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Principles of Marketing



15

The Promotion Mix: Personal Selling and Sales Promotion

Figure 15.1 Hilton Hotel utilizes a personal selling process with its HGV product. (credit: modification of work “Hilton Hotel @ Riverwalk Shopping Mall” by Thank You (22.5 Millions+) views/flickr, CC BY 2.0)

Chapter Outline

- 15.1 Personal Selling and Its Role in the Promotion Mix
- 15.2 Classifications of Salespeople Involved in Personal Selling
- 15.3 Steps in the Personal Selling Process
- 15.4 Management of the Sales Force
- 15.5 Sales Promotion and Its Role in the Promotion Mix
- 15.6 Main Types of Sales Promotion
- 15.7 Ethical Issues in Personal Selling and Sales Promotion



In the Spotlight

Since 1919, when Conrad Hilton bought his first hotel, **Hilton Hotels and Resorts** has been providing a good night's sleep to travelers around the world. With over 6,800 hotels within its portfolio (including several sub-brands), Hilton has a hotel to meet the needs of just about any traveler. Hampton Inn is a beloved brand for road-weary business travelers as well as families. The Conrad is one of the luxury brands for Hilton. And DoubleTree is another favorite brand for business travelers, known for the gooey, warm chocolate chip cookies presented at check-in. To reward travelers, Hilton offers several tiers of Hilton rewards: Silver, Gold, and Diamond. Reward members are able to trade their points for various perks, including free nights. During off-peak travel, Hilton offers a variety of sales promotions; for example, one program it offers is 3X points on every stay for three nights or more.

Consumers who travel often are able to increase their points through certain purchases and promotions that Hilton will offer to spur more travel. Hilton also connects with customers through **Hilton Grand Vacations (HGV)**. HGV is a time-share within the Hilton portfolio of properties and rooms. When customers join HGV, they are buying ownership in the exclusive club properties.

To increase the sale of the HGV properties, Hilton runs promotions to sign Hilton customers for a tour of a new property and a presentation about the benefits of ownership. In exchange for participating in a tour of HGV

properties, customers are offered incentives, such as three nights and four days of a Hilton hotel stay for a discounted price. In exchange for the discounted rooms, customers agree to a tour and to sit through a sales presentation.

HGV sales professionals are typically real estate agents who understand how to structure vacation rental properties and time-share sales. Every sales professional selling the HGV properties is well-versed in the cost of vacations, how to structure real estate deals, and the benefits of being a member of HGV. Once a customer agrees to the tour and the sales presentation, the sales representative is tasked with making sure the decision makers are present, and when possible, the goal is to have customers make their decision before the tour is over. These strategies have been very effective at generating continuous streams of income from HGV members.

15.1 Personal Selling and Its Role in the Promotion Mix

Learning Outcomes

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

LO 1 Define personal selling.

LO 2 Discuss the role of personal selling in the promotion mix.

Personal Selling Defined

Personal selling is the one-on-one interaction between a company representative (salesperson) and the buyer (customer or prospect). The interaction is intended for the salesperson to uncover the needs and wants of the prospect and discuss how the product or service will help to satisfy the customer's needs and wants. The salesperson works to develop a relationship with the prospect with the intention of having them buy the company's product and become a customer.

The Role of Personal Selling in the Promotion Mix

The promotion mix includes the marketer's tactics for communicating with consumers. Determining how to use the promotion mix is dependent on the goals and objectives of the overall marketing strategy as well as the nature of the product, the market segments being targeted, and the message the marketer wishes to send.

Generally, marketers will use a combination of the promotion mix tactics to create an integrated approach to connecting with customers. Out of all the promotion mix strategies, personal selling is the strategy that connects directly with the customer in a one-on-one setting and focuses on building relationships. Personal selling is ideal if the product is more complex in nature, higher in price, and customizable according to a customer's needs.

Relationship Selling

Relationship selling is a method of personal selling used to better understand the needs and wants of the buyer. If the product is relatively high in price and has some customizable attributes, the salesperson will strive to become a trusted advisor to the customer. This allows the salesperson to develop a relationship that will create trust and ultimately fit the best product with the customer to fulfill their needs and wants and solve a problem they are having that put them in the market for the product. **TalEx**, a fast-growing human resource company, works with its clients to find the right talent for open positions at a variety of companies. Sales representatives for TalEx work as trusted advisors to collaborate with clients to help find the right staffing solutions for growing companies.

When to Use Personal Selling

Personal selling is best utilized as a promotional strategy when the products are higher in price, variable in nature, and require some explanation or education. Hilton Grand Vacations (HGV) employs real estate agents

to sell club memberships. Due to the variety of membership purchase levels, the explanation and education of how to use the membership, and the higher price of the time-share vacations, the sales force spends time educating clients about the product. Typically, personal selling is used for products that are also in the introductory stage of the product life cycle and for products that require significant follow-up after the sale. Business-to-business (B2B) strategies are largely reliant on personal selling as a primary promotional strategy.

LINK TO LEARNING



Personal Selling

Watch this video to learn more about personal selling. Learn when personal selling is most relevant, the cons, and what types of products it is most suited for.

[Click to view content \(https://openstax.org/books/principles-marketing/pages/15-1-personal-selling-and-its-role-in-the-promotion-mix\)](https://openstax.org/books/principles-marketing/pages/15-1-personal-selling-and-its-role-in-the-promotion-mix)

Watch this personal selling role-play to gain insight into a sales call situation, and [read this guide for the advantages, the disadvantages, the process, the strategies, and examples of personal selling \(https://openstax.org/r/salespersonalselling\)](https://openstax.org/r/salespersonalselling).

[Click to view content \(https://openstax.org/books/principles-marketing/pages/15-1-personal-selling-and-its-role-in-the-promotion-mix\)](https://openstax.org/books/principles-marketing/pages/15-1-personal-selling-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.

- Companies typically use personal selling as the promotional strategy of choice when which of these is true?
 - The product is higher in price.
 - The product requires the sales professional to spend significant time educating the customer.
 - The product has a lot of variation.
 - All of these statements are true.
- Personal selling is _____.
 - unpaid advertising to consumers
 - a method of increasing sales in the short term
 - one-on-one interaction between a sales professional and a potential buyer/customer
 - used for handling routine purchases
- If a company has a higher-priced product that requires some variation according to the customer's needs and wants, which method of promotion is best?
 - Direct marketing
 - Personal selling
 - Advertising
 - Public relations
- Which of the following is NOT a reason for personal selling to be used?
 - When the product is complicated
 - When the product has a lot of competition
 - When the product needs to be demonstrated

- d. When the product is highly technical
5. Jasmine works for a Honda dealership. Jasmine has spent considerable time listening to a potential customer talk about what features they are looking for in a new car. Jasmine is able to identify the best Honda automobile to meet the needs of the customer. What feature of sales is Jasmine demonstrating?
- a. One-on-one interaction
 - b. Meeting the needs and wants
 - c. Personal communication
 - d. All of these features are correct.

15.2 Classifications of Salespeople Involved in Personal Selling

Learning Outcomes

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

- LO 1** List the various roles involved in personal selling.
- LO 2** Describe the differences between the various personal selling roles.

Order Takers

Within the role of personal selling, there are various types of selling functions. Many organizations utilize more than one type of personal selling. Various sales personnel within an organization may fulfill several of the roles. The type of personal selling is dependent on the nature of the product as well as the customer.

In many sales situations, the salesperson is responsible for prospecting to find new customers as well as working to match the right products with the customer needs and wants. However, some organizations have sales personnel that are only responsible for taking orders from customers, called **order takers**. They work to identify the customer and find the right product fit. Within the role of the order taker, there are typically two different types of order takers, inside and outside.

Inside Order Takers

An **inside order taker** is the person who talks with a customer when they walk into the business to place an order, or they are the one who is answering the phone, responding to an online inquiry, or responding to an email to accept customer orders as they are placed. Often the inside order taker may have to answer questions or discuss details of the product order. Their role is to serve as the liaison between the customer and the company. They make sure the right product is ordered according to the requests of the customers.

Restaurants typically replenish inventory on a weekly basis. When a sandwich shop calls its supplier to order more paper products and cleaning supplies, it calls the inside order taker. For some businesses, the inside order taker may be referred to as an inbound customer service agent. In this case, the inside order taker will make sure they have the order submitted correctly and will typically communicate about any out-of-stock products or any variation of the typical order.

Another type of inside order taker is in the business-to-consumer (B2C) market, where a consumer will shop at a store and pick a product. An example of this would be the cashier at **Walmart** or other retail outlet. When the consumer is ready to pay for the product, and if they choose to check out with a cashier rather than the self-checkout option, they are checking out with the inside order taker. In the role of inside order taker, the cashier carefully scans each of the products and completes the sale. For online retailers, the inside order taker is the one making sure the products ordered from the online shopper are in stock and available for fulfillment. They may contact the customer if the product is unavailable or if there are questions about the order.

Outside Order Takers

Outside order takers work with customers who routinely buy products, and their role is to take in and

process those orders. The outside order taker is not required to persuade a customer to purchase, but rather they are a resource for the customer in fulfilling orders. In addition, they are a resource to their customer and may offer insight and advice on inventory patterns and expected delivery times.

Your neighborhood hair salon is a good example of a business that relies on an outside order taker. Hair salons typically have both a supply of the products they use on their customers and a supply of products they sell to their customers for home use. The beauty products sales force consists of multiple sales roles. However, the outside order taker routinely checks in with the salon owner and will fill out the order sheets to replenish product stock that is low.

Order Getters

The role of the **order getter** is critically important to the revenue of many businesses. The order getter is responsible for finding customers and persuading them to purchase. They might also be responsible for increasing orders from current customers. The order getter is typically well versed in their products and has superior knowledge about the industry. Additionally, successful order getters are often viewed as a trusted advisor by the customers they serve. Many businesses rely heavily on the order getter to work with them to solve their problems through the products they represent.

The order getter must be able to listen to the customer and respond with solutions that will be mutually beneficial to both companies. In the role of the order getter, it is not uncommon to work with a customer for a year or more before ever making a sale. **iSalus** is a perfect example of this. In an effort to get the company's cutting-edge patient engagement software into health systems, the sales force must identify the decision makers within the health system as well as work with those who will be using the software. Educating and engaging with a variety of teams within the health system, as well as waiting on budget approvals, can take anywhere from 6 to 18 months. Laying the foundation can be a lengthy process but can be very rewarding when everything comes together and the sale is made.

Support Personnel

A typical sales force includes various **support personnel** that help facilitate the sales process. Support personnel can take on many functions in the process of making the sale, including marketing, prospecting, setting appointments, educating customers, building goodwill, checking inventory and order status, as well as providing service after the sale. There are two primary types of support personnel utilized in the sales process: missionary salespeople and technical specialists.

Missionary Salespeople

Missionary salespeople are often employed by manufacturing firms to represent the company and call on retailers in an effort to inform or persuade them to buy the firm's products. In some cases, they may also be referred to as a detailer. It is the job of the missionary salesperson to inform customers about new products and promotional specials and to encourage new orders and reorders. Missionary salespeople are most common with manufacturing, pharmaceutical, and software companies. A salesperson for **McKesson Corporation**'s pharmaceutical products will work with physicians in their territory. Typically, they meet with the physicians, provide education on new products, leave samples, and connect with the physician's practice on a regular basis to keep the company's products in use.

Technical Specialists

A **technical specialist** serves as an assistant to a firm's existing customers. Their role is to advise on many aspects of the product, such as technical specifications, application, design, and installation. As the name implies, this job is highly technical and often requires formal training. Many people in the role of the technical specialist have backgrounds in science or engineering. The types of products and the applications for the products determine the need for and training of the technical specialist.

Team Selling

Many of today's customers and products are complex. The more expensive and high-tech the product, the more important it is to have a team of people to assist the client in making sure the product meets their needs and wants. Team selling is a sales approach that can improve the likelihood of a good experience that meets or exceeds the customer's expectations. **Team selling** involves the lead salesperson bringing in other functional support people from within the organization. Other functions that are often involved include finance, engineering, and accounting. These various functions can assist with the skills and knowledge to address specific customer problems or issues and work through objections or special circumstances that may be required to make the sale. Bringing extra skills and knowledge to the situation can make for a better product fit and a good outcome whereby the client sees the company and products as invaluable.

CAREERS IN MARKETING



Personal Selling

Personal selling is a technique used by sales professionals to make a connection and possible sale with customers. There are several techniques and tips for personal selling, and you can [read about them in this Indeed article \(https://openstax.org/r/careerdevelopmentpersonalselling\)](https://openstax.org/r/careerdevelopmentpersonalselling).

There are many types of sales jobs. If a career in sales interests you, spend time learning about the different kinds of sales jobs and how they differ. Start by [reading this article to learn about the things to consider \(https://openstax.org/r/typesofsalesjobs\)](https://openstax.org/r/typesofsalesjobs) in a sales job, types of sales job titles, and job types. Read this [article from Indeed about all the various \(https://openstax.org/r/findingajob\)](https://openstax.org/r/findingajob) types of sales jobs to explore.

There is a lot to explore when learning about sales jobs. Check out these resources to learn more:

- Indeed: "[10 Sales Skills Reps Should Have \(https://openstax.org/r/saleskillsforreps\)](https://openstax.org/r/saleskillsforreps)"
- ResumeGenius: "[Top 12 Sales Skills for Your Resume + Examples \(https://openstax.org/r/resumehelp\)](https://openstax.org/r/resumehelp)"
- Brainshark: "[17 Sales Skills All Reps Need \(https://openstax.org/r/keysaleskills\)](https://openstax.org/r/keysaleskills)"
- LiveAbout: "[Important Sales Skills That Employers Value \(https://openstax.org/r/saleskillslist\)](https://openstax.org/r/saleskillslist)"
- HubSpot: "[How to Understand & Thrive in Digital Sales \(https://openstax.org/r/salesdigitalsales\)](https://openstax.org/r/salesdigitalsales)"
- HubSpot: "[The Best Sales Job Boards for Finding or Filling a Sales Job \(https://openstax.org/r/searchforsalesjobs\)](https://openstax.org/r/searchforsalesjobs)"

A career in sales can be fast-paced, exhilarating, and competitive. If sales interests you, be sure to do your homework so that you're sure to find a position and industry you're passionate about.

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 practice of using call centers, where employees receive calls from customers and provide service by taking orders and answering queries, is called _____.
 - a. customer response marketing
 - b. guerilla marketing
 - c. reactive marketing
 - d. inside order taking
2. The management of Javier's Bicycles has an approach where the call center makes appointments and the

sales professionals go out to meet with the potential customers and discuss the various products available. This is an example of _____.

- a. inside order takers
 - b. team selling
 - c. technical specialists
 - d. internal marketing
3. Special-Lite makes industrial doors for many commercial applications. Once the sales professional meets with the customer to discuss the products they wish to buy, the sale moves into production, and a special person within the company is assigned to make sure the doors meet the requirements specified in the blueprints. This person is a(n) _____.
- a. order getter
 - b. order taker
 - c. technical specialist
 - d. telemarketer
4. Pfizer uses sales professionals to visit with physician offices and inform the physicians of the new medications and the uses for the medications and to encourage them to prescribe the new medications to their patients. This form of sales professional is often called _____?
- a. technical specialist
 - b. order taker
 - c. order getter
 - d. missionary sales
5. 84 Lumber has personnel who work to set appointments and check inventory levels. What type of person does this for the sales force?
- a. Support personnel
 - b. Missionary sales
 - c. Technical specialist
 - d. Order getter

15.3 Steps in the Personal Selling Process

Learning Outcomes

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

- LO 1** List the steps in the personal selling process.
- LO 2** Describe each step in the personal selling process.

Step 1: Prospecting and Qualifying

The **selling process** is a seven-step process (see [Figure 15.2](#)) used for selling a product. The process can be multifaceted, lengthy, and complex, depending on the product and the prospect. While all salespeople are different, generally most sales professionals go through the same selling process.

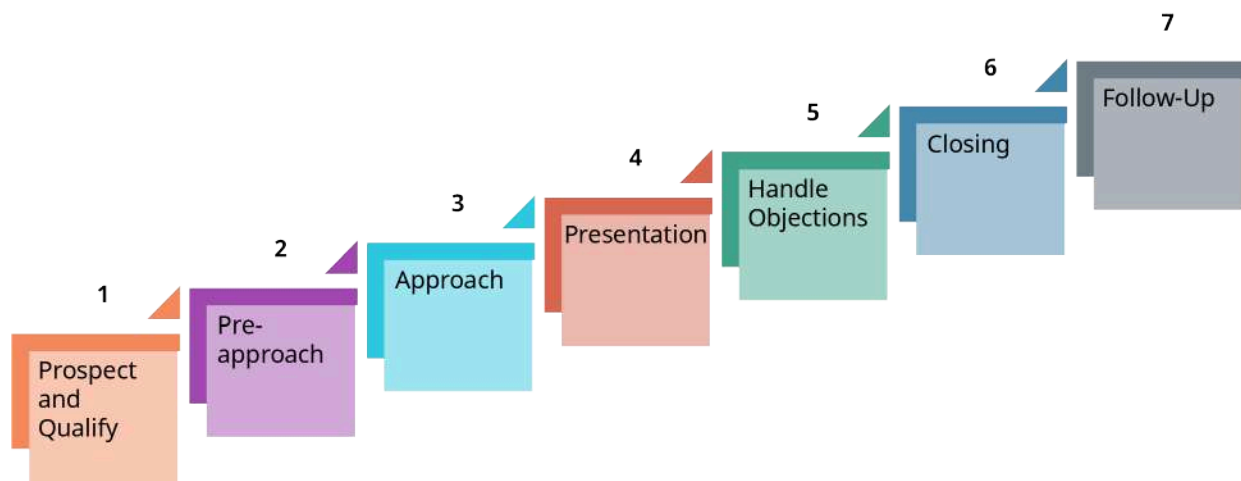


Figure 15.2 Steps in the Selling Process (attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)

The first step in the sales process is to find, or **prospect** for, strong potential customers. In prospecting, sales professionals will work to create and develop a database of potential customers, called **sales leads** through lead generation. Getting the names and contact information for the database is the act of prospecting. Each business or company has its own methods of prospecting and qualifying. For some companies, the process is rigorous and lengthy; for others, it can be nothing more than a quick phone conversation.

There are many methods of lead generation. Utilizing digital strategies is one example. Many companies may prospect leads through a digital advertising campaign that triggers potential customers to sign up for information about a product. Other forms of prospecting can include meeting potential customers at trade shows, use of a referral program, or purchasing a list of customers from a third-party company that meets the criteria for the target market.

Once the sales professional has a database of leads, the next step is **qualification** of those leads. Not all names in a database may be the right candidates for a company's products. There are many reasons why a candidate may not be a good fit for a company's products. For example, some leads may have recently purchased a competitor's product, and others may not be in a financial position to afford the product. The sales professional wants to reduce the list to include only the leads who are a good fit and are more likely to be receptive to purchasing the company's products. Qualification may also include making sure the contact has the authority to make the purchasing decision.

You might be asking yourself how a salesperson or company tracks these leads and keeps all the various communication touch points organized. They typically have two software tools to help them: **sales force automation** (SFA) and **customer relationship management** (CRM) software. SFAs are used to acquire a customer, and CRMs are used to retain and manage customers after the sale.¹

According to **Salesforce**, a company known for one of the most popular CRMs on the market, CRM software "is a technology for managing all your company's relationships and interactions with customers and potential customers. The goal is simple: Improve business relationships to grow your business."²

LINK TO LEARNING



Difference between CRMs and SFA

Check out this [short article from SelectHub \(https://openstax.org/r/sfavscrm\)](https://openstax.org/r/sfavscrm) that outlines in more detail the difference between CRMs and SFAs.

Step 2: Pre-approach

The **pre-approach stage** can best be described as a thorough analysis or research of the potential candidate. It is in the pre-approach stage that the sales professional will conduct a very detailed study of the prospect, which will often include information about specific product needs, what current brands they might be using, brand awareness, who the decision makers are, and general knowledge of personal interests and financial standing. The research findings are meant to help the sales professional to find out needs and wants as well as the best way to approach the prospect for the sales presentation.

Some of the research that sales professionals seek to review as part of their investigation may include interviews with other clients, financial reports, credit histories, and any sources of public information. Most companies with a sales force and sales process will use robust customer relationship management (CRM) databases to collect, filter, and track prospects through the stages of the sales process. Information that is uncovered during the pre-approach will be added to prospect records in the CRM system.

Step 3: Approach

Information gathered in the pre-approach helps the sales professional during the **approach** phase. Utilizing the insights they have gathered about the prospect, the sales professional seeks to contact the prospect to build rapport and gather more information on the needs and wants of the prospect. During this phase, it is very important for the sales professional to create a positive impression, ask the right questions, and begin building a relationship with the prospect.

A soft approach is generally the best strategy, as the goal is to build the relationship and not necessarily push product. Hard-sell tactics are often rebuffed during this early contact with the prospect. Ideally the role of the salesperson in this early stage is to ask questions and listen. It is through listening intently to the prospect that the salesperson can detect the fit for the product and ultimately the best way to sell the product. Information gathered during the approach will often be used in the presentation stage.

Step 4: Presentation

Once the prospect has made it through the approach stage, the sales professional is ready to present the product to the prospect. During the **presentation** stage, the goal is to showcase the features about the product that will be of most benefit to the prospect based on the needs uncovered during the pre-approach and approach stages. Often the presentation may include education on the aspects of the product that the prospect will find most beneficial to solve their problems. This is the time for the sales professional to highlight the benefits of the product and answer questions the prospect might have. For example, college admissions departments work with students to showcase the best of the university in an attempt to persuade them to enroll. Part of the presentation process includes tours of the campus, meetings with current students, attending classes, and experiencing campus life.

The best sales professionals are good listeners. Good listening strategies work to build rapport and create winning strategies. When you listen carefully to your prospects, they will tell you exactly how to sell to them. Using information provided by the prospect, a good sales professional will be able to turn it into a winning sale. Several methods of sale presentation include a stimulus-response format, formula selling, a need/satisfaction format, adaptive selling, and consultative selling.

Stimulus-Response Format

When a salesperson has done the research and they understand many of the issues that might be presented by the customer, they are able to provide a stimulus, and the customer provides a response. The skilled salesperson is able to counter every response with a new stimulus. The goal is to sell based on the response from the customer. To be effective, the salesperson must follow a script, which has been developed based on the pre-identified needs and wants of the customer.

Formula Selling Format

Advertising has typically been dependent on the customer going through a specific set of actions before responding. One of the most common consumer response models is the **AIDA model**, which encompasses attention, interest, desire, and action. Marketers often look to the AIDA model when putting together advertising campaigns. The AIDA model is also used for **formula selling**. The goal is for the salesperson to take the customer through the various stages of response until they get to the purchase of the product. The skilled sales professional will make sure they are providing stimuli and responses for each of the stages of AIDA.

Need/Satisfaction Format

The **need/satisfaction format** of selling is an approach where the sales professional opens the sales presentation by probing the potential customer with questions in an effort to uncover their needs. The sales presentation is then tailored to the customer by showing how the product/service will satisfy the customer needs.

For example, the owner of a busy café may be met with a question about scheduling from a salesperson who sells scheduling software. The salesperson may start with a question such as “This café is so busy; is it difficult to schedule your staff?” Once the café owner talks about the challenges of scheduling, the salesperson now has information they need to custom tailor the sales presentation about scheduling software to the specific needs identified by the café owner.

Adaptive Selling

Adaptive selling is one of the most customer-centric sales methods available to the sales professional. Using the **adaptive selling** approach requires the sales professional to adapt their selling strategy and even the product to meet the needs and solve the problems of the customer. To fully utilize this approach requires that the sales professional rapidly customize their approach to meet the needs of different customers. Many sales professionals are taking advantage of the big data that is now readily available to better target customers. Armed with data about what is going on in the market, the salesperson can now adapt their presentation with real time information.

Consultative Selling

Perhaps this method was best exemplified in the movie *Miracle on 34th Street*. In the movie, the Macy's Santa Claus suggests a location, other than Macy's, where a mother can get a toy for her son. **Consultative selling** makes the sales professional a consultant who develops a relationship with the customer and takes on an advisory role to help the customer solve their problems. Generally, the problem will get solved through purchase of the product, but it can also be solved in various other ways. The sales professional becomes the anchor to helping the potential customer solve their problems.

Step 5: Handling Objections

Preparation during the qualification, pre-approach, and approach stages of the sale process, provide the sales professional with the information they will need to handle objections. In many situations, seasoned sales professionals are able to successfully present the product and answer questions without having objections. Good research on the customer and an understanding of how the product will help them and solve their problems allow the sales professional to avoid objections. However, when the customer does present an objection, the skilled sales professional will need to be agile at handling them.

Typically, strategies for handling objections include listening, restating the question, and responding with additional questions. Price is generally always voiced as an objection. Knowing the common objections and having a strategy to handle them prior to the presentation will help advance to the close stage.

Step 6: Closing

Asking for the order is perhaps the hardest step in the sales process for many sales professionals. Up to the point of the close, the sales professional has spent a tremendous amount of time and energy with the prospect. Much of the work of the sales professional has been around building a relationship with the prospect. Asking for the order is a source of tremendous fear for many sales professionals because this is the point where all of their work could unravel. What if the customer says no? Then what?

Many sales professionals fear the possibility of rejection. They also consider that they may get the timing wrong. However, if the sales professional has prepared, they know that asking for the order is the point where they make the prospect a customer. One way to eliminate the guesswork of timing is to do a trial close by talking about things such as financial terms or delivery of the product. The customer's response to the trial close questions will alert the sales professional to the prospect's readiness to purchase.

Step 7: Follow-Up

After the order is placed, the real work begins. Upon closing a sale and signing the prospect as a customer, the sales professional is now tasked with onboarding the customer and ensuring that everything progresses smoothly with the sale of the product. Because it is much more lucrative for a company to keep current customers happy than to go out and prospect for new customers, the follow-up is a major step in creating lifetime customer value (LCV). Most salespeople would rather maintain their current clients than search for new clients. The follow-up after the sale is a critical step in getting repeat business, customer referrals, and upsells during the next order cycle.

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. Lucia works for ABC Home Centers. The company sells roofing and windows to customers looking to make home improvements. Lucia's main job with the company is to identify people who might be in the market for home improvement products. As part of Lucia's job, she calls people to see if they would be interested in finding out more about ABC's products. What stage of the sales process is Lucia doing?
 - a. Closing
 - b. Handling objections
 - c. Presentation
 - d. Prospecting and qualifying
2. Tony likes everything about the products from Supreme Restaurant Equipment. He is just about ready to purchase, but he has some questions about the payment methods and financing. At what stage of the selling process does the sales professional deal with Tony's questions?
 - a. Handling objections
 - b. Closing
 - c. Pre-approach
 - d. Qualifying
3. Shakira has been working with a customer for quite some time. She has a good rapport with the customer, and the customer often asks her a lot of questions regarding other matters in the industry. When Shakira is ready to work with the customer for an order, she talks with them about the pros and cons as well as other companies' products that might be a good fit. What type of selling approach is Shakira using?
 - a. Adaptive
 - b. Hard sell
 - c. Stimulus-response

d. Consultative

4. "Besides you, are there other decision makers that buy apparel?" This is a question that you might ask during what stage of the sales call?
 - a. Pre-approach
 - b. Close
 - c. Approach
 - d. Handling objections

5. Keith is with his prospect, and he is out on a test drive for the new Ford F-150. He is telling the prospect about the safety features of the truck. What stage of the selling process is Keith in?
 - a. Approach
 - b. Close
 - c. Presentation
 - d. Handling objections

15.4 Management of the Sales Force

Learning Outcomes

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

- LO 1** Identify the issues involved in managing a sales force.
- LO 2** List the various ways a sales force can be structured.
- LO 3** Describe the tasks involved in sales force recruitment and selection.
- LO 4** Discuss key metrics that can be used to assess sales performance.
- LO 5** Describe the tasks involved in supervising and evaluating a sales force.
- LO 6** Summarize the metrics that can be used for sales force performance evaluation.

Issues Involved in Managing a Sales Force

A sales force can be the lifeblood of an organization's revenue cycle, so it's important that they are incentivized to produce new clients, maintain current clients, and generate revenue for the organization. Proper management of the sales force includes setting goals, motivating, incentivizing, supporting, and monitoring.

Typical issues specific to sales include motivating and challenging the sales force. A sales force is always under pressure to meet sales targets, often linked to revenue goals, so a manager needs to constantly be working with their sales team to keep them motivated and hit the targets.

Finding the right person for the job is an important role for a sales manager. Sales managers often look for recent college graduates to fill sales positions. In addition, sales managers may look for someone already experienced in sales and then train them for the specific industry and products. Whatever set of skills a company might be looking for, finding the right mix of professionals can be challenging.

Sales Force Management Defined

Sales force management includes a very wide range of responsibilities. There are many tasks involved in sales force management, including the process of hiring, training, and motivating sales staff, as well as coordinating activities and implementing a sales strategy designed to increase sales revenue.

Setting Sales Force Objectives

For the sales force to be effective, they must understand what is expected of them. Establishing a clear set of objectives conveys to the sales force the expectation and how they will be evaluated. Sales force objectives can be set for the entire sales force as well as individual sales professionals. Objectives are usually set based on

revenue goals, and they should be clearly established with measurement metrics and a time frame for completion. Typical sales force objectives include a mix of generating new customers and working with current customers.

Serving Existing Customers

Much of the work of a sales professional is around serving the existing customer. It is important to keep customers satisfied. Most organizations rely heavily on existing customers to provide good reviews, customer referrals, repeat purchases, and upsell of existing products. Sales professionals are expected to continue developing and building the relationship with existing customers to ensure they are satisfied. This can include checking on inventory, dealing with supply issues, and educating on product application. Objectives may include how often the sales professional is expected to keep in contact with the existing customer.

Developing New Customers

Growth is a key driver of most organizations, and growth comes through new sales to existing customers and also through sales to new customers. A sales force objective of obtaining a certain number of new customers is common. The sales force must have a lead pipeline of prospective customers they are constantly working to turn into customers.

Increasing Market Share and Profit

Additional methods for companies to grow include obtaining more market share as well as more profitable sales. When there are sales objectives for market share, they usually focus on an increase in the proportion of the firm's sales as compared to the total number of products the firm sells overall in the industry.

Enhancing Customer Satisfaction

An important element of obtaining new customers as well as getting additional sales from existing customers is keeping customers satisfied. Satisfaction can mean good reviews, referral business, and lifetime customers. Objectives for customer satisfaction usually involve the sales force working with customers and obtaining reviews and endorsements.

Designing the Sales Force Strategy and Structure

There are many ways to design and develop a sales force. Careful thought to the customer is usually the best practice for establishing the right structure. Other factors in determining the best structure involve the company and its products. Sometimes organizations utilize all of the methods to structure the sales force.

For example, **Pfizer** has a neuroscience product and structures its sales force by product, customer type/size, and geography. The Pfizer pharmaceutical sales representative for the neuroscience product calls on neurologists, represents only one or two products so that they are an expert on the efficacy and uses, and has a very tight geographical territory, usually focused on a few zip codes depending on the number of neurological medical practices in a given area.

Territorial Sales Force Structure

Setting up a sales force territory is typically done based on the number of prospects and customers as well as the size of the customer and the potential revenue from the typical sale. The goal is to make the territories equitable for all of the sales force. Geographic territories are typical and take into consideration the amount of time spent in the field and how large the coverage area may be for the sales force.

Product Sales Force Structure

Firms typically want the sales force to be knowledge experts on the products they represent. It is common for a company to provide the sales force with a portfolio of products and to include continuous training on all aspects of the products they sell. In order to provide the best resources, companies create structure around product portfolios and have their sales force structured according to the products they sell. For example, in

wine distribution, some sales representatives work with restaurants, the “on-premise” segment. Other sales reps would serve retail outlets, including supermarkets and independent wine shops.

Customer (Market) Sales Force Structure

In addition to knowledge of the products, the sales force needs to be knowledgeable about the customers and the industries they serve. Many companies structure their sales force according to the industry or customers. A company that sells products within the restaurant industry may be structured according to quick service, fast fresh, food truck, and fine dining.

Determining the Size of the Sales Force

Investing in a sales force is significant for any company. Sales professionals must be properly incentivized, and the pay and benefits packages can be quite high for experienced and well-trained employees. Companies must determine the number of potential customers as well as the time to nurture prospects into customers. The size of the sales force must be considered in relation to the complexity of the product, the profit margins on sales, and the size and number of customers in the markets served.

Recruiting and Selecting Salespeople

Hiring and training a sales force is a significant process and cost for companies. The sales manager must have a set of skill requirements and product knowledge that the right candidate must have in order to fill the available roles. There is significant agreement that good salespeople all possess the traits of self-motivation, time management, optimism, empathy, and the ability to network. Many salespeople make themselves valuable based on the network of contacts they are able to maintain.

Most recruiting starts with a job description detailing the requirements and the necessary skills that are needed to do the job. Finding the right candidates often starts through listing available job openings on many of the digital job boards, such as [Indeed](#), [CareerBuilder](#), and [LinkedIn](#). Executive recruiting firms can also be instrumental in finding and matching the right job candidates.

Training Salespeople

Training of the sales force is a significant effort for most companies. Many organizations have a formal training program and spend considerable time and resources to keep the sales force knowledgeable on the products and industries served. Areas of training include sales strategies and how to sell, the products being sold, the industries served, and the company itself.

The best training programs are a combination of classroom activities and in-the-field training. Companies typically have their own training programs. New hires will spend a couple of weeks to a few months in training before they are given their own accounts and territories. Training, however, is not only for the newly hired sales professionals. Most companies have continuous training requirements for their sales force. Training for existing employees often includes company processes, information on products, and enhancing sales skills. Most top-performing sales teams spend time training with company managers as well as other sales professionals.³

Compensating Salespeople

Compensation of the sales force is typically focused on providing a fair wage as well as incentivizing and motivating. Many organizations combine a variety of compensation methods to meet both individual goals and the overarching organizational goals.

Commission Only

Using a **commission**-only compensation structure provides for the motivation and incentive to make sales. Seasoned sales professionals typically enjoy a higher commission or commission-only structure. They are confident in their ability to sell the products and want to recognize the significant compensation enjoyed by a

high commission structure on the sales they make.

The advantages of a commission-only compensation structure are that the company is not burdened with the expense of the sales force, as it only pays the sales professional if they have made a sale. This structure provides incentive and motivation for the sales professional to make sales and work hard.

The disadvantages of this structure include potential burnout of the sales force as well as a possible situation where the sales force uses aggressive practices to make sales.

Salary Only

When an organization uses the sales force more as trusted, it tends to provide a salary structure. Using salary-only compensation provides for stability of the sales force and the inclination of the sales professional to spend significant time with the customers and prospects.

A new salesperson at a car dealership might start on salary for a few months while learning the business. Later, after gaining product knowledge, developing a prospect list, and gaining the trust of the veteran sales staff, that person might switch to commission only.

The advantages of the salary-only structure are that it gives the organization control over the sales expense and is easy to administer. There are, however, a few disadvantages. One of the major disadvantages is that there is no incentive or motivation to make a sale. Another major disadvantage is that when sales decline, the expenses remain the same.

Salary and Commission

Many organizations utilize a combination of salary and commission. This allows for control of the sales force and the activities while still providing the sales force with incentives and motivation.

The major advantage to the combination structure is that it provides a certain amount of financial stability for the sales force while also incentivizing them to make sales. A disadvantage to the organization is that it is difficult to administer, and it makes the selling expense less predictable.

Salary and Individual Bonus

Another form of compensation is a base salary plus individual bonuses upon meeting goals and objectives. The advantages are control over the selling expense and incentive to meet goals and objectives established for the sales force. The disadvantage is primarily in the administration of the structure to make sure the bonus is sufficient to provide motivation and incentive and to keep track of the bonus structure.

Salary, Commission, and Bonus

This is the most complex of all of the compensation methods, as it combines all elements: a base salary, commission based on sales, and bonus based on goal targets. The advantages for the employee are the security from the salary combined with an incentive through the commission and bonus. There are two levels of incentive and motivation to keep the sales force engaged and actively working on making sales. The disadvantages include the complexity of managing the structure and tracking commissions and bonuses.

Supervising and Evaluating the Sales Force

While most sales professionals are self-motivated, they still require supervision, and this will include methods of evaluation to make sure the predetermined objectives have been met. Sales managers are tasked with developing the objectives and goals as well as monitoring and evaluating the success of the sales effort. There are a number of methods used to supervise and evaluate.

Quantitative assessments focus on the items that can be measured. They are less subjective and allow the sales manager to focus on the goals and objectives set for the sales force. A quantitative assessment may include a scale to rank activities of the sales force. For example, [Paychex](#) may evaluate the sales force based on

how many leads they have acquired in a given month, the number of meetings with prospects, and the number of communication touch points with existing clients.

Another key element of evaluation includes the behavioral aspects of selling. Behavioral evaluations tend to be subjective in nature; however, they can be very helpful in identifying the right actions for the sales force to be effective at selling. Typically, a sales manager may accompany a sales professional for a day. The goal of the sales manager is to see how the sales professional handles their day, communicates with clients, answers questions, and conducts follow-up activities.

Useful Metrics to Assess Sales Performance

There are many metrics utilized by sales managers to gauge the performance of the sales force. The metrics should align with the goals and objectives of the organization and the sales function. Ideally, sales managers rely on metrics to provide the sales force with clear targets to work toward.

Sales Metrics

Sales metrics include data that serve to measure the individual performance of the sales professional, the team as a whole, and the company's sales performance over a period of time. Sales managers use the data to measure and evaluate areas that are doing well and those that need improvement.

Most sales teams have found that a few key metrics are instrumental in evaluating the overall success of the sales efforts. Every activity of the sales force needs to work toward making the sale. Metrics for sales productivity look to gauge the effectiveness of the efforts. Some typical productivity metrics include

- percentage of time spent on selling activities;
- percentage of time spent updating the CRM;
- percentage of lead follow-up; and
- percentage of leads generated.

Time is of the essence in connecting with “warm” leads, or potential customers who have expressed interest in the product. **Lead response time** measures evaluate the responsiveness of the sales force to the leads generated. Most sales programs seek an acceptable time frame for response. Some examples include

- time to contact a new lead;
- time to respond to a customer question;
- time to prepare a new prospect presentation; and
- time to create a proposal.

The **opportunity win rate** is a good measure to gauge the effectiveness of the sales force. It is important to know how many leads the sales force is given and how many leads become prospects. Knowing the opportunity win rate will help to determine where the sales force might need extended training on closing sales; it will also help to determine how many leads are needed in order to convert to clients.

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. Lev is the sales manager for John Paul Mitchell Systems. He is responsible for the North American sales division. Lev is currently reviewing the total number of salons and looking to estimate the size of his sales force. What sales force management function is Lev performing?
 - a. Setting sales goals
 - b. Looking at territories
 - c. Estimating the number of sales professionals he will need
 - d. Writing job descriptions

2. Part of Malika's job with H2O Pool Supplies is to identify potential new customers. She is required to spend 20% of her time working to bring in new customers. What type of objective is Malika working toward?
 - a. Serving existing customers
 - b. Increasing profits
 - c. Enhancing customer satisfaction
 - d. Developing new customers

3. Terra Cotta Landscape Supply is currently developing a two-day session for all sales professionals within the organization. During this two-day meeting, the sales professionals will be learning about new products and applications for their clients. This is an example of what element of managing a sales force?
 - a. Compensating
 - b. Training
 - c. Recruiting
 - d. Evaluating

4. Johnny has worked for Nestlé for 15 years. He is paid based on the sales he makes. What type of compensation is Johnny most likely making?
 - a. Base salary
 - b. Bonus
 - c. Commission
 - d. Salary and commission

5. Raneé is concerned with making sure she has a set number of appointments with customers each week. Raneé is most likely being evaluated based on what?
 - a. Percent of time spent on selling activities
 - b. Percent of time spent generating leads
 - c. Time it takes her to develop a proposal
 - d. Percent of time working in the CRM

15.5 Sales Promotion and Its Role in the Promotion Mix

Learning Outcomes

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

LO 1 Define sales promotion.

LO 2 Discuss the importance of sales promotion in the promotion mix.

Sales Promotion

Sales promotion is a promotional strategy focused on inducing sales in the short term. Of all the promotional activities, sales promotion is solely focused on a direct call to action to buy something. Sales promotion can be targeted to intermediaries through a push strategy or directly to consumers through a pull strategy. Marketers often use sales promotion in tandem with other promotional strategies. When **McDonald's** advertises, for example, "Free fries on Friday when you purchase a menu item through the app," it is using advertising along with sales promotion to induce consumers to use the app and to increase sales on Fridays.

When products are at the introductory stage of the product life cycle, sales promotion can be effective at inducing trial of a product. The greater the competition, the more a sales promotion strategy becomes important for getting consumers to switch or try a new or different product. Product manufacturers often use sales promotion in-store to set apart the brand or product at the time of purchase. As you walk past the cheese aisle at the grocery store, you might see **Sargento** offering a buy-one-get-one (BOGO) deal. This is a sales promotion geared toward getting the customer to buy more of Sargento or possibly try Sargento for the

first time.

Importance of Sales Promotion in the Promotion Mix

Many of the strategies in the promotion mix are informative in nature. However, when other strategies are combined with sales promotion, there is a direct and immediate call to action to purchase the product. Companies needing to create sales in the short term will benefit from sales promotion. Utilizing sales promotion is a very effective strategy for generating trial of a product in the introductory stages of the product life cycle (PLC).

Spreading of Information

Sales promotion is very effective at spreading information about new products and product modifications. Creating awareness of the brand to new markets and customers is another effective use of sales promotion.

When **MyPillow** has an advertorial during Fox News and provides a code for a reduced price of its renowned pillows, the advertorial serves to tell new customers about the products as well as provide an incentive to purchase the product immediately.

Stimulation of Demand

One of the key elements to good sales promotion is that it stimulates sales in the short term. Sales promotion gives customers an immediate incentive to purchase a product.

Sonic Drive-In (see [Figure 15.3](#)) offers half-price drinks and slushes every day from 2:00 to 4:00 as a “happy hour” special. The use of this sales promotion tactic does two things: first, it incentivizes consumers to buy drinks, and second, it provides sales during the slow times of the day.



Figure 15.3 Sonic Drive-In uses a half-price sales promotion to stimulate sales during slow times of the day. (credit: “Sonic Drive In and Eat In Restaurant, Bristol CT 5/2014” by Mike Mozart, JeepersMedia/flickr, CC BY 2.0)

Customer Satisfaction

Today’s customer is presented with thousands of messages. Companies are driven to get noticed, increase sales, and keep their customers satisfied. Sales promotions are one method a company may use to increase customer satisfaction. A survey from **RetailMeNot** “showed that coupons can affect brain chemistry and can make customers happier.” The research concluded that an online shopper who received a \$10 coupon was 11% happier and had 38% higher oxytocin levels than those who didn’t get a discount.⁴ Providing the occasional discount can chemically make a customer happier, resulting in a more satisfied customer, who may spend more in the future and may become a loyal shopper.⁵

Stabilization of Sales Volume

Sales promotion can also be used to help stabilize sales volume. Because sales promotion works to incentivize purchase of a product in the short term, companies often use this promotional tactic to drive sales and meet

targets. Typical sales promotion tactics used to increase sales include buy-one-get-one-half-off and other specific discounts that are available when used by a certain time. The time element provides the company with the target for the sale, and the customer is provided with an incentive to purchase by a certain time.

MARKETING DASHBOARD



Cost of Customer Acquisition

We often think about profitability based on the difference between what we spend to create a product or service and the amount a customer pays for that product or service. However, we have to remember that there are costs to acquiring customers. In this chapter, you learned about two promotional activities that create costs to reach customers: sales and sales promotion.

Within the sales process, an organization pays a salesperson salary and/or commission to make sales. This is an example of a cost to acquire a customer. As you can imagine, we want our cost to acquire to stay low. For example, if we sold multimillion-dollar airplanes, it would be reasonable to spend thousands of dollars on a salesperson to make that sale. However, if we were selling several-hundred-dollar televisions, our cost to acquire a customer must be much lower.

Sales promotion is another promotional expense. For example, if a pizza brand provides samples at Costco, this might encourage a customer to purchase pizza. And if that customer keeps buying pizza, the cost of the pizza sample was worth it for the value that the customer will bring over the life of the relationship. Other categories of promotional costs include advertising, public relations, social media, search, and direct marketing.

The formula for cost of acquisition is the total cost of marketing activities divided by number of customers acquired.

$$\text{Cost of Acquisition} = \frac{\text{Total Cost of Marketing Activities}}{\text{Number of Customers Acquired}}$$

In this formula, you will see an assumption that all customers are worth the same amount, but as savvy marketers, we know that this is untrue. This is why we need to use a variety of marketing metrics when evaluating campaigns.

Give the cost of acquisition calculation a try for yourself. What is the cost of acquisition in the example provided below?

Type of Promotion	Expense	Yield
Television Advertising	\$1,250,000	400,000 customers
Catalog Mailing	\$750,000	250,000 customers
Search Engine Marketing	\$550,000	90,000 customers
Outdoor Activation	\$1,500,000	70,000 customers

Table 15.1

Type of Promotion	Expense	Yield
Ad Agency Fees	\$600,000	0 customers
TOTAL	\$4,650,000	810,000 customers

Table 15.1

Solution

$$\$5.74 \text{ per customer}$$

Formula:

$$\$4,650,000 / 810,000$$

What additional information do you need to determine whether the cost of acquisition is appropriate for the product or service?

Solution

The price of the product/service, total sales, expenses, and margins associated with the product or service

Let's suppose that this example is for a national bookseller. The bookseller has an average profit per customer of \$90 over the customer's lifetime. Would the cost per acquisition that you calculated provide a good value for the bookseller? Why or why not?

Solution

Yes. It is worth it to spend \$5.74 to acquire a customer worth \$90 on average over the lifespan of the relationship;

$$\$90 > \$5.74$$

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.

- The retail store Ann Taylor is offering 75% off if you order online today and sign up to receive the newsletter. This is an example of what promotional mix strategy?
 - Advertising
 - Personal selling
 - Public relations
 - Sales promotion
- When Starbucks has a happy hour special from 2:00 to 4:00 and drinks are half price, what is the purpose of the sales promotion?
 - Lose money
 - Stimulate demand
 - Spread information
 - Increase customer satisfaction
- Rolex calls itself the "Official Timekeeper" of the Wimbledon and Australian Open tennis championships, by virtue of its sponsorships of the marquee events. What is the most likely objective for Rolex's sponsorship deal with these events?

- a. Lose money
 - b. Stimulate demand
 - c. Spread information
 - d. Increase customer satisfaction
4. Sales promotion consists of a collection of incentive tools designed to do what for the product?
- a. Stimulate demand
 - b. Create brand awareness
 - c. Provide free publicity
 - d. Inform
5. Sally loves to receive her coupons from American Eagle. She typically looks in her email every day to see what promotions the company will be sending. The American Eagle sales promotions are helping to accomplish which important task?
- a. Increased customer satisfaction
 - b. Providing information
 - c. Increasing brand awareness
 - d. Developing junk mail

15.6 Main Types of Sales Promotion

Learning Outcomes

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

LO 1 Discuss the primary types of consumer-oriented sales promotion.

LO 2 Discuss the primary types of trade-oriented sales promotion.

Consumer-Oriented Sales Promotion

Sales promotion can be categorized in two ways. The first category of sales promotion is consumer-oriented, which focuses on the consumer pulling the product through the marketing channels. The second category is trade-oriented, which is intended to push the product through the channel to the consumer.

Consumer-oriented sales promotion provides the customer with an immediate inducement to purchase a product. The goal is to have the consumer seek out the product and “pull it” through the marketing channel. There are many common forms of consumer-oriented sales promotion.

Coupons

The goal of **coupons** is to reduce the price of the product and prompt the consumer to make an immediate purchase. The major goal is to increase sales quickly, attract repeat purchases, or try new versions of a product. Consumers using coupons recognize the savings when they relinquish the coupon at the time of purchase. Coupons come in many different forms, including printed, digital, and mobile. Because a coupon has to be redeemed to obtain the reward, manufacturers can determine the effectiveness of the coupon offer and the method of delivery.

The company **HelloFresh** sends a direct mail piece with a coupon for 16 free meals. When consumers sign up for the home delivery meal plan, this is a great example of how a coupon might be used to create brand awareness and acquire new customers. The direct mail might also include a code to use online for digital application of the offer.

Samples

Samples are most often used to induce trial of a new product. This tactic can be very effective to increase sales

volume during the early stages of the product life cycle and to help with better distribution. Samples can be given out in stores, at events, or through the mail. This is an expensive form of sales promotion but can be highly effective at inducing purchase. **Costco** regularly has samples within its aisles and at the immediate point of sale as consumers are shopping. Another example is from the 2022 SXSW conference in Austin, Texas, when **Cremellini Fine Meats** distributed free mini packs of salami to showcase the company's line of "charcuterie-grade snacking" products. The makers of White Claw Hard Seltzer were corporate sponsors of the event; conference-goers were treated to free samples of new flavors, such as Passion Fruit.⁶

Premiums

Premiums are items offered free or at a minimum cost alongside the purchase of a product. Some of the most famous premiums include the McDonald's Happy Meal toys and Cracker Jack ("The more you eat the more you want") with a prize inside.⁷ Premiums are very good for attracting new buyers and providing an incentive for customer loyalty. The use of the Happy Meal toy created significant customer loyalty among consumers who wanted to collect all the toys in a series.

Contests

Contests make consumers use their skills to compete for prizes. Using contests allows customers to engage with products and become invested in the process of trying to win something of value. Companies often use contests in coordination with other sales promotion tactics, such as coupons. **Doritos** regularly includes a contest as part of its advertising. **Pepperidge Farm** challenged consumers to #GoForTheHandful and create an Instagram duet with pro basketball player Boban Marjanović. The goal was to see if consumers could hold more Goldfish crackers in their tiny hands compared to the large hands of the pro basketball player. Winners were treated to Goldfish for a year and the title of Official Goldfish Spokeshand.⁸ Contests are based on analytical or creative skills.

Sweepstakes

Where contests are based on skill, **sweepstakes** are based on chance. Companies use sweepstakes in order to increase sales volume in the short term. Sweepstakes ask contestants to submit their names for inclusion in a drawing for prizes. **Publishers Clearing House** conducts one of the most well-known sweepstakes. The company ultimately wants consumers to order magazines; however, the purchase of a magazine is not necessary to enter and win the \$1 million cash prize. However, Publishers Clearing House is able to add to its mailing list when consumers enter to win.

Loyalty Programs

Loyalty programs have increased in popularity. Most of today's loyalty programs are tied to a mobile app. The attractiveness of loyalty programs is that when consumers spend, they get points toward something free. For example, **Wired Coffee Bar** offers consumers \$5 off of a product in-store when they spend \$50.

Point-of-Purchase Displays

Point-of-purchase displays have been a hallmark in store aisles for decades. The point-of-purchase display allows manufacturers to showcase their products in a way that stands out from all the other products in the store. Companies typically utilize the point-of-purchase promotion method for new products that are being introduced to the market. Some common forms of point-of-purchase presentations include outdoor signs, window displays, countertop containers, display racks, and self-serve cartons. The key to good point-of-purchase is having a display that attracts customers and enhances the brand image of the product being offered.

Rebates

Rebates provide some type of reimbursement of the cost of a product when the consumer completes certain information about the time, place, and price of the product purchased. Typically, the consumer must submit

the rebate form by a certain date and must include receipts or bar codes from the purchase. Rebates usually induce the consumer to buy the product as it is being offered at a perceived cheaper price. Consumers often fail to submit the required materials to receive the rebate, as they might see the process as too laborious.

MARKETING IN PRACTICE



Domino's



Figure 15.4 Companies will often use national days for sales-oriented promotions, like Domino's does on National Pizza Day. (credit: "Domino's Pizza delivery bikes" by Erica Fischer/flickr, CC BY 2.0)

Companies use sales promotion to generate more sales and to promote their brands. Setting up special days for certain products and causes can help bring focus and attention as well as boost sales or donations in the short term. For example, days such as National Coffee Day, National Pet Adoption Day, and National Pizza Day put a spotlight on the product or cause and can work to create a news story, which helps to generate consumer interest.

During National Pizza Day, companies selling pizza will run various promotions geared toward selling more pizza and getting consumers across the country to eat pizza. While **Domino's Pizza** regularly runs discounts and promotions, most of them are “deals” that consumers can use on a regular basis (see [Figure 15.4](#)). Pizza delivery companies regularly utilize sales promotion strategies as a way to deal with the highly competitive nature of the pizza delivery industry.

For National Pizza Day 2022, Domino's, a company known for fast pizza delivery, ran an unusual sales promotion offering cash back if consumers picked up their pizza instead of having it delivered. For a limited time, Domino's, the world's largest pizza chain, offered to give consumers back \$3 when they opted to pick up their pizza instead of having it delivered. “The \$3 coupon was redeemable the following week on another carryout order of \$5 or more before tax and gratuity.”⁹

Trade-Oriented Sales Promotion

Trade-oriented sales promotion is focused on the channel intermediaries: the wholesalers and retailers. The goal is for the intermediary to be incentivized to push the product to the consumer.

Allowances and Discounts

Manufacturers provide the retailers or wholesalers with allowances to pass along in the form of price breaks to the end customer. For example, **Ford Motor Company** might offer a \$3,000 trade-in allowance for the new F-150. This is an incentive to come into the dealership and buy the F-150.¹⁰ The dealer has the allowance from Ford and is able to pass the savings to the consumer as an incentive to come in and buy a new truck.

Cooperative Advertising

Advertising can be expensive for retailers. Typically, they advertise products they have in stock in an effort to induce consumers to come in and make a purchase. **Cooperative advertising** is a way for manufacturers to help with the cost of the advertising, in exchange for the retailer to advertise the products produced by the manufacturer. When supermarket chain **Publix** advertises **Boar's Head** meats and cheeses, Publix is using cooperative advertising from Boar's Head to run the ads featuring Boar's Head products.

Cash Bonuses

Some manufacturers provide bonus cash as an incentive for the retail sales associates to push the manufacturers' products. Bonuses can be given to the sales associate who sells the most or to the store that is the highest sales producer. It is then up to the store to determine how best to use the cash bonus.

Credit Terms

One way for manufacturers to help the retailers and wholesalers who sell their products is to provide them with favorable **credit terms**. Often these terms allow the wholesaler or retailer to sell the products long before actually having to pay for the product.

Dealer Conferences

When companies have dealers who distribute their products, they want to incentivize the dealer sales force to sell the product. Additionally, the dealer conferences are a good method of training and educating dealers to work with customers and ultimately sell the product to them.

Push Incentives

Push incentives work to create demand for a product through discounts that retailers pass on to customers. In the mobile phone industry, **Apple** may provide a discount on phones through one of its retail partners in an effort to encourage buyers to choose the iPhone through the distributor. Push strategies focus on selling directly to the customer. Typical tactics include point-of-sale displays and direct approaches from the retail store sales professionals to the customers.

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. _____ are certificates that entitle the bearer to a stated saving on the purchase of a specific product.
 - a. Samples
 - b. Coupons
 - c. Rebates
 - d. Premiums

2. Which of the following consumer promotion tools offers a free amount of a product or service delivered door-to-door, sent in the mail, picked up in a store, attached to another product, or featured in an advertising offer?
 - a. Coupons
 - b. Rebates

- c. Premiums
 - d. Samples
3. Which of the following allows consumers to do things in order to have a chance of winning?
- a. Coupons
 - b. Sweepstakes
 - c. Contests
 - d. Rebates
4. Which of the following is an example of a trade promotion?
- a. Allowances and discounts
 - b. Coupons
 - c. Loyalty programs
 - d. Premiums
5. Which of the following elements of the marketing communications mix consists of a collection of incentive tools, mostly short term, designed to stimulate quicker or greater purchase of particular products or services by consumers or the trade?
- a. Advertising
 - b. Personal selling
 - c. Public relations
 - d. Sales promotion

15.7 Ethical Issues in Personal Selling and Sales Promotion

Learning Outcomes

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

- LO 1** Discuss the ethical issues that may arise in personal selling.
- LO 2** Discuss the ethical issues that may arise in sales promotion.

Ethical Issues in Personal Selling

The goal of sales is to create customer loyalty and repeat purchases. Developing the relationship with the customer is best done through honesty and integrity. Sales should always be conducted with a long-term goal of developing a lifetime customer and not just one sale.

However, with sales goals as the driving force behind the sales activities, the sales force can be pressured into practices that might be counter to building customer loyalty. Without proper regulation and a code of ethics, sales efforts can run afoul of ethical rules. Good sales managers seek to have control features built in to prevent the temptation to have a climate of dishonesty.

Ethical issues that can arise within the sales function of a company include dishonest claims about a product, slanderous comments about the competition, padding of company expense accounts and/or misuse of the expense account, artificially inflating sales data to meet goals and bonuses, and bribes and kickbacks.

Sales professionals are typically self-starters who are out in the field working with their customers. In a sales role, companies provide the sales professionals expense accounts and credit cards as a way to work with and build relationships with clients. Without close supervision and company policies and guidelines, the sales professional can be tempted to participate in unethical practices. If a code of conduct is not present, it is often hard to resist the temptations. Some of the most common practices and temptations include misuse of the company credit card, inflating sales to reach goals, and receiving kickbacks.

Misuse of Company Credit Cards or Expense Accounts

Misuse of company credit cards and expense accounts can happen with any employee, but given the solitary nature of the sales professional, it is typically prone to happen more often with them. Because the work of the sales professional is fairly independent from the rest of the organization, it can create situations where there isn't enough accountability. Misuse can happen through double billing, padding the expense account, or overcharging for expensed items.

To handle issues of expense misuse, it is best to have policies and procedures in place along with a record of accounting for expenses and providing receipts for all expensed items.

Inflating Sales Data

Because sales professionals are often given sales targets and expectations to meet the targets, they are at risk for finding methods of inflating their sales numbers to meet the targets. If the sales professional gets behind or feels pressure to meet goals, it can be appealing to find methods of showing goal achievement. The method of inflating sales can also be termed channel stuffing. This practice happens when a company forces more products through the distribution channel than the channel is actually capable of selling.

When the sales organization calculates the sales targets based on shipments of products, the method of channel stuffing helps to meet the targets in the short term. However, long-term sales targets are adversely affected, especially if the channel partners return the products.

An example of how this might happen can be explained through a company that sells over-the-counter medicines. If it has products with an expiration date in a few months, it may ship all of the products with the near-term expiration date. When the products don't sell within the expiration time frame, the products are shipped back for a return. The sales in the short term were high, and the targets were met. However, in the long-term, the company is faced with a large shipment of returned product.

In 2016, in an effort to meet sales goals and targets, Wells Fargo employees created millions of fraudulent savings and checking accounts for clients without their consent. Regulatory agencies such as the Consumer Financial Protection Bureau (CFPB) penalized the company and fined it \$185 million for the illegal activity.¹¹

Accepting Kickbacks

Another unethical practice is when sales professionals accept **kickbacks**. There are many forms of kickbacks. Companies that deal internationally are often at the biggest risk for kickbacks, as it is common practice in some countries. Sales professionals that have long-term relationships can be tempted to take advantage of the situation, particularly if both sides profit from the scheme. There are many types of kickback schemes. Primarily a kickback scheme involves two people who work together to change the pricing structure, and in turn they both generally pocket some profit from the sale. Under the 1977 Foreign Corrupt Practices Act (FCPA), it is unlawful to pay or promise to pay another person for the purpose of retaining their business.

COMPANIES WITH A CONSCIENCE



Tentree



Figure 15.5 Tentree runs consumer-oriented promotions in which it plants 10 trees for every purchase made. (credit: “Tree Near Barkisland” by Tim Green/flickr, CC BY 2.0)

Tentree is a sustainable clothing brand. Like many online stores and clothing brands, it regularly runs promotions, including a percent off of the purchase price when you sign up for their newsletter. But along with the typical consumer-oriented promotions, Tentree also plants 10 trees for every purchase (see [Figure 15.5](#)).

According to Tentree’s **Facebook** page, “We believe that big change starts small. Small as in bringing your reusable tote to the grocery store, getting your coffee refilled in a thermos, and choosing to wear sustainably made T-shirts. These small choices add up (trust us, we’ve done the math), and we’re here to celebrate each and every one of them. By planting 10 trees for every purchase, we hope to make big change accessible to everybody and show the lasting impact that one small choice can have.”¹²

So far, the company has planted over 81 million trees. The clothing it manufactures and sells is designed to have a very small environmental impact. And consumers are incentivized to purchase from Tentree because for every item purchased, the company plants 10 trees. Tentree has a goal that customers are pushing to reach—1 billion trees planted by 2030.¹³ Its earth-first philosophy is at the heart of every garment it sells.

Ethical Issues in Sales Promotions

When it comes to sales promotions, many ethical issues can arise. One of the most well-known issues with sales promotion happened with a popular McDonald’s game (see [Figure 15.6](#)). For years, McDonald’s ran its Monopoly game as a method to increase the consumer purchase of meals along with Monopoly game pieces that could net customers winnings from the fast-food giant. Not only was the game popular with customers, but it did exactly what the sales promotion was supposed to do: it increased sales. Unfortunately, the head of security for the company that ran the promotion and printed the game pieces took out all the winning game pieces in a scam worth \$24 million.¹⁴



Figure 15.6 McDonald's Monopoly game was an effective consumer-oriented promotion that resulted in a \$24 million scam. (credit: "McDonald's Monopoly 2014" by Mike Mozart, JeepersMedia/flickr, CC BY 2.0)

Hidden Fees

One of the most common issues with ethics in sales promotion is in **hidden fees** that might be tacked on to the promotion. The travel and hospitality industry can be an example of the hidden fees often found in the fine print for the unwary customer looking for a "deal." An airline might have advertised prices, but upon booking, the traveler may realize the baggage and airport fees make the price higher than other advertised rates. This can also be a common practice with hotels and resorts. The advertised price may look appealing, and the sales promotion may seem like a good deal, but by the time resort fees are tacked on to the price, the promotional discount isn't as attractive.

Ambiguous Terms and Conditions

Legal documents have long been considered tricky to maneuver. A company may provide the terms and conditions and a link to click or simply acknowledge that you have read through the 15,000-word document for understanding. But does anybody really read the documents? Do consumers really understand what they are reading and agreeing to? Most likely, the legal jargon has gone unread, and the customer is typically unaware of what they have agreed to. However, it is in the best interest of the company to look out for the best interests of their customers. If the end goal is long-term customer satisfaction, all of the work of the company should be around making sure the customer is satisfied. Providing **ambiguous terms and conditions** does nothing to really protect the customer relationship.



Chapter Summary

This chapter covers personal selling and promotions, both integral components of marketing. Personal selling is defined as communication between a buyer and a seller and can be customized based on the product or service. Much of personal selling is enhanced when the salesperson engages in relationship development to build loyalty.

Personal selling involves inside and outside order takers and their primary responsibility to create a relationship with the buyer. Consider inside order takers as the clerks employed by a company to assist the customer and complete the final sale. Outside order takers are out making calls on customers and delivering inventory. Order getters are the highly trained salespeople, and missionary salespeople are the ones that facilitate experiences such as samples in the store. A technical salesperson is one that has extensive product knowledge that they use to present a product.

Personal selling is broken down into steps. It begins with identifying a qualified customer or prospecting; from this point leads are identified. This is then followed by an approach, a presentation, handling objections, closing, and asking for the order. There are many components involved in each step based on the product/service, customer, timing, and ability of the salesperson to close the sale. The final step is the follow-up.

Sales force management was covered, including the definition, purpose, and construction of compensation packages. Assessment of performance, using sales performance metrics for quantitative assessment, and qualitative goals are important functions of sales management.

The final section discusses promotion, which is a form of marketing communication that is used to inform target audiences of a good, service, brand, or issue. Considered a basic element of the marketing mix, promotion includes various tactics that encourage purchase. Examples include coupons, sweepstakes, rebates, premiums, special packaging, cause-related marketing, and licensing. Loyalty programs are increasingly used to build customer loyalty and repeat sales while at the same time generating valuable consumer information.

Additional incentives include push incentives, which cover a marketer's effort and expenditure to influence channel members stocking and promotional efforts. Pull incentives, on the other hand, cover a marketer's effort and expenditure to influence consumer and customer demand and preference for the marketer products, using advertising, coupons, and other forms of promotion.

Finally, ethical issues with personal selling and promotions were discussed. Fraud and misuse of funds for sales personnel can be closely monitored using software developed to track this information. With promotions, hidden fees, which are one-time add-ons that may not be fully disclosed to the consumer, will carry additional unfair costs. Where contracts are concerned, ambiguous terms and conditions are considered problematic, and customers as well as marketers should be aware and avoid these issues.



Key Terms

adaptive selling an approach to personal selling in which selling behaviors are altered during the sales interaction or across customer interactions, based on information about the nature of the selling situation

AIDA model the model consumers go through when becoming interested in a product. First the product must grab their attention, then they gain interest, they have a desire for the product, and they act to acquire the product

ambiguous terms and conditions when a contract is unclear and misleading

approach the stage of the sales process where the salesperson makes the initial approach to introduce the product to the customer

commission the compensation paid to salespeople based on a fixed formula related to the salesperson's activity or performance

consultative selling focuses on the expertise of a salesperson with problem solving

contest a marketing or consumer sales promotion technique that involves collection, matching, or use of

skill to complete a project or activity with the goal of a prize or reward for the player

cooperative advertising an approach to paying for local advertising or retail advertising whereby the details are handled by a local retail store but is partly or fully paid for by a national manufacturer whose product is featured in the ad

coupon a printed certificate entitling the bearer to a stated price reduction or special value on a specific product

credit terms credit terms of the agreement between the buyer and seller with length of time and payments to be made

customer relationship management the process sales personnel undertake to work with the customer to build the relationship and move into the role of a trusted advisor

formula selling an approach in which the sales presentation is designed to move the customer through the stages in the decision-making process, such as get the customer's attention, develop interest, build desire, and secure action

hidden fees also called undisclosed fees and are fees that are not made known to the buyer

inside order taker a salesclerk or order clerk that is employed for a company that address questions and complete the final sale

kickbacks illegal payment for preferential or improper service

lead response time the activity of evaluating factors through data analytics, demographics, buyer behavior, competitor analysis, and economics

loyalty programs a form of promotion focused on repeat purchases and frequently attached to a sales receipt, punch card, or stamp card

missionary salespeople individuals who have the power to influence the customer to purchase a product or service

need/satisfaction format a type of customized sales presentation in which the salesperson first identifies the prospective customer's needs and then tries to offer a solution that satisfies those needs

opportunity win rate the number of sales closed divided by the total number of opportunities created; calculates another opportunity to track sales

order getters highly trained salespeople who know their products, services involved, and competition across the street

order takers sales personnel that are responsible for taking orders from customers by identifying the customer and finding the right product fit

outside order takers salespeople out in the trenches, visiting customers and delivering inventory to retailers and wholesalers

personal selling communication between a buyer and seller. The primary responsibility is to build a relationship with the buyer.

point-of-purchase displays displays that allow manufacturers to showcase their products in a way that stands out from all the other products in the store

pre-approach stage the stage of the sales process where the salesperson will work to understand the needs of the customer and begin working with them to become a customer

premiums a promotional tool that is often defined in three forms: merchandise offered at a lower price or free; an item of value, other than the product; souvenir merchandise

presentation the stage of the sales process where the salesperson showcases the features about a product that will be of most benefit to the prospect based on the needs uncovered during the pre-approach and approach stages

prospect a potential qualified customer who has the willingness, financial capacity, authority, and eligibility to buy the salesperson's offering

qualification the process the salesperson undertakes to make sure the sales lead is a good fit for the product they are selling

quantitative assessments numbers driven and based on inputs and outputs of the sales cycle

rebates a form of promotion that rewards consumers for sending information to the company

relationship selling a method of personal selling used to better understand the needs and wants of the buyer

sales force automation a software tool that helps organizations acquire customers

sales leads a database of potential customers that sales professionals work to create and develop through lead generation

sales promotion a short-term way of enticing the consumer to purchase a product or service

samples providing consumers with a free sample of a product is a form of promotion

selling process includes all of the steps the salesperson will implement as they work with the buyer to become a customer

support personnel fulfill the responsibilities that assist the sales team in supporting the customer and completing the sale

sweepstakes a marketing or consumer sales promotion that involves the offering of prizes to participants, where winners are selected by chance and no consideration is required

team selling the practice of involving a group of people familiar with the viewpoints and concerns of a customer's key decision makers to sell and service a major account

technical specialist a salesperson who has extensive product knowledge and uses this knowledge as the focal aspect of the sales presentation



Applied Marketing Knowledge: Discussion Questions

1. Consider which of the sales positions you have engaged with in the last month. Would they be inside or outside order takers, order getter, missionary, technical, or a team? In what circumstances did you have this experience?
2. Explain in detail what happens in each of the steps in personal selling process.
 - a. Prospecting and Qualifying
 - b. Pre-approach
 - c. Approach
 - d. Presentation
 - e. Handling Objections
 - f. Closing: Asking for the Order
 - g. Follow-Up
3. Partner with a fellow student, and practice the personal selling process. Take turns being the buyer and then the seller.
4. Define sales promotion and discuss its importance in the promotion mix.



Critical Thinking Exercises

1. Compose a paragraph (150–200 words) using all of the following terms as they relate to personal selling. The goal is to prove you understand the meaning of each term.

Terms:

Order takers

Inside order takers

Outside order takers

Order getters

Support personnel

Missionary salespeople

Technical specialists

Team selling

2. Consider the promotions that you have participated in. List them and the product that they were used to promote. Did you buy the product based on the promotion? If you did, what was the selling point? If you did not, where did it miss the mark? Pick a product that you are familiar with, and create a promotion aimed at the consumer.
3. Identify a time you've read about or were personally involved in an unethical sales experience.



Building Your Personal Brand

Consider the concept of personal selling, and apply it to yourself. What information would you need? How would you go about crafting your message? First, gather the facts that you would like someone to know about you, and create a list. Next, craft the basic “elevator pitch” introduction (that is, you only have an elevator ride to tell someone your unique value). What would that pitch include?

Next, make a list of the situations where you might need an introduction (sales pitch) that is longer and contains more detail. Consider a job interview (much of this information should be on your resume), joining a club or professional organization, or volunteering. Each of these situations calls for slightly different information.

Create several different personal selling scripts for yourself, and have someone you know read them and provide feedback. Consider their feedback, and revise as you see fit. If requested, submit your scripts to your instructor.



What Do Marketers Do?

We are surrounded by personal selling encounters: cell phone, insurance, services in a bank, restaurant, and the list goes on. Pick a service that you would like to learn more about. Now find a person that holds the job of personally selling that service/product. Reach out to them; you can call, walk into a business, or make an appointment, any way that you choose. Introduce yourself, and tell them you are a student and would like to ask some questions.

1. Start with simple information. What does the job entail?
2. How did they get the job? How long have they been doing personal selling?
3. Do they enjoy what they do? What are the best parts and the worst parts of the job?
4. Do they think that there are skills that are needed to do the job well? If they do, what are they?
5. Can they discuss the compensation structure (they might hesitate, but explain you do not need specifics, just general information)?
6. Do they have the opportunity to move up into management if they would like?

Add any additional questions, or ask for clarification of something that you do not understand. End with thanking them for their time.

This exercise should provide you with firsthand information about this job; you can always choose another person that is in a totally different service/product category to compare the details of the job.



Closing Company Case

Cutco

In 1949, **Cutco** began manufacturing knives in Olean, New York. At the time, Cutco was making products for Wear-Ever Aluminum, a division of Alcoa. In 1982, the company went through a management buyout that made it a private company. The Cutco name was derived from the time under Alcoa, when it existed as the Cooking Utensil Company.

For the past 70 years, Cutco has been a family business that prides itself on being made in America.¹⁵ The company has a deep-rooted commitment to providing American jobs. Through quality of craftsmanship, the

Cutco products are an American staple in many kitchens, and they are the reliable cookware of choice for many home cooks.

Through its commitment to service and quality, Cutco has one of the leading guarantees in the industry. All Cutco products are backed by The Forever Guarantee. No matter how the consumer acquired the product—self purchase or gift—the products come with a lifetime performance guarantee, which includes free sharpening. If at any time the customer is not satisfied with the performance, Cutco will correct or replace the product. Because Cutco relies on lifetime customers and word-of-mouth referrals, its primary responsibility is to customer satisfaction.¹⁶

While Cutco has 15 retail stores in the United States, it has long relied on its sales force through **Vector Marketing**. For years, Vector has hired and mentored a mostly collegiate sales force. In fact, 85 percent of the Vector sales force is comprised of college students.

Vector Marketing is a single-level direct sales company, and it sells only Cutco. The relationship between Vector and Cutco dates back to 1985. Early in the 1980s, Vector Marketing was an independent seller of Cutco. Because of Vector's success, Cutco bought it to replicate the success it was having with Cutco's product.¹⁷

The Vector Marketing home office is in Olean, New York—by its parent, Cutco. It also operates 250 independent locations throughout the United States, Canada, and Puerto Rico. However, during its busy summer months, when students everywhere are working to earn money for college, Vector Marketing has over 300 temporary locations.

Because of the weekly pay, flexible schedules, and superior sales training, tens of thousands of college students have experienced the joy of cutting a penny with the kitchen shears or slicing through a piece of extra-thick rope courtesy of the sharp Cutco blades. Hundreds of thousands of family kitchens across North America have watched the sales demonstration, asked good questions, provided referrals, and purchased a set of Cutco knives and kitchen accessories.

Vector Marketing works hard to recruit, educate, train, and incentivize its sales force. The hardworking Vector Marketing sales representatives know that up for grabs is a total of \$40,000 to full-time undergraduate students who sell the most—the top 50 students get this award every summer. Vector also gives a guaranteed base pay and even pays the student for the appointment, regardless of whether they make the sale. The company doesn't want a reputation for high-pressure sales although they do pay commissions. Vector Marketing and Cutco realize only satisfied customers are repeat and referral customers.

When the Vector Marketing sales representative calls to set up the appointment, they courteously ask about when the customer can view the Cutco presentation. When you are in the presentation, the sales representative will go through a carefully scripted and rehearsed presentation, which will take you through the features and the related customer benefits afforded with ownership of your Cutco blades.

Throughout the presentation, the potential customer is asked if they have questions and, further, what they think of the various Cutco knives and accessories they have been shown. At the end of the presentation, the potential customer is intentionally asked which pieces they are going to buy, and they are encouraged to make the purchase by being offered an additional incentive Cutco tool as a gift with purchase.

Most of the prescreened customers have come to the Vector Marketing representative by way of a close friend or family member. Not only is Cutco an undisputed superior product with a lifetime guarantee, but the quality of the link from the customer back to the sales representative helps to solidify the sale. Saying no is very difficult. Almost all objections have already been eradicated.

After the presentation is over, the order has been placed, and the sales representative is closing up the meeting, they ask for 10 referrals. All good sales representatives know that the best customer is a word-of-mouth referral.

Check out [the Cutco website \(https://openstax.org/r/cutco\)](https://openstax.org/r/cutco) and [the Vector Marketing website](#)

(<https://openstax.org/r/vectormarketing>).

Case Questions

1. How would you classify the type of sales force utilized by Cutco?
2. What is the presentation style utilized in selling Cutco?
3. Describe the compensation structure for the Vector Marketing Cutco sales force.
4. Explain how the Vector Marketing sales team develops relationships with its customers?



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Figure 16.1 Social media marketing through Pinterest, Twitter, and other platforms is one way to reach consumers. (credit: “Growing Social Media” by mkhmarketing.wordpress.com/about/flickr, CC BY 2.0)

Chapter Outline

- 16.1 Traditional Direct Marketing
- 16.2 Social Media and Mobile Marketing
- 16.3 Metrics Used to Evaluate the Success of Online Marketing
- 16.4 Ethical Issues in Digital Marketing and Social Media



In the Spotlight

When Dominik Richter, Thomas Griesel, and Jessica Nilsson launched meal-kit provider **HelloFresh** in October 2011, they did what many successful entrepreneurs seek to do: disrupt a market. While the idea of not having to plan and shop for dinner meals seems enticing for consumers, changing consumer behavior is a challenging task.

HelloFresh needed to convince consumers to stop planning and shopping for meals the way they’ve always done it. The founders recognized that they needed the right combination of traditional direct and online direct marketing tools to persuade consumers to make a hard pivot.

It [starts with the HelloFresh website \(https://openstax.org/r/mealkitdelivery\)](https://openstax.org/r/mealkitdelivery), which offers a beautifully designed, user-friendly experience that makes customizing meals, scheduling delivery, and placing orders easy and secure. HelloFresh also uses social media to drive visitors to respond to a variety of calls to action. For example, website visitors are presented with a variety of offers aimed at persuading them to try HelloFresh, including free shipping, surprise gifts, and free meals.

HelloFresh also recognizes the power of direct mail by sending offers similar to those presented on its website and social media to targeted consumers at home via the US Postal Service. It’s clear that there is integration between HelloFresh’s digital messaging and its direct mail pieces.

HelloFresh has certainly reaped the rewards of an excellent direct and online direct marketing strategy. In 2021, HelloFresh led the market with more than 7.2 million subscribers.¹

Check out these additional resources about Hello Fresh:

- [Hello Fresh Instagram \(https://openstax.org/r/instagramhellofresh\)](https://openstax.org/r/instagramhellofresh)
- [Hello Fresh Twitter \(https://openstax.org/r/twitterhellofresh\)](https://openstax.org/r/twitterhellofresh)
- [Hello Fresh LinkedIn \(https://openstax.org/r/linkedincompanyhellofresh\)](https://openstax.org/r/linkedincompanyhellofresh)
- [Consumer Affairs Reviews \(https://openstax.org/r/foodhellofresh\)](https://openstax.org/r/foodhellofresh)
- [Taste of Home Review \(https://openstax.org/r/articlehellofreshmeal\)](https://openstax.org/r/articlehellofreshmeal)

16.1 Traditional Direct Marketing

Learning Outcomes

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

- LO 1** List and describe the various forms of traditional direct marketing.
- LO 2** Explain how the digital age has impacted direct marketing.

Forms of Traditional Direct Marketing

Direct marketing involves using communication tools to engage directly with individual consumers for the ultimate purpose of calling them to take some marketing action (see [Figure 16.2](#)). That action can be a consumer visiting a website or calling a phone number. Ultimately, the goal is to motivate the consumer to make a purchase. If you've received a catalog in the mail or caught yourself watching an entire infomercial about the newest kitchen gadget or gym equipment, you've experienced traditional direct marketing as a consumer.

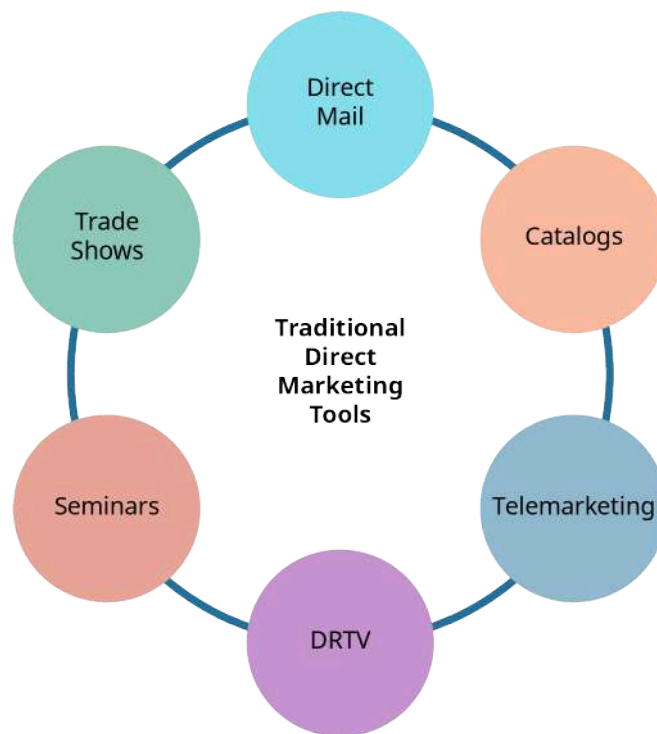


Figure 16.2 Types of Direct Marketing (attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)

Direct-Mail Marketing

Direct mail arrives in people's homes every day and is typically delivered by the US Postal Service. When marketers use **direct-mail marketing**, they communicate promotional messages and offers directly to people's homes or places of business. Examples of direct-mail marketing include postcards featuring an offer, discount, or coupon code. Seasonal catalogs and glossy look books that present the latest fashions are

additional examples.

Like all forms of direct marketing, direct mail is designed to call the consumer to take an action, whether it's to visit a website, scan a QR code, or call a phone number. It also is highly targeted in that companies can send mail based on demographic characteristics such as age, income, zip code, and buying behavior.

Direct mail has some key advantages over other forms of promotion. First, as consumers are inundated with digital messages, direct mail offers the opportunity to stand out and capture attention. Even mostly digital-facing companies like **Warby Parker** (see [Figure 16.3](#)) and **Casper** (mattresses) have added direct mail to their promotion portfolios in an attempt to stand out from other brands.



Figure 16.3 Warby Parker utilizes direct marketing as a way to reach consumers. (credit: "Warby Parker Sunglasses" by Christopher Fields/flickr, CC BY 2.0)

Direct mail also reaches an entire household of people. This is an important advantage for product categories where household members typically discuss and decide on a product together.

Finally, direct mail has the characteristic of lingering. Other forms of promotion, such as advertising and email marketing, don't have as long a life span as direct mail. According to **RetailWire**, the average life span of a direct mail piece is 17 days, which means that a household may review that message repeatedly over the life of the mail piece.²

The major disadvantage of direct mail is that many consumers consider it to be junk and throw it out without every reading the offer. Also, mail can take time to land in homes. Although the US Postal Service offers speedier delivery options, these come at an increased cost.

Catalog Marketing

Catalog marketing, also known as direct mail order, dates back to the 19th century and is one of the oldest forms of promotion. Catalogs typically include a variety of products that are often vividly displayed in a high-gloss magazine-like format.

Companies such as **Lands' End** and **IKEA** have long used catalogs to entice consumers to call the phone number or visit the website displayed on the catalog. The call to action is precisely what makes catalog marketing direct marketing. Consumers are presented with vivid product images and an offer such as free delivery or 20 percent off if the consumer responds to the call to action.

According to a 2020 article published in **Harvard Business Review**, catalogs are making a comeback. Consumers report being excited to receive a catalog. In fact, response rates for catalogs have jumped 170

percent over the last decade.³

Unlike emails and advertisements, catalogs remain in consumer homes long after they arrive. Companies like **Target** and **Amazon** have used catalog marketing to connect with customers and present featured products across the seasons.

Telemarketing

Telemarketing is a form of direct marketing that involves a company representative placing or answering customer calls for the purpose of guiding a consumer toward making a purchase. During the calls, the representative or agent typically communicates offers to potential customers. Like other forms of direct marketing, the goal is to motivate the consumer to take some action, such as making a purchase or setting up a follow-up appointment.

Telemarketing can be outbound or inbound. With outbound telemarketing, a company representative contacts the prospective customer directly by phone. With inbound telemarketing, demand for the product or service is generated through other channels such as advertising, email, or direct mail. In response to messages delivered through these channels, the customer is motivated to contact the company directly regarding the product or service.

Companies that manage large volumes of calls typically use a **call center**, which is a centralized space where agents answer inbound calls and place outbound calls. The call center serves as the centralized location where customer information is collected or confirmed and then the customer is directed to the right product or service representative. With the explosion in the use of smartphones to search the web, consumers can direct dial from any web page that presents a phone number for contacting the company. Many inbound calls are routed to agents who are located offshore in India and other countries.

Car dealerships often use telemarketing in combination with online direct marketing tools to connect with buyers who show interest in a vehicle listed in the dealership's online inventory. The dealership website may invite consumers to complete a form, after which a sales representative will call the consumer to set up a test drive appointment or answer questions about availability.

Telemarketing can be effective in cases where the consumer expects a phone call. The explosion of unsolicited phone calls from telemarketers, however, has led to a rise in regulation around this direct marketing tool. In 2003, the US government created the National Do Not Call Registry, which bans unsolicited telemarketing calls.⁴ Consumers must opt in and give permission to be called by a company. Businesses that do not comply with the law face a hefty fine for violations.

Direct-Response TV (DRTV)

Direct-response television marketing is a type of direct marketing that is designed to compel viewers to take some immediate action, such as calling a phone number or visiting a website presented during a television commercial. The commercials typically involve a persuasive demonstration of a product, after which consumers are provided with a toll-free number or a website to order. The television stations QVC and HSN are excellent examples of DRTV, selling everything from apparel to appliances.

LINK TO LEARNING



DRTV in Action

This movie clip from the film *Joy* starring Jennifer Lawrence as real-life entrepreneur Joy Mangano shows DRTV in action.

[Click to view content \(https://openstax.org/books/principles-marketing/pages/16-1-traditional-direct-](https://openstax.org/books/principles-marketing/pages/16-1-traditional-direct-)

marketing)

DRTV commercials often run 60 or 120 seconds but can be shorter. DRTV commercials that run for 30 minutes or longer are called infomercials. **Dollar Shave Club** has garnered 27 million views of its famous direct-response television commercial featuring founder Michael Dubin hilariously identifying all the problems with traditional shave products (see [Figure 16.4](#)). The commercial features the website domain several times and a clear call to action to the consumer to visit the site to learn more.



Figure 16.4 DRTV marketing compels consumers to take action and is used by the Dollar Shave Club, QVC, and HSN. (credit: “Shave of the Day, 08/21/09” by Dharion/flickr, CC BY 2.0)

Infomercials often feature a spokesperson promoting the benefits of a product. In many cases, there is a persuasive demonstration of the product, and viewers are called to “act now.” Some of the most well-remembered infomercial products include the Snuggie, Magic Bullet, and **Proactiv**. A carefully executed commercial coupled with the right product can generate billions of dollars for companies. Proactiv, for example, which was rebranded as Alchemee in 2022, generated \$1 billion in sales in 2020 from its famous acne skin-care line.⁵

Because it offers the advantage of capturing customers in real time and because it’s easy to measure, DRTV continues to be an effective direct marketing tool.

Seminars

Seminars allow companies to share their expertise and knowledge related to a topic, issue, or industry. These can be done in person or virtually and are a great tactic for developing trust and building relationships with consumers. They have additional advantages that include building greater brand awareness and introducing new products or services, and they may ultimately lead to increased sales.

Trade Shows

Trade shows are exhibition events that provide companies the opportunity to present themselves and their products and services to industry peers. Trade shows are suited for the business-to-business (B2B) market and are sponsored and hosted by industry trade organizations. They are an excellent way for industry professionals to network and grow their businesses. They are also wildly popular. For example, one of the most popular trade shows, Consumer Electronics Show, or CES, attracts thousands of companies that showcase their latest technology. This trade show serves as an intersection for industry professionals in the health, gaming, and automotive spaces, and participants include tech companies such as **Google**, **Microsoft**, and **E3**, among others.

Companies that participate in trade shows can benefit in the following ways. First, trade shows allow company representatives to visit with existing customers to grow current sales and further solidify their partnership. They also give companies a chance to connect with and present to new buyers.

Every year, MailCon brings together marketing professionals, brands, and agencies to discuss the latest trends in email technology, strategy, and automation. Major brands like **Wayfair**, Girl Scouts of the USA, **Ford Motor Company**, and **A&E Networks** gather to network and learn about advancements in the email marketing space.⁶

LINK TO LEARNING



Digital Marketing

Digital marketing reaches customers where they are at—online. HubSpot answers some of the most common questions it gets about [digital marketing in this article \(https://openstax.org/r/marketingwhatisdigitalmarketing\)](https://openstax.org/r/marketingwhatisdigitalmarketing).

How Has the Digital Age Impacted Marketing?

The digital age has changed the way marketers engage with customers and build relationships. While the traditional channels of print, television, and radio certainly present advantages, the digital age has created opportunities for marketers to engage with consumers in a highly personalized and interactive way.

Online Direct Marketing Defined

While traditional forms of direct marketing center on engaging directly with consumers through channels like mail and television, **online direct marketing** uses a rich collection of digital tools to target individual consumers with an offer that requests a response or action. The online direct marketing tools covered in this section include website marketing, email marketing, content marketing, online video marketing, blogs, and online forums.

LendingTree is a great example of a fintech (financial tech) company disrupting the traditional banking industry. LendingTree has revolutionized the way consumers and banks participate in the lending process. It excels at matching consumers searching for financing with banks looking for qualified customers. It is LendingTree's digital marketing tools that make this matching process possible.

A consumer who searches the web and lands on LendingTree's website is invited to compare quotes and plans that are tailored to their age, income level, and location by filling out an online form. LendingTree then displays consumer-relevant plans and quotes based on their demographics and follows up with an email inviting consumers to view offers from financial institutions. If the customer is a Gmail user, consumers may then see digital ads later on sites like **YouTube** and in their Gmail inbox.

Direct Meets Digital: The Evolution of Direct Marketing with Technology

The explosion in internet usage and online shopping coupled with the evolution of digital technologies has resulted in the emergence of online direct marketing. While traditional forms of direct marketing remain important for engaging with consumers, the channel has evolved as technology has evolved. With 3.5 billion smartphone users worldwide, marketers recognize the value in engaging with consumers through mobile devices. In the United States alone, 65.6 percent of Americans report that they check smartphones 160 times a day.⁷

In response to the explosion in smartphones and internet usage, online direct marketing is getting a larger share of advertising spend. In 2020, advertisers spent \$139.8 billion on digital marketing, and that number is expected to grow to \$200 billion by 2025.⁸

Forms of Online Direct Marketing

There are several online direct marketing tools that can be used (see [Figure 16.5](#)). Let's take a look at each tool in the following section.



Figure 16.5 Online Direct Marketing Tools (attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)

Website Marketing

Website marketing is the promotion of a website that results in driving traffic or visitors to the site to learn more about the product or company or to make a purchase. The purpose of website marketing is to attract online shoppers who may be interested in a company's product or service offering.

Developing a website is one of the most important steps a company can take to establish a digital presence online. Websites serve a variety of purposes. Some are designed to nurture consumers and guide them toward making a purchase while others are designed to facilitate transactions. For example, car manufacturers like **Toyota** and **Honda** use their websites to deliver details and options related to their product lines. Consumers can use interactive tools to change out features and colors based on their preferences; however, consumers would likely visit a dealership to make the actual purchase.

Amazon.com is designed to allow third-party sellers to share product details, reviews, and product comparisons. Its purpose is to facilitate a purchase transaction in which the consumer buys something directly from the site. **Shopify** has recently emerged as the “anti-Amazon” by offering sellers more than a dozen services ranging from e-commerce websites to inventory management and payment processing.

There are still other websites whose purpose is not transactional but that are designed to build community and engagement among customers. Bleacher Report's website offers sports articles, game scores, and live sports streaming. Fans are invited to comment and engage with one another regarding the latest sports news. The website also offers the option of signing up for its newsletter delivered to consumers' email inboxes. Whether it's to communicate information, facilitate a transaction, or build a community, websites should be designed with a positive user experience (UX) in mind.

Email Marketing

Email marketing is a type of direct marketing that is highly personal and designed to build relationships with consumers. Marketers use email to communicate promotions about products and share relevant content. It offers the advantage of connecting companies with highly targeted consumers at a much lower cost than other channels. Email usage statistics are also impressive, making this channel attractive as an online direct marketing tool.

Email boasts over 4 billion daily users; 99 percent of people report checking their email on a daily basis.⁹ Given the low cost and high usage rate, email marketing can be a profitable way to connect with customers. Marketers generally send two types of emails: transactional emails and marketing emails. A transactional email is a type of email that is sent to customers following a commercial transaction, such as a purchase or a return. When online shoppers purchase athletic apparel from **Dick's Sporting Goods**, they receive an email confirmation confirming the order.

Marketing emails are promotional in nature and typically involve a marketing offer. **Old Navy** sends marketing emails during major sales events. They feature relevant product categories based on past purchases and often include a coupon code or free-shipping promotion.

Buzzfeed provides another great example of a company that optimizes email marketing to reach subscribers. According to Campaign Monitor, it has created a collection of diverse and audience-catered newsletters that are tailored to the preferences of BuzzFeed's subscribers.¹⁰ Emails feature relevant articles and funny GIFs that prompt subscribers to visit the site to read more. On average, subscribers who visit the site via email spend more time on the site than those website visitors who have come from other channels.

Regardless of their email marketing strategy, companies utilize email marketing platforms like Mailchimp to reach target audiences. **Mailchimp** is built for growing businesses, and in 2022 it launched a Super Bowl advertising campaign to promote its services.¹¹ As a martech (marketing technology) company, it offers small businesses tools for guiding consumers through a customer journey to a purchase. Mailchimp's automation tool, specifically, allows businesses to send email campaigns based on a consumer's interaction with an email message. The result is a highly personalized email conversation between the small business and the customer.

LINK TO LEARNING



Mailchimp

Learn how Mailchimp's CEO and cofounder, Ben Chestnut, built and grew the Mailchimp email platform in this podcast: [NPR's How I Built This with Guy Raz \(https://openstax.org/r/benchestnut\)](https://openstax.org/r/benchestnut).

Check out the 2022 Super Bowl commercial with DJ Khaled here.

[Click to view content \(https://openstax.org/books/principles-marketing/pages/16-1-traditional-direct-marketing\)](https://openstax.org/books/principles-marketing/pages/16-1-traditional-direct-marketing)

Email marketing is also known as permission-based marketing. Permission-based marketing requires that marketers get consent to send email and text messages to consumers prior to contacting them with a promotional message. Once a consumer opts in to receive an email or text message, they are given the option to opt out by clicking on an unsubscribe link or by reply texting a company to opt out of messages.

Consumers typically opt in to receiving emails when they place an online order so that they may receive order confirmation and shipping updates. In addition, consumers are also opting in to receive other value-added content, such as exclusive discounts, access to a webinar, a free trial, or some other type of value exchange.

Content Marketing

Websites, email, and other forms of online marketing are only as good as the content they carry. **Content marketing** involves creating and distributing content that is valuable and relevant to a company's target customers. New York-based **Dotdash Meredith** is a good example of this. The company's digital brands include Verywell, The Spruce, Byrdie, and others. Dotdash Meredith is a unit of Barry Diller's IAC. Company policy: no pop-up ads!

As with other forms of direct marketing, content is about driving customers to take some desired action. Consumers would much rather consume a funny video clip, a highlight reel of their favorite athlete, and an inspiring quote or comment than see banner ads and pop-up ads. In order for content marketing to work, it must be useful, relevant, high quality, and engaging to the targeted audience.

When content is delivered through social media, blogs, and email, consumers have the opportunity to directly engage with the company and other content consumers. They can like, share, retweet, and mark as a favorite—all examples of actions taken in response to the content. Marketers can use the data created by these actions to perform sentiment analysis and generate other metrics. The challenge with content marketing is that it is constantly changing. Companies are tasked with constantly updating their content and continuing to tell stories that their audience wants to hear and engage with.

Online Video Marketing

Online video marketing involves creating videos that tell a story about a product, company, or brand that is designed to drive consumer engagement through activities such as liking, sharing, and retweeting. Video marketing is becoming increasingly popular as a marketing tool because the cost of creating video campaigns has dropped significantly in the last decade due to technological advancements. **Biteable**, for example, offers marketers a cost-effective way to create brand videos that are quick, simple, and customizable.

Along with the drop in cost to produce online videos, consumer demand for videos has increased. Because of this demand, **Instagram**, **Facebook**, and **Twitter** have pivoted to video-first platforms. **Wyzowl's** annual State of Video Marketing Survey revealed in 2021 that online video watching has doubled since 2018 and that online marketers “feel positive about the return on investment offered by video more than ever as it continues to strongly influence traffic, leads, sales, and audience understanding.”¹²

LINK TO LEARNING



Wyzowl's Survey Found on HubSpot

Read more about the key data points learned by Wyzowl in its 2022 survey. You might be interested to learn that 86 percent of businesses use video as a marketing tool, 94 percent of companies believe videos help customers better understand their product, and 99 percent of video marketers said they will continue using video. [You can find the full report here \(https://openstax.org/r/videomarketingstatistics\)](https://openstax.org/r/videomarketingstatistics). There's a ton of interesting information!

Blogs and Online Forums

A **blog** is an online journal of interests, beliefs, or other topics published by a person, a group of people, or an organization. In its early stages, a blog was a personal journal that someone posted to the web. It's since evolved into an online marketing tool that is typically a website or a webpage and serves a variety of purposes.

First, a blog's purpose can be to share valuable and relevant information with targeted audiences. Ultimately, the goal is to attract visitors to the page or site and convert them to customers. In addition, marketers create blog content on sometimes a weekly or even daily basis so that consumers continue to visit the site or the

page to access the new content. When the blog content is good, visitors will continue to engage with the articles produced by the company. Ultimately, this helps a company's organic ranking on Google. In Google, your page or website will rank higher on the Google search results page as it grows in popularity and consumers click on it.

Blogs are also a great way to create and nurture online communities, or groups of people with similar interests connecting to one another online.

Customer relationship management company HubSpot is excellent at creating high-quality blog content for marketing and business professionals. It covers an array of professional topics, from marketing to human resources management to communicating effectively in the workplace. Its content ultimately drives visitors to its website, where they'll find a suite of programs designed for marketing, sales, customer service, and operations.

Blogging can be an integral part of a content strategy as long as marketers dedicate time and resources to continue updating the content. Visitors appreciate fresh and relevant information, and delaying the delivery of high-quality content may mean a loss of visitor interest.

LINK TO LEARNING



Content Marketing Tools

Learn more about the types of content marketing tools marketers have to work with [by reading this HubSpot article \(https://openstax.org/r/contentmarketingtypes\)](https://openstax.org/r/contentmarketingtypes). Included are the types you're probably more familiar with, like blogs and videos, but also discussed are the ones you may not have as much experience with like, white papers and case studies.

Advantages of Online Direct Marketing

There are several key advantages that make online direct marketing an attractive tool for marketers. First, online direct marketing is not restricted by geographical boundaries. The internet is readily available to most consumers globally, making it practical to market around the globe.

Second, online direct marketing is much less expensive than other forms of marketing when considering its global reach. Imagine how expensive it would be to send direct-mail catalogs to customers all over the world. Establishing an online presence by developing a website and creating video and blog content is relatively inexpensive compared to other forms of promotion.

Third, online direct marketing is easy to measure in terms of campaign performance. With advertising tools targeted to mass audiences, it's difficult to attribute a sale to a particular television or radio commercial. With online direct advertising, marketers can track the performance of their campaigns based on consumers' interaction with digital tools such as email, online videos, and a company's website. For example, when **Nike** creates online video content that is posted on YouTube and its website, Nike marketers can track consumers' engagement with that content, in addition to the consumer's online journey. Online direct marketing reveals real-time insights into the effectiveness of campaigns compared to more traditional forms of promotion.

Fourth, online direct marketing is highly targeted. Marketers can carefully focus promotion efforts on very specific groups of consumers based on their geography, their social media channel preferences, and other variables. Online direct marketing also allows for retargeting, which occurs when consumers visit different websites but are shown similar ads based on their online consumer behavior.

Finally, online direct marketing allows for real-time interaction between brands and consumers. Consumers may start with a Google search and end with the completion of an online purchase. Throughout the online

consumer buying process, marketers have the opportunity to engage with the consumer in real time.

Traditional direct marketing and online direct marketing offer a variety of benefits in connecting marketers to targeted consumers.

CAREERS IN MARKETING



Digital Marketer

Digital marketers build and implement a company's online-related activities and sales. [Review this job description \(https://openstax.org/r/jobdescriptionsdigitalmarketing\)](#) and list of qualifications from [Glassdoor](#) for more details. There are several additional resources that will help you better understand the digital marketing job role and what it will take to get a job in this field:

- Ahrefs—A Source for Digital Marketing Tutorials: “How to Start a Career in Digital Marketing (Step-by-Step)”
[Click to view content \(https://openstax.org/books/principles-marketing/pages/16-1-traditional-direct-marketing\)](#)
- Neil Patel: “How to Get a Digital Marketing Job with No Experience”
[Click to view content \(https://openstax.org/books/principles-marketing/pages/16-1-traditional-direct-marketing\)](#)
- Digital Marketing Institute: “[7 of the Hottest Digital Marketing Jobs \(https://openstax.org/r/digitalmarketinginstitute\)](#)”
- Indeed: “[How to Get a Job in Digital Marketing in 7 Steps \(https://openstax.org/r/careeradvicefindingajob\)](#)”
- Emerson College: “[5 Reasons to Choose a Career in Digital Marketing in 2022 \(https://openstax.org/r/marketinganalyticsemersonedu\)](#)”

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 best describes the difference between traditional direct marketing and online direct marketing?
 - a. Online direct marketing uses digital tools to individually engage with consumers and call them to take some desired action. Traditional direct marketing does not allow a quick call to action.
 - b. Traditional direct marketing is more effective than online direct marketing.
 - c. Online direct marketing allows marketers to target consumers based on factors such as their location, age, and income. Traditional direct marketing can also be based on demographic factors.
 - d. Traditional direct marketing channels do not include a call to action, and online direct marketing channels do.
2. Which of the following best summarizes the cause for the emergence of online direct marketing as a promotion tool?
 - a. The explosion of internet usage, online shopping, and smartphone usage and the advancement of digital marketing technologies best explains the emergence of online direct marketing.
 - b. Consumers are spending less time watching movies and shows.
 - c. Traditional direct marketing tools have gotten too expensive and are no longer effective at engaging customers.

- d. Traditional direct marketing doesn't offer the same degree of message relevance that online direct marketing does.
3. Which type of marketing involves creating and distributing content that is valuable and relevant to a company's target customers?
- a. Website marketing
 - b. Blog marketing
 - c. Email marketing
 - d. Content marketing
4. Which form of online marketing is permission-based, meaning that consumers must consent to receiving online messages?
- a. Website marketing
 - b. Blog marketing
 - c. Content marketing
 - d. Email marketing
5. Which of the following represents an advantage of using online direct marketing tools?
- a. Online direct marketing allows marketers to target consumers globally because of worldwide access to the internet.
 - b. Online direct marketing is highly targeted in that marketers can reach customers through a variety of digital channels that are inexpensive compared to other promotion tools.
 - c. Online direct marketing allows for easier measurement of ROI on campaigns.
 - d. All of these are advantages of online direct marketing.

16.2 Social Media and Mobile Marketing

Learning Outcomes

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

- LO 1** Discuss social media marketing and its opportunities and challenges.
- LO 2** Discuss mobile marketing and its opportunities and challenges.

psychographic attributes of the company's target audience. Facebook then creates what's called a "lookalike audience" that matches those customer attributes to the attributes of Facebook users so that the company's ads will show up in the feeds of the lookalike audience.

Social media marketing also creates the opportunity for users to engage with one another and company content. It's an excellent vehicle for marketers to distribute their online video and blog content in addition to communicating promotional offers. Marketers can monitor engagement and participate in ongoing conversations with users who comment, like, and share content.

Harvard Business Review (HBR) provides a great example of how to use social media marketing effectively. HBR, a business management magazine published by the Harvard Business Publishing subsidiary of **Harvard University**, offers paid subscribers the latest research and articles on all things related to management.

During the pandemic, HBR gave people free access to all HBR content. The campaign ran on social media and resulted in increased traffic at the HBR website. This brings us to another important advantage of social media marketing. It can create traffic or visitors that link from the social media platform directly to the company's website.

Finally, social media marketing is highly measurable. Online marketers can evaluate key engagement metrics such as clicks, likes, and shares and optimize their social media campaigns so that they achieve the goals they set. For example, posting at 1:00 p.m. EST on Facebook results in getting the most shares while posting content at 3:00 p.m. EST results in getting the most clicks.

A major disadvantage of social media marketing is that brands don't have complete control over the message. Consumers can freely write comments that are harmful to a brand's reputation. Amazon's Jeff Bezos famously wished everyone a "Happy Earth Day" in a tweet that showed him dogsledding above the Arctic Circle in Norway. He received serious backlash from Twitter users who pointed out at the time that Amazon employees were underpaid and overworked.¹³

In addition to losing control over the message, social media marketing requires a great deal of resources, including time and money. Content is key to creating engagement, and continuous creation of new and engaging content requires resources. Social media pages and posts also need to be monitored for engagement. For example, companies that are active on social media have a plan for reviewing and replying to sometimes hundreds of comments. Fortunately, there are great online tools to help automate replies to comments.

Facebook

Facebook, whose parent company was rebranded as **Meta** in 2021, is the largest social media platform, with over 2.9 billion monthly active users and \$117.92 billion in revenue.¹⁴ These numbers make this platform attractive for reaching a diverse, global audience. Facebook is facing the challenge that a growing percentage of its users are baby boomers (born between 1946 and 1964) while teens are using other platforms, like TikTok and YouTube, more frequently.

In addition, Facebook has been scrutinized because of how the company uses personal data. Six in ten social media users report that they've observed and temporarily believed something they've read on Facebook that turned out to be false information.¹⁵

In addition, there's a growing concern about the role that social media has played in dividing people. Fifty percent of users who are millennials say that Facebook fosters division, compared to only 38 percent of baby boomers.¹⁶

Facebook is still clearly the behemoth of social media platforms, and so long as it holds that position, marketers will continue to use it as a channel to deliver content and drive engagement with targeted customers.

Instagram

As a social media platform, Instagram's growth has exploded over the last decade. While not as large as Facebook in terms of users, it still boasts 1 billion active users every month. Instagram attracts a younger demographic, mostly people under the age of 30, which makes it attractive for brands targeting this audience.¹⁷

The company previously known as Facebook purchased Instagram in 2012. The union of Facebook and Instagram under one corporate entity has provided synergistic benefits to users, companies included. First, social media allows users to cross-post on the two platforms. And second, this has the advantage of increasing reach and repetition of messages more efficiently.

From a social media advertising perspective, the integration of Facebook and Instagram allows companies to manage and monitor campaigns across the two platforms easily. Furthermore, companies that have leveraged these integrative features have enjoyed stronger campaign performances in terms of clicks, views, and website conversions.

Spotify uses Instagram Stories brilliantly during its #yearwrapped campaign that drops every December. Instagram Stories lets users post photos and videos that disappear after 24 hours. It's become a very powerful sharing tool with more than 500 million users posting stories every day.

Spotify created a special webpage that presents visitors with their most listened to artists, songs, and other interesting insights related to their music habits over the year. Spotify gives visitors the option of sharing these highlights on other social platforms. This campaign has proved to be highly engaging, with more than 60 million Spotify users engaging with Spotify's Instagram Story and 3 billion #yearwrapped playlists streamed as a result of the campaign.

LinkedIn

For business professionals seeking networking, partnership, and employment opportunities, **LinkedIn** proves to be an excellent social media platform (see [Figure 16.7](#)). LinkedIn boasts 722 million users, who are known as members. Among social media platforms, LinkedIn is considered the most trusted, with 73 percent of members agreeing that LinkedIn protects members' privacy.¹⁸



Figure 16.7 LinkedIn is a business professional platform that is used by marketers to reach consumers. (credit: "LinkedIn Pen" by Sheila Scarborough/flickr, CC BY 2.0)

LinkedIn Live is the platform's live streaming feature, which allows companies to engage directly with community members. Vimeo leveraged the feature when it held a "Working Lunch" series. Using a seminar

format, it brought together experts across the business, communication, and technology industries and interested members. The goal was to engage with the audience, provide relevant information, and drive use and engagement of the platform.

While not the largest social platform, LinkedIn most certainly serves as an important tool for connecting with business professionals in the B2B space.

Pinterest

With 478 million monthly users, **Pinterest** is a social platform that allows users to visually explore an endless array of ideas from recipes to home decor to crafts to personal style.¹⁹ Users can use the platform's search bar to look for topics or people that interest them, which produces results related to search keywords.

For businesses, Pinterest offers a host of benefits as a social marketing tool. First, 97 percent of searches are unbranded.²⁰ Simply put, consumers aren't looking for brand-specific content when browsing the platform. This is music to the ears of companies that can place their ads in Pinterest feeds near relevant content. For example, a user may search for "image of vintage running shoes" on Pinterest, which would result in a host of profiles featuring content related to the search terms. A well-placed **New Balance** advertisement featuring its vintage 720 sneaker would be a strategic marketing move in this situation (see [Figure 16.8](#)).



Figure 16.8 A marketer could place a New Balance sneaker advertisement on Pinterest near unbranded searches. (credit: "New Balance Limited Edition Pink Ribbon 3190 Running Shoes" by slgckgc/flickr, CC BY 2.0)

Twitter

As a social platform, Twitter is a microblogging news and networking site where users typically post shorter messages known as tweets. After receiving complaints that 140 characters weren't enough room to express ideas, Twitter expanded its character limit from 140 to 270 in 2017. It has approximately 238 million daily active users, with about 14.5 million living in the United States. It has seen steady growth in international appeal.²¹

Similar to LinkedIn, Twitter is a popular B2B digital marketing tool, with 67 percent of all B2B businesses using the platform to reach business customers.²² Twitter users have a high expectation that a company will respond to a tweet; therefore, marketers who choose this platform should be prepared to engage with users directly. Twitter's ownership and policy changes in 2022 led many people and companies to reconsider their relationship with the platform, but it will likely remain a major force in marketing and business for years to come.

Podcasts

Podcasts are often free, on-demand, downloadable audio recordings that cover a variety of topics and are

typically made available on a weekly or monthly basis. Podcasts are distributed through applications such as **Apple's** Podcasts, Google Podcasts, Spotify, and **Audible**, but they can also be published on a company's website. Podcasting has been growing at a “hockey stick” rate—200 percent year-on-year growth.²³ Recognizing a huge opportunity, Spotify acquired podcasting company Megaphone in 2020.²⁴ The acquisition positions Spotify as the “go-to” platform for premium podcast content, which offers new opportunities for advertisers. In a world where people question information they are given, podcast hosts stand out because 52 percent of listeners trust advertising when endorsed by the host.²⁵ The hosts can offer brand endorsements and approvals in addition to stories that they bring to life via audio. Listeners take in what the host says and then build it out in their own minds. Podcast creators leverage social media platforms to drive traffic to applications and sites where the podcasts can be played or downloaded.

Podcasts can be an effective digital marketing tool when marketers want to hyper target a niche audience with relevant topics. They are typically created to share educational information and often result in a good return on investment because of the value they create for loyal listeners.

eLearning company **Harappa Education** produces the *Habits Matter* podcast, which focuses on topics about learning and personal growth. Listeners are attracted to the series because they want to learn something new without the noise of a marketing message. Podcasts are effective at creating value, building relationships, and engaging target audiences in a subtle way.

LINK TO LEARNING



Social Media Strategy

Social media marketing can be complex because of the variety of platforms and new features being added all the time. Check out this guide from HubSpot on how to [develop a social media strategy](https://openstax.org/r/marketing-social-media-strategy) (<https://openstax.org/r/marketing-social-media-strategy>).

Also, check out the *Habits Matter* podcast. Hosted by Shreyasi Singh, the *Habits Matter* podcast explores humanity at work. Check it out [here at Apple](https://openstax.org/r/podcast-habits-matter) (<https://openstax.org/r/podcast-habits-matter>) or [here at Spotify](https://openstax.org/r/open-spotify-show) (<https://openstax.org/r/open-spotify-show>).

Social Media Marketing: Opportunities and Challenges

When marketers are considering social media as a digital marketing tool, they need to weigh its opportunities and its challenges in order to determine if it's the right-fit channel for reaching targeted customers.

The major opportunities of social media marketing include reaching global customers, increasing brand awareness, engaging with targeted customers, and increasing website traffic. First, social media connects companies to billions of users across the globe. Because of this reach, companies can connect with new and existing customers in profitable ways.

In addition, because of the billions of active users on social media, brands can increase awareness of their existence with targeted consumers. For example, a five-year-old swimsuit and beachwear company, **Cupshe**, had little to no brand recognition among US consumers until it launched campaigns on Facebook and Instagram. In 2020, the company boasted \$150 million in sales without a single storefront.²⁶ Consumers were exposed to the brand via social media ads, which then drove them to the company's website to browse styles and make purchases.

In addition to increasing brand awareness, social platforms help brands engage directly with consumers. Mass forms of promotion such as advertising only offer one-way communication from the company to the customer. Social media platforms allow for multidirectional communication between the company and users and brand

communities.

Finally, social media drives traffic to company websites. Users see a sponsored advertisement in their news feed that is highly relevant to their interests and click on the content to learn more, browse inventory, and, ultimately, make a purchase.

The major challenge facing marketers who use social media to reach target audiences is that there is a growing distrust of social media platforms in terms of what they do with our private information. In addition, social media marketing requires dedicated campaign managers who can post fresh content frequently, monitor engagement, and respond to comments. The third disadvantage is that while multidirectional dialogue between consumers and the company is an advantage, the comments cannot be controlled. Users can tarnish the company's brand name if they share negative experiences or opinions about the brand.

LINK TO LEARNING



What Goes Viral?

Why do some things go viral and others don't? Learn from BuzzFeed's publisher Dao Nguyen and her TED Talk on the tactics her team uses to make things go viral.

[Click to view content \(https://openstax.org/books/principles-marketing/pages/16-2-social-media-and-mobile-marketing\)](https://openstax.org/books/principles-marketing/pages/16-2-social-media-and-mobile-marketing)

Integrated Social Media Marketing

Integrated social media marketing involves creating a clear, consistent, and synergistic message across all social media platforms. When consumers are presented with coordinated messages across social media platforms, brand awareness and purchase intention increase.

Mobile Marketing: Definition and Strategies

Mobile marketing is defined as the use of multiple digital marketing channels that are designed to reach consumers on their smartphones and tablets. Given the variety of digital tools that marketers use to engage with consumers, it's important to discuss how mobile device use impacts digital marketing strategies. Usage of mobile devices to access the internet and applications has steadily increased over the last ten years.²⁷ As mobile device technology and digital technology has improved, people are doing everything from refinancing their homes to buying cars online. Mobile device usage will continue to grow, and as consumers spend more time on mobile devices, marketers must adapt their strategies to meet consumers where they are.

There are currently 6.4 billion smartphone users worldwide, and usage is expected to continue to grow over the next decade.²⁸ In 2022, US mobile advertising spend is expected to reach \$137.13 billion, where it was \$100 billion in 2021.²⁹ Given these compelling statistics, companies must be prepared with an effective mobile marketing strategy. Marketing for mobile devices is not the same as marketing for desktops. Consumers expect a more personalized experience when they engage with brands on their smartphones.

Elements of a successful mobile marketing strategy should include responsive design, mobile-friendly emails, app development, and memorable URLs.

LINK TO LEARNING



US Mobile Advertising

To learn more about the predicted growth of mobile advertising in the United States, [read this article from Oberlo \(https://openstax.org/r/mobileadvertisinggrowth\)](https://openstax.org/r/mobileadvertisinggrowth). It states that US spend is expected to grow 14 percent to \$156 billion in 2023 and up to \$174 billion in 2024.

Responsive Web Design

Responsive web design means that when people visit your website via their mobile device, the menus and content display in a way that is easy to read and engage with. Users don't need to pinch, expand, or scroll the screen to view content. Responsive web design became the standard in 2015 when Google announced that mobile-friendly websites would be prioritized over non-mobile-friendly designs in search results. Responsive web design is critical to ensuring that visitors have a good experience while navigating your website.

Mobile-Friendly Emails

Mobile-friendly emails are emails whose images, text, and links display in a user-friendly way when accessed via a mobile device. With 68 percent of emails being opened on mobile devices, responsive design is necessary to create a good user experience.³⁰ Similar to responsive web design, email content needs to display on mobile devices in a way that is simple for the user to consume.

One way that email marketers can meet mobile-friendly standards is to ensure that subject lines are between 41 and 50 characters. Subject lines should capture attention and paint a benefit for the subscriber. In addition, mobile-friendly emails often contain a pre-header, which is the first line of text in your email. It provides context for what the email contains. Finally, emails should be concise with a clear and easy-to-find call to action. Many emails contain buttons that link email viewers directly to the company's website. The button is typically rectangular and includes actionable language like "Get Started" or "Shop the Sale."

Developing an App

For some companies, developing a mobile app is an important element in their mobile strategy. Because a shocking 90 percent of people's mobile usage is on smartphone apps, marketers must consider the value in creating one.³¹

One benefit of developing a mobile app is that apps provide direct communication and engagement opportunities with customers at the touch of a button. Amazon's app, for example, makes it easy to search for and purchase products from mobile devices. The alternative is for users to open their browser on their phone, type in the Amazon URL, and search directly from the mobile site. Apps make it convenient for consumers.

Short/Memorable URLs

An internet site's address on the web is technically known as a uniform resource locator (URL). In the digital world, you could have a great website with great content and a strong social media presence, but visitors cannot reach your website without a well-constructed URL.

Having a shorter, memorable URL is an important marketing tactic for the following reasons. First, it's easy for people to remember. Second, shorter URLs are easier to share, whether it's through email, text, or social media. Finally, optimizing the length of a URL makes it much easier for Google to find and display in search results.

There are a number of applications, such as **TinyURL** and **Bitly**, that are capable of turning long URLs into shorter ones; however, the jury is still out on whether search engines perceive these URLs as trustworthy.

Mobile Marketing: Opportunities and Challenges

Mobile marketing presents clear opportunities for digital marketers. First, mobile device usage continues to grow as consumers stratify their time across various devices at once. In addition, mobile devices allow people to experience almost constant connectivity that ignores the boundaries that traditional marketing channels must observe, such as time and place. For example, **Nothing Bundt Cakes**' store hours of operation might be 10:00 a.m. to 6:00 p.m. However, accessing its website to place an order can happen at any time of day from any location.

The shift in mobile usage behavior provides a number of opportunities for marketers to connect with consumers in a place where they are spending more and more time. Additionally, consumers are using mobile devices to conduct product research, view customer reviews, and interact with brands on social media platforms.

In addition to mobile marketing opportunities, this channel also presents challenges to digital marketers. The first challenge is finding the right mix of mobile channels to reach your target audience. For some companies, SMS texting makes sense because customers are open to receiving promotional messages via text. If the company has a mobile application, it may consider sending push notifications that alert users to important information when they aren't engaging with the app. Understanding your target audience is key to determining which mobile tools make the most sense.

A second challenge with mobile marketing is measuring results. While companies can easily measure things like in-app purchases and emails opened and clicked, it's more difficult for marketers to see whether someone has seen a push notification or in-app 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. Which of the following is an advantage of social media marketing?
 - a. Social media is highly targeted in its ability to reach segments of consumers who share common interests and demographics.
 - b. With social media, marketers have complete control of the message.
 - c. Social media is very easy to manage and requires few resources.
 - d. Social media is the best channel for the B2B market.
2. Which of the following is a challenge that marketers face when using social media marketing?
 - a. Social media marketing does not allow companies to target multiple audiences at the same time.
 - b. Social media use is unpredictable, with users only logging in once or twice per week.
 - c. Companies do not have control over the message.
 - d. Social media does a poor job of driving traffic to websites.
3. Which of the following is a characteristic of a good mobile strategy?
 - a. Mobile websites should have a responsive design so visitors have a good user experience.
 - b. Emails should be sent to consumers on a weekly basis in order to stay engaged with mobile users.
 - c. Avoid using push notification features to avoid overcommunicating with your users.
 - d. Measure whether or not a mobile device user has seen a push notification.
4. When a company's website adapts to whatever screen consumers are using and users don't need to pinch, expand, or scroll the screen to view content, this is known as _____.
 - a. website design
 - b. responsive marketing

- c. content marketing
 - d. responsive web design
5. Which of the following represents a challenge for mobile marketing?
- a. Mobile device usage is on the decline.
 - b. It's challenging to measure mobile marketing campaigns.
 - c. Responsive design is difficult to implement.
 - d. People are using email less and less.

MARKETING IN PRACTICE



National Geographic

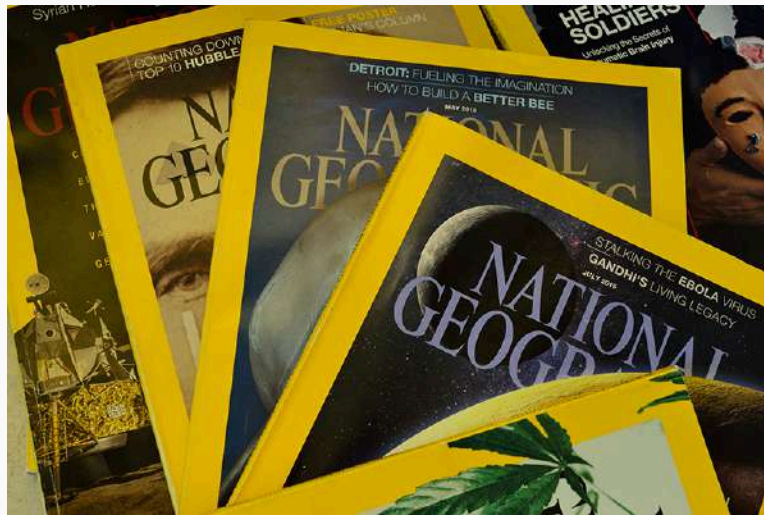


Figure 16.9 National Geographic has utilized Instagram for a promotional strategy as a way to share never-before-seen photographs. (credit: “National Geographic” by Open Grid Scheduler/Grid Engine/flickr, Public Domain)

National Geographic has over 220 million followers on Instagram, boasting the leading brand account on the site.³² It shares stunning images of people, places, animals, and natural landscapes from all over the world. As a visual storyteller, *National Geographic* captures some of the most awe-inspiring, unfiltered images that the world has ever seen (see [Figure 16.9](#)).

Instagram has served as an effective vehicle for sharing these images globally. *National Geographic* has utilized the platform to drive engagement with followers. Its famous “Wanderlust” social media campaign invites amateur photographers from around the world to post the best photographs they’ve taken while traveling.³³ Followers use the #wanderlustcontest hashtag to connect with the *National Geographic* community of travelers. Its strategy to promote user-generated content was a great way to connect with followers and build continuous engagement.

In addition to its Wanderlust campaign, *National Geographic* uses Instagram and other social media platforms to share content that is central to the brand’s values. For example, on “The Endangered Species Day” and “The Oceans Day,” it pushes content related to wildlife and nature protection using powerful images and statistics.³⁴

Through social media, *National Geographic* is able to share its passion for nature and wildlife with a community of like-minded people. As a tool, social media allows *National Geographic* to engage with followers in a personal way.

16.3 Metrics Used to Evaluate the Success of Online Marketing

Learning Outcomes

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

- L0 1** Discuss the role of marketing metrics in digital, online, social media, and mobile marketing.
- L0 2** List and describe the metrics used to evaluate the success of online marketing.

Types of Online Marketing Metrics

While online marketing tools have numerous advantages over traditional tools, it's important for marketers to pay close attention to metrics that indicate the performance of their online marketing campaigns. Metrics are goals that marketers are trying to reach through their campaigns, and they are typically quantitative in nature. For example, companies measure the performance of their social media campaigns by measuring how many likes, shares, or comments are posted in response to the content. While each online marketing tool has its own set of metrics, we'll focus on the following tools.

Website Traffic

Website traffic is the total number of visitors to a company's website. For some companies, website traffic can help move consumers further along the sales funnel and closer to making a purchase. A **sales funnel** is a visual representation of the customer journey from product awareness to product purchase. For e-commerce sites specifically, online marketers want to increase traffic to their website, which represents the top of the sales funnel, where most consumers will stop. The number of consumers will eventually dwindle until there is an actual purchase, which represents the narrow, lower part of the funnel (see [Figure 16.10](#)).

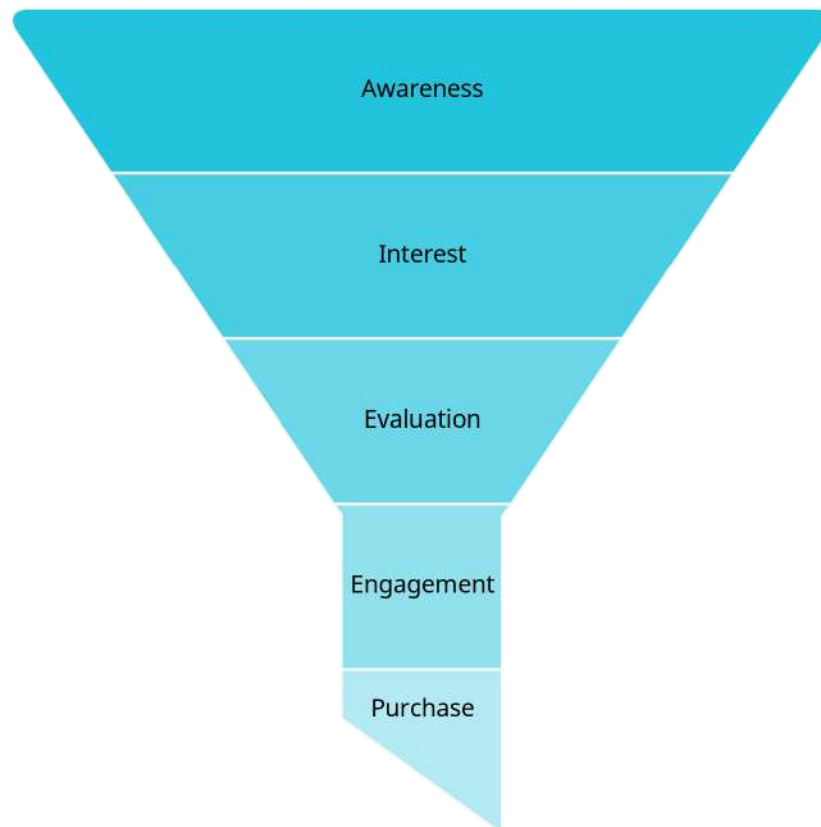


Figure 16.10 Sales Funnel from Awareness to Purchase (attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)

Traffic by Source

Monitoring website **traffic by source** means paying attention to the site from which the website traffic came.

For example, social media is famous for generating traffic to companies' websites. Online marketers can track this information by attaching a piece of tracking code to links on social media pages and other sources to assess where the visitor came from. In addition to social media, traffic sources can be email, paid search, organic search, paid social, and affiliates.

Paid search is a type of digital advertising where marketers pay search engines like Google and Bing to place their ads in sponsored spots at the top or bottom of a search engine results page (SERP). A **SERP (Search Engine Results Pages)** is the list of search results that displays on a search engine's page after someone enters key search terms into a search query box. Say, for example, a consumer is looking for a local company to investigate and fix a leak in their ceiling. That customer would likely visit Google and type in the search terms "plumbers near me." Google then displays the SERP featuring sponsored companies in top positions on the page. Companies bid on key search terms like "fix leaky roof" in an auction with competitors. If their bid is high enough, they will secure a top position on Google's search results page. In turn, when users click on that sponsored add, they are directed to the company's website or landing page.

Organic search refers to the list of websites on a search results page that have not been paid for by marketers. Search engines use algorithms to deliver search results that are relevant to the key search terms that a visitor has entered. When someone is searching for a local plumber on Google and they click on an organic search listing, the company that appears organically in those search results does not pay for the traffic that visits its website.

Paid social is similar to paid search in that marketers pay social media companies to display sponsored digital advertisements to targeted customers on their platform. Social media users who click on a sponsored social advertisement are then directed to the company's website or landing page.

Affiliates are people or companies that earn a commission for driving traffic to another person's or company's website where they make a purchase. **CJ Affiliate**, formerly known as Commission Junction, provides affiliate marketers with a marketplace to connect with brands who pay affiliates for driving traffic and purchases online.

Conversions

Simply put, **conversions** happen when a company turns a visitor into a customer. When a consumer purchases a LEGO set on the company's website, that's a conversion. When a new user signs up for TikTok, that's a conversion. Conversions are important in measuring the success of online marketing campaigns and the consumers' purchase experience.

Bounce Rate

Bounce rate is a metric that online marketers use to measure what percentage of visitors visit the site, view one page, and then leave. Bounce rates can be examined for each page of your website. Online marketers want to aim for a bounce rate that is lower than 40 percent. Higher bounce rates indicate issues with pages, including the time it takes for them to load in a visitor's browser.

Search Trends

Search trends are data points that indicate how frequently a term is searched. Researching search trends provides insight into who a company's customers are and what they are currently interested in. **Google Trends** is a free tool that online marketers can use to gather this information. Monitoring search trends has some predictive benefits to online marketers, who can recommend changes to products, advertising, and budgeting based on what consumers are searching for. For example, marketers utilize keyword tools offered by companies like **Semrush** to gain insights into customer search activity. Semrush provides customers with information on the value of popular search terms.

New versus Returning Visitors

New visitors, or new users, are people who are just learning about your website. A new visitor is someone who is visiting your website for the first time. **Returning visitors** are visitors or users who have been to your website before. Analyzing new and returning user metrics provides online marketers with a sense of how effective the company is in attracting new visitors compared to returning visitors. If there's an increase in new visitors, online marketers may be able to conclude that they are successfully attracting new customers via the online marketing tools they are using.

Average Session Duration

A **session** is defined as a collection of interactions that occur on a company's website. For example, if someone searches for Nike soccer cleats on Google, they'll likely click on a landing page that takes them to the Nike website's page related to soccer footwear. While on the page, the visitor may then click to browse different styles and colors and maybe watch a video of a famous athlete playing in the cleats. The visitor may then decide to make a purchase by selecting their size and clicking on a CTA (call-to-action) button such as "Add to Cart." This collection of activities equates to a session. Online marketers examine session duration as a way to measure engagement. If someone visits your shopping cart page after adding an item but then leaves within a few seconds (known as shopping cart abandonment), that may indicate issues with that page.

Page Views

Page views is a metric related to how many total pages have been viewed on your website. Websites typically have a home page, which is where visitors land when they type in your main URL. But depending on the company, its website could have many pages in addition to the home page. For example, e-commerce sites have pages that allow visitors to browse products. There might be review pages for each product and pages dedicated to blogs or articles about featured products. There's likely to be a customer support page and a terms and conditions page. The possibilities are almost endless. Online marketers use page views as a metric to gauge the success of their website pages.

Most Visited Pages

In analyzing page views, online marketers can gain important insights, such as which pages are most visited. If they identify content on their website that attracts a larger number of views, they can attribute those page views to a traffic source, such as social media or a blog.

Social Engagement

Social engagement relates to the number of actions that social media users take in direct relation to your company, brand, or product. Social engagement can be measured by the number of likes, shares, retweets, and comments made by account followers.

Click-Through Rate

When users visit Google and begin searching for something they are interested in, Google returns what are called search results. This is the list of solutions or answers to the search terms a user entered in the Google search bar. Some companies pay to appear at the very top of that search results page. As noted above, this is known as paid search. When users see the ad, this is known as an **impression**. The **click-through rate (CTR)** is the percentage of people who click on your ad. Measuring CTR indicates how successful their search advertisement is in attracting users to click. The ads are linked to a landing page, where the consumer is presented with additional information that is designed to lead them to a purchase. A high CTR leads to more traffic and ultimately conversions.

Cost per Click

Search engines like Google and Bing generate revenue by charging companies that pay for search ads to appear on search result pages. The **cost per click (CPC)** is the cost companies pay search engines for each

click that a search advertisement receives. This cost is based on the keywords that a company bids on. Simply put, there are competitors in the auction who are willing to pay a certain amount to appear on the search results page when a user enters certain keywords. Depending on how competitive the auction is, CPC can fluctuate, and online marketers analyze CPC to ensure they don't overpay to have their search ads display.

Let's suppose that you wanted to purchase a Tampa Bay **NFL** jersey. You are interested in finding one at the lowest price possible. You're also interested in the team's home jersey. You may type in the search engine bar: Tampa Jersey in white. Retailers like **Fanatics** and **NFLshop.com** will appear at the top of the search results page next to the word "Ad." If NFLshop.com appears first, it won the auction over the search keywords you entered.

Online marketers set limits on how much they are willing to bid on certain keywords. If they bid too low, they lose the auction and may not get the impressions they need. If they bid too high, they risk overpaying for their search advertising. They should identify their goals and bid accordingly.

Cost per Acquisition

Cost per acquisition (CPA) is also known as cost per action or cost per conversion. It relates to the aggregate or cumulative cost of acquiring a customer. CPA can be measured by channel or campaign. The conversion could be a sale, a form completion, or a click.

The CPA formula is:

$$\text{Cost per Acquisition (CPA)} = \frac{\text{Dollars Spent on Campaign}}{\text{Number of Conversions}}$$

For example, let's look at CPA for a paid search campaign. Fanatics uses paid search to reach customers interested in buying athletic apparel. Let's assume that Fanatics runs a search campaign for one month that costs the company \$20,000. The campaign was responsible for driving over 1 million visits to the website and 32,000 conversions. 32,000 conversions at \$20,000 would result in a CPA of \$0.63, meaning that each customer conversion cost the company \$0.63.

$$\text{Cost per Acquisition (CPA)} = \frac{\$20,000}{32,000} = \$0.63$$

This calculation can be somewhat misleading, however, because it fails to account for the resources spent creating the ad and managing the search campaign. Nevertheless, online marketers monitor CPA because it helps them measure the effectiveness of their online marketing strategies. The lower the CPA, the more effective the campaign.

MARKETING DASHBOARD



Targeted Advertising

As a consumer, have you ever wondered why you see certain advertisements on social media but not others? The answer is targeted advertising. Targeted advertising allows marketing professionals to specify a target audience of their choosing. For example, you may see advertisements for winter boots if you have recently initiated a search with those terms. At the same time, a friend might see advertisements for winter tires for the same reason.

Targeted advertising can be expensive because it is tailored to a marketer's exact specifications. Therefore, marketing professionals calculate the cost every time a prospective customer clicks on a targeted ad through their website. This cost-per-click metric shows us how much the marketing professional pays every time a prospect clicks on an ad.

Cost per click has a role in search engine marketing as well. For example, if our advertisement is served up on a search engine results page (SERP) and a prospective customer clicks on that advertisement, the marketing team must pay the search provider.

As savvy marketers, we know that not every click results in a purchase. So, we have to be careful not to invest more in clicks than our profitability allows. We also need to consider the average revenue and profit per order and the customer lifetime value when determining the efficacy of a targeted advertising campaign.

The formula for cost per click is the total cost for the digital campaign/number of clicks.

$$\text{Cost per Click} = \frac{\text{Total Cost of Digital Campaign}}{\text{Number of Clicks}}$$

Give the cost-per-click calculation a try for yourself. What is the cost per click of each of the four campaigns for a pet store?

Campaign	Total Campaign Cost	Number of Clicks
Dog Food	\$12,000	18,100 clicks
Cat Food	\$10,000	20,200 clicks
Aquariums	\$7,000	19,050 clicks
Bird Feeders	\$5,500	5,000 clicks

Table 16.1

Solution

Dog food: \$0.66/click

Cat food: \$0.50/click

Aquariums: \$0.37/click

Bird feeders: \$1.10/click

What additional information would we need to know to determine whether the cost per click for each product is a good investment?

Solution

Average revenue and profit per order, percentage of people who click through who make a purchase, and/or customer lifetime value

Let's suppose that Najja found our pet store website on a targeted ad, clicked through, and placed a \$70 order for bird feeders that had a 10 percent profit margin for our pet store. Was the click-through rate a good investment?

Solution

Yes. The pet store profited \$7 on the single purchase at a click-through rate of just \$1.10. In addition, Najja may purchase more in the future, making the click-through rate an even better investment.

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 best describes why online marketing metrics are important?
 - a. Online marketing metrics help marketers understand whether or not their products and services create value for consumers.
 - b. Online marketing metrics are an important part of understanding the factors that influence consumer behavior.
 - c. Online marketing metrics help marketers measure the effectiveness of marketing managers.
 - d. Online marketing metrics help marketers measure the performance of their online marketing campaigns.

2. An online automotive magazine is running a social media campaign to increase paid subscriptions. Which of the following would be an example of a conversion on its website given the campaign's goal?
 - a. A visitor uses the search tool on the website to search "vintage European cars."
 - b. A visitor enters their email address to receive updates.
 - c. A visitor enters their payment information and contact information and clicks on "place order."
 - d. A visitor downloads the app on their mobile phone.

3. The Warton Hotel is running an online marketing campaign and would like to measure the percentage of people who only visit its site one time. Which online marketing metric would be most helpful to the hotel in this situation?
 - a. Counting new and returning customers who visit the site
 - b. Counting page views
 - c. Examining the bounce rate
 - d. Counting unique users

4. Which of the metrics could be used to measure the performance of a social media campaign?
 - a. Social engagement
 - b. Page views
 - c. Bounce rate
 - d. Cost per click

5. Jax's Sushi House wishes to compare DoorDash's and Google's performance in driving traffic to the restaurant's website. Which of the following explains why Jax's Sushi House wants to compare sources?
 - a. Measuring traffic by source provides insight to online marketers about the effectiveness of sources that best drive traffic to a company's website.
 - b. Measuring traffic by source allows marketers to measure the effectiveness of the online shopping cart experience.
 - c. Online marketers can determine the effectiveness of their home page by examining traffic by source.
 - d. Evaluating traffic by source means looking at the total numbers of visitors to a website and comparing it to the total number of visitors from a source.

16.4 Ethical Issues in Digital Marketing and Social Media

Learning Outcomes

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

- LO 1** Describe ethical issues with respect to digital marketing and social media.
- LO 2** Explain why ethical issues exist.

Privacy, Transparency, and Awareness

While digital marketing tools and social media provide online marketers with effective ways to engage with customers, build relationships, and drive consumers toward a purchase, there are ethical issues that marketers must consider when utilizing these tools.

First, because of the highly targeted capabilities of digital and social media, companies have access to large amounts of personal data, including name, email address, phone number, as well as personal interests, social and political views, and shopping behavior. Consumers are increasingly concerned about data privacy. In a recent survey by **KPMG**, 86 percent of the respondents have a growing concern about data privacy, and 78 percent fear the amount of data being collected.³⁵

Given this growth in distrust of how personal data is handled, some companies have responded with updated policies designed to be more transparent about how data will be used. Seventy-five percent of consumers polled reported that they want increased transparency.³⁶

In 2021, Apple released features for iPhone and iPad users that allow consumers to have stronger control of how their data is used.³⁷ Using pop-ups, Apple device users will be able to allow or disallow companies to track their activity across apps and the websites they link to. This move by Apple resulted in some back-and-forth commentary by Meta's Mark Zuckerberg and Apple CEO Tim Cook. Tech companies like Facebook and Google depend on being able to target the advertising on their applications to users using personal data. Giving greater privacy control to iPhone users presents a threat to the core of their business models.

Social media platforms in particular mine personal data and then use it to sell advertising space on news feeds of consumers who match the demographics and psychographics of a company's target market. With nearly 71 percent of social media users taking the time to check their privacy settings on social media, it's clear that this issue is front and center for a majority of users.³⁸ Companies can respect the privacy of their users by being transparent about what data they collect and how they use it.

Tracking Consumer Data

The reality is that it's not just social media companies and search engines that track consumer data. A majority of companies use tracking codes to follow consumers and data about them as they navigate the web. Zoho, a productivity and collaboration app, reported that in the B2B space, about 72 percent of businesses do not inform customers that they are being tracked by third parties.³⁹

The Use of Client Reviews

Client reviews involve feedback that a customer or client posts directly to a platform that can be accessed by consumers during the buying process. Companies that use client or customer reviews include Amazon.com, Wayfair, and Lands' End. Customers rate their experience with the product typically by assigning stars and commenting on their satisfaction.

Reviews can be helpful to consumers during the search phase of the buying process because reviews provide a real-world glimpse into the favorability of a product. For example, Wayfair invites customers to post pictures of items like sofas and end tables once a customer has styled the room. This provides shoppers a real-life view of the product, its color, and its size, among other things.

Beyond the reviews on e-commerce sites, Google serves as a major player in the customer review space. Consumers often rely on Google reviews when deciding on whether to hire a local business. In addition to Google, consumers can find reviews for travel on Tripadvisor, restaurant reviews on Zomato, and reviews of software programs on G2.

Marketers recognize the power of customer reviews as a digital promotional tool, as consumers report that they perceive reviews as more credible than messages created by the company itself.

COMPANIES WITH A CONSCIENCE



Apple's Taking Big Steps to Protect Privacy



Figure 16.11 Apple is employing several steps to further protect consumers and their personal data. (credit: "iPhone 5s Applications" by Marco Verch/flickr, CC BY 2.0)

In January 2022, Apple took one of its most impactful steps toward protecting the privacy of iCloud users, the iCloud Private Relay (see [Figure 16.11](#)).⁴⁰ When enabled on Apple devices, this feature hides a user's IP address from the websites they visit, essentially masking a user's entire online footprint.

The privacy feature is a game changer in the digital marketing space, as companies like Meta and Google depend on seeing a consumer's online journey to learn more about who they are and what interests they have. Tracking online activity allows companies to serve users with relevant marketing messages and offerings.

In addition to the privacy relay, Apple also released "Hide My Email," which allows Apple device users to enter a unique email address on websites without sharing their actual email address.⁴¹ Emails that are sent to a randomly generated address are then forwarded to a user's inbox, thereby hiding a user's actual email address.

Finally, Apple has updated its Mail app such that it prevents marketers from tracking whether or not someone has opened an email.⁴² Email marketers measure the percentage of people who open marketing emails to determine their level of engagement and the effectiveness of the email.

Apple appears to be taking consumer privacy to another level. By offering a collection of privacy-centric features, it is equipping consumers with tools to protect their personal information and navigate the web unseen.

Check out Apple's website to [learn more about iCloud Private Relay \(https://openstax.org/r/abouticloud\)](https://openstax.org/r/abouticloud).

Also [read about it in this *Wired* article \(https://openstax.org/r/howappleicloud\)](https://openstax.org/r/howappleicloud).



Chapter Summary

Direct, online, and social media marketing include a mix of useful tools that help marketers engage with targeted consumers in a way that is personalized and is designed to drive the audience to follow through on the desired marketing action. With the explosion in internet and mobile device usage coupled with advancements in digital technology, online marketing tools have been developed to help marketers meet consumers in the digital space. These tools are capable of connecting online marketers to carefully targeted individuals. With the development of these tools come ethical issues related to privacy. As consumer concern for privacy protection grows, companies will need to adapt their privacy policies to be more transparent about how they use consumer data.



Key Terms

affiliates people or companies that earn a commission for driving traffic to another person's or company's website where they make a purchase

blog an online journal of interests, beliefs, and other topics published by a person, a group of people, or an organization

bounce rate a metric that online marketers use to measure what percentage of visitors who visit the site, view one page, and then leave

call center a centralized space where agents or representatives answer inbound calls and place outbound calls

catalog marketing also known as direct mail order and is one of the oldest forms of promotion, which typically includes a variety of products often vividly displayed in a high-gloss magazine-like format

click-through rate (CTR) the percentage of people who click on an online ad

client reviews involve feedback that a customer or client posts directly to a platform that can be accessed by consumers during the buying process

content marketing creating and distributing online content that is valuable and relevant to a company's target customers

conversions happen when a company turns a visitor into a customer

cost per acquisition (CPA) also known as cost per action or cost per conversion, relates to the aggregate or cumulative cost of acquiring a customer and can be measured by channel or campaign

cost per click (CPC) the cost companies pay search engines for each click that a search advertisement receives, which is based on the keywords a company bids on

direct marketing using communication tools that directly engage with individual consumers for the ultimate purpose of calling them to take some marketing action

direct-mail marketing a type of direct marketing that involves marketers sending mail directly to people's homes or places of business; for example, catalogs and postcards

direct-response television marketing a type of direct marketing that is designed to compel viewers to take some immediate action such as calling a phone number or visiting a website presented during a television commercial

email marketing a type of direct marketing that is highly personal and designed to build relationships with consumers

impression when users see an online ad

integrated social media marketing involves creating a clear, consistent, and synergistic message across all social media platforms

marketing emails emails that are promotional in nature and typically involve a marketing offer

mobile marketing using multiple digital marketing channels that are designed to reach consumers on their smartphones and tablets

mobile-friendly emails emails whose images, text, and links display in a way that is easy to read when accessed via a mobile device

new visitors people who are first visiting your website, also known as new users

online direct marketing uses a rich collection of online tools, such as websites and email, to target individual consumers with an offer designed to compel consumers to take some action, such as visit a website or make an online purchase

online video marketing involves creating videos that tell a story about a product, company, or brand that is designed to drive consumer engagement through activities such as liking, sharing, and retweeting

organic search the list of websites on a search engine results page that have not been paid for by marketers

page views a metric related to how many total pages have been viewed on your website

paid search a type of digital advertising where marketers pay search engines like Google and Bing to place their ads in sponsored spots at the top or bottom of a search results page

paid social a type of digital marketing advertising where a company pays a social media company to display a digital advertisement to targeted customers on its platform

podcasts often free, on-demand, downloadable audio recordings that cover a variety of topics and are typically made available on a weekly or monthly basis

responsive web design designing a website that is configured to adapt to any device, making it easy for visitors to read and interact with its features

returning visitors visitors or users who have been to your website before

sales funnel a visual representation of the customer journey from product awareness to product purchase

search trends data points that indicate how frequently a term is searched

seminars a tool that allows companies to share their expertise and knowledge related to a topic, issue, or industry; can be done in person or virtually

SERP (Search Engine Results Page) the list of search results that displays on a search engine's page after someone enters key search terms into a search query box

session a collection of interactions that occur on a company's website

social engagement relates to the number of actions that social media users take in direct relation to your company, brand, or product

social media marketing using social media platforms, such as Facebook, Instagram, LinkedIn, and Twitter, to deliver content that drives engagement with your brand

telemarketing a type of direct marketing that involves a company representative placing or answering customer phone calls with the intention of guiding the consumer toward making a purchase

trade shows exhibition events that provide companies the opportunity to present themselves and their products and services to industry peers

traffic by source means paying attention to the site from which the website traffic came

website marketing The promotion of a website that results in driving traffic or visitors to the site to learn more about the product or company or to make a purchase

website traffic the total number of visitors to a company's website



Applied Marketing Knowledge: Discussion Questions

1. The Association of National Marketers (ANA) acquired the Data & Marketing Association (formerly the Direct Marketing Association (DMA)). This organization has several arms. One of them is the [dmaconsumers.org](https://openstax.org/r/dmaconsumers). Visit the website, and [see what services it has to aid consumers \(https://openstax.org/r/dmaconsumers\)](https://openstax.org/r/dmaconsumers).
2. Choose three people that you know, each from a different generation. Explain the concept of online, social media, and mobile marketing. Ask the following questions: "Do you engage with these forms of marketing?" "Have you purchased anything from one of these forms?" "Do you have any concerns about using any of the marketing strategies discussed?" Then, explain whether anyone's answers surprised you.
3. When considering the privacy issue, where does the responsibility fall? Is it with the business, or is it with the consumer? Is it both? How can a consumer guard themselves? What can a company do to make sure it

is practicing ethical marketing?

4. The main goals of consumer protection laws and regulations are to protect consumers' privacy and identity and to protect consumers from unfair or deceitful actions. Research the following regulation and law to familiarize yourself with them: the Telemarketing Sales Rule and the CAN-SPAM Act.



Critical Thinking Exercises

1. Compose a paragraph (150–200 words) using all of the following terms as they relate to direct, online, social media, and mobile marketing. The goal is to prove you understand the meaning of each term.
2. List the positive and negative value of each of these forms of marketing: direct mail, social media, mobile, content and telemarketing. Think about products, messages, and delivery systems.
3. Now consider the target market for direct mail, social media, mobile, content marketing, and telemarketing. Does the chosen form of marketing present challenges in growing the target market? If so, how can those challenges be met and overcome?



Building Your Personal Brand

Goal-setting is the development of an action plan designed to motivate and guide an individual, group, or organization to reach a goal. There are several models of goal setting; one of the popular ones is SMART goal-setting. SMART stands for goals that are specific, measurable, action-oriented, realistic, and time-bound.

Consider a goal you might set for yourself that's SMART. For example, if your goal is to intern at a marketing firm, you might establish the following SMART goals:

- Specific: Create a list of possible companies you want to target for an internship, and indicate why.
- Measurable: Quantify the number of contacts at each company you plan to make in a week, and map those to calendar dates.
- Action-oriented: Develop a plan for reaching out to and making appointments with those contacts.
- Realistic: Is what you're setting reasonable when you consider your work schedule, schoolwork, personal responsibilities, etc.? Set goals that are achievable.
- Time-bound: Consider all of the steps, and decide how much time it will take you to complete this goal.

Now set yourself two goals around building your personal brand. Is there a skill you wish to learn or a website you want to develop? Whatever your goals are, be sure to consider the SMART goal-setting model as you develop them.



What Do Marketers Do?

Check out [the Association of National Advertisers \(ANA\) website \(https://openstax.org/r/anaset\)](https://openstax.org/r/anaset), and scan the wealth of information available. It offers a content library, newsstand, marketing futures, blogs, and podcasts. Throughout this information, you will learn more about many aspects of current trends, future opportunities, and simply what it is that marketers are doing now. Being educated on the many associations and the information available can inspire you to look at marketing careers in a different light.

Navigate to the Content Library, then the Media Channels section. (In order to see the link to the Content Library, you need to hover over "Resources" at the top of the page.) From this section, review the various pieces of content available, and choose one to read. After reading, write a two-paragraph summary on what you learned, what you found most interesting, and why.



Closing Company Case

Publix

Founded in 1930, supermarket chain **Publix** started with one store in Winter Haven, Florida. It now has over

1,200 stores throughout the Southeast. The company was founded on the promise of superior customer service. With unwavering dedication to quality and value, Publix is now one of the 10 largest-volume supermarket chains in the country.

Publix is employee-owned, and the pride and dedication of its employees shows in the daily interactions with customers and the communities it serves. Walk into any Publix grocery store, and the spacious aisles and displays provide for ease and access. The brightly lit shelves and soft music make for a pleasant shopping experience. With a wide selection of quality products and its own Publix brand, customers are typically delighted with the availability of premium and well-priced items.

A hallmark of the Publix shopping experience is the checkout. Its friendly Publix cashiers and abundance of grocery baggers make shopping a pleasure. No matter how big or small an order might be, the baggers are always eager to help customers out to the car with their groceries.

As the company worked to develop the superior in-store shopping experience, consumer preferences for grocery shopping began to change. Amazon, a leader in online shopping, bought **Whole Foods**. Adding to its already “everything store” approach, Amazon was now able to deliver groceries within a two-hour window.

In 2016, Publix began a pilot with Instacart. **Instacart** is an online ordering and delivery platform, partnering primarily with grocery and drugstore chains nationwide. Publix had plans in place to launch Instacart with all Publix locations by 2020.

When COVID-19 began raging throughout the United States and economies were shuttered, demand for grocery delivery was high. Publix and Instacart rallied to meet the need. Each Publix location was tasked with getting its merchandise uploaded on its website, and Instacart was quickly hiring employees to shop for and deliver groceries to homes across its market area.

Using a mobile app, Publix consumers continue to use Instacart to shop for grocery delivery. Through the robust Publix website, consumers are able to place orders for party trays, bakery items, and whole-meal catering solutions. Publix regularly posts updates on food recalls and highlights of its sustainability efforts. Consumers who opt in can join the Publix Club to receive emails with coupons and weekly discounts on groceries.

Publix has an active social media presence. With over 3 million Facebook followers, loyal consumers often comment on their good finds, grocery deals, and favorite products. Publix provides its followers with favorite recipes and new products.

Through Instagram, Publix shares photos of some of its food products as well as ways it supports its communities and helps with environmental sustainability issues. Customers regularly like and comment on the Instagram posts featuring Publix food items and holiday meal ideas.⁴³

To learn more about these companies, [visit the Publix website \(https://openstax.org/r/publix\)](https://openstax.org/r/publix) and [the Instacart website \(https://openstax.org/r/instacart\)](https://openstax.org/r/instacart).

Case Questions

1. Describe the ways Publix is utilizing its website to connect with customers.
2. In what ways can consumers engage with Publix through digital media?
3. What are some of the methods Publix can utilize to determine success with its digital efforts?
4. How did Publix use digital resources to respond to consumer needs during the COVID-19 pandemic?



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17

Distribution: Delivering Customer Value

Figure 17.1 Marketers need to determine distribution strategies that gets their products in the hands of consumers, like the partnership between Whole Foods and Outstanding Foods. (credit: modification of work “Whole Foods Market Full Middle Eastern Food Shelves” by Raed Mansour/flickr, CC BY 2.0)

Chapter Outline

- 17.1 The Use and Value of Marketing Channels
- 17.2 Types of Marketing Channels
- 17.3 Factors Influencing Channel Choice
- 17.4 Managing the Distribution Channel
- 17.5 The Supply Chain and Its Functions
- 17.6 Logistics and Its Functions
- 17.7 Ethical Issues in Supply Chain Management



In the Spotlight

Have you ever had a great idea for a new food product? If so, do you have any idea where you would sell it to reach your target customers? Unlike traditional grocery retailers, **Whole Foods** specializes in selling high-quality natural and organic foods. Getting the green light to sell through its stores requires manufacturers to follow strict quality standards, including adherence to Whole Foods’ banned ingredient list.

Founders Dave Anderson and Bill Glaser of **Outstanding Foods** and maker of PigOut, a vegan, bacon-flavored chip snack, recognized that in order to reach vegans and nonvegans with a plant-based, bacon-flavored chip, they need to retail at outlets that would attract such consumers.¹

After testing their product, they opted for a nationwide launch and distribution strategy. Using a broker network, they selected distribution channels that aligned with both natural and mainstream grocery stores. This strategy would help secure the national target market coverage they were looking for. The product strategy of natural ingredients gave Outstanding Foods the green light it needed to meet Whole Foods’ strict food standards. Through their partnership, Whole Foods and Outstanding Foods are able to create and deliver value to their vegan customer base who appreciate access to food products that are tasty and bring delight.

17.1 The Use and Value of Marketing Channels

Learning Outcomes

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

- LO 1** Describe the use of marketing channels.
- LO 2** Identify the different types of marketing channels.
- LO 3** Discuss how marketing intermediaries add value to products.

What Are Marketing Channels?

In addition to identifying ways to create value for consumers, marketers must also decide how to distribute market offerings. In this section, you'll explore the important role that marketing channels play in delivering value to targeted customers.

A **marketing channel** is a system of people, organizations, and activities that work together to make goods and services available to consumers to purchase. Along the marketing channel, ownership of these goods and services is transferred from one channel member to the next. The goal is to create and deliver value to the final consumer by distributing these goods and services. The **final consumer** is the end user of a good or service. It includes grocery store shoppers, movie stream viewers, app users, vacation-takers, and many more.

LINK TO LEARNING



Distribution

To learn more about how the distribution of products works and the decisions marketers must consider when choosing the right marketing channel, watch the Channels of Distribution in Marketing: 8 Distribution Channels to Consider video.

[Click to view content \(https://openstax.org/books/principles-marketing/pages/17-1-the-use-and-value-of-marketing-channels\)](https://openstax.org/books/principles-marketing/pages/17-1-the-use-and-value-of-marketing-channels)

Marketing Channels (Distribution Channels) Defined

It's not enough for companies to create, price, and promote products and services that deliver value. A company must also decide where and how consumers can access and purchase the company's market offering. Market offerings can include tangible goods, services, experiences, digital products, ideas, and information. All market offerings require a marketing or distribution channel to reach consumers.

Think of a channel like a stream or a river that carries a market offering to the consumer. **Distribution** describes how a company makes its market offering accessible for purchase. Local companies that sell to a smaller, more geographically concentrated set of consumers have a more simplified marketing or distribution channel compared to global companies.

The film industry provides a great example of the distribution decisions that marketers must make. Before a production company releases a new movie, it must decide which channels are best for distributing the movie to consumers. In today's market, movie producers have a slew of distribution options, including **Netflix**, **HBOMax**, and **YouTube**, to name a few. They also have the option of distributing through traditional movie theaters, such as **AMC** or **Regal**. Regardless of the marketing channel they pursue, their goal is to distribute their movie to the right customers at the right place and at the right time. Production companies will choose the marketing channel that is most efficient at helping them achieve this goal.

Marketing Channels for Consumer Products

Companies that use intermediaries to deliver value to consumers have a variety of marketing channel options. There are four major types of intermediaries: agents or brokers, distributors, wholesalers, and retailers (see [Figure 17.2](#)).

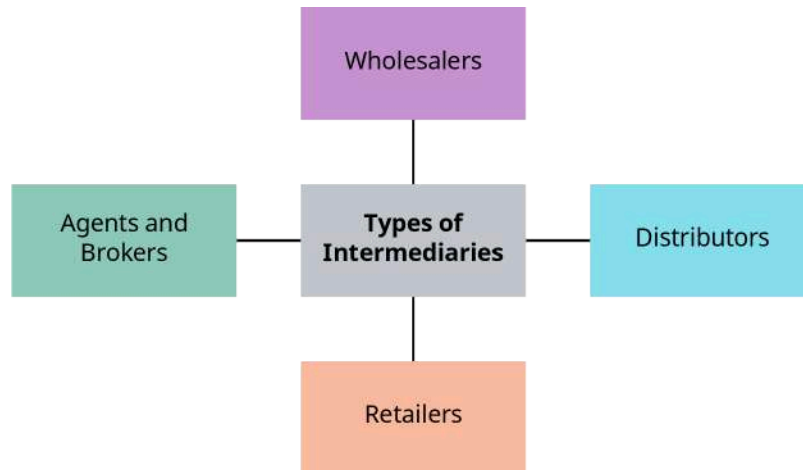


Figure 17.2 Types of Intermediaries (attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)

An **agent** or broker is someone who acts as an extension to the manufacturer. While they never take possession of the product or service they represent, they earn a commission or collect a fee for facilitating the transaction between the customer and the manufacturer. Auto insurance agents, for example, may sell **Geico** or **Allstate** auto insurance policies to consumers. The agent serves as a representative who answers questions, gathers information, and provides a quote on behalf of the insurance company.

A **distributor** takes ownership of the product and tends to align itself closely with a manufacturer. For example, **Coca-Cola** uses distributors who contract to distribute only Coca-Cola products, not **PepsiCo** products.

Wholesalers are similar to distributors in that they take ownership of products; however, they buy a variety of products in large quantities and bulk-break for the purpose of distributing an assortment of products to retailers in a quantity aimed at meeting the needs of end users or consumers. Let's examine how the different types of intermediaries depend on one another. **AstraZeneca** manufactures prescription medications that are made available to consumers by way of pharmacies such as **CVS** and **Walgreens**. Pharmacies are retailers in the marketing channel because they sell a wide variety of consumer products, from toothpaste to milk to medications.

Before AstraZeneca's medications reach retail pharmacies, they are purchased in bulk by wholesalers who partner directly with AstraZeneca. Wholesalers are an integral part of the marketing channel because they package and handle medications and manage the logistics of delivery to retail pharmacies. This creates value for the customer in that the right quantity of medications arrives at retail pharmacies safely and in good condition.

The fourth type of intermediary is the **retailer**. Retailers also take ownership of the product, and their sole focus is on reaching the end user or customer directly. They purchase a wide variety of products in smaller amounts that meet the wants and needs of consumers. Retailers include companies like **Rite Aid**, **Walmart**, **Target**, and **Hallmark**.

Intermediary Functions

The intermediaries' role is critical, and they perform a variety of functions (as shown in [Table 17.1](#)) that create value for other members in the marketing channel.

Intermediary Functions
Transactional: Buying, selling, and temporary risk-bearing
Logistical: Handling, packing, inventorying, and transporting
Facilitating: Financing and information sharing

Table 17.1 Intermediary Functions

Let's examine the three functions: transactional, logistical, and facilitating.

Transactional Functions

Intermediaries perform a variety of transactional functions that improve the efficiency of the channel.

Transactional functions involve the buying, selling, and risk-bearing that accompany the movement of products along the marketing channel. Companies share the risk of ownership by temporarily possessing products before selling them to another channel member.

Imagine if a small bakery made the best oatmeal raisin cookies and decided to distribute them to consumers using local restaurants in the city. The bakery sells to the restaurant, who then sells to the customer. Temporary risk-sharing, in this scenario, means that at first the bakery assumes the risk in the making, storing, and transporting of the cookies, but that risk transfers to the restaurant once the restaurant buys the cookies. The restaurant then assumes ownership and responsibility for selling the cookies, which may involve placing them someplace customers can see them.

The transactional functions of buying, selling, and risk-bearing help add value in the marketing channel because the system allows for channel members to work together to move a product offering to consumers in an efficient and effective way.

Logistical Functions

In addition to transactional functions, intermediaries also perform **logistical functions**, which involve handling, packing, inventorying, transporting, warehousing, and ensuring the security of products as they make their way to the customer. In the earlier bakery example, the bakery must ensure the cookies are fresh and tasty in order to continue supplying restaurants with a product that consumers desire. In order to ensure that cookies meet the wants and needs of customers, both the bakery and the restaurant must ensure the product is handled safely in the marketing channel. That might mean selecting a trucking company that secures the cookies during transport to restaurants as well as packaging them so that freshness is sealed and quality is maintained.

Facilitating Functions

In addition to transactional and logistical functions, intermediaries also help in the facilitation of the purchase of products and services. **Facilitating functions** involve activities such as financing and sharing information with members of the marketing channel. Intermediaries may provide financing to one another and to the end user to help move the product along the channel. Financing involves one channel member allowing another channel member to pay over time.

In the bakery example, pretend that the restaurant purchases \$12,000 in cookies each year. Instead of the bakery requiring the restaurant to pay for the order in full at the beginning of each year, it allows the restaurant to pay \$1,000 a month over a 12-month period. This benefits the restaurant in that a large amount of capital isn't tied up in its cookie order payment but instead is spread out over time. While some companies require payment in full, others permit payment installments over time. The terms of payment are explicitly

stated at the start of the buying and selling relationship between companies.

Intermediaries also share information that can be used to improve marketing decisions. Intermediaries often share key data such as consumer feedback on a product or service, the shopping behavior surrounding that product or service, and historical purchase trends. The facilitating functions that intermediaries perform ultimately help marketing channel members make better distribution decisions and, in some cases, financially support the movement of these products and services in the name of delivering value to customers.

How Intermediaries Add Value to Customers

Intermediaries play a critical role in adding value to customers. They specialize in aspects of distribution that manufacturers don't wish to specialize in. They create efficiencies in the marketing channel by reducing transactions, sharing important information among partners, and matching the right quantity of the right product to customer demand. While manufacturers focus on creating value for customers, intermediaries focus on delivering that value.

Dove manufactures millions of units of body wash, bar soap, dry spray antiperspirant, and hair products. In turn, it sells large quantities of these products to wholesalers, who after buying in bulk, break these large quantities down into smaller assortments that are then sold to retailers. This allows consumers to buy a variety of products in smaller amounts. They can visit a Target, a CVS, or the **Amazon** website and purchase three bars of soap, one bottle of shampoo, and one bottle of conditioner.

Without intermediaries, customers would need to buy directly from every manufacturer producing the desired product. Imagine grocery shopping without intermediaries. Instead of shopping at one or two grocery retailers for bread, milk, cereal, fruit, and ice cream, shoppers would need to buy from individual manufacturers, making shopping extremely time consuming and difficult.

Intermediaries add value by reducing the number of transactions between companies and customers. As illustrated in [Figure 17.3](#), there are nine transactions without intermediaries and five transactions with the use of intermediaries. Consider the inefficiencies if companies had to directly transact with individual consumers.

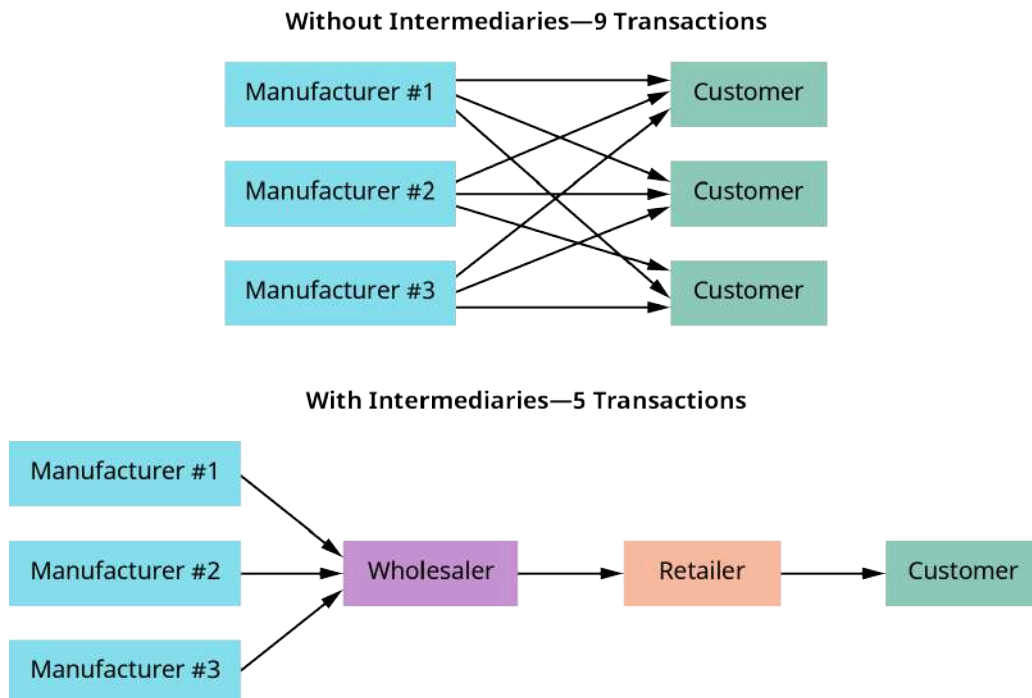


Figure 17.3 How Intermediaries Add Value by Reducing Transactions (attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)

Providing Needed Information about Products and Services

Intermediaries share pertinent information about the products and services that move through the distribution channel. More specifically, intermediaries gather, analyze, and communicate information to other distribution partners to improve the effectiveness and efficiency of the channel. This flow ultimately helps marketers plan and optimize the distribution channel so that consumers get the right products and services at the right place and at the right time.

Adjusting for Discrepancy of Quantity

As intermediaries move products and services from manufacturers to consumers, they offer the valuable service of accumulating and bulk-breaking. **Bulk-breaking** is when an intermediary takes a large quantity of a manufacturer's product and breaks it down into smaller units to be distributed to retailers based on the consumer demand. Consumers desire to purchase in smaller quantities from retailers. Wholesalers buy in bulk from producers and break the bulk into the right size quantity for retailers, who ultimately meet the needs of consumers who want an assortment of products in small quantities.

Accumulating relates to intermediaries buying in bulk from different manufacturers. When buying in bulk, it is beneficial to the manufacturers because the risk is passed from manufacturers to intermediaries. The United States produces hundreds of millions of bushels of apples, oranges, and peaches each year.² These types of produce require different types of climates and care and are therefore grown in different states across the country. Wholesalers play a critical role in buying an assortment of this product in bulk from these producers and ensure that they are sold to retailers in the right quantity to meet the needs of consumers.

Together these activities allow intermediaries to offer retailers the right number of products to offer consumers, based on demand.

Adjusting for Discrepancy of Assortment

Intermediaries also add value by adjusting for the discrepancies of assortment between the manufacturer and the consumer. Discrepancy of assortment is the difference between the variety of products that a manufacturer produces and the variety that consumers want to purchase. **Adjusting for discrepancy of assortment** occurs when an intermediary buys from manufacturers, then regroups products into different assortments based on what consumers are demanding from retailers.

While manufacturers generally produce large quantities of one or a few types of products, consumers demand small quantities of an assortment of products. For example, when visiting the grocery store, consumers demand an array of different products in small quantities. Depending on the size of their household, consumers are generally shopping to meet the needs of one or a few people; therefore, they value the ability to buy a variety of products in smaller quantities. Intermediaries mitigate these differences by matching supply assortment to demand assortment.

Providing Credit to Customers

Intermediaries also provide credit to customers. Consumers can hardly check out at a cash register without being asked if they would like to sign up for a credit card. By extending credit to customers, retailers from **Dick's Sporting Goods** to furniture retailer **Wayfair** give customers the chance to spend now and pay over a period of time with interest.

While providing credit to customers is often accompanied by special email offers and direct mail coupon codes, the corresponding interest rates are often high. Nevertheless, providing credit to customers can create brand loyalty and provide retailers with insight into consumer purchases.³

CAREERS IN MARKETING



Distribution Management

Distribution managers determine when, where, and how much of a product is distributed. Learn more about the job role and what it entails in this video.

[Click to view content \(https://openstax.org/books/principles-marketing/pages/17-1-the-use-and-value-of-marketing-channels\)](https://openstax.org/books/principles-marketing/pages/17-1-the-use-and-value-of-marketing-channels)

[Michigan State University provides insightful information \(https://openstax.org/r/distributionmanagerdirector\)](https://openstax.org/r/distributionmanagerdirector) on this career, including a sample job description, roles and responsibilities, salary, education, and training. When looking at your skill development and what you may need in order to obtain a job, check out ZipRecruiter's website. It indicates that while there are several skills needed in this job role, compliance and customer service are the most common. [Read more about the needed skills \(https://openstax.org/r/resumekeywordsandskills\)](https://openstax.org/r/resumekeywordsandskills) on the Zip Recruiter website.

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(n) _____ is a group of people, organizations, processes, and activities that work together to deliver products and services to the consumer.
 - a. wholesaler
 - b. manufacturer
 - c. intermediary
 - d. marketing channel
2. A(n) _____ is someone who acts as an extension of the manufacturer. While they never take possession of the product or service they represent, they earn a commission or collect a fee for facilitating the transaction between the customer and the manufacturer.
 - a. retailer
 - b. wholesaler
 - c. distributor
 - d. agent
3. Without intermediaries, the number of transactions between the total number of manufacturers and the total number of consumers would _____.
 - a. decrease
 - b. stay the same
 - c. increase
 - d. decrease temporarily
4. What do intermediaries do to add value in the marketing channel?
 - a. They perform important activities that manufacturers are not experts at performing.
 - b. They increase the price of products and services for customers.
 - c. They increase the amount of time it takes for products and services to reach consumers.
 - d. They make improvements to the product so that it functions better.
5. As intermediaries move products and services from manufacturers to consumers, what key services do

they offer?

- Pricing and promoting across geographical areas
- Surveying customers to ensure they are satisfied with their product or service experience
- Competing with one another to reduce prices for consumers
- Accumulating, bulk-breaking, adjusting for assortment discrepancies, and providing financing

17.2 Types of Marketing Channels

Learning Outcomes

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

- LO 1** Identify the types of marketing channels that exist for consumer products.
- LO 2** Describe the types of marketing channels that exist for business/industrial products.
- LO 3** Discuss vertical, horizontal, multichannel, and omnichannel marketing systems.

Types of Marketing Channels

When determining the most effective and efficient way to reach consumers with products, companies have two options. Companies can either sell and distribute their products directly to consumers, known as a **direct channel**, or they can partner with intermediaries who can assist with the distribution, known as an **indirect channel**.

Direct Channel: From Producer to Consumer

In some cases, manufacturers decide that a direct marketing channel makes sense. A **direct marketing channel** does not use intermediaries but rather involves the manufacturer distributing its market offering directly to consumers. When consumers purchase pizza from their locally owned and operated pizza shop, the distribution of that pizza passes from the restaurant directly to the consumer. There are no intermediaries between the pizza shop and the customer.

Indirect Channels: From Producer to Intermediary to Consumer

An indirect channel involves the utilization of one or more intermediaries to distribute a market offering to consumers. Continuing with our pizza shop example, if a local pizza shop offered pizza that was delicious enough to package, freeze, and sell through local grocery stores in the frozen food aisle, that pizza shop would be adding an indirect channel of distribution.

In some cases, manufacturers or producers sell to retailers without the use of wholesalers or distributors, called the **producer to retailer to consumer channel**. A local **Ace Hardware**, for example, sells fishing lures made by the local scout troop. The troop purchases the supplies necessary to make the lures then sells them to Ace Hardware, which sells them to customers.

With producer to wholesaler to retailer to consumer—a more complex marketing channel—multiple types of intermediaries are needed. **Procter & Gamble**, the maker of Crest, Gillette, and Pampers, relies on an intricate network of intermediaries composed of wholesalers and retailers that work interdependently to ensure the right mix and quantity of products reach consumers. Consider all the places a consumer can purchase Procter & Gamble products all over the world.

For some industries, the distribution network is complex, and agents represent the manufacturer in marketing channel negotiations. Health insurance agents, for example, represent major insurance carriers such as **Aetna** and **Blue Cross** by providing consumers with information about health plans in their state. In these situations, the agent does not take ownership of the product like other intermediaries but rather is paid a fee by the insurance carrier.

For companies with a diverse product category that spans the globe, indirect channels of distribution make

the most sense. Procter & Gamble sells hundreds of different products across many product categories worldwide. Indirect channels are necessary in such cases. [Figure 17.4](#) illustrates the difference between a direct and indirect channel of distribution for consumer products.

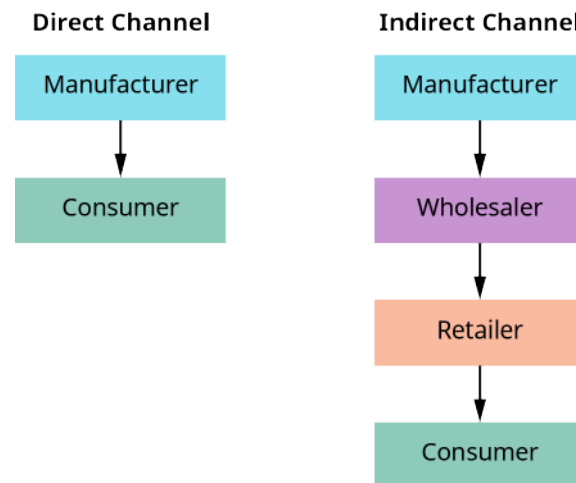


Figure 17.4 Channels of Distribution for Consumer Products (attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)

Marketing Channels for Business/Industrial Products

The **business-to-business (B2B)** market is comprised of companies who buy from and sell to other companies. In the B2B space, businesses are not distributing to final consumers but rather to other businesses. Companies in the B2B market buy, sell, and use materials, resources, and technology from one another to create products, where a business is the final consumer or destination.

Within this market, there are agents, brokers, distributors, and wholesalers who specialize in moving industrial products along the marketing channel to the final business consumer. [Figure 17.5](#) illustrates an example of a distribution channel for business products.

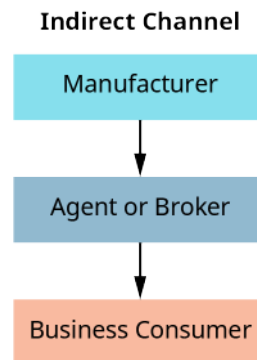


Figure 17.5 Channel of Distribution for Business (attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)

Direct Channel: From Producer to Business/Industrial User

Much like the **business-to-consumer (B2C)** space, when a company sells products or services directly to a final consumer or end user, the B2B marketing channel can be direct without the use of intermediaries. The direct channel is typically used when the nature of the product is complex, is expensive, or requires intensive resources to move the product from the manufacturer to the business customer. Airplane manufacturers like **Boeing** and **Airbus** produce and sell aircraft directly to airlines like **Delta Air Lines** and **American Airlines**, who then offer flights to consumers. Given the expense and complexity of distributing airplanes, the direct channel makes the most sense.

Indirect Channels: From Producer to Intermediaries to Business/Industrial User

Industries often rely on the expertise of intermediaries to reach business users with their products and services. The advantages of the indirect channel in the business-to-business (B2B) space are similar to those in the business-to-consumer (B2C) space. For some industries, intermediaries perform important functions along the business marketing channel that they themselves are not experts in. Let's explore the different indirect marketing channels.

With producer to industrial distributor to business/industrial user channels, car manufacturers like **Toyota** and **Honda** rely on tens of thousands of different parts, which are manufactured by parts producers. **Producers** are companies that supply the raw materials that manufacturers need to create consumer products. Parts producers such as the car seating and E-Systems engineering company **Lear** rely on distributors to move their products and technology to automobile manufacturers. Using a distributor allows Lear to focus on its center of excellence—researching, designing, and building innovative seating technology solutions for vehicles.

Agents in the B2B space represent companies who produce industrial products and services and serve as an intermediary between the producer and the business user. The value of the agent is similar in the B2B space as it is in the B2C space. Agents add value by addressing product- or service-related questions and concerns. They typically earn a commission or a fee off the sale of the industrial product.

For more complex industrial marketing channels with global business users, producers will work with agents who partner directly with distributors to move products. For example, the automobile industry relies on agents and distributors to reach business users. According to **Global Fleet**, the largest fleet vehicle management company in the world, of the 313 million vehicles driven in the United States and Canada, about 9 million are corporate cars.⁴ **Element Fleet Management**, based out of Toronto, Ontario, manages corporate vehicle fleets across the United States, Canada, and Mexico. Companies whose operations reach global markets typically rely on a much more complex channel that involves multiple layers of intermediaries to distribute products and services to business customers.

Other Marketing Systems

Manufacturers or producers along with their intermediary channel partners work in a system to move products and services to consumers. There are four major system types: a vertical marketing system, a horizontal marketing system, a multichannel marketing system, and an omnichannel marketing system. We'll explore each of these systems next.

Vertical Marketing System

A **vertical marketing system** (VMS) is a system in which companies in the marketing channel work together in a coordinated, collaborative, and customer-centric way. Unlike conventional systems, vertical marketing systems are less concerned with their profit margins and have a laser-like focus on working together to deliver value to consumers.

A VMS is unique in that all members of the marketing channel work as one unified group. Producers, wholesalers, and distributors share the common goal of creating and delivering value to consumers. In contrast, a conventional system is one in which each intermediary works as a distinct company, each trying to maximize profits at the expense of other channel members. VMS has grown in popularity over the conventional system because it results in fewer channel conflicts and increased customer value.

LINK TO LEARNING



Marketing Systems

To learn more about how marketing systems work, check out these videos:

- What Is a Channel System?
[Click to view content \(https://openstax.org/books/principles-marketing/pages/17-2-types-of-marketing-channels\)](https://openstax.org/books/principles-marketing/pages/17-2-types-of-marketing-channels)
- What Is a Vertical Marketing System?
[Click to view content \(https://openstax.org/books/principles-marketing/pages/17-2-types-of-marketing-channels\)](https://openstax.org/books/principles-marketing/pages/17-2-types-of-marketing-channels)

In [Figure 17.6](#), observe the structural differences between the conventional marketing system (part A) and the vertical marketing system (part B). In the conventional model, the manufacturer sells to wholesalers, who then sell to retailers, who then sell to consumers. In the vertical marketing system, channel members are working together as strategic partners to distribute products to consumers.

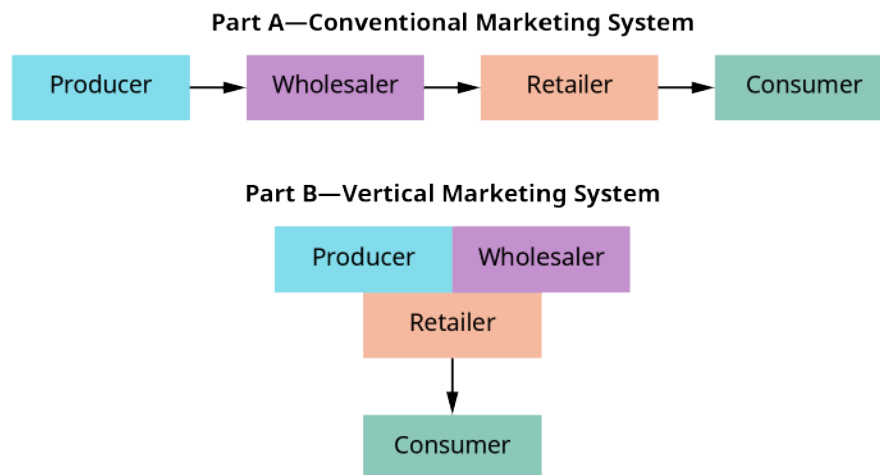


Figure 17.6 Structural Differences between Conventional and Vertical Marketing Systems (attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)

There are three types of vertical marketing systems: corporate, administered, and contractual (see [Figure 17.7](#)). In a **corporate VMS**, one member of the distribution channel owns the other members. For example, Walmart manufactures its own private label brand of beauty and health products under the name Equate. Walmart not only controls the manufacturing of products under the brand but also owns and operates the wholesaler that distributes Equate-branded products to Walmart stores all over the world. Walmart reduces risk by owning and thus controlling the various channel members in its VMS. The corporate VMS approach allows for a unified system of creating and delivering customer value.

In an **administered VMS**, there is no ownership of channel members. However, there is one member who is large and powerful enough to coordinate and manage the distribution activities of other channel members. For example, Procter & Gamble manufactures 65 brands in over 10 product categories. Given its size and power, it requires a high level of cooperation among wholesalers and retailers.

In a **contractual VMS**, there are independent companies that have joined together by contract for a mutually beneficial purpose. Each company operates independently of the others but integrates its activities to achieve its goals. An example of a contractual VMS is a franchise organization, such as **Chipotle** or **McDonald's**, in which the companies contract with a wholesaler to distribute products to the franchisees.

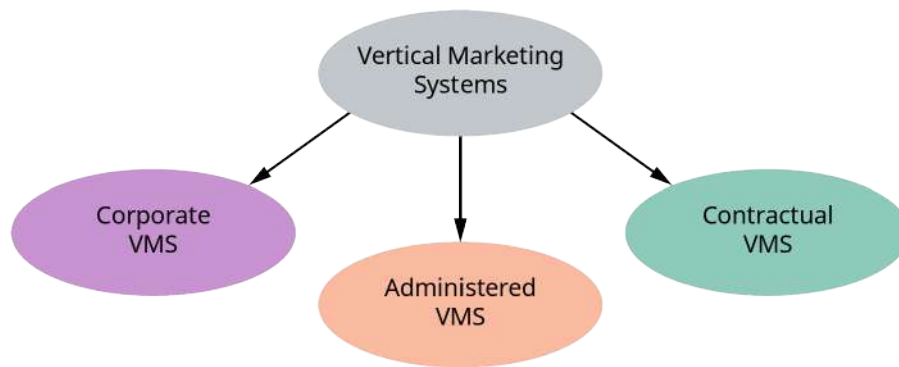


Figure 17.7 Types of Vertical Marketing Systems (attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)

Horizontal Marketing System

In a **horizontal marketing system**, unrelated companies partner to offer products and services in a shared space. For example, **J.Crew** and **New Balance** have partnered together for the last decade to sell a unique line of New Balance–branded sneakers that can only be found on J.Crew’s website. In a horizontal system, companies partner to leverage the value they create for customers in a collaborative way.

Multichannel Marketing System

A **multichannel distribution system** is where a single company sets up multiple distribution channels to reach customers. For example, **Nike** has brick-and-mortar stores across major cities. Customers can visit the store, try on shoes and apparel, and make a purchase. In addition to physical stores, Nike also distributes its shoes and apparel through its online store Nike.com, through e-tailers like Amazon.com, and through other brick-and-mortar stores like **Kohl’s** and **Foot Locker**.

Omnichannel Marketing System

An **omnichannel marketing system** is a multichannel approach whereby companies give consumers a variety of ways to purchase, receive, and return products. For example, in addition to purchasing products online and in-store, Dick’s Sporting Goods offers customers a variety of options for receiving a product. Consumers can buy online and pick up in-store. They can also buy online from one of the store’s kiosks and have it delivered to their home or some other location. Omnichannel marketing systems are designed to offer consumers a seamless buying experience, which further creates and delivers value.

LINK TO LEARNING



Omnichannel

To learn more about an omnichannel marketing system, check out these videos:

- Ted Talk: Omnichannel: Retail (R)evolution
[Click to view content \(https://openstax.org/books/principles-marketing/pages/17-2-types-of-marketing-channels\)](https://openstax.org/books/principles-marketing/pages/17-2-types-of-marketing-channels)
- Teredata: Omni-Channel Retailing
[Click to view content \(https://openstax.org/books/principles-marketing/pages/17-2-types-of-marketing-channels\)](https://openstax.org/books/principles-marketing/pages/17-2-types-of-marketing-channels)

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(n) _____ marketing channel does not use intermediaries but rather involves the manufacturer distributing its market offering directly to consumers.
 - a. indirect
 - b. direct
 - c. omnichannel
 - d. multichannel

2. A(n) _____ marketing channel partners with intermediaries including distributors, wholesalers, agents, or retailers to sell and distribute its products.
 - a. omnichannel
 - b. indirect
 - c. multichannel
 - d. vertical channel

3. In the B2B or industrial space, manufacturers or producers sell products and services aimed at reaching a(n) _____ end user.
 - a. consumer
 - b. agent
 - c. business
 - d. wholesaler

4. In a(n) _____, one member of the distribution channel owns the other members.
 - a. administered vertical marketing system
 - b. corporate vertical marketing system
 - c. horizontal marketing system
 - d. multichannel marketing system

5. What is the difference between multichannel and omnichannel marketing systems?
 - a. Multichannel marketing systems are designed primarily for online distribution.
 - b. Omnichannel marketing systems are designed primarily for in-store distribution.
 - c. Omnichannel marketing systems are more flexible and seamless in how consumers can buy and receive products and services.
 - d. Multichannel marketing systems are more flexible and seamless in how consumers can buy and receive products and services.

17.3 Factors Influencing Channel Choice

Learning Outcomes

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

- LO 1** Identify the factors that influence channel choice in distribution.
- LO 2** Describe the different types of target market coverage.
- LO 3** Discuss the buyer requirements influencing channel choice.
- LO 4** Explain the product-related factors influencing channel choice.
- LO 5** Describe the cost factors influencing channel choice.

Target Market Coverage

Target market coverage is defined as having the resources and capabilities to reach and serve consumers in a company's target market. Companies of all sizes must determine precisely how they will reach consumers with their products and services. Smaller companies tend to focus on smaller, more local markets, while larger

companies must meet the consumer demand of larger, even global markets. A company's decision about which channel is best for meeting the needs of consumers involves a number of considerations.

The first factor that plays an important role in channel choice is target market coverage. Companies must analyze the size of their target market and their budget and ensure they have the appropriate coverage. For example, a small local bakery may only target towns in its area; therefore, its target market coverage is rather small. **Kohlberg & Company**, the owner of the Sara Lee and Thomas' brands, on the other hand, reaches global consumers and therefore requires far greater market coverage.

Depending on the size of their target market and the products and services they sell, companies must decide between an intensive, selective, or exclusive distribution strategy.

Intensive Distribution

Intensive distribution is a strategy that entails distributing a company's market offering through all possible intermediaries. With an intensive distribution, a consumer is able to find a company's product virtually everywhere. Intensive distribution makes sense for products that compete in a competitive market where consumers can easily choose an alternative if a company's product isn't available.

Coca-Cola and **Kraft**, for example, use intensive distribution so that consumers around the world can access their products everywhere and anywhere they'd shop for food and beverages.

Selective Distribution

Selective distribution is a strategy that includes choosing more than one, but fewer than all possible intermediaries to distribute a company's market offering. Companies choose selective distribution when they don't need the expansive coverage that intensive distribution provides but still need to reach their target market at specific retail outlets. Large appliance companies such as **Whirlpool** and **General Electric** use selective distribution by making their products available through their dealer networks and at selective large retailers like **Lowe's** and **Home Depot**.

Exclusive Distribution

In direct contrast to an intensive distribution strategy, some companies intentionally use an exclusive distribution strategy. **Exclusive distribution** is a strategy that involves allowing a limited number of intermediaries to distribute a company's market offering. Luxury brand **Rolex**, for example, allows a limited number of retailers to sell its luxury watches. The exclusivity of these retailers reinforces Rolex's distinctive position of being a luxurious, hard-to-get brand.

Fulfillment of Buyer Requirements

In addition to determining target market coverage, companies must also consider a channel's ability to fulfill the requirements of buyers. Consumers have specific product and service expectations that must be fulfilled in order to satisfy their wants and needs. For example, when consumers purchase bottled water, they expect the bottle to be filled to the top, the cap to be sealed before opening, and the water to taste fresh and clean. With these buyer requirements in mind, companies who make bottled water must ensure that they work with channel members who are able to fulfill these buyer requirements because these requirements are critical to the perception of consumer value.

Information

Companies who recognize that buyers require information to make a decision between competing products may work with channel members who can provide these services. Consumers with limited knowledge of a product, for example, may be more likely to purchase that product after an in-store demonstration, for example. Grocery retailers like Whole Foods will often host in-store demonstrations of new food products for shoppers to sample (see [Figure 17.8](#)). Providing this service makes Whole Foods a desirable channel partner for start-up food brands looking to break into a highly competitive market. In another example, Ace Hardware

may be a perfect channel partner for a new brand of tools because of Ace Hardware's reputation for being "the helpful place." Working with a channel member who can provide the service of in-store demonstrations creates value for the consumer and thus is a factor in determining channel choice.



Figure 17.8 Whole Foods uses in-store demonstrations as a way to share product information with consumers. (credit: "Whole Foods Market Ann Arbor" by Andypiper/flickr, CC BY 2.0)

Convenience

In some cases, buyers demand convenience and will only purchase products and services that are in close proximity to where they live, work, or shop. Companies must consider whether their target customers value convenience. For example, buyers shopping for chewing gum likely value convenience much more than buyers shopping for skis. Companies whose buyers require convenience should choose retail outlets that are convenient and hassle-free.

Variety

Companies must also consider how their target market values variety. Imagine walking into a pet supply store and only seeing one type of pet food. Buyers generally have a desire to choose from a variety of competing products. **Petco** and **PetSmart** recognize that consumers appreciate variety in everything from pet food to pet supplies such as toys, leashes, and bedding. For companies who compete in a crowded market where buyers have many options, selecting outlets that offer a variety of similar and competing products makes the most sense.

Pre- or Post-Sale Service

Pre-sale service entails all the activities that help a buyer make a purchase decision, while **post-sale service** entails all the activities that help a buyer recognize the value of the product. A pre-sale service can be observed at a car dealership where shoppers are invited to test-drive a vehicle and apply for financing. Post-sale service in this same example would be the offering of vehicle services, such as free oil changes and tire rotations for the life of the vehicle.

For some companies, the service that's provided before and after the sale is critical to customer-perceived value. **Customer-perceived value** is the overall perception that a consumer has about a company, brand, or product and is measured by what the consumer is willing to pay in return for the features and benefits in the market offering. Companies that sell large appliances and furniture, for example, understand that consumers value haul-away services. For example, for an additional fee, Lowe's offers customers the option of having their old appliance hauled away and their new appliance installed. These complementary services are important because they add value to the customer's product experience (see [Figure 17.9](#)).



Figure 17.9 Lowe's appliance haul-away program provides a post-sales service as a value-add item to influence potential consumers. (credit: "Show-Me Green Tax" by Rachel Gleason/KOMU News/flickr, CC BY 2.0)

Product-Related Factors

In addition to target market coverage and requirements of the buyer, there are product-related factors that can influence channel decisions. Product-related factors include things like unit value, perishability, and the bulk and weight of a product. These factors can influence the distribution decisions that companies make (see [Figure 17.10](#)).

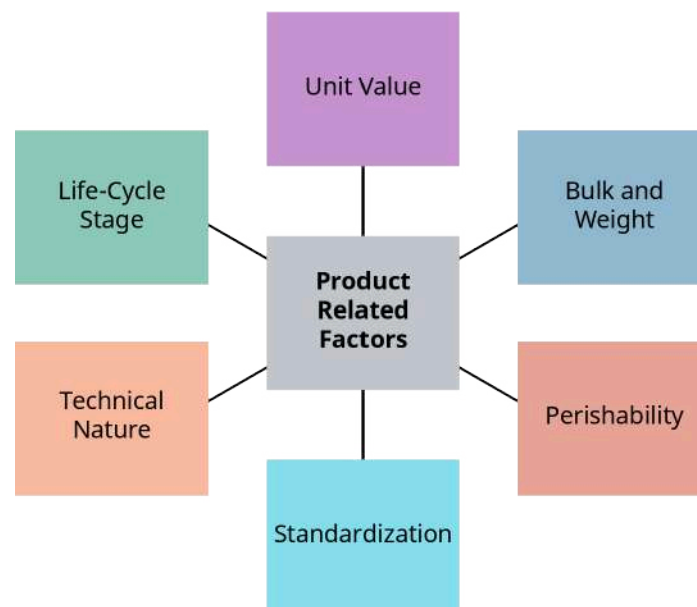


Figure 17.10 Product-Related Factors (attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)

Unit Value

A product's **unit value**, or the price that a company charges for one unit or item, can influence channel length decisions. **Channel length** relates to the number of intermediaries in the marketing channel. For example, products with high unit values, such as cars, boats, and airplanes, will have a much shorter distribution channel than nonperishable products, such as crackers, bandages, and tissues, which have a low unit value. Because of the complexities and costs of moving heavy or awkward products, companies seek a shorter distribution channel to mitigate these factors. There are companies that specialize in moving more expensive and complex products.

Perishability

Perishability relates to the likelihood that a product will spoil, decay, or expire if not used in a timely manner. A product's perishability also influences channel decisions. For example, orange-juice maker **Tropicana's** marketing channel looks much different than **Nabisco's** Ritz Crackers' channel. Because orange juice must be kept cold throughout the distribution process, Tropicana makes channel decisions that allow it to protect the integrity of the product throughout the distribution process. Working with channel partners who are experts at storing, handling, and moving perishable products is one of the most important factors for companies who manufacture perishable products.

Alongside unit value, perishability can also influence channel length. Companies marketing perishable goods such as milk, cheese, and meat products require a shorter distribution channel because these products have a limited shelf life.

Bulk and Weight

Much like a product's unit value, the bulk and weight of a product influence channel length. The **bulk and weight** of a product is the density and heaviness of one unit of product. Companies that sell larger and heavier items are more likely to use a direct or short distribution channel to avoid issues that arise when too many intermediaries handle a product. For example, because hot tubs or personal spas are bulky and heavy, they are more prone to product damage during distribution. Furthermore, there are typically fewer intermediaries between the manufacturer and the customer in order to mitigate the high costs associated with distributing hot tubs.⁵

Standardization

The standardization of a product also impacts channel decisions. Products that are **standardized** have no differences in how they are manufactured. Standardized products are uniform and consistent. Agricultural products, such as grain and corn, are standardized. Consumers are unable to tell the difference between these products because of their standardization. Standardized products have a longer channel length than customized products. Customized products are adapted depending on the customer's needs. They typically require a shorter distribution channel. Companies must consider the impact of standardization before making channel decisions.

Technical Nature of a Product

Products sold in the tech space are typically more complex and often require an onboarding process. For example, the customer-relationship management firm **Salesforce** offers companies a cloud-based application that allows it to manage millions of contacts or people as they move along the sales cycle from lead to prospect to customer. Products with a technical component often have a short channel length, meaning there is no intermediary between the company and the business consumer. They are distributed directly to business consumers (or B2B) because of the onboarding, implementation, training, support, and maintenance aspects of the product. Companies that use Salesforce have access to a customer relationship management expert who ensures that the program is being used and managed effectively in order for the customer to get the most out of the product.

Product Life-Cycle Stage

A product's life-cycle stage may also impact channel decisions. **Product life cycle** refers to the various stages that a product goes through from its introduction phase, to its growth and maturity phase, and in some cases to its decline phase. For example, during the introduction phase of a product's life cycle, where profits and consumer knowledge of a product are low, companies may make more conservative channel decisions. As the product enters the growth stage, companies may expand distribution to meet consumer demand. As the product enters the maturity stage and ultimately the decline state, a company must ensure that its distribution strategy aligns with its changing consumer demand.

Profitability

The profitability of a channel can also influence channel decisions. Profitability relates to the amount of money that stands to be gained after a company pays its expenses. A simple way to calculate profitability is to subtract these expenses from the revenue generated.

Companies must evaluate not just the revenue generated by working with channel partners but also the channel member's ability to operate profitably. Channels that are not able to manage distribution costs effectively are less attractive for companies seeking to earn a profit. Companies ultimately have an obligation to be profitable, and choosing channel partners that help them achieve their overarching goals is more desirable than those who cannot.

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 overarching factors can impact channel choice in the distribution of products and services?
 - a. Target market coverage, fulfillment of buyer requirements, and profitability
 - b. Intensive, selective, and exclusive distribution
 - c. The technical nature of the product and its fixed and variable costs
 - d. The profitability of the channel and its members' abilities to meet consumer needs
2. ABC Toys desires to distribute products across global markets. It is likely using what type of distribution strategy?
 - a. Exclusive
 - b. Selective
 - c. Unlimited
 - d. Intensive
3. Total Appliance offers buyers installation services for refrigerators, dishwashers, washers, and dryers for \$50. In addition, it also offers buyers a free annual tune-up of any major appliance purchased through its retail outlet. Which buyer requirement does Total Appliance fulfill?
 - a. Variety
 - b. Post-sale service
 - c. Pre-sale service
 - d. Convenience
4. MilkyIce markets ice cream products through grocery retailers in the United States. Which of the following product-related factors would have the biggest impact on MilkyIce's channel choice?
 - a. Standardization
 - b. Bulk and weight
 - c. Perishability
 - d. Unit value
5. Which overarching factor involves analyzing the revenues and costs associated with a channel?
 - a. Unit value
 - b. Fixed costs
 - c. Variable costs
 - d. Profitability

17.4 Managing the Distribution Channel

Learning Outcomes

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

- LO 1** Describe how channel members are selected.
- LO 2** Explain how channel members are managed and motivated.
- LO 3** Discuss how channel conflict is handled.
- LO 4** Summarize the metrics used for channel member evaluation.

Selecting Channel Members

After a manufacturer has evaluated its distribution channel options, it now needs to select the right channel members and manage and motivate them to operate effectively and efficiently. In addition, the manufacturer must also address any conflicts that may arise in the marketing channel. A **channel member**, also known as an intermediary, is a company that works in a network with other companies to help move products from manufacturers to final consumers. Channel members perform a variety of important tasks that collectively create value for the consumer.

The channel members that a company selects depends entirely on the company's evaluation of the channel member alternatives. Manufacturers should examine each channel member's years in business and experience carrying product lines. They should also evaluate each member's reputation and its profitability. **PetVivo**, maker of biomedical devices for pets, selected **Vetcove** to distribute a device for pets with osteoporosis. Because PetVivo needed to reach veterinary hospitals and clinics across all 50 states, Vetcove was the right choice because of its experience serving over 13,000 veterinary hospitals and clinics. Its expertise and reputation were attractive characteristics for PetVivo.⁶

Managing and Motivating Channel Members

After channel members have been selected, manufacturers must continuously manage and motivate members to work together to achieve their collective goals. It's similar to a partnership or relationship where companies depend on one another to marshal the product along the marketing channel.

The qualities of an effective channel relationship include collaboration, transparency, and cohesion. When members work together toward a common goal of delivering value to the consumer, the channel is more effective. Companies like **L'Oréal** and Procter & Gamble must work harmoniously to build mutually beneficial relationships with their distribution network because it's critical to meeting the needs of their consumers. Failure to do so could be detrimental to channel members if customer value declines because of conflict.

In addition to managing relationships, manufacturers must also find ways to reinforce channel member performance. Manufacturers can provide incentives, such as bonuses and other types of rewards, when channel members meet the manufacturer's goals. In addition to incentives, manufacturers can also listen to and support channel members by providing them with helpful sales materials, product samples, and the right messaging.

Evaluating Channel Members

Manufacturers must systematically evaluate channel member performance to ensure that each member is meeting standards. Failure to evaluate performance can lead to inefficiencies in the channel and a decline in customer-perceived value.

Handling Channel Conflict

Sometimes channel members experience conflict during the distribution process. **Channel conflict** is when companies in the distribution channel have disagreements due to a competitive versus collaborative mindset. For example, a channel member may cause conflict because its focus isn't on creating value but on driving

down costs at the expense of the customer. This could create conflict in the channel if channel partners and ultimately consumers are impacted by an excessive profit orientation.

Vertical Conflict

A **vertical conflict** is a conflict that exists between different levels of a vertical channel. When the goals of manufacturers, wholesalers, and retailers aren't aligned in the marketing channel, the customer will ultimately suffer, either by paying more for a product or experiencing a product shortage.

Disintermediation is the process of removing an intermediary from a marketing channel. It occurs when manufacturers have discovered an opportunity to sell directly to end users or final consumers. It can also occur if a manufacturer pivots from its traditional distribution strategy to something completely different. In a classic example, the birth of **Apple** iTunes essentially put traditional outlets for purchasing music out of business. In another example, traditional movie theaters are experiencing disintermediation as streaming services like Netflix and HBOMax are releasing new films that 10 years ago would have been released only in theaters.

Horizontal Conflict

A **horizontal conflict** is when there is disagreement among firms at the same level in the marketing channel. For example, **Holiday Inn** has a variety of locations in New York City. If one Holiday Inn drives its prices down to outcompete its partners, that could cause conflict among the other Holiday Inn locations that perceive it as stealing customers through pricing tactics.

The Use of Metrics in Evaluating Channel Members

In order to evaluate channel performance, companies use key metrics including inventory turnover rate, order accuracy rate, time to ship, total units in storage, and percentage of on-time shipments. By monitoring these metrics, companies can assess their performance and make adjustments as needed. [Figure 17.11](#) presents key metrics used in evaluating channel member performance. Let's look at each of these more closely.

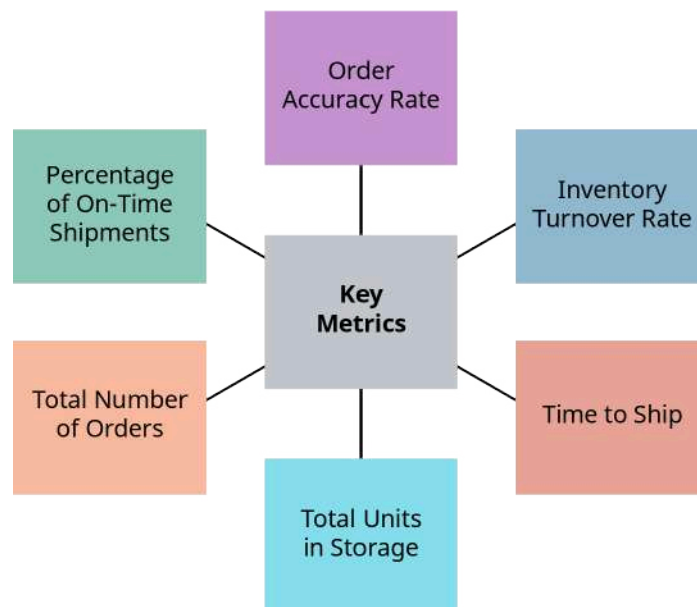


Figure 17.11 Performance Metrics (attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)

Inventory turnover rate is a metric that measures how quickly inventory is turned over or sold. **Trader Joe's** faced a dilemma with the COVID-19 pandemic as consumers stocked up on nonperishable goods like pasta and rice. As consumer demand increased, Trader Joe's supply warehouses were virtually empty as they waited for new inventory to come in. When metrics fall outside what a company considers normal or acceptable, it can then make adjustments, such as introduce new products to fill demand as in the case of Trader Joe's.⁷

Order accuracy rate is an important ecommerce metric. It measures the percentage of orders that are processed, fulfilled, and shipped to consumers without any errors. If you've purchased a pair of sneakers and the wrong size arrives at your home, this constitutes order inaccuracy. These errors can be costly to companies, who then need to process, fulfill, and send another order.

Time to ship, also known as order cycle time, is the length of time from when a customer places an order to when it reaches them. Amazon has redefined consumer expectations related to shipping. With high expectations that purchased items will arrive quickly, online shoppers say that delivery time influences their purchase decision. The time-to-ship metric is a useful tool to measure how quickly a manufacturer can get its products through channel members to consumers.

Total units in storage is a metric used to evaluate warehouse efficiency. This is a real-time metric that changes as items are sold and leave the warehouse and new inventory moves in. This metric also provides insight into warehousing and inventory costs as well as the number of SKUs, or stock-keeping units, a warehouse is managing at any given time. SKUs are unique numbers assigned to every single product in a warehouse.

The **total number of orders** is an important metric. The total number of orders is the sum of all orders that a company received in a given time period. It provides insight into consumer demand and helps manufacturers to plan accordingly. For seasonal products like winter coats and pumpkin-flavored cookies, the total number of orders may fluctuate throughout the year. Evaluating the total number of orders over time helps manufacturers watch for fluctuations and plan accordingly.

Percentage of on-time shipments is a metric used to evaluate how well a channel member meets its promise of delivering goods on time. This metric is especially important to industries that market perishable goods like meat and dairy. Imagine if the Greek yogurt manufacturer **Chobani** (see [Figure 17.12](#)) worked with an intermediary that only met its delivery date 50 percent of the time. This would directly impact the shelf life of the product at the retail level and cost everyone in the channel money.



Figure 17.12 Percentage of on-time shipments is an inventory turnover metric used by companies like Chobani to evaluate a distribution channel's effectiveness at meeting product need. (credit: "Blood Orange Yogurt" by tbiley/flickr, CC BY 2.0)

Alongside time to ship, measuring average delivery days looks at the average number of days it takes shipping carriers to deliver purchased goods to consumers. This is important to consumers who value the timely delivery of products purchased online. Manufacturers may choose to work with a company like Amazon because of its core competency of fulfilling and delivering products to consumers relatively quickly.

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. XYZ Appliance is evaluating wholesalers to determine which one would be the right match for its distribution strategy. Which of the following wholesalers would be the best match for XYZ Appliance?
 - a. Wholesaler A is brand new to the large appliance market.
 - b. Wholesaler B has 20 years of experience in wholesaling food products and is the most expensive.
 - c. Wholesaler C has five years of experience in the large appliance market, has a solid reputation, and is profitable.
 - d. Wholesaler D has two years of experience in the small appliance market and is the cheapest.

2. DirectDocumentaries is a streaming service that provides subscribers with access to documentaries. It currently works with three production companies that it continuously manages to ensure timely production and delivery of new documentaries. Which of the following scenarios is an example of good channel management?
 - a. Production Company A distributes its documentaries through DirectDocumentaries but has also set up an additional domain on the web to distribute directly to viewers. DirectDocumentaries does not know about this additional streaming outlet.
 - b. Production Company B has only been operating for one year. DirectDocumentaries is skeptical about Production Company B's capabilities so shares limited information with it. DirectDocumentaries offers little to no support in Production Company B's development.
 - c. Production Company C is a powerhouse, producing 30 to 40 documentaries a year. DirectDocumentaries and Production Company C work closely together to ensure that documentary releases occur at strategic times. They also openly share information about what's working and what's not. They have a common goal in reaching customers with innovative ideas.
 - d. Production Company D is rarely happy. It feels that DirectDocumentaries favors other producers and rarely features its productions on a subscriber's homepage. Production Company D has complained several times.

3. _____ occurs when manufacturers cut out intermediaries and sell directly to end users or final buyers. It can also occur if a manufacturer pivots from its traditional distribution strategy to something completely different.
 - a. Horizontal conflict
 - b. Vertical conflict
 - c. Intermediary conflict
 - d. Disintermediation

4. Which of the following is a key metric that assesses the percentage of orders that are processed, fulfilled, and shipped to consumers without any errors?
 - a. Order accuracy rate
 - b. Inventory turnover rate
 - c. Total number of orders
 - d. Average delivery days

5. _____ measures the length of time from when a customer places an order to when it reaches them.
 - a. Average delivery days
 - b. Time to ship
 - c. Inventory turnover rate
 - d. Total number of orders

17.5 The Supply Chain and Its Functions

Learning Outcomes

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

- LO 1** Define supply chain management (SCM).
- LO 2** Explain the role of marketing in supply chain management.
- LO 3** Describe the various functions of supply chain management.

Supply Chain Management (SCM) Defined

A **supply chain** is the entire process of distribution from acquiring the raw materials needed to make products to delivering final goods to consumers. Companies with high-performing supply chains recognize that it starts with a customer-centered mindset. All activities must be managed with the end goal of creating and delivering value to the target consumer.

Supply chain management (SCM) is the process of managing all the members and activities from the procurement and transformation of raw materials into finished goods through their distribution to targeted consumers.

The Role of Marketing in Supply Chain Management

Marketing plays an integral role in the management of the supply chain. Marketing entails creating and delivering products that meet the needs of customers all while building relationships through customer engagement. Companies ensure that they deliver on their value proposition to consumers through the features and benefits of the product itself. Ensuring fulfillment of a company's value proposition starts with working with the right suppliers who provide the materials and ingredients to help companies fulfill their promise.

For example, **Dave's Killer Bread (DKB)** has positioned itself as the maker of "the best bread you've ever tasted, power-packed with organic whole grain nutrition." The promise to consumers starts with selecting suppliers who are certified organic and who can consistently deliver high-quality ingredients. DKB's promise to consumers starts as far back as the grains selected by DKB's suppliers.

Functions of Supply Chain Management

Supply chain management has five major functions. These include purchasing, operations, logistics, resource management, and information workflow (see [Figure 17.13](#)). Good supply chains perform these functions in a way that meets the wants and needs of final consumers efficiently.

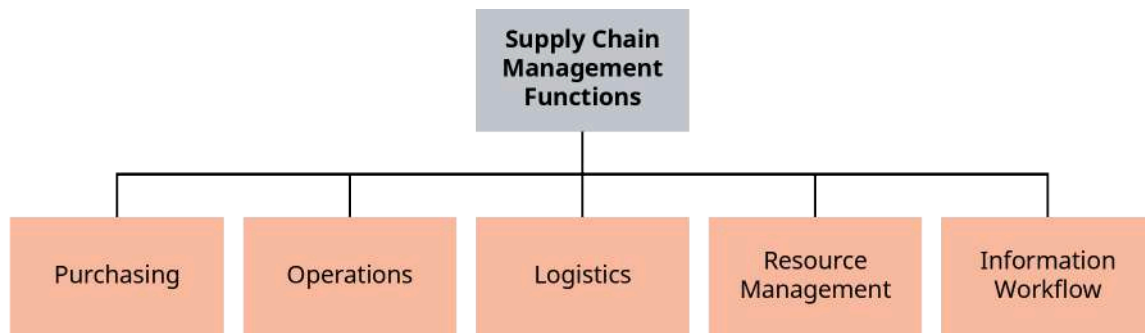


Figure 17.13 The Five Major Functions of Supply Chain Management (attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)

Purchasing

Purchasing is the process of buying materials needed to manufacture products. These materials are purchased from suppliers, who must be able to deliver them in accordance with the manufacturer's timeline.

Therefore, the manufacturer's companies and suppliers must communicate and coordinate to ensure timely delivery of materials.

For example, **Ben & Jerry's** ice cream flavor Mint Chocolate Chance has cream, skim milk, sugar, egg yolks, white flour, cocoa powder, soybean oil, and vanilla extract, among other ingredients. Ben and Jerry's must forecast the number of ingredients it needs to purchase so that these amounts match the demand for this particular flavor. The company, in turn, assesses things like total number of orders and inventory turnover for its Mint Chocolate Chance product to help forecast the quantity of ingredients it will need from suppliers.

Operations

Operations is everything a company does on a day-to-day basis to run a company. Before a company purchases the needed materials and begins production, it must forecast demand for its products. Forecasting involves anticipating or projecting how many units of a product will be sold during a given period. Accurate forecasting must align with inventory management and production schedules to ensure that the company is operationally positioned to manufacture the right amount of product to meet the needs of consumers.

Logistics

Logistics is a function that involves the coordination of all supply chain activities, such as warehousing, inventory management, and transportation. Companies along the supply chain must communicate effectively to ensure that products reach consumers in a timely and efficient way in the precise form that the consumer expects. For example, when consumers eat McDonald's French fries, they expect the fries to taste a certain way. Suppliers and intermediaries along the channel work together to ensure that those expectations are met. Good logistical management helps ensure this.

Resource Management

Resource management is the planning, organizing, and controlling of resources. Resources include the labor, the raw materials, and the technology that are required to move products from their raw material phase to finished goods available for consumption. Effective supply chain management requires the right allocation of these resources to the right supply chain activities to optimize the entire system.

Information Workflow

Information workflow is a supply chain management function that relates to what and how information moves between members of the supply chain. If information doesn't flow effectively or communication is poor, the entire process can suffer as a result of disruptions, delays, and mistakes. Employing a systematic approach to sharing information across the supply chain ensures that the right companies have the right data to make the right decisions at the right time.

LINK TO LEARNING



Supply Chain Management

To learn more about how supply chain management works, review the following article and video: [IBM and Supply Chain Management \(https://openstax.org/r/supplychainmanagement\)](https://openstax.org/r/supplychainmanagement).

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. _____ entails managing all the members and activities from the procurement and transformation of raw

materials into finished goods through their distribution to targeted consumers.

- a. Logistics
 - b. Integrated logistics management
 - c. Supply chain management
 - d. Warehousing
2. Which of the following best demonstrates the role that marketing plays in supply chain management?
 - a. In order for companies to deliver on their value proposition to consumers, they must ensure that the activities and members in the supply chain share the common goal of delivering value to consumers.
 - b. Companies need to raise the price of their products with the supply chain in mind so that they earn a profit.
 - c. Companies must market their products to supply chain members in order to win partnership with them.
 - d. Companies should only work with supply chain members who can save time and money in the distribution of products. Savings are most important to customers.
 3. Companies that manufacture goods rely on raw materials to produce the products they sell. This describes the function of _____.
 - a. inventory management
 - b. supply chain management
 - c. transportation
 - d. purchasing
 4. _____ include(s) the labor, the raw materials, and the technology that are required to move products from their raw material phase to finished goods available for consumption.
 - a. Purchasing
 - b. Logistics
 - c. Forecasting
 - d. Resources
 5. _____ is a supply chain management function that relates to what and how information moves between members of the supply chain.
 - a. Information workflow
 - b. Forecasting
 - c. Logistics
 - d. Resource management

17.6 Logistics and Its Functions

Learning Outcomes

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

- LO 1** Define and describe logistics.
- LO 2** Explain the functions of logistics.
- LO 3** Describe logistics information management.
- LO 4** Describe integrated logistics management.
- LO 5** Characterize third-party logistics (3PL) providers.

Logistics Defined

An important function of the supply is logistics, which includes all the activities involved in the flow of products

from manufacturers to consumers. Logistics is the planning, organizing, and controlling of the movement of raw materials and ultimately finished goods from manufacturers to final consumers.

For example, the logistics involved in getting orange juice to consumers includes a variety of activities, such as packing and transporting. It is critical that there is a coordinated effort between all channel members involved in that process. The functions or purpose of logistics is explored next.

Functions of Logistics

Getting products from manufacturers to final consumers requires the coordinated efforts of all channel members. These efforts require an understanding of key activities that need to occur as products flow through the marketing channel. The major functions of logistics explored next include warehousing, inventory management, and transportation.

Warehousing is the stocking, maintaining, and controlling of products while they await the next step in their journey to the final consumer. Warehousing requires receiving and storing new stock, picking and packing ordered items, and shipping products off to their next destination. Depending on the product, warehousing may also involve maintaining control of the warehouse's temperature to ensure that perishable goods or food that needs to be held at a certain temperature don't spoil.

Inventory management is a function that involves identifying the type of inventory and how much a company has on hand at any given time. Managing inventory is a critical logistics function because it ensures that there isn't too much or too little on hand.

Transportation is the physical movement of products by either road, water, or air (see [Figure 17.14](#)). Companies must determine which method or methods of transportation make the most sense given the nature of the product, the location of the target market, and costs associated with each method. Transportation also involves all the activities such as the generation of shipping documents, the calculation of delivery time, and the need for additional resources like technology or special equipment. For example, an ice cream manufacturer would need to ensure that the transportation methods it selects to distribute its products are temperature controlled to maintain the integrity and safety of the products.



Figure 17.14 Shipping containers are used by transportation companies in the distribution channel to move products by ship. (credit: "LARS MAERSK" by Bernard Spragg.NZ/flickr, Public Domain)

There are three factors that companies must consider in selecting a mode of transportation. First is the product itself. Products that are hazardous, perishable, or problematic to handle may impact transportation methods. Location is a second factor that can impact the mode of transportation. Companies must consider shipping origin, which is the location where the product is shipping from. They must also consider the shipping destination, or the location where the product must land. A company transporting products from China to the United States, for example, needs to select transportation methods that allow it to move products

over large bodies of water. The third factor impacting transportation methods is any special considerations related to time or urgency. Companies need to consider how quickly they need products moved from origin to destination. There are a variety of transportation methods available, including trucking, rail, water carriers, air carriers, or some combination of these.

In [Table 17.2](#) different modes of transportation are presented along with their relative speed of delivery, cost, and accessibility. Accessibility means how readily available or convenient the mode of transportation is. For example, trucking is an accessible mode of transportation because of the strong road infrastructure in the United States. Let's compare the different modes of transportation based on these characteristics.

Trucking or road transportation makes the most sense for companies that are transporting between destinations that are connected by land. It is highly accessible, meaning that trucking is readily available to companies looking for a low-cost mode of transportation.

Rail is a second mode of transportation that is best suited for moving goods in cases where speed of delivery is not urgent and low transportation costs are important. Similar to rail, water carriers offer an even slower mode of transportation at an even lower cost than rail, making it a popular mode for moving consumer goods from China to the United States.

For some companies, more than one mode of transportation is needed. Multimodal transportation involves companies using two or more types of transportation to move goods from origin to destination. For example, Apple may use air to ship iPhones to European airports but then trucks to continue the journey in getting iPhones to warehouses or distribution centers and retailers.

Mode	Speed	Cost	Accessibility
Trucking	Moderate	Low	High
Railroads	Slow	Low	Moderate
Water Carriers	Very slow	Very low	Moderate
Air Carriers	Fast	Very high	Low
Digital	Very fast	Very low	Very High

Table 17.2 Modes of Transportation and Relative Factors

Logistics Information Management

For a supply chain to be effective, manufacturers, suppliers, channel members, and customers need useful logistical information that can help them make informed decisions. Logistics information management is the recording and reporting of useful information that channel members can analyze and validate during the process of moving products.

Channel members use a system to access and manage logistics information in real time. This information allows members to develop demand forecasts, where they predict what and how much consumers will demand in the future, which in turn helps them to make decisions about how much raw materials and other supplies they need to meet consumer demand.

Integrated Logistics Management

Integrated logistics management means that every element of logistics works cohesively to ensure that products flow from manufacturer to final consumer in an efficient and effective way. Companies must first

begin by defining the objectives of logistics management. For example, in the procurement and distribution of agricultural products, the supply chain might collectively set objectives that everyone along the chain commits to. They may, for example, set objectives to minimize costs, meet delivery times 95 percent of the time, and communicate openly and honestly about product availability and product flow in a consistent and systematic way. Or they may strive cohesively to manage inventory more effectively to reduce the possibility of shortage or surplus.

Whatever objectives they set for the supply chain, each member strives to integrate its activities and information with the activities and information of other members to ensure cohesive and synergistic handling of products for the ultimate purpose of meeting the wants and needs of the consumer.

Third-Party Logistics (3PL) Providers

A **third-party logistics provider** is a company that is contracted by a channel member to handle one or more of the functional areas of logistics. 3PL providers can be warehouses, distribution centers, or fulfillment centers that have expertise in managing certain logistical activities.

The advantages of working with 3PL providers is that logistics is their core competency, it is less expensive to outsource, and they offer flexibility. Owning warehouses and trucking systems requires a great deal of capital. Companies would much rather work with a 3PL provider than assume the financial risk of owning and operating their own transportation and warehousing systems.

Imagine if pet food maker **Purina** had to purchase its own warehousing and trucking business to store and move its goods all over the United States. It would be very costly and require a large capital commitment. In addition, 3PL providers offer the advantage of strategic location. They often market themselves as being located in the precisely right zones that a supply chain needs to reach targeted consumers.

The downside of using 3PL providers is the loss of control. Manufacturers are essentially turning over logistics responsibilities to other companies, who assume control of communication and interaction with suppliers. To combat this, manufacturers should continuously analyze performance metrics and communicate with 3PL providers.

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. _____ makes the most sense for companies who need to transport products quickly.
 - a. Trucking
 - b. Air transportation
 - c. Rail transportation
 - d. Water transportation
2. _____ is the planning, organizing, and controlling of the movement of raw materials and ultimately finished goods to end consumers.
 - a. Supply chain management
 - b. Logistics
 - c. A marketing channel
 - d. Transportation
3. Which of the following best explains the importance and use of logistics information?
 - a. Companies use logistics information to sell to other companies that target similar consumers.
 - b. Companies use logistics information to market additional products to consumers.
 - c. Companies use logistics information to develop demand forecasts, conduct supply planning, and

- optimize supply chain effectiveness.
- d. Companies rarely use logistics information to guide decision-making.
4. _____ ensures that every element of logistics as part of the entire supply chain is part of a system that works cohesively to ensure that the wants and needs of final customers are met.
 - a. A marketing channel
 - b. Information management
 - c. Integrated marketing communication
 - d. Integrated logistics management
 5. Which of the following explains why companies would use a third-party logistics (3PL) provider to distribute products?
 - a. 3PL providers have the expertise, flexibility, and cost efficiencies that manufacturers do not possess in logistics.
 - b. 3PL providers understand how to promote a product more effectively than a company does.
 - c. 3PL providers own warehouses to help store and manage inventory.
 - d. 3 PL providers own and operate their own transportation system.

17.7 Ethical Issues in Supply Chain Management

Learning Outcomes

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

- LO 1** Discuss the issue of the carbon footprint versus the speed of shipping.
- LO 2** Discuss the issue of sourcing sustainably.

Carbon Footprint versus the Speed of Shipping

As companies strive to deliver the right products to the right customers at the right time, they are faced with the competing interest of protecting the environment in which they operate.

LINK TO LEARNING



Environmental Responsibility in the Supply Chain

To learn more about environmental responsibility in the supply chain, watch the following video: Value, Speed, Environmental and Societal Impact – HP's Supply Chain.

[Click to view content \(https://openstax.org/books/principles-marketing/pages/17-7-ethical-issues-in-supply-chain-management\)](https://openstax.org/books/principles-marketing/pages/17-7-ethical-issues-in-supply-chain-management)

Sustainability is a company's effort to reduce its impact on the environment as products move from source procurement through production through distribution to final consumers. Companies that practice sustainability balance their goal of speedy delivery with a commitment to reducing their carbon footprint. While traditional marketing channels focus on speed and cost, a sustainable channel also factors in goals aimed at mitigating the harm the supply chain causes to both humans and the environment.

Sourcing Sustainably

Sustainable sourcing is the process of considering suppliers' social, ethical, and environmental performance. The benefits of sourcing sustainably are improved reputation, brand protection, and an opportunity to attract new consumers and reach new markets. When a company claims it sources sustainably, it means that it is both

transparent and ethical regarding the raw materials it uses in its products. It is not only transparent and ethical in its sourcing of materials but also environmentally conscious about its manufacturing process.

The shoe company **Allbirds** has sought to use natural instead of petroleum-based synthetic materials, which is what a majority of footwear is made from. By 2025, it aims for 75 percent of its shoes to be sustainably sourced using both natural and recycled raw materials.⁸

COMPANIES WITH A CONSCIENCE



Allbirds



Figure 17.15 Sustainability is a core part of the Allbirds mission and marketing message. (credit: “Allbirds Shoes” by Guillermo Fernandes/flickr, Public Domain)

For decades, the footwear industry has missed the opportunity to look to Mother Nature for more sustainable footwear materials. Tim Brown, the founder of Allbirds, believed it was time to think differently (see [Figure 17.15](#)). With most shoe companies using petroleum-based raw materials, Brown sought to think more sustainably about offering a shoe that was both comfortable and environmentally friendly. Along with Joey Zwillinger, a product engineer and renewables guru, Brown developed a revolutionary wool fabric designed for footwear. Allbirds uses SweetFoam, a shoe sole material made from plant-based leather. To increase the durability of the shoe, it also uses recycled synthetics where needed, which helps extend the life of the product. It is continuously researching and developing ways to innovate around the sustainable sourcing of shoe materials with the goals of not only doubling the lifetime of its products but also reducing its carbon footprint related to raw materials by 25 percent in 2025.⁹

Sustainability is at the core of everything Allbirds does. While it is certainly interested in offering consumers a comfortable shoe, it also cares deeply about the process and materials involved in making that shoe comfortable.¹⁰



Chapter Summary

In this chapter, the functions and benefits of marketing channels are explored. Marketing channels play an important role in moving products from manufacturers to final consumers. Channel members, also known as intermediaries, specialize in specific activities that help the flow of products. They play a transactional role by bringing manufacturers and consumers together. They also help with the logistical distribution of products by sorting, storing, and bulk-breaking so consumers can purchase what they want in the desired quantity. Finally, they facilitate the flow of goods by doing things like offering consumers credit to make purchases. Channel members can include manufacturers, wholesalers, distributors, retailers, agents, brokers, and ultimately final consumers.

In addition, the types of marketing systems are also explored. Vertical marketing systems can include corporate, administered, and contractual. In addition, some companies use a horizontal, multichannel, or omnichannel marketing system. Factors that dictate the type of channel a company chooses include target market coverage and the selection of an intensive, selective, or exclusive distribution channel.

Fulfillment of buyer requirements such as information, convenience, variety, and service pre- and post-purchase are also important determining factors. In addition, product-related factors such as perishability, product life-cycle stage, value, and the technical nature of a product are also to be considered when choosing a marketing channel. Lastly, the profitability of the channel is a huge consideration given that companies aim to operate efficiently while delivering value to consumers.

Selecting, managing, and motivating channel members require a strategy to handle channel conflict. Evaluating channel members requires the use of metrics and includes inventory turnover rate, accuracy rate, the time it takes to ship, units that have to be stored, number of orders processed in a given period of time, the percentage of on-time shipments, and the average number of delivery days.

The functions of supply chain management include purchasing, operations, logistics, resource management, and information workflow. Any or all of these functions can be outsourced. The decision requires careful consideration and evaluation of the cost/benefit ratio. The functions of logistics, such as warehousing, inventory management, and transportation, can also be outsourced.

Finally, the ethical issues in supply chain management were discussed. They include carbon footprint vs. the speed of shipping and sourcing sustainably.



Key Terms

accumulating relates to intermediaries buying in bulk from different manufacturers

adjusting for discrepancy of assortment occurs when an intermediary buys from manufacturers, then regroups products into different assortments based on what consumers are demanding from retailers

administered VMS one type of vertical marketing system where there is no ownership of channel members but instead one member who is large enough to coordinate and manage the distribution activities of other channels members

agent a type of intermediary who acts as an extension to the manufacturer

bulk and weight the density and heaviness of one unit of product

bulk-breaking occurs when an intermediary takes a large bundling of a manufacturer's product and breaks it down into single units to be distributed to retailers based on the retailer's order

business-to-business (B2B) a market comprised of companies who buy from and/or sell to other companies

business-to-consumer (B2C) a market comprised of companies that manufacture and sell products or services directly to a final consumer or end user

channel conflict disagreements between companies in the marketing channel due to a competitive versus a collaborative mindset

channel length relates to the number of intermediaries in the marketing channel

channel member (intermediary) a company that works in a network with other companies to help gets products from manufacturers to final consumers

contractual VMS independent companies that have joined together by contract for a mutually beneficial purpose

corporate VMS when one member of the distribution channel owns the other members

customer-perceived value the overall perception that a consumer has about a company, brand, or product and is measured by what the consumer is willing to pay in return for the features and benefits in the market offering

direct channel when companies sell and distribute their products directly to consumers

direct marketing channel when a manufacturer does not use intermediaries but rather involves the manufacturer distributing its market offering directly to consumers

disintermediation the process of removing an intermediary from a marketing channel

distribution the process of making products and services available and accessible to consumers to purchase

distributor a type of intermediary that takes ownership of the product and tends to align itself closely with a manufacturer

exclusive distribution a strategy that involves allowing a limited number of intermediaries to distribute a company's market offering

facilitating functions activities such as financing and information sharing in the marketing channel

final consumer the end user of a good or service

horizontal conflict when there is disagreement among firms at the same level in the marketing channel

horizontal marketing system a group of unrelated companies that offer products and services in a shared space

indirect channel involves the utilization of one or more intermediaries to distribute a market offering to consumers

intensive distribution a distribution strategy that entails distributing a company's market offering through all possible intermediaries

inventory management a function that involves identifying the type of inventory and how much a company has on hand at any given time

inventory turnover rate a metric that measures how quickly inventory is turned over, or sold

logistical functions the handling, packing, inventorying, transporting, warehousing, and ensuring the security of products as they make their way to the customer

logistics the coordination of all supply chain activities, such as warehousing, inventory management, and transportation

marketing channel system of people, organizations, and activities that work together to make goods and services available to consumers for use

multichannel distribution system where a single company sets up multiple distribution channels to reach customers

omnichannel marketing system multichannel approach whereby companies give consumers a variety of ways to purchase, receive, and return products

order accuracy rate a metric that measures the percentage of orders that are processed, fulfilled, and shipped to consumers without any errors

percentage of on-time shipments a metric used to evaluate how well a channel member meets its promise of delivering goods on time

perishability relates to the likelihood that a product will spoil, decay, or expire if not used in a timely manner

post-sale service all activities provided by a company that reinforce the value of the product or service for the buyer

pre-sale service all activities provided by a company that help a buyer make a purchase decision

producer a company that supplies the raw materials that manufacturers need to create consumer products

producer to retailer to consumer channel when manufacturers or producers sell to retailers without the use of wholesalers or distributors

product life cycle the various stages that a product goes through from its introduction phase, to its growth and maturity phase, and in some cases to its decline phase

purchasing the process of buying materials needed to manufacture products

retailer a type of intermediary where retailers take ownership of the product and their sole focus is on reaching the end user or customer directly

selective distribution a strategy that includes choosing more than one, but fewer than all possible intermediaries to distribute a company's market offering

standardized products that have no difference in how they are manufactured

supply chain a network between a company and its suppliers to produce and distribute a specific product to the final buyer

supply chain management all members and activities from the procurement and transformation of raw materials into finished goods through their distribution to targeted consumers

sustainability a company's effort to reduce its impact on the environment as products move from source procurement through production through distribution to final consumers

sustainable sourcing the process of considering suppliers' social, ethical, and environmental performance

target market coverage resources and capabilities needed to reach consumers in a company's target market

third-party logistics (3PL) provider a company that is contracted by a channel member to handle one or more of the functional areas of logistics; often warehouses, distribution centers, or fulfillment centers that have expertise in managing certain logistical activities

time to ship also known as order cycle time, the length of time from when a customer places an order to when it reaches them

total number of orders the sum of all orders that a company received in a given time period

total units in storage a metric used to evaluate warehouse efficiency that changes as items are sold and leave the warehouse and new inventory moves in

transactional functions buying, selling, and risk-bearing that goes along with the movement of products along the marketing channel

unit value the price that a company charges for one unit or item

vertical conflict a conflict that exists between different levels of a vertical channel

vertical marketing system companies in the marketing channel that work together in a coordinated, collaborative, and customer-centric way

warehousing the stocking, maintaining, and controlling of products while they await the next step in their journey to the final consumer

wholesaler similar to distributors in that they take ownership of products; buys products in large quantities for the purpose of distributing an assortment of products to retailers



Applied Marketing Knowledge: Discussion Questions

1. What are the methods used to evaluate channel members? Why is this important?
2. Explain the various forms of marketing systems. What factors go into the decision regarding which system is best suited to the given organization?
3. Target market coverage is broken down into intensive, selective, and exclusive distribution. Evaluate which form of coverage works for what category of products, why, and give an example of each form.
4. List the different forms of transportation for moving goods. What are the positives and negatives for each form? Can you think of a way to reduce the risk?



Critical Thinking Exercises

1. Create a strategy for managing channel conflict within a marketing channel.

2. Considering what we have learned in the last several years about supply chain interruption, along with what we have covered in this chapter, what are some of the strategies that a company can use to reduce risk?
3. Evaluate alternatives and incentives that companies/marketers can offer customers to manage the speed of shipping while reducing the carbon footprint.



Building Your Personal Brand

Consider what sustainability and social responsibility mean to you. How do they impact your life and your activities? Is it in a positive, negative, or neutral way?

Let this information guide you in creating your authentic self. Develop your awareness of the ways that you can support the movements that speak to you. For instance, if you have strong beliefs in helping to create a cleaner environment, find activities that support that. Think clean stream, neighborhood beautification, or teaching children recycling, all the while making sure that you are genuine in upholding those concepts in your life. The list of opportunities is multilayered and unlimited.

Write 200–400 words outlining your personal brand as it relates to sustainability and social responsibility. How is your personal brand impacted by these concepts now? With these concepts in mind, how would you like your personal brand to evolve?



What Do Marketers Do?

Contact one of the following businesses and ask to speak to a person in the supply chain or logistics department. You might have to go through several people to actually get to the one that can best answer your questions. The goal with this exercise is to ask questions regarding the logistics in these companies to better understand the complex process. Every logistics department is involved in the movement of goods (the coming and/or going), but they vary in how they go about it.

- A local warehouse
- UPS
- FedEx
- An Amazon.com warehouse (they have multiple layers that you can contact as well as their logistics partner program)
- A trucking company

When you speak to the professional, be prepared with questions that will help you understand this position. Here are a handful of questions to get you started:

1. What is your job title and function?
2. How would you describe your department?
3. How did you obtain your position?
4. What skills, background, or degree are needed to do this type of work?
5. What are the main challenges faced by the department in the job?
6. Are you aware of differences in how you run your operations versus a similar company? If yes, can you outline examples?



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 [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](#), [Pricing Products and Services](#), and [Integrated Marketing Communications](#), complete the following section of your marketing plan:

- Marketing Strategy: Distribution

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



Closing Company Case

Global Containers & Custom Packaging Inc.

It happens without much thinking—you go online, click on the item, add it to your cart, pay for it, and then wait for it to arrive, usually in just a few days. And although you don't give it much thought, there is a lot going on when making a purchase. It may appear that the product “just arrives” at your location, but it's not quite that simple. The manufacturer must decide how to best ship the product, whether it be by truck, ship, air or some combination of all three of them. Also, depending on the size of the company that is purchasing the product and the size of the order of the product, it might make a stop at a wholesaler before ending up on retail shelves or in your mailbox.

One company that is working “behind the scenes” to ensure that your package arrives intact and on time is [Global Containers and Custom Packaging \(https://openstax.org/r/globalcontainers\)](https://openstax.org/r/globalcontainers). Global Containers and Custom Packaging is a full-service logistics company. It offers logistics and warehouse management, packaging distribution, and quality inspection and sorting.¹¹

Strategically headquartered along the US-Mexico border in El Paso, Texas, Global Containers and Custom Packaging offers local packaging distribution services that provide value and solutions to the retail and maquiladora market. Customers include companies like Amazon.com, **Hewlett Packard**, **Honeywell**, **Align Technology** (the makers of Invisalign system for straightening teeth), and **ASO** (a leader in consumer first-aid products).

Started in 2009, the company was founded to provide a full-service logistics solution. José Ochoa, one of the company's founders, started off as an industrial engineer and saw a need for a full-service logistics solution offering a high level of customer service. Some of the solutions that the company offers are just-in-time inventory management, report management, flexibility in hours (it will receive a truck or ship a product after hours or on the weekend with no extra cost to the client—a service that is practically unheard of in this industry), traceability of consumption behavior, and coming soon, accepting crypto payments.

Managing all of the pieces of a logistics solution can be tricky, especially in an environment with unprecedented shipping delays. Global Containers and Custom Packaging takes a proactive approach in managing its clients' business—it will advise customers on upcoming delays on products that it doesn't currently have in inventory. By staying in constant contact with the client, it has been able to keep delays and bottlenecks because of missing items to a minimum. All this is accomplished while the industry has seen shipping delays skyrocket.

It's not surprising given the company's proactive approach to managing delays, offering superior customer service and comprehensive offerings, that it has received the prestigious Bridge Accelerator Award, an award focused on businesses that are looking for ways to grow and innovate in the Paso del Norte region.¹²

Case Questions

1. Is the marketing channel a direct channel or indirect channel in this case? Why?
2. Global Containers and Custom Packaging provides trucking shipping solutions primarily between Mexico and the United States. What are the six factors impacting the choice of channel? Which have the most important impact in this case?

3. What are the main product-related factors that have an impact on the choice to ship products via truck from the United States to Mexico?
4. Name the different supply chain management levels that Global Containers and Custom Packaging provides.



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18

Retailing and Wholesaling

Figure 18.1 There are numerous retail and wholesale channels, including brick-and-mortar stores. (credit: modification of work "Athens, Ohio" by Dan Keck/flickr, Public Domain)

Chapter Outline

- 18.1 Retailing and the Role of Retailers in the Distribution Channel
- 18.2 Major Types of Retailers
- 18.3 Retailing Strategy Decisions
- 18.4 Recent Trends in Retailing
- 18.5 Wholesaling
- 18.6 Recent Trends in Wholesaling
- 18.7 Ethical Issues in Retailing and Wholesaling



In the Spotlight

It is no surprise that retailing has changed over the years. In the 1980s and 1990s, big-box retailers such as **Walmart** began opening stores in small towns and forcing local mom-and-pop shops out of business. In the 2000s, with the rise of Internet shopping, more brick-and-mortar retailers closed their doors. The COVID-19 pandemic resulted in another wave of retail closures. While future prospects for a number of retail operations appear bleak, many retailers—both new and established—are finding innovative ways to attract customers back into the stores.

Precycle is a grocery store in the Bushwick neighborhood of Brooklyn, New York. In order to differentiate her store from other local shops, Precycle owner Katerina Bogatireva decided to focus her efforts on serving a niche market of consumers who are committed to protecting the environment. Shoppers at Precycle can find a wide variety of spices, fruits, grains, pastas, toothbrushes, and many household basics. But what shoppers won't find at Precycle is plastic. Bogatireva opened the store in an effort to reduce the amount of plastic that is used in retailing. All the items in Precycle are not only free from plastic and sold in bulk, they are locally sourced.¹

Similar types of stores have been popping up throughout the United States. Consumers are more and more aware of the ongoing problem that plastic creates for our oceans and general environment. Additionally, more

consumers are becoming locavores, people who purchase food that is locally grown.² Local and more traditional brick-and-mortar retailers are ideal to meet these consumer demands. Post-pandemic, we may see increased numbers of brick-and-mortar retailers responding to these new consumer demands. Only time will tell.

18.1 Retailing and the Role of Retailers in the Distribution Channel

Learning Outcomes

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

- LO 1** Define retailing.
- LO 2** Discuss the functions of retailers in the distribution channel.

Retailing Defined

When marketers plan their distribution strategies, they must determine which channel is best suited to get their goods and services into the hands of consumers. A distribution channel is a set of businesses that move the product or service from the manufacturer to the end user or buyer.³ [Figure 18.2](#) outlines the most common types of distribution channels for consumer goods. These businesses, often called intermediaries, play important roles in the distribution of goods and services. **Intermediaries** are companies that act as liaisons between the buyer and seller. These companies can take on a variety of roles to facilitate the transfer of products and services from a manufacturer to the end user. The path that a product or service takes from seller to buyer, including the intermediaries, is called the distribution or marketing channel. The length of the channel—short or long—will depend on many factors, including the product itself.

When you first glance at [Figure 18.2](#), it might seem logical for producers to simply provide goods and services directly to the consumer. Imagine that you were thirsty and wanted a cold can of Pepsi. However, you did not have any at home, and retailers did not exist. How would you get your Pepsi? Well, without retailers, you would have to rely on either going directly to the closest Pepsi bottling plant or requesting a Pepsi employee to deliver a can to your home. Can you imagine how costly that would be for **PepsiCo**? Now imagine doing that for every single product you wish to purchase. Obviously, this seems implausible—and almost laughable. While many companies have traditionally utilized longer channels to distribute their products, companies today often use more direct (shorter) channels or multiple channels. When a manufacturer utilizes multiple channels to distribute its product, it's known as an **omnichannel strategy**. **Amazon**, for example, uses multiple distribution channels. Some products are sold directly to the consumer, while other products come from independent retailers, who then fulfill the order.

Consider another example: You are planning a trip with your friends. You have found a **Marriott** hotel that suits your needs. You may choose to book directly with Marriott through its website or reservation phone number. Alternatively, you may choose to book through a third party, such as **Hotels.com**, or even by calling your travel agent. Marriott is utilizing multiple channels for its service, so it is utilizing an omnichannel distribution approach.

Today, even social media plays a role in the distribution channel. Looking at the above example, Marriott might consider utilizing social media as yet another point of contact for the organization's employees and customers to interact. Customers can often book a room and receive customer service directly through the company's social media platforms.⁴ As you will learn later, the choice of which distribution channel to use depends largely on the type of product and the manufacturer's strategy.

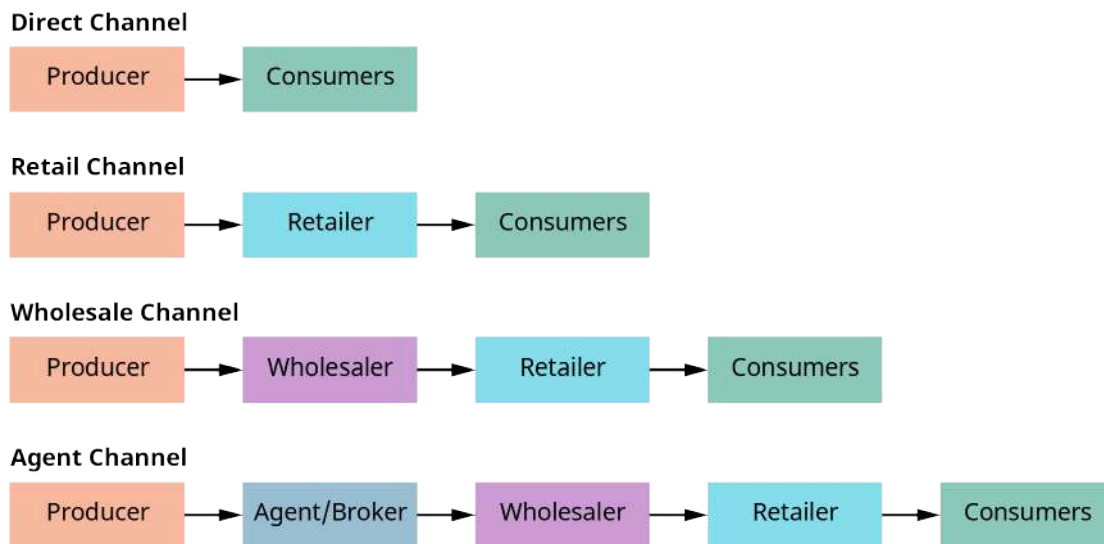


Figure 18.2 Distribution Channels for Consumer Products (attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)

Regardless of how many channel members are included in the distribution channel, retailing is the final stop in the channel before products and services reach the consumer. **Retailing** is the process of selling goods and services to consumers. As it relates to the distribution channel, retailers do not often manufacture the goods being sold. Rather, retailers buy products from the manufacturing firms or wholesalers and resell them to the consumer. While the number of traditional brick-and-mortar retail establishments has declined drastically over the past few decades, retailers remain an important part of the distribution channel. Retailing entails *all* activities involved in selling the goods and services to the consumer; in other words, retailers have their own marketing mix plan to accomplish their goals. Because retailing is the final link between the manufacturer and consumer, retailers have as much incentive to sell products as those who produce the product.

The Functions of Retailing in the Distribution Channel

Retailing has many important functions in the distribution channel. Consider **Target**, a general-merchandise retailer with stores in all 50 states and the District of Columbia, as well as locations across the globe.⁵ Target offers a wide variety of consumer goods in each of its large brick-and-mortar locations. In addition to what we, as consumers, see when shopping at Target, there are many other important functions for Target and other retailers in the distribution channel (see [Figure 18.3](#)). Let's look at these functions in detail.



Figure 18.3 Functions of Retailers (attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)

Provide Assortment

Retailers provide assortment for consumers. Assortment simply refers to the number of options in a given product category or the number of products offered. Consider the Pepsi beverage example from earlier in the chapter. What if you weren't sure which drink you wanted? Rather than go directly to a Pepsi bottling plant, you decide to go to Target where you will find an assortment of drink varieties and brands to choose from.

Target also offers a wide variety of other products. So, while you are there, you decide to purchase your drink and some home furnishings and groceries. The assortment of brands and products in general gives the consumer options and convenience—something most consumers value in their busy lives.

Many large retailers also offer their own brand of products. This allows the company to provide competing options to consumers at different price points, typically lower than the name brands. For example, Walmart offers various name brands of acetaminophen, one being the more popular brand Tylenol and the other a lower-priced, comparable product labeled Great Value. By providing multiple purchase options, the retailer is able to target more than one consumer market.

Buy in Bulk

Because retail establishments are often large and have ample storage, they are able to purchase and sell items in bulk. Consider the quantity of one product, such as Pepsi 12-packs, that Target has on its shelves. In addition, the store has stock in the back room for when the shelves are empty. Target's ability to buy in bulk allows it to serve a large number of consumers at any given time.

From a broader standpoint, consider the number of Pepsi 12-packs that the entire Target store network purchases in a given week. Target's ability to purchase such large quantities allows it to negotiate lower prices with PepsiCo (and other channel members). In turn, retailers can provide consumers with lower prices than if the consumer purchased directly from Pepsi.

Store Inventory

The ability of retailers to hold inventory allows them to quickly restock shelves or, in the case of Internet retailers, get the product shipped quickly. This allows consumers the convenience of being able to get an item as quickly as possible.

Provide Convenience to Consumers

Retailers provide a considerable amount of convenience to consumers. Consider the distance from your home or work to your closest retailer. For most consumers, retailers are within a few miles. This proximity makes retailers convenient. The process of choosing a retail location for development has become somewhat of a science in recent decades. There are companies that specialize in partnering with retailers to determine the best locations for store placement. To determine locations, things like traffic patterns and demographics are collected and analyzed.⁶

A second service that retailers provide is convenient hours of operation. Consider Walmart, which has locations that are open 24 hours, or grocery stores that are open on Thanksgiving morning for last-minute food purchases.

Retailers also allow consumers to more closely evaluate a product for purchase. For example, some consumers would much rather purchase clothing items from a brick-and-mortar retailer rather than online because they can feel the texture of the cloth and try the item on to determine if it fits and looks good.

Providing Services to Customers

Most retailers provide services to consumers that are not a core product offering. For example, you can purchase groceries and household essentials at retailers such as Walmart or Kroger, but you can also purchase stamps, buy a lottery ticket, refill your prepaid phone minutes, drop off mail, and in some locations get a haircut or an eye exam and deposit a check at the bank.⁷ With the convenience of multiple services, retailers make other tasks more convenient for consumers.

While there is an added value to the consumer to have all these services in one location, it's also a benefit to the retailers. For example, the hair salon located inside Walmart has the added benefit of the higher foot traffic inside the store. Since so many consumers are already in the store, they may be more apt to stop in for a haircut. Furthermore, while hair salon owners or individual stylists pay rent on the space inside Walmart, they don't have the overhead that might come with a standalone building. The advantage of this partnership for Walmart is that it receives additional income through the rent paid by the hair salon. The company also may build consumer loyalty since it is providing its consumers with additional convenience by offering these services.

Collecting and Providing Feedback

An important factor in any distribution channel is that of member relationships. Remember that all parties in the distribution channel have a stake in one another's success. Because retailers are the last link between the product and the consumer, they have a unique opportunity to collect feedback from customers and share that with other channel members. This can take many different forms. For example, if you use a loyalty card at your favorite grocery retailer, your purchases are tracked. The data collected is a wealth of information that informs a retailer's strategy and decisions. For example, the company may use the data to inform the type of promotions to run or coupons to offer.

Retailers also provide customer feedback to their channel partners. This feedback can let suppliers know the demand for products and if products are being offered at the right time and the right place. If products are not selling well in a retail establishment, the retailer and channel partners can look to customer feedback to determine the issue and resolve it.

CAREERS IN MARKETING



Distribution

There is much to consider with distribution channels. Learn more about the distribution channel types, impact of the digital age, and choosing a distribution channel and read examples of [making distribution channels work \(https://openstax.org/r/learningcentresales\)](https://openstax.org/r/learningcentresales) in this article. Learn [in this article how to use distribution \(https://openstax.org/r/salesoptimizeddistribution\)](https://openstax.org/r/salesoptimizeddistribution) to a sales advantage. And while we want everything to run smoothly, it rarely does all the time. [Learn about how things could go wrong \(https://openstax.org/r/saleschannelpartner\)](https://openstax.org/r/saleschannelpartner) and options for managing these situations.

Now that you've had a chance to understand what distributors do, does a career in distribution interest you? There are several types of jobs in distribution. Do your research and learn about the types. Start by reading this article to [learn the differences between a distribution manager, industrial production manager, and a purchasing manager. \(https://openstax.org/r/articlescareersindistribution\)](https://openstax.org/r/articlescareersindistribution) You will learn about the needed degree of study, necessary skills, potential job growth, and median salary. Run a Google search on distribution careers, and you'll be shown numerous job postings. This is a great way to gain insight into the career specifics with multiple companies.

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. Channel members that generally do not manufacture goods but rather buy them from another channel member and sell them to the consumer are said to be practicing _____.
 - a. manufacturing
 - b. wholesaling
 - c. retailing
 - d. inventory
2. Which of the following is NOT a function of retailing?
 - a. Buying in large quantities and selling to other businesses for the purpose of reselling them to consumers
 - b. Providing assortment and variety of products
 - c. Holding inventory
 - d. Providing convenient location and store hours
3. As a new entrepreneur, you are deciding whether to offer your customers a loyalty card that is linked digitally to technology. Which function of retailing would you be engaged in?
 - a. Providing services to consumers
 - b. Holding inventory
 - c. Providing convenient location and hours of operation
 - d. Providing consumer communication
4. A company that utilizes more than one channel in its distribution is using which type of strategy?
 - a. Direct channel
 - b. Direct-to-consumer channel
 - c. Omnichannel

d. None of the above is correct.

5. Schwan's Company prepares frozen foods to be delivered to the door of the consumer. Which of the following is the most likely distribution channel for Schwan's?
- Manufacturer – Agent – Wholesaler – Retailer – Consumer
 - Manufacturer – Retailer
 - Manufacturer – Consumer
 - Manufacturer – Wholesaler – Retailer

18.2 Major Types of Retailers

Learning Outcomes

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

LO 1 Characterize various store retailers.

LO 2 Characterize various non-store retailers

Retailers, in some form or another, have been around for most of human history. As early as 800 BCE in ancient Athens, Greece, businesspeople sold their goods in developed markets at the city's center.⁸ Throughout history, this type of business has grown and become more specialized based on the needs of customers and the ability we now have to travel fairly easily. Today, retailers are often defined by their product lines—a group of products that are related to one another. Retailers are broken into two main categories, store or non-store retailers, which are further broken into retail types. Retail types are defined by their product lines. See [Table 18.1](#) for a breakdown of retail types, the typical product focus for that retail type, and examples of retailers that fall into that type.

Retail Type	Product Focus	Example
Store Retailers		
Specialty Store	Single product line	AutoZone
Department store	Wide variety of product lines	JCPenney, Kohl's
Supermarket	Multiple product lines; focused mostly on grocery with limited services	Publix, Kroger, Save A Lot
Superstore	Combination of supermarket and department store	Target, Walmart
Convenience Store	Limited range of everyday items	7-Eleven, Speedway
Category killer	Very large superstores with wide product lines within a category	Best Buy, Lowe's, Home Depot, Staples, Office Depot

Table 18.1 Types of Retailers

Retail Type	Product Focus	Example
Discount store	Broad range of products with few or no services	Dollar General, Dollar Tree, Family Dollar
Off-price retailer	Brand name overstock, irregulars, and closeouts	T.J.Maxx, Ross
Factory outlet	Overstock or over-manufactured brand-name items, usually clothing; typically in a mall setting with other factory outlets	Sawgrass Mills Factory Outlet, Indiana Premium Outlets, Osage Outlets; Hanes Outlet, L.L.Bean Outlet
Warehouse club	Bulk items at discount for paid membership	Sam's Club, BJ's, Costco
Non-store retailers		Vending machines, direct-mail catalogs, television home shopping online, telemarketing, direct selling
Automatic vending	Unmanned with very limited product line located in places store retailers are not	Snack and beverage machines in a hospital waiting room
Direct mail and catalogs	Limited product lines advertised through the mail	Tiffany & Co.'s Blue Book, L.L.Bean, Fingerhut
Television home shopping	Limited product lines advertised on television	Home Shopping Network, QVC
Online retailing	Can be wide or limited product lines of products offered for sale via the Internet	Amazon
Telemarketing	Very limited product line sold via the telephone	
Direct selling	Very limited product line sold by salespeople who are very knowledgeable about the product and sell directly to a business or end user; used in B2C, but more often in B2B	Kirby Vacuums (B2C) Publishing companies (B2B) Technology companies (B2B)

Table 18.1 Types of Retailers

Store Retailers

Retailers tend to be the easiest of the channel members to identify because we see them everywhere we go, both in person and online. A **store retailer** is a traditional brick-and-mortar establishment where products are displayed for customers to purchase. Store retailers can be categorized in many ways based on their strategy mix, which includes a combination of store hours, location, product assortment, and prices.⁹

As the number of store retailers has decreased significantly over the years due to their higher operating costs, some companies have found more innovative ways to provide their products in a similar setting. For example, **Amazon Go** is a store retailer that allows customers to shop in-store, but has eliminated the use of cashiers (and long lines). As customers choose the products they want, the automated store keeps track of the purchase and charges the customers when they exit the store.¹⁰

Specialty Stores

Specialty stores focus on selling a single type of product or a single product line. The employees of specialty stores are often very knowledgeable about the products they sell and offer high levels of customer service. For example, when you need a new battery in your car, you may head straight to **AutoZone**, a retailer specializing in vehicle parts. When you arrive, an associate will be able to assist you in choosing the correct battery for the make and model of your car, and sometimes, they may be able to install it for you.

Department Stores

Department stores are typically larger than specialty stores and have separate areas or departments for similar product lines. For example, areas could include shoes, kids' clothing, housewares, and so on. Each compartmentalized area may mimic the look and feel of a specialty store to make for a more intimate experience, but often the sales associates are not highly trained in each area. For example, **Kohl's**, a department store chain in the United States, has separate departments containing women's fashion, shoes, kitchenware, and toys.

Supermarkets

A **supermarket** is defined as a store that mostly focuses on a product mix of grocery items but also carries household and personal items and offers limited services. One example is **Publix**, an employee-owned supermarket chain that opened in 1930 and has nearly 1,000 stores in the southeastern United States.¹¹ Publix's average retail size is roughly 32,000 square feet, and more than 50 percent of its shelves are dedicated to grocery items. The other 50 percent consists of cleaning items, toiletries, over-the-counter medicines, beer/liquor, and personal hygiene products. Like most supermarkets, Publix also offers a deli, a bakery, hot food bars, a pharmacy, some apparel, and sometimes even pool supplies, toys, and other nonfood items.

Convenience Stores

Named for their convenient location, a **convenience store** is a small retail business that stocks a limited range of everyday items, such as groceries, snacks, soft drinks, tobacco, toiletries, and lottery tickets (see [Figure 18.4](#)). In the United States, convenience stores are most often linked to gas stations. Convenience stores offer consumers the convenience of stopping to fill up their tank and running inside for a few essential items without having to drive to a supermarket or other retailer. The first convenience store in the United States opened in Texas in 1927 and later became known as **7-Eleven**. In 2020, there were approximately 150,000 convenience stores in the United States.¹²

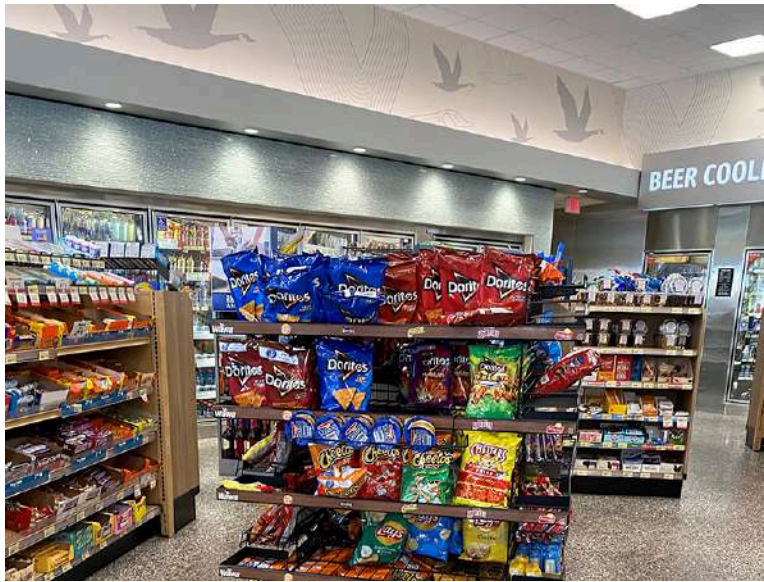


Figure 18.4 A convenience store is a type of retail store that is conveniently located and carries limited items. (credit: “Wawa Miami” by Phillip Pessar/flickr, CC BY 2.0)

Superstores

Superstores are very large retailers that have characteristics of both supermarkets and department stores (see [Figure 18.5](#)). Like supermarkets, they sell a wide range of grocery items. But they also have considerable space dedicated to nonfood departments, as do department stores. Target operates 1,927 retail stores in the United States. Some of its stores are considered superstores, where consumers can purchase not only (nearly) everything on their grocery list, but also clothing, household goods, electronics, toys, and sporting equipment.



Figure 18.5 Target is a type of superstore that sells a wide variety of personal and grocery items. (credit: “Target” by Mike Mozart, JeepersMedia/flickr, CC BY 2.0)

Category Killers

Category killers are large superstores or big-box retailers that are bigger, cheaper, and more convenient than other types of stores. Because of their sheer size, they have the advantage of buying products in very large quantities, which gives them a strong negotiation position for the price they pay to distributors. In turn, they can then offer discounted prices to consumers. These stores are called category killers because they often put nearby specialty stores out of business. **Home Depot** and **Lowe’s** are considered category killers because of their exhaustive inventory selection and low prices. The popularity of this big-box format means that smaller hardware stores may find it difficult to compete.

Discount Stores

During the 2008 recession, many retailers began closing their doors. But **Dollar General** was one retailer that saw exponential growth during this time.¹³ Dollar General and competitor **Dollar Tree** are **discount stores**—stores that sell a broad range of products at lower prices than competitors. While discount stores offer lower prices and often less variety than competitors, they often also offer fewer services and little customer service. As inflation put pressure on household budgets in 2022, shoppers from a range of income levels turned to dollar stores to save money on everyday necessities.

LINK TO LEARNING



Dollar Stores and the Community

Learn more about the impact dollar stores have on the community and commerce. It's not always positive. Experts speak in this video about the potential negative impact and issues.

[Click to view content \(https://openstax.org/books/principles-marketing/pages/18-2-major-types-of-retailers\)](https://openstax.org/books/principles-marketing/pages/18-2-major-types-of-retailers)

Off-Price Retailers

Retailers that provide high-quality, name-brand goods at deeply discounted prices are considered **off-price retailers**. These retailers often purchase brand names that are irregular, closeouts, overstock, and off-season. While these retailers offer goods within more than one product line, often consumers cannot be guaranteed to find the same brand or item(s) in a store twice. **T.J.Maxx**, one of the largest clothing retailers in the country, utilizes this strategy. The company's buyers purchase over-ordered or over-manufactured products from distributors at deeply discounted prices. This merchandise is then offered to the consumer at lower prices than can be found in department stores.

Factory Outlets

In some ways, **factory outlets** are similar to off-price retailers (see [Figure 18.6](#)). The goods found in factory outlets are typically over-manufactured and sold at lower prices. However, factory outlet goods are sold directly from the manufacturer rather than through a third party. Many clothing manufacturers have factory outlets, which are typically clustered together in a factory outlet mall, a space where numerous factory outlets are located. For example, you may see **Coach**, **Gap**, or **Lands' End** stores in outlet malls. **Sawgrass Mills Factory Outlet**, located in Sunrise, Florida, is the largest factory outlet mall in the United States. It houses over 350 factory outlet stores, including **Adidas**, **LEGO**, and **Zales**.¹⁴



Figure 18.6 Factory outlet stores offer lower-priced items sold directly from the manufacturer. (credit: "DSCF1532.JPG" by jkonrath/flickr, CC BY 2.0)

Warehouse Clubs

Warehouse clubs (see [Figure 18.7](#)) are a type of retailer that sells goods in bulk at discounted prices to members only. Shoppers must first become members of the warehouse club before they are allowed to purchase. **Costco** and **Sam's Club** are two of the largest warehouse clubs in the United States, and both offer a limited variety of perishable and nonperishable goods. Warehouse clubs operate out of enormous, no-frills, low-cost facilities that resemble warehouses.



Figure 18.7 Costco is a warehouse club that offers bulk items at a discount; consumers can only enter if they are paid members. (credit: "Costco (East Lyme, Connecticut)" by jjbers/flickr, CC BY 2.0)

Non-store Retailers

Non-store retailers are those retailers that operate outside of the traditional brick-and-mortar location. There are six main types of non-store retailers, and we will examine each in the following sections.

Automatic Vending

Also referred to as vending machines, **automatic vending** is the use of an electronic device that dispenses a

product (see [Figure 18.8](#)). There is no direct human contact in the transaction. Traditionally, automatic vending machines would dispense items such as potato chips, candy, and soft drinks. However, more recently, companies have found automatic vending to be successful with other items, from cell phones to hot meals to automobiles. **Carvana** is an automatic vending non-store retailer. Using Carvana, consumers can purchase their cars online, complete with financing, and pick up their vehicles at one of its vending machines or have it delivered with little or no human interaction needed. Debuting its 27th car vending machine in Atlanta, Georgia, in 2020 Carvana now has a location that is 12 stories high and holds 43 vehicles.¹⁵ The company unveiled its first car vending machine in 2012, taking automobile shopping—and automatic vending—to a whole new level!



Figure 18.8 Carvana features automobile vending machines that allow consumers to purchase cars online and have them delivered. (credit: "Carvana DeLorean Back to the Future Time Machine" by zombieite/flickr, CC BY 2.0)

Direct Mail and Catalogs

Direct mail involves solicited or unsolicited advertising of products and services to prospective customers through the mail ([Figure 18.9](#)). Direct mail and catalogs are likely the oldest form of non-store retailing. The first mail-order catalog in the United States was **Tiffany & Co.'s Blue Book** in 1845.¹⁶ The company still uses catalogs in addition to store retail locations, and the catalogs feature some of the rarest diamonds and jewels in the world. A more popular mail-order catalog that began in the 1800s was the **Sears Roebuck and Co.** catalog, the "big book," which came to feature hundreds of pages of products offered by the company; the last was published in 1993. With the rise of the Internet, catalogs and direct mail are not as prevalent in marketing today, but it is still a retailing strategy that works for many companies.

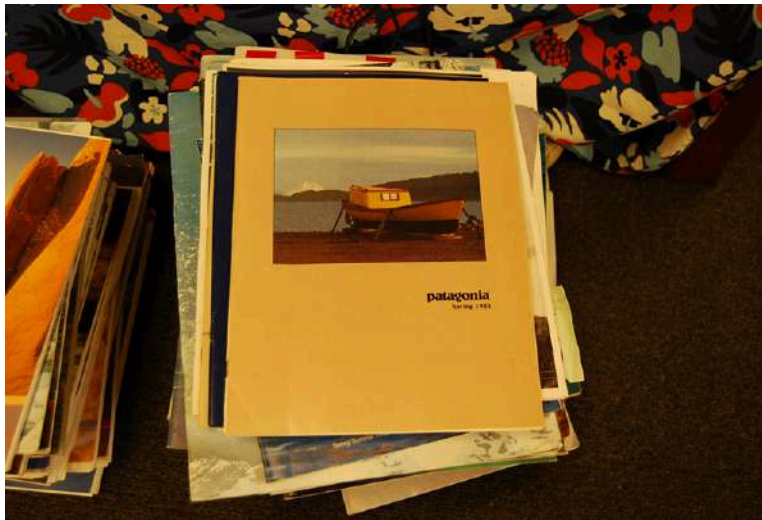


Figure 18.9 Direct mail offers products to consumers via advertisements sent through the mail. (credit: “Catalog” by Nicolás Boullosa/flickr, CC BY 2.0)

Television Home Shopping

Another example of a non-store retailer is television home shopping. **Television home shopping** primarily targets women over the age of 40 and is a business practice in which products or services are sold via television. There are some cable network stations that are dedicated solely to home shopping 24 hours a day, 7 days a week. One example is **QVC**, which stands for Quality, Value, and Convenience. The company was founded in 1986 and purchased its rival **Home Shopping Network (HSN)** in 2017. It generated \$14.1 billion in profits in 2018.¹⁷ The 2015 Hollywood movie *Joy*, starring Jennifer Lawrence, showcases real-life entrepreneur Joy Mangano and the power of QVC as a non-store retailer.

Similar to online shopping, consumers can order products directly from a company via telephone or the Internet. Unlike the Internet and direct-mail catalogs, however, viewers can see the product being demonstrated or modeled in real time. While QVC hosts are demonstrating products, control room employees are able to monitor sales in real time as they are placed.

Online Retailing

Online retailing allows consumers to search and purchase products remotely over the Internet. Although the Internet’s public birthday is debatable, online retailing started shortly thereafter. Though Amazon (started by Jeff Bezos in 1995 as a book retailer) was not the first online retailer, its inception prompted thousands of companies to follow suit. In 2021, US consumers spent \$5.4 trillion at online retail stores, a figure that is expected to increase. It is anticipated that, by 2023, online shopping will make up 22 percent of retail sales across the globe.¹⁸

Telemarketing

Telemarketing is the attempted sale or marketing of goods and services to potential customers via telephone. The telephone has been used as a sales tool since shortly after its invention. The 1970s, however, was the decade when technology became advanced enough that call centers—a centralized location or department that handles calls from customers—became an economical way of contacting potential customers. Over the next few decades, telemarketing became a staple in marketers’ strategies. But this resulted in consumers being annoyed with these calls and a rise in scamming calls, particularly those targeting the elderly. In 1991, the Federal Trade Commission (FTC) addressed this problem with new rules for telemarketers, but it was not until 2003 that the Do Not Call Registry was created.¹⁹ Even with these changes, legitimate and non-legitimate telemarketing finds its way onto phones. While many (legitimate) companies still utilize this form of non-store retailing, telemarketing is generally used (and more widely accepted) in business-

to-business (B2B) settings.

Direct Selling

Direct selling is selling products and services directly to the consumer in a non-retail setting. Direct selling typically consists of a salesperson attempting to sell a product or service to a potential customer at their residence or place of employment. This practice was very popular in the 1950 and 1960s when women were often stay-at-home mothers and/or homemakers. Salespeople would bring the product—a vacuum, for example—to the consumer’s home and demonstrate its benefits in an attempt to make a sale. With the rise of two-income families and the Internet, direct selling is not used frequently today in the consumer market. It is, however, still a widely used practice in B2B. However, it remains effective for some companies, such as Kirby, which still sends salespeople door-to-door to sell its vacuums.

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 class, Drue realized that the cafeteria was closed, so instead he purchased a candy bar and soft drink from a vending machine. Which type of retailing did Drue utilize?
 - a. Factory outlet
 - b. Automatic vending
 - c. Warehouse club
 - d. Direct mail
2. Of the following, which retailing strategy would be most appropriate for customers who are neither tech-savvy nor able to shop at store retailers?
 - a. Automatic vending
 - b. Television home shopping
 - c. Warehouse clubs
 - d. Online retailing
3. After school, Adrian decides to stop at the local Costco. Unfortunately, the store won’t allow him in unless he first purchases a membership. Which type of retailer has Adrian entered?
 - a. Factory outlet
 - b. Warehouse club
 - c. Discount store
 - d. Superstore
4. Retailers providing high-quality goods at discounted prices are called _____.
 - a. superstores
 - b. discount stores
 - c. off-price retailers
 - d. warehouse clubs
5. Some manufacturers operate their own retail locations; when they are left with excess inventory, they often provide these to what type of retail locations?
 - a. Factory outlets
 - b. Warehouse clubs
 - c. Department stores
 - d. Discount stores

18.3 Retailing Strategy Decisions

Learning Outcomes

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

- LO 1** Describe how pricing affects retail strategy decisions.
- LO 2** Explain how location is a factor in retail strategy decisions.
- LO 3** Discuss the importance of retailer communications.
- LO 4** Explain how merchandise affects retail strategy decisions.

Retailing Strategy Decisions

Retail marketers and other retail business leaders need to determine which retail strategy will work best for the products they sell. Recall that retailers often buy in bulk, break down that bulk into smaller units, and sell to the end consumer. As you may also recall, *value* refers to a perceived worth of a product based on its service, price, and utility provided. As marketers are determining the optimal strategy for the products and services being offered, value again becomes an important factor.

The three most important items to consider in retail strategy that factor directly into value are pricing, location, and merchandise (see [Figure 18.10](#)). Because retailers sell goods and services often produced by another company, communication with channel members is another important topic. Let's look at retail strategy decisions more closely.

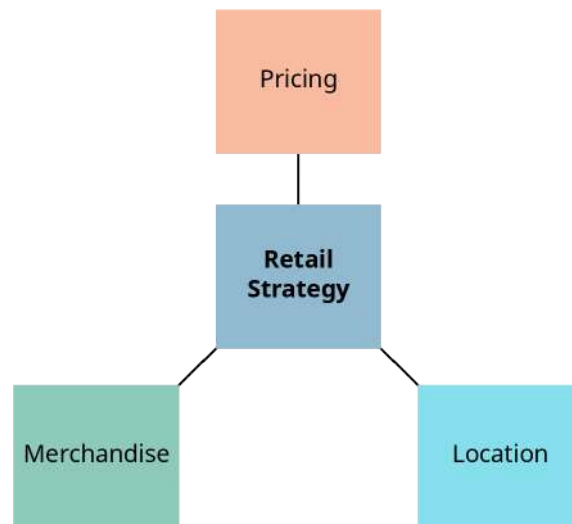


Figure 18.10 Retail Strategy Decisions (attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)

Retail Pricing

Retailers will determine the price for their product based on many factors, including their cost to purchase the product, shipping, storing, and other overhead expenses associated with the business. For store retailers, overhead expense is typically much higher than it is for online retailers considering the brick-and-mortar location, decoration of the store, storage, employee salaries, shrinkage (loss due to spoilage and theft), and other factors. The goal of the retailer, just like any for-profit business, is to make money; therefore, retailers must consider not only their own cost of doing business, but what consumers are willing to pay for the products and services they sell.

Markup

Markup is the additional amount added to the price retailers purchase goods for. Often conveyed as a percentage, markup is the retail selling price minus the initial purchase price, divided by the initial purchase price, times 100. Here is the formula:

$$\text{Markup Percentage} = \left(\frac{\text{Selling Price} - \text{Purchase Price}}{\text{Purchase Price}} \right) \times 100$$

For example, say you manage a footwear retailer. You are interested in selling a new line of tennis shoes that you purchase for \$50 a pair. You decide to sell these new sneakers to consumers for \$75 a pair. What is your markup?

Your markup is 50%, as shown here:

$$\text{Initial Markup} = \left(\frac{\$75 - \$50}{\$50} \right) \times 100 = 50\%$$

The easiest way many retailers choose a markup is to use a strategy that doubles the wholesale price, known as **keystone pricing**. Generally speaking, retailers tend to mark up prices somewhere around 50%. However, this can vary greatly from industry to industry. For example, retail grocers have a markup of around 15%, while clothing is generally marked up anywhere from 100% to 300%.²⁰

Original and Maintained Markup

There is a difference in markup from when it's originally set to what is actually realized when the product sells. Using the shoe retail business example, you determined your markup is 50%. This is known as the **original markup**, the markup that you have decided upon at the *onset* of placing the shoes for sale, which includes the original price to purchase the shoes and the cost of the shoes to the consumer. Using the above shoe store example, your original markup percentage is 50%.

What price the product actually sells for is considered the maintained markup. In your shoe store, let's say you anticipated selling 100 pairs of shoes this month, but you only sold 75. As such, your original markup has been decreased. The **maintained markup** is the *actual* markup realized on the product that is sold to the consumer. It is the difference between the cost of goods sold and the *actual* retail price of the goods when sold. It is based on actual sales, not planned sales.

Markdowns

Maintained markup also accounts for markdowns, which were not factored into the original markup. A **markdown** is a price decrease for a product that is at the end of its life cycle or season. Markdowns assist retailers in selling through inventory by increasing temporary demand for products through a lower-price offering. If there is low demand for the 25 pairs of tennis shoes remaining in your inventory, you may consider marking them down to \$60, then again to \$50, and so on. Ideally, markdowns will, at the very least, cover the wholesale cost of the goods. Markdowns lower the maintained markup and the retailer's gross profit.

Gross Margin

Gross margin refers to the actual sales dollars received (net sales) minus the cost of goods sold. It is the amount of profit made before deducting selling, general, and administrative cost and is calculated as a percentage. Let's say that you sold 75 pairs of shoes at \$80 but had to mark down the remaining 25 pairs to \$50 a pair. To determine your gross margin, you calculate net sales and deduct the cost of goods sold. Here is the net sales formula:

$$\begin{aligned} 75 \text{ pairs of shoes} \times \$80 &= \$6,000 \text{ in net sales} \\ 25 \text{ pairs of shoes} \times \$50 &= \$1,250 \text{ in net sales} \\ \text{Total net sales} &= \$6,000 + \$1,250 = \$7,250 \end{aligned}$$

The cost of goods sold (COGS) calculation is as follows:

$$\text{COGS} = 100 \text{ pair of shoes} \times \$40 = \$4,000$$

The gross margin calculation is as follows:

$$\text{Margin} = \$7,250 \text{ total net sales} - \$4,000 \text{ cost of goods sold} = \$3,250 \times 100\% = 32.5\%$$

Store Location

An age-old saying in retailing and real estate is that the three most important variables in choosing where to establish a business are location, location, and location. If consumers cannot find or easily access a store retailer, they will not spend their time looking but instead will take their business elsewhere.

Retailers will look at location selection from many angles, including how far away a competitor is located, how many of the same store (for chain stores) are within a certain driving distance, how many miles the average consumer would have to drive to reach the location, and how easy it is to access the location. For example, if you live in a smaller, rural town, there may be a regular Walmart but not a Walmart Supercenter. Why? Consider the population size of your town, the number of competitors, and how close the nearest Walmart Supercenter is located. Retailers such as Walmart know exactly the distance consumers are willing to drive to do their shopping. Perhaps there is a Walmart Supercenter within the distance they know consumers are willing to drive, so they have no need to add one to your town.

In determining location, retailers also must decide if their business is better suited to a freestanding location, a business district or strip mall, or another type of location. Let's examine several types of locations.

LINK TO LEARNING



Success in Small Towns

With the rise of large retailers such as Walmart, smaller mom-and-pop stores have struggled to compete in the last few decades. In small towns and rural areas, this has presented an economic problem. However, some retailers are finding new success in locating in these areas. Watch this clip on how Dollar Stores is finding its niche in towns where many other retailers have closed their doors.

[Click to view content \(https://openstax.org/books/principles-marketing/pages/18-3-retailing-strategy-decisions\)](https://openstax.org/books/principles-marketing/pages/18-3-retailing-strategy-decisions)

Central Business District

A **central business district** (CBD) is the commercial and business center of a given city or town (see [Figure 18.11](#)). While it is usually centrally located, its chief characteristic is its proximity to the largest number of people. Manhattan is the world's largest central business district. One of New York City's five boroughs, Manhattan is home to dozens of neighborhoods and hundreds of businesses, tourist attractions, and retail establishments. It has the highest retail rent in the world.²¹ In smaller towns and cities, these downtown areas slowly started to decline with the growth of larger nearby cities. However, many cities are now working hard to restore their downtown and town square areas and turn central business districts into thriving areas once again.



Figure 18.11 A central business district, like downtown Chicago, is the commercial center of a city or town. (credit: "Aerial View of High-Rise Buildings in Chicago's Gold Coast and Magnificent Mile Areas" by Marco Verch/flickr, CC BY 2.0)

Regional Shopping Centers

Regional shopping centers, commonly referred to as shopping malls, offer general merchandise or fashion-oriented products and services (see [Figure 18.12](#)). They are enclosed buildings with access to retailers through a common walkway. Most regional malls have one to four anchor stores—large, well-known department stores—and numerous smaller specialty stores, as well as restaurants and activities. This blend of shopping and entertainment is sometimes known as retailtainment. For example, the **Mall of America**, located in Minneapolis, Minnesota, houses not only department and specialty stores, but also numerous restaurants, a cinema, an aquarium, and a theme park.²²



Figure 18.12 Regional shopping centers, also known as shopping malls, provide access to retailers through a common walkway and often have one to four anchor stores. (credit: "Lisboa/Lisbon/Lisbon (Explore)" by Bert Kaufmann/flickr, CC BY 2.0)

Regional shopping centers typically service consumers who live anywhere from 5 to 15 miles away.²³ Regional shopping centers are becoming scarcer due to retailers moving into strip malls, an increase in Internet shopping, and the effects of the COVID-19 pandemic. It is not unusual to see regional shopping centers primarily deserted (sometimes called "zombie malls") or transformed into non-retail office space.

Strip Malls

Strip malls are classified by an attached row of retail stores offering both products and services (see [Figure 18.13](#)). Consumers enter stores from outside the building, and unlike in regional shopping centers, there is no internal walkway that links storefronts.²⁴ Rather, there is a sidewalk running in front of and connecting the individual stores. Strip malls often service neighborhoods within one mile of their location, and stores are generally the same size as one another.



Figure 18.13 A strip mall is a collection of retail stores that consumers enter from outside the building. (credit: "20091112_001" by jarchie/flickr, CC BY 2.0)

While strip malls are as old as regional shopping centers, they did not become more popular than regional centers until the late 1990s. The biggest draw to strip malls for consumers was that they did not have to walk through an entire regional shopping center to reach one store, yet could shop at multiple stores if desired. Department stores, factory outlets, and off-price retailers are often found in strip malls, along with specialty stores, service-oriented retail businesses, and restaurants.

Freestanding Retail Location

Freestanding retail locations are those store retailers that are not attached to any other retailer or establishment. Freestanding locations are more prevalent in smaller, less-populated areas (due to space). Gas stations, convenience stores, and superstores often occupy freestanding locations because they do not need anchors to pull consumers in. Freestanding locations are often less expensive to buy or lease as they are not anchored to established prime retail. In addition, retailers that choose a freestanding location often have fewer restrictions on design of the location, unlike those required of strip mall operators. On the other hand, these locations lack the foot traffic that may be gained from other types of retailers.²⁵

Aside from the physical location of the retailer, decisions about exactly how the store is laid out and where products will be shelved is equally important. When you enter a grocery store, for example, you may note that the customer service center is often toward the front, allowing quick access to the services provided. You may also note that the milk, one of the most-purchased products in grocery stores, is often located in the back of the store. If it is purchased so frequently, why put it in the back? Most likely consumers will grab a few other items on their way to or from the back of the store, increasing the dollars spent.

Even the atmosphere of the retail location has been studied by retailers over the years. What does it smell like? What is the temperature? What music is playing? How is it decorated? Each of these considerations plays an important overall role in developing a retailing strategy based on the target market.

Omnichannel Marketing

Omnichannel marketing refers to an integrated approach and cooperation by the various channels to ensure a consistent brand message to customers.²⁶ Consider **Starbucks** and its mobile app. The Starbucks mobile rewards app is designed for customers to have a similar experience to that of walking inside the store or even visiting its website. Utilizing an omnichannel strategy provides many advantages to both the consumer and company that might be otherwise more difficult to achieve. Omnichannel marketing provides increased access to products and improved brand visibility and allows for more personalization. This provides customers with a

consistent experience with the brand regardless of where they experience it.

Customers continue to look for ways to order products online, particularly as the world became more accustomed to purchasing from home during COVID-19 lockdowns. This has required the companies within distribution channels to reassess the way products and services get to the consumer. An omnichannel approach allows organizations to maximize the shopping experience for the consumer by integrating multiple delivery and engagement options.²⁷

LINK TO LEARNING



Omnichannel Revolution

Consumers have high expectations of their online and in-person retailers. Learn from this TED Talk about the future of retailing from an eyewear company that is looking to revolutionize the retail experience.

[Click to view content \(https://openstax.org/books/principles-marketing/pages/18-3-retailing-strategy-decisions\)](https://openstax.org/books/principles-marketing/pages/18-3-retailing-strategy-decisions)

Also read about [how you can use omnichannel experiences \(https://openstax.org/r/serviceomnichannel\)](https://openstax.org/r/serviceomnichannel) to create profits and the difference between omnichannel and multichannel experiences.

Retailer Communication

Retailers communicate to both their consumers and other channel members. The communication to consumers must be clear and concise to let potential customers know exactly what is being offered. While retailers develop communication strategies to directly reach their consumers, they will also collaborate on communication strategies with channel partners. For example, a Target commercial may feature a sale on Kellogg's cereal. The retailer and the manufacturer have worked together on a joint message for the consumer. Consider a second example. When you walk into a bookstore and see the latest release of a popular author's book in the front of the store display, the bookstore and the publisher have collaborated on all elements of that display: signage, how the book story is conveyed, display setup, etc.

This upward flow of communication is also important in a distribution channel. Retailers are on the front line of the exchange with consumers. Therefore, they can relay communication regarding products upward to other channel members. Assume a product that is sold primarily at retailers is being returned frequently because consumers are confused about how to use it. This information can be relayed back to the manufacturer, and the two can work together to overcome this challenge. It's important to remember that every member of the channel is in business to make money and add value to other channel members, so the more communication and cooperation the channel members have with one another, the more likely it is that they will all enjoy success.

Merchandise

Coupled with location and price, the choice of retail strategy will largely depend on the type of merchandise being offered to the consumer. **Merchandise** is simply the goods that are being offered for sale by a retailer. For large superstores, merchandise can include hundreds or thousands of pieces of merchandise, while smaller specialty stores stock narrow but deep product lines.

Retailers pay close attention to their choice of merchandise in terms of category management. **Category management** refers to a grouping of similar products into categories based upon consumer usage. The concept allows marketers to decrease competition between similar products and also buy similar product bundles at lower cost. Most retail chain stores use category management as a way to lower costs. For example, suppose a retailer has 20 stores across the country. Rather than having a buyer from each location analyze

prices and find the best supplier for their location, a centralized group of people negotiates prices and contracts for all retail locations. The time and money that the retailer saves add up when done for all or most products carried.

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.

- After trying to sell a line of clothing at your retail location, you decide to change the price from \$25 to \$15. Which pricing strategy have you used?
 - Markup
 - Original markup
 - Maintained markup
 - Markdown
- A superstore chain is planning to open an establishment in the town Levi lives in. Which of the following would be the most likely location for this superstore?
 - Central business district
 - Strip mall
 - Freestanding location
 - Regional shopping district
- You are interested in opening a small retail location that sells handmade jewelry in the small, rural town you reside in. Which of the following would be your best choice of location?
 - Department store
 - Regional shopping center
 - Central business district
 - Automatic vending
- Pablo is trying to determine their gross margin at the end of the quarter. Which is the correct equation?
 - Units sold times selling price
 - Units purchased times purchase price
 - Net sales less cost of goods sold
 - Unit cost plus the sale price
- Which of the following has had the most impact on a customer's access to product, brand visibility, and personalization?
 - Omnichannel marketing
 - Freestanding retail locations
 - Retail communication
 - Strip malls

18.4 Recent Trends in Retailing

Learning Outcomes

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

- LO 1** List major trends and developments in retailing.
- LO 2** Discuss the reason for these trends and developments.

Trends in Retailing

As consumer behavior changes and as technology advances, marketers must make changes to stay relevant in the minds of their target market. During the late 1800s, the department store began the transition away from small mom-and-pop stores. In the 1920s, the first supermarket opened. In the 1950s, door-to-door selling was in full swing. In the 1980s, infomercials became mainstream. In the 1990s, online shopping got its start. In the 2000s, traditional brick-and-mortar stores began online sales. The rise of social media began in 2007, which created new selling opportunities (see [Figure 18.14](#)). Then, in 2017, the United States saw a slight shift back toward traditional store retailers. But, alas, in 2020 as the COVID-19 pandemic arose, that shift reversed again to online. These are just a few examples of how retailing has evolved with the times in the last century. As consumers get busier with their work and social lives, retailers find new ways to create value with the products they are selling. Let's take a deeper look at some of the more recent trends in retailing.



Figure 18.14 Social media created new selling opportunities for marketers. (credit: "Social Media Mix 3D Icons - Mix #1" by howtostartablogonline.net/Blogtrepreneur/flickr, CC BY 2.0)

Social Commerce

Social commerce is the blend of e-commerce and social media. With the rise of social media, brands have found new ways to engage and create lasting relationships with consumers. Many brands use social media as an additional marketing tool to engage more personally with customers. Retailers can do so in a variety of ways, from shoppable posts to influencer videos and everything in between.

Let's take a look at **Macy's**, an iconic American department store chain founded in 1858. Macy's has weathered many changes in the retail landscape, and today it utilizes social commerce in a variety of ways. In 2020, the company opened its ambassador program to people outside the company—influencers who would promote Macy's products through affiliate links or shoppable videos on social media.²⁸ The pay is 5 percent commission on sales. Why this shift to working with influencers? Simple. Consumers tend to trust the opinion of influential individuals over company-created marketing. And for Macy's and numerous other retailers, the strategy has worked because social commerce grew 30 percent from 2019 to 2020.²⁹

As social media has grown since the inception of **Facebook** in 2004, marketers and social media apps alike have taken advantage of the ability of consumers to interact with brands and to purchase products directly in-app. For example, **Instagram's** Shop and Checkout feature allows consumers to purchase products immediately without ever leaving the app.³⁰ With the onset of the COVID-19 pandemic, the ability of consumers to purchase products while staying sheltered in place resulted in a change in behavior that is likely to endure in the coming years.

Online Stores in Offline Spaces

Have you ever purchased something online and picked it up at the store? This is what is referred to as online stores in offline spaces. While this practice was slowly gaining traction among larger retailers, the COVID-19 pandemic accelerated this trend drastically throughout nearly every industry. Retailers that already had the technology in place and/or were already testing such practices made a fairly easy transition to this new demand. Others closed their doors forever or scrambled to update their strategies to include some form of online sales.³¹

Walgreens, the second-largest pharmacy chain in the United States, was extremely successful in making such changes on the fly. In 2019, the company began allowing customers to order items online and pick them up at the drive-through window, which was previously primarily used for prescription pick up. Because the drive-through window was already established at Walgreens, it put them at a unique advantage to transition quickly to offer online orders in offline spaces.³²

Same-Day Delivery

While most might think of **Amazon Prime** as the originator of same-day package delivery, the concept has actually been around for decades but was less prevalent in retail. Companies that offer legal and financial services have long had same-day delivery of their documents. In addition, restaurants have been offering guaranteed on-time delivery for some time. Florists have also offered one-day service for many years, particularly for funeral arrangements. And while Amazon Prime made the practice much more widespread throughout retailing, the now-defunct company **Kozmo.com** likely pioneered the practice in 1998.³³

Kozmo was an online retailer that promised one-hour delivery of “videos, games, DVDs, music, mags, books, food, basics & more,” including Starbucks coffee.³⁴ The company was popular with young professionals and college students, but it couldn’t stay afloat and closed in 2001. The company likely inspired the US Postal Service Metro Post, which allowed Amazon to offer same-day delivery of packages in San Francisco in 2012.³⁵ Fast-forward to today, and many retailers, including Amazon and Walmart, offer same-day delivery in larger, well-populated areas.

The Emergence of Digital Wallets

Digital wallets are software-based systems that allow for secure transactions. Digital wallets were first used in the late 1990s, but today they offer more security and allow users to save numerous passwords and payment methods. The system allows users to quickly make online purchases without having to remember passwords or dig through their physical wallets to get cash.³⁶ They also allow users to pay for products and services in-store directly from their phones, allowing for touchless payments.

If you are familiar with the **Apple Store** or the **Google Play Store**, you’ve likely used digital wallets. When you purchase online on one of these devices, an automated display will come up asking if you would like to save your log-in and payment information. Once saved, each time you log in to the same website or begin to make a purchase, the digital wallet will auto-fill your information. While digital wallets are a huge time-saver for consumers, they also benefit retailers by capturing a sale that might have been lost due to inconvenience.

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 trends in retailing grew considerably during the COVID-19 pandemic?
 - a. Social commerce
 - b. Online stores in offline spaces
 - c. Digital wallets
 - d. All of the above trends grew considerably.

2. Cam posts numerous times on TikTok and Instagram. As a result, she is asked to work as an influencer for a major retailer. Which trend in retailing is Cam a part of?
 - a. Online stores in offline spaces
 - b. E-commerce
 - c. Social commerce
 - d. Same-day delivery
3. Software-based systems that allow for secure transactions by storing passwords and payment information are known as _____.
 - a. e-commerce
 - b. online stores in offline spaces
 - c. social commerce
 - d. digital wallets
4. Of the following, which is the most likely reason for an increase in online shopping?
 - a. A pandemic
 - b. The shift from two-income to one-income families
 - c. More people retiring than ever before
 - d. The rise in regional shopping centers
5. Which of the following is TRUE of social commerce?
 - a. Social media is on the decline.
 - b. Very few brands and companies utilize social media.
 - c. Social media is one way to incorporate omnichannel marketing.
 - d. Social media decreases personalization with customers.

18.5 Wholesaling

Learning Outcomes

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

- LO 1** Define wholesaling.
- LO 2** Identify different types of wholesalers.

Wholesaling Defined

Wholesaling is the business of buying goods in bulk at a discount from a manufacturer or other distribution channel member and selling them to retailers for a higher price. Wholesalers are often referred to as middlemen because they are the entity that links the producer to the retailer. Unlike retailers, wholesalers generally do not interact with customers or have physical locations for them to visit. Wholesalers engage in a variety of business practices including buying, storing, selling, and marketing.

Wholesalers are integral marketing intermediaries, responsible for getting the right product to the right place at the right time and creating additional value for the customer and other channel members. Furthermore, wholesalers actually make the final price for consumers less because they purchase in bulk, whereas some smaller retailers could not afford to do so. There are several types of wholesalers, and each has its unique importance in the distribution channel.

Types of Wholesalers

In addition to the general importance noted above, each type of wholesaler plays a specific and integral role in getting products from a manufacturer to the end user. The decision of which type of wholesaler a retailer will utilize—or which type of wholesaling a wholesaler chooses—will largely depend on the type of product, the

additional services needed, and often, the industry as a whole. The following section examines the types of merchant wholesalers (see [Figure 18.15](#)).

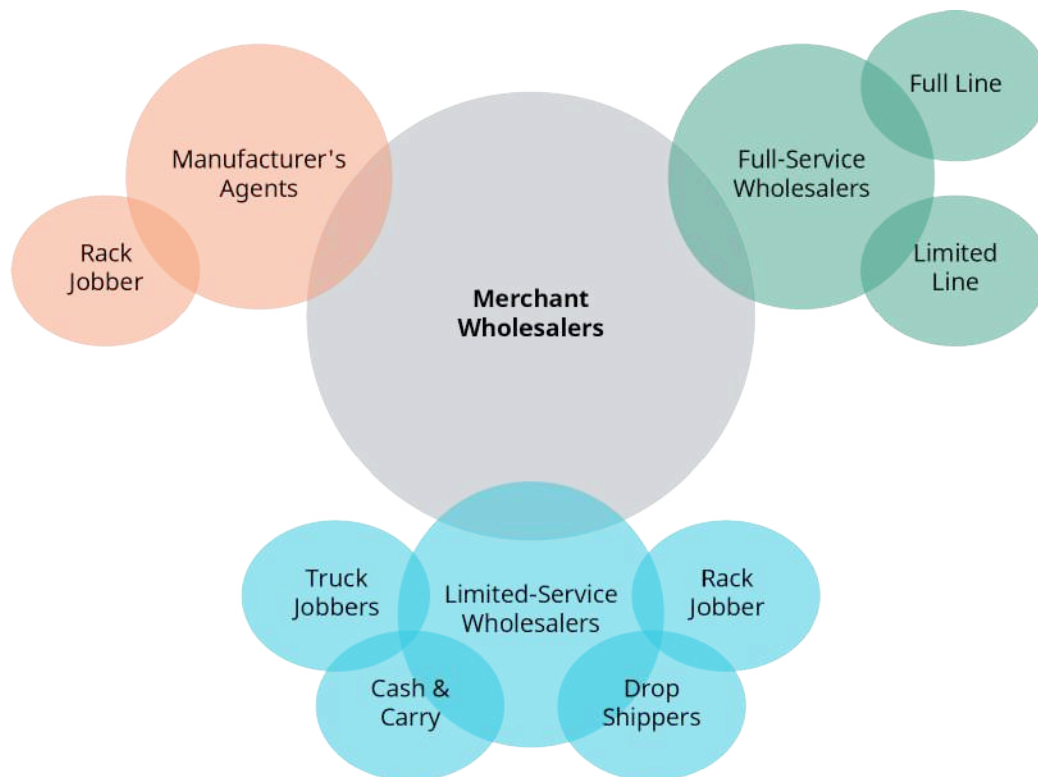


Figure 18.15 Types of Merchant Wholesalers (attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)

Merchant Wholesalers

Merchant wholesalers engage in buying, storing, and physically handling products in large quantities and selling those products in smaller quantities to retailers.³⁷ Merchant wholesalers are the most common form of wholesaling and can take on many responsibilities in the distribution channel to assist retailers. Merchant wholesalers are classified by the level of service they provide to retailers and include full-service wholesalers, limited-service wholesalers, and manufacturer's agents. Retailers and manufacturers will choose which type of wholesaler to work with based on their needs. Some large retailers, such as Walmart, may need fewer services from wholesalers than smaller specialty stores will need. As you continue to read, remember that wholesalers are a business—so they are in business to make money, but they also take on risk in doing so.

Full-Service Wholesalers

Wholesalers that take on the most risk are full-service wholesalers. **Full-service wholesalers** offer retailers the most complete range of services, such as buying, selling, storage, transportation, sorting, and financing. This type of wholesaler likely has its own salespeople to assist retailers, and some assist in the stocking of the products on retailers' shelves. They often provide retailers lines of credit to purchase products now and pay at a later date. Merchant wholesalers focus on either general or specialty merchandise.

Full-service wholesalers that offer an extensive list of merchandise for sale are known as **general-merchandise (full-line) wholesalers**. Retailers are able to purchase most, if not all, of their inventory from one wholesaler. For retailers, general-merchandise wholesaling is convenient because it provides for greater availability and flexibility with product quantities. However, retailers need to be cautious in utilizing only one wholesaler for all of their needs as they may find themselves in predicaments they cannot contractually be protected from—such as higher prices.

Unlike general-merchandise wholesalers, which focus on an extensive line of products, **specialty wholesalers**

focus on a limited line of products. For example, **Sysco**, one of the country's largest food-service wholesalers, focuses on limited product lines, such as food and food-service supplies.³⁸ The company's target market includes hospitals and nursing homes, schools and colleges, and other entities that offer food service on a large scale. You might be surprised to learn that your high school cafeteria or college commons is served by Sysco.³⁹ The company offers a host of services to its customers, such as financing, consultation, menu assistance, and food production.

Limited-Service Wholesalers

As the name suggests, **limited-service wholesalers** offer a limited range of services to retailers. These wholesalers often compensate for the lack of services by offering lower prices than full-service wholesalers. For example, a limited-service wholesaler may not be able to offer retailers financing or stocking services, but it may purchase excess inventory from full-service wholesalers or manufacturers at a deeply discounted rate and in turn offer a better price to retailers. Limited-service wholesalers offer retailers many services to increase value.

Rack jobbers are companies that work with retailers to display and sell a product in-store. These items are often not products that the retailer would ordinarily stock and are budget-friendly items. For example, when you enter a gas station and see a rack of cell phone chargers and accessories, it is likely that they are from a rack jobber. The rack jobber stocks and maintains the cell phone display, and the gas station receives a portion of the sales. The advantage to the retailer is that it is not responsible for ordering products or maintaining and stocking displays; it is almost like passive income. The biggest disadvantage to retailers is that rack jobbers may over- or under-order products or fail to maintain displays as frequently as needed.

Cash-and-carry wholesalers are those that offer a limited line of fast-moving goods that they sell to retailers for cash. Because these wholesalers do not have to have massive amounts of storage space and do not offer services, they are able to offer products at lower prices. They also do not often deliver products, so they do not have overhead related to transportation. The advantage to the retailer is lower prices. But the disadvantages include no guarantee of product, the expense of transportation, and the demand for cash payment.

Drop shippers are retailers that use suppliers to ship products directly to the end consumer. In this case, retailers sell the product to the consumer, but they don't actually ever take possession (stock on a shelf, have inventory, etc.) of the product. The retailer only pays for the product after the consumer pays for and receives the order. Drop shipping is advantageous to retailers because they do not assume much risk since they do not take possession of the product. However, the profit margins for drop shippers are usually lower than utilizing other wholesalers because the wholesaler assumes all the risk.

Truck jobbers are wholesalers that make calls to retailers carrying goods on a truck. They carry a small inventory of the same product or small product lines, such as milk or bread. Because they have inventory in the truck, they can stop at a retailer, take the order, and deliver it within the same call. Truck jobbers are most often used for perishable foods that cannot sit in a warehouse waiting to be ordered.

Manufacturer's Agents or Representatives

The final, and perhaps least common, type of wholesaler is a manufacturer's agent or manufacturer's representative. Unlike the other types of wholesalers mentioned above, agents do not take possession of any product at any time. Rather, **manufacturer's agents** are independent contractors who act as salespersons for multiple manufacturers to sell similar (but not competing) products to retailers. The agent provides advantages to both to the manufacturer and the retailer. This is particularly true for smaller manufacturers where the expense and management of a sales force would likely not be feasible. Rather, an agent can take on the responsibility of working with the retailers or wholesalers to sell the product.⁴⁰

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 best describes wholesalers?
 - a. Businesses that buy in bulk at discounted prices and sell to retailers
 - b. Online stores in offline spaces
 - c. The final link between manufacturers and consumers
 - d. Businesses that produce goods and services
2. Your friend Jesus wants to start a retailing business but doesn't think he can afford space, nor does he wish to travel and make sales calls to retailers. Which of the following might be the best warehousing option for Jesus?
 - a. Rack jobber
 - b. Specialty wholesaler
 - c. Cash-and-carry wholesaler
 - d. Drop shipper
3. The type of wholesaler that offers the most complete range of services is known as a _____.
 - a. rack jobber
 - b. cash-and-carry wholesaler
 - c. limited-service wholesaler
 - d. general-merchandise wholesaler
4. Which type of wholesaler utilizes independent contractors as liaisons between manufacturers and retailers?
 - a. Manufacturer's agents
 - b. Rack jobbers
 - c. Truck jobbers
 - d. Full-line wholesalers
5. _____ are companies that agree with retailers to display and sell products in-store.
 - a. Rack jobbers
 - b. Cash-and-carry wholesalers
 - c. Drop shippers
 - d. Truck jobbers

18.6 Recent Trends in Wholesaling

Learning Outcomes

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

- LO 1** Explain the impact of growing competition and global dynamics.
- LO 2** Discuss the complexity of regulatory requirements.
- LO 3** Discuss the challenges of technology evolution.

Growing Competition

Prior to 2019, most of us did not give much thought to the supply chain or its channel members. We went to the store and were welcomed with endless aisles of the products we were used to purchasing. However, when the COVID-19 pandemic hit, the entire country became more in tune with channel members. Wholesalers were not unaffected by the disruption that the pandemic caused channel members, and new trends are on the horizon for wholesalers. Let's take a look at these recent trends that affect wholesaling.

Wholesalers are a central link in the economy and supply chain. The industry is facing tough competition with new as well as nontraditional wholesalers entering the market. Just as consumers are demanding more convenient shopping experiences and increased value in products and services, retailers are demanding the same from their intermediaries. Wholesalers must find innovative and competitive business models to compete.

The Impact of Global Dynamics on the Supply Chain

Globalization has been integrating global markets for the past several decades. And supply chains have had to adjust to keep up with these changes. With products available from around the world at lower costs and retailers demanding faster deliveries, many wholesalers have expanded their operations in response to the rise of the global economy. This comes with its own set of challenges, such as an expanded sales force and the need to understand other economies, cultures, and languages.

More recently, it has become apparent in the United States and around the world that supply chain participants were not prepared for disruptions such as those seen during the COVID-19 pandemic. Shortages of workers, products, containers, and long-haul truck drivers have proven to the industry that some major changes need to occur.

Regulatory Requirements and Complexity

With advancements in technology (and the need for consumer security) as well as the growing global economy, regulatory requirements also increase—and become more complex. Wholesalers must understand such requirements in order to conduct business legally. For example, wholesalers need a special license to distribute restricted goods, such as alcohol, controlled drugs, firearms, and pesticides. Depending on the type of transportation mode being used—such as tractor-trailers hauling containers—special licensing may need to be obtained.

Wholesalers also have a large responsibility when it comes to disposing of waste. More specific government regulations in regard to wholesalers include the Sale of Goods Act, which requires goods sold to be safe and include clear directions.⁴¹ The government has also enacted various rules to protect consumers and to be able to trace products.

Consumer Protection

Caveat emptor (Latin for “let the buyer beware”) was a long-standing motto in commercial transactions, one that implies the buyer purchases at their own risk. However, consumer protection laws are now woven into the fabric of the economy. Regulations help keep sellers honest and consumers protected. In general, consumer protection regulations exist to prevent unethical or dangerous business practices throughout the distribution channel. These practices range from false advertising to predatory lending to scams and frauds.⁴² Some of these will be discussed later in the chapter.

Product Traceability

Product traceability refers to the ability to track all processes for a product, from the procurement of raw materials to production, consumption, and disposal. Increasing numbers of consumers want to know exactly where their products are coming from and whether they are ethically sourced.⁴³ Aside from consumer demand, it is a crucial part of the distribution channel as product recalls become more common.

For example, on January 6, 2022, the US Department of Agriculture (USDA) announced a recall of over 25,000 pounds of ground beef.⁴⁴ Because of product traceability, the specific ground beef under the recall was able to be traced to a specific location, production date, and lot. Without product traceability, there may have been no way of knowing where the ground beef came from, forcing consumers to discard purchases of product that was not tainted. Additionally, product traceability helps combat counterfeit products by finding the originating source.

LINK TO LEARNING



Traceability Standards

The GS1 Global Traceability Standard defines what is minimally acceptable for full supply chain traceability. It establishes a full system that traces products end to end. Read [more about the standards and see how it's applied \(https://openstax.org/r/howtraceability\)](https://openstax.org/r/howtraceability) to food.

Challenges of Technology Evolution

The advancement and increased use of technology has brought about both challenges and opportunities for wholesalers. Product traceability has become increasingly easier, for example. Orders are easier to make and track. However, technology is expensive and comes with a learning curve for new users. The increased demand of consumers and retail customers requires wholesalers to keep up with technological advancements to stay competitive.

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 does *caveat emptor* translate to in English?
 - a. Buyer beware
 - b. Manufacturer beware
 - c. Retailer beware
 - d. Consumer protection
2. Justia saw on the news that chicken was recently recalled by the US Food and Drug Administration (FDA). The news anchor specified which sell-by dates, manufacturer, and retailers were affected. Justia doesn't understand how the FDA can know, with such specificity, which chickens were affected. How would you describe to Justia this specificity?
 - a. Increased competition
 - b. E-commerce
 - c. Caveat emptor
 - d. Product traceability
3. Which of the following is NOT an advantage of product traceability?
 - a. It makes it easier to trace counterfeit goods.
 - b. It makes it easier to trace tainted food.
 - c. It creates less work for distribution channel members.
 - d. It makes it easier for consumers to know where products come from.
4. Which of the following is NOT a growing trend in wholesaling?
 - a. Decreased government regulations
 - b. Increased competition
 - c. Increase in globalization
 - d. Increase in technological advances
5. Which regulation requires goods sold to be safe and include clear directions?
 - a. Sale of Goods Act

- b. Food and Drug Act
- c. Caveat Emptor
- d. Better Business Bureau

18.7 Ethical Issues in Retailing and Wholesaling

Learning Outcomes

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

- LO 1** Discuss ethical issues in retailing.
- LO 2** Discuss ethical issues in wholesaling.

Ethical Issues in Retailing

As with any business entity, ethical issues arise in both retailing and wholesaling. It can be easy to find oneself in an ethical dilemma while trying to meet consumer demands and stay competitive. There are several prominent ethical issues that arise specifically with retailing and wholesaling.

Because retailers are the final link between manufacturer and consumer, ethical issues often arise in the practices used toward consumers. Common issues in retail include deceptive or misleading marketing, poor treatment of consumers, and misleading sales tactics.

Unethical Practices Used by Retailers

Although there has been a considerable rise in the number of consumers and advocacy groups calling out unethical business practices, many retailers still attempt to use tactics to sway consumers into purchasing products. **Truly Organic**, a retailer based in Miami Beach, Florida, came under attack by the Federal Trade Commission (FTC) in 2019 for misleading consumers into believing their products were 100 percent organic, which wasn't entirely true.⁴⁵ The case stated that Truly Organic was guilty of **false or misleading advertising**, an unethical marketing practice by which consumers are given false or misleading information about a product or service.

Misleading or manipulative sales tactics is another common unethical practice used by retailers. Misleading sales tactics involve misleading the consumer with untrue information regarding a product or service. Subscription services used to be notorious for misleading sales tactics as they offered a service or product for a free trial but did not include in the promotion that the consumer would be charged every month after a free trial. There are many regulations that require such companies to disclose this information.

Ethical Issues in Wholesaling

Just as retailers may face the temptation to be unethical toward consumers, wholesalers often find themselves in an ethical dilemma with their retail customers. Two common ethical issues that arise in wholesaling surround fairness and pricing.

Fairness and Billing

Fairness can certainly be a subjective term. What you and your sibling may each deem as fair is based on your individual perspectives and opinions. In wholesaling, and commerce in general, the government has enacted regulations to maintain fairness in business practices. You have probably heard the term “monopoly.” In the United States, monopolies are considered unfair business practices and thus are largely against FTC regulations. If one or a few businesses control all of an industry, the laws of supply and demand cease to exist because one company controls both. In the wholesaling industry, the same rules apply. If a wholesaler requires a retailer to sign very specific contracts that they will use no other wholesaler, the retailer is at the mercy of the wholesaler when it comes to everything surrounding their business's livelihood.

Just as with fairness, wholesalers also need to pay close attention to their billing practices. Wholesalers and

retailers agree on the billing method to be used in their contract. However, it is unethical for wholesalers to bill retailers for product never shipped or received, damaged product without recourse, or product not ordered.

COMPANIES WITH A CONSCIENCE



Trader Joe's

In 1967 in Pasadena, California, the first **Trader Joe's** was opened. Today, the retail grocery chain has 505 stores in over 42 states as well as an online presence. Trader Joe's has always been committed to improving sustainability in its channel. Unlike many competitors in the grocery industry, Trader Joe's donates 100 percent of its unsold products. It does not allow certain controversial products in the manufacturing of its private-label goods and continues to make organic products more accessible. Additionally, the company has removed more than 6 million pounds of plastic from packaging and continues to have high rates of employee satisfaction.⁴⁶ The ethical decisions of Trader Joe's involve relationship building throughout the supply chain to ensure that each channel member upholds the high ethical standards that help enhance the customer experience.

There are other supermarkets known for ethical practices. These include **Natural Grocers**, **Sprouts**, Costco, and **Whole Foods**.⁴⁷



Chapter Summary

This chapter explores two important members of the distribution channel and value delivery system: wholesalers and retailers. Both add value to the product by ensuring assorted merchandise is available when and where customers want it and at an acceptable price. Retailers buy products from manufacturing firms or wholesalers and provide them for sale to the consumer.

Retailers buy in bulk, hold inventory, offer convenient hours for shoppers, supply services, and collect and share feedback from consumers with other members of the distribution channel. Retailers may have a storefront; non-store retailers usually sell through direct mail and catalogs, vending machines, direct selling, online sites, TV home shopping, and telemarketing. Retail strategy includes identifying target audiences, choosing location(s), providing a product assortment, and pricing.

Wholesalers buy goods in bulk at a discount from a manufacturer or other distribution channel member and sell them to retailers for a higher price. They are often called “middlemen” because they link the manufacturer to the retailer. Unlike retailers, wholesalers do not interact with the final consumer, and they do not have highly visible physical locations accessible to end consumers. Wholesalers engage in a variety of business practices including buying, storing, selling, transporting, financing, and even marketing.

Just as in all marketing strategies, retailers and wholesalers contend with changes in consumer behavior and expectations, technological advances, complex regulations, channel member availability, and international dynamics. Of the regulations, most are intended to protect consumers from unethical or dangerous products and business practices.



Key Terms

automatic vending the use of an electronic device that dispenses a product

cash-and-carry wholesalers wholesalers that offer a limited line of fast-moving goods that they sell to retailers for cash

category killers large superstores, most often chains stores, that are bigger, cheaper, and more convenient than competitors

category management grouping similar products into categories based on customer usage

central business district (CBD) the commercial and business center of a given city or town

convenience store a small retail business that stocks a limited range of everyday items such as groceries, snacks, soft drinks, tobacco, toiletries, and lottery tickets

department stores larger retailers that have separated areas—or departments—for similar product lines

digital wallets software-based systems that allow for secure transactions

direct mail solicited or unsolicited advertising of products and services to prospective customers through the mail

direct selling a marketing strategy that involves selling products and services directly to the consumer in a non-retail setting

discount store retailer that sells a broad range of products at lower prices than competitors

drop shippers a wholesaler business model where retailers use suppliers to ship products directly to the end consumer

factory outlets retailers that offer overstocked merchandise at discounted prices

false or misleading advertising an unethical marketing practice by which consumers are given false or misleading information about a product or service

freestanding retail locations store retailers that are not attached to any other retailer or establishment

full-service wholesalers wholesalers that offer retailers the most complete range of services, such as buying, selling, storage, transportation, sorting, and financing

general-merchandise (full-line) wholesalers wholesalers that offer an extensive list of merchandise for sale

gross margin net sales minus the cost of goods sold

intermediaries companies that act as liaisons between the buyer and seller

keystone pricing a pricing strategy that doubles the price from the wholesaler or manufacturer

limited-service wholesalers wholesalers that offer a limited range of services to retailers to increase value

maintained markup the actual markup on the merchandise that is sold to the consumer

manufacturer's agents independent contractors who act as salespeople for multiple manufacturers to sell similar (but not competing) products to retailers

markdown a price decrease for a product that is at the end of its life cycle or season

markup the amount added to the cost retailers purchase goods for

merchandise the goods that are being offered for sale by a retailer

merchant wholesalers wholesalers that engage in buying, storing, and physically handling products in large quantities and selling those products in smaller quantities to retailers

non-store retailers retailers that operate outside of traditional brick-and-mortar locations

off-price retailers retailers that provide high-quality goods at lower prices

omnichannel marketing utilization of multiple distribution channels

omnichannel strategy manufacturer strategy that uses multiple distribution channels to distribute a product

online retailing a business model that allows consumers to search and purchase products remotely over the Internet

original markup the markup a business has decided upon at the onset of the offering, which includes planned sales and overhead

product traceability the ability to track all processes for a product from the procurement of raw materials to production, consumption, and disposal

rack jobbers wholesalers (or manufacturers) that agree with retailers to display and sell a product in a retail store

regional shopping centers commonly referred to as “malls”; collection of stores that offer general merchandise or fashion-oriented offerings

retailing the process of selling goods and services to consumers

social commerce a blend of e-commerce and social media

specialty stores retailers that focus on selling a single type of product or a single product line

specialty wholesalers wholesalers that focus on a limited line of products but carry the line in some depth

store retailer a traditional brick-and-mortar establishment where products are displayed for customers to purchase

strip malls classified by an attached row of retail stores offering both products and services

supermarket retailer that mostly focuses on a product mix of grocery items but also carries household and personal items and offers limited services

superstores very large retailers that have characteristics of both supermarkets and department stores

telemarketing the attempted sale, or marketing, of goods and services to potential customers via telephone

television home shopping a business practice in which products or services are sold via television

truck jobbers wholesalers that make calls to retailers carrying goods on a truck

warehouse clubs retailers that sell goods in bulk at discounted prices

wholesaling the business of buying goods in bulk at a discount from a manufacturer or other distribution channel member and selling them retailers for a higher price



Applied Marketing Knowledge: Discussion Questions

1. Define direct consumer marketing channels and indirect consumer marketing channels. List an example of each type and explain the difference between them.
2. The shift to online shopping has challenged many retailers who had only a brick-and-mortar location. One of the industries hit hardest by changes in consumer behavior is travel agencies because travelers can access much of the necessary pricing information themselves and then purchase tickets directly from the

airlines. Name two additional store retailers that have virtually disappeared because of non-store retailing.

3. *Markup* is a term used by retailers to explain how much revenue comes from the difference between the cost of acquiring a product and the price it is sold for. Why do florists usually mark up their products 80% while grocers generally mark up their products 15%?
4. How does location matter for a wholesale business?
5. Is it ethically acceptable for a jewelry store to advertise \$50 diamond-studded heart necklaces for Valentine's Day and then tell customers who come to the store that the \$50 necklace is out of stock but a \$75 option is in stock?



Critical Thinking Exercises

1. According to PR Newswire, more than 40 percent of the overall revenue from the multimodal distribution market is due to roadway logistics. Give three reasons why retailers and wholesalers depend largely on roads—rather than rail, air, or water—to send and receive products. Why do roads create the greatest transportation-based revenue for businesses and lowest costs for consumers?
2. Thanks to retailers and wholesalers and their strategies, products may be distributed in various ways. What are two examples of consumer products that are sold by retailers, and what is the corresponding distribution strategy?
3. Most firms today take advantage of multimodal transportation, especially those that source and distribute products internationally. List three reasons why multimodal transportation makes sense financially for a retailer like Amazon that operates in a time-sensitive marketplace.



Building Your Personal Brand

Have you ever worked in a grocery store stocking shelves, worked at your campus bookstore, or waited on customers at a restaurant or drive-through? Working in retail is a fantastic resume booster. Not only have you advanced your knowledge of the business world, but you have also worked closely with demanding customers and management in a retail environment. Learning to serve customers, following training and rules, being part of a successful job interview, and holding a job outside of school are all highly coveted experiences. According to the Skills You Need website, the most important employability skills include “getting along with and working well with other people” and “being reliable and dependable: doing what you say you will by the deadline you have agreed [to] and turning up when you are meant to be there.”⁴⁸ Create or revise your resume to include the applicable skills.



What Do Marketers Do?

C.H. Robinson is a third-party logistics provider headquartered in Eden Prairie, Minnesota. Many businesses outsource elements of distribution, warehousing, and fulfillment services to companies such as C.H. Robinson. Like wholesalers, logistics providers, also an intrinsic part of the value delivery system, operate largely outside of the public eye.

Reach out to one of the 297 C.H. Robinson locations and ask if you can speak to someone about recent supply chain trends for a college course assignment. Your questions may include the following:

- How does technology impact the supply chain?
- What is the biggest industry you work with that depends on supply chain partners?
- How has the COVID-19 pandemic impacted product availability and distribution efforts?
- What does a typical day at C.H. Robinson consist of?
- What special training do I need to work in supply chain logistics?
- What is a typical salary for a professional new to C.H. Robinson?

- Do you have an internship program?



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 the 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](#), [Pricing Products and Services](#), [Integrated Marketing Communications](#), and [Distribution: Delivering Customer Value](#), complete the following section of your marketing plan:

- Budgeting
- Action Programs
- Controls to Monitor Progress

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



Closing Company Case

Ace Hardware

With annual sales of more than \$400 billion in the United States, the home improvement market has no shortage of eager shoppers. While Home Depot and Lowe's dominate the market in terms of sales, **Ace Hardware** dominates by number of locations and customer satisfaction.⁴⁹

What started in 1924 as a way for the independent hardware retailer to buy inventory like the “big guys,” saving money based on volume, has grown into one of the largest and most well-known retailer-owned cooperatives. Founded by a group of Chicago hardware store owners who wanted to save money and enable the smaller hardware store to compete, is now a worldwide leader in home improvement.

Ace prides itself on being the local neighborhood hardware store. Its major niche in the market is to provide the best service to customers. To this end, Ace has always hired knowledgeable staff to help answer questions, locate products, and provide advice. Ace buys inventory according to the needs and wants of its local consumers, but its real niche is in customer service. Generally, a customer isn't in the store for more than five minutes before a friendly, red-shirted Ace employee is asking if they need help.

Early on, Ace wanted to set itself apart based on its helpful and friendly service. Playing on this value proposition and looking to build brand awareness, Ace crafted a very catchy ad campaign, which has solidified the Ace brand. Back in the 1970s and 1980s, Ace became known by its famous jingle, “Ace is the place with the helpful hardware man.” This jingle is still being used today, and you can see it here.

[Click to view content \(https://openstax.org/books/principles-marketing/pages/18-closing-company-case\)](https://openstax.org/books/principles-marketing/pages/18-closing-company-case)

Because retailers must execute well on all the marketing mix variables, for a retailer like Ace to be successful, it needs to understand its customers in the local market. In doing so, it can also identify the best location for the store in order to meet the needs of those customers and how they travel around town. Ace knows the customers well, so it is able to set prices and provide products according to local needs.

One of the founding principles of Ace is that each store should be locally owned and operated. Because of this, Ace is embedded in the communities they serve. You will often find the local Ace team stepping in to help with community projects or sponsor local sports teams. The stores work with independent producers to stock locally made products.

Over the past decade, retailing has seen significant changes in how consumers shop. Amazon has swiftly

transformed and dominated retailing. Many independent brick-and-mortar retailers have been unable to compete with the convenience of online ordering and at-home delivery.

And with the onset of the COVID-19 pandemic in 2020, retailers everywhere were scrambling to adapt. Ace quickly transformed into an online as well as in-store retailer. Through a quick revamp of its website, Ace was able to offer its customers the ability to order and pay online with options to either pick up at the store or have the product(s) delivered to their home. Home delivery was fulfilled by the local Ace Hardware employees.

Another advantage to Ace Hardware is the services it provides. Making keys, sharpening lawn mower blades and chains for chain saws, repairing screens, and mixing customer paint have allowed Ace to go the extra mile for items customers must come to the store for.⁵⁰

Case Questions

1. Ace fulfills many of the marketing mix variables. What are some of the marketing activities of a local Ace Hardware store?
2. What is the retail classification of Ace Hardware?
3. How does Ace Hardware differentiate itself from the big-box stores like Lowe's and Home Depot?
4. How was Ace Hardware able to adapt to the digital age and work with consumers who were not shopping in-store during the height of the COVID-19 pandemic?



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19

Sustainable Marketing: The New Paradigm

Figure 19.1 Sustainability marketing, which takes into account present consumers' needs without harming the future, is growing in importance as consumers shift to being more environmentally conscious in their purchasing decisions. (credit: "Hike" by Loren Kerns/flickr, CC BY 2.0)

Chapter Outline

- 19.1 Sustainable Marketing
- 19.2 Traditional Marketing versus Sustainable Marketing
- 19.3 The Benefits of Sustainable Marketing
- 19.4 Sustainable Marketing Principles
- 19.5 Purpose-Driven Marketing



In the Spotlight

According to **Accenture**, a global professional services company, "Sustainable organizations are purpose-led businesses which inspire their people and partners to deliver lasting financial performance, equitable impact, and societal value that earns and retains the trust of all stakeholders."¹ Sustainability is about doing business without negatively affecting society. Without sustainable practices, companies may negatively contribute to issues in the environment, inequality, and social injustice.² Consumers, employees, and other interested parties are now holding businesses to higher standards: 74 percent of consumers agree that conducting ethical practices is an important reason to support a company or brand; 65 percent of employees believe that businesses should leave their employees better off through work; and 81 percent of sustainable investment indexes outperformed comparable benchmarks in 2020.³ According to John Streur, CEO of **Calvert Research and Management**, "In 2021, we see companies almost competing with one another on sustainability."⁴ The proof is in the pudding. A 2021 report by the **Weinreb Group** found that "there were more chief sustainability officers, or CSOs, recruited in 2020 than in the previous three years combined."⁵

Barron's, a respected source on financial news, creates a 100 Most Sustainable Companies list each year. In 2021, the popular kitchen supply store **Williams-Sonoma** stood out above others because its board consisted of 67 percent women.⁶ Williams-Sonoma, Inc.'s 2021 impact report outlined that, at the time of publication, 46 percent of the company's products supported one or more of its environmental and social initiatives, and the

company aims to increase that amount to 75 percent by 2030.⁷ In 2020, Williams-Sonoma joined the United Nations (UN) Global Compact and aligned its corporate goals with the UN Sustainable Development Goals.⁸ To learn more about Williams-Sonoma's sustainability efforts and plans, review its [2021 impact report \(https://openstax.org/r/impactreport\)](https://openstax.org/r/impactreport), its [corporate responsibility web page \(https://openstax.org/r/sustainabilitywilliams\)](https://openstax.org/r/sustainabilitywilliams), and the [sustainability section of its website \(https://openstax.org/r/williamsonoma\)](https://openstax.org/r/williamsonoma).

Williams-Sonoma is just one example of a company with a vision and a commitment to sustainability. Other companies known for their sustainability commitments and practices include **Microsoft**, **VMware**, **Intuit**, **Apple**, and **Mastercard**.⁹

In the future, all global companies must commit to, assess, and validate the goal of sustainability; as you'll learn in this chapter, it's becoming a significant factor in how businesses evaluate success. Those companies that fully embrace this commitment will stand out most to consumers and achieve business success.

19.1 Sustainable Marketing

Learning Outcomes

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

- LO 1** Define sustainable marketing.
- LO 2** Explain the three pillars of sustainable marketing.

Environmental Sustainability

Consumers increasingly demand purpose over profits from the brands they work for, shop for, invest in, and allow within their communities. In fact, an **IBM** study on consumer behavior indicated that 57 percent of consumers would alter consumption habits to be more environmentally conscious, and nearly 80 percent of survey respondents indicated that sustainability is essential.¹⁰ Therefore, sustainability is a business imperative. As defined by Philip Kotler, Professor Emeritus at Northwestern University, “the concept of sustainable marketing holds that an organization should meet the needs of its present consumers without compromising the ability of future generations to fulfill their own needs.”¹¹ In other words, products and services consumed today should not harm consumers of tomorrow.

Sustainable marketing infuses purpose into socially conscious brands, products, and services. Marketing seeks to differentiate the brand based on mission. Sustainable brands define a purpose, orient to consumers' and related groups' values, align purpose with strategy, and reflect sustainability in marketing. This business strategy gives brands an edge with those who seek brands that align with their values.

The three pillars of sustainable marketing include environmental sustainability, social good, and economic return (see [Figure 19.2](#)). You may have heard the term “planet, people, and profits,” which describes the three pillars of sustainable marketing. Businesses meet the needs of the marketplace without sacrificing the future viability of the world. Companies are increasingly following an **environmental, social, and governance strategy** and use these **ESG pillars** to guide their work. The topic extends beyond sustainability into doing what's right socially and ethically. Companies report their quantitative and qualitative results in annual disclosures to share the impact of ESG efforts.

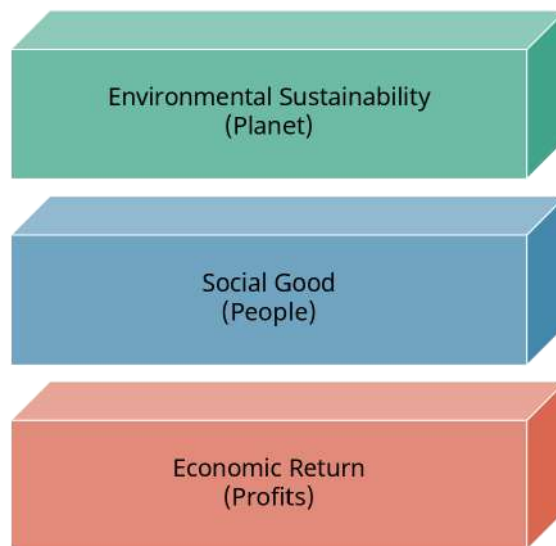


Figure 19.2 Three Pillars of Sustainable Marketing (attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)

LINK TO LEARNING



ESG

Are you interested in learning more about the elements of ESG? Here are several sources where you can read more:

- Global advisory firm, PwC (<https://openstax.org/r/socialandcorporategovernance>)
- Finance company, NerdWallet (<https://openstax.org/r/esginvesting>)
- HubSpot 2022 sustainability report (<https://openstax.org/r/hubspotsustainability>)
- Accenture (<https://openstax.org/r/sustainabilitycreatingvalue>)

The **environmental pillar** focuses on reducing a company's impact on the environment. For example, companies may reduce their environmental impact through recycling, reusing, minimizing waste, and increasing energy efficiency. **Stonyfield Organic** has a commitment to the environmental pillar with its plans to cut carbon emissions by 30 percent by 2030. In addition, it plans to focus on energy conservation, waste reduction, and sustainable packaging and logistics.¹² Additionally, **Subaru of Indiana Automotive** operates a "green lean" manufacturing facility that is designed as zero landfill. Subaru recycles or composts 98 percent of its manufacturing waste, and the remaining 2 percent is incinerated as waste to fuel.¹³

The **social pillar** considers a company's consumers and employees and creates a more inclusive environment for its community. Much of the work in the social pillar occurs through responsive programs for employees that increase well-being. However, companies can also reach beyond their walls to impact their communities.

LINK TO LEARNING



The Story behind State Bags

There are many examples of companies that work to support their communities. One example is **State Bags**. State Bags donates a bag filled with school supplies for each bag purchased. It also partners with nonprofits such as **Seeds of Peace**, **Time's Up**, and **Bottomless Closet** to support women and children from

underserved communities.¹⁴ You can learn more about [State Bags and its work by visiting the company's website \(https://openstax.org/r/statebagspages\)](https://openstax.org/r/statebagspages) or following [the State Bags Instagram account \(https://openstax.org/r/instagramstatebags\)](https://openstax.org/r/instagramstatebags).

Adobe is another example of a company that works inside and outside its organization to effect social change by partnering with local nonprofits in the communities in which its employees live and work. Adobe has a rich diversity, equity, and inclusion initiative within its organization that empowers diverse voices. For example, Gen Create is a digital space for diverse thinkers and creators to collaborate to change the world for the common good. Finally, Adobe provides access to its software to underserved communities to work toward greater equity regardless of location.

LINK TO LEARNING



Adobe Gen Create

Check out [Adobe's Gen Create program \(https://openstax.org/r/resourcefornextgeneration\)](https://openstax.org/r/resourcefornextgeneration), a place for young creators to collaborate and effect change.

The **economic pillar (governance pillar)** of sustainability concerns profitability and business ethics. Businesses cannot be sustainable if they are not profitable, which is a clear key sustainability performance indicator. Companies can demonstrate success in the economic pillar through proper governance structures, risk management, and compliance. Proper governance over voting, legal compliance, and accounting standards shows people that companies are following their obligations. Governance also includes business ethics, anticompetitive practices, and tax transparency. At the end of the day, is the company doing the right thing for its investors and all of its interested parties?

Governance structures can be examined to ensure diversity of leadership that aligns with the company's various interested and influential groups. **Fortune** and **Refinitiv** partnered to develop a Measure Up initiative that aims to bring transparency to businesses diversity, equity, and inclusion work of the Fortune 500. The initiative reviewed measures such as policies, employee resource groups, percentage of minorities in board or leadership positions, and salary parity to determine a score for companies. Companies such as **Microsoft**, **Target**, and **Gap** rated highly on the criteria, demonstrating advanced diversity, equity, and inclusion.¹⁵ Amazon publishes its representation statistics sorted by job level to illustrate how it is making progress on creating a more diverse workforce.

LINK TO LEARNING



Measure Up

[Learn more about the Measure Up initiative \(https://openstax.org/r/partnershipmethodology\)](https://openstax.org/r/partnershipmethodology) to help businesses build fair and inclusive work spaces. In its work, it ranks companies based on their diversity, equity, and inclusion (DEI) disclosure and performance metrics.

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. If a brand develops a diversity, equity, and inclusion initiative, which pillar of sustainability is addressed?
 - a. Environmental
 - b. Social
 - c. Economic
 - d. All of the above are correct.
2. How does sustainable marketing differentiate from other types of marketing?
 - a. It is more expensive.
 - b. It is only for people who care about the environment.
 - c. It is a business imperative.
 - d. It is rooted in purpose.

19.2 Traditional Marketing versus Sustainable Marketing

Learning Outcomes

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

LO 1 Explain how the parties in traditional and sustainable marketing are different.

LO 2 Define the different objectives in traditional and sustainable marketing.

Differences between Traditional and Sustainable Marketing

Traditional marketing takes a customer approach and focuses on product, price, place, and promotion for a target audience. Sustainable marketing takes a “stakeholder approach” and considers customers, shareholders, employees, vendors, interest groups, media, and the general public. These groups are interested in the brand’s sustainability agenda, which becomes the focus of the marketing effort.

Costco is an example of a company that takes this kind of approach to its sustainability marketing. Costco describes its sustainability agenda this way: “Sustainability to us is remaining a profitable business while doing the right thing.” Costco honors three sustainability principles: “For Costco to thrive, the world needs to thrive. We are committed to doing our part to help. We focus on issues related to our business and where we can contribute to real, results-driven positive impact. We do not have all of the answers, are learning as we go and seek continuous improvement.”¹⁶ These principles demonstrate a commitment to all of Costco’s interested parties. For example, Costco pays its employees above market rates to honor its commitment to support its employees and communities.

LINK TO LEARNING



Costco Sustainability Commitment

Costco publishes its commitment to sustainability on its website as a way to be fully transparent about its sustainability strategy. The company shares its code of ethics, mission statement, sustainability principles and responsibilities, and development goals. You can [read more about its commitment here](https://openstax.org/r/sustainabilityintroduction) (<https://openstax.org/r/sustainabilityintroduction>).

Traditional business strategy indicates that shareholder return is the primary obligation of companies. However, a sustainable business strategy suggests that companies have a **corporate social responsibility (CSR)** to use their platforms to improve the world and not cause harm. Furthermore, an environmental, social, and governance (ESG) strategy holds companies accountable for their sustainability work. An ESG strategy uses an organization’s influence to make positive change and develop metrics to show how purpose is

measured.

Businesses have always been required to comply with environmental laws, but sustainable companies put the environment in the center, designing for the environment. **New Belgium Brewery** in Fort Collins, Colorado, is a foremost example of a company designed around the environment. The brand is committed to clean energy to combat climate change. New Belgium Brewery has three principles woven into its business model to keep management accountable for its sustainability goal of becoming carbon neutral by 2030. Those principles are to

- reduce emissions by creating electricity from wastewater, collecting heat while brewing to reuse, and earning LEED certification on its properties;
- work with interest groups to advocate for improved climate policies; and
- improve recycling in the United States through its cofounded glass recycling coalition.¹⁷

LINK TO LEARNING



New Belgium Brewery Commitment to Climate

Learn more about New Belgium Brewery sustainability strategies by reading about its [commitment to climate \(https://openstax.org/r/companymissionclimate\)](https://openstax.org/r/companymissionclimate).

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. Traditional marketing takes a customer approach, while sustainable marketing takes a(n) _____ approach.
 - a. shareholder
 - b. value
 - c. economic
 - d. cost-savings
2. In sustainable marketing, companies innovate now and do which of the following for the future?
 - a. Earn money
 - b. Ensure viability
 - c. Save money
 - d. Earn profits

19.3 The Benefits of Sustainable Marketing

Learning Outcomes

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

- LO 1** Describe the various benefits of sustainable marketing.
- LO 2** Explain why sustainable marketing is a business imperative.

Purpose-Driven Strategy

A **purpose-driven strategy** is when companies work to make a difference in their community through their decisions and support of environmental programs. There are numerous benefits to developing a purpose-driven business strategy, including enhanced brand recognition, reduced costs, improved effectiveness, easier

regulatory compliance, waste minimization, and enhanced return on investment (ROI) (see [Figure 19.3](#)).

Harvard Business School Professor Rebecca Henderson indicates that businesses must adopt a shared value orientation. Doing well and doing good are mutually dependent. Companies cannot do good if they are not doing well. Companies with strong ESG programs outperform the market long-term despite the short-term investment.¹⁸

PepsiCo developed its sustainability program under former CEO Indra Nooyi. Nooyi understood the benefits of purpose to planet, people, and profits. PepsiCo focuses on agriculture, water, packaging, product, climate, and people to create systemic change within PepsiCo and the broader environment. The results of this work are outlined in an annual sustainability metrics report that holds PepsiCo accountable for its purpose. The company earned over \$70 billion in net revenue in 2020, illustrating the shared value opportunity.¹⁹

LINK TO LEARNING



PepsiCo and Its Purpose-Driven Strategy

Read more about PepsiCo and its commitment to sustainability in its [2021 ESG Report](https://openstax.org/r/sustainabilityandesgtopics) (<https://openstax.org/r/sustainabilityandesgtopics>) and its [ESG Performance Metrics report](https://openstax.org/r/sustainabilityandesgtopics2021) (<https://openstax.org/r/sustainabilityandesgtopics2021>).



Figure 19.3 Benefits of Sustainable Marketing (attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)

Enhanced Brand Recognition

Brands that incorporate purpose earn enhanced brand recognition for that work, which can become a competitive advantage and result in higher profitability. **Patagonia** is a prime example of a company known for its sustainability programs. Its founder, Yvon Chouinard, envisioned the company as a pillar of sustainability and set the stage for other companies to follow. Patagonia sells outdoor wear that is durable and designed around sustainability. The brand will repair its goods to avoid customers purchasing new ones when they reuse them. It also donates 1 percent of annual sales to good causes worldwide. Finally, Patagonia facilitates an Action Works website that connects interested parties with local environmental protection groups to promote activism.²⁰ These sustainability activities are critical to ensuring that Patagonia is a brand with a

purpose.

Reduced Costs

Sustainability practices often carry an up-front investment; however, over time, these costs typically return a cost reduction. A survey by **Bain & Company** indicates five times revenue growth among all brands scoring highest on sustainability.²¹ This is possible because sustainability programs mean reduced materials, recycling programs, and lower use of natural resources, which are all good for the planet and reduce production costs.

For example, **Ben & Jerry's** stopped using plastic straws and spoons in its stores.²² This reduction strategy was good for the planet while also decreasing expenses for the business, demonstrating that planet and profits can be mutually beneficial. Founders Ben Cohen and Jerry Greenfield set forth a product, economic, and social mission for the business. In response to the success seen from Ben & Jerry's, the “triple bottom line” mission has been adopted by many organizations that seek to align profit, planet, and people.

Improved Effectiveness

Sustainability practices can improve organization effectiveness. For example, investing in human capital is an area of importance because potential new employees consider purpose, well-being, culture, diversity, equity, and inclusion when deciding where to work. **Mastercard** is an organization that prioritizes its people, and it sees improved effectiveness as a result. Mastercard saw an average annual profit growth of nearly 19 percent in the 10 years it connected purpose to profits.²³

The **Anya Hindmarch** company brought attention to the excessive use of plastic bags in 2007 with its “I Am Not a Plastic Bag” campaign.²⁴ The campaign sought to replace plastic bags with an eco-friendly alternative that reuses existing materials. Since 2007, companies have followed suit with reusable tote bags that serve as both a sustainability measure and a means of advertising their brands.

LINK TO LEARNING



Anya Hindmarch and Antidote

Anya Hindmarch's “I Am Not a Plastic Bag” campaign was a collaboration with Antidote, a creative agency, that gained loads of press coverage. That publicity contributed to the U.K. decision to charge for plastic bags. Read more about the campaign from the [Anya Hindmarch website \(https://openstax.org/r/imnotaplasticbag\)](https://openstax.org/r/imnotaplasticbag) and [Antidote's website \(https://openstax.org/r/antidote\)](https://openstax.org/r/antidote). When you're finished, take a moment to be inspired by Anya Hindmarch and her recent sustainability fashion product, [a collection of biodegradable leather bags \(https://openstax.org/r/hindmarchlaunches\)](https://openstax.org/r/hindmarchlaunches).

Easier Compliance with Regulators

In addition to returning value to shareholders, companies are also responsible for following international, national, and local laws. A sustainability agenda goes beyond companies' legal obligations and extends to serving the world better. This strategy eases compliance by going above and beyond what is expected by government agencies. For example, the US Environmental Protection Agency (EPA) provides regulatory information by sector to provide businesses with clear regulatory compliance criteria.

LINK TO LEARNING



EPA Regulatory Information

If you're interested in learning more about the EPA's regulatory information and its compliance criteria per industry, [check out this regulatory information by business sector \(https://openstax.org/r/regulatoryinformation\)](https://openstax.org/r/regulatoryinformation).

Waste Minimization

Environmental measures can reduce waste, creating a healthier planet. Many organizations are focused on waste minimization to demonstrate a commitment to the Earth. For example, **McDonald's** has set a waste minimization goal of having 100 percent guest packaging derived from renewable, recycled, or certified sources by 2025. This is impactful because single-use plastics are a known source of waste, particularly in the oceans where plastic outnumbers fish in some regions.²⁵

Enhanced Return on Investment

As with any business strategy, goals and metrics are also important with a sustainability strategy. Organizations expect a return on investment when resources are committed, even with sustainability work. Organizations can look at several factors to determine the financial return on sustainability efforts. They will evaluate the increased interest from investors, changes in brand value, and revenue. Additionally, organizations can consider the well-being of their employees, their impact on the planet, and their efforts to improve the world as another key measure of success (see [Figure 19.4](#)).



Figure 19.4 Factors to Consider in Evaluating ROI with Sustainability Strategies (attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)

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 sustainability strategy benefit when a company becomes known for its

sustainability efforts and it becomes a competitive advantage?

- a. Increased brand recognition
 - b. Reduced costs
 - c. Waste minimization
 - d. Enhanced return on investment
2. Which benefit of sustainability occurs when brands show their shareholders an economic return on sustainability programs?
- a. Increased brand recognition
 - b. Reduced costs
 - c. Waste minimization
 - d. Enhanced return on investment

19.4 Sustainable Marketing Principles

Learning Outcomes

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

- LO 1** List the principles of sustainable marketing.
- LO 2** Explain how these principles are put into practice.

Consumer-Oriented Marketing

Consumer-oriented marketing is a solution focused on a customer's need. The product is designed to solve a problem, distributed for convenience, and promoted as a solution to the consumer's needs. A consumer-oriented marketing strategy requires extensive marketing research to understand the consumer's needs. Organizations then must design the four Ps around those needs. Finally, a consumer-oriented marketing strategy requires customer service and feedback to ensure that consumer needs are met. Zappos is known for having a customer-oriented marketing strategy. With its strategy, it focuses heavily on customer service and has assembled an extensive team that solves any issue a consumer may face with an order.

LINK TO LEARNING



Consumer-Oriented Marketing

Numerous companies are well-known for their consumer-oriented marketing approaches. Read this succinct summary on what Starbucks, Patagonia, Zappos, Amazon, and Nordstrom are specifically doing [to understand their customer's journey and build customer loyalty \(https://openstax.org/r/marketingevolution\)](https://openstax.org/r/marketingevolution).

For a deeper look into Zappos' strategy, [read this article from Entrepreneur \(https://openstax.org/r/entrepreneur\)](https://openstax.org/r/entrepreneur) that outlines nine steps to Zappos' exceptional service.

Customer-Value Marketing

Customer-value marketing seeks to provide the customer with maximum utility compared to competitors. Customers make a value exchange when purchasing a product, so they naturally ask themselves whether the cost is worth the value of the transaction. This does not mean that all customer-value products and services are inexpensive. In fact, the high price of a product might be an intentional choice by the company to attract a specific target audience. For example, Tiffany & Co. has created a luxury brand around its jewelry's value to customers.

Innovative Marketing

Innovative marketing uses media as a method for capturing shoppers' attention and converting them into customers. The ever-changing digital landscape offers myriad possibilities to engage an audience in an innovative marketing strategy. For example, **Shedd Aquarium** in Chicago took its penguins on a field trip to meet their aquatic roommates for a virtual event in 2020. During the field trip, the Aquarium broadcasted on social media and delighted animal lovers worldwide while promoting the aquarium.

Mission Marketing

Mission-driven marketing aligns purpose and brand. With mission-driven marketing, a company uses its core mission and purpose as the focus of its marketing strategies.

A mission-driven organization can be a for-profit or nonprofit, governmental or nongovernmental, public or private, or religious entity.

Charity: Water is an outstanding example of a mission-driven organization that uses marketing to inspire its audience. Its mission is to bring clean water to communities that face a clean water crisis. The founder, Scott Harrison, has his own story that inspires the mission, and storytelling is integral to implementing charity: water's marketing strategy.

LINK TO LEARNING



Charity: Water

Charity: water has raised more than \$640 million and funded more than 91,000 water projects in 29 countries. Watch this video about Scott Harrison's journey and witness his storytelling abilities as he shares his personal experience around the impact of dirty water.

[Click to view content \(https://openstax.org/books/principles-marketing/pages/19-4-sustainable-marketing-principles\)](https://openstax.org/books/principles-marketing/pages/19-4-sustainable-marketing-principles)

Societal Marketing

Societal marketing is most akin to the sustainability strategies discussed in this chapter. A societal marketing strategy fulfills social responsibility obligations while satisfying customer needs. **Athleta**, a **Gap** company, sells premium-priced performance apparel to female athletes. Its product is designed for a target audience of women in motion. Athleta launched a *Power of She* campaign to celebrate the diversity of women and serve as a societal marketing effort. Additionally, approximately 70 percent of Athleta's apparel is manufactured from recycled and sustainable materials.²⁶

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.

- _____ uses media as the lead for awareness building.
 - Consumer-oriented marketing
 - Customer-value marketing
 - Innovative marketing
 - Mission marketing
- Which of the following puts a purpose at the center of marketing and is implemented most often using storytelling?

- a. Consumer-oriented marketing
- b. Customer-value marketing
- c. Innovative marketing
- d. Mission marketing

19.5 Purpose-Driven Marketing

Learning Outcomes

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

- LO 1** Understand issues related to purpose-driven marketing.
- LO 2** Articulate best practices in purpose-driven marketing.

Brand Purpose

Brands satisfy many people, from employees to investors, to customers, to suppliers, and to the communities that they serve. These parties ask for more than a good product at a fair price. They ask for a brand to stand for something more than the product or service being offered. Brand purpose is developed deep in the DNA of an organization and should be infused in everything the brand says and does.

Accenture conducted a global survey of 30,000 consumers about brand purpose. It found that 62 percent of customers want companies to take a stand on issues such as sustainability, transparency, or fair working conditions. Furthermore, the brand purpose should align closely with the consumer's values to create an optimal purchase choice. Consumers are willing to switch brands if their values do not align.²⁷

The challenge runs deep. People expect brands to connect to a deep purpose; however, they are intolerant of brands who do so inauthentically. **Walmart** is an example of a company that received backlash from customers because of what they felt was not authentic. In May 2022, Walmart launched an ice cream flavor for the upcoming Juneteenth holiday. Consumers felt that Walmart was trying to sell a product rather than honor an important day in history.²⁸ This example demonstrates the importance of holding a purpose at the center of the brand instead of using it as a means of selling a product.

Bombas knows how to build purpose into its DNA. The innovative, purpose-driven brand built its business on donating socks and underwear to homeless shelters with each purchase. As of this writing, Bombas has donated over 5 million items with the help of 3,500 impact partners in every state.²⁹ Its message is simple: you buy socks, they give socks. Purpose is at the heart of Bombas's organizational mission, and it will share it with anyone who will listen.

LINK TO LEARNING



More about Walmart and Bombas

There are numerous articles about Walmart and the Juneteenth backlash. Here are two worth reading so you can gain better insight into the customer's perspective:

- [CNN, Walmart Apologizes for Selling Juneteenth Ice Cream \(https://openstax.org/r/walmartjuneteenth\)](https://openstax.org/r/walmartjuneteenth)
- [New York Daily News, Walmart's Juneteenth Ice Cream Leaves a Bad Aftertaste \(https://openstax.org/r/icecreamcontroversy\)](https://openstax.org/r/icecreamcontroversy)

CNN Business interviewed the founders of Bombas to learn more about their work to provide homeless people with socks. Check out [this video about how Bombas integrates purpose and business \(https://openstax.org/r/bombassocksfresh\)](https://openstax.org/r/bombassocksfresh).

Brands That Put Purpose First

The brands that put purpose at the center create ways for their customers to experience purpose. **Dove** was a pioneer in brand purpose when it developed its Campaign for Real Beauty. Marketing research uncovered that young girls were impacted by media's standards of beauty. Dove took this insight and decided to tackle a systemic societal problem. This multi-decade campaign led to a celebration of all types of beauty, redefining how we think of women and impacting self-esteem. Customers could experience purpose because the Campaign for Real Beauty was all about them. The Campaign for Real Beauty was more than just advertising; it reflected who Dove wanted to be in the world.³⁰

LINK TO LEARNING



Dove's Campaign for Real Beauty

Dove's campaign included several ads and commercials. Seeing examples of how companies focus on purpose will help your creativity in future marketing jobs. Explore the commercials created by Dove:

- Real Beauty Sketches, a commercial that artistically compares the gap between self-perception with perception from others
[Click to view content \(https://openstax.org/books/principles-marketing/pages/19-5-purpose-driven-marketing\)](https://openstax.org/books/principles-marketing/pages/19-5-purpose-driven-marketing)
- Anti-photoshopping film *Evolution*, a very popular and viral commercial of a behind-the-scenes look at what happens with beauty ads
[Click to view content \(https://openstax.org/books/principles-marketing/pages/19-5-purpose-driven-marketing\)](https://openstax.org/books/principles-marketing/pages/19-5-purpose-driven-marketing)
- Reverse Selfie, a commercial about the impact of social media on young girls' self-esteem
[Click to view content \(https://openstax.org/books/principles-marketing/pages/19-5-purpose-driven-marketing\)](https://openstax.org/books/principles-marketing/pages/19-5-purpose-driven-marketing)

Why was this campaign so successful? There are numerous articles and opinion pieces that provide insight into its success. Read these two out for a sampling:

- Global Brands, [The Success of Dove's Real Beauty Campaign \(https://openstax.org/r/thesuccessofdoves\)](https://openstax.org/r/thesuccessofdoves)
- Digital Marketing Institute, [Dove: A Spotless Approach to Digital Marketing \(https://openstax.org/r/doveaspotless\)](https://openstax.org/r/doveaspotless)

Purpose-driven brands speak up, even when it's difficult or costly to do so. If you read the news, you may see brands taking a stand on social issues. Russia's war on Ukraine in 2022 urged several American companies to cease operations in Russia. It can be costly to cease operations in a country as large and populous as Russia, but companies such as Starbucks and McDonald's decided that their purpose was more important than their profits in this case.

Brands with purpose are intentional about inclusion. While exclusivity can be an effective marketing tactic for luxury brands, purpose-driven brands know that inclusivity is paramount. **Procter & Gamble** is known as a company that weaves inclusion into the fabric of its organization, from its hiring practices to the use of its paid media.

LINK TO LEARNING



Procter & Gamble Prioritizes People

Visit Procter & Gamble's (P&G) ["Explore Our Stories" web page \(https://openstax.org/r/equalityandinclusion\)](https://openstax.org/r/equalityandinclusion) to view how the company prioritizes inclusion and creates opportunities for all people. Read three to five stories and consider what P&G is saying about who and what it values. Also, look at the partners that P&G collaborates with to create change in its communities.

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 concepts are related to purpose-driven marketing?
 - a. Transparency
 - b. Sustainability
 - c. Fair working conditions
 - d. All of the above are correct.

2. Which of the following is a best practice of purpose-driven brands?
 - a. Standing up for what's right
 - b. Good advertising
 - c. Telling everyone about their purpose
 - d. Being profitable

Chapter Summary

Sustainable marketing is an effort by companies to run their business to serve the customers of today while preserving the world for the customers of tomorrow. Companies are increasingly following an ESG, or environmental, social, governance, structure to bring transparency to their sustainability efforts. Sustainable marketing uses the main drivers of traditional marketing such as customer satisfaction, but it considers a broader set of impacted groups. There are myriad benefits to sustainable marketing as it relates to brand equity, financial measures, and government compliance. Purpose-driven brands stand for something more than what they sell, and they build their organization around that stated purpose.

Key Terms

consumer-oriented marketing marketing strategies focused on customer needs and solving their problems

corporate social responsibility (CSR) sustainable business strategy where companies use their platform to do good, improve the world, and be socially accountable to their customers and other interested parties

customer-value marketing marketing strategies in which a company works to provide the customer with maximum value compared to competitors

economic pillar (governance pillar) the sustainability pillar that concerns profitability and business ethics

environmental pillar the sustainability pillar that focuses on reducing a company's impact on the environment

environmental, social, and governance strategy a strategy that holds companies accountable for a sustainability strategy

ESG pillars the three pillars of environmental, social, and governance that guide corporate sustainability work

innovative marketing marketing strategies that use media as the method for capturing prospects' attention and converting them into customers

mission-driven marketing marketing strategies that align purpose and brand by using the corporate core mission and purpose as their focus

purpose-driven strategy strategy in which companies work to make a difference in their communities through their decisions and support of environmental programs

social pillar the sustainability pillar that focuses on creating an inclusive environment for the community

societal marketing a marketing strategy focused on fulfilling social responsibility obligations while also satisfying customer needs

sustainable marketing a marketing strategy that infuses purpose into socially conscious products and services

Applied Marketing Knowledge: Discussion Questions

1. If we agree with the notion that products and services of today should not harm people of tomorrow, how would you redesign your favorite snack food to be more sustainable?
2. The three pillars of sustainability are environmental sustainability, social good, and economic return. Why are these three pillars intertwined? What would happen if you had one without the other two?
3. Research New Belgium Brewery. How do the company's sustainability practices benefit the environment, communities, and its financial bottom line?
4. Waste minimization is a key sustainability strategy. Take a look in your kitchen cabinets and describe the products that could be made with less waste.
5. Review the trailer for "This is a True Story" on [Charity: Water's website \(https://openstax.org/r/charitywaterorg\)](https://openstax.org/r/charitywaterorg). How has the nonprofit gamified its mission?



Critical Thinking Exercises

1. Design a sustainability campaign. Select a product or service that is not currently sustainable and redesign it to be sustainable. Consider how you would change the form, function, packaging, distribution, and/or target audience.
2. Evaluate a purpose-driven brand. Review the website for the footwear company [Allbirds](https://openstax.org/r/allbirdssustainablepractices) (<https://openstax.org/r/allbirdssustainablepractices>). Describe how sustainability is at the heart of its mission as a company.
3. Review the [Edelman Trust Barometer](https://openstax.org/r/2022trustbarometer) (<https://openstax.org/r/2022trustbarometer>). What does this research tell you about the importance of brand trust? Discuss the brands you trust and describe the actions that they take to invoke that trust.



Building Your Personal Brand

A workplace study by [Blue Beyond Consulting](#) shows that 8 in 10 employees say that it's important that their employer's values align with their values. Furthermore, more than 75 percent of respondents indicated that they expect their employer and business to be a force for good.³¹

Consider what you value and how you would like your future employer to honor those values. Research a few organizations to find an employer that closely aligns with your values. Write about how you might integrate your personal purpose with that of your employer to make the change that you wish to see in the world.



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Answer Key

Chapter 1

1.1 Knowledge Check

1. c. Place utility addresses convenience in terms of where a consumer can purchase your company's product.
2. b. Marketing is a complex activity and includes creating, communicating, delivering, and exchanging offerings that have value for customers, clients, partners, and society at large.
3. a. Employees are internal parties.
4. a. Customer equity is the total potential profits a company earns from its current and potential customers.
5. d. The aim of successful customer relationship management is to produce high customer equity.

1.2 Knowledge Check

1. d. The 4Ps of marketing are product, price, place, and promotion.
2. b. Price is the amount consumers pay for a product or service.
3. c. Place—sometimes known as distribution—involves focusing on how and where to deliver the product to consumers most likely to buy it.
4. d. Place— sometimes known as distribution—involves focusing on how and where to deliver the product to consumers most likely to buy it.
5. d. In the realm of promotion advertising, direct mail, social media communications, trade shows, events, coupons, and media choices are among the many aspects considered.

1.3 Knowledge Check

1. a. Materials considers the availability of the resources needed for product. It is the element that looks at the supply.
2. b. Market intermediaries are retailers, wholesalers, and others in the distribution channel who help deliver products to the end user.
3. a. The competition has to be assessed to see how well and to what degree the need you hope to fulfill is currently being addressed.
4. b. The technological domain is responsible for emerging production technologies as well as the creation of new innovations that make possible new products.
5. d. The social and cultural domain is concern with such things as social trends, attitudes, and opinions.

1.4 Knowledge Check

1. a. The product concept is concerned most with the quality of the product a company intends to sell.
2. c. The societal marketing concept involves meeting consumers' and businesses' current needs while simultaneously being aware of the environmental impact of marketing decisions on future generations' ability to meet their needs.
3. c. The goal of the selling concept was simple: beat the competition. Customer needs and satisfaction took a back seat to beating the competition.
4. a. This order accurately represents the evolution of marketing.
5. b. During the societal era, it was recognized that society as a whole, had to be considered in all activities.

1.5 Knowledge Check

1. d. A delight need is an added value you may get from the seller without prior expectation or request for the same.
2. c. The customer is the individual or business that purchases the product or service. The consumer is the user of the product or service.
3. d. The value that a product promises to deliver is called the value proposition.
4. a. The benefit(s) to the customer or consumer relative to the cost is known as value.

5. c. The exchange process is designed to allow for the transaction to occur without either party feeling like the other has benefitted at its own cost.

1.6 Knowledge Check

1. d. All the other choices are ways of achieving customer relationship management. Offering the lowest price of all companies on the market is not.
2. b. Customer relationship management (CRM) is the means through which companies track, manage, and analyze customer interactions.
3. b. Customer loyalty is a customer's willingness to repeatedly return to a company to conduct business.
4. d. Collaborative CRM is sharing customer data with outside companies. It can give the company a fuller perspective on customers by collaborating with other companies in order to obtain data to which it would not otherwise have access.
5. a. A customer loyalty program offers rewards, discounts, and other special incentives designed to attract and retain customers.

Chapter 2

2.1 Knowledge Check

1. b. The mission statement sums up in a few sentences what the company does, who it serves, and what differentiates it from its competitors.
2. c. Corporate-level strategy covers the entire business in a complex organization in which there are multiple businesses, divisions, or operating units.
3. d. A business's overall strategy encompasses the plans, actions, objectives, and goals that outline how the business will compete in its chosen markets given its portfolio of products or services.
4. b. A gap analysis is an internal analysis of a company or business unit used to identify deficiencies that may hinder its abilities to meet its goals.
5. d. Goals should be realistic and have a reasonable chance of being met.

2.2 Knowledge Check

1. a. The fact that the health club is the only facility in the area to offer water aerobics classes would be categorized as a strength in terms of a SWOT analysis.
2. a. The BCG matrix captures the market share and market growth of products in a portfolio of offerings.
3. c. A cash cow has high market share in a low-growth industry.
4. c. Opportunities are openings for something positive to happen if you can capitalize on them.
5. d. A company that pursues a product development strategy introduces new (and/or improved) products into the market to replace existing ones in order to improve its competitive position and sales.

2.3 Knowledge Check

1. d. In this paragraph of the executive summary, you would describe the current marketplace and industry sectors in which you sell your products and/or services, the trends affecting and influencing them, and the innovations currently taking place within the market.
2. c. In a SWOT analysis, strengths and weaknesses are factors that are internal to the organization.
3. c. A perceptual map suggests where your product or service stands in relation to the competition.
4. b. A SWOT analysis identifies key internal influences (strengths and weaknesses) and external influences (threats and opportunities).
5. d. Within the current marketing situation of your marketing plan, you should include a competitive analysis and a discussion of how competitors fare in the marketplace.

2.4 Knowledge Check

1. d. KPIs consist of a very focused selection of core variables that allow us to monitor the health/

performance of the organization. We need enough indicators to evaluate the various critical aspects of the organization. We need to avoid having so many that the clutter obscures symptoms that should be highlighted.

2. a. We should always monitor KPIs on a continuous basis. Some information is only available periodically when financials are produced and production statistics are rolled up. The use of real-time dashboards can make it possible to monitor KPIs in real time. The faster we can get the data, the faster we can make adjustments (when required).
3. a. To calculate the CSAT score, take the total number of satisfied customers and divide that by the total number of responses. Then multiply that number by 100 to obtain the percentage. In this scenario, you add 500 and 300 to get 800. Then divide that by 1,825 to get .438. Multiple that by 100 for 44%.
4. d. A single data point in isolation tells us very little. However, we can compare the data point to other data points (for example, historical results, forecasts, operating tolerances, or industry averages) to judge our effectiveness.
5. d. We discussed the concept of lifetime customer value (LCV) in the text. Customer acquisition can be very expensive, especially with a missionary sell (e.g., convincing a customer that they have a need for an unknown product or service). Repeat purchases may not require any additional promotional expense. Happy customers also serve as brand ambassadors that spread the word about a company's products/services. Negative reviews from brand ambassadors can be extremely damaging—we want to uncover any problems right away.

Chapter 3

3.1 Knowledge Check

1. c. Complex buying behavior involves high involvement in the buying decision and the perception of significant differences between brands.
2. b. Marketing stimuli are those generated by the marketer and are comprised of the 4Ps of marketing—product, promotion, price, and place.
3. d. Purchase timing is the outcome of the thinking that takes place in the buyer's black box. Samantha is stimulated to buy the mattress during the holiday weekend in order to take advantage of the sale.
4. b. Habitual buying behavior has low involvement in the purchase decision and doesn't perceive much brand differentiation. If your regular brand isn't available or another brand is on sale, you'll probably buy the other brand.
5. c. Consumer buying behavior encompasses the actions you take before buying a product or service.

3.2 Knowledge Check

1. c. Situational factors influencing consumers are external factors that affect how consumers encounter and interact with a product, forming their opinions at that moment in time. Environmental factors such as aroma, lighting, music, and noise can either encourage or discourage the purchase of a product.
2. a. Culture refers to the values, ideas, and attitudes that are learned and shared among the members of a group.
3. b. The safety and security level of Maslow's hierarchy of needs reflects the need to be safe from physical and psychological harm.
4. d. Selective distortion is the tendency of people to interpret information in a way that fits their preconceived notions.
5. b. The behavioral intention aspect of an attitude is what you as a consumer plan to do—buy the brand or not buy the brand.

3.3 Knowledge Check

1. c. They are evaluating the "bundle of attributes" of each venue.
2. a. Ra'Shana has detected a difference between her actual state (not having a functional car) and her

desired state (having a car that runs).

3. c. Having identified that he needs a new laptop, Jason is searching for more information about different laptops and their capabilities.
4. b. Heuristics are types of preexisting value judgments that are used when people make purchase decisions.
5. c. It appears that Nathan and his husband have already done an information search and are now evaluating their new car alternatives.

Chapter 4

4.1 Knowledge Check

1. c. Derived demand is a market demand for a good or service that results from a demand for a related good or service.
2. a. A B2B (or “business-to-business”) transaction is one that is conducted between one business and another.
3. c. B2B purchasing is more likely to involve complex negotiations concerning price, delivery schedules, technical specifications, etc., so personal selling plays a vital role.
4. c. The B2B market is more geographically concentrated in areas based on cost, access, and availability of resources.
5. d. DaVonte’s purchase of the lumber in connection with his business is a B2B transaction; the purchase of batteries for the smoke detector in his house is a B2C transaction.

4.2 Knowledge Check

1. c. Government markets make up the largest single business and organizational market in the United States.
2. a. A straight rebuy is making a routine purchase of a standard product or products with no modifications from a familiar supplier.
3. c. In a modified rebuy, the purchaser is buying goods that have been purchased previously but changes either the supplier or certain elements of the previous order.
4. c. The initiator is the individual within the buying center who first suggests the idea of purchasing a new product or service.
5. d. Buyers are those who have authority within the organization to select suppliers and negotiate and arrange the purchase terms.

4.3 Knowledge Check

1. c. The goals and objectives act as a major element as to what the business purchases.
2. a. Legal factors include laws, rules, and regulations with which a business or individual must comply.
3. d. Conditional factors include the present financial condition of the organization, as well as product/service availability.
4. b. Economic factors include the level of primary demand, the economic outlook, and the cost of money (i.e., interest rates).
5. d. The availability of the product or service plays a significant role in the buying decision, and availability is a conditional factor.

4.4 Knowledge Check

1. c. The purpose of a product specification is to provide a description and statement of the requirements of a product, the components of a product, the capability or performance of a product, and/or the service or work to be performed to create a product.
2. d. Stage 5 of the B2B buying process is proposal solicitation, in which qualified vendors are asked to submit proposals.

3. b. In Stage 2: Need description, the buying center will work to put some parameters around what needs to be purchased and develop a bill of materials.
4. d. In Stage 7: Order-routine specification, the B2B buyer negotiates the order, listing the technical specifications, the quantity needed, the expected time of delivery, etc.
5. a. Similar to consumer buying, the first stage in the B2B buying decision process occurs when someone identifies a problem that can be resolved through a purchase.

Chapter 5

5.1 Knowledge Check

1. c. Starbucks researches the culture of the countries in which it operates so that beverages appeal to local tastes.
2. a. Psychographic segmentation divides consumers into different groups based on internal characteristics like personality, values, and beliefs.
3. c. Demographic segmentation groups consumers by focusing on traits such as age, gender, income, etc.
4. c. Garnier has segmented the market based upon the benefits sought by the consumer.
5. d. Just like our in-text example of Mirror, Peloton speaks to the personality of people who want to work out but can't find the time to go to the gym.

5.2 Knowledge Check

1. c. Firmographics segments customers based on sets of characteristics such as industry, location, size, legal structure, and performance.
2. a. Technographic segmentation is based on the various hardware and software used by B2B customers.
3. c. Value-based segmentation (sometimes called tiering or profitability segmentation) groups customers according to the potential value they may bring to a business.
4. c. Firmographics segments customers based on sets of characteristics such as industry, location, size, legal structure, and performance.
5. d. Needs-based segmentation is based on the premise that a marketer should focus their limited resources on those customers that need the product and have the ability to purchase it.

5.3 Knowledge Check

1. b. Societies with a high degree of uncertainty avoidance compensate for this uncertainty by establishing rules, policies, and procedures, whereas societies with low uncertainty avoidance more readily accept change.
2. a. Infrastructure is the basic physical systems of a nation, such as roads, sewage treatment, communication, water treatment, etc.
3. d. In countries with a high masculinity ranking, men are intended to lead; women are supposed to follow.
4. c. Economic factors consider things like inflation, per capita income, unemployment, etc.
5. b. Masculinity/femininity assesses "masculine" values (such as achievement, ambition, and acquisition) versus "feminine" values like quality of life and service to others.

5.4 Knowledge Check

1. d. A market segment should be measurable—that is, you should be able to accurately determine the size of the market segment in terms of sales value or number of customers so you can decide whether, how, and to what extent you should focus your efforts on that segment.
2. c. A market segment should be substantial because it's inefficient to waste resources to market the product or service to a segment too small to justify a company's time.
3. a. Accessibility refers to the ability to reach customers in the chosen segment at an affordable cost, given the strengths and abilities of your marketing department.
4. d. Accessibility refers to the ability to reach customers in the chosen segment at an affordable cost, given

the strengths and abilities of your marketing department.

5. c. A measurable market segment means that you can accurately determine the size of the segment in terms of either sales volume or number of customers.

5.5 Knowledge Check

1. c. Undifferentiated marketing treats all buyers or potential buyers as a homogenous group and creates one message for an entire audience.
2. a. A buyer persona is a semi-fictional representation of your ideal customer based on market research and real data about your existing customers.
3. c. Concentrated marketing (or niche marketing) is a subset of a market on which a particular product or service is focused. In Lefty's case, it is focusing on left-handed people.
4. c. A differentiated marketing strategy focuses on the differences between segments and designs a specific marketing mix for each segment.
5. d. A niche market (or concentrated marketing) channels all marketing actions toward one well-defined segment of the market. In this case, the subset is people over the age of 55 who are in the market for an active adult lifestyle.

5.6 Knowledge Check

1. c. A positioning statement defines where your offering fits in the marketplace and why it is better than competitors' offerings.
2. a. The STP process is an acronym for segmentation, targeting, and positioning.
3. b. Differentiated positioning is based on the differentiating characteristics or qualities that make your product/service/brand better than those of your competitors.
4. c. Determinant attributes are those attributes or factors that a customer uses in making their purchase decision.
5. d. A perceptual map is a visual diagram that shows how the average target market consumer perceives your product versus those of your competitors.

Chapter 6

6.1 Knowledge Check

1. d. Marketing research is the process of collecting information from a variety of sources in order to make a good managerial decision.
2. b. A marketing information system is a collection of data that an organization uses to make marketing decisions.
3. b. Individuals uploading personal data into social media is part of the volume, velocity, and variety of data that makes up big data.
4. a. Although marketing research is helpful in providing the data necessary for successful business ventures, there is no guarantee that it will cause customer satisfaction.
5. c. Although a competitor's information is interesting, your company would not have access to it, and therefore it would not be considered marketing research.

6.2 Knowledge Check

1. c. A response to a customer service survey by a customer would be external information.
2. a. Of the available answers, pricing of the competition would be a good source of information to have before setting Xin's price.
3. d. A marketing information system is not a source of information—it is where the information is stored within a business.
4. d. A competitor's website is an opportunity to learn more about the company and its resources, products, promotional plans, and pricing.

5. b. Internal data is data that already exists within a company's database. Internal data includes sales records, product research, pricing comparisons, and other data compiled previously.

6.3 Knowledge Check

1. d. Deciding who to include in the research study is part of designing the sample.
2. a. A mailed survey can be sent to all households easily through a postal service.
3. c. The collection of data includes both primary (focus group and survey data) and secondary (journal articles and syndicated data).
4. d. A frequency analysis shows how many people reported each answer on a survey.
5. a. A cross tabulation shows the relationship of two different variables, so the researcher can see if there is correlation between the two.

Chapter 7

7.1 Knowledge Check

1. a. Global market opportunities refer to the favorable conditions that allow companies to choose to expand globally.
2. c. Cultural barriers are a hindrance to international trade.
3. a. Cultural sensitivity involves a person's ability to be aware of and appreciate cultural differences.
4. d. This advice to Ashia could not only be offensive to her dinner guest but would also cause poor business relationships.
5. b. Business politics vary greatly across cultures. Businesspeople must decide how far they are willing to adapt to the local expectations.

7.2 Knowledge Check

1. a. An exchange rate is the rate at which one country's currency can be exchanged for that of another country.
2. c. As stability increases in a country, the economy often improves.
3. a. Stereotypes are assumptions or generalizations made about an entire group of people.
4. d. An embargo is a complete halt of trading with a specific country or of a specific good.
5. b. The USMCA is a trade bloc agreement between the United States, Mexico, and Canada.

7.3 Knowledge Check

1. a. McDonald's is a franchise.
2. c. Exporting is the easiest way in which to begin an international business.
3. a. Licensing is an agreement whereby one company can legally use the copyrighted material of another for a royalty fee.
4. d. A joint venture is a business arrangement whereby two or more companies create a single enterprise or project.
5. b. An international firm has centralized decision-making, meaning decisions are made in the home country headquarters.

7.4 Knowledge Check

1. a. A standardized strategy employs the same strategy for every market.
2. c. The degree to which a promotion strategy should change depends on the market.
3. a. "Real Magic" is Coca-Cola's slogan in New Zealand.
4. d. The whole channel refers to all distribution channel members, including manufacturers, retailers, transportation, and wholesalers.
5. b. Singapore has the highest automobile prices due to the country's small size and limited infrastructure.

Chapter 8

8.1 Knowledge Check

1. a. Choosing between standardization and adaptation strategies includes balancing internal capabilities like operations, sales, and customer service with external forces like competition and consumer demographic changes.
2. d. Constrained standards do not increase flexibility. Constraints, instead, limit options for companies and consumers.
3. d. A marketing adaptation strategy involves adjusting a company's efforts, as well as its marketing mix, to increase its appeal and respond to consumers' specific needs, tastes, or expectations. This must be done according to the company's abilities and resources.
4. c. Adaptation strategies can increase production costs instead of reducing them.
5. b. Increasing a company's customer base is a benefit associated with diversity marketing as an adaptation strategy.

8.2 Knowledge Check

1. d. Diversity marketing includes identifying different subsegments of consumers that share cultural and sociodemographic characteristics and creating advertisements to connect with them.
2. a. Diversity marketing is important because today's marketplace is changing dramatically everywhere.
3. c. For companies to be successful in any market, the focus of diversity marketing should be consumer centric. This means putting targeted customers first regarding any decisions about a company's goods, services, or experiences to create satisfaction and strengthen loyalty.
4. d. Diversity in market research is a good idea because it can help companies win over people from different segments of the population by providing better cultural and social information. This can reduce wrong assumptions and avert public relations missteps.
5. b. Tech-savvy and digital natives are not a sociodemographic segment; they are behavioral segments. Hispanic, Black, Asian, American Indian, and Alaskan Native people are among multicultural segments. Gen Xers, Zoomers, and consumers with disabilities are among sociodemographic segments.

8.3 Knowledge Check

1. d. Culture is described as all of these statements.
2. c. Values and attitudes are not examples of external expressions of culture. They are examples of internal expressions of culture.
3. b. Marketers must be careful using symbols as cultural expressions because they can have different meanings among different cultures.
4. c. An advertisement that speaks to personal accomplishments, independence, and assertiveness is appealing to individualism.
5. a. An advertisement that is visually appealing and emphasizes quality of life, people, and relationships is an example of femininity.

8.4 Knowledge Check

1. c. The Hispanic population is the largest multicultural segment in the United States based on 2020 US Census data.
2. b. A person from Puerto Rico or of Puerto Rican descent is both Hispanic and Latino/Latina. *Hispanic* is a language-based term describing somebody from a Spanish-speaking place, while *Latino/Latina* is a location-based term that identifies gendered individuals whose families originate in Latin America.
3. b. Acculturation is the process by which a person's family cultural patterns change because of direct and constant contact with a different culture.
4. d. An overwhelming majority of Black people believe that race and community engagement are a major part of the Black identity.

5. a. Success requires connecting with each demographic on a personal and intimate level. This inevitably means that one must understand the cultural identities and the context within each population segment. Being successful with diversity marketing includes various multicultural and sociodemographic segments.

8.5 Knowledge Check

1. d. Sociodemographic marketing is a subcategory of diversity marketing. It intentionally targets certain audiences with attractive advertising and promotions based on shared social and demographic variables. Overlaying these two factors has several worthwhile benefits for marketers.
2. a. For marketers, focusing on the societal experience around belonging (acceptance, welcoming, support, and inclusion) is key for reaching the growing number of LGBTQIA+ consumers.
3. d. All of these are important steps to consider to be more successful in advertising to consumers based on their generations.
4. c. Use an approach that ensures the company's efforts express humanity, authenticity, and inclusivity, which can involve consulting or hiring individuals who have a disability rather than using actors or models who do not.
5. b. It is projected that consumer spending will continued to be dominated by baby boomers. While this isn't a new trend, it is certainly a trend that will continue through the 2030s as this generation ages out.

Chapter 9

9.1 Knowledge Check

1. a. A haircut is a service because it cannot be touched, owned, or stored for later use.
2. c. An experience combines marketing, technology, and service to alter the consumer's perception.
3. a. A convenience product is widely available, has a low cost, and does not require a lot of consideration.
4. d. A bag is a supply that does not retain value on a balance sheet.
5. c. The customer seeks both the core product (the bike) and the online classes, warranty, customer service, and support (the augmented product) in order to stay fit.

9.2 Knowledge Check

1. b. Oreo's selection of flavors represents a product line because it encompasses multiple similar products.
2. c. A product mix contains all the products that a company sells.
3. a. An addition of a type of pizza would represent product line depth.
4. d. Product line depth refers to the number of products in a product line. Products must be similar or complementary to be part of the same product line.
5. b. Product line filling has the benefit of protecting a brand from competitors that might enter the market with a similar offering and utilizes the brand's capacity to produce more products.

9.3 Knowledge Check

1. d. While profitability is measured along the product life cycle, it is not a stage of the product life cycle.
2. c. The product life cycle follows a product's sales and profitability.
3. b. The growth stage is characterized by a rapid increase in sales.
4. c. Stable sales and profitability characterize the maturity stage.
5. c. Brands that are a fad are typically introduced, grow rapidly, and decline quickly.

9.4 Knowledge Check

1. b. The growth stage of the product life cycle is characterized by increasing distribution channels.
2. a. Pricing strategies are most common during the introduction stage of the product life cycle.
3. d. Harvesting and divestiture are most common during the decline stage of the product life cycle.
4. c. Product and market modification are most common during the maturity stage of the product life cycle. LaToya is engaging in both product and market modification.

5. b. Expanding distribution, improving product quality, and messaging are most common during the growth stage of the product life cycle.

9.5 Knowledge Check

1. b. Brands often evoke positive feelings that allow a company to charge more for its product or service.
2. d. Brand value is the financial asset associated with a brand.
3. c. Brand equity is the additional value that a brand has over its competitors, while values, benefits, and attributes are all associated with brand positioning.
4. b. Whole Foods uses the 365 brand as a private label for its products.
5. d. The two brands collaborated on one offering.

9.6 Knowledge Check

1. b. Domino's is leveraging its brand to a new category of products.
2. a. A line extension retains the product category and brand.
3. a. Customers who frequently change brands are switchers.
4. d. Hard-core loyal customers primarily purchase one brand in the category.
5. c. Brand preference measures intended behavior.

9.7 Knowledge Check

1. c. Colors, fonts, and logos can capture attention.
2. d. A package as product indicates usability.
3. c. Packaging can provide safety from personal harm from the product.
4. c. The package displayed value to the consumer.
5. b. Customer experience is created when the package adds to the experience of consuming the brand.

9.8 Knowledge Check

1. d. Typically, wood is not used in grocery packaging.
2. d. Natural resources are part of the biological cycle.
3. c. Companies are trying to reduce packaging to only the necessary parts in their sustainability efforts.
4. d. Discarded packaging can be found in water sources, in landfills, and on the ground.
5. d. Biodegradation turns the product back into a natural resource that becomes a nutrient for plants.

Chapter 10

10.1 Knowledge Check

1. c. With dynamically continuous innovation, some changes in consumer habits are necessary, but the changes aren't as dramatic as with discontinuous innovation and are not as insignificant as in continuous innovation.
2. b. Remember, new-to-the-firm products aren't new to the world, but they are a new product venture for the firm.
3. d. The laundry detergent is supposedly a current product made better.
4. b. With continuous innovation, the existing product undergoes only marginal changes and doesn't alter consumer habits.
5. d. Revenue streams are the different sources from which a business earns money from the sale of its goods or services.

10.2 Knowledge Check

1. c. A prototype is an early model of a new product that R&D develops in order to be able to test the design.
2. b. Concept testing is a research method that involves determining how customers feel about the new product before actually launching it.

3. d. Commercialization is where the “rubber hits the road” and the company introduces the product to the market on a full-scale basis, involving production, marketing, distribution, and customer support.
4. b. In sales-wave research, 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.
5. d. The first stage in the new product development process is idea generation.

10.3 Knowledge Check

1. d. Product metrics are data measurements that businesses use to evaluate the success of a product.
2. b. Current year percentage of sales is a “quick and dirty” way to estimate the product’s future value.
3. c. Return on investment (ROI) is a performance measure used to evaluate the profitability of new product development.
4. c. Time to value is a critical metric that measures how long it takes new users to recognize the value of your product.
5. d. Annual recurring revenue (ARR) is the annual value of revenue generated from subscriptions and contracts.

10.4 Knowledge Check

1. c. Technological synergy is how much of a match there is between the existing technological skills of the firm and the technological skills needed to execute the new product initiative.
2. a. The study found that new product failure rates varied among industries, ranging from 35 percent for health care products to 49 percent for consumer goods.
3. b. The prolonged delay of a new product can have many implications: changing customer needs/wants, an economic downturn, rising unemployment rates, or even the evolution of different market segments.
4. d. In an effort to bring “something new” to the market, companies often include features that make the product more costly to produce.
5. a. Products that deliver real and unique benefits to customers are typically more successful than products that have few positive points of differentiation compared to existing products on the market.

10.5 Knowledge Check

1. d. Innovators typically buy new products as soon as they hit the market.
2. a. Product awareness is the first stage in the consumer adoption process, in which a company creates awareness that the product is available.
3. d. Communicability is the extent to which the benefits of a new product are likely to be noticed and discussed by consumers.
4. c. Laggards are more in tune with the past than the future, and they are skeptical of new ideas.
5. d. Consumers in the late majority category are typically slow to catch on to the popularity of new products or services.

Chapter 11

11.1 Knowledge Check

1. c. The concept of service perishability states that services (such as airline tickets) cannot be stored in inventory for future use or sale.
2. a. Service intangibility refers to the fact that you can’t see or touch a service before it is performed.
3. c. Service variability may be defined as the changes in the quality of the same service provided by different service providers.
4. c. People-based services are those in which people, rather than equipment or machinery, play the major role in delivery, and within this classification, people-based services can be broken down further into

services provided by unskilled labor (e.g., parking lot attendant), skilled labor (e.g., plumber), and professionals (e.g., attorneys and accountants).

5. d. Equipment-based services are those in which machinery or other forms of technology are used to perform the service tasks required by customers. Since there is no person involved in the parking service, the parking meter is considered an automated equipment-based service.

11.2 Knowledge Check

1. c. According to the service-profit chain model, customer loyalty drives profitability and growth.
2. a. Employee satisfaction is the extent to which employees are happy and/or content with their jobs and work environment.
3. c. According to the model, customer satisfaction (Step 5) and customer loyalty (Step 6) are related and directly linked.
4. c. Interactive marketing occurs when employees and customers interact. It is there where the promises made during external marketing are either kept, broken, or exceeded by employees.
5. d. According to the service-profit chain model, employee satisfaction is inversely related to employee turnover (i.e., an increase in employee satisfaction results in a decrease in turnover).

11.3 Knowledge Check

1. c. The knowledge gap represents the difference between what customers expect and what the company *thinks* they expect.
2. a. The policy gap is the difference between management's perception of the customer's needs and the translation of that understanding into service delivery policies and standards.
3. c. The customer gap is the difference between the customer's expectations of the service and their perception of the experience itself.
4. c. According to the model, the five dimensions that would result in service excellence and lead to higher customer loyalty are reliability, assurance, tangibles, empathy, and responsiveness.
5. d. Tangibles represent the physical facilities, employees' appearance, equipment, machinery, and information systems.

Chapter 12

12.1 Knowledge Check

1. a. Artificial time constraints tell the consumer they will miss out if they don't purchase right now.
2. c. To determine profit, total costs (fixed and variable) are subtracted from total revenue.
3. a. Perceived value is perceived benefits less perceived costs.
4. d. Price anchoring is a strategy that utilizes a psychological theory that buyers frame their price reference around the first piece of information they see.
5. b. The value that a buyer receives from an exchange takes into account the perceived benefits and costs of making the purchase.

12.2 Knowledge Check

1. c. Channels of distribution include the importance of understanding the value of a product through the lens of suppliers and retailers.
2. d. Compatibility refers to the consistency of pricing decisions with the other marketing mix elements.
3. a. Analyzing the critical Cs of pricing will help ensure the pricing strategies are set appropriately.
4. b. Cost does not only include the materials needed to produce a produce, but all other costs associated with doing business.
5. d. The five critical Cs of pricing include cost, customers, channels of distribution, competition, and compatibility.

12.3 Knowledge Check

1. c. The demand curve describes the relationship of demand and price for most goods and services.
2. b. Fixed costs do not change based on the number of units produced.
3. d. As demand declines for a product, it is generally expected that prices will also decrease.
4. a. Total costs are equal to fixed costs + variable costs.
5. d. Cross-elasticity of demand refers to the increase in demand for a substitute product when the price of a product increases.

12.4 Knowledge Check

1. c. Penetration pricing is setting an initially low price to capture as much market share as possible.
2. d. The break-even unit formula is $\text{Fixed Costs} / (\text{Unit Price} - \text{Variable Unit Cost})$
3. a. $\text{Break Even in Units} = \text{Fixed Costs} / (\text{Unit Price} - \text{Variable Unit Cost}) = 100 / (2.00 - 0.25)$
4. b. Price skimming sets an initially high price to capture the portion of the market willing to pay the price.
5. d. Penetration pricing attempts to capture the greatest market share possible when introducing a new product.

12.5 Knowledge Check

1. c. Bundle pricing is a tactic that has a lower price for a bundle of items than when those items are purchased separately.
2. a. Captive pricing is a tactic used when there is both a core and a captive product.
3. a. Odd-even pricing is a tactic used to illustrate value or quality to a customer through pricing.
4. b. Price skimming sets an initially high price for *new* products to capture the portion of the market willing to pay the price.
5. d. Economy pricing is a tactic in which products are priced much lower than their name-brand competitors.

Chapter 13

13.1 Knowledge Check

1. a. The goal of IMC is to communicate a clear and consistent message through various promotional mix methods that will reach the various segments of the target market.
2. b. The promotional mix method of advertising is a paid form of nonpersonal communication.
3. c. Advertising is a paid form of nonpersonal communications meant to reach a large audience.
4. a. Sales promotion includes coupons that help to induce sales in the short term.
5. b. Public relations encompasses nonpaid activities that promote a product, service, idea, or person.

13.2 Knowledge Check

1. a. The celebrity is the paid spokesperson of the company, and they are the sender of the message.
2. b. Noise is anything that gets in the way of the sender and the message intended for the receiver.
3. c. Television advertising is the medium through which the message is delivered.
4. a. Encoding is the process of taking ideas and information and putting them into symbolic form.
5. a. The Tennessee Department of Tourist Development sent the message, so it is the source.

13.3 Knowledge Check

1. c. The combination of product placement, paid advertising, and the screening of the film on the British Airways flights is an example of integrated marketing communications.
2. a. Integrated marketing communications seeks to have all of the promotions send a consistent and unified image to the customer.
3. c. Sally's ability to recall and think of Taco Bell to fulfill her needs is a benefit of improved brand awareness.
4. d. Because Tina is satisfied and educated on all the ways to shop at Walgreens, she is exhibiting customer

satisfaction.

5. c. Using multiple promotional methods to send a consistent message is the goal of integrated marketing communications.

13.4 Knowledge Check

1. c. The process should begin with a complete understanding of the target audience for the promotional efforts.
2. d. Jennifer is acting on the promotional method Panera Bread used to reach her in the customer journey.
3. b. With continuity scheduling, an advertiser is showing its advertisement on a continuous schedule without variation.
4. b. Nestlé Tollhouse is working to create an emotional connection with the consumer.
5. c. Wendy's would be using all that their budget could afford for the marketing promotions.

Chapter 14

14.1 Knowledge Check

1. a. One media channel used in advertising is commercials.
2. c. This is an example of institutional advertising.
3. a. Advertising has a low per-exposure cost.
4. d. Product advertisements focus on one product from an organization's product mix and/or comparing it with competitors.
5. b. Advertising is still one of the costlier elements of the promotion mix.

14.2 Knowledge Check

1. a. Posttests are utilized after a campaign has launched.
2. c. The first step in advertising planning is determining objectives.
3. a. Millennials are more likely to see advertisements in digital form, such as social media, rather than more traditional media.
4. d. *Reach* refers to the estimated number of potential customers that can be reached with an advertising campaign.
5. a. Assessment is the final step of the advertising plan.

14.3 Knowledge Check

1. a. $ROAS = \$500/\$20 = \$25$
2. c. Brand recognition involves recognizing a brand based on a picture or logo.
3. a. Return on ad spend (ROAS) calculates the revenue generated for each advertising dollar spent.
4. d. KPIs, or key performance indicators, measure the effectiveness of an advertising campaign.
5. b. Impressions = Rating \times Target Population \times Number of Ads. In this scenario, Liam is missing the rating information.

14.4 Knowledge Check

1. a. Public relations is earned.
2. c. Lobbying involves attempts to influence public policy and law.
3. a. Events are a type of public relations in which a company participates to increase brand awareness.
4. d. Press relations is the part of public relations that creates and maintains positive relationships with the press.
5. b. Public affairs involves creating relationships with public officials.

14.5 Knowledge Check

1. a. The company's donation and the public relations surrounding it has created sales and leads.

2. c. Public relations is often not under a company's direct control.
3. a. The company had no direct control over whether the press release would be picked up by news stations.
4. d. Public relations is free, and it has no guaranteed results.
5. b. Taco Bell was hoping that the campaign would outweigh the negative brand image caused by the lawsuit (and it worked).

Chapter 15

15.1 Knowledge Check

1. d. Personal selling is used by companies when they have a product that needs explanation and education, it is higher in price, and it can be varied according to the needs of the customer.
2. c. Personal selling is the one-on-one interaction between a sales professional and the potential customer.
3. b. Personal selling allows for the sales professional to adjust the product to meet the needs and wants of the customer.
4. b. Most products in the market have a lot of competition. The level of competition has nothing to do with the use of personal selling.
5. d. Jasmine has effectively demonstrated the personal selling skills of one-on-one interaction with the customer, meeting the needs and wants of the customer, and having personal communication with the customer to satisfy their needs and wants.

15.2 Knowledge Check

1. d. When customers call into a company to place an order an inside order taker is the person answering and taking the order.
2. b. When several people within the organization are responsible for making the sale, this is considered a team selling approach
3. c. The person who is responsible for making sure the product meets the needs of the customer is the technical specialist.
4. d. Missionary sales is responsible for educating and informing while also encouraging the use of a product.
5. a. Companies often have support personnel to assist with elements of the sale. This can include checking on inventory and setting appointments for outside sales professionals.

15.3 Knowledge Check

1. d. Lucia is trying to find the qualified people to buy the products.
2. a. When customers have questions and the sales professional is ready to answer the questions, this is typically considered handling objections.
3. d. Shakira is acting more as a consultant to help her customer have the best fit for their needs.
4. c. During the approach phase, the sales professional gathers insights and seeks to contact the prospect to build rapport and gather more information on the needs and wants of the prospect.
5. c. Keith is demonstrating the product and telling about the features that are important to the prospect. Keith is doing the presentation.

15.4 Knowledge Check

1. c. Lev needs to know how many sales professionals he will need to hire.
2. d. Malika is focused on bringing in new customers.
3. b. Companies regularly need to inform and educate their sales professionals about the products they are selling.
4. c. Nestle is most likely paying Johnny a commission on the sales he makes.
5. a. Raneer needs to spend time on selling activities.

15.5 Knowledge Check

1. d. This is an example of sales promotion geared toward generating an immediate sale.
2. b. The sales promotion is structured to stimulate demand for more product.
3. c. Rolex wants to spread information about its products to the target market of customers that will be present at the events.
4. a. Sales promotion is primarily to stimulate demand in the short term.
5. a. Sally is happy and satisfied when she gets email and promotions from American Eagle.

15.6 Knowledge Check

1. b. Coupons provide a saving off of the purchase of a specific product.
2. d. Samples provide for a free amount of product.
3. b. Sweepstakes give consumers a chance to win when they purchase something or follow the rules of the sweepstakes.
4. a. Allowances and discounts are typically provided to the trade and used to push the product to the customer.
5. d. Sales promotion is a short-term incentive to consumers and the trade.

Chapter 16

16.1 Knowledge Check

1. a. Online direct marketing includes digital tools such as email, websites, online videos, and blogs to communicate and engage with individual consumers and elicit a desired consumer response or action.
2. a. As consumers are more connected to the internet via their mobile devices and digital technologies have evolved, online direct marketing has emerged as a practical promotion tool for reaching consumers.
3. d. Content marketing involves creating and distributing content that consumers find meaningful and valuable. With content marketing, marketers must anticipate what type of content their audience wants and tell their story in a way that the audience can relate to.
4. d. Email marketing is permission-based marketing. Consumers must opt in to receive messages from companies. This typically occurs when a consumer purchases a product or service and asserts that they would like to receive messages from the company from which they've purchased.
5. d. Advantages of online direct marketing are that it has global reach, is highly targeted, and can be much easier to measure ROI.

16.2 Knowledge Check

1. a. An advantage of social media marketing is that companies can concentrate their promotional efforts on very specific groups of consumers who share common interests and demographics.
2. c. Lack of control over the message is a challenge for social media marketers. Consumers who are dissatisfied with the company can use social media to make negative comments that could hurt brand reputation.
3. a. An important element of a good mobile strategy is ensuring that your website has a responsive design. Simply put, this means ensuring that menus and content are easy to read and that the user has a good experience on the site regardless of the device.
4. d. Responsive web design is a website development approach that results in a website's display dynamically changing to adapt to whatever device a consumer uses. This approach is important to ensuring that consumers have a good user experience regardless of the device they are using.
5. b. Measuring mobile campaigns can be challenging because it's difficult to measure whether a consumer has seen a push notification or in-app message.

16.3 Knowledge Check

1. d. Online marketing metrics help marketers measure the performance of their online marketing

campaigns.

2. c. Because the goal of the campaign is to increase paid subscriptions, a visitor who enters their payment information and contact information and clicks “place order” would be a conversion.
3. c. The bounce rate measures the percentage of times visitors leave your site after visiting only one page.
4. a. Social engagement relates to the actions that users take when they engage with content on social media. Online marketers measure clicks, likes, shares, and comments to help online marketers assess the quality of their content.
5. a. Jax’s Sushi House will learn which source is more effective at driving traffic to the restaurant’s website.

Chapter 17

17.1 Knowledge Check

1. d. A marketing channel is a collection of people, organizations, processes, and activities that work together to deliver products and services to the consumer.
2. d. Agents serve as representatives of manufacturers. While they never take possession of a product or service, they earn a commission or collect a fee for facilitating the transaction between the customers and the manufacturer.
3. c. When intermediaries are removed from the marketing channel, manufacturers must then be solely responsible for distributing products directly to all customers. Thus, the number of transactions would increase.
4. a. Intermediaries add value by performing important activities that manufacturers are not expert at performing. This helps create efficiency in the marketing channel, which helps meet the wants and needs of targeted customers.
5. d. Accumulating, bulk-breaking, adjusting for assortment discrepancies, and providing financing are the valuable services that intermediaries provide.

17.2 Knowledge Check

1. b. A direct marketing channel sells and distributes directly to the consumer without the use of intermediaries.
2. b. An indirect marketing channel relies on a partnership with intermediaries to sell and distribute its products.
3. c. In the B2B or industrial space, manufacturers or producers sell products and services aimed at reaching a business end user.
4. b. In a corporate vertical marketing system, one channel member owns one or more other channel members.
5. c. Omnichannel marketing systems allow consumers to buy and receive products and services seamlessly across a variety of channels, including online and in-store.

17.3 Knowledge Check

1. a. The three overarching factors that impact channel choice include target market coverage, fulfillment of buyer requirements, and profitability.
2. d. An intensive distribution strategy is used when a company wants to distribute through every possible retail outlet where a consumer might find its products.
3. b. A post-sale service is a buyer requirement that is fulfilled after the purchase of a product.
4. c. Perishability is an important factor in channel decisions for companies who sell products that have a short shelf life.
5. d. Profitability is a factor that companies consider when choosing a distribution channel. Companies are attracted to channels that help them maximize profits and operate more efficiently.

17.4 Knowledge Check

1. c. Manufacturers should select channel members based on years of experience, reputation, experience within the market, and profitability. In the scenario above, selecting a channel member based on experience, reputation, and profitability makes the most sense.
2. c. Production Company C and DirectDocumentaries are involved in a well-managed relationship. There is cohesion and transparency, and they share common goals.
3. d. Disintermediation occurs when a channel member is removed from the distribution channel.
4. a. Order accuracy rate is the percentage of orders that are processed, fulfilled, and shipped to consumers without any errors.
5. b. Time to ship is a metric that measures the length of time from when a customer places an order to when it reaches them.

17.5 Knowledge Check

1. c. Supply chain management entails managing all the members and activities from the procurement and transformation of raw materials into finished goods through their distribution to targeted consumers.
2. a. In order for companies to deliver on their value proposition to consumers, they must ensure that the activities and members in the supply chain share the common goal of delivering value to consumers.
3. d. Companies that manufacture goods rely on raw materials to produce the products they sell. They purchase the required materials from suppliers, who must be able to deliver them in accordance with the manufacturer's timeline.
4. d. Resources include the labor, the raw materials, and the technology that are required to move products from their raw material phase to finished goods available for consumption.
5. a. Information workflow is a supply chain management function that relates to what and how information moves between members of the supply chain.

17.6 Knowledge Check

1. b. Air transportation provides the fastest delivery speed over trucking, rail, and water transportation.
2. b. Logistics is the planning, organizing, and controlling the movement of raw materials and ultimately finished goods to end consumers
3. c. Companies use logistics information to develop demand forecasts and conduct supply planning. It can also be used to analyze and assess the effectiveness and efficiency of the supply chain to ensure optimization.
4. d. Integrated logistics management ensures that every element of logistics as part of the entire supply chain is part of a system that works cohesively to ensure that the wants and needs of final customers are met.
5. a. 3PL providers have the expertise, flexibility, and cost efficiencies in logistics that manufacturers don't possess.

Chapter 18

18.1 Knowledge Check

1. c. Retailing is the process of selling goods and services to the consumer.
2. a. Wholesalers are in business to buy in large quantities and sell to other businesses.
3. d. Loyalty cards are one way retailers can communicate with consumers.
4. c. An omnichannel strategy is one that utilizes multiple channels.
5. c. Schwan's eliminates the intermediaries and sells directly to the consumers.

18.2 Knowledge Check

1. b. Automatic vending includes vending machines, in which there is no buyer-seller interaction.
2. b. Television home shopping would be the most likely retailing strategy to reach this target market.

Consumers can call a toll-free number to place an order without ever leaving their home.

3. b. Warehouse clubs sell in bulk to consumers who purchase memberships.
4. c. Off-price retailers are those providing high-quality goods at discounted prices.
5. a. Factory outlets are retailers that are operated by manufacturers to sell overstock items at discounted prices.

18.3 Knowledge Check

1. d. A markdown is a price decrease for a product that is at the end of its life cycle or season.
2. c. Superstores generally choose a freestanding location.
3. c. A small, rural town is most likely to have a central business district, or “downtown.”
4. c. $\text{Gross margin} = \text{net sales} - \text{cost of goods sold}$
5. a. Omnichannel marketing increases customer’s access to product, brand visibility, and personalization because it utilizes multiple channels to reach the customer.

18.4 Knowledge Check

1. d. All of the trends grew considerably.
2. c. Social commerce is a blend of e-commerce and social media, where retailers often use influencers to market products.
3. d. Digital wallets store consumers’ passwords and payment information for safety and ease of ordering online.
4. a. Pandemics, such as the one in COVID-19 pandemic, forced many consumers to stay home. This caused a significant rise in online shopping.
5. c. Social media is one way in which companies can utilize an omnichannel marketing strategy, one in which utilizes many different channels to reach customers.

18.5 Knowledge Check

1. a. Wholesalers are businesses that buy products in bulk and sell to retailers.
2. d. Retailers use drop shippers to ship products directly to the end consumer.
3. d. General-merchandise wholesalers offer the most complete range of services.
4. a. Manufacturer’s agents are independent contractors who act as salespersons for multiple manufacturers to sell similar (but not competing) products to retailers.
5. a. Rack jobbers are companies that agree with retailers to display and sell products in-store.

18.6 Knowledge Check

1. a. Caveat emptor is Latin for “let the buyer beware.”
2. d. Product traceability allows products to be traced throughout the distribution channel to the manufacturer.
3. c. Product traceability does not make less work for distribution channel members.
4. a. Government regulations are not decreasing but are increasing and becoming more complex.
5. a. The Sale of Goods Act requires the accurate, safe, and clear use of directions on goods and services sold.

Chapter 19

19.1 Knowledge Check

1. b. Diversity, equity, and inclusion support people, which makes it a social initiative.
2. d. Sustainable marketing is rooted in purpose, based on mission, and seeks to align people, planet, and profits.

19.2 Knowledge Check

1. a. Sustainable marketing considers all parties.
2. b. Sustainable marketing innovates now while ensuring a viable future.

19.3 Knowledge Check

1. a. Increased brand recognition occurs when brands are known for their sustainability efforts.
2. d. Return on investment occurs when brands can show that the sustainability investment had a positive economic return.

19.4 Knowledge Check

1. c. Innovative marketing uses the media to spur awareness and convert prospects into customers.
2. d. Mission marketing puts purpose at the center of marketing and uses storytelling to spur action.

19.5 Knowledge Check

1. d. Transparency, sustainability, and fair working conditions are all concepts related to purpose-driven marketing.
2. a. Purpose-driven brands stand up for what is right.

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