CHAPTER 13: ADVERTISING, SALES PROMOTION, AND PUBLIC RELATIONS: ONE TO MANY

CHAPTER OVERVIEW

Many students enrolled in this course probably believed that the entire term would be spent on advertising—believing that marketing communications (or promotions) and advertising is the same thing. In this chapter, the difference becomes apparent. This chapter teaches the basics of advertising, public relations, and consumer sales promotion explaining that all three are part of an entire promotional campaign. Students learn about creating advertising campaigns, the role of public relations, the basics of consumer sales promotion. This information, combined with the remaining elements of promotion, discussed in Chapter 14, give students a great foundation for truly understanding how an integrated marketing communication process works.

LEARNING OBJECTIVES

1. Tell what advertising is, describe the major types of advertising, and discuss some of the criticisms of advertising.
2. Describe the process of developing an advertising campaign and how marketers evaluate advertising.
3. Explain the role of public relations and the steps in developing a public relations campaign.
4. Explain what sales promotion is, and describe the different types of trade and consumer sales promotion activities.

QUESTIONS: TEST YOUR KNOWLEDGE

1. What is advertising and what types of advertising do marketers use most often? What is an advertising campaign?

   Advertising is a non-personal communication paid for by an identified sponsor who is using mass media to persuade or inform. Advertising informs, reminds, and creates (persuades) consumer desire. In other words, advertising is intended to bring about some change in its audience, whether to create awareness of a product, to change the way we think about it, or to get us to run out and buy it immediately.

   Product advertising is used to persuade consumers to choose a specific good or service. Institutional advertising is used to promote an entire organization (corporate image advertising), to express the opinions of an organization
(advocacy advertising), or to support a cause (public service advertising). Retail and local advertising are used to promote a local store or service.

An advertising campaign is a coordinated, comprehensive plan that carries out promotion objectives and results in a series of advertisements placed in various media over a certain period. Although a campaign may be based around a single ad idea, most use multiple messages with all ads in the campaign having the same look-and-feel.

2. Firms may seek the help of full-service or limited-service advertising agencies for their advertising. Describe each. What are the different departments of a full-service agency?

Although some firms create their own advertising in-house, in many cases several specialized companies work together to develop an advertising campaign. Typically, the firm retains one or more outside advertising agencies to oversee this process. A limited-service agency provides one or more specialized services, such as media buying or creative development. In contrast, a full-service agency supplies most or all of the services a campaign requires, including research, creation of ad copy and art, media selection, and production of the final messages. Big or small, an advertising agency hires a range of specialists to create a message and make the communication concept a reality: The account executive, or account manager, is the “soul” of the operation. This person supervises the day-to-day activities on the account, and is the primary liaison between the agency and the client. The account executive has to ensure that the client is happy while he verifies that people within the agency execute the desired strategy. The account planner combines research and account strategy to act as the voice of the consumer in creating effective advertising. Creative services: Creatives are the “heart” of the communication effort. These people actually dream up and produce the ads. Research and marketing services: Researchers are the “brains” of the campaign. They collect and analyze information that will help account executives develop a sensible strategy. Media planning: The media planner is the “legs” of the campaign. He helps to determine which communication vehicles are the most effective, and recommends the most efficient means to deliver the ad by deciding where, when, and how often it will appear.

3. What is consumer-generated advertising and why is it growing in importance? What is crowdsourcing and how is it used in advertising?

The latest promotional craze is to let your customers actually create your advertising for you. User-Generated Content (UGC), also known as Consumer-generated media (CGM), includes the millions of online consumer comments, opinions, advice, consumer-to-consumer discussions, reviews, photos, images, videos, podcasts and webcasts and product-related stories available to other
consumers through digital technology. Marketers that embrace this strategy understand that it is OK to let people have fun with their products. Some marketers encourage consumers to contribute their own Do-It-Yourself (DIY) ads. Crowdsourcing is a practice in which firms outsource marketing activities (such as selecting an ad) to a community of users, i.e., a crowd. The idea behind crowdsourcing is that if you want to know what consumers think and what they like, the most logical thing to do is to ask them.

4. What are some of the major criticisms of advertising? What is corrective advertising? What is puffery?

- Advertising is manipulative

- Advertising is deceptive and untruthful-- in addition to fining firms for deceptive advertising, the FTC also has the power to require firms to run corrective advertising; messages that clarify or qualify previous claims. Other ads, although not illegal, may create a biased impression of products when they use puffery—claims of superiority that neither sponsors nor critics of the ads can prove are true or untrue. Many consumers today are concerned about greenwashing, a practice in which companies promote their products as environmentally friendly when in truth the brand provides little ecological benefit.

- Advertising is offensive and in bad taste

- Advertising creates and perpetuates stereotypes

- Advertising causes people to buy things they don’t really need

FTC also has the power to require firms to run corrective advertising, messages that clarify or qualify previous claims. Other ads, although not illegal, may create a biased impression of products with the use of puffery—claims of superiority that neither sponsors nor critics of the ads can prove are true or untrue.

5. Describe the steps in developing an advertising campaign. What is a creative brief? What is meant by the appeal, execution format, tonality, and creative tactics used in an ad campaign?

An *advertising campaign* is a coordinated, comprehensive plan that carries out promotion objectives and results in a series of advertisements placed in media over a certain time period. Various departments of an advertising agency may be called upon to become involved in the development of an advertising campaign.

Steps in the development of an advertising campaign include:
a. Understand the target audience

b. Establish message and budget objectives
   - Set message objectives
   - Set budget objectives

c. Create the ads

d. Pretest what the ads will say

e. Choose the media type(s) and media schedule

The creation of the advertising begins when an agency formulates a creative strategy, which gives the advertising "creatives" (art directors, copywriters, photographers and others) the direction and inspiration they need to begin the creative process. The strategy is summarized in a written document known as a creative brief; a rough blueprint that guides but does not restrict the creative process. It provides only the most relevant information and insights about the marketing situation, the advertising objective, the competition, the advertising target and, most importantly, the message that the advertising must deliver.

An advertising appeal is the central idea of the ad and the basis of the advertising messages. It is the approach used to influence the consumer. Execution format describes the basic structure of the message. Some of the more common formats, sometimes used in combination, include:

- Comparison: A comparative advertisement explicitly names one or more competitors.

- Demonstration: The ad shows a product “in action” to prove that it performs as claimed: “It slices, it dices!”

- Testimonial: A celebrity, an expert, or a “man in the street” states the product’s effectiveness. The use of celebrity endorser is a common but expensive strategy.

- Slice of life: A slice-of-life format presents a (dramatized) scene from everyday life.

- Lifestyle: A lifestyle format shows a person or persons attractive to the target market in an appealing setting. The advertised product is “part of the scene,” implying that the person who buys it will attain the lifestyle.

Tonality refers to the mood or attitude the message conveys. Some common tonalities include:
• Straightforward: Straightforward ads simply present the information to the audience in a clear manner.

• Humor: Humorous, witty or outrageous ads can be an effective way to break through advertising clutter.

• Dramatic: A dramatization, like a play, presents a problem and a solution in a manner that is often exciting and suspenseful—a difficult challenge in 30 or 60 seconds.

• Romantic: Ads that present a romantic situation can be especially effective at getting consumers’ attention and at selling products people associate with dating and mating.

• Sexy: Some ads appear to sell sex rather than products. Sex appeal ads are more likely to be effective when there is a connection between the product and sex (or at least romance).

• Apprehension/Fear: Some ads highlight the negative consequences of not using a product. In general, fear appeals can be successful if the audience perceives there to be an appropriate level of intensity in the fear appeal.

Creative Tactics and Technique

• Animation and Art: Not all ads are executed with film or photography.

• Celebrities

• Music, jingles and slogans. Jingles are original words and music written specifically for advertising executions. Slogans link the brand to a simple linguistic device that is memorable (jingles do the same but set the slogan to music).

6. What is media planning? What are the strengths and weaknesses of traditional media, that is, television, radio, newspapers, and magazines?

Media planning is a problem-solving process for getting a message to a target audience in the most effective way. Planning decisions include audience selection and where, when, and how frequent the exposure should be. Thus, the first task for a media planner is to find out when and where people in the target market are most likely to be exposed to the communication.
<table>
<thead>
<tr>
<th>Strengths</th>
<th>Weaknesses</th>
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<tr>
<td><strong>TELEVISION</strong></td>
<td></td>
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<tr>
<td>Extremely creative</td>
<td>Message impression is fleeting</td>
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<td>High impact message</td>
<td>Fragmented audience</td>
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<td><strong>RADIO</strong></td>
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<tr>
<td>Targeted audiences</td>
<td>Lack of attention</td>
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<tr>
<td>Low cost</td>
<td>Not appropriate for some products</td>
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<td><strong>NEWSPAPERS</strong></td>
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<tr>
<td>Wide exposure</td>
<td>Short time reading</td>
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<tr>
<td>Flexible format</td>
<td>Low readership</td>
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<tr>
<td><strong>MAGAZINES</strong></td>
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<tr>
<td>Targeted audiences</td>
<td>Expensive</td>
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<td>Long life and repeat reading</td>
<td>Long deadline dates</td>
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7. What is digital media? How do marketers use website advertising, mobile advertising, and video sharing in their digital media activities? What are owned, paid, and earned media?

The term digital media refers to any media that are digital rather than analog. The more popular types of digital media advertisers use today include websites, mobile or cellular phones, and digital video such as *YouTube*.

Website advertising:

- Banners, rectangular graphics at the top or bottom of web pages, were the first form of web advertising.
- Buttons are small banner-type advertisements that a company can place anywhere on a page.
- A pop-up ad is an advertisement that appears on the screen while a web page loads or after it has loaded.
- Search engines and directory listings are ways for people to find web pages of interest to them. A web search engine is a program that searches for
documents with specified keywords. Unlike search engines, a web directory does not display lists of web pages based on key words but instead lists sites by categories and subcategories.

- E-mail advertising that transmits messages to very large numbers of inboxes simultaneously is one of the easiest ways to communicate with consumers – it is the same price whether you send ten messages or ten thousand. One downside to this platform is the explosion of spam. The industry defines this practice as sending unsolicited e-mail to five or more people not personally known to the sender. Many websites that offer e-mail give surfers the opportunity to refuse unsolicited e-mail via junk e-mail blockers. This permission marketing strategy gives the consumer the power to opt in or opt out.

Mobile Advertising: The Mobile Marketing Association defines mobile advertising as “a form of advertising that is communicated to the consumer via a handset. Video sharing describes the strategy of uploading video recordings or vlogs (pronounced vee-logs) to Internet sites such as YouTube so that thousands or even millions of other Internet users can check them out. For marketers, YouTube provides vast opportunities to build relationships with consumers.

8. How do marketers use branded entertainment and support media such as directories, out-of-home media, and place-based media to communicate with consumers?

More and more marketers rely on paid product placements in TV shows and movies to grab the attention of consumers who tune out traditional ad messages as fast as they see them. These placements are an important form of branded entertainment; a strategy where marketers integrate products into all sorts of venues including movies, television shows, videogames, novels and even retail settings. Beyond movies and television shows, what better way to promote to the video generation than through brand placements in video games? The industry calls this technique advergaming.

Support media reach people who may not have been reached by mass media advertising and these platforms support the messages traditional media delivers.

- Directories
- Out-of-home media. In recent years, outdoor advertising has pushed the technology envelope with digital signage that enables the source to change the message at will.
- Place-based media
• **RFID** technology (radio frequency identification)

9. How do marketers pretest their ads? How do they posttest ads?

Although it is clear that advertising does increase sales, advertisers need to conduct research to determine whether specific advertisements are effective. One method of doing this is to conduct pre-testing or **copy testing** (a procedure that measures whether an ad is received, comprehended, and responded to in the desired manner). Versions of this form of testing include concept testing, testing of TV advertising, and finished ad testing. Advertisers often need more solid evidence that a campaign is producing a return on their investment. In order to do this, advertisers can conduct posttest research to make sure that ads are doing well. Three ways to measure the impact of an advertisement are unaided-recall (can consumers remember ads—no prompting is allowed), aided-recall (prompting is allowed to aid consumers in remembering ads), and attitudinal measures (probes deeper by examining consumer’s beliefs or feelings about the product before and after being exposed to messages about it).

10. What is media planning? How do media planners use reach, frequency, gross rating points, and cost-per-thousand in developing effective media schedules? What are continuous, flighting, and pulsing media schedules?

After she chooses the advertising media, the planner then creates a media schedule that specifies the exact media the campaign will use as well as when and how often the message should appear. The media schedule outlines the planner’s best estimate of which media will be most effective to attain the advertising objective(s) and which specific media vehicles will do the most effective job. There are also a number of quantitative factors, which the media planner uses to develop the media schedule. **Reach** is the percentage of the target market that will be exposed to the media vehicle at least once during a given period, usually four weeks. Frequency is the average number of times that an individual or a household will be exposed to the message. Note that this is the average. Gross rating points (GRPs) are a measure of the quantity of media included in the media plan. To compare the relative cost-effectiveness of different media and of spots run on different vehicles in the same medium, media planners use a measure they call cost per thousand (CPM). This figure reflects the cost to deliver a message to 1,000 people.

A continuous schedule maintains a steady stream of advertising throughout the year. This is most appropriate for products that we buy on a regular basis. A pulsing schedule varies the amount of advertising throughout the year based on when the product is likely to be in demand. Flighting is an extreme form of pulsing in which advertising appears in short, intense bursts alternating with periods of little to no activity. It can produce as much brand awareness as a steady
dose of advertising at a much lower cost if the messages from the previous flight were noticed and made an impact.

11. What is the purpose of public relations? What is a crisis-management plan? What are some of the objectives of PR? Describe some of the activities that are a part of PR.

PR seeks to build good relationships with organizations’ publics. PR is used to influence the attitudes and perceptions of various groups. Proactive PR is designed to establish and maintain an organization’s favorable image. A crisis management plan is a document that details what an organization will do if a crisis occurs. It explains who the spokesperson will be, how the organization will deal with the press, and what sort of messages will be delivered.

The PR specialists must develop a campaign strategy that includes the following:

- A situation analysis
- A statement of objectives
- Specification of target audiences (publics), messages to be communicated, and specific program elements to be used
- A timetable and budget
- Discussion of how to evaluate the program

Public Relations Tactics

The most common way for PR specialists to communicate is by a press release. This is a report of some event or activity that an organization writes and sends to the media in the hope that it will be published free. Internal PR activities target employees; they often include company newsletters and closed-circuit television to keep people informed about company objectives, successes, or even plans to “downsize” the workforce. Often company newsletters also are distributed outside the firm to suppliers or other important publics. Investor relations’ activities focus on communications to those whose financial support is critical; this is especially vital for publicly held companies. Lobbying means talking with and providing information to government officials to persuade them to vote a certain way on pending legislation or even to initiate legislation or regulations that would benefit the organization. An important job of a firm’s PR department is speech writing; specialists provide speeches for company executives to deliver. While some executives do actually write their own speeches, it is more common for a speechwriter on the PR staff to develop an initial draft of a speech to which the executive might add his own input. PR specialists also provide input on corporate identity materials, such as logos, brochures, building design, and even stationery that communicates a positive image for the firm. One of the tasks of the PR professional is to develop close media relations to insure the organization will receive the best media exposure possible for positive news, such as publicizing the
achievements of an employee who has done some notable charity work or for a product it developed that saved someone’s life. Sponsorships are PR activities through which companies provide financial support to help fund an event in return for publicized recognition of the company’s contribution. A related task is to plan and implement special events. Organizations with tiny advertising budgets need to develop innovative -- and cheap ways to capture consumers’ attention. Guerrilla marketing activities are an increasingly popular way to accomplish this objective. A guerrilla marketing strategy involves “ambushing” consumers with promotional content in places where they do not expect to encounter these messages.

12. What is sales promotion? Explain some of the different types of consumer sales promotions marketers frequently use.

Sales promotions are programs that marketers design to build interest in or encourage purchase of a good or service during a specified period. Marketers have been placing an increasing amount of their total marketing communication budget into sales promotion for one simple reason—these strategies deliver short-term sales results.

Consumer sales promotions include (1) price-based promotions (coupons, price deals, refunds and rebates, frequency programs, and special/bonus packs) and (2) attention-getting consumer sales promotions (contests and sweepstakes, premiums, sampling, point-of-purchase promotion, product/brand placements and cross-promotions).

ACTIVITIES: APPLY WHAT YOU’VE LEARNED

1. Assume that you are a member of the marketing department for a firm that produces several brands of household cleaning products. Your assignment is to develop recommendations for several consumer sales promotion activities that will be used in introducing a new laundry detergent. Develop an outline of your recommendations for these sales promotions. In a role-playing situation, present and defend your recommendations to your boss.
The students can have fun with this even as a group exercises. Remind them to review the chapter materials before their outline is developed. This would be an excellent in-class presentation for credit. Please note—for expanded use for students, question 1 will complement a larger project by applying timelines.

2. As an account executive for an advertising agency, you have been assigned to a new client, a company that has developed a new energy soft drink. As you begin development of the creative strategy, you are considering different types of ad execution formats and tonality:
a. Comparative advertising
b. A fear appeal
c. A celebrity endorsement
d. A slice-of-life ad
e. Sex appeal
f. Humor

Outline the strengths and weaknesses of using each of these appeals for advertising the new soft drink. Using your recommendations, develop an outline for a TV commercial for the new product. Develop a report of your recommendations.

Students should review the material on the various appeals in the chapter. Next, a justification should be constructed for the appeal(s) picked. To quickly review, the basic appeals are listed below:

a. **Comparative advertising**—an advertisement that explicitly names two or more competitors.

b. **Fear appeals**—the negative consequences of using or not using a product.

c. **A celebrity endorsement/testimonial**—a celebrity, an expert, or a typical person states the product’s effectiveness.

d. **Slice-of-life**—presents a dramatized scene from everyday life.

e. **Sex appeals**—sex sells.

f. **Humorous appeals**—often used to break through advertising clutter.

3. Assume that you are the head of PR for a regional fast-food chain that specializes in fried chicken and fish. A customer has claimed that he became sick when he ate a fried roach that was in his chicken dinner at one of your restaurants. As the director of PR, what recommendations do you have for how the firm might handle this crisis?

Ask the students to reread the sections on proactive PR and crisis management. If the restaurant chain had a crisis management plan in place, the answers to the question could be found there. If a plan does not exist, and the danger of negative publicity is evident, the goal will be to manage the flow of information to address concerns so that stakeholders do not panic. It will be necessary to handle this issue in a timely fashion.

4. As we discussed in this chapter, many consumers are highly critical of advertising. In order to understand, conduct a short survey of (1) your college classmates and (2) a different group of consumers such as your parents and their friends. In the survey ask the respondents about the criticisms of advertising discussed in this chapter, that is, that advertising: (1) is manipulative, (2) is deceptive and untruthful, (3) is offensive and in bad taste, (4) creates and perpetuates stereotypes,
and (5) causes people to buy things they do not really need. Ask respondents to give you examples of ads which they feel fall in these categories. Develop a report that summarizes your results and compares the attitudes of the two consumer groups.

YouTube is an excellent source to tell respondents to use in generating examples of ads in these categories. This very interesting assignment is sure to spark thoughtful discussion among your students.

5. Watch three of your favorite TV programs. While you watch the programs, take notes on each product placement in the programs. Be sure to record how many seconds (approximately) the product is in view and where the product is located (e.g., was an actor holding the product, was it in the background, on a table, etc.). Develop a report that summarizes your findings.

6. As an alternate activity for #5 above, view a new hit movie and develop a report on the product placements in the movie.

Product placement is rampant in TV programs and movies, so this should not be difficult to spot. Tell students to keep an eye out for extensive placement of any one particular brand—if they see that a particular brand is highlighted consistently in any one TV program or movie, they should comment on the congruency between the brand and the TV program/movie. That is, do they seem to match up in terms of style, positioning, personality, etc? Tell students to go on the Internet and search for articles about this partnership between brand and TV program/movie.

7. Look through some magazines to find an ad that fits each of the following categories:

   a. USP strategy
   b. Demonstration
   c. Testimonial
   d. Slice-of-life
   e. Sex-oriented
   f. Humor-oriented

Critique each ad. Tell who the target market appears to be. Describe how the message is executed. Discuss what is good and bad about the ad. Do you think the ad will be effective? Why or why not?

Before beginning this exercise, students should review the material on appeals found in the chapter, previous questions that dealt with appeals, and any material
they have collected on appeals found in advertisements. Once this is done, the assignment may be started. Be sure the listing on needed material follows a standard format so student responses may be compared.

**MARKETING METRICS EXERCISE**

Media planners use a variety of metrics to help in making decisions on what TV show or which magazines to include in their media plan. Two of these are gross rating points (GRPs) and cost per thousand (CPM). Assume you are developing a media plan for a new brand of gourmet frozen meals. Your target market includes females aged 25-64. Following is a list of six possible media buys you are considering for the media plan. The plan is based on a four-week period.

1. Calculate the GRPs for each media buy based on the information given.
2. Calculate the CPM for each media buy.
3. Based on the cost of each buy, the reach or rating of each buy, and any qualitative factors that you feel are important, select four of the media buys that you would recommend.
4. Tell why you would select the four.

<table>
<thead>
<tr>
<th>Media vehicle</th>
<th>Rating</th>
<th>Cost per ad or insertion</th>
<th>Number of insertions</th>
<th>GRPs for this number of insertions</th>
</tr>
</thead>
<tbody>
<tr>
<td>American Idol</td>
<td>30</td>
<td>$500,000</td>
<td>4 (1 per weekly episode)</td>
<td>120</td>
</tr>
<tr>
<td>NCIS</td>
<td>20</td>
<td>$400,000</td>
<td>4 (1 per weekly episode)</td>
<td>80</td>
</tr>
<tr>
<td>CBS Evening News</td>
<td>12</td>
<td>$150,000</td>
<td>20 (1 per week night news program)</td>
<td>240</td>
</tr>
<tr>
<td>Time Magazine</td>
<td>5</td>
<td>$40,000</td>
<td>4 (1 per weekly publication)</td>
<td>20</td>
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<tr>
<td>Better Homes and Garden Magazine</td>
<td>12</td>
<td>$30,000</td>
<td>1 (1 per monthly publication)</td>
<td>12</td>
</tr>
<tr>
<td>USA Today</td>
<td>4</td>
<td>$10,000</td>
<td>12 (3 ads per week)</td>
<td>48</td>
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Going on GRPs, students could select the top media buys above such as CBS Evening News, American Idol, NCIS, and USA Today. However, considering the product category (gourmet frozen meals), students might be inclined to think that consumers are more likely is persuaded by such food ads during dinner hours (CBS Evening News). In addition, persuasion of a food ad might be optimized in a Better Homes and Garden Magazine, which may be more of an appropriate context for consumer food decisions.
CHOICES: WHAT DO YOU THINK?

1. Firms are increasing their use of search engine marketing in which they pay search engines such as Google and Bing for priority position listings. And social media sites such as Twitter are generating revenue by offering to sell “search words” to firms so that their posting appear on top. Are such practices ethical? Are consumers being deceived when a firm pays for priority positioning?

2. Because of concerns about the effectiveness of mass media advertising, more and more firms are using product placements, also referred to as branded entertainment, to put their product in front of consumers. However, is this practice ethical? Are consumers deceived when they see a can of Diet Coke on the American Idol judges’ table? Or what about the can of Dr. Pepper on the table of Tony Stark’s house in Iron Man 2? Does the average consumer believe the can is there because it is the favorite of a TV or movie celebrity or are most consumers savvy enough to recognize it as a paid product placement? Should the government regulate product placements, perhaps requiring TV programs and movies to inform consumers about the paid placements? Are consumers really harmed by such practices?

Regarding the questions 1 and 2 above, students will have various opinions about these issues. The issue is whether they believe that such search engines, media sites, and TV programs/movies should restrict such practices. However, one could argue that any search engine, social media site, TV program, or movie has the right to set up their business/product as they see fit as long as it does not harm consumers. Therefore, how exactly would consumers be harmed from such practices listed in these questions? That is the key issue that students should consider.

3. Some people are turned off by advertising because they say it is deceptive or offensive, that it creates stereotypes and causes people to buy things they do not need. Others argue that advertising is beneficial and actually provides value for consumers. What are some arguments on each side? How do you feel?

Most students will probably not have an opinion on this issue because they will have experienced advertising rather than thought about advertising in a strict consumer sense or strict business sense. To begin a discussion in this area, consider the “for” and “against” arguments listed below. Students should be able to add to the list. Ask them whether they would be better off with or without advertising.

Arguments “for” advertising:

a. Provides needed information about the product or service.
b. Increases demand (which affects more areas than one might imagine).
c. Encourages the production of more goods and services (which is good for the
economy and jobs).
d. Makes economies of scale possible.
e. Gives a signal about product quality.
f. Helps consumers know about goods, which they normally would not have
information
g. Promotes efficiency at the local retail level because of heightened sense of
competition.
h. Helps to create desire for products and services.

Arguments “against” advertising:

a. Effectiveness cannot really be measured.
b. Increases costs.
c. Makes us want things that we cannot have.
d. Discriminates between rich and poor.
e. Tries to sell us products that have no socially redeeming value.
f. Distorts the truth.
g. Makes children want things that they should not have.
h. Makes us want to throw away things before their useful value is over.

4. Today, advertisers are spending less on mass media advertising and more on
alternative media, i.e., online, mobile, entertainment and digital out-of-home
media. How has this affected the advertising industry so far, and do you think this
will affect it in the future? What are some ways that advertising has so far
responded to this? What ideas do you have for how they can respond in the future?

Advertising has responded by inserting traditional advertisements and
commercials in online/website content. For example, there are 15 to 30-second ads
that are unavoidable to watch before we see a selected video we access on various
websites, such as ABCNews.com. Students are very creative. Some may suggest
many new forms that advertising may take in the future.

5. User-generated content (UGC), also known as consumer-generated media (CGM)
includes online consumer comments, opinions, advice, consumer-to-consumer
discussions, reviews, photos, images, videos, podcasts and webcasts, and product-
related stories available to other consumers through digital technology. What are
the problems and benefits for marketers of UGC? How should marketers respond
to UCG? Do you think marketers should encourage UCG or attempt to discourage
it? Why do you feel that way?

The textbook offers the following regarding this question:
• Marketers that embrace this strategy understand that it is OK to let people have fun with their products. Marketers need to monitor (and sometimes encourage) UGC for two reasons. First, consumers are more likely to trust messages from fellow consumers than what companies tell them. In fact, they are more likely to say they “trust completely” product information they receive from other consumers than from any other source. Second, we’ve already seen in the last chapter how social media is proliferating everywhere; when someone searches online for a company or product name, they are certain to access any number of blogs, forums, homegrown commercials, or online complaint sites that the product manufacturer had nothing to do with. Some companies resist this trend when they restrict access to their material or even sue consumers who talk about them because they fear they will lose control over their brand messages. They really need to get over it and recognize that in our digital world their messages (like your Facebook page) are almost impossible to control. In Web 2.0, you are either on the train or under it! To take advantage of this phenomenon, some marketers encourage consumers to contribute their own Do-It-Yourself (DIY) ads. For advertisers do-it-yourself advertising offers several benefits. First, consumer-generated spots cost only one-quarter to one-third as much as professional TV and Internet ads—about $60,000 compared to the $350,000 or more to produce a traditional 30-second spot. This can be especially important for smaller businesses and emerging brands. Equally important, even to large companies with deep pockets, is the feedback on how consumers see the brand and gather more ideas about the brand’s story. Crowdsourcing is a practice in which firms outsource marketing activities (such as selecting an ad) to a community of users, i.e., a crowd. To get the ball rolling, an agency typically solicits ideas from online communities that people access because they are fans of a product or a specific brand. The idea behind crowdsourcing is that if you want to know what consumers think and what they like, the most logical thing to do is to ask them. First the agency shares a challenge with a large number of people who have varying degrees of expertise. Whether motivated by money, competition, or obsession, individuals then submit their solution to the problem.

6. Companies sometimes teach consumers a “bad lesson” with the overuse of sales promotion. As a result, consumers expect the product always to be “on deal” or have a rebate available. What are some examples of products for which this has occurred? How do you think companies can prevent this?

Overuse of sales promotion leads to expectations from customers that these promotions will continue, if then stopped the customers become rapidly dissatisfied. A solution would be to maintain very short periods of offering a promotion, which provides a benefit to customers while staying away from the expected continuation of that benefit. Amazon.com is currently experiencing this problem. They have been offering free shipping for an extended period and are now afraid that if it is stopped they will lose customers. Students might be able to
provide personal examples and tell how they felt about the overuse of the sales promotion.

7. Some critics denounce PR specialists, calling them “flacks” or “spin doctors” whose job is to hide the truth about a company’s problems. What is the proper role of PR within an organization? Should PR specialists try to put a good face on bad news?

Students will probably have strong opinions about this question. In light of many of the Internet and accounting scandals of the early 2000s, this issue has come to the forefront. To balance the discussion, remind the students of the many good things PR does. Ask students to think about their own university. Could it afford a major promotional effort? How does PR help balance out the budget as well as spread good word?

**MINI-PROJECT: LEARN BY DOING**

The purpose of this mini-project is to give you an opportunity to experience the advertising creative process.

1. First, you should create (imagine) a new brand of an existing product (such as a laundry detergent, toothpaste, perfume, a soft drink). If you are doing a marketing plan project in your course, you might use the same product for this mini-project.

2. Next, you should decide on your creative strategy. What appeal, execution format, tonality and creative tactics do you think are best?

3. Create a series of at least three different magazine ads for your product, using the appeal you selected. Your ads should have a headline, a visual, and copy to explain your product and to persuade customers to purchase your brand.

4. Present your ads to your class. Explain your ad execution and the reasons for the various decisions you made in developing the ads.

Through four specific questions (or exercises), marketing teams are asked to create a new brand of an existing product, design an appeal for the new product, create a series of at least three magazine ads, and present the completed ads to the class for review.

The responsibilities for the project should be shared equally. Do not just have one creative person do everything. Most students will be surprised at just how creative
they can be if put to the test. Because most students do not think they have much artistic ability, you may want to assure them that such ability doesn’t count in any grading—only the effort and their ideas. You may wish to tell students that the magazine ad construction process does not have to be original art. Students may clip and paste from other ads if they so choose.

Instructors may wish to extend the deadline for this assignment so students have many opportunities to have team meetings, create their new product, create their magazine ads, and report their findings to the class.

CASE STUDY

Case Study: REAL CHOICES AT JET BLUE.

Summary of Case

When low-cost carrier JetBlue Airways began operations in 1999, it promised customers cheap fares combined with exceptional service. JetBlue planes offer more legroom and all seats on JetBlue planes offer passengers 36-channel DIRECTV® service on seat-back screens.

For seven years, JetBlue, with a few exceptions, kept its promise to passengers. It shot to the top of customer satisfaction surveys conducted by J.D. Powers and Associates. On Valentine’s Day, 2007, however, the airline suffered the worst crisis in its history. Due to an unexpected New York ice storm, nine JetBlue planes full of passengers were stranded on the tarmac for over 6 hours—one plane and its 130 passengers sat on the tarmac for 10 hours. The planes left the gate and then found they could not take off but the airlines, feeling that the storm would let up by midmorning, did not allow the planes to return to the gate. In the end, the wheels of the planes were frozen in the slush, unable to move.

In addition to its immediate response to the February cancellations, JetBlue cited its dedication to “bringing humanity back to air travel” and established a Customer Bill of Rights retroactive to February 14. The Bill of Rights outlines what JetBlue will provide to its customers in cases of flight cancellations, departure delays, overbookings (customers who are denied boarding will receive $1000), and even when the DIRECTV® is inoperable.

Suggested Answers for Discussion Questions

1. **What is the decision facing Jet Blue?**

   Students may come up with a number of different decisions that Jet Blue might make such as:
• In order to move toward greater profitability, Jet Blue needs to evaluate its current reliance on service and consider whether it should move to a more integrated promotional approach using their Customer Bill of Rights as their theme to keep customers.

2. **What factors are important in understanding this decision situation?**

The following factors are important in understand this decision situation:

• JetBlue Airways began operations in 1999, and it promised customers cheap fares combined with exceptional service.

• JetBlue planes offer more legroom and all seats on JetBlue planes offer passengers 36-channel DIRECTV® service on seat-back screens.

• On Valentine’s Day, 2007 the airline suffered the worst crisis in its history with an unexpected New York ice storm. Nine JetBlue planes full of passengers were stranded on the tarmac for over 6 hours—one plane and its 130 passengers sat on the tarmac for 10 hours.

• CEO David Neeleman quickly apologized to customers and explained what went wrong. He appeared on CNN’s American Morning, Today, Fox and Friends, and Squawk Box early the next day.

• The airline offered passengers who were stranded on JetBlue planes for three hours or more a full refund plus a free round-trip ticket to any JetBlue destination.

• Jet Blue spent $30 million on vouchers for passengers of the 1,102 cancelled flights.

3. **What are the alternatives?**

Students might recommend a variety of different alternatives. Some possibilities are:

• Jet Blue can maintain the current focus of excellent service and hope in time their Bill of Rights will overcome the bad publicity they experienced with the ice storm.

• JetBlue must continue to develop customer service and PR programs if it is to stay in the air for the long haul.

• Jet Blue should develop a new advertising campaign, using their Bill of Rights as their theme.
4. What decision(s) do you recommend?

Students may focus on several of the alternatives developed. They should be encouraged to discuss which alternative actions are more critical.

5. What are some ways to implement your recommendations?

Students may make a variety of suggestions for implementation depending on their recommendations. These may include specific promotion activities, specific PR campaigns, research activities and many others.
CHAPTER 14: PERSONAL SELLING, SALES MANAGEMENT, AND DIRECT MARKETING: ONE TO ONE

CHAPTER OVERVIEW

The previous chapter focused on traditional forms of advertising and other communication methods in the one-to-many model. The challenge for marketers, however, is to increasingly search for new means to cut through the clutter. Chapter 14 looks at other forms of promotion—trade promotion, direct marketing, and personal selling—that are commonly used in addition to advertising, public relations, and consumer sales promotion to round out a firm’s promotion mix.

LEARNING OBJECTIVES

1. Identify the sales promotion elements for B2B.
2. Understand the elements of direct marketing.
3. Appreciate the important role of personal selling and how it fits into the promotion mix.
4. Identify the different types of sales jobs.
5. List the steps in the creative selling process.
6. Explain the role of sales management.

QUESTIONS: TEST YOUR KNOWLEDGE

1. Explain some of the different types of trade sales promotions marketers frequently use.

   Trade promotions take one of two forms: (1) those designed as discounts and deals and (2) those designed to increase industry visibility.

   Discount promotions (deals) reduce the cost of the product to the distributor or retailer or help defray its advertising expenses. Firms design these promotions to encourage stores to stock the item and be sure it gets a lot of attention. One form of trade promotion is a short-term price break. A manufacturer can reduce a channel partner’s costs with a sales promotion that discounts its products. For example, a manufacturer can offer a merchandising allowance to reimburse the retailer for in-store support of a product, such as when a store features an off-shelf display for a brand. Another way in which a manufacturer can reduce a channel partner’s cost is a case allowance that provides a discount to the retailer or wholesaler during a set period based on the sales volume of a product it orders from the manufacturer. Another type of trade allowance is co-op advertising.
These programs offer to pay the retailer a portion, usually 50 percent, of the cost of any advertising that features the manufacturer’s product. Other types of trade sales promotions increase the visibility of a manufacturer’s products to channel partners within the industry. These forms of sales promotion include the following:

- Trade shows: The thousands of industry trade shows in the United States and around the world each year are major vehicles for manufacturers to show off their product lines to wholesalers and retailers.

- Promotional products: Unlike licensed merchandise we buy in stores, sponsors give away these goodies to build awareness for their organization or specific brands. In many industries, companies vie for the most impressive promotional products and offer their business customers and channel partners upscale items such as watches, polar fleece jackets, and expensive leather desk accessories.

- Point of purchase (POP) displays: Point of purchase materials include signs, mobiles, banners, shelf ads, floor ads, lights, plastic reproductions of products, permanent and temporary merchandising displays, in-store television, and shopping card advertisements.

- Incentive programs: In addition to motivating distributors and customers, some promotions light a fire under the firm’s own sales force. These incentives, or push money, may come in the form of cash bonuses, trips, or other prizes.

2. What is direct marketing? Describe the more popular types of direct marketing.

Direct marketing refers to “any direct communication to a consumer or business recipient that is designed to generate a response in the form of an order, a request for further information, and/or a visit to a store or other place of business for purchase of a product.” The more popular types of direct marketing include: Mail order, catalogs, direct mail, telemarketing, and direct-response advertising (infomercials and home shopping networks).

3. What is m-commerce?

M-commerce refers to the promotional and other e-commerce activities transmitted over mobile phones and other mobile devices, such as smartphones. With about a billion mobile phones in use worldwide, many of them Internet-enabled, it makes sense that marketers would want to reach out and touch this large target audience.
4. What role does personal selling play within the marketing function?

For most firms, some form of personal selling is essential for a transaction (the sale) to occur, so this type of promotion is an important part of an organization's overall marketing plan. Through one-on-one selling, the salesperson can directly address customer objections, can furnish other customer services (such as installations, setup, and instruction), can provide the company with feedback on the marketing effort, and is a source of competitive intelligence.

5. What is relationship selling? How is it different from transactional selling?

*Relationship selling*—a form of personal selling in which the salesperson seeks to develop a mutually satisfying relationship with the customer so the parties can work together to satisfy each other’s needs. This process tends to build long-term relationships.

*Transactional selling*—a form of personal selling that focuses on making an immediate sale with little or no attempt to develop a relationship with the customer. This approach is often associated with the hard sell or high-pressure selling process.

6. What is prospecting? What does it mean to qualify the prospect? What is the pre-approach? Why are these steps in the creative selling process that occur before you ever even contact the buyer so important to the sale?

Prospecting is the process of identifying and developing a list of potential customers, called *prospects* or *sales leads*. Salespeople **qualify prospects** to determine how likely they are to become customers. The **pre-approach** consists of compiling background information about prospective customers and planning the sales interview.

These steps are important, as a salesperson needs to be prepared. They need to learn as much as possible about qualified prospects to not risk losing a sale.

7. What are some ways you might approach a customer? Would some work better in one situation or another?

The *hard sell* is a high-pressure process. Hard-sell tactics reflect **transactional selling**, an approach that focuses on making an immediate sale with no concern for developing a long-term relationship with the customer. This is a shortsighted approach, leaving customers feeling manipulated and resentful.
**Relationship selling** involves securing, developing, and maintaining, long-term relationships with profitable customers.

8. What is the objective of the sales presentation? How might you overcome buyer objections?

A sales presentation lays out the benefits of the product over the competition. The focus should be on the ways the salesperson and products can add value to the customer.

Anticipating the objections and responding with additional information or persuasive arguments can handle buyer objections. Salespeople should welcome objections because they show that the prospects is at least interested enough to have considered the offer and weighed its pros and cons.

9. Why is follow-up after the sale so important in relationship selling?

Follow-up allows the salesperson to bridge to the next purchase. Once a relationship develops, the selling process is only the beginning.

10. Describe the role of sales managers. What key functions do they perform?

Sales managers are responsible for planning, implementation, and controlling the personal selling function. Some of the key functions performed by sales managers include:

- Set sales force objectives.
- Create a sales force strategy.
- Recruit, train, and reward the sales force.
- Evaluate the sales force.

**ACTIVITIES: APPLY WHAT YOU’VE LEARNED**

1. Assume that you are a member of the marketing department for a firm that produces several brands of household cleaning products. Your assignment is to develop recommendations for trade sales promotion activities for a new laundry detergent. Develop an outline of your recommendations for these sales promotions. In a role-playing situation, present and defend your recommendations to your boss.

The students can have fun with this even as a group exercises. Remind them to review the chapter materials before their outline is developed. This would be an
excellent in-class presentation for credit. Please note—for expanded use for students, question 1 will complement a larger project by applying timelines.

2. Timing is an important part of a sales promotion plan. Trade sales promotions must be properly timed to ensure channel members fully maximize the opportunity to sell your product. Assume that the introduction of the new laundry detergent in Question 1 is planned for April 1. Place the activities you recommended in question 1 on a 12-month calendar of events (Hint: the calendar needs to start before the product introduction.) In a role-playing situation, present your plan to your boss. Be sure to explain the reasons for your timing of each trade sales promotion element.

Ties nicely and complements question 1 while adding the use of a timeline for the project developed in the previous question. In-class presentations or discussions are an excellent use of these questions.

3. Consider carefully the potential annoying downsides of various forms of direct marketing to consumers. As a marketer, what would you do to ensure that your firm’s direct marketing efforts do not turn customers off to your product?

This is a very difficult question to answer. Many feel that any form of direct marketing infringes on their privacy. Have the students brainstorm how they could have successful direct marketing and determine the associated risk of turning customers off.

4. For you personally, what are the pros and cons of personal selling as a potential career choice? Make a list under the two columns and be as specific as you can in explaining each pro and con.

This will make a good discussion question. It will quickly be obvious who is interested in sales as a profession and who is not.

5. Assume a firm that publishes university textbooks has just hired you as a field salesperson. Your job requires that you call on university faculty members to persuade them to adopt your textbooks for their classes. As part of your training, your sales manager has asked you to develop an outline of what you will say in a typical sales presentation. Write that outline.

One way to help students focus on the activities requested in this question is to have them attempt to sell this textbook. Students should review the material in the chapter on personal selling, paying special attention to the action tactics and selling steps. For example, will the student choose a transactional or relationship
approach? To choose, the student must remember the target audience and what is important to this audience. The instructor might relate what a sales call is like when a textbook representative calls on him or her. Role-playing is a good technique to use with this question.

6. This chapter introduced you to several key success factors sales managers look for when hiring relationship salespeople. Are there other key success factors you can identify for relationship salespeople? Explain why each is important.

You might begin this discussion by asking students for examples of good sales experiences. What made the transaction so positive? Will the student go back to the salesperson? Why or why not?

Students might also share what made a sales transaction a negative experience. Without letting the students become too carried away, you might document their comments and then ask how a relationship salesperson might have acted in a similar situation.

**MARKETING METRICS EXERCISE**

How does a firm know whether a salesperson is effective? Obviously, the short answer is that she produces high sales volume and meets or exceeds sales goals. However, just increasing total dollar or unit sales volume is not always a good indicator of salesperson success. The problem is, everything else being equal; salespeople who are compensated strictly on sales volume will simply sell whatever products are easiest to sell to maximize total sales. However, these may not be the products with the highest profit margins, and they may not be the goods and services the firm identifies as key to future success in the market. Because of the problems with using raw sales volume as the sole indicator of salesperson success, some firms turn to a variety of other metrics, including input and output measures. Input measures are effort measures—things that go into selling, such as the number and type of sales calls, expense account management, and a variety of non-selling activities such as follow-up work and client service. Output measures, or the results of the salesperson’s efforts, include sales volume but these also can be the number of orders, size of orders, number of new accounts, level of repeat business, customer profitability, and customer satisfaction. Ultimately, the best approach to measure salesperson success is to use a variety of metrics that are consistent with the goals of the firm, to ensure the salesperson understands the goals and related metrics, and to link rewards to the achievement of those goals. If you were a professional salesperson, against what type of metrics would you prefer to be evaluated? Why?

This is a great exercise to accomplish in groups. Of course, students should consider the range of traditional sales force objectives, such as customer satisfaction, loyalty, and retention (or turnover), new customer development, new product suggestions,
training, reporting on competitive activity, and community involvement. A cooperative way to create a useful metric is for sales managers to work with their salespeople to develop individual objectives. There are two types of individual objectives. Performance objectives are readily measurable outcomes, such as total sales and total profits per salesperson. Behavioral objectives specify the actions salespeople must accomplish, such as the number of prospects she should identify, the number of sales calls, and the number of follow-up contacts she should make.

**CHOICES: WHAT DO YOU THINK?**

1. M-commerce allows marketers to engage in location commerce, when they can identify where consumers are and send them messages about a local store. Do you think consumers will respond positively to this? What do you think are the benefits for consumers of location commerce? Do you see any drawbacks (such as invasion of privacy)?

   This will be an interesting discussion for students, most of whom carry a cell phone. There would be students who would want information from local stores, while others might feel they only want information when requested. The benefits for consumers of m-commerce are the freedom of obtaining information rapidly without the need for other devices.

2. In general, professional selling has evolved from hard sell to relationship selling. Do organizations still use the hard-sell style? If so, what types? What do you think the future holds for these organizations? Will the hard sell continue to succeed—that is, are there instances where transactional selling is still appropriate? If so, when?

   To some extent, hard sell organizations still exist. The examples of encyclopedias, refrigerators, and televisions come to mind. In general, organizations whose purpose is to sell to the consumer only once or a few times use the hard sell technique. The hard sell technique may make consumers feel manipulated and resentful. The truly professional salesperson, on the other hand, plans for the long term and works hard to build a relationship with customers. The future is not bright for the hard-sell organization (even though the form will probably continue for some time). Relationship selling is rapidly replacing the hard sell. As more success comes to those that use relationship selling and as consumers grow to appreciate and expect its benefits, the hard sell will end up being no sell at all.

3. One reason experts cite for the increase in consumer catalog shopping is the poor quality of service available at retail stores. What do you think about the quality of service you get from most retail salespeople with whom you come in contact? What are some ways retailers can improve the quality of their sales associates?
To be fair, this discussion should probably be initiated by asking what students like and dislike about retail sales experiences and retail salespeople. Can these statements be categorized into several common areas? If so, then those negative areas are a place to begin to remedy the problem of the retail sales environment. Common complaints are that retail salespeople are rude, inexperienced, and do not know about the products or services offered. In addition, they are only trying to make a sale rather than satisfy the customer, do not really want to wait on the customer and do pay any attention to the customer. Finally, even though they are underpaid—sometimes only receiving minimum wage—or over worked, they are not worth their salary. This list should generate discussion on how to fix the situation at the retail sales level.

4. Based on the salesperson compensation figures the chapter supplies, do you think professional salespeople are appropriately paid? Why or why not? What is it that salespeople do that warrants their compensation?

Students might not have thought of this question before and may not even have the background needed for initial discussion. You might begin the discussion by sharing the average take-home wage of citizens in your state. You might find salaries of other professionals to use as a basis of comparison. Once students have compensation figures to relate to, the discussion will begin to flow.

5. Would sales training and development of salespeople vary depending on how long they have been in the business? Why or why not? Would it be possible (and feasible) to have different training programs for salespeople at different career stages?

Students will probably think that salespeople would need different training and development as their careers progressed and would probably agree with different training programs for different career stages. Ask the students how feasible this would be? Would the expense outweigh the benefits? Is motivation needed as much if not more than training?

6. What would be the best approach for a sales manager to determine the appropriate rewards program to implement for her salespeople? What issues are important when she decides what rewards to offer?

Firms must maximize their revenue while at the same time fairly and adequately pay and motivate their sales staff. When determining rewards, a firm must consider issues such as whether or not the salesperson met their objectives or quotas. The compensation plan might be affected if the salesperson is new to the job or if the salesperson is asked to sell a completely new product. In addition,
outside issues such as the economy, the competitive environment, the political environment, and other uncontrollable issues must be addressed.

MINI-PROJECT: LEARN BY DOING

The purpose of this mini-project is to help you understand the advantages of following the creative selling process.

1. With several of your classmates, create a new product in a category that most college students buy regularly (for example, toothpaste, shampoo, pens, pencils, and soft drinks.....anything that interests you that might be sold through a drugstore like Walgreens). Make up a new brand name and some creative features and benefits of the new product.

2. Develop a plan for executing each of the steps in the creative selling process. Carefully ensure that you cover all the bases of how you would go about selling your product to an organizational buyer at Walgreens for distribution to all stores.

3. Report your plan to your class, and ask the other students for feedback on whether or not your approach will convince the Walgreens buyer to make a purchase.

Through these three questions, the groups will need to create a new product in a category that most college students use on a routine base. Make up a new brand name and some creative features and benefits of the new product. This would be a great in-class or out-of-class exercise for the students. They will develop the name, features and benefits of the product and develop a plan for executing a sales call to a buyer at a Walgreens store. Finally, they will report their selling plan to the class.

Instructors may wish to extend the deadline for this assignment so students have ample time to complete the assignment and develop a report.

CASE STUDY

Case Study: REAL COICES AT FRITO-LAY.

Summary of Case

The leadership of Frito-Lay's sales organization believes that knowledge management is the key to success. Specifically, the data concerning best practices, customer information, and corporate details are essential. The challenge is that important information is captured in many different places and systems. This can inhibit the
sharing of knowledge across members of the sales organization. Best practices represent the optimal way to deal with customer's issues and problems. If sales team members in different areas are allowed to communicate their success stories with other team members the entire company benefits. In addition, an effective information sharing system creates a place for brainstorming and collaboration. Frito-Lay's solution was to develop a knowledge management portal on the company's intranet. The portal provides a central point of access to the database of information, like customer and internal corporate information. This access reduces the time an individual sales representative needs to find and share sales, analysis, and news. The goals for the Frito-Lay portal are to make knowledge that is more efficient, make use of customer-specific data, and promote team collaboration. Each sales person is enabled to share the experiences of overcoming customer problems and develop effective sales presentations. In addition, by using employee profiles sales team members are able to increase camaraderie and relationship building amongst themselves. During the mid 2000s, the salty snack market grew slowly and changes in consumers’ eating habits might provide for an even slower future. This fact will increase the competitiveness amongst the different snack food sales organizations. Sales people have to continue to develop customer loyalty as consumers experiment with new products to enhance the at-home experience.

Suggested Answers for Discussion Questions

1. **What is the decision facing Frito-Lay?**

   Students may come up with a number of different decisions that Frito-Lay might make. Some of these may relate to specifics of management of the sales force. The main challenge facing Frito-Lay is that the salty snack market grew slowly and changes in consumers’ eating habits might provide for an even slower future.

2. **What factors are important in understanding this decision situation?**

   The following factors are important in understanding this decision situation:

   1. Frito-Lay is one of the world's leading producers of salty snacks.

   2. The company's most popular brands include Fritos, Lay's, Doritos, Cheetos, and Tostitos.

   3. The leadership of Frito-Lay's sales organization believes that knowledge management is the key to success.

   4. Frito-Lay's solution was to develop a knowledge management portal on the company's intranet. The portal provides a central point of access to the database of information, like customer and internal corporate information.
5. The goals for the Frito-Lay portal are to make knowledge that is more efficient, make use of customer-specific data, and promote team collaboration. Each sales person is enabled to share the experiences of overcoming customer problems and develop effective sales presentations.

6. During the mid 2000s, the salty snack market grew slowly and changes in consumers’ eating habits might provide for an even slower future.

3. What are the alternatives?

Students might recommend a variety of different marketing strategies. Some possibilities are:

- Do nothing. Just wait and see what happens. Frito-Lay has a strong reputation in the market.
- Create new ways to communicate with clients in addition to the sales personnel.
- Develop an advertising campaign aimed at both individual consumers and B2B customers that publicizes Frito-Lay’s commit to these customers, thus enhancing the image of the firm.

4. What decision(s) do you recommend?

Students may focus on several of the alternatives developed. All of the above alternatives have merit and potential pitfalls. Help students understand that Frito-Lay must develop a brand image as a socially responsible firm.

5. What are some ways to implement your recommendations?

Students may suggest various types of advertising, trade sales promotions, social responsibility activities, sales training activities, and research depending on the decision recommended.
CHAPTER 15: DELIVER VALUE THROUGH SUPPLY CHAIN MANAGEMENT, CHANNELS OF DISTRIBUTION, AND LOGISTICS

CHAPTER OVERVIEW

When retailers and manufacturers work together within a channel of distribution, linkages can be made stronger and profitability of all channel members can be improved. In this chapter, students learn the definition and functions of a distribution channel. Length and intensity of channels are explained. Continually emphasized is the need for developing channel objectives, careful selection of channel members, and the management of the channel. Through these systematic efforts, businesses can maintain a higher level of customer satisfaction and profitability.

LEARNING OBJECTIVES

1. Understand the concept of a supply chain.
2. Explain what a distribution channel is and what functions distribution channels perform.
3. Describe the types of wholesaling intermediaries found in distribution channels.
4. Describe the types of distribution channels and how place fits in with the other three Ps in the marketing mix.
5. List the steps to plan a distribution channel strategy.
6. Explain logistics and how it fits into the supply chain concept.

QUESTIONS: TEST YOUR KNOWLEDGE

1. What is a value chain?

   The value chain concept looks at the supply chain from the perspective of adding value. It spans all activities involved in designing, producing, marketing, delivering, and supporting any product.

2. What is a supply chain, and how is it different from a channel of distribution?

   The supply chain includes all the activities necessary to turn raw materials into a good or service and to put it into the hands of the consumer or business customer. The distribution channels are a subset of the supply chain.
3. What is a channel of distribution? What are channel intermediaries?

A channel of distribution is a series of firms or individuals that facilitate the movement of a product from the producer to the final customer. Channel intermediaries are the firms or individuals such as wholesalers, agents, brokers, or retailers who help move a product from the producer to the consumer or business user.

4. Explain the functions of distribution channels.

Certain functions help the consumer with their purchase decision. Channels provide time, place, and ownership utility for consumers. Channel members handle the physical distribution function for products, including the activities of breaking and accumulation of bulk, creating assortments, reducing the number of transactions necessary for the flow of goods, transportation, and storage. Intermediaries in channels of distribution also perform a variety of both communications and facilitating functions.

5. List and explain the types of independent and manufacturer-owned wholesaling intermediaries.

**Independent intermediaries:**

*Merchant wholesalers*—buy goods (take title) from producers and sell to organizational customers. May be general or limited line wholesalers. Specific types of merchant wholesalers include:

- **Cash-and-carry wholesalers**—limited function; limited line; small retailers purchase at this wholesaler’s location.
- **Truck jobbers**—limited function; sell perishable food and tobacco items.
- **Drop shippers**—limited function; take orders from and bill retailers; products are drop-shipped from manufacturer; take title to product but do not have physical possession of it.
- **Mail-order wholesalers**—limited functions; sell through catalogs, telephone, or mail order.
- **Rack jobbers**—full function; limited line; call on retailers to provide display units and check on inventory levels.

*Merchandise Agents and Brokers*
Manufacturers’ agents—use independent salespeople; carry several lines of non-competing products.

Selling agents, including export/import agents—handle the entire output on one or more producers

Commission merchants—receive commission on sales price of products

Manufacturer-owned intermediaries:

Sales branches—wholesaler-type facilities owned and run by a manufacturer.
Sales offices—like sales branches, are typically located in strategic geographic areas in order to be closer to customers.
Manufacturers’ showrooms—producer-owned facilities that customers visit to see the firm’s products attractively displayed.

6. What factors are important in determining whether a manufacturer should choose a direct or indirect channel? Why do some firms use hybrid-marketing systems?

A direct channel is a channel of distribution in which there are no intermediaries or middle levels. Factors could be cost, speed of delivery, or channel control.

An indirect channel is the distribution of goods in which manufacturers reach end users through intermediaries—wholesalers, dealers, distributors, agents and/or retailers. Factors could be familiarity with intermediaries, consumer buying behavior, or ability to reach consumers. See Figure 15.5 for more detail.

Instead of serving a target market with a single channel, companies have added new channels—direct sales, distributors, retail sales, and direct mail. As they add channels and communications methods, they create a hybrid marketing system

7. What are conventional, vertical, and horizontal marketing systems?

A conventional marketing system is a multiple-level distribution channel in which members work independently of one another.

A vertical marketing system (VMS) is a channel of distribution in which there is cooperation among members at the manufacturing, wholesaling, and retailing levels.

A horizontal marketing system is an arrangement within a channel of distribution in which two or more firms at one channel level work together for a common purpose.
8. Explain intensive, exclusive, and selective forms of distribution.

*Intensive distribution* aims at maximizing market coverage by selling a product through all wholesalers or retailers that will stock and sell the product. Example: chewing gum.

*Exclusive distribution* means limiting distribution to a single outlet in a particular region. Example: pianos or cars.

*Selective distribution* fits in between exclusive and intensive distribution.

9. Explain the steps in distribution planning.

Distribution planning is best accomplished when marketers follow the steps as follows:

a. Develop distribution objectives.
b. Evaluate internal and external environmental influences.
c. Choose a distribution strategy.
   - Number of channel levels
   - Conventional, vertical or horizontal marketing system
   - Intensive, exclusive or selective distribution
d. Develop distribution tactics.
   - Select channel partners
   - Manage the channel
   - Develop logistics strategies
     - Order processing
     - Warehousing
     - Materials handling
     - Transportation
     - Inventory control

10. What is logistics? Explain the functions of logistics.

*Logistics* is the process of designing, managing, and improving the movement of products through the supply chain. *Physical distribution* includes activities used to move finished goods from manufacturers to final customers as listed below:

a. Order processing—transferring title and handling paperwork related to distribution.
b. Warehousing—storing goods before they reach final customers.
c. Materials handling—moving products into, within, and out of warehouses.
d. Transportation—physically moving the goods from one location to another.
e. Inventory control—determining what amounts and types of goods should be kept on hand before sale.

Logistics planning focuses on the customer and decisions are the best trade-off between low costs and high customer service, thus providing the product to the customer at the lowest cost possible as long as the firm meets delivery requirements.

11. What are the advantages and disadvantages of shipping by rail? By air? By ship? By truck?

Rail transport is good for bulky and heavy products. It is moderate in cost and speed. A disadvantage is that it cannot carry goods to every community.

Air transport is good for highly perishable products such as flowers and lobster or time-sensitive products to include the mail, it is the fastest; however the expense is prohibitive for many products.

Ships are good for international cargo. A disadvantage is the slow speed.

Trucks provide the most important transportation mode for consumer goods. They can carry a wide variety of products and can provide door-to-door service. Some disadvantages are fuel costs, traffic congestion and time for cross-country movement.

**ACTIVITIES: APPLY WHAT YOU’VE LEARNED**

1. Assume that a firm that manufactures furniture has recently hired you. You feel that marketing should have an input into supplier selection for the firm’s products, but the purchasing department says that should not be a concern for marketing. You need to explain to the department head the importance of the value chain perspective. In a role-playing exercise, explain to the purchasing agent the value chain concept, why it is of concern to marketing, and why the two of you should work together.

Before proceeding with the design of the role-play scenario, students should review the sections in the chapter on supply chains and value chains. During this review, pay particular attention to the material that indicates that supply chains involve other members of the distribution channel and, therefore, value chains do too. Each member may have separate strategies for marketing and different objectives in the pursuit of the customer. It is therefore a good idea that all of
these firms be on the same page or at least able to discuss or negotiate with one another about what is important and what is not. For these reasons, marketing should be concerned with who is selected as a supply chain partner. Additionally, marketing would want to know what value this partner brings to the overall value chain. Students should try to work these ideas and others into the presentation to the role-played purchasing agent.

2. Assume that you are the director of marketing for a firm that manufactures cleaning chemicals used in industries. You have traditionally sold these products through manufacturer’s reps. You are considering adding a direct Internet channel to your distribution strategy, but you aren’t sure whether this will create channel conflict. Make a list of the pros and cons of this move. What do you think is the best decision?

As a first step, students should review the information found in the chapter on the use of manufacturer’s reps and the possible conflicts created with dual distribution systems. Students should note that manufacturer’s reps carry non-competing products. Therefore, your product is not the only one being carried. Next, the producer outlines the terms by which the manufacturer’s rep operates, therefore, channel control lies with the producer. Because the purpose of the manufacturer’s rep is to extend sales and build strong relationships with consumers, it should not come in conflict with the new Internet play unless the new plan is not aligned with the old plan with respect to pricing. A manufacturer’s rep can be replaced at any time. The Internet is the wave of the future and all producers should at least consider this option. Channel conflict by using the Internet would not be as great with the manufacturer’s rep as it might be with other types of intermediaries.

3. As the one-person marketing department for a candy manufacturer (your firm makes high-quality, hand-dipped chocolates using only natural ingredients), you are considering making changes in your distribution strategy. Your products have previously been sold through a network of food brokers that call on specialty food and gift stores. You consider that it would be good for your firm to develop a corporate vertical marketing system (that is, vertical integration). In such a plan, a number of company-owned retail outlets would be opened across the country. The president of your company has asked that you present your ideas to the company executives. In a role-playing situation with one of your classmates, present your ideas to your boss, including the advantages and disadvantages of the new plan compared to the current distribution method.

As a starting point, students should review the material in the text on VMS as compared to the conventional channel method. The conventional method has many players which all have their own plans, objectives, and agendas. In a VMS system, there is cooperation, mutual objectives, and an attention to reducing costs. However, the VMS approach reduces control of any individual member. The
corporate version has ownership with one major party and, therefore, requires not only knowledge as a requirement but a sizable outlay of cash as well. Could this company pull this off? Other VMS formats might be considered.

4. Assume that your firm recently gave you a new marketing assignment. You are to head up development of a distribution plan for a new product line—a series of do-it-yourself instruction videos for home gardeners. These videos would show consumers how to plant trees, shrubbery, and bulbs; how to care for their plants; how to prune; and so on. You know that as you develop a distribution plan, it is essential that you understand and consider a number of internal and external environmental factors. Make a list of the information you will need before you can begin to write the distribution plan. How will you adapt your plan based on each of these factors?

This question calls for creativity on the part of the students and answers will vary. One way to begin a discussion on the subject would be to consider the gardening environment. Areas for concern would be competitors at several levels, which might include other videos to lawn-and-garden stores. It is also important to consider how the product would be distributed, whether you would need any partners, and if the product will be regionalized. Other considerations would be the role of the Internet. Additional items would consider how many product varieties would be covered including whether or not there would be a series of products in a product line. Distribution concerns could consider how much could other distributors make from the product, and which distributor would be responsible for sales and distribution. Finally, you should consider who would accept damaged or returned merchandise, etc. All of these areas should get the student started in the discussion. See Figure 15.6 for additional guides as to steps in planning a distribution channel strategy.

5. Visit the website for UPS (www.ups.com). UPS has positioned itself as a full-service provider of logistics solutions. After reviewing its website, answer the following questions:

a. What logistics services does UPS offer its customers?

b. What does UPS say to convince prospective customers that its services are better than those of the competition?

Student answers to this question should include the following five characteristics of logistics: order processing, warehousing, materials handling, transportation, and inventory control. Students should be encouraged to include many of the concepts in this chapter on logistics in their answers.
MARKETING METRICS EXERCISE

Companies track a wide range of metrics within the supply chain area. Some of the most common ones are the following:

- On-time delivery
- Forecast accuracy
- Value-added productivity per employee
- Returns processing cost as a percentage of product revenue
- Customer order actual cycle time
- Perfect order measurement

Let us look at the last measure in more detail. The perfect order measurement calculates the error-free rate of each stage of a purchase order – you are looking for a perfect order process (or at least as close to one as you can get)! It helps managers track the multiple steps involved in getting a product from a manufacturer to a customer in order to pinpoint processes that need improvement—a bit like TQM we learned about earlier. For example, a company can calculate its error rate at each stage and then combine these rates to create an overall metric of order quality. As an example, let us suppose the company identifies the following error rates:

- Order entry accuracy: 99.95 percent correct (five errors per 1,000 order lines)
- Warehouse pick accuracy: 99.2 percent
- Delivered on time: 96 percent
- Shipped without damage: 99 percent
- Invoiced correctly: 99.8 percent

The company can then combine these individual rates into an overall perfect order measurement by multiplying them together: 
\[ 99.95 \times 99.2 \times 96 \times 99 \times 99.8 = 94.04 \%

Given this particular example, what are some things the manufacturer might work on to bring the overall perfect order measurement higher? What would be the advantages to the firm of investing in making this already good number even better for customers?

Students will come up with a variety of opinions here. One strategy is to focus on the highest error rate above (“Delivered on time”) before tackling the second highest error rate (“Shipped without damage”), and so on. As for the advantages to the firm for investing in decreasing the error rates across categories, the focus of a firm and its marketing strategy should always be about continuous improvement to ensure the proper and accurate delivery of product to the consumer. In light of this, the text provides the following:

- When a firm does logistics planning, however, the focus also should be on the customer. When managers thought of logistics as physical distribution only, the objective was to deliver the product at the lowest cost. Today, forward-thinking
firms consider the needs of the customer first. The customer’s goals become the logistics provider’s goals. In addition, this means that when they make most logistics decisions, firms must decide on the best trade-off between low costs and high customer service. The appropriate goal is not just to deliver what the market needs at the lowest cost but to provide the product at the lowest cost possible as long as the firm meets delivery requirements. Although it would be nice to transport all goods quickly by air, that is certainly not practical. However, sometimes air transport is necessary to meet the needs of the customer, no matter the cost.

**CHOICES: WHAT DO YOU THINK?**

1. The supply chain concept looks at both the inputs of a firm and the firms that facilitate the movement of the product from the manufacturer to the consumer. Do you think marketers should be concerned with the total supply chain concept? Why or why not?

Most students should see that marketers should be concerned with the total supply chain concept. Why? For one reason, remember that supply chain management is the management of flows in a supply chain to maximize total profitability. Distribution firms rarely are independent from one another; therefore, a total supply chain concept allows the firms to be part of a team and benefit from this team approach. Next, because a supply chain is only a step away from a value chain, students should see that a value chain is a way to build relationships with consumers. Adding value becomes a method of achieving competitive differences and consumer business. Additionally, this would be very important in business-to-business relationships where adding value is not only necessary it is a necessity.

2. Sometimes people will say, “The reason products cost so much is because of all the intermediaries.” Do intermediaries increase the cost of products? Would consumers be better off or worse off without intermediaries?

An old saying is that “you can replace a middleman, but you can’t replace their function.” Consumer expectations (the desire for massive product choice, speed of delivery, and services that accompany the products) contribute to the number and (therefore) cost of middlemen. The consumer does have alternatives available. However, history has shown that the consumer is better off with middlemen. The reasoning is that each level of distribution (manufacturer, wholesaler, retailer, and customer) is better off specializing in what they can do best (their functions). The result or value of replacing a middleman must be weighted against the cost (both in time and money) of assuming that middleman’s function in the distribution channel. Who can do the job best and more efficiently?
3. Many entrepreneurs choose to start a franchise business rather than “go it alone.” Do you think franchises offer the typical businessperson good opportunities? What are some positive and negative aspects of purchasing a franchise?

The easy answer to the question is that franchising must be good because so many people do it. The more sophisticated answer is that franchising is popular because the local owner can specialize in customer interaction and turn over other functional responsibilities to other members of the franchise network (i.e., product shipment and acquisition, promotion, national image, etc.). Buying a franchise rather than starting from scratch often confers certain advantages:

a. Using the franchise name gives the merchant advertising clout, purchasing power, and name recognition.

b. The franchise provides services for the operator such as employee training, giving access to lower prices for needed materials, and helping pick a location with visibility.

There is a cost, however. Disadvantages include:

a. The owner must pay a percentage of revenue for the right to be a franchise member.

b. The business format of the franchise must be followed to the letter.

c. If the franchise gets into difficulty, the individual operators are affected.

4. As colleges and universities are looking for better ways to satisfy their customers, an area of increasing interest is the distribution of their product—education. Describe the characteristics of your school’s channel(s) of distribution. What types of innovative distribution might make sense for your school to try?

To answer this question, students should be encouraged to think about how the educational product is delivered to them. They might remember that the educational product might come through classroom lecture, television, continuing education, extended or distance learning, video or audiotape, or foreign travel. New forms that might be explored are CD-ROM, surface transportation (such as on a train), the Internet, websites, teleconferencing, or other recorded means. The students should be encouraged to look at the factors (such as cost, competition, technology, mission identification, etc.) that would affect the choice of these forms.

5. “Music, video, or textbook downloading (even when done clandestinely) is just a way to create a more efficient supply chain because it ‘cuts out the middleman’
(stores that sell music, video, and books, for example).” Do you agree? Why or why not?

This question might be very familiar to students. There will be those that desire traditional storefronts, while others like the just-in-time newest release downloads. Many companies such as Tower Records closed their stores since they could not compete with online downloads that are readily available.

MINI-PROJECT: LEARN BY DOING

In the United States, the distribution of most products is easy. There are many independent intermediaries, such as wholesalers, dealers, distributors, and retailers, which are willing to cooperate to get the product to the final customer. Our elaborate interstate highway system combines with rail, air, and water transportation to provide excellent means for moving goods from one part of the country to another. In many other countries, the means for distribution of products are far less efficient and effective.

For this mini-project, you should first select a consumer product, probably one you normally purchase. Then use either library sources or other people or both (retailers, manufacturers, dealers, classmates, and so on) to gather information to do the following:

1. Describe the path the product takes to get from the producer to you. Draw a model to show each of the steps the product takes. Include as much as you can about transportation, warehousing, materials handling, order processing, inventory control, and so on.

2. Select another country in which the same or a similar product is sold. Describe the path the product takes to get from the producer to the customer in that country.

3. Determine if the differences between the two countries cause differences in price, availability, or quality of the product.

4. Prepare and present a summary of your findings.

The purpose of the mini-project is to develop an understanding of the distribution process in the United States.

Through four specific questions (or exercises) marketing teams are asked to examine the path that a product takes from production to purchase by the end consumer, chart this process, include physical distribution functions, examine how a similar product is distributed in a foreign country, examine differences between the countries, and write a summary report that illustrates the findings.
Instructors may wish to extend the deadline for this assignment so students have many opportunities to think, research, write, and report their findings.

CASE STUDY

Case Study: REAL COICES AT WALMART.

Summary of Case

In the past, Walmart requested and granted different concessions from members of its supply chain, such as environmentally friendly packaging, cooperative advertising, and radio frequency identification tags on products. Due to its enormous size and purchasing power, Walmart is able to make burdensome demands on its suppliers. This allows the company to achieve its main customer objective of providing the lowest possible price for its general merchandise and groceries. One of the challenges of this type of strategy is that it may be impossible to obtain because it has no endpoint. Therefore, Walmart is constantly pressuring suppliers to continually lower its price to the firm. In its latest efforts to reduce its costs, Walmart wants to provide transportation services for its domestic suppliers. Walmart searches for those situations where it believes that it can provide delivery services for less money than the supplier charges. When it comes to handling, moving, and tracking merchandise, Walmart has a reputation that includes continuous improvement in its methods. Walmart would receive lower wholesale prices from the manufacturer as compensation for its transportation services. However, some retailers are complaining that the discount requested by Walmart is more than the cost of transporting goods by the manufacturer. This new arrangement represents another point of tension in its supplier relationships. Having a relationship with Walmart affords each supplier an opportunity for increased sales and market share growth. Does this potential success come at too high a cost to the supplier? For many companies, they will have to pass on the additional costs from Walmart to partners in other supply chains in which they participate. Nevertheless, for many suppliers, they believe that they may have no choice in the matter. It has been stated before "For many suppliers, though, the only thing worse than doing business with Wal-Mart may be not doing business with Wal-Mart."

Suggested Answers for Discussion Questions

1. What is the decision facing Walmart?

Students will come up with various important decisions, among those might be:

- Does Walmart need to reevaluate its pricing strategy/philosophy in order to alleviate tensions throughout its supply chain in demanding lower prices from suppliers?
• Does Walmart attempt to expand its logistics and transportation so that it can provide such services to all its suppliers? Alternatively, does Walmart reduce or eliminate such transportation services in order to reduce tension among its suppliers?

2. What factors are important in understanding this decision situation?

The following factors are important in understanding this decision situation:

• Wal-Mart Stores, Inc. (branded as Walmart since 2008), has become the world's largest public corporation by revenue according to Forbes magazine.

• While beginning as a discount general merchandise store, it has also become the largest grocery retailer in the United States.

• Due to its enormous size and purchasing power, Walmart is able to make burdensome demands on its suppliers. This allows the company to achieve its main customer objective of providing the lowest possible price for its general merchandise and groceries. One of the challenges of this type of strategy is that it may be impossible to obtain because it has no endpoint. Therefore, Walmart is constantly pressuring suppliers to continually lower its price to the firm.

• Walmart has a fleet of 6,500 trucks and 55,000 trailers that would be supplemented with contractors to pick up products from the manufacturer and deliver the items to its regional centers and individual stores.

• In its latest efforts to reduce its costs, Walmart wants to provide transportation services for its domestic suppliers. Walmart searches for situations where it believes that it can provide delivery services for less money than the supplier charges.

• Walmart is not able to provide transportation services for all of its business partners' products.

• It has been stated, "For many suppliers, though, the only thing worse than doing business with Wal-Mart may be not doing business with Wal-Mart."

3. What are the alternatives?

Students might recommend a variety of different marketing strategies. Some possibilities are:

• Reconsider their pressure-on-suppliers strategies.
• Continue their regular policies (i.e., “business as usual”).
• Expand transportation services to service all its suppliers.
• Reduce/eliminate transportation services.

4. What decision(s) do you recommend?

Students may focus on several of the alternatives developed. Help students understand economies of scope in channel strategies employed by Walmart. A key factor in this decision is Walmart’s pricing strategy and how this dictates its dealings with all supply chain members.

5. What are some ways to implement your recommendations?

Of course, implementation strategies will depend on the recommended decision.
CHAPTER 16: RETAILING: BRICKS AND CLICKS

CHAPTER OVERVIEW

The face of retailing is constantly evolving. From bricks-and-mortar establishments to online transactions, retailing is changing to meet the needs of consumers. In this chapter, students explore the concept of wheel-of-retailing and learn how retailers are classified. The promise of B2C e-commerce is explored as well as associated limitations. The importance of store image is discussed in relationship to customer base and store purchases.

LEARNING OBJECTIVES

1. Define retailing; understand how retailing evolves and some ethical issues in retailing.
2. Understand how we classify retailers.
3. Describe the more common forms of non-store retailing including B2C e-commerce.
4. Understand the importance of store image to a retail positioning strategy and explain how a retailer can create a desirable image in the marketplace.

QUESTIONS: TEST YOUR KNOWLEDGE

1. Define retailing. What is the role of retailing in today’s world?

   Retailing is the process by which goods and services are sold to consumers for their personal use. Retailing is big business. About one of every five U.S. workers is employed in retailing. There are over 1.2 million retail firms, but only about 8 percent of them have annual sales greater than $2.5 million.

   Retailers provide time, place, and ownership utility to consumers.

2. How do the wheel-of-retailing and retail life cycle theories explain the evolution of retailing? How do the economic environment, demographics, technology, and globalization affect the future of retailing?

   The wheel-of-retailing hypothesis is a theory that explains how retail firms change, becoming more “upscale” as they go through their life cycle. The suggestion is that retailers compete on price and then move “upscale,” leaving room for other new, low-price entrants.
The retail life-cycle concept theory is a theory of retailing that focuses on the various life-cycle stages, from introduction to decline. The suggestion is that retail institutions are introduced, grow, reach maturity, and then decline. Their degree of aggressiveness and innovation rises and then declines with the stages of the cycle.

A number of environmental trends will continue to drive the evolution of retailing. These include the downward economic trend, which reduces consumers’ discretionary incomes to spend in retail stores; demographic changes, such as an aging population, increasing affluence among ethnic groups, time poverty resulting from increased numbers of working women; and technological developments such as advanced POS systems that enable retailers to provide more personal service. Environmentally conscious consumers look for retailers who are environmentally sensitive. Market globalization will continue to offer new opportunities for retailing innovation.

3. Explain retail store shrinkage and the ways shrinkage normally occurs. What are some of the ethical issues in retailer’s treatment of consumers? What is “sweethearting”?

Shrinkage is the term retailers use to describe losses due to shoplifting, employee theft, and damage to merchandise. Analysts estimate that shrinkage during 2005–2006 was 2.76 percent of overall retail sales.

On the other side of the retail ethics issue is how retailers and their employees treat customers. While not providing equal access to consumers of different ethnic groups may be illegal, behavior that discourages customers who appear economically disadvantaged or socially unacceptable is not.

“Sweethearting” is an employee practice in which a cashier consciously undercharges, gives a cash refund, or allows a friend to walk away without paying for items. Sometimes a dishonest employee simply carries merchandise out the back door to a friend’s waiting car.


Retail stores are classified by: (1) what they sell – the merchandise mix. In retailing, a product line is the set of related products offered by the retailer; and (2) by level of service.

- Self-service retailers do not assist customers in making selections.
- Full-service retailers have trained associates who can help us select a product plus extra services such as gift-wrapping.
- Limited-service retailers fall in between self-service and full-service.
Merchandise selection includes a retailer’s merchandise assortment, which includes the merchandise breadth or number of different product lines available and the merchandise depth the variety of choices available for each specific product.

5. Describe the differences in merchandise assortments for convenience stores, supermarkets, box stores, specialty stores, category killers, leased departments, variety stores, general merchandise discount stores, off-price retailers, warehouse clubs, department stores, and hypermarkets.

Differences in merchandise assortments for the following types of retailers include:

a. Convenience stores: neighborhood retailers that carry a limited number of frequently purchased items, including basic food products, newspapers, and sundries, and cater to customers who are willing to pay a premium for the ease of buying close to home.

b. Supermarkets: food stores that carry a wide selection of edibles and related products.

c. Box stores: food stores that have a limited selection of items, few brands per item and few refrigerated items. Generally, they are open fewer hours than supermarkets, are smaller, and carry fewer items than warehouse clubs.

d. Specialty stores: retailers who carry only a few product lines but offer good selection within the lines they sell.

e. Category killers: Large selection of items in one or a few product lines.

f. Leased departments: departments within a larger retail store that an outside firm rents. This arrangement allows larger stores to offer a broader variety of products than they would otherwise carry.

g. Variety stores: originated as the five-and-dime or dime stores that began in the late 1800s. In these early variety stores such the iconic Woolworth’s, all items sold for a nickel or a dime. Today’s variety stores carry a variety of inexpensive items from kitchen gadgets to toys to candy and candles.

h. General merchandise stores: offer a broad assortment of items at low prices and with minimal service and are the dominant outlets for many products.

i. Discount stores: retailers who offer a wide variety of inexpensive brand-name items in a self-service, “no-frills” setting. Discount retailers include off-price retailers, warehouse clubs, and factory outlet stores.
j. Department stores: retailers who sell a broad range of items and a good selection within each product line.

k. Hypermarkets: retailers with the characteristics of both warehouse stores and supermarkets; hypermarkets are several times larger than other stores and offer virtually everything, from grocery items to electronics.

6. Explain the different types of direct selling. What is the difference between a multilevel network and a pyramid scheme?

Direct selling includes door-to-door sales, parties, and networks. Door-to-door selling is one of the oldest forms of retailing. However, the method is declining in the United States because of the high labor costs, large number of homes that are empty during the day, and an increasing reluctance of those who are at home to admit strangers. Today, consumers tend to buy more in the office than in the home. Therefore, door-to-door selling has to make modifications.

Home shopping parties are popular in neighborhoods and useful if the product needs intimacy and demonstration to execute a sale. Many times, party participants buy out of obligation to the host and purchase items that they normally would not purchase. Tupperware is famous for this method.

Multilevel network, also known as network marketing, is a system with master distributor recruits other people to become distributors. The master distributor sells the company’s products to the people she entices to join, and then she receives commissions on all the merchandise sold by the people she recruits. Whereas pyramid schemes are illegal scams in which large numbers of people at the bottom of the pyramid pay money to advance to the top and to profit from others who might join.

7. What is the role of automatic vending in retailing?

The role of automatic vending is to reach consumers where they are. This could be in a restroom, bus station, airport, cafeteria, or a student lounge. These machines are appealing because they require minimal space and personnel to maintain and operate them.

8. What is B2C e-commerce? What are some benefits of B2C e-commerce for consumers and for marketers? What are the limitations of B2C e-commerce?

Business-to-consumer (B2C) e-commerce is the online exchange between companies and individual consumers.
Benefits of B2C e-commerce include:

a. E-commerce allows consumers and marketers to easily find and make exchanges in a global marketplace.

b. From a consumer’s perspective, electronic marketing has increased convenience by breaking down the barriers caused by time and location.

c. For some consumers, the Internet fulfills experiential needs.

d. Marketers are able to reach a large number of consumers cheaply via the Internet. There are no geographic constraints.

e. Marketers can develop very specialized businesses.

f. One of the biggest advantages is that e-commerce allows the consumer to get price information.

g. For some companies, e-commerce allows for almost instantaneous delivery.

Limitations of B2C e-commerce include:

a. Consumers still may have to wait several days before receiving merchandise.

b. Some websites are poorly designed, confusing, and irritating.

c. Security is a major concern

d. Consumers are concerned about Internet fraud.

e. There is an inability to “touch and feel” products.

f. There is concern that e-commerce sales (and inventory requirements) only cannibalize existing store sales

g. If a country has a cash economy, it has a difficult time converting to e-commerce activities.

9. What are some possible effects of B2C e-commerce on traditional retailing?

Areas to begin a discussion with include:

- Does the growth of B2C e-commerce mean the death of bricks-and-mortar stores, as we know them? No, it does not!
- However, stores may evolve toward a hybrid model.

10. How is store-positioning strategy like theatre?
A “destination retail” strategy reminds us that shopping often is part buying, part entertainment, and part social outlet. Customers are the audience, salespeople are the actors, the store is the set and there are special effects.

11. What is store image? Why is it important?

Store image is how the target market perceives the store—its market position relative to the competition. Store managers work hard to create a “personality.”

12. What is meant by store atmospherics? How can the elements of atmospherics be used to increase the store’s success? How are store personnel a part of a store’s image?

Atmospherics is the use of color, lighting, scents, furnishings, and other design elements to create a desired store image. The primary use of atmospherics is in store design. Good store design has a lot to do with the success of the individual retailer. Store design decisions include those on store layout, the use of store fixtures and open space, the use of sound to attract (or to repel) certain types of customers, and the use of lighting and color to influence customer mood.

Store personnel contribute to a customer’s perception of the image of the store. Factors that are influenced by the store personnel include each employee’s role in the operation of the store complete with props and costumes. Service to customers begins with competent personnel, which are a major factor in holding down costs. Many times, the customer remembers personnel the most about the retail store and the shopping experience.

13. What is visual merchandising? How do a retailer’s storefront and marquee participate in development of a store’s image?

Visual merchandising: Just as we form impressions of people from their home decor, our feelings about stores are affected by furnishings, fixtures (shelves and racks that display merchandise), and even how much “stuff” is packed into the sales area. Visual merchandising includes all the things customers see both inside and outside the store. Generally, clutter conveys a store with lower-priced merchandise. Upscale stores allocate space for sitting areas, dressing rooms, and elaborate displays of merchandise. Before customers even enter the store, the storefront or physical exterior and the sign that shows the store’s name called a marquee contribute to the store’s image. Retailers try to create a unique design that customers will associate with personality of the store.
14. What are some of the different types of store locations? What are their advantages and disadvantages?

The major types of locations include: 1. Business districts, such as the central business district (CBC). 2. The secondary business district. 3 The neighborhood business district.

The advantages of business districts are that they tend be places where traffic and consumers converge. However, the very congestion that breeds many customers also breeds traffic and human congestion problems.

Shopping centers, such as the neighborhood shopping center, the community shopping center (or strip mall), the regional center, and the super-regional center are common location forms for suburban areas. Shopping centers attract many consumers to their different retail outlets and offer the advantages of heavy traffic, sharing the costs of promotion among retailers, and a clean and safe environment in which to shop. However, not all locations in the centers are equally attractive, many competitors are attracted, there is competition among centers, and traffic can be overwhelming at times.

Freestanding retailers are those located in a separate building. The advantage is that they distance themselves from competition, usually have lower rents, have adaptability, and the retailer is free to alter its selling space to meet its own needs. On the other hand, the store had better be popular, because it cannot rely on the drawing power of neighbor stores to provide it with customer traffic.

Nontraditional store locations are innovative retailers that experiment with designs to reach consumers who are unwilling or unable to reach the retailer in the traditional way. Many entrepreneurs use carts, which are small, movable stores that can be set up in many locations or kiosks, which are slightly larger and offer store-like facilities.

ACTIVITIES: APPLY WHAT YOU’VE LEARNED

1. Assume you are a business consultant for a chain of 37 traditional department stores located in 12 Midwestern U.S. cities. In recent years, the stores have seen declining revenues as specialty stores and hypermarkets have begun to squeeze the department stores out. The chain has asked you for suggestions on how to increase its business. Develop an outline of your recommendations and present your plan to your class.

Students should review the entire retail life cycle and then focus on the decline stage to address this question. Retail businesses, like the general store or the peddler, become obsolete as newer ways of doing business emerge. Of course, the outmoded retailer does not have to fold its tent at this stage. Marketers who
anticipate these shifts can avert decline by changing to meet the times. Some retailers, such as Starbucks, find growth opportunities in foreign markets. Starbucks now operates over 11,000 coffee shops in America, Latin America, Europe, the Middle East, and the Pacific Rim. Full-service gas stations had difficulty competing with self-service discount outlets. Many responded by adding variety stores to their retail mix to let drivers buy groceries while they are filling their tanks.

The students can come up with creative ideas to increase business through their outline of recommendations and presentation to class.

2. Assume that you are the director of marketing for a national chain of convenience stores. Your firm has about 200 stores located in 43 states. The stores are traditional both in design and in the merchandise they carry. Because you want to be proactive in your marketing planning, you are concerned that your firm may need to consider making significant changes because of the current demographic, technological, and global trends in the marketplace. You think it is important to discuss these things with the other executives at your firm. Develop a presentation that includes the following:
   a. A discussion of the demographic changes that will impact your stores
   b. A discussion of the technological changes that will impact your stores
   c. A discussion of how global changes may provide problems and opportunities for your organization
   d. Your recommendations for how your firm might meet the challenges faced in each of these areas

Students should begin to develop their presentation by reviewing the material on demographic, technological, and global changes found in the chapter. They will notice that demographic changes such as an aging population will affect how retailers implement strategies in the future (for instance, consumers may want to stay closer to home to shop—convenience stores will need to be in the neighborhoods). Next, technology indicates that shopping online may be increasing. The chain’s ability to create a hybrid model where consumers can use the Internet to find stores, have home delivery, or select merchandise that can be picked up quickly might be a secret for future success. Globally, cultural changes and a shrinking world might mean that different forms of services or products might need to be offered in the chain’s stores. Each of these areas might be used to begin the student’s presentation attempt.

3. As a college graduate, you and a friend think the career you really would enjoy means being your own boss—you want to start your own business. You feel that e-commerce is the place for you to make your fortune. You and your friend are considering two options: (1) an online business that sells custom-made blue jeans
based on customers’ measurements and (2) an online business that sells gourmet foods from around the world. In a role-playing exercise, debate with your friend the pros and cons of each of these two online retail businesses and make a decision about which is better.

To begin discussion and establish a starting point for the outline, have students read the B2C section in the chapter. Students will be able to construct several pros and cons for each type business from this reading. For example, pros for the custom jeans might include consumers’ ease of finding jeans that really fit but the negative is that the purchase of jeans is highly tied to the image of the brand. Consumers might not want to buy jeans just because they fit. The gourmet food business faces problems of availability, difficulty of shipping, and consumer tastes.

After the student and his/her friend have brainstormed the above, they will be able to come up with specific pros and cons related to selling jeans or gourmet foods.

4. All your life you have wanted to be an entrepreneur and to own your own business. Now you are ready to graduate from college, and you have decided to open a combination coffee shop and bookstore in a location near your college. You know that to attract both the college student market and other customers from the local community, it will be necessary to carefully design the store image. Develop a detailed plan that specifies how you will use atmospherics to create the image you desire.

Before beginning this exercise, be sure students have carefully reviewed the material and illustrations in the chapter. Because most consumers have only reacted to atmospherics the way a consumer would, they may be unprepared to construct workable atmospherics. Therefore, have them go to a bookstore or a coffee shop and inspect the operations. Next, using this information, have them prepare what they perceive as atmospherics that would be attractive to college students and the community at large. Using small groups, have the students discuss their ideas. Reach a consensus and have the ideas presented before the class.

5. In your job with a marketing consulting firm, you often are asked to make recommendations for store location. Your current client is a local caterer that is planning to open a new retail outlet for selling take-out gourmet dinners. You are examining the possible types of locations: the central business district, a shopping center, a freestanding entity, or some nontraditional location. Outline the advantages and disadvantages of each type of location. In a role-playing exercise, present your recommendations to your client.

Students should begin by reviewing the material on these various locations found in the chapter. Each form should then be reviewed as to its ability to be favorable
to the target market, zoning for food services, traffic conditions, and congestion during rush or dining hours, safety, and ability to promote or advertise the location. Once this is done, the students can begin to construct advantages/disadvantages and an outline.

6. Retailers are faced with the problem of shrinkage and what to do about it. Shrinkage comes, of course, from shoplifting and employee theft. Subtler, however, is shrinkage that involves customers such as “sweethearting” and “retail borrowing.” Many consumers feel such practices are okay. Conduct a survey of students in your school to study these two sources of shrinkage. You might want to include questions about the following:

   a. If and how frequently students engage in such practices
   b. The attitudes of students as to whether such practices are unethical and why or why not
   c. What harm comes from such practices
   d. What respondents think retailers should do to prevent such shrinkage

Develop a report on your findings and present it to your class.

This activity is sure to provide controversial opinions from students. The book provides the following on “sweethearting” and “retail borrowing.”

• “Sweethearting” is an employee practice in which a cashier consciously undercharges, gives a cash refund, or allows a friend to walk away without paying for items. Sometimes a dishonest employee simply carries merchandise out the back door to a friend’s waiting car. A third source of shrinkage is an unethical consumer practice the industry calls retail borrowing. Merchants over recent decades have developed liberal policies of accepting returns from customers because the product performs unsatisfactorily or even if the customer simply changes her mind. Retail borrowing refers to the return of non-defective merchandise for a refund after it has fulfilled the purpose for which it was purchased. Popular objects for retail borrowing include a dress for a high school prom, a new suit for a job interview, and a boom box for a weekend picnic on the beach.

7. One problem that traditional retailers face when they open online stores is cannibalization. Select a traditional retailer where you and your fellow students might normally shop that also sells products online. You might, for example, select Best Buy, Banana Republic, the Gap or Wal-Mart. Visit the retailer’s online store and make notes on the site’s product offering, pricing, customer service policies, and so on. (If the store you have chosen offers many different product lines, you might wish to limit your research to one or two different product lines.) Then visit the store and compare what is offered there with the online offerings.
Develop a report that summarizes your findings and discusses the potential for cannibalization and its implications for the retailer.

Students should be asked in this activity to develop recommendations based on their analyses. Should the retailer expand or limit their online stores? Should different items be offered in the online store or should all online store items be available in the physical store?

MARKETING METRICS EXERCISE

Inventory management is an important aspect of retail strategy. For example, it is important to know when it is time to reorder and how much to order at a time. This is the reorder point. As consumers buy a product day after day, the inventory level declines. The question for retailers is how low should they allow the inventory level to decline before they place an order, that is, when is it time to reorder? If you order too late, you take a chance of losing sales because you are out of stock. If you order too soon, consumer tastes may change and you will be stuck with excess and un-sellable merchandise. The decision of when to order and how much to order is critical to a retailer’s bottom line.

The simplest formula to determine the reorder point is

\[ \text{Reorder point} = \text{Usage Rate} \times \text{Lead Time} \]

However, of course, a retailer cannot exactly estimate the usage rate so it needs to keep some “safety stock” on hand. Then the formula becomes

\[ \text{Reorder point} = (\text{Usage Rate} \times \text{Lead Time}) + \text{Safety Stock} \]

The Healthy Day Organic Food Store sells 20 containers of yogurt a day. It takes 6 days to place an order and receive a new shipment of yogurt. But to be prepared for the possibility of extra sales or that a shipment is late, they need to have a safety stock equal to three days sales in case the ship.

What is the reorder point for yogurt for Healthy Day Organic Food Store?

\[ \text{Reorder point} = (20 \times 6) + (3 \times 20) = 180 \]

CHOICES: WHAT DO YOU THINK?

1. Pyramid-scheme promoters specialize in recruiting new members of the pyramid with exciting, even frenzied, meetings where potential members are made fearful that they may pass up a great opportunity if they do not join. Why do people continue to be lured into these schemes? What do you think should be done to stop these unethical promoters?
This would be an interesting topic for discussion in class. Pyramid schemes continue to be profitable since people feel that they are going to “get rich.” It will only be through understanding of what these illegal practices are that they can be minimized. You might also note the difficulty in determining that an organizing is selling a pyramid scheme and not a multi-level marketing program.

2. Most retail store shrinkage can be attributed to shoplifting, employee theft, and retail borrowing. What are some ways that retail store managers can limit or stop shrinkage? What are some problems inherent in security practices? Should retailers create stricter merchandise return policies?

   Surveillance cameras, security guards, and stricter merchandise return policies can help retailers reduce shrinkage.

3. Experts predict the future of B2C e-commerce to be very rosy indeed, with exponential increases of Internet sales of some product categories within the next few years. What effect do you think the growth of e-retailing will have on traditional retailing? In what ways will this be good for consumers, and in what ways will it not be so good?

   Students need to think about what they gain and what they lose from e-commerce shopping. For those with time constraints, e-commerce is a good alternative. For those who enjoy the sociability of shopping, the ability to try, touch, and experience, traditional retailing will have more appeal. Students will be able to brainstorm quite a number of pros and cons.

4. The wheel-of-retailing theory suggests that the normal path for a retailer is to enter the marketplace with lower-priced goods and then to increase quality, services, and prices. Why do you think this happens? Is it the right path for all retailers? Why or why not?

   To begin this discussion, refer students to the comments about the wheel-of-retailing theory found in the chapter. Students should notice that the wheel of retailing helps to explain the development of some, but not all, forms of retailing. For example, some retailers never trade up; they simply continue to occupy a niche as discounters. Others, such as upscale specialty stores, start out at the top. Some, after experiencing success at the top, move down. The text has examples of each of these situations. After the discussion of the wheel of retailing has begun, try to work in a discussion of the retail life cycle (which some students may find more satisfying).
5. Walmart has become a dominant retailer in the American marketplace, accounting for over 30 percent of the total sales of some products. Is this a good thing for consumers? For the retail industry as a whole? Some communities try to prevent Walmart from building a store in their area. Why do you think people feel this way?

A good way to begin a discussion of this question would be to refer the students to text information about hypermarkets. Many of the Walmart Supercenters are approaching the hypermarket size and merchandising mix. A hypermarket, by definition, offers one-stop shopping for thousands of items, grocery opportunities, specialty shops, and even restaurants. Most Walmart Supercenters offer these same shopping opportunities. Therefore, is there an optimal size? In the United States, there probably is. American consumers do not find the hypermarket-type to be of great interest. U.S. consumers find hypermarkets to be too large and time-consuming. Americans may prefer more variety and the actual shopping experience.

Another reason communities want to keep Walmart out is the demise of small independent businesses that may occur when Wal-Mart moves in.

Additional discussion may be on the effect of the entry of Walmart into other countries. For example, what is the impact on local small local retailers when Walmart moves in? Is this a good thing for developing countries? From consumers’ perspective, Walmart provides products at a lower price than do local retailers.

6. Macy’s and other stores are using vending machines to sell electronics such as iPods. What are some other opportunities for vending-machine sales? What are the negative and positive elements of vending-machine sales?

The students might come up with a robust list of products they would like to see in vending machines. The positive elements are availability and product selection while a negative aspect is that no questions can be asked and returns cannot be made.

**MINI-PROJECT: LEARN BY DOING**

This project is designed to help you understand how store atmospherics play an important role in consumers’ perceptions of a retail store.

1. First, select two retail outlets where students in your college are likely to shop. It will be good if you can select two outlets that you feel are quite different in terms of store image but that sell the same types of products. You might consider two
specialty women’s clothing stores, two jewelry stores, two department stores, or two coffee shops.

2. Visit each of the stores, and write down a detailed description of the store atmosphere—the storefront and marquee, colors, materials used, types of displays, lighting fixtures, product displays, store personnel, and so on.

3. Survey some of the students in your college. Develop a brief questionnaire asking about the perceptions of the two stores you are studying. You may want to ask about such things as the quality of merchandise, prices, competence and friendliness of the store personnel, the attitude of management toward customer service, and so on. What is the “personality” of each store?

4. Develop a report of your findings. Compare the description of the stores with the results of the survey. Attempt to explain how the different elements of the store atmosphere create each store’s unique image.

Through four specific questions (exercises) marketing teams are asked to select two retail outlets for study, visit the stores, provide a detailed description of the store atmosphere in each store, survey consumers in the store about atmosphere and store personnel, profile the personality of the stores, and develop a report that summarizes the findings of the research effort. Students will probably like this activity and will come back excited about what they have seen and learned.

Instructors may wish to extend the deadline for these assignments so students have ample time to visit, analyze, profile, and report findings.

CASE STUDY

Case Study: REAL COICES AT IKEA.

Summary of Case

IKEA, currently the world’s largest furniture retailer, was founded in Sweden in 1943. The early years consisted of selling pens, pictures frames, wallets, and other bargain items out of a catalog. Today, the company generates over $23 billion in annual sales from stores which focus exclusively on the furniture and home decorating market, located all over the world. IKEA retail locations are roughly three times the size of a typical Home Depot. In designing its store layout, IKEA is responding to consumer interest in one-stop shopping—finding what the consumer wants in one store rather than having to visit numerous stores. In addition, IKEA makes it easier for customers to shop once they enter the store. It sets up furniture displays in “lifestyle” themes that
show the type of furniture that singles, couples, or young families might need. The company also uses vignette displays to suggest how a customer can put together various items to create a certain look. These types of displays are perfect for the generation that is no longer interested in buying furniture to last a lifetime but rather that fits their lifestyle now.

Presently, one of the most important decisions facing IKEA is how and where it should look to expand its business and its revenues. The company has announced its desire to add new store locations in Russia, Germany, France, China, Italy, Japan, U.K., Finland, Spain, and Switzerland. However, IKEA is more than just a bricks-and-mortar retailer. In recent years, the firm has also become a popular online store. Its website is very popular; it got 450 million hits during the year 2007 alone. Despite its renown among online furniture shoppers, IKEA recently announced plans to focus on the in-store experience as “the only sales channel.” It does not plan to invest more money in home shopping or online sales channels. The company bases this decision on its belief that the chain can give customers the best offers and the lowest prices when it makes its products available only through its bricks-and-mortar stores. Despite IKEA’s successful history, there are no guarantees for the future in the hyper-competitive world of retailing. Is focusing solely on the in-store experience the right decision? Can IKEA reach its growth and revenue goals without online sales? In the U.S. alone, Internet sales of home furnishings are over $150 billion a year, and industry experts forecast continued annual growth at double-digit rates. Would IKEA be better to continue to push online sales at least in some areas of the world?

**Suggested Answers for Discussion Questions**

1. **What is the decision facing IKEA?**

   Students will come up with various important decisions, among those might be:

   - Should IKEA invest more money in home shopping or online sales channels?

2. **What factors are important to understanding this decision situation?**

   The following factors are important in understanding this decision situation:

   - IKEA is the world’s largest furniture store with 23 billion in sales and 280 retail outlets in 26 countries.

   - It is the world’s largest home furnishing company known for its contemporary designs, affordable prices, and loyal customers.

   - IKEA retail locations are gigantic—roughly, three times the size of a typical Home Depot—and they focus exclusively on the furniture and home decorating market.
• In designing its store layout, IKEA is responding to consumer interest in one-stop shopping—finding what the consumer wants in one store rather than having to visit numerous stores.

• IKEA makes it easier for customers to shop once they enter the store. It sets up furniture displays in “lifestyle” themes that show the type of furniture that singles, couples, or young families might need.

• The company has announced its desire to add new store locations in Russia, Germany, France, China, Italy, Japan, U.K., Finland, Spain, and Switzerland.

• In recent years, the firm has also become a popular online store. Its website is very popular; it got 450 million hits during the year 2007 alone.

• It does not plan to invest more money in home shopping or online sales channels. The company bases this decision on its belief that the chain can give customers the best offers and the lowest prices when it makes its products available only through its bricks-and-mortar stores.

• In the U.S. alone, Internet sales of home furnishings are over $150 billion a year, and industry experts forecast continued annual growth at double-digit rates.

3. **What are the alternatives?**

Students might recommend a variety of different marketing strategies. Some possibilities are:

• Do nothing—continue to develop and maintain its store experience as “the only sales channel.”
• Invest more in home shopping and online sales channels.

• Plan growth strategy on catalog and Internet sales, thus avoiding the high costs of building brick-and-mortar retail locations.

• Plan future expansion around a new smaller-size IKEA store that will be successful in less populated areas within the same markets,

• Plan growth in geographic areas of the globe where IKEA does not currently do business such as Africa and the Middle East.

• Develop a new retail furniture chain with different branding that will attract new target markets.
4. **What decision(s) do you recommend?**

Students may focus on several of the alternatives developed. Students should be encouraged to think about the strength of the current IKEA brand image and what the impact of any recommended strategy would be on this brand image. Students should also be encouraged to think about the type of decision a purchase of furniture is and the benefits of a physical retail location that cannot be duplicated by catalogs or the Internet.

5. **What are some ways to implement your recommendations?**

Students may make a variety of suggestions for implementation depending on their recommendations. Students should recommend some type of feasibility study before developing new strategies and the costs for new retail stores are very high. Other suggestions might include specific promotion activities, specific pricing, research activities and many others.