Principles of Marketing

What is marketing? If you are asking that question then this tutorial is for you! The tutorial focuses on the key concepts and functions that are common to most marketing situations no matter an organization's size, industry, geographic location, etc.

The tutorial is ideal for:

a. students and teachers in an entry-level marketing course
b. those entering the business world who have not been exposed to business courses
c. anyone starting a business but who lack an understanding of key marketing concepts.

Upon completion this tutorial will be quite extensive with updates delivered at regular intervals over the next few months.

To access the topics within the tutorial click on the links below:

About Marketing

In Part 1 of the tutorial we provide a basic overview of the field of marketing. We begin by first considering its definition. A dissection of the key terms in the definition will show that marketing's primary focus is on the customer and all marketing decisions should revolve around customer issues.

In order to focus on the customer, we will see marketing covers a wide range of distinct activities that often require different skills to perform well. While these activities may be different they do not operate in isolation since decisions in one activity could affect other activities. Marketers also operate in an environment that is fluid and requires constant monitoring both internally and externally. The use of marketing research to monitor the environment in which the marketer operates as well as employing research for nearly all marketing decisions is a constant theme in this tutorial.

We also will spend a short time examining how marketing has evolved from a process that initially centered on getting as many people as possible to purchase a product to today's emphasis on satisfying customers and managing the customer experience.

Finally, we bring the customer to the forefront of our discussion and suggest that not all customers are the same. Understanding our customers is a never-ending challenge but one that is necessary in order to have long-term marketing success.

Definition of Marketing
If you look around the Internet you will find marketing defined in many different ways. Some definitions focus on marketing as the process involved in satisfying the needs of a particular market, while other definitions lean more toward defining marketing in terms

of its most visible functional areas, such as advertising and product development. There probably is no one best way to define marketing, though whatever definition is used should have an orientation that focuses on satisfying customers.

For the purpose of this tutorial we will define marketing as follows:

Marketing consists of the strategies and tactics used to identify, create and maintain satisfying relationships with customers that result in value for both the customer and the marketer.

Let's examine this definition in a little more detail by focusing on a few of the key terms.

Strategies and Tactics - Strategies are best explained as the direction the marketing effort will take over some period of time, while tactics are actionable steps or decisions made in order to follow the strategies established. For instance, if a strategy is to enter a new market, the tactics may involve the marketing decisions made to carry this out. Performing strategic and tactical planning activities in advance of taking action is considered critical for long-term marketing success.

Identify - Arguably the most important marketing function involves efforts needed to gain knowledge of customers, competitors, and markets. We will see throughout this tutorial how marketing research is utilized in all decision areas. And since it is so important, Part 2 of this tutorial will examine marketing research in greater detail.

Create - Competition forces marketers to be creative people. When marketers begin new ventures, such as building a new company, it is often based around something that is new (e.g., new product, new way to distribute a product, new advertising approach, etc.). But once the new venture is launched innovation does not end. Competitive pressure is continually felt by the marketer, who must respond by devising new strategies and tactics that help the organization remain successful.

Maintain - Today's marketers work hard to insure their customers return to purchase from them again. Long gone (see History below) are the days when success for a marketer was measured simply in how many sales they made each day. Now, in most marketing situations, marketing success is evaluated not only in terms of sales figures but also by how long a marketer can retain good customers. Consequently, marketers' efforts to attract customers does not end when a customer makes a purchase. It continues in various ways for, hopefully, a long time after the initial purchase.

Satisfying Relationships - A key objective of marketing is to provide products and services that customers really want AND to make customers feel their contact with the marketer is helping to build a good relationship between the two. In this way the customer is made to feel as if she/he is a partner in the transaction not just a source of revenue for the marketer. In recent years this has lead to the concept of Customer Relationship Management (CRM), which has emerged as a strategic approach that insures that everyone in an organization, not just the marketer, understands the importance of customers. Maintaining close and consistent relationships with customers through all points of customer contact is crucial but difficult to do well. We'll see in later sections technology plays a key role in carrying out CRM, so that nearly anyone in a organization that comes into contact with a customer (e.g., sales force, service force, customer service representatives, accounts receivable, etc.) has the necessary information and is well prepared to deal with the customer.

Value for Both Customer and Marketer - Value refers to the perception of benefits received for what someone must give up. For customers value is most often measured by how much they feel they are getting for their money, though the value one customer feels she/he obtains may differ from the perception of value from another customer even though they purchase the same product. On the other side of the transaction, the marketer may measure value in terms of how much profit they are making for the marketing efforts and resources expended. For a successful marketing effort to take place both the customer and the marketer must feel they are receiving something worth while in return for the efforts. Without a strong perception of value it is unlikely a strong relationship can be built. Throughout this tutorial we will emphasize value and show ways in which the marketer builds value into the solutions they offer.

What Marketers Do

In order to reach the goal of creating a relationship that holds value for customers and for the organization, marketers use a diverse toolkit that includes (but is not limited to) making decisions regarding:

- Target Markets – those markets identified as possessing needs the marketer believes can be addressed by its marketing efforts
- Products/Services – a tangible or intangible solution to the market's needs

- Promotion – a means for communicating information about the marketing organization's solution to the market
- Distribution – means used to allow the market to obtain the solution
- Pricing – ways for the marketer to adjust the cost to the market for the solution
- Services – additional options that enhance the solution's value

Each option within the marketer's toolkit is tightly integrated with all other options so that a decision in one area could and often does impact decisions in other areas. For instance, a change in the price of a product (e.g., lowering the price) could impact the distribution area (e.g., increases shipments, generates higher store traffic).

Additionally, options within the toolkit are affected by factors that are not controlled by the marketer. These factors include economic conditions, legal issues, technological developments, social/cultural changes, and many more. While not controllable, these external factors must be monitored and dealt with since these can potentially cause considerable harm to the organization. Ignoring outside elements also can lead to missed opportunities in the market especially if competitors are the first to take advantage of the opportunities. As part of the strategic and tactical planning process discussed above it would be wise for marketers to pay close attention to the environment outside the organization.

Finally as noted earlier, research plays a significant role in all marketing decisions areas. As we will see in Part 2 of the tutorial, marketing decisions should not be made without first committing time to obtaining needed information.

History of Marketing

It is hard for many to believe, but when compared to economics, production and operations, accounting and other business areas, marketing is a relatively young discipline having emerged in the early 1900s. Prior to this time most issues that are now commonly associated with marketing were either assumed to fall within basic concepts of economics (e.g., price setting was viewed as a simple supply/demand issue), advertising (well developed by 1900), or in most cases were simply not yet explored (e.g., customer purchase behavior, importance of distribution partners).

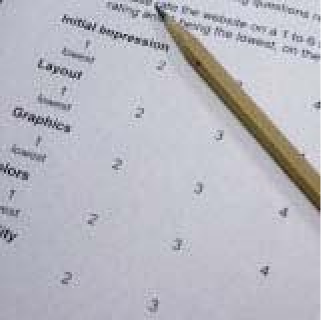
Lead by marketing scholars from several major universities, the development of marketing was in large part motivated by the need to dissect in greater detail relationships and behaviors that existed between sellers and buyers. In particular, the study of marketing lead sellers to recognize that adopting certain strategies and tactics could significantly benefit the seller/buyer relationship. In the old days of marketing (before the 1950s) this often meant identifying strategies and tactics for simply selling more products and services with little regard for what customers really wanted. Often this lead companies to embrace a “sell-as-much-as-we-can” philosophy with little concern for building relationships for the long term.

But starting in the 1950s, companies began to see that old ways of selling were wearing thin with customers. As competition grew stiffer across most industries, organizations looked to the buyer side of the transaction for ways to improve. What they found was an emerging philosophy suggesting that the key factor in successful marketing is to understanding the needs of customers. This now famous “marketing concept” suggests marketing decisions should flow from FIRST knowing the customer and what they want. Only then should an organization initiate the process of developing and marketing products and services. The marketing concept continues to be at the root of most marketing efforts, though the concept does have its own problems (e.g., doesn’t help much with marketing new technologies) a discussion of which is beyond the scope of this tutorial. But overall marketers have learned they can no longer limit their marketing effort to just getting customers to purchase more. They must have an in-depth understanding of who their customers are and what they want.

The Importance of Good Customers

Today, most successful marketers know that building customers for the long term holds more value to the marketer than short term sales. They also are aware that current customers who are satisfied with the purchases they have made in the past are the best source for future sales. Why? Because they have first-hand experienced with the organization and, if they have been satisfied with past purchases, they probably trust the organization. Thus, convincing these customers to make more purchases requires significantly less effort (i.e., marketing expenditures) when compared to efforts and costs needed to attract new customers. This philosophy is at the heart of the previously discussed CRM and this approach to managing customers has attracted much interest in the last few years. Under CRM the key driver for marketing success is to treat good customers in a way that will increase the probability they will stay good customers.

The fact that we place the descriptive term “good” in front of “customers” should not be taken lightly. Not all customers are the same. Some consistently spend large sums to purchase products from an organization; others do not spend large sums but hold the



potential to do so; and still others use up a large amount of an organization's resources but contribute little revenue. Clearly there are lines of demarcation between customers. As we will see later, identifying this line is critical for marketing success.

Marketing ResearchIn many ways the foundation of marketing rests with marketing research since nearly all tactical decisions require some amount of research. However, research does not have to be elaborate to be effective. Sometimes small efforts, such as doing a quick search on the Internet, will provide the needed information.

The knowledge gained from research helps marketers make more informed decisions. Market research does this by giving marketers a picture of what is occurring (or likely to occur) and offering alternatives from which choices can be made. For instance, good research may suggest multiple options for introducing new products or entering new markets. In most cases marketing decisions prove less risky (though they are never risk free!) when the marketer can select from more than one option.

However, as sophisticated as research is today, marketers are cautioned not to use marketing research as the only tool for making marketing decisions. It may prove costly for the results of marketing studies to be the lone reason why decisions are made. Rather, smart marketing decisions require the use of knowledge gained from many areas, including management's own judgment of what is best. But being cautious with how research is used should not diminish the need for conducting research that aids marketing decisions. As noted, research should help support decisions in all key marketing areas.

This tutorial includes the following topics:

1. Marketing Research
2. Doing Market Research Right
3. Reasons to Undertake
4. Types: Primary Quantitative
5. Types: Primary Qualitative
6. Types: Secondary Research

Note that we use the terms "marketing research" and "market research" interchangeably. Many feel there is a distinct difference with "marketing research" covering a broader array of research efforts associated with marketing decisions while "market research" is specific to understanding nuances of a particular market. For the purpose of this tutorial we treat these as the same.

Doing Market Research Right

While undertaking research is important for gaining knowledge and aids marketing decision-making, marketers must understand its limitations. Almost all types of research, whether it is for business, medical science, government, etc., contain the risk that results may be wrong. There are many reasons why errors occur (a full discussion being beyond the scope of this tutorial), however, one key reason can be traced to the controls in place (or not) when data collection occurs. If research is collected without the necessary controls to insure it is done correctly, relying on results to make decisions could prove problematic if not disastrous. Thousands of examples exist of firms using faulty research to make decisions, including many dot-com companies that failed between 1999 and 2002.

Since many research studies are really only snapshots of something that is bigger, making sure research is done right is critical. For instance, many companies survey a small percentage of their customers (called a sample) to see how satisfied they are with the company's efforts. But, unless the company only has a few customers, the chances of surveying everyone (called a census) is unlikely, and even if they could talk to everyone there is still a chance the information is not totally accurate (e.g., customers may make errors when they fill out the survey).

Seeking a high-level of relevant results requires instituting strict controls on how the information is collected. Many of these controls use a scientific approach meaning a research project becomes highly structured and is not very flexible once a study is underway. For instance, for research involving a sample of a large population of customers, certain controls must be in place to define how many are in the sample as well as how the research is carried out (e.g., research design should be the same for all).

As you might expect the trade-off for getting more relevant results is the increase in cost and time needed to carryout the research. So a big decision for marketers, when it comes to doing research, is to determine the balance between relevancy of the information obtained and the costs involved to carry out the research.

Good market research is produced when results of the research are strong indicators of what is happening now or might happen in the future. This means the results are relevant to a situation. Being relevant does not mean it is 100% correct (remember there is always risk). Instead, being relevant means the probability is high that the research results reflect what is actually happening or what will happen.

Reasons to Undertake Market Research

There are numerous reasons why marketers seek to conduct research but, in general, these fall into three categories.

Describe What is Happening (Descriptive Research)

The focus of descriptive research is to provide an accurate description and/or explanation for something that is occurring. For example, what age group is buying a particular brand, what is a product’s market share in a specific geographic region, how many competitors does a company face, etc. This type of research is by far the most popular form of market research. But to be considered useful it must be conducted correctly, which means the marketer must adhere to a strict set of research requirements to capture relevant results.

Examine Something That is Mostly Unknown (Exploratory Research)

The exploratory approach attempts to discover general information about some topic that is not well understood by the marketer. For instance, a marketer knows about a new Internet technology for marketing a product but the marketer doesn’t know much about the technology. When gaining insight on an issue is the primary goal, exploratory research is used. The basic difference between exploratory and descriptive research is in the research design. Exploratory research follows a format that is less structured and more flexible than descriptive research. This approach works well when the marketer doesn’t have an understanding of the topic or the topic is new, and it is hard to pinpoint the research direction. The downside, however, is the results may not be as useful in aiding a marketing decision. So why use it? In addition to offering the marketer basic information on a topic, exploratory research may also provide direction for a more formal research effort. For instance, exploratory research may indicate who the key decision

Consumer Buying Behaviormakers are in a particular market thus enabling a more structured descriptive study to be targeted to this group.

See How Something Affects Something Else (Causal Research)
In this form of research the marketer tries to determine if one variable affects another variable. In essence, the marketer is conducting an experiment. To be effective the design of causal research is highly structured and controlled so that other factors do not affect those being studied. Marketers use this approach to test marketing scenarios such as what might happen to product sales if changes are made to a product's design. If causal research is performed well the marketer may be able to use results to forecast what might happen if the changes are made.

Types of Market Research
Marketing research falls into one of two categories: primary research and secondary research.

Primary Research
When a marketer conducts research to collect original data it is referred to as primary marketing research. This process involves designing a research plan, collecting information, inputting the data, and producing and analyzing results. Since there is a great deal of marketer involvement, primary research is often very expensive to undertake and do well. But with the marketer controlling the process, the results may be much more relevant to his/her situation and, consequently, more useful.

In general there are two basic types of primary research methods – quantitative and qualitative.

Quantitative Research
Information gathered using quantitative means are often open to evaluation using statistical analysis. While this tutorial does not cover statistical techniques, it should be understood that data collected following a structured and well-controlled scientific research design can yield numerical values that can be analyzed using statistics. Such analysis may prove very relevant and even results from a small number of collection points may be used in determining characteristics of a larger group (e.g., sample a small group of customers).

Quantitative research comes in many forms but the most popular forms are surveys, tracking, and experiments.

Surveys – This method captures respondent information through the input of responses to a research instrument, such as a questionnaire. Information can be input either by the respondents themselves (e.g., complete online survey) or the researcher can input the data (e.g. phone survey). The main methods for distributing surveys are via postal mail, phone, website or in person. However, newer technologies are creating additional delivery options including through wireless devices, such as PDAs and cellphones.

Tracking – With tracking research marketers are able to monitor the behavior of customers as they engage in regular purchase or information gathering activities. Possibly the most well known example of tracking research is used by websites as they track customer visits. But tracking research also has offline applications, especially when point-of-purchase scanners are employed, such as tracking product purchases at grocery stores and automated collections on toll roads. This method of research is expected to grow significantly as more devices are introduced that provide means for tracking. However, some customers may see tracking devices as intrusive and many privacy advocates have raised concerns about certain tracking methods especially if these are not disclosed to customers.

Experiments – Marketers often undertake experiments to gage how the manipulation of one marketing variable will affect another (causal research). For example, a market researcher for a retail chain may want to study what the effect on sales would be if a point-of-purchase display is moved to different locations in a store. The use of causal research has applications for many marketing decision areas including product testing, advertising design, setting price points, and creating packaging. Unfortunately, performing highly controlled experiments can be quite costly. Some researchers have found the use of computer simulations can work nearly as well as experiments and may be less expensive, though the number of applications of simulation for marketing decisions is still fairly limited.

Qualitative Research

Sometimes referred to as “touchy-feely” research, qualitative research gathers information that requires researchers to interpret the information being gathered, most often without the benefit of statistical support. If the researcher is well-trained in interpreting respondents' comments and activities, this form of research can offer very good information. However, it may not hold the same level of relevancy as quantitative research due to the lack of scientific controls that are often associated with this data collection method. For example, a researcher may want to know more about how customers make purchase decisions. One way to do this is to sit and talk with customers using one-on-one interviews. However, if the interview process allows the researcher to vary what questions are asked (i.e., not all respondents are asked the same questions), then this type of research may lack controls needed to follow a scientific approach. An additional drawback of qualitative research is that it can be a time consuming and expensive undertaking and, consequently, only a very small portion of the total population generally participate in the research. Due to the lack of strong controls in the research design (i.e., not as well structured, fewer participants), using results to estimate characteristics of a larger group is more difficult. This is not to say qualitative research is not useful, it is very useful if its limitations are understood and it is widely employed for marketing research.

Qualitative Research options include individual interviews, focus groups and observational research

Individual Interviews – Talking to someone one-on-one allows a researcher to cover more ground than may be covered if a respondent was completing a survey. The reason lies with the researcher's ability to dig deeper into a respondent's comments to find out additional details that may not have emerged from initial responses. Unfortunately, individual interviewing can be quite expensive and may be intimidating to some who are not comfortable sharing details with a researcher.

Focus Groups – To overcome the drawbacks associated with individual interviews, marketers can turn to focus groups. Under this research format, a group of respondents (generally numbering 8-12) are guided through discussion by a moderator. The power of focus groups as a research tool rests with the environment created by the interaction of the participants. In well-run sessions, members of the group are stimulated to respond by the comments and the support of others in the group. In this way, the depth of information offered by a respondent may be much greater than that obtained through individual interviews. However, focus groups can be very expensive to conduct especially if participants must be paid (often the case in B-to-B research). To help reduce costs, online options for focus groups have emerged. While there are many positive aspects to online focus groups, the fact that respondents are not physically present diminishes the benefits gained by group dynamics. However, as technology improves, in particular video conferencing, the online focus group could become a major research option.

Observational Research – Watching customers as they perform activities can be a very useful research method, especially when customers are observed in a natural setting (e.g., shopping in a retail store, using products at home). In fact, an emerging research technique called ethnographic research has researchers following customers as they shop, work, and relax at home in order to see how they make decisions, use products and more.

Secondary Research

By far the most widely used research method is collecting data through secondary research. This process involves collecting data from either the originator or a distributor of primary research. In other words, accessing information that others have already gathered. In most cases this means finding information from third-party sources such as marketing research reports, consulting firm white papers, magazine articles, and other sources. But in actuality any information previously gathered, whether from sources external to the marketer or from internal sources, such as accessing material from previous market research carried out by the marketer, fall under the heading of secondary research.

Compared to primary research there are several advantages to the secondary approach, including ease of access and generally lower cost for acquiring the information. But there are also major disadvantages that may limit the usefulness of the research including the fact the information may not be exactly what the marketer needs, results may be out-of-date, or the research design poorly constructed.

Sources for secondary research are quite extensive. In years past accessing good secondary research required marketers to visit a library or spend large sums of money accessing proprietary electronic databases.

Consumer Buying Behavior Possibly the most challenging concept in marketing deals with understanding why buyers do what they do (or don’t do). But such knowledge is critical for marketers since having a strong understanding of buyer behavior will help shed light on what is important to the customer and also suggest the important influences

on customer decision-making. Using this information, marketers can create marketing programs that they believe will be of interest to customers.

As you might guess, factors affecting how customers make decisions are extremely complex. Buyer behavior is deeply rooted in psychology with dashes of sociology thrown in just to make things more interesting. Since every person in the world is different, it is impossible to have simple rules that explain how buying decisions are made. But those who have spent many years analyzing customer activity have presented us with useful "guidelines" in how someone decides whether or not to make a purchase.

In fact, pick up any textbook that examines customer behavior and each seems to approach it from a different angle. The perspective we take is to touch on just the basic concepts that appear to be commonly accepted as influencing customer behavior. We will devote two sections of the Principles of Marketing tutorial to customer behavior. In this section we will examine the buying behavior of consumers (i.e., when people buy for personal reasons) while in section 4 we will examine factors that influence buyer's decisions in the business market.

Types of Consumer Purchase Decisions

Consumers are faced with purchase decisions nearly every day. But not all decisions are treated the same. Some decisions are more complex than others and thus require more effort by the consumer. Other decisions are failry routine and require little effort. In general, consumers face four types of purchase decisions:

- <u>Minor New Purchases</u> – these purchases represent something new to a consumer but in the customer's mind is not a very important purchase in terms of need, money or other reason (e.g., status within a group).
- <u>Minor Re-Purchases</u> – these are the most routine of all purchases and often the consumer returns to purchase the same product without giving much thought to other product options (i.e., consumer is brand loyalty).
- <u>Major New Purchases</u> – these purchases are the most difficult of all purchases because these are important to the consumer but the consumer has little or no previous experience making the purchase AND is important. This type of decision often (but not always) requires the consumer to engage in an extensive decision-making process.
- <u>Major Re-Purchase</u> - these purchase decisions are also important to the customer but the customer feels more confident in making the decision since they have experienced purchasing the product in the past.

For marketers it is important to understand how consumers treat the purchase decisions they face. If a company is targeting customers who feel a purchase decision is difficult (i.e., Major New Purchase), their marketing strategy may vary greatly from a company targeting customers who view the purchase decision as routine. In fact, the same company may face both situations at the same time; for some the product is new, while other customers see the purchase as routine. The implication of buying behavior for marketers is that different buying situations require different marketing efforts.

Why Consumers Buy

As we discussed in Section 1 – About Marketing, customers make purchases in order to satisfy needs. Some of these needs are basic and must be filled by everyone on the planet (e.g., food, shelter) while others are not required for basic survival and vary depending on the person. It probably makes more sense to classify needs that are not a necessity as wants or desires. In fact, in many countries where the standard of living is very high, a large portion of the population's income is spent on wants and desires rather than on basic needs.

In this tutorial when we mention the consumer we are referring to the actual buyer, the person spending the money. But is should also be pointed out that the one who does the buying is not necessarily the user of what is bought and that others may be involved in the buying decision in addition to the actual buyer. While the purchasing process in the consumer market is not as complex as the business market, having multiple people involved in a purchase decision is not unusual. For example, in planning for a family vacation the mother may make the hotel reservations but others in the family may have input on the hotel choice. Similarly, a father may purchase snacks at the grocery store but his young child may be the one who selected it from the store shelf.

So understanding consumer purchase behavior involves not only understanding how decisions are made but also understanding the dynamics that influence purchases.

What Influences Purchasing

As we discussed the decision-making process for consumers is anything but straight forward. There are many factors that can affect this process as a person works through the purchase decision. The number of potential influences on consumer behavior is limitless. However, marketers are well served to understand the KEY influences. By doing so they may be in a position to tailor their marketing efforts to take advantages of these influences in a way that will satisfy the consumer and the marketer (remember this is a key part of the definition of marketing).

For the purposes of this tutorial we will break these influences down into three main categories: Internal, External and Marketing. However, those interested in learning more about customer buying activity may want to consult one or more consumer behavior books where they will find additional methods for explaining consumer buying behavior.

For the most part the influences are not mutually exclusive. Instead, they are all interconnected and, as we will see, work together to form who we are and how we behave.

For each of the influences that are discussed we will provide a basic description and also suggest its implication to marketers. Bear in mind we only provide a few marketing implications for each influence; clearly there are many more.

INTERNAL INFLUENCES

We start our examination of the influences on consumer purchase decisions by first looking inside ourselves to see which are the most important internal factors that affect how we make choices.

Perceptual Filter

Perception is how we see ourselves and the world we live in. However, what ends up being stored inside us doesn't always get there in a direct manner. Often our mental makeup results from information that has been consciously or unconsciously filtered as we experience it, a process we refer to as a perceptual filter. To us this is our reality, though it does not mean it is an accurate reflection on what is real. Thus, perception is the way we filter stimuli (e.g., someone talking to us, reading a newspaper story) and then make sense out of it.

Perception has several steps.

- Exposure – sensing a stimuli (e.g. seeing an ad)
- Attention – an effort to recognize the nature of a stimuli (e.g. recognizing it is an ad)
- Awareness – assigning meaning to a stimuli (e.g., humorous ad for particular product)
- Retention – adding the meaning to one's internal makeup (i.e., product has fun ads)

How these steps are eventually carried out depends on a person's approach to learning. By learning we mean how someone changes what they know, which in turn may affect how they act. There are many theories of learning, a discussion of which is beyond the scope of this tutorial, however, suffice to say that people are likely to learn in different ways. For instance, one person may be able to focus very strongly on a certain advertisement and be able to retain the information after being exposed only one time while another person may need to be exposed to the same advertisement many times before he/she even recognizes what it is. Consumers are also more likely to retain information if a person has a strong interest in the stimuli. If a person is in need of new car they are more likely to pay attention to a new advertisement for a car while someone who does not need a car may need to see the advertisement many times before they recognize the brand of automobile.

Marketing Implication:

Marketers spend large sums of money in an attempt to get customers to have a positive impression of their products. But clearly the existence of a perceptual filter suggests that getting to this stage is not easy. Exposing consumers to a product can be very challenging considering the amount of competing product messages (ads) that are also trying to accomplish the same objective (i.e., advertising clutter). So marketers must be creative and use various means to deliver their message Once the message reaches consumer it must be interesting enough to capture the their attention (e.g., talk about the product's benefits). But attending to the message is not enough. For marketers the most critical step is the one that occurs with awareness. Here marketers must continually monitor and respond if their message becomes distorted in ways that will negatively shape its meaning. This can often happen due in part to competitive activity (e.g., comparison advertisements). Finally, getting the consumer to give positive meaning to the message they have retained requires the marketer make sure that consumers accurately interpret the facts about the product.

Knowledge

Knowledge is the sum of all information known by a person. It is the facts of the world as he/she knows it and the depth of knowledge is a function of the breadth of worldly experiences and the strength of an individual's long-term memory. Obviously what exists as knowledge to an individual depends on how an individual's perceptual filter makes sense of the information it is exposed to.

Marketing Implications:

Marketers may conduct research that will gauge consumers' level of knowledge regarding their product. As we will see below, it is likely that other factors influencing consumer behavior are in large part shaped by what is known about a product. Thus, developing methods (e.g., incentives) to encourage consumers to accept more information (or correct information) may affect other influencing factors.

Attitude

In simple terms attitude refers to what a person feels or believes about something. Additionally, attitude may be reflected in how an individual acts based on his or her beliefs. Once formed, attitudes can be very difficult to change. Thus, if a consumer has a negative attitude toward a particular issue it will take considerable effort to change what they believe to be true.

<u>Marketing Implication:</u>
Marketers facing consumers who have a negative attitude toward their product must work to identify the key issues shaping a consumer's attitude then adjust marketing decisions (e.g., advertising) in an effort to change the attitude. For companies competing against strong rivals to whom loyal consumers exhibit a positive attitude, an important strategy is to work to see why consumers feel positive toward the competitor and then try to meet or beat the competitor on these issues. Alternatively, a company can try to locate customers who feel negatively toward the competitor and then increase awareness among this group.

Personality
An individual's personality relates to perceived personal characteristics that are consistently exhibited, especially when one acts in the presence of others. In most, but not all, cases the behaviors one projects in a situation is similar to the behaviors a person exhibits in another situation. In this way personality is the sum of sensory experiences others get from experiencing a person (i.e., how one talks, reacts). While one's personality is often interpreted by those we interact with, the person has their own vision of their personality, called self concept, which may or may not be the same has how others view us.

<u>Marketing Implication:</u>
For marketers it is important to know that consumers make purchase decisions to support their self concept. Using research techniques to identify how customers view themselves may give marketers insight into products and promotion options that are not readily apparent. For example, when examining consumers a marketer may initially build marketing strategy around more obvious clues to consumption behavior, such as consumer's demographic indicators (e.g., age, occupation, income). However, in-depth research may yield information that shows consumers are purchasing products to fulfill self-concept objectives that have little to do with the demographic category they fall into (e.g., senior citizen may be making purchases that make them feel younger). Appealing to the consumer's self concept needs could expand the market to which the product is targeted.

Lifestyle
This influencing factor relates to the way we live through the activities we engage in and interests we express. In simple terms it is what we value out of life. Lifestyle is often determined by how we spend our time and money.

Marketing Implication:
Products and services are purchased to support consumers' lifestyles. Marketers have worked hard researching how consumers in their target markets live their lives since this information is key to developing products, suggesting promotional strategies and even determining how best to distribute products. The fact that lifestyle is so directly tied to marketing activity will be further examined as we discuss developing target market strategies

Roles
Roles represent the position we feel we hold or others feel we should hold when dealing in a group environment. These positions carry certain responsibilities yet it is important to understand that some of these responsibilities may, in fact, be perceived and not spelled out or even accepted by others. In support of their roles, consumers will make product choices that may vary depending on which role they are assuming. As illustration, a person who is responsible for selecting snack food for an office party his boss will attend may choose higher quality products than he would choose when selecting snacks for his family.

Marketing Implication:
Advertisers often show how the benefits of their products aid consumers as they perform certain roles. Typically the underlying message of this promotional approach is to suggest that using the advertiser's product will help raise one's status in the eyes of others while using a competitor's product may have a negative effect on status.

Motivation
Motivation relates to our desire to achieve a certain outcome. Many internal factors we have already discussed can affect a customer's desire to achieve a certain outcome but there are others. For instance, when it comes to making purchase decisions customers' motivation could be affected by such issues as financial position (e.g., can I afford the

purchase?), time constraints (e.g., do I need to make the purchase quickly?), overall value (e.g., am I getting my money's worth?), and perceived risk (e.g., what happens if I make a bad decision).

Marketing Implication:

Motivation is also closely tied to the concept of involvement, which relates to how much effort the consumer will exert in making a decision. Highly motivated consumers will want to get mentally and physically involved in the purchase process. Not all products have a high percentage of highly involved customers (e.g., milk) but marketers who market products and services that may lead to high level of consumer involvement should prepare options that will be attractive to this group. For instance, marketers should make it easy for consumers to learn about their product (e.g., information on website, free video preview) and, for some products, allow customers to experience the product (e.g., free trial) before committing to the purchase.

EXTERNAL INFLUENCES

Consumer purchasing decisions are often affected by factors that are outside of their control but have direct or indirect impact on how we live and what we consume.

Culture

Culture represents the behavior, beliefs and, in many cases, the way we act learned by interacting or observing other members of society. In this way much of what we do is shared behavior, passed along from one member of society to another. Yet culture is a broad concept that, while of interest to marketers, is not nearly as important as understanding what occurs within smaller groups or sub-cultures to which we may also belong. Sub-cultures also have shared values but this occurs within a smaller groups. For instance, sub-cultures exist where groups share similar values in terms of ethnicity, religious beliefs, geographic location, special interests and many others.

Marketing Implication:

As part of their efforts to convince customers to purchase their products, marketers often use cultural representations, especially in promotional appeals. The objective is to connect to consumers using cultural references that are easily understood and often embraced by the consumer. By doing so the marketer hopes the consumer feels more comfortable with or can relate better to the product since it corresponds with their cultural values. Additionally, smart marketers use strong research efforts in an attempt to identify differences in how sub-culture behaves. These efforts help pave the way for spotting trends within a sub-culture, which the marketer can capitalize on through new marketing tactics (e.g., new products, new sales channels, added value, etc.).

Other Group Membership

In addition to cultural influences, consumers belong to many other groups with which they share certain characteristics and which may influence purchase decisions. Often these groups contain opinion leaders or others who have major influence on what the customer purchases. Some of the basic groups we may belong to include:

- Social Class – represents the social standing one has within a society based on such factors as income level, education, occupation
- Family – one's family situation can have a strong effect on how purchase decisions are made
- Reference groups – most consumers simultaneously belong to many other groups with which they associate or, in some cases, feel the need to disassociate

<u>Marketing Implication:</u>

Identifying and understanding the groups consumers belong to is a key strategy for marketers. Doing so helps identify target markets, develop new products, and create appealing marketing promotions to which consumers can relate. In particular, marketers seek to locate group leaders and others to whom members of the group look for advice or direction. These opinion leaders, if well respected by the group, can be used to gain insight into group behavior and if these opinion leaders accept promotional opportunities could act as effective spokespeople for the marketer's products.

Situation

A purchase decision can be strongly affected by the situation in which people find themselves. Not all situations are controllable, in which case a consumer may not follow their normal process for making a purchase decision. For instance, if a person needs a product quickly and a store does not carry the brand they normally purchase, the customer may choose a competitor's product.

<u>Marketing Implications:</u>

Marketers can take advantage of decisions made in uncontrollable situations in at least two ways. First, the marketers can use promotional methods to reinforce a specific selection of products when the consumer is confronted with a particular situation. For example, automotive services can be purchased that promise to service vehicles if the user runs into problems anywhere and at anytime. Second, marketers can use marketing methods that attempt to convince consumers that a situation is less likely to occur if the marketer's product is used. This can also be seen with auto products, where marketers explain that using their product will prevent unexpected damage to their vehicles.

How Consumers Buy

So now that we have discussed the factors influencing a consumer's decision to purchase, let's examine the process itself. This process is presented in a sequence of 5 steps as shown below.

However, whether a consumer will actually carryout each step depends on the type of purchase decision that is faced. For instance, for minor re-purchases the consumer may be quite loyal to the same brand, thus the decision is a routine one (i.e., buy the same product) and little effort is involved in making a purchase decision. In cases of routine, brand loyal purchases consumers may skip several steps in the purchasing process since they know exactly what they want allowing the consumer to move quickly through the steps. But for more complex decisions, such as Major New Purchases, the purchasing process can extend for days, weeks, months or longer. So in presenting these steps marketers should realize that, depending on the circumstances surrounding the purchase, the importance of each step may vary.

1. Need/Want/Desire is Recognized

In the first step the consumer has determined that for some reason he/she is not satisfied (i.e., consumer's perceived actual condition) and wants to improve his/her situation (i.e., consumer's perceived desired condition). For instance, internal triggers, such as hunger or thirst, may tell the consumer that food or drink is needed. External factors can also trigger consumer's needs. Marketers are particularly good at this through advertising, in-store displays and even the intentional use of scent (e.g., perfume counters). At this stage the decision-making process may stall if the consumer is not motivated to continue (see Motivation above). However, if the consumer does have the internal drive to satisfy the need they will continue to the next step.

2. Search for Information

Assuming consumers are motivated to satisfy his or her need, they will next undertake a search for information on possible solutions. The sources used to acquire this information may be as simple as remembering information from past experience (i.e., memory) or the consumer may expend considerable effort to locate information from outside sources (e.g., Internet search, talk with others, etc.). How much effort the consumer directs toward searching depends on such factors as: the importance of satisfying the need, familiarity with available solutions, and the amount of time available to search. To appeal to consumers who are at the search stage, marketers should make efforts to ensure consumers can locate information related to their product. For example, for marketers whose customers rely on the Internet for information gathering, attaining high rankings in search engines has become a critical marketing objective.

3. Evaluate Options

Consumers' search efforts may result in a set of options from which a choice can be made. It should be noted that there may be two levels to this stage. At level one the consumer may create a set of possible solutions to their needs (i.e., product types) while at level two the consumer may be evaluating particular products (i.e., brands) within each solution. For example, a consumer who needs to replace a television has multiple solutions to choose from such as plasma, LCD and CRT televisions. Within each solution type will be multiple brands from which to choose. Marketers need to understand how consumers evaluate product options and why some products are included while others are not. Most importantly, marketers must determine which criteria consumers are using in their selection of possible options and how each criterion is evaluated. Returning to the television example, marketing tactics will be most effective when the marketer can tailor their efforts by knowing what benefits are most important to consumers when selecting options (e.g., picture quality, brand name, screen size, etc.) and then determine the order of importance of each benefit.

4. Purchase

In many cases the solution chosen by the consumer is the same as the product whose evaluation is the highest. However, this may change when it is actually time to make the purchase. The "intended" purchase may be altered at the time of purchase for many reasons such as: the product is out-of-stock, a competitor offers an incentive at the point-of-purchase (e.g., store salesperson mentions a competitor's offer), the customer lacks the necessary funds (e.g., credit card not working), or members of the consumer's reference group take a negative view of the purchase (e.g., friend is critical of purchase). Marketers whose product is most desirable to the consumer must make sure that the transaction goes smoothly. For example, Internet retailers have worked hard to prevent consumers from abandoning online purchase (i.e., online shopping carts) by streamlining the checkout process. For marketers whose product is not the consumer's selected product, last chance marketing efforts may be worth exploring, such as offering incentives to store personnel to "talk up" their product at the checkout line.

5. After-Purchase Evaluation

Once the consumer has made the purchase they are faced with an evaluation of the decision. If the product performs below the consumer's expectation then he/she will re-evaluate satisfaction with the decision, which at its extreme may result in the consumer returning the product while in less extreme situations the consumer will retain the purchased item but may take a negative view of the product. Such evaluations are more likely to occur in cases of expensive or highly important purchases. To help ease the concerns consumers have with their purchase evaluation, marketers need to be receptive and even encourage consumer contact. Customer service centers and follow-up market research are useful tools in helping to address purchasers' concerns.

As we've seen, consumer purchasing is quite complex. In our next section, **Business Buying Behavior**, we will see that marketers must also have a thorough understanding of how business purchase decisions are made.

Business Buying BehaviorThe business market is comprised of organizations that, in some form, are involved in the manufacturer, distribution or support of products or services sold or otherwise provided to other organizations. The amount of purchasing undertaken in the business market easily dwarfs the total spending by consumers. Because the business market is so large it draws the interest of millions of companies worldwide that market exclusively to business customers. For these marketers understanding how businesses make purchase decisions is critical to their organizations' marketing efforts.

In some ways understanding the business market is not as complicated as understanding the consumer market. For example, in certain business markets purchase decisions hinge on the outcome of a bidding process between competitors offering similar products and services. In these cases the decision to buy is often whittled down to one concern – who has the lowest price. Thus, unlike consumer markets, where building a recognizable brand is very important, for many purchase situations in the business market this is not the case.

However, in many other ways business buying is much more complicated. For instance, the demand by businesses for products and services is affected by consumer purchases (called derived demand) and because so many organizations may have a part in creating consumer purchases, a small swing in consumer demand can create big changes in business purchasing. Automobile purchases are a good example. If consumer demand for cars increases many companies connected with the automobile industry will also see demand for their products and services increase (we will later refer to these companies as supply chain members). Under these conditions companies will ratchet up their operations to ensure demand is met, which invariably will lead to new purchases by a large number of companies. In fact, it is conceivable that an increase of just one or two percent for consumer demand can increase business demand for products and services by five or more percent. Unfortunately, the opposite is true if demand declines. Trying to predict these swings requires businesses to not only understand their immediate customers but also the end user, which as we will discuss, may be well down the supply chain from where the business operates.

This section discusses the unique characteristics of the business market. We will see that marketers must appeal to business customers in ways that are distinct from how they would approach consumers. While marketers selling to other businesses operate with most of the same marketing tools used by marketers of consumer products, how they employ these tools to reach their marketing objectives may be quite different.

Who Makes Up the Business Market

There are millions of organizations worldwide selling their products and services to other businesses. They operate in many industries and range in size from huge multinational companies with thousands of employees to one-person small businesses. With such a large number of organizations and industries contained within the business market, a marketer can obtain a better picture of who is involved by looking at popular business classification systems set up by international governments, such as the North American Industrial Classification System (NAICS), which covers Canada, Mexico and the United States and the International Standard Industrial Classification (ISIC), which is widely used in Europe. These reports provide descriptions of hundreds of industry classifications. For instance, the table below shows how US operators of “Golf Pro Shops” are listed in the NAICS coding system. Note the numeric sequence that occurs as one “drills down” in order to locate individual industry groups.

Level	NAICS Code	Description
Sector	45	Retail Trade
Subsector	451	Sporting Goods, Hobby, Book, and Music Stores
Industry Group	4511	Sporting Goods, Hobby, and Musical Instrument Stores
Industry	45111	Sporting Goods Stores
US Industry	451110	Golf Pro Shops

Once industry codes are known these can be used within various government and industry research reports to locate specific industry information such as number of firms operating in the industry, total industry sales, number of employees and more.

For the purposes of this tutorial, however, we will use a broader approach to categorizing businesses choosing to categorize based on the general business function an organization performs rather then by industry. We break the business market down into two broad categories - Supply Chain Members and Business User Markets.

Supply Chain Members

The supply chain consists of mostly for-profit companies engaged in activities involving product creation and delivery. Essentially the chain represents major steps needed to manufacture a product that will eventually be sold as a final product. Each member of the supply chain purchases products and services enabling them to carry out its business objectives. When making purchase decisions supply chain members may be motivated by such factors as: product cost, return on investment (i.e., benefits obtained exceed price paid), assurance of consistent supply (i.e., product is available and delivery is on-time), reciprocity with supplying firm (i.e., we buy from you and you buy from us), and much more. Examples of purchasing occurring in the supply chain include: manufacturing and plant equipment, information technology, office supplies, professional business services, etc.

In the table below we arbitrarily identify five main categories of supply chain members primarily based on the stage at which they contribute to the manufacturing process. However, it is conceivable that these categories can be further divided in order to flush out more specific activities.

Supply Chain Member	What They Do	Example
Raw Material Suppliers	These companies are generally considered the first stage in the supply chain and provide basic products through mining, harvesting, fishing, etc., that are key ingredients in the production of higher-order products.	Copper is mined and extracted from copper ore. Copper is then refined to remove impurities.
Processed Materials or Basic Component Manufacturers	Firms at this level use raw materials to produce more advanced materials or products contained within more advanced components.	Copper is purchased by electrical wire manufacturers.
Advanced Component Manufacturers	These companies use basic components to produce products that offer a significant function needed within a larger product.	Electrical wire is purchased by a manufacturer of electrical power supplies.
Product Manufacturers	This market consists of companies that purchase both basic and advanced components and then assemble these components into a final product designated for a user. These products may or may not be sold as stand-alone products. Some may be included within larger products.	Power supplies are purchased by manufacturers of desktop computers.
Support Service Firms	These companies offer services at almost any point in the supply chain and also to the business user market. Some services are directly related to the product while others focus on areas of the business not directly related to production.	Distribution companies, such as truck firms and storage facilities, assist in moving products from one supply chain member to another. However, in most cases they do not take ownership of products that pass through the supply chain.

Business User Markets

Besides selling final products and services to supply chain companies, several additional user markets also make purchases either for their own consumption or they buy with the intention of redistributing to others. In these purchase situations the buyer generally does not radically change the product from its form when it was purchased from a Product Manufacturer. While technically these markets are also part of the supply chain, members of the business user market do not, in most cases, engage or directly assist in production activities.

Market	What They Do	Considerations When Buying	What They Buy

Government	Made up of Federal, State, Local and International governments. They use purchases to assist with the functioning of the government that may include redistributing to others.	Mostly require suppliers to be approved, meet specifications and to bid for purchases.	Defense equipment, heavy equipment for public works projects, office supplies, pharmaceuticals, etc.
Not-For-Profit	Organizations whose tax structure precludes earning profits from operations and whose missions tend to be oriented to assisting others.	Look for purchases that will fit within tight budgetary restrictions and also within the mission of the organization.	Office equipment and supplies, office rental, professional services, etc.
Reseller	Also called distributors, these companies operate in both the consumer and the business markets. Their function involves purchasing large volumes of products from manufacturers (and sometimes from other resellers) and selling these products in smaller quantities. Includes wholesalers, retailers and industrial distributors.	Seek products that are of interest to the reseller's customers. Other issues include how delivery is handled and whether the supplier offers incentives to help the reseller promote the product.	Consumer and industrial products to be redistributed to other businesses and consumers.

How Business Markets Compare to Consumer Markets

For marketers, the selling environment of business markets present uniquely different circumstances when compared to selling to consumers. At the beginning of this tutorial we saw two ways in which consumer and business markets differ: 1) business markets are more likely to be price driven than brand driven, and 2) demand in business markets tends to be more volatile than consumer markets. However, the two markets are dissimilar in other ways requiring marketers to take a different approach when selling to business customers than to consumers. These differences include:

- How Decisions Are Made
- Existence of Experienced Purchasers
- Time Needed to Make Buying Decision
- Size of Purchases
- Number of Buyers
- Type of Promotional Effort Needed to Reach Buyer

How Decisions Are Made

In the consumer market a very large percentage of purchase decisions are made by a single person. As we discussed in Part 3, there are situations in which multiple people may be involved in a consumer purchase decision, such as a child influencing a parent to choose a certain brand of cereal or a husband and wife deciding together to buy a house, but most of the time purchases are individual decisions. The business market is significantly different. While single person purchasing is not unusual, especially within a small company, a significant percentage of business buying, especially within larger organizations, requires the input of many. In the marketing literature those associated with the purchase decision are known to be part of a Buying Center, which consists of individuals within an organization that perform one or more of the following roles:

- Buyer – responsible for dealing with suppliers and placing orders (e.g., purchasing agent)
- Decider – has the power to make the final purchase decision (e.g., CEO)
- Influencer – has the ability to affect what is ordered such as setting order specifications (e.g., engineers, researchers, product managers)
- User – those who will actually use the product when it is received (e.g., office staff)
- Initiator – any Buying Center member who is the first to determine that a need exists
- Gatekeeper – anyone who controls access to other Buying Center members (e.g., administrative assistant)

For marketers confronting a Buying Center it is important to first identify who plays what role. Once identified the marketer must address the needs of each member, which may differ significantly. For instance, the Decider, who may be the company president wants to make sure the purchase will not negatively affect the company's bottom line while the Buyer wants to be assured the product will be delivered on time. Thus, the way each Buying Center member is approached and marketed to requires careful planning in order to address the unique needs of each member.

Experienced Purchasers

As noted in the discussion of the Buying Center, organizations often employ purchasing agents or professional buyers whose job is to negotiate the best deals for their company. Unlike consumers, who often lack information when making purchase decisions, professional buyers are generally as knowledgeable about the product and the industry as the marketer who is selling to them.

Decision Making Time

Depending on the product, business purchase decisions can drag on for an extensive period. Unlike consumer markets where impulse purchasing is rampant, the number of people involved in business purchase decisions results in decisions taking weeks, months or even years.

Larger Purchases

For products that are regularly used and frequently purchased, businesses will often buy a larger volume at one time compared to consumer purchases. Because of this business purchasers often demand price breaks (e.g., discounts) for higher order levels.

Number of Buyers

While there are several million companies worldwide that operate in the overall business market, within a particular market the number is much smaller. For example, while in the United States there are over 95 million households who may shop at a grocery store, there are only a few thousand grocery stores with many of these centrally controlled as part of a chain of stores. Additionally, within some industries buyers are highly concentrated in certain geographic areas. Consequently, compared to consumer products, marketing efforts are confined to a smaller targeted group.

Promotional Focus

Companies who primarily target consumers often use mass advertising methods to reach an often widely dispersed market. For business-to-business marketers the size of individual orders, along with a smaller number of buyers, makes person-to-person contact by sales representatives a more effective means of promotion.

Types of Business Purchase Decisions

While it would appear business customers face the same four purchase situations faced by consumers (Minor New Purchase, Minor Re-Purchase, Major New Purchase, Major Re-Purchase), the nature of the business market noted above has led many marketing academics to group business purchase situations into only three categories. The reason is that the idea of a minor order may not hold as well in the business market, where buyers tend to place larger orders and where suppliers' marketing efforts are directed toward the most profitable buyers.

- <u>Straight Re-Purchase</u> - These purchase situations involve routine ordering. In most cases buyers simply reorder the same products or services that were previously purchased. In fact, many larger companies have programmed re-purchases into an automated ordering system that initiates electronic orders when inventory falls below a certain pre-determined level. For the supplier benefiting from the re-purchase this situation is ideal since the purchaser is not looking to evaluate other products. For competitors who are not getting the order it may require extensive marketing efforts to persuade the buyer to consider other product or service options.
- <u>Modified Re-Purchase</u> – These purchases occur when products or services previously considered a straight re-purchase are for some reason now under a re-evaluation process. There are many reasons why a product is moved to the status of a modified re-purchase. Some of these reasons include: end of purchase contract period, change in who is involved in making the purchase, supplier is removed from an approved suppliers list, mandate from top level of organization to re-evaluate all purchasing, or strong marketing effort by competitors. In this circumstance the incumbent supplier faces the same challenges they may have faced when they initially convinced the buyer to make the purchase. For competitors the door is now open and they must work hard to make sure their message is heard by those in charge of the purchase decision.
- <u>New Task Purchase</u> – As the name suggests, these purchases are ones the buyer has never or rarely made before. In some ways new task purchases can be considered as either minor or major depending on the total cost or overall importance of the purchase. In either case the buyer will spend considerably more time evaluating alternatives. For example, if faced with a major new task purchase, which often involves complex items, such as computer systems,

buildings, robotic assembly lines, etc., the purchase cycle from first recognizing the need to placement of the order may be months or even years.

How Businesses Buy

To cap our discussion of the business market we now look at how purchasing decisions are made. Business purchasing follows the same five-step buying process faced by consumers:

Need Recognition
Search
Evaluate Options
Purchase
After-Purchase Evaluation.

While the steps are the same as consumer purchasing, the activities occurring within each step are quite different as we discuss below.

1. Need Recognition

In a business environment needs arise from just about anywhere within the organization. The Buying Center concept shows that Initiators are the first organizational members to recognize a need. In most situations the Initiator is also the User or Buyer. Users are inclined to identify the need for new solutions (i.e., new products) while Buyers are more likely to identify the need to re-purchase products. But marketers should also understand that more companies are replacing human involvement in re-purchase decisions with automated methods, thus making it more challenging for competitors to replace currently purchased products. In straight re-purchase situations, whether there is human intervention or not, the purchasing process often jumps from Need Recognition to Purchase and little search activity is performed.

As part of this step, a specifications document may be generated that lays out the requirements of the product or service to be purchased. Several members of the Buying Center may be involved in creation of the specifications. For the marketer, establishing close contact with those who draw up the specifications may help position the marketer's product for inclusion in the search phase.

2. Search

The search for alternatives to consider as potential solutions to recognized needs is one of the most significant differences between consumer and business purchasing. Much of this has to do with an organization's motive to reduce costs. While a consumer will probably not search hard to save two cents a gallon on gas, a company that has a large fleet of cars or trucks certainly will. In fact, this step in the purchase process is where professional buyers make their mark. The primary intention of their search efforts is to identify multiple suppliers who meet product specifications and then, through a screening process, offer a selected group the opportunity to present their products to members of the Buying Center. Although in some industries, such as chemicals, online marketplaces and auction sites offer buyers another option for selecting suppliers that may not include supplier presentations.

For suppliers, the key to this step of the purchase process is to make sure they are included within the search activities of the Buyer or others in the Buying Center. In some instances this may require that a supplier work to be included within an approved suppliers list. In the case of online marketplaces and auction sites, suppliers should work to be included within relevant sites.

3. Evaluate Option

Once the search has produced options, members of the Buying Center may then choose among the alternatives. In more advanced purchase situations, members of the Buying Center may evaluate each option using a checklist of features and benefits sought by the buyer. Each feature/benefit is assigned a weight that corresponds to its importance to the purchase decision. In many cases, especially when dealing with Government and Not-For-Profit markets, suppliers must submit bids with the lowest bidder often being awarded the order, assuming products or services meet specifications.

4. Purchase

To actually place the order may require the completion of paperwork (or electronic documents) such as a purchase order. Acquiring the necessary approvals can delay the order for an extended period of time. And for very large purchases, such as buildings or large equipment, financing options may need to be explored.

5. After-Purchase Evaluation

After the order is received the purchasing company may spend time reviewing the results of the purchase. This may involve the Buyer discussing product performance issues with Users. If the product is well received it may end up moving to a straight re-purchase status thus eliminating much of the evaluation process on future purchases.

Targeting MarketsThe first four parts of the Principles of Marketing tutorial has introduced the basic concepts needed as a foundation for building a strong marketing program. In particular, it has emphasized the importance of understanding customers since they are the reason an organization is in business. With customer knowledge in hand, it is now time to turn our attention to the process of addressing customers’ needs through actions undertaken by the marketer. As we discussed in Part 1 these decisions include:

- Selecting Target Markets
- Developing Products/Services
- Creating Promotions
- Arranging Distribution
- Setting Price
- Adding Support Services

Now in Part 5 of the tutorial we examine how marketers determine which groups of customers to target. This is a critical point in marketing planning since all additional marketing decisions are going to be directed toward satisfying the markets selected. For those new to marketing this may seem like a relatively easy decision to make. In fact, many inexperienced marketers will simply conclude that “We will just sell to whoever wants to buy.” However, this mind-set is both ineffective and inefficient as the marketer is likely to drain resources in their quest to locate those willing to buy. Using a target market approach an organization attempts to get the most from its resource by following a planned procedure for identify customers that appear to be the best candidates to respond to the marketer’s message.

This tutorial includes the following topics:

1. Targeting Markets
2. What is a Market?
3. Target Markets, Market Segmentation
4. Step 1: Identify Market Segments
5. Stage 1 Segmentation Variables
6. Stage 2 Segmentation Variables
7. Stage 3 Segmentation Variables
8. Step 2: Choosing Market Segments
9. Step 3: Develop Marketing Strategy
10. Positioning Products and Services

What is a Market?

The simplest way to define a market is to think of it as consisting of all the people or organizations that may have an interest in purchasing a company’s products or services. In other words, a market comprises all customers who have needs that may be fulfilled by an organization’s offerings. Yet just having a need is not enough to define a market. Many people may say they have a need for a California mansion that overlooks the Pacific Ocean but most would not be considered potential customers of a real estate agent who is attempting to sell such a property. So other factors come into play when defining a market.

The first factor is that markets consist of customers who are qualified to make a purchase. Qualified customers are defined as those who:

- Seek a solution to a need, and
- Are eligible to make a purchase, and
- Possess the financial ability to make the purchase, and
  Have the authority to make the decision.

Note that a customer must meet ALL factors listed above, though for some markets the customer may have a surrogate who will handle some of these qualifications for a targeted customer. For instance, a market may consist of pre-teen customers who have a need for certain clothing item but the actual purchase may rest with the pre-teens' parents. So the parents could possibly assume one or more surrogate roles (e.g., financial ability, authority) that will result in the pre-teen being a qualified customer.

A second factor for defining a market rests with the company's ability to service the market. To an organization a market can only exist if the solutions sought by customers are ones that the company can satisfy with their offerings. If a company identifies a group of customers who are qualified to make purchases they only become a market for the company once the company is in a position to execute marketing activities designed to service those customers.

Thus, for the purposes of this tutorial, a market is defined as a group of customers who are qualified to make purchases of products or services that a marketer is able to offer. However, even if an organization can offer products and services to a market, not all markets will fit an organization's goals and objectives. With this in mind, we now turn our attention to examining the process marketers follow to choose which markets are best to target with their marketing effort.

Selecting Target Markets Through Market Segmentation

The market selected by a company as the target for their marketing efforts is critical since all subsequent marketing decisions will be directed toward satisfying the needs of these customers. But what approach should be taken to select markets the company will target?

One approach is to target at a very broad level by identifying the market as consisting of qualified customers who have a basic need that must be satisfied. For example, one could consider the beverage market as consisting of all customers that want to purchase liquid refreshment products to solve a thirst need. While this may be the largest possible market a company could hope for (it would seem to contain just about everyone in the world!) in reality there are no commercial products that would appeal to everyone in the world since individual nutritional needs, tastes, purchase situations, economic conditions, and many other issues lead to differences in what people seek to satisfy their thirst needs.

Because people are different and seek different ways to satisfy their needs, nearly all organizations, whether for-profits or not-for-profits, industrial or consumer, domestic or international, must use a market segmentation approach to target marketing. This approach divides broad markets, consisting of customers possessing different characteristics, into smaller market segments in which customers are grouped by characteristic shared by others in the segment.

To successfully target markets, using a segmentation approach, organizations should engage in the following three-step process.

Identify segments within the overall market

Choose the segment(s) that fits best with the organization's objectives and goals

Develop a marketing strategy that appeals to the selected target market(s)

Step 1 - Identify Market Segments

The first step in targeting markets is to separate customers who make up large, general markets into smaller groupings based on selected characteristics or variables (also referred to as bases of segmentation) shared by those in the group. General markets are most often associated with basic product groups, such as automobile, beverage, footwear, home entertainment, etc. The purpose of segmentation is to look deeper within the general market in order to locate customers with more specific needs within the product group (e.g., seek hybrid automobiles) AND who also share similar characteristics (e.g., college educated, support environmental issues, etc.). When grouped together these customers may form a smaller segment of the general market. By focusing market research on these smaller segments the marketer can learn a great deal about these customers and with this information can begin to craft highly targeted marketing campaigns.

For this tutorial, we take the approach that the variables used to segment markets can be classified into a three-stage hierarchy with higher stages building on information obtained from lower stages in order to reach greater precision in identifying shared characteristics. Yet, the more precise a marketer wishes to be with their segmentation efforts the more this process requires sufficient funding and strong research capabilities. For instance, a marketer entering a new market may not have the ability to segment beyond the first two stages since the precision available in Stage 3 segmentation may demand an established relationship with customers in the market.

The three-stage segmentation process presented below works for both consumer and business markets (e.g., manufacturers, reseller, etc.), though, as one might expect, the variables used to segment these markets may be different. Each segmentation stage includes an explanation along with suggestions for variables the marketer should consider. This is not meant to be an exhaustive list, as other variables are potentially available, but for marketers who are new to segmentation these will offer a good starting point for segmenting markets.

Stage 1 Segmentation Variables

Stage 1 segmentation consists of variables that can be easily identified through demographics (i.e., statistics that describe a population), geographics (i.e., location issues) and financial information. For both consumer and business segmentation this information focuses mostly on easy to obtain data from such sources as government data (e.g., census information), examining secondary data sources (e.g., news media), trade associations and financial reporting services. While Stage 1 segmentation does not offer the segmentation benefits available with higher-level stages, the marketer benefits from accomplishing the segmentation task in a short time frame and at lower cost.

Segmentation Variables **Consumer Markets**	**Segmentation Variables** **Business Markets**
Demographics age group (e.g., teens, retirees, young adults), gender, education level, ethnicity, income, occupation, social class, marital status **Geographics** location (e.g., national, regional, urban/suburban/rural, international), climate	**Demographics** type (e.g., manufacturer, retailer, wholesaler), industry, size (e.g., sales volume; number of retail outlets), age (e.g., new; young growth, established growth, mature **Geographics** location (e.g., national, regional, urban/suburban/rural, international), climate **Business Arrangement** ownership (e.g,. private versus public, independent versus chain), financial condition (e.g., credit rating, income growth, stock price, cash flow)

Stage 2 Segmentation Variable

Some firms, especially companies with limited funds or those who feel they need to move quickly to get their product to market, will stop the search for segmentation variables at the Stage 1 level. However, moving beyond Stage 1 segmentation offers a rich amount of customer information that will allow marketers to more effectively and efficiently target customers' needs. To segment using Stage 2 variables marketers must use market research techniques that help gain insight into customers' current purchase situation and the environment in which the customer operates. Information at this stage includes learning what options customers have chosen to satisfy their needs, what circumstances within customers' environment could affect how purchases are made, and understanding local conditions that could impact purchase decisions. Marketers might locate some of this information through the same sources used in Stage 1 (e.g., may find out brands most frequently purchased) but most of these variables require the marketer to engage in at least casual contact with customers in the market. This can be done through primary research methods, such as surveying the market, having sales personnel contact customers, purchasing research reports from commercial research firms or hiring consultants to undertake research projects. The cost and time needed to acquire this information may be significantly greater than that of Stage 1 segmentation.

Segmentation Variables Consumer Markets	**Segmentation Variables Business Markets**
Current Purchasing Situation brands used, purchase frequency, current suppliers	**Current Purchasing Situation** brands used, purchase frequency, current suppliers
Purchase Ready possess necessary equipment, property, knowledge and skill sets	**Purchase Ready** possess necessary equipment, property, knowledge and skill sets
Local Environment cultural, political, legal	**Local Environment** cultural, political, legal
	Customers Served by the Business identify the business' market
	Business' Perceived Image identify how targeted businesses are perceived by their customers

Marketers choosing to segment at the Stage 3 level face an enormous challenge in gathering useful segmentation information but, for those who do commit to segmenting at this level, the rewards may include gaining competitive advantage over rivals whose segmentation efforts have not dug this deep. However to reach the reward the marketer must invest significant time and money to amass the detailed market intelligence needed to achieve Stage 3 segmentation. Additionally much of what is needed at Stage 3 is information that is often well protected and not easily shared by customers. In fact, many customers are unwilling to share certain personal information (e.g., psychological) with marketers with whom they are not familiar. Consequently, segmenting on Stage 3 variables is often not an option for marketers new to a market unless they purchase this access via other means (e.g., hire a consultant who knows the market to undertake customer research). To get access to this information, marketers who already serve the market with other products may be able to use primary research such as focus groups, in-depth interviews, observation research and other high level market research techniques.

Segmentation Variables Consumer Markets	**Segmentation Variables Business Markets**
Benefits Sought price, overall value, specific feature, ease-of-use, service, etc.	**Benefits Sought** price, overall value, specific feature, services, profit margins, promotional assistance; etc.
Product Usage	**Product Usage**

how used, situation when used, etc. **Purchase Conditions** time of day/month/year when purchased, credit terms, trade-in option, etc. **Characteristics of Individual Buyer** purchase experience, how purchase is made, influencers on purchase decision, importance of purchase **Psychographics** personality, attitudes, and lifestyle combined with demographics	how used (e.g., raw material, component product, major selling item at retail level), situation when used, etc. **Purchase Conditions** length of sales cycle, set product specifications, bid pricing, credit terms, trade-in option, product handling, etc. **Characteristics of Buying Center** purchase experience, number of members, make-up of key influencers, willingness to assume risk;

Step 2 - Choosing Market Segments

The second step in selecting target markets requires the marketer to critically evaluate the segments identified in Step 1 in order to select those which are most attractive. For small firms this step may not be very involving since they may lack the resources needed to do it effectively. So they are often left with using their own intuition or judgment to determine which segments are the most promising. For companies with the time and money to commit to this step, the results may identify the segments that are primary candidates for current marketing efforts and also present segments that are future targets for the company's offerings.

In determining whether a segment is worthy of being a target market, the marketer needs to address the following questions:

- Is the segment large enough to support the marketer's objectives? This is an especially critical question if the marketer is entering a market served by many competitors.
- Is the segment showing signs of growth? One of the worst situations for a marketer is to enter a market whose growth is flat or declining, especially if competitors already exist.
  Does the company have the necessary skills, knowledge and expertise to service the segment? The company should understand and be able to communicate with the customers in the segment, otherwise they may face a significant learning curve in understanding how to effectively market to a segment.
- Does the segment meet the mission of the company? The segment should not extend too far beyond the direction the company has chosen to take.

Once one or more segments have been identified the marketer must choose the most attractive option(s) for their marketing efforts. At this point the choice becomes the firm's target market(s).

Step 3 - Develop Marketing Strategy to Appeal to Target Market(s)

The results of analyzing market segments leads the marketer to consider one of the following target marketing strategies.

- Undifferentiated or Mass Marketing – Under this strategy the marketer attempts to appeal to one large market with a single marketing strategy. While this approach offers advantages in terms of lowering development and production costs, since only one product is marketed, there are few markets in which all customers seek the same benefits. While this approach was very popular in the early days of marketing (e.g., Ford Model-T), few companies now view this as a feasible strategy.
- Differentiated or Segmentation Marketing – Marketers choosing this strategy try to appeal to multiple smaller markets with a unique marketing strategy for each market. The underlying concept is that bigger markets can be divided into many sub-markets and an organization chooses different marketing strategies to reach each sub-market it targets. Most large consumer products firms follow this strategy as they offer multiple products (e.g., running shoes, basketball shoes) within a larger product category (e.g., footwear).
- Concentrated or Niche Marketing –This strategy combines mass and segmentation marketing by using a single marketing strategy to appeal to one or more very small markets. It is primarily used by smaller marketers who have identified small sub-segments of a larger segment that are not served well by larger firms that follow a segmentation marketing approach. In these situations a smaller company can do quite well marketing a single product to a narrowly defined target market.
- Customized or Micro-Marketing - This newest target marketing strategy attempts to appeal to targeted customers with individualized marketing programs. For micro-marketing segmentation to be effective the marketer must, to some degree, allow customers to "build-their-own" products. This approach requires extensive technical capability for marketers to reach individual customers and allow customers to interact with the marketer. The Internet has been the catalyst for this target marketing strategy. As more companies learn to utilize the Internet micro-marketing is expected to flourish.

Product Positioning

No matter which target marketing strategy is selected, the overall marketing strategy should involve the process of positioning the firm's offerings in ways that will appeal to targeted customers. Positioning is concerned with the perception customers hold regarding a product or company. In particular, it relates to marketing decisions an organization undertakes to get customers to think about a product or company in a certain way compared to its competitors. The goal of positioning is to convince customers to believe the marketer's offerings are different in some way from its competitors on an important benefit sought by the market. For instance, if a customer has discovered she has a need for an affordable laptop computer, a company such as Dell may come to mind since their marketing efforts position their products as offering good value at a reasonable cost.

To position successfully the marketer must have thorough knowledge of the key benefits sought by the market. Obviously the more effort the marketer expends on segmentation (i.e., reached Stage 3) the more likely they will know the benefits sought by the market. Once known, the marketer must: 1) tailor marketing efforts to ensure their offerings satisfy the most sought after benefits, and 2) communicate to the market in a way that differentiates the marketer's offerings from competitors.

For firms that seek to appeal to multiple target markets (i.e., segmentation marketing), positioning strategies may differ for each market. For example, a marketer may sell the same product to two different target markets, but in one market the emphasis is on styling while in another market the emphasis is on ease-of-use benefits. The important point is that the overall market strategy must be evaluated for each target market since what works well in one market may not work as well in another market.

Product DecisionsMarketing starts with the product since it is what an organization has to offer its target market. As we've stressed many times in this tutorial, organizations attempt to provide solutions to a target market's problems. These solutions include tangible or intangible (or both) product offerings marketed by an organization.

In addition to satisfying the target market's needs, the product is important because it is how organizations generate revenue. It is the "thing" that for-profit companies sell in order to realize profits and satisfy stakeholders and what non-profit organizations use to generate funds needed to sustain itself. Without a well-developed product strategy that includes input from the target market, a marketing organization will not have long-term success.

In Part 6 of the Principles of Marketing tutorial we take a close look at the key concepts all marketers should consider when faced with product decisions. In Part 7 we will extend the discussion to look at the key issues in managing product decisions.

This tutorial includes the following topics:

1. Product Decisions
2. What is a Product?
3. Categories of Consumer Products
4. Categories of Business Products
5. Components of a Product

6. Key Product Decisions
7. Consumable Product Features
8. Branding
9. Advantages of Brands
10. Packaging
11. Factors in Packaging Decision
12. Labeling

What is a Product?

In marketing, the term "product" is often used as a catch-all word to identify solutions a marketer provides to its target market. We will follow this approach and permit the term "product" to cover offerings that fall into one of the following categories:

- Goods – Something is considered a good if it is a tangible item. That is, it is something that is felt, tasted, heard, smelled or seen. For example, bicycles, cellphones, and donuts are all examples of tangible goods. In some cases there is a fine line between items that affect the senses and whether these are considered tangible or intangible. We often see this with digital goods accessed via the Internet, such as listening to music online or visiting an information website. In these cases there does not appear to be anything that is tangible or real since it is essentially computer code that is proving the solution. However, for our purposes, we distinguish these as goods since these products are built (albeit using computer code), are stored (e.g., on a computer hard drive), and generally offer the same benefits each time (e.g., quality of the download song is always the same).
- Services – Something is considered a service if it is an offering a customer obtains through the work or labor of someone else. Services can result in the creation of tangible goods (e.g., a publisher of business magazines hires a freelance writer to write an article) but the main solution being purchased is the service. Unlike goods, services are not stored, they are only available at the time of use (e.g., hair salon) and the consistency of the benefit offered can vary from one purchaser to another (e.g., not exactly the same hair styling each time).
- Ideas – Something falls into the category of an idea if the marketer attempts to convince the customer to alter their behavior or their perception in some way. Marketing ideas is often a solution put forth by non-profit groups or governments in order to get targeted groups to avoid or change certain behavior. This is seen with public service announcements directed toward such activity as youth smoking, automobile safety, and illegal drug use.

While in some cases a marketer offers solutions that provide both tangible and intangible attributes, for most organizations their primary offering—the thing that is the main focus of the marketing effort—is concentrated in one area. So while a manufacturer may offer intangible services or a service firm provides certain tangible equipment, these are often used as add-ons that augment the organization's main product.

Categories of Consumer Products

In addition to categorizing by type of offering, most products intended for consumer use can be further categorized by how frequently and where they are purchased.

- Convenience Products – These are products that appeal to a very large market segment. They are generally consumed regularly and purchased frequently. Examples include most household items such as food, cleaning products, and personal care products. Because of the high purchase volume, pricing per item tends to be relatively low and consumers often see little value in shopping around since additional effort yields minimal savings. From the marketer's perspective the low price of convenience products means that profit per unit sold is very low. In order to make high profits marketers must sell in large volume. Consequently, marketers attempt to distribute these products in mass through as many retail outlets as possible.
- Shopping Products – These are products consumers purchase and consume on a less frequent schedule compared to convenience products. Consumers are willing to spend more time locating these products since they are relatively more expensive than convenience products and because these may possess additional psychological benefits for the purchaser, such as raising their perceived status level within their social group. Examples include many clothing products, personal services, electronic products, and household furnishings. Because consumers are purchasing less frequently and are willing to shop to locate these products, the target market is much smaller than that of convenience goods. Consequently, marketers often are more selective when choosing distribution outlets to sell their products.
- Specialty Products – These are products that tend to carry a high price tag relative to convenience and shopping products. Consumption may occur at about the same rate as shopping products but consumers are much more selective. In fact, in many cases consumers know in advance which product they prefer and will not shop to compare products. But they may shop at retailers that provide the best value. Examples include high-end luxury automobiles, expensive champagne, and celebrity hair care experts. The target markets are generally very small and outlets selling the products are very limited to the point of being exclusive.

In addition to the three main categories above, products are classified in at least two additional ways:

- Emergency Products – These are products a customer seeks due to sudden events and for which pre-purchase planning is not considered. Often the decision is one of convenience (e.g., whatever works to fix a problem) or personal fulfillment (e.g., perceived to improve purchaser's image).
- Unsought Products – These are products whose purchase is unplanned by the consumer but occur as a result of marketer's actions. Such purchase decisions are

made when the customer is exposed to promotional activity, such as a salesperson's persuasion or purchase incentives like special discounts offered to certain online shoppers. These promotional activities often lead customers to engage in impulse purchasing.

Categories of Business Products

As discussed in Part 4 – Business Buying Behavior, the amount spent on business purchasing far exceeds consumer purchasing. Products sold within the b-to-b market fall into one of the following categories:

- Raw Materials – These are products obtained through mining, harvesting, fishing, etc., that are key ingredients in the production of higher-order products.
- Processed Materials – These are products created through the processing of basic raw materials. In some cases the processing refines original raw materials while in other cases the process combines different raw materials to create something new. For instance, several crops including corn and sugar cane can be processed to create ethanol which has many uses including as a fuel to power car and truck engines.
- Equipment – These are products used to help with production or operations activities. Examples range from conveyor belts used on an assembly line to large buildings used to house the headquarters staff of a multi-national company.
- Basic Components – These are products used within more advanced components. These are often built with raw material or processed material. Electrical wire is an example.
- Advanced Components – These are products that use basic components to produce products that offer a significant function needed within a larger product. Yet by itself an advanced component does not stand alone as a final product. In computers the motherboard would be an example since it contains many basic components but without the inclusion of other products (e.g., memory chips, microprocessor, etc.) would have little value.
- Product Component – These are products used in the assembly of a final product though these could also function as stand alone products. Dice included as part of a children's board game would be an example.
- MRO (Maintenance, Repair and Operating) Products – These are products used to assist with the operation of the organization but are not directly used in producing goods or services. Office supplies, parts for a truck fleet and natural gas to heat a factory would fall into this category.

Components of a Product

On the surface it seems a product is simply a marketing offering, whether tangible or intangible, that someone wants to purchase and consume. In which case one might believe product decisions are focused exclusively on designing and building the consumable elements of goods, services or ideas. For instance, one might think the key product decision for a manufacturer of floor cleaners is to focus on creating a formula that cleans more effectively. In actuality, while decisions related to the consumable parts of the product are extremely important, the TOTAL product consists of more than what is consumed. The total product offering and the decisions facing the marketer can be broken down into three key parts:

Core Benefits

Actual Product
Augmented Product

1. Core Benefits

Consider what we have talked about many times in this tutorial; people make buying decisions that satisfy their needs. While many needs are addressed by the consumption of a product or service, some needs are not. For instance, customers may need to be perceived highly by other members of their group or need a product that is easy to use or need a risk-free purchase. In each of these cases, and many more, the core product itself is the benefit the customer receives from using the product. In some cases these core benefits are offered by the product itself (e.g., floor cleaner) while in other cases the benefit is offered by other aspects of the product (e.g., the can containing the floor cleaner that makes it easier to spread the product). Consequently, at the very heart of all product decisions is determining the key or core benefits a product will provide. From this decision, the rest of the product offering can be developed.

2. Actual Product

The core benefits are offered through the components that make up the actual product the customer purchases. For instance, when a consumer returns home from shopping at the grocery store and takes a purchased item out of her shopping bag, the actual product is the item she holds in her hand. Within the actual product is the consumable product, which can be viewed as the main good, service or idea the customer is buying. For instance, while toothpaste may come in a package that makes dispensing it easy, the consumable product is the paste that is placed on a toothbrush. But marketers must understand that while the consumable product is, in most cases, the most critical of all product decisions, the actual product includes many separate product decisions including product features, branding, packaging, labeling, and more. Full coverage of several of these important areas is provided later in this tutorial.

3. Augmented Product

Marketers often surround their actual products with goods and services that provide additional value to the customer's purchase. While these factors may not be key reasons leading customers to purchase (i.e., not core benefits), for some the inclusion of these items strengthens the purchase decision while for others failure to include these may cause the customer not to buy. Items considered part of the augmented product include:

- Guarantee – This provides a level of assurance that the product will perform up to expectations and if not the company marketing the product will support the customer's decision to replace, have it repaired or return for a refund.
- Warranty – This offers customers a level of protection that often extends past the guarantee period to cover repair or replacement of certain product components.
- Customer Service – This consists of additional services that support the customer's needs including offering training and assistance via telephone or online.
- Complementary Products – The value of some product purchases can be enhanced with add-on products, such as items that make the main product easier to use (e.g., laptop carrybag), enhance styling (e.g., cellphone face plates) or extend functionality (e.g., portal keyboard for PDAs).
- Accessibility – How customers obtain the product can affect its perceived value depending on such considerations as how easy it is to obtain (e.g., stocked at nearby store, delivered directly to office), the speed at which it can be obtained, and the likelihood it will be available when needed.

Key Product Decisions

The actual product is designed to provide the core benefits sought by the target market. The marketer offers these benefits through a combination of factors that make up the actual product.

Below we discuss in detail four key factors that together help shape the actual product. These factors include:

- Consumable Product Features
- Branding
- Packaging
- Labeling

Consumable Product Features

Features are characteristics of a product that offer benefits to the customer. In most cases, the most important features are those associated with the consumable product since they are the main reason a customer makes a purchase. For this tutorial we separate the benefits of consumable product features into two groups: functional and psychological.

Functional Benefits - Are benefits derived from features that are part the consumable product. For instance, a plasma television includes such features and benefits as:

Feature	Functional Benefit
screen size	offers greater detail and allows for more distant viewing
screen resolution	viewing provides clear, more realistic picture
surround sound	immerses all senses in the viewing experience
remote control	allows for greater comfort while viewing

These features are called functional because they result in a benefit the user directly associates with the consumable product. For marketers functional benefits are often the result of materials, design and production decisions. How the product is built can lead to benefits such as effectiveness, durability, speed, ease-of-use, and cost savings to name just few.

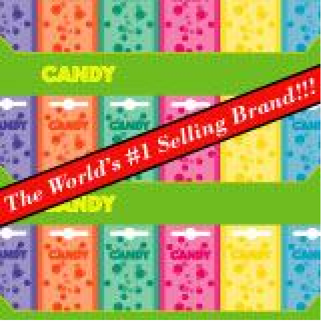
Psychological Benefits – Are benefits the customer perceives they receive when they use the product though these may be difficult to measure and may vary by user. These benefits address needs such as status within a group, risk reduction, sense of independence, and happiness. Such benefits are developed through promotional efforts that target customer's internal makeup (see discussion in Part 3 - Consumer Behavior).

In addition to determining the type of features to include in a product, the marketer faces several other decisions related to features:

- <u>Quantity & Quality vs. Cost</u> - For the marketers an important decision focuses on the quantity and quality of features to include in a product. In most cases the more features included or the higher the quality level for a particular feature, the more expensive the product is to produce and market.
- <u>Is More Better?</u> – Even if added cost is not a major concern, the marketer must determine if more features help or hurt the target market's perception of the product. A product with too many features could be viewed as too difficult to use. This was often the case when video cassette recorders (VCR) were the principle device for taping television programs and watching rented movies. Many of the higher-level features introduced in the 1990s as the product matured, such as advanced television recording, proved too difficult for the average consumer to master.
- <u>Who Should Choose the Features?</u> – Historically marketers determined what features to include in a product. However, as we discussed in Part 5 – Targeting Markets, technology, and especially the Internet, offer customers the opportunity to choose their own features to custom build a product. For instance, companies offering website hosting services allow website owners to choose from a list of service options that best suits their needs. Also, for traditional products, such as clothing, companies allow customers to stylize their purchases with logos and other personalized options.

Branding

Branding involves decisions that establish an identity for a product with the goal of distinguishing it from competitors' offerings. In markets where competition is fierce and where customers may select from among many competitive products, creating an identity through branding is essential. It is particularly important in helping position the product (see discussion of product position) in the minds of the product's target market.



While consumer products companies have long recognized the value of branding, it has only been within the last 10-15 years that organizations selling component products in the business-to-business market have begun to focus on brand building strategies. The most well-known company to brand components is Intel with its now famous "Intel Inside" slogan. Intel's success has led many other b-to-b companies and even non-profits to incorporate branding within their overall marketing strategy.

Brand Names and Brand Marks

At a very basic level branding is achieved through the use of unique brand names and brand marks. The brand name, which may be either the individual product name or a name applied to a group or family of products, is important for many reasons including suggesting what the product is or does (e.g., Mop-and-Glow). The name is also what we utter when we discuss the product (i.e., word-of-mouth marketing). The brand mark is a design element, such as a symbol (e.g., Nike swoosh), logo, (e.g., Yahoo! graphic) a character (e.g., Keebler elves) or even a sound (e.g., Intel inside sound), that provides visual or auditory recognition for the product.

Advantages of Brands

A strong brand offers many advantages for marketers including:

- Brands provide multiple sensory stimuli to enhance customer recognition. For example, a brand can be visually recognizable from its packaging, logo, shape, etc. It can also be recognizable via sound, such as hearing the name on a radio advertisement or talking with someone who mentions the product.
- Customers who are frequent and enthusiastic purchasers of a particular brand are likely to become brand loyal. Cultivating brand loyalty among customers is the ultimate reward for successful marketers since these customers are far less likely to be enticed to switch to other brands compared to non-loyal customers.
- Well-developed and promoted brands make product positioning efforts more effective. The result is that upon exposure to a brand (e.g., hearing it, seeing it) customers conjure up mental images or feelings of the benefits they receive from using that brand. The reverse is even better. When customers associate benefits with a particular brand, the brand may have attained a significant competitive advantage. In these situations the customer who recognizes he needs a solution to a problem (e.g., needs to bleach clothes) may automatically think of one brand that offers the solution to the problem (e.g., Clorox). This "benefit = brand" association provides a significant advantage for the brand that the customer associates with the benefit sought.

Firms that establish a successful brand can extend the brand by adding new products under the same "family" brand. Such branding may allow companies to introduce new products more easily since the brand is already recognized within the market.

- Strong brands can lead to financial advantages through the concept of brand equity in which the brand itself becomes valuable. Such gains can be realized through the out-right sale of a brand or through licensing arrangements. For example, Company A may have a well-recognized brand (Brand X) within a market but for some reason they are looking to concentrate their efforts in other markets. Company B is looking to enter the same market as Brand X. If circumstances are right Company A could sell to Company B the rights to use the Brand X name without selling any other part of the company. That is, Company A simply sells the legal rights to the Brand X name but retains all other parts of Brand X, such as the production facilities and employees. In cases of well developed brands such a transaction may carry a very large price tag. Thus, through strong branding efforts Company A achieves a large financial gain by simply signing over the rights to the name. But why would Company B seek to purchase a brand for such a high price tag? Because by buying the brand Company B has already achieved an important marketing goal – building awareness within the target market. The fact the market is already be familiar with the brand allows the Company B to concentrate on other marketing decisions.

We provide more detail on branding in Part 7: Managing Products with a special emphasis on the strategies marketers follow in order to build a strong brand.

Packaging

Nearly all products require a packaging decision. In most cases, the product is contained in a package when purchased by the customer. In a few cases, such as with certain produce items, the final customer may purchase the product without a package but the produce marketer still faces packaging decisions when it comes to shipping to the store. Thus, for many products there are two packaging decisions – customer and distribution.

Customer Packaging

This relates to the package purchasers receive in exchange for their payment. This packaging can be further divided into the following:

- <u>First-Level Package</u> - This is packaging that holds the actual product (e.g., Tylenol Bottle). In some cases this packaging is minimal since it only serves to protect the product. For instance, certain frozen food products are sold to consumers in a cardboard box with the product itself contained in a plastic bag found inside the box. This plastic bag represents the first level package. In other cases frozen food products are sold in the plastic bag that contains the product. In these cases the plastic bag is both first-level package and the primary package for convey product information.

- Second-Level Package – In some cases the first level package is protected by one or more outer packages (e.g., box holding the Tylenol Bottle). This second-level package may act as the primary package for the product.
- Inserts - Marketers use a variety of other methods to communicate with customers after they open the product package. These methods are often inserted within, or sometimes on, the product's package. Insertions include information such as instruction manuals and warranty cards, promotional incentives such as coupons, and items that add value such as recipes and software.

Distribution Packaging

This packaging is used to transport the customer package through the supply chain. It generally holds multiple customer packages and also offers a higher level of damage protection than that of customer packaging.

Factors to Consider When Making Packaging Decision

Packaging decisions are important for several reasons including:

- Protection – Packaging is used to protect the product from damage during shipping and handling, and to lessen spoilage if the protect is exposed to air or other elements.
- Visibility – Packaging design is used to capture customers' attention as they are shopping or glancing through a catalog or website. This is particularly important for customers who are not familiar with the product and in situations, such as those found in grocery stores, where a product must stand out among thousands of other products. Packaging designs that standout are more likely to be remembered on future shopping trips.
- Added Value – Packaging design and structure can add value to a product. For instance, benefits can be obtained from package structures that make the product easier to use while stylistic designs can make the product more attractive to display in the customer's home.
- Distributor Acceptance – Packaging decisions must not only be accepted by the final customer, they may also have to be accepted by distributors who sell the product for the supplier. For instance, a retailer may not accept packages unless they conform to requirements they have for storing products on their shelves.
- Cost – Packaging can represent a significant portion of a product's selling price. For example, it is estimated that in the cosmetics industry the packaging cost of some products may be as high as 40% of a product's selling price. Smart packaging decisions can help reduce costs and possibly lead to higher profits.
- Expensive to Create - Developing new packaging can be extremely expensive. The costs involved in creating new packaging include: graphic and structural design, production, customer testing, possible destruction of leftover old packaging, and possible advertising to inform customer of the new packaging.
- Long Term Decision – When companies create a new package it is most often with the intention of having the design on the market for an extended period of time. In fact, changing a product's packaging too frequently can have negative

effects since customers become conditioned to locate the product based on its package and may be confused if the design is altered.

- Environmental or Legal Issues – Packaging decisions must also include an assessment of its environmental impact especially for products with packages that are frequently discarded. Packages that are not easily bio-degradable could draw customer and possibly governmental concern. Also, caution must be exercised in order to create packages that do not infringe on intellectual property, such as copyrights, trademarks or patents, held by others.

Labeling

Most packages, whether consumer or channel, are imprinted with information intended to assist the customer. For consumer products, labeling decisions are extremely important for several reasons. First, labels serve to capture the attention of shoppers. The use of catchy words may cause strolling customers to stop and evaluate the product. Second, the label is likely to be the first thing a new customer sees and thus offers their first impression of the product. Third, the label provides customers with product information to aid their purchase decision or help improve the customer's experience when using the product (e.g., recipes). Fourth, labels generally include a universal product codes (UPC) and, in some cases, radio frequency identification (RFID) tags, that make it easy for resellers, such as retailers, to checkout customers and manage inventory. Fifth, for companies serving international markets or diverse cultures within a single country, bilingual or multilingual labels may be needed. Finally, in some countries many products, including food and pharmaceuticals, are required by law to contain certain labels such as listing ingredients, providing nutritional information or including usageManaging ProductsIn Part 6, Product Decisions, we showed that marketers are confronted with many issues when building the product component of their marketing strategy. While product decisions represent just one aspect of marketer's overall activities, these decisions are often the most important because they lead directly to the reasons (i.e., benefits offered, solutions to problems) for why the customer decides to choose the organization's goods, services or ideas.

In Part 7 of our Principles of Marketing tutorial we extend the coverage of product decisions by exploring additional product issues facing the marketer. In particular, we examine four important areas. First, we categorize the roles played by those involved in product management and show how the scope of a manager's responsibilities changes as these roles take on greater importance. Second, we return to a discussion of branding by focusing on overall branding strategies that may be adopted by the marketing organization. Third, we spend a large part of this tutorial covering the importance of new product development including an analysis of the steps firms may follow to bring new products to market. Finally, we will see that once new products have been established in the market numerous factors force the marketer to continually adjust their product decisions.

Product Management Responsibilities

While this tutorial touches on basic concepts and strategies applicable to a large percentage of marketing situations, the reader should understand that no two marketing situations are the same. Yet while some concepts and strategies important to one marketer may not hold the same weight with another, in general, the basic principles of marketing (e.g., satisfying target markets, support decisions using research, etc.) hold no matter the type of industry, type of company or type of product being sold.

What is often different between two marketing situations is the level of complication and challenge that arises as a marketer's scope of responsibility increases. For our purposes a marketer's level of responsibility is measured in terms of:

- the number and variety of tasks that must be performed (i.e., what has to be done)
- the value these tasks represent to the organization (i.e., how important marketing is perceived within the company)
- the overall financial stake the marketing position holds (i.e., total sales volume and profit generation).

As responsibilities change so to do the marketer's tasks. For instance, with regard to product decisions, as a marketer's responsibilities become greater her or his day-to-day job shifts from being involved in specific product issues (e.g., finding a graphics design company to create a new label) to decisions concerning many products and focusing on setting the future marketing direction of the company (e.g., developing marketing plans for numerous products). We can see this in greater detail by examining the responsibilities associated with four different marketing management levels:

- <u>Product Item Level</u> – At this level responsibilities are associated with marketing a single product or brand. By "single" we are limiting the marketer's responsibility to one item. For instance, a startup software development company may initially market just one product. In some organizations the person in charge has the title Product Manager, though in smaller companies this person may simply be the Marketing Manager.
- <u>Brand Product Line Level</u> – At this level responsibilities are associated with managing two or more similar product items. By "similar" we are referring to products carrying the same brand name that fit within the same product category and offer similar solutions to customers' needs. Procter & Gamble, one of the largest consumer products companies in the world, markets Tide laundry

detergent in several different packaging sizes (e.g., 50oz., 100oz., 200oz.), in different forms (e.g., powder, liquid) and with different added features (e.g., softener, bleach). Tide's product line consists of over 100 different versions of the product. Differences in the product offerings indicate these are targeted to different segments within the larger market (e.g., those preferring liquid vs. those preferring powder), however, it may also represent a choice for the same target market who may seek variety. A product line is often measured by its depth, relative to competitors, with deep product lines offering extensive product items. Brand product lines are often managed by a Brand or Product Line Manager.

- <u>Category Product Line Level</u> – At this level responsibilities are associated with managing two or more brand product lines within the same product category. In this situation the marketer may manage products that offer similar basic benefits (e.g., clean clothes) but target their offerings to slightly different needs (e.g., product for tough to clean clothing vs. product to clean delicate clothing). Multiple brand product lines allow the marketer to cover the needs of more segments and, consequently, increase their chance to generate sales. Often in larger companies category product lines are the responsibility of the Product Category or Divisional Marketing Manager who may have Brand Product Managers reporting to him/her.
- <u>Product Mix Level</u> – At this level responsibilities include two or more category product lines that are directed to different product categories. In some cases the category product lines may yield similar general solutions (e.g., cleaning) but are aimed at entirely different target markets (e.g., cleaning dishes vs. cleaning automobiles). In large companies, the product lines are very diverse and offer different solutions. For example, BIC sells writing instruments, shaving products, and lighters. This diversification strategy cushions against an "all-eggs-in-one-basket" risk that may come if a company directs all resources to one product category. A product mix can be classified based on its width (how many different category product lines) and its depth (how many different brand product lines within a category product line). Generally responsibility for this level belongs to a company's Vice President for Marketing.

Branding Strategy

As we discussed in Part 6, branding is an important decision designed to enhance the identity of the product through the use of unique brand names, symbols and other distinctive measures. With competition growing more intense in almost all industries, establishing a strong brand allows an organization's products to stand out and avoid potential pitfalls, such as price wars, that have befallen many products. Therefore, a clear understanding of branding strategy is essential in order to build solid products and product lines. In particular, marketers should be aware of various branding approaches that can be pursued.

By branding approach we are referring to different product identification strategies that can be deployed to establish a product within the market. As we will see, the purpose of these approaches is to build a brand that will exist for the long term. Making smart decisions up front is crucial since a company may have to live with the decision for a long time.

Branding approaches include the following:

- Individual Product Branding – Under this branding approach new products are assigned new names with no obvious connection to existing brands offered by the company. Under individual product branding the marketing organization must work hard to establish the brand in the market since it cannot ride the coattails of previously introduced brands. The chief advantage of this approach is it allows brands to stand on their own thus lessening threats that may occur to other brands marketed by the company. For instance, if another company brand receives negative publicity this news is less likely to rub off on the company's other brands that carry their own unique names. Additionally, as mentioned in Part 6, brands can create financial gains through the concept known as brand equity. Under an individual branding approach, each brand builds its own separate equity which allows the company, if they choose, to sell off individual brands without impacting other brands owned by the company. The most famous marketing organization to follow this strategy is Procter and Gamble, which has historically introduced new brands without any link to other brands or even to the company name.
- Family Branding – Under this branding approach new products are placed under the umbrella of an existing brand. The principle advantage of this approach is that it enables the organization to rapidly build market awareness and acceptance since the brand is already established and known to the market. But the potential disadvantage is that the market has already established certain perceptions of the brand. For instance, a company that sells low-end, lower priced products may have a brand that is viewed as an economy brand. This brand image may create customer confusion and hinder the company if they attempt to introduce higher-end, higher priced products using the same brand name. Additionally, as noted with individual branding, with family branding any negative publicity that may occur for one product within a brand could spread to all other products that share the same name.
- Co-Branding – This approach takes the idea of individual and family branding a step further. With co-branding a marketer seeks to partner with another firm, which has an established brand, in hopes synergy of two brands on a product is even more powerful than a single brand. The partnership often has both firms sharing costs but also sharing the gains. For instance, major credit card companies, such as Visa and MasterCard, offer co-branding options to companies and organizations. The cards carry the name of a co-branded organization (e.g., University name) along with the name of the issuing bank (e.g., Citibank) and the name of the credit card company. Besides tapping into awareness for multiple brands, the co-branding strategy is also designed to appeal to a larger target market, especially if each brand, when viewed separately, does not have extensive overlapping target markets with the other brand. Thus, co-branding allows both

firms to tap into market segments where they did not previously have a strong position.

- Private or Store Branding – Some suppliers are in the business of producing products for other companies including placing another company's brand name on the product. This is most often seen in the retail industry where stores or online sellers contract with suppliers to manufacture the retailer's own branded products. In some cases the supplier not only produces product for the retailer's brand but also markets their own brand so that store shelves will contain both brands.
- No-Name or Generic Branding – Certain suppliers supply products that are intentionally "brandless." These products are mostly basic commodity-type products that consumer or business customers purchase as low price alternatives to branded products. Basic household products such as paper products, over-the-counter medicines such as ibuprofen, and even dog food are available in a generic form.
- Brand Licensing – Under brand licensing a contractual arrangement is created in which a company owning a brand name allows others to produce and supply products carrying the brand name. This is often seen when a brand is not directly connected with a product category. For instance, several famous children's characters, such as Sesame Street's Elmo, have been licensed to toy and food manufacturers who market products using the branded character's name and image.

Developing New Products

By its nature marketing requires new ideas. Unlike some organizational functions, where basic processes follow a fairly consistent routine (e.g., accounting), successful marketers are constantly making adjustments to their marketing efforts. New ideas are essential for responding to changing demand by the target market and by pressure exerted by competitors. These changes are manifested in decisions in all marketing areas including the development of new products.

In addition to being responsive to changing customer tastes and competitive forces, there are many other reasons why new product development is vital. These include:

- Many new products earn higher profits than older products. This is often the case for products considered innovative or unique which, for a period of time, may enjoy success and initially face little or no competition.
- New products can help reposition the company in customer's minds. For instance, a company that traditionally sold low priced products with few features may shift customers' perceptions about the company by introducing products with more features and slightly higher pricing.
- Fierce global competition and technological developments make it much easier for competitors to learn about products and replicate them. To stay ahead of competitors marketers must innovate and often create and introduce new products on a consistent schedule.
- Companies with limited depth in a product line may miss out on more sales unless they can add new products to fill out the line.

Some firms market seasonal products that garner their highest sales during a certain time of the year or sell cyclical products whose sales fluctuate depending on economic or market factors. Expanding the firm's product mix into new areas may help offset these fluctuations. For manufacturing firms an additional benefit is realized as new products utilize existing production capacity that is under-used when seasonal or cyclical products are not being produced.

Categories of New Products

New products can fall into one of several categories. These categories are defined by the type of market the product is entering (i.e., newly created, existing but not previously targeted, existing and targeted) and the level of product innovation (i.e., radically new, new, upgrade).

- Creates New Market with Radically New Product or Product Line – This category is represented by new breakthrough products that are so revolutionary they create an entirely new market. Recent examples include digital music players, such as Apple's iPod, that have spawned new delivery methods (downloadable music) and new media (podcasting). Highly innovative products are rare so very few new products fall into this category.
- Enters Existing But Not Previously Targeted Market with New-Product or Product Line – In this category a marketer introduces a new product item or product line to an existing market which they did not previously target. Often these products are similar to competitors' products already available in the market but with some level of difference (e.g., different features, lower price, etc.). Microsoft's entry into the video gaming system market with their Xbox is an example.
- Stays in Existing and Previously Targeted Market by Enhancing Existing Product or Product Line – Under this development category the marketer attempts to improve its current position in the market by either improving or upgrading existing products or by extending a product line by adding new products. This type of new product is seen in our earlier example of Procter and Gamble's Tide product line which contains many product variations of the basic Tide product.

How New Products Are Obtained

Marketers have several options for obtaining new products. First, products can be developed within an organization's own research operations. For some companies, such as service firms, this may simply mean the marketer designs new service options to sell to target markets. For instance, a marketer for a mortgage company may design new mortgage packages that offer borrowers different rates or payment options. At the other extreme companies may support an extensive research and development effort where engineers, scientists or others are engaged in new product discovery.

A second way to obtain products is to acquire them from external sources. This can occur in several ways including:

- Purchase the Product - With this option a marketer purchases the product outright from another firm that currently owns the product. The advantage is that the product is already developed, which reduces the purchasing company's time and cost of trying to develop it themselves. On the negative side the purchase cost may be high.

- License the Product – Under this option the marketer negotiates with the owner of the product for the rights to market the product. This may be a particularly attractive option for companies who have to fill a product need quickly (e.g., give a product line more depth) or it may be used as a temporary source of products while the marketer's company is developing its own product. On the negative side the arrangement may have a limited time frame at which point the licensor may decide to end the relationship leaving the marketer without a source for the product.
- Purchase Another Firm - Instead of purchasing another company's products marketers may find it easier to just purchase the whole company selling the products. One key advantage to this is that the acquisition often includes the people and resources that developed the product which may be a key consideration if the acquiring company wants to continue to develop the acquired products.

New Product Development Process

Because introducing new products on a consistent basis is important to the future success of many organizations, marketers in charge of product decisions often follow set procedures for bringing products to market. In the scientific area that may mean the establishment of ongoing laboratory research programs for discovering new products (e.g., medicines) while less scientific companies may pull together resources for product development on a less structured timetable.

In this section we present a 7-step process comprising the key elements of new product development. While some companies may not follow a deliberate step-by-step approach, the steps are useful in showing the information input and decision making that must be done in order to successfully develop new products. The process also shows the importance market research plays in developing products.

We should note that while the 7-step process works for most industries, it is less effective in developing radically new products. The main reason lies in the inability of the target market to provide sufficient feedback on advanced product concepts since they often find it difficult to understand radically different ideas. So while many of these steps are used to research breakthrough ideas, the marketer should exercise caution when interpreting the results.

Step 1. IDEA GENERATION – The first step of new product development requires gathering ideas to be evaluated as potential product options. For many companies idea generation is an ongoing process with contributions from inside and outside the organization. Many market research techniques are used to encourage ideas including: running focus groups with consumers, channel members, and the company's sales force; encouraging customer comments and suggestions via toll-free telephone numbers and website forms; and gaining insight on competitive product developments through secondary data sources. One important research technique used to generate ideas is brainstorming where open-minded, creative thinkers from inside and outside the company gather and share ideas. The dynamic nature of group members floating ideas, where one idea often sparks another idea, can yield a wide range of possible products that can be further pursued.

Step 2. SCREENING – In Step 2 the ideas generated in Step 1 are critically evaluated by company personnel to isolate the most attractive options. Depending on the number of ideas, screening may be done in rounds with the first round involving company executives judging the feasibility of ideas while successive rounds may utilize more advanced research techniques. As the ideas are whittled down to a few attractive options, rough estimates are made of an idea's potential in terms of sales, production costs, profit potential, and competitors' response if the product is introduced. Acceptable ideas move on to the next step.

Step 3. CONCEPT DEVELOPMENT AND TESTING – With a few ideas in hand the marketer now attempts to obtain initial feedback from customers, distributors and its own employees. Generally, focus groups are convened where the ideas are presented to a group, often in the form of concept board presentations (i.e., storyboards) and not in actual working form. For instance, customers may be shown a concept board displaying drawings of a product idea or even an advertisement featuring the product. In some cases focus groups are exposed to a mock-up of the ideas, which is a physical but generally non-functional version of product idea. During focus groups with customers the marketer seeks information that may include: likes and dislike of the concept; level of interest in purchasing the product; frequency of purchase (used to help forecast demand); and price points to determine how much customers are willing to spend to acquire the product.

Step 4. BUSINESS ANALYSIS – At this point in the new product development process the marketer has reduced a potentially large number of ideas down to one or two options. Now in Step 4 the process becomes very dependent on market research as efforts are made to analyze the viability of the product ideas. (Note, in many cases the product has not been produced and still remains only an idea.) The key objective at this stage is to obtain useful forecasts of market size (e.g., overall demand), operational costs (e.g., production costs) and financial projections (e.g., sales and profits). Additionally, the organization must determine if the product will fit within the company's overall mission and strategy. Much effort is directed at both internal research, such as discussions with production and purchasing personnel, and external marketing research, such as customer and distributor surveys, secondary research, and competitor analysis.

Step 5. PRODUCT AND MARKETING MIX DEVELOPMENT – Ideas passing through business analysis are given serious consideration for development. Companies direct their research and development teams to construct an initial design or prototype of the idea. Marketers also begin to construct a marketing plan for the product. Once the prototype is ready the marketer seeks customer input. However, unlike the concept testing stage where customers were only exposed to the idea, in this step the customer gets to experience the real product as well as other aspects of the marketing mix, such as advertising, pricing, and distribution options (e.g., retail store, direct from company, etc.). Favorable customer reaction helps solidify the marketer's decision to introduce the product and also provides other valuable information such as estimated purchase rates and understanding how the product will be used by the customer. Reaction that is less favorable may suggest the need for adjustments to elements of the marketing mix. Once these are made the marketer may again have the customer test the product. In addition to gaining customer feedback, this step is used to gauge the feasibility of large-scale, cost effective production for manufactured products.

Step 6. MARKET TESTING – Products surviving to Step 6 are ready to be tested as real products. In some cases the marketer accepts what was learned from concept testing and skips over market testing to launch the idea as a fully marketed product. But other companies may seek more input from a larger group before moving to commercialization. The most common type of market testing makes the product available to a selective small segment of the target market (e.g., one city), which is exposed to the full marketing effort as they would be to any product they could purchase. In some cases, especially with consumer products sold at retail stores, the marketer must work hard to get the product into the test market by convincing distributors to agree to purchase and place the product on their store shelves. In more controlled test markets distributors may be paid a fee if they agree to place the product on their shelves to allow for testing. Another form of market testing found with consumer products is even more controlled with customers recruited to a "laboratory" store where they are given shopping instructions. Product interest can then be measured based on customer's shopping response. Finally, there are several high-tech approaches to market testing including virtual reality and computer simulations. With virtual reality testing customers are exposed to a computer-projected environment, such as a store, and are asked to locate and select products. With computer simulations customers may not be directly involved at all. Instead certain variables are entered into a sophisticated computer program and estimates of a target market's response are calculated.

Step 7. COMMERCIALIZATION – If market testing displays promising results the product is ready to be introduced to a wider market. Some firms introduce or roll-out the product in waves with parts of the market receiving the product on different schedules. This allows the company to ramp up production in a more controlled way and to fine tune the marketing mix as the product is distributed to new areas.

Managing Existing Products

Marketing strategies developed for initial product introduction almost certainly need to be revised as the product settles into the market. While commercialization may be the last step in the new product development process it is just the beginning of managing the product. Adjusting the product's marketing strategy is required for many reasons including:

- Changing customer tastes
- Domestic and foreign competitors
- Economic conditions
- Technological advances

To stay on top of all possible threats the marketer must monitor all aspects of the marketing mix and make changes as needed. Such efforts require the marketer to develop and refine the product's marketing plan on a regular basis. In fact, as we will discuss in a later section of this tutorial, marketing strategies change as a product moves through time leading to the concept called the Product Life Cycle (PLC). We will see that marketers make numerous revisions to their strategy as product move through different stage of the PLC.