

Product II: Product Strategy, Branding, and Product Management

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- 9.2** Understand how firms manage products throughout the product life cycle. pp. 271–274

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Courtesy of Becky Frankiewicz, PepsiCo, Inc.

Becky Frankiewicz

▼ A **Decision Maker** at the Quaker Oats Company

Becky Frankiewicz is the Senior Vice President and General Manager of Quaker Foods North America, a subsidiary of PepsiCo, Inc., an important better-for-you brand within the company's global growth strategy.

Becky began her PepsiCo career in finance working in the strategy/mergers and acquisitions practice for Frito Lay. Since then she's held a variety of roles across marketing and innovation for Quaker Foods North America and the Global Nutrition Group.

Most recently Becky spent two years operating in a sales capacity, leading and developing PepsiCo's Costco business globally across nine countries. As part of this role, she was responsible for setting the long-term strategic plan, delivering the annual operating plan, and managing the overall relationship with the customer.

In October 2014, Becky rejoined the Quaker Foods North America team as general manager, a role that allows her to serve as the keeper of a loved and trusted health and wellness brand, steeped in nearly 140 years of heritage.

Before PepsiCo, Becky worked in strategic consulting with Deloitte and Andersen Consulting and held a series of management and leadership roles at Procter & Gamble. She holds a BBA in Marketing from the University of Texas and an MBA in Finance from the University of Texas San Antonio.

Passionate about the development of female leaders in business, Becky is the executive sponsor of PepsiCo's Women's Inclusion Network and sits on the Board of Directors for Girls in the Game, a nonprofit committed to developing leadership in at-risk teen girls.

Becky resides in the suburbs of Chicago with her husband and three daughters.

What I do when I'm not working:

I have three beautiful daughters—Parker (15), Payton (13), and Piper (11)—who keep me quite busy. They are all very strong students in school and all three dance competitively outside of school. They are my “why” to borrow Simon Sinek's term. I want to empower them to be and do whatever they choose in life and show them that you can have a family and achieve your career goals. My husband, Marek, and

I were college sweethearts and have been married for 20 years! He's a keeper.

First job out of school:

I worked in retail sales for Procter & Gamble going door to door to grocery stores. It was a critical experience as it taught me what retail managers' value and gave a bit of insight into how consumers make decisions. I say a bit of insight—as it's the reason I've stayed in this business.

With all of the tools we have today in marketing, there is not a reliable tool to predict consumer behavior. It's the beauty of humanity; we are all different in certain ways and we continue to change making us ultimately unpredictable!

Business book I'm reading now:

The Road to Character by David Brooks

Becky's Info

My hero:

My mom. She worked outside the home at a time very few women did and although I intellectually know she worked long hours, I never felt her absence at home. She taught me very early that I could do

whatever I wanted in life—and I believed her. She is truly remarkable!

My motto to live by:

Listen for what you do not want to hear. As you grow as a leader—it becomes harder for you to get the “real” story so you have

to listen very well. A wise person once shared this motto with me, and I’ve adopted it.

What drives me:

My family, helping consumers live more balanced lives, feeling like I’m on the path for my purpose.



Here's my **problem...**

Real People, Real Choices

Quaker is one of the oldest registered trademarks in the United States. The original trademark was filed in 1877, so the brand has a rich history. We know (and love) that for many people, Quaker is synonymous with oatmeal. It's what they grew up eating, continue to eat in their adulthood, and in many cases feed their own children.

Through a commitment to innovation, over the last several decades the Quaker brand has been able to expand its offerings beyond traditional oatmeal to cross into many different types of products and sub-brands. This includes things like granola bars (e.g., the Quaker Chewy sub-brand) as well as ready-to-eat cereals (e.g., the Quaker Oatmeal Squares or Quaker Life Cereal sub-brands). Although oatmeal continues to—and will always—be our heart and soul, we actually make many different types of wholesome and delicious products for people to enjoy.

Further, although Quaker has always thought of our core consumer as moms (who act as the primary grocery shopper for their families), the brand has at times had to evolve how we position ourselves given that consumers and their preferences are constantly changing, especially when it comes to food.

When I joined the Quaker business in October 2014, one of the first things I did was examine our marketing approach. For the last several years, Quaker had been operating under what is called a “master brand strategy,” in that it applied a singular brand position, message, and look and feel across all Quaker products and sub-brands. It also targeted the same, universal audience (in our case, women ages 25–44, with 2 + school-aged kids). This strategy came to life as a campaign called “Quaker Up,” and carried the message that Quaker could help fuel families by delivering good energy through the power of whole grain oats.

Although our initial intent was to continue operating under this type of master brand strategy, we had to pause given that we were not seeing the halo we hoped for across our full portfolio. The hypothesis was that communicating a singular benefit was potentially a lowest common denominator across our full business, but it was clear that some products were benefiting from the singular message more than others.

The key question became clear: would using the Quaker Up/energy message across all products and sub-brands drive return on investment (ROI) as effectively and efficiently as having a separate message for each product?

Becky considered her Options 1•2

1

Option

Continue on the current path with the same brand positioning and target through the master brand approach. This would be the safest route to maintain the equity of the brand, and we could confidently estimate ROI based on the brand's performance in prior years. In addition, sticking with the master brand approach would be the most economical from a media buy perspective because it required a lower spend on each portion of the portfolio, and we hoped the singular Quaker message would have a halo effect that equally benefitted all of our products.

2

Option

Explore a new positioning and target through a consumer deep dive that could halo across all products yet be customized with different reasons to believe (meaning proof that the brand delivers the benefits that it promises) for each. At a minimum, this option would benefit the business because the brand management team would gain a deeper understanding of the benefits consumers are looking for in the current marketplace. Additionally, these insights would help improve our brand positioning with credible reasons to believe, which should accelerate growth. On the other hand, developing a new positioning strategy would be less efficient compared to the master brand approach because we would have to invest additional marketing funds for each category or sub-brand across the portfolio. Therefore, we would likely have to prioritize how we spent our dollars across products. Plus, there is the risk that the change in positioning may not resonate with consumers of a well-established, mature brand like Quaker.

Now put yourself in Becky's shoes: Which option would you choose, and why?

You Choose

Which **Option** would you choose, and **why**?

☐ Option 1 ☐ Option 2

See what option Becky chose in MyMarketingLab™.

MyMarketingLab™

★ Improve Your Grade!

Over 10 million students improved their results using the Pearson MyLabs. Visit mymktlab.com for simulations, tutorials, and end-of-chapter problems.

Chapter 9

9.1

Product Planning: Develop Product Objectives and Product Strategy

OBJECTIVE

Discuss the different product objectives and strategies a firm may choose.

(pp. 264–270)

product management

The systematic and usually team-based approach to coordinating all aspects of a product's strategy development and execution.

What makes one product fail and another succeed? It's worth reemphasizing what you learned in Chapter 3: *Firms that plan well succeed.* Product planning plays a big role in the firm's *market planning*. And among the famous four Ps of the marketing mix, each P is not created equal—that is, the best pricing, promotion, and physical distribution strategies cannot overcome fundamental problems with the product over the long run! Hence, product planning takes on special significance in marketing.

Strategies outlined within the product specify how the firm expects to develop a value proposition that will meet marketing objectives. Product planning is guided by the continual process of **product management**, which is the systematic and usually team-based approach to coordinating all aspects of a product's strategy development and execution. In some companies, product management is sometimes also called *brand management*, and the terms refer to essentially the same thing. The organization members that coordinate these processes are called *product managers* or *brand managers*. We discuss the role of these individuals in more detail later in the chapter.

As more and more competitors enter the global marketplace and as technology moves forward at an ever-increasing pace, firms create products that grow, mature, and then decline at faster and faster speeds. This acceleration underscores that smart product management strategies are more critical than ever. Marketers just don't have the luxury of trying one thing, finding out it doesn't work, and then trying the next thing; they have to multitask when it comes to product management!

In Chapter 8, we talked about how marketers think about products—both core and augmented—and about how companies develop and introduce new products. In this chapter, we finish the product part of the story as we see how companies manage products, and then we examine the steps in product planning, shown in  Figure 9.1. These steps include developing product objectives and the related strategies required to successfully market products as they evolve from “newbies” to tried-and-true favorites—and in some cases finding new markets for these favorites. Next, we discuss branding and packaging, two of the more important tactical decisions product planners make. Finally, we examine how firms organize for effective product management. Let's start with an overview of how firms develop product-related objectives.

Figure 9.1  **Process** | Steps to Manage Products

Effective product strategies come from a series of orderly steps.

**Getting Product Objectives Right**

When marketers develop product strategies, they make decisions about product benefits, features, styling, branding, labeling, and packaging. But what do they want to accomplish? Clearly stated product objectives provide focus and direction. They should support the broader marketing objectives of the business unit in addition to being consistent with the firm's overall mission. For example, the objectives of the firm may focus on return on investment (ROI). Marketing objectives then may concentrate on building market share or the unit or dollar sales volume necessary to attain that ROI. Product objectives need to specify how product decisions will contribute to reaching a desired market share or level of sales.

To be effective, product-related objectives must be measurable, clear, and unambiguous—and feasible. Also, they must indicate a specific time frame. Consider, for

example, how Amy's, a popular organic and health-conscious frozen ethnic entrée manufacturer, might state its product objectives:

- "In the upcoming fiscal year, reduce the fat and calorie content of our products by 15 percent to satisfy consumers' health concerns."
- "Introduce three new products this quarter to the product line to take advantage of increased consumer interest in Mexican foods."
- "During the coming fiscal year, improve the chicken entrées to the extent that consumers will rate them better tasting than the competition."

Planners must keep in touch with their customers so that their objectives accurately respond to their needs. In Chapter 2, we introduced you to the idea of *competitive intelligence*, and an up-to-date knowledge of competitive product innovations is important to develop product objectives. Above all, these objectives should consider the *long-term implications* of product decisions. Planners who sacrifice the long-term health of the firm to reach short-term sales or financial goals choose a risky course. Product planners may focus on one or more individual products at a time, or they may look at a group of product offerings as a whole. Next, we briefly examine both of these approaches. We also look at one important product objective: product quality.

Objectives and Strategies for Individual Products

Everybody loves the MINI Cooper. But it wasn't just luck or happenstance that turned this product into a global sensation. Just how do you launch a new car that's only 142 inches long and makes people laugh when they see it? Its parent company BMW succeeded by deliberately but gently poking fun at the MINI Cooper's small size. The original launch of the MINI Cooper included bolting the MINI onto the top of a Ford Excursion with a sign reading, "What are you doing for fun this weekend?" BMW also mocked up full-size MINIs to look like coin-operated kiddie rides you find outside grocery stores with a sign proclaiming, "Rides \$16,850. Quarters only." The advertising generated buzz in the 20- to 34-year-old target market, and today the MINI is no joke.

As a smaller brand, the MINI never had a huge advertising budget—in fact it was the first launch of a new car in modern times that didn't include TV advertising. Instead, the MINI launched with print, outdoor billboards, and online ads. It has an active and ongoing social media presence. The objective wasn't a traditional heavy car launch; rather, BMW envisioned a "discovery process" by which target consumers would find out about the brand on their own and fall in love with it. Ads promoted "motoring" instead of driving, and magazine inserts included MINI-shaped air fresheners and pullout games. *Wired* magazine even ran a cardboard foldout of the MINI suggesting that readers assemble and drive it around their desks making "putt-putt" noises. *Playboy* came up with the idea of a six-page MINI "centerfold" complete with the car's vital statistics and hobbies. By the end of its first year on the market, the MINI was rated the second-most memorable new product of the year!

Like the MINI, product strategies often focus on a single new product. (As an interesting sidebar, enough customers have complained about the cramped quarters in the MINI's backseat—it is, after all, a "mini"—that BMW acquiesced and introduced a "larger MINI." Now that's an oxymoron—something like a "jumbo shrimp"!)¹ Strategies for individual products may be quite different, depending on the situation: new products, regional products, mature products, or other differences. For new products, not surprisingly, the objectives relate heavily to producing a very successful introduction.

After a firm experiences success with a product in a local or regional market, it may decide to introduce it nationally. Trader Joe's, for example, opened its doors in Pasadena, California, in 1967 (and it's still there today). But it wasn't until 1993 that the brand moved outside of California, heading east to Phoenix, Arizona. Today, you can find Trader Joe's throughout most of the country, though you won't yet find it in all 50 states.²

For mature products like 80-year-old Lay's potato chips, product objectives may be focused on how to leverage the brand to develop new varieties of the product that appeal to changing consumer tastes. Today there are four different main categories of Lay's potato chips (Traditional Lay's, Wavy, Kettle Cooked, and Stax). Each of these categories has a variety of different flavors that range from the more traditional "Barbeque" to the more adventurous "Kettle Cooked Wasabi Ginger."³ Lay's involves its consumers in the process of developing new flavors through its "Do Us A Flavor" contest in which anyone is allowed to submit a flavor idea and the public is able to vote on their favorite flavors, with the ultimate winner taking home a cool \$1 million or 1 percent of net sales through a set time frame, whichever is higher. The winner also gets the satisfaction of knowing that this winning flavor actually will be taken to market as the newest Lay's potato chip flavor. In 2015 the winning submission was (drumroll please): Biscuits and Gravy, proving that creativity and fun have a place in keeping even an 80-plus-year-old brand alive.⁴

Objectives and Strategies for Multiple Products

Although a small firm might get away with a focus on one product, larger firms often sell a set of related products. This means that strategic decisions affect two or more products simultaneously. The firm must think in terms of its entire portfolio of products. As  Figure 9.2 shows, product planning means developing *product line* and *product mix* strategies to encompass multiple offerings.

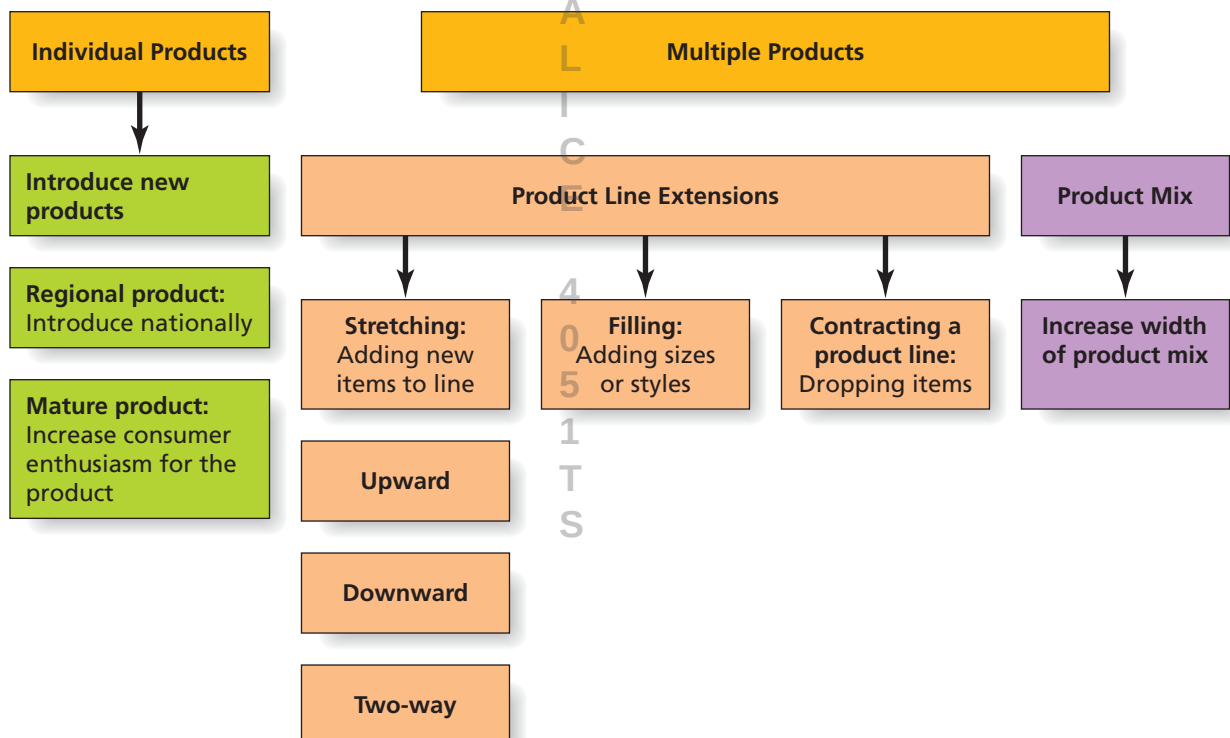
A **product line** is a firm's total product offering to satisfy a group of target customers. For example, as we saw in Chapter 4 Campbell's Soup offers several different brands to satisfy different consumer tastes and needs. One is Campbell's Slow Kettle[®] soup, which is positioned as a more luxurious experience for more discerning consumers. Slow Kettle[®] is preservative free, features creative combinations of ingredients, and employs a slow simmer method of cooking to draw out each soup's unique flavor. On the other hand,

product line

A firm's total product offering designed to satisfy a single need or desire of target customers.

Figure 9.2  **Process** | Objectives for Single and Multiple Products

Product objectives provide focus and direction for product strategies. Objectives can focus on a single product or a group of products.



Campbell's Soup on the Go is positioned as a quick snack for those with limited time to eat. Soup on the Go features simple soups packaged in a cup that is microwavable for heating, easy to grip with one hand, and consumed by tilting the container in the same way one would do for a can of soda.

The **product line length** is determined by the number of separate items within the same category, in Campbell's case a total of nine brands each with multiple **stock-keeping units (SKUs)**. An SKU is a unique identifier for each distinct product. Hence, for Campbell's Soup on the Go, each SKU would represent a unique item within the brand, which in this case would be each of the different soup recipes sold under that brand.⁵

A *full line strategy* targets many customer segments to boost sales potential. In contrast, a *limited-line strategy*, with fewer product variations, can improve the firm's image if consumers perceive it as a specialist with a clear, specific position in the market. A great example is Rolls-Royce Motor Cars, which BMW also owns (how about that—from MINI Coopers to Rolls—quite a stable of brands!). Rolls-Royce makes expensive, handcrafted cars built to each customer's exact specifications and for decades maintained a unique position in the automobile industry. Every Rolls Phantom that rolls out the factory door is truly a unique work of art.⁶

Organizations may decide to extend their product line by adding more brands or models. In recent years the fragrance company Estee Lauder has acquired several high-end, niche fragrance brands such as "By Kilian" and "Le Labo" to take advantage of a consumer trend toward fragrances that more closely express each wearer's individuality.⁷

When a firm stretches its product line, it must decide on the best direction to go. If a firm's current product line includes middle- and lower-end items, an *upward line stretch* adds new items—higher-priced entrants that claim better quality or offer more bells and whistles. Kia has been working to stretch its low-priced product line upward with new brand-building activities and a new luxury car. To achieve that objective, in 2013 Kia launched its \$66,000 luxury K900, positioning it between the BMW 5-Series (at about \$50,000) and the BMW 7-Series (at about \$75,000).⁸ It is often challenging for a brand to make the move from offering products in the mid-to-low priced category to offering a high-end product, and the K900 has experienced this first hand in the few years since it was launched. Lower-than-expected sales motivated Kia to cut the price of the Premium trim version of the car (one tier below the luxury trim version initially launched and discussed) by \$5,000 down to \$55,400.⁹

Conversely, a *downward line stretch* augments a line when it adds items at the lower end. Here, the firm must take care not to blur the images of its higher-priced, upper-end offerings. Rolex, for example, may not want to run the risk of cheapening its image with a new watch line to compete with Timex or Swatch. In some cases, a firm may come to the realization that its current target market is too small. In this case, the product strategy may call for a *two-way stretch* that adds products at both the upper and lower ends.

A *filling-out strategy* adds sizes or styles not previously available in a product category. Mars Candy did this when it introduced Reese's Minis as a knockoff of its already crazy-popular full-sized product. In other cases, the best strategy may be to *contract*—meaning reduce the size of a product line, particularly when some of the items are not profitable and the complexity of managing them becomes detrimental to the company. For example, P&G agreed in 2015 to sell a number of its beauty brands and associated products to the company Coty. Included in the deal were such well-known brands as Cover Girl and Clairol. This strategic move was designed to free up company resources at P&G to focus on higher potential brands and reduce the costs and complexities associated with managing a large number of underperforming brands within the company's brand portfolio.¹⁰

We've seen that there are many ways a firm can modify its product line to meet the competition or take advantage of new opportunities. To further explore these product strategy decisions, let's stick with the P&G theme and return to the "glamorous" world of dish detergents. By the way, P&G basically invented the product management system

product line length

Determined by the number of separate items within the same category.

stock-keeping unit (SKU)

A unique identifier for each distinct product.

that is widely used in firms around the world, so it's certainly fitting to focus on this giant consumer products company. What does P&G do if the objective is to increase market share? One possibility would be to expand its line of liquid dish detergents—as the company did with its move to expand Gain's popularity from laundry soap to dishwashing liquid. If the line extension meets a perceived consumer need the company doesn't currently address, this would be a good strategic objective. Gain brought a bevy of laundry loyalists into its new category in dishes, making for a great base of business on which to build.

But whenever a manufacturer extends a product line or a product family, there is risk of **cannibalization**. This occurs when the new item eats up sales of an existing brand as the firm's current customers simply switch to the new product. That may explain why P&G's Gain dishwashing positioning is all about the unique Gain scent. For Gain Flings (basically the Gain equivalent of Tide Pods), the message to consumers is "get 50 percent more of that original Gain scent you love—it's music to your nose!"

cannibalization

The loss of sales of an existing brand when a new item in a product line or product family is introduced.

product mix

The total set of all products a firm offers for sale.

product mix width

The number of different product lines the firm produces.

Product Mix Strategies

A firm's **product mix** describes its entire range of products. When they develop a product mix strategy, marketers usually consider the **product mix width**, which is the number of different product lines the firm produces. If it develops several different product lines, a firm reduces the risk of putting all its eggs in one basket. Normally, firms develop a mix of product lines that have some things in common.

Constellation Brands, an international producer and marketer of wine, beer, and spirits, recently acquired craft beer producer Ballast Point Brewing & Spirits for \$1 billion to add a line of craft beers to its current portfolio of beer brands. Constellation was originally more focused on wine and spirits but has been expanding its offering of beers since it acquired permission to sell Corona and Modelo beers in 2013. For Constellation the addition of Ballast Point makes sense as it increases the types of brands and products that it offers to meet the growing consumer demand for craft beers, a market that is expected to continue to grow for the foreseeable future. Some of Ballast Point's products bring with them a loyal following, and Constellation hopes these loyalists will ask local watering holes to sell the product. It stands to reason that Constellation also may be able to increase sales of some of their other beer brands to establishments that currently carry Ballast Point beers through cross selling opportunities. Strategically, the acquisition of Ballast Points has potential to increase Constellation's product mix width in a way that adds synergies and opportunities for further growth.¹¹

product quality

The overall ability of the product to satisfy customer expectations.



Courtesy of Ballast Point Brewing & Spirits

Constellation Brands acquired the Ballast Point craft beer brand to diversify its product mix.

Quality as a Product Objective: TQM and Beyond

Product objectives often focus on **product quality**, which is the overall ability of the product to satisfy customer expectations. Quality is tied to how customers *think* a product will perform, not necessarily to some technological level of perfection. That is, for all intents and purposes, perception is reality. Product quality objectives coincide with marketing objectives for higher sales and market share and to the firm's objectives for increased profits.

In 1980, just when the economies of Germany and Japan were finally rebuilt from World War II and were threatening American markets with a flood of new products, an NBC documentary on quality titled *If Japan Can Do It, Why Can't We?* fired a first salvo to the American public—and to American CEOs—to warn that American product quality was becoming inferior to

Ripped from the Headlines

Ethical/Sustainable Decisions in the Real World

How precise must marketing messaging be about environmentally friendly or all natural products? Can we call a product “all natural” if it is made with 99 percent all natural ingredients and 1 percent artificial components? What if the ratio is 90 percent all natural ingredients and 10 percent artificial components. Would your opinion shift then?

Toward the end of 2015, a class-action lawsuit was filed against the consumer packaged goods company Kimberly Clark by two plaintiffs. They claimed that they had been deceived by the labeling of Huggies “Pure and Natural” diapers and Huggies “Natural Care” wipes. Huggies marketed its “Pure and Natural” diapers as a “super-premium diaper that includes natural, organic materials and ingredients to provide gentle protection for new babies, as well as initial steps toward environmental improvements, without sacrificing performance.”¹² This rather vague statement was viewed as perpetrating misperceptions about the product’s actual level of natural, organic content. The plaintiffs stated in their

lawsuit that they would not have purchased either product had they known that they contained ingredients that were not naturally occurring and potentially harmful.¹³

So just what does a company have to deliver in the form of a product to label it as “pure,” “natural,” “green,” or “sustainable” on its packaging and emphasize these attributes in its marketing communication? And what should consumers expect of the product in terms of its ingredients and attributes based on such labels and identifications? Although the company might argue that nothing about the Huggies labeling and messaging was technically false, it’s not hard to see how consumers might have made certain assumptions about the product as a result of the specific information that it emphasized in its marketing communication about these products.

ETHICS CHECK:

Should marketers be allowed to promote a product to consumers as “green,” or “natural” if they know that such claims are only partially accurate?

☐ YES ☐ NO

other global players.¹⁴ So began the **total quality management (TQM)** revolution in American industry. TQM is a business philosophy that calls for company-wide dedication to the development, maintenance, and continuous improvement of all aspects of the company’s operations. Indeed, some of the world’s most admired, successful companies—top-of-industry firms such as Nordstrom, 3M, Boeing, and Coca-Cola, to name a few—endorse a total quality focus.

Product quality is one way that marketing adds value to customers. However, TQM as an approach to doing business is far more sophisticated and impactful than simply paying attention to products that roll off the assembly line. TQM firms promote a culture among employees that *everybody* working there serves its customers—even employees who never interact with people outside the firm. In such cases, coworkers are **internal customers**—other employees with whom they interact, and these employees harbor an attitude and belief that providing a high quality of service internally will ultimately have an impact on external customers’ experiences with the firm and its offerings. This **internal customer mind-set** comprises the following four beliefs: (1) employees who receive my work are my customers, (2) meeting the needs of employees who receive my work is critical to doing a good job, (3) it is important to receive feedback from employees who receive my work, and (4) I focus on the requirements of the person who receives my work.

The bottom line is that TQM maximizes external customer satisfaction by involving all employees, regardless of their function, in efforts to continually improve quality. This results in products that perform better and more fully meet customer needs. For example, TQM firms encourage all employees, even the lowest-paid factory workers, to suggest ways to improve products—and then reward them when they come up with good ideas.

TQM fired the first shot on product quality, and since then many companies around the world look to the uniform standards of the International Organization for Standardization (ISO) for quality guidelines. This Geneva-based organization developed a set of criteria to improve and standardize product quality in Europe. The **ISO 9000** is a broad set of guidelines that establish voluntary standards for quality management. These guidelines ensure that an organization’s products conform to the customer’s requirements.

ISO subsequently has developed a variety of other standards, including ISO 14000, which concentrates on environmental management, and ISO 22000 on food safety management and ISO 27001 on information security. Because members of the European Union and

total quality management (TQM)

A management philosophy that focuses on satisfying customers through empowering employees to be an active part of continuous quality improvement.

internal customers

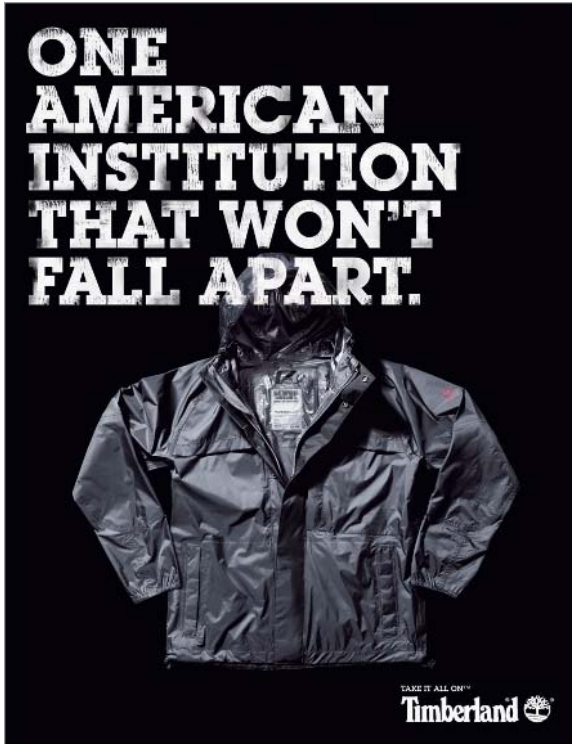
Coworkers that interact who harbor the attitude and belief that all activities ultimately impact external customers.

internal customer mind-set

An organizational culture in which all organization members treat each other as valued customers.

ISO 9000

Criteria developed by the International Organization for Standardization to regulate product quality in Europe.



Timberland uses a patriotic message to underscore an emphasis on quality.

Six Sigma

A process whereby firms work to limit product defects to 3.4 per million or fewer.

other European countries prefer suppliers with ISO 9000 and ISO 14000 certification, U.S. companies must comply with these standards to be competitive there.¹⁵

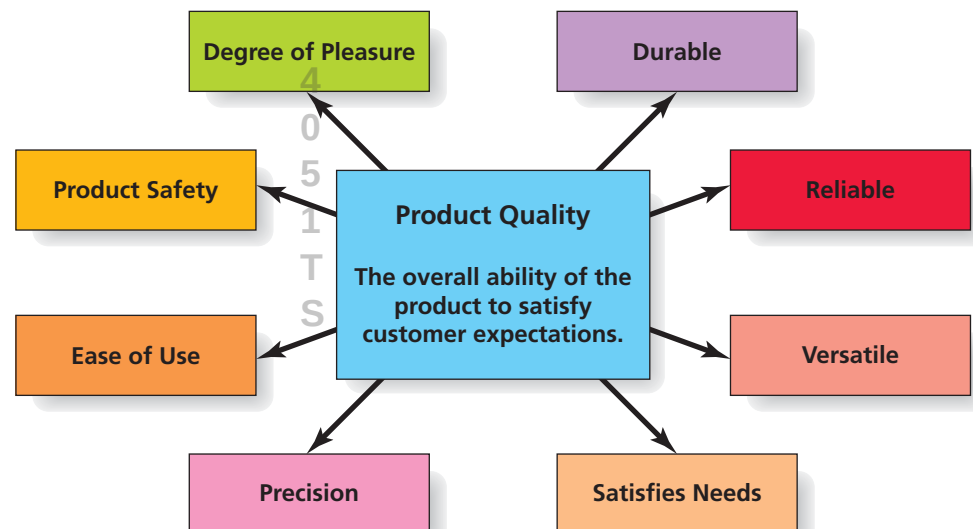
One way that companies can improve quality is to use the **Six Sigma** method. The term *Six Sigma* comes from the statistical term *sigma*, which is a standard deviation from the mean. Six Sigma refers to six standard deviations from a normal distribution curve. In practical terms, that translates to no more than 3.4 defects per million—getting it right 99.9997 percent of the time. As you can imagine, achieving that level of quality requires a rigorous approach (try it on your term papers—even when you use spell-check!), and that’s what Six Sigma offers. The method involves a five-step process called *DMAIC* (define, measure, analyze, improve, and control). The company trains its employees in the method, and as in karate they progress toward “black belt” status when they successfully complete all the levels of training. Employees can use Six Sigma processes to remove defects from services, not just products. In these cases, a “defect” means failing to meet customer expectations. For example, hospitals use Six Sigma processes to reduce medical errors, and airlines use the system to improve flight scheduling.

It’s fine to talk about product quality, but exactly what is it?  Figure 9.3 summarizes the many aspects of product quality. In some cases, product quality means durability. For example, athletic shoes shouldn’t develop holes after their owner shoots hoops for a few weeks. Reliability also is an important aspect of product quality—customers want to know that a McDonald’s hamburger is going to taste the same at any location. For many customers, a product’s versatility and its ability to satisfy their needs are central to product quality.

For other products, quality means a high degree of precision. For example, purists compare HDTVs in terms of the number of pixels and their refresh rate. Quality, especially in business-to-business (B2B) products, also relates to ease of use, maintenance, and repair. Yet another crucial dimension of quality is product safety. Finally, the quality of products, such as a painting, a movie, or even a wedding gown, relates to the degree of aesthetic pleasure they provide. Of course, evaluations of aesthetic quality differ dramatically among people: To one person, the quality of a mobile device may mean simplicity, ease of use, and a focus on reliability in voice signal, whereas to another it’s the cornucopia of apps and multiple communication modes available on the device.

Figure 9.3  **Snapshot** | Product Quality

Some product objectives focus on quality, which is the ability of a product to satisfy customer expectations—no matter what those expectations are.



9.2 Marketing throughout the Product Life Cycle

OBJECTIVE

Understand how firms manage products throughout the product life cycle.

(pp. 271–274)

Many products have long lives. Others are “here today, gone tomorrow.” The **product life cycle (PLC)** is a useful way to explain how the market’s response to a product and marketing activities change over the life of a product. In Chapter 8, we talked about how marketers introduce new products, but the launch is only the beginning. Product marketing strategies must evolve and change as they continue through the product life cycle.

Alas, some brands don’t have long to live. Who remembers the Rambler car or Evening in Paris perfume? In contrast, other brands seem almost immortal. For example, Coca-Cola has been the number-one cola brand for more than 120 years, General Electric has been the number-one light bulb brand for over a century, and Kleenex has been the number-one tissue brand for more than 80 years.¹⁶ Let’s take a look at the stages of the PLC, which are portrayed in Figure 9.4. In addition, Figure 9.5 provides insights on marketing mix strategies throughout each phase of the PLC.

Introduction Stage

Like people, products are born, they “grow up,” and eventually they die. We divide the life of a product into four stages. The first stage we see in Figure 9.4 is the **introduction stage**. Here, customers get the first chance to purchase the good or service. During this early stage, a single company usually produces the product. If it clicks and is profitable, competitors usually follow with their own versions.

During the introduction stage, the goal is to get first-time buyers to try the product. Sales (hopefully) increase at a steady but slow pace. As is also evident in Figure 9.4, the company usually does not make a profit during this stage. Why? Research-and-development (R&D) costs and heavy spending for advertising and promotional efforts cut into revenue.

As Figure 9.5 illustrates, during the introduction stage, pricing may be high to recover the R&D costs (demand permitting) or low to attract a large numbers of consumers. For example, when Microsoft’s Xbox One and Sony’s PlayStation 4 (PS4) were initially released, the PS4 had

product life cycle (PLC)

A concept that explains how products go through four distinct stages from birth to death: introduction, growth, maturity, and decline.

introduction stage

The first stage of the product life cycle, in which slow growth follows the introduction of a new product in the marketplace.

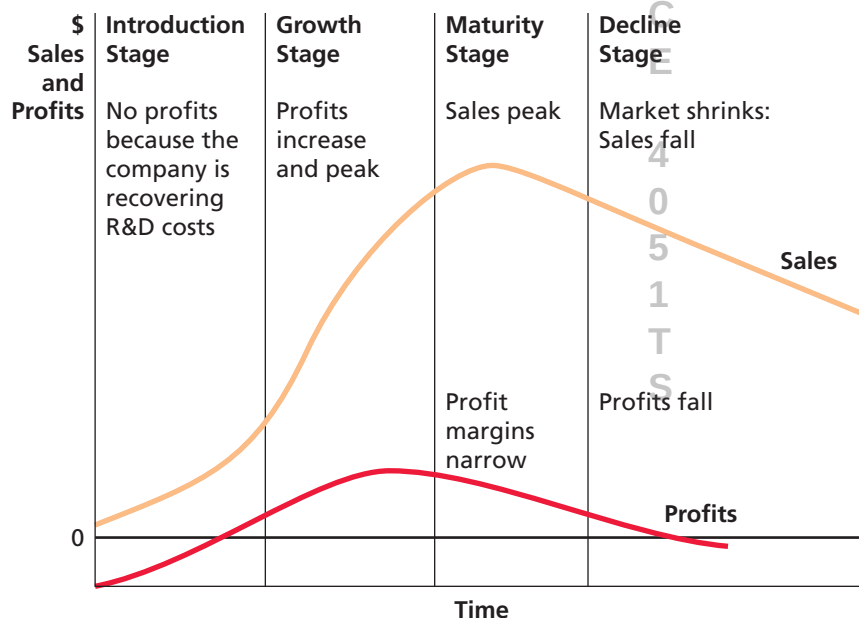


Figure 9.4 **Snapshot** | The Product Life Cycle

The PLC helps marketers understand how a product changes over its lifetime and suggests how to modify their strategies accordingly.

Figure 9.5  **Snapshot** | Marketing Mix Strategies and Other Characteristics through the Product Life Cycle

Marketing mix strategies (the Four Ps) and other characteristics change as a product moves through the life cycle.

Characteristic	Introduction	Growth	Maturity	Decline
Product	Single company produces single product	New competitors enter the market creating new variations of the product	New features added; sales are mostly replacement products	Number of variations reduced
Goals	Get first-time buyers to try the new product	Encourage brand loyalty	Attract new users	Remain profitable; decide whether to keep or phase out product
Sales	Increase at a steady but slow pace	Rapid increase	Peak, then level off, often decline	Continue to decline
Profits	Negative	Increase and peak	Profit margins narrow	Declining
Pricing	High: recover R&D costs Low: attract large numbers of customers	May need to reduce because of increased competition	Price to maintain market share	May reduce if product can remain profitable
Marketing Communication	Informing customers	Heavy advertising to counter new competition	Reminder advertising	Decreased to maintain profitability

a substantial edge in pricing at \$399 compared to the Xbox One's initial price of \$499. To be fair, these two next-generation systems were bundled differently, but that initial difference in price had a big impact on initial sales, with the PS4 taking a strong lead. It's interesting to note that Sony had marketed the prior generation, the PS3, in two versions that were both pricey at \$499 and \$599, whereas the PS2 was launched at \$299. Since the initial launch of the Xbox One Microsoft has officially lowered the price twice, eventually bringing the product down to \$349 in the United States. To do so, Microsoft had to unbundle the Kinect, which is used for motion sensor-based gaming, so there were some tradeoffs. It remains to be seen how much this will help turn around the Xbox console's fortunes, or if it is too late and Microsoft will have to wait until it launches its next-generation gaming console to find a way to recoup.¹⁷

How long does the introduction stage last? As we saw in the microwave oven example in Chapter 8, it can be quite long. A number of factors come into play, including market-place acceptance and the producer's willingness to support its product during start-up. Sales for hybrid cars started out pretty slowly except for the Prius, but now with broader consumer acceptance of the value of hybrid vehicles and greater levels of sales, hybrids can be considered well past the introduction stage. Now, electric cars like the Chevy Volt and the Tesla have replaced them in the introduction quadrant.

It is important to note that many products *never* make it past the introduction stage. For a new product to succeed, consumers must first know about it. Then they must believe that it is something they want or need. Marketing during this stage often focuses on informing consumers about the product, how to use it, and its promised benefits.

However, this isn't nearly as easy as it sounds: Would you believe that the most recent data indicate that as many as 95 percent of new products introduced each year fail?

Shocking as that number is, it's true. Ever heard of Parfum Bic, Pierre Cardin frying pans, or Jack Daniels mustard? These product blunders—which must have seemed good to some product manager at the time but sound crazy now—certainly didn't last on shelves very long. Ever heard of the Microsoft "Kin" mobile phone, positioned as a product for teens and tweens? It was both introduced and subsequently quickly withdrawn from the market because sales were abysmal (if you have one, keep it—it could be worth a fortune as a collector's item on eBay). It's noteworthy that these (as are many) product failures were backed by big companies and attached to already well-known brands. Just think of the product introduction risks for start-ups and unknown brands!¹⁸

Growth Stage

In the **growth stage**, sales increase rapidly while profits increase and peak. Marketing's goal here is to encourage brand loyalty by convincing the market that this brand is superior to others. In this stage, marketing strategies may include the introduction of product variations to attract market segments and increase market share. Tablets and smartphones are examples of products that are still in the growth stage, as worldwide sales continue to increase. Continual new product innovations fuel what seems for now to be an endless growth opportunity. The iPhone 6s sold 13 million units within three days after it became available for purchase, beating out its predecessor (the iPhone 6) during that time period by 3 million units. This represented a new sales record for Apple and a sign of the continued growth opportunities within the smartphone market. Of course, the question over the longer term is whether Apple can keep up this momentum given the tough competition from Samsung in the smartphone market.¹⁹

When competitors appear on the scene, marketers must heavily rely on advertising and other forms of promotion. Price competition may develop, driving profits down. Some firms may seek to capture a particular segment of the market by positioning their product to appeal to a certain group. And, if it initially set the price high, the firm may now reduce it to meet increasing competition.

Maturity Stage

The **maturity stage** of the PLC is usually the longest. Sales peak and then begin to level off and even decline while profit margins narrow. Competition gets intense when remaining competitors fight for their share of a shrinking pie. Firms may resort to price reductions and reminder advertising ("Did you brush your teeth today?") to maintain market share.

Because most customers have already accepted the product, they tend to buy to replace a worn-out item or to take advantage of product improvements. For example, almost everyone in the U.S. owns a TV (there are still more homes without indoor toilets than without a TV set), meaning that most people who buy a new set replace an older one—especially when TV stations nationwide stopped using analog signals and began to broadcast exclusively in a digital format. TV manufacturers hope that a lot of the replacements will be sets with the latest-and-greatest new technology—Samsung would love to sell you a Smart TV to replace that worn-out basic model. During the maturity stage, firms try to sell their product through as many outlets as possible because availability is crucial in a competitive market. Consumers will not go far to find one particular brand if satisfactory alternatives are close at hand.

To remain competitive and maintain market share during the maturity stage, firms may tinker with the marketing mix to extend this profitable phase for their product. Food



The "Snuggly" blanket was a new product success story, largely due to exceptionally well-executed product planning and management.

growth stage

The second stage in the product life cycle, during which consumers accept the product and sales rapidly increase.

maturity stage

The third and longest stage in the product life cycle, during which sales peak and profit margins narrow.

decline stage

The final stage in the product life cycle, during which sales decrease as customer needs change.

manufacturers constantly monitor consumer trends, which of late have been heavily skewed toward healthier eating. This has resulted in all sorts of products that trumpet their low-carb, organic, or no-trans-fat credentials.

Decline Stage

The **decline stage** of the PLC is characterized by a decrease in overall product category sales. The reason may be obsolescence forced by new technology—where (other than in a museum) do you see a typewriter today? See many people using flip phones recently? Although a single firm may still be profitable, the market as a whole begins to shrink, profits decline, there are fewer variations of the product, and suppliers pull out. In this stage, there are usually many competitors, but none has a distinct advantage.

A firm's major product decision in the decline stage is whether to keep the product at all. An unprofitable product drains resources that the firm could use to develop newer products. If the firm decides to keep the product, it may decrease advertising and other marketing communication to cut costs and reduce prices if the product can still remain profitable. If the firm decides to drop the product, it can eliminate it in two ways: (1) phase it out by cutting production in stages and letting existing stocks run out or (2) simply dump the product immediately. If the established market leader anticipates that there will be some residual demand for the product for a long time, it may make sense to keep the product on the market. The idea is to sell a limited quantity of the product with little or no support from sales, merchandising, advertising, and distribution and just let it “wither on the vine.”

9.3**Branding and Packaging:
Create Product Identity****OBJECTIVE**

Explain how branding and packaging strategies contribute to product identity.

(pp. 274–283)

Successful marketers keep close tabs on their products' life cycle status, and they plan accordingly. Equally important, though, is to give that product an *identity* and a *personality*. For example, the mere word *Disney* evokes positive emotions around fun, playfulness, family, and casting day-to-day cares out the window. Folks pay a whole lot of money at Disney's theme parks in Florida and California (as well as in France, China, and Japan) to act on those emotions. Disney achieved

its strong identity through decades of great branding. Branding along with packaging are extremely important (and expensive) elements of product strategies.

What's in a Name (or a Symbol)?

How do you identify your favorite brand? By its name? By the logo (how the name appears)? By the package? By some graphic image or symbol, such as Nike's swoosh? A **brand** is a name, a term, a symbol, or any other unique element of a product that identifies one firm's product(s) and sets it apart from the competition. Consumers easily recognize the Coca-Cola logo, the Jolly Green Giant (a *trade character*), and the triangular red Nabisco logo (a *brand mark*) in the corner of the box. Branding provides the recognition factor products need to succeed in regional, national, and international markets.

A brand name is probably the most used and most recognized form of branding. Smart marketers use brand names to maintain relationships with consumers “from the cradle to the grave.” McDonald's would like nothing better than to bring in kids for their Happy Meal and then convert them over time to its more adult Premium Grilled Chicken Ranch BLT (accompanied, they hope, by a Side Salad and a McCafé Frappé Chocolate Chip). A good brand name may position a product because it conveys a certain image (Ford Mustang, which is now more than 50 years old) or describes how it works (Drano).

brand

A name, a term, a symbol, or any other unique element of a product that identifies one firm's product(s) and sets it apart from the competition.

Brand names such as Caress and Shield help position these different brands of bath soap by saying different things about the benefits they promise. Irish Spring soap provides an unerring image of freshness (can't you just smell it now?). The recently revived Coca-Cola Company brand Surge is a carbonated beverage meant to give consumers exactly what the brand name suggests through the beverage's caffeine and sugar content. Apple's use of "i-everything" is a brilliant branding strategy because it conveys individuality and personalization—characteristics that Gen Y buyers prize.

How does a firm select a good brand name? Good brand designers say there are four "easy" tests: *easy to say*, *easy to spell*, *easy to read*, and *easy to remember*—like P&G's Tide, Pampers, Bold, Gain, Downy, Bounty, and Crest (P&G is probably the undisputed branding king of all time). And the name should also pass the "fit test" on four dimensions:

1. Fit the target market
2. Fit the product's benefits
3. Fit the customer's culture
4. Fit legal requirements

When it comes to graphics for a brand symbol, name, or logo, the rule is that it must be recognizable and memorable. No matter how small or large, the triangular Nabisco logo in the corner of the box is a familiar sight. And it should have visual impact. That means that from across a store or when you quickly flip the pages in a magazine, the brand will catch your attention. Apple's apple with the one bite missing never fails to attract.

A **trademark** is the legal term for a brand name, brand mark, or trade character. The symbol for legal registration in the U.S. is a capital "R" in a circle: ®. Marketers register trademarks to make their use by competitors illegal. Because trademark protection applies only in individual countries where the owner registers the brand, unauthorized use of marks on counterfeit products is a huge headache for many companies.

A firm can claim protection for a brand even if it has not legally registered it. In the U.S., *common-law protection* exists if the firm has used the name and established it over a period of time (sort of like a common-law marriage). Although a registered trademark prevents others from using it on a similar product, it may not bar its use for a product in a completely different type of business. Consider the range of unrelated "Quaker" brands: Quaker Oats (cereals), Quaker Funds (mutual funds), Quaker State (motor oil), Quaker Bonnet (gift food baskets), and Quaker Safety Products Corporation (firemen's clothing). A court applied this principle when Apple Corp., the Beatles' music company, sued Apple Computers in 2006 over its use of the Apple logo. The plaintiff wanted to win an injunction to prevent Apple Computer from using the Apple logo in connection with its iPod and iTunes products; it argued that the application to music-related products came too close to the Beatles' musical products. The judge didn't agree; he ruled that Apple Computer clearly used the logo to refer to the download service, not to the music itself.²⁰

Why Brands Matter

A brand is *a lot* more than just the product it represents—the best brands build an emotional connection with their customers. Think about the most popular diapers—they're branded Pampers and Luvs, not some functionally descriptive name like Absorbency Master or Dry Bottom. The point is that Pampers and Luvs evoke the joys of parenting, not the utility of the diaper.

Marketers spend huge amounts of money on new product development, advertising, and promotion to develop strong brands. When they succeed, this investment creates **brand equity**. This term describes a brand's value over and above the value of the generic version of the product. For example, how much extra will you pay for a shirt with the

trademark

The legal term for a brand name, brand mark, or trade character; trademarks legally registered by a government obtain protection for exclusive use in that country.

brand equity

The value of a brand to an organization.

American Eagle Outfitters logo on it than for the same shirt with no logo or, worse, the logo of an “inferior” brand? The difference reflects the eagle’s brand equity in your mind.

Brand equity means that a brand enjoys customer loyalty because people believe it is superior to the competition. For a firm, brand equity provides a competitive advantage because it gives the brand the power to capture and hold on to a larger share of the market and to sell at prices with higher profit margins. For example, among pianos, the Steinway name has such powerful brand equity that its market share among concert pianists is 95 percent.²¹

Marketers identify different levels of loyalty (or lack thereof) by observing how customers feel about the product. At the lowest level, customers really have no loyalty to a brand, and they will change brands for any reason—often they will jump ship if they find something else at a lower price. At the other extreme, some brands command fierce devotion, and loyal users will go without rather than buy a competing brand.

Escalating levels of attachment to a brand begin when consumers become aware of a brand’s existence. Then they might look at the brand in terms of what it literally does for them or how it performs relative to competitors. Next, they may think more deeply about the product and form beliefs and emotional reactions to it. The truly successful brands, however, are those that truly “bond” with their customers so that people feel they have a real relationship with the product. Here are some of the types of relationships a person might have with a product:

- *Self-concept attachment*: The product helps establish the user’s identity. (For example, do you feel better in Ralph Lauren or Cherokee clothing?)
- *Nostalgic attachment*: The product serves as a link with a past self. (Does eating the inside of an Oreo cookie remind you of childhood?)²²
- *Interdependence*: The product is a part of the user’s daily routine. (Could you get through the day without a Starbucks coffee?)
- *Love*: The product elicits emotional bonds of warmth, passion, or other strong emotion. (Hershey’s Kiss, anyone?)²³

Ultimately, the way to build strong brands is to forge strong bonds with customers—bonds based on **brand meaning**. This concept encompasses the beliefs and associations that a consumer has about the brand. In many ways, the practice of brand management revolves around the management of meanings. Brand managers, advertising agencies, package designers, name consultants, logo developers, and public relations firms are just some of the collaborators in a global industry devoted to the task of *meaning management*.

Today, for many consumers brand meaning builds virally as people spread its story online. “Tell to sell,” once a mantra of top Madison Avenue ad agencies, has made a comeback as marketers seek to engage consumers with compelling stories rather than peddle products in hit-and-run fashion with interruptive advertising like 30-second TV commercials—which Gen Y and younger largely block out anyway. The method of **brand storytelling** captures the notion that powerful ideas do self-propagate when the audience is connected by digital technology. It conveys the constant reinvention inherent in interactivity in that whether it’s blogging, content creation through YouTube, or sharing a board on Pinterest, there will always be new and evolving perceptions and dialogues about a brand in real time.

Airbnb is a great example of a company that has used brand storytelling to connect with consumers and further establish its identity. The company underwent a rebranding effort that included the changing of its brand logo to what the company calls the Bélo: the universal symbol of belonging. The symbol looks partially like an upside down heart, partially like an uppercase “A,” and includes an element that resembles the location pin symbol. For Airbnb the rebrand and accompanying branding campaign provided an opportunity to tell a story that fits with the brand’s identity, one that is centered on the experience

brand meaning

The beliefs and associations that a consumer has about the brand.

brand storytelling

Compelling stories told by marketers about brands to engage consumers.

of being able to feel a sense of belonging wherever a person uses those services provided through Airbnb.²⁴ If we could name the key elements that make a brand successful, what would they be? Here is a list of 10 characteristics of the world's top brands:²⁵

1. The brand excels at delivering the benefits customers truly desire.
2. The brand stays relevant.
3. The pricing strategy is based on consumers' perceptions of value.
4. The brand is properly positioned.
5. The brand is consistent.
6. The brand portfolio and hierarchy make sense.
7. The brand makes use of and coordinates a full repertoire of marketing activities to build equity.
8. The brand's managers understand what the brand means to consumers.
9. The brand is given proper support, and that support is sustained over the long run.
10. The company monitors sources of brand equity.

Products with strong brand equity provide exciting opportunities for marketers. A firm may leverage a brand's equity via **brand extensions**—new products it sells with the same brand name. Because of the existing brand equity, a firm is able to sell its brand extension at a higher price than if it had given it a new brand, and the brand extension will attract new customers immediately. Of course, if the brand extension does not live up to the quality or attractiveness of its namesake, there is a risk of **brand dilution**, in which the contrast between the brand extension's less positive characteristics and the more positive characteristics of the brand can lead to a shift in how consumers perceive the brand. Ultimately this result can impact brand equity as well as brand loyalty and sales. In the pursuit of greater sales and market share many luxury automakers such as Audi and BMW have been using their brand names to sell lower-end models with prices more accessible to a less affluent segment of consumers. Some marketers have voiced concerns over the impact this may have on the value of these brands, which in the past have been heavily associated with luxury and exclusivity.²⁶

One other related approach is **sub-branding**, or creating a secondary brand within a main brand that can help differentiate a product line to a desired target group. Virgin is the king of sub-brands, having launched dozens over the history of the company. From Virgin Atlantic to Virgin America, Virgin Mobile, Virgin Megastore, Virgin Wines, Virgin Radio, and on and on—founder Sir Richard Branson has shown the power of thematic threading when the principal brand is robust.²⁷

Branding Strategies

Because brands contribute to a marketing program's success, a major part of product planning is to develop and execute branding strategies. Marketers have to determine which branding strategy approach(es) to use.  Figure 9.6 illustrates the options: individual or family brands, national or store brands, generic brands, licensing, and cobranding. This decision is critical, but it is not always an easy or obvious choice.

Individual Brands versus Family Brands

Part of developing a branding strategy is to decide whether to use a separate, unique brand for each product item—an *individual brand strategy*—or to market multiple items under the same brand name—a **family brand** or *umbrella brand* strategy. Individual brands may do a better job of communicating clearly and concisely what the consumer can expect from the product, whereas a well-known company like Hyatt Hotels may find that its high brand equity and reputation in one category (e.g., Hyatt Regency at the high end) can sometimes “rub off” on a brands in newer categories like Hyatt Place and Hyatt House.

brand extensions

A new product sold with the same brand name as a strong existing brand.

brand dilution

A reduction in the value of a brand typically driven by the introduction of a brand extension that possesses attributes that adversely contrast with the current attributes consumers associate with the brand.

sub-branding

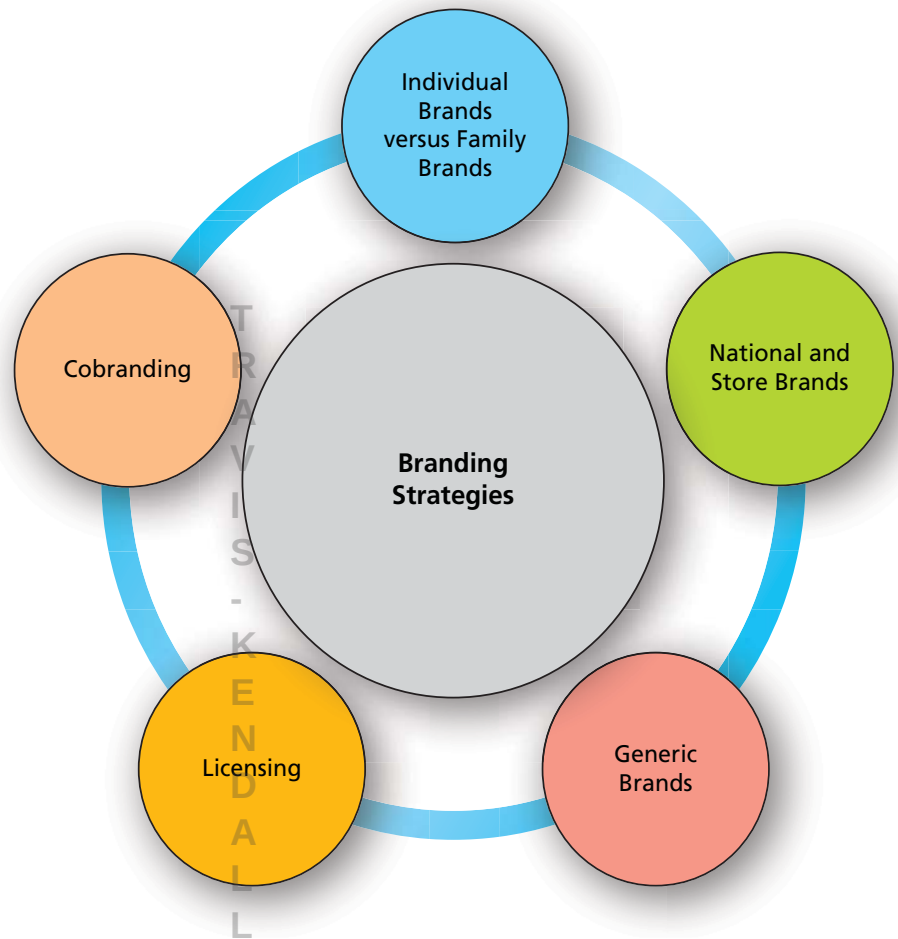
Creating a secondary brand within a main brand that can help differentiate a product line to a desired target group.

family brand

A brand that a group of individual products or individual brands share.

Figure 9.6  **Snapshot** | Branding Strategies

Marketers have several branding strategy options to choose from.



The decision whether to family brand often depends on characteristics of the product and whether the company's overall product strategy calls for introduction of a single, unique product or for the development of a group of similar products. For example, Microsoft serves as a strong umbrella brand for a host of diverse, individually branded products like Windows 10, Office 2016, Xbox One, and Bing. In contrast, Unilever and P&G prefer to brand each of their beauty care and household products separately (for most of the products, you'd never know who the manufacturer is unless you look at the small print on the back label).

But there's a potential dark side to having too many brands, particularly when they become undifferentiated in the eyes of the consumer as a result of poor positioning, or alternatively, when those brands begin to stray too far from a related parent brand, which results in a loss of synergy. For example, The Coca-Cola Company decided to implement its "One Brand" global strategy to address growing divisions between the various sub-brands that share the Coca-Cola name. Specifically, the strategy seeks to place Coca-Cola, Diet Coke, Coca-Cola Zero, and Coca-Cola Life more firmly under the Coca-Cola brand identity with each product's differences framed principally in terms of their product attributes as opposed to differing brand identities. To attempt to shift perceptions in this direction, Coke took a number of actions including having all of the products share a single tagline "Taste the Feeling," developing marketing campaigns that cover all of the different sub-brands, and in some areas, changing the packaging of each product to highlight the differences in the product while at the same time clearly showing that each one is part of the single iconic Coca-Cola brand. For Coke this reunification of the different product variants offers an opportunity to help a larger group of consumers to understand that the parent brand is more than just its flagship high-sugar product, and that there are different offerings available to

Coca-Cola drinkers depending on their specific product preferences and needs. The “One Brand” strategy was initially tested out on a trial basis before the company made the decision to move forward with it on a global basis.²⁸

National and Store Brands

Retailers today often are in the driver’s seat when it comes to deciding what brands to stock and push. In addition to choosing from producers’ brands, called **national or manufacturer brands**, retailers decide whether to offer their own versions. **Private-label brands**, also called *store brands*, are the retail store or chain’s exclusive trade name. Costco, for example, features a fine line of more than 300 products under its own private label Kirkland Signature. Representative categories include housewares, luggage, pet food and bedding, baby wipes, diapers, baby formula, apparel, wine, snacks, and more.²⁹ During the Great Recession that began in the late 2000s, store brands gained substantially in popularity for many value-conscious shoppers, and many consumers did not switch back to the parallel national brands as the economy rebounded because they are satisfied with the private labels.

Interestingly, if a retailer stocks a unique brand that consumers can’t find in other stores, it’s much harder for shoppers to compare “apples to apples” across stores and simply buy the brand where they find it sold for the lowest price. As such, private labels represent a major roadblock to price transparency online because consumers can’t easily use the Internet to compare private label prices to national brand prices before purchase. Loblaws, Canada’s largest supermarket chain, sells more than 4,000 food items under the “premium quality” President’s Choice label, from cookies to beef, olive oil, curtains, and kitchen utensils. Sales of President’s Choice items run from 30 to 40 percent of total store volumes. Under the private label, Loblaws can introduce new products at high quality but for lower prices than brand names. It can also keep entire categories profitable with its mix of pricing options. Competitors that sell only national brands can cut prices on those brands, but that hurts their overall profitability. Loblaws can reduce prices on national brands but still make money on its private-label products.³⁰

Generic Brands

An alternative to either national or store branding is **generic branding**, which is basically no branding at all. Generic branded products are typically packaged in white with black lettering that names only the product itself (e.g., “Green Beans”). Generic branding is one strategy to meet customers’ demand for the lowest prices on standard products such as dog food or paper towels. Generic brands first became popular during the inflationary period of the 1980s when consumers became especially price conscious. More recently, Walmart has aggressively disrupted the pharmacy business by offering some types of generic prescriptions, such as basic antibiotics, for \$4.³¹

Licensing

Some firms choose to use a **licensing** strategy to brand their products. This means that one firm sells another firm the right to use a legally protected brand name and other associated elements for a specific purpose and for a specific period of time. Why should an organization sell its name? Licensing can provide instant recognition and consumer interest in a new product, and this strategy can quickly position a product for a certain target market as it trades on the high recognition of the licensed brand among consumers in that segment. For example, the popular mobile phone and tablet game Angry Birds was able to become a licensee for *Star Wars*, which enabled Rovio, the company responsible for the game, to

Now Campbell's Chunky has twenty-three soups with 100% lean meat and a full serving of vegetables.

GET VALUABLE COUPONS TO SAVE \$5.00 GO TO CHUNKY.COM

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THE OFFICIAL SOUP SPONSOR OF THE NFL

Courtesy of Campbell Soup Company

Campbell's uses a family branding strategy to identify its Chunky line of soups.

national or manufacturer brands

Brands that the product manufacturer owns.

private-label brands

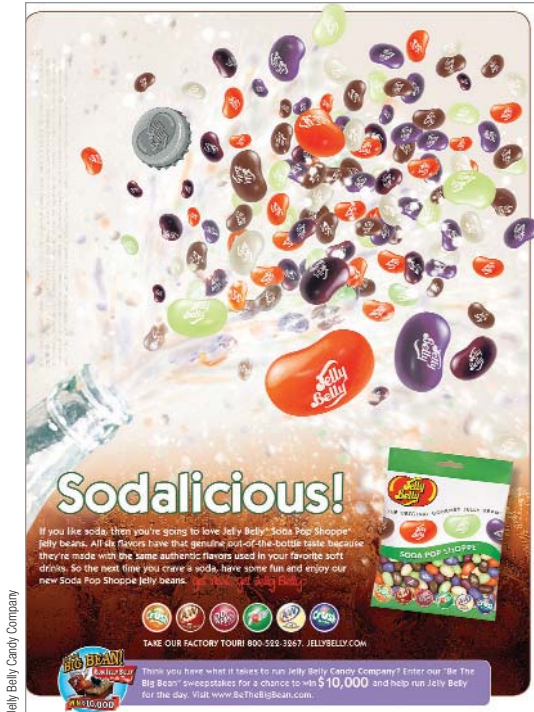
Brands that a certain retailer or distributor owns and sells.

generic branding

A strategy in which products are not branded and are sold at the lowest price possible.

licensing

An agreement in which one firm sells another firm the right to use a brand name for a specific purpose and for a specific period of time.



Jelly Belly cobrands with several soft drink brands to offer new flavor options.

cobranding

An agreement between two brands to work together to market a new product.

ingredient branding

A type of branding in which branded materials become “component parts” of other branded products.

create the popular Angry Birds Star Wars game. Angry Birds also has been able to license its popular brand and related characters to Hasbro to develop a line of Angry Birds’ themed toys and physical games.³²

A familiar form of licensing occurs when movie producers license their properties to manufacturers of a seemingly infinite number of products. Remember how each time a blockbuster Harry Potter movie hit the screens, a plethora of Potter products packed the stores? In addition to toys and games, there was Harry Potter candy, clothing, all manner of back-to-school items, home items, and even wands and cauldrons. In 2010, with considerable fanfare, Harry and the gang showed up in the form of a major attraction at Universal Orlando called “The Wizarding World of Harry Potter.” The latest addition, called “Diagon Alley,” opened for business in the summer of 2014. Since then other “Wizarding Worlds” have opened in Los Angeles and Osaka, Japan.³³

Cobranding

Frito-Lay sells Tapatío flavored potato chips (with a hint of lime). Taco Bell sells Spicy Chicken Cool Ranch Doritos Locos Tacos, and General Mills sells Reese’s Puffs cereal. Strange marriages? Not at all! Actually, these are examples of an innovative strategy called **cobranding**. Cobranding benefits both partners when combining the two brands provides more recognition power than either enjoys alone. For example, Sony markets its line of digital Cyber-shot cameras that use Zeiss lenses, which are world famous for their sharpness.³⁴ Sony is known for its consumer electronics. Combining the best in traditional camera optics with a household name in consumer electronics helps both brands.

A new and fast-growing variation on cobranding is **ingredient branding**, in which branded materials become “component parts” of other branded products.³⁵ This was the strategy behind the classic “Intel inside” campaign, which convinced millions of consumers to ask by name for a highly technical computer part (a processor) that they wouldn’t otherwise recognize if they fell over it.³⁶ Today, consumers can buy Breyer’s Ice Cream with chunks of Snickers bars, M&M’s candies, Girl Scout Cookies Thin Mints, and several other decadent ingredients.

The practice of ingredient branding has two main benefits. First, it attracts customers to the host brand because the ingredient brand is familiar and has a strong brand reputation for quality. Second, the ingredient brand’s firm can sell more of its product, not to mention the additional revenues it gets from the licensing arrangement.³⁷

Packages and Labels: Branding’s Little Helpers

How do you know if the soda you are drinking is “regular” or “caffeine free”? How do you keep your low-fat grated cheese fresh after you have used some of it? Why do you like that little blue box from Tiffany’s so much? The answer to all these questions is effective packaging and labeling. So far, we’ve talked about how marketers create product identity with branding. In this section, we’ll learn that packaging and labeling decisions also help to create product identity. We also talk about the strategic functions of packaging and some of the legal issues that relate to package labeling.

A **package** is the covering or container for a product, but it’s also a way to create a competitive advantage. So the important functional value of a package is that it protects the product. For example, packaging for computers, TV sets, and stereos protects the units from damage during shipping and warehousing. Cereal, potato chips, or packs of grated cheese wouldn’t be edible for long if packaging didn’t provide protection from moisture, dust, odors, and insects. The multilayered, soft box for the chicken broth you see in  Figure 9.7 prevents the ingredients inside from spoiling. In addition to protecting the product, effective packaging makes it easy for consumers to handle and store the product.

package

The covering or container for a product that provides product protection, facilitates product use and storage, and supplies important marketing communication.

Metrics Moment

Recall from our previous discussion that brand equity represents the value of a product with a particular brand name compared to what the value of the product would be without that brand name (think Coca-Cola versus generic supermarket soda). Companies, market research firms, and creative agencies create metrics of brand equity because this is an important way to assess whether a branding strategy has been successful. For example, The Harris Poll EquiTrend® study is conducted on an annual basis to measure the brand equity of more than 1,400 brands in more than 148 categories. The company interviews over 38,000 consumers to determine how they feel about competing brands.³⁸ You can review the latest results at www.theharrispoll.com, then hover over “Solutions” and select “EQUITREND” from the resulting list.

If consumers have strong, positive feelings about a brand and are willing to pay extra to choose it over others, marketers are on Cloud Nine. Each of the following approaches to measuring brand equity has some good points and some bad points:

- *Customer mind-set metrics* focus on consumer awareness, attitudes, and loyalty toward a brand. However, these metrics are based on consumer surveys and don’t usually provide a single objective measure that a marketer can use to assign a financial value to the brand.
- *Product-market outcome metrics* focus on the ability of a brand to charge a higher price than that of an unbranded equivalent. This

usually involves asking consumers how much more they would be willing to pay for a certain brand compared to others. These measures often rely on hypothetical judgments and can be complicated to use.

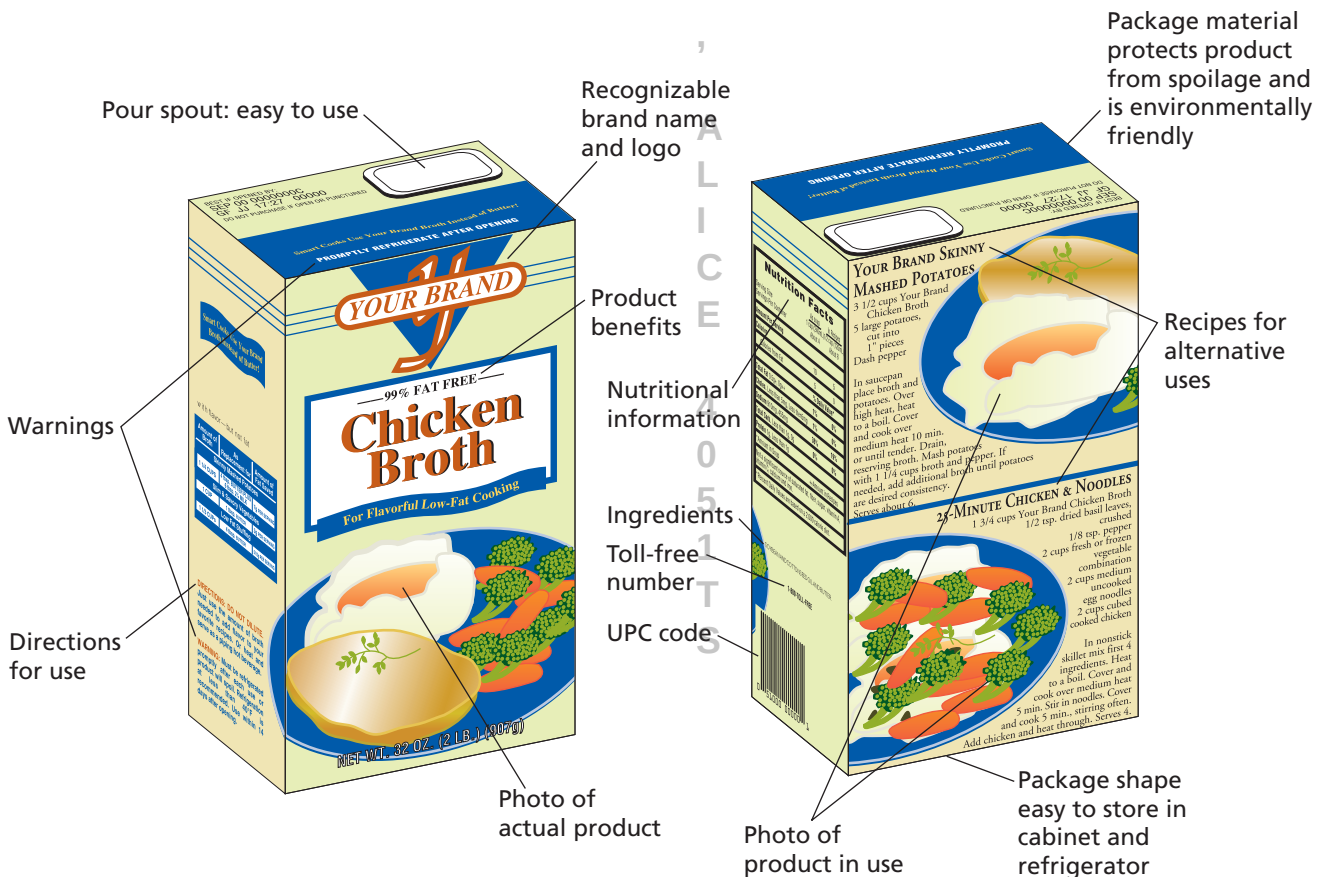
- *Financial market metrics* consider the purchase price of a brand if it is sold or acquired. They may also include subjective judgments about the future stock price of the brand.
- A team of marketing professors proposed a simpler measure that they claim reliably tracks the value of a brand over time. Their *revenue premium metric* compares the revenue a brand generates with the revenue generated by a similar private-label product (that doesn’t have any brand identification). In this case, brand equity is just the difference in revenue (net price times volume) between a branded good and a corresponding private label.³⁹

Apply the Metrics

1. Work with one or more other students to come up with a short list of five to seven of your collective favorite brands.
2. Consider the various aspects of branding you’ve read about in this chapter. What characteristics of each brand caused you to include it on your short list?

Figure 9.7  **Snapshot** | Functions of Packaging

Great packaging provides a covering for a product, and it also creates a competitive advantage for the brand.





Zia/Photography/Alamy Stock Photo

QR codes are becoming commonplace on everything from cereal boxes to airline boarding passes because they hold more data and can be read by smartphones.

Universal Product Code (UPC)

A set of black bars or lines printed on the side or bottom of most items sold in grocery stores and other mass-merchandising outlets that correspond to a unique 10-digit number.

Review the different elements pointed out in Figure 9.7—collectively, they illustrate how packaging serves a number of different functions.

Over and above these utilitarian functions, however, a package communicates brand personality. Effective product packaging uses colors, words, shapes, designs, and pictures to provide brand and name identification for the product. In addition, packaging provides product facts, including flavor, fragrance, directions for use, suggestions for alternative uses (e.g., recipes), safety warnings, and ingredients. Packaging may also include warranty information and a toll-free telephone number for customer service.

A final communication element is the **Universal Product Code (UPC)**, which is the set of black bars or lines printed on the side or bottom of most items sold in grocery stores and other mass-merchandising outlets. The UPC is a national system of product identification. It assigns each product a unique 10-digit number. These numbers supply specific information about the type of item (grocery item, meat, produce, drugs, or a discount coupon), the manufacturer (a five-digit code), and the specific product (another five-digit code). At checkout counters, electronic scanners read the UPC bars and automatically transmit data to a computer in the cash register so that retailers can easily track sales and control inventory.

Design Effective Packaging

Should the package have a resealable zipper, feature an easy-to-pour spout, be compact for easy storage, be short and fat so it won't fall over, or be tall and skinny so it won't take up much shelf space? Effective package design involves a multitude of decisions.

Planners must consider the packaging of other brands in the same product category. For example, when Pringles potato chips were introduced, they were deliberately packaged in a cylindrical can instead of in bags like Lay's and others. This was largely out of necessity because Pringles doesn't have all the local trucks to deliver to stores that Frito-Lay does, and the cans keep the chips fresher much longer. However, quickly after product introduction, Pringles discovered that not all customers will accept a radical change in packaging, and retailers may be reluctant to adjust their shelf space to accommodate such packages. To partly answer the concern, Pringles now comes in a diverse array of products and package types and sizes, including Stix, Snack Stacks, Grab & Go, and, for the healthier eaters, Lightly Salted, Reduced Fat, Fat Free, and 100 Calorie.⁴⁰

Packaging can speak to some of the intangible characteristics of a product's brand, such as its personality, heritage, and premium image. Jim Beam recently underwent a global packaging redesign to reflect a more premium and unified image for the products within its portfolio. Specific changes meant to help unify the products under the brand included the prominent display of the Jim Beam signature "rosette" logo. In addition, to keep the heritage of the brand in the minds of consumers the portraits on the side of the Jim Beam White bottle, which feature seven generations of Beam family distillers, were refreshed to improve the quality of the images. Specific Jim Beam products also had elements of the bottle updated to further communicate the premium nature of the different product offerings within the brand. This was the first ever global packaging redesign in the 220-plus-year history of the brand!⁴¹

Firms that wish to act in a socially responsible manner must also consider the environmental, social, and economic impact of packaging. For instance, shiny gold or silver packaging transmits an image of quality and opulence, but certain metallic inks are not biodegradable. Some firms are developing innovative **sustainable packaging** that involves one or more of the following: elements of the packaging that can be produced from previously used materials, elements of the packaging that use materials in their development that can be repurposed after use, the use of materials that require fewer resources to cultivate, and the use of materials and processes that are generally less harmful to the environment. Of course, there is no guarantee that consumers will accept such packaging. They didn't take to plastic pouch refills for certain spray bottle

sustainable packaging

Packaging that involves one or more of the following: elements of the packaging that can be produced from previously used materials, elements of the packaging that use materials in their development that can be repurposed after use, the use of materials that require fewer resources to cultivate, and the use of materials and processes that are generally less harmful to the environment.

products even though the pouches may take up less space in landfills than the bottles do. They didn't like pouring the refill into their old spray bottles. Still, customers have accepted smaller packages of concentrated products, such as laundry detergent, dishwashing liquid, and fabric softener.

What about the shape: Square? Round? Triangular? Hourglass? Toiletry manufacturer Mennen once had an aftershave and cologne line called Millionaire that it packaged in a gold pyramid-shaped box. How about an old-fashioned apothecary jar that consumers can reuse as an attractive storage container? What color should it be? White to communicate purity? Yellow because it reminds people of lemon freshness? Brown because the flavor is chocolate? Sometimes, we can trace these decisions back to personal preferences. The familiar Campbell's Soup label—immortalized as art by Andy Warhol—is red and white because a company executive many years ago liked the football uniforms at Cornell University!

Finally, there are many specific decisions brand managers must make to ensure that a product's packaging reflects well on its brand and appeals to the intended target market. What graphic information should the package show? Someone once quipped, "Never show the dog eating the dog food." Translation: Should there be a picture of the product on the package? Must green bean cans always show a picture of green beans? Should there be a picture that demonstrates the results of using the product, such as beautiful hair? Should there be a picture of the product in use, perhaps a box of crackers that shows them with delicious-looking toppings arranged on a silver tray? Should there be a recipe or coupon on the back? Of course, all these decisions rely on a marketer's understanding of consumers, ingenuity, and perhaps a little creative luck.

Store brands have unique packaging opportunities. Some store brands opt for **copycat packaging**, mimicking the look of the national branded product they want to knock off. Walgreens is a master of such copycat packaging—look on any shelf in its medicinal categories, and you will see a Walgreens brand proudly merchandised on the shelf right next to the leading national brand in that category, with the package design and colors so similar that you have to look carefully to discern what you are actually buying.⁴²

Labeling Regulations

The *Federal Fair Packaging and Labeling Act of 1966* controls package communication and labeling in the U.S. This law aims to make labels more helpful to consumers by providing useful information. More recently, the requirements of the *Nutrition Labeling and Education Act of 1990* forced food marketers to make sweeping changes in how they label products. Since August 18, 1994, the U.S. Food and Drug Administration (FDA) requires most foods sold in the U.S. to have labels telling, among other things, how much fat, saturated fat, cholesterol, calories, carbohydrates, protein, and vitamins are in each serving of the product. These regulations force marketers to be more accurate when they describe the contents of their products. Juice makers, for example, must state how much of their product is real juice rather than sugar and water.

As of January 1, 2006, the FDA also requires that all food labels list the amount of trans fat in the food directly under the line for saturated fat content. The new labeling reflects scientific evidence showing that consumption of trans fat, saturated fat, and dietary cholesterol raises "bad" cholesterol levels, which increase the risk of coronary heart disease. The new information is the first significant change on the Nutrition Facts panel since it was established.⁴³



A range of package sizes allows a company to expand its product line.

copycat packaging

Packaging designed to mimic the look of a similar or functionally identical national branded product often meant to lead the consumer to perceive the two products as comparable.



Some store brands opt for copycat packaging, mimicking the look of the national branded product they want to knock off. Walgreens is a master of such copycat packaging—look on any shelf in its medicinal categories and you will see a Walgreens brand proudly merchandised on the shelf right next to the leading national brand in that category, with the package design and colors so similar that you have to look carefully to discern what you are actually buying.

9.4

Organize for Effective Product Management

OBJECTIVE

Describe how marketers structure organizations for new and existing product management.

(pp. 284–285)

Of course, firms don't create great products, brands, and packaging—people do. Like all elements of the marketing mix, product strategies are only as effective as their managers make them and carry them out. In this section, we talk about how firms organize both to manage existing products and to develop new products.

Manage Existing Products

In small firms, a single marketing manager usually handles the marketing function. This individual is responsible for new product planning, advertising, working with the company's few sales representatives, marketing research, and just about everything else. But in larger firms, there are a number of managers who are responsible for different brands, product categories, or markets. As illustrated in Figure 9.8, depending on the organization's needs and the market situation, product management may include brand managers, product category managers, and market managers. Let's take a look at how each operates.

Brand Managers

Sometimes, a firm sells several or even many different brands within a single product category. Take the laundry section in the supermarket, for example. In the detergent category, P&G brands are Bold, Gain, and Tide. In such cases, each brand may have its own **brand manager** who coordinates all marketing activities for a brand; these duties include positioning, identifying target markets, research, distribution, sales promotion, packaging, and evaluating the success of these decisions.

Although this job title and assignment (or something similar) is still common throughout industry, some big firms are changing the way they allocate responsibilities. For example, today P&G's brand managers function more like internal consultants to cross-functional teams located in the field that have responsibility for managing the complete business of key retail clients across all product lines. Brand managers still are responsible for positioning of brands and developing and nurturing brand equity, but they also work heavily with folks from sales, finance, logistics, and others to serve the needs of the major retailers that make up the majority of P&G's business.

By its very nature, the brand management system is not without potential problems. If they act independently and sometimes competitively against each other, brand managers may fight for increases in short-term sales for their own brand, potentially to the detriment of the overall product category for the firm. They may push too hard with coupons, cents-off packages, or other price incentives to a point at which customers will refuse to buy the product when it's not "on deal." Such behavior can hurt long-term profitability and damage brand equity.

Product Category Managers

Some larger firms have such diverse product offerings that they need more extensive coordination. Take IBM, for example. Originally known as a computer manufacturer, IBM now generates much of its revenue from a wide range of consulting and related client services across the spectrum of IT applications (and the company doesn't even sell personal computers anymore, having long ago spun off its ThinkPad business to the Chinese firm Lenovo).

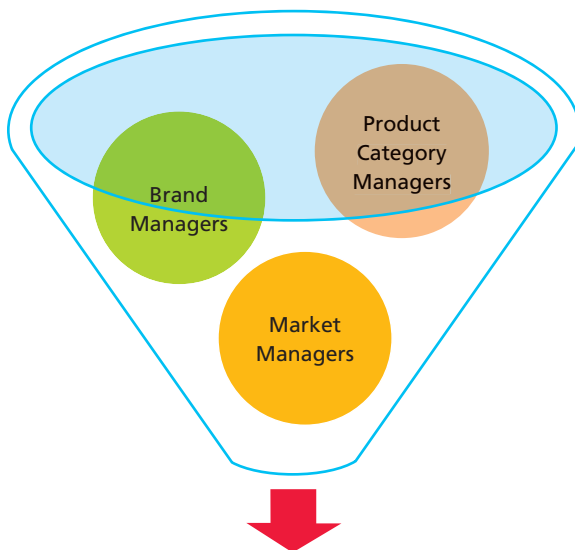
In cases such as IBM, organizing for product management may include

brand manager

An individual who is responsible for developing and implementing the marketing plan for a single brand.

Figure 9.8  **Snapshot** | Types of Product Management

Product management can take several forms: brand managers, product category managers, and market managers, depending on the firm's needs and the market situation.



Three Types of Product Management

Marketing: Real People, Real Choices, Ninth Edition, by Michael R. Solomon, Greg W. Marshall, and Elnora W. Stuart. Published by Pearson. Copyright © 2018 by Pearson Education, Inc.

product category managers, who coordinate the mix of product lines within the more general product category and who consider the addition of new product lines based on client needs.

Market Managers

Some firms have developed a **market manager** structure in which different people focus on specific customer groups rather than on the products the company makes. This type of organization can be especially useful when firms offer a variety of products that serve the needs of a wide range of customers. For example, GE serves three broad markets: consumers, with products such as microwaves and light-bulbs; businesses, with products such as jet engines and imaging equipment for hospitals; and governments, with components used in production of naval vessels and military aircraft. Such firms serve their customers best when they focus separately on each of these very different markets.

Organize for New Product Development

You read in Chapter 8 about the steps in new product development and learned earlier in this chapter about the importance of the introduction phase of the PLC. Because launching new products is so important, the management of this process is a serious matter. In some instances, one person handles new product development, but within larger organizations, new product development almost always requires many people. Often especially creative people with entrepreneurial skills get this assignment.

The challenge in large companies is to enlist specialists in different areas to work together in **venture teams**, which focus exclusively on the new product development effort. Sometimes the venture team is located away from traditional company offices in a remote location called a “skunk works.” This colorful term originated with the Skunk Works, an illicit distillery in the comic strip *Li'l Abner*. Because illicit distilleries were bootleg operations, typically located in an isolated area with minimal formal oversight, organizations adopted the colorful description “skunk works” to refer to a small and often isolated department or facility that functions with minimal supervision (not because of its odor).⁴⁴

product category managers

Individuals who are responsible for developing and implementing the marketing plan for all the brands and products within a product category.

market manager

An individual who is responsible for developing and implementing the marketing plans for products sold to a particular customer group.

venture teams

Groups of people within an organization who work together to focus exclusively on the development of a new product.

MyMarketingLab™

Go to **mymktlab.com** to complete the problems marked with this icon  as well as additional Marketing Metrics questions only available in MyMarketingLab.

Objective Summary ➔ Key Terms ➔ Apply

CHAPTER 9 Study Map

9.1 Objective Summary (pp. 264–270)

Discuss the different product objectives and strategies a firm may choose.

Product planning is guided by the continual process of product management. Objectives for individual products may be related to introducing a new product, expanding the market of a regional product, or rejuvenating a mature product. For

multiple products, firms may decide on a full- or a limited-line strategy. Often, companies decide to extend their product line with an upward, downward, or two-way stretch or with a filling-out strategy, or they may decide to contract a product line. Firms that have multiple product lines may choose a wide product mix with many different lines or a narrow one with few. Product quality objectives refer to the durability, reliability, degree of precision, ease of use and repair, or degree of

aesthetic pleasure. One way that companies can improve quality is to use the Six Sigma method.

Key Terms

product management, p. 264
product line, p. 266
product line length, p. 267
stock-keeping unit (SKU), p. 267
cannibalization, p. 268
product mix, p. 268
product mix width, p. 268
product quality, p. 268
total quality management (TQM), p. 269
internal customers, p. 269
internal customer mind-set, p. 269
ISO 9000, p. 269
Six Sigma, p. 270

9.2 Objective Summary (pp. 271–274)

Understand how firms manage products throughout the product life cycle.

The product life cycle explains how products go through four stages from birth to death. During the introduction stage, marketers seek to get buyers to try the product and may use high prices to recover R&D costs. During the growth stage, characterized by rapidly increasing sales, marketers may introduce new product variations. In the maturity stage, sales peak and level off. Marketers respond by adding desirable new product features or market-development strategies. During the decline stage, firms must decide whether to phase a product out slowly, drop it immediately, or, if there is residual demand, keep the product.

Key Terms

product life cycle (PLC), p. 271
introduction stage, p. 271
growth stage, p. 273
maturity stage, p. 273
decline stage, p. 274

9.3 Objective Summary (pp. 274–283)

Explain how branding and packaging strategies contribute to product identity.

A brand is a name, term, symbol, or other unique element of a product used to identify a firm's product. A brand should be selected that has a positive connotation and that is recognizable and memorable. Brand names need to be easy to say, spell, read, and remember and should fit the target market, the product's benefits, the customer's culture, and legal requirements. To protect a brand legally, marketers obtain trademark protection. Brands are important because they help maintain customer loyalty and because brand equity or value means a firm is able to attract new customers. Firms may develop individual brand strategies or market multiple items with a family or umbrella brand

strategy. National or manufacturer brands are owned and sold by producers, whereas private-label or store brands carry the retail or chain store's trade name. Licensing means a firm sells another firm the right to use its brand name. In a cobranding strategy, two brands form a partnership to market a new product.

Packaging is the covering or container for a product and serves to protect a product and to allow for easy use and storage of the product. The colors, words, shapes, designs, pictures, and materials used in package design communicate a product's identity, benefits, and other important product information. Package designers must consider cost, product protection, and communication in creating a package that is functional, aesthetically pleasing, and not harmful to the environment. Product labeling in the U.S. is controlled by a number of federal laws aimed at making package labels more helpful to consumers.

Key Terms

brand, p. 274
trademark, p. 275
brand equity, p. 275
brand meaning, p. 276
brand storytelling, p. 276
brand extensions, p. 277
brand dilution, p. 277
sub-branding, p. 277
family brand, p. 277
national or manufacturer brands, p. 279
private-label brands, p. 279
generic branding, p. 279
licensing, p. 279
cobranding, p. 280
ingredient branding, p. 280
package, p. 280
Universal Product Code (UPC), p. 282
sustainable packaging, p. 282
copycat packaging, p. 283

9.4 Objective Summary (pp. 284–285)

Describe how marketers structure organizations for new and existing product management.

To successfully manage existing products, the marketing organization may include brand managers, product category managers, and market managers. Large firms, however, often give new product responsibilities to new product managers or to venture teams, groups of specialists from different areas who work together for a single new product.

Key Terms

brand manager, p. 284
product category managers, p. 285
market manager, p. 285
venture teams, p. 285

Chapter Questions and Activities

MyMarketingLab™

Go to mymktlab.com to watch this chapter's Rising Star video(s) for career advice and to respond to questions.

Concepts: Test Your Knowledge

- 9-1. What are some reasons a firm might determine it should expand a product line? What are some reasons for contracting a product line? Why do many firms have a product mix strategy?
- 9-2. Why is quality such an important product strategy objective? What are the dimensions of product quality? How has e-commerce affected the need for quality product objectives?
- 9-3. Explain the product life cycle concept. What are the stages of the product life cycle?
- 9-4. How are products managed during the different stages of the product life cycle?
- 9-5. What is a brand? What are the characteristics of a good brand name? How do firms protect their brands?
- 9-6. What is a brand extension? What is sub-branding?
- 9-7. What are individual and family brands? A national brand? A store brand?
- 9-8. What does it mean to license a brand? What is co-branding?
- 9-9. What are the functions of packaging? What are some important elements of effective package design?
- 9-10. What should marketers know about package labeling?
- 9-11. Describe some of the ways firms organize the marketing function to manage existing products. What are the ways firms organize for the development of new products?

Activities: Apply What You've Learned

- 9-12. *In Class, 10–25 Minutes for Teams* You have been asked to give a presentation on the product life cycle to a small group of students who are interning at your firm this summer. Describe each of the stages of the product life cycle—introduction, growth, maturity, and decline—and give examples of products in the various stages. Include examples of products that are in transition stages as well as examples of some product failures and some products that have been discontinued.
- ★ 9-13. *For Further Research (Individual)* Select a company that has products under the same corporate brand name that includes products that represent a downward line stretch as well as products that represent an upward line stretch. Identify at least one product that fits within each category and identify what specific attributes separate each from the other.
- 9-14. *Creative Homework/Short Project* You have been recently promoted at P&G and have been tasked with identifying five cobranding opportunities. These co-branded products could be P&G products or a P&G product co-branded with another firm's brand. Describe each of the cobranding opportunities and define the advantages that would result from each.
- 9-15. *For Further Research (Individual)* The wine industry over the years has undergone a number of changes in the elements that make up the packaging of a bottle (or other type of individual package) of wine sold for consumption. Conduct research to identify some of the

specific differences in the features of wine's packaging. Identify both the pros and cons of each packaging approach observed from a sustainability and marketing perspective (that is, consider different preferences and ideas held by different segments of the wine market affected by the related packaging features).

- 9-16. *In Class, 10–25 Minutes for Teams* Assume that you are working in the marketing department of a major manufacturer of athletic shoes. Your firm is introducing a new product, a line of disposable sports clothing. That's right—wear it once and toss it! You wonder if it would be better to market the line of clothing with a new brand name or use the family brand name that has already gained popularity with your existing products. Make a list of the advantages and disadvantages of each strategy. Develop your recommendation.
- 9-17. *In Class, 10–25 Minutes for Teams* As an entrepreneur, you know you want to open a new grocery store, but you aren't sure what kind of products you want to carry. Discuss the importance of national brands, store brands, and generic brands. Which brand or brands will your new store carry? Briefly explain your decision.
- 9-18. *For Further Research (Individual)* Find an example of a brand extension that you believe negatively impacted consumer perceptions of the brand. Explain why you believe this to be the case by citing aspects of the brand extension that you believe were most detrimental as well as specific evidence, if available.
- 9-19. *Creative Homework/Short Project* Assume that you have been recently hired by Kellogg, the cereal manufacturer. You have been asked to work on a plan for redesigning the packaging for Kellogg's cereals. In a role-playing situation, present the following report to your marketing superior:
 - a. Discussion of the problems or complaints customers have with current packaging
 - b. Several different package alternatives
 - c. Your recommendations for changing packaging or for keeping the packaging the same
- 9-20. *For Further Research (Individual)* You are interested in the role that Six Sigma plays with regard to product quality. Using the Internet, research the concept of Six Sigma and find at least two case studies on companies that employ Six Sigma in their day-to-day activities. Summarize your findings in a short report.

Concepts: Apply Marketing Metrics

The chapter introduced you to the concept of brand equity, an important measurement of the value vested in a product's brand in and of itself. Different formulas for calculating brand equity exist. One well-publicized approach is that of Interbrand, which annually publishes its Best 100 Global Brands list. Go to the location on the Interbrand website where they provide these rankings for the present and past years (www.interbrand.com), then click on "Best Global Brands." Peruse the list of brands and select any five in which you have interest. For each, observe whether brand equity has been trending up or down over the past few years.

- 9-21. How does Interbrand explain the changes (or stability) in each?
- 9-22. Do you agree with Interbrand's assessment or do you have another opinion about why your brand's equity is what it is?

Choices: What Do You Think?

- ★ 9-23. *Critical Thinking* Brand equity means that a brand enjoys customer loyalty, perceived quality, and brand-name awareness. To what brands are you personally loyal? What is it about the product that creates brand loyalty and, thus, brand equity?
- 9-24. *Critical Thinking* Are there specific products that you purchase where branding does not matter and has never mattered to you? What characteristics of the related products and your own individual preferences can help explain why this might be the case?
- 9-25. *Critical Thinking* Quality is an important product objective, but quality can mean different things for different products, such as durability, precision, aesthetic appeal, and so on. What does quality mean for the following products?
- Smartphone
 - Pop-up tent
 - Athletic wear
 - Vacuum cleaner
 - Pet food
 - College education
- 9-26. *Critical Thinking* Many times firms take advantage of their popular, well-known brands by developing brand extensions because they know that the brand equity of the original or parent brand will be transferred to the new product. If a new product is of poor quality, it can damage the reputation of the parent brand, whereas a new product that is of superior quality can enhance the parent brand's reputation. What are some examples of brand extensions that have damaged and that have enhanced the parent brand equity?
- ★ 9-27. *Ethics* According to a U.K. study of 1,000 people, 91 percent felt that "the way a company behaves towards its customers and communities is influential when making a purchase."⁴⁵ Do you share the same belief? Have you ever looked up, for example, a company's environmental initiatives before making a purchase? How important is a brand's ethical behavior to you? Have you ever *not* purchased a brand because of the ethics of the company behind the brand?
- 9-28. *Critical Thinking* Sometimes marketers seem to stick with the same packaging ideas year after year regardless of whether they are the best possible design. Following is a list of products. For each one, discuss what (if any) problems you have with the package of the brand you use. Then think of ways the package could be improved. Why do you think marketers don't change the old packaging? What would be the results if they adopted your package ideas?
- Dry cereal
 - Laundry detergent
 - Frozen orange juice
 - Gallon of milk
 - Potato chips
 - Loaf of bread

- 9-29. *Critical Thinking* In recent years, for packaged products the FDA has proposed that companies include the percentage daily value for added sugar on the nutrition label. The primary reasoning behind this proposal is that it would provide information on added sugars comparable to what consumers have been exposed to for nutrients such as saturated fat and sodium that the FDA advises should be limited in consumption.⁴⁶ Do you think that this update to include added sugar is necessary? Do you believe that this update will alter how people consume and make consumption decisions on products containing added sugars? Explain the reasoning behind your answers.
- 9-30. *Ethics* If a company knows that a snack or beverage is typically consumed in a single sitting (such as a bottle of soda or a bag of chips), is it ethical for that company to include on the product's nutrition label values based on the identification of multiple servings within the product (that is, the nutrition values displayed would represent a single serving of the product that is less than the whole product, making it necessary to multiply those values by the number of servings to identify the total nutritional value of the package)?
- 9-31. *Critical Thinking* Should a brand be viewed as socially responsible if the parent company of which the brand is a part engages in activities in direct contradiction to (and generally outweighing) the socially responsible actions engaged in by the brand itself?
- 9-32. *Ethics* You learned in this chapter that it's hard to *legally* protect brand names across product categories—Quaker and Apple, for example, and also Delta—which is an airline and a faucet. But what about the *ethics* of borrowing a name and applying it to some unrelated products? Think of some new business you might like to start up. Now consider some possible names for the business that are already in use as brands in other, unrelated categories. Do you think it would be ethical to borrow one of those names? Why or why not?

Miniproject: Learn by Doing

In any supermarket in any town, you will surely find thousands of examples of product packaging. This miniproject is designed to give you a better understanding of how branding, cobranding, and packaging all work together to compete for your purchasing dollars.

- Go to a typical supermarket in your community.
 - Select two product categories of interest to you: ice cream, cereal, laundry detergent, soup, frozen meals, and so on.
 - For each product category, visit that area of the store. Write down a list of the three items that attract your attention first. Identify what it was about the product that attracted your attention (the brand, cobrand, or package design).
 - For each of the three products, identify which you are most likely to buy based on the first look alone. Explain why you chose this product.
- 9-33. Pick up each of three products and study their package design and any information you can find about the product. Now which product are you most likely to buy? Explain why you chose this product.
- 9-34. Present a summary to your class on what you learned about the brands and packaging in your two product categories.

Marketing in Action Case Real Choices at Blue Diamond

Do you know how many different ways there are to enjoy an almond? According to agricultural cooperative Blue Diamond Growers, quite a few! After a price spike for almonds earlier in this decade, a market correction has occurred, prices have fallen, and demand has risen. Mark Jansen, Blue Diamond Growers President and CEO, says "I think almonds are more appropriately valued from a price standpoint, and I think we're in a place where we can get back to encouraging and growing fundamental consumer demand for almonds around the world." Much of that growth will likely be through product development.

The California Almond Grower's Exchange began in 1910, and today it represents the world's largest tree nut processing companies, serving more than 3,500 growers. The cooperative produces over 80 percent of the world's almond supply. The cooperative offers almonds in a range of forms and markets its products through the Blue Diamond Growers, which is dedicated to discovering and building customers by establishing new products, finding new uses, and creating new opportunities. Core brands include Blue Diamond roasted almonds, Almond Breeze almond milk, and Nut Thins nut and rice cracker snacks.

The original product, snack almonds, already comes in many tasty varieties but that doesn't stop Blue Diamond from seeking out new ways to grow the brand. The latest family of flavors is branded "Bold," with tastes described as "bold, brash and daring enough to stand out in any crowd." Example flavors include Sriracha, Jalapeno Smokehouse, Wasabi & Soy Sauce, and Habanero BBQ.

Because of growing consumer desire for lower fat and more nutritious alternatives, milk drinkers have been seeking alternatives to dairy. Almond Breeze Almondmilk is low in calories and saturated fat, and is a good source of calcium and vitamin E. These benefits are one of the reasons why USA Volleyball adopted the product as its Official almond milk for the 2016

Summer Olympic Games. Almond Breeze was available for the USA Volleyball team members, coaches, trainers, chefs, and nutritionists as a good alternative to dairy beverages.

Nut Thins are a crunchy cracker made with rice and nuts. The snacks are baked, not fried, and contain no genetically modified organisms (GMOs), gluten, artificial ingredients, or trans fats. They are promoted as ideal for snacking or as a tasty appetizer. Examples of flavors include Smokehouse, Pepper Jack Cheese, Cheddar Cheese, and Hint of Sea Salt.

A recent growth approach for Blue Diamond is a line of honey-flavored products. The new theme is applied across its Snack Almonds, Nut Thins, and Almond Breeze brands (examples: Honey Dijon Almonds, Honey Almond Milk). Al Greenlee, Director of Marketing at Blue Diamond Growers, asserts, "Honey is growing in popularity as a great natural alternative to sugar."

Clearly Blue Diamond is using products and branding successfully to spark new growth opportunities. The question is, how do they keep up the momentum?

You Make the Call

- 9-35.** What is the decision facing Blue Diamond?
- 9-36.** What factors are important in understanding this decision situation?
- 9-37.** What are the alternatives?
- 9-38.** What decision(s) do you recommend?
- 9-39.** What are some ways to implement your recommendation?

Based on: Ann-Marie Jeffries, "Almond Industry 2016 Preview," *Growing Produce* (January 27, 2016), <http://www.growingproduce.com/nuts/almond-industry-2016-preview/> (accessed May 10, 2016); Mark Anderson, "Blue Diamond Goes Spicy with Sriracha-Flavored Almonds," *Sacramento Business Journal* (July 8, 2015), <http://www.bizjournals.com/sacramento/news/2015/07/08/blue-diamond-goes-spicy-with-sriracha-flavored.html> (accessed May 10, 2016); "Our Products," Blue Diamond Almonds, <https://www.bluediamond.com/index.cfm?navid=3> (accessed May 10, 2016).

MyMarketingLab™

Go to **mymktlab.com** for Auto-graded writing questions as well as the following Assisted-graded writing questions:

- 9-40.** *Creative Homework/Short Project.* You may think of your college or university as an organization that offers a line of different educational products. Assume that you have been hired as a marketing consultant by your university to examine and make recommendations for extending its product line. Develop alternatives that the university might consider:
 - a. Upward line stretch
 - b. Downward line stretch
 - c. Two-way stretch
 - d. Filling-out strategy
 Describe how each extension might be accomplished. Evaluate each alternative.
- 9-41.** *Creative Homework/Short Project.* Assume that you are the vice president of marketing for a firm that markets a large number of specialty food items (gourmet sauces, marinades, relishes, and so on). Your firm is interested in improving its marketing management structure. You are considering several alternatives: using a brand manager structure, having product category managers, or focusing on market managers. Outline the advantages and disadvantages of each type of organization. What is your recommendation?

Deliver the Goods: Determine the Distribution Strategy

Objective Outline

11.1 Explain what a distribution channel is, identify types of wholesaling intermediaries, and describe the different types of distribution channels. pp. 342–353

TYPES OF DISTRIBUTION CHANNELS AND WHOLESALE INTERMEDIARIES
p. 342

11.2 List and explain the steps to plan a distribution channel strategy. pp. 354–360

DEVELOP A CHANNEL STRATEGY p. 354

11.3 Discuss the concepts of logistics and supply chain. pp. 360–368

LOGISTICS AND THE SUPPLY CHAIN
p. 360

Check out the Chapter 11 **Study Map** on page 368.



Courtesy of Michael J. Ford, BDP International

Michael Ford

▼ **A Decision Maker** at BDP International

Michael Ford is a career professional in international transportation, specializing in import/export documentation and regulatory compliance. He is responsible for BDP International's Regulatory Compliance unit. Michael's activities include developing and administering the company's consulting arm in value-added product offerings such as Regulatory Compliance, Supply Chain Security, Duty Drawback, Customer Education and Logistics Process Analysis/Management, and all topical governmental issues connected with the handling and administration of export and import cargo. Michael's leadership in communication and system logic on governmental rules and regulations is central to BDP's ability to understand and resolve complex regulatory issues quickly, decisively and with minimal impact on customers.

Michael has been associated with BDP for more than 36 years. Before his current role he headed the company's regional ocean export service division as Vice President. For the past 20 years, he has worked with and served as an advocate for some of the world's leading companies, interacting with the U.S. Customs Service and the Department of Commerce/Census Bureau, in the development, piloting and automation of import and export programs. Among his other affiliations, Ford is the Co-chair for Trade on the Export Committee in the development of the new Customs ACE system and has served with Customs as a member of the Commercial Operations Advisory Council (COAC), Chair of the Mid-Atlantic District Export Council, and chairs the Partner sector with the American Chemistry Council, Responsible Care Committee. He also teaches an MBA International Logistics course at Saint Joseph's University in Philadelphia. He received a B.A. in Business Administration from Temple University in 1979.

Michael's Info

What I do when I'm not working:
Spending time with family and playing basketball

Business book I'm reading now:
Leading Change by John Kotter

My motto to live by:
Work hard and keep things simple

What drives me:
The opportunity to learn and then share my new knowledge

My management style:
Trust the people who work for you and allow them to make their decisions

Don't do this when interviewing with me:
Ask me questions about me



Here's my **problem...**

Real People, Real Choices

BDP International, Inc. is the world's premiere international logistics company, specializing in customized logistics solutions powered by exceptional people, industry-leading execution processes, and proprietary technology. BDP is non-asset based; this means it does not own the planes, vessels, and trucks it uses to move clients' goods around the world. This structure gives BDP a lot of flexibility because it can pick and choose the right transportation company to meet the needs of a specific client.

BDP was founded in 1966 in a one-room office of the Philadelphia Customs House with the goal to redefine the business of freight forwarding. The Company's founder, Richard Bolte, Sr., identified the opportunity to reinvent the complex documentation process of international sales and purchase orders to yield long-term and meaningful savings for his customers.

Since its inception, BDP has focused on finding solutions to complex logistics problems and creating significant value for customers rather than simply moving freight. BDP remains family owned. The continuity of family ownership, during BDP's transformation from start-up into a global enterprise, has fostered and institutionalized a unique service culture that has remained a hallmark of BDP's unparalleled industry reputation. BDP is one of the only U.S. headquartered, privately owned, freight forwarders with global scale.

PepsiCo is one of BDP's many large corporate clients; we work with their organization to move their products around the world. PepsiCo is the parent company of 22 brands that range from Pepsi beverages to Quaker Oats and Frito-Lay. In January 2015, the World Economic Forum (WEF) was holding an important meeting in Davos, Switzerland. Economic decision makers from around the world would be attending, and many of them were involved in leading discussions about many of the current world issues that impact large companies like PepsiCo as well as consumers and the environment. This prominent world stage was the perfect setting for the company's Quaker Foods brand to host a "café" at the conference and use the opportunity to provide attendees with samples of its new "breakfast bars." Quaker's PR/marketing team was eager to showcase this new product line because the company was introducing the bars to the consumer market and this event would provide a global stage for their debut. Two weeks before the start of the conference, Quaker asked us to help them get a total of 102 boxes full of these bars to the venue in Davos.

This request wasn't as easy as it sounds. The problem is that the breakfast bars are made in the U.S., and the manufacturing site is not approved by the European Union (EU). The EU imposes very strict controls on the ingredients it allows for import. Switzerland is a member country of the EU, so it follows EU regulations. BDP had a short window to move the goods from the U.S. and persuade Swiss Customs to clear the shipment in time for the conference. If the Quaker products didn't show up in time, the bare shelves at the café would make the client look bad—and this failure in turn would be a major black eye for BDP.

We had to scramble to understand all of the possible regulatory issues that might gum up the works. The biggest sticking point was that the EU requires all food products to carry a label that lists all of their ingredients, and

this label has to be printed in Italian, German, or French; Swiss Customs would not grant a special exemption for English for the conference. If BDP had to unpack each box and relabel more than 4000 Quaker bars in one of the permitted languages, the additional resources required would make it unrealistic to move the order.

Michael considered his Options 1•2•3

1 Option **Convince Swiss Customs to allow us to put a new label on the outside of each of the 102 boxes rather than on each of the 4020 individual bars in the shipment.** This compromise would allow the products to enter the country. However, the cost to label each box as well as the time required to do so raised the possibility that we couldn't move the goods in time to make the start of the conference. If we had to add another label in a different language this solution would also cover up the normal package and hide other product information.

2 Option **Identify a different Quaker Foods product that is manufactured in Europe and convince the client to substitute this for the breakfast bars.** The client would be able to provide a local product for the conference attendees. On the other hand, Quaker wanted to impress the participants who would come from around the world with its innovativeness, and its new breakfast bars would do that.

3 Option **Provide the list of required ingredients in the requested language as our contact at Swiss Customs proposed.** This option would eliminate the cost of labeling every bar or box as well as the additional labor costs and time required to move the boxes on schedule. However, the suggested solution was verbal only; as a result of the bureaucratic process involved we would have to approach Customs when the physical products actually arrived to be cleared and remind the person working at the time about this suggestion. The odds are this would not be the same person who made the suggestion, so we would have to take our chances. Inspectors who are confronted with more than 100 boxes to clear sometimes rely on their own judgment about how to handle the shipment. And, we would still have to move the boxes from the manufacturing site in the midwestern U.S. to Switzerland in less than a week. The client would have to pay for all the associated costs and they might not be too happy about that.

Now put yourself in Michael's shoes. Which option would you choose, and why?

You Choose

Which **option** would you choose, and **why**?

☐ Option 1 ☐ Option 2 ☐ Option 3

See what **option** Michael chose in **MyMarketingLab™**

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Chapter 11

11.1 Types of Distribution Channels and Wholesale Intermediaries

OBJECTIVE

Explain what a distribution channel is, identify types of wholesaling intermediaries, and describe the different types of distribution channels.

(pp. 342–353)

physical distribution

The activities that move finished goods from manufacturers to final customers, including order processing, warehousing, materials handling, transportation, and inventory control.

direct channel

A channel of distribution in which a manufacturer of a product or creator of a service distributes directly to the end customer.

channel intermediaries

Firms or individuals such as wholesalers, agents, brokers, or retailers who help move a product from the producer to the consumer or business user. An older term for intermediaries is *middlemen*.

So you've done all the work to understand your target market. You've created your product, and you've priced it, too. Your Facebook page is attracting legions of brand fans. But sorry, you're still not done with the marketing mix—now you need to get what you make out into the marketplace (i.e., distribute it). The delivery of goods to customers involves **physical distribution**, which refers to the activities that move finished goods from manufacturers to final customers. As introduced in Chapter 1, a *channel of distribution* is the series of firms or individuals that facilitates the movement of a product from the producer to the final customer. In many cases, these channels include an organized network of producers (or manufacturers), wholesalers, and retailers that develop relationships and work together to make products conveniently available to eager buyers. And, as Michael Ford's decision at BDP International illustrates, the delivery of goods across national borders requires an in-depth understanding of laws and regulations specific to a particular nation or international governing body.

Distribution channels come in different shapes and sizes. The bakery around the corner where you buy your cinnamon rolls is a member of a channel, as is the baked-goods section at the local supermarket, the Starbucks that sells biscotti to go with your double-mocha cappuccino, and the bakery outlet store that sells day-old rolls at a discount.

A channel of distribution consists of, at a minimum, a producer—the individual or firm that manufactures or produces a good or service—and a customer. This is a **direct channel**, and when you buy a loaf of bread at a mom-and-pop bakery, you're buying through a direct channel. Firms that sell their own products directly to customers through websites, catalogs, toll-free numbers, or factory outlet stores also use direct channels.

But life (and marketing) usually isn't that simple: Channels often are *indirect* because they include one or more **channel intermediaries**—firms or individuals such as wholesalers, agents, brokers, and retailers who in some way help move the product to the consumer or business user. For example, a bakery may choose to sell its cinnamon buns to a wholesaler that will in turn sell boxes of buns to supermarkets and restaurants that in turn sell them to consumers. Another older term for intermediaries is *middlemen*.

Functions of Distribution Channels

Channels that include one or more organizations or intermediaries often can accomplish certain distribution functions more effectively and efficiently than can a single organization. As we saw in Chapter 2, this is especially true in international distribution channels, where differences among countries' customs, beliefs, and infrastructures can make global marketing a nightmare. Even small companies can succeed in complex global markets when they rely on distributors such as BDP that know local customs and laws.

Overall, channels provide the place, time, and possession utility we described in Chapter 1. They make desired products available when, where, and in the sizes and quantities that customers desire. Suppose, for example, you want to buy that perfect bouquet of flowers for a special someone. You *could* grow them yourself or even “liberate” them from a cemetery if you were *really* desperate (very classy!). Fortunately, you can probably accomplish this task with just a simple phone call or a few mouse clicks, and “like magic” a local florist delivers a bouquet to your honey's door.

Distribution channels provide a number of logistics or physical distribution functions that increase the efficiency of the flow of goods from producer to customer (more on this later in the chapter). How would we buy groceries without our modern system

of supermarkets? We'd have to get our milk from a dairy, our bread from a bakery, our tomatoes and corn from a local farmer, and our flour from a flour mill. And forget about specialty items such as Coca-Cola or Little Debbie snack cakes. The companies that make these items would have to handle literally millions of transactions to sell to every individual who craves a junk-food fix.

Distribution channels create *efficiencies* because they reduce the number of transactions necessary for goods to flow from many different manufacturers to large numbers of customers. This occurs in two ways. The first is **breaking bulk**. Wholesalers and retailers purchase large quantities (usually cases) of goods from manufacturers but sell only one or a few at a time to many different customers. Second, channel intermediaries reduce the number of transactions when they **create assortments**; they provide a variety of products in one location, so that customers can conveniently buy many different items from one seller at one time.

Figure 11.1 provides a simple example of how distribution channels work. This simplified illustration includes five producers and five customers. If each producer sold its product to each individual customer, 25 different transactions would have to occur—not exactly an efficient way to distribute products. But with a single intermediary who buys from all 5 manufacturers and sells to all 5 customers, we quickly cut the number of transactions to 10. If there were 10 manufacturers and 10 customers, an intermediary would reduce the number of transactions from 100 to just 20. Do the math: Channels are efficient.

The **transportation and storage** of goods is another type of physical distribution function. That is, retailers and other channel members move the goods from the production point to other locations where they can hold them until consumers want them. Channel intermediaries also perform a number of **facilitating functions** that make the purchase process easier for customers and manufacturers. For example, intermediaries often provide customer services, such as offering credit to buyers.

Many of us like to shop at brick-and-mortar department stores because if we are not happy with the product, we can take it back to the store, where cheerful customer service personnel are happy to give us a refund (at least in theory). But the same facilitating

breaking bulk

Dividing larger quantities of goods into smaller lots in order to meet the needs of buyers.

create assortments

To provide a variety of products in one location to meet the needs of buyers.

transportation and storage

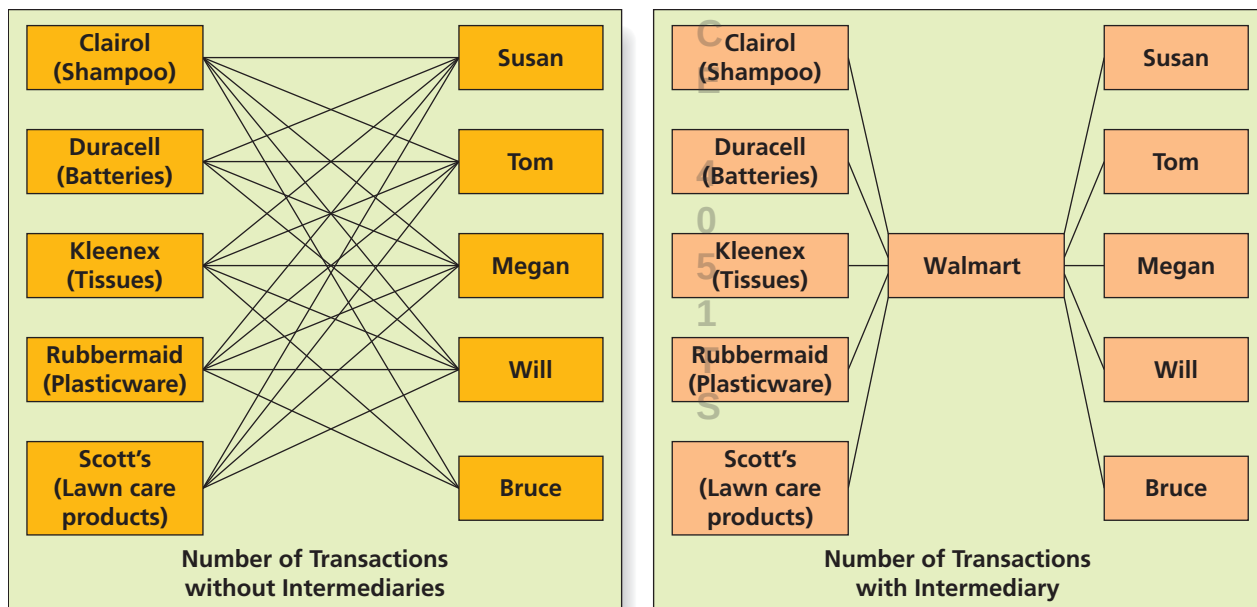
Occurs when retailers and other channel members move the goods from the production point to other locations where they can hold them until consumers want them.

facilitating functions

Functions of channel intermediaries that make the purchase process easier for customers and manufacturers.

Figure 11.1  **Process** | Reduce Transactions via Intermediaries

One of the functions of distribution channels is to provide an assortment of products. Because the customers can buy a number of different products at the same location, this reduces the total costs of obtaining a product.



risk-taking functions

The chance retailers take on the loss of a product when they buy a product from a manufacturer because the product sits on the shelf because no customers want it.

communication and transaction functions

Happens when channel members develop and execute both promotional and other types of communication among members of the channel.

disintermediation (of the channel of distribution)

The elimination of some layers of the channel of distribution to cut costs and improve the efficiency of the channel.

knowledge management

A comprehensive approach to collecting, organizing, storing, and retrieving a firm's information assets.

intranet

An internal corporate communication network that uses Internet technology to link company departments, employees, and databases.

online distribution piracy

The theft and unauthorized repurposing of intellectual property via the Internet.

function happens online with Zappos, Lands' End, and a host of other customer-friendly retailers. These same customer services are even more important in business-to-business (B2B) markets where customers purchase larger quantities of higher-priced products. And channel members perform **risk-taking functions**. For example, if a retailer buys a product from a manufacturer and it just sits on the shelf because no customers want it, he or she is stuck with the item and must take a loss. But hey, that's what outlet malls are for, right? Perishable items present an even greater risk of spoilage and loss, hence potentially a high risk. Blueberries in the U.S. are in season for only a very short period of time. Retailers want to stock up to meet the annual high demand; on the other hand, a carton of semisoft blueberries on the shelf a few weeks past prime is beyond unappealing.

Finally, intermediaries perform **communication and transaction functions** by which channel members develop and execute both promotional and other types of communication among members of the channel. Wholesalers buy products to make them available for retailers, and they sell products to other channel members. Retailers handle transactions with final consumers. Channel members can provide two-way communication for manufacturers. They may supply the sales force, advertising, and other types of marketing communication necessary to inform consumers and persuade them that a product will meet their needs. And the channel members can be invaluable sources of information on consumer complaints, changing tastes, and new competitors in the market.

The Evolution of Distribution Functions

In the future, channel intermediaries that physically handle the product may become obsolete. Already companies are eliminating many traditional intermediaries because they find that they don't add enough value in the distribution channel—a process we call **disintermediation (of the channel of distribution)**. Literally, disintermediation means removal of intermediaries! For marketers, disintermediation reduces costs in many ways: fewer employees, no need to buy or lease expensive retail property in high-traffic locations, and no need to furnish a store with fancy fixtures and decor. You can also see this process at work when you pump your own gas, withdraw cash from an ATM, or book a roundtrip flight and a hotel stay with a website such as Kayak.

As with many other aspects of marketing, the Internet is radically changing how companies coordinate among members of a supply chain to make it more effective in ways that end consumers never see. These firms develop better ways to implement **knowledge management**, which refers to a comprehensive approach that collects, organizes, stores, and retrieves a firm's information assets.

Those assets include databases and company documents as well as the practical knowledge of employees whose past experience may be relevant to solve a new problem. In the world of B2B, this process probably occurs via an **intranet**, which, as you read in Chapter 6, is an internal corporate communication network that uses Internet technology to link company departments, employees, and databases. But it can also facilitate sharing of knowledge among channel partners because it is a secure and password-protected platform. This more strategic management of information results in a win-win situation for all the partners.

But as with most things cyber, the Internet as a distribution channel brings pain with pleasure. One of the more vexing problems with Internet distribution is the potential for **online distribution piracy**, which is the theft and unauthorized repurposing of intellectual



Some wholesalers and retailers assist the manufacturer when they provide setup, repair, and maintenance service for products they handle. Best Buy's Geek Squad is a perfect example.

property via the Internet. Bringing things close to home, the college textbook industry has high potential for online piracy. It's not uncommon for U.S.-produced textbooks to make their way to unscrupulous individuals outside the home country who translate the core content into the native language and post it online for distribution. This practice completely devalues the knowledge contained therein and results in zero return to the knowledge creators (namely, your humble textbook authors!). Many students don't realize that the only people who profit from used or pirated books are the middlemen who have obtained them (sometimes illegally). Used books do sell for less, but because the publisher does not see any revenue from these sales, it is forced to raise prices to return a profit. This results in a vicious circle as new books become more and more expensive, which motivates more students to buy them illegitimately, and so the madness continues.

Let's look at a similar distribution issue in a product category that's probably more familiar to you. Unauthorized downloads of music continue to pose a major challenge to the "recording" industry—to the point where the whole nature of the industry has turned topsy-turvy in search of a new business model that works. Many in the music business are rethinking exactly what—and where—is the value-added for what they do. To the majority of modern consumers of music, the value of a physical CD has diminished—to the point where many listeners are unwilling to pay anything at all for the artist's work. And more and more musical artists opt to defect from traditional record labels and introduce their tunes online, where they can control at least some of the channel of distribution. As you may know, a few years ago the band Radiohead even tried a "name your own price" strategy when it released its studio album *In Rainbows* on its website.

In addition to music, TV shows and movies also tend to be obvious targets for piracy online. For a company such as Netflix that legally partners with content providers to make their content available online for a fee, distribution piracy is a serious issue for both parties. Interestingly, Netflix actually adjusts its prices lower in markets outside the U.S. that have higher rates of piracy to attract a larger number of consumers to the legitimate offerings through the company website. In addition, Netflix believes that making legal access to content an easier and more convenient experience can lead to decreases in piracy. The company cites evidence of a 50 percent decline in BitTorrent traffic (a web-based communications protocol used both for the legal and illegal download of online content) after the introduction of Netflix in Canada.¹

So far, we've learned what a distribution channel is and talked about some of the functions it performs. Now let's find out about specific types of channel intermediaries and channel structures.

Wholesaling Intermediaries

How can you get your hands on a new Drake T-shirt or hoodie? You could pick one up at your local music store, at a trendy clothing store like Hot Topic, or maybe at its online store. You might join hordes of others and buy an "official Drake concert T-shirt" from vendors during a show. Alternatively, you might get a "deal" on a bootlegged, unauthorized version of the same shirt that a shady guy who stands *outside* the concert venue sells from a battered suitcase. Perhaps you shop online at www.drakeofficial.com. Each of these distribution alternatives traces a different path from producer to consumer. Let's look at the different types of wholesaling intermediaries and at different channel structures. Note that we will hold off focusing on retailers, which are usually the last link in the chain, until Chapter 12. Retailers are a big deal and deserve a chapter of their own.  Figure 11.2 portrays key intermediary types, and Table 11.1 summarizes the important characteristics of each.

Figure 11.2  **Snapshot** | Key Types of Intermediaries

Intermediaries can be independent or manufacturer owned.

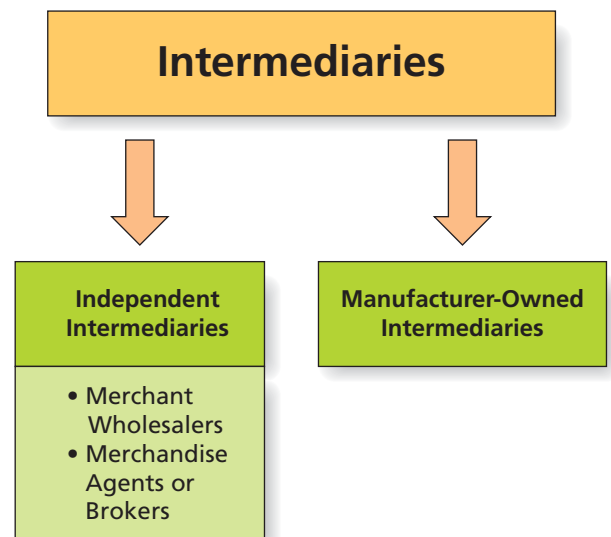


Table 11.1 | Types of Intermediaries

Intermediary Type	Description	Advantages
Independent intermediaries	Do business with many different manufacturers and many different customers	Used by most small to medium-size firms
• Merchant wholesalers	Buy (take title to) goods from producers and sell to organizational customers; either full or limited function	Allow small manufacturers to serve customers throughout the world with competitive costs
• Cash-and-carry wholesalers	Provide products for small-business customers who purchase at wholesaler's location	Distribute low-cost merchandise for small retailers and other business customers
• Truck jobbers	Deliver perishable food and tobacco items to retailers	Ensure that perishable items are delivered and sold efficiently
• Drop shippers	Take orders from and bill retailers for products drop shipped from manufacturer	Facilitate transactions for bulky products
• Mail-order wholesalers	Sell through catalogs, telephone, or mail order	Provide reasonably priced sales options to small organizational customers
• Rack jobbers	Provide retailers with display units, check inventories, and replace merchandise for the retailers	Provide merchandising services to retailers
• Merchandise agents and brokers	Provide services in exchange for commissions	Maintain legal ownership of product by the seller
• Manufacturers' agents	Use independent salespeople; carry several lines of noncompeting products	Supply sales function for small and new firms
• Selling agents, including export/import agents	Handle entire output of one or more products	Handle all marketing functions for small manufacturers
• Commission merchants	Receive commission on sales price of product	Provide efficiency primarily in agricultural products market
• Merchandise brokers, including export/import brokers	Identify likely buyers and bring buyers and sellers together	Enhance efficiency in markets where there are many small buyers and sellers
Manufacturer-owned intermediaries	Limit operations to one manufacturer	Create efficiencies for large firms
• Sales branches	Maintain some inventory in different geographic areas (similar to wholesalers)	Provide service to customers in different geographic areas
• Sales offices	Carry no inventory; availability in different geographic areas	Reduce selling costs and provide better customer service
• Manufacturers' showrooms	Display products attractively for customers to visit	Facilitate examination of merchandise by customers at a central location

wholesaling intermediaries

Firms that handle the flow of products from the manufacturer to the retailer or business user.

independent intermediaries

Channel intermediaries that are not controlled by any manufacturer but instead do business with many different manufacturers and many different customers.

merchant wholesalers

Intermediaries that buy goods from manufacturers (take title to them) and sell to retailers and other B2B customers.

take title

To accept legal ownership of a product and assume the accompanying rights and responsibilities of ownership.

Wholesaling intermediaries are firms that handle the flow of products from the manufacturer to the retailer or business user. There are many different types of consumer and B2B wholesaling intermediaries. Some of these are independent, but manufacturers and retailers can own them, too.

Independent Intermediaries

Independent intermediaries do business with many different manufacturers and many different customers. Because no manufacturer owns or controls them, they make it possible for many manufacturers to serve customers throughout the world while they keep prices low.

Merchant wholesalers are independent intermediaries that buy goods from manufacturers and sell to retailers and other B2B customers. Because merchant wholesalers **take title** to the goods (i.e., they legally own them), they assume certain risks and can suffer losses if products are damaged, become outdated or obsolete, are stolen, or just don't sell. On the other hand, because they own the products, they are free to develop their

own marketing strategies, including setting the prices they charge their customers. Wait, it gets better: There are several different kinds of merchant wholesalers:

- **Full-service merchant wholesalers** provide a wide range of services for their customers, including delivery, credit, product-use assistance, repairs, advertising, and other promotional support—even market research. Full-service merchant wholesalers often have their own sales force to call on businesses and organizational customers. Some general merchandise wholesalers carry a large variety of different items, whereas specialty wholesalers carry an extensive assortment of a single product line. For example, a candy wholesaler carries only candy and gum products but stocks enough different varieties to give your dentist nightmares for a year.
- In contrast, **limited-service merchant wholesalers** provide fewer services for their customers. Like full-service wholesalers, limited-service wholesalers *take title* to merchandise but are less likely to provide services such as delivery, credit, or marketing assistance to retailers. Specific types of limited-service wholesalers include the following:
 - *Cash-and-carry wholesalers* provide low-cost merchandise for retailers and industrial customers that are too small for other wholesalers' sales representatives to call on. Customers pay cash for products and provide their own delivery. Some popular cash-and-carry product categories include groceries, office supplies, and building materials.
 - *Truck jobbers* carry their products to small business/customer locations for their inspection and selection. Truck jobbers often supply perishable items such as fruit and vegetables to small grocery stores. For example, a bakery truck jobber calls on supermarkets, checks the stock of bread on the shelves, removes outdated items, and suggests how much bread the store needs to reorder.
 - *Drop shippers* are limited-function wholesalers that take title to the merchandise but never actually take possession of it. Drop shippers take orders from and bill retailers and industrial buyers, but the merchandise is shipped directly from the manufacturer. Because they take title to the merchandise, they assume the same risks as other merchant wholesalers. Drop shippers are important to both the producers and the customers of bulky products, such as coal, oil, or lumber.
 - *Mail-order wholesalers* sell products to small retailers and other industrial customers, often located in remote areas, through catalogs rather than a sales force. They usually carry products in inventory and require payment in cash or by credit card before shipment. Mail-order wholesalers supply products such as cosmetics, hardware, and sporting goods.
 - *Rack jobbers* supply retailers with specialty items, such as health and beauty products and magazines. Rack jobbers get their name because they own and maintain the product display racks in grocery stores, drugstores, and variety stores. These wholesalers visit retail customers on a regular basis to maintain levels of stock and refill their racks with merchandise. Think about how quickly magazines turn over on the rack; without an expert who pulls old titles and inserts new ones, retailers would have great difficulty ensuring that you can buy the current issue of *People* magazine on the first day it hits the streets.

Merchandise agents or brokers are a second major type of independent intermediary. Agents and brokers provide services in exchange for commissions. They may or may not take possession of the product, but they *never* take title; that is, they do not accept legal



Free shipping provides a competitive advantage for a large retailer.

full-service merchant wholesalers

Wholesalers that provide a wide range of services for their customers, including delivery, credit, product-use assistance, repairs, advertising, and other promotional support.

limited-service merchant wholesalers

Wholesalers that provide fewer services for their customers.

merchandise agents or brokers

Channel intermediaries that provide services in exchange for commissions but never take title to the product.

ownership of the product. Agents normally represent buyers or sellers on an ongoing basis, whereas clients employ brokers for a short period of time:

- *Manufacturers' agents*, or *manufacturers' reps*, are independent salespeople who carry several lines of noncompeting products. They have contractual arrangements with manufacturers that outline territories, selling prices, and other specific aspects of the relationship but provide little if any supervision. Manufacturers normally compensate agents with commissions based on a percentage of what they sell. Manufacturers' agents often develop strong customer relationships and provide an important sales function for small and new companies.
- *Selling agents*, including *export/import agents*, market a whole product line or one manufacturer's total output. They often work like an independent marketing department because they perform the same functions as full-service merchant wholesalers but do not take title to products. Unlike manufacturers' agents, selling agents have unlimited territories and control the pricing, promotion, and distribution of their products. We find selling agents in industries such as furniture, clothing, and textiles.
- *Commission merchants* are sales agents who receive goods, primarily agricultural products such as grain or livestock, on *consignment*—that is, they take possession of products without taking title. Although sellers may state a minimum price they are willing to take for their products, commission merchants are free to sell the product for the highest price they can get. Commission merchants receive a commission on the sales price of the product.
- *Merchandise brokers*, including export/import brokers, are intermediaries that facilitate transactions in markets such as real estate, food, and used equipment, in which there are lots of small buyers and sellers. Brokers identify likely buyers and sellers and bring the two together in return for a fee they receive when the transaction is completed.

Manufacturer-Owned Intermediaries

Sometimes manufacturers set up their own channel intermediaries. In this way, they can operate separate business units that perform all the functions of independent intermediaries while still maintaining complete control over the channel:

- *Sales branches* are manufacturer-owned facilities that, like independent wholesalers, carry inventory and provide sales and service to customers in a specific geographic area. We find sales branches in industries such as petroleum products, industrial machinery and equipment, and motor vehicles.
- *Sales offices* are manufacturer-owned facilities that, like agents, do not carry inventory but provide selling functions for the manufacturer in a specific geographic area. Because they allow members of the sales force to locate close to customers, they reduce selling costs and provide better customer service.
- *Manufacturers' showrooms* are manufacturer-owned or leased facilities in which products are permanently displayed for customers to visit. Merchandise marts are often multiple buildings in which one or more industries hold trade shows and many manufacturers have permanent showrooms. Retailers can visit either during a show or all year long to see the manufacturer's merchandise and make B2B purchases.

Types of Distribution Channels

Firms face many choices when they structure distribution channels. Should they sell directly to consumers and business users? Would they benefit if they included wholesalers, retailers, or both in the channel? Would it make sense to sell directly to some customers but use retailers to sell to others? Of course, there is no single best channel for all products. The marketing manager must select a channel structure that creates a competitive

advantage for the firm and its products based on the size and needs of the target market. Let's consider some of the factors these managers need to think about.

When they develop distribution (place) strategies, marketers first consider different **channel levels**. This refers to the number of distinct categories of intermediaries that make up a channel of distribution. Many factors have an impact on this decision. What channel members are available? How large is the market? How frequently do consumers purchase the product? What services do consumers require?  Figure 11.3 summarizes the different structures a distribution channel can take. The producer and the customer are always members, so the shortest channel possible has two levels. Using a retailer adds a third level, a wholesaler adds a fourth level, and so on. Different channel structures exist for both consumer and B2B markets.

And what about services? You will learn in Chapter 12 that services are intangible, so there is no need to worry about storage, transportation, and the other functions of physical distribution. In most cases, the service travels directly from the producer to the customer. However, an intermediary we call an *agent* can enhance the distribution of some services when he helps the parties complete the transaction. Examples of these agents include insurance agents, stockbrokers, and travel agents (no, not everyone books their travel online).

Consumer Channels

As we noted previously, the simplest channel is a direct channel. Why do some producers sell directly to customers? One reason is that a direct channel may allow the producer to serve its customers better and at a lower price than is possible if it included a retailer. A baker who uses a direct channel makes sure that customers enjoy fresher bread than if the tasty loaves are sold through a local supermarket. Furthermore, if the baker sells the bread through a supermarket, the price will be higher because of the supermarket's costs of doing business and its need to make its own profit on the bread. In fact, sometimes this is the *only* way to sell the product because using channel intermediaries may boost the price above what consumers are willing to pay.

Another reason to use a direct channel is *control*. When the producer handles distribution, it maintains control of pricing, service, and delivery—all elements of the transaction. Because distributors and dealers carry many products, it can be difficult to get their sales forces to focus on selling one product. In a direct channel, a producer works directly with customers, so it gains insights into trends, customer needs and complaints, and the effectiveness of its marketing strategies.

Even for a consumer packaged goods giant such as P&G that is able to maintain a strong presence within the storefronts of the largest physical and digital retailers, the allure of a direct channel is appealing, as evidenced by the company's launch of the "P&G Shop." This move was heavily driven by the desire to be where consumers shopped and to have the opportunity to listen to and engage with them online in a different way. P&G certainly does not have plans to cut ties with its retailers, but the creation of a direct-to-consumer channel offers the company some interesting opportunities to further engage with consumers and bolster sales.²

Why do producers choose to use indirect channels to reach consumers? A reason in many cases is that customers are familiar with certain retailers or other intermediaries; it's where they always go to look for what they need. Getting customers to change their normal buying behavior—for example, convincing consumers to buy their laundry detergent or frozen pizza from a catalog or over the Internet instead of from the corner supermarket—can be difficult.

In addition, intermediaries help producers in all the ways we described previously. By creating utility and transaction efficiencies, channel members make producers' lives easier and enhance their ability to reach customers. The *producer-retailer-consumer channel* in Figure 11.3 is the shortest indirect channel. Samsung uses this channel when it sells TVs

channel levels

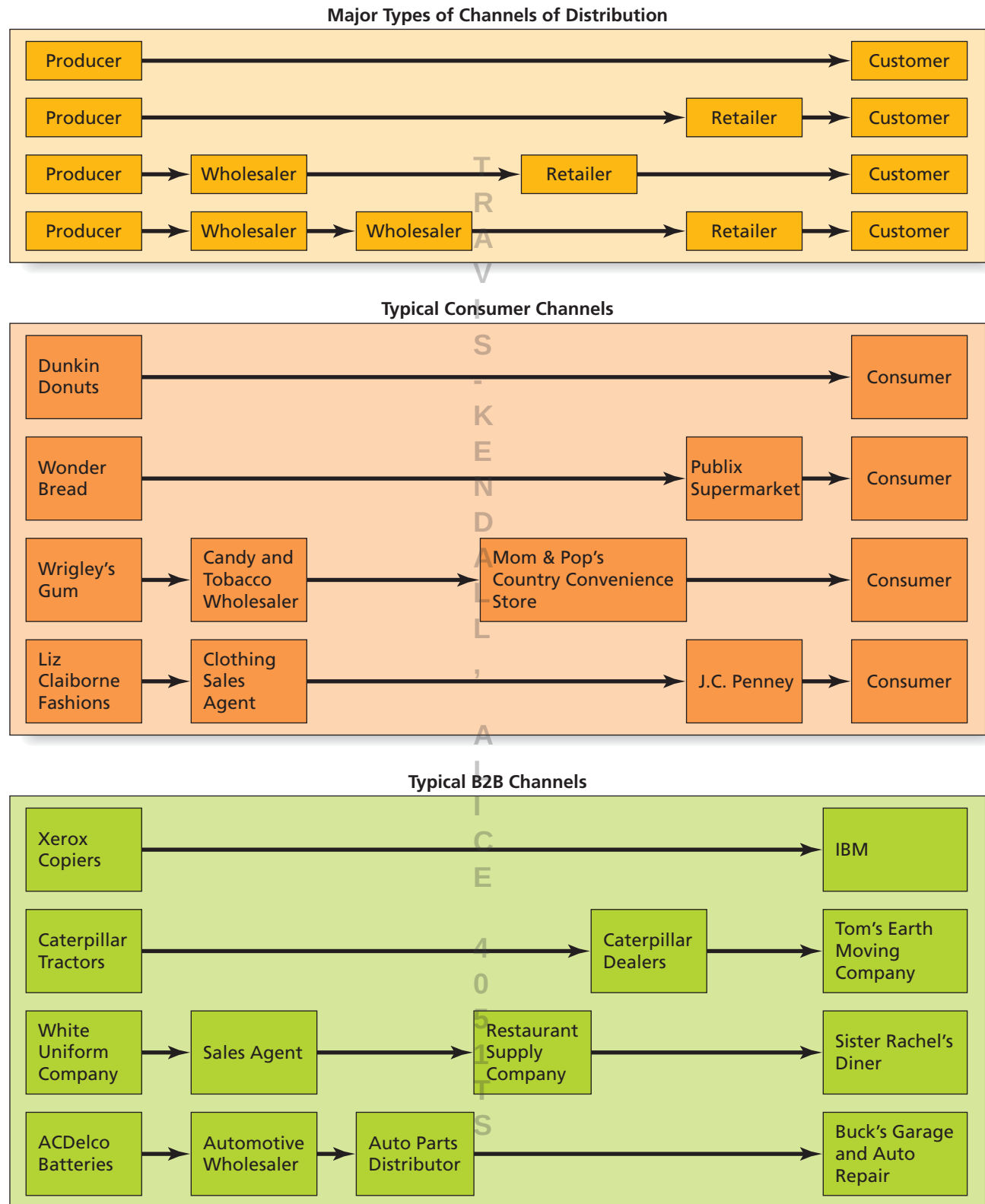
The number of distinct categories of intermediaries that make up a channel of distribution.



In order to maintain creative control, recording artist Aimee Mann licenses her own music rather than working with a major record label.

Figure 11.3  **Snapshot** | Different Types of Channels of Distribution

Channels differ in the number of channel members that participate.



through large retailers such as Best Buy (either their brick-and-mortar stores or their online store). Because the retailers buy in large volume, they can obtain inventory at a low price and then pass these savings on to shoppers (this is what gives them a competitive advantage over smaller, more specialized stores that don't order so many items). The size of these retail giants also means they can provide the physical distribution functions that wholesalers handle for smaller retail outlets, such as transportation and storage.

The *producer–wholesaler–retailer–consumer channel* is a common distribution channel in consumer marketing. An example would be a single ice cream factory that supplies, say, four or five regional wholesalers. These wholesalers then sell to 400 or more retailers, such as grocery stores. The retailers, in turn, each sell the ice cream to thousands of customers. In this channel, the regional wholesalers combine many manufacturers' products to supply grocery stores. Because the grocery stores do business with many wholesalers, this arrangement results in a broad selection of products.

B2B Channels

B2B distribution channels, as the name suggests, facilitate the flow of goods from a producer to an organizational or business customer. Generally, B2B channels parallel consumer channels in that they may be direct or indirect. For example, the simplest indirect channel in industrial markets occurs when the single intermediary—a merchant wholesaler we refer to as an *industrial distributor* rather than a retailer—buys products from a manufacturer and sells them to business customers.

Direct channels are more common in B2B markets versus consumer markets. As we saw in Chapter 6, this is because B2B marketing often means that a firm sells high-dollar, high-profit items (a single piece of industrial equipment may cost hundreds of thousands of dollars) to a market made up of only a few customers. In such markets, it makes sense financially for a company to develop its own sales force and sell directly to customers—in this case, the investment in an in-house sales force pays off.

Dual and Hybrid Distribution Systems

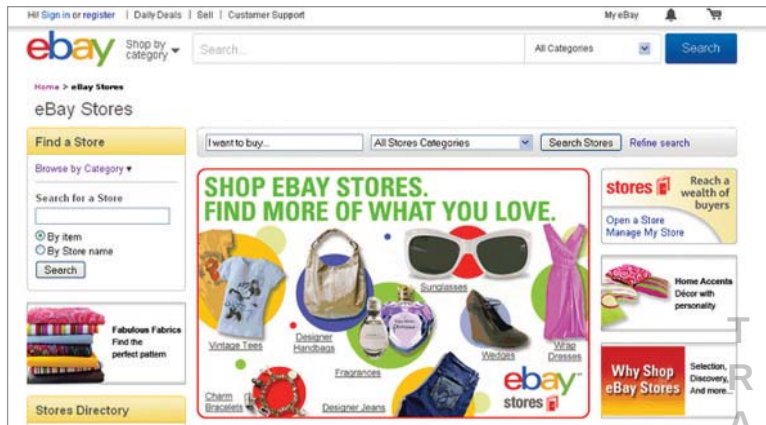
Figure 11.3 illustrates how simple distribution channels work. But, once again, we are reminded that life (or marketing) is rarely that simple: Producers, dealers, wholesalers, retailers, and customers alike may actually participate in more than one type of channel, as illustrated earlier by P&G adding its own online store. Similarly, the online giant Amazon is opening more than 300 brick-and-mortar stores in the U.S. Even though it has helped to put many independent bookstores out of business, the company plans to stock its stores with books that Amazon users have rated highly as part of its strategy to dominate the book category.³ We call these **dual or multiple distribution systems**.

The pharmaceutical industry provides a good example of multiple-channel usage. Pharmaceutical companies distribute their products in at least three types of channels:

1. They sell to hospitals, clinics, and other organizational customers directly. These customers buy in quantity, and they purchase a wide variety of products. Because hospitals and clinics dispense pills one at a time rather than in bottles of 50, these outlets require different product packaging than when the manufacturer sells medications to other types of customers.
2. They rely on an indirect consumer channel when they sell to large drugstore chains, like Walgreens, that distribute the medicines to their stores across the country. Alternatively, some of us would rather purchase our prescriptions in a more personal manner from the local independent drugstore where we can still get an ice cream soda while we wait. In this version of the indirect consumer channel, the manufacturer sells to drug wholesalers that, in turn, supply these independents.

dual or multiple distribution systems

A system where producers, dealers, wholesalers, retailers, and customers participate in more than one type of channel.



Internet intermediaries like eBay provide new distribution channel options so consumers can buy new or used items from other consumers in addition to producers.

hybrid marketing system

A marketing system that uses a number of different channels and communication methods to serve a target market.

subscription boxes

A new business model for distribution that supplies surprises by sending out a box each month filled with items you never knew you wanted but you just have to have.

3. Finally, the companies sell directly to third-party payers such as HMOs, PPOs, and insurance companies. After healthcare reform in the U.S. fully kicks in, who knows what the channel configuration might be!

Instead of serving a target market with a single channel, some companies combine channels—direct sales, distributors, retail sales, and direct mail—to create a **hybrid marketing system**.⁴ Believe it or not, the whole world of business actually has not gone paperless (we know it's hard to accept)! Hence, companies actually do still buy copying machines (sounds so 1999)—and in large quantities. At one time, you could buy a Xerox copier only directly through a Xerox salesperson. Today, unless you are a very large business customer, you likely will purchase a

Xerox machine from a local Xerox authorized dealer or possibly through the Xerox “Online Store.” Xerox turned to an enhanced dealer network for distribution because such hybrid marketing systems offer companies certain competitive advantages, including increased coverage of the market, lower marketing costs, and a greater potential for customization of service for local markets.

Distribution Channels and the Marketing Mix

How do decisions regarding place relate to the other *three Ps*? For one, place decisions affect pricing. Marketers that distribute products through low-priced retailers such as Walmart, T.J. Maxx, and Marshalls will have different pricing objectives and strategies than will those that sell to specialty stores like Tiffany or high-end department stores like Nordstrom. And, of course, the nature of the product itself influences the retailers and intermediaries that are used for distribution. Manufacturers select mass merchandisers to sell mid-price-range products while they distribute top-of-the-line products such as expensive jewelry through high-end department and specialty stores.

Distribution decisions can sometimes give a product a distinct position in its market. For example, Ultradent Products, Inc. sells its teeth whitening product Opalescence[®] exclusively through licensed dental professionals. Many other companies' teeth whitening products are typically sold through traditional retail channels, making them much more easily available. However, Ultradent's approach allows the company to position Opalescence[®] as a higher-end product endorsed by professional experts. They rely on the dentist and staff to pitch the benefits of the product in a way that carries far more credibility with a patient than an ad by a retailer or manufacturer.⁵

In addition, the distribution channel *itself*—a cool new way you get the product—may help to position a product in a unique way vis-à-vis the competition. That is, the way you obtain a product can be one of the attributes that makes it appealing. A great example is the hot trend of **subscription boxes**, a new business model that generates more than \$5 billion in revenue per year. Many people love to get surprises in the mail (as long as they're not bills or a jury summons). Today numerous upstart companies supply these surprises by sending out a box each month filled with items you never knew you wanted but you just have to have. Birchbox is one of the pioneers in this area, sending different boxes to women and men each month with samples of trendy new cosmetics, personal care products, and even socks and underwear. Many other competitors have entered the market to offer beauty boxes such as Ipsy, Boxycharm, Vegan Cuts Beauty Box (guess what kind of beauty products are in there)—even Walmart offers a beauty box. The subscription model includes

other distribution channels as well including gourmet food (Taste Club, Graze, BoCandy), fitness and weight loss products (Bulu Box, Jacked Pack), razors and blades (Dollar Shaving Club), rental clothing for plus-size women (Gwynnie Bee), and phone cases (Phone Case of the Month). Subscription Addiction, one of the many websites devoted to this new business model, lists more than 900 subscription plans.⁶ What are you waiting for? Run, don't walk, to your mailbox!

Ethics in the Distribution Channel

Companies' decisions about how to make their products available to consumers through distribution channels can create ethical dilemmas. For example, because their size gives them great bargaining power when they negotiate with manufacturers, many large retail chains force manufacturers to pay a **slotting allowance**—a fee in exchange for agreeing to place a manufacturer's products on a retailer's valuable shelf space. Although the retailers claim that such fees pay the cost of adding products to their inventory, many manufacturers feel that slotting fees are more akin to highway robbery. Certainly, the practice prevents many smaller manufacturers that cannot afford the slotting allowances from getting their products into the hands of consumers.

It may seem odd to you that in some cases products end up being sold through one or more channels that the manufacturer did not authorize. This practice is known as **product diversion**, and it can be a big problem for manufacturers due to loss of control that results once the product is in the hands of unauthorized distributors and retailers. An additional concern for many manufacturers is that their products, once diverted, will end up being sold at a price or in a form that damages both the brand and the firm's relationship with its authorized distributors. Such practices are common for beauty products that are sold exclusively through salons and other hair care professionals. Redken is one such company that notes that once its products have been diverted there is a risk that the product being offered has been tampered with.⁷

So who perpetrates product diversion? Most often, a **diverter** turns out to be one or more of the manufacturer's own regular customers that purposefully overbuys product when it is offered at special promotional prices, holds it in inventory until the promotion is over, and then sells the product within the channel. Also, retailers or distributors may be tempted to simply divert incidental excess inventory of a product that they do not expect be able to sell through legitimate means.

Another ethical issue involves the sheer size of a particular channel intermediary—be it manufacturer, wholesaler, retailer, or other intermediary. Walmart, the poster child for giant retailers, has been vilified for years as contributing to the demise of scores of independent competitors (i.e., mom-and-pop stores). In more recent years, the company has begun a very visible program to help its smaller rivals. The program offers financial grants to hardware stores, dress shops, and bakeries near its new urban stores; training on how to survive with a Walmart in town; and even free advertising in Walmart stores. Although certainly beneficial to the small fry, Walmart also hopes to benefit from the program in urban settings like Los Angeles and New York, where its plan to build new stores in inner-city neighborhoods has met with mixed reactions from local communities.⁸

Overall, it is important for all channel intermediaries to behave and treat each other in a professional, ethical manner—and to do no harm to consumers (financially or otherwise) through their channel activities. Every intermediary in the channel wants to make money, but behavior by one to maximize its financial success at the expense of others' success is a doomed approach, as ultimately cooperation in the channel will break down. Instead, it behooves intermediaries to work cooperatively in the channel to distribute products to consumers in an efficient manner—making the channel a success for everybody participating in it (including consumers)! Win-win!

slotting allowance

A fee paid in exchange for agreeing to place a manufacturer's products on a retailer's valuable shelf space.

product diversion

The distribution of a product through one or more channels not authorized for use by the manufacturer of the product.

diverter

An entity that facilitates the distribution of a product through one or more channels not authorized for use by the manufacturer of the product.

11.2 Develop a Channel Strategy

OBJECTIVE

List and explain the steps to plan a distribution channel strategy.

(pp. 354–360)

distribution planning

The process of developing distribution objectives, evaluating internal and external environmental influences on distribution, and choosing a distribution strategy.

Do customers want products in large or small quantities? Do they insist on buying them locally, or will they purchase from a distant supplier? How long are they willing to wait to get the product? Inquiring marketers want to know!

Channel of distribution planning works best when marketers follow the steps in  Figure 11.4. In this section, we first look at how manufacturers decide on distribution objectives and then examine what influences distribution decisions. Finally, we talk

about how firms select different distribution strategies and tactics.

Firms that operate within a channel of distribution—manufacturers, wholesalers, and retailers—do **distribution planning**, which is a process of developing distribution objectives, evaluating internal and external environmental influences on distribution, and choosing a distribution strategy. In this section, our perspective focuses primarily on distribution planning by producers/manufacturers rather than intermediaries because manufacturers, more often than intermediaries, take a leadership role to create a successful distribution channel. (There are notable exceptions, such as with a retailer like Walmart, which clearly is the biggest fish in any channel in which it operates.)

Step 1: Develop Distribution Objectives

The first step in a distribution plan is to develop objectives that support the organization's overall marketing goals. How can distribution work with the other elements of the marketing

mix to increase profits? To increase market share? To increase sales volume? In general, the overall objective of any distribution plan is to make a firm's product available when, where, and in the quantities customers want at the minimum cost. More specific distribution objectives, however, depend on the characteristics of the product and the market.

For example, if the product is bulky, a primary distribution objective may be to minimize shipping costs. If the product is fragile, a goal may be to develop a channel that minimizes handling. In introducing a new product to a mass market, a channel objective may be to provide maximum product exposure (like BDP's work with its client Quaker) or to make the product available close to where customers live and work. Sometimes marketers make their product available where similar products are sold so that consumers can compare prices.

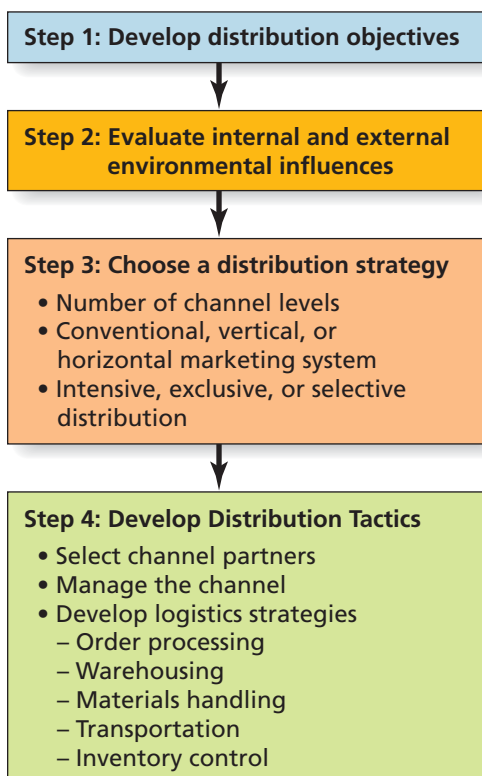
Step 2: Evaluate Internal and External Environmental Influences

After they set their distribution objectives, marketers must consider their internal and external environments to develop the best channel structure. Should the channel be long or short? Is intensive, selective, or exclusive distribution best? Short, often direct channels may be better suited for B2B marketers for whom customers are geographically concentrated and require high levels of technical know-how and service. Companies frequently sell expensive or complex products directly to final customers. Short channels with selective distribution also make more sense with perishable products because getting the product to the final user quickly is a priority. However, longer channels with more intensive distribution are generally best for inexpensive, standardized consumer goods that need to be distributed broadly and that require little technical expertise.

The organization must also examine issues such as its own ability to handle distribution functions, what channel intermediaries are available, the ability

Figure 11.4  **Process** | Steps in Distribution Planning

Distribution planning begins with setting channel objectives and evaluating the environment and results in developing channel strategies and tactics.



of customers to access these intermediaries, and how the competition distributes its products. Should a firm use the same retailers as its competitors? It depends. Sometimes, to ensure customers' undivided attention, a firm sells its products in outlets that don't carry the competitors' products. In other cases, a firm uses the same intermediaries as its competitors because customers expect to find the product there. For example, you will find Harley-Davidson bikes only in selected Harley "boutiques" and Piaggio's Vespa scooters only at Vespa dealers (no sales through Walmart for those two!), but you can expect to find Coca-Cola, Colgate toothpaste, and a Snickers bar in every possible outlet that sells these types of items (remember our discussion in Chapter 8 about the nature of convenience products).

Finally, when they study competitors' distribution strategies, marketers learn from their successes and failures. If the biggest complaint of competitors' customers is delivery speed, developing a system that allows same-day delivery can make the competition pale in comparison.

Step 3: Choose a Distribution Strategy

Planning a distribution strategy means making several decisions. First, of course, distribution planning includes decisions about the number of levels in the distribution channel. We already discussed these options in the previous section on consumer and B2B channels, illustrated by Figure 11.3. Beyond the number of levels, distribution strategies also involve two additional decisions about channel relationships: (1) whether a conventional system or a highly integrated system will work best and (2) the proper **distribution intensity**, meaning the number of intermediaries at each level of the channel. The next sections provide insight into making these two distribution strategy decisions.

Decision 1: Conventional, Vertical, or Horizontal Marketing System?

Participants in any distribution channel form an interrelated system. In general, these marketing systems take one of three forms: conventional, vertical, or horizontal.

1. A **conventional marketing system** is a multilevel distribution channel in which members work independently of one another. Their relationships are limited to simply buying and selling from one another. Each firm seeks to benefit, with little concern for other channel members. Even though channel members work independently, most conventional channels are highly successful. For one thing, all members of the channel work toward the same goals—to build demand, reduce costs, and improve customer satisfaction. And each channel member knows that it's in everyone's best interest to treat other channel members fairly.
2. A **vertical marketing system (VMS)** is a channel in which there is formal cooperation among channel members at two or more different levels: manufacturing, wholesaling, and retailing. Firms develop VMSs as a way to meet customer needs better by reducing costs incurred in channel activities. Often, a VMS can provide a level of cooperation and efficiency not possible with a conventional channel, maximizing the effectiveness of the channel while also maximizing efficiency and keeping costs low. Members share information and provide services to other members; they recognize that such coordination makes everyone more successful when they want to reach a desired



Harley-Davidson tries to keep customers focused only on its brand of motorcycles by selling products in exclusive boutiques. No Yamahas or Indians in here.

Alamy/Alamy Stock Photo

distribution intensity

The number of intermediaries at each level of the channel.

conventional marketing system

A multiple-level distribution channel in which channel members work independently of one another.

vertical marketing system (VMS)

A channel of distribution in which there is formal cooperation among members at the manufacturing, wholesaling, and retailing levels.

administered VMS

A vertical marketing system in which channel members remain independent but voluntarily work together because of the power of a single channel member.

corporate VMS

A vertical marketing system in which a single firm owns manufacturing, wholesaling, and retailing operations.

contractual VMS

A vertical marketing system in which cooperation is enforced by contracts (legal agreements) that spell out each member's rights and responsibilities and how they will cooperate.

retailer cooperative

A group of retailers that establishes a wholesaling operation to help them compete more effectively with the large chains.

franchise organizations

A contractual vertical marketing system that includes a *franchiser* (a manufacturer or a service provider) who allows an entrepreneur (the *franchisee*) to use the franchise name and marketing plan for a fee.

horizontal marketing system

An arrangement within a channel of distribution in which two or more firms at the same channel level work together for a common purpose.

target market. There are three types of vertical marketing systems: administered, corporate, and contractual:

- a. In an **administered VMS**, channel members remain independent but voluntarily work together because of the power of a single channel member. Strong brands are able to manage an administered VMS because resellers are eager to work with the manufacturer so they will be allowed to carry the product.
- b. In a **corporate VMS**, a single firm owns manufacturing, wholesaling, and retailing operations. Thus, the firm has complete control over all channel operations. Retail giant Macy's, for example, owns a nationwide network of distribution centers and retail stores.
- c. In a **contractual VMS**, cooperation is enforced by contracts (legal agreements) that spell out each member's rights and responsibilities and how they will cooperate. This arrangement means that the channel members can have more impact as a group than they could alone. In a wholesaler-sponsored VMS, wholesalers get retailers to work together under their leadership in a voluntary chain. Retail members of the chain use a common name, cooperate in advertising and other promotion, and even develop their own private-label products. Examples of wholesaler-sponsored chains are Independent Grocers' Alliance (IGA) food stores and Ace Hardware stores.

In other cases, retailers themselves organize a cooperative marketing channel system. A **retailer cooperative** is a group of retailers that establishes a wholesaling operation to help them compete more effectively with the large chains. Each retailer owns shares in the wholesaler operation and is obligated to purchase a certain percentage of its inventory from the cooperative operation. Associated Grocers and True Value hardware stores are examples of retailer cooperatives.

Franchise organizations are a third type of contractual VMS. Franchise organizations include a *franchiser* (a manufacturer or a service provider) who allows an entrepreneur (the *franchisee*) to use the franchise name and marketing plan for a fee. In these organizations, contractual arrangements explicitly define and strictly enforce channel cooperation. In most franchise agreements, the franchiser provides a variety of services for the franchisee, such as helping to train employees, giving access to lower prices for needed materials, and selecting a good location. In return, the franchiser receives a percentage of revenue from the franchisee. Usually, the franchisees are obligated to follow the franchiser's business format very closely to maintain the franchise.

From the manufacturer's perspective, franchising a business is a way to develop widespread product distribution with minimal financial risk while at the same time maintaining control over product quality. From the entrepreneur's perspective, franchises are a helpful way to get a start in business.

3. In a **horizontal marketing system**, two or more firms at the same channel level agree to work together to get their product to the customer. Sometimes, unrelated businesses forge these agreements. Most airlines today are members of a horizontal alliance that allows them to cooperate when they provide passenger air service. For example, American Airlines is a member of the oneworld alliance, which also includes Air Berlin, British Airways, Cathay Pacific, Finnair, Iberia, Japan Airlines, LAN, Malaysia Airlines, Qantas, Qatar Airways, Royal Jordanian, S7 Airlines, SriLankan Airlines, and TAM Airlines. These alliances increase passenger volume for all



Wetzels's Pretzels is a successful franchise operation.

airlines because travel agents who book passengers on one of the airline’s flights will be more likely to book a connecting flight on the other airline. To increase customer benefits, they also share frequent-flyer programs and airport clubs.⁹

Decision 2: Intensive, Exclusive, or Selective Distribution?

How many wholesalers and retailers should carry the product within a given market? This may seem like an easy decision: distribute the product through as many intermediaries as possible. But guess again. If the product goes to too many outlets, there may be inefficiency and duplication of efforts. For example, if there are too many Honda dealerships in town, there will be a lot of unsold Hondas sitting on dealer lots, and no single dealer will be successful. But if there are not enough wholesalers or retailers to carry a product, the manufacturer will fail to maximize total sales of its products (and its profits). If customers have to drive hundreds of miles to find a Honda dealer, they may instead opt for a Toyota just because of convenience. Thus, a distribution objective may be to either increase or decrease the level of distribution in the market.

The three basic choices are intensive, exclusive, and selective distribution. Table 11.2 summarizes five decision factors—company, customers, channels, constraints, and competition—and how they help marketers determine the best fit between distribution system and marketing goals. Read on, and you will find that these categories connect with the concept of convenience products, shopping products, and specialty products you learned about in Chapter 8.

Intensive distribution aims to maximize market coverage by selling a product through all wholesalers or retailers that will stock and sell the product. Marketers use intensive distribution for *convenience products*, such as chewing gum, soft drinks, milk, and bread, that consumers quickly consume and must replace frequently. Intensive distribution is necessary for these products because availability is more important than any other consideration in customers’ purchase decisions.

In contrast to intensive distribution, **exclusive distribution** means to limit distribution to a single outlet in a particular region. Marketers often sell pianos, cars, executive training programs, TV programs, and many other *specialty products* with high price tags through exclusive distribution arrangements. They typically use these strategies with products that are high priced and have considerable service requirements and when a limited number of buyers exist in any single geographic area. Exclusive distribution enables wholesalers and retailers to better recoup the costs associated with longselling processes for each customer and, in some cases, extensive after-sale service.

intensive distribution
Selling a product through all suitable wholesalers or retailers that are willing to stock and sell the product.

exclusive distribution
Selling a product only through a single outlet in a particular region.

Table 11.2 | Characteristics That Favor Intensive versus Exclusive Distribution

Decision Factor	Intensive Distribution	Exclusive Distribution
Company	Oriented toward mass markets	Oriented toward specialized markets
Customers	High customer density Price and convenience are priorities	Low customer density Service and cooperation are priorities
Channels	Overlapping market coverage	Nonoverlapping market coverage
Constraints	Cost of serving individual customers is low	Cost of serving individual customers is high
Competition	Based on a strong market presence, often through advertising and promotion	Based on individualized attention to customers, often through relationship marketing

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For luxury products, employing an exclusive distribution strategy can support the associations the marketer wants consumers to have with the product (such as exclusivity, quality, or mystique) and ensure that the product is offered by retailers who are well-suited and matched to the task. For example, the ultra-high-end watch maker Patek Philippe only sells its products through a small group of authorized retailers and in many cases each retailer only receives one unit of a new model each year. Authorized dealers are heavily vetted and ultimately are selected based on their fit and ability to sell and service the watches, which can range from 10,000 Euros to more than 1 million Euros in price. The company does not sell its watches online and does not expect its retailers to do so either.¹⁰

That said, if you search for a Patek Philippe watch online you will undoubtedly find some e-commerce sites selling the company's products they were able to acquire through the **gray market**. Gray markets often emerge around high-end luxury goods sold through exclusive distribution. Related to the concept of product diversion introduced previously in the chapter, the gray market represents those channels of distribution that are not formally defined and authorized by the manufacturer for sale of the product. Exchanges that occur in the gray market are not technically illegal (unlike the concept of an illegal "black market") hence the use of the intermediate color gray makes sense. But the original manufacturer of the product does not view gray markets as appropriate or beneficial.

Of course, not every situation neatly fits a category in Table 11.2. (you didn't *really* think it would be that simple, did you?) For example, consider professional sports. Customers might not shop for games in the same way they shop for pianos. They might go to a game on impulse, and they don't require much individualized service. Nevertheless, professional sports use exclusive distribution. A team's cost of serving customers is high because of those million-dollar player salaries and multi-million-dollar stadiums.

The alert reader (and/or sports fan) may note that there are some exceptions to the exclusive distribution of sports teams. New York has two football teams and two baseball teams, Chicago fields two baseball teams, and so on. We call market coverage that is less than intensive distribution but more than exclusive distribution **selective distribution** (yes, this type falls between the two). This model fits when demand is so large that exclusive distribution is inadequate but selling costs, service requirements, or other factors make intensive distribution a poor fit. Although a White Sox baseball fan may not believe that the Cubs franchise is necessary (and vice versa), Major League Baseball and even some baseball fans think the Chicago market is large enough to support both teams.

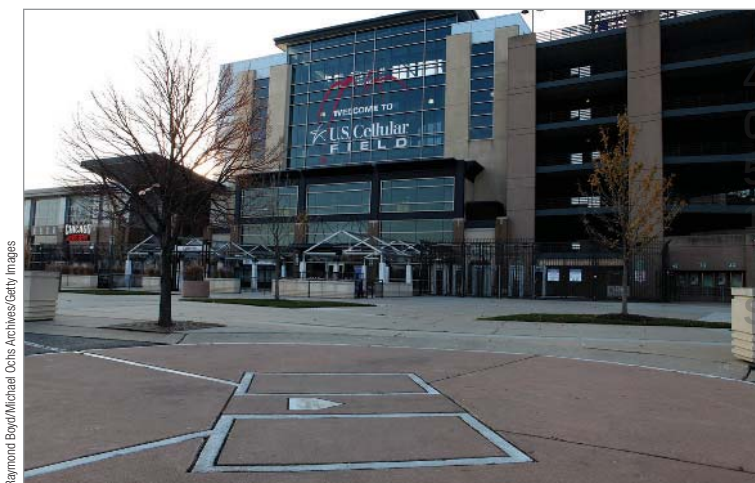
Selective distribution strategies are suitable for most *shopping products*, such as household appliances and electronic equipment, for which consumers are willing to spend time visiting different retail outlets to compare alternatives. For producers, selective distribution means freedom to choose only those wholesalers and retailers that have a good credit rating, provide good market coverage, serve customers well, and cooperate effectively. Wholesalers and retailers like selective distribution because it results in higher profits than are possible with intensive distribution, in which sellers often have to compete on price.

gray market

A distribution channel in which a product's sale to a customer may be technically legal, but is at a minimum considered inappropriate by the manufacturer of the related product. Gray markets often emerge around high-end luxury goods sold through exclusive distribution.

selective distribution

Distribution using fewer outlets than intensive distribution but more than exclusive distribution.



The Chicago baseball market is large enough to support a selective distribution model as evidenced by its two Major League Baseball teams—the Cubs and the White Sox.

Step 4: Develop Distribution Tactics

As with planning for the other marketing Ps, the final step in distribution planning is to develop the tactics for distribution necessary to implement the distribution strategy. These decisions are usually about the type of distribution system to use, such as a direct or an indirect channel or a conventional or an integrated channel. Distribution tactics relate to two aspects of the implementation of these strategies: (1) how to select individual channel members and (2) how to manage the channel. We provide insights into making each of these two decisions.

First, it is essential to understand that these two decisions are important because they often have a *direct impact on customer satisfaction*; nobody wants to have to wait for something they've bought! For many small businesses, partnering with Amazon to take advantage of its great distribution prowess is highly attractive. For a competitive fee, fulfillment by Amazon offers third parties the ability to outsource the storage and shipping of products to them. A company such as Tech Armor, which has rapidly gone from a mobile phone and tablet accessories startup to sales in the millions of units, relies on Amazon as a channel member to distribute its products efficiently and at a competitive price. Consumers who are signed up for Amazon Prime and thus get access to free two-day shipping provide an added bonus for companies that sell their products through Amazon. Because of Amazon's size, companies such as Tech Armor can feel more confident that as they scale out their business Amazon will be able to stay ahead of their need for increased distribution. And in times of peak demand, a real advantage of outsourcing distribution versus an internal approach is that Amazon can easily flex to handle the spikes in demand. This flexibility saves a firm like Tech Armor a lot of stress.¹¹

Decision 1: Select Channel Partners

When firms agree to work together in a channel relationship, they become partners in what is normally a long-term commitment. Like a marriage, it is important to both manufacturers and intermediaries to select channel partners wisely, or they'll regret the match-up later (and a divorce can be really expensive!). In evaluating intermediaries, manufacturers try to answer questions such as the following: Will the channel member contribute substantially to our profitability? Does the channel member have the ability to provide the services customers want? What impact will a potential intermediary have on channel control?

For example, what small to midsize firm wouldn't jump at the chance to have retail giant Walmart distribute its products? With Walmart as a channel partner, a small firm could double, triple, or quadruple its business. But believe it or not, some firms that recognize that size means power in the channel actually decide against selling to Walmart because they are not willing to relinquish control of their marketing decision making. There is also a downside to choosing one retailer and selling only through that one retailer. If that retailer stops carrying the product, for example, the company will lose its one and only customer (perhaps after relinquishing other smaller customers), and it will be back to square one.

Another consideration in selecting channel members is competitors' channel partners. Because people spend time comparing different brands when purchasing a shopping product, firms need to make sure they display their products near similar competitors' products. If most competitors distribute their electric drills through mass merchandisers, a manufacturer has to make sure its brand is there also.

A firm's dedication to social responsibility may also be an important determining factor in the selection of channel partners. Many firms run extensive programs to recruit minority-owned channel members. Starbucks's famous organizational commitment to good corporate citizenship translates in one way into its "supplier diversity program" that works to help minority-owned business thrive.¹²

Decision 2: Manage the Channel

Once a manufacturer develops a channel strategy and aligns channel members, the day-to-day job of managing the channel begins. The **channel leader or channel captain** is the dominant

channel leader or channel captain
The dominant firm that controls the channel.

channel power

The ability of one channel member to influence, control, and lead the entire channel based on one or more sources of power.

firm that controls the channel. A firm becomes the channel captain because it has more **channel power** relative to other channel members. Channel power is the ability of one channel member to influence, control, and lead the entire channel based on one or more sources of power. This power comes from different potential sources, among which are the following:

- A firm has *economic power* if it has the ability to control resources.
- A firm such as a franchiser has *legitimate power* if it has legal authority to call the shots.
- A producer firm has *reward or coercive power* if it engages in exclusive distribution and has the ability to give profitable products and to take them away from the channel intermediaries.

As we mentioned, historically producers have held the role of channel captain. P&G, for example, developed customer-oriented marketing programs, tracked market trends, and advised retailers on the mix of products most likely to build sales. As large retail chains have evolved, giant retailers such as Best Buy, Home Depot, Target, Walmart, and Walgreens began to assume a leadership role because of the sheer size of their operations. Today, it is much more common for the big retailers to dictate their needs to producers instead of producers controlling what products they offer to retailers.

As an example, Amazon tried to use its channel power to “persuade” publisher Hachette to meet Amazon’s terms regarding e-book pricing by subjecting its books to artificial purchase delays and by limiting the visibility of some Hachette titles in search results. During the time of the dispute some popular Hachette titles no longer were available for preorder. Ultimately, Amazon and Hachette reached a settlement in which the publisher was still able to set its own prices, but evidence suggests the publisher made some concessions as well behind closed doors.¹³

Because producers, wholesalers, and retailers depend on one another for success, **channel cooperation** helps everyone. Channel cooperation is stimulated when the channel leader takes actions that make its partners more successful. Examples of this, such as high intermediary profit margins, training programs, cooperative advertising, and expert marketing advice, are invisible to end customers but are motivating factors in the eyes of wholesalers and retailers.

Of course, relations among members in a channel are not always full of sweetness and light. Because each firm has its own objectives, **channel conflict** may threaten a manufacturer’s distribution strategy. Such conflict most often occurs between firms at different levels of the same distribution channel. Incompatible goals, poor communication, and disagreement over roles, responsibilities, and functions cause conflict. For example, a producer is likely to feel the firm would enjoy greater success and profitability if intermediaries carry only its brands, but many intermediaries believe they will do better if they carry a variety of brands.

In this section, we’ve been concerned with the distribution channels firms use to get their products to customers. In the next section, we’ll look at the area of logistics—physically moving products through the supply chain—and end by introducing the concept of the supply chain.

channel cooperation

Occurs when producers, wholesalers, and retailers depend on one another for success.

channel conflict

Incompatible goals, poor communication, and disagreement over roles, responsibilities, and functions among firms at different levels of the same distribution channel that may threaten a manufacturer’s distribution strategy.

11.3 Logistics and the Supply Chain

OBJECTIVE

Discuss the concepts of logistics and supply chain.

(pp. 360–368)

Some marketing textbooks tend to depict the practice of marketing as 90 percent planning and 10 percent implementation. Not so! In the “real world” (and in our book), many managers argue that this ratio should be reversed. Marketing success is very much the art of getting the timing right and delivering on promises—*implementation*.

That's why marketers place so much emphasis on efficient **logistics**: the process of designing, managing, and improving the movement of products through the supply chain. Logistics includes purchasing, manufacturing, storage, and transport. From a company's viewpoint, logistics takes place both *inbound* to the firm (raw materials, parts, components, and supplies) and *outbound* from the firm (work in process and finished goods).

Logistics is also a relevant consideration regarding product returns, recycling and material reuse, and waste disposal—**reverse logistics**.¹⁴ As we saw in previous chapters, that's becoming even more important as firms start to more seriously consider *sustainability* as a competitive advantage and put more effort into maximizing the efficiency of recycling to save money and the environment at the same time. So you can see that logistics is an important issue across all elements of the supply chain. Let's examine this process more closely.

The Lowdown on Logistics

Have you ever heard the saying, "An army travels on its stomach"? *Logistics* was originally a term the military used to describe everything necessary to deliver troops and equipment to the right place, at the right time, and in the right condition. In business, logistics is similar in that its objective is to deliver exactly what the customer wants—at the right time, in the right place, and at the right price. As  Figure 11.5 shows, logistics activities include order processing, warehousing, materials handling, transportation, and inventory control. This process impacts how marketers physically get products where they need to be, when they need to be there, and at the lowest possible cost.

When a firm does logistics planning, however, the focus also should be on the customer. In the old days 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 priorities. And 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 rather 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 (even by drone, as Amazon wants to do), that is certainly not practical. But sometimes air transport is necessary to meet the needs of the customer, no matter the cost.

When they develop logistics strategies, marketers must make decisions related to each of the five functions of logistics depicted in Figure 11.5. For each decision, managers need to consider how to minimize costs while maintaining the service customers want. Let's look closely at each of the five logistics functions.

Order Processing

Order processing includes the series of activities that occurs between the time an order comes into the organization and the time a product goes out the door. After a firm receives an order, it typically sends it electronically to an office for record keeping and then on to the warehouse to fill it. When the order reaches the warehouse, personnel there check to see if the item

logistics

The process of designing, managing, and improving the movement of products through the supply chain. Logistics includes purchasing, manufacturing, storage, and transport.

reverse logistics

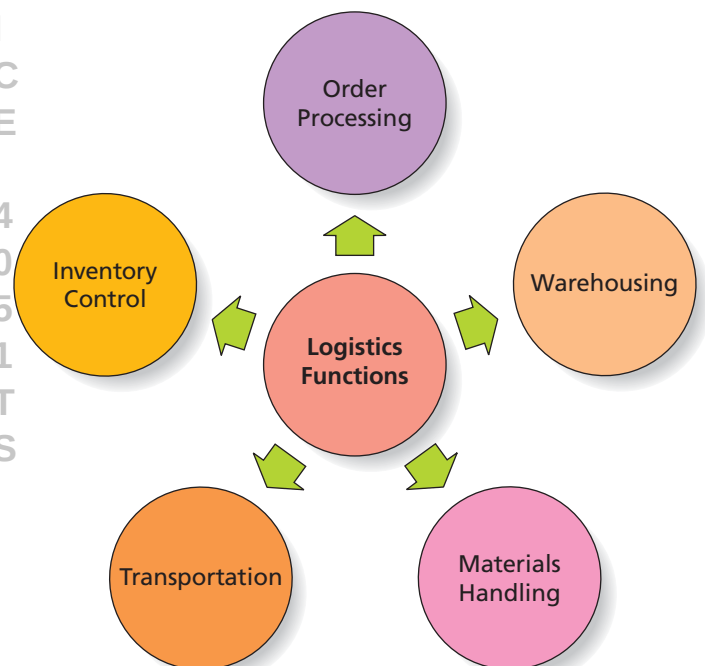
Includes product returns, recycling and material reuse, and waste disposal.

order processing

The series of activities that occurs between the time an order comes into the organization and the time a product goes out the door.

Figure 11.5  **Process** | The Five Functions of Logistics

When developing logistics strategies, marketers must make decisions related to order processing, warehousing, materials handling, transportation, and inventory control.



enterprise resource planning (ERP) systems

A software system that integrates information from across the entire company, including finance, order fulfillment, manufacturing, and transportation, and then facilitates sharing of the data throughout the firm.

warehousing

Storing goods in anticipation of sale or transfer to another member of the channel of distribution.

distribution center

A warehouse that stores goods for short periods of time and that provides other functions, such as breaking bulk.

materials handling

The moving of products into, within, and out of warehouses.

is in stock. If it is not, they put the order on back-order status. That information goes to the office and then to the customer. If the item is available, the company locates it in the warehouse, packages it for shipment, and schedules it for pickup by either in-house or external shippers.

Fortunately, many firms automate this process with **enterprise resource planning (ERP) systems**. An ERP system is a software solution that integrates information from across the entire company, including finance, order fulfillment, manufacturing, and transportation. Data need to be entered into the system only once, and then the organization automatically shares this information and links it to other related data. For example, an ERP system ties information on product inventories to sales information so that a sales representative can immediately tell a customer whether the product is in stock.

Warehousing

Whether we deal with fresh-cut flowers, canned goods, or computer chips, at some point goods (unlike services) must be stored. Storing goods allows marketers to match supply with demand. For example, gardening supplies are especially big sellers during spring and summer, but the factories that manufacture them operate 12 months of the year.

Warehousing—storing goods in anticipation of sale or transfer to another member of the channel of distribution—enables marketers to provide *time utility* to consumers by holding on to products until consumers need them.

Part of developing effective logistics means making decisions about how many warehouses are needed and where and what type of warehouse each should be. A firm determines the location of its warehouse(s) by the location of customers and access to major highways, airports, or rail transportation. The number of warehouses often depends on the level of service that customers require. If customers generally demand fast delivery (today or tomorrow at the latest), then it may be necessary to store products in a number of different locations from which the company can quickly ship the goods to the customer.

For example, over the years Amazon has invested billions of dollars in high-tech fulfillment centers across the U.S. and abroad to keep up with customer demand and ensure that products get to consumers as quickly as possible. Amazon has even rolled out same-day, one-hour, and Sunday delivery options depending on a consumer's location (if you live in a major metropolitan area in the U.S. chances are good that these premium services will become available to you soon if you don't have them already).¹⁵

Firms use private and public warehouses to store goods. Those that use private warehouses have a high initial investment, but they also lose less of their inventory as a result of damage. Public warehouses are an alternative that allows firms to pay for a portion of warehouse space rather than having to own an entire storage facility. Most countries offer public warehouses in all large cities and many smaller cities to support domestic and international trade. A **distribution center** is a warehouse that stores goods for short periods of time and that provides other functions, such as breaking bulk. Most large retailers have their own distribution centers so that their stores do not need to keep a lot of inventory in the back room.

Materials Handling

Materials handling is the moving of products into, within, and out of warehouses. When goods come into the warehouse, they must be physically identified, checked for damage, sorted, and labeled. Next, they are taken to a location for storage. Finally, they are recovered from the storage area for packaging and shipment. All in all, the goods may be handled over a dozen separate times. Procedures that limit the number of times a product must be handled decrease the likelihood of damage and reduce the cost of materials handling.

Transportation

Logistics decisions take into consideration options for **transportation**, the mode by which products move among channel members. Again, making transportation decisions entails a compromise between minimizing cost and providing the service customers want. As Table 11.3 shows, modes of transportation, including railroads, water transportation, trucks, airways, pipelines, and the Internet, differ in the following ways:

- *Dependability*: The ability of the carrier to deliver goods safely and on time
- *Cost*: The total transportation costs to move a product from one location to another, including any charges for loading, unloading, and in-transit storage
- *Speed of delivery*: The total time to move a product from one location to another, including loading and unloading
- *Accessibility*: The number of different locations the carrier serves
- *Capability*: The ability of the carrier to handle a variety of different products, such as large or small, fragile, or bulky
- *Traceability*: The ability of the carrier to locate goods in shipment

Each mode of transportation has strengths and weaknesses that make it a good choice for different transportation needs. Table 11.3 summarizes the pros and cons of each mode:

- *Railroads*: Railroads are best to carry heavy or bulky items, such as coal and other mining products, over long distances. Railroads are about average in their cost and provide moderate speed of delivery. Although rail transportation provides dependable, low-cost service to many locations, trains cannot carry goods to every community.



Amazon is experimenting with an Amazon Prime Air drone delivery service that may someday add a whole new dimension to transportation options for logistics companies.

transportation
The mode by which products move among channel members.

Table 11.3 | A Comparison of Transportation Modes

Transportation Mode	Dependability	Cost	Speed of Delivery	Accessibility	Capability	Traceability	Most Suitable Products
Railroads	Average	Average	Moderate	High	High	Low	Heavy or bulky goods, such as automobiles, grain, and steel
Water	Low	Low	Slow	Low	Moderate	Low	Bulky, nonperishable goods, such as automobiles
Trucks	High	High for long distances; low for short distances	Fast	High	High	High	A wide variety of products, including those that need refrigeration
Air	High	High	Very fast	Low	Moderate	High	High-value items, such as electronic goods and fresh flowers
Pipeline	High	Low	Slow	Low	Low	Moderate	Petroleum products and other chemicals
Internet	High	Low	Very fast	Potentially very high	Low	High	Services such as banking, information, and entertainment

- *Water:* Ships and barges carry large, bulky goods and are very important in international trade. Water transportation is relatively low in cost but can be slow.
- *Trucks:* Trucks or motor carriers are the most important transportation mode for consumer goods, especially for shorter hauls. Motor carrier transport allows flexibility because trucks can travel to locations missed by boats, trains, and planes. Trucks also carry a wide variety of products, including perishable items. Although costs are fairly high for longer-distance shipping, trucks are economical for shorter deliveries. Because trucks provide door-to-door service, product handling is minimal, and this reduces the chance of product damage.
- *Air:* Air transportation is the fastest and also the most expensive transportation mode. It is ideal to move high-value items such as important mail, fresh-cut flowers, and live lobsters. Passenger airlines, air-freight carriers, and express delivery firms, such as FedEx, provide air transportation. Ships remain the major mover of international cargo, but air transportation networks are becoming more important as international markets continue to develop. Drones are an interesting option for transporting items over short distances by air. Some companies, such as Amazon and Walmart, have publicly announced a keen interest in using drone technology to enhance their logistics operations in the future. The goal of Amazon Prime Air service (now being tested) is to safely get packages to customers in 30 minutes or less using a fleet of these small unmanned aerial vehicles.¹⁶ Ahead of the curve, tech company Matternet since 2011 has been using its self-guiding drones on a test basis to deliver medical supplies, specimens, and mail in countries where regulations allow such field tests (Haiti and Switzerland, for example).¹⁷
- *Pipeline:* Pipelines carry petroleum products such as oil and natural gas and a few other chemicals. Pipelines flow primarily from oil or gas fields to refineries. They are very low in cost, require little energy, and are not subject to disruption by weather.
- *The Internet:* As we discussed previously in this chapter, marketers of services such as banking, news, and entertainment take advantage of distribution opportunities the Internet provides.

Inventory Control

Another component of logistics is **inventory control**, which means developing and implementing a process to ensure that the firm always has sufficient quantities of goods available to meet customers' demands—no more and no less. This explains why firms work so hard to track merchandise in order to know where their products are and where they are needed in case a low-inventory situation appears imminent.

Some companies are even phasing in a sophisticated technology (similar to the EZ Pass system many drivers use to speed through tollbooths) known as **radio frequency identification (RFID)**. As we saw in Chapter 2, RFID lets firms tag clothes, pharmaceuticals, or virtually any kind of product with tiny chips that contain information about the item's content, origin, and destination. This technology has the potential to revolutionize inventory control and help marketers ensure that their products are on the shelves when people want to buy them. Great for manufacturers and retailers, right? But some consumer groups are creating a backlash against RFID, which they refer to as "spy chips." Through blogs, boycotts, and other anticorporate initiatives, these groups proclaim that RFID is a personification of the privacy violations George Orwell predicted in his classic book *1984*.¹⁸ One blogger, for example, convinced that Gillette is using "spy chips" in the packaging of its razors to spy on and take pictures of customers, decided to start his own "Boycott Gillette" website. The site warns consumers which Gillette products not to buy and lets them know how to contact Gillette as well as their lawmakers to fight against the use of RFID tags.¹⁹

inventory control

Activities to ensure that goods are always available to meet customers' demands.

radio frequency identification (RFID)

Product tags with tiny chips containing information about the item's content, origin, and destination.

Firms store goods (i.e., they create an *inventory*) for many reasons. For manufacturers, sometimes the pace of production may not match seasonal demand and as a result a firm might engage in a practice known as **level loading**. This is a manufacturing approach intended to balance the inventory holding capabilities and production capacity constraints of a manufacturer for a particular product through the implementation of a consistent production schedule, employed both during and beyond periods of peak demand. For example, it may be more economical to produce snow skis year-round and pay to store them for the colder months than to produce them only during the winter season. This is a result of capacity issues related to the number of snow skis that a manufacturer can produce in a given span of time on existing production lines and with its available work force.

Similarly, for channel members that purchase goods from manufacturers or other channel intermediaries, it may be economical to order a product in quantities that don't exactly parallel demand. For example, delivery costs make it prohibitive for a retail gas station to place daily orders for just the amount of gas that people will use that day. Instead, stations usually order truckloads of gasoline, holding their inventory in underground tanks. **Stock-outs**, which are zero-inventory situations resulting in lost sales and customer dissatisfaction, may be very negative. Ever go to the store based on an ad in the newspaper, only to find the store doesn't have the product on hand?

Inventory control has a major impact on the overall costs of a firm's logistics initiatives. If supplies of products are too low to meet fluctuations in customer demand, a firm may have to make expensive emergency deliveries or else lose customers to competitors. If inventories are above demand, unnecessary storage expenses and the possibility of damage or deterioration occur. To balance these two opposing needs, manufacturers turn to **just in time (JIT)** inventory techniques with their suppliers. JIT sets up delivery of goods just as they are needed on the production floor. This minimizes the cost of holding inventory while ensuring the inventory will be there when customers need it.

A supplier's ability to make on-time deliveries is the critical factor in the selection process for firms that adopt this kind of system. JIT systems reduce stock to very low levels (or even zero) and time deliveries very carefully to maintain just the right amount of inventory. The advantage of JIT systems is the reduced cost of warehousing. For both manufacturers and resellers that use JIT systems, the choice of supplier may come down to one whose location is nearest. To win a large customer, a supplier may even have to be willing to set up production facilities close to the customer to guarantee JIT delivery.²⁰

Place: Pulling It All Together through the Supply Chain

A **supply chain** includes all the activities necessary to turn raw materials into a good or service and put it into the hands of the consumer or business customer. Sam's Club and its sister company, Walmart, are iconic when it comes to global supply chain effectiveness. To both reduce overall excess inventory and more effectively meet the needs of consumers who increasingly shop both in the company's physical locations and on its website, Walmart has put a strategy in place that enables greater agility within the company's supply chain. Specifically, the retail giant has reduced its total inventory, increased the variety of products sold, and shifted more of its inventory from its physical stores to its distribution centers. With an increasing number of consumers shopping online, this significant operational change allows Walmart to serve those customers more nimbly. The company can avoid the big increase in overall inventory costs it would incur if it had to maintain separate approaches to inventory management for online versus in-store shoppers.

level loading

A manufacturing approach intended to balance the inventory holding capabilities and production capacity constraints of a manufacturer for a particular product through the implementation of a consistent production schedule, employed both during and beyond periods of peak demand.

stock-outs

Zero-inventory situations resulting in lost sales and customer dissatisfaction.

just in time (JIT)

Inventory management and purchasing processes that manufacturers and resellers use to reduce inventory to very low levels and ensure that deliveries from suppliers arrive only when needed.

supply chain

All the activities necessary to turn raw materials into a good or service and put it in the hands of the consumer or business customer.

Metrics Moment

One of the most used measures of inventory control is **inventory turnover or inventory turns**, which is the number of times a firm's inventory completely cycles through during a defined time frame (usually in one year). Marketers can measure inventory turnover by using the value of the inventory at cost or at retail, or this metric can even be expressed in units. Just make sure that you're using the same unit of measure in both the numerator and the denominator.²² One of the most common formulas is the following:

$$\text{Inventory turnover} \times \text{Annual cost of sales} \div \frac{\text{Average inventory level for the period}}$$

However, the formula requires waiting until the end of the year (or end of the business's fiscal year). An alternative is using the following "snapshot" number, which takes a rolling approach so that turns can be calculated at any time by looking at cost of sales for the immediately prior 12 months and the current inventory at the end of that period:

$$\text{Inventory turnover} \times \text{Rolling 12-month cost of sales} \div \text{Current inventory}$$

Benchmarks for inventory turnover vary greatly by industry and product line. High-volume/low-margin settings like supermarkets may

have 12 or more inventory turns per year overall, but some staple goods that are bought at every trip (e.g., milk and bread) may have significantly higher turnover rates. All else equal, a firm can up its profitability substantially by targeting increases in inventory turnover—selling through Product X 15 times a year instead of 12 naturally improves the bottom line. However, if price reductions or promotional expense increases are needed to up the turns, management will have to carefully calculate whether increased volume really adds to profits (this is where marketers can get into trouble with the old saying, "We're losing money but we'll make it up in volume!").

Apply the Metrics

1. Spider's Auto Parts Store ended its fiscal year last month with a cost of sales of \$3,600,000 and an average inventory of \$450,000. What is Spider's inventory turnover for that fiscal year?
2. Spider's would like to boost its turns to 10 during the next fiscal year. What suggestions do you have that will help them accomplish this objective?

inventory turnover or inventory turns

The number of times a firm's inventory completely cycles through during a defined time frame.

In addition, distribution centers are much more efficient at getting products to stores when an expected increase in demand is observed at one location versus implementing an inventory transfer between stores. Yet another added benefit of this change is that it frees up in-store employees to focus more on other value-added activities (such as assisting customers) because less time will be required to manage inventory in the stock room. All of that said a reduction of inventory in each store potentially means that some customers will not be able to get a specific product exactly when they wanted it due to increased stock-outs.²¹

Walmart clearly understands the potential for supply chain practices to enhance organizational performance and profits, and scores of other firms across most every industry with physical products benchmark against them for best practices. The truth is that distribution may be the "final frontier" for marketing success. To understand why, consider these facts about the other three Ps of marketing. After years of hype, many consumers no longer believe that "new and improved" products really *are* new and improved. Nearly everyone, even upscale manufacturers and retailers, tries to gain market share through aggressive pricing strategies. Advertising and many other forms of promotion are so commonplace today that they have lost some of their impact. Even hot new social media strategies can't sell overpriced or poorly made products, at least not for long. Marketers have come to understand that *place* (the "distribution P") may be the only one of the *four Ps* to offer an opportunity for really long-term competitive advantage—especially because many consumers now expect "instant gratification" by getting just what they want instantaneously when the urge strikes.

That's why savvy marketers are always on the lookout for novel ways to distribute their products. A large part of the marketer's ability to deliver a value proposition rests on the ability to understand and develop effective supply chain strategies. Often, of course, firms may decide to bring in outside companies to accomplish these activities—this is *outsourcing*, which as we learned about in Chapter 6 occurs when firms obtain outside vendors to provide goods or services that might otherwise be supplied in-house. In the case of supply chain functions, outsource firms are most likely organizations with

whom the company has developed some form of partnership or cooperative business arrangement.

Supply chain management is the coordination of flows among the firms in a supply chain to maximize total profitability. These “flows” include not only the physical movement of goods but also the sharing of information about the goods—that is, supply chain partners must synchronize their activities with one another. For example, they need to communicate information about which goods they want to purchase (the procurement function), about which marketing campaigns they plan to execute (so that the supply chain partners can ensure there will be enough product to supply the increased demand that results from the promotion), and about logistics (such as sending advance shipping notices to alert their partners that products are on their way). Through these information flows, a company can effectively manage all the links in its supply chain, from sourcing to retailing.

In his famous book *The World Is Flat: A Brief History of the Twenty-First Century*, author Thomas Friedman addresses a number of high-impact trends in global supply chain management.²³ One such development is the trend whereby companies we traditionally know for other things remake themselves as specialists who take over the coordination of clients’ supply chains for them. UPS is a great example of this trend. UPS, which used to be “just” a package delivery service, today is much more because it also specializes in **insourcing**. This process occurs when companies contract with a specialist who services their supply chains. Unlike the *outsourcing process* where a company delegates nonessential tasks to subcontractors, insourcing means that the client company brings in an external company to run its essential operations. Although we tend to associate UPS with those little brown trucks that zip around town delivering boxes, the company actually positions itself in the B2B space as a broad-based supply chain consultancy!

supply chain management

The management of flows among firms in the supply chain to maximize total profitability.

insourcing

A practice in which a company contracts with a specialist firm to handle all or part of its supply chain operations.

Ripped from the Headlines

Ethical/Sustainable Decisions in the Real World

Supply chains commonly span multiple continents and involve numerous organizations that add value at various stages of the chain. For restaurants (and also other retailers), this can mean managing a very complex configuration of upstream supplier companies, each of which plays a important part. Because the restaurant is the final link in the chain before the end consumer, it often falls to this business to ensure that its customers trust the companies that supply it.

The Chipotle chain has been at the forefront of responsible food sourcing and handling for years, and for that reason the company became a favorite of many consumers who value its philosophy. Thus, the chain’s highly publicized series of foodborne illness outbreaks (*Escherichia coli*) that began in 2015 hit especially hard. The problem shook both consumer trust and shareholder confidence in the highly regarded restaurant chain. The company responded with a number of changes designed to prevent future outbreaks, including a new key safety measure targeted at its upstream suppliers. Specifically, Chipotle began requiring all suppliers, before shipping ingredients to its stores, to use “DNA-based tests” on a small batch of each actual shipment to confirm there are no *E. coli* issues.

In reality, whether or not the issues could be traced to one or more suppliers, it’s natural that Chipotle’s consumers and investors would wonder

what the company could have, or should have, done differently to ensure that the contaminated ingredients were detected before reaching consumers, both in the stores and within the full supply chain. Some experts have also suggested that part of Chipotle’s supply chain challenge is unique to the company’s practice of sourcing a significant portion of its ingredients from small farms, as opposed to sourcing ingredients primarily from large producers and distributors that could be much more easily monitored and controlled by Chipotle. That is, increasing the number of suppliers naturally increases the complexity within a supply chain so it’s harder to detect problems in individual shipments.²⁴ Ironically, Chipotle’s attempts to be a good corporate citizen by supporting small, local businesses may have unwittingly contributed to the contamination problem.

In February 2016 the U.S. Centers for Disease Control and Prevention declared that the *E. coli* outbreak at Chipotle appeared to be over.²⁵ Going forward there is no doubt that Chipotle will be increasingly vigilant on all fronts in its efforts to avoid a repeat of this fiasco.

ETHICS CHECK:

If a restaurant knows that an upstream supplier has had problems in the past related to the improper production or handling of ingredients (even if it did not necessarily affect this particular restaurant chain), should the restaurant continue to work with that supplier?

☐ YES ☐ NO

Finally, in case you're wondering about the difference between a supply chain and a channel of distribution, the major distinguishing feature is the number of members and their functions. A supply chain is broader, consisting of those firms that supply the raw materials, component parts, and supplies necessary for a firm to produce a good or service *plus* the firms that facilitate the movement of that product to the ultimate users of the product. This last part—the firms that get the product to the ultimate users—is the channel of distribution.

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Objective Summary → Key Terms → Apply

CHAPTER 11

Study Map

11.1 Objective Summary (pp. 342–353)

Explain what a distribution channel is, identify types of wholesaling intermediaries, and describe the different types of distribution channels.

A channel of distribution is a series of firms or individuals that facilitates the movement of a product from the producer to the final customer. Channels provide place, time, and possession utility for customers and reduce the number of transactions necessary for goods to flow from many manufacturers to large numbers of customers by breaking bulk and creating assortments. Channel members make the purchasing process easier by providing important customer services.

Wholesaling intermediaries are firms that handle the flow of products from the manufacturer to the retailer or business user. Merchant wholesalers are independent intermediaries that take title to a product and include both full-service merchant wholesalers and limited-service merchant wholesalers. Merchandise agents and brokers are independent intermediaries that do not take title to products. Manufacturer-owned channel members include sales branches, sales offices, and manufacturers' showrooms.

Distribution channels vary in length from the simplest two-level channel to longer channels with three or more channel levels. Distribution channels include direct distribution, in which the producer sells directly to consumers, and to indirect channels, which may include a retailer, wholesaler, or other intermediary. B2B distribution channels facilitate the flow of goods from a producer to an organizational or business customer. Producers, dealers, wholesalers, retailers, and customers may participate in more than one type of channel, called a dual or multiple distribution system. Finally, some companies combine channels—direct sales, distributors, retail sales, and direct mail—to create a hybrid marketing system.

Key Terms

- physical distribution, p. 342
- direct channel, p. 342
- channel intermediaries, p. 342
- breaking bulk, p. 343
- create assortments, p. 343
- transportation and storage, p. 343
- facilitating functions, p. 343
- risk-taking functions, p. 344
- communication and transaction functions, p. 344
- disintermediation (of the channel of distribution), p. 344
- knowledge management, p. 344
- intranet, p. 344
- online distribution piracy, p. 344
- wholesaling intermediaries, p. 346
- independent intermediaries, p. 346
- merchant wholesalers, p. 346
- take title, p. 346
- full-service merchant wholesalers, p. 347
- limited-service merchant wholesalers, p. 347
- merchandise agents or brokers, p. 347
- channel levels, p. 349
- dual or multiple distribution systems, p. 351
- hybrid marketing system, p. 352
- subscription boxes, p. 352
- slotting allowance, p. 353

product diversion, p. 353

diverter, p. 353

11.2 Objective Summary (pp. 354–360)

List and explain the steps to plan a distribution channel strategy.

Firms that operate within a channel of distribution—manufacturers, wholesalers, and retailers—do distribution planning, which is a process of developing distribution objectives, evaluating internal and external environmental influences on distribution, and choosing a distribution strategy. Marketers begin channel planning by developing distribution channel objectives and considering important internal and external environmental factors. The next step is to decide on a distribution strategy, which involves determining the type of distribution channel that is best. Finally, distribution tactics include the selection of individual channel members and management of the channel.

Key Terms

distribution planning, p. 354

distribution intensity, p. 355

conventional marketing system, p. 355

vertical marketing system (VMS), p. 355

administered VMS, p. 356

corporate VMS, p. 356

contractual VMS, p. 356

retailer cooperative, p. 356

franchise organizations, p. 356

horizontal marketing system, p. 356

intensive distribution, p. 357

exclusive distribution, p. 357

gray market, p. 358

selective distribution, p. 358

channel leader or channel captain, p. 359

channel power, p. 360

channel cooperation, p. 360

channel conflict, p. 360

11.3 Objective Summary (pp. 360–368)

Discuss the concepts of logistics and supply chain.

Logistics is the process of designing, managing, and improving supply chains, including all the activities that are required to move products through the supply chain. Logistics contributes to the overall supply chain through activities including order processing, warehousing, materials handling, transportation, and inventory control.

A supply chain includes all the activities necessary to turn raw materials into a good or service and put it into the hands of the consumer or business customer. Supply chain management is the coordination of flows among the firms in a supply chain to maximize total profitability.

Key Terms

logistics, p. 361

reverse logistics, p. 361

order processing, p. 361

enterprise resource planning (ERP) systems, p. 362

warehousing, p. 362

distribution center, p. 362

materials handling, p. 362

transportation, p. 363

inventory control, p. 364

radio frequency identification (RFID), p. 364

level loading, p. 365

stock-outs, p. 365

just in time (JIT), p. 365

supply chain, p. 365

inventory turnover or inventory turns, p. 366

supply chain management, p. 367

insourcing, p. 367

Chapter Questions and Activities

Concepts: Test Your Knowledge

- 11-1. What is a channel of distribution? What are channel intermediaries?
- 11-2. Explain the functions of distribution channels.
- 11-3. List and explain the types of independent and manufacturer-owned wholesaling intermediaries.
- 11-4. What factors are important in determining whether a manufacturer should choose a direct or indirect channel? Why do some firms use hybrid marketing systems?

- 11-5. What are conventional, vertical, and horizontal marketing systems?
- 11-6. Explain intensive, exclusive, and selective forms of distribution.
- 11-7. Explain the steps in distribution planning.
- 11-8. What is logistics? Explain the functions of logistics. What is reverse logistics?
- 11-9. What are the advantages and disadvantages of shipping by rail? By air? By ship? By truck?
- 11-10. What is inventory control, and why is it important?
- 11-11. What is a supply chain, and how is it different from a channel of distribution?

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Activities: Apply What You've Learned

- ★ **11-12.** *Creative Homework/Short Project* 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?
- 11-13.** *For Further Research (Individual)* Find an example of disintermediation that has been employed by a particular firm. Research the specific impact of the disintermediation on the organization's operations and its customers' experience with the firm. Evaluate both the pros and the cons of the related example of disintermediation.
- 11-14.** *Creative Homework/Short Project* Your friend's small business makes hand-crafted papers that she sells directly to her customers online. Fortunately, her business is growing quickly, and she is considering selling her unique product to other businesses. From your marketing class, you know that different channel structures exist for both consumer and B2B markets. Summarize the differences between these two channel structures. What advice can you give her?
- 11-15.** *In Class, 10–25 Minutes for Teams* 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. But you think that perhaps it would be good for your firm to develop a corporate vertical marketing system (i.e., 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.
- 11-16.** *For Further Research (Individual)* Do a little research and find an example of a firm that attempted to sell a product or set of products online and failed.
- What do you believe are the key factors that led to the failure?
 - What could the firm have done differently to increase the chances for success?
- 11-17.** *For Further Research (Individual)* 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:
- What logistics services does UPS offer its customers?

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

11-18. *In Class, 10–25 Minutes for Teams* Assume that you have recently been hired by a firm that manufactures furniture. 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.

11-19. *For Further Research (Individual)* It is increasingly important for companies to find ways to make their supply chains more sustainable. Find examples of how a company has implemented a sustainable practice within each of the following components of the supply chain: raw materials sourcing, distribution, warehousing, and retailing. For each component a separate company can be selected for use as your example.

- ★ **11-20.** *Creative Homework/Short Project* Your friend is studying for an upcoming marketing test but doesn't quite understand logistics. Write up a summary of the various logistics functions and devise a short multiple-choice quiz that will help him test his comprehension of the subject.

Concepts: Apply Marketing Metrics

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

- On-time delivery
- Accuracy of forecasted inventory needs
- Returns processing cost as a percentage of product revenue
- Customer order actual cycle time
- Perfect order measurement

Let's take a look at the last measure in more detail. The perfect order measurement calculates the error-free rate of each stage of fulfilling a purchase order.²⁶ This measure helps managers track the multiple steps involved in getting a product from a manufacturer to a customer so that opportunities for process improvement can be pinpointed. For example, a company can calculate its error-free rate at each stage and then combine these rates to create an overall metric of order quality. Suppose the company identifies the following error rates:

- Order entry accuracy: 99.95 percent correct (can be thought of as 0.5 errors per 1,000 order lines)
- Warehouse pick accuracy: 99.2 percent (8 errors per 1,000 items picked by warehouse staff)
- Delivered on time: 96 percent (40 errors per 1,000 deliveries)

- Shipped without damage: 99 percent (10 damaged items per 1,000 deliveries)
- Invoiced correctly: 99.8 percent (2 errors per 1,000 invoices)

To calculate the perfect order measurement, all the company has to do is combine these individual rates into an overall metric by multiplying them together.

- 11-21.** Calculate the perfect order measurement for the above purchase order process. Interpret your result.
- 11-22.** Do you think the firm should be satisfied with this level of performance? Why or why not? What particular areas need attention, if any?
- 11-23.** Is a zero error rate realistic? How close should a firm be expected to come to zero errors? How do you suggest motivating employees toward reducing these errors?
- 11-24.** 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?

Choices: What Do You Think?

- 11-25. Critical Thinking** 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?
- 11-26. Critical Thinking** Would you purchase a durable product (such as a watch) online at a significantly lower price than the MSRP (Manufacturer Suggested Retail Price) if you knew that the retailer was not officially authorized by the product’s manufacturer to sell it? Putting ethical concerns aside for a moment, what risks would most concern you about making such a purchase and what steps could the related retailer take to lessen those risks?
- 11-27. Critical Thinking** As colleges and universities are looking for better ways to satisfy their customers, an area of increasing interest is the distribution of their product (which of course is a student’s 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?
- 11-28. Critical Thinking** Can a company’s reverse logistics system have a significant influence on how a consumer views the organization and its brand? Are there specific types of products for which a company’s reverse logistics system could play a more important role in contributing to a customer’s view of the organization? For those companies what characteristics would you expect their reverse logistics systems to have in order to create high added value for a customer?

- 11-29. Ethics** RFID tags are extremely useful for retailers, but many consumers have responded negatively to them, even calling them “spy chips.” What are the ethical issues that retailers must be aware of when they use these chips? What responsibility do retailers have to educate consumers about how they will use the information contained in these chips?

- 11-30. Critical Thinking** 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” (e.g., stores that sell music, video, and books). Do you agree? Why or why not?

- 11-31. Critical Thinking** 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?

- 11-32. Ethics** To bring cost-effective products to your door, retailers like Walmart use suppliers, some of which may contract work out to other suppliers and so on. And while the initial suppliers that Walmart contracts with may be socially responsible, not all suppliers are. What should retailers do to protect themselves from working with unethical companies or selling products made by such companies? How far down the supply chain should retailers be responsible for the business practices of their vendors?

Miniproject: Learn by Doing

In the U.S., the distribution of most products is fairly easy. There are many independent intermediaries (wholesalers, dealers, distributors, and retailers) that 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 miniproject, you should first select a consumer product, probably one you normally purchase. Then use library sources, other people, or both (retailers, manufacturers, dealers, classmates, and so on) to gather information to do the following:

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

- 11-33.** Prepare and present a summary of your findings.

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Marketing in Action Case Real Choices at Target

When can offering too many choices become too much to handle? Target has gone through a period of bad press as a result of an unacceptable level of stock-outs that upset customers and decreased sales. The discount retailer believes that it can solve the problem by reducing the number of brands and varieties of product options on the shelves. Brian Cornell, CEO, believes that the increased efficiency will allow for more focus on priority categories “like wellness, stylish home goods, apparel, and baby products.”

Target’s distribution process became more complicated with the expansion of its grocery business to include perishables like meat, fresh produce, and dairy products. Then, the situation became even more complex when it began allowing online customers to receive orders directly from its warehouses or pick up their online orders in stores. Because of the mess, Target has committed to redesigning its supply chain to make it more streamlined.

Target has a rich history of success. In 1902, George Dayton founded a company in Minneapolis, Minnesota, called Dayton Dry Goods Company. Over the years the company went through various retail format changes and in 1962, the first Target store opened in Roseville, Minnesota. It called itself the “new idea in discount stores” differentiated by merging key department store features with the lower prices of a discounter. Target became “a store you can be proud to shop in, a store you can have confidence in, a store that is fun to shop and exciting to visit.” The retailer is the third largest U.S. store chain, operating over 1,800 retail locations throughout the United States.

Despite this lofty history, more recently growth at its established stores has been hindered by unacceptable stock levels because of their overly complicated supply chain. Target is spending more than \$5 billion (yes, BILLION), to upgrade its distribution network and technology infrastructure to reduce stock shortages and facilitate the capability for online growth. In addition, the retailer is shrinking the number of different products it keeps in stock and reducing the number of sizes across those products. These changes will result in less overall inventory and improved handling

efficiency. Amy Koo, an analyst with Kantar Retail, says, “In theory, everything can move faster, and they will have less stuff in the system.”

Target’s supply chain transformation includes other changes as well. Store shelves are being physically restructured to hold more product, pushing inventory out of backrooms and onto the sales floor. Suppliers are being required to adjust case sizes (how many individual items are inside a shipped carton) to increase inventory turnover and decrease the number of times a store employee has to handle the merchandise. In addition, Target wants suppliers to give a single-day arrival date for shipments to Target’s warehouses, eliminating the prior practice of a “grace period” that allows shipments to arrive a few days after the promised date without penalties. These and other changes will help Target achieve its goal of better inventory management.

John Mulligan, chief operating officer, thinks that including suppliers in planning and executing the transformation is a key to success. Stock-outs not only hurt Target, the lost sales also mean that everyone in the supply chain suffers. How well the company uses this reinvigorated supply chain to deliver its value proposition to customers will be critical to its future competitive success.

You Make the Call

- 11-34. What is the decision facing Target?
- 11-35. What factors are important in understanding this decision situation?
- 11-36. What are the alternatives?
- 11-37. What decision(s) do you recommend?
- 11-38. What are some ways to implement your recommendation?

Based on: Phil Wahba, “This Is How Target Is Solving Its Out-of-Stock Problems,” *Fortune* (March 2, 2016), <http://fortune.com/2016/03/02/target-inventory/> (accessed May 6, 2016); “Target through the Years,” *Target*, <https://corporate.target.com/about/history/Target-through-the-years> (accessed May 6, 2016); Nandita Bose and Nathan Layne, “Target Gets Tough with Vendors to Speed Up Supply Chain,” *Reuters* (May 4, 2016), <http://www.reuters.com/article/us-target-suppliers-exclusive-idUSKCN0XV096> (accessed May 6, 2016); Nandita Bose, “Target Gets Tough with Vendors to Speed Up Supply Chain,” *Reuters* (March 2, 2016), <http://www.reuters.com/article/us-target-outlook-idUSKCN0W4203> (accessed May 6, 2016).

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Go to **mymktlab.com** for Auto-graded writing questions as well as the following Assisted-graded writing questions:

- 11-39. Creative Homework/Short Project.** Your new boss thinks that intermediaries cost the company too much money, but you know he is looking only at the bottom line. He has asked you to investigate the issue. In a short memo to your boss, describe the efficiencies that intermediaries create and identify the tangible and intangible benefits that these intermediaries provide.
- 11-40. Creative Homework/Short Project.** 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?

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