Definition
A common definition of marketing: The process of planning and executing the conception, pricing, and distribution of ideas, goods, services, organizations, and events to create and maintain relationships that will satisfy individuals and organizations.

Marketing Concept
For the marketing concepts portion of the exam, you should know:

Check off each of these as you review them

- The Four Stages of the Marketing Orientation
- The Societal Marketing Concept
- The Marketing Concept

Contemporary marketing employs the marketing concept, which has evolved through several stages throughout the 20th century, but most notably since the 1950s when mass-media advertising became a major force in marketing.

The Four Historical Stages of the Marketing Orientation
We started with the product concept, which focused on product quality and attributes (features) rather than on meeting needs or supplying benefits. Firms paid little attention to their customers’ feedback or buying behaviors. The focus was on the product itself and what the product did.

This evolved into the selling concept, which was based on making a product and then forcing it into the market (consumers) through aggressive selling and advertising. Firms focused on what they made easily and cheaply with little regard for consumer needs or wants.

By the 1970s, firms began to focus more on consumer needs and how their products could meet those needs. The focus shifted from product features to how those features could best meet the needs of consumers. Firms started making a dedicated effort to understand their customers.

The graphic below shows this evolution:

Selling vs. Marketing Concept

Societal Marketing Concept
Societal marketing concept is based on the idea that firms not only supply products and services that meet the needs of their consumers but that they do so in such a way that benefits society as a whole. For example, Toyota builds its very green and environmentally friendly Prius in a factory that uses solar panels and produces minimal landfill waste. Many consumers, as well as marketers themselves, believe this concept not only benefits society and meets the standard of “doing good while doing well,” but is a
superior long-term business model leading to higher profits, superior brand image, and more satisfied employees.

We might summarize like this:

- **Product concept**
  Build a better mousetrap

- **Selling concept**
  If I tell you something long enough and often enough you will believe it

- **Marketing concept**
  Understand what the consumer wants and why
  Delivering need satisfaction

- **Societal concept**
  Employing the marketing concept with the addition of social good

**The Marketing Concept**

As the focus of the marketing concept evolved from product and sales to the consumer, the discipline experienced a corresponding change in the way we viewed the four, seven, or whatever “P’s.” Think about Harley Davidson (HD). A traditional view of marketing the firm would have resulted in a product-centered brand image, focusing on speed, reliability, or other product attributes; an image relatively easy to compete against. A more progressive approach focuses on the relationship between HD and their customers and the benefits that come with that relationship, most notably being part of the Harley “family.” This results in a far more secure market position and in turn greater brand loyalty.

This evolution resulted in a different vision of the P’s. Kotler and Armstrong (*Principles of Marketing*, 2012) suggested that the traditional 4 P’s are centered on the seller and not the buyer, and marketers would be better served by viewing them as the 4 C’s, as follows:

<table>
<thead>
<tr>
<th>Old</th>
<th>New</th>
</tr>
</thead>
<tbody>
<tr>
<td>Product</td>
<td>Customer solution</td>
</tr>
<tr>
<td>Price</td>
<td>Customer cost</td>
</tr>
<tr>
<td>Place</td>
<td>Convenience</td>
</tr>
<tr>
<td>Promotion</td>
<td>Communication</td>
</tr>
</tbody>
</table>

**The Impact of the Marketing Concept**

This perspective might lead us to conclude that HD is truly not in the business of manufacturing motorcycles but rather in that of riders, rallies, and relationships. This question, “What business are we really in?” is one of the more profound changes resulting from the evolution of the marketing concept. This has resulted in firms being far more customer centric and focused on creating customer value.
Strategic Planning
For the marketing concepts portion of the exam, you should know:

Check off each of these as you review them

1. Utility
2. Marketing as an Exchange
3. What is Strategic Planning?
4. The Marketing Strategic Planning Process
5. Mission Statements
6. Core Competency
7. Boston Consulting Group Matrix
8. SWOT Analysis

Utility

Utility is much like it sounds – it is “the good” or “usefulness” that we get from a product. All products must meet a need in order to be considered a true product. Utility is the basis for meeting a consumer need.

There are four types of utility:
Form: the benefit provided by converting raw materials, parts or in the case of services – skills – into a useable and functioning product. Cotton is good – but the shirt it becomes has greater utility.

Place: Putting the product in a place where its usefulness (benefit) is enhanced. Sunscreen is useful, but its utility is maximized by placing it in the gift shop at a sunny beach.

Possession: To enjoy the utility, we need to place the product in the hands of the consumer in such a way that it belongs to her/him. This is part of the Place “P” (see below). A hotdog is good – but it is better when the consumer can buy it at a ballgame.

Time: The right product at the right time. Those house lights are nice but are most useful at Christmas time.

Marketing as an Exchange
You should know the concept of marketing as an exchange. All marketing is, to greater or lesser degrees, an exchange – one party makes something and another party wants it, so they offer something in exchange. You, the consumer, are willing to give up something to get something else. For example, you go to the movies – that sets you back about $40 for you and your date. That means that you don’t have $40 to spend on something else. This could be considered opportunity cost – what is the relative trade-off
you will make for a given product or service? How important is that date? Successful firms are the ones that the consumer believes offers a fair exchange, resulting in meeting a need.

**What is Strategic Planning?**
Strategic marketing planning is developing an alignment between what the firm does well (see core competency below), the marketing environment, and the opportunities (needs) in the marketplace. According to Michael Porter, firms have two methods of strategic competition:

- Do things fundamentally different than the others in the same or similar industries.
  - This is Apple: They make personal electronic devices. However, their approach is fundamentally different than their competitors, giving them a competitive advantage.
- Do the same things but do them in significantly better or more efficient ways.
  - This is Wal-Mart: They are just another big-box retailer. However, their IT and supply chain is so superior compared to their competitors that they dominate their industry.

Strategy and Tactics are different:

**Strategy is:**
- Long term
- Developed at senior levels
- Focused on high level objectives
- Broad in scope
- Impacts all or most of organization
- Difficult to change

**Tactics are:**
- Shorter term
- Managed at mid and lower levels
- Often implemented by front line staff
- Narrow in scope
- Often focuses in specific activities
- Flexible and easier to change

**The Marketing Strategic Planning Process**
You should know the steps in the strategic planning process and be able to briefly explain each.

Defining company mission (what is it that we do?):
All firms exist to do something. A simplistic approach is that we “make and sell shoes,” would be technically correct for Tom’s Shoe’s. However, that is not market to consumer oriented. Here’s the firm mission: “One for One,” referring to the firm’s policy of donating a pair of shoes for each one purchased. It defines their mission and market-orientation.
Mission Statements
The interesting approach to evaluating a firm’s ethical position is its mission statement. If thoughtfully written and followed, a mission statement tells employees, consumers, investors, and others what the firm stands for and how the leadership views their corporate responsibilities. Regrettably, firms often use their mission statements as little more than show pieces.

One of the more important objectives of a well-written statement is defining how the firm views its relationships with stakeholders.

Setting Goals and Objectives
Goals and objectives are different, but often confused.

Goals:
- Long term
- Developed at senior levels
- Focused on high level objectives
- Broad in scope
- Impacts all or most of organization
- Difficult to change

Objectives:
- Shorter term
- Managed at mid and lower levels
- Often implemented by front line staff
- Narrow in scope
- Often focuses in specific activities
- Flexible and easier to change

Objectives should use the SMART model:

Designing the Firm’s Business Portfolio
The firm must decide what products and services it will offer. This is the firm’s “portfolio.” For example, Tom’s Shoes offers, in addition to shoes, sunglasses and coffee. An odd combination, but they believe it fits their business model and thus their portfolio. Conversely, they do not offer hats, even though it might fit their model. Hats are not part of their portfolio. (Note – the firm does offer a wide array of products as resellers – but these are not part of their business portfolio).
Firms also need methods for analyzing their portfolios, so they determine which products are “winners” (profitable) and which are losers (not so profitable). A common method for analyzing portfolios is the Boston Consulting Group Matrix. You should know the four parts of the matrix:

- **Stars** are those products with high demand and profits – iPhones
- **Cash cows** are those reliable, often older, products with predictable and steady demand – peanut butter
- **Dogs** – these products do not offer high returns or strategic advantages – outdated video games
- **Questions** – these are unpredictable. Often new and untested.

**Planning Marketing and Other Functional Strategies**
Firms will develop strategies for taking the products and services they have selected to market. This can be complex, but a simplified approach is to align marketing goals with the firm’s marketing mix:

![Marketing Strategies and the Marketing Mix](image)

**FIGURE 2.4**
Managing Marketing Strategies and the Marketing Mix.

(Kotler & Armstrong, 2012: p.48)

This figure summarizes the major activities involved in managing a customer-driven marketing strategy and the marketing mix.
Core Competency
All firms have one thing at which they excel, known as their “core competency.” This competency is central, or core, to the firm’s business model. Typically, it has three factors:

- it is not easy to copy
- it is flexible – it can be used for a variety of products and consumers
- it must add to the value created for the consumers – it is a “benefit” rather than a feature.

SWOT Analysis
SWOT is an evaluation tool usually used as part of strategic analysis and planning. It is particularly useful because it allows us to compare our organization’s resources and capabilities, or the lack thereof, to both our internal and external environments.

**The Four Elements of SWOT**

| Strengths | These are things that a firm does well and gives it a competitive advantage. They are also things that allow the firm to meet their objectives or goals, both short and long term. |
| Weaknesses | Think about these in two ways. A weakness might be an area in which the firm simply lacks strength. In other words it is not "good" at something, just mediocre. It might also be, and often is, something the firm truly does poorly. Sometimes a weakness is the opposite of a firm's strength |
| Opportunities | These are things we are not currently doing but do represent new areas of revenue growth, expansion, or enhanced customer service. When analyzing opportunities, it is helpful to think about all the things that a firm might do to reach its goals and objectives but is not currently fully exploiting (if at all). |
| Threats | These are things that may prevent us from achieving our objectives or things that will cause damage to the firm. Common threats are new competitors and changes in governmental regulations. It is important to know that threats can often be turned into opportunities. |

Marketing Mix aka the 7P’s of Marketing
The marketing mix, more commonly known as the marketing “P’s” is the foundation for much of undergraduate level marketing. You need to know all seven and be able to both describe them and recognize examples.

Note that until recently there were 4P’s; however, our migration to a service based economy resulted in three additional P’s – Proof, People, and Process.

Product:
Is it the steak or the sizzle that sells? What makes a product a product? What do you look for when you walk into a store, visit a website, or stop in your fave restaurant? You may not realize it, but in all three cases you are seeking to fulfill a need. That pair of shoes, the latest DVD, or that just-right steak all fulfill some unmet need, the most important quality for a product to be a product. A product can be tangible or intangible, and which is more important depends on the relationship the consumer has with the product. Consider your favorite restaurant: Which is more important, the tangible food itself or the intangibles such as atmosphere and service? Your answer may be different than your date’s! Ultimately, each product is made up of all the pieces and parts that fulfill a need and make it desirable to a consumer.

Place:
Every day, millions of hungry people walk into McDonalds and order that all-American favorite – the Big Mac. Did you ever stop to consider how those two whole beef patties, American cheese, special sauce, pickles, and onions, all on a sesame seed bun, got from where they are produced to your neighborhood Mickie D’s, in time for lunch, at such an amazing price? It’s called supply chain management, and it is one of two ways we can look at place. Supply chain management is the art and science of sourcing, transporting, and storing all the products, parts, components, or raw materials a firm requires to meet the
needs of their customers. Something as simple as a Big Mac may require dozens of suppliers and shippers to put the finished product on the menu. Now, just imagine how complicated it is for an airliner! The other way in which place might be used in marketing is distribution (the where and how we sell our products). Do we sell directly to consumers, or through retail stores? In a big box discount store? At a fancy boutique? The answer depends not only on the firm’s place strategy but also on how they want you, the consumer, to perceive the product.

Promotion:
When you think of marketing, do television commercials, magazine ads, and all that stuff in your mailbox come to mind? It does for many, and justly so. Television alone accounts for almost $75 billion in ads every year. That one-minute truck ad you watched during the Super Bowl cost millions in production and air time, yet may never be used again. Promotion is often expensive, but it is one of the most powerful tools in marketing and consists of all the activities that marketers use to inform, persuade, and influence consumers. It includes advertising, sales promotion, public relations, personal selling, and direct marketing (among other techniques). You will learn more about promotion, with detailed explanations of the major types of promotion, later in this review.

Price:
How much are those shoes in the window? The price that a seller asks for a product is determined by several factors including how much a consumer is willing to pay, the price of competing or substitute products, and how the firm is using price as part of their marketing strategy. Although understanding what it costs to produce a product or service is important, it often has little to do with the price the seller charges. Designer shoes and clothes cost comparatively little more than the “everyday” clothes a family buys at the big box store yet may be many times as expensive. The high fashion shoe company can charge more because of the “need” the shoes fill for prestige and image. On the other hand, a new designer might price their shoes at, or even below, production costs to gain consumers and build awareness. Both of these firms are using pricing strategy to meet their marketing objectives!

People:
When something goes wrong with that convenient online purchase we completed from our couch in our jammies, which would you prefer: a computer or a sympathetic customer service rep? Until very recently, many firms favored either the "Product Concept," the "Selling Concept," or the "Marketing Concept." The “Product Concept” of marketing puts its emphasis on the product features and quality. The “Selling Concept” focuses on aggressive advertising of what the firm makes regardless of what consumers really want. Finally, the “Marketing Concept,” popularized in the 1950s, stresses fulfilling needs and delivering consumer satisfaction. However, firms are focusing on individualizing the consumer’s experience by using people in a firm to add value and exceptional service. Firms recognize that consumers, even those favoring online shopping, want their interactions to be a pleasant and personalized experience, something computers often do poorly. Firms have come to understand that people, especially those on the “front lines,” are an integral part of the marketing mix and the customer’s perception of the company’s products. To gain an appreciation of how important this is, think about the last time you called your cable or cell phone provider. Was it the cable box or phone that satisfied your need for help, or the employee at the other end of the line?

Process:
In many cases, this P is often most applicable to online retailing, where the firm is concerned with order processing, shipping, and inventory management. However, almost any firm that has direct contact with customers has found that having processes that meet their customers’ needs is a vital part of their marketing strategy. Considered broadly, a “process” is anything the firm does to manage the procedure of selling and servicing a customer. In order to deliver exceptional service while remaining profitable, firms need efficient and effective processes. Unfortunately, many firms focus their processes on the needs of the company rather than on the needs of the customer. For example, while some retailers make returning a purchase an arduous event, online clothing retailer Land’s End has a reputation for making returns easy and painless. They have recognized the value of consumer-centric processes in their marketing strategy.
Physical Evidence:
How do those “Summer Breeze” drapes go along with your “Artic Mist” couch? If you go to the big box home improvement store, you can check it out; but shopping online makes it much more challenging for you, and a problem for online marketers. Your copy of the latest hit movie or CD is exactly the same as millions of others that Amazon, or other online retailers, sell every day. However, decorating your new home is a far more individualized purchase. Much like processes, physical evidence has become increasingly important as service and online industries have replaced brick and mortar stores and other “tangible” outlets. It’s hard to try on that new sweater when it only exists in cyberspace. Branding, website design, and experiential online selling all help create “physical evidence” that the product is not only real, but desirable.

The Extra “P” – Packaging:
Back when the Earth was still cooling, packaging was often considered to be one of the P’s, which back then made it the fifth one. Packaging is the boxes and bags in which we pack, ship, store, and display the stuff we want to sell to consumers. A few years ago, packaging fell out of favor and got dropped from the list. Some marketers think it is unfortunate that it happened this way as they believe that those bags and boxes have a great deal to do with the way we shop. Just think about a can of Coke. Now, packaging is often considered part of advertising or, in some cases, branding.

The Promotional Mix
These are the most common parts of promotion and are often referred to as the Promotional Mix. You should know them and be able to identify them.

These are the four traditional parts of promotion:

Advertising:
A paid, non-personal form of communication using any combination of media that is intended to inform, persuade, or influence a given audience. A partial list of the media used by advertisers include TV, radio, magazines, newspapers, direct mail, and, of course, the Internet. For most consumers, advertising is the most common form of promotion or marketing.

Public Relations:
PR is the management of the bi-directional flow of information between a firm, government, or non-profit and its various “publics.” A “public” refers to any one or combination of the many stakeholders that the organization serves, including investors, customers, vendors, the community, employees, and others. PR is often thought of as spin control or minimizing negative information. However, it is just as often used to disseminate positive information. Some common methods include press releases, industry awards and meetings, press conferences, internal and external newsletters, and personal appearances.

Personal Selling:
An interpersonal, often one to one, form of communication in which an individual doing the selling uses a combination of presentation tools and skills to inform and persuade another individual (or group) with the ultimate intention of “closing” the sale. Personal selling often requires extensive training, especially when the product is complex or expensive. It is often divided into B2B (business to business) and B2C (business to consumer) selling, each of which requires different tactics and methods.

Sales Promotion:
Do not confuse this with the broader concept of promotion, which is mentioned above. Sales promotion consists of activities intended to generate short term sales of a given product. Although the activities are usually short term in nature, the goals are often part of a long term strategy to build consumer awareness and loyalty. Sales promotion might include coupons, contests, sweepstakes, samples, rebates, and other similar incentives. Generally speaking, sales promotion requires that the product be purchased in order to make the most of the incentives.
You may also find several additional categories of promotion, including:

**Direct Marketing:**
If you are like millions of other consumers, on your way back from the mailbox you stop at your recycle bin and sort your mail. You might like to toss those bills and the reminder from your dentist, but you’ll almost certainly chuck those flyers, catalogs, and envelopes full of coupons (or so you tell yourself). The truth is that most of us occasionally keep one or two of those ads or coupons, making direct mail marketing one of the most cost-effective forms of promotion, especially for smaller or local firms. According to the Direct Marketing Association, American firms spent about $170 billion in direct marketing in 2012, almost half of all advertising expenditures, a good deal of which ends up in your mailbox. Direct mail might be considered a sub-set of advertising; however, due to its sheer size, reach, and the specialized techniques involved, it deserves its own promotional category. This includes telemarketing, direct mail, and direct emails among other methods. Direct mail works for a number of reasons, such as the allure of those coupons and highly targeted mailing lists.

**Marketing:**
What business is your favorite social media site in? Hint: it’s not social media. Or entertainment. Or connecting you to your new 843 BFFs. Most social media sites are in the e-marketing business. And they are not only busy selling you stuff, but they are also collecting a vast database of analytics about you and your friends. Much like direct marketing, e-marketing could be considered part of advertising; and many textbooks treat it as such. This ignores the sheer power of this emerging medium. E-marketing is something of a catch-all term that includes Web advertising, blogging, social media, smart phone apps, and crosses over into direct marketing to include all those emails we receive. Like direct marketing, much of e-marketing is a numbers game; the firm is sending millions of emails or advertises on sites that get millions of hits each day. The big distinction is that e-marketing allows for far more personalized engagement with consumers.

**Social Networking:**
This is not limited to the major sites such as Facebook and YouTube. In fact, some of the more promising sites may be the smaller, special interest sites, which offer a more targeted audience and lower cost per exposure.

**H. Viral marketing:**
This method has been in use for several years but still has broad potential, especially when combined with wireless technologies. The success of a viral campaign relies on the content being passed virally from user to user, something at which wireless users excel. The trick is, and always has been, creating content deemed worthy of sharing.

**Marketing Environment**
Consider some of the changes many families, perhaps including yours, weathered in the last few years: job changes due to the recession, a grandparent retired, you made new technology purchases, and families members graduated from high school or college. With each of these changes in your family’s lives, you made adjustments to your budget and lifestyle. Businesses are very much the same – they react to changes by adapting their budgets and business practices. In marketing, these changes are called **environmental forces**, and they shape the way in which firms develop and price products, target consumers, and design ad campaigns. You may see these referred to as PEST: Political, Economic, Social, and Technological.

**Political forces** are those resulting from governmental or extra-governmental activities such as laws, regulations, taxation, trade, or foreign policy. These forces may also result from political parties or citizen organizations, such as the Tea Party, although in some cases these are actually social forces. An example of a political force is the Affordable Care Act.
Economic forces may be among the most complicated, as they are influenced by not only our national economy but also by global changes. A recession in the EU might change interest rates here at home, while a tightening of Chinese credit lines might impact the availability of certain consumer goods. Unlike social or political trends that might be primarily domestic, many economic forces are global in nature. Economic forces can be defined as those that impact consumer access to credit, their disposable income, or other influences on their ability to save, invest, or spend money. It is important to remember that these forces (influences) can be positive as well as negative.

A special note about economic forces… Firms may react in any number of ways to changes in the economic environment. For example, a recession may result in layoffs or budget cuts. These are important, but not necessarily reactions that are relevant to marketing specifically. As you review this section, consider the differences between accounting and financial actions and those taken by marketing departments.

Social forces consist of things that influence our society’s lifestyle and behaviors, including cultural, religious, generational, and educational trends. An example of a social force is baby boomers, those Americans born between 1946 and 1964, who are retiring at the staggering rate of 10,000 every day.

Technological forces are those that result not from technology itself but rather from the way in which technology influences the business or marketing environment. When we consider technological forces, we need to be careful to distinguish between technology and how that technology impacts the lives of consumers or the firms serving them. For example, the Hubble Telescope is a marvel of engineering and changed the way in which scientists explore the universe. However, despite our interest in what they discover, chances are the technology has little influence on our daily lives.

You may also find questions relating to other environmental forces:

**Competition** in marketing, business, or economics concerns two or more firms competing for the same limited resources, which might include customers, raw materials, financing, and many others. This is a bit broad, and in marketing we are more likely to think of competition in terms of customer spending. How does our firm get some of what the consumer has to spend, sometimes called “share of wallet?” Remember, there are three types of competition that concern us as marketers: direct, indirect, and budget. Understanding each of these is important to developing a strategy resulting in a competitive advantage.

**Environmental** refers not to the business or marketing environment but rather to the environment as we usually think of it – water, air, land, and wildlife. Consumers are increasingly sensitive to how firms impact the environment and may choose a firm, or its products, based on their perception of how the product does, or does not, impact the environment. Dolphin friendly tuna and oil spills are both examples of consumers reacting to the impact, positive or negative, firms have on the natural environment.

**Legal** is similar to political but may be more concrete. While political pressures may, or may not, include a specific legal requirement, when we refer to legal environmental pressures, we are considering one or more specific laws. An example of this is the Affordable Care Act, aka “Obamacare.” This new law has opened a number of marketing opportunities, and challenges, for firms in healthcare.

**Market Research**
This is the process of collecting and using information for marketing decision making. It helps us understand:
- trends
- consumer preferences and behavior
- competition
- segmentation
- channel behavior
There are three major types of research:

Exploratory research:
This is often used when we don’t know precisely what we are looking for in our research. The problems may be poorly defined or understood. For example, we know that our customers are not buying a given product the way they did five years ago, but we do not understand why. Exploratory research helps us define the problem or research question and develop a hypothesis.

Descriptive research:
This is research we use to better define, describe, or explain a marketing problem or research question. It is often used to discover questions such as “how many” or “which one.” How many of our customers prefer blue to red? Which flavor of Gatorade will sell best on college campuses? This allows us to answer our hypothesis.

Causal research:
This is research we would conduct to discover “why” – or cause and effect relationships. We know that a certain group of customers are buying organic chicken rather than the less expensive ordinary factory-farm chicken, but do not understand “why.” Causal research allows us to test our hypothesis regarding why consumers make a particular choice or behave in a given manner.

Data Types
You should know the two major types of DATA and be able to recognize examples of each.

Primary:
Usually more valuable, and more confidential, is primary research. Coming from firsthand or “primary” sources, this is data that the researchers generate independently of existing sources. It is also much more expensive. So when you get ready to order up that survey to find out if consumers love your product because it works so well or just buy it because the latest winner on American Idol swears it is responsible for her being adored by millions of fans, you’d better have a plan for using the information profitably.

Types of primary data:

Experimental:
This method involves the researcher conducting a scientific experiment with a hypothesis, control group, and an experimental group. The control group is not subjected to the experimental variable while the test group has one or more variables manipulated by the researcher.

Focus Groups:
Major legal firms routinely conduct a bizarre, if very real, application of this successful market research technique. Lawyers, or their proxies, can gauge the opinions of various demographic groups in advance of courtroom action by carefully impaneling focus groups, thereby assisting courtroom attorneys in subsequent in-court decisions to eject individual jury members whose demographics are generally found to be antagonistic to their clients’ position(s). The focus group is a powerful and not so expensive technique for gathering vital primary marketing data.

Surveys:
These are the most common, and most commonly misused, marketing research method. Although there are a number of methods for deploying a survey, such as intercept interviews (those annoying people in the malls) and bulk mail, the most common current practices are email and Internet. Response rates vary widely, depending on several factors including the target sample and if incentives are offered for participation. Surveys, if executed correctly, can provide a wealth of useful information and lend themselves to quantitative analysis. However, they are also prone to design and implementation error. Among the most common of these are (1) asking too many questions (the patience factor), (2) poor sampling techniques (asking the wrong people), (3) biased question design (getting the results you want rather than what the respondent really thinks), and (4) poor analysis.
Observation:
The design of this technique can vary considerably and participants may, in some cases, know they are being observed (although they may not know the exact reason or hypotheses). Observation ranges from watching which toys kids prefer to reviewing videos of shoppers in retail stores. In the case of the latter, an anecdotal story suggests that if retailers play lively, fast music (think the Rolling Stones) as opposed to slower, mellower music (John Denver) shoppers will move down aisles more quickly, spend less time browsing, and thus usually spend less money. Regrettably, this means we are more apt to get John than Mick.

Secondary:
Secondary research is the use of existing sources of information. This might include past studies, industry information, magazines and newspapers, scholarly journals, and the US Census. It is probably easiest to think of this as “second-hand” (thus the term secondary) data since the researchers are getting it from somewhere else.

Examples of secondary data:
- Census
- Trade associations
- Trade publications
- Academic research
- Business press
- Popular press
- Databases

An increasingly important source of secondary data is that of web analytics, which includes search patterns, blogs, online purchases, click-throughs, and emails among other online sources.

Marketing Intelligence:
This is a systematic approach to gathering and analyzing “publicly available” market data. This might include trade journals, newspapers and magazine, online sources such as blogs, and customers.

Segmentation
For the segmentation portion of the exam, you should know:

Check off each of these as you review them
- Segmentation
- Targeting
- Persona
- Needs Fulfillment
- Demographic
- Psychographic
- Geographic
- Behavioristic

Below are images from two very different Bud commercials. The first is from a famous commercial released a few weeks after 9/11 in which the Clydesdales bow to the New York skyline sans the Twin Towers; a commercial seen by many as deeply moving and patriotic. The second image is from a very silly ad about a young couple picking up a hitchhiker with an axe (“But he has Bud Light!”).
The terms segmentation and targeting are often used interchangeably; however, the difference between them is important to marketers.

Segmentation is the method we use to break our prospective customers into smaller, logical groups or sub-groups. These smaller groups are more manageable and allow us to customize our marketing mix (a combination of the 7 P’s) for each of them. Each of these groups, which we call “segments,” share a common set of traits and characteristics and will be distinct in one or more ways from the other segments.

Targeting is how marketers customize their marketing mix for the specific segment. We are “aiming” at the consumers – thus the name “target.”

Persona—Are We More Alike or Different?
This question keeps marketing managers up at night – if we understand this, then much of our task as marketers becomes easier. It all begins with creating personas for each of our segments. A persona is a fictional name for a very real segment. Each of our personas has a unique and specific set of characteristics and attributes that, ideally, is reflected in the name of the persona. The persona that is targeted by the Anheuser Busch commercial featuring the axe-wielding hitchhiker might be called “Fun loving Couples” – a name that suggests youth, parties, and a busy social life. We refine these personas using a combination of demographic, psychographic, geographic, and behavioristic traits.

Needs Fulfillment—Needs Based Segmentation
All segmentation begins with identifying what “need” our product or service fulfills for the consumer. For example, a physical therapist may meet the needs of an athlete by helping him or her recover from a sports injury – the persona is “Injured Athlete.” The same therapist might help an older patient recover from a hip replacement – this persona is “Senior Post Surgery.”

Demographics
These are quantifiable variables such as age, gender, race, income, and education. Think of these as things that can be measured and are usually objective. The U.S. Census measures demographics.

Geographic
This is where the prospects live and work. These may be political boundaries, such as states or cities; however, geographic segmentation is often based on geographic traits, such as rural or urban. In other cases, we may segment based on characteristics we associate with a region, such as Southern or Rocky Mountain.

Psychographic
Many marketers consider this to be the most critical variable. Think of this as “lifestyle choices,” such as how we spend our leisure time or disposable income. In our free time, do we prefer to ski and backpack or attend the theatre and museums? There are potentially dozens, if not hundreds, of these choices, and the marketer’s challenge is to determine which ones best describe the firm’s consumers.

Part of the answer is that both commercials touch us, albeit in very different ways. Both commercials reinforce the brand, again with very different brand images. However, a large part of the explanation lies in the very different market segments that Anheuser Busch targets with the ads.
Behavioristic
This is perhaps the most difficult to clearly define and might best be described as the consumer’s relationship with the product. Is the consumer a heavy or light user? Is the product only purchased under special conditions, such as a holiday? How, and when, the consumer uses the product may define this segment.

Consumer Behavior
For the Consumer Behavior portion of the exam you should know:

Check off each of these as you review them

- The Five Influences on Consumer Buying Behavior
- Low vs. High Involvement
- Types of Consumer Buying Decisions
- The Consumer Decision Process

Five Influences on Consumer Buying Behavior
With the exception of routine, habitualized purchases (things you buy regularly without much thought), consumer are influenced by a number factors that can be categorized into one of five types:

1) Cultural
These influences result from values, beliefs, and behaviors that we learn from our family, social groups, and societal institutions such as schools and places of worship. Membership in one or more subcultures, including ethnic and religious groups, may influence these beliefs and attitudes. An example of this is our preference for a given brand because it was what our parents purchased when we were children.

2) Social
These are influences that result from social groups with which we identify and, in many cases, include one or more individuals we tend to copy or follow. These are called opinion leaders and may be as close as a classmate or as remote as a sports star. Social influences also result from popular trends or fashions. An example of this influence is buzz marketing.

3) Psychological
This is a bit misleading, as arguably all factors are to some degree psychological. However, technically these are influences that are internal to us as individuals and include motivation, perception, learned behaviors, and attitudes. An example of this is a teen’s perceived need for expensive shoes because of his perceived self-image – the shoes contribute to his self-esteem.

4) Personal
These are factors that are unique to us and result from our stage in life, self-concept, lifestyle choices, occupation, and economic status. If we are deeply committed to a given group, for example a favored charity, we might buy products from firms that contribute to that charity (which explains one reason firms engage in charitable activities).

5) Situational
These influences are very specialized and are found in unique situations such as special events, holidays, and locations. These might include vacations and family occasions as well as major holidays, such as Halloween and Christmas. For example, it is not normal to dress up as a six foot bunny rabbit – except on October 31st – when it is not only normal and accepted but is also part of a multi-billion dollar holiday.

Low vs. High Involvement
In most buying processes, consumers will have some level of involvement, ranging from almost none to extreme levels that require “research” and considerable deliberation.
Low involvement products (decisions) tend to be those with which the consumer is very familiar and views as low risk. Price may be a factor, but this is not always the case. Examples of low involvement products are those routine items we buy at the grocery store. We do not give much time or thought to the same brand of bathroom tissue we have purchased many times.

High involvement products are often those the consumer views as more complex, are more expensive, or have consequences for making poor decisions. Autos and electronics are both examples of this type of purchase. Price is often a factor, but not always. For example, new parents buying cough syrup for their first child’s first cold are only going to spend $5, yet they may deliberate at length regarding which product is better and safer.

Types of Buying Decisions
You should know the following five types of buying behaviors:

1) Routine: This behavior is usually associated with purchases we make on a regular basis for brands with which we are very familiar. We may have strong brand preferences, but the decision itself is low involvement and routine. Many grocery store items are in this category.

2) Complex: Consumers will be highly involved and will view the brands as having significant differences. The buyer may invest a great deal of time in gathering information and comparing features. This buying behavior often applies to more expensive and complicated products.

3) Dissonance-Reducing: This decision process is also complex and requires high-involvement; however, in this case the consumer sees little difference between one brand and another. Replacing your septic tank is very expensive and complex; however, in most cases the consumer sees little difference in “brands” (aka contractors) and is likely to never have heard of any of the bidders. For products in this category, marketers should follow-up the sale with re-assuring communications to reduce post-purchase dissonance – more commonly known as “buyers’ remorse.”

4) Habitual: Very similar to routine behavior, this behavior applies to products with low involvement and few, if any, perceived differences in brand values or attributes. Consumers buy items in this category often and with little thought to brand as they are all seen as the same or similar. Brand switching is common. Bottled water is in this category.

5) Variety seeking behavior: The consumer has low involvement in these products but perceives significant brand differences. The difference between this behavior and routine is that the consumer is not loyal to a given brand and, in fact, intentionally seeks out changes or “variety.” I may try one brand of chips this week and a different brand next week. For many consumers, fast food falls into this category – low involvement (it is just lunch), differences in brand and product (BK today – KFC tomorrow), and low brand loyalty.

The Consumer Buying Decision Process
You will need to know the five steps in the buying decision process and be able to identify each of them from a description or example. Refer to the graphic below.

- Need recognition: The consumer recognizes some unmet need or problem. I want to be able to stream TV shows.

- Information search: The consumer researches the options and seeks opinions which he or she values. I review the information I find online and ask friends I trust how their streaming is working.

- Evaluation of alternatives: The consumer now has a set of options and some information about each of them. He or she will narrow that list into what is known as the “consideration set.” These are the final few options that are seriously being considered for purchase. I have narrowed my options to Roku and a Blu-ray player with Netflix.

- Purchase decision: Based on the information I have and a number of other factors, the consumer makes a decision. I have decided on the Blu-ray and Netflix option.

- Post-purchase behavior: For most non-routine purchase decisions, the consumer experiences some post-purchase regret. The product may not live up to the consumer’s expectations or the other option now seems to be more attractive. In many cases, the consumer experiences “cognitive dissonance,” which is the conflict or discomfort we experience following a purchase. Marketers can reduce this by reinforcing the value of the product. After buying my Blu-ray and subscribing to Netflix, I am worried that I can’t get as many shows on Netflix as I can elsewhere. However, Netflix starts sending me emails reminding of the new TV shows and movies they add each week and asking if I want to add them to my personal queue. This reduces my dissonance – aka – buyer’s remorse.

**Marketing Services**
Marketing services is fundamentally the same as marketing physical products – you must identify a customer need and then develop an appropriate marketing mix (the 7P’s) to meet that need in a manner superior to that of your competition. However, services do require some special marketing techniques.

*For the Services Marketing portion of the exam you should know:*

*Check off each of these as you review them*

- Tangible vs. Intangible
- The Concept of SERVQUA
- GAP Analysis
- RATER
- The Four Unique Qualities of a Service vs. a Product
• High vs. Low Contact
• Feature vs. Benefit
• Value Ladder
• Service Profit Chain

Tangible vs. Intangible
Products can be tangible (things) or intangible (services), and if they are the latter, then they have some unique characteristics (see below). Some products seem obvious – most of what we buy in the grocery store are tangible products possessing little in the way of service qualities (although the grocery store itself is a service business, or at least should be). However, in many cases the distinction is far less evident. A product is tangible if it has physical presence or characteristics. Services may have tangible attributes but are generally considered to be intangible.

Let’s consider a high-end restaurant. Although the food is important and is probably what we’ll talk about when asked how the date went, it is more likely service that made the evening memorable. In this case, the service is not just the servers but also the ambiance, décor, music, and table settings. As the marketing director for the restaurant, is your product tangible (the food) or intangible (all the other stuff)? The answer, of course, is both are important to you and to creating a brand your customers find memorable.

The Concept of SERVQUAL
SERVQUAL is a method for determining the effectiveness of a firm’s service, marketing, and delivery. It was developed by three researchers in the 1980s, Parasuraman, Zeitham & Berry (you probably will not need to know these authors’ names, but you may well need to know the term SERVQUAL). It relies heavily on identifying one or more of five “GAPS” in service.

1 – What customers want vs. what the firm thinks they want
2 – What customers want vs. what the firm plans to provide
3 – Quality specification vs. what is actually provided
4 – What the firm provides and what they are told to expect
5 – What the consumer wants vs. what the customer actually receives from the firm

You should know the term RATER, which is part of the SERVQUAL method:
• Reliability
  Can they count on the firm?
• Assurance
  The ability to convey trust and skill
• Tangibles supporting the service
  Disney has parks and rides
• Empathy
  Does the firm care about me as a consumer?
• Responsiveness
  How quickly can the consumer get the service?

The Four Unique Qualities of a Service (Compared to a Product)
1. A service is intangible.
2. Inseparability - the consumer is closely involved with the delivery of the service. You must be present to have your hair styled.
3. Heterogeneity - services have greater variability than products and tend to be more “customized.” My hair cut is going to be different than yours.
4. Perishability - cannot be warehoused. The service must be used. Once the airplane leaves, the empty seat is revenue forever lost.

High vs. Low Contact
• High-contact services require the customer to be present during the production of the service.
Employees must have the training to not only deliver the service but also to function well with the customer (empathy, people skills).

- Salons, medical

- Low-contact services do not require the customer’s continuous presence while the service is carried out.
  - Technical know-how is important, but the employees do not necessarily need the people skills.
  - Lawn service, appliance repair

**Features and Benefits**

When developing a product, we need to consider what features we will include and what benefits those features, sometimes called “attributes,” provide consumers. As part of your marketing plan product description, you'll include a feature and benefit chart. Here's some information to help you get started. Features and benefits are often confused, but there is a distinct difference.

- A feature is something that the product does or an attribute of the product. It may be functional or cosmetic in nature. The term “characteristic” is often used in conjunction with features.
- A benefit is the value that the feature provides to the consumer or user. Think of it as what the feature does for the user.

**How can you know the difference between features and benefits?**

Often, individuals tend to confuse extended features with benefits. For example, suppose we were launching a new laptop computer – what features and benefits would we include? Which is which? Consider whether the following are benefits or just an elaboration of the feature:

- The screen is covered by an anti-glare film.
- The processor operates at three gigabyte speeds.
- The computer shuts down if not used for 30 minutes.
- The battery lasts for four hours.

Each of these is a definable, factual, and identifiable function of the laptop. Each is also an important and useful function. However, none of these add value to the laptop. What adds value is what the feature DOES for the consumer using the laptop. Considered another way – “What’s in it for me?” Sometimes called WIIFM.

**Value Ladder**

You should be aware of a concept called the value ladder. It is an escalating “chain” or “ladder” that delivers increasingly higher levels of service to consumers.

<table>
<thead>
<tr>
<th>Level</th>
<th>Value Provided</th>
<th>Value Captured</th>
</tr>
</thead>
<tbody>
<tr>
<td>Seller</td>
<td>A simple retail-like transaction. Little insight required.</td>
<td>Low</td>
</tr>
<tr>
<td>Provider</td>
<td>You sell the product, but provide little in the way of value it adds. True of many distributors and jobbers.</td>
<td>Low</td>
</tr>
<tr>
<td>Fixer</td>
<td>You provide a solution to a problem but often only in an “instructional” manner. You can be easily replaced by a firm with similar knowledge. Susceptible to price challenges.</td>
<td>Medium</td>
</tr>
<tr>
<td>Partner</td>
<td>You are viewed as a partner, but have no special or irreplaceable value. You have no figurative “stake” in the firm. Less vulnerable than a fixer, but not truly secure either.</td>
<td>Medium High</td>
</tr>
<tr>
<td>Insider</td>
<td>Because you provide “value-added” services that enhance the operations and profitability of the business, you are viewed as “part” of the firm. More than a partner, you are integral to the success of the firm and share in that success.</td>
<td>High</td>
</tr>
</tbody>
</table>
Service Profit Chain
There are similar concepts in the Service Profit Chain. This chain links the quality and effectiveness of a firm’s service delivery to their profitability:

- Internal service quality – a quality work environment (training and selection)
- Employee satisfaction – happy and satisfied employees deliver better service
- Greater service value – better customer service creates more value
- Loyal customers – customers receiving more value are loyal and less costly to retain
- Profitability from service – if firms do all four of the above well, they will be profitable delivering services


Marketing For Non-Profit Organizations aka Not-for-Profit-Marketing
You may see one or two questions regarding NPO marketing on the exam. The basic marketing concepts DO NOT change. A non-profit organization (NPO), just like a for-profit firm, sells something and raises money. That is how they keep their doors open. An adage in the non-profit industry is that non-profit is a tax status, not a business model.

*For the Non-profit Marketing portion of the exam, you should know:*

*Check off each of these as you review them*

- The differences in organizational (marketing) objectives
- How consumer behavior may be different in NPO marketing

(These items are not necessarily in the order listed above.)
Differences between for-profit and non-profit
Perhaps the two most important differences are (1) the objectives of a non-profit compared to those of a for-profit and (2) consumer behavior.

Objectives:
Unlike a for-profit firm that usually markets for the ultimate purpose of selling their products or services at a profit, Non-Profit organizations may have more complex objectives. Typically, it will be one or a combination of four objectives:

Donations: This is much like marketing to sell a product. It requires that the consumer spend some of their discretionary income. The difference is that the consumer may not get anything in return for making the "purchase."

Time: Rather than money, the NPO wishes to persuade (sell) the consumer to volunteer his or her time to the organization. This may be a harder sell than simply getting a donation, especially for skilled or well-educated volunteers.

Beliefs: This may be compared to branding. Remember, in branding the firm’s objective is to get consumers to think about (believe) the firm in specific ways. You see the Apple logo and think “innovative” and “cool.” The NPO wants consumers to believe in certain ways consistent with the non-profit’s mission and goals. For example, People for the Ethical Treatment of Animals (PETA) wants all consumers to believe it is morally wrong to eat animals or wear fur.

Behavior: Many marketers might argue that all marketing is about changing behavior and getting consumers to do what the firm wants them to do. In the case of NPOs, however, this objective is often central to their objectives. The American Heart Association’s objectives are specifically focused on getting consumers to eat healthy and not smoke. It is what they “sell.”

Consumer Behavior: For-profit firms want consumers to buy their products or services and rely on meeting some real or perceived need. So do NPOs. The big difference is that in the case of NPOs the consumer may get little or nothing in return beyond a sense of satisfaction or self-fulfillment. This means that NPO marketers usually target motivations higher on Maslow’s hierarchy. Feeling good about donating to a kid’s charity probably fulfills needs at the top of the pyramid.
Social Marketing or Marketing for Social Causes

For the Social Cause Marketing portion of the exam, you should know:

Check off each of these as you review them

- What is the Central Concept of Social Marketing?
- How are the 7P’s Similar and Different in Social Marketing?

(The items above are not necessarily listed below in the same order.)

**What is the Central Concept of Social Marketing?**

This is the first cousin of non-profit marketing, and the two could easily be treated as one discipline. As in non-profit marketing, in most cases social marketing has the objectives of changing attitudes, beliefs, and behaviors regarding a “social cause.” An example would be the movement pushing the fast food industry to pay a “living wage.” The movement has used many of the same techniques we would use to sell any other product (spokespersons, social media, press conferences and releases, advertisements, and online blogs) to sell their “idea.” This concept of selling an idea, as opposed to a product or service, is the key concept behind social marketing. *The key concept is to market a cause that results in improving the well-being of both individuals and society as a whole.*

In doing this, marketers will use the same **seven P's as their for-profit colleagues, just in different ways. We’ll use the fast food wage issue as an example:**

**Product** – the product is usually an idea and, by extension, some behavior modification. Fast food workers should get $15/hr. and we should boycott McDonald’s and Burger King until they do.

**Price** – since we may not be asking consumers to donate or buy something, price may be the cost (real or perceived) of supporting the cause. Consumers may need to pay a few cents more for a burger to support a living wage.
Place – how does the consumer access the idea? This may be at the fast food restaurant or it may be purely virtual – the “product” (the idea) is accessed in the media and online.

Other P’s may be adjusted in a similar fashion.
An example of marketing for social causes is the advertising and promotional campaign to reduce texting and driving. Most, if not all, of this campaign is funded by non-profits or donations and is highly targeted.

International Marketing
You should expect to see one or more questions on the exam regarding international marketing. You may see the terms “international” and “global” used interchangeably in the exam and elsewhere. This is not correct, as described below.

For the International Marketing portion of the exam, you should know:

Check off each of these as you review them

- International vs. Global
- World Trade Organization
- Emerging Economies (BRIC)
- Free Trade Zones (EU, NAFTA)
- The Basic Concept of Supply Chain Management
- Product Adaptation
- Entry Methods and Ethical Considerations

The items above are not necessarily listed below in the same order.

International vs. Global
As noted above, these terms get applied interchangeably, which is incorrect. They are quite different. An international firm operates in two or more countries, but its scope is limited and the countries may all be regional. If a U.S. agricultural firm sells seeds to countries in Central America but makes most of its sales and profits in the U.S., it is international but not global. This is especially true if the firm makes few, if any, significant adaptations to its marketing mix for the other countries to which it sells products.

A global firm is one that not only sells to a broader group of countries (probably on multiple continents) but makes adjustments to meet the needs and requirements of local markets. This might mean changing promotional tactics or changing products entirely. For example, Victoria Secret has stores in Islamic countries, but you will not see the Christmas Angels TV special in Saudi Arabia. Pizza Hut sells lots of pizza in India, but unlike the U.S., little of it has any meat toppings. These “global” firms have adjusted to local market conditions and generate substantial profits across the globe.
World Trade Organization (from the WTO Web site):

The WTO was born out of negotiations, and everything the WTO does is the result of negotiations. The bulk of the WTO’s current work comes from the 1986-94 negotiations called the Uruguay Round and earlier negotiations under the General Agreement on Tariffs and Trade (GATT). The WTO is currently the host to new negotiations, under the ‘Doha Development Agenda’ launched in 2001.

Where countries have faced trade barriers and wanted them lowered, the negotiations have helped to open markets for trade. But the WTO is not just about opening markets, and in some circumstances its rules support maintaining trade barriers – for example, to protect consumers or prevent the spread of disease.

At its heart are the WTO agreements, negotiated and signed by the bulk of the world’s trading nations. These documents provide the legal ground rules for international commerce. They are essentially contracts, binding governments to keep their trade policies within agreed limits. Although negotiated and signed by governments, the goal is to help producers of goods and services, exporters, and importers conduct their business, while allowing governments to meet social and environmental objectives.

The system’s overriding purpose is to help trade flow as freely as possible – so long as there are no undesirable side effects – because this is important for economic development and well-being. That partly means removing obstacles. It also means ensuring that individuals, companies and governments know what the trade rules are around the world, and giving them the confidence that there will be no sudden changes of policy. In other words, the rules have to be ‘transparent’ and predictable.

Emerging Economies:
Emerging economies are those that experiencing a rate of growth that is significantly higher than the global average. Typical characteristics include:

- A rapid growth in manufacturing and exports
- A rapidly expanding middle class
- Accelerated consumer demand and spending
- Rapid growth in education, especially in STEM
- Improvement in the status of women and minorities
- Mild to moderate inflation

The countries most commonly associated with emerging economies are those in the BRIC block

- Brazil
- Russia
- India
- China

Free Trade Zones:
A free trade zone (which in most cases is not really free) is a group of regional countries that have agreed to reduced, and in some cases very few, trade restrictions. In some cases, the agreements may include a common currency or easier exchange of currencies and minimal immigration constraints. The key idea is to minimize barriers to international trade.
There are several free trade zones, including:

- European Union (EU) – 28 European countries
- North American Free Trade Association – U.S., Canada, and Mexico
- ASEAN – 10 smaller Asian countries, but also observed by China, India, and Australia

The Basic Concept of Supply Chain Management

McLunch
It is lunch time, and you stop at your local branch of America’s largest restaurant chain for a Big Mac and some fries. As the surly teenager behind the counter takes your order and gives you your McChange, you probably give little, if any, thought to how all that went into making that burger and fries. After all, how complicated can it be. It is just a burger and fries, right?

However, to the firm’s purchasing agents, how all the ingredients are sources, shipped, stored, and inventoried is a critical part of the chain’s success and crucial to you getting your lunch fast, hot, and affordable. Beef from Texas, potatoes from Idaho, cucumber from Georgia, lettuce from California, buns made from Kansas wheat and Mexican sesame seeds, and a secret sauce made in a Thousand Island dressing factory require raw ingredients, processing, shipping, storing, and tracking…all this, just for a hamburger.

Dreamliner-But…what if you want to build a Boeing Dreamliner?

This is the science of Supply Chain Management (SCM) – ensuring all the ingredients for the product are sourced, processed, manufactured, shipped, inventoried, warehoused, and ultimately arrive at the right place, the right time, and at the right cost.

The global economy, advanced planning techniques, and technology have changed what we once called “logistics” into the science of SCM. SCM is managing both the upstream (where a firm finds materials and supplies) and the downstream (where it sells and/or ships products) “chain” of suppliers, sellers, and partners. Some firms, such as Wal-Mart, owe much of their success to SCM and logistics. Wal-Mart is considered a world leader in managing their supply chain using advanced logistics and IT systems.

A major change in SCM is the emergence of “third-party logistics suppliers” aka “3PL” firms. The most widely known of these is UPS, whose new tagline “what can Brown do for you” focuses not on delivering packages but on SCM.

Product Adaptation
How about a KFC Shrimp Burger?

Truly global firms find that they must adapt the products they sell to meet local market conditions, which may include legal, cultural, or physical requirements. This often requires developing new products or
components to meet local needs. Product adaptation is changing the physical product, creating a new product, or changing other parts of the marketing mix to meet local needs and requirements.

Changing the name of the product is often not enough. In many cases, the product itself needs to be modified. Some examples:

McDonald’s has burgers in India – but no beef. Its consumption is taboo. Instead, you’ll find tofu or chicken.

Wal-Mart sells live fish, turtles, and frogs in their China stores – not as pets but for dinner tables.

American appliance manufacturers had to adjust the size of their home machines – many urban European kitchens were too small for our large appliances.

Entry Methods

Suppose you wanted to take your new product global and planned to enter several new countries in the next few months. How would you select which was the best way to enter each new market? How would the various options align with your objectives? You can learn more about these in Chapter 19 of the text.

Below are three common methods for entering new markets. Select the method that you would use to successfully complete each objective.

You want to sell your product directly to distributors, retailers, or consumers in its present form, giving up as little control as possible.

- Exporting
- Joint Venture
- Direct Investment

You want as much control as possible and plan to use your firm’s money to build a factory in the host country.

- Exporting
- Joint Venture
- Direct Investment

You want a partner that has local manufacturing facilities, distribution expertise, and you will share in the profits.

- Exporting
- Joint Venture
- Direct Investment

The answers are:

Exporting
Your firm ships the product directly to either a reseller, distributor, or retailers in the host country. They pay you and then sell your product to consumers. You have a good deal of control over the export process up to the point you turn the product over to your importer. This minimizes risks but may result in lower profits. When a firm selects exporting as its method of entry into foreign markets, it sells the products it produces in its home country, with little modification, directly to distributors or end users in the host country. This allows them a good deal of control and relative high profits, but they may lack expertise and local knowledge.

Direct Investment
Your firm builds the factory and retains much of the control over production and distribution. This gives your firm control over quality and your brand but may expose you to risks from local economic and political issues over which you have no control. Direct investment, more correctly termed foreign direct investment (FDI), is when a firm builds a factory, distribution center, or other facility in the host country using their own funds, expertise, and resources. This provides the firm with a high degree of control over the process, allowing them to maintain their existing business practices (within the laws and customs of the host country).

Joint Venture
Many firms consider this the best alternative. A joint venture shares risks, skills, and profits. Your firm supplies its expertise in manufacturing your product; however, you have the advantage of your partner’s
expertise in local matters such as distribution and legal requirements. This option provides several advantages for both parties, including the pooling of resources such as personnel and capital, spreading risk across two or more firms, and leveraging the respective expertise of each participating firm. The firms in a joint venture share in both the rewards and risks of expanding into new global markets.

For the International Marketing portion of the exam, you should also know:

Check off each of these as you review them

- Price Skimming
- Market Penetration Pricing
- Segmented Pricing Strategy
- Cost Based Pricing
- Captive Pricing
- Psychological Pricing

The items above are not necessarily listed below in the same order.

**Price Skimming (also called “market-skimming”)**

You've probably heard of “skimming the cream,” which is an old reference to taking the cream off the top of the fresh milk, as the farmer earns more for cream than he does for ordinary milk. Price skimming is much the same - the firm’s objective is to skim the cream of consumers. Rather than pricing their products to sell the maximum quantity, firms using price skimming establish a higher price for their products, but typically sell fewer units. It is important to note that this often has little to nothing to do with cost of production. For example, fashion handbag icon Louie Vuitton sells bags for thousands of dollars but have a cost of manufacture that is little more than the bags you would find in a department store. For price skimming to work, consumers have to believe that the product is worth more than the competitive products and be willing to pay for some perceived benefits, often linked to prestige or status. In addition to far higher gross margins, the seller also may benefit from building a brand image of exclusivity or quality. Typically, skimming is a temporary strategy, and firms will eventually lower their prices to attract the next segment of consumers. However, in a few cases, such as high fashion, it may be a permanent positioning.

**Market Penetration Pricing**

Suppose you open your mailbox and you find an ad from the new family-style Italian restaurant in the neighborhood offering a free complete dinner for each one you buy. The restaurant is using a penetration pricing strategy which is intended to build a customer base and capture market share. This strategy might be considered "buying" market share. The owners understand that consumers often need a reason to try new products or that we are very price sensitive about certain product categories, which might include restaurants targeting families. Unlike price skimming, which relies on a perception of exclusivity, products for which price penetration works well tend to be those for which consumers believe there are readily available and acceptable substitutes (other family restaurants). Many consumer goods fall into this category of products, and it is not uncommon for firms introducing a new frozen food or cleaning product to use penetration pricing, often in the form of coupons or other sales promotions. The consumer is willing to try a new brand of dish soap, as it is perceived as a valid substitute, because the seller is offering it at a lower price. Penetration may be a permanent strategy in some cases, but more often it is intended to be temporary while the firm builds product awareness, market share, and consumer loyalty.

**Segmented Pricing Strategy**

So there you are with your date at the movies waiting to buy tickets, and you overhear what the senior citizens in front of you are paying for their tickets. You and your date are paying three dollars more than what the seniors are paying to see the very same movie. The theatre is employing segmented pricing, which relies on identifying specific segments (groups) of consumers, often with differing needs or consumer behaviors, and pricing products accordingly. The movie theatre is counting on the often frugal buying behavior of senior citizens to entice them into attending the movies, while at the same time recognizing that younger consumers on a date or social outing will pay more. In some cases, segmented
pricing is based on actual segments, as in the case of the seniors at the movies. In other cases, firms will segment based on time of day (or season) or on location. No consumer in his or her right mind will pay $7 for a soft drink under normal circumstances, but will grudgingly do so at a sporting event. For segmented pricing to be successful, consumers must perceive actual differences in the products, location, or time (the sporting event) or be willing to accept differing benefits to different groups of consumers, as in discounts offered to seniors.

**Cost Based Pricing**

Think about this – suppose Mickey D’s saw their cost for a Big Mac soar to $5 and decided they were going to charge you $7 because that’s what they needed to make their target gross margin. Would you buy it? Probably not unless you happen to have a pretty bad craving for a Big Mac. There are far too many substitutes, and our perception of the value of a Big Mac does not include $7. Arguably, cost base pricing is more of an accounting term than a marketing concept; however, we hear about it so often that it is important for you to understand that it is a flawed strategy, especially in the context of marketing. The fatal flaw, if you will, is that you as a marketer have little to say about price; however, as a consumer you have a great deal to say about price. There are exceptions such as gasoline, for which we will pay what the market demands (check out the section in this module on elasticity). Conversely, as in skimming, clever marketers can develop a strategy that entices consumer to pay a price well beyond anything that the cost of production justifies (that ritzy LBD). However, for most ordinary products, consumers have the final say in what price they pay. This makes cost based pricing a myth and a poor method for sellers to set a price. Sellers, especially in retailing, will work from cost to establish price; however, overall, other strategies are far more effective at achieving marketing objectives.

**Captive Pricing**

All those that believe HP is making any significant profits on an “all-in-one” printer at around a $100, please raise your hands. The profit in this product line is not in the product itself but in the collateral sales that follow, in this case ink cartridges. Firms using this strategy sell consumers the core product near cost in order to sell you supplies for years. The razor folks have this one all figured out.

**Psychological Pricing**

This is actually a family of pricing strategies and might include loss-leader, bundled, and reference pricing methods. However, the poster child for psychological pricing is using the price itself to make a statement about the product. Take wine – a winery may bottle a nearly identical product under two different brands and place them side by side on the shelf. One of these is their “premier” brand and the other is the everyday stuff. To a novice buyer who knows little or nothing about the brands, there is a product line assumption that the more expensive brand is superior. The price itself suggests quality. Note this is not true of all product lines – were this milk, we would assume that one is simply more expensive than the other, but not necessarily superior.