

## UNIT 3

# Business Operations and Technology



- 10 Marketing
- 11 Business and Technology
- 12 Financial Management
- 13 Production and Business Operations
- 14 Risk Management

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## business outside the box

### Online Communication from Credit Card Companies

No one is pleased to receive a late notice from a credit card company. In an effort to reduce the trauma, Discover Card allows customers to sign up for online reminders. These reminders include notices that a new statement is available, a warning that an account is near its credit limit,

and a message that a payment is due soon.

This approach helps Discover keep in touch with customers. Online communications allow Discover Card to personalize its communication at a low cost. This strategy has resulted in more timely payments and is

allowing Discover to build long-term relationships with many customers.

#### Think Critically

What are some other messages that a credit card company such as Discover might use to enhance relationships with customers?

### It's Not a Bank, but...

PayPal handles more than 100 million accounts worldwide each year. While the online payment service is not a bank, it provides similar services.

The process starts with customers providing details of a credit card or bank account. PayPal, serving as a financial intermediary, verifies the transactions. Then payment amounts are transferred from the buyer to the seller.

Although PayPal mainly serves customers using eBay, other organizations also make use of this service. Some local governments are allowing citizens to make tax payments using PayPal. Various charities accept donations through the system.

PayPal has expanded internationally and is now serving customers in more than 100 markets around the world. The global

challenges PayPal will face include different regulations in various countries and differing consumer preferences for making payments.

#### Think Critically

Why is a payment service such as PayPal particularly useful for eBay buyers and sellers?

## CHAPTER 10

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# Marketing

- 10-1** Marketing Basics
- 10-2** Develop Effective Products and Services
- 10-3** Price and Distribute Products
- 10-4** Plan Promotion



# Planning a Career in...

## MARKETING



Marketing is a career area that offers a great variety of job opportunities. Corporate positions range from entry level to top management and everything in between. There are career opportunities in all industries, including technology, health care, manufacturing, and entertainment. If you want to work in marketing, you might find a job in your hometown, in a different state, or halfway around the globe.

The work of marketers is diverse and exciting. A marketing researcher conducts focus group interviews in a mall or for a political candidate. A marketing team designs a multi-million dollar advertising campaign for a new product. An international sales representative for a pharmaceutical company travels the world to introduce a life-saving drug. A distribution center manager develops a plan to reduce shipping costs. Not only are marketing careers available to people with a wide range of interests, talents, and education, they also include some of the highest-paying business careers.

### Employment Outlook

- The employment outlook for marketing jobs is varied, with some high-growth areas and others facing increasing competition.
- Employment in advertising, marketing, promotions, public relations, and sales is expected to grow faster than the average due to intense domestic and global competition.
- Opportunities in marketing research will be very good but require a master's degree or PhD and strong math and statistics skills.

### Related Job Titles

- Financial Securities Sales Agent
- Merchant Wholesaler
- Marketing Consultant
- Manager of Corporate Brands
- Trade Show and Special Events Coordinator
- Marketing Database Manager
- Media Relations Specialist

### Needed Skills

- Creativity, analytical communication, and human relations skills
- A college degree in business or marketing is needed for some positions
- Some employers prefer people with broad work experience

### What's it like to work in ...

#### Sales Management

Before Kerri Snodgrass boards a flight to Cairo, she returns a call to Ferris Joachum. As vice president of sales, Kerri knows Ferris is in final negotiations with a major customer for a \$1.5-million order of environmental monitoring equipment.



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Ferris says, "If we can get the order shipped within two weeks and spread the payments over two years, I think I can make the sale."

Kerri uses the airline's Internet connection to communicate with her company's production manager and with a loan officer of the international bank they use for customer financing. After several discussions, they get approval on the shipping date and are able to offer free financing for one year. As she gets off the plane, Kerri receives a text message from Ferris that the sale has been completed and the order has been placed.

As a sales manager, Kerri needs to understand all aspects of her business, gather information, and make quick but effective decisions to support her salespeople and satisfy the customers. Salespeople and sales managers are the face of the company to its customers.

**What about you?** What skills and personal qualities do you believe make Kerri Snodgrass a successful sales manager?

# 10-1 Marketing Basics



## Goals

Define important marketing concepts.

Identify the steps in a marketing strategy.

Describe the consumer decision-making process.

## Key Terms

marketing

marketing strategy

target market

marketing mix

marketing orientation

final consumers

business consumers

consumer decision-making process

buying motives

## Focus on Real Life

Marketing is as old as business itself, yet it continues to be one of the most innovative areas of business. Salespeople have worked in businesses for centuries to persuade customers to buy. Today, many salespeople use video-conferencing equipment on their computers to demonstrate a product to customers and answer their questions.

United Parcel Service (UPS) started as a local parcel delivery service for retail stores in Seattle, Washington, more than a century ago. Today it delivers packages around the world. UPS uses the Internet to allow customers to schedule pickups, track packages, and verify package deliveries and signatures.

Advertising has moved from flyers and roadside billboards to targeted e-mail messages and huge electronic displays on the sides of buildings.

Companies continually change and improve the way they provide marketing services to attract customer attention and meet changing customer needs.

### main idea

Define important marketing concepts.

## UNDERSTAND MARKETING

Marketing may be the most visible set of business activities to consumers. Yet it may also be the most misunderstood business function. When asked to define marketing, people often use terms such as advertising or selling. While both of these are important, many other activities are a part of effective marketing.

The American Marketing Association's definition of marketing shows how complex it is: "**Marketing** is an organizational function and a set of processes for creating, communicating, and delivering value to customers and for managing customer relationships in ways that benefit the organization and its stakeholders." These words describe a complex but key part of every business. Marketing includes a range of activities

and a number of businesses in the U.S. economy.

### Marketing Activities

As a consumer you are exposed to marketing activities all of the time. You take part in many of these activities. You see or hear advertisements for products and services. You see the brand names on the packages of foods you eat and on the clothes that you and your friends wear. You read product descriptions on a company's web site. You interact with salespeople in your favorite retail store. These are all examples of marketing.

There are less obvious but equally important marketing activities. These include storing products in warehouses and distribution centers and moving the products to the places where they will be sold or used. Establishing and accepting

credit and arranging means of online payment are marketing activities. Businesses use marketing when they gather data on consumer needs, use that information to improve products, and test new products before they are sold.

A great deal of marketing is not even aimed at final consumers. Businesses market products and services to other businesses. These businesses then use the products and services in their own business processes or sell them to final consumers. More time and money is spent in business-to-business marketing than in marketing products and services to final consumers.

### Marketing Businesses

All businesses must complete some marketing activities even if that is not their focus. Many businesses are directly involved in marketing. Marketing businesses include advertising agencies and marketing research firms. Transportation companies such as trucking, railroad, and air freight move products from producers to consumers. Shipping and delivery companies provide express pickup and delivery of documents and packages. Financial services companies issue and manage credit cards. They can also provide loans to businesses for purchasing raw materials and finished goods. Wholesalers and retailers participate in the distribution, storage, and sale of products to connect manufacturers and their customers. Marketing activities, marketing businesses, and marketing careers are an important part of the U.S. economy.

### Marketing Functions

Marketing activities can be organized into seven functions as shown in Figure 10-1. Each function occurs every time a product or service is developed and sold. Businesses provide many of the marketing functions. Consumers often take part in one or more

### Work as a Team

A company in Ft. Lauderdale, Florida, meets fishing boats when they dock. They buy fresh fish caught that day. Have each member of your team identify a marketing activity that must be completed by the company to purchase and then resell the fish to restaurants and supermarkets.



of the marketing functions when they make purchases.

*Product and service management* is designing, developing, maintaining, improving, and acquiring products and services that meet consumer needs. Producers and manufacturers develop new products. Other businesses are also involved in product/service management when they obtain products for resale. Services are created and provided by the employees of service businesses.

*Distribution* involves determining the best ways for customers to locate, obtain, and use the products and services of an organization. Careful shipping, handling, and storing of products are needed for effective distribution.



FIGURE 10-1

Why is each marketing function needed whenever a product or service is sold?

*Selling* is communicating directly with potential customers to determine and satisfy their needs. Selling can be face to face, such as when a customer visits a business or when a salesperson goes to the home or business of a potential customer. Selling is also performed using a telephone or other technology such as instant messaging or videoconferencing to communicate directly with a customer.

*Marketing-information management* is obtaining, managing, and using market information to improve business decision-making and the performance of marketing activities. Marketing-information management includes marketing research and the development of databases with information about products, customers, and competitors.

*Financial analysis* is budgeting for marketing activities, obtaining the necessary funds needed for operations, and providing financial assistance to customers so they can purchase the business' products and services. Customers must have the resources and methods to pay for their purchases. Businesses must receive timely payments so they can continue to operate.

*Pricing* is setting and communicating the value of products and services. Customers must be able to easily identify the price of items that interest them or they will move on to another choice. Consumers want to know that they are getting a fair value for the money they are spending. Prices must be set low enough that customers are willing to pay but high enough that the business makes a profit.

*Promotion* is communicating information about products and services to potential customers. Advertising and other promotional methods are used to encourage consumers to buy. Advertising may occur in a variety of ways—television, newspapers, magazines, radio, direct mail, and the Internet. Other methods include

contests, product displays, sponsorships, and public relations activities.

### checkpoint >>

Define marketing and the seven marketing functions.

### main idea

Identify the steps in a marketing strategy.

## MARKETING STRATEGY

Marketing is an important and costly part of business operations. Marketing activities often cost 50 percent or more of the selling price of a product or service. In order for a company to make a profit, marketing must be carefully planned. It must be done well, yet at a low cost. Consumers usually have many choices of products and services. If they are not satisfied with the offering of one company, they will look to a competitor to meet their needs. Careful marketing will aid a company in understanding



How can promotion influence the quantity of a product that consumers purchase?

and meeting customer needs. Successful marketing results in satisfying exchanges between businesses and consumers. Businesses offer products and services that satisfy their customers' needs. Customers pay for those products and services, providing the businesses with revenues and profit.

### Marketing Planning

Marketing planning is aimed at satisfying customer needs better than competitors do, resulting in sales and profits. A company's plan that identifies how it will use marketing to achieve its goals is called a **marketing strategy**.

Developing a marketing strategy is a two-step process. The first step is to identify a target market. A **target market** is a specific group of consumers who have similar wants and needs. Many companies try to promote their products to a wide audience whose wants and needs are quite varied. It is not easy for the company to meet all of those needs. The result is that many people will not want the company's products or will be dissatisfied with them. Focusing on a target market makes it easier to develop products and services that specific groups of customers want.

The second step in developing a marketing strategy is to create a marketing mix. A **marketing mix** is the blending of four marketing elements—product, distribution, price, and promotion. A successful marketing mix satisfies the wants and needs of the target market. It also provides a profit for the company.

### Develop a Successful Marketing Strategy

Many businesspeople believe they know what consumers want. They produce a product and then begin to plan how they will market it to consumers. This approach to marketing typically results in an emphasis on advertising and promotion in order to attract the attention of



What customer information is needed to plan a new apparel line?

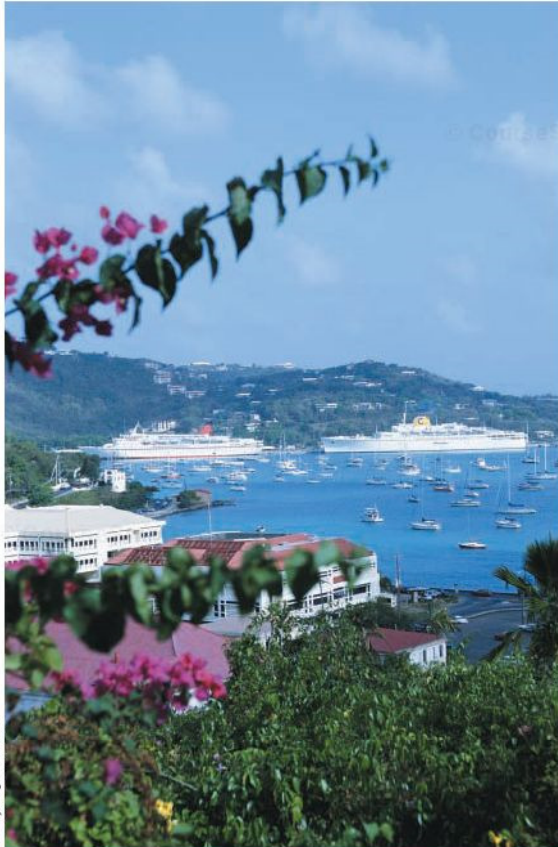
potential customers and convince them to buy the company's product. If the product does not appeal to consumers, the business will be forced to cut the price. Lower profits or even losses may be the result.

To increase the chances of developing a product or service that meets customer needs and can be sold at a profit, companies adopt a marketing orientation. A **marketing orientation** considers the needs of customers when developing a marketing mix. With a marketing orientation, businesspeople don't assume they know what customers want. They use research to study customers and their needs. The results of the research are used to plan a marketing mix designed to satisfy those needs.

A company that owns a fleet of cruise ships gathers information on people who might consider a cruise as a vacation choice. Families with young children, young singles, and retirement-age adults usually will want different kinds of vacation experiences. First-time cruisers will need different information than experienced cruisers. Menu items, entertainment, travel arrangements to and from the port, and payment options all must be planned to appeal to potential customers.

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What information would you need before you decide to purchase a cruise?

provide an affordable cruise with payment options to meet the budgets of the target customers. Promotion offers information to interest prospective customers in the cruise and persuade them to decide it is the best vacation choice.

The cruise company will make each of these marketing mix decisions to meet the specific needs and expectations of their target market. The decisions will be different in many ways than if the cruise was planned for a different group of consumers.

### checkpoint >>

What are the two steps in developing a marketing strategy?

## UNDERSTAND CUSTOMERS

Effective marketing begins with customers. Think of a recent product or service you purchased and why you made the choice you did. You likely had several products that would generally meet your needs. You considered those choices and selected the one that you believed would provide the most satisfaction for the money you had to pay.

Many new businesses fail because the owners have an idea for a product but fail to consider customers and their needs. If a product appeals to a group of customers with unsatisfied needs, it has a real chance to succeed. If customers do not see a need for a product or believe they have other choices that are better or less costly, the product will likely not succeed.

Businesses can develop products for two types of consumers. **Final consumers** are persons who buy products and services mostly for their own use. **Business consumers** are persons, companies, and organizations that buy products for the operation of a business, for incorporation into other products and services, or for resale to their customers.

### main idea

Describe the consumer decision-making process.



The company will first study possible customers and the similarities and differences in vacation wants and needs. Then it will select the target market that presents the best opportunity for planning a successful cruise. Using the information gathered about the target market, the company then develops the marketing mix. The product will be an exciting and relaxing cruise experience. There will be enjoyable onboard activities and interesting onshore excursions at cities on the ship's schedule. Distribution will include providing all of the documents needed by travelers, arranging customer travel to and from the port city, handling baggage, and ensuring effective customer service throughout the process. Pricing decisions

## Consumer Decision-Making

The specific sequence of steps consumers follow to make a purchase is known as the **consumer decision-making process**.

Both the steps and the sequence of decisions are the same for all consumers.

The length of time taken to complete the process and the information used to complete each step might be quite different from one consumer to the next.

The five steps in the consumer decision-making process are shown in Figure 10-2.

Decision-making begins with a need. You may be hungry or thirsty, or you may want to plan an evening's entertainment with friends. Maybe you need a summer job or are trying to choose a college to attend. If the need is urgent, you will try to satisfy it right away. If it is less important you may put it off or even ignore it. If the need is one that is familiar to you and you have satisfied it before, you will often use that past experience to help make a decision. If it is a new need, you may have a hard time deciding how to make the best choice because you have no similar experience.

People use information to make decisions. You may talk to friends or a trusted adult. An advertisement, magazine article, or Internet site may catch your attention because it provides information related to an important need. You choose sources that you trust and that provide information you understand. Using this information, you will select a very few products that seem to meet your needs. Once the choices are narrowed, you will compare them to determine if one appears to be a better choice or a greater value than the others.

Based on the information you have obtained and the urgency and importance of the need, you will make a decision. The decision is usually to buy the product you have decided is best for you. The decision may be not to buy because you have not found a satisfying choice or you do

Steps in the Consumer Decision-Making Process
1. Recognize a need.
2. Gather information.
3. Select and evaluate alternatives.
4. Make a purchase decision.
5. Determine the effectiveness of the decision.

**FIGURE 10-2**

How might you use these steps to help you make your next consumer decision?

not have the money you need at the time. You may then go back to a previous step and look at other choices or gather more information.

If you decide to purchase a product, you will complete the purchase and use the product you chose. Based on that



How do you decide which products to purchase when you visit a supermarket?

## FYI

Since *Fortune* magazine began its list of Most Admired Companies in 1997, only three companies have appeared in the top 10 every year. They are Southwest Airlines, Berkshire Hathaway, and General Electric.

experience you will decide if you made a good choice. If you liked the product, you will probably make the same decision the next time you have the same need. You may also make the decision more quickly and easily. If the product was not what you expected, you will be unlikely to purchase that product again.

### Buying Motives

Why do you shop in a certain store or choose one brand of a product over another? The reasons consumers decide what products and services to purchase are called **buying motives**. Understanding

the motives of consumers helps businesses plan a marketing mix.

Some purchases are guided by emotions. *Emotional buying motives* are reasons to purchase based on feelings, beliefs, and attitudes. If you are concerned about protecting your family and possessions, you may decide to buy a home security system. Purchases of gifts and cards for holidays and occasions are triggered by feelings of love and affection.

*Rational buying motives* are guided by facts and logic. You may want the most cost-effective car, so you consider fuel use and repair costs of various models. When choosing a college to attend, you can compare the costs of tuition and the reputation of the college in the major you plan to study.

#### checkpoint >>

What are the steps in the consumer decision-making process?

## 10-1 Assessment

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Study Tools  
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### Key Concepts

Determine the best answer.

- The best definition of marketing is
  - promotion and selling
  - producing and distributing products and services to customers
  - finding customers and convincing them to buy your products
  - none of the above is correct.
- The two steps in a marketing strategy are
  - developing a product and promoting it to consumers
  - identifying a target market and developing a marketing mix
  - conducting marketing research and planning production
  - pricing a product and distributing it to customers

- Which of the following is an example of a rational buying motive?
  - love
  - fear
  - economy
  - self-image

### Make Academic Connections

- Marketing** List the seven marketing functions. Using a business directory or a telephone book, identify a business that specializes in providing each service for final consumers or other businesses. Briefly describe what the business does and the types of customers it serves.
- Technical Writing** Select one of your recent purchases. Using computer software, develop a chart or illustration that identifies the steps in the decision-making process and how you completed each step to make the purchase decision.

**10-2****Develop Effective Products and Services****Goals**

Justify the importance of marketing research.

Identify the components of a product.

Describe how services differ from products.

**Key Terms**

marketing research

product

services

intangible

inseparable

perishable

heterogeneous

**Focus on Real Life**

When you go to a store or use a catalog or the Internet to make a purchase, you will usually find several choices of the product you want. What makes the products offered by one company different from those offered by other companies? In some cases, it is little more than the brand name of the product. In other cases, there are differences in the design of the products, the features, and the options available.

Products can become so specialized that making choices that meet the needs of each customer becomes a very complex process. Companies need to develop tools to help consumers sort through their choices. Purchasing a shirt or pair of slacks on the Internet can involve creating a virtual "model" of your body size and shape and then comparing styles, colors, and fabrics by viewing them on the model. These types of online tools help customers develop a picture of their choices and make complicated decisions easier.

**CREATE AND IMPROVE PRODUCTS**

How do businesses develop new products? In many cases, products that are identified as new in a company's advertising are not new at all. Some type of change has been made in the product that may be a major improvement. The change may also be a minor one that provides little benefit to the customer. The business calls the product new to attract the attention of customers and encourage them to buy.

Totally new products that have never been seen before by customers are not often introduced. What new products can you recall having been introduced during your lifetime? The Internet, airbags in automobiles, scanning equipment used in retail stores, and artificial hearts did not have similar substitutes before they were introduced. They were

the result of research by engineers and scientists seeking to find solutions to important problems. Most products you use today are minor or major improvements in existing products. A CD or MP3 player uses new technology to store and replay music. Handheld personal digital assistants are new versions of past computer models. Even cellular phones are improved versions of older wireless telephones. These and many other product improvements occur through the development of new technology or redesign of current products.

Scientists and other researchers often develop product improvements. Many ideas for product improvements result from the ideas of consumers and from their experience in using current products. Finding solutions to problems through carefully designed studies involving consumers is known as **marketing research**.

**main idea**

Justify the importance of marketing research.

## Plan Marketing Research

Many types of research procedures can be used to solve marketing problems. Each type of research follows the scientific problem solving process outlined in Figure 10-3.

**FIGURE 10-3**

Why is defining the problem the first step in marketing research?

### Steps in Marketing Research

1. Define the marketing problem.
2. Study the situation.
3. Develop a data collection procedure.
4. Gather and analyze information.
5. Propose a solution.

All marketing research studies involve gathering and analyzing information. A great deal of information about consumers and competitors is available to businesses without doing new studies.



Why are personal interviews an effective way to gather consumer information?

Analyzing existing information gathered for another purpose but used to solve a current problem is known as *secondary research*. Studies carried out to gather new information specifically directed at a current problem is *primary research*.

## Types of Research Studies

The most common type of marketing research study involves consumer surveys. *Surveys* gather information from people using a carefully planned set of questions. The surveys are often sent to consumers through the mail or using the Internet. They can also be conducted over the telephone.

Another less structured way of gathering the ideas, experiences, and opinions of consumers is through *focus groups*. In this research method, a small number of consumers take part in a group discussion. A focus group leader acts to identify areas of agreement and disagreement and to develop new ideas. Focus group members might discuss their experiences with a product, react to new product ideas, or make suggestions for product improvements.

Observations of consumers provide useful information for marketing researchers. *Observations* collect information by recording the actions of consumers rather than asking them questions. A store may be interested in how customers study and choose products in a display case or the routes they take through a store when shopping. A product design team may observe any problems consumers have using a product to make design improvements.

A final method of marketing research is conducting experiments. An *experiment* presents two carefully controlled alternatives to subjects in order to determine which is preferred or has better results. A marketing experiment may compare two sizes of packages to see if one size results in more sales than the

other. A study could determine the effect of offering a 50-cent coupon to grocery shoppers on their choice of cereal brands.

### checkpoint >>

List the steps in a marketing research study.

## PRODUCT PLANNING

Each part of the marketing mix is important when you decide to buy a product.

The product must be available through effective distribution and must have an affordable and fair price. You must be aware of the product through effective promotion and know how it will meet your needs better than other choices. However, one mix element is more critical than the other three. If the product itself is not what you want, the effectiveness of the other mix elements does not matter. A business must carefully plan each of its products to make sure it meets the needs of the target market better than similar products offered by competitors.

### Parts of a Product

A **product** is everything a business offers to satisfy a customer's needs. A product is made up of several components. It starts with the *basic product*, which is the simplest form of a product. The basic product is not unique and is usually available from several companies. Additions and improvements to the basic product are known as *product features*. One model of cellular telephone offers a built-in digital camera, voice dialing, and a web browser as features. When customers are offered choices of features, the choices are known as *options*. When buying an automobile, customers can choose options such as color, engine size, and manual or automatic transmission.

A *brand name* provides a unique identification for a company's products.

Companies try to develop a memorable brand name with an appealing image.

Packaging is a part of many products. *Packaging* provides protection and security for the product before it is used. It also may make product storage and use easier. A new container for ground coffee is created with indentations that allow customers to pick it up easily with one hand. Some customers struggled with handling the original round container. The package is a convenient way to provide information to customers that help them make a purchase decision or explain how to use the product.

A way to build customer confidence in a company's products is by offering a *guarantee* or *warranty*. If the product breaks or does not meet customer expectations, the company will repair, replace, or provide a refund.

### Product Planning Procedures

New product planning is a costly and time-consuming process. It is not unusual for a company to invest several million dollars and spend years to develop a new product. Many people are involved in creating the product idea, determining how it will be produced

### main idea

Identify the components of a product.

## NETBookmark

The U.S. Census Bureau provides very detailed data that helps businesses make marketing strategy decisions. Access the web site shown below and click on the link for Chapter 10. Click on the American FactFinder link and locate census information on your community. Study the data and locate (1) the number of people who are 15–19 years old and the number of people who are 20–24 years old and (2) the number of renter-occupied and owner-occupied homes in your community. How might that information be used by businesses?

[school.cengage.com/business/introtobiz](http://school.cengage.com/business/introtobiz)



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What risks do businesses take if they do not follow a careful product planning procedure?

and marketed, analyzing costs, and predicting sales. When that much money is at stake, companies need a procedure that results in products customers want and that can make a profit for the company for several years.

The steps in new product planning are:

- **Idea Development** Generating new product ideas is a creative process. Ideas come from the work of scientists, from the suggestions of salespeople and other employees, and from consumer surveys and focus groups. Most ideas are for improvements to existing products.
- **Idea Screening** Companies encourage the development of a large number of new product ideas. Then they evaluate the ideas to determine which have the best chance to be successful. Ideas are screened to determine if a demand exists for the new product. Do other companies offer similar products? Can the product be produced at a reasonable cost? Is the product legal and safe?
- **Strategy Development** If a product idea appears to be workable, the next step is to develop a full marketing strategy. The target market for the product is studied carefully. There

must be a strong need for the new product. Alternative marketing mixes are developed and tested with potential customers. The costs of the alternatives are compared to determine which provide the greatest value.

- **Production and Financial Planning** Next, the company develops a production procedure and identifies the facilities, equipment, and people that will be needed to produce the product. The costs of production and marketing are determined and a financial plan is developed to be sure the product will make a profit.
- **Limited Production and Test Marketing** If a new product idea makes its way through the planning process, a company may produce a limited quantity of the product and test it in a small part of the market. This step allows the company to make sure the product can be produced and marketed as planned before a large investment is made for full production.
- **Full-Scale Production** If each of the preceding steps is completed successfully, the new product will move into full-scale production and marketing. The company will continue to gather information on production and sales to be sure financial projections are being met. Competitors will also be watched because they will likely introduce competitive products if the new product is successful. Few unsuccessful products should make it through. Products that are fully screened have a much greater chance of being successful than new products that do not go through a planning procedure.

*checkpoint* >>

What are the components of a product?

## SERVICES

Products are tangible items you can see and examine such as books, boats, and hamburgers. Marketing is used for both products and services, but services are more difficult to market. **Services** are activities that are consumed at the same time they are produced.

Services are **intangible**, meaning that they have no physical form. Because services are intangible, it is more difficult to examine a service and determine if it will meet your needs. Marketers must find ways to describe the service in understandable ways to prospective customers.

Effective service marketing is done in much the same way as product marketing. Using the two-step marketing strategy, service marketers first identify target markets for services. They then develop a marketing mix that appeals to the market. In addition to the service itself, the market mix includes distribution, pricing, and promotion of the service. The nature of services compared to the nature of products requires a change in the way they are marketed.

Services are **inseparable**, meaning that they are consumed at the same time they are produced. The person or technology producing the service must be available when and where the customer

### main idea

Describe how services differ from products.



How will you determine the best place to get your car serviced or repaired?

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## CORPORATE SOCIAL RESPONSIBILITY

### Marketing Ethics

Some people may think that the term "marketing ethics" is an oxymoron, or a contradiction in terms. Many people have a low opinion of marketers. Individuals receive unsolicited sales calls, junk mail, and spam. They watch advertisements that don't tell the whole story on products. They encounter salespeople who only seem to be interested in their own commissions.

Marketers, however, play a very important role in society. They deliver a standard of living. Marketers identify new products. They find ways to get those products into customers' hands through convenient distribution and at low costs. If marketers did not work within a society, customer's choices would be very limited.

Ethical marketers abide by a set of standards outlined by the American Marketing Association. These

standards require that marketers must do no harm and adhere to all applicable laws and regulations. Marketers must make products that work and advertising should not be intentionally deceptive or misleading. Marketers also must be honest, responsible, fair, have respect, be open, and be good corporate citizens.

#### Think Critically

1. Describe why individuals may have a low opinion of marketers.
2. Explain why marketers play an important role in society.
3. Describe ethical standards that marketers should follow.



### Work as a Team

The employees of a company that provides a service to consumers are responsible for the quality of the service. If your team owned a pet-sitting business, what would you do to make sure the employees provided high quality service for each customer?



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How can a server affect your perception of a restaurant?

needs it. Marketers must determine where and when consumers want a service and must be able to provide it at that location and time.

Services are **perishable**, meaning that the availability of a service must match the demand for that service at a specific time. A service cannot be stored for later consumption like many products. If all seats at a concert are filled, no more people will be able to hear that performance. If a hairstylist does not have a client, the service goes unused.

Services are **heterogeneous**, meaning that there will be differences in the type and quality of service provided. Because people usually provide services at the time they are consumed, there is less control over quality than is possible with products. The skill, training, and motivation of the service provider affect service quality.

#### checkpoint >>

In what ways are services different from products?

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## 10-2 Assessment

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### Key Concepts

Determine the best answer.

1. True or False. Most new products introduced by companies are not totally new, but are improvements on existing products.
2. True or False. The first step in marketing research is to develop a data collection procedure.
3. The availability of a service must match the demand for that service at a specific time because it is:
  - a. heterogeneous
  - b. perishable
  - c. inseparable
  - d. intangible

### Make Academic Connections

4. **Critical Thinking** Use the Internet to locate an article describing a new product that failed. Review the information to determine the possible reasons for failure. Write a short memo to the company describing how using the new product planning process may have reduced the likelihood of failure for the product.
5. **Research** Identify a product that many of your classmates use regularly. Prepare a five-question survey to determine their feelings about the strengths and weaknesses of the product and possible ways the product could be improved. Give the survey to at least 10 students. Present the results in a short report including at least one table, graph, or chart.

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## Sharpen Your Life Skills

### Resolve Conflict

Conflict can be defined as competing differences between two or more people. These differences are often caused by struggles over goals, motives, values, ideas, and resources. Believe it or not, conflict can be both good and bad, depending upon the results of the conflict. The costs of negative, unresolved conflict include decreased productivity, low employee morale, and heightened workplace tensions. These all have the potential to damage the success of a business. But conflict of the right nature can be beneficial to business. For example, friendly conflict can encourage competition, diverse thinking, creativity, and a wider variety of solutions to business problems. Prevention is the solution to many problems, including workplace conflict. Some tips for preventing negative conflict in the workplace include the following:

- Be open to others' ideas. Listen before making up your mind.
- Avoid stereotyping your coworkers and superiors.
- Do not use language or expressions that may be offensive or demeaning to others.
- Disagree constructively. Offer alternative suggestions or solutions rather than simply rejecting others' ideas.
- Above all, treat your coworkers and superiors with the respect you want them to show you.

Unfortunately, conflict cannot always be avoided. All types of conflict can arise, from personality clashes to conflict over business ideas. The following strategies can be helpful in managing conflict with coworkers.

- **Intervention** Ask a coworker or supervisor to provide a setting for conflict resolution between you and those with whom you are in conflict. A supervisor also might speak on your behalf to the coworker with whom you are in conflict.
- **Confrontation** Approach the coworker with whom you are having trouble. Both of you must



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recognize the problem and then work together toward a solution.

- **Compromise** If the conflict involves a disagreement over a particular business issue, you might work out a compromise solution. For example, you may agree to your coworker's idea in exchange for similar treatment during the next conflict.
- **Avoidance** The avoidance technique should be your last solution, but in some situations it may be best. If you simply cannot solve a personality conflict, deal with the individual when you need to, but otherwise steer clear.

Conflict between a worker and a superior is acceptable, and in some cases even beneficial, if it leads to increased mutual respect. Conflict with superiors must be handled with care and should not be seen as a challenge to the superior's authority. Conflict with superiors should be kept professional and private.

#### Think Critically

1. What is conflict?
2. What are the consequences of negative conflict?

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**10-3****Price and Distribute Products****Goals**

Discuss how the selling price of a product is calculated.

Differentiate between a direct and an indirect channel of distribution.

**Key Terms**

**price**

**distribution**

**channel of distribution**

**channel members**

**Focus on Real Life**

Many product failures result from distribution problems rather than a poor product. A product isn't available when and where customers want it, it is damaged in shipment, or the costs of shipping are higher than customers want to pay. Each of the situations is a distribution problem, but may result in lost sales.

Companies track the distribution of their products and set benchmarks that identify the expected level of performance. Distribution benchmarks can include how long a product stays in storage, how many times it is handled as it is being moved from the manufacturing plant to the customer, the percentage of items damaged during distribution, and many other measures of performance. Distribution personnel are judged on whether they meet the benchmarks or not.

**main idea**

Discuss how the selling price of a product is calculated.

**VALUE AND PRICE**

When you decide to purchase a product, how do you determine what to pay? Do you always pay the price that is marked on the product by the seller? Do you compare prices of several businesses to find the lowest price? Do you consider how much money you have available to spend in determining what price to pay? Are you concerned whether the seller is making a profit and whether that profit is low or high? Buyers usually want to pay the lowest price possible and sellers want to charge the highest price possible. Determining the best price for a product is a difficult marketing challenge.

**Pricing Factors**

Many factors go into a decision about a fair price. What you might consider an appropriate price may be different

from the decision of other customers. It probably is very different from the price the seller believes is appropriate. There are both general and specific factors that influence the price paid for a product.

**Supply and Demand** A product that has a ready supply will have a lower price than a product with a very limited supply. If demand for a product is high, prices will increase. Products with low levels of demand will have comparatively low prices.

**Uniqueness** When a product has few close competitors because it is unique, the price will be higher than products that are very similar to others.

**Age** When products are first introduced to the market, prices will be quite high. As products age, the price gradually decreases.

**Season** Many products are used at a particular time of the year. Winter apparel, air conditioners, and holiday

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decorations have high levels of sales for a short time and then almost no sales for the rest of the year. Prices will be highest just before and at the beginning of the season. Prices will be lower during other times of the year.

**Complexity** Highly complex and technical products have higher prices than simple products. Products with many features and options will also command higher prices.

**Convenience** People pay for convenience. If a product is easily available and the seller provides a high level of customer service, prices will go up. Customers expect to pay low prices if they shop at a large warehouse store that is not as conveniently located and offers little service.

### Price a Product

**Price** is the money a customer must pay for a product or service. The price of a product changes as it moves from producer to consumer. The manufacturer sets a price that is paid by other businesses that will sell the product to the final customer. The price is set by the business following a formula that identifies the components of the price. The formula is:

$$\text{Selling price} = \text{Product costs} + \text{Operating expenses} + \text{Profit}$$

*Selling price* is the price paid by the customer for the product.

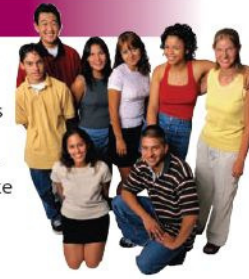
*Product costs* are the costs to the manufacturer of producing the product or the price paid by other businesses to buy the product.

*Operating expenses* are all expenses of operating the business that are associated with the product. They can include salaries, storage and display equipment, facilities, utilities, taxes, and many others.

*Profit* is the amount of money available to the business after all costs and expenses have been paid.

### Work as a Team

A video rental store in your community is concerned that it is losing business to an e-commerce company that delivers videos by mail and to cable companies that offer videos on demand. While the prices of the competitors are higher, people seem to like the convenience. Brainstorm suggestions of ways the video rental store can make renting videos more convenient for its customers.



Gross margin is an important factor in product pricing. The *gross margin* is the difference between the selling price and the product costs. It represents the amount of money on hand to pay for operating expenses and provide a profit.

**Markup** A pricing concept related to gross margin is markup. A *markup* is the amount added to the cost of a product to set the selling price. The markup is equal to the expected gross margin. A markup is stated as a percentage of the product's cost or as a percentage of the product's selling price. If a product costs 15 dollars and has a 100 percent markup on cost, the selling price is \$30.00.

$$(\$15 \times 1.00) + \$15 = \$30$$



Why should businesses be very careful when raising or cutting prices?

**main idea**

Differentiate between a direct and indirect channel of distribution.

That \$30 product would have a markup on selling price of 50 percent.

$$\$15 \div \$30 = 0.50 \text{ or } 50\%$$

**Markdown** Businesses are not always able to sell products at the original price they set. If customer demand is not as high as projected, if the selling season is ending, or if there is a flaw in the product, the business may have to take a mark-down. A *markdown* is a reduction from the original selling price.

A markdown should be thought of as a pricing mistake because it reduces the amount of money the business has to cover operating expenses and profits. However, the original selling price can be set high because the product is new and there is higher demand. Small markdowns result in most of the remaining products being sold while still making a profit. The leftover products may need to be sold at large mark-downs that still provide some money to cover the product cost and expenses.

*checkpoint >>*

What is the formula for calculating the selling price of a product?



How have parcel delivery services influenced the success of many e-commerce businesses?

**CHANNELS OF DISTRIBUTION**

Do you own any products that were produced in China, India, or New Zealand? If so, the process of getting the product from that country to your city was probably both difficult and time consuming. In contrast, have you or your family shopped at an area farmers' market? Here, local producers sell fruits, vegetables, and other homegrown products. The products have to be transported only a short distance and may be harvested the same morning they are sold. Each situation describes a distribution process.

*Distribution* involves determining the best methods and procedures to use so customers can find, obtain, and use a product or service. As a marketing mix element, **distribution** is the locations and methods used to make a product or service available to the target market. The route a product follows and the businesses involved in moving a product from the producer to the final consumer are known as a **channel of distribution**.

**Need for Distribution Channels**

In the earliest economic exchanges, people often bartered to exchange goods and services. If two people each had something the other person wanted, they would agree on how much of each product would be exchanged and the trade would be made. For example, a bushel of apples might be traded for a yard of fabric. The distribution process was relatively simple. In complex economies, exchanges are much more difficult due to several differences that exist between producers and consumers.

- **Differences in Quantity** Businesses produce or sell large amounts of each product to many customers. Each consumer needs only a very small number of products at a given time.

- **Differences in Assortment** Businesses typically specialize in producing a specific type of product while consumers want to purchase a variety of products.
- **Differences in Location** In today's global economy, thousands of miles often separate producers and consumers. Businesses may need to distribute their products to customers in many countries.
- **Differences in Timing** Businesses gain efficiency by producing large amounts of a product at one time. Some agricultural products can only be produced at a specific time of the year. Consumers may want to buy products at different times than when they are produced.

Distribution channels develop to make adjustments in these differences. An effective channel of distribution takes the large quantities produced and breaks them into quantities customers want to buy. The channel gathers products from many producers to offer customers the array of products they need in convenient locations. They move products efficiently from where they are produced to where they can be sold. Distribution channels store products from the time they are produced until customers want to buy them.

### Channels and Channel Members

The businesses that take part in a channel of distribution are known as **channel members**. All marketing functions and activities are performed by a channel member or by the consumer. Businesses join a channel of distribution when either the producer or consumer does not want to perform one or more marketing activities or when the business can perform the activities better or at a lower cost.

Channels are either direct or indirect. In a *direct channel of distribution*, products move from the producer straight to the consumer with no other organizations participating. An *indirect channel of distribution* includes one or more other businesses between the producer and consumer. These other businesses provide one or more of the marketing functions.

In indirect distribution channels for products that are sold to business customers, typical channel members are specialists in providing one of the marketing functions. The channel member may be a transportation company, a sales organization, or a financial institution. Some channel members may be responsible for almost all of the marketing functions. They obtain products from a number of small manufacturers and market them to many business customers.

Retailers are a well-known and important part of distribution channels for consumer products. *Retailers* are the final business organization in an indirect channel of distribution for consumer products. Retailers offer a



Name several ways a distribution center improves the exchange process between businesses and consumers.



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How can a knowledgeable salesperson increase customer confidence in their decision to purchase a product?

range of products at convenient locations for consumers. They help consumers to select the best products. They can provide financing and delivery services. They may even offer repairs and other customer services. Retailers assist manufacturers by storing, displaying, and advertising the products and often paying the manufacturer well before final consumers buy the products.

### checkpoint >>

What is the difference between a direct and an indirect channel of distribution?

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## 10-3

## Assessment



### Key Concepts

Determine the best answer.

- Which of the following conditions will result in a lower rather than a higher price?
  - a high customer demand
  - a large quantity of available products
  - a product that has very few similar competing products
  - All would result in lower prices.
- When businesses specialize in producing a specific type of product, a channel of distribution will be needed to adjust differences in
  - timing
  - location
  - assortment
  - quantity

### Make Academic Connections

- Math** Visit a department store or the online catalog of an Internet business. Identify five products that have been marked down and for which the original price and sale price are listed. Prepare a spreadsheet on which you list the product, the original price, and the sale price. Calculate the amount of the markdown and the markdown percentage. Determine the amount you would pay if you purchased all five items at the original price and if you purchased them at the sale price. What is the total savings in dollars and as a percentage of the original prices?
- Research** List the seven marketing functions. Use a business directory or the Internet to locate a business that specializes in the first function on your list. Choose a business that is part of an indirect channel of distribution. Do this for each function on your list.

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## 10-4 Plan Promotion



### Goals

Justify the importance of communication in marketing.

Identify and describe the common types of promotion.

### Key Terms

promotion  
effective communication  
personal selling  
advertising

### Focus on Real Life

The most powerful marketing tool influencing consumer behavior is promotion. It can attract your attention and remind you of important needs. It can tap your emotions and encourage you to buy. It is so powerful that it can even influence you to purchase a product you later decide was not the best choice.

Advertising is a promotional tool often used to influence emotions. The image created with a picture or other graphic, the language used to communicate information, even the colors of the headline, text, picture, or background can establish feelings of pleasure, happiness, fear, or sadness. An advertisement that leaves you with a positive feeling toward the product based on your emotions will be memorable and often will influence your feelings about the product or company.

## COMMUNICATION AND PROMOTION

Promotional messages from businesses, organizations, government agencies, and political candidates bombard you on a regular basis. Each day newspapers, television and radio programs, and mailboxes are filled with advertisements. Sides of buses, tops of taxis, even posters in restaurant restrooms contain promotional messages asking you to buy something, support a cause, or change an opinion. Every time you visit the World Wide Web, you are exposed to a variety of virtual promotions. It is apparent that businesses and organizations believe in the power of promotion, but is it always effective? What determines whether promotion is used well or not?

**Promotion** is any form of communication used to inform, persuade, or remind. Businesses, organizations, groups, or individuals use promotion. It is used to

influence knowledge, beliefs, and actions about products, services, or ideas. To plan effective promotion, marketers must first understand the communication process. They then must apply effective communication to interact with consumers in a way that results in information, understanding, and action.

### The Communication Process

Most of you have played the game where one person starts a message by whispering in the ear of a second person. That person whispers to the next and so on until several people have heard the message. When the last person states what he or she heard, it is seldom the same as the initial message. The game makes the point that effective communication is not easy. **Effective communication** is the exchange of information so there is common understanding by all participants. Effective communication is illustrated in Figure 10-4 on the next page.

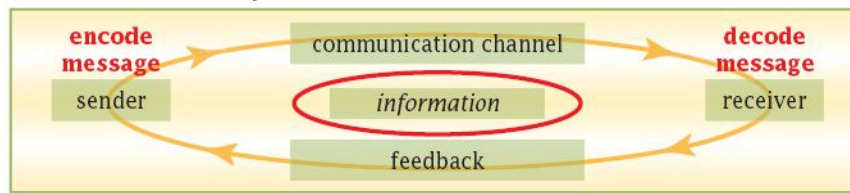
### main idea

Justify the importance of communication in marketing.



**FIGURE 10-4**

Describe the communication process.



Communication begins with a person or organization (*the sender*) that has information to communicate to another person or organization (*the receiver*). The sender chooses the way (*communication channel*) the information will be transmitted to the receiver. Before sending the message, the sender decides the form in which the information will be sent—text, spoken words, pictures. Preparing the information to be communicated is called *encoding*. The receiver obtains the information from the channel and interprets it for understanding (*decoding*). To be sure that the communication achieved the desired result, the sender needs to have a response from the receiver (*feedback*). If the receiver understood the information and responds in a way the sender wanted, communication was effective. If the receiver does not respond or acts in an unexpected way, communication failed.

### Communicating Through Promotion

Promotion is an important form of communication. A business needs to provide information to consumers in order to persuade them to make a purchase. As the

sender, the business decides what information to provide. The consumer is the receiver. The information is encoded in the form of a promotional message such as an advertisement. The business chooses an information channel. Common promotional channels include advertising media, salespeople, and the Internet. If the customer sees or hears the message, it is decoded. The response of the consumer gives feedback to the business about the effectiveness of the promotion.

Choosing target markets and studying their needs and decision-making process can make promotion more effective. When the focus of a business is a target market, communication can be very specific to the needs of that group using media that are familiar to and trusted by those consumers. The business will understand where the customers are in the decision-making process. It will tailor promotional messages at that stage. Early messages get attention and give simple information about the product or service and the needs it satisfies. Later promotions can compare the product to competing brands. They may point out advantages that are important to the target market. When customers purchase the product, promotions can switch to providing reinforcement of their decision and offering after-sale services.

#### Work as a Team

Choose a newspaper, television, or magazine advertisement that is familiar to each person. Using that advertisement, identify each of the components of the communication channel. Discuss whether the advertiser seems to be demonstrating effective or ineffective communication.



#### checkpoint >>

How does identifying a target market improve promotion communications?

## TYPES OF PROMOTION

An inventor asks you for advice on how to promote a new type of cellular telephone that combines high-speed video and audio. What types of promotion would you recommend? Would it be a glitzy television campaign or direct mail to cellular service subscribers? Maybe you would suggest text messaging delivered to cell phones. What about salespeople ready to demonstrate the new product to customers who visit shopping mall kiosks? There are many choices for promotional communications. The types of promotion are divided into personalized promotion and mass promotion. *Personalized promotion* communicates directly with each customer using information tailored to that person. *Mass promotion* communicates with many people at the same time with a common message.

### Personalized Promotion

Personalized promotion is the most effective form of marketing communication. It is also the most expensive. The most well known type of personalized promotion is personal selling. **Personal selling** is direct, individualized communication with prospective customers to assess their needs and assist them in satisfying those needs with appropriate products and services. Personal selling usually is done face-to-face with each customer. The customer visits the business to meet with a salesperson or the salesperson goes to the home or business of the customer. Personal selling also can be completed using telephone calls or live audio and video Internet connections. Because personal selling is often used for complex and expensive products and services, it may require several contacts between the salesperson and the customer to complete the sale.

## FYI

A 2004 survey by the Promotion Marketing Association found that consumer products companies spent twice as many of their marketing dollars on promotions, such as contests, coupons, and product samples, than they did on advertising.

To prepare for a sale, salespeople gather information on the prospective customer they will visit. They study product information. They need to be able to make the best match of products to customer needs. When a customer is qualified, meaning they appear to have the need for and resources to buy a product, the salesperson schedules a meeting with the customer. During the meeting, the salesperson asks questions, provides information, and demonstrates the product for the customer. If the product meets the customer's needs, the salesperson helps the customer make a decision to purchase. The salesperson may also arrange payment

### main idea

Identify and describe the common types of promotion.



or financing as well as product delivery and any services the customer requires. After the customer has used the product, the salesperson contacts the customer to answer additional questions and determine that the customer is satisfied.

### Mass Promotion

Mass promotion is directed to many people at the same time. If the people are from the same target market, they will have like needs. Because the promotional message is aimed at many people, it cannot be as individualized and specific as personalized promotion. However, reaching many people with the same message through mass media is much less expensive. While a large company may spend hundreds of thousands of dollars on a television advertisement, it reaches more than a million people. Therefore the cost of the message for each customer is quite low.

Advertising is the most known and used type of mass promotion. **Advertising** is any paid form of communication through mass media directed at identified consumers to provide information and influence their actions. The most common advertising media are television, radio, newspapers, magazines, mass mailings, outdoor displays, and the Internet.

Consumers are exposed to hundreds of communications including promotional communications in the media each day. These messages are not developed for or delivered directly to individuals. For this reason, the advertisements must be designed to attract attention and focus the consumer on a small amount of specific information. Most advertisements do not result in an immediate sale. Rather, they attempt to influence prospects to take additional action such as visit a store, gather more information, or test the product.

## A QUESTION OF ETHICS

### The Price of Success

Should a successful company be penalized because it has developed a successful product? An important principle of private enterprise is that businesses and consumers benefit from competition. The belief is that competition increases the choices and quality of products and reduced prices for consumers. European courts recently stepped in to fine Microsoft for trying to reduce competition for several of its products.

Microsoft develops and sells the operating system used in most personal computers. Because computer manufacturers know that consumers expect to buy computers that have the Microsoft operating system installed, they must purchase the systems from Microsoft. Microsoft includes many features

that are added to the operating system such as an Internet browser, e-mail and productivity programs, and a media player. All of the added programs are owned and sold by Microsoft. It is not easy for consumers to uninstall the programs once they buy a computer and difficult for Microsoft's competitors to get computer manufacturers and consumers to purchase and use their programs because Microsoft has already included them in the system.

Microsoft argues that its programs are popular among consumers, the features improve the operating system, and when pre-installed are easier to use and cheaper for consumers than if they had to buy all of the added programs separately. Its competitors argue that

Microsoft is monopolizing the market by forcing computer manufacturers to include its products and reject the similar products of competitors.

#### Think Critically

1. Should courts step in to prevent Microsoft from requiring computer manufacturers to install the additional Microsoft software in order to buy its popular operating system?
2. Do you believe competition among businesses usually benefits consumers? Why or why not?
3. Use the Internet to gather the latest information on legal actions taken by governments and competitors against Microsoft designed to encourage greater competition.

Other types of mass promotion are publicity, sales promotion, and public relations. *Publicity* is non-paid promotional communication presented by the media rather than by the business or organization that is being promoted. *Public relations* is an ongoing program of non-paid and paid communications. It is planned to favorably influence public opinion about an organization, marketing effort, idea, or issue. *Sales promotion* includes activities and materials designed to reinforce a company's brand and image. It is also a direct incentive to take an action likely to immediately increase sales of a product or service. Sales promotion includes contests and games as well as the many products companies give away to consumers or sell at a low cost that highlight a brand name or product.

### Mass Personalization

Businesses can combine the advantages of personalized and mass promotion by using mass personalization promotion. Mass personalization begins with promotion through mass media such as newspapers, mass mailings, or the Internet. Prospective customers see the advertisement and

become interested in the product or service. The company then provides an easy-to-use method for the consumer to gather more personalized information.

A customer who views an Internet advertisement or uses a search engine to gather information can be encouraged to complete an online survey. The questions provide the business with more specific information about the consumer, including their interests and needs. When the survey is submitted, the consumer is taken to a more specific web site tailored to their profile or they are sent specific information via e-mail. They can even contact an online customer service representative who can answer detailed questions. A simpler form of mass personalization on the Internet is a set of links that take customers with specific questions to other web pages. The links can help them choose a specific product and complete an online purchase.

#### checkpoint >>

Describe the advantages and disadvantages of the major types of promotion.

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## 10-4 Assessment



### Key Concepts

Determine the best answer.

- Which of the following is *not* a part of effective communication?
  - the sender
  - the receiver
  - the advertisement
  - information
- The most expensive but also most effective type of promotion is:
  - personal selling
  - advertising
  - publicity
  - public relations

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### Make Academic Connections

- Critical Thinking** Use Figure 10-4 to illustrate three different examples of business communications: a business-to-business communication, a business-to-final consumer communication, and a consumer-to-business communication.
- Research** Identify three different products or services you would consider buying. For each product, identify the information you need to help you make a purchase decision and what media or information source you would choose to gather the information. Describe how a business could use promotion to influence your decision.

## CHAPTER 10 Assessment

**Xtra! Quiz Prep**  
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### Business Notes

#### 10-1 MARKETING BASICS

1. Marketing is an organizational function and a set of processes for creating, communicating, and delivering value to customers and for managing customer relationships in ways that benefit the organization and its stakeholders. The seven marketing functions are product and service management, distribution, selling, marketing-information management, financial analysis, pricing, and promotion.
2. A marketing strategy is a two-step process used to plan and market products. The first step is to identify a target market and the second step is to develop a marketing mix.
3. The steps in the consumer decision-making process are: recognize a need, gather information, select and evaluate alternatives, make a purchase decision, and determine the effectiveness of the decision.

#### 10-2 DEVELOP EFFECTIVE PRODUCTS AND SERVICES

4. The steps in a marketing research study are: define the marketing problem, study the situation, develop a data collection procedure, gather and analyze information, and propose a solution.
5. The components of a product are the basic product, product features, options, brand name, packaging, and a guarantee or warranty.

6. Products are tangible items that you can see and examine. Services are intangible activities that are consumed at the same time they are produced.

#### 10-3 PRICE AND DISTRIBUTE PRODUCTS

7. Businesses use the following formula for setting the price of a product:  $\text{Selling price} = \text{Product costs} + \text{Operating expenses} + \text{Profit}$ .
8. A direct channel of distribution moves products from the producer directly to the consumer with no other organizations participating. An indirect channel of distribution includes one or more other businesses between the producer and consumer. These other businesses provide one or more of the marketing functions.

#### 10-4 PLAN PROMOTION

9. When the focus of a business is a target market, communication can be very specific to the needs of that group using media that are familiar to and trusted by those consumers.
10. There are two major types of promotion. Personalized promotion communicates directly with each customer using information tailored to that person. Mass promotion communicates with many people at the same time with a common message.

### Communicate Business Concepts

1. Some companies are not marketing businesses, but complete marketing activities as a part of their business operations. Other businesses are marketing businesses because their primary activities are to complete marketing activities. Identify three businesses from your community that are not marketing businesses and three that are marketing businesses. Justify your choices.
2. Use the Yellow Pages of the telephone directory for your town or city. For each of the seven marketing functions, locate a business whose primary work relates to that function. Identify the work of the business to show how it relates to the marketing function.
3. You are planning the marketing strategy for a new portable printer that weighs less than two pounds and can fit in a backpack or briefcase. Identify one target market for the printer that is a business consumer and one that is a final consumer. Describe how the marketing mix would be similar and different for each target market.
4. Often it is believed that people will purchase the lowest-priced product available, but experience

shows people will pay more for a product if they believe the higher-priced product is better than the lowest-priced products. Think of several products you purchase for which you know you pay more than you would have to. List the features of the products that cause you to pay a higher price. After you have developed the list, classify the reasons according to the four elements of the marketing mix: product, distribution, price, promotion.

5. The price charged for a product is affected by a number of factors. For each of the following situations, identify whether you believe it will result in a higher or lower price. Write one or two sentences to justify each answer.

- a. One customer purchases a very large quantity of a product.
  - b. A business provides a high level of customer service.
  - c. The product is very fragile and requires special handling.
  - d. The product moves through many businesses in the channel of distribution before it reaches customers.
6. Internet services have the same traits as those provided by bricks and mortar businesses. Locate an Internet service business. Review the company's web site and find information that describes how the service is intangible, inseparable, perishable, and heterogeneous.

## Develop Your Business Language

Match the terms listed with the definitions.

7. Any paid form of communication through mass media directed at identified consumers to provide information and influence their actions.
8. The exchange of information so there is common understanding by all participants.
9. A specific group of consumers that have similar wants and needs.
10. Everything a business offers to satisfy a customer's needs.
11. The locations and methods used to make a product or service available to the target market.
12. The blending of the marketing elements.
13. Intangible activities that are consumed at the same time they are produced.
14. An organizational function and a set of processes for creating, communicating, and delivering value to customers and for managing customer relationships in ways that benefit the organization and its stakeholders.
15. The route a product follows and the businesses involved in moving a product from the producer to the final consumer.
16. Finding solutions to problems through carefully designed studies involving consumers.
17. A company's plan that identifies how it will use marketing to achieve its goals.
18. The reasons consumers decide what products and services to purchase.
19. Direct individualized communication with prospective customers to assess their needs and assist them in satisfying those needs with appropriate products and services.
20. Any form of communication used to inform, persuade, or remind.
21. The money a customer must pay for a product or service.

### KEY TERMS

- a. advertising
- b. buying motives
- c. channel of distribution
- d. consumer decision-making process
- e. distribution
- f. effective communication
- g. marketing
- h. marketing mix
- i. marketing research
- j. marketing strategy
- k. personal selling
- l. price
- m. promotion
- n. services
- o. target market

## Make Academic Connections

22. **MATH** The use of intermediaries reduces the number of exchanges needed to distribute products from producers. Consider a situation where three manufacturers produce products that are purchased by 1,000 customers. Use the following information to determine the number of exchanges needed for each customer to purchase one product from each manufacturer.
- How many exchanges will be needed if each manufacturer sells one product to each of the 1,000 customers?
  - How many exchanges will be needed if each manufacturer sells its products to 10 retailers and each of the retailers sells all three products to 100 customers?
23. **RESEARCH** Use the Internet, business magazines, or newspapers to locate a report on a marketing

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research study. Review the research and prepare a two-page analysis. The report should include the purpose of the research, the characteristics of the people studied, the data collection method, important findings, and the sponsor of the research. Describe how a business could use the research to improve their marketing strategy.

24. **COMMUNICATION** Promotion is used for three purposes: to inform, to persuade, and to remind. Select a product or service with which you are familiar. Write three short radio advertisements for the product. Direct each advertisement at one of the three purposes of promotion.
25. **MATH** Calculate the missing amounts in the table below for each product.

PRODUCT	PRODUCT COST	MARKUP PERCENT	MARKUP AMOUNT	SELLING PRICE	TOTAL COST	NET PROFIT
A	\$30	40	\$12			\$2
B		50	\$50			\$25
C	\$60			\$84	\$72	

## Linking School and Community

Interview three people from your community to learn more about the consumer decision-making process. One person should be approximately your age or younger, another at least 10 years older than you, and the third at least 20 years older than you. Ask each to identify a product they recently purchased. Then ask them questions about how they decided they needed to make the purchase, how they gathered information

about choices, and how they made the decision, as well as their satisfaction following the decision. Ask them if they believe they made an effective decision or not and why. When you have completed all of the interviews, compare the procedures they followed with the steps of the consumer decision-making process.

## Web Workout

The Internet is becoming a very strong tool for marketing research. Companies can place surveys online, run online focus groups, and deliver alternative web pages to see which ones are most effective. Harris Interactive has more than 6 million members from more than 125 different countries in its Harris Pole Online Panel. Visit the Harris Interactive web site. Evaluate the benefits that their research services offer customers.

### Think Critically

- Read an article that appears under the "Headlines" banner. Describe how the information that Harris has collected could help a business.
- Browse through the Harris site and list all the marketing functions where Harris provides marketing research services.
- List three of the specialty groups that Harris Pole Online uses to collect information for companies. Why would companies be interested in these market segments?

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## Decision-Making Strategies

DeeLites is a popular bakery in a small Iowa town. The bakery produces a variety of fresh pastries, cakes, pies, and other specialty desserts that have reduced calories. Loyal customers say that the low-calorie baked goods are better tasting than similar higher-calorie products they can purchase elsewhere. Customers have encouraged the owner of DeeLites to allow ordering over the Internet so their friends and relatives from other cities

and states can purchase the products. The owner would like to increase sales, but is concerned whether the Internet is a good way to expand.

26. What would be the advantages of using the Internet to expand sales?
27. What changes in the marketing mix would have to be made to sell products using the Internet?

## Business Plan

Business plans are the key to acquiring financing for a start-up business. The business plan gives entrepreneurs a tool for evaluating, organizing, and selling a new business concept.

After conducting the appropriate research, select a business to start in your community and write a business plan. Your business plan should include an Executive Summary (brief synopsis of the key points and strengths included in the plan), Company Description, Industry Analysis, Target Market, Competitive Analysis, Marketing Plan and Sales Strategy, Operations, Management, and Organization, Long-Term Development, and Financials. You may also include attachments such as certifications, licenses, and tax requirements. The business plan can be single- or double-spaced, but cannot be longer than 30 pages.

The oral presentation will include five minutes for setup and 10 minutes to present your business plan. Visual aids may be used during the presentation. Following each oral presentation, the judges or class may ask questions for five minutes.

## PERFORMANCE INDICATORS EVALUATED

- Understand the complete business plan.
- Present the business plan with confidence and authority.
- Reinforce the business plan with appropriate research.
- Reinforce the presentation with appropriate visual aids.
- Produce a clear and concise written document that follows grammar, punctuation, spelling, and business style rules.

*For more detailed information about performance indicators, go to the FBLA web site.*

1. Why is the business plan so important for an entrepreneur?
2. Why does a financial institution want to know the long-term goals for a business?
3. List three good sources of information when writing a business plan.

<http://www.fbla-pbl.org/>

## Portfolio Activity

[school.cengage.com/business/introtobiz](http://school.cengage.com/business/introtobiz)

Access the web site shown here to find portfolio activities for this chapter. Use the activities to provide tangible evidence of your learning.