

# Marketing Management

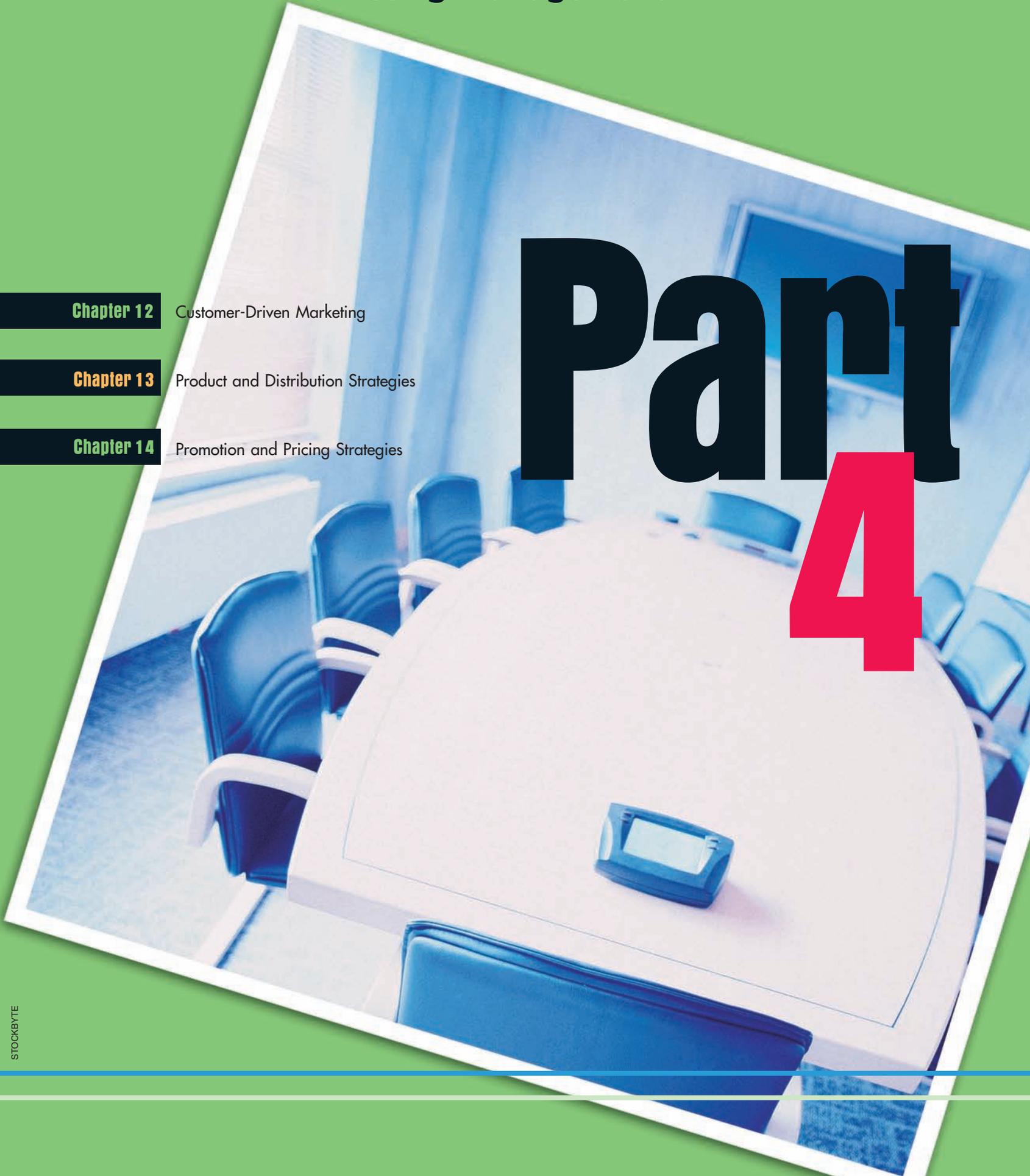
**Chapter 12** Customer-Driven Marketing

**Chapter 13** Product and Distribution Strategies

**Chapter 14** Promotion and Pricing Strategies

# Part 4

STOCKBYTE



# Chapter 12

## Learning Goals

- 1 Summarize the ways in which marketing creates utility.
- 2 Explain the marketing concept and relate how customer satisfaction contributes to added value.
- 3 Describe not-for-profit marketing, and identify the five major categories of nontraditional marketing.
- 4 Outline the basic steps in developing a marketing strategy.
- 5 Describe the marketing research function.
- 6 Identify and explain each of the methods available for segmenting consumer and business markets.
- 7 Outline the determinants of consumer behavior.
- 8 Discuss the benefits of and tools for relationship marketing.

## Customer-Driven Marketing

The words *natural food* used to conjure up images of bins filled with sprouts, tofu, and cardboard-dry wheat bread. People who actually knew what to do with dried beans purchased in bulk shopped at these markets. Not anymore. Whole Foods Market, which was founded in Austin, Texas, in 1978 by John Mackey and his girlfriend, admittedly had its share of sandal-clad customers driving VW buses. Today, Whole Foods's 168 stores welcome well-heeled customers, along with their Lexuses and Range Rovers, to its parking lots. Whole Foods has figured out what consumers want and how to offer it. "Americans love to eat. And Americans love to shop," says CEO John Mackey. "But we don't like to shop for food. . . . Whole Foods thinks shopping should be fun.

AP PHOTO/HARRY CABLUCK



Iranian descent can purchase their pilaf staple by the pound, while Asian customers can pick up gai choy and

## Whole Foods Market: A Whole New Kind of Grocery Store



With this store, we're pioneering a new lifestyle that synthesizes health and pleasure. We don't see a contradiction."

The Whole Foods experience is better than any spa or theme park. Consumers can stroll along aisles of heirloom tomatoes, wander past the lobster and crab tanks, dip a fresh strawberry into a flowing chocolate fountain, sample any of 350 varieties of cheese, or order a salad while they sip a glass of Chardonnay. They can pick up dinner to go—sushi, goat cheese lasagna, or Indian *aloo mattar*. They can rest assured that it's all offered to promote their good health; Whole Foods specializes in organic foods, those produced without unwanted extras such as pesticides and hormones. Chickens raised for Whole Foods, the firm promises, have never ingested antibiotics or growth hormones. The pasta comes from an Italian farmer who grows acres of organic durum wheat to produce his Montebello brand. Fish is caught fresh every day.

Whole Foods also caters to local and ethnic taste preferences. When the manager of the Whole Foods store in Santa Monica, California, learned that some of his Buddhist customers were unable to eat foods containing onion or garlic, he began posting "No Onion, No Garlic" signs above prepared dishes that did not contain these ingredients. In Glendale, California, customers of

chicken feet. Hispanic customers have a wide choice of tamale fixings at the same store. Manager Dave Aebersold appreciates the freedom he has to offer selections specific to his customer base. "I'm empowered to run this like it's my own store," he says.

Not surprisingly, all of these delicacies come at a price. A pound of brie that sells for \$3.99 at a regular supermarket will cost you \$6.23 at Whole Foods, and a half gallon of orange juice that goes for \$1.99 elsewhere will set you back \$2.69. If you really want to splurge, you can pick up a pound of French aged goat cheese for \$25 or a bottle of Villa Manodori balsamic vinegar for \$27. That strawberry you dip in the chocolate fountain will cost you \$1.59—as much as a pint of strawberries at another store. While some might argue that high prices could drive consumers away, Mackey claims that the quality of his goods attracts shoppers. "If Americans want to eat higher quality, they can pay for it," he remarks. Whole Foods customers are loyal, even if it costs them a little more. "Business is simple," Mackey explains. "Management's job is to take care of employees. The employees' job is to take care of the customers. Happy customers take care of the shareholders. It's a virtuous circle."<sup>1</sup>

Business success in the 21st century is directly tied to a company's ability to identify and serve its target markets. In fact, all organizations—profit-oriented and not-for-profit, manufacturing and retailing—*must* serve customer needs to succeed, just as Whole Foods Market does by providing a wide array of healthful foods tailored to its customers. Marketing is the link between the organization and the people who buy and use its goods and services. It is the way organizations determine buyer needs and inform potential customers that their firms can meet those needs by supplying a quality product at a reasonable price. And it is the path to developing loyal, long-term customers.

Although consumers who purchase goods for their own use and enjoyment or business purchasers seeking products to use in their firm's operation may seem to be huge, undifferentiated masses, marketers see distinct wants and needs for each group. To understand buyers, from huge manufacturers to Web surfers to shoppers in the grocery aisles, companies gather mountains of data on every aspect of consumer lifestyles and buying behaviors. Marketers use the data to understand the needs and wants of both final customers and business buyers so that they can

better satisfy them. Satisfying customers goes a long way toward building relationships with them. It's not always easy. To establish links with the buying public, Whole Foods CEO John Mackey invites e-mails from consumers who may—or may not—be customers. After several weeks of electronic debate with an animal welfare activist over Whole Foods's practice of selling duck meat from a particular source, Mackey asked the activist to help rewrite his firm's policies on farm animal treatment. "It made me fall out of my chair," recalls activist Lauren Ornelas. "Now we're working together."<sup>2</sup> This relationship, which developed through direct communication between the CEO and a consumer, has helped Whole Foods cement its relationship with customers who are vegetarian or have other food-source concerns.

This chapter begins with an examination of the marketing concept and the way businesspeople develop a marketing strategy. We then turn to marketing research techniques, leading to an explanation of how businesses apply data to market segmentation and understanding customer behavior. The chapter closes with a detailed look at the important role played by customer relationships in today's highly competitive business world.

## WHAT IS MARKETING?

Every organization—from profit-seeking firms such as Costco and Johnson & Johnson to such not-for-profits as the United Way and the M. D. Anderson Cancer Center—must serve customer needs to succeed. Perhaps retail pioneer J. C. Penney best expressed this priority when he told his store managers, "Either you or your replacement will greet the customer within the first 60 seconds."

According to the American Marketing Association, **marketing** is "an organizational function and a set of processes for creating, communicating, and delivering value to customers and for managing customer relationships in ways that benefit the organization and its stakeholders."<sup>3</sup> In addition to selling goods and services, marketing techniques help people advocate ideas or viewpoints and educate others. The American Diabetes Association mails out questionnaires that ask, "Are you at risk for diabetes?" The documents help educate the general public about this widespread disease by listing its risk factors and common symptoms and describing the work of the association.

Department store founder Marshall Field explained marketing quite clearly when he advised one employee to "give the lady what she wants." The phrase became the company motto, and it remains a business truism today. The best marketers not only give consumers what they want but even anticipate consumers' needs before those needs surface. Ideally, they can get a jump

**marketing** organizational function and set of processes for creating, communicating, and delivering value to customers and for managing customer relationships in ways that benefit the organization and its stakeholders.

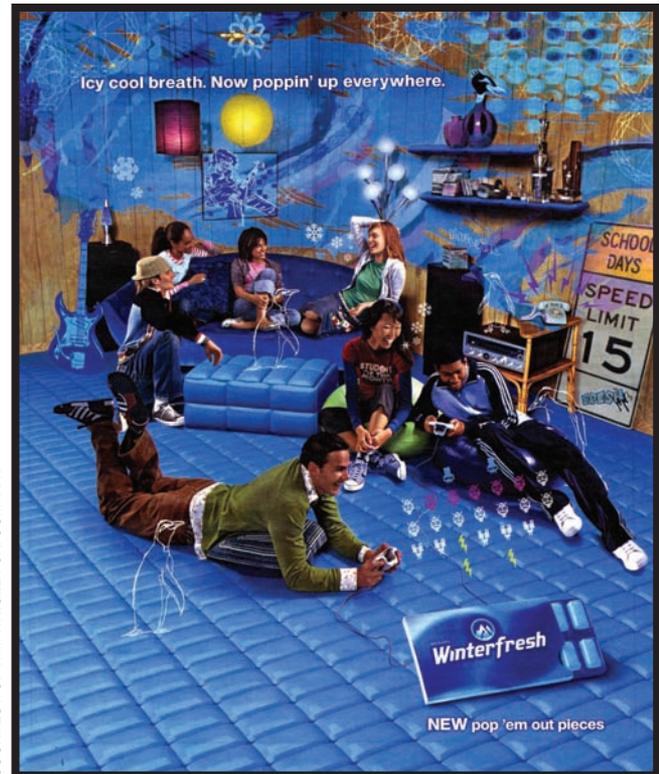
on the competition by creating a link in consumers' minds between the new need and the fulfillment of that need by the marketers' products. Principal Financial Group markets employee retirement plans to other firms as a strategy for retaining the best employees. NetJets offers fractional jet ownership to executives who want the luxury and flexibility of private ownership at a reduced cost. Samsung offers its next generation of high-definition TV with its trademarked Cinema Smooth Light Engine. "Stop watching TV," says its latest promotion. "Start living it."

As these examples illustrate, marketing is more than just selling. It is a process that begins with discovering unmet customer needs and continues with researching the potential market; producing a good or service capable of satisfying the targeted customers; and promoting, pricing, and distributing that good or service. Throughout the entire marketing process, a successful organization focuses on building customer relationships.

When two or more parties benefit from trading things of value, they have entered into an **exchange process**. When you purchase a cup of coffee, the other party may be a convenience store clerk, a vending machine, or a Starbucks barista. The exchange seems simple—some money changes hands, and you receive your cup of coffee. But the exchange process is more complex than that. It could not occur if you didn't feel the need for a cup of coffee or if the convenience store or vending machine were not available. You wouldn't choose Starbucks unless you were aware of the brand. Because of marketing, your desire for a latte, cappuccino, or plain black coffee is identified, and the coffee manufacturer's business is successful.

## How Marketing Creates Utility

Marketing affects many aspects of an organization and its dealings with customers. The ability of a good or service to satisfy the wants and needs of customers is called **utility**. A company's production function creates *form utility* by converting raw materials, component parts, and other inputs into finished goods and services. But the marketing function creates time, place, and ownership utility. **Time utility** is created by making a good or service available when customers want to purchase it. **Place utility** is created by making a product available in a location convenient for customers. **Ownership utility** refers to an orderly transfer of goods and services from the seller to the buyer. Firms may be able to create all three forms of utility. Putting a new spin on the traditional drive-through restaurant, firms such as Applebee's, Outback Steakhouse, and Ruby Tuesday have begun offering curbside service. Customers phone in their orders and then drive to designated spots in the restaurants' parking lots, where employees deliver the food. The service creates time utility by making the food available when customers want to purchase it, place utility by offering a convenient location, and ownership utility by providing the food that customers desire. Industry experts report that this is the fastest-growing trend in casual dining. "It may have started out as a convenience, but it's becoming a complete necessity," says a president of a restaurant consulting firm.<sup>4</sup>



Wrigley's facilitates the exchange process by offering its Winterfresh gum at many outlets, including convenience stores and grocery stores. The bubble packaging keeps each piece fresh until you're ready to share with your friends.

**exchange process** activity in which two or more parties give something of value to each other to satisfy perceived needs.

**utility** want-satisfying power of a good or service.

### assessment check

1. What is utility?
2. Identify ways in which marketing creates utility.

## EVOLUTION OF THE MARKETING CONCEPT

Marketing has always been a part of business, from the earliest village traders to large 21st-century organizations producing and selling complex goods and services. Over time, however, marketing activities evolved through the four eras shown in Figure 12.1: the production, sales, and marketing eras, and now the relationship era. Note that these eras parallel some of the business eras discussed in Chapter 1.

For centuries, organizations of the *production era* stressed efficiency in producing quality products. Their philosophy could be summed up by the remark, “A good product will sell itself.” Although this production orientation continued into the 20th century, it gradually gave way to the *sales era*, in which businesses assumed that consumers would buy as a result of energetic sales efforts. Organizations didn’t fully recognize the importance of their customers until the *marketing era* of the 1950s, when they began to adopt a consumer orientation. This focus has intensified in recent years, leading to the emergence of the *relationship era* in the 1990s, which continues to this day. In the relationship era, companies emphasize customer satisfaction and building long-term relationships with customers.

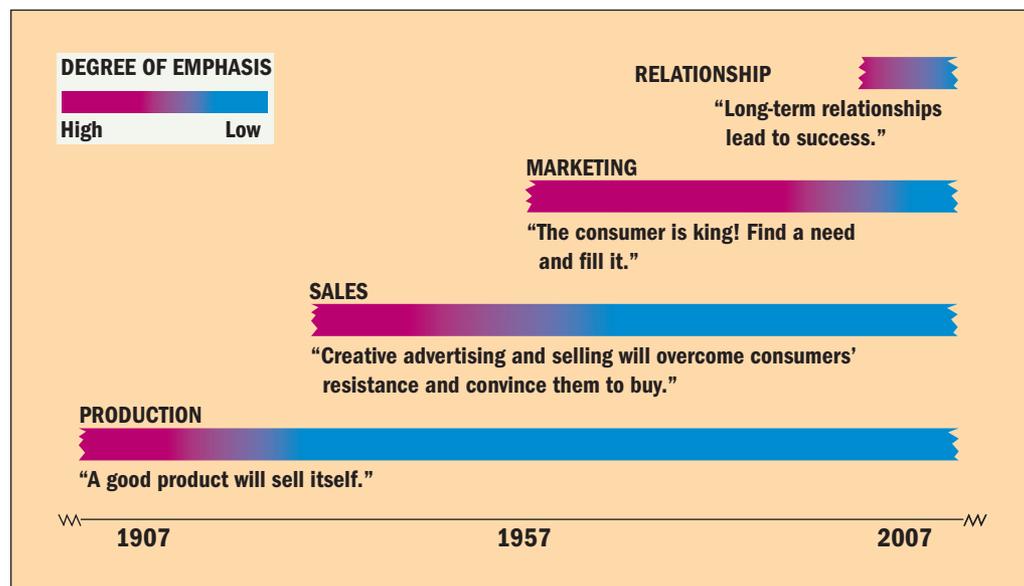
### Emergence of the Marketing Concept

The term **marketing concept** refers to a company-wide customer orientation with the objective of achieving long-run success. The basic idea of the marketing concept is that marketplace success begins with the customer. A firm should analyze each customer’s needs and then work backward to offer products that fulfill them. The emergence of the marketing concept can be explained best by the shift from a *seller’s market*, one with a shortage of goods and services, to a *buyer’s market*, one with an abundance of goods and services. During the 1950s, the United States became a strong buyer’s market, forcing companies to satisfy customers rather than just producing and selling goods and services. Today, much competition among firms centers on the effort to satisfy customers. Recently, Apple Computer opened an iTunes store in Japan, which has long been considered Sony’s domain. But the iPod has already been a hit in

**marketing concept**  
company-wide consumer orientation to promote long-run success.

Figure

12.1 Four Eras in the History of Marketing



Japan, despite Sony's alternative MP3 offerings. Apple marketers see the move as a way to reach and satisfy the Japanese market. "We think this is going to change the experience of discovering and buying and enjoying music in Japan," predicts CEO Steve Jobs. "Together with the iPod, we think we are ushering in a new age of digital music."<sup>5</sup>

## Delivering Added Value through Customer Satisfaction and Quality

What is the most important sale for a company? Some assume that it's the first, but many marketers argue that the second sale is the most important, because repeat purchases are concrete evidence of **customer satisfaction**. The concept of a good or service pleasing buyers because it has met or exceeded their expectations is crucial to an organization's continued operation. A company that fails to match the customer satisfaction that its competitors provide will not stay in business very long. In contrast, increasing customer loyalty by just 5 percent translates into significant increases in lifetime profits per customer.<sup>6</sup>

The best way to keep a customer is to offer more than just products. Customers today want value, their perception that the quality of goods or services is in balance with the prices charged. When a company exceeds value expectations by adding features, lowering its price, enhancing customer service, or making other improvements that increase customer satisfaction, it provides a **value-added** good or service. As long as customers believe they have received value—good quality for a fair price—they are likely to remain satisfied with the company and continue their relationships. Cereality, the firm described in the "Hit & Miss" feature, offers value to its customers. Providing superior customer service can generate long-term success. FedEx, United Parcel Service, Hewlett-Packard, Nordstrom, and Target are all firms noted for superior customer service. Singapore Airlines is another such firm. Despite service cutbacks in other airlines, Singapore Airlines continues to provide top-notch service to its travelers, winning frequent international awards for doing so. The firm achieves this level of service by sticking to a clear mission and values; requiring continuous training of its employees; and maintaining constant communication with customers.<sup>7</sup>

**Quality**—the degree of excellence or superiority of an organization's goods and services—is another way firms enhance customer satisfaction. In an intensely competitive industry, Singapore Airlines constantly seeks methods to serve customers better and "get ahead of the pack." The company not only observes its direct competitors but also watches for ways in which hotels, banks, and restaurants improve service and adapts them to its own business.<sup>8</sup>

While a reputation for high quality enhances a firm's competitiveness, a slip in quality can damage a firm's image. Firms such as Ford, Firestone, and even McDonald's have suffered from quality slips and have worked hard to rebuild their reputations. Hyundai used to be viewed by the auto industry—and consumers—as producing a lower-quality vehicle than its competitors did. Now the firm advertises its high quality as well as "America's Best Warranty."

Although quality relates to physical product traits, such as durability and reliability, it also includes customer service. For a firm to be truly successful at providing customer service, the focus must come from the top.

## Customer Satisfaction and Feedback

One of the best ways to find out whether customers are satisfied with the goods and services provided by a company is to obtain *customer feedback* through toll-free telephone hotlines, customer satisfaction surveys, Web site message boards, or written correspondence. Some firms find out how well they have satisfied their customers by calling them or making personal visits to their businesses or residences.

**customer satisfaction**  
ability of a good or service to meet or exceed a buyer's needs and expectations.

### "They Said It"

"In every instance, we found that the best-run companies stay as close to their customers as humanly possible."

—Thomas J. Peters  
(b. 1942)  
Coauthor, *In Search of Excellence*



# HIT & MISS

## One Company Makes a Cereal Killing

David Roth noticed something about U.S. consumers—they eat a lot of cereal. But they don't just eat it for breakfast; they seem to like it for lunch and dinner, and even snacks in between. "They were eating it everywhere, at different times of day," he recalls of his initial observation. Roth and his friend, designer Rick Bacher, knew they were on to something. Backed by marketing research that told them 95 percent of U.S. consumers like cereal, they decided to figure out a way to make this favorite food available in unusual places.

Roth and Bacher first targeted college students because "they basically live on cereal," says Roth. The two entrepreneurs set up a kiosk at Arizona State University's food court, where students could dish up their favorites—in any combination they wanted. The kiosk was a hit, and Cereality quickly expanded to Philadelphia, Chicago, and other locations near universities.

Here's how a Cereality bar and café works. Customers select from among 30 different types of brand-name cereal and 30 toppings—yes, toppings, including bananas and marshmallows. They can mix and match their Corn Pops and Captain Crunch, then choose what kind of milk they want, such as skim or soy. They can even have Quaker hot cereals made to order. All the cereals are served in individual fold-over boxes by servers wearing pajamas. The boxes even come with long straws to reach milk at the bottom. "You never

have a bad bowl of cereal, because you create it," explains Nelson Diaz, a Cereality café manager. In some of the larger cafés, customers can even lounge on couches and use free Internet connections. The experience also fits a college budget—for about \$3, a cereal-hungry student can get a meal.

Cereality customers are loyal. The only downside, they say, is that some of the cafés aren't open late enough—when students are pulling all-nighters. "This would be a great study break," says one senior. "It would be smart for them to be open later."

Roth and Bacher are listening. They are also thinking big. Their next targets will be airports, hospitals, and train stations. Roth looks at cereal this way: "[It is] the great equalizer. It crosses all demographics, all races, all ages. People see it as a happy thing."

### Questions for Critical Thinking

1. In what ways does Cereality deliver customer satisfaction? How might it improve?
2. Describe two ways in which Cereality could obtain customer feedback.

**Sources:** April Y. Pennington, "Breakfast of Champions," *Entrepreneur*, accessed July 12, 2006, <http://www.entrepreneur.com>; "The Loop Gets Ready for Froot Loops Plus 29 Other Cereals," PR Newswire, February 22, 2005, <http://biz.yahoo.com>; Craig Wilson, "A Whole New Bowl Game," *USA Today*, December 8, 2004, <http://www.usatoday.com>.

### assessment check

1. What is the marketing concept?
2. How does customer satisfaction result in a value-added good or service?

Customer complaints are excellent sources of customer feedback, because they present companies with an opportunity to overcome problems and improve their services. Customers often feel greater loyalty after a conflict has been resolved than if they had never complained at all. Complaints can also allow firms to gather innovative ideas for improvement.

## EXPANDING MARKETING'S TRADITIONAL BOUNDARIES

The marketing concept has traditionally been associated with products of profit-seeking organizations. Today, however, it is also being applied to not-for-profit sectors and other nontraditional areas ranging from religious organizations to political campaigns.

## Not-for-Profit Marketing

Residents of every continent benefit in various ways from the approximately 20 million not-for-profit organizations currently operating around the globe. Some 1.5 million of them are located in the United States, where they employ about 8.6 million workers and benefit from another 7.2 million volunteers. Worldwide, the not-for-profit sector accounts for nearly 5 percent of the gross domestic product.<sup>9</sup> The largest not-for-profit organization in the world is the Red Cross/Red Crescent. Others range from Habitat for Humanity and Save the Children to the National Science Foundation and the World Food Program. These organizations all benefit by applying many of the strategies and business concepts used by profit-seeking firms. They apply marketing tools to reach audiences, secure funding, improve their images, and accomplish their overall missions. Marketing strategies are important for not-for-profit organizations because they are all competing for dollars—from individuals, foundations, and corporations—just as commercial businesses are.

Not-for-profit organizations operate in both public and private sectors. Public groups include federal, state, and local government units as well as agencies that receive tax funding. A state's department of natural resources, for instance, regulates land conservation and environmental programs; the local animal control officer enforces ordinances protecting people and animals; a city's public health board ensures safe drinking water for its citizens. The private not-for-profit sector comprises many different types of organizations, including California State University–Fullerton's baseball team, the Adirondack Mountain Club, and Portsmouth, New Hampshire–based Cross Roads House for homeless families. Although some private not-for-profits generate surplus revenue, their primary goals are not earning profits. If they earn funds beyond their expenses, they invest the excess in their organizational missions.

In some cases, not-for-profit organizations form a partnership with a profit-seeking company to promote the firm's message or distribute its goods and services. This partnership usually benefits both organizations. Large corporations may form their own not-for-profit charitable organizations. McDonald's is well known for its Ronald McDonald Charities. Designer Ralph Lauren has partnered with the U.S. Tennis Association to market an exclusive line of tennis gear, including tennis balls imprinted with pink polo players on ponies. Sales from the tennis balls help benefit breast cancer research.<sup>10</sup>

In addition, wealthy athletes and other celebrities sometimes form their own not-for-profit organizations to support causes that are personally meaningful to them. Hockey player Mario Lemieux established a foundation that assists hospitals in Pittsburgh and funds neonatal and anticancer research. Tennis star Andre Agassi established an organization to fund an academy for underprivileged children in Las Vegas.<sup>11</sup>

## Nontraditional Marketing

Not-for-profit organizations often engage in one or more of five major categories of nontraditional marketing: person marketing, place marketing, event marketing, cause marketing, and organization marketing. Figure 12.2 provides examples of these types of marketing. Through each of these types of marketing, an organization seeks to connect with the audience that is most likely to offer time, money, or other resources. In some cases, the effort may reach the market the organization intends to serve.

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Not-for-profit organizations conduct major marketing campaigns. The Susan G. Komen Breast Cancer Foundation holds races and walks around the country to raise funds for research for a cure.



The United Nations' Food and Agriculture Organization sponsors World Food Day on October 16 each year to raise awareness of worldwide poverty and hunger and to promote sustainable agriculture. More than 150 countries hold national events to observe the day.<sup>13</sup>

**Cause Marketing** Marketing that promotes a cause or social issue, such as preventing child abuse, antilittering efforts, and antismoking campaigns, is **cause marketing**. Cause marketing seeks to educate the public and may or may not attempt to directly raise funds. An advertisement often contains a phone number or Web site address through which people can obtain more information.

Profit-seeking companies look for ways to give back to their communities by joining forces with charities and causes, providing financial, marketing, and human resources. Timberland is well known for its City Year and Bikes for Tikes programs. NBC has underwritten its "The More You Know" public-service announcements for nearly two decades. Celebrities who have participated in the announcements include business mogul Donald Trump and actors Mariska Hargitay and James Caan.

**Organization Marketing** The final category of nontraditional marketing, **organization marketing**, influences consumers to accept the goals of, receive the services of, or contribute in some way to an organization. The U.S. Postal Service, the U.S. military, the American Red Cross, and the Tiger Woods Foundation are all examples of organizations that engage in marketing. Organizations such as the American Heart Association and the Disabled American Veterans send out printed return-address labels with donation requests enclosed. These groups hope that consumers will be willing to pay for the customized labels with donations.

### assessment check

1. Why do not-for-profit organizations engage in marketing?
2. What are the five types of nontraditional marketing used by not-for-profit organizations?

## DEVELOPING A MARKETING STRATEGY

Decision makers in any successful organization, for-profit or not-for-profit, follow a two-step process to develop a *marketing strategy*: First, they study and analyze potential target markets and choose among them. Second, they create a marketing mix to satisfy the chosen market. Figure 12.3 shows the relationship among the target market, the marketing mix variables, and the marketing environment. Later discussions refer back to this figure as they cover each topic. This section describes the development of a marketing strategy.

Target Market and Marketing Mix within the Marketing Environment



## “They Said It”

“We’re always looking to see what we can do to make our customers’ lives easier or save them money. It pervades every part of the company.”

—Michael Dell (b. 1965)  
 Founder and chairman, Dell  
 Computer

**target market** group of people toward whom an organization markets its goods, services, or ideas with a strategy designed to satisfy their specific needs and preferences.

**marketing mix** blending the four elements of marketing strategy—product, distribution, promotion, and pricing—to satisfy chosen customer segments.

Earlier chapters of this book introduced many of the environmental factors that affect the success or failure of a firm’s business strategy, including today’s rapidly changing and highly competitive world of business, a vast array of social-cultural factors, economic challenges, political and legal factors, and technological innovations. Although these external forces frequently operate outside managers’ control, marketers must still consider the impact of environmental factors on their decisions.

A marketing plan is a key component of a firm’s overall business plan. The marketing plan outlines its marketing strategy and includes information about the target market, sales and revenue goals, the marketing budget, and the timing for implementing the elements of the marketing mix.

## Selecting a Target Market

The expression “find a need and fill it” is perhaps the simplest explanation of the two elements of a marketing strategy. A firm’s marketers find a need through careful and continuing study of the individuals and business decision makers in its potential market. A market consists of people with purchasing power, willingness to buy, and authority to make purchase decisions.

Markets can be classified by type of product. **Consumer products**—often known as business-to-consumer (B2C) products—are goods and services, such as DVDs, shampoo, and dental care, that are purchased by end users. **Business products**—or business-to-business (B2B) products—are goods and services purchased to be used, either directly or indirectly, in the production of other goods for resale. Some products can fit either classification depending on who buys them and why. A computer or checking account, for example, can be either a consumer or business product.

An organization’s **target market** is the group of potential customers toward whom it directs its marketing efforts. Customer needs and wants vary considerably, and no single organization has the resources to satisfy everyone. *Forbes* is geared toward businesspeople and consumers who are interested in business, while *Teen Vogue* is aimed at teenagers who are interested in fashion.

Decisions about marketing involve strategies for four areas of marketing activity: product, distribution, promotion, and pricing. A firm’s **marketing mix** blends the four strategies to fit the needs and preferences of a specific target market. Marketing success depends not on the four individual strategies but on their unique combination.

*Product strategy* involves more than just designing a good or service with needed attributes. It also includes decisions about package design, brand names, trademarks, warranties, product image, new-product development, and customer service. Think, for instance, about your favorite soft drink. Do you like it for its taste alone, or do other attributes, such as clever ads, attractive packaging, and overall image, also contribute to your brand preference? *Distribution strategy*, the second marketing mix variable, ensures that customers receive their purchases in the proper quantities at the right times and locations. *Promotional strategy*, another marketing mix element, effectively blends advertising, personal selling, sales promotion, and public relations to achieve its goals of informing, persuading, and influencing purchase decisions.

*Pricing strategy*, the final mix element, is also one of the most difficult areas of marketing decision making in setting profitable and justifiable prices for the firm’s product offerings. Such actions are sometimes subject to government regulation and considerable public scrutiny. They also represent a powerful competitive weapon and frequently produce responses by the other firms in the industry, who match price changes to avoid losing customers.

Barbara Kavovit used a variety of marketing mix elements to launch her company, called Barbara K!, to success. Already the owner of a construction firm, Kavovit targeted a specific



**marketing research** collecting and evaluating information to support marketing decision making.

## MARKETING RESEARCH

Marketing research involves more than just collecting data. Researchers must decide how to collect data, interpret the results, convert the data into decision-oriented information, and communicate those results to managers for use in decision making. **Marketing research** is the process of collecting and evaluating information to help marketers make effective decisions. It links business decision makers to the marketplace by providing data about potential target markets that help them design effective marketing mixes.

### Obtaining Marketing Research Data

Marketing researchers need both internal and external data. Firms generate *internal data* within their organizations. Financial records provide a tremendous amount of useful information, such as changes in unpaid bills, inventory levels, sales generated by different categories of customers or product lines, profitability of particular divisions, or comparisons of sales by territories, salespeople, customers, or product lines.

Researchers gather *external data* from outside sources, including previously published data. Trade associations publish reports on activities in particular industries. Advertising agencies collect information on the audiences reached by various media. National marketing research firms offer information through subscription services. Some of these professional research firms specialize in specific markets, such as Teenage Research Unlimited, which recently reported that American teenagers spend \$155 billion on goods and services each year—valuable information for firms interested in reaching these consumers.<sup>17</sup>

For years, retail giant Wal-Mart relied on its suppliers to determine what was fashionable in clothing, but it had no way to determine whether they were correct. As a result, clothing sales languished—although 100 million customers shop at Wal-Mart every week, only about one in three buys apparel there. In an effort to revamp its clothing image and increase sales, Wal-Mart created a marketing research arm called Trend Office and placed it in New York’s fashion center, Fifth Avenue. The ten staff members research the latest trends and colors and suggest new product lines for Wal-Mart stores to carry. If the research effort succeeds, the company will be able to add more lucrative, style-conscious customers to its traditional base of shoppers looking for rock-bottom prices.<sup>18</sup>

*Secondary data*, or previously published data, are low cost and easy to obtain. Federal, state, and local government publications are excellent data sources, and most are available online. The most frequently used government statistics include census data, which contain the population’s age, gender, education level, household size and composition, occupation, employment status, and income. Even private research firms such as Teenage Research Unlimited provide some free information on their Web sites. This information helps firms evaluate consumers’ buying behavior, anticipate possible changes in the marketplace, and identify new markets.

Even though secondary data represent a quick and inexpensive resource, marketing researchers sometimes discover that this information isn’t specific or current enough for their needs. If so, researchers may conclude that they must collect *primary data*—data collected firsthand through such methods as observation and surveys.

Marketing researchers sometimes collect primary data through observational studies, in which they view the actions of consumers either directly or through mechanical devices. Once Famous, a retail laboratory, observes the actions of shoppers in a “real” store setting. Online sites also measure traffic, typically by counting the number of new visitors to a Web site during a given time period. Web-based data collection can also track which links each visitor clicks while at a Web site, as well as what a visitor orders and how much money the visitor spends.

### “They Said It”

“It’s tough to make predictions, especially about the future.”

—Yogi Berra (b. 1925)  
Major League Baseball  
player and coach

Simply observing customers cannot provide some types of information. A researcher might observe a customer buying a red sweater, but have no idea why the purchase was made—or for whom. When researchers need information about consumers' attitudes, opinions, and motives, they need to ask the consumers themselves. They may conduct surveys by telephone, in person, online, or in focus groups.

A focus group gathers eight to twelve people in a room or over the Internet to discuss a particular topic. A focus group can generate new ideas, address consumers' needs, and even point out flaws in existing products. Teenage Research Unlimited frequently uses focus groups, called Trendwatch Panels, to learn what teens are thinking. Recently, by combining a panel discussion with a broader survey, the firm learned that the current generation of teens is practical and willing to work toward attainable goals. They are well grounded and family oriented, although they want to find their own "voice" in the world. How might marketers use this information? When asked which factors would be most important to them in the purchase of a car, the teens answered: price and style.<sup>19</sup>

## Applying Marketing Research Data

As the accuracy of information collected by researchers increases, so does the effectiveness of resulting marketing strategies. General Motors gathered five groups of Jeep Cherokee and Chevy Blazer owners to critique early sketches of the new Hummer. The groups came one at a time, and researchers revised the drawings for the next group based on the comments of the previous one. GM was looking for the perfect design for the third-generation Hummer. When the H3 hit the market, design changes in the grille, headlights, and doors, all made on the basis of the groups' responses, were evident.<sup>20</sup>

## Data Mining

Computer searches through customer data to detect patterns and relationships is referred to as **data mining**. These patterns may suggest predictive models of real-world business activities. Accurate data mining can help researchers forecast recessions, weed out credit card fraud, and pinpoint sales prospects.

Data mining uses **data warehouses**, which are sophisticated customer databases that allow managers to combine data from several different organizational functions. Wal-Mart's data warehouse, considered the largest in the private sector, contains more than 500 terabytes (trillions of characters) of data. The retail giant uses data mining to assess local preferences for merchandise so that it can tailor the inventory of each store to the tastes of its neighborhood. By identifying patterns and connections, marketers can increase the accuracy of their predictions about the effectiveness of their strategy options. Harrah's casino in Las Vegas tracks customers' purchases and activities to tailor pricing for its hotel rooms. Harrah's also uses the data to predict what its repeat customers want and then customize its offerings—such as free steak dinners, spa treatments, and show tickets.<sup>21</sup>

**data mining** computer searches of customer data to detect patterns and relationships.

### assessment check

1. What is the difference between primary data and secondary data?
2. Why is marketing research important to business?

## MARKET SEGMENTATION

**Market segmentation** is the process of dividing a market into several relatively homogeneous groups. Both profit-seeking and not-for-profit organizations use segmentation to help them reach desirable target markets. Market segmentation is often based on the results of marketing research.

**market segmentation** process of dividing a total market into several relatively homogeneous groups.

Market segmentation attempts to isolate the traits that distinguish a certain group of customers from the overall market. However, segmentation doesn't automatically produce marketing success. Table 12.1 lists several criteria that marketers should consider. The effectiveness of a segmentation strategy depends on how well the market meets these criteria. Once marketers identify a market segment to target, they can create an appropriate marketing strategy.

For years, bread manufacturers have known that kids like white bread, despite the fact that bread made from whole grains is more nutritious. As a result, firms have spent millions of dollars trying to develop a more nutritious bread that would satisfy two targeted markets at once—children and their parents, who buy the bread. Sara Lee Corporation recently launched its new Soft & Smooth bread—made with Ultragrain, a product manufactured by ConAgra, which looks white but contains 30 percent whole grain. As a result, Wonder Bread has announced a new loaf that is made with 100 percent whole grain—but is still white.<sup>22</sup>

## How Market Segmentation Works

An immediate segmentation distinction involves whether the firm is offering goods and services to customers for their own use or to purchasers who will use them directly or indirectly in providing other products for resale (the so-called B2B market). Depending on whether their firms offer consumer or business products, marketers segment their target markets differently. Four common bases for segmenting consumer markets are geographical segmentation, demographic segmentation, psychographic segmentation, and product-related segmentation. Business markets can segment on only three criteria: customer-based segmentation, end-use segmentation, and geographical segmentation. Figure 12.4 illustrates the segmentation methods for these two types of markets.

## Segmenting Consumer Markets

Market segmentation has been practiced since people first began selling products. Tailors made some clothing items for men and others for women. Tea was imported from India for tea drinkers in Europe and England. In addition to demographic and geographical segmentation, today's marketers also define customer groups based on psychographic criteria as well as product-related distinctions.

**Geographical Segmentation** The oldest segmentation method is **geographical segmentation**—dividing a market into homogeneous groups on the basis of their locations. Geographical location does not guarantee that consumers in a certain region will all buy the same kinds of products, but it does provide some indication of needs. For instance, suburbanites usually

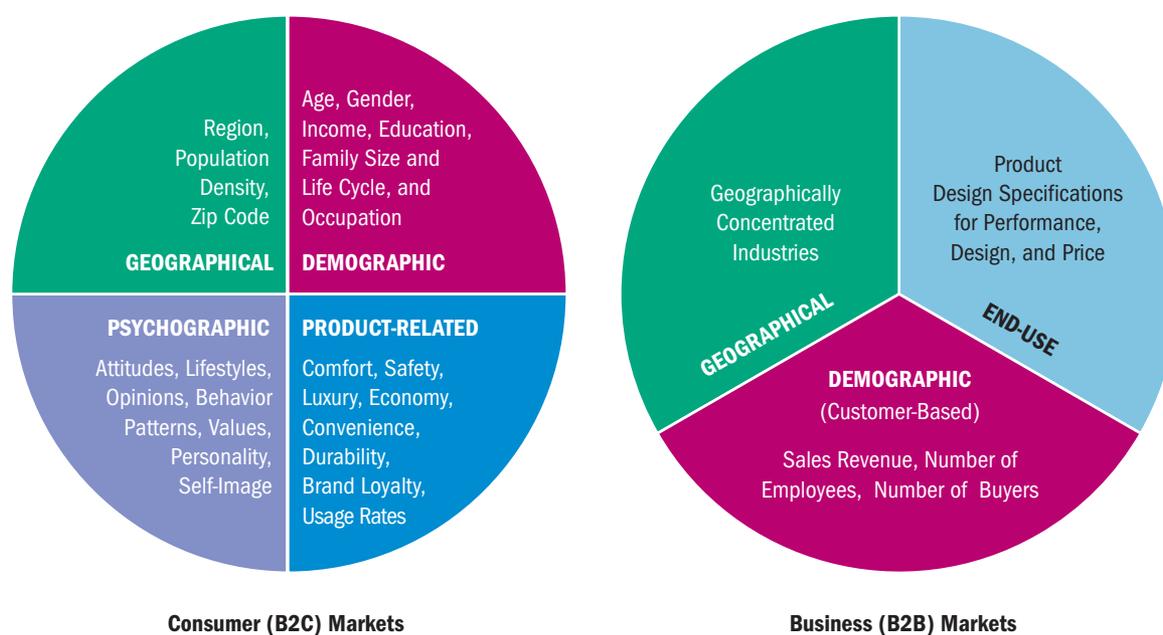
Table

## 12.1

## Criteria for Market Segmentation

Criterion	Example
A segment must be a measurable group.	Data can be collected on the dollar amount and number of purchases by college students.
A segment must be accessible for communication.	A growing number of seniors are going online, so they can be reached through Internet channels.
A segment must be large enough to offer profit potential.	In a small community, a store carrying only large-size shoes might not be profitable. Similarly, a specialty retail chain may not locate in a small market.

## Methods of Segmenting Consumer and Business Markets



buy more lawn care products than central-city dwellers. However, many suburbanites choose instead to purchase the services of a lawn maintenance firm. Consumers who live in northern states, where winter is more severe, are more likely to buy ice scrapers, snow shovels, and snowblowers than those who live in warmer climates. They are also more likely to contract with firms who plow driveways. Marketers also look at the size of the population of an area, as well as who lives there—are residents old or young? Do they reflect an ethnic background? What is the level of their income?

General Motors's sales have lagged on both the East and West Coasts. It has captured less than 15 percent of auto sales there, compared with its nearly 26 percent share elsewhere. In investigating the problem, the company found out that its product lines, featuring pickup trucks and sport-utility vehicles, were not as popular on the coasts. So GM marketers are revising the company's leasing deals, which Easterners favor, and promoting its sportier Saturn Sky roadster and Pontiac Solstice in California.<sup>23</sup>

Job growth and migration patterns are important considerations as well. Some businesses combine areas or even entire countries that share similar population and product-use patterns instead of treating each as an independent segment.

**Demographic Segmentation** By far the most common method of market segmentation, **demographic segmentation** distinguishes markets on the basis of various demographic or socioeconomic characteristics. Common demographic measures include gender, income, age, occupation, household size, stage in the family life cycle, education, and ethnic group. The U.S. Census Bureau is one of the best sources of demographic information for the domestic market.

Gender used to be a simple way to define markets for certain products—cosmetics and kitchen appliances for women, hammers and drills for men. Much of that has changed—dramatically. Men buy skin care products, and women buy tools. Bath and Body Works, a popular retailer of skin care products and fragrances for women, also has a men's line of products—soothing face conditioner, shower gel, and cologne sprays in scents named Woodland

and Glacier Bay.<sup>24</sup> In a recent marketing research survey, the Lowe's home-improvement chain learned that 67 percent of women are ready to be entirely responsible for the care and maintenance of their own homes. This percentage rose even higher among Hispanic women—79 percent. Also, 78 percent of all female homeowners own a combination of hand tools and power tools.<sup>25</sup> In addition to a shift in the types of products that men and women buy, there has been a tremendous shift in purchasing power. Women now control an estimated 85 percent of the \$7 trillion spent each year on personal consumption items, and one expert predicts that women will control 60 percent of all wealth in the United States by 2010, in part because of their tendency to live longer than men.<sup>26</sup>

Age is perhaps the most volatile factor in demographic segmentation in the United States, with our rapidly aging population. By 2020, one of every three Americans will be over age 50, and smart companies will focus their attention on reaching this growing part of the market. Marketers who conducted research on baby boomers—Americans born between 1946 and 1964—discovered that 42 percent of these consumers want to combine work and leisure; 17 percent want to leave work completely behind; and 13 percent want to start their own businesses.<sup>27</sup> Based on these statistics, marketers for travel and leisure products, as well as retirement and business investments, are working hard to attract the attention of this age group. However, some businesses haven't yet recognized the opportunity, as described in the "Hit & Miss" feature.

As mentioned earlier, teens are another rapidly growing market. The purchases that the average teen makes—or influences—add up to about \$116 a week. Marketers always want to know what teens like to do and buy. According to a recent survey by *Time*, 13-year-olds would rather use an Xbox or PS2 than watch TV; iPod Minis and flip cell phones are in; and Snickers, Doritos, Snapple drinks, and Ben & Jerry's ice cream rank high with teen taste buds.<sup>28</sup>

Minority groups hold a combined purchasing power of more than \$1 trillion a year in the United States alone, an amount that marketers must not overlook. The three largest minority groups—Hispanic Americans, African Americans, and Asian Americans—number almost one out of every three U.S. residents. By 2050, the nation's population will be more than 50 percent minorities. Already, four states in the United States—California, New Mexico, Hawaii, and Texas—have nonwhite majority populations. Maryland, Mississippi, Georgia, New York, and Arizona each have about 40 percent minority populations.<sup>29</sup> Hispanic buying power is expected to hit nearly \$1 billion in the next few years, about equal to that of African Americans. The buying power of Asian Americans hovers around \$500 million.<sup>30</sup> Another important group of consumers is Native Americans, who currently number about 2.5 million across the United States. Clearly, these unique markets represent significant business opportunities.

To avoid stereotyping, marketers try to break large groups of minorities into smaller segments. For instance, the Hispanic market is made up of many smaller segments, based not only on country of origin but also on lifestyle. Best Buy recently ran Spanish-language commercials and print ads targeting Hispanic adults age 40 and older because marketing research revealed that while household heads had the most buying power, they also had the least information. So the ads were designed to provide more information about Best Buy products.<sup>31</sup>

Entrepreneurs who are members of minority groups may start their own businesses out of frustration at not being able to find food, clothing, entertainment, or other goods and services that fit their tastes and needs. Parry Singh did exactly that. He established a series of Web sites to cater to the demand for ethnic foods. The first site, *Namaste.com*, came about because of his sister's inability to find Indian groceries. Later he founded *EthnicGrocer.com*, an online global grocery market. Visitors may browse among the culinary treats of fifteen countries including China, Italy, Greece, Mexico, India, Vietnam, and others. Or they can select what they need by category, such as spices, oils, pasta, or baking needs. They can purchase exotic seasonings such as seaweed and spice paste, download international recipes, and get tips on



# HIT & MISS

## Marketers Fall Short When It Comes to Older Consumers

Baby boomers—the largest generation in U.S. history—are reaching middle age, and even retiring. Over the next few decades, 78 million of them will reach retirement age, creating the biggest wave of retirees in U.S. history. Yet marketers have traditionally dismissed this age group as potential customers based on the stereotype that they are already loyal to certain brands and unlikely to change—and also that they tend to do little more than play golf or bridge. Now businesses are recognizing their mistake. This age group controls three-fourths of the country's disposable income. They account for 40 percent of new-car sales, and much more travel—including trips to Disney World and to the Himalayas—than anyone had previously anticipated. Marketers are scrambling to catch up.

The Gap, which has always targeted the younger set, recently launched a line of apparel for older figures. Using Census Bureau numbers, the firm realized that women age 35 to 54 make up nearly 30 percent of the population. And they still wear jeans and other casual clothing, the Gap's niche in the retail world. Companies that specialize in active or adventure travel, such as Overseas Adventure Travel and Tauck Bridges, are targeting an older, wealthier set. Tauck Bridges offers outdoor-oriented trips that cater to families—especially grandparents and grandchildren. Sony advertises its camera products to seniors who may want to cap-

ture the drama of their deep-sea fishing. Then there's a huge surge in the selling of retirement accounts and other investments intended to guarantee the good life. Prudential Financial, T. Rowe Price, and Vanguard all offer a variety of retirement investment products.

Perhaps the biggest change of all is in the assumption that people will live long enough to spend and enjoy the savings they've accrued. Consultant Ken Dychtwald makes his living coaching companies on this fact. "From where I sit, this longevity revolution will have a bigger impact on people's lives, their money, on the economy, on our families, on work, than either the industrial or technological revolutions of previous centuries," he predicts. "Throughout history, most people didn't age. They died." Marketers are just waking up to the fact that they—and their customers—are living longer than ever before.

### Questions for Critical Thinking

1. Describe an industry that you think should begin marketing itself to older consumers.
2. Do you agree with Ken Dychtwald's statement about the impact of longevity? Why or why not?

**Sources:** Nicholas Varchaver, "Pitchman for the Gray Revolution," *Fortune*, accessed August 7, 2006, <http://www.fortune.com>; "Now, the Geezer Glut," *BusinessWeek*, accessed August 7, 2006, <http://www.businessweek.com>; Kim T. Gordon, "Young at Heart," *Entrepreneur*, accessed August 7, 2006, <http://www.entrepreneur.com>.

how to use various products. EthnicGrocer is not just for expert ethnic cooks; the site seeks to educate anyone who is interested in and willing to try different styles of cooking.<sup>32</sup>

**Psychographic Segmentation** Lifestyle is the sum of a person's needs, preferences, motives, attitudes, social habits, and cultural background. In recent years, marketing researchers have tried to formulate lifestyle portraits of consumers. This effort has led to another strategy for segmenting target markets, **psychographic segmentation**, which divides consumer markets into groups with similar psychological characteristics, values, and lifestyles.

Psychographic studies have evaluated motivations for purchases of hundreds of goods and services, ranging from soft drinks to healthcare services. Using the resulting data, firms tailor their marketing strategies to carefully chosen market segments. A frequently used method of developing psychographic profiles involves the use of *AIO statements*—verbal descriptions of various activities, interests, and opinions. Researchers survey a sample of consumers, asking them whether they agree or disagree with each statement. The answers are then tabulated and analyzed for use in identifying various lifestyle categories.

Another way to get current information from consumers about their lifestyles is to create *blogs*, as described in Chapter 7, to which consumers respond. Companies ranging from Stonyfield Farm to Microsoft have hired full-time corporate bloggers to run online Web journals as a way to connect with and receive information from consumers. Other firms encourage employees at all levels to use blogs to communicate with consumers. General Motors vice chairman Bob Lutz even has his own blog, through which he shares ideas and viewpoints with the car-buying public.<sup>33</sup>

Although demographic classifications such as age, gender, and income are relatively easy to identify and measure, researchers also need to define psychographic categories. Often marketing research firms conduct extensive studies of consumers and then share their psychographic data with clients. In addition, businesses look to studies done by sociologists and psychologists to help them understand their customers. A group of scientists at UCLA spent the last several years following the lives of several U.S. families and identified some important lifestyle trends. Families tend to engage in many organized activities, including sports and music lessons, limiting the time for spontaneous outings, games, or meals. They also spend more time in their cars, where kids may actually do homework and eat meals. Children and parents stay in constant contact via cell phones and pagers.<sup>34</sup> These are just a few trends identified by the researchers, but they provide valuable information to firms that may be considering developing convenience foods, designing the interiors of family vehicles, or implementing new wireless plans.

**Product-Related Segmentation** Using **product-related segmentation**, sellers can divide a consumer market into groups based on buyers' relationships to the good or service. The three most popular approaches to product-related segmentation are based on benefits sought, usage rates, and brand loyalty levels.

Segmenting by *benefits sought* focuses on the attributes that people seek in a good or service and the benefits they expect to receive from it. In Johnson & Johnson's ad for BAND-AID® Brand TOUGH-STRIPS® adhesive bandages, consumers learn that they can soak an adhesive bandage with a garden hose, and it still won't peel off the skin.

Consumer markets can also be segmented according to the amounts of a product that people buy and use. Segmentation by *product usage rate* usually defines such categories as heavy users, medium users, and light users. The 80/20 principle states that roughly 80 percent of a product's revenues come from only 20 percent of its buyers. Companies can now pinpoint which of their customers are the heaviest users—and even the most profitable customers—and direct their heaviest marketing efforts to those customers.

The third technique for product-related segmentation divides customers by *brand loyalty*—the degree to which consumers recognize, prefer, and insist on a particular brand. Marketers define groups of consumers with similar degrees of brand loyalty. They then attempt to tie loyal customers to a good or service by giving away premiums, which can be anything from a logo-emblazoned T-shirt to a pair of free tickets to a concert or sports event.

Capitalizing on the psychographic value of family time together and the interest in fishing and boating, the Recreational Boating and Fishing Foundation developed its "takemefishing" promotion and Web site. The not-for-profit organization hopes to involve families in recreational boating and fishing while increasing the public's awareness of the need to protect and restore the U.S.'s natural water resources.

Take me fishing.  
Because you're the coolest grandpa ever.

Take me fishing.  
So you can tell me stories about my dad.

Take me fishing.  
And show me how to drive the boat.

Take me fishing.  
So I'll always remember you.

"takemefishing"  
GET INFORMATION AND GET GOING AT  
TAKEME-FISHING.ORG

COURTESY OF THE RECREATIONAL BOATING AND FISHING FOUNDATION

## Segmenting Business Markets

In many ways, the segmentation process for business markets resembles that for consumer markets. However, some specific methods differ. Business markets can be divided through geographical segmentation; demographic, or customer-based, segmentation; and end-use segmentation.

*Geographical segmentation* methods for business markets resemble those for consumer markets. Many B2B marketers target geographically concentrated industries, such as aircraft manufacturing, automobiles, and oil field equipment. Especially on an international scale, customer needs, languages, and other variables may require differences in the marketing mix from one location to another.

*Demographic, or customer-based, segmentation* begins with a good or service design intended to suit a specific organizational market. Ciao Bella Gelato, a gourmet ice cream maker, sells its Italian ice cream and sorbet to high-end grocery stores and restaurants. The firm, which creates such exotic flavors as strawberry chardonnay and white chocolate lavender, has a loyal following among its business customers, including Whole Foods Market.<sup>35</sup>

To simplify the process of focusing on a particular type of business customer, the federal government has developed a system for subdividing the business marketplace into detailed segments. The six-digit *North American Industry Classification System (NAICS)* provides a common classification system used by the member nations of NAFTA: the United States, Canada, and Mexico. It divides industries into broad categories such as agriculture, forestry, and fishing; manufacturing; transportation; and retail and wholesale trade. Each major category is further subdivided into smaller segments—such as gas stations with convenience food and warehouse clubs—for more detailed information and to facilitate comparison among the member nations.

Another way to group firms by their demographics is to segment them by size based on their sales revenues or numbers of employees. Consolidated Freightways collects data from visitors to its Web site and uses the data to segment customers by size. Modern information processing also enables companies to segment business markets based on how much they buy, not just how big they are.

**End-use segmentation** focuses on the precise way a B2B purchaser will use a product. Resembling benefits-sought segmentation for consumer markets, this method helps small and midsize companies target specific end-user markets rather than competing directly with large firms for wider customer groups. A company might also design a marketing mix based on certain criteria for making a purchase.

## CONSUMER BEHAVIOR: DETERMINING WHAT CUSTOMERS WANT

A fundamental marketing task is to find out why people buy one product and not another. The answer requires an understanding of consumer behavior, the actions of ultimate consumers directly involved in obtaining, consuming, and disposing of products and the decision processes that precede and follow these actions.



COURTESY OF JOHNSON & JOHNSON

Johnson & Johnson focuses on its BAND-AID® Brand TOUGH-STRIPS® product features and benefits: its fiber-reinforced strength and waterproof Super-Stick adhesive. The company says this makes its bandages twice as strong as the run-of-the-mill bandage.

### assessment check

1. What is the most common form of segmentation for consumer markets?
2. What are the three approaches to product-use segmentation?
3. What is end-use segmentation in the B2B market?

## Determinants of Consumer Behavior

### consumer behavior

actions of ultimate consumers directly involved in obtaining, consuming, and disposing of products and the decision processes that precede and follow these actions.

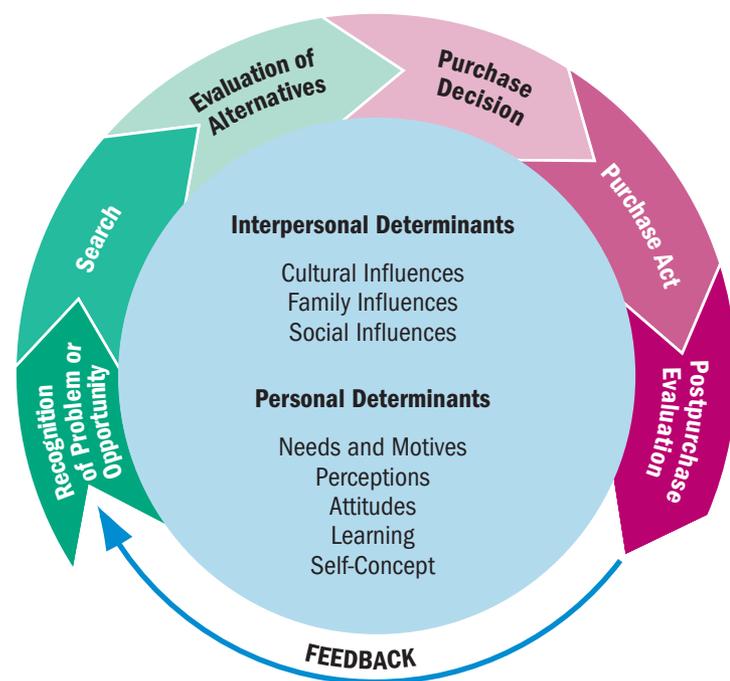
By studying people's purchasing behavior, businesses can identify consumers' attitudes toward and uses of their products. This information also helps marketers reach their targeted customers. Both personal and interpersonal factors influence the way buyers behave. Personal influences on **consumer behavior** include individual needs and motives, perceptions, attitudes, learned experiences, and self-concept. For instance, today people are constantly looking for ways to save time, so firms do everything they can to provide goods and services designed for convenience. Betty Crocker offers Slow Cooker Helper—all the ingredients for beef stroganoff or beef stew, except for the meat—that can be mixed together in a slow cooker for a complete meal. The brand also has a line of individual, microwaveable cake desserts called Warm Delights. Insurance firm Liberty Mutual provides “hassle-free guaranteed auto repairs” to customers whose cars have been damaged in accidents. And Cingular launched the BlackBerry 7100g, which provides capabilities ranging from international voice roaming to Bluetooth wireless connections for instant access to e-mail, calendar entries, and other data—all designed for the busy businessperson.<sup>36</sup>

The interpersonal determinants of consumer behavior include cultural, social, and family influences. In the area of convenience foods, cultural, social, and family influences come into play as much as an individual's need to save time. Understanding that many consumers value the time they spend with their families and want to care for them by providing good nutrition, marketers often emphasize these values in advertisements for convenience food products.

Sometimes external events influence consumer behavior. When crude oil prices spiked to \$71 a barrel, forcing hikes at the gas pump, consumers responded by cutting back on clothing purchases, eating out in restaurants, vacations and trips, and the number of channels they receive on their cable service. Especially hard hit were low-income consumers, who used more and more of their budgets for gasoline. “You can't go out and have a good time. Gas is too expensive to go out and do things,” said one hard-hit San Jose resident.<sup>37</sup>

Figure

### 12.5 Steps in the Consumer Behavior Process



## Determinants of Business Buying Behavior

Because a number of people can influence purchases of B2B products, business buyers face a variety of organizational influences in addition to their own preferences. A design engineer may help set the specifications that potential vendors must satisfy. A procurement manager may invite selected companies to bid on a purchase. A production supervisor may evaluate the operational aspects of the proposals that the firm receives, and the vice president of manufacturing may head a committee making the final decision.

## Steps in the Consumer Behavior Process

Consumer decision making follows the sequential process outlined in Figure 12.5, with interpersonal and personal influences affecting every step. The process begins when the consumer recognizes a problem or opportunity. If someone needs a new pair of shoes, that need becomes a

problem to solve. If you receive a promotion at work and a 20 percent salary increase, that change may also become a purchase opportunity.

To solve the problem or take advantage of the opportunity, the consumer seeks information about his or her intended purchase and evaluates alternatives, such as available brands. The goal is to find the best response to the problem or opportunity.

Eventually, the consumer reaches a decision and completes the transaction. Later, he or she evaluates the experience by making a postpurchase evaluation. Feelings about the experience serve as feedback that will influence future purchase decisions. The various steps in the sequence are affected by both interpersonal and personal factors.

### assessment check

1. Define consumer behavior.
2. What are some determinants of consumer behavior?

## CREATING, MAINTAINING, AND STRENGTHENING MARKETING RELATIONSHIPS

The past decade has brought rapid change to most industries, as customers have become better informed and more-demanding purchasers through closely comparing competing goods and services. They expect, even demand, new benefits from the companies that supply them, making it harder for firms to gain a competitive advantage based on product features alone.

In today's hypercompetitive era, businesses need to find new ways of relating to customers if they hope to maintain long-term success. Businesses are developing strategies and tactics that draw them into tighter connections with their customers, suppliers, and even employees. As a result, many firms are turning their attention to the issues of relationship marketing. **Relationship marketing** goes beyond an effort toward making the sale. Instead, it develops and maintains long-term, cost-effective exchange relationships with partners. These partners include individual customers, suppliers, and employees. As its ultimate goal, relationship marketing seeks to achieve customer satisfaction. Sometimes businesses fall short in their attempts to create relationships with consumers, as discussed in the "Solving an Ethical Controversy" feature.

**relationship marketing**  
developing and maintaining long-term, cost-effective exchange relationships with partners.

Managing relationships instead of simply completing transactions often leads to creative partnerships. However, customers enter into relationships with firms only if they are assured that the relationship will somehow benefit them. As the intensity of commitment increases, so does the likelihood of a business continuing a long-term relationship with its customers. Businesses are building relationships by partnering with customers, suppliers, and other businesses. Timberland, maker of footwear and clothing, creates many partnerships that foster long-term relationships. The firm partners with not-for-profit organizations such as CARE, City Year, and Clean Air-Cool Planet to complete service projects for communities and the environment. Through its Serve-a-Palooza, hundreds of Timberland employees engage in volunteer tasks in their communities. Those opportunities even extend to customers who have expressed interest in participating in programs in their own regions. If you want to be volunteer for a food drive or to help restore a marsh, just log on to the Timberland Web site to see what's available. All of these activities help build relationships with customers, communities, and other organizations.<sup>38</sup>

### Benefits of Relationship Marketing

Relationship marketing helps all parties involved. In addition to providing mutual protection against competitors, businesses that forge solid links with suppliers and customers are often

## ARE GIFT CARDS REALLY A GIFT?

*Gift cards seem like the perfect present—to give or receive. Recipients have no worries about returning wrong size pajamas, odd-colored bath towels, or the book they've already read.*

But some gift cards come with strings attached—purchase or inactivity fees, expiration dates, limited locations for use, or no way to replace them if they are lost or stolen. Consumer advocates, including attorneys general in several states, are beginning to look into the drawbacks of gift cards.

Are gift cards truly beneficial to consumers?

### PRO

1. Gift cards are convenient and portable, and they guarantee the right choice of gift.
2. Companies use the gift card to add value to consumers' experiences. McDonald's and Starbucks, along with other retailers, issue "stored value" cards that consumers can reload when the balance gets too low.

### CON

1. Most people are not aware of hidden fees such as activation charges, monthly service fees, and expiration dates when they purchase a gift card. When the recipient tries to redeem the card and learns that the amount has been reduced, it creates frustration and embarrassment.
2. There is no standardization among businesses when it comes to their gift card practices and policies, which adds to consumers' confusion about whether they are protected.

### Summary

Gift cards are big business. The National Retail Federation estimates that by 2007, gift card sales will top \$85 billion. Lawsuits have been filed in California, Massachusetts, New Hampshire, and Connecticut over

the sale of gift cards by Simon Property Group, which owns, operates, and manages regional malls. Simon levied such charges as a \$2.50 monthly service fee, a \$.50 fee each time a balance was checked, and \$5 for replacing a lost card. In addition, the gift card expired after one year. Despite such cases, the National Retail Federation reports that 50 percent of consumers "would like to receive a gift card."

**Sources:** "Gift Cards: OCC Provides Holiday Tips for Consumers," accessed July 12, 2006, <http://www.occ.treas.gov/ftp/release/2004-108a.pdf>; Kysten Crawford, "Got a Gift Card? Know the Risks," CNN Money, accessed May 8, 2005, <http://money.cnn.com>; Rhonda Abrams, "Gift Cards for Small Business?" *Rhonda Report*, accessed May 8, 2005, <http://www.rhondaonline.com>.

solving  
an

**ETHICAL**

controversy



### "They Said It"

**"There is only one boss, the customer, and he can fire everybody in the company, from the chairman down, simply by spending his money elsewhere."**

—Sam Walton  
(1918–1992)  
Founder, Wal-Mart Stores

rewarded with lower costs and higher profits than they would generate on their own. Long-term agreements with a few high-quality suppliers frequently reduce a firm's production costs. Unlike onetime sales, these ongoing relationships encourage suppliers to offer customers preferential treatment, quickly adjusting shipments to accommodate changes in orders and correcting any quality problems that might arise. In your own business career, you can develop good relationships with customers, co-workers, and others by thanking them when they have done something special for you, as described in the "Business Etiquette" feature.

Good relationships with customers can be vital strategic weapons for a firm. By identifying current purchasers and maintaining positive relationships with them, organizations can efficiently target their best customers. Studying current customers' buying habits and preferences can help marketers identify potential new customers and establish ongoing contact with them. Attracting a new customer can cost five times as much as keeping an existing one. Not only do marketing costs go down, but long-term customers usually buy more, require less service, refer other customers, and provide valuable feedback. Together, these elements contribute to a higher **lifetime value of a customer**—the revenues and intangible benefits (referrals and customer feedback) from the customer over the life of the relationship, minus the amount the company must spend to acquire and serve that customer.

Businesses also benefit from strong relationships with other companies. Purchasers who repeatedly buy from one business may find that they save time and gain service quality as the

business learns their specific needs. Some relationship-oriented companies also customize items based on customer preferences. Because many businesses reward loyal customers with discounts or bonuses, some buyers may even find that they save money by developing long-term relationships. Alliances with other firms to serve the same customers also can be rewarding. The partners combine their capabilities and resources to accomplish goals that they could not reach on their own. In addition, alliances with other firms may help businesses develop the skills and experience they need to successfully enter new markets or improve service to current customers.

### Tools for Nurturing Customer Relationships

Although relationship marketing has important benefits for both customers and businesses, most relationship-oriented businesses quickly discover that some customers generate more profitable business than others. If 20 percent of a firm's customers account for 80 percent of its sales and profits—the 80/20 principle mentioned earlier in the chapter—a customer in that category undoubtedly has a higher lifetime value than a customer who buys only once or twice or who makes small purchases.

While businesses shouldn't ignore any customer, they need to allocate their marketing resources wisely. A firm may choose to customize goods or services for high-value customers while working to increase repeat sales of stock products to less-valuable customers. Differentiating between these two groups also helps marketers focus on each in an effort to increase their commitment.

### Frequency Marketing and Affinity Marketing Programs

Popular techniques through which firms try to build and protect customer relationships include frequent buyer or user programs. These so-called **frequency marketing** programs reward purchasers with cash, rebates, merchandise, or other premiums. Frequency programs have grown more sophisticated over the years. They offer more personalization and customization than in the past. Airlines, hotel groups, restaurants, and many retailers including supermarkets offer frequency programs. Customers who join the Marriott Rewards



### Thank-You Notes Do Count

When someone gives you a gift—whether it is an item wrapped and tied with a bow, a home-cooked meal, or even some career advice on the phone—it is appropriate to acknowledge the person's time and effort with a thank-you note. After a job interview, it is customary to write a thank-you as well. A well-written thank-you may not land you the job, but it is certain to set you apart from other candidates in the mind of an employer.

If you're like many people, you're hit with a huge case of writer's block the minute you sit down with a blank thank-you note. Maybe you're tempted to delay your note writing until you've forgotten what you were thanking the person for, or until so much time has passed that you are embarrassed to write at all. But "thank you" may be the two most important words you'll ever say to someone, and you can write a brief note in just a few minutes. You'll be glad you did, and so will the recipient. Here are a few tips to help:

1. Handwrite your note, even if it is career related. A handwritten note takes a bit more time and effort, so it conveys both warmth and sincerity. Use simple notepaper and blue or black ink.
2. Don't know what to say? Get straight to the point, and specifically name the gift or

favor. "Thank you so much for the green coffee mug" or "Thank you very much for the time you took to interview me yesterday" are good starters. Then say how you plan to use the gift, how much you learned during the interview, or something similar. If appropriate, relate a personal anecdote such as, "I just broke my favorite coffee mug" or "I have always wanted to work for a company like this." End with a final thank-you and suitable closing, such as "Best wishes" or "Yours truly."

3. If you didn't like the gift or the meal, or you don't think you'd like to work for this particular company, write a thank-you note anyway. Remember, the person spent time and effort on you.
4. Write a note immediately, or at least within two weeks. Otherwise, the person may wonder whether you received or liked the gift; an interviewer may forget you altogether.

**Sources:** Leslie Harpold, "How to Write a Thank-You Note," *The Morning News*, accessed July 12, 2006, <http://www.themorningnews.org>; Linda Kulman, "Thank-You-Note Writing 101," *U.S. News & World Report*, May 9, 2005, p. D12; Nisha Ramachandran, "Office Manners," *U.S. News & World Report*, April 25, 2005, p. EE8.

program have the option to spend their earned points at any of 2,400 hotels, resorts, spas, and golf locations.

**Affinity programs** are another tool for building emotional links with customers. An affinity program is a marketing effort sponsored by an organization that solicits involvement by individuals who share common interests and activities. Affinity programs are common in the credit card industry. For instance, a person can sign up for a credit card emblazoned with the logo of a favorite charity, a sports or entertainment celebrity, or a photograph of his or her college. MBNA offers credit cards featuring the logos of all the Major League Baseball teams.

Many businesses also use comarketing and cobranding. In a **comarketing** deal, two businesses jointly market each other's products. When two or more businesses link their names to a single product, **cobranding** occurs. When two seemingly unlikely businesses team up, the marketing sparks fly—and two very different groups of consumers may come together to buy the same product. Cobranding agreements include Adidas and Goodyear, Nickelodeon and Holiday Inn, and Apple and Swarovski. The new Adidas Tuscany shoes sport soles made from Goodyear Eagle F1 tire treads. Families can opt to stay at Holiday Inn's Nickelodeon Family Suites—which offer water parks, arcades, and other attractions. Music buffs who really want to sparkle can pick up an Apple iPod mini studded with 1,000 Swarovski crystals—exactly the same as the number of songs the iPod can store.<sup>39</sup>

**One-on-One Marketing** The ability to customize products and rapidly deliver goods and services has become increasingly dependent on technology such as computer-aided design and manufacturing (CAD/CAM). The Internet offers a way for businesses to connect with customers in a direct and intimate manner. Companies can take orders for customized products, gather data about buyers, and predict what goods or services a customer might want in the future. Computer databases provide strong support for effective relationship marketing. Marketers can maintain databases on customer tastes, price-range preferences, and lifestyles, and they can quickly obtain names and other information about promising prospects. Amazon.com greets each online customer with a list of suggested books he or she might like to purchase.

Many online retailers send their customers e-mails about upcoming sales, new products, and special events.

Small and large companies often rely on *customer relationship management (CRM)* software technology that helps them gather, sort, and interpret data about customers. John Deere, a manufacturer of heavy equipment ranging from lawn mowers to farm tractors, uses such software to keep track of its sales force, dealerships, suppliers, and customers. “The farms are getting bigger and bigger, and accounts are getting fewer and fewer, so salespeople need to know what's going on with an account and get out into the field and sell,”

says a John Deere spokesman.<sup>40</sup>

### assessment check

1. What is the lifetime value of a customer?
2. Discuss the increasing importance of one-on-one marketing efforts.

## WHAT'S AHEAD

The next two chapters examine each of the four elements of the marketing mix that marketers use to satisfy their selected target markets. Chapter 13 focuses on products and their distribution through various channels to different outlets. Chapter 14 covers promotion and the various methods marketers use to communicate with their target customers, along with strategies for setting prices for different products.



## Summary of Learning Goals

### 1 Summarize the ways in which marketing creates utility.

Utility is the ability of a good or service to satisfy the wants and needs of customers. The production function creates form utility by converting inputs to finished goods and services. Marketing creates time, place, and ownership utility by making the product available when and where consumers want to buy and by arranging for orderly transfers of ownership.

#### Assessment Check Answers

##### 1.1 What is utility?

Utility is the ability of a good or service to satisfy the wants and needs of customers.

##### 1.2 Identify ways in which marketing creates utility.

Marketing creates time utility by making a good or service available when customers want to purchase it; place utility by making the product available in a convenient location; and ownership utility by transferring the product from the buyer to the seller.

### 2 Explain the marketing concept and relate how customer satisfaction contributes to added value.

The marketing concept refers to a company-wide customer orientation with the objective of achieving long-run success. This concept is essential in today's marketplace, which is primarily a buyer's market, meaning buyers can choose from an abundance of goods and services. Customer satisfaction contributes to added value of a good or service by delivering more than buyers expect in the form of added features, reduced prices, enhanced customer service, a strengthened warranty, or other marketing mix improvements.

#### Assessment Check Answers

##### 2.1 What is the marketing concept?

The marketing concept is a company-wide customer orientation with the objective of achieving long-run success. According to the marketing concept, success begins with the customer.

##### 2.2 How does customer satisfaction result in a value-added good or service?

When a firm makes improvements that increase customer satisfaction, it may result in a value-added good

or service. If customers believe they have received value, they are likely to remain satisfied with the firm's goods or services.

### 3 Describe not-for-profit marketing, and identify the five major categories of nontraditional marketing.

Not-for-profit organizations must engage in marketing just as for-profit firms do. Not-for-profit organizations operate in both the public and private sectors, and use marketing to obtain volunteers and donations, make people aware of their existence, achieve certain goals for society, and so on. Not-for-profit organizations may engage in several types of nontraditional marketing—person, place, event, cause, or organization marketing. They may rely on one type or a combination.

#### Assessment Check Answers

##### 3.1 Why do not-for-profit organizations engage in marketing?

Not-for-profit organizations use marketing to attract volunteers and donors, communicate their message, and achieve their societal goals.

##### 3.2 What are the five types of nontraditional marketing used by not-for-profit organizations?

The five types of nontraditional marketing are person, place, event, cause, and organization marketing.

### 4 Outline the basic steps in developing a marketing strategy.

All organizations develop marketing strategies to reach customers. This process involves analyzing the overall market, selecting a target market, and developing a marketing mix that blends elements related to product, distribution, promotion, and pricing decisions. Often company marketers develop a marketing plan that expresses their marketing strategy.

#### Assessment Check Answers

##### 4.1 Distinguish between business and consumer products and business products.

Business products are goods and services purchased to be used, either directly or indirectly, in the production of other goods for resale. Consumer products are purchased by end users.

## 4.2 What are the steps in developing a marketing strategy?

The steps in developing a marketing strategy are to analyze the overall market, select a target market, and develop a marketing mix.

### 5 Describe the marketing research function.

Marketing research is the information-gathering function that links marketers to the marketplace. It provides valuable information about potential target markets. Firms may generate internal data or gather external data. They may use secondary data or conduct research to obtain primary data. Data mining, which involves computer searches through customer data to detect patterns and relationships, is one helpful tool in forecasting various trends such as sales revenues and consumer behavior.

### Assessment Check Answers

#### 5.1 What is the difference between primary data and secondary data?

Secondary data are previously published facts that are low cost to retrieve and easy to obtain. Primary data are collected firsthand through observation or surveys.

#### 5.2 Why is marketing research important to business?

Marketing research is important because it provides vital information about existing or potential target markets.

### 6 Identify and explain each of the methods available for segmenting consumer and business markets.

Consumer markets can be divided according to four criteria: demographic characteristics, such as age and family size; geographical factors; psychographic variables, which involve behavioral and lifestyle profiles; and product-related variables, such as the benefits consumers seek when buying a product or the degree of brand loyalty they feel toward it. Business markets are segmented according to three criteria: geographical characteristics, customer-based specifications for products, and end-user applications.

### Assessment Check Answers

#### 6.1 What is the most common form of segmentation for consumer markets?

Demographics is the most commonly used consumer market segmentation method.

#### 6.2 What are the three approaches to product-use segmentation?

The three approaches to product-use segmentation are by benefits sought, product usage rate, and brand loyalty.

#### 6.3 What is end-use segmentation in the B2B market?

End-use segmentation focuses on the precise way a B2B purchaser will use a product.

### 7 Outline the determinants of consumer behavior.

Consumer behavior refers to the actions of ultimate consumers with direct effects on obtaining, consuming, and disposing of products, as well as the decision processes that precede and follow these actions. Personal influences on consumer behavior include an individual's needs and motives, perceptions, attitudes, learned experiences, and self-concept. The interpersonal determinants include cultural influences, social influences, and family influences. A number of people within a firm may participate in business purchase decisions, so business buyers must consider a variety of organizational influences in addition to their own preferences.

### Assessment Check Answers

#### 7.1 Define *consumer behavior*.

Consumer behavior refers to the actions of ultimate consumers directly involved in obtaining, consuming, and disposing of products, along with the decision processes surrounding these actions.

#### 7.2 What are some determinants of consumer behavior?

Determinants of consumer behavior include both personal influences and interpersonal influences. Personal influences include an individual's needs and motives; perceptions, attitudes, experiences; and self-concept. Interpersonal influences include cultural, social and family influences.

### 8 Discuss the benefits of and tools for relationship marketing.

Relationship marketing is an organization's attempt to develop long-term, cost-effective links with individual customers for mutual benefit. Good relationships with customers can be a vital strategic weapon for a firm. By identifying current purchasers and maintaining a positive relationship with them, an organization can efficiently target its best customers, fulfill their needs,

and create loyalty. Information technologies, frequency and affinity programs, and one-on-one efforts all help build relationships with customers.

### Assessment Check Answers

#### 8.1 What is the lifetime value of a customer?

The lifetime value of a customer incorporates the revenues and intangible benefits from the customer over the life of the relationship with a firm, minus the amount the company must spend to acquire and serve the customer.

#### 8.2 Discuss the increasing importance of one-on-one marketing efforts.

One-on-one marketing is increasing in importance as consumers demand more customization in goods and services. It is also increasingly dependent on technology such as computer-aided design and manufacturing (CAD/CAM). The Internet also offers a way for businesses to connect with customers in a direct and personal manner.

### Business Terms You Need to Know

marketing 380  
exchange process 381  
utility 381  
marketing concept 382

customer satisfaction 383  
target market 388  
marketing mix 388  
marketing research 390

data mining 391  
market segmentation 391  
consumer behavior 397  
relationship marketing 399

### Other Important Business Terms

time utility 381  
place utility 381  
ownership utility 381  
value-added 383  
person marketing 386  
place marketing 386  
event marketing 386  
cause marketing 387

organization marketing 387  
consumer (B2C) product 388  
business (B2B) product 388  
data warehouse 391  
geographical segmentation 392  
demographic segmentation 393  
psychographic segmentation 395  
product-related segmentation 396

end-use segmentation 397  
lifetime value of a customer 400  
frequency marketing 401  
affinity program 402  
comarketing 402  
cobranding 402

### Review Questions

- Define the four different types of utility and explain how marketing contributes to the creation of utility. Then choose one of the following companies and describe how it creates each type of utility with its goods or services:
  - Cold Stone Creamery
  - Sea World
  - Borders Books
  - Flynn's Car Wash
- Why was the shift from a seller's market to a buyer's market important to marketers?
- Suppose you walk into a pizza restaurant to order a mushroom and pepperoni pizza. Describe three ways in which the restaurant could create a value-added service for you.
- Identify at least three ways a firm can obtain customer feedback. How might a complaint actually strengthen customer loyalty?
- Identify the five types of nontraditional marketing and give an example of each.
- Identify each of the following as a consumer product or a business product, or classify it as both:
  - loaf of bread
  - laptop computer
  - electricity
  - cell phone
  - concert tickets
  - lawn-mowing service

7. What four strategies blend to create a marketing mix?
8. What is a target market? Why is target market selection the first step performed in marketing strategy development?
9. Describe the types of data that someone who is thinking of starting a restaurant might choose to gather. How might this businessperson apply the data to create the business?
10. Explain each of the methods used to segment consumer and business markets. Which methods do you think would be most effective for each of the following and why? (Note that a combination of methods might be applicable.)
  - a. supermarket featuring Mexican foods
  - b. air conditioning units
  - c. motorcycles
  - d. line of pet food
  - e. dental insurance
  - f. spa treatments
11. What are the three major determinants of consumer behavior? Give an example of how each one might influence a person's purchasing decision.
12. Explain two ways that firms rely on relationships to increase or benefit business. What are the benefits, both to businesses and their customers, of relationship marketing?

### Projects and Teamwork Applications

1. On your own or with a classmate, choose one of the following businesses and come up with a plan for the owner to add value to the goods or services offered. Present your plan to the class and ask for a response—would your classmates conduct business with your firm with its value-added goods or services?
  - a. hair salon
  - b. for-profit career placement service
  - c. online apparel retailer
  - d. coffee shop
2. Choose one of the following nonprofit organizations or find one of your own. Research the organization online to learn more about it. Outline your proposed contents for a fund-raising event based on the chapter discussion of nontraditional marketing, such as cause marketing or organization marketing.
  - a. World Wildlife Fund
  - b. American Cancer Society
  - c. Toys for Tots
  - d. Habitat for Humanity
3. Marketers are always looking for ways to reach new customers. On your own or with a classmate, choose a product that has been targeted for one market—say, teens or women—and develop a plan for marketing it to a new group of consumers. For example, Home Depot and Lowe's have been marketing home improvement tools and other products to women, although men are the traditional market for these items.
4. Think of two situations in which you have been a customer: one in which you have been satisfied with the merchandise you received and one in which you have not. Make a list of the reasons you were satisfied in the first case and another list of the reasons you were not satisfied in the second case. Would you say that the failure was the result of the seller not understanding your needs?
5. Two techniques for building long-term relationships with customers are frequency marketing programs and affinity programs. On your own or with a classmate, visit a so-called big-box retailer such as Wal-Mart, Target, or Menards. If you can't make the trip, access one of these firms online. Make yourself familiar with the range of products your retailer offers, including any special services such as free delivery or gift wrapping. Then design a frequency marketing program or affinity program for the retailer to build relationships with the consumers who shop at the store. Finally, present your program to the class and ask your classmates whether it would encourage them to shop at the store—and why or why not.

**Case 12.1****Native Americans: A New American Market**

Despite being acknowledged as the first civilization to populate the United States, Native Americans have emerged only recently as a target market for businesses. They have also emerged as new business owners, offering goods and services to their own segment of the population and broader segments. While the success of the major casinos run by Native American tribes is well known—Foxwoods Resort Casino in Connecticut rakes in \$1.5 billion in revenues each year—Native American firms, and the consumers they serve, reach much farther afield than gambling and entertainment.

Native Americans are making an impact both as businesspeople and as valued customers. Banker John Chapman, based in Oklahoma and a member of the Chickasaw Nation, helps other tribal nations establish banks—which, in turn, provide loans to small businesses, provide mortgages to individuals and families, and help tribes diversify their investments. In the past decade, the newspaper industry has begun targeting Native American readership in certain geographic areas. The *Great Falls Tribune* of Montana and the *Bellingham Herald* of Washington have greatly expanded their coverage of issues and events concerning local tribes. Recently, Cavco Industries, a producer of manufactured housing, donated a building for the new Piastewa Native American Veterans' Center on the Navajo Reservation in Tuba City, Arizona. The building was featured on ABC Television's *Extreme Makeover: Home Edition*. "We consider this as a great opportunity to assist the Native American community and to recognize their importance to our culture and their service to our country. This facility will be a place for their veterans to call their own," declared Joe Stegmayer, CEO of Cavco Industries.

Congress is considering a bill to amend the Small Business Act to provide more help to groups of native

peoples, including those in the continental United States, Alaska Natives, and Native Hawaiians. States would be able to apply for grants each year to pass on to Native Americans as recommended by local tribal councils. Because about 60 percent of tribal members live near regions with high unemployment, efforts to develop business in these areas are especially important. However, small businesses owned by Native Americans already generate about \$34 billion in revenues each year.

As consumers and businesspeople, Native Americans look for ways to blend traditional with modern cultural values and lifestyles. "For a huge long time, it was not a good thing to be an Indian in this country," explains Tex Hall, president of the National Congress of American Indians. "But it's starting to be a good thing again."

**Questions for Critical Thinking**

1. Suppose you have been hired as the manager of a department store in an area with a growing population of Native American consumers. What steps might you take to research the market?
2. Describe how marketers might approach developing relationships with Native American consumers.

**Sources:** "Udall Sponsors Bill to Foster More Native American Businesses," *New Mexico Business Weekly*, accessed July 12, 2006, <http://albuquerque.bizjournals.com>; Dennis Coyle, "Native American Readership Has Potential," *Inland Press*, accessed July 12, 2006, <http://www.inlandpress.org>; "Cavco Homes Builds New Veterans' Center for Native Americans," *Builder Online*, April 18, 2005, <http://www.builderonline.com>; Thomas Hayden, "A Modern Life," *U.S. News & World Report*, October 4, 2004, pp. 46–50.

**Case 12.2****Harley-Davidson: An American Icon Cruises into Its Second Century**

This video case appears on page 621. A recently filmed video, designed to expand and highlight the written case, is available for class use by instructors.