” of the community and help to impact local (as well as state and federal) legislation.[16]

Lobbying

Very similar to public affairs, **lobbying** involves the intention of influencing public policy and law. Lobbying is a way for companies to influence legislation in their favor. Lobbying is a large part of the political system in the United States, and many companies and industry associations contribute massive amounts of money to influence politicians. Lobbying has come under a lot of scrutiny over the years as companies continue to grow and have larger resources to influence laws and legislation in their favor as opposed to favoring the individual or the greater society.[17]

For example, in 2020, the National Association of Realtors was the top lobbying association in the United States, followed by the US Chamber of Commerce, Pharmaceutical Research and Manufacturers of America, and the American Hospital Association. Together, these associations spent over $200 million lobbying to impact local, state, and federal legislation.[18]

Events

Organizations are increasingly sponsoring or hosting special events to show support for various causes. Such events are also a way to showcase the company, products/services, and/or brands to the public. Often, companies use special events to show the public that their values and ideals are part of their business model. For example, Kroger has sponsored and volunteered for the Susan G. Komen Central Indiana Race for a Cure for many years. With one of its division offices located in Indianapolis, Indiana, the company has been covered by media for its involvement in the local chapter of the Breast Cancer Foundation.[19] The events not only provide a much-needed community service but also generate positive publicity for the company.

Digital Media/Social Media Marketing

Social and digital media have become important tools for marketing managers, and the use of these platforms is advantageous in public relations as much as in advertising. The biggest advantages to using digital tools in public relations and publicity is that they can reach a larger audience in a short time, are fairly inexpensive in comparison to other mediums, and allow for real-time communication.

The San Francisco Batkid took social media by storm when the campaign was rolled out by Make-A-Wish Foundation. A boy fighting leukemia wished to be Batman, and the campaign went viral with the hashtag #SFBatman. People everywhere took time to volunteer and take part in the boy's dream.

LINK TO LEARNING

#SFBatman

Check the #SFBatkid Twitter hashtag here (https://openstax.org/r/hashtagsfbatkid) to see the Batkid's journey, watch the trailer to a movie telling his story, and watch a video showcasing the public relations campaign.

Click to view content (https://openstax.org/books/principles-marketing/pages/14-4-public-relations-and-its-role-in-the-promotion-mix)
Click to view content (https://openstax.org/books/principles-marketing/pages/14-4-public-relations-and-its-role-in-the-promotion-mix)

Knowledge Check

It's time to check your knowledge on the concepts presented in this section. Refer to the Answer Key at the end of the book for feedback.

1. What is a promotion mix element that is earned rather than paid for?
   a. Public relations
   b. Advertising
   c. Television advertisements
   d. Web page advertisements

2. Which of the following is a way companies attempt to influence public policy and law?
   a. Press relations
   b. Events
   c. Lobbying
   d. Publicity

3. Mikel does not have a lot of money for marketing his new business. But he wants to raise awareness of his company and decides to commit to handing out free water at a local 5K run. Which of the following is Mikel participating in?
   a. Events
   b. Lobbying
   c. Press relations
   d. Public affairs

4. As a marketer, you are responsible for creating and maintaining positive relationships with the press.

Which part of public relations are you responsible for?

a. Lobbying
b. Publicity
c. Public affairs
d. Press relations

5. As a new business owner, Michaela is attempting to sway local leaders to give the business a tax cut for the first year of operation. She invites all the local officials to a public meeting, where she presents the anticipated economic impact of her business. Michaela is engaged in which public relations tool?

a. Press relations
b. Public affairs
c. Lobbying
d. Events

14.5 The Advantages and Disadvantages of Public Relations

Learning Outcomes

By the end of this section, you will be able to:

LO 1 Discuss the advantages of public relations.
LO 2 Discuss the disadvantages of public relations.

Advantages of Public Relations

From a business perspective, the greatest advantage to public relations is that of cost; public relations is not a paid form of promotion. However, there are other advantages that accompany a well-thought-out public relations strategy.

Increasing Brand Credibility

Because public relations are unpaid and come from an objective source—news media—they are perceived as much more credible than paid forms of advertising. In fact, it is the most credible and persuasive form of promotion. Most consumers value the opinions of news media and opinion leaders over that of a company's best advertising.

Increasing Sales and Leads

Another advantage of public relations is that of sales and leads. Again, because public relations is considered a more credible source of information, various tools in public relations can help to increase sales and leads for the organization. Imagine you are attending an event that is raising money for the local animal shelter because you are a huge animal advocate. You see signs that an organization unfamiliar to you is the lead sponsor. While you may never have heard of this organization, let alone considered buying from this company in the past, the fact that it is helping raising money for the local animal shelter sways your decision to do business with them. For example, let's look at Campfire Treats, which makes dog treats. This company was one of the first in its industry to embrace the Better Chicken Commitment (BCC) to ensure better treatment of chickens.[20] The company has gained industry publicity and is becoming popular with pet owners that embrace more humane animal treatment.[21]

LINK TO LEARNING

Pet Food Industry.com

Check out this Pet Food Industry.com article (https://openstax.org/r/petfoodindustry) to learn more about Campfire Treats and its commitment to BCC. If you're interested in learning more about the product, check out this video review from Top Dog Tips or this article from Groovy Goldendoodles (https://openstax.org/r/groovygoldendoodles).

Click to view content (https://openstax.org/books/principles-marketing/pages/14-5-the-advantages-and-disadvantages-of-public-relations)

Positive Brand Image

Because consumers are more likely to patronize organizations whose values align with their own, public relations has the distinct opportunity to provide a positive brand image to audiences. When organizations are authentic in their own values, it translates to increased loyalty and brand equity.

Cost-Effectiveness

As you've already learned, public relations is not a paid tool in the promotion mix. A really good brand or company story can be picked up by several media outlets, exposing the promotion to a large audience. Considered the Ice Bucket Challenge that went viral in 2015. The challenge was first promoted by Pat Quinn and Pete Frates as a way for the public to better understand how Lou Gehrig's disease (amyotrophic lateral sclerosis [ALS]) affects those with the disease. The challenge raised over $115 million worldwide for the disease and was an extremely cost-effective (and fun) way to raise funds when it went viral on social media.[22]

Disadvantages of Public Relations

While public relations is a cost-effective way to potentially reach a large audience, it does come with its own set of challenges, including no direct control, lack of guaranteed results, and a difficulty in evaluating effectiveness.

No Direct Control

Unlike other tools in the promotion mix, marketers have no direct control over public relations. In other words, the media controls how the organization is portrayed, when—or if—the coverage will appear, and where it will be placed. This is why press relations is such an integral part of the public relations strategy.[23]

Lack of Guaranteed Results

Proficient marketers will spend time crafting the perfect press release, curating photographs, and getting just the right message to the media. They can even have excellent relationships with media personnel, but it is ultimately the decision of the media if it will publish a story. A story that is buried deep in a newspaper's pages or a blur during a news program may not create the results marketers intended.

Difficulty of Evaluating Effectiveness

Public relation activities can be difficult to measure. A marketer can observe media mentions and stories, but the impact they have on the audience can be difficult to determine. Other tools in the promotion mix can be targeted to the audience of interest, but public relations is not. As such, marketers should consider paying keen attention to areas such as website traffic and social media mentions or shares to determine who is seeing the press and what they are saying about it.

Knowledge Check

It's time to check your knowledge on the concepts presented in this section. Refer to the Answer Key at the end of the book for feedback.

1. After watching a TikTok, you learn that Thinx—a company that produces period underwear—has donated over $25,000 in period and other products to Afghan women who have recently fled their country. Because of this, you decide to purchase Thinx products. Which advantage of public relations has been achieved in this scenario?
   a. Increased sales and leads
   b. Lack of direct control
   c. Guaranteed results
   d. Direct control

2. Public relations has all the following advantages except ________.
   a. increased brand credibility
   b. increased brand image
   c. direct control
   d. increased sales and leads

3. When Story Land, a children's museum in New Hampshire, reopened, it utilized public relations. Numerous local television stations picked up and reported the story, providing free marketing to potential customers. The company bet on the positive virality of its press release, which worked in its favor. Which of the following disadvantages explains why Story Land "bet on the positive virality"?
   a. No direct control
   b. Increased brand recognition
   c. Increased sales
   d. Guarantee of results

4. Which of the following is a true statement concerning public relations?
   a. Public relations is more expensive than advertising.
   b. Public relations has more of a guarantee of positive results than other forms of promotion.
   c. Public relations has the most message control of the various forms of promotion.
   d. Public relations is free but has no guarantee of results.

5. When Taco Bell was hit with a lawsuit that claimed its seasoned beef was only 35 percent beef, the company utilized social media to show its ingredients, a campaign that was wildly successful. Which of the following was Taco Bell hoping for?
   a. Guaranteed results
   b. Improved brand image
   c. Direct control of the message
   d. Increase sales and leads

14.6 Ethical Concerns in Advertising and Public Relations

Learning Outcomes

By the end of this section, you will be able to:

LO 1 Illustrate ethical issues with respect to advertising.
LO 2 Illustrate ethical issues with respect to public relations.

Ethical Issues Related to Advertising

Marketers must be keenly aware of not only the legal implications of advertising, but also the ethical ramifications. The Federal Trade Commission (FTC) has a number of laws that help to protect consumers against false claims in advertisements. The watchdog group Truth in Advertising is an independent, nonprofit organization that "empower[s] consumers to protect themselves and one another against false advertising and deceptive marketing."[24]

Truth in Advertising

Every year, Americans spend billions of dollars on health-related products, such as supplements, exercise programs, and nonprescription medication. Unfortunately, many of the advertisements claim that these—and many other—products will perform in a way that has not been proven. Not only can such claims be very harmful to individuals, but they can also get companies in big trouble.

In 2021, Subway was put in the spotlight by its own franchisees for its "Eat Fresh" slogan. The franchisees claimed that the slogan was misleading and that Subway's ingredients were often days or weeks old when they arrived at the stores and that the meat was laden with chemicals.[25]

Advertising to Children

Marketers must be keenly aware of how they advertise to children. Children are exposed to advertising just as often as adults. It is estimated that children view more than 40,000 commercials per year.[26] However, children and youth do not understand how to decipher those advertisements that are trying to get them to want something. For products that are harmful to, not meant for, or illegal to sell to children, marketers need to steer clear of advertising to children.

The vape company Juul found itself in hot water in 2019 when it was accused of marketing to teens. The company advertised its product—intended for adults only—on websites such as Nickelodeon, the Cartoon Network, and Seventeen, all sites directed toward youth.[27]

Advertising Harmful Products

When organizations run advertisements for potentially harmful products, they can be held legally liable for the claims and for any harm caused by the product. Even if the company is not held legally liable, the reputation of the business can be damaged.[28]

Have you ever noticed in a prescription drug commercial, there is considerable time spent on the side effects of the medication? Or that at the bottom of the screen there is a disclosure that the actor is not an actual patient? These are all required by the Federal Food, Drug, and Cosmetic Act (FFDCA), the Food and Drug Administration (FDA), and the FTC to adhere to truth in advertising expectations.

Ethical Issues Related to Public Relations

Similar to being truthful in advertising, marketers must also be aware of how they are disseminating information via public relations. Again, with the increase in social media and the Internet in general, it is much easier for consumers to find information regarding companies. In addition, it is much more commonplace for consumers to call out companies that are being unethical or dishonest. It is much easier for organizations to be honest and transparent up front than try to dig themselves out of a public relations nightmare.

LINK TO LEARNING

IKEA

The start of the COVID-19 pandemic required the entire world to shift its perspective. This was true for marketers as well. Many companies changed their marketing strategies from selling goods and services to creating feelings of goodwill and solidarity. IKEA, the Swedish furniture manufacturer, was no exception. In a marketing campaign launched early in the pandemic, the company offered six ways to build a furniture fort, giving the public ways to cope with being quarantined. The campaign earned a nod in *AdWeek*'s most notable advertisements.[29] Read more about the campaign, and see the forts, here. (https://openstax.org/r/ikeafurnitureforts)

Transparency

An important part of managing public relations is to disseminate information to the public. It can be a very effective way of gaining loyalty and interest in the brand. The more transparent a company is to its target market, the more trust consumers have in the brand.

Whole Foods, known for offering natural foods, faced scrutiny over its mislabeling of genetically engineered foods. The company's top priority became that of transparency, and it requires every product sold as non-GMO to go through a verification process.[30]

Selective Truth Telling

Selective truth telling is a practice in which a person or organization tells a portion of the truth but omits other portions of the truth. Particularly in the face of scrutiny, marketers have always had to decide how much of the truth should be provided in order to satisfy the public but also protect the organization. In more recent years, many organizations have been increasingly telling the whole truth upfront, to avoid being called out later.

Verifying Facts and Information

Fact-checking in a process to verify facts on an issue. Marketers must do their best to present information that is valid to their target. This should be done before the information gets released to the public. In a society of "fake news," consumers are more skeptical than ever when it comes to information. Obviously, presenting information that is not factual will lead to decreased trust from the public.

COMPANIES WITH A CONSCIENCE

TOMS

In 2006, Blake Mycoskie founded TOMS shoes (see Figure 14.6), the name of which comes from the word "tomorrow." TOMS is committed to its One for One model: for every item purchased, an item is donated to those in need.[31] Since its inception, TOMS has also committed one-third of its profits to grassroots movements.[32]

Figure 14.6 TOMS is an example of a company that built a company, product, and mission focused on giving. (credit: “Spring” by molltiply/flickr, CC BY 2.0)

TOMS remains transparent, and the company’s behavior is aligned with its values. In every advertising campaign launched, TOMS’ philanthropic mission is consistently reinforced to the public. As a result, it’s nearly impossible for anyone to think of TOMS as anything but aligned completely with its mission, whether one is visiting the company’s website, viewing print media, or looking at the company’s social media.[33]

Chapter Summary

In this chapter, we discuss the importance of advertising and public relations in the promotional mix. Major decisions that need to be made in order to successfully build a strong advertising campaign include establishing objectives, creating an advertising budget, developing a strategy, executing the campaign, assessing and evaluating the program, and post-testing the advertising. The use of metrics to measure the success provide key information to marketers and include brand recognition and/or awareness, ad views, conversion rates, and return on ad spend.

The advantages and disadvantages of public relations as it impacts the promotion mix were discussed, along with related ethical issues. The tools used to carry out public relations and publicity were explained.

Key Terms

advertising paid communication messages that identify a brand or organization and are intended to reach a large number of recipients

aided recall a type of advertising posttest that uses cues to assist a sample audience in recalling brands and products in an advertisement

all-you-can-afford approach advertising budget approach that ensures everything else in the organization is budgeted for and then sets aside the remaining funds for advertising

attitude tests a type of advertising posttest that investigates the attitudes of a sample target audience toward a product or service

brand awareness metric used to determine if audiences can recall information about a brand

brand recognition the ability of a campaign audience to recognize and identify a specific brand

comparative advertising type of advertising that showcases the benefits and values of one product as compared to its competitors

competitive-parity approach advertising budget strategy that relies on setting budgets based on the expected budgets of competitors

conversion rate the percentage of an audience that has completed a desired action

engagement any interaction with advertising content

frequency how many times someone is exposed to an advertisement in a given time period or how many times an advertisement is shown in a time period

impact how quickly members of the audience receive an advertising message

impressions quantifying how many times an advertisement appears in a medium

informative advertising a type of advertising intended to raise awareness of a product through educational communication to increase demand of the product

inquiry test a type of advertising posttest that runs two or more similar ads on a limited scale and determines which of the ads are most recalled by and effective for respondents

institutional advertisements advertisements intended to create a positive image or support for an entire organization

jury tests a form of pretesting in which the respondents discuss the advertisements that are most likely to induce a purchase

key performance indicators (KPIs) indicators (metrics) that measure how an advertising campaign is achieving certain goals or objectives

lobbying networking and other efforts that have the intention of influencing public policy and law

objective-and-task approach advertising budget strategy that is based on the objectives set previously for the advertising plan

percentage-of-sales approach advertising budget strategy that utilizes prior years' sales or predicted year's sales and sets a percentage of those sales aside for advertising

persuasive advertising a type of advertising that aims to highlight the benefits of a product or service being advertised

portfolio tests a type of advertising pretest that consists of respondents browsing through various versions of an advertisement and then being asked to recall certain details from each

press relations efforts to establish and maintain positive relationships with those in the media by sending press releases and other stories that help to maintain a positive image of the brand

pretesting advertising research that predicts the performance of an advertisement before it airs

product advertisements advertisements that promote a specific product within the organization's product mix

public affairs efforts to influence public policy and engage with public officials and trade associations

public relations any actions that help to create and maintain a favorable public image

publicity notice or attention given by the media

pull strategy advertising strategy intended to bring audiences to the product

push strategy advertising strategy aimed at pushing the brand in front of an audience

reach the estimated number of potential customers you can reach with an advertising campaign

reminder advertising advertising aimed at bringing a product back into the forefront of the consumer's mind

return on ad spend (ROAS) metric that measures the amount of revenue earned for every dollar spent on advertising

return-on-investment (ROI) approach advertising budget strategy that focuses on every dollar spent on advertising; a return of that dollar—plus some—is expected

sales test a type of posttest in advertising that determines how many sales will be made based on a test market

theater tests a form of advertising pretest in which the audience is shown advertisements—usually television ads—in the context that they would be shown to the entire market

unaided recall a type of advertising posttest that does not use any cues or prompts to test the recollection of the advertisement message

Applied Marketing Knowledge: Discussion Questions

1. List the objectives of advertising.
2. Explain the five approaches to creating a marketing budget.
3. List the tools used for public relations and explain how each of these are used.
4. List the tools used for publicity and explain how each is used.

Critical Thinking Exercises

1. Explain the key metrics used to measure the success of an advertising campaign.
2. List the advantages and disadvantages of public relations.
3. Provide examples of ethical issues related to advertising and include ways to avoid them.
4. Provide examples of ethical issues related to public relations and include the ways to avoid them.

Building Your Personal Brand

The act of building a personal brand requires a commitment that comes with having a well-developed and clear path. One of the many tools that a person can use to set and review their progress is the GOOD framework from Quantum Workplace (https://openstax.org/r/quantumworkplace). This framework can be used to set goals, identify obstacles and opportunities, and make decisions. As with any strategic goal-setting framework, the important thing to remember is that it should be used organically, allowing for the shifts that come with growth and development.

The framework includes the following parts:

- Goals: What goals are you setting? What needs to be done to achieve them?
- Obstacles: What is standing in your way? Can you work around or remove the obstacles?
- Opportunities: What can you pursue for learning and development to move you forward?
- Decisions: What decisions do you have to make to reach your goals? What will you do more of? What will you do less of?

This framework can be utilized on a personal and professional basis. The idea is to monitor and review throughout the year to determine whether you are on track, have the need to reassess, have achieved your goals, or need to create new ones.

What Do Marketers Do?

Send a message to your college or university marketing department asking for a time to talk to the marketing manager about their job for your class. These positions vary greatly based on how many functions they outsource. Use the following questions as a guide to dig deeper into their process and responsibilities.

1. Please share with me your employment history and how you got to where you are today.
2. Can you summarize your job responsibilities?
3. Is the organizational structure of the company you work for private, nonprofit, or state?
4. Can you share with me what functions, if any, are outsourced (for example, website design, website maintenance, graphic design, or printing of materials)? How long have you been outsourcing these functions?
5. How many employees report to you, and what is person's role?
6. What challenges do you face with the structure you currently have in place?

Feel free to add any questions you might have. Thank them for their time. From this interview you should be able to gain more insight into how different areas of marketing are handled within a given organization's marketing department.

Closing Company Case

Peloton

If you have ever taken a class at your local gym, you know the excitement of the camaraderie and competition that takes place when you are in a class of like-minded individuals all sharing the same goal and passion for performance. Former Barnes & Noble e-commerce executive John Foley liked riding his stationary bike but wanted to bring the gym class experience to his at-home riding sessions. And in 2012, the idea for Peloton was born.[34]

Hailed as "Netflix for Fitness," Peloton introduced its first bike in 2013. The company had slow and steady growth. With several rounds of funding, the start-up took off and began to take hold among consumers who enjoyed the rigorous workouts provided by trainers through the built-in bike video screens and subscription service to the various "rides."[35]

For Christmas 2019, Peloton debuted what turned out to be a significant ad for the young brand. Featuring a husband buying a Peloton for his wife, the ad took viewers through the mind and thoughts of the wife while she rode her bike and seemingly got more "in shape." Viewer outrage kicked up as some viewers believed the ad depicted a husband body-shaming his wife with the gift of exercise for the holidays. Check out the Peloton Christmas Commercial from 2019.

[Click to view content (https://openstax.org/books/principles-marketing/pages/14-closing-company-case)](https://openstax.org/books/principles-marketing/pages/14-closing-company-case)
While the ad may have sparked some controversy, it did one thing successfully—it got people talking about Peloton. The ads allowed the viewer to glimpse the life of a Peloton user—it showed the fun method of the

video courses, the use of the bike no matter what the weather outside, and the potential transformation of the Peloton user.

The other element of the ad's storyline is that it sparked a parody ad produced by Maximum Effort, a film production and digital marketing agency.[36] The agency was founded by the actor Ryan Reynolds, and the parody ad featured a voice-over by Reynolds himself. Although the ad was for Aviation Gin, a brand owned by Reynolds, the ad featured the "wife" from the Peloton Christmas ad. The parody ad did three things—kept people talking about Peloton, created a memorable story for Aviation Gin, and connected Reynolds and the Peloton brand.[37]

Click to view content (https://openstax.org/books/principles-marketing/pages/14-closing-company-case)
As Peloton began to take off in the United States, the country literally came to a screeching halt. In January 2020, the COVID-19 pandemic hit the country. Within months, citizens everywhere were quarantined, with gyms, restaurants, travel, businesses—everything—shut down. What started as 14 days to slow the spread turned into months. Remote work and learning became the norm, and people started to feel restless cooped up in their homes.

As the pandemic surged, so did Peloton. It picked up the fitness gauntlet, and in 2020, for the first quarter ever, the company turned a profit with a 172 percent increase in sales, stock up 220 percent, and over 1 million subscriptions. The new challenge for the organization was in the fulfillment of orders.

During the pandemic of 2019–2021, Peloton became a household name. It was the topic of discussion on the Fox News show *The Five*. Hosts Greg Gutfeld and Dana Perino regularly discussed the joy they got from using their Peloton bikes. Consumers everywhere were "riding out" the pandemic on a Peloton.

Even as sales surged and Peloton became a household name, it was being woven into the fabric of the American culture, such as on the '90s hit show *Sex and the City*. With the aging of the show's stars, the demographic of viewers was prime for a reboot. And so, in late 2021, the show's stars reprised their famous roles and *And Just Like That* debuted.

The show premiered on HBO to a record audience.

Per HBO Max, the *Sex and the City* revival starring Sarah Jessica Parker, Cynthia Nixon and Kristin Davis had a strong 24-hour performance that ranks as the most viewed series premiere of a new HBO or HBO Max series on the streaming service. Overall, the *AJLT* opener ranks in the Top 10 of all HBO Max's movies and series debuts, including both HBO and Max originals, trailing just some of the tentpole Warner Bros. movies that launched on the platform.[38]

> However, the huge debut marked a significant moment for Peloton. In the first episode, one of the major stars of the show, Mr. Big, dropped dead of a heart attack after a spin on his Peloton. Throughout the episode, the love affair Mr. Big has with his bike and his appreciation for the instructor provide the major plotline to the show. This led to the question, How would the character's death affect Peloton?

Product placement has always been a significant public relations initiative of consumer product companies. The *James Bond* franchise traditionally partners with well-known brands for placement in the movies and use by the popular cultural icon. The use of real products helps connect the consumer to the movie. It is usually a boon to the brand, and the movie benefits from the more realistic quality the product adds to the movie.

In the case of Peloton and Mr. Big, Peloton did not pay for the placement, but they did agree to the brand's use in the show. According to a spokesperson for the company, the plotline was a complete surprise.[39] So how does the show recover from "death by Peloton"?

Enter a new parody advertisement developed by Ryan Reynolds and Maximum Effort. When Reynolds created the ad for Aviation Gin that poked a little fun at Peloton and its "body-shaming" commercial, the actor became connected with the marketing arm of Peloton. It was time for a new parody. In this go-around, the focus would be on Peloton and Mr. Big. Actor Chris Noth, who played Mr. Big in the television show *Sex and the City* and the reboot *And Just Like That*, agreed to appear in the ad. Less than 48 hours after the show debut and the death of Mr. Big, Noth made an appearance in a Peloton ad, which shows him very much still alive. The big win all around is for Peloton and its significant increase in brand awareness.

The response from Peloton to the death of the main character Mr. Big on *And Just Like That* was to create an advertisement showing him very much alive—a clever approach and certainly an effort that gained Peloton brand recognition. Watch his death on the television show, and watch the commercial response here.

[Click to view content (https://openstax.org/books/principles-marketing/pages/14-closing-company-case)](https://openstax.org/books/principles-marketing/pages/14-closing-company-case)
[Click to view content (https://openstax.org/books/principles-marketing/pages/14-closing-company-case)](https://openstax.org/books/principles-marketing/pages/14-closing-company-case)

Case Questions

1. How did Peloton reach audiences with its message about the advantages of at-home exercise on its bike and corresponding trainer subscription services?
2. How was Peloton able to discern the effectiveness of its advertising when it debuted the 2019 commercial that was dubbed “body-shaming”?
3. What are some of the ways Peloton has generated brand awareness through publicity?
4. Peloton became the subject of the first episode of the show *And Just Like That*, a reboot of the hit show *Sex and the City*. What are the advantages and disadvantages to the product placement of Peloton in the show’s premiere episode?

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