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Appendix A

Economics Fundamentals

When You Finish This Appendix, You Should

1. Understand the "law of diminishing demand."

2. Understand demand and supply curves and how they set the size of a market and its price level.

3. Know about elasticity of demand and supply.

4. Know why demand elasticity can be affected by availability of substitutes.

5. Know the different kinds of competitive situations and understand why they are important to marketing managers.

6. Recognize the important new terms (shown in red).

A good marketing manager should be an expert on markets and the nature of competition in markets. The economist's traditional analysis of demand and supply is a useful tool for analyzing markets. In particular, you should master the concepts of a demand curve and demand elasticity. A firm's demand curve shows how the target customers view the firm's Product—really its whole marketing mix. And the interaction of demand and supply curves helps set the size of a market and the market price. The interaction of supply and demand also determines the nature of the competitive environment, which has an important effect on strategy planning. These ideas are discussed more fully in the following sections.

Products and Markets as Seen by Customers and Potential Customers

Economists provide useful insights

How potential customers (not the firm) see a firm's product (marketing mix) affects how much they are willing to pay for it, where it should be made available, and how eager they are for it—if they want it at all. In other words, their view has a very direct bearing on marketing strategy planning.

Economists have been concerned with market behavior for years. Their analytical tools can be quite helpful in summarizing how customers view products and how markets behave.

Economists see individual customers choosing among alternatives

Economics is sometimes called the dismal science—because it says that most customers have a limited income and simply cannot buy everything they want. They must balance their needs and the prices of various products.

Economists usually assume that customers have a fairly definite set of preferences and that they evaluate alternatives in terms of whether the alternatives will make them feel better (or worse) or in some way improve (or change) their situation.

But what exactly is the nature of a customer's desire for a particular product?

Usually economists answer this question in terms of the extra utility the customer can obtain by buying more of a particular product—or how much utility would be lost if the customer had less of the product. (Students who wish further discussion of this approach should refer to indifference curve analysis in any standard economics text.)

It is easier to understand the idea of utility if we look at what happens when the price of one of the customer's usual purchases changes.

The law of diminishing demand

Suppose that consumers buy potatoes in 10-pound bags at the same time they buy other foods such as bread and rice. If the consumers are mainly interested in buying a certain amount of food and the price of the potatoes drops, it seems reasonable to expect that they will switch some of their food money to potatoes and away from some other foods. But if the price of potatoes rises, you expect our consumers to buy fewer potatoes and more of other foods.

The general relationship between price and quantity demanded illustrated by this food example is called the **law of diminishing demand**—which says that if the price of a product is raised, a smaller quantity will be demanded and if the price of a product is lowered, a greater quantity will be demanded. Experience supports this relationship between prices and total demand in a market, especially for broad product categories or commodities such as potatoes.

The relationship between price and quantity demanded in a market is what economists call a "demand schedule." An example is shown in Exhibit A-1. For each row in the table, Column 2 shows the quantity consumers will want (demand) if they have to pay the price given in Column 1. The third column shows that the total revenue (sales) in the potato market is equal to the quantity demanded at a

Exhibit A-1
Demand Schedule for Potatoes (10-pound bags)

Point	(1) Price of Potatoes per Bag (P)	(2) Quantity Demanded (bags per month) (Q)	(3) Total Revenue per Month (P × Q = TR)
A	$1.60	8,000,000	$12,800,000
B	1.30	9,000,000	_____
C	1.00	11,000,000	11,000,000
D	0.70	14,000,000	_____
E	0.40	19,000,000	_____

given price times that price. Note that as prices drop, the total *unit* quantity increases, yet the total *revenue* decreases. Fill in the blank lines in the third column and observe the behavior of total revenue—an important number for the marketing manager. We will explain what you should have noticed, and why, a little later.

The demand curve—usually down-sloping

If your only interest is seeing at which price the company will earn the greatest total revenue, the demand schedule may be adequate. But a demand curve shows more. A **demand curve** is a graph of the relationship between price and quantity demanded in a market—assuming that all other things stay the same. Exhibit A-2 shows the demand curve for potatoes—really just a plotting of the demand schedule in Exhibit A-1. It shows how many potatoes potential customers will demand at various possible prices. This is a "down-sloping demand curve."

Most demand curves are down-sloping. This just means that if prices are decreased, the quantity customers demand will increase.

Demand curves always show the price on the vertical axis and the quantity demanded on the horizontal axis. In Exhibit A-2, we have shown the price in dollars. For consistency, we will use dollars in other examples. However, keep in mind that these same ideas hold regardless of what money unit (dollars, yen, francs, pounds, etc.) is used to represent price. Even at this early point, you should keep in mind that markets are not necessarily limited by national boundaries—or by one type of money.

Note that the demand curve only shows how customers will react to various possible prices. In a market, we see only one price at a time, not all of these prices. The curve, however, shows what quantities will be demanded—depending on what price is set.

You probably think that most businesspeople would like to set a price that would result in a large sales revenue. Before discussing this, however, we should consider the demand schedule and curve for another product to get a more complete picture of demand-curve analysis.

Exhibit A-2
Demand Curve for Potatoes (10-pound bags)

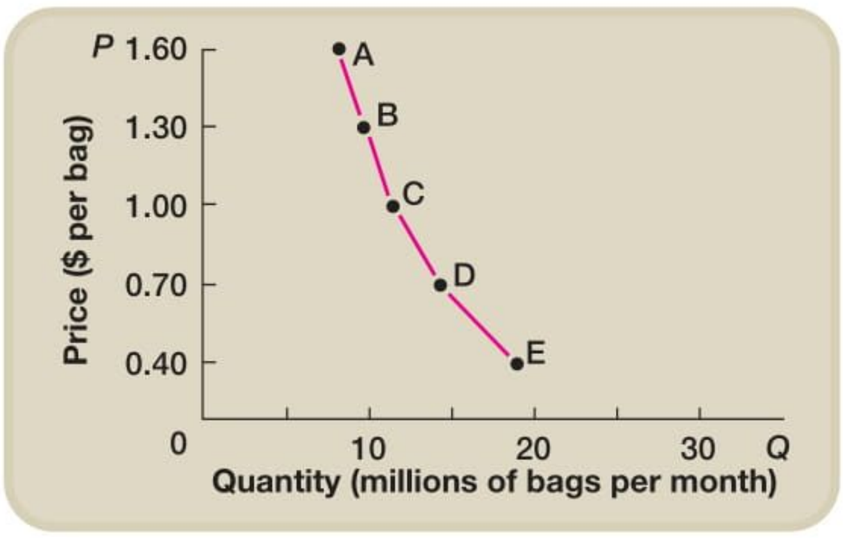


Exhibit A-3
Demand Schedule for 1-Cubic-Foot Microwave Ovens

Point	(1) Price per Microwave Oven (P)	(2) Quantity Demanded per Year (Q)	(3) Total Revenue (TR) per Year (P × Q = TR)
A	$300	20,000	$6,000,000
B	250	70,000	15,500,000
C	200	130,000	26,000,000
D	150	210,000	31,500,000
E	100	310,000	31,000,000

Microwave oven demand curve looks different

A different demand schedule is the one for standard 1-cubic-foot microwave ovens shown in Exhibit A-3. Column (3) shows the total revenue that will be obtained at various possible prices and quantities. Again, as the price goes down, the quantity demanded goes up. But here, unlike the potato example, total revenue increases as prices go down—at least until the price drops to $150.

Every market has a demand curve—for some time period

These general demand relationships are typical for all products. But each product has its own demand schedule and curve in each potential market—no matter how small the market. In other words, a particular demand curve has meaning only for a particular market. We can think of demand curves for individuals, groups of individuals who form a target market, regions, and even countries. And the time period covered really should be specified—although this is often neglected because we usually think of monthly or yearly periods.

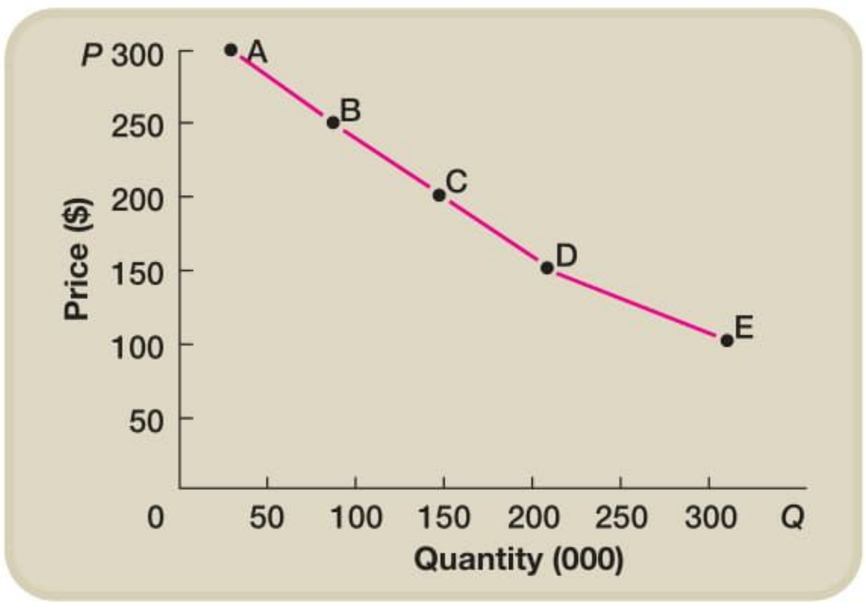
The difference between elastic and inelastic

The demand curve for microwave ovens (see Exhibit A-4) is down-sloping—but note that it is flatter than the curve for potatoes. It is important to understand what this flatness means.

We will consider the flatness in terms of total revenue—since this is what interests business managers.*

When you filled in the total revenue column for potatoes, you should have noticed that total revenue drops continually if the price is reduced. This looks

Exhibit A-4
Demand Curve for 1-Cubic-Foot Microwave Ovens



*Strictly speaking, two curves should not be compared for flatness if the graph scales are different, but for our purposes now we will do so to illustrate the idea of "elasticity of demand." Actually, it would be more accurate to compare two curves for one product—on the same graph. Then both the shape of the demand curve and its position on the graph would be important.

undesirable for sellers and illustrates inelastic demand. **Inelastic demand** means that although the quantity demanded increases if the price is decreased, the quantity demanded will not "stretch" enough—that is, it is not elastic enough—to avoid a decrease in total revenue.

In contrast, **elastic demand** means that if prices are dropped, the quantity demanded will stretch (increase) enough to increase total revenue. The upper part of the microwave oven demand curve is an example of elastic demand.

But note that if the microwave oven price is dropped from $150 to $100, total revenue will decrease. We can say, therefore, that between $150 and $100, demand is inelastic—that is, total revenue will decrease if price is lowered from $150 to $100.

Thus, elasticity can be defined in terms of changes in total revenue. *If total revenue will increase if price is lowered, then demand is elastic. If total revenue will decrease if price is lowered, then demand is inelastic.* (Note: A special case known as "unitary elasticity of demand" occurs if total revenue stays the same when prices change.)

Total revenue may increase if price is raised

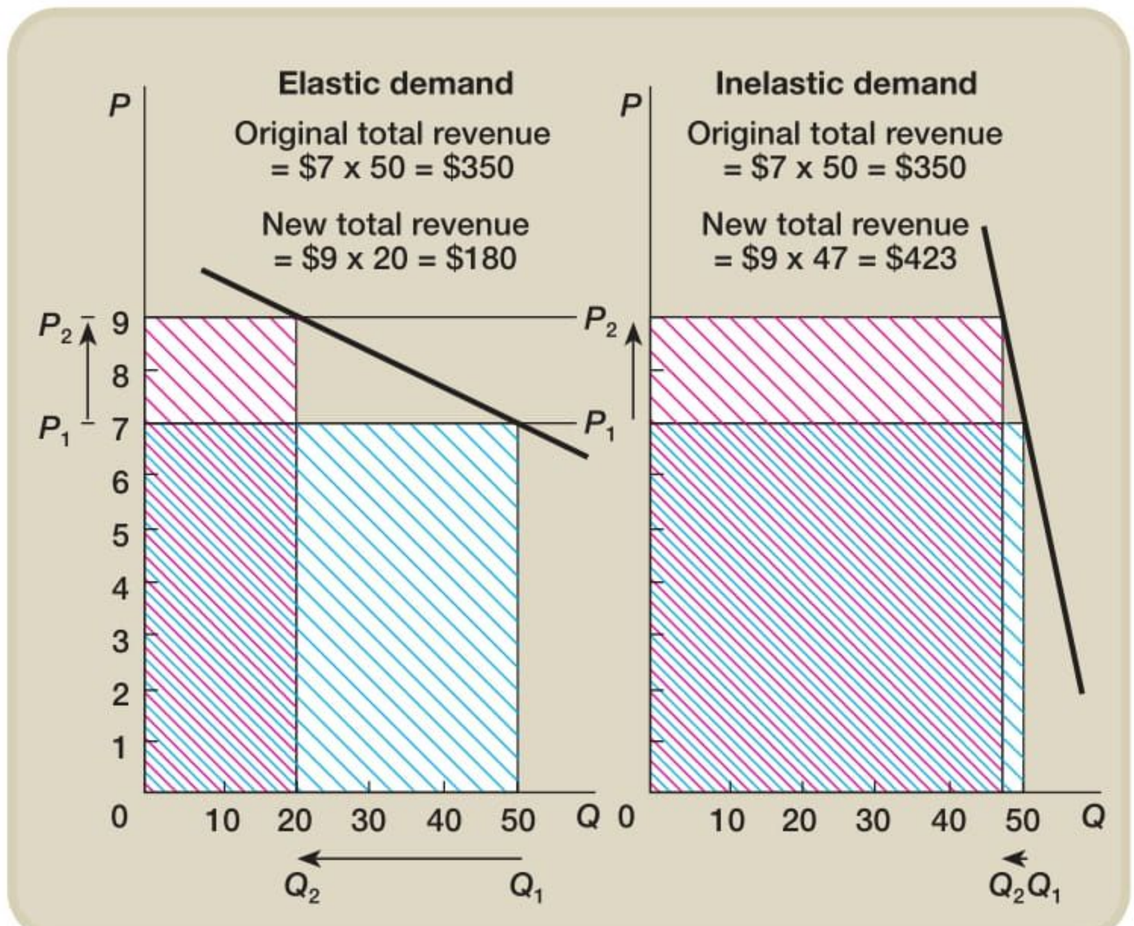
A point often missed in discussions of demand is what happens when prices are raised instead of lowered. With elastic demand, total revenue will *decrease* if the price is *raised*. With inelastic demand, however, total revenue will *increase* if the price is *raised*.

The possibility of raising price and increasing dollar sales (total revenue) at the same time is attractive to managers. This only occurs if the demand curve is inelastic. Here total revenue will increase if price is raised, but total costs probably will not increase—and may actually go down—with smaller quantities. Keep in mind that profit is equal to total revenue minus total costs. So when demand is inelastic, profit will increase as price is increased!

The ways total revenue changes as prices are raised are shown in Exhibit A-5. Here total revenue is the rectangular area formed by a price and its related quantity. The larger the rectangular area, the greater the total revenue.

P_1 is the original price here, and the total potential revenue with this original price is shown by the area with blue shading. The area with red shading shows the total revenue with the new price, P_2. There is some overlap in the total revenue areas, so the important areas are those with only one color. Note that in

Exhibit A-5
Changes in Total Revenue as Prices Increase



the left-hand figure—where demand is elastic—the revenue added (the red-only area) when the price is increased is less than the revenue lost (the blue-only area). Now let's contrast this to the right-hand figure, when demand is inelastic. Only a small blue revenue area is given up for a much larger (red) one when price is raised.

An entire curve is not elastic or inelastic

It is important to see that it is *wrong to refer to a whole demand curve as elastic or inelastic*. Rather, elasticity for a particular demand curve refers to the change in total revenue between two points on the curve, not along the whole curve. You saw the change from elastic to inelastic in the microwave oven example. Generally, however, nearby points are either elastic or inelastic—so it is common to refer to a whole curve by the degree of elasticity in the price range that normally is of interest—the *relevant range*.

Demand elasticities affected by availability of substitutes and urgency of need

At first, it may be difficult to see why one product has an elastic demand and another an inelastic demand. Many factors affect elasticity—such as the availability of substitutes, the importance of the item in the customer's budget, and the urgency of the customer's need and its relation to other needs. By looking more closely at one of these factors—the availability of substitutes—you will better understand why demand elasticities vary.

Substitutes are products that offer the buyer a choice. For example, many consumers see grapefruit as a substitute for oranges and hot dogs as a substitute for hamburgers. The greater the number of "good" substitutes available, the greater will be the elasticity of demand. From the consumer's perspective, products are "good" substitutes if they are very similar (homogeneous). If consumers see products as extremely different, or heterogeneous, then a particular need cannot easily be satisfied by substitutes. And the demand for the most satisfactory product may be quite inelastic.

As an example, if the price of hamburger is lowered (and other prices stay the same), the quantity demanded will increase a lot—as will total revenue. The reason is that not only will regular hamburger users buy more hamburger, but some consumers who formerly bought hot dogs or steaks probably will buy hamburger too. But if the price of hamburger is raised, the quantity demanded will decrease—perhaps sharply. Still consumers will buy some hamburger—depending on how much the price has risen, their individual tastes, and what their guests expect (see Exhibit A-6).

In contrast to a product with many "substitutes"—such as hamburger—consider a product with few or no substitutes. Its demand curve will tend to be inelastic. Motor oil is a good example. Motor oil is needed to keep cars running. Yet no one person or family uses great quantities of motor oil. So it is not likely that the quantity of motor oil purchased will change much as long as price changes are *within a*

Exhibit A-6
Demand Curve for Hamburger (a product with many substitutes)

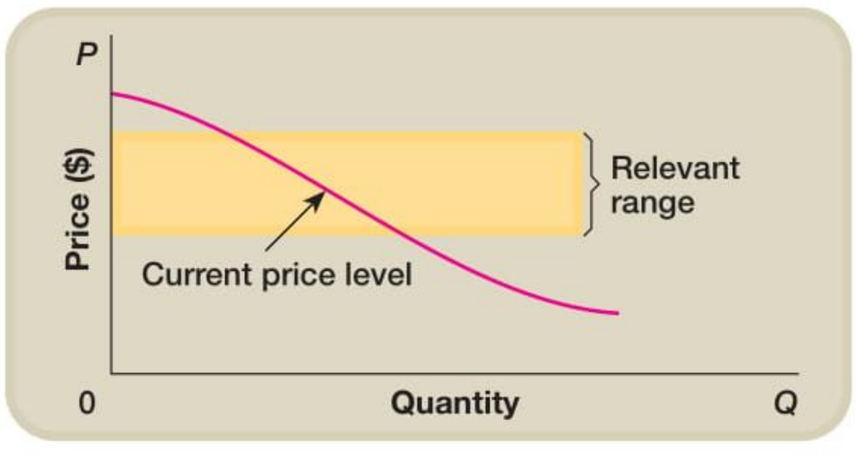
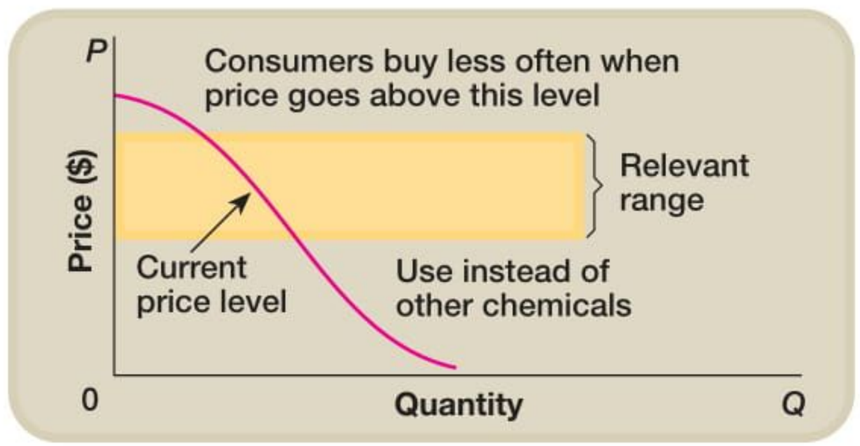


Exhibit A-7
Demand Curve for Motor Oil (a product with few substitutes)



reasonable range. Of course, if the price is raised to a staggering figure, many people will buy less oil (change their oil less frequently). If the price is dropped to an extremely low level, manufacturers may buy more—say, as a lower-cost substitute for other chemicals typically used in making plastic (Exhibit A-7). But these extremes are outside the relevant range.

Demand curves are introduced here because the degree of elasticity of demand shows how potential customers feel about a product—and especially whether they see substitutes for the product. But to get a better understanding of markets, we must extend this economic analysis.

Markets as Seen by Suppliers

Customers may want some product—but if suppliers are not willing to supply it, then there is no market. So we'll study the economist's analysis of supply. And then we'll bring supply and demand together for a more complete understanding of markets.

Economists often use the kind of analysis we are discussing here to explain pricing in the marketplace. But that is not our intention. Here we are interested in how and why markets work and the interaction of customers and potential suppliers. Later in this appendix we will review how competition affects prices, but how individual firms set prices, or should set prices, was discussed fully in Chapters 17 and 18.

Supply curves reflect supplier thinking

Generally speaking, suppliers' costs affect the quantity of products they are willing to offer in a market during any period. In other words, their costs affect their supply schedules and supply curves. While a demand curve shows the quantity of products customers will be willing to buy at various prices, a **supply curve** shows the quantity of products that will be supplied at various possible prices. Eventually, only one quantity will be offered and purchased. So a supply curve is really a hypothetical (what-if) description of what will be offered at various prices. It is, however, a very important curve. Together with a demand curve, it summarizes the attitudes and probable behavior of buyers and sellers about a particular product in a particular market—that is, in a product-market.

Some supply curves are vertical

We usually assume that supply curves tend to slope upward—that is, suppliers will be willing to offer greater quantities at higher prices. If a product's market price is very high, it seems only reasonable that producers will be anxious to produce more of the product and even put workers on overtime or perhaps hire more workers to increase the quantity they can offer. Going further, it seems likely that

Exhibit A-8
Supply Schedule for Potatoes (10-pound bags)

Point	Possible Market Price per 10-lb. Bag	Number of Bags Sellers Will Supply per Month at Each Possible Market Price
A	$1.60	17,000,000
B	1.30	14,000,000
C	1.00	11,000,000
D	0.70	8,000,000
E	0.40	3,000,000

Note: This supply curve is for a month to emphasize that farmers might have some control over when they deliver their potatoes. There would be a different curve for each month.

producers of other products will switch their resources (farms, factories, labor, or retail facilities) to the product that is in great demand.

On the other hand, if consumers are only willing to pay a very low price for a particular product, it's reasonable to expect that producers will switch to other products—thus reducing supply. A supply schedule (Exhibit A-8) and a supply curve (Exhibit A-9) for potatoes illustrate these ideas. This supply curve shows how many potatoes would be produced and offered for sale at each possible market price in a given month.

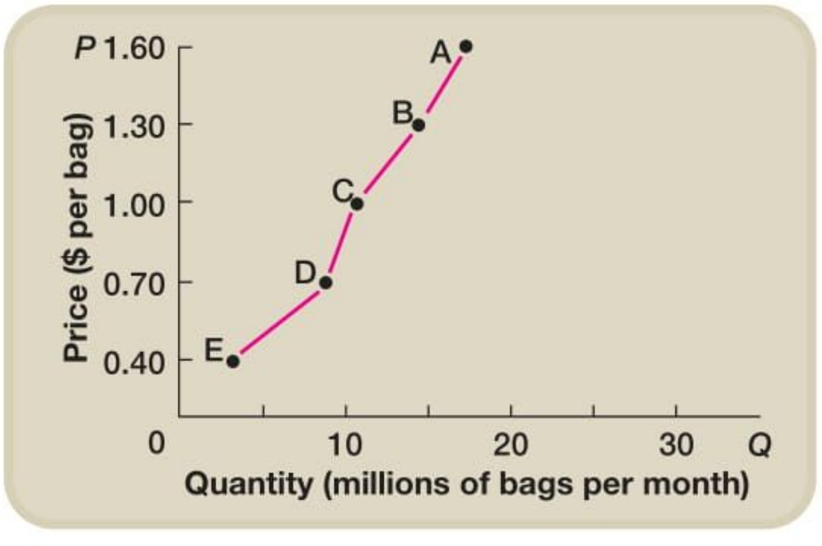
In the very short run (say, over a few hours, a day, or a week), a supplier may not be able to change the supply at all. In this situation, we would see a vertical supply curve. This situation is often relevant in the market for fresh produce. Fresh strawberries, for example, continue to ripen, and a supplier wants to sell them quickly—preferably at a higher price—but in any case, they must be sold.

If the product is a service, it may not be easy to expand the supply in the short run. Additional barbers or medical doctors are not quickly trained and licensed, and they only have so much time to give each day. Further, the prospect of much higher prices in the near future cannot easily expand the supply of many services. For example, a hit play or an "in" restaurant or nightclub is limited in the amount of "product" it can offer at a particular time.

Elasticity of supply

The term *elasticity* also is used to describe supply curves. An extremely steep or almost vertical supply curve, often found in the short run, is called **inelastic supply** because the quantity supplied does not stretch much (if at all) if the price is raised. A flatter curve is called **elastic supply** because the quantity supplied does stretch more if the price is raised. A slightly up-sloping supply curve is typical in longer-

Exhibit A-9
Supply Curve for Potatoes (10-pound bags)



run market situations. Given more time, suppliers have a chance to adjust their offerings, and competitors may enter or leave the market.

Demand and Supply Interact to Determine the Size of the Market and Price Level

We have treated market demand and supply forces separately. Now we must bring them together to show their interaction. The *intersection* of these two forces determines the size of the market and the market price—at which point (price and quantity) the market is said to be in *equilibrium*.

The intersection of demand and supply is shown for the potato data discussed above. In Exhibit A-10, the demand curve for potatoes is now graphed against the supply curve in Exhibit A-9.

In this potato market, demand is inelastic—the total revenue of all the potato producers would be greater at higher prices. But the market price is at the **equilibrium point**—where the quantity and the price sellers are willing to offer are equal to the quantity and price that buyers are willing to accept. The $1.00 equilibrium price for potatoes yields a smaller *total revenue* to potato producers than a higher price would. This lower equilibrium price comes about because the many producers are willing to supply enough potatoes at the lower price. *Demand is not the only determiner of price level. Cost also must be considered—via the supply curve.*

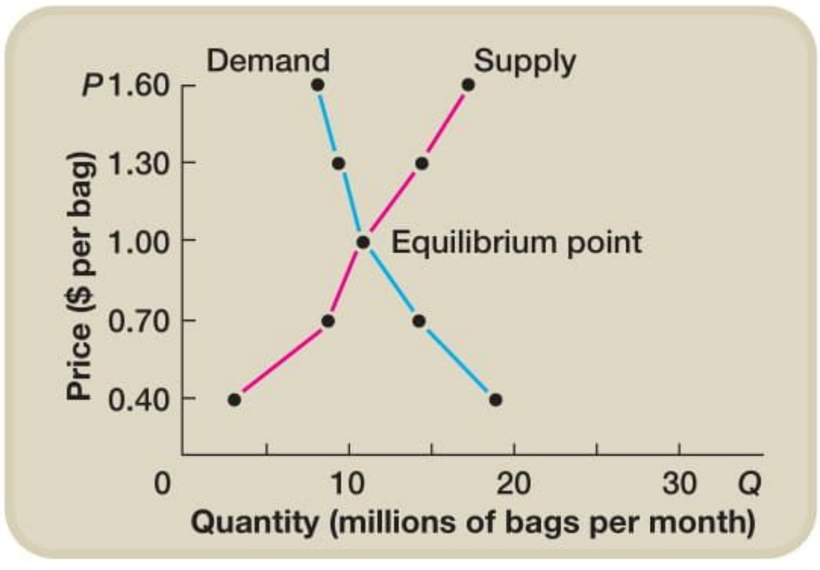
Some consumers get a surplus

Presumably, a sale takes place only if both buyer and seller feel they will be better off after the sale. But sometimes the price a consumer pays in a sales transaction is less than what he or she would be willing to pay.

The reason for this is that demand curves are typically down-sloping, and some of the demand curve is above the equilibrium price. This is simply another way of showing that some customers would have been willing to pay more than the equilibrium price—if they had to. In effect, some of them are getting a bargain by being able to buy at the equilibrium price. Economists have traditionally called these bargains the **consumer surplus**—that is, the difference to consumers between the value of a purchase and the price they pay.

Some business critics assume that consumers do badly in any business transaction. In fact, sales take place only if consumers feel they are at least getting their money's worth. As we can see here, some are willing to pay much more than the market price.

Exhibit A-10
Equilibrium of Supply and Demand for Potatoes (10-pound bags)



Demand and Supply Help Us Understand the Nature of Competition

The elasticity of demand and supply curves and their interaction help predict the nature of competition a marketing manager is likely to face. For example, an extremely inelastic demand curve means that the manager will have much choice in strategy planning, especially price setting. Apparently customers like the product and see few substitutes. They are willing to pay higher prices before cutting back much on their purchases.

Clearly, the elasticity of a firm's demand curves makes a big difference in strategy planning, but other factors also affect the nature of competition. Among these are the number and size of competitors and the uniqueness of each firm's marketing mix. Understanding these market situations is important because the freedom of a marketing manager, especially control over price, is greatly reduced in some situations.

A marketing manager operates in one of four kinds of market situations. We'll discuss three kinds: pure competition, oligopoly, and monopolistic competition. The fourth kind, monopoly, isn't found very often and is like monopolistic competition. The important dimensions of these situations are shown in Exhibit A-11.

When competition is pure

Many competitors offer about the same thing

Pure competition is a market situation that develops when a market has

1. Homogeneous (similar) products.
2. Many buyers and sellers who have full knowledge of the market.
3. Ease of entry for buyers and sellers; that is, new firms have little difficulty starting in business—and new customers can easily come into the market.

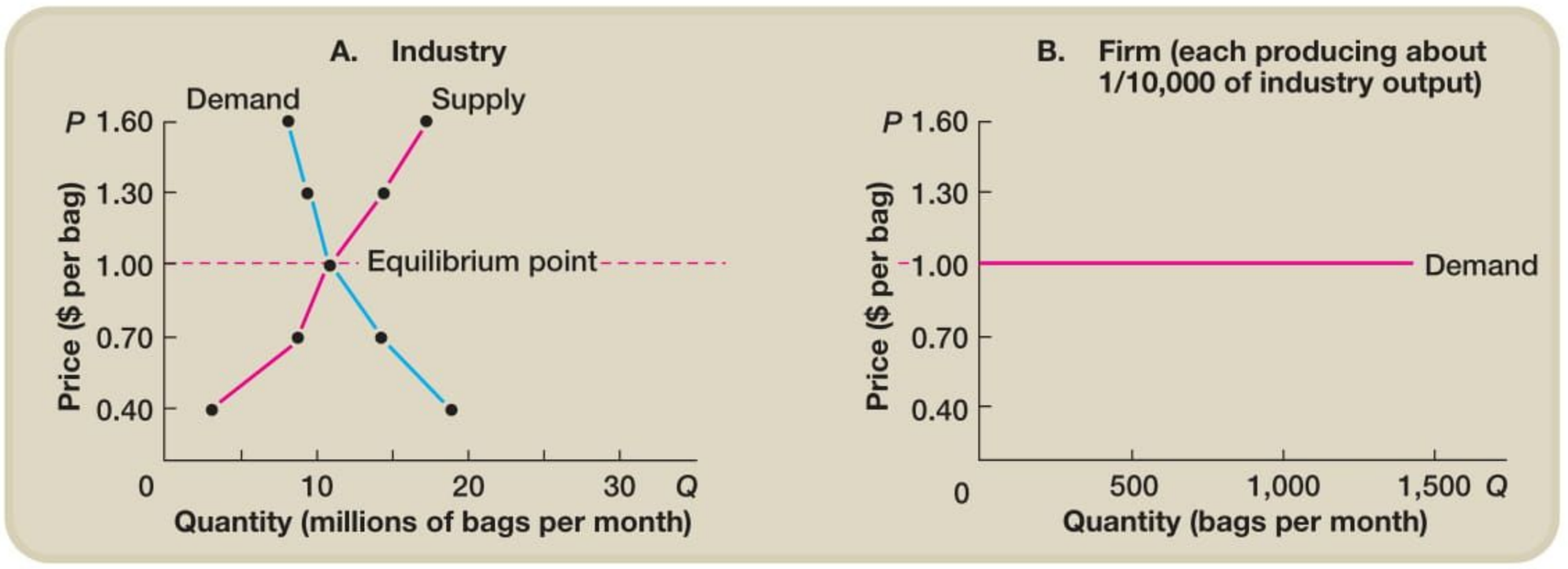
More or less pure competition is found in many agricultural markets. In the potato market, for example, there are thousands of small producers—and they are in pure competition. Let's look more closely at these producers.

Although the potato market as a whole has a down-sloping demand curve, each of the many small producers in the industry is in pure competition, and each of them faces a flat demand curve at the equilibrium price. This is shown in Exhibit A-12.

Exhibit A-11
Some Important Dimensions Regarding Market Situations

	Types of Situations			
Important Dimensions	Pure Competition	Oligopoly	Monopolistic Competition	Monopoly
Uniqueness of each firm's product	None	None	Some	Unique
Number of competitors	Many	Few	Few to many	None
Size of competitors (compared to size of market)	Small	Large	Large to small	None
Elasticity of demand facing firm	Completely elastic	Kinked demand curve (elastic and inelastic)	Either	Either
Elasticity of industry demand	Either	Inelastic	Either	Either
Control of price by firm	None	Some (with care)	Some	Complete

Exhibit A-12 Interaction of Demand and Supply in the Potato Industry and the Resulting Demand Curve Facing Individual Potato Producers



As shown at the right of Exhibit A-12, an individual producer can sell as many bags of potatoes as he chooses at $1—the market equilibrium price. The equilibrium price is determined by the quantity that all producers choose to sell given the demand curve they face.

But a small producer has little effect on overall supply (or on the equilibrium price). If this individual farmer raises 1/10,000th of the quantity offered in the market, for example, you can see that there will be little effect if the farmer goes out of business—or doubles production.

The reason an individual producer's demand curve is flat is that the farmer probably couldn't sell any potatoes above the market price. And there is no point in selling below the market price! So in effect, the individual producer has no control over price.

Markets tend to become more competitive

Not many markets are *purely* competitive. But many are close enough so we can talk about "almost" pure competition situations—those in which the marketing manager has to accept the going price.

Such highly competitive situations aren't limited to agriculture. Wherever *many* competitors sell *homogeneous* products—such as textiles, lumber, coal, printing, and laundry services—the demand curve seen by *each producer* tends to be flat.

Markets tend to become more competitive, moving toward pure competition (except in oligopolies—see below). On the way to pure competition, prices and profits are pushed down until some competitors are forced out of business. Eventually, in long-run equilibrium, the price level is only high enough to keep the survivors in business. No one makes any profit—they just cover costs. It's tough to be a marketing manager in this situation!

When competition is oligopolistic

A few competitors offer similar things

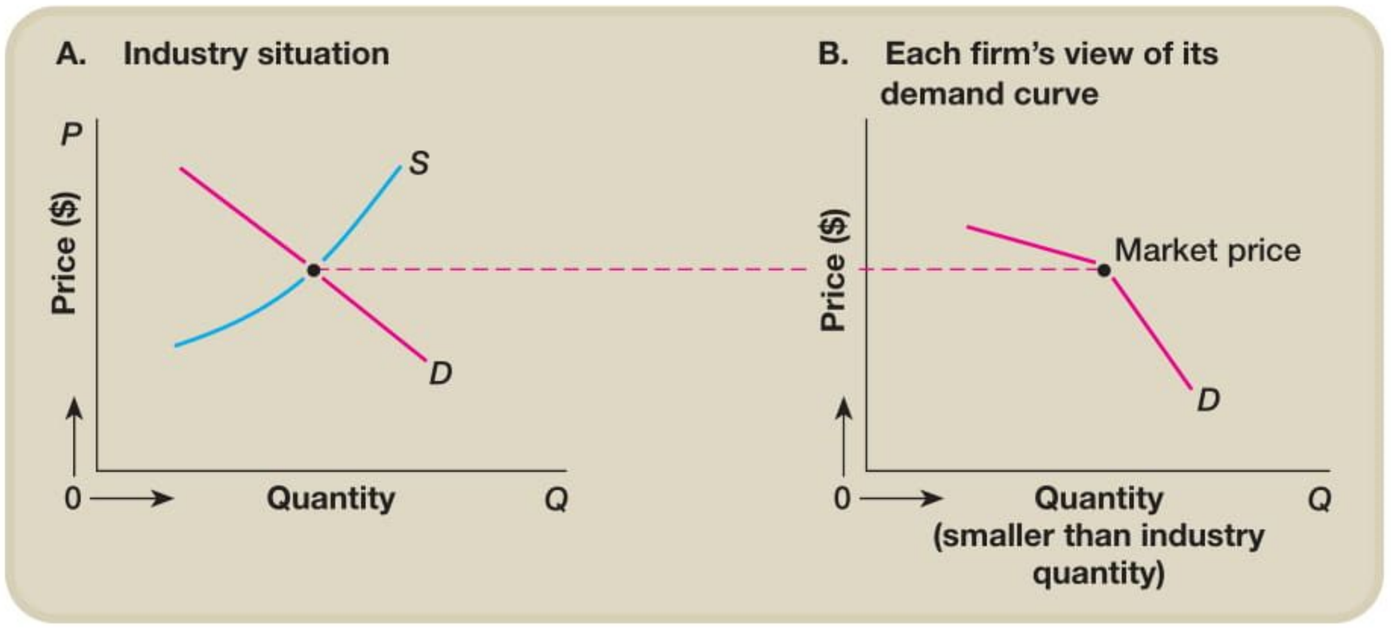
Not all markets move toward pure competition. Some become oligopolies.

Oligopoly situations are special market situations that develop when a market has

1. Essentially homogeneous products—such as basic industrial chemicals or gasoline.
2. Relatively few sellers—or a few large firms and many smaller ones who follow the lead of the larger ones.
3. Fairly inelastic industry demand curves.

The demand curve facing each firm is unusual in an oligopoly situation. Although the industry demand curve is inelastic throughout the relevant range, the demand

Exhibit A-13
Oligopoly—Kinked Demand Curve—Situation



curve facing each competitor looks "kinked." See Exhibit A-13. The current market price is at the kink.

There is a market price because the competing firms watch each other carefully—and they know it's wise to be at the kink. Each firm must expect that raising its own price above the market price will cause a big loss in sales. Few, if any, competitors will follow the price increase. So the firm's demand curve is relatively flat above the market price. If the firm lowers its price, it must expect competitors to follow. Given inelastic industry demand, the firm's own demand curve is inelastic at lower prices—assuming it keeps its share of this market at lower prices. Since lowering prices along such a curve will drop total revenue, the firm should leave its price at the kink—the market price.

Actually, however, there are price fluctuations in oligopolistic markets. Sometimes this is caused by firms that don't understand the market situation and cut their prices to get business. In other cases, big increases in demand or supply change the basic nature of the situation and lead to price cutting. Price cuts can be drastic—such as Du Pont's price cut of 25 percent for Dacron. This happened when Du Pont decided that industry production capacity already exceeded demand, and more plants were due to start production.

It's important to keep in mind that oligopoly situations don't just apply to whole industries and national markets. Competitors who are focusing on the same local target market often face oligopoly situations. A suburban community might have several gas stations—all of which provide essentially the same product. In this case, the "industry" consists of the gas stations competing with each other in the local product-market.

As in pure competition, oligopolists face a long-run trend toward an equilibrium level—with profits driven toward zero. This may not happen immediately—and a marketing manager may try to delay price competition by relying more on other elements in the marketing mix.

When competition is monopolistic

A price must be set

You can see why marketing managers want to avoid pure competition or oligopoly situations. They prefer a market in which they have more control. **Monopolistic competition** is a market situation that develops when a market has

1. Different (heterogeneous) products—in the eyes of some customers.
2. Sellers who feel they do have some competition in this market.

The word *monopolistic* means that each firm is trying to get control in its own little market. But the word *competition* means that there are still substitutes. The vigorous competition of a purely competitive market is reduced. Each firm has its

own down-sloping demand curve. But the shape of the curve depends on the similarity of competitors' products and marketing mixes. Each monopolistic competitor has freedom—but not complete freedom—in its own market.

Judging elasticity will help set the price

Since a firm in monopolistic competition has its own down-sloping demand curve, it must make a decision about price level as part of its marketing strategy planning. Here, estimating the elasticity of the firm's own demand curve is helpful. If it is highly inelastic, the firm may decide to raise prices to increase total revenue. But if demand is highly elastic, this may mean many competitors with acceptable substitutes. Then the price may have to be set near that of the competition. And the marketing manager probably should try to develop a better marketing mix.

Conclusion

The economist's traditional demand and supply analysis provides a useful tool for analyzing the nature of demand and competition. It is especially important that you master the concepts of a demand curve and demand elasticity. How demand and supply interact helps determine the size of a market and its price level. The interaction of supply and demand also helps explain the nature of competition in different market situations. We discuss three competitive situations: pure competition, oligopoly, and monopolistic competition. The fourth kind, monopoly, isn't found very often and is like monopolistic competition.

The nature of supply and demand—and competition—is very important in marketing strategy planning. We discuss these topics more fully in Chapters 3 and 4 and then build on them throughout the text. This appendix provides a good foundation on these topics.

Questions and Problems

1. Explain in your own words how economists look at markets and arrive at the "law of diminishing demand."
2. Explain what a demand curve is and why it is usually down-sloping. Then give an example of a product for which the demand curve might not be down-sloping over some possible price ranges. Explain the reason for your choice.
3. What is the length of life of the typical demand curve? Illustrate your answer.
4. If the general market demand for men's shoes is fairly elastic, how does the demand for men's dress shoes compare to it? How does the demand curve for women's shoes compare to the demand curve for men's shoes?
5. If the demand for perfume is inelastic above and below the present price, should the price be raised? Why or why not?
6. If the demand for shrimp is highly elastic below the present price, should the price be lowered?
7. Discuss what factors lead to inelastic demand and supply curves. Are they likely to be found together in the same situation?
8. Why would a marketing manager prefer to sell a product that has no close substitutes? Are high profits almost guaranteed?
9. If a manufacturer's well-known product is sold at the same price by many retailers in the same community, is this an example of pure competition? When a community has many small grocery stores, are they in pure competition? What characteristics are needed to have a purely competitive market?
10. List three products that are sold in purely competitive markets and three that are sold in monopolistically competitive markets. Do any of these products have anything in common? Can any generalizations be made about competitive situations and marketing mix planning?
11. Cite a local example of an oligopoly—explaining why it is an oligopoly.

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Appendix B

Marketing Arithmetic

When You Finish This Appendix, You Should

1. Understand the components of an operating statement (profit and loss statement).

2. Know how to compute the stockturn rate.

3. Understand how operating ratios can help analyze a business.

4. Understand how to calculate markups and markdowns.

5. Understand how to calculate return on investment (ROI) and return on assets (ROA).

6. Understand the important new terms (shown in red).

Marketing students must become familiar with the essentials of the language of business. Businesspeople commonly use accounting terms when talking about costs, prices, and profit. And using accounting data is a practical tool in analyzing marketing problems.

The Operating Statement

An **operating statement** is a simple summary of the financial results of a company's operations over a specified period of time. Some beginning students may feel that the operating statement is complex, but as we'll soon see, this really isn't true. *The main purpose of the operating statement is determining the net profit figure and presenting data to support that figure*. This is why the operating statement is often referred to as the *profit and loss statement*.

Exhibit B-1 shows an operating statement for a wholesale or retail business. The statement is complete and detailed so you will see the framework throughout the

Exhibit B-1 An Operating Statement (profit and loss statement)

Smith Company
Operating Statement
For the Year Ended December 31, 200X

Gross sales			$540,000
Less: Returns and allowances			40,000
Net sales			$500,000
Cost of sales:			
Beginning inventory at cost		$ 80,000	
Purchases at billed cost	$310,000		
Less: Purchase discounts	40,000		
Purchases at net cost	270,000		
Plus: freight-in	20,000		
Net cost of delivered purchases		290,000	
Cost of goods available for sale		370,000	
Less: Ending inventory at cost		70,000	
Cost of sales			300,000
Gross margin (gross profit)			200,000
Expenses:			
Selling expenses:			
Sales salaries	60,000		
Advertising expense	20,000		
Website updates	10,000		
Delivery expense	10,000		
Total selling expense		100,000	
Administrative expense:			
Office salaries	30,000		
Office supplies	10,000		
Miscellaneous administrative expense	5,000		
Total administrative expense		45,000	
General expense:			
Rent expense	10,000		
Miscellaneous general expenses	5,000		
Total general expense		15,000	
Total expenses			160,000
Net profit from operation			$ 40,000

discussion, but the amount of detail on an operating statement is *not* standardized. Many companies use financial statements with much less detail than this one. They emphasize clarity and readability rather than detail. To really understand an operating statement, however, you must know about its components.

Only three basic components

The basic components of an operating statement are *sales*—which come from the sale of goods and services; *costs*—which come from the making and selling process; and the balance—called *profit or loss*—which is just the difference between sales and costs. So there are only three basic components in the statement: sales, costs, and profit (or loss). Other items on an operating statement are there only to provide supporting details.

Time period covered may vary

There is no one time period an operating statement covers. Rather, statements are prepared to satisfy the needs of a particular business. This may be at the end of each day or at the end of each week. Usually, however, an operating statement summarizes results for one month, three months, six months, or a full year. Since the time period does vary, this information is included in the heading of the statement as follows:

Smith Company
Operating Statement
For the (Period) Ended (Date)

Also, see Exhibit B-1.

Management uses of operating statements

Before going on to a more detailed discussion of the components of our operating statement, let's think about some of the uses for such a statement. Exhibit B-1 shows that a lot of information is presented in a clear and concise manner. With this information, a manager can easily find the relation of net sales to the cost of sales, the gross margin, expenses, and net profit. Opening and closing inventory figures are available—as is the amount spent during the period for the purchase of goods for resale. Total expenses are listed to make it easier to compare them with previous statements and to help control these expenses.

All this information is important to a company's managers. Assume that a particular company prepares monthly operating statements. A series of these statements is a valuable tool for directing and controlling the business. By comparing results from one month to the next, managers can uncover unfavorable trends in the sales, costs, or profit areas of the business and take any needed action.

A skeleton statement gets down to essential details

Let's refer to Exhibit B-1 and begin to analyze this seemingly detailed statement to get first-hand knowledge of the components of the operating statement.

As a first step, suppose we take all the items that have dollar amounts extended to the third, or right-hand, column. Using these items only, the operating statement looks like this:

Gross sales	$540,000
Less: Returns and allowances	40,000
Net sales	500,000
Less: Cost of sales	300,000
Gross margin	200,000
Less: Total expenses	160,000
Net profit (loss)	$ 40,000

Is this a complete operating statement? The answer is *yes*. This skeleton statement differs from Exhibit B-1 only in supporting detail. All the basic components

are included. In fact, the only items we must list to have a complete operating statement are

Net sales	$500,000
Less: Costs	460,000
Net profit (loss)	$ 40,000

These three items are the essentials of an operating statement. All other subdivisions or details are just useful additions.

Meaning of sales

Now let's define the meaning of the terms in the skeleton statement.

The first item is sales. What do we mean by sales? The term **gross sales** is the total amount charged to all customers during some time period. However, there is always some customer dissatisfaction or just plain errors in ordering and shipping goods. This results in returns and allowances—which reduce gross sales.

A **return** occurs when a customer sends back purchased products. The company either refunds the purchase price or allows the customer dollar credit on other purchases.

An **allowance** occurs when a customer is not satisfied with a purchase for some reason. The company gives a price reduction on the original invoice (bill), but the customer keeps the goods and services.

These refunds and price reductions must be considered when the firm computes its net sales figure for the period. Really, we're only interested in the revenue the company manages to keep. This is **net sales**—the actual sales dollars the company receives. Therefore, all reductions, refunds, cancellations, and so forth made because of returns and allowances are deducted from the original total (gross sales) to get net sales. This is shown below.

Gross sales	$540,000
Less: Returns and allowances	40,000
Net sales	$500,000

Meaning of cost of sales

The next item in the operating statement—**cost of sales**—is the total value (at cost) of the sales during the period. We'll discuss this computation later. Meanwhile, note that after we obtain the cost of sales figure, we subtract it from the net sales figure to get the gross margin.

Meaning of gross margin and expenses

Gross margin (gross profit) is the money left to cover the expenses of selling the products and operating the business. Firms hope that a profit will be left after subtracting these expenses.

Selling expense is commonly the major expense below the gross margin. Note that in Exhibit B-1, **expenses** are all the remaining costs subtracted from the gross margin to get the net profit. The expenses in this case are the selling, administrative, and general expenses. (Note that the cost of purchases and cost of sales are not included in this total expense figure—they were subtracted from net sales earlier to get the gross margin. Note, also, that some accountants refer to cost of sales as cost of goods sold.)

Net profit—at the bottom of the statement—is what the company earned from its operations during a particular period. It is the amount left after the cost of sales and the expenses are subtracted from net sales. *Net sales and net profit are not the same*. Many firms have large sales and no profits—they may even have losses! That's why understanding costs, and controlling them, is important.

Detailed Analysis of Sections of the Operating Statement

Cost of sales for a wholesale or retail company

The cost of sales section includes details that are used to find the cost of sales ($300,000 in our example).

In Exhibit B-1, you can see that beginning and ending inventory, purchases, purchase discounts, and freight-in are all necessary to calculate costs of sales. If we pull the cost of sales section from the operating statement, it looks like this:

Cost of sales:			
Beginning inventory at cost		$ 80,000	
Purchases at billed cost	$310,000		
Less: Purchase discounts	40,000		
Purchases at net cost	270,000		
Plus: Freight-in	20,000		
Net cost of delivered purchases		290,000	
Cost of goods available for sale		370,000	
Less: Ending inventory at cost		70,000	
Cost of sales			$300,000

Cost of sales is the cost value of what is *sold*, not the cost of goods on hand at any given time.

Inventory figures merely show the cost of goods on hand at the beginning and end of the period the statement covers. These figures may be obtained by physically counting goods on hand on these dates or estimated from perpetual inventory records that show the inventory balance at any given time. The methods used to determine the inventory should be as accurate as possible because these figures affect the cost of sales during the period and net profit.

The net cost of delivered purchases must include freight charges and purchase discounts received since these items affect the money actually spent to buy goods and bring them to the place of business. A **purchase discount** is a reduction of the original invoice amount for some business reason. For example, a cash discount may be given for prompt payment of the amount due. We subtract the total of such discounts from the original invoice cost of purchases to get the *net* cost of purchases. To this figure we add the freight charges for bringing the goods to the place of business. This gives the net cost of *delivered* purchases. When we add the net cost of delivered purchases to the beginning inventory at cost, we have the total cost of goods available for sale during the period. If we now subtract the ending inventory at cost from the cost of the goods available for sale, we get the cost of sales.

One important point should be noted about cost of sales. The way the value of inventory is calculated varies from one company to another—and it can cause big differences in the cost of sales and the operating statement. (See any basic accounting textbook for how the various inventory valuation methods work.)

Cost of sales for a manufacturing company

Exhibit B-1 shows the way the manager of a wholesale or retail business arrives at his cost of sales. Such a business *purchases* finished products and resells them. In a manufacturing company, the purchases section of this operating statement is replaced by a section called cost of production. This section includes purchases of raw materials and parts, direct and indirect labor costs, and factory overhead charges

Exhibit B-2 Cost of Sales Section of an Operating Statement for a Manufacturing Firm

Cost of sales:			
Finished products inventory (beginning)		$ 20,000	
Cost of production (Schedule 1)		100,000	
Total cost of finished products available for sale		120,000	
Less: Finished products inventory (ending)		30,000	
Cost of sales			$ 90,000
Schedule 1, Schedule of cost of production			
Beginning work in process inventory			15,000
Raw materials:			
Beginning raw materials inventory		10,000	
Net cost of delivered purchases		80,000	
Total cost of materials available for use		90,000	
Less: Ending raw materials inventory		15,000	
Cost of materials placed in production		75,000	
Direct labor		20,000	
Manufacturing expenses:			
Indirect labor	$4,000		
Maintenance and repairs	3,000		
Factory supplies	1,000		
Heat, light, and power	2,000		
Total manufacturing expenses		10,000	
Total manufacturing costs			105,000
Total work in process during period			120,000
Less: Ending work in process inventory			20,000
Cost of production			$100,000

(such as heat, light, and power) that are necessary to produce finished products. The cost of production is added to the beginning finished products inventory to arrive at the cost of products available for sale. Often, a separate cost of production statement is prepared, and only the total cost of production is shown in the operating statement. See Exhibit B-2 for an illustration of the cost of sales section of an operating statement for a manufacturing company.

Expenses

Expenses go below the gross margin. They usually include the costs of selling and the costs of administering the business. They do not include the cost of sales—either purchased or produced.

There is no right method for classifying the expense accounts or arranging them on the operating statement. They can just as easily be arranged alphabetically or according to amount, with the largest placed at the top and so on down the line. In a business of any size, though, it is clearer to group the expenses in some way and use subtotals by groups for analysis and control purposes. This was done in Exhibit B-1.

Summary on operating statements

The statement presented in Exhibit B-1 contains all the major categories in an operating statement—together with a normal amount of supporting detail. Further detail can be added to the statement under any of the major categories without changing the nature of the statement. The amount of detail normally is determined by how the statement will be used. A stockholder may be given a sketchy operating statement—while the one prepared for internal company use may have a lot of detail.

Computing the Stockturn Rate

A detailed operating statement can provide the data needed to compute the **stockturn rate**—a measure of the number of times the average inventory is sold during a year. Note that the stockturn rate is related to the *turnover during a year*, not the length of time covered by a particular operating statement.

The stockturn rate is a very important measure because it shows how rapidly the firm's inventory is moving. Some businesses typically have slower turnover than others. But a drop in turnover in a particular business can be very alarming. It may mean that the firm's assortment of products is no longer as attractive as it was. Also, it may mean that the firm will need more working capital to handle the same volume of sales. Most businesses pay a lot of attention to the stockturn rate—trying to get faster turnover (and lower inventory costs).

Three methods—all basically similar—can be used to compute the stockturn rate. Which method is used depends on the data available. These three methods, which usually give approximately the same results, are shown below.*

(1) $$\frac{\text{Cost of sales}}{\text{Average inventory at cost}}$$

(2) $$\frac{\text{Net sales}}{\text{Average inventory at selling price}}$$

(3) $$\frac{\text{Sales in units}}{\text{Average inventory in units}}$$

Computing the stockturn rate will be illustrated only for Formula 1, since all are similar. The only difference is that the cost figures used in Formula 1 are changed to a selling price or numerical count basis in Formulas 2 and 3. Note: Regardless of the method used, you must have both the numerator and denominator of the formula in the same terms.

If the inventory level varies a lot during the year, you may need detailed information about the inventory level at different times to compute the average inventory. If it stays at about the same level during the year, however, it's easy to get an estimate. For example, using Formula 1, the average inventory at cost is computed by adding the beginning and ending inventories at cost and dividing by 2. This average inventory figure is then divided into the cost of sales (in cost terms) to get the stockturn rate.

For example, suppose that the cost of sales for one year was $1,000,000. Beginning inventory was $250,000 and ending inventory $150,000. Adding the two inventory figures and dividing by 2, we get an average inventory of $200,000. We next divide the cost of sales by the average inventory ($1,000,000 ÷ $200,000) and get a stockturn rate of 5. The stockturn rate is covered further in Chapter 18.

Operating Ratios Help Analyze the Business

Many businesspeople use the operating statement to calculate **operating ratios**—the ratio of items on the operating statement to net sales—and to compare these ratios from one time period to another. They can also compare their own operating

*Differences occur because of varied markups and nonhomogeneous product assortments. In an assortment of tires, for example, those with low markups might have sold much better than those with high markups. But with Formula 3, all tires would be treated equally.

ratios with those of competitors. Such competitive data is often available through trade associations. Each firm may report its results to a trade association, which then distributes summary results to its members. These ratios help managers control their operations. If some expense ratios are rising, for example, those particular costs are singled out for special attention.

Operating ratios are computed by dividing net sales into the various operating statement items that appear below the net sales level in the operating statement. The net sales is used as the denominator in the operating ratio because it shows the sales the firm actually won.

We can see the relation of operating ratios to the operating statement if we think of there being another column to the right of the dollar figures in an operating statement. This column contains percentage figures—using net sales as 100 percent. This approach can be seen below.

Gross sales	$540,000	
Less: Returns and allowances	40,000	
Net sales	500,000	100%
Less: Cost of sales	300,000	60
Gross margin	200,000	40
Less: Total Expenses	160,000	32
Net profit	$ 40,000	8%

The 40 percent ratio of gross margin to net sales in the above example shows that 40 percent of the net sales dollar is available to cover sales expenses and administering the business and provide a profit. Note that the ratio of expenses to sales added to the ratio of profit to sales equals the 40 percent gross margin ratio. The net profit ratio of 8 percent shows that 8 percent of the net sales dollar is left for profit.

The value of percentage ratios should be obvious. The percentages are easily figured and much easier to compare than large dollar figures.

Note that because these operating statement categories are interrelated, only a few pieces of information are needed to figure the others. In this case, for example, knowing the gross margin percent and net profit percent makes it possible to figure the expenses and cost of sales percentages. Further, knowing just one dollar amount and the percentages lets you figure all the other dollar amounts.

Markups

A **markup** is the dollar amount added to the cost of sales to get the selling price. The markup usually is similar to the firm's gross margin because the markup amount added onto the unit cost of a product by a retailer or wholesaler is expected to cover the selling and administrative expenses and to provide a profit.

The markup approach to pricing is discussed in Chapter 18, so it will not be discussed at length here. But a simple example illustrates the idea. If a retailer buys an article that costs $1 when delivered to his store, he must sell it for more than this cost if he hopes to make a profit. So he might add 50 cents onto the cost of the article to cover his selling and other costs and, hopefully, to provide a profit. The 50 cents is the markup.

The 50 cents is also the gross margin or gross profit from that item *if* it is sold. But note that it is *not* the net profit. Selling expenses may amount to 35 cents,

45 cents, or even 55 cents. In other words, there is no guarantee the markup will cover costs. Further, there is no guarantee customers will buy at the marked-up price. This may require markdowns, which are discussed later in this appendix.

Markup conversions

Often it is convenient to use markups as percentages rather than focusing on the actual dollar amounts. But markups can be figured as a percent of cost or selling price. To have some agreement, *markup (percent)* will mean percentage of selling price unless stated otherwise. So the 50-cent markup on the $1.50 selling price is a markup of 33⅓ percent. On the other hand, the 50-cent markup is a 50 percent markup on cost.

Some retailers and wholesalers use markup conversion tables or spreadsheets to easily convert from cost to selling price—depending on the markup on selling price they want. To see the interrelation, look at the two formulas below. They can be used to convert either type of markup to the other.

$$(4)\qquad \text{Percent markup on selling price} = \frac{\text{Percent markup on cost}}{100\% + \text{Percent markup on cost}}$$

$$(5)\qquad \text{Percent markup on cost} = \frac{\text{Percent markup on selling price}}{100\% - \text{Percent markup on selling price}}$$

In the previous example, we had a cost of $1, a markup of 50 cents, and a selling price of $1.50. We saw that the markup on selling price was 33⅓ percent—and on cost, it was 50 percent. Let's substitute these percentage figures—in Formulas 4 and 5—to see how to convert from one basis to the other. Assume first of all that we only know the markup on selling price and want to convert to markup on cost. Using Formula 5, we get

$$\text{Percent markup on cost} = \frac{33\frac{1}{3}\%}{100\% - 33\frac{1}{3}\%} = \frac{33\frac{1}{3}\%}{66\frac{2}{3}\%} = 50\%$$

On the other hand, if we know only the percent markup on cost, we can convert to markup on selling price as follows:

$$\text{Percent markup on selling price} = \frac{50\%}{100\% + 50\%} = \frac{50\%}{150\%} = 33\frac{1}{3}\%$$

These results can be proved and summarized as follows:

Markup	$0.50	= 50% of cost, or 33⅓% of selling price
+ Cost	$1.00	= 100% of cost, or 66⅔% of selling price
Selling price	$1.50	= 150% of cost, or 100% of selling price

Note that when the selling price ($1.50) is the base for a markup calculation, the markup percent (33⅓ percent = $.50/$1.50) must be less than 100 percent. As you can see, that's because the markup percent and the cost percent (66⅔ percent = $1.00/$1.50) sums to exactly 100 percent. So if you see a reference to a markup percent that is greater than 100 percent, it could not be based on the selling price and instead must be based on cost.

Markdown Ratios Help Control Retail Operations

The ratios we discussed above were concerned with figures on the operating statement. Another important ratio, the **markdown ratio,** is a tool many retailers use to measure the efficiency of various departments and their whole business. But

note that it is *not directly related to the operating statement*. It requires special calculations.

A **markdown** is a retail price reduction required because customers won't buy some item at the originally marked-up price. This refusal to buy may be due to a variety of reasons—soiling, style changes, fading, damage caused by handling, or an original price that was too high. To get rid of these products, the retailer offers them at a lower price.

Markdowns are generally considered to be due to business errors—perhaps because of poor buying, original markups that are too high, and other reasons. (Note, however, that some retailers use markdowns as a way of doing business rather than a way to correct errors. For example, a store that buys out overstocked fashions from other retailers may start by marking each item with a high price and then reduce the price each week until it sells.) Regardless of the reason, however, markdowns are reductions in the original price—and they are important to managers who want to measure the effectiveness of their operations.

Markdowns are similar to allowances because price reductions are made. Thus, in computing a markdown ratio, markdowns and allowances are usually added together and then divided by net sales. The markdown ratio is computed as follows:

$$\text{Markdown \%} = \frac{\$ \text{ Markdowns} + \$ \text{ Allowances}}{\$ \text{ Net sales}} \times 100$$

The 100 is multiplied by the fraction to get rid of decimal points.

Returns are *not* included when figuring the markdown ratio. Returns are treated as consumer errors, not business errors, and therefore are not included in this measure of business efficiency.

Retailers who use markdown ratios usually keep a record of the amount of markdowns and allowances in each department and then divide the total by the net sales in each department. Over a period of time, these ratios give management one measure of the efficiency of buyers and salespeople in various departments.

It should be stressed again that the markdown ratio is not calculated directly from data on the operating statement since the markdowns take place before the products are sold. In fact, some products may be marked down and still not sold. Even if the marked-down items are not sold, the markdowns—that is, the reevaluations of their value—are included in the calculations in the time period when they are taken.

The markdown ratio is calculated for a whole department (or profit center), *not* individual items. What we are seeking is a measure of the effectiveness of a whole department, not how well the department did on individual items.

Return on Investment (ROI) Reflects Asset Use

Another off-the-operating-statement ratio is **return on investment (ROI)**—the ratio of net profit (after taxes) to the investment used to make the net profit, multiplied by 100 to get rid of decimals. Investment is not shown on the operating statement. But it is on the **balance sheet** (statement of financial condition), another accounting statement, which shows a company's assets, liabilities, and net worth. It may take some digging or special analysis, however, to find the right investment number.

Investment means the dollar resources the firm has invested in a project or business. For example, a new product may require $4 million in new money—for inventory, accounts receivable, promotion, and so on—and its attractiveness may be judged by its likely ROI. If the net profit (after taxes) for this new product is

expected to be $1 million in the first year, then the ROI is 25 percent—that is, ($1 million ÷ $4 million) × 100.

There are two ways to figure ROI. The *direct* way is

$$\text{ROI (in \%)} = \frac{\text{Net profit (after taxes)}}{\text{Investment}} \times 100$$

The *indirect* way is

$$\text{ROI (in \%)} = \frac{\text{Net profit (after taxes)}}{\text{Sales}} = \frac{\text{Sales}}{\text{Investment}} \times 100$$

This way is concerned with net profit margin and turnover—that is

$$\text{ROI (in \%)} = \text{Net profit margin} \times \text{Turnover} \times 100$$

This indirect way makes it clearer how to *increase* ROI. There are three ways:

1. Increase profit margin (with lower costs or a higher price).
2. Increase sales.
3. Decrease investment.

Effective marketing strategy planning and implementation can increase profit margins and/or sales. And careful asset management can decrease investment.

ROI is a revealing measure of how well managers are doing. Most companies have alternative uses for their funds. If the returns in a business aren't at least as high as outside uses, then the money probably should be shifted to the more profitable uses.

Some firms borrow more than others to make investments. In other words, they invest less of their own money to acquire assets—what we called *investments*. If ROI calculations use only the firm's own investment, this gives higher ROI figures to those who borrow a lot—which is called *leveraging*. To adjust for different borrowing proportions—to make comparisons among projects, departments, divisions, and companies easier—another ratio has come into use. **Return on assets (ROA)** is the ratio of net profit (after taxes) to the assets used to make the net profit—times 100. Both ROI and ROA measures are trying to get at the same thing—how effectively the company is using resources. These measures became increasingly popular as profit rates dropped and it became more obvious that increasing sales volume doesn't necessarily lead to higher profits—or ROI or ROA. Inflation and higher costs for borrowed funds also force more concern for ROI and ROA. Marketers must include these measures in their thinking or top managers are likely to ignore their plans and requests for financial resources.

Questions and Problems

1. Distinguish between the following pairs of items that appear on operating statements: *(a)* gross sales and net sales, and *(b)* purchases at billed cost and purchases at net cost.
2. How does gross margin differ from gross profit? From net profit?
3. Explain the similarity between markups and gross margin. What connection do markdowns have with the operating statement?
4. Compute the net profit for a company with the following data:

Beginning inventory (cost)	$ 150,000
Purchases at billed cost	330,000
Sales returns and allowances	250,000
Rent	60,000
Salaries	400,000
Heat and light	180,000
Ending inventory (cost)	250,000
Freight cost (inbound)	80,000
Gross sales	1,300,000

5. Construct an operating statement from the following data:

Returns and allowances	$150,000
Expenses	20%
Closing inventory at cost	600,000
Markdowns	2%
Inward transportation	30,000
Purchases	1,000,000
Net profit (5%)	300,000

6. Compute net sales and percent of markdowns for the data given below:

Markdowns	$ 40,000
Gross sales	400,000
Returns	32,000
Allowances	48,000

7. *(a)* What percentage markups on cost are equivalent to the following percentage markups on selling price: 20, 37½, 50, and 66⅔? *(b)* What percentage markups on selling price are equivalent to the following percentage markups on cost: 33⅓, 20, 40, and 50?
8. What net sales volume is required to obtain a stock-turn rate of 20 times a year on an average inventory at cost of $100,000 with a gross margin of 25 percent?
9. Explain how the general manager of a department store might use the markdown ratios computed for her various departments. Is this a fair measure? Of what?
10. Compare and contrast return on investment (ROI) and return on assets (ROA) measures. Which would be best for a retailer with no bank borrowing or other outside sources of funds; that is, the retailer has put up all the money that the business needs?

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Appendix C

Career Planning in Marketing

When You Finish This Appendix, You Should

1. Know that there is a job or a career for you in marketing.

2. Know that marketing jobs can be rewarding, pay well, and offer opportunities for growth.

3. Understand the difference between "people-oriented" and "thing-oriented" jobs.

4. Know about the many marketing jobs you can choose from.

5. Know some ways to use the Internet to help with career planning.

One of the hardest jobs facing most college students is the choice of a career. Of course, no one can make this decision for you. You must be the judge of your own objectives, interests, and abilities. Only you can decide what career *you* should pursue. However, you owe it to yourself to at least consider the possibility of a career in marketing.

There's a Place in Marketing for You

We're happy to tell you that many opportunities are available in marketing. There's a place in marketing for everyone—from a service provider in a fast-food restaurant to a vice president of marketing in a large company such as Microsoft or Procter & Gamble. The opportunities range widely—so it will help to be more specific. In the following pages, we'll discuss (1) the typical pay for different marketing jobs, (2) setting your own objectives and evaluating your interests and abilities, and (3) the kinds of jobs available in marketing. We'll also provide some ideas about how to use the Internet to get more information and perhaps even to apply for a job or post your own information; this material is in the special box with the title "Getting Wired for a Career in Marketing."

There Are Many Marketing Jobs, and They Can Pay Well

There are many interesting and challenging jobs for those with marketing training. You may not know it, but 60 percent of graduating college students take their initial job in a sales, marketing, or customer service position regardless of their stated major. So you'll have a head start because you've been studying marketing, and companies are always looking for people who already have skills in place. In terms of upward mobility, more CEOs have come from the sales and marketing side than all other fields combined. The sky is the limit for those who enter the sales and marketing profession prepared for the future!

Further, marketing jobs open to college-level students do pay well. At the time this went to press, marketing undergraduates were being offered starting salaries around $30,000—with a range from about $18,000 to $40,000 a year. Students with a master's in marketing averaged about $45,000; those with an MBA averaged about $55,000. Starting salaries can vary considerably—depending on your background, experience, and location.

Starting salaries in marketing compare favorably with many other fields. They are lower than those in such fields as computer science and electrical engineering where college graduates are currently in demand. But there is even better opportunity for personal growth, variety, and income in many marketing positions. The *American Almanac of Jobs and Salaries* ranks the median income of marketers number 10 in a list of 125 professions. Marketing also supplies about 50 percent of the people who achieve senior management ranks.

How far and fast your career and income rise above the starting level, however, depends on many factors—including your willingness to work, how well you get along with people, and your individual abilities. But most of all, it depends on *getting results*—individually and through other people. And this is where many marketing jobs offer the newcomer great opportunities. It is possible to show initiative, ability, creativity, and judgment in marketing jobs. And some young people move up

very rapidly in marketing. Some even end up at the top in large companies or as owners of their own businesses.

Marketing is often the route to the top

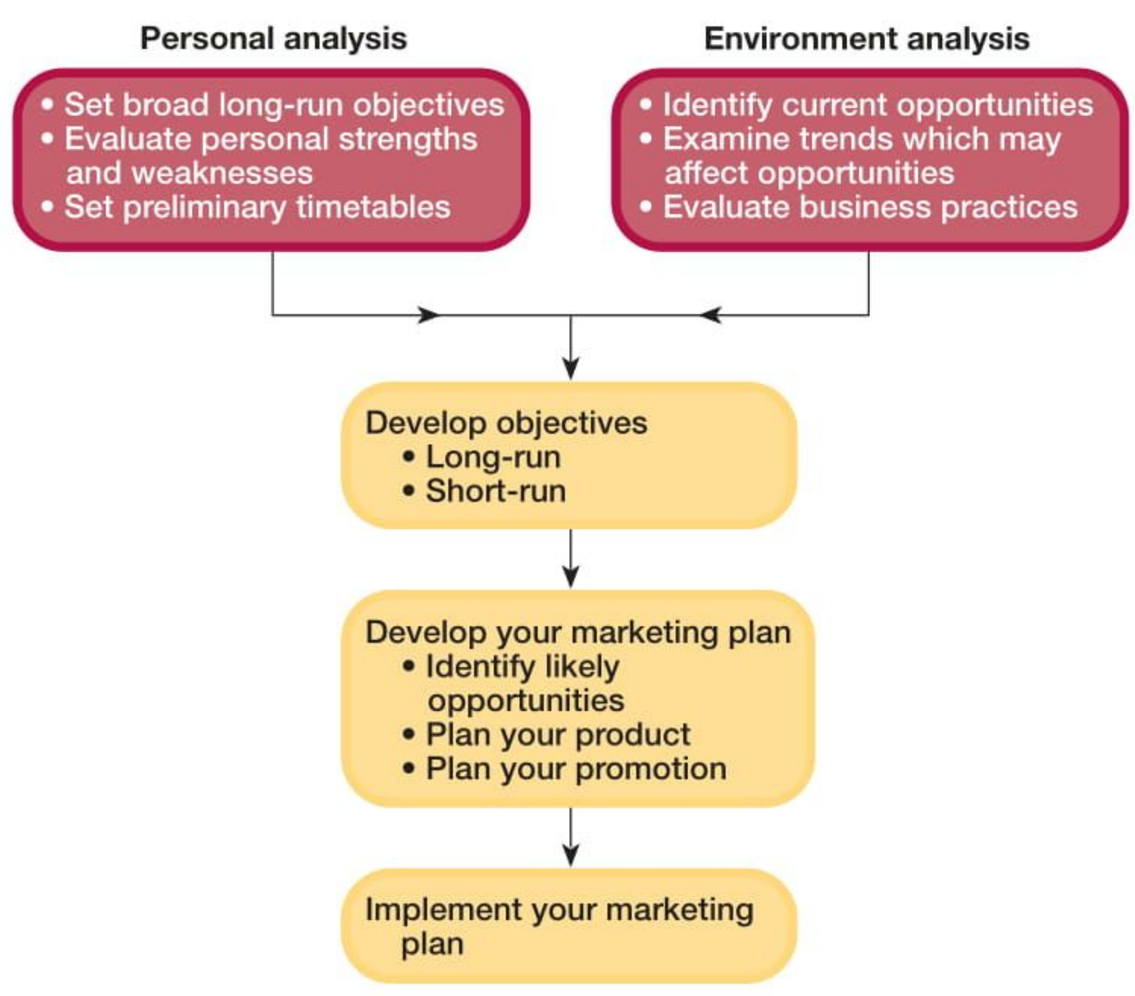
Marketing is where the action is! In the final analysis, a firm's success or failure depends on the effectiveness of its marketing program. This doesn't mean the other functional areas aren't important. It merely reflects the fact that a firm won't have much need for accountants, finance people, production managers, and so on if it can't successfully meet customers' needs and sell its products.

Because marketing is so vital to a firm's survival, many companies look for people with training and experience in marketing when filling key executive positions. In general, chief executive officers for the nation's largest corporations are more likely to have backgrounds in marketing and distribution than in other fields such as production, finance, and engineering.

Develop Your Own Personal Marketing Strategy

Now that you know there are many opportunities in marketing, your problem is matching the opportunities to your own personal objectives and strengths. Basically the problem is a marketing problem: developing a marketing strategy to sell a product—yourself—to potential employers. Just as in planning strategies for products, developing your own strategy takes careful thought. Exhibit C-1 shows how you can organize your own strategy planning. This exhibit shows that you should evaluate yourself first—a personal analysis—and then analyze the environment for opportunities. This will help you sharpen your own long- and short-run objectives—which will lead to developing a strategy. Finally, you should start implementing your own personal marketing strategy. These ideas are explained more fully below.

Exhibit C-1
Organizing Your Own Personal Marketing Strategy Planning



Conduct Your Own Personal Analysis

You are the Product you are going to include in your own marketing plan. So first you have to decide what your long-run objectives are—what you want to do, how hard you want to work, and how quickly you want to reach your objectives. Be honest with yourself—or you will eventually face frustration. Evaluate your own personal strengths and weaknesses—and decide what factors may become the key to your success. Finally, as part of your personal analysis, set some preliminary timetables to guide your strategy planning and implementation efforts. Let's spell this out in detail.

Set broad long-run objectives

Strategy planning requires much trial-and-error decision making. But at the very beginning, you should make some tentative decisions about your own objectives—what you want out of a job and out of life. At the very least, you should decide whether you are just looking for a job or whether you want to build a career. Beyond this, do you want the position to be personally satisfying—or is the financial return enough? And just how much financial return do you need? Some people work only to support themselves and their leisure-time activities. Others work to support themselves and their families. These people seek only financial rewards from a job. They try to find job opportunities that provide adequate financial returns but aren't too demanding of their time or effort.

Other people look first for satisfaction in their job—and they seek opportunities for career advancement. Financial rewards may be important too, but these are used only as measures of success. In the extreme, the career-oriented individual may be willing to sacrifice a lot, including leisure and social activities, to achieve success in a career.

Once you've tentatively decided these matters, then you can get more serious about whether you should seek a job or a career in marketing. If you decide to pursue a career, you should set your broad long-run objectives to achieve it. For example, one long-run objective might be to pursue a career in marketing management (or marketing research). This might require more academic training than you planned, as well as a different kind of training. If your objective is to get a job that pays well, on the other hand, then this calls for a different kind of training and different kinds of job experiences before completing your academic work.

Evaluate personal strengths and weaknesses

What kind of a job is right for you?

Because of the great variety of marketing jobs, it's hard to generalize about what aptitudes you should have to pursue a career in marketing. Different jobs attract people with various interests and abilities. We'll give you some guidelines about what kinds of interests and abilities marketers should have. However, if you're completely lost about your own interests and abilities, see your campus career counselor and take some vocational aptitude and interest tests. These tests will help you to compare yourself with people who are now working in various career positions. They will *not* tell you what you should do, but they can help—especially in eliminating possibilities you are less interested in or less able to do well in.

Are you people-oriented or thing-oriented?

One of the first things you need to decide is whether you are basically "people-oriented" or "thing-oriented." This is a very important decision. A people-oriented person might be very unhappy in an inventory management job, for example, while a thing-oriented person might be miserable in a personal selling or retail management job that involves a lot of customer contact.

Marketing has both people-oriented and thing-oriented jobs. People-oriented jobs are primarily in the promotion area—where company representatives must make contact with potential customers. This may be direct personal selling or customer

Getting Wired for a Career in Marketing

The Internet is a great resource at every stage of career planning and job hunting. It can help you learn: how to do a self-assessment, the outlook for different industries and jobs, what firms have jobs open, how to improve a résumé and post it online for free, and just about anything else you can imagine. Here we'll highlight just a few ideas and websites that can help you get started. However, if you start with some of these suggestions, each website you visit will provide links to other relevant sites that will give you new ideas to think about.

One good place to start is at Yahoo (www.yahoo.com). Select *jobs* under the business and economy heading, and then click on *careers and jobs.* Take a look at all of the information and services that are available when you select the *Yahoo! Careers* link (which takes you to careers.yahoo.com). For example, you can browse résumé tools and salary information, look at job listings, and much more. Yahoo also has a link to a listing of career fields, including a section on advertising and marketing. You may also want to study the information on *career planning,* with a special section for students and recent grads.

Another website to check is at www.marketingjobs.com. It has listings of marketing jobs, links to a number of companies with openings, a résumé center with ideas for preparing a résumé and posting it on the Internet, and lists of helpful periodicals. You might also go to www.careerjournal.com. There are job listings, job-hunting advice, career articles from *The Wall Street Journal,* and more. You can create and post a résumé here as well. Professional associations are another great resource. For example, the American Marketing Association website is at www.ama.org, and the Sales and Marketing Executives International website is at www.smei.com. The Council of Logistics Management website is at www.clm1.org.

Another good website address is www.collegegrad.com. It has links to the best sites on the Web for posting a résumé, information on writing cover letters and getting references, and ideas about how to find a company with job openings. To get a sample of what's possible in tracking down jobs, visit the website at www.thejobresource.com and experiment with its search engine, which lets you look at what's available by state. For example, you might want to search through job listings that mention terms such as *entry level, marketing, advertising,* and *sales.*

This should get you started. Remember, however, that in Chapter 8 we gave addresses for a number of websites with search engines. You can use one of them to help find more detail on any topic that interests you. For example, you might go to www.altavista.digital.com and do a search on terms such as *marketing jobs, salary surveys, post a résumé,* or *entry level position.*

www.mhhe.com/fourps

service activities—for example, in technical service or installation and repair. Thing-oriented jobs focus more on creative activities and analyzing data—as in advertising and marketing research—or on organizing and scheduling work—as in operating warehouses, transportation agencies, or the back-end of retailers.

People-oriented jobs tend to pay more, in part because such jobs are more likely to affect sales—the lifeblood of any business. Thing-oriented jobs, on the other hand, are often seen as cost generators rather than sales generators. Taking a big view of the whole company's operations, the thing-oriented jobs are certainly necessary—but without sales no one is needed to do them.

Thing-oriented jobs are usually done at a company's facilities. Further, especially in lower-level jobs, the amount of work to be done and even the nature of the work may be spelled out quite clearly. The time it takes to design questionnaires and tabulate results, for example, can be estimated with reasonable accuracy. Similarly, running a warehouse, analyzing inventory reports, scheduling outgoing shipments, and so on are more like production operations. It's fairly easy to measure an employee's effectiveness and productivity in a thing-oriented job. At the least, time spent can be used to measure an employee's contribution.

A sales rep, on the other hand, might spend all weekend thinking and planning how to make a half-hour sales presentation on Monday. For what should the sales rep be compensated—the half-hour presentation, all of the planning and thinking that went into it, or the results? Typically, sales reps are rewarded for results—and this helps account for the sometimes extremely high salaries paid to effective order getters. At the same time, some people-oriented jobs can be routinized and are lower paid. For example, salespeople in some retail stores are paid at or near the minimum wage.

Managers needed for both kinds of jobs

Here we have oversimplified deliberately to emphasize the differences among types of jobs. Actually, of course, there are many variations between the two extremes. Some sales reps must do a great deal of analytical work before they make a presentation. Similarly, some marketing researchers must be extremely people-sensitive to get potential customers to reveal their true feelings. But the division is still useful because it focuses on the primary emphasis in different kinds of jobs.

Managers are needed for the people in both kinds of jobs. Managing others requires a blend of both people and analytical skills—but people skills may be the more important of the two. Therefore, people-oriented individuals are often promoted into managerial positions more quickly.

What will differentiate your Product?

After deciding whether you're generally people-oriented or thing-oriented, you're ready for the next step—trying to identify your specific strengths (to be built on) and weaknesses (to be avoided or remedied). It is important to be as specific as possible so you can develop a better marketing plan. For example, if you decide you are more people-oriented, are you more skilled in verbal or written communication? Or if you are more thing-oriented, what specific analytical or technical skills do you have? Are you good at working with numbers, using a computer, solving complex problems, or coming to the root of a problem? Other possible strengths include past experience (career-related or otherwise), academic performance, an outgoing personality, enthusiasm, drive, motivation, and so on.

It is important to see that your plan should build on your strengths. An employer will be hiring you to do something—so promote yourself as someone who is able to do something *well*. In other words, find your competitive advantage in your unique strengths—and then communicate these unique things about *you* and what you can do. Give an employer a reason to pick you over other candidates by showing that you'll add superior value to the company.

While trying to identify strengths, you also must realize that you may have some important weaknesses—depending on your objectives. If you are seeking a career that requires technical skills, for example, then you need to get those skills. Or if you are seeking a career that requires independence and self-confidence, then you should try to develop those characteristics in yourself—or change your objectives.

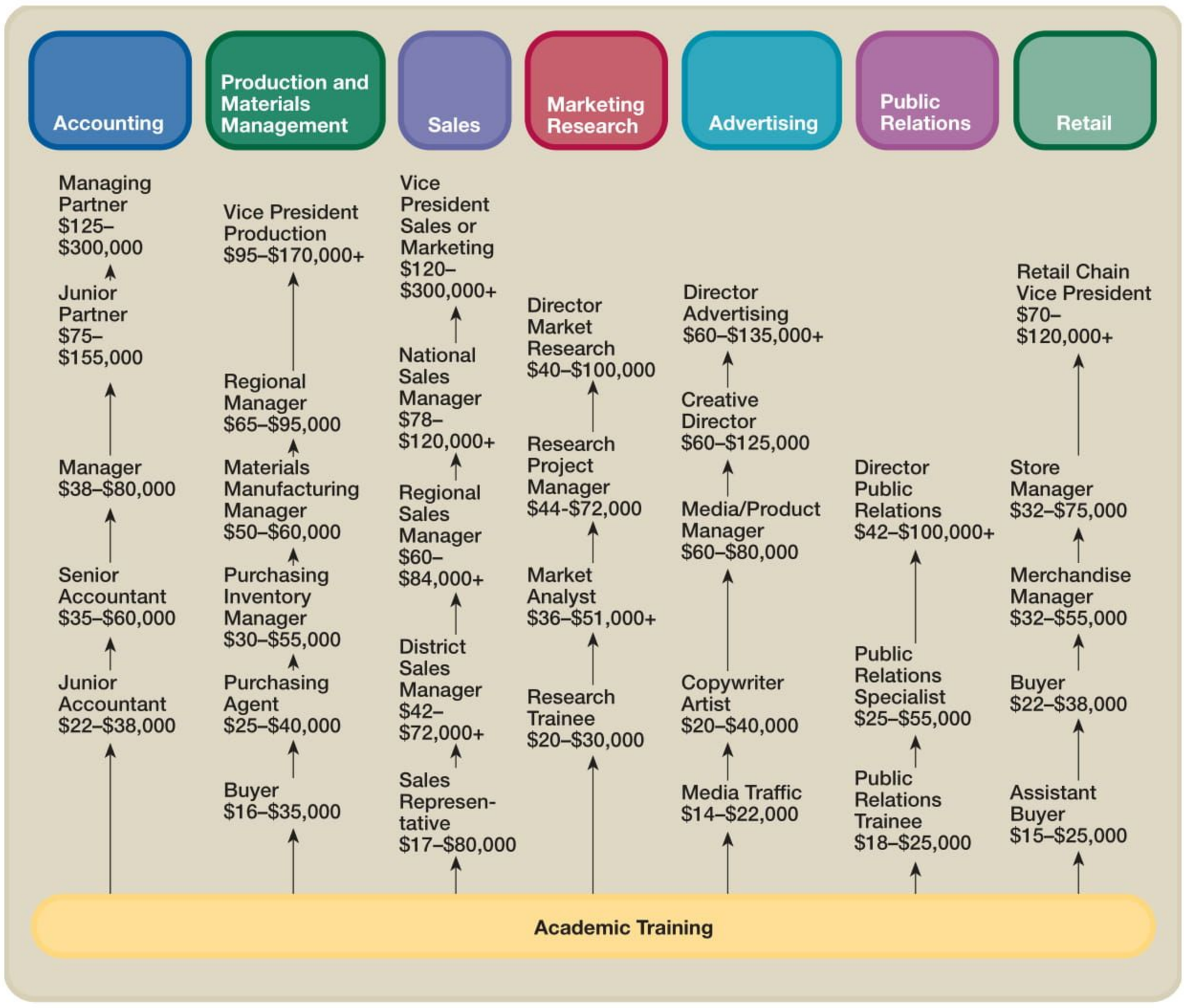
Set some timetables

At this point in your strategy planning process, set some timetables to organize your thinking and the rest of your planning. You need to make some decisions at this point to be sure you see where you're going. You might simply focus on getting your first job, or you might decide to work on two marketing plans: (1) a short-run plan to get your first job and (2) a longer-run plan—perhaps a five-year plan—to show how you're going to accomplish your long-run objectives. People who are basically job-oriented may get away with only a short-run plan—just drifting from one opportunity to another as their own objectives and opportunities change. But those interested in careers need a longer-run plan. Otherwise, they may find themselves pursuing attractive first job opportunities that satisfy short-run objectives—but quickly leave them, frustrated when they realize that they can't achieve their long-run objectives without additional training or other experiences that require starting over again on a new career path.

Environment Analysis

Strategy planning is a matching process. For your own strategy planning, this means matching yourself to career opportunities. So let's look at opportunities available in the marketing environment. (The same approach applies, of course, in the whole business area.) Exhibit C-2 shows some of the possibilities and salary ranges.

Exhibit C-2 Some Career Paths and Salary Ranges



Keep in mind that the salary ranges in Exhibit C-2 are rough estimates. Salaries for a particular job often vary depending on a variety of factors, including company size, industry, and geographic area. People in some firms also get big bonuses that are not counted in salary. In recent years *Advertising Age* has been publishing an annual survey of salary levels for different marketing and advertising jobs—with breakdowns by company size and other factors. Many trade associations—across a variety of different industries—also publish surveys. If you use the Internet search engine at www.yahoo.com and do a search on *salary survey*, you will find that there are hundreds of such surveys available on the Internet for a number of different industries.

Identifying current opportunities in marketing

Because of the wide range of opportunities in marketing, it's helpful to narrow your possibilities. After deciding on your own objectives, strengths, and weaknesses, think about where in the marketing system you might like to work. Would you like to work for manufacturers, or wholesalers, or retailers? Or does it really matter? Do you want to be involved with consumer products or business products? By analyzing your feelings about these possibilities, you can begin to zero in on the kind of job and the functional area that might interest you most.

One simple way to get a better idea of the kinds of jobs available in marketing is to review the chapters of this text—this time with an eye for job opportunities rather than new concepts. The following paragraphs contain brief descriptions of job areas that marketing graduates are often interested in with references to specific chapters in the text. Some, as noted below, offer good starting opportunities, while others do not. While reading these paragraphs, keep your own objectives, interests, and strengths in mind.

Marketing manager (Chapter 2)

This is usually not an entry-level job, although aggressive students may move quickly into this role in smaller companies.

Customer or market analyst (Chapters 3, 4, 5, and 6)

Opportunities as consumer analysts and market analysts are commonly found in large companies, marketing research organizations, advertising agencies, and some consulting firms. Investment banking firms also hire entry-level analysts; they want to know what the market for a new business is like before investing. Beginning market analysts start in thing-oriented jobs until their judgment and people-oriented skills are tested. The job may involve collecting or analyzing secondary data or preparation of reports and plans. Because knowledge of statistics, computer software, Internet search techniques, and/or behavioral sciences is very important, marketing graduates often find themselves competing with majors from statistics, sociology, computer science, and economics. Graduates who have courses in marketing *and* one or more of these areas may have the best opportunities.

Purchasing agent/buyer (Chapter 7)

Entry-level opportunities are commonly found in large companies, and there are often good opportunities in the purchasing area. Many companies are looking for bright newcomers who can help them find new and better ways to work with suppliers. To get off on the right track, beginners usually start as trainees or assistant buyers under the supervision of experienced buyers. That's good preparation for a promotion to more responsibility.

Marketing research opportunities (Chapter 8)

There are entry-level opportunities at all levels in the channel (but especially in large firms where more formal marketing research is done in-house), in advertising agencies, and in marketing research firms. Some general management consulting firms also have marketing research groups. Quantitative and behavioral science skills are extremely important in marketing research, so some firms are more interested in business graduates who have studied statistics or psychology as electives. But there still are many opportunities in marketing research for marketing graduates, especially if they have some experience in working with computers and statistical software. A recent graduate might begin in a training program—conducting interviews or summarizing open-ended answers from questionnaires and helping to prepare electronic slide presentations for clients—before being promoted to a position as an analyst, assistant project manager, account representative, and subsequent management positions.

Packaging specialists (Chapter 9)

Packaging manufacturers tend to hire and train interested people from various backgrounds—there is little formal academic training in packaging. There are many sales opportunities in this field—and with training, interested people can become specialists fairly quickly in this growing area.

Product/brand manager (Chapters 9 and 10)

Many multiproduct firms have brand or product managers handling individual products—in effect, managing each product as a separate business. Some firms hire marketing graduates as assistant brand or product managers, although larger firms typically recruit MBAs for these jobs. Many firms prefer that recent college graduates spend some time in the field doing sales work or working with an ad agency or sales promotion agency before moving into brand or product management positions.

Product planner (Chapter 10)

This is usually not an entry-level position. Instead, people with experience on the technical side of the business or in sales might be moved onto a new-product development team as they demonstrate judgment and analytical skills. However, new employees with winning ideas for new products don't go unnoticed—and they sometimes have the opportunity to grow fast with ideas they spearhead. Having a job that puts you in contact with customers is often a good way to spot new needs.

Distribution channel management (Chapter 11)

This work is typically handled or directed by sales managers and therefore is not an entry-level position. However, many firms form teams of specialists who work closely with their counterparts in other firms in the channel to strengthen coordination and relationships. Such a team often includes new people in sales or purchasing because it gives them exposure to a different part of the firm's activities. It's also not unusual for people to start working in a particular industry and then take a different job at a different level in the channel. For example, a graduate who has trained to be a store manager for a chain of sporting goods stores might go to work for a manufacturers' representative that handles a variety of sports equipment.

Logistics opportunities (Chapter 12)

There are many sales opportunities with physical distribution specialists—but there are also many thing-oriented jobs involving traffic management, warehousing, and materials handling. Here training in accounting, finance, and computer methods could be very useful. These kinds of jobs are available at all levels in channels of distribution.

Retailing opportunities (Chapter 13)

Not long ago, most entry-level marketing positions in retailing involved some kind of sales work. That has changed rapidly in recent years because the number of large retail chains is expanding and they often recruit graduates for their management training programs. Retailing positions tend to offer lower-than-average starting salaries—but they often provide opportunities for very rapid advancement. In a fast-growing chain, results-oriented people can move up very quickly. Most retailers require new employees to have some selling experience before managing others—or buying. A typical marketing graduate can expect to work as an assistant manager or do some sales work and manage one or several departments before advancing to a store management position—or to a staff position that might involve buying, advertising, location analysis, and so on.

Wholesaling opportunities (Chapter 13)

Entry-level jobs with merchant wholesalers typically fall into one of two categories. The first is in the logistics area—working with transportation management, inventory control, distribution customer service, and related activities. The other category usually involves personal selling and customer support. Agent wholesalers typically focus on selling, and entry-level jobs often start out with order-taking responsibilities that grow into order-getting responsibilities. Many wholesalers are

moving much of their information to the Internet, so marketing students with skills and knowledge in this arena may find especially interesting opportunities.

Personal selling opportunities (Chapter 15)

Because there are so many different types of sales jobs and so many people are employed in sales, there are many good entry-level opportunities in personal selling. This might be order-getting, order-taking, or missionary selling. Many sales jobs now rely on sales technology, so some of the most challenging opportunities will go to students who know how to prepare spreadsheets and presentation materials using software programs like Microsoft Office. Many students are reluctant to get into personal selling—but this field offers benefits that are hard to match in any other field. These include the opportunity to earn extremely high salaries and commissions quickly, a chance to develop your self-confidence and resourcefulness, an opportunity to work with minimal supervision—almost to the point of being your own boss—and a chance to acquire product and customer knowledge that many firms consider necessary for a successful career in product/brand management, sales management, and marketing management. On the other hand, many salespeople prefer to spend their entire careers in selling. They like the freedom and earning potential that go with a sales job over the headaches and sometimes lower salaries of sales management positions.

Advertising opportunities (Chapters 14 and 16)

Job opportunities in this area are varied and highly competitive. And because the ability to communicate and a knowledge of the behavioral sciences are important, marketing graduates often find themselves competing with majors from fields such as English, communication, psychology, and sociology. There are thing-oriented jobs such as copywriting, media buying, art, and so on. Competition for these jobs is very competitive—and they go to people with a track record. So the entry-level positions are as assistant to a copywriter, media buyer, or art director. There are also people-oriented positions involving work with clients—which are probably of more interest to marketing graduates. This is a glamorous but small and extremely competitive industry where young people can rise very rapidly—but they can also be as easily displaced by new bright young people. Entry-level salaries in advertising are typically low. There are sometimes good opportunities to get started in advertising with a retail chain that prepares its advertising internally. Another way to get more experience with advertising is to take a job with one of the media—perhaps in sales or as a customer consultant. Selling advertising space on a website or cable TV station or newspaper may not seem as glamorous as developing TV ads, but media salespeople help their customers solve promotion problems and get experience dealing with both the business and creative side of advertising.

Sales promotion opportunities (Chapters 14 and 16)

The number of entry-level positions in the sales promotion area is growing because the number of specialists in this area is growing. For example, specialists might help a company plan a special event for employees, figure out procedures to distribute free samples, or perhaps set up a database to send customers a newsletter. Because clients' needs are often different, creativity and judgment are required. It is usually difficult for an inexperienced person to show evidence of these skills right out of school, so entry-level people often work with a project manager until they learn the ropes. In companies that handle their own sales promotion work, a beginner usually starts by getting some experience in sales or advertising.

Pricing opportunities (Chapters 17 and 18)

Pricing decisions are usually handled by experienced executives. However, in some large companies and consulting firms there are opportunities as pricing analysts for

marketing graduates who have quantitative skills. These people work as assistants to higher-level executives and collect and analyze information about competitors' prices and costs, as well as the firm's own costs. Thus, being able to work with accounting numbers and computer spreadsheets is often important in these jobs. However, sometimes the route to these jobs is through experience in marketing research or product management.

Credit management opportunities

Specialists in credit have a continuing need for employees who are interested in evaluating customers' credit ratings and ensuring that money gets collected. Both people skills and thing skills can be useful here. Entry-level positions normally involve a training program and then working under the supervision of others until your judgment and abilities are tested.

International marketing opportunities

Many marketing students are intrigued with the adventure and foreign travel promised by careers in international marketing. Some firms hire recent college graduates for positions in international marketing, but more often these positions go to MBA graduates. However, that is changing as more and more firms are pursuing international markets. It's an advantage in seeking an international marketing job to know a second language and to know about the culture of countries where you would like to work. Your college may have courses or international exchange programs that would help in these areas. Graduates aiming for a career in international marketing usually must spend time mastering the firm's domestic marketing operations before being sent abroad. So a good way to start is to focus on firms that are already involved in international marketing, or who are planning to move in that direction soon. On the other hand, there are many websites with listings of international jobs. For example, you might want to visit www.overseasjobs.com.

Customer relations/consumer affairs opportunities (Chapters 14 and 22)

Most firms are becoming more concerned about their relations with customers and the general public. Employees in this kind of work, however, usually have held various positions with the firm before doing customer relations.

Study trends that may affect your opportunities

A strategy planner should always be evaluating the future because it's easier to go along with trends than to buck them. This means you should watch for political, technical, or economic changes that might open, or close, career opportunities.

If you can spot a trend early, you may be able to prepare yourself to take advantage of it as part of your long-run strategy planning. Other trends might mean you should avoid certain career options. For example, rapid technological changes in computers and communications, including the Internet, are leading to major changes in retailing and advertising, as well as in personal selling. Cable television, telephone selling, and direct-mail selling may reduce the need for routine order takers—while increasing the need for higher-level order getters. More targeted and imaginative sales presentations for delivery by mail, e-mail, phone, or even by Internet websites may be needed. The retailers who survive may need a better understanding of their target markets. And they may need to be supported by wholesalers and manufacturers who can plan targeted promotions that make economic sense. This will require a better understanding of the production and physical distribution side of business, as well as the financial side. And this means better training in accounting, finance, inventory control, and so on. So plan your personal strategy with such trends in mind.

One good way to get more detailed analysis is to go to the U.S. Bureau of Labor Statistics website at http://stats.bls.gov and use the search procedure to look for the

term *occupational outlook*. The Bureau provides detailed comments about the outlook for employment and growth in different types of jobs, industries, and regions.

Evaluate business practices

Finally, you need to know how businesses really operate and the kind of training required for various jobs. We've already seen that there are many opportunities in marketing—but not all jobs are open to everyone, and not all jobs are entry-level jobs. Positions such as marketing manager, brand manager, and sales manager are higher rungs on the marketing career ladder. They become available only when you have a few years of experience and have shown leadership and judgment. Some positions require more education than others. So take a hard look at your long-run objectives—and then see what degree you may need for the kinds of opportunities you might like.

Develop Objectives

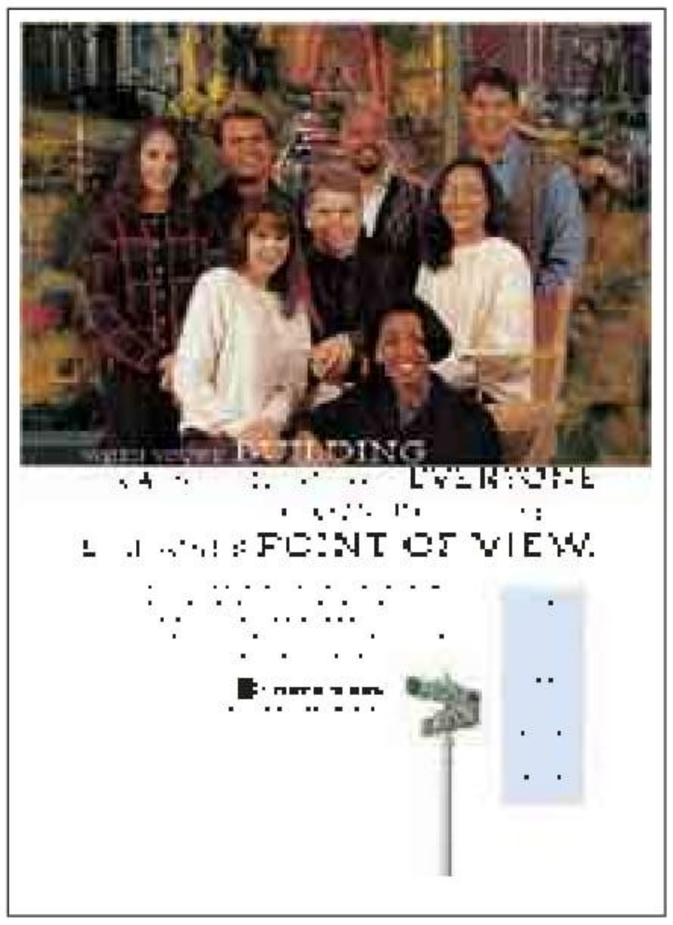
Once you've done a personal analysis and environment analysis—identifying your personal interests, your strengths and weaknesses, and the opportunities in the environment—define your short-run and long-run objectives more specifically.

Develop long-run objectives

Your long-run objectives should clearly state what you want to do and what you will do for potential employers.

Your long-run objectives should clearly state what you want to do and what you will do for potential employers. You might be as specific as indicating the exact career area you want to pursue over the next 5 to 10 years. For example, your long-run objective might be to apply a set of marketing research and marketing management tools to the food manufacturing industry—with the objective of becoming director of marketing research in a small food manufacturing company.

Your long-run objectives should be realistic and attainable. They should be objectives you have thought about and for which you think you have the necessary skills (or the capabilities to develop those skills) as well as the motivation to reach the objectives.



Develop short-run objectives

To achieve your long-run objective(s), you should develop one or more short-run objectives. These should spell out what is needed to reach your long-run objective(s). For example, you might need to develop a variety of marketing research skills *and* marketing management skills—because both are needed to reach the longer-run objective. Or you might need an entry-level position in marketing research for a large food manufacturer to gain experience and background. An even shorter-run objective might be to take the academic courses that are necessary to get that desired entry-level job. In this example, you would probably need a minimum of an undergraduate degree in marketing, with an emphasis on marketing research. (Note that, given the longer-run objective of managerial responsibility, a business degree would probably be better than a degree in statistics or psychology.)

Developing Your Marketing Plan

Now that you've developed your objectives, move on to developing your own personal marketing plan. This means zeroing in on likely opportunities and developing a specific marketing strategy for these opportunities. Let's talk about that now.

Identify likely opportunities

An important step in strategy planning is identifying potentially attractive opportunities. Depending on where you are in your academic training, this can vary all the way from preliminary exploration to making detailed lists of companies that offer the kinds of jobs that interest you. If you're just getting started, talk to your school's career counselors and placement officers about the kinds of jobs being offered to your school's graduates. Your marketing instructors can help you be realistic about ways you can match your training, abilities, and interests to job opportunities. Also, it helps to read business publications such as *Business Week*, *Fortune*, *The Wall Street Journal*, and *Advertising Age*. *Applications in Basic Marketing*, which comes shrinkwrapped with this text, provides reprints of recent articles from these publications. If you are interested in opportunities in a particular industry, check at your library or on the Internet to see if there are trade publications or websites that can bring you up to speed on the marketing issues in that area. Your library or college may also have an online service to make it easier to search for articles about specific companies or industries. And many companies have their own websites that can be a very useful source of information.

Don't overlook the business sections of your local newspapers to keep in touch with marketing developments in your area. And take advantage of any opportunity to talk with marketers directly. Ask them what they're doing and what satisfactions they find in their jobs. Also, if your college has a marketing club, join it and participate actively in the club's programs. It will help you meet marketers and students with serious interest in the field. Some may have had interesting job experiences and can provide you with leads on part-time jobs or exciting career opportunities.

If you're far along in your present academic training, list companies that you know something about or are willing to investigate—trying to match your skills and interests with possible opportunities. Narrow your list to a few companies you might like to work for.

If you have trouble narrowing down to specific companies, make a list of your personal interest areas—sports, travel, reading, music, or whatever. Think about the companies that compete in markets related to these interests. Often your own knowledge about these areas and interest in them can give you a competitive advantage in getting a job. This helps you focus on companies that serve needs you think

are important or interesting. A related approach is to do a search on the Internet for websites related to your areas of interest. Websites often display ads or links to firms that are involved in that specific interest area. Further, many companies post job openings on their own websites or at websites that specialize in promoting job searches by many companies.

Then do some research on these companies. Find out how they are organized, their product lines, and their overall strategies. Try to get clear job descriptions for the kinds of positions you're seeking. Match these job descriptions against your understanding of these jobs and your objectives. Jobs with similar titles may offer very different opportunities. By researching job positions and companies in depth, you should begin to have a feel for where you would be comfortable as an employee. This will help you narrow your target market of possible employers to perhaps five firms. For example, you may decide that your target market for an entry-level position consists of large corporations with (1) in-depth training programs, (2) a wide product line, and (3) a wide variety of marketing jobs that will enable you to get a range of experiences and responsibilities within the same company.

Planning your Product

Just like any strategy planner, you must decide what Product features are necessary to appeal to your target market. Identify which credentials are mandatory and which are optional. For example, is your present academic program enough, or will you need more training? Also, identify what technical skills are needed—such as computer programming or accounting. Further, are there any business experiences or extracurricular activities that might help make your Product more attractive to employers? This might involve active participation in college organizations or work experience, either on the job or in internships.

Planning your Promotion

Once you identify target companies and develop a Product you hope will be attractive to them, you have to tell these potential customers about your Product. You can write directly to prospective employers—sending a carefully developed résumé that reflects your strategy planning. Or you can visit them in person (with your résumé). Many colleges run well-organized interviewing services. Seek their advice early in your strategy planning effort.

Implementing Your Marketing Plan

When you complete your personal marketing plan, you have to implement it—starting with working to accomplish your short-run objectives. If, as part of your plan, you decide that you need specific outside experience, then arrange to get it. This may mean taking a low-paying job or even volunteering to work in political organizations or volunteer organizations where you can get that kind of experience. If you decide that you need skills you can learn in academic courses, plan to take these courses. Similarly, if you don't have a good understanding of your opportunities, then learn as much as you can about possible jobs by talking to professors, taking advanced courses, and talking to businesspeople. Of course, trends and opportunities can change—so continue to read business publications, talk with professionals in your areas of interest, and be sure that the planning you've done still makes sense.

Strategy planning must adapt to the environment. If the environment changes or your personal objectives change, you have to develop a new plan. This is an ongoing process—and you may never be completely satisfied with your strategy planning. But even trying will make you look much more impressive when you begin

your job interviews. Remember, while all employers would like to hire a Superman or a Wonder Woman, they are also impressed with candidates who know what they want to do and are looking for a place where they can fit in and make a contribution. So planning a personal strategy and implementing it almost guarantee you'll do a better job of career planning, and this will help ensure that you reach your own objectives, whatever they are.

Whether or not you decide to pursue a marketing career, the authors wish you the best of luck in your search for a challenging and rewarding career, wherever your interests and abilities may take you.

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Video Cases

Basic Marketing includes two different types of marketing cases: the 7 special video cases in this section and the 35 traditional cases in the next section. All of the cases offer you the opportunity to evaluate marketing concepts at work in a variety of real-world situations. However, the video cases add a multimedia dimension because we have produced a special video to accompany each of the written cases. An abbreviated version of the video for each case is available on the *Student CD-ROM to Accompany Basic Marketing*. The full-length videos are available to professors who adopt *Basic Marketing* for use in their course. (These case-based videos are in addition to 19 other video segments we have custom produced and made available to instructors for possible use with other parts of the text.)

The videos bring to life many of the issues considered in each case. However, you can read and analyze the written case descriptions even if there is no time or opportunity to view the video. Either way, you'll find the case interesting and closely tied to the important concepts you've studied in the text.

The set of questions at the end of each case will get you started in thinking about the marketing issues in the case. Further, we provide instructors with a number of suggestions on using the video cases—both for group discussion in class or individual assignments. Thus, as is also true with the traditional cases in the next section, the video cases can be used in many different ways and sequences. You can analyze all of the cases, or only a subset. In fact, the same case can be analyzed several times for different purposes. As your understanding of marketing deepens throughout the course, you'll "see" many more of the marketing issues considered in each case.

1 Marketing in the Hardwood Industry*

Logs cut from hardwood forests are an important raw material used by many domestic and foreign producers. Unlike pine and other softwoods, which are used mostly for general construction, the demand for oak, black walnut, black cherry, white ash, maple, and other hardwoods derives from consumer demand for high-value products such as hardwood furniture, cabinets, flooring, millwork, and moldings. When properly finished, hardwoods offer a finish that is both durable and beautiful. The wood is also very strong, so even pieces that do not have a perfect appearance are well suited for making frames of chairs, sofas, and other furniture that are covered with various upholstery materials.

Hardwood forests cover many of the rural areas of the eastern United States—areas where there is often little other industry. Thus, the forest products industry is important to economic development and to the employment and quality of life of people who live and work in these areas.

Unfortunately, that potential for economic development is not always achieved. A key reason for this is that many of the firms that harvest logs do not focus on any particular target market or specific customers. Rather, they just see the market opportunity in terms of the products they have always produced: hardwood logs or perhaps "green" roughsawn lumber cut from the logs. As a result, they sell a commodity product to distant customers who view logs from one supplier as like all of the others on the market and simply purchase logs at the lowest price.

Under this production-oriented, commodity approach, the hardwood produced in rural regions of the U.S. has usually been shipped to other regions—including foreign countries—before the wood is processed into intermediate and finished products. But when the wood is sold and shipped out of the region as an unfinished commodity, the profit opportunities—and associated employment—relevant to the secondary processing are exported as well.

Historically, in this commodity-market environment, successful producers were those who could operate with the lowest total cost. The major cost areas are raw material (lumber), labor, any processing that is done, transportation, and, of course, any marketing-related expenses. Small- and medium-sized producers are at an inherent disadvantage in this competitive, cost-oriented environment. They cannot achieve economies of scale because they can't spread their overhead expenses over a large number of units produced. As a result, there is little way for them to obtain a competitive advantage in production or distribution.

Some hardwood producers, including some smaller ones, were able to improve sales and profits—in both the U.S. and international markets—by differentiating their offerings with higher-quality products and service. For example, firms that worked to keep lumber dry and clean were better able to meet the needs of some customers. Further, some customers appreciated supplier firms that did a good job of sorting and grading different types of woods. And some suppliers focused on supplying species of wood that were desirable but less-readily available.

In spite of such efforts, in the past most hardwood from U.S. producers was just sold as a commodity in a very competitive market. However, some people in the hardwood industry are applying marketing concepts to help change this situation. They are focusing attention on ways to expand the market for existing hardwood products and also trying to identify markets with specific needs so that they can increase the value added to the hardwood lumber—by producing finished or semi-processed products—before it is shipped out of the region where the trees are cut.

These efforts are having an effect. For example, some companies have found markets for hardwood-based composite materials for use as beams, columns, or rafters in building construction. Traditional materials for structural framing include softwood lumber and nonrenewable resources such as steel and aluminum. These structural hardwood composites are manufactured by breaking lower quality hardwood logs into small pieces such as strands, flakes, or thin sheets of wood (veneer) and reforming the pieces into large members with names like "parallel-strand lumber" or "laminated veneer lumber" for the construction market. By finding market opportunities for structural hardwood composites, companies add value by using small or poorly formed logs, less desirable hardwood species, and sometimes even the hardwood waste from other industrial processes. Development of value-added markets for structural hardwood composites also has resulted in job creation and economic development in rural, forested areas.

However, producing structural hardwood composites is just one way to meet customer needs that were not previously being satisfied. An increasing number of customers want to buy kiln-dried boards rather than green lumber that isn't immediately ready to use for their own production purposes. So, many firms that cut and sell hardwood are taking the step of adding value to their product by doing the kiln-drying process. But numerous other opportunities to add value still exist. To uncover them, U.S. hardwood suppliers are asking basic questions like: What are the needs of different customers in the broad product-market for hardwood? Who are these customers and where are they located? What kind of hardwood products—beyond the commodity lumber we've sold in the past—do they want? What are the opportunities to differentiate what we sell and add more value to our product through additional processing that meets the needs of specific target segments? How do we go about finding the answers to these questions?

One opportunity for expanding both the market and value-added product opportunities lies in the area of international exports. Prior to 1980, many firms that supplied hardwood ignored the export market. Domestic demand was sufficiently large to sustain growth and profitability. However, as domestic demand softened and competition grew more intense, U.S. suppliers began to rethink entry into the international marketplace. In the last decade, efforts to market hardwood products to foreign markets have expanded significantly, and the value of exported hardwood products has increased substantially.

*This case and the script for the accompanying video were prepared by Thomas G. Ponzurick and James P. Armstrong.

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Despite some recent success, there is still a vital need for more U.S. suppliers to adopt the marketing concept, especially in targeting the export marketplace. Currently, international buyers are focusing most of their attention on the higher-grade hardwood products. But growth of sales and profits from exporting will depend on the U.S. industry's ability to find markets for more of their available product inventory—including lower grades and species of hardwood. In fact, finding markets for value-added products may be the best way to improve sales of the lower grades and species. This would not only result in more efficient and profitable use of hardwood resources, but it could also reduce costs by improving economies of scale in production.

However, the question that should be uppermost in marketers' minds is: What do these customers want in the way of hardwood products? To answer this question, one must first determine the needs of these international buyers. In the case of U.S. hardwood suppliers, Canadian buyers are currently the largest market for these products.

Most of the Canadian firms that import U.S. hardwood to Canada are concentrated in a few geographic areas: over 75 percent are located in either Ontario or Quebec. Much of the imported lumber is purchased by Canadian manufacturers who use it to produce their own products—including furniture, cabinets, hardwood flooring, and molding and millwork for the construction industry. However, these customers account for only about 31 percent of U.S. imports. Canadian wholesalers—especially brokers and agents—account for more than half of the Canadian hardwood lumber purchased from U.S. sources. Many of these middlemen specialize in international sales. In fact, nearly 20 percent of all U.S. hardwood lumber imported by Canada is subsequently resold and exported to Europe—usually after some value-adding activities such as grading, sorting, repackaging, or additional product processing.

Red oak, hard maple, and white oak are the principal hardwood species that Canadian customers import from the United States. However, there are also markets for some species of lesser value—including soft maple and yellow poplar.

All types of lumber are graded according to quality, and this grading is important to Canadian buyers who have different hardwood needs. About 70 percent of the total volume of hardwood lumber purchased by Canadian firms is the higher-quality Number 1 Common grade or better. The other 30 percent of lumber imported is graded as Number 2 Common or lower. Firms that purchase the lower grades of lumber are mostly flooring manufacturers, furniture manufacturers, and brokers.

Marketing research studies indicate that Canadian hardwood lumber buyers are relatively satisfied with the quality of products and services now being provided by U.S. suppliers. However, the research reveals that suppliers could enhance customer satisfaction and their competitive advantage by improving their product quality through more accurate grading and reporting of moisture content as well as by providing cleaner and straighter lumber. Buyers would also like to see better distribution customer service from U.S. suppliers. This includes improving the reliability of lumber supplies and reducing order cycle time—that is, the time from when a customer orders lumber until it is delivered. And of course, organizational buyers are always interested in competitive pricing.

Importantly, the research also shows that over one-third of the firms that import hardwood lumber from the United States are potentially interested in purchasing finished hardwood parts from U.S. suppliers. Examples in the area of finished hardwood parts include parts for making furniture, doors, stairways, and railings. Organizations showing an interest in these finished products include importers, export brokers, and manufacturers of various hardwood products. These results indicate that there may be a good opportunity for U.S. suppliers of hardwood products to custom produce such parts for specific customers. Yet it is still unknown how substantial this opportunity might be, how eager Canadian buyers might be to purchase value-added finished hardwood products, and at what prices. To begin to answer these questions, U.S. suppliers need to determine the types and specifications of the finished hardwood products desired by individual buyers. That will require that supplier firms do more marketing research or have more direct personal selling contact with buyers for specific firms than has been typical in the past. Alternatively, working with these customers may require closer relationships—partnerships—with middlemen who can help producers with some of the required marketing functions.

It appears that U.S. hardwood firms face a variety of possible opportunities to expand sales and improve profits. Export markets, including Canada, appear to offer greater potential than has been captured. Further, some of the opportunities are ones that focus on the value-added products that have the potential to foster economic development in rural areas of the U.S. where such activities have in the past been limited. However, just having access to hardwood forests alone isn't enough to turn these opportunities into profitable business. Developing international markets for value-added hardwood products requires that individual supplier firms adapt their marketing strategies to marketplace needs. Producers need to identify specific target markets and understand the unique needs and buying behavior of these markets. They also need to get beyond production-oriented thinking and develop whole marketing mixes to serve their target customers. That means figuring out what type of products and services to offer. It also means making decisions about how to price specific offerings—because firms that are doing something unique for their customers won't just face perfect competition and a price that is set by the market. A firm that does a good job with this marketing strategy planning has the potential to satisfy some target customers very well and in the process gain a sustainable competitive advantage. And, of course, as more firms do that they will not only make better profits, but also contribute to the economic development of the areas in which they operate.

1. Why is it important for firms that produce and supply hardwood to adopt the marketing concept?
2. What are some of the ways hardwood products can be adapted to meet value-added market needs?
3. In what ways is the marketing strategy different for hardwood suppliers who focus on a specific target market than for firms that just sell roughsawn logs or green lumber in the commodity market?

4. What are some of the potential target markets for U.S. hardwood suppliers selling to the Canadian market? Which marketing mix variables are likely to be most important to the target markets you have identified?

2 Celestial Seasonings*

In the late 1960s, the era of Woodstock and Summer of Love music festivals, Mo and Peggy Siegel and two friends began picking herbs in the mountains around Aspen, Colorado. They decided to start a company that they named after one of their friends—Lucinda Ziesing, whose nickname was Celestial. The next year, 10,000 muslin bags of Mo's 36 Herb Tea were sewn, filled, and sold to a health-food store in Boulder, Colorado. A year later, Sleepytime Herb Tea was created, and the business was moved to a barn in Boulder. But that didn't last long. Mo and his friends were onto something hot! Soon they were purchasing herbs around the world and learning how to mass produce their product in a factory. Loose-pack tea was eventually replaced with single-serve tea bags, and additional flavors were created—all of which fueled sales. Today, Celestial Seasonings is recognized as a leader in herbal products, accounting for half the herbal tea market in the United States and expanding worldwide.

Celestial Seasonings' core business is herbal teas. Along with Mo's 36 Herb, Red Zinger, and their best-selling product, Sleepytime, the company has created over 60 different herbal teas.

The tea market is comprised of black teas, herbal and medicinal teas, diet teas, iced teas, and Chai, a sweet Indian spiced blend. The U.S. tea market has an annual growth rate of about 10 percent in recent years. Herbal and medicinal teas represent two-thirds of the total tea market and are growing at about 12 percent a year. Celestial Seasonings is the leading competitor in the herbal tea category, holding 50 percent market share. Other herbal tea competitors include Republic of Tea, Tazo (Starbucks), Yogi Tea, and Oregon Chai.

Herbal teas compete with traditional black teas, dominated by Lipton Tea Company. In the 70s, Celestial revolutionized the tea industry when it introduced the idea of herbal teas as flavorful, healthy beverages for everyday consumption. At that time, herbal teas were perceived as foul-tasting medicinal brews. Few retail stores carried a complete line of herbal teas, so creating awareness, favorable image, and distribution posed a daunting challenge to the company. Initially, Celestial Seasonings promoted and distributed its products through health-food stores.

In 1984, food industry giant Kraft Foods bought Celestial Seasonings. With its marketing muscle and channel power, Kraft expanded distribution of Celestial Seasonings and added a line of gourmet black teas under the Celestial brand name. Shortly after the Kraft buyout, Mo Siegel retired from the company, and Barney Feinblum was named successor. However, the Kraft way of doing business sometimes conflicted with Celestial's culture, which from the beginning was influenced by "hippie-style" entrepreneurship, employee involvement, and earth-friendly community initiatives.

The values of the company are epitomized in its belief statement:

> We believe in marketing and selling healthful and naturally oriented products that nurture people's bodies and uplift their souls. Our products must be superior in quality, of good value, beautifully artistic, and philosophically inspiring.

In 1988, Celestial Seasonings management along with a venture capital firm bought the company back from Kraft. A new board of directors was created, and new headquarters were constructed outside of Boulder, Colorado. In 1991, Mo Siegel returned as CEO and chairman of the board and agreed to stay until 1997.

During Mo's second period of leadership, Celestial Seasonings went public and attempted a variety of product diversifications. A partnership with Perrier was formed to license and produce a line of ready-to-drink bottled teas under the Celestial Seasonings brand. A line of After Dinner Teas was launched, targeting more upscale consumers than Celestial's original back-to-the-earth customers and promoting tea as an after-dinner beverage. Iced Delight teas were created and marketed as "Brews in Your Fridge." A licensing agreement with Warner-Lambert produced Celestial Seasonings Soothers, herbal throat drops. In 1995, with HP Hood Company, Celestial created iced tea flavored frozen popsicles, but they were not a market success. That same year, Celestial developed its first medicinal herb tea—Herbal Comfort. In 1997, based on the success of Herbal Comfort, Celestial Seasonings expanded the line of medicinal teas to include Echinacea, Green Tea, GinkoSharp, Diet Partner, GingerEase, Detox A.M., LaxaTea, and Melatonin P.M. Celestial Seasonings now has 46 percent (up from 24 percent in June 1998) of the fast-growing medicinal tea category.

In 1998, Celestial acquired Mountain Chai, a Boulder-based manufacturer of concentrated Indian-style tea. Six varieties of Mountain Chai were reformulated and introduced under the Celestial logo. That same year, a line of six green teas was launched. Green teas have been used in Asian cultures for hundreds of years and are known for their curative qualities. Green teas were introduced to the American market in the 60s but were not widely successful due to their bland taste.

In 1997, Mo Siegel's commitment to manage the company ended, and Steve Hughes, known in the industry for growing the Healthy Choice line of food products, became Celestial's CEO. With Hughes at the helm, Celestial Seasonings entered a new phase. Saying that Celestial was "a $500 million brand trapped in a $100 million business," Hughes initiated a series of efforts to leverage the Celestial brand name, including the creation of herbal supplements. According to Hughes,

> For 25 years we've cared about one thing—creating healthy, natural products that make our customers feel good. Our herbal supplement line is a natural extension of that mission. We know the power of herbs and the simple solutions they provide for good health. We want to share that.

Launched in April 1998 in capsule form, the herbal supplements line included nine single-herb extracts and eight advanced-formula blend products. The timing seemed perfect. Herbal supplements were rapidly gaining consumer

*This case and the script for the accompanying video were prepared by Professor Davis Folsom of USC Beaufort.

acceptance as alternatives and additions to traditional health and wellness products. A 1998 Market Facts survey showed the percentage of Americans who reported using herbal supplements had grown from just 3 percent in 1990 to 37 percent in 1998, and almost 80 percent of respondents felt herbal supplements were safe to take. Herbal supplements also have a number of logical synergies with Celestial's existing products. Many of the same ingredients are used, and herbal supplements can be sold through the same distribution channels.

Herbal supplements are promoted on the company's Natural Wellness website (www.celestialseasonings.com):

> We do our best to eat right, get enough rest, and exercise, and the benefits are undeniable. But our health can be affected by things we can't control. Environmental toxins, emotional and physical stress and simply getting older create concerns that show up in many ways—as wrinkles, low energy, a flagging mood, and more. We're not defenseless, though. Nature, as usual, provides what we need.

Clearly, Celestial Seasonings is appealing to specific target market segments, like aging baby boomers and health-conscious consumers of all ages. In fact, whenever a new Celestial product or service is proposed, the first question asked is "What will Tracy think?" Tracy Jones is the company's nickname for their primary target market: a 35- to 54-year-old, college-educated, socially involved woman with a focus on healthy lifestyle and household income greater than $50,000. Tracy also is not a major viewer of television. Herbal supplements are primarily targeted to Tracy and secondarily targeted to other health-conscious consumers. With labels that talk about "Tummy Mint" and "Tension Tamer," these new herbal supplements are designed to strike an emotional chord in Tracy.

Launched with a $4 million dollar campaign and priced at a premium, the herbal supplements line brought in 21 percent of Celestial's revenues in 1998. But just as things looked as bright as a summer day in the Rockies, Celestial learned a classic marketing lesson. The market for herbal supplements peaked at the same time two major competitors, One a Day and Centrum, entered the market. Also, 1999 SPINS and AC-Nielsen market research data indicated a variety of changes in the herbal market. Green teas, medicinal blend teas, and Chai were gaining sales, but previously popular single-herb supplements, including St. John's Wort and Ginseng, showed sharp declines.

In response, Celestial restaged the herbal supplements line in 1999 by dropping six products, reducing the advertising budget, and doubling the number of capsules per bottle. Celestial's herbal supplements line still represents a major part of company sales, but initial enthusiasm has mellowed, and the marketing team has begun to look for new opportunities. Also, companies specializing in herbal supplements face several ethical and legal issues.

Almost 80 percent of American consumers believe that herbal supplements are *safe*. However, as one FDA director has stated, "Realize that the label term 'natural' doesn't guarantee that a product is safe. Think of poisonous mushrooms. They're natural." Herbal supplements companies must abide by FDA rules regarding claims of effectiveness of their products; they cannot represent their products as medicines. Mike Gross, Celestial's regulatory expert, explains, "What it all boils down to is that you cannot make any claim to cure, treat, prevent, mitigate, or diagnose any disease state—or even mention a disease! For example, you cannot say 'for the treatment of prostate enlargement' but you can say 'to keep your prostate healthy.'"

One new direction under consideration at most consumer goods companies is the Internet. Surprisingly, the Internet initiative at Celestial started in the Information Technology division of the organization. Celestial started a modest web storefront designed to educate consumers and sell seasonal items and gifts from its mail-order catalog. Then the catalog manager got onboard and the marketing group joined in to build this alternative channel.

Part of the success of Celestial's catalog and Internet sales is attributable to the company kitchen! Started in 1973 as a free lunch program for employees, outsiders began to drift in, wanting to buy products. As more and more customers visited the factory, the idea of a factory tour gained favor. Between 1994 and 1999, over 350,000 people took Celestial's factory tour, creating a huge database for catalog and Internet marketing strategies.

1. What kinds of synergies do herbal supplements have with herbal teas?
2. What environmental trends seem to be fueling sales growth for herbal supplements? What environmental trends pose threats to the sales and profits of herbal supplements?
3. What kinds of new products should Celestial Seasonings develop? What criteria would you use to evaluate new product ideas for Celestial Seasonings? Why?

3 Briggs & Stratton Corporation*

Briggs & Stratton is the world's largest producer of air-cooled gasoline engines for outdoor power equipment, mainly for lawn mowers. The company designs, manufactures, markets, and services these products—which are sold as components to original equipment manufacturers (OEMs) in 85 countries.

Steve Briggs and Harry Stratton started the company in 1909 to produce a six-cylinder, two-cycle engine similar to one Briggs had developed a few years earlier as an engineering student in college. The engine turned out to be too expensive to mass produce, so the partners turned their attention to designing and producing electrical parts for automobiles—including switches, starters, and regulators.

Later B&S acquired the patent for the Motor Wheel—a gasoline engine designed to fit on a bicycle. It was a market success and ultimately proved to be a good way to power several other types of vehicles. In some parts of Asia it was even used on rickshas.

To build on the success of the Motor Wheel, B&S looked for new markets for engines. Its search led to the development of a stationary utility engine for use on such products as garden

*This case and the script for the accompanying video were prepared by Roger C. Shoenfeldt.

cultivators and reel-type mowers. Before utility companies brought electricity to rural parts of the U.S., these B&S engines even powered refrigerators, milking machines, and elevators.

After World War II, the booming U.S. economy, the shift of population to the suburbs, and the growth of leisure time prompted new consumer interest in lawn and garden equipment. B&S saw this growth opportunity and shifted its focus to producing motors for the lawn mower manufacturers who served that market. But B&S didn't just try to push engines it was already producing.

At that time, most power mowers used two-cycle engines; their light weight made mowers easy to push. However, two-cycles weren't reliable and needed a mix of gas and oil—which was inconvenient for consumers. Four-cycle engines like the ones B&S produced were very reliable, but they were made from cast iron and very heavy. Marketing people at B&S realized that consumers wanted *both* reliability and light weight, so the firm designed a new lawn mower engine from aluminum alloy.

Over time, the Briggs & Stratton name has become almost synonymous with the lawn mower. Top producers such as Toro, Snapper, and John Deere proudly proclaim in their ads that their mowers are powered by a Briggs & Stratton engine. In fact, Briggs & Stratton is often the most prominent brand name on the mower, even though the engine is just a component. The Briggs & Stratton name helps sell the mowers because it means quality, reliability, and performance to consumers. Because of this reputation—and consumer demand—many retailers won't sell a mower unless it uses a Briggs & Stratton motor.

Early in the 1980s B&S faced a serious competitive threat. A shift in international exchange rates made Japanese products less expensive in the U.S. and other parts of the world. This gave Japanese motorcycle producers a pricing edge to expand into the market for small engines. Because B&S was the leading producer of small engines, any competitive inroads would be at its expense.

Marketers at B&S realized that to keep competitors from carving up its market they would need to fine tune the firm's offerings for specific market segments. A starting point for that effort was to develop new product lines—actually, whole marketing strategies—for each type of need rather than just trying to get economies of scale by serving bigger, but heterogeneous, product-markets. B&S invested $250 million to develop carefully targeted new products, build new plants, and develop new processes to improve quality and reduce costs.

B&S' new-product development effort for specific segments cut short the Japanese invasion and increased customer satisfaction and brand loyalty. That put B&S in a better position to deal with another change—a big shift in the channel of distribution for lawn mowers. In the past, most consumers bought lawn mowers from independent lawn and garden equipment dealers. However, over time mass-merchandisers have taken away almost all of that business. In fact, five of the largest retail chains now account for half of all the lawn mowers sold in the U.S.—and about 80 percent of B&S' lawn and garden equipment sales are through mass-merchandisers.

This concentration of purchasing power has given the big retail chains new clout in the channel of distribution. Retail buyers pressure lawn mower producers to keep costs and prices low; and the producers in turn expect B&S to keep its prices in check. While this has probably reduced the price premium that the B&S brand commands, it hasn't eliminated it. Retailers know that consumers want lawn mowers with B&S engines. So brand loyalty by final consumers gives B&S an advantage in negotiations with its producer-customers. Even so, the squeeze on profit margins throughout the channel—and intense competition—means that B&S must continue to find better ways to meet customers' needs if it is to maximize market share and earn attractive profits. And for B&S, developing innovative new products has long been the key to meeting needs better. Its skill in this arena is illustrated by its success in developing a 4-horsepower motor to fill a gap in its product line.

In 1993 B&S had four main lines of lawn mower engines. B&S' Classic 3.5-horsepower (HP) engine was at the low end of the price range and it was found on mowers priced at about $99. As the name implies, this reliable model has been popular for many years. If a customer wanted a bit more power and a mower that took less pulling effort to start, B&S' 3.75-HP Sprint engine was available on mowers that sell for about $119. For consumers who wanted an easy-starting engine that quietly conquered even the thickest grass, the Quantum 5.0-HP Plus line was the choice—on a mower that cost from $160 up to $500. Finally, B&S offered a top-of-the-line Diamond Plus model with about 6.0 HP, unique European styling, and all the bells and whistles. A customer who had to ask how much it cost probably couldn't afford it.

In spite of multiple models in each of these lines, B&S did not have a good 4-HP mower engine. Yet there was a clear market for one. B&S' main competitor, Tecumseh, proved that. Its 4-HP engine was a market leader. And B&S needed to develop a new engine if it wanted to compete for the segment of customers who wanted a 4-HP engine. To take customers away from Tecumseh, B&S marketers knew they needed to develop a cost-effective engine that was better than the Tecumseh model on all operating and performance criteria. Research also showed that styling was becoming an important purchase criterion for many customers—perhaps because that was the one difference in engines that consumers could see while shopping.

Although they had a clear idea of what the market wanted, marketing managers at B&S faced a real challenge. Creating a superior new engine wouldn't do much good if lawn mower producers and retailers didn't know about it, and *the* time and place to introduce an important new lawn and garden product was at a big, national trade show that was less than a year away. If they missed that date, they'd effectively lose a year. So getting the new product to market fast—without making costly mistakes—was critical.

To speed up development and also reduce costs, B&S designers created a contemporary, aerodynamic look with a computer-aided design (CAD) system; the tooling of the parts—direct from the computer drawings—was very fast. Further, B&S engineers used standard parts from other B&S engines when they could. This helped to control costs, reduce development time, cut inventory requirements, and later would make after-the-sale service easier and faster. As a result of efforts like these, the new product went from the concept stage to production in about nine months—in time for the trade show deadline.

While the new product team was developing the engine, B&S marketing people had other work to do. To emphasize the new engine's distinct identity, they used an individual brand name, Quattro, which means four in Spanish. They also developed promotional materials to use at the trade show, and started work on ads and other cooperative promotional materials so they would be ready for producers and retailers to use when the Quattro started to appear on lawn mowers in retail stores.

The B&S salespeople also started to call on their top OEM customers. Besides explaining the advantages of the new Quattro motor and answering questions, they provided hundreds of sample motors. That made it possible for the producers to get a head start in creating prototypes of new mowers to show their retailer-customers. And since the retailers have a big influence on the producer's purchase decisions, B&S salespeople also promoted the features of the new motor—and the pull appeal of the Briggs & Stratton name—to retail buyers.

The salespeople also explained the benefits of the B&S cooperative advertising arrangements and how they work. B&S provides cooperative advertising allowances and materials to all of its OEM customers and to the retailers who sell their products.

As a result of all this front-end planning, the Quattro got off to a very successful start. In fact, customer reaction to the new engine's sleek appearance, power, and reliability was so strong that demand was double what B&S had forecast. By mid-1995, the company was hard-pressed to keep up with demand.

That's one reason that during the first year B&S decided to focus the marketing effort for the Quattro primarily on the U.S. market. It didn't make sense to spend money promoting the product in foreign markets if supply would be limited. However, exports account for 21 percent of all B&S engine and parts sales, and the Quattro isn't likely to be an exception to that pattern. When the time comes for the Quattro's international rollout some changes in the domestic marketing strategies may be required. For example, while lawn and garden equipment is important in nations with developed economies, in less-developed countries the Quattro is likely to be used for other types of applications—in agricultural, marine, and other commercial markets.

1. Are there any disadvantages to Briggs & Stratton's decision to hold off introducing its new Quattro engine in international markets? Explain your thinking.
2. What are the marketing implications for Briggs & Stratton of the fact that the U.S. market for lawn mowers is in the market maturity stage?
3. Given that engines are such an important component in manufacturing lawn mowers, would it make sense for Briggs & Stratton to develop and market its own line of mowers? Explain your thinking.
4. Given B&S' ability to compete well with Japanese motorcycle producers when they tried to take market share away from Briggs & Stratton's small engines, would it make sense for Briggs & Stratton to produce a small motorcycle—or perhaps a motorscooter—to market in India and other countries where incomes are low but demand for personal transportation is increasing? Explain your thinking.

4 Frog's Leap Winery*

In order to save a $2.00 camping fee, John Williams rode his motorcycle into a field in the Napa Valley, pitched his tent, and was enjoying a good night's sleep until he was rudely awakened early the next morning by the owner of the property, Larry Turley, a local doctor. In order to make amends, John offered to share a bottle of wine with the doctor, and by the time the bottle was empty, the two had discovered they both shared a strong desire to make wine.

Having grown up on a dairy farm in western New York, John originally went to Cornell University to extend his studies as a dairyman. However, a fortuitous work-study program at Taylor Wine Company—and a few bottles of wine later—made John realize he was more interested in making wine than in returning to the family dairy farm. His newfound interest led him to enroll in the Enology and Viticulture Masters Program at the University of California, Davis. After concluding his studies at Davis, John returned to the Finger Lakes area of New York as the start-up winemaker at Glenora Wine Cellars. But having been exposed to the superior climate and soils of the Napa Valley, John eventually headed back to the Napa Valley to assume winemaking duties at Spring Mountain Vineyards.

Back in the Napa Valley, John reacquainted himself with the good doctor whose land he had poached on several years before, Larry Turley. Larry was now living on a small parcel of land called The Frog Farm, so named because an old ledger revealed that around the turn of the century frogs were raised there and sold for $.33 per dozen, destined no doubt for the tables of Victorian San Francisco restaurants. As a lark, they gathered some grapes and made a small quantity of wine. They called the Wine "Frog's Leap," a combination of a good-natured dig at Stag's Leap, the classy Napa Valley winery, and a tribute to The Frog Farm where Larry lived.

Because of their love of winemaking, they continued to make small quantities of the wine for several years and managed to sell a few cases each year to help defray expenses. John and Larry continued to produce the wine as a hobby—they both were still working full-time in their real jobs—and probably wouldn't have changed except for the fact that a wine writer from *The New York Times* picked up a bottle and wrote a column entitled "Frog's Leap: A Prince of a Wine." The free publicity resulted in hundreds of telephone calls and the sale of their entire year's production.

The opportunity to attempt to grow the winery was too hard to resist, and, according to John, the hobby became a real business when "We made the ultimate male sacrifice and decided to sell our motorcycles in order to raise the capital necessary to start the winery as a commercial venture."

Production grew from 700 cases of wine at its inception in 1982, to 2,900 cases in 1983, to 4,400 cases in 1984. By 1985, the winery was doing well enough for John to quit his paid employment at Spring Mountain Winery and make Frog's

*Peter Rainsford prepared this case and the script for the accompanying video. He would like to thank John Williams, founder and owner of Frog's Leap Winery, for providing information in the case and for his constructive suggestions during its preparation.

Leap his full-time job. Frog's Leap has continued to grow and produced more than 50,000 cases in 2000. There are a variety of reasons for its success, but the overriding theme is best summed up by the following paragraph from the company's mission statement:

> We will strive to produce wines of excellent value that are fresh, delicious, and natural using the best of Napa Valley's organically grown grapes. Our professional presentation will be juxtaposed with our image of irreverent humor, fun, genuine hospitality, openness, and honest caring.

The winery has always been committed to quality and has refused to compromise with respect to quality. As John says, "Our goal is to have fun making elegant wines with superb balance."

While the contents of the bottle may be award-winning quality, the exterior of the bottle reflects the fun and humor of the company. The company's motto is "Time's Fun When You're Having Flies." Each bottle's label—which won a prestigious wine label award at the time it was designed—features an elongated frog in mid leap; it also contains the instructions, "Open Other End," at the base of the label. The humor continues when the bottle is opened as the word "ribbit" is clearly marked on every cork. But make no mistake, their first objective is to produce world-class wines, and if awards are any indication, they are clearly meeting this objective.

Dan Berger described the quality of the wines in the holiday 1995 issue of *Wine Enthusiast*. In an article about the 10 most underrated wineries on the West Coast, Berger states,

> I don't know why people don't see the utter greatness in the wines John Williams makes. His Cabernets are packed with fruit and elegance, his Zinfandel is among the best made anywhere, and his Sauvignon Blanc is a world-beater. This is simply one of the best producers in California and it never seems to get the acclaim it deserves. Maybe John's label note "Open Other End" is too subtle for the number of reviewers. (For that matter, his cork says it all!)

Speaking of the label, John looked for an unknown artist who would be willing to design a label for $100 and several cases of wine. Charles House agreed to do the job and was specifically told not to put a frog on the label. But that's exactly what House created—a captivating, eye-catching rendition of a frog in full leap—a frog "going for it" all out! The label went on to win one of the nation's top graphic design awards, House became famous, and Frog's Leap wine labels became part of the Smithsonian's permanent collection.

By 1994, the winery was not only successful but was bursting at the seams. The company was still located at The Frog Farm, but the business had "succeeded far beyond our expectations." According to John, "Frog's Leap was faced with a lack of production space, a lack of office space, and the need to make the winery accessible to the public." There was also a sense that John and Larry had different goals for both the winery and their personal lives. Larry wanted to spend less time being a doctor and more time involved in the day-to-day aspects of making wine—but on a much smaller scale. They decided, in a very amicable agreement, to split the winery in half. Larry, who owned the property where Frog's Leap had been located, kept the winery, all the winemaking equipment, and the one acre of sauvignon blanc vines located at the site. John retained the Frog's Leap brand, the wine inventory, and the marketing program.

The only problem with the split was the fact that John needed a place to put his winery—it was a winery in name only. He quickly found the ideal spot, a 38-acre parcel on the Rutherford Crossroad with a 8,000-square-foot barn, The Red Barn, which had been built in 1884 as a winery. Although the barn needed a great deal of renovation, it was restorable for use as a winery. The site also provided John with the land he needed to grow some of his own grapes and to practice sustainable agriculture and organic farming.

In the six years since John moved the winery to The Red Barn location, Frog's Leap has continued to improve both its reputation and the quality of its wines. And it has been able to succeed even though more and more wineries have been built in the Napa Valley and as more and more big corporate wineries (e.g., Sutter Home, Robert Mondavi, and Kendall-Jackson, just to name a few) have dominated the Napa and Sonoma Valleys.

1. How would you describe the position strategy for Frog's Leap? How do you think it differs from a large, corporate winery such as Sutter Home?
2. How has Frog's Leap grown over the years? What are the growth strategies that John Williams plans to follow in the future?
3. Do you think the first half of the twenty-first century will be a hospitable environment for winemakers in the U.S.? Why or why not?

5 Girl Scouts*

Girl Scouting is dedicated to and available to all girls age 5 to 17. Today there are approximately 3.6 million Girl Scouts in the U.S., including over 2.7 million girls and nearly 900,000 adult members, most of whom are volunteers. Membership categories for the girls are

Category	*Age*	*Grade*
Daisy	5–6	K, 1
Brownie	6, 7, 8	1, 2, 3
Junior Girl Scout	8, 9, 10, 11	3, 4, 5, 6
Cadette Girl Scout	11, 12, 13, 14	6, 7, 8, 9
Senior Girl Scout	14–17	9–12

Membership is at an all-time high. In 1999, as a result of specific target market initiatives, growth was especially strong among Hispanic (a 6.3 percent increase) and African-American (5.9 percent increase) girls. And membership is not just limited to the United States. Through its membership in the World Association of Girl Guides and Girl Scouts, Girl Scouts of the U.S.A. (GSUSA) is part of a larger entity of over 10 million girls in 140 countries. Although some programs for

*This case and accompanying video script were prepared by Dr. George Prough, the University of Akron, with assistance from Lori Arguelles, Communications Director, GSUSA, and Mary Kintz, Director of Member Services, Western Reserve Girl Scouts Council.

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overseas travel and adventure exist, the international link is still being developed and is not nearly as strong as the link between GSUSA and the local councils.

As is true for many nonprofit organizations, the Girl Scouts organization operates on two levels. At the corporate or headquarters level is Girl Scouts of the U.S.A., located in New York. A board of directors, a national president, and a national executive director run GSUSA. From these offices, plans are made for the national parent and for the local councils. These local councils may be thought of as strategic business units (SBUs) for the Girl Scouts. Over 300 local councils serve to direct the activities of the more than 226,000 troops in the United States and overseas. A local board of directors and an executive director manages each of these local councils. To become a part of GSUSA, each of these local councils must go through a type of accreditation review by the national organization. Every four years each council is reviewed, and if it continues to meet the established criteria, it will be rechartered. This chartering process provides GSUSA with a strong weapon to maintain some level of consistency for the strategies and actions of the member Girl Scout councils.

Strategic marketing planning clearly is necessary to run such a large organization. GSUSA does extensive corporate-level planning and also provides the local councils with assistance for their own formulation and execution of plans. Strategic marketing planning at the corporate level is the responsibility of the president and the board, with input from board committees, board task groups, community leaders, and community groups. Four steps are involved. The first step is a SWOT analysis, a review of internal strengths and external trends. This includes using the database maintained by GSUSA that details membership, program attendance, financial and development data, and similar benchmarks. The study of external trends results in the *Environmental Scanning Report*, which uses social, economic, political, and technological data from a variety of sources. This document is then made available to corporate- and council-level planners. One result of this SWOT analysis is the identification of a set of critical issues facing GSUSA. These issues are then used in the second step: to develop corporate goals covering a six-year period. These goals are reviewed at the midpoint of the planning period. In the third step, the group develops strategic guidelines, strategies, and long-range projects. Finally, the group develops long-range resource strategies that are needed to support the projects identified in the third step.

Staff and volunteers involved in implementing the strategic plans are responsible for the development of one-year plans (tactical planning). At this fourth step, priorities are established; specific operational goals are set; action plans are developed, including decisions about who, how, what, and when; and the operational budget is determined.

The completed corporate plan shapes all efforts and programs at the national level. However, local planners can exercise some discretion in planning for their markets. To accomplish local planning, some councils hold planning retreats with local board and community experts; some hold planning sessions for just staff; and some limit the efforts to a committee of the board. Whatever the process, the council board develops a set of five-year goals that it reviews annually. While these usually mirror national goals, each local council has the opportunity to change priorities or to add other goals peculiar to their local efforts. Using these goals, the staff develops proposals for specific objectives and action steps for board approval. These approved objectives and action steps form the basis for the local council's annual operating plan.

During the year, results are measured, compared to objectives, and subjected to corrective actions. Also during the year, the staff has the opportunity to reevaluate the goals that have been set by the board for the coming year and may provide suggestions to the board. The board then meets again early in the following year to plan for that year and to add goals for the fifth year in the current plan. Thus, the local council board always has a plan that looks five years ahead.

Marketing plans and efforts must be directed at three distinct groups. First, plans must be developed for recruiting and marketing efforts directed to the target market for Scouting: girls and their families. In addition, marketing plans also must target volunteers. Scouting could not function nearly as effectively without its giant network of volunteers, both at the local and national levels. There are over 880,000 adult members of Girl Scouting and most all of them are volunteers. Many of these volunteers were involved in scouting when they were young. Others are parents of current scouts.

Finally, the community at large represents an important stakeholder group. This group includes donors, both corporate and individual, who provide financial and other resources; schools and school counselors; church organizations and the like. During the SWOT analysis, all three groups are studied, and this provides input for recruitment plans and for the ongoing marketing efforts.

Quite clearly, young girls in the target demographic are the most important marketing target. Marketing efforts aimed at this group include recruitment efforts as well as retention efforts (keeping existing Scouts delighted with their experiences).

Plans of both types must consider the competition faced by Girl Scouting. All organizations face competition of various sorts, but Girl Scouts planners face an unusual situation. Essentially, the competition for Scouting is other activities that compete for a girl's time. This includes school clubs and other school-related activities; sports; private lessons such as piano, ballet, and music; church; and other social activities, including dating boys. However, the thinking about competition at Girl Scouts is different. Girl Scouting does not attempt to defeat the competition. Instead, Scouting embraces many of these competing activities and offers them as part of their product mix. If it finds that a certain activity is becoming more important to young girls, then Scouting looks at the possibility of incorporating that activity into its product mix of activities.

As girls mature, this kind of competition grows more intense. Older girls have more choices, making retention in these categories more difficult. As a result, there has been a growing concern that the programs and offerings of Girl Scouting, especially in the older age categories, is not sufficiently contemporary. Retention of these older girls is a problem. For instance, analysis of the U.S. membership shows

the following data regarding the number of girls served by the Girl Scouts in each membership category:

Category	*Girls Served in the Category*
Daisy	1 of every 8
Brownie	1 of every 4
Junior Girl Scout	1 of every 7
Cadette Girl Scout	1 of every 25
Senior Girl Scout	1 of every 73

To better understand customers and the competing demands on their lives, Girl Scouts USA is beginning to do extensive market and customer research among young girls. During the fall of 2000, GSUSA launched the Girl Scout Research Institute, a research and public policy information center focusing on the healthy development of girls. Through this Institute, the GSUSA hopes to develop a large database of information on girls, with the additional goal of positioning itself as an information resource and expert on girls.

Within this competitive market, the GSUSA uses a variety of plans and strategies in order to attract new girls. The national website offers an overview for interested girls; however, it is not very interactive and has limited recruiting value. Nationally prepared brochures and literature are also available. Often these can be useful as stuffers in store, mall, and other point-of-sale display units. But many councils choose to localize and personalize these efforts. For these councils, most of the recruitment and marketing efforts are planned and developed at the local level. Local websites, school visits, locally prepared fliers, recruiting efforts at malls, churches, and other similar local activities lend a more personal touch to their recruiting.

Specific to certain types of competition, GSUSA has responded with a changing product mix. Each year, Girl Scouts adds to its diversity of activities and merit badges, all awarded for participation and mastery of particular tasks. With the increase in girls participating in sporting activities, Girl Scouts developed *GirlSports*, a program offering senior Girl Scouts from around the country a chance to spend a week during the summer developing certain sporting skills. During the 2000 version, 26 girls met in Oakland, California, with local athletes and trainers, learned 13 extreme sports, and met with and studied with ESPN fitness experts and Olympic athletes. An expanded version of *GirlSports* is being developed to include over 100,000 girls competing in nearly 2,300 different sporting events in over 300 councils.

Another trend identified was the increasing interest of girls in the sciences. As a result, the *Girl at the Center* program was developed. This is a science and technology program in which local councils can take advantage of partnerships between the Girl Scouts and over 31 science museums, encouraging families and girls to explore and to learn more about the sciences. *Girl at the Center* and the *GirlSports* program are examples of how the Girl Scouts organization is forming partnerships with others to make their programs relevant and successful.

Girl Scouting uses several methods to appeal to volunteers, both to attract them and to keep them motivated and involved. To attract volunteers at the national level, the website offers valuable insight as do the nationally prepared brochures highlighting the benefits of volunteering and the many ways of doing so. But again, the local councils often develop their own marketing efforts. Parents are targeted by maintaining a parents' network and involving parents in meetings and events. When the local council has events at malls or churches, the council staff involved makes every attempt to sell volunteering to adults as much as they do scouting to young girls. Additionally, many local councils work with area organizations in an attempt to generate volunteers. Universities, schools, the local housing authority, and other volunteer-based organizations have proven to be excellent sources of interns or other types of volunteers.

To keep volunteers motivated and involved, GSUSA national offers a variety of adult development and training opportunities. These include programs at the corporate training center, a number of online training offerings, and certification programs that support and enable the volunteers to improve their abilities to perform their functions.

The third stakeholder group consists of the community at large. Efforts to interact with this stakeholder group can be planned, and suggestions are made at the national level; however, many of these efforts involve personal contacts and one-on-one relationships with donors or other partnership targets. As a result, many of these efforts are developed and conducted by people at the local council level.

1. Compare strategic marketing planning by the Girl Scouts with planning by for-profit organizations. What are the similarities? What are the differences?
2. What changes would you suggest to improve the planning process in the Girl Scouts?

6 Volkswagen's New Beetle*

Volkswagen management was very surprised at the reaction to their latest design study, the Concept 1. Unveiled in Detroit at the North American International Auto Show in January 1994, the car was an instant hit with the public. Throngs of people crowded around the viewing stand to get a close look at what VW designers had created, a 90s version of the much-loved Beetle. The original Beetle had been sold in the U.S. from 1948 to 1981, and is still sold in some countries such as Mexico and Brazil.

Automotive design studies are used to gauge public reaction to styling and design ideas. The overwhelming response to the Concept 1, which closely resembled the looks of the original Beetle, prompted VW to study what was behind the strong consumer response. They wanted to know if the favorable response was because of the uniquely identifiable profile of the Beetle, the fond memories of the millions of U.S. Beetle owners, or simple nostalgia—a desire to be carried back to a "different" time.

It was clear that the Concept 1 touched the buying public at the auto show. The number of phone calls and letters to U.S. Volkswagen headquarters was so overwhelming that VW management promptly put a product-development team into

*This case and the script for the accompanying video were prepared by Professor Jim Burley.

action. The charge was to create a thoroughly modern version of the beloved Beetle, a car that would utilize the latest cutting-edge edge technologies housed in the uniquely identifiable shape of the most widely produced car in history.

Twenty-one million original Beetles have been built since the original idea for the car was shown to the German government in 1934 by Dr. Ferdinand Porsche. Porsche's dream was to build a simple, high-quality car for the masses, a car that even the average owner could learn to care for and maintain with minimal expense. That was the formula that had worked so well in the United States when Henry Ford introduced the Model T and put America on wheels.

Porsche's dream for the "people's car" (or Volkswagen) would not become a commercial reality until after World War II, though some prototypes and early production units had reached the public prior to the war's outbreak. By 1948, the war-damaged factory was rebuilt and the Beetle was being produced in full scale in Europe. It was also in that year that the Beetle was shown to the U.S. public at the N.Y. Auto Show. By the late 1950s the Beetle was the leading imported car in America, and hundreds of thousands of Americans were driving the small cars with air-cooled engines. Many people loved the simplicity and economy of the car, and the quality was very high. The car represented a very good value for the consumer's money.

Japanese auto manufacturers took notice of Volkswagen's success in the United States and designed their own competing models of small, economical cars. But they were different in character than the Beetle. The Japanese-produced small cars were more like shrunken versions of full-sized cars. They had big car styling and incorporated many features that U.S. car buyers of the 60s wanted, including power-assisted steering, power windows, and automatic transmissions. The small cars introduced by Toyota, Nissan, and Honda quickly cut into Volkswagen's sales volume. Although sales in the small-car category grew rapidly, increased competition left smaller sales volume for the previously dominant Beetle.

VW management held steadfastly to the "simple is beautiful" positioning that was carefully reinforced in the Beetle's advertising campaign. Advertisements with headlines such as "Ugly is only skin deep" reminded customers that the real beauty of the VW was its simplicity, reliability, and the economical ownership experience it produced. Despite this message, many people in the market were attracted to the larger choice of options and features found on the Japanese entries. After the Beetle's U.S. sales peaked at 423,000 units in 1968, sales began to decline.

Volkswagen responded to the market changes that were taking place by introducing the Rabbit, a small European hatchback that was refined to incorporate many of the features Americans wanted. The Rabbit was an immediate hit. Even though it did not have the instant recognizability of the Beetle, it benefited from the Beetle's reputation.

The decline of the Beetle in the U.S. was complete in 1981 when VW management removed it from sale in the U.S. market. However, VW continued to produce and sell the car in Mexico and South America. These were strong markets for the car because the Beetle was ideally suited to developing economies where simple and reliable transportation was more important than a long list of fancy accessories.

Although the original Beetle was a simple car, the New Beetle is not. As VW marketers began to develop the concept for the "New Beetle" they realized that the affluent American consumer expected features such as air conditioning, stereo systems, and security features—as well as government-mandated safety items such as airbags and 5-MPH bumpers. The New Beetle would clearly require a degree of complexity and sophistication that Dr. Porsche could never have imagined.

The product development process incorporated customers' reactions from auto shows around the world. The reaction to the Concept 1 was nearly uniform worldwide, so VW management knew they would have a winner if they could build a street vehicle that incorporated the looks of the Concept 1 with an affordable platform. They found that platform in the one they were developing for the Golf, Europe's most popular car. With a few modifications, a New Beetle body could be built over a Golf chassis. This eliminated much of the time and expense of developing a completely new automobile. The use of the Golf platform also made it possible for VW to bring the New Beetle to market more quickly.

Just four years after first showing the Concept 1, VW management unveiled the New Beetle at the 1998 North American International Auto Show. The response to the "real" car was overwhelming. During much of the show it wasn't even possible to get near the car because of the crowds.

Executives from competing auto producers were astonished at consumers' reaction to the car, and were even more concerned when they learned more about VW's marketing strategy. Preintroduction guesses by the automotive media had suggested a price of $18,000 for the base car, but VW management priced the New Beetle at a low $15,200. This price included airbags, air-conditioning, power door locks, a multispeaker stereo system, tilt and telescoping steering, and many other attractive features. The automotive press in attendance at the unveiling applauded loudly when the price was announced.

Volkswagen marketers had crafted a very desirable new product that their dealers and customers were anxious to have. A promotional strategy was created to build enthusiasm for the car's official arrival in showrooms in spring 1998. Dealers were shown the car at a special party at Disney World in Orlando, Florida. There they not only got to drive the car but also to participate in Disney-style clinics on the attitudes and expectations of the New Beetle target market. Nostalgia was an important component of the target customers' feelings toward the car, but testing also revealed a broad demographic and psychographic appeal that included many young buyers who had never owned an older-style Beetle.

The dealers thought that the 50,000 units scheduled for production the first year would not be enough to satisfy the demand, but they were hopeful that some of the visitors to their showrooms could be switched to other VW products. VW's product line included cars that were either more economical or more spacious depending on the customers' needs. Jeff Williams, a VW dealer, explained the problems and the excitement associated with the new car:

> I'm sure we'll have trouble meeting the demand that seems to be in the market. The car is really exciting customers. I have one customer who's ordered one for his 19-year-old daughter. He hopes she can have as much fun with her car as he did with his Beetle 30 years ago.

1. Why didn't VW managers more accurately forecast the sales potential for the New Beetle?
2. Is styling really what sells cars or is it other factors?

7 Royal Appliance Manufacturing Company: Dirt Devil*

You've just arrived on campus for the fall semester at college. Whether you're in a dorm room, apartment, or a rented home, in no time at all the place is sure to be a mess. And, looking at your current roommate situation, you probably won't get much help with the cleaning. You can either live with the disorder or get a new roommate—the Dirt Devil RoomMate. This new, lightweight upright vacuum may very well be the best companion a college student could ever have.

So begins an August 1997 press release from Dirt Devil, a subsidiary of Royal Appliance Manufacturing Company. The once staid and boring vacuum cleaner industry now sees college students as an interesting, vital target market.

The Dirt Devil brand has been responsible, in large part, for this new-found excitement. New product introductions and a groundbreaking advertising campaign are the latest chapters in the story of arguably the oldest vacuum cleaner manufacturing company in the world.

The first Royal vacuum cleaners were made by the P. A. Geier Company of Cleveland, Ohio, in 1905. As was the case with home computer companies in the 1970s and 1980s, Royal has its roots in a backyard garage. The company grew quickly and moved from the garage to a large, four-story structure where it produced vacuum cleaners, mixers, hair dryers, and washing machine units.

The core business of the P. A. Geier Company, however, continued to be vacuum cleaners. The industry's first hand-held vacuum, the Royal Prince, was introduced in 1937. The Geier company maintained its position in the vacuum cleaner industry until the firm was acquired in 1953 and renamed the Royal Appliance Manufacturing Company. The newly named organization was purchased by a group of employees in 1954 and moved to Highland Heights, Ohio, in 1969.

In 1984 Royal Appliance introduced another innovative product, the Dirt Devil Hand Vac, which was touted as a cleaner for couch cushions, stairs, and other hard-to-reach places. Between 1984 and 1997, its light weight, low price, and attractive red plastic body combined to create total sales of over 17 million units, making it the largest selling hand vac in the world. Royal now claims over 95 percent brand name awareness of the Dirt Devil name (up from 4 percent in 1990 and 21 percent in 1992), and it now commands 42 percent of the U.S. market for hand-held vacuums.

Of course, there have been some stumbles along the way. In 1990, Royal began to market Dirt Devil products throughout Europe and Great Britain. However, the European market did not take to the new products as well as Royal had hoped. And, on the domestic front, expensive promotion did not deliver a focused, unified message to American consumers. For example, dispersed promotion efforts in the U.S. in 1991 included advertising on Paul Harvey's radio program and sponsorship of race cars on the Indy Car and Nascar circuits. Because of problems such as these, performance began to dip. By 1995 mounting financial losses necessitated a change in company management and the sale of Royal's European operations. Royal's stock price at the end of 1995 was $2.50 per share, but it rebounded to $9 per share by the end of 1996—a year that saw $286 million in sales and $9.4 million in profit.

A revitalized Royal states its mission on its website.

> The company's mission is to bring innovative household products to the marketplace and thrill customers. It strives to recognize the needs of its customers and supply them with quality products that solve their cleaning problems. . . . The success of the company depends upon the continued introduction and promotion of new, innovative, high-quality products (www.dirtdevil.com).

This mission is associated with the Dirt Devil name—now used on virtually all of the company's consumer goods. The Royal brand name is reserved for high-end, heavy-duty, mostly industrial products. Most manufacturing is contracted out, leaving only some assembly to be done at corporate-owned facilities. This structure allows for the versatility and flexibility needed for the introduction and management of innovative products.

One of these new, innovative products is the Broom Vac. Launched in 1996, the Broom Vac was seen to be as creative as the original Royal Prince was at its debut. It also represented the type of newsworthy breakthrough that the Dirt Devil group needed. The Dirt Devil Broom Vac is a cordless, rechargeable broom that has a vacuum in the center of the unit's bristles to suck up dirt and dust in seconds. It does a better job of sweeping, and the user needs only to empty the filter and dirt compartment when full instead of bending over a dustpan.

Traditionally, the vacuum industry's products are classified as canister, upright, stick, or extractor cleaners. Hoover is recognized as the industry leader, emphasizing middle- and upper-end canisters, uprights, and sticks for an overall U.S. market share of 27 percent, followed by Eureka at 22 percent. Royal's strategy of innovative designs and distribution through mass-merchandisers has earned the company third place in the market and an 18 percent share.

But the industry doesn't know how to classify the Broom Vac. It is usually categorized as a stick vacuum by retailers and in industry sales figures, but it does not really fit in that market sector.

The development team at Dirt Devil was also concerned about how consumers would view the product. Would they perceive sufficient advantage over the usual broom and dustpan to pay a premium price? How much of a premium would they be willing to pay? Where would they want to purchase the product? How should the product be promoted? What should be the message?

In the past, Royal has distributed its products through independent vacuum cleaner dealers, regional retail chains, mass-merchants, and electronic and discount stores. However, none of these was considered to be completely adequate for introducing a high-volume product that would require demonstration of its advantages.

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*This case and the script for the accompanying video were prepared by Professor Douglas Hausknecht. He expresses appreciation to Thomas F. Sherer, who assisted in developing the case.

The decision was made to introduce the Broom Vac using direct-response television advertising. This enabled Dirt Devil to control the demonstrations that were seen by prospective purchasers and to experiment with marketing variables. In test markets, variables such as price, shipping cost, and payment options were manipulated. A $50 price point was selected for the direct-response introduction. As the product moved into regular retail channels, this price was expected to be retained throughout the first year of sales.

In order to demonstrate the product fully, a two-minute infomercial was developed. The longer format allowed for a more complete explanation of the features and advantages. Dirt Devil and its advertising agency took pains to produce a high-quality infomercial to counter consumers' possible negative stereotypes of this advertising form. The infomercials concluded with toll-free telephone numbers and shipping information.

Most of the infomercials aired during lower-cost daytime and late-night hours. This provided added cost efficiency in the media purchase. Later, 15-second lifts (excerpts) from the infomercial were aired during prime time for the retail launch of the product.

At first, retailers were concerned that direct-response TV ads would just compete for their customers, but that did not happen. Dirt Devil's retailers found that customers came in looking for the product that they had seen on television. This exposed consumers to the Dirt Devil displays, which featured bright, colorful packaging and plenty of product information. Retailers found that sales volumes were enhanced and that customers required less "selling effort."

Retailers were also encouraged to use special shelf or floor displays of the product. Additionally, some retailers used newspaper inserts or other retail advertising in which Dirt Devil participated on a cooperative advertising basis. Eventually, as the original Broom Vac diffused throughout the market, retailers discounted the product from its original $50 price point.

As 1996 drew to a close, Dirt Devil was poised to once again agitate the industry. This time the shock would come not from a product innovation but rather from attention-getting communication. The grungy, boring, mature vacuum cleaner industry was to be represented in the showcase of American advertising—the Super Bowl.

On January 26, 1997, Dirt Devil aired three 15-second spots during the Super Bowl. Each spot highlighted a different product: the Broom Vac, the Ultra Hand Vac, and the Ultra MVP upright vacuum. This was the first Super Bowl exposure not only for Royal but for any vacuum cleaner.

The commercials featured these products acting as "dance partners" with the late Fred Astaire. The ad campaign, designed by Cleveland advertising agency Meldrum and Fewsmith, achieved several technical breakthroughs in its execution.

Although requested many times in the past, Fred Astaire's image had never been licensed to market any product. An agreement was reached with Astaire's widow based, in part, on the fact that actual dance footage would be used and that Mr. Astaire would not be seen as verbally endorsing any product. In fact, he does not speak in any of the commercials.

Why use Fred Astaire? In his films, Astaire often danced with props. Atomic Films SME of Los Angeles created the movie magic that substituted Dirt Devil products for the props originally used in the films, *Royal Wedding* (1951) and *Easter Parade* (1948). The message to be communicated was that using Dirt Devil products could make cleaning appear to be effortless, even fun!

Royal Appliance and its ad agency felt that the campaign needed to be both attention getting and entertaining in order to be successful. Happily, it was both! Independent tests immediately following the Super Bowl credited the Dirt Devil commercials with achieving good brand name recall (fifth overall among Super Bowl advertisers) and excellent recall of celebrity/brand name pairing (second among the advertisers using this technique). Separate research found the Astaire commercials finishing number one for correct sponsor identification and celebrity association with the brand. The performance was particularly notable since the Dirt Devil brand had relatively little exposure time (45 total seconds) compared to the other advertisers (ranging from one- to four-minute on-air times). Yet Dirt Devil had higher-ranked recall scores. The Bruzzone Research Company, which has extensively studied Super Bowl advertising since 1992, concluded that the Dirt Devil spots were "noticed by more people per dollar investment in airtime than anything we've seen in the past six years."

The commercials were also well received by the broadcasting and advertising industries. *Advertising Age* and other trade outlets gave favorable exposure and reviews. In addition to the 130 million plus Super Bowl viewers, the commercials were shown and/or described on *Entertainment Tonight*, *CBS Evening News*, *NBC Today Show*, *Good Morning America* (ABC), and *Dateline NBC*, and in over 200 additional television stories and 1,100 newspaper and magazine articles.

Concurrently, retail insert advertising was increased. Mr. Astaire was featured in the print advertising as well as in retail display material and on product packaging. Retailers were given advance notice of the campaign so that they could be prepared with adequate stock and have the option to participate in cooperative advertising. In most states, a Dirt Devil free standing insert (FSI) also promoted a sweepstakes with a $1 million grand prize. Finally, positive publicity was generated when Mrs. Astaire announced that the campaign was the first outcome of a joint effort by the Astaire estate and Dirt Devil to sponsor the Arthritis Foundation. The "ease of use" benefit delivered by Dirt Devil's products was a natural linkage to the arthritis cause. Royal executives, for their part, promised a redoubled effort to be responsive to the needs of consumers with arthritis in the design of new and modified products.

During 1997, some of these new products were tested and launched. The Mop Vac was introduced in April as a natural extension of the Broom Vac. With the Mop Vac, consumers could clean up by releasing a cleaning solution where needed from a container on the mop handle, scrubbing, then vacuuming the fluid through a squeegee to leave a clean, dry, streak-free floor. This new household tool was also introduced using direct-response advertising, at a $100 price point. The retail rollout was to follow in time for Christmas shopping in the fall.

Other products flesh out the Dirt Devil line, ranging from two old-fashioned carpet sweepers (using only rollers and

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brushes, no electricity required) to a new Broom Vac Extra (more suction and more dirt capacity than the original). Two wet/dry vacuums also are available, both featuring a detachable leaf blower (when the suction motor detaches from the storage "tank"). This foray into the outdoors was followed late in 1997 with the Dirt Devil Pick-up. This is a plastic wheelbarrow that was test-marketed via direct-response television. Its unique feature is the lift-and-load wheel mechanism, which allows the container to be flush to the ground for loading and unloading, then lift up to 400 pounds. The pick-up also includes a front trap door that makes the wheelbarrow easy to empty. Another nonvacuum product that was tested, this time without advertising, was a rug cleaner spray. Dirt Devil Carpet Stain Remover was marketed in Wal-Mart stores without manufacturer advertising beyond point of sale.

With all of these products and more on the way, it is no wonder that the Royal Appliance Manufacturing Company's well-known tagline boasts, "Nothing escapes the power of a Dirt Devil!"

1. Describe Dirt Devil's pricing strategy for its recent product introductions.
2. Explain how Dirt Devil integrated its marketing mix in the introduction of the Broom Vac.
3. Was the use of Fred Astaire in television commercials a good idea?
4. What kinds of products might Dirt Devil introduce next?
5. What problems might arise with retailers if Dirt Devil continues to expand its product line beyond basic floor care?

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Cases

Guide to the Use of These Cases

Cases can be used in many ways. And the same case can be analyzed several times for different purposes.

"Suggested cases" are listed at the end of most chapters, but these cases can also be used later in the text. The main criterion for the order of these cases is the amount of technical vocabulary—or text principles—that are needed to read the case meaningfully. The first cases are "easiest" in this regard. This is why an early case can easily be used two or three times—with different emphasis. Some early cases might require some consideration of Product and Price, for example, and might be used twice, perhaps regarding product planning and later pricing. In contrast, later cases, which focus more on Price, might be treated more effectively *after* the Price chapters are covered.

In some of the cases, we have disguised certain information—such as names or proprietary financial data—at the request of the people or firms involved in the case. However, such changes do not alter the basic substantive problems you will be analyzing in a case.

1 McDonald's "Seniors" Restaurant

Suzanne Drolet is manager of a McDonald's restaurant in a city with many "seniors." She has noticed that some senior citizens have become not just regular patrons—but patrons who come for breakfast and stay on until about 3 PM. Many of these older customers were attracted initially by a monthly breakfast special for people aged 55 and older. The meal costs $1.99, and refills of coffee are free. Every fourth Monday, between 100 and 150 seniors jam Suzanne's McDonald's for the special offer. But now almost as many of them are coming every day—turning the fast-food restaurant into a meeting place. They sit for hours with a cup of coffee, chatting with friends. On most days, as many as 100 will stay from one to four hours.

Suzanne's employees have been very friendly to the seniors, calling them by their first names and visiting with them each day. In fact, Suzanne's McDonald's is a happy place—with her employees developing close relationships with the seniors. Some employees have even visited customers who have been hospitalized. "You know," Suzanne says, "I really get attached to the customers. They're like my family. I really care about these people." They are all "friends" and it is part of McDonald's corporate philosophy (as reflected in its website, www.mcdonalds.com) to be friendly with its customers and to give back to the communities it serves.

These older customers are an orderly group and very friendly to anyone who comes in. Further, they are neater than most customers and carefully clean up their tables before they leave. Nevertheless, Suzanne is beginning to wonder if anything should be done about her growing "non-fast-food" clientele. There's no crowding problem yet, during the time when the seniors like to come. But if the size of the senior citizen group continues to grow, crowding could become a problem. Further, Suzanne is concerned that her restaurant might come to be known as an "old people's" restaurant—which might discourage some younger customers. And if customers felt the restaurant was crowded, some might feel that they wouldn't get fast service. On the other hand, a place that seems busy might be seen as "a good place to go" and a "friendly place."

Suzanne also worries about the image she is projecting. McDonald's is a fast-food restaurant (there are over 29,000 of them in 120 countries), and normally customers are expected to eat and run. Will allowing people to stay and visit change the whole concept? In the extreme, Suzanne's McDonald's might become more like a European-style restaurant where the customers are never rushed and feel very comfortable about lingering over coffee for an hour or two! Suzanne knows that the amount her senior customers spend is similar to the average customer's purchase—but the seniors do use the facilities for a much longer time. However, most of the older customers leave McDonald's by 11:30—before the noon crowd comes in.

Suzanne is also concerned about another possibility. If catering to seniors is OK, then should she do even more with this age group? In particular, she is considering offering bingo games during the slow morning hours—9 AM to 11 AM. Bingo is popular with some seniors, and this could be a new revenue source—beyond the extra food and drink purchases that probably would result. She figures she could charge $5 per person for the two-hour period and run it with two underutilized employees. The prizes would be coupons for purchases at her store (to keep it legal) and would amount to about two-thirds of the bingo receipts (at retail prices). The party room area of her McDonald's would be perfect for this use and could hold up to 150 persons.

Evaluate Suzanne Drolet's current strategy regarding senior citizens. Does this strategy improve this McDonald's image? What should she do about the senior citizen market—that is, should she encourage, ignore, or discourage her seniors? What should she do about the bingo idea? Explain.

2 Healthy Foods, Inc.

It is 2002, and Don Warren, newly elected president of Healthy Foods, Inc., faces a severe decline in profits. Healthy Foods, Inc., is a 127-year-old California-based food processor. Its multiproduct lines are widely accepted under the Healthy Foods brand. The company and its subsidiaries prepare, package, and sell canned and frozen foods—including fruits, vegetables, pickles, and condiments. Healthy Foods, which operates more than 30 processing plants in the United States, is one of the larger U.S. food processors—with annual sales (in 2001) of about $650 million.

Until 2000, Healthy Foods was a subsidiary of a major midwestern food processor, and many of the present managers came from the parent company. Healthy Foods' last president recently said:

> The influence of our old parent company is still with us. As long as new products look like they will increase the company's sales volume, they are introduced. Traditionally, there has been little, if any, attention paid to margins. We are well aware that profits will come through good products produced in large volume.

Frederico Montegro, a 25-year employee and now production manager, agrees with the multiproduct-line policy. As he puts it: "Volume comes from satisfying needs. We will can or freeze any vegetable or fruit we think consumers might want." Frederico Montegro also admits that much of the expansion in product lines was encouraged by economics. The typical plants in the industry are not fully used. By adding new products to use this excess capacity, costs are spread over greater volume. So the production department is always looking for new ways to make more effective use of its present facilities.

Healthy Foods has a line-forcing policy, which requires that any store wanting to carry its brand name must be willing to carry all 65 items in the Healthy Foods line. This policy, coupled with its wide expansion of product lines, has resulted in 88 percent of the firm's sales coming from supermarket chain stores—such as Safeway, Kroger, and A&P. Smaller stores are generally not willing to accept the Healthy Foods policy. Frederico Montegro explains, "We know that only large stores can afford to stock all our products. But the large stores are the volume! We give consumers the choice of any Healthy Foods product they want, and the result is maximum sales." Many small retailers have complained about Healthy Foods' policy, but they have been ignored because they are considered too small in potential sales volume per store to be of any significance.

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In late 2001, a stockholders' revolt over low profits (in 2001, they were only $500,000) resulted in Healthy Foods' president and two of its five directors being removed. Don Warren, an accountant from the company's outside auditing firm, was brought in as president. One of the first things he focused on was the variable and low levels of profits in the past several years. A comparison of Healthy Foods' results with comparable operations of some large competitors supported his concern. In the past 13 years, Healthy Foods' closest competitors had an average profit return on shareholders' investment of 6 to 12 percent, while Healthy Foods averaged only 2.5 percent. Further, Healthy Foods' sales volume, $650 million in 2001, has not increased much from the 1983 level (after adjusting for inflation)—while operating costs have soared upward. Profits for the firm were about $8 million in 1983. The closest Healthy Foods has come since then is about $6 million—in 1991. The outgoing president blamed his failure on an inefficient sales department. He said, "Our sales department has deteriorated. I can't exactly put my finger on it, but the overall quality of salespeople has dropped, and morale is bad. The team just didn't perform." When Don Warren e-mailed Lars Svensson, the vice president of sales, with this charge, his reply was,

> It's not our fault. I think the company made a key mistake in the late 70s. It expanded horizontally—by increasing its number of product offerings—while major competitors were expanding vertically, growing their own raw materials and making all of their packing materials. They can control quality and make profits in manufacturing that can be used in promotion. I lost some of my best people from frustration. We just aren't competitive enough to reach the market the way we should with a comparable product and price.

In a lengthy e-mail from Lars Svensson, Don Warren learned more about the nature of Healthy Foods' market. Although all the firms in the food-processing industry advertise heavily, the size of the market for most processed foods hasn't grown much for many years. Further, most consumers are pressed for time and aren't very selective. If they can't find the brand of food they are looking for, they'll pick up another brand rather than go to some other store. No company in the industry has much effect on the price at which its products are sold. Chain store buyers are very knowledgeable about prices and special promotions available from all the competing suppliers, and they are quick to play one supplier against another to keep the price low. Basically, they have a price they are willing to pay—and they won't exceed it. However, the chains will charge any price they wish on a given brand sold at retail. (That is, a 48-can case of beans might be purchased from any supplier for $18.10, no matter whose product it is. Generally, the shelf price for each is no more than a few pennies different, but chain stores occasionally attract customers by placing a well-known brand on sale.)

Besides insisting that processors meet price points, like for the canned beans, some chains require price allowances if special locations or displays are desired. They also carry nonadvertised brands and/or their own brands at lower price—to offer better value to their customers. And most will willingly accept producers' cents-off coupons—which are offered by Healthy Foods as well as most of the other major producers of full lines.

At this point, Don Warren is trying to decide why Healthy Foods, Inc., isn't as profitable as it once was. And he is puzzled about why some competitors are putting products on the market with low potential sales volume. (For example, one major competitor recently introduced a line of exotic foreign vegetables with gourmet sauces.) And others have been offering frozen dinners or entrees with vegetables for several years. Apparently, Healthy Foods' managers considered trying such products several years ago but decided against it because of the small potential sales volumes and the likely high costs of new-product development and promotion.

Evaluate Healthy Foods' present situation. What would you advise Don Warren to do to improve Healthy Foods' profits? Explain why.

3 Pillsbury's Häagen-Dazs

Jan Phillips is the newly hired ice cream product-market manager for the United States for Häagen-Dazs—the world's leading brand of super premium ice cream (now available in 55 countries) and the market leader in the U.S. Pillsbury says Häagen-Dazs (www.pillsbury.com/main/brands/haagen) is profitable globally, with total sales of more than $900 million. The company saw its sales grow rapidly during the 1990s, but now its markets are facing significant change and very aggressive competition. Phillips is responsible for Häagen-Dazs' ice cream strategy planning for the United States.

Other product-market managers are responsible for Europe, Japan, and other global markets. Therefore, Phillips will be expected to focus only on the United States while knowing that "everyone" will be watching her (and the United States) for clues about what may happen elsewhere.

Overall, ice cream sales in the U.S. have been off 1 to 2 percent in recent years. Still, some new entries have made a big splash. Starbucks, the coffee king, is one such brand. In its first year in grocery-store freezer sections, its Frappuccino bars—in several flavors—were a big hit. In addition, the Starbucks brand quickly became the nation's top-selling premium coffee ice cream. Häagen-Dazs, along with a few other super premium producers, are continuing to grow at rates of 2 to 3 percent. But most other U.S. super premium producers are reporting flat sales—and some are going out of business. The easy availability of super premium ice cream in supermarkets has hurt some of these producers who sell through ice cream stores, which specialize in take-out cones, sundaes, and small containers of ice cream. It is also thought that, at least in part, the decline in sales growth of super premium ice cream in the U.S. since the early 1990s is due to competition from other products such as lower-calorie yogurts and low-fat ice cream.

Despite a real concern about healthy diets, Americans seem to swing back and forth in their yearnings for low fat and rich taste. There is some evidence that "dessert junkies" who want to indulge without too much guilt are turning to low-fat frozen yogurt and low-fat ice cream. This has encouraged a number of super premium ice cream competitors to offer these products too. Pillsbury's Häagen-Dazs, International Dairy Queen, and Baskin Robbins are selling frozen yogurt. And Kraft—which makes Frusen Glädjè, Edy's, and Dreyer's Grand

Ice Cream—is among many other ice cream makers who are promoting gourmet versions of low-fat ice cream.

Because of the competition from low-fat products, Häagen-Dazs recently introduced a line of low-fat super premium ice cream. The new low-fat line contains no more than three grams of fat per serving. That compares with six times that or more grams of fat in a half-cup serving of its full-fat versions. Häagen-Dazs believes that its low-fat super premium ice cream is better tasting than other alternatives. Its belief is that "people like to make every calorie count." Having worked on the low-fat item for more than two years, it developed a process whereby a concentration of dairy proteins from lactose-reduced skim milk give a mouth-feel that approximates that of a higher-fat product. Häagen-Dazs sells its low-fat products in a variety of flavors.

Most ice cream products are considered economy and regular brands—priced at $2 to $5 a half gallon. Super premium ice cream retails for $2.50 to $3.50 a *pint*, or $8 to $10 a half gallon. The retail price for a pint of Häagen-Dazs is usually over $3.00. The low-fat version is comparably priced to the full-fat product.

Many other U.S. ice cream producers have turned to frozen yogurt for growth. Frozen yogurt sales were in a slump for a long time because many people didn't like the tart taste. But after the product was reformulated it started to win customers. The difference is that today's frozen yogurt tastes more like ice cream.

The yogurt market leader, TCBY Enterprises, Inc. (www.tcby.com), which had sales of only about $2 million in 1983, has risen to over $100 million in sales. It numbers over 2,800 stores worldwide and is franchised in over 60 countries. In the U.S., yogurt makers are using aggressive promotion against ice cream. TCBY ads preach: "Say goodbye to high calories—say goodbye to ice cream" and "All the pleasure, none of the guilt." And the ads for its nonfat frozen yogurt emphasize: "Say goodbye to fat and high calories with the great taste of TCBY Nonfat Frozen Yogurt."

Baskin Robbins has introduced yogurt in many of its U.S. stores and has even changed its name to Baskin Robbins Ice Cream and Yogurt. Häagen-Dazs also offers yogurt in most of its stores.

Although the flurry of consumer interest in low-fat yogurt and low-fat ice cream certainly created some new market opportunities, it is not clear how consumers will react to these products over the longer term. One reason is that many consumers who were initially excited about being able to buy a good tasting, low-fat frozen dessert have realized that low fat does not necessarily mean low calorie. In fact, Jan Phillips has been trying to identify a product that Häagen-Dazs could produce that would offer consumers great taste, low fat, and low calories all at the same time. One possibility she is seriously considering is to introduce a line of sorbets based on exotic fruits like kiwi and mango and that use low-calorie sweeteners.

A sorbet is basically the same as sherbet, but European sorbets usually have an icy texture and include less milk. This is the sort of product that Jan Phillips has in mind. She thinks that it might have an upscale appeal and also be different from what is already in the premium ice cream case.

On the other hand, calling a product by a different name doesn't make it really new and different, and basic sherbet has been around for a long time and never been a big seller. Further, consumers don't think of sorbet in the same way that they think about a rich-tasting bowl of ice cream. You don't have to convince people that they might like premium ice cream. Sorbet, on the other hand, isn't something that consumers crave and make a special trip to buy.

Further, Phillips is very conscious that the Häagen-Dazs brand should stand for high quality and the best ingredients. Yet, it's not clear that consumers will think of sorbet as a premium product. Rather, they might just see it as ground-up ice with some flavoring thrown in. But if sorbet isn't the right way to go with new-product development, how should Häagen-Dazs counter the competition from other low-fat ice cream brands like Ben & Jerry's and other new entries to the super premium category like Starbucks?

Evaluate what is happening in the ice cream market, especially regarding the apparent leveling off of super premium ice cream sales and the possibilities for growth of the sorbet market. Is Jan Phillips' idea about rolling out a low-cal fruit sorbet a good idea? Would it be better to use the Häagen-Dazs brand name or a different brand name? What else, if anything, would need to be different about the strategy? Why?

4 Bidwell Carpet Cleaning, Inc.

Sharon Bidwell is getting desperate about her new business. She's not sure she can make a go of it—and she really wants to stay in her hometown of Petoskey, Michigan, a beautiful summer resort area along the eastern shore of Lake Michigan. The area's permanent population of 10,000 more than triples in the summer months and doubles at times during the winter skiing and snowmobiling season.

Sharon spent four years in the Navy after college graduation, returning home in June 2000. She decided to go into business for herself because she couldn't find a good job in the Petoskey area. She set up Bidwell Carpet Cleaning, Inc. She thought that her savings would allow her to start the business without borrowing any money. Her estimates of required expenditures were: $9,000 for a used panel truck, $625 for a steam-cleaning machine adaptable to carpets and furniture, $400 for a heavy-duty commercial vacuum cleaner, $50 for special brushes and attachments, $100 for the initial supply of cleaning fluids and compounds, and $500 for insurance and other incidental expenses. This total of $10,675 still left Sharon with about $4,000 in savings to cover living expenses while getting started.

One of the reasons Sharon chose the cleaning business was her previous work experience. From the time she was 16 until she finished college, Sharon had worked part-time for Peter Kittany. Kittany operates the only successful complete (carpet, furniture, walls, etc.) cleaning company in Petoskey. (There is one other carpet cleaning company in Petoskey, but it is rumored to be near bankruptcy.)

Kittany prides himself on quality work and has a loyal clientele. Specializing in residential carpet cleaning and furniture care, Kittany has built a strong customer franchise. For 35 years, Kittany's major source of new business—besides retailer recommendations—has been satisfied customers who tell friends about his quality service. He is so highly thought of

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that the leading carpet and furniture stores in Petoskey always recommend Kittany for preventive maintenance in quality carpet and furniture care. Often Kittany is given the keys to the area's finest homes for months at a time—when owners are out of town and want his services. Kittany's customers are so loyal, in fact, that Vita-Clean—a national household carpet-cleaning franchise—found it impossible to compete with him. Even price-cutting was not an effective weapon against Kittany.

Sharon Bidwell thought that she knew the business as well as Kittany—having worked for him many years. Sharon was anxious to reach her $60,000-per-year sales objective because she thought this would provide her with a comfortable living in Petoskey. While aware of cleaning opportunities in businesses such as office buildings and motels, Sharon felt that the sales volume available there was small because most businesses had their own cleaning staffs. As Sharon saw it, her only opportunity was direct competition with Kittany.

To get started, Sharon spent $1,400 to advertise her business in the local newspaper and on an Internet website. With this money she bought two large announcement ads and 52 weeks of daily ads in the classified section—listed under Miscellaneous Residential Services. The website simply listed businesses in the Petoskey area and gave a telephone number, e-mail address, and brief description. She put magnetic sign boards on her truck and waited for business to take off.

Sharon had a few customers and was able to gross about $150 a week. Of course, she had expected much more. These customers were usually Kittany regulars who, for one reason or another (usually stains, spills, or house guests), weren't able to wait the two weeks until Kittany could work them in. While these people agreed that Sharon's work was of the same quality as Kittany's, they preferred Kittany's "quality-care" image and they had an ongoing relationship with him. Sometimes Sharon did get more work than she could handle. This happened during April and May—when seasonal businesses were preparing for summer openings and owners of summer homes and condos were ready to "open the cottage." The same rush occurred in September and October—as many of these places were being closed for the winter. During these months, Sharon was able to gross about $130 to $150 a day—working 10 hours.

Toward the end of her discouraging first year in business, Sharon Bidwell is thinking about quitting. While she hates to think about leaving Petoskey, she can't see any way of making a living there in the carpet- and furniture-cleaning business. Kittany seems to have dominated the market—except in the rush seasons and for people who need emergency cleaning. And the resort housing market is not growing very fast, so there is little hope of a big increase in potential customers.

Evaluate Sharon Bidwell's strategy planning for her new business. Why wasn't she able to reach her objective of $60,000? What should Sharon do now? Explain.

5 Republic Polymer Company

Gary Walden, a chemist in Republic Polymer's polymer resins laboratory, is trying to decide how hard to fight for the new product he has developed. Walden's job is to find new, more profitable applications for the company's present resin products—and his current efforts are running into unexpected problems.

During the last four years, Walden has been under heavy pressure from his managers to come up with an idea that will open up new markets for the company's foamed polystyrene.

Two years ago, Walden developed the "foamed-dome concept"—a method of using foamed polystyrene to make dome-shaped roofs and other structures. He described the procedure for making domes as follows: The construction of a foamed dome involves the use of a specially designed machine that bends, places, and bonds pieces of plastic foam together into a predetermined dome shape. In forming a dome, the machine head is mounted on a boom, which swings around a pivot like the hands of a clock, laying and bonding layer upon layer of foam board in a rising spherical form.

According to Walden, polystyrene foamed boards have several advantages:

1. Foam board is stiff—but can be formed or bonded to itself by heat alone.
2. Foam board is extremely lightweight and easy to handle. It has good structural rigidity.
3. Foam board has excellent and permanent insulating characteristics. (In fact, the major use for foam board is as an insulator.)
4. Foam board provides an excellent base on which to apply a variety of surface finishes, such as a readily available concrete-based stucco that is durable and inexpensive.

Using his good selling abilities, Walden easily convinced his managers that his idea has potential.

According to a preliminary study by the marketing research department, the following were areas of construction that could be served by the domes:

1. Bulk storage.
2. Cold storage.
3. Educational construction.
4. Covers for industrial tanks.
5. Light commercial construction.
6. Planetariums.
7. Recreational construction (such as a golf-course starter house).

The marketing research study focused on uses for existing dome structures. Most of the existing domes are made of cement-based materials. The study showed that large savings would result from using foam boards—due to the reduction of construction time.

Because of the new technology involved, the company decided to do its own contracting (at least for the first four to five years). Walden thought this was necessary to make sure that no mistakes were made by inexperienced contractor crews. (For example, if not applied properly, the plastic may burn.)

After building a few domes in the United States to demonstrate the concept, Walden contacted some leading U.S. architects. Reactions were as follows:

> "It's very interesting, but we're not sure the fire marshal of Chicago would ever give his OK."

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"Your tests show that foamed domes can be protected against fires, but there are no *good* tests for unconventional building materials as far as I am concerned."

"I like the idea, but foam board does not have the impact resistance of cement."

"We design a lot of recreational facilities, and kids will find a way to poke holes in the foam."

"Building codes in our area are written for wood and cement structures. Maybe we'd be interested if the codes change."

After this unexpected reaction, management didn't know what to do. Walden still thinks they should go ahead with the project. He wants to build several more demonstration projects in the United States and at least three each in Europe and Japan to expose the concept in the global market. He thinks architects outside the United States may be more receptive to really new ideas. Further, he says, it takes time for potential users to "see" and accept new ideas. He is sure that more exposure to more people will speed acceptance. And he is convinced that a few reports of well-constructed domes in leading trade papers and magazines will go a long way toward selling the idea. He is working on getting such reports right now. But his managers aren't sure they want to OK spending more money on "his" project. His immediate boss is supportive, but the rest of the review board is less sure about more demonstration projects or going ahead at all—just in the United States or in global markets.

Evaluate how Republic Polymer got into the present situation. What should Gary Walden do? What should Walden's managers do? Explain.

6 Three Rivers Steel Company

Three Rivers Steel Company is one of two major producers of wide-flange beams in the United States. The other producer is United Steel Corporation (now USX). A few small firms also compete, but they tend to compete mainly on price in nearby markets where they can keep transport costs low. Typically, all interested competitors charge the same delivered price, which varies some depending on how far the customer is from either of the two major producers. In other words, local prices are higher in more remote geographic markets.

Wide-flange beams are one of the principal steel products used in construction. They are the modern version of what are commonly known as I-beams. USX rolls a full range of wide flanges from 6 to 36 inches. Three Rivers entered the field about 20 years ago—when it converted an existing mill to produce this product. Three Rivers' mill is limited to flanges up to 24 inches, however. At the time of the conversion, Three Rivers felt that customer usage of sizes over 24 inches was likely to be small. In recent years, however, there has been a definite trend toward the larger and heavier sections.

The beams produced by the various competitors are almost identical—since customers buy according to standard dimensional and physical-property specifications. In the smaller size range, there are a number of competitors. But above 14 inches, only USX and Three Rivers compete. Above 24 inches, USX has no competition.

All the steel companies sell these beams through their own sales forces. The customer for these beams is called a structural fabricator. This fabricator typically buys unshaped beams and other steel products from the mills and shapes them according to the specifications of each customer. The fabricator sells to the contractor or owner of the structure being built.

The structural fabricator usually must sell on a competitive-bid basis. The bidding is done on the plans and specifications prepared by an architectural or structural engineering firm—and forwarded to the fabricator by the contractor who wants the bid. Although thousands of structural fabricators compete in the U.S., relatively few account for the majority of wide-flange tonnage in the various geographical regions. Since the price is the same from all producers, they typically buy beams on the basis of availability (i.e., availability to meet production schedules) and performance (i.e., reliability in meeting the promised delivery schedule).

Several years ago, Three Rivers' production schedulers saw that they were going to have an excess of hot-rolled plate capacity in the near future. At the same time, development of a new production technology allowed Three Rivers to weld three plates together into a section with the same dimensional and physical properties and almost the same cross-section as a rolled wide-flange beam. This development appeared to offer two key advantages to Three Rivers: (1) It would enable Three Rivers to use some of the excess plate capacity, and (2) larger sizes of wide-flange beams could be offered. Cost analysts showed that by using a fully depreciated plate mill and the new welding process it would be possible to produce and sell larger wide-flange beams at competitive prices—that is, at the same price charged by USX.

Three Rivers' managers were excited about the possibilities—because customers usually appreciate having a second source of supply. Also, the new approach would allow the production of up to a 60-inch flange. With a little imagination, these larger sizes might offer a significant breakthrough for the construction industry.

Three Rivers decided to go ahead with the new project. As the production capacity was converted, the salespeople were kept well informed of the progress. They, in turn, promoted this new capability to their customers—emphasizing that soon they would be able to offer a full range of beam products. Three Rivers sent several general information letters to a broad mailing list but did not advertise. The market development section of the sales department was very busy explaining the new possibilities of the process to fabricators—at engineering trade associations and shows.

When the new production line was finally ready to go, the market reaction was disappointing. No orders came in and none were expected. In general, customers were wary of the new product. The structural fabricators felt they couldn't use it without the approval of their customers—because it would involve deviating from the specified rolled sections. And as long as they could still get the rolled section, why make the extra effort for something unfamiliar—especially with no price advantage. The salespeople were also bothered with a very common question: How can you take plate that you sell for about $460 per ton and make a product that you can sell for $470? This question came up frequently and tended to divert

the whole discussion to the cost of production rather than to the way the new product might be used or its value in the construction process.

Evaluate Three Rivers' situation. What should Three Rivers do?

7 Lilybank Lodge

Nestled in the high country of New Zealand's South Island is a getaway adventure playground aimed unashamedly at the world's very wealthy. Presidents, playboys, and other such globe-trotters are the prime targets of this fledgling tourism business developed by Lilybank Lodge. The lodge offers this exclusive niche the opportunity of a secluded holiday in a little-known paradise. Guests, commonly under public scrutiny in their everyday lives, can escape such pressures at a hunting retreat designed specifically with their needs in mind.

A chance meeting between a New Zealand Department of Conservation investigator and the son of the former Indonesian president marked the beginning of this specialty tourist operation. Recognizing that "filthy rich" public figures are constantly surrounded by security and seldom have the luxury of going anywhere incognito, the New Zealander, Gerard Olde-Olthof, suggested that he and his new friend purchase a high-country station and hunting-guide company that was for sale. Olde-Olthof believed that the facilities, and their secluded and peaceful environment, would make an ideal holiday haven for this elite group. His Indonesian partner concurred.

Olde-Olthof, who was by now the company's managing director, developed a carefully tailored package of goods and services for the property. Architecturally designed accommodations, including a game trophy room and eight guest rooms, were constructed using high-quality South Island furniture and fittings, to create the ambience necessary to attract and satisfy the demands of their special clientele.

Although New Zealand had an international reputation for being sparsely populated and green, Olde-Olthof knew that rich travelers frequently complained that local accommodations were below overseas standards. Since the price (NZ$700 a night) was not a significant variable for this target market, sumptuous guest facilities were built. These were designed to be twice the normal size of most hotel rooms, with double-glazed windows that revealed breathtaking views. Ten full-time staff and two seasonal guides were recruited to ensure that visitors received superior customized service, in fitting with the restrained opulence of the lodge.

The 28,000 hectares of original farmland that made up the retreat and backed onto the South Island's Mount Cook National Park were converted into a big-game reserve. All merino sheep on the land were sold, and deer, elk, chamois, and wapiti were brought in and released. This was a carefully considered plan. Olde-Olthof, the former conservationist, believed that financially and environmentally this was the correct decision. Not only do tourists, each staying for one week and taking part in safari shooting, inject as much cash into the business as the station's annual wool clip used to fetch, but the game does less harm to the environment than sheep. Cattle, however, once part of the original station, were left to graze on lower riverflat areas.

For those high-flying customers seeking less bloodthirsty leisure activities, Lilybank developed other product-line extensions. Horse-trekking, golfing on a nearby rural course (with no need for hordes of security forces), world-class photographic opportunities, helicopter trips around nearby Lake Tekapo, nature walks, and other such activities formed part of the exclusive package.

While still in the early stages of operation, this retreat has already attracted a steady stream of visitors. To date the manager has relied solely on positive word of mouth, publicity, and public relations to draw in new customers. Given the social and business circles in which his potential target market moves, Olde-Olthof considers these to be the most appropriate forms of marketing communication. The only real concern for Lilybank Lodge has been the criticism of at least one New Zealand lobby group that the company is yet another example of local land passing into "foreign" hands, and that New Zealanders are prevented from using the retreat and excluded from its financial returns. However, this unwelcome attention has been fairly short-lived.

Identify the likely characteristics of the market segment being targeted by the company. Why are most target customers likely to be foreigners rather than New Zealanders? Suggest what expectations target customers are likely to have regarding the quality, reliability, and range of services. What are the implications for Lilybank Lodge? How difficult is it for Lilybank Lodge to undertake market research? Elaborate.

8 Sophia's Ristorante

Sophia Manderino, the owner and manager of Sophia's Ristorante, is reviewing the slow growth of her restaurant. She's also thinking about the future and wondering if she should change her strategy. In particular, she is wondering if she should join a fast-food or family restaurant franchise chain. Several are located near her, but there are many franchisors without local restaurants. After doing some research on the Internet, she has learned that with help from the franchisors, some of these places gross $500,000 to $1 million a year. Of course, she would have to follow someone else's strategy and thereby lose her independence, which she doesn't like to think about. But those sales figures do sound good, and she has also heard that the return to the owner-manager (including salary) can be over $100,000 per year. She has also considered putting a web page for Sophia's Ristorante on the Internet but is not sure how that will help.

Sophia's Ristorante is a fairly large restaurant—about 2,000 square feet—located in the center of a small shopping center completed early in 2000. Sophia's sells mainly full-course "home-cooked" Italian-style dinners (no bar) at moderate prices. In addition to Sophia's restaurant, other businesses in the shopping center include a supermarket, a hair salon, a liquor store, a video rental store, and a vacant space that used to be a hardware store. The hardware store failed when a Home Depot located nearby. Sophia has learned that a pizzeria is considering locating there soon. She wonders how that competition will affect her. Ample parking space is available at the shopping center, which is located in a residential section of a growing suburb in the East, along a heavily traveled major traffic route.

Sophia graduated from a local high school and a nearby university and has lived in this town with her husband and two children for many years. She has been self-employed in the restaurant business since her graduation from college in 1979. Her most recent venture before opening Sophia's was a large restaurant that she operated successfully with her brother from 1990 to 1996. In 1996, Sophia sold out her share because of illness. Following her recovery, she was anxious for something to do and opened the present restaurant in April 2000. Sophia feels her plans for the business and her opening were well thought out. When she was ready to start her new restaurant, she looked at several possible locations before finally deciding on the present one. Sophia explained: "I looked everywhere, but here I particularly noticed the heavy traffic when I first looked at it. This is the crossroads for practically every main road statewide. So obviously the potential is here."

Having decided on the location, Sophia signed a 10-year lease with option to renew for 10 more years, and then eagerly attacked the problem of outfitting the almost empty store space in the newly constructed building. She tiled the floor, put in walls of surfwood, installed plumbing and electrical fixtures and an extra washroom, and purchased the necessary restaurant equipment. All this cost $100,000—which came from her own cash savings. She then spent an additional $1,500 for glassware, $2,000 for an initial food stock, and $2,125 to advertise Sophia's Ristorante's opening in the local newspaper. The paper serves the whole metro area, so the $2,125 bought only three quarter-page ads. These expenditures also came from her own personal savings. Next she hired five waitresses at $175 a week and one chef at $350 a week. Then, with $24,000 cash reserve for the business, she was ready to open. Reflecting her sound business sense, Sophia knew she would need a substantial cash reserve to fall back on until the business got on its feet. She expected this to take about one year. She had no expectations of getting rich overnight. (Her husband, a high school teacher, was willing to support the family until the restaurant caught on.)

The restaurant opened in April and by August had a weekly gross revenue of only $1,800. Sophia was a little discouraged with this, but she was still able to meet all her operating expenses without investing any new money in the business. By September business was still slow, and Sophia had to invest an additional $2,000 in the business just to survive.

Business had not improved in November, and Sophia stepped up her advertising—hoping this would help. In December, she spent $800 of her cash reserve for radio advertising—10 late-evening spots on a news program at a station that aims at middle-income America. Sophia also spent $1,100 more during the next several weeks for some metro newspaper ads.

By April 2001, the situation had begun to improve, and by June her weekly gross was up to between $2,100 and $2,300. By March 2002, the weekly gross had risen to about $2,800. Sophia increased the working hours of her staff six to seven hours a week and added another cook to handle the increasing number of customers. Sophia was more optimistic for the future because she was finally doing a little better than breaking even. Her full-time involvement seemed to be paying off. She had not put any new money into the business since summer 2001 and expected business to continue to rise. She had not yet taken any salary for herself, even though she had built up a small surplus of about $6,000. Instead, she planned to put in a bigger air-conditioning system at a cost of $4,000 and was also planning to use what salary she might have taken for herself to hire two new waitresses to handle the growing volume of business. And she saw that if business increased much more she would have to add another cook.

Evaluate Sophia's past and present marketing strategy. What should she do now? Should she seriously consider joining some franchise chain?

9 SleepyTime Motel

Eng Huang is trying to decide whether he should make some minor changes in the way he operates his SleepyTime Motel or if he should join either the Days Inn or Holiday Inn motel chains. Some decision must be made soon because his present operation is losing money. But joining either of the chains will require fairly substantial changes, including new capital investment if he goes with Holiday Inn.

Huang bought the recently completed 60-room motel two years ago after leaving a successful career as a production manager for a large producer of industrial machinery. He was looking for an interesting opportunity that would be less demanding than the production manager job. The SleepyTime is located at the edge of a very small town near a rapidly expanding resort area and about one-half mile off an interstate highway. It is 10 miles from the tourist area, with several nationally franchised full-service resort motels suitable for "destination" vacations. There is a Best Western, a Ramada Inn, and a Hilton Inn, as well as many mom and pop and limited-service, lower-priced motels—and some quaint bed and breakfast facilities—in the tourist area. The interstate highway near the SleepyTime carries a great deal of traffic, since the resort area is between several major metropolitan areas. No development has taken place around the turnoff from the interstate highway. The only promotion for the tourist area along the interstate highway is two large signs near the turnoffs. They show the popular name for the area and that the area is only 10 miles to the west. These signs are maintained by the tourist area's Tourist Bureau. In addition, the state transportation department maintains several small signs showing (by symbols) that near this turnoff one can find gas, food, and lodging. Huang does not have any signs advertising SleepyTime except the two on his property. He has been relying on people finding his motel as they go toward the resort area.

Initially, Huang was very pleased with his purchase. He had traveled a lot himself and stayed in many different hotels and motels—so he had some definite ideas about what travelers wanted. He felt that a relatively plain but modern room with a comfortable bed, standard bath facilities, and free cable TV would appeal to most customers. Further, Huang thought a swimming pool or any other nonrevenue-producing additions were not necessary. And he felt a restaurant would be a greater management problem than the benefits it would offer. However, after many customers commented about the lack of convenient breakfast facilities, Huang served a free continental breakfast of coffee, juice, and rolls in a room next to the registration desk.

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Day-to-day operations went fairly smoothly in the first two years, in part because Huang and his wife handled registration and office duties as well as general management. During the first year of operation, occupancy began to stabilize around 55 percent of capacity. But according to industry figures, this was far below the average of 68 percent for his classification—motels without restaurants.

After two years of operation, Huang was concerned because his occupancy rates continued to be below average. He decided to look for ways to increase both occupancy rate and profitability and still maintain his independence.

Huang wanted to avoid direct competition with the full-service resort motels. He stressed a price appeal in his signs and brochures and was quite proud of the fact that he had been able to avoid all the "unnecessary expenses" of the full-service resort motels. As a result, Huang was able to offer lodging at a very modest price—about 40 percent below the full-service hotels and comparable to the lowest-priced resort area motels. The customers who stayed at SleepyTime said they found it quite acceptable. But he was troubled by what seemed to be a large number of people driving into his parking lot, looking around, and not coming in to register.

Huang was particularly interested in the results of a recent study by the regional tourist bureau. This study revealed the following information about area vacationers:

1. 68 percent of the visitors to the area are young couples and older couples without children.
2. 40 percent of the visitors plan their vacations and reserve rooms more than 60 days in advance.
3. 66 percent of the visitors stay more than three days in the area and at the same location.
4. 78 percent of the visitors indicated that recreational facilities were important in their choice of accommodations.
5. 13 percent of the visitors had family incomes of less than $24,000 per year.
6. 38 percent of the visitors indicated that it was their first visit to the area.

After much thought, Huang began to seriously consider affiliating with a national motel chain in hopes of attracting more customers and maybe protecting his motel from the increasing competition. There were constant rumors that more motels were being planned for the area. After some investigating, he focused on two national chain possibilities: Days Inn and Holiday Inn. Neither had affiliates in the area even though they have numerous units nationwide: Days Inn has about 1,900 units and Holiday Inn about 1,600.

Days Inn of America, Inc., is an Atlanta-based chain of economy lodgings. It has been growing rapidly and is willing to take on new franchisees. A major advantage of Days Inn is that it would not require a major capital investment by Huang. The firm is targeting people interested in lower-priced motels—in particular, senior citizens, the military, school sports teams, educators, and business travelers. In contrast, Holiday Inn would probably require Huang to upgrade some of his facilities, including adding a swimming pool. The total new capital investment would be between $300,000 and $500,000, depending on how fancy he got. But then Huang would be able to charge higher prices—perhaps $75 per day on the average rather than the $45 per day per room he's charging now.

The major advantages of going with either of these national chains would be their central reservation system and their national names. Both companies offer nationwide, toll-free reservation lines, which produce about 40 percent of all bookings in affiliated motels. Both companies also offer websites (www.daysinn.com and www.holiday-inn.com) that help find a specific hotel by destination, rate, amenities, quality rating, and availability.

A major difference between the two national chains is their method of promotion. Days Inn uses little TV advertising and less print advertising than Holiday Inn. Instead, Days Inn emphasizes sales promotions. In a recent campaign, for example, Blue Bonnet margarine users could exchange proof-of-purchase seals for a free night at a Days Inn. This tie-in led to the Days Inn system *selling* an additional 10,000 rooms. Further, Days Inn operates a September Days Club for travelers 50 and over who receive such benefits as discount rates and a quarterly travel magazine.

Days Inn also has other membership programs, including its InnCentives loyalty club for frequent business and leisure travelers. Other programs targeted to business travelers include two Corporate Rate programs and its new Days Business Place hotels. Not to be outdone, Holiday Inn has a membership program called Priority Club Worldwide.

Both firms charge 8 percent of gross room revenues for belonging to their chain—to cover the costs of the reservation service and national promotion. This amount is payable monthly. In addition, franchise members must agree to maintain their facilities and make repairs and improvements as required. Failure to maintain facilities can result in losing the franchise. Periodic inspections are conducted as part of supervising the whole chain and helping the members operate more effectively.

Evaluate Eng Huang's present strategy. What should he do? Explain.

10 O'Keefe's Ice Arena

Manuel Gray, the manager of O'Keefe's Ice Arena, is trying to decide what strategies to use to increase profits.

O'Keefe's Ice Arena is an ice-skating rink with a conventional hockey rink surface (85 feet × 200 feet). It is the only indoor ice rink in a northern U.S. city of about 450,000. The city's recreation department operates some outdoor rinks in the winter, but they don't offer regular ice skating programs because of weather variability.

Manuel runs a successful hockey program that is more than breaking even—but this is about all he can expect if he only offers hockey. To try to increase his profits, Manuel is trying to expand and improve his public skating program. With such a program, he could have as many as 700 people in a public session at one time, instead of limiting the use of the ice to 12 to 24 hockey players per hour. While the receipts from hockey can be as high as $175 an hour (plus concession sales), the receipts from a two-hour public skating session—charging $4 per person—could yield up to $2,800 for a two-hour period (plus much higher concession sales). The potential revenue

from such large public skating sessions could make O'Keefe's Ice Arena a really profitable operation. But, unfortunately, just scheduling public sessions doesn't mean that a large number will come. In fact, only a few prime times seem likely: Friday and Saturday evenings and Saturday and Sunday afternoons.

Manuel has included 14 public skating sessions in his ice schedule, but so far they haven't attracted as many people as he hoped. In total, they only generate a little more revenue than if the times were sold for hockey use. Offsetting this extra revenue are extra costs. More staff people are needed to handle a public skating session—guards, a ticket seller, skate rental, and more concession help. So the net revenue from either use is about the same. He could cancel some of the less attractive public sessions—like the noon-time daily sessions, which have very low attendance—and make the average attendance figures look a lot better. But he feels that if he is going to offer public skating he must have a reasonable selection of times. He does recognize, however, that the different public skating sessions do seem to attract different people and, really, different kinds of people.

The Saturday and Sunday afternoon public skating sessions have been the most successful—with an average of 200 people attending during the winter season. Typically, this is a "kid-sitting" session. More than half of the patrons are young children who have been dropped off by their parents for several hours, but there are also some family groups.

In general, the kids and the families have a good time—and a fairly loyal group comes every Saturday and/or Sunday during the winter season. In the spring and fall, however, attendance drops about in half, depending on how nice the weather is. (Manuel schedules no public sessions in the summer—focusing instead on hockey clinics and figure skating.)

The Friday and Saturday evening public sessions are a big disappointment. The sessions run from 8 until 10—a time when he had hoped to attract teenagers and young adult couples. At $4 per person, plus $1 for skate rental, this would be an economical date. In fact, Manuel has seen quite a few young couples—and some keep coming back. But he also sees a surprising number of 8- to 12-year-olds who have been dropped off by their parents. The younger kids tend to race around the rink playing tag. This affects the whole atmosphere—making it less appealing for dating couples and older patrons.

Manuel has been hoping to develop a teenage and young-adult market for a "social activity"—adapting the format used by roller-skating rinks. Their public skating sessions feature a variety of couples-only and group games as well as individual skating to dance music. Turning ice skating sessions into such social activities is not common, however, although industry newletters suggest that a few ice-rink operators have had success with the roller-skating format. Seemingly, the ice skating sessions are viewed as active recreation, offering exercise and/or a sports experience.

Manuel installed some soft lights to try to change the evening atmosphere. The music was selected to encourage people to skate to the beat and couples to skate together. Some people complained about the "old" music; but it was "danceable," and some skaters really liked it. For a few sessions, Manuel even tried to have some couples-only skates. The couples liked it, but this format was strongly resisted by the young boys who felt that they had paid their money and there was no reason why they should be kicked off the ice. Manuel also tried to attract more young people and especially couples by bringing in a local rock radio station disk jockey to broadcast from O'Keefe's Ice Arena—playing music and advertising the Friday and Saturday evening public sessions. But this had no effect on attendance—which varies from 50 to 100 per two-hour session during the winter.

Manuel seriously considered the possibility of limiting the Friday and Saturday evening sessions to people age 13 and over—to try to change the environment. He knew it would take time to change people's attitudes. But when he counted the customers, he realized this would be risky. More than a quarter of his customers on an average weekend night appear to be 12 or under. This means that he would have to make a serious commitment to building the teenage and young-adult market. And, so far, his efforts haven't been successful. He has already invested over $3,000 in lighting changes and over $9,000 promoting the sessions over the rock music radio station—with very disappointing results. Although the station's sales rep said they reached teenagers all over town, an on-air offer for a free skating session did not get a single response!

Some days, Manuel feels it's hopeless. Maybe he should accept that most public ice skating sessions are a mixed bag. Or maybe he should just sell the time to hockey groups. Still he keeps hoping that something can be done to improve weekend evening public skating attendance, because the upside potential is so good. And the Saturday and Sunday afternoon sessions are pretty good money-makers.

Evaluate O'Keefe's Ice Arena's situation. What should Manuel Gray do? Why?

11 Runners World

Sue Koenig, owner of Runners World, is trying to decide what she should do with her retail business and how committed she should be to her current target market.

Sue is 39 years old, and she started her Runners World retail store in 1987 when she was only 24 years old. She was a nationally ranked runner herself and felt that the growing interest in jogging offered real potential for a store that provided serious runners with the shoes and advice they needed. The jogging boom quickly turned Runners World into a profitable business selling high-end running shoes—and Sue made a very good return on her investment for the first 10 years. From 1987 until 1997, Sue emphasized Nike shoes, which were well accepted and seen as top quality. Nike's aggressive promotion and quality shoes resulted in a positive image that made it possible to get a $5 to $7 per pair premium for Nike shoes. Good volume and good margins resulted in attractive profits for Sue Koenig.

Committing so heavily to Nike seemed like a good idea when its marketing and engineering was the best available. In addition to running shoes, Nike had other athletic shoes Sue could sell. So even though they were not her primary focus, Sue did stock other Nike shoes including walking shoes, shoes for aerobic exercise, basketball shoes, tennis shoes, and cross-trainers. She also added more sportswear to her store and put more emphasis on fashion rather than just function.

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Even with this broadened product line, Sue's sales flattened out—and she wasn't sure what to do to get her business back in growth mode. She realized that she was growing older and so were many of her longer-term customers. Many of them were finding that jogging isn't just hard work—it's hard on the body, especially the knees. So many of her previously loyal runner-customers were switching to other, less demanding exercise programs. However, when she tried to orient her store and product line more toward these people she wasn't as effective in serving the needs of serious runners—still an important source of sales for the store.

She was also facing more competition on all fronts. Many consumers who don't really do any serious exercise buy running shoes as their day-to-day casual shoes. As a result, many department stores, discount stores, and regular shoe stores have put more and more emphasis on athletic shoes in their product assortment. When Sue added other brands and put more emphasis on fashion she found that she was in direct competition with a number of other stores—which put more pressure on her to lower prices and cut her profit margins. For example, in Sue's area there are a number of local and online retail chains offering lower-cost and lower-quality versions of similar shoes as well as related fashion apparel. Even Wal-Mart has expanded its assortment of athletic shoes—and it offers rock-bottom prices. Other chains, like Foot Locker, have focused their promotion and product lines on specific target markets. Still, all of them (including Sue's Runners World, the local chains, Wal-Mart, and Foot Locker) are scrambling to catch up with rival category killers whose selections are immense.

In the spring of 2000 Sue tried an experiment. She took on a line of high-performance athletic shoes that were made to order. The distinctive feature of these shoes was that the sole was molded to precisely fit the customer's foot. A pair of these custom-made shoes cost about $170, so the market was not large. Further, Sue didn't put much promotional emphasis on this line. However, when a customer came in the store with a serious interest in high-performance shoes, Sue's sales clerks would tell them about the custom shoe alternative and show a sample. When a customer was interested, a mold of the customer's bare foot was made at the store—using an innovative material that hardened in just a few minutes without leaving a sticky mess. Sue sent the mold off to the manufacturer by UPS, and about two weeks later the finished shoes arrived. Customers who tried these shoes were delighted with the result. However, the company that offered them ran into financial trouble and went out of business.

Sue recently learned about another company that is offering a very similar custom shoe program. However, that company requires more promotion investment by retailers and in return provides exclusive sales territories. Another requirement is that the store establish a website promoting the shoes and providing more detail on how the order process works. All of a retailer's salesclerks are also required to go through a special two-day training program so that they know how to present the benefits of the shoe and do the best job creating the molds. The training program is free, but Sue would have to pay travel, hotel, and food expenses for her salespeople. So before even getting started, the new program would cost her several thousand dollars.

Sue is uncertain about what to do. Although sales have dropped, she is still making a reasonable profit and has a relatively good base of repeat customers—with the serious runners still more than half of her sales and profits. She thinks that the custom shoe alternative is a way to differentiate her store from the mass-merchandisers and to sharpen her focus on the target market of serious runners. On the other hand, that doesn't really solve the problem that the "runners" market seems to be shrinking. It also doesn't address the question of how best to keep a lot of the aging customers she already serves who seem to be shifting away from an emphasis on running. She also worries that she'll lose the loyalty of her repeat customers if she shifts the store further away from her running niche and more toward fashionable athletic shoes or fashionable casual wear. Yet athletic wear—women's, in particular—has come a long way in recent years. Designers like Donna Karan, Calvin Klein, Georgio Armani, and Ralph Lauren are part of the fast-growing women's wear business.

So Sue is trying to decide if there is anything else she can do to better promote her current store and product line, or if she should think about changing her strategy in a more dramatic way. Any change from her current focus would involve retraining her current salespeople and perhaps hiring new salespeople. Adding and maintaining a website isn't an insurmountable challenge, but it is not an area where she has either previous experience or skill.

Clearly, a real shift in emphasis would require that Sue make some hard decisions about her target market and her whole marketing mix. She's got some flexibility—it's not like she's a manufacturer of shoes with a big investment in a factory that can't be changed. On the other hand, she's not certain she's ready for a big change—especially a change that would mean starting over again from scratch. She started Runners World because she was interested in running and felt she had something special to offer. Now she worries that she's just clutching at straws without a real focus or any obvious competitive advantage. She also knows that she is already much more successful than she ever dreamed when she started her business—and in her heart she wonders if she wasn't just spoiled by growth that came fast and easy at the start.

Evaluate Sue Koenig's present strategy. Evaluate the alternative strategies she is considering. Is her primary problem her emphasis on running shoes, her emphasis on trying to hang on to her current customers, or is it something else? What should she do? Why?

12 ChemTech

Jeannie Trenton, a new product manager for ChemTech, must decide what to do with a new engine cooling system product that is not doing well compared to the company's other cooling system products. ChemTech is one of the large chemical companies in the United States—making a wide line of organic and inorganic chemicals and plastics. Technical research has played a vital role in the company's growth.

Recently, one of ChemTech's researchers developed a new engine cooling system product—EC-301. Much time and money was spent on the technical phase, involving various experiments concerned with the quality of the new product.

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Then Jeannie Trenton took over and has been trying to develop a strategy for the product.

The engine coolant commonly used now is ethylene glycol. If it leaks into the crankcase oil, it forms a thick, pasty sludge that can cause bearing damage, cylinder scoring, or a dozen other costly and time-consuming troubles for both the operator and the owner of heavy-duty engines.

ChemTech researchers believed that the new product—EC-301—would be very valuable to the owners of heavy-duty diesel and gasoline trucks, as well as other heavy-equipment owners. Chemically, EC-301 uses a propanol base instead of the conventional glycol and alcohol bases. It cannot prevent leakage, but if it does get into the crankcase, it won't cause serious problems.

The suggested list price of EC-301 is $22 per gallon—more than twice the price of regular coolants. The higher price was set because of higher production costs and to obtain a "premium" for making a better engine coolant.

At first, Trenton thought she had two attractive markets for EC-301: (1) the manufacturers of heavy-duty trucks and (2) the users of heavy-duty trucks. ChemTech sales reps have made numerous calls. So far neither type of customer has shown much interest, and the sales manager is discouraging any more calls for EC-301. He feels there are more profitable uses for the sales reps' time. The truck manufacturer prospects are reluctant to show interest in the product until it has been proven in actual use. The maintenance managers for truck fleets, construction companies, and other users of heavy-duty trucks have also been hesitant. Some say the suggested price is far too high for the advantages offered. Others don't understand what is wrong with the present coolants and refuse to talk any more about paying extra for just another me-too product.

Explain what has happened so far. What should Jeannie Trenton do? Why?

13 Paper Supplies Corporation*

Diane Chin, marketing manager for Paper Supplies Corporation, must decide whether she should permit her largest customer to buy some of Paper Supplies' commonly used file folders under the customer's brand rather than Paper Supplies' own FILEX brand. She is afraid that if she refuses, this customer—Office Center, Inc.—will go to another file folder producer and Paper Supplies will lose this business.

Office Center, Inc., is a major distributor of office supplies and has already managed to put its own brand on more than 45 high-sales-volume office supply products. It distributes these products—as well as the branded products of many manufacturers—through its nationwide distribution network, which includes 150 retail stores. Now Ken Sawyer, vice president of marketing for Office Center, is seeking a line of file folders similar in quality to Paper Supplies' FILEX brand, which now has over 60 percent of the market.

This is not the first time that Office Center has asked Paper Supplies to produce a file folder line for Office Center. On both previous occasions, Diane Chin turned down the requests and Office Center continued to buy. In fact, Office Center not only continued to buy the file folders but also the rest of Paper Supplies' lines. And total sales continued to grow as Office Center built new stores. Office Center accounts for about 30 percent of Diane Chin's business. And FILEX brand file folders account for about 35 percent of this volume.

In the past Paper Supplies consistently refused such dealer-branding requests—as a matter of corporate policy. This policy was set some years ago because of a desire (1) to avoid excessive dependence on any one customer and (2) to sell its own brands so that its success is dependent on the quality of its products rather than just a low price. The policy developed from a concern that if it started making products under other customers' brands, those customers could shop around for a low price and the business would be very fickle. At the time the policy was set, Diane Chin realized that it might cost Paper Supplies some business. But it was felt wise nevertheless—to be better able to control the firm's future.

Paper Supplies Corporation has been in business 28 years and now has a sales volume of $40 million. Its primary products are file folders, file markers and labels, and a variety of indexing systems. Paper Supplies offers such a wide range of size, color, and type that no competition can match it in its part of the market. About 40 percent of Paper Supplies' file folder business is in specialized lines such as files for oversized blueprint and engineer drawings; see-through files for medical markets; and greaseproof and waterproof files for marine, oil field, and other hazardous environmental markets. Paper Supplies' competitors are mostly small paper converters. But excess capacity in the industry is substantial, and these converters are always hungry for orders and willing to cut price. Further, the raw materials for the FILEX line of file folders are readily available.

Paper Supplies' distribution system consists of 10 regional stationery suppliers (40 percent of total sales), Office Center, Inc. (30 percent), and more than 40 local stationers who have wholesale and retail operations (30 percent). The 10 regional stationers each have one wholesale and three or four retail locations. The regional suppliers sell directly to large corporations and to some retailers. In contrast, Office Center's main volume comes from sales to local businesses and walk-in customers at its 150 retail stores.

Diane Chin has a real concern about the future of the local stationers' business. Some are seriously discussing the formation of buying groups to obtain volume discounts from vendors and thus compete more effectively with Office Center's 150 retail stores, the large regionals, and the superstore chains, which are spreading rapidly. These chains—for example, Staples, Office World, Office Max, and Office Depot—operate stores of 16,000 to 20,000 square feet (i.e., large stores compared to the usual office supply stores) and let customers wheel through high-stacked shelves to supermarket-like checkout counters. These chains stress convenience, wide selection, and much lower prices than the typical office supply retailers. They buy directly from manufacturers, such as Paper Supplies, bypassing wholesalers like Office Center. It is likely that the growing pressure from these chains is causing Office Center to renew its proposal to buy a file line with its own name.

*Adapted from a case written by Professor Hardy, University of Western Ontario, Canada.

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None of Diane's other accounts is nearly as effective in retailing as Office Center—which has developed a good reputation in every major city in the country. Office Center's profits have been the highest in the industry. Further, its brands are almost as well known as those of some key producers—and its expansion plans are aggressive. And now, these plans are being pressured by the fast-growing superstores—which are already knocking out many local stationers.

Diane is sure that Paper Supplies' brands are well entrenched in the market, despite the fact that most available money has been devoted to new-product development rather than promotion of existing brands. But Diane is concerned that if Office Center brands its own file folders it will sell them at a discount and may even bring the whole market price level down. Across all the lines of file folders, Diane is averaging a 35 percent gross margin, but the commonly used file folders sought by Office Center are averaging only a 20 percent gross margin. And cutting this margin further does not look very attractive to Diane.

Diane is not sure whether Office Center will continue to sell Paper Supplies' FILEX brand of folders along with Office Center's own file folders if Office Center is able to find a source of supply. Office Center's history has been to sell its own brand and a major brand side by side, especially if the major brand offers high quality and has strong brand recognition.

Diane is having a really hard time deciding what to do about the existing branding policy. Paper Supplies has excess capacity and could easily handle the Office Center business. And she fears that if she turns down this business, Office Center will just go elsewhere and its own brand will cut into Paper Supplies' existing sales at Office Center stores. Further, what makes Office Center's offer especially attractive is that Paper Supplies' variable manufacturing costs would be quite low in relation to any price charged to Office Center—that is, there are substantial economies of scale, so the extra business could be very profitable—if Diane doesn't consider the possible impact on the FILEX line. This Office Center business will be easy to get, but it will require a major change in policy, which Diane will have to sell to Paul Jennings, Paper Supplies' president. This may not be easy. Paul is primarily interested in developing new and better products so the company can avoid the "commodity end of the business."

Evaluate Paper Supplies' current strategy. What should Diane Chin do about Office Center's offer? Explain.

14 Mixed Media Technologies, Inc.

Josh Sullivan, manager of Mixed Media Technologies, Inc., is looking for ways to increase profits. But he's turning cautious after the poor results of his last effort—during the previous Christmas season. Mixed Media Technologies, Inc. (MMT), is located along a busy crosstown street about two miles from the downtown of a metropolitan area of 1 million and near a large university. It sells a wide variety of products used for its different types of multimedia presentations. Its lines include high-quality still, video, and digital cameras, color scanners for use with computers, and projection equipment—including 35-mm slide projectors, overhead projectors, and electronic projectors that produce large-screen versions of computer output. Most of the sales of this specialized equipment are made to area school boards for classroom use, to industry for use in research and sales, and to the university for use in research and instruction.

Mixed Media Technologies also offers a good selection of production-quality video media (including hard-to-get betacam tapes and recordable CDs), specialized supplies (such as the acetates used with full-color computer printers), video and audio editing equipment, and a specialized video editing service. Instead of just duplicating videos on a mass production basis, MMT gives each video editing job individual attention—to add an audio track or incorporate computer graphics as requested by a customer. This service is really appreciated by local firms that need help producing high-quality videos—for example, for training or sales applications.

To encourage the school and industrial trade, MMT offers a graphics consultation service. If a customer wants to create a video or computerized presentation, professional advice is readily available. In support of this free service, MMT carries a full line of computer software for multimedia presentations and graphics work.

MMT has four full-time store clerks and two outside sales reps. The sales reps call on business firms, attend trade shows, make presentations for schools, and help both present and potential customers in their use and choice of multimedia materials. Most purchases are delivered by the sales reps or the store's delivery truck. Many orders come in by phone or mail.

The people who make most of the over-the-counter purchases are (1) serious amateurs and (2) some professionals who prepare videos or computerized presentation materials on a fee basis. MMT gives price discounts of up to 25 percent of the suggested retail price to customers who buy more than $2,000 worth of goods per year. Most regular customers qualify for the discount.

In recent years, many amateur photo buffs have started to buy relatively inexpensive new digital cameras to capture family pictures. Frequently, the buyer is a computer user who wants to use the computer as a digital darkroom—and the cameras now available make this easy. MMT has not previously offered the lower-priced and lower-quality digital models such buyers commonly want. But Josh Sullivan knew that lots of such digital cameras were bought and felt that there ought to be a good opportunity to expand sales during the Christmas gift-giving season. Therefore, he planned a special pre-Christmas sale of two of the most popular brands of digital cameras and discounted the prices to competitive discount store levels—about $169 for one and $229 for the other. To promote the sale, he posted large signs in the store windows and ran ads in a Christmas gift-suggestion edition of the local newspaper. This edition appeared each Wednesday during the four weeks before Christmas. At these prices and with this promotion, Josh hoped to sell at least 100 cameras. However, when the Christmas returns were in, total sales were five cameras. Josh was extremely disappointed with these results—especially because trade experts suggested that sales of digital cameras in these price and quality ranges were up 200 percent over last year—during the Christmas selling season.

Evaluate what Mixed Media Technologies is doing and what happened with the special promotion. What should Josh Sullivan do to increase sales and profits?

15 Modern Horizons, Inc.

Melita Sanchez, owner of Modern Horizons, Inc., is deciding whether to take on a new line. She is very concerned, however, because although she wants more lines she feels that something is wrong with her latest possibility.

Melita Sanchez graduated from a large midwestern university in 1998 with a B.S. in business. She worked selling cellular telephones for a year. Then Melita decided to go into business for herself and formed Modern Horizons, Inc. Looking for opportunities, Melita placed several ads in her local newspaper in Columbus, Ohio, announcing that she was interested in becoming a sales representative in the area. She was quite pleased to receive a number of responses. Eventually, she became the sales representative in the Columbus area for three local computer software producers: Accto Company, which produces accounting-related software; Saleco, Inc., a producer of sales management software; and Invo, Inc., a producer of inventory control software. All of these companies were relatively small and were represented in other areas by other sales representatives like Melita Sanchez.

Melita's main job was to call on possible customers. Once she made a sale, she would fax the signed license agreement to the respective producer, who would then UPS the programs directly to the customer. The producer would bill the customer, and Sanchez would receive a commission varying from 5 to 10 percent of the dollar value of the sale. Sanchez was expected to pay her own expenses. And the producers would handle any user questions—either by using 800 numbers for out-of-town calls or by e-mail queries to a technical support group.

Sanchez called on anyone in the Columbus area who might use the products she sold. At first, her job was relatively easy, and sales came quickly because she had little competition. Many national companies offer similar products, but at that time they were not well represented in the Columbus area. Most small businesses needed someone to demonstrate what the software could do.

In 2000, Sanchez sold $250,000 worth of Accto software, earning a 10 percent commission; $100,000 worth of Saleco software, also earning a 10 percent commission; and $200,000 worth of Invo software, earning a 5 percent commission. She was encouraged with her progress and looked forward to expanding sales in the future. She was especially optimistic because she had achieved these sales volumes without overtaxing herself. In fact, she felt she was operating at about 60 percent of her capacity and could easily take on new lines. So she began looking for other products she could sell in the Columbus area. A manufacturer of small lift trucks had recently approached her, but Melita wasn't too enthusiastic about this offer because the commission was only 2 percent on potential annual sales of $150,000.

Now Melita Sanchez is faced with another decision. The owner of the Metclean Company, also in Columbus, has made what looks like an attractive offer. She called on Metclean to see if the firm might be interested in buying her accounting software. The owner didn't want the software, but he was very impressed with Melita. After two long discussions, he asked if she would like to help Metclean solve its current problem. Metclean is having trouble with marketing and the owner would like Melita Sanchez to take over the whole marketing effort.

Metclean produces solvents used to make coatings for metal products. It sells mainly to industrial customers in the mid-Ohio area and faces many competitors selling essentially the same products and charging the same low prices. Metclean is a small manufacturer. Last year's sales were $400,000. It could handle at least four times this sales volume with ease, and is willing to expand to increase sales—its main objective in the short run. Metclean's owner is offering Melita a 12 percent commission on all sales if she will take charge of their pricing, advertising, and sales efforts. Melita is flattered by the offer, but she is a little worried because the job might require a great deal more traveling than she is doing now. For one thing, she would have to call on new potential customers in mid-Ohio, and she might have to travel up to 200 miles around Columbus to expand the solvent business. Further, she realizes that she is being asked to do more than just sell. But she did have marketing courses in college, and thinks the new opportunity might be challenging.

Evaluate Melita Sanchez's current strategy and how the proposed solvent line fits in with what she is doing now. What should she do? Why?

16 Morgan Company

Timothy Morgan, owner of Morgan Company, feels his business is threatened by a tough new competitor. And now Timothy must decide quickly about an offer that may save his business.

Timothy Morgan has been a sales rep for lumber mills for about 20 years. He started selling in a clothing store but gave it up after two years to work in a lumberyard because the future looked much better in the building materials industry. After drifting from one job to another, Timothy finally settled down and worked his way up to manager of a large wholesale building materials distribution warehouse in Buffalo, New York. In 1982, he formed Morgan Company and went into business for himself, selling carload lots of lumber to lumberyards in western New York and Pennsylvania.

Timothy works with five large lumber mills on the West Coast. They notify him when a carload of lumber is available to be shipped, specifying the grade, condition, and number of each size board in the shipment. Timothy isn't the only person selling for these mills—but he is the only one in his area. He isn't required to take any particular number of carloads per month—but once he tells a mill he wants a particular shipment, title passes to him and he has to sell it to someone. Timothy's main function is to find a buyer, buy the lumber from the mill as it's being shipped, and have the railroad divert the car to the buyer.

Having been in this business for 20 years, Timothy knows all of the lumberyard buyers in his area very well and is on good working terms with them. He does most of his business over the telephone or by e-mail from his small office, but he tries to see each of the buyers about once a month. He has been marking up the lumber between 4 and 6 percent—the standard markup, depending on the grades and mix in each

car—and has been able to make a good living for himself and his family. The going prices are widely publicized in trade publications and are listed on the Internet, so the buyers can easily check to be sure Timothy's prices are competitive.

In the last few years, a number of Timothy's lumberyard customers have gone out of business—and others have lost sales. The main problem is competition from several national home-improvement chains that have moved into Timothy's market area. These chains buy lumber in large quantities direct from a mill, and their low prices, available inventory, and one-stop shopping are taking some customers away from the traditional lumberyards. Some customers think the quality of the lumber is not quite as good at the big chains, and some contractors stick with the lumberyards out of loyalty or because they get better service, including rush deliveries when they're needed. However, if it weren't for a boom in the construction market—helping to make up for lost market share—Timothy's profits would have taken an even bigger hit.

Six months ago, things got worse. An aggressive young salesman set up in the same business, covering about the same area but representing different lumber mills. This new salesman charges about the same prices as Timothy but undersells him once or twice a week in order to get the sale. On several occasions he even set up what was basically an e-mail-based auction to quickly sell excess wood that was not moving fast enough. Many lumber buyers—feeling the price competition from the big chains and realizing that they are dealing with a homogeneous product—seem to be willing to buy from the lowest-cost source. This has hurt Timothy financially and personally—because even some of his old friends are willing to buy from the new competitor if the price is lower. The near-term outlook seems dark, since Timothy doubts that there is enough business to support two firms like his, especially if the markup gets shaved any closer. Now they seem to be splitting the shrinking business about equally—as the newcomer keeps shaving his markup.

A week ago, Timothy was called on by Mr. DeBeer of Good Timber Mfg. Co., a large manufacturer of windows, raised-panel doors, and accessories. Good Timber doesn't sell to the big chains and instead distributes its quality line only through independent lumberyards. DeBeer knows that Timothy is well acquainted with the local lumberyards and wants him to become Good Timber's exclusive distributor (sales rep) of residential windows and accessories in his area. DeBeer gave Timothy several brochures on the Good Timber product lines. He also explained Good Timber's new support program, which will help train and support Timothy and interested lumberyards on how to sell the higher markup accessories. Later, in a lengthy e-mail, DeBeer explained how this program will help Timothy and interested lumberyards differentiate themselves in this very competitive market.

Most residential windows of specified grades are basically "commodities" that are sold on the basis of price and availability, although some premium and very low end windows are sold also. The national home-improvement chains usually stock and sell only the standard sizes. Most independent lumberyards do not stock windows because there are so many possible sizes. Instead, the lumberyards custom order from the stock sizes each factory offers. Stock sizes are not set by industry standards; they vary from factory to factory, and some offer more sizes. Most factories can deliver these custom orders in two to six weeks—which is usually adequate to satisfy contractors who buy and install them according to architectural plans. This part of the residential window business is well established, and most lumberyards buy from several different window manufacturers—to ensure sources of supply in case of strikes, plant fires, and so on. How the business is split depends on price and the personality and persuasiveness of the sales reps. And given that prices are usually similar, the sales rep–customer relationship can be quite important.

Good Timber Mfg. Co. gives more choice than just about any other supplier. It offers many variations in ⅛-inch increments—to cater to remodelers who must adjust to many situations. Good Timber has even set up a special system on an Internet website. The lumberyard can connect to the website, enter the specs for a window online, and within seconds get a price quote and estimated delivery time.

One reason DeBeer has approached Timothy Morgan is because of Timothy's many years in the business. But the other reason is that Good Timber is aggressively trying to expand—relying on its made-to-order windows, a full line of accessories, and a newly developed factory support system to help differentiate it from the many other window manufacturers.

To give Timothy a quick big picture of the opportunity he is offering, DeBeer explained the window market as follows:

1. For commercial construction, the usual building code ventilation requirements are satisfied with mechanical ventilation. So the windows do not have to operate to permit natural ventilation. They are usually made with heavy-grade aluminum framing. Typically, a distributor furnishes and installs the windows. As part of its service, the distributor provides considerable technical support, including engineered drawings and diagrams to the owners, architects, and/or contractors.
2. For residential construction, on the other hand, windows must be operable to provide ventilation. Residential windows are usually made of wood, frequently with light-gauge aluminum or vinyl on the exterior. The national chains get some volume with standard size windows, but lumberyards are the most common source of supply for contractors in Timothy's area. These lumberyards do not provide any technical support or engineered drawings. A few residential window manufacturers do have their own sales centers in selected geographic areas, which provide a full range of support and engineering services, but none are anywhere near Timothy's area.

Good Timber Mfg. Co. feels a big opportunity exists in the commercial building repair and rehabilitation market (sometimes called the retrofit market) for a crossover of residential windows to commercial applications—and it has designed some accessories and a factory support program to help lumberyards get this "commercial" business. For applications such as nursing homes and dormitories (which must meet commercial codes), the wood interior of a residential window is desired, but the owners and architects are accustomed to commercial grades and building systems. And in some older facilities, the windows may have to provide supplemental ventilation for a deficient mechanical system. So what is needed is

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a combination of the residential *operable* window with a heavy-gauge commercial exterior frame that is easy to specify and install. And this is what Good Timber Mfg. Co. is offering with a combination of its basic windows and easily adjustable accessory frames. Two other residential window manufacturers offer a similar solution, but neither has pushed its products aggressively and neither offers technical support to lumberyards or trains sales reps like Timothy to do the necessary job. DeBeer feels this could be a unique opportunity for Timothy.

The sales commission on residential windows would be about 5 percent of sales. Good Timber Mfg. Co. would do the billing and collecting. By getting just 20 to 30 percent of his lumberyards' residential window business, Timothy could earn about half of his current income. But the real upside would come from increasing his residential window share. To do this, Timothy would have to help the lumberyards get a lot more (and more profitable) business by invading the commercial market with residential windows and the bigger markup accessories needed for this market. Timothy would also earn a 20 percent commission on the accessories—adding to his profit potential.

Timothy is somewhat excited about the opportunity because the retrofit market is growing. And owners and architects are seeking ways of reducing costs (which Good Timber's approach does—over usual commercial approaches). But he is also concerned that a lot of sales effort will be needed to introduce this new idea. He is not afraid of work, but he is concerned about his financial survival.

Timothy thinks he has three choices:

1. Take DeBeer's offer and sell both window and lumber products.
2. Take the offer and drop lumber sales.
3. Stay strictly with lumber and forget the offer.

DeBeer is expecting an answer within one week, so Timothy has to decide soon.

Evaluate Timothy Morgan's current strategy and how the present offer fits in. What should he do now? Why?

17 Enviro Pure Water, Inc.*

Manish (Manny) Krishna established his company, Enviro Pure Water, Inc. (Enviro), to market a product designed to purify drinking water. The product, branded as the PURITY II Naturalizer Water Unit, is produced by Environmental Control, Inc., a corporation that focuses primarily on water purification and filtering products for industrial markets.

Enviro Pure Water is a small but growing business. Manny started the business with initial capital of only $20,000—which came from his savings and loans from several relatives. Manny manages the company himself. He has a secretary and six full-time salespeople. In addition, he employs two college students part-time; they make telephone calls to prospect for customers and set up appointments for a salesperson to demonstrate the unit in the consumer's home. By holding spending to a minimum, Manny has kept the firm's monthly operating budget at only $4,500—and most of that goes for rent, his secretary's salary, and other necessities like computer supplies and telephone bills.

The PURITY II system uses a reverse osmosis purification process. Reverse osmosis is the most effective technology known for improving drinking water. The device is certified by the Environmental Protection Agency to reduce levels of most foreign substances, including mercury, rust, sediment, arsenic, lead, phosphate, bacteria, and most insecticides.

Each PURITY II unit consists of a high-quality 1-micron sediment removal cartridge, a carbon filter, a sediment filter, a housing, a faucet, and mounting hardware. The compact system fits under a kitchen sink or a wet bar sink. An Enviro salesperson can typically install the PURITY II in about a half hour. Installation involves attaching the unit to the cold-water supply line, drilling a hole in the sink, and fastening the special faucet. It works equally well with water from a municipal system or well water and it can purify up to 15 gallons daily. Enviro sells the PURITY II to consumers for $395, which includes installation.

The system has no movable parts or electrical connections and it has no internal metal parts that will corrode or rust. However, the system does use a set of filters that must be replaced after about two years. Enviro sells the replacement filters for $80. Taking into consideration the cost of the filters, the system provides water at a cost of approximately $.05 per gallon for the average family.

There are two major benefits from using the PURITY II system. First, water treated by this system tastes better. Blind taste tests confirm that most consumers can tell the difference between water treated with the PURITY II and ordinary tapwater. Consequently, the unit improves the taste of coffee, tea, frozen juices, ice cubes, mixed drinks, soup, and vegetables cooked in water. Perhaps more important, the PURITY II's ability to remove potentially harmful foreign matter makes the product of special interest to people who are concerned about health and the safety of the water they consume.

The number of people with those concerns is growing. In spite of increased efforts to protect the environment and water supplies, there are many problems. Hundreds of new chemical compounds—ranging from insecticides to industrial chemicals to commercial cleaning agents—are put into use each year. Some of the residue from chemicals and toxic waste eventually enters water supply sources. Further, floods and hurricanes have damaged or completely shut down water treatment facilities in some cities. Problems like these have led to rumors of possible epidemics of such dread diseases as cholera and typhoid—and more than one city has recently experienced near-panic buying of bottled water.

Given these problems and the need for pure water, Manny believes that the market potential for the PURITY II system is very large. Residences, both single-family and apartment, are one obvious target. The unit is also suitable for use in boats and recreational vehicles; in fact, the PURITY II is standard equipment on several upscale RVs. And it can be used in taverns and restaurants, in institutions such as schools and hospitals, and in commercial and industrial buildings.

There are several competing ways for customers to solve the problem of getting pure water. Some purchase bottled

*The original version of this case was developed by Professor Ben Enis of the University of Southern California, and it is adapted for use here with his permission.

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water. Companies such as Ozarka deliver water monthly for an average price of $.60 per gallon. The best type of bottled water is distilled water; it is absolutely pure because it is produced by the process of evaporation. However, it may be *too pure*. The distilling process removes needed elements such as calcium and phosphate—and there is some evidence that removing these trace elements contributes to heart disease. In fact, some health-action groups recommend that consumers not drink distilled water.

A second way to obtain pure water is to use some system to treat tapwater. PURITY II is one such system. Another system uses an ion exchange process that replaces ions of harmful substances like iron and mercury with ions that are not harmful. Ion exchange is somewhat less expensive than the PURITY II process, but it is not well suited for residential use because bacteria can build up before the water is used. In addition, there are a number of other filtering and softening systems. In general, these are less expensive and less reliable than the PURITY II. For example, water softeners remove minerals but do not remove bacteria or germs.

Manny's first year with his young company has gone quite well. Customers who have purchased the system like it, and there appear to be several ways to expand the business and increase profits. For example, so far he has had little time to make sales calls on potential commercial and institutional users or residential builders. He also sees other possibilities such as expanding his promotion effort or targeting consumers in a broader geographic area.

At present, Enviro distributes the PURITY II in the 13-county gulf coast region of Texas. Because of the Robinson-Patman Act, the manufacturer cannot grant an exclusive distributorship. However, Enviro is currently the only PURITY II distributor in this region. In addition, Enviro has the right of first refusal to set up distributorships in other areas of Texas. The manufacturer has indicated that it might even give Enviro distribution rights in a large section of northern Mexico.

The agreement with the manufacturer allows Enviro to distribute the product to retailers, including hardware stores, plumbing supply dealers, and the like. Manny has not yet pursued this channel, but a PURITY II distributor in Florida reported some limited success selling the system to retailers at a wholesale price of $275. Retailers for this type of product typically expect a markup of about 33 percent of their selling price.

Environmental Control, Inc., ships the PURITY II units directly from its warehouse to the Enviro office via UPS. The manufacturer's $200 per unit selling price includes the cost of shipping. Enviro only needs to keep a few units on hand because the manufacturer accepts faxed orders and then ships immediately—so delivery never takes more than a few days. Further, the units are small enough to inventory in the back room of the Enviro sales office. Several of the easy-to-handle units will fit in the trunk of a salesperson's car.

Manny is thinking about recruiting additional salespeople. Finding capable people has not been a problem so far. However, there has already been some turnover, and one of the current salespeople is complaining that the compensation is not high enough. Manny pays salespeople on a straight commission basis. A salesperson who develops his or her own prospects gets $100 per sale; the commission is $80 per unit on sales leads generated by the company's telemarketing people. For most salespeople, the mix of sales is about half and half. Enviro pays the students who make the telephone contacts $4 per appointment set up and $10 per unit sold from an appointment.

An average Enviro salesperson can easily sell 20 units per month. However, Manny believes that a really effective and well-prepared salesperson can sell much more, perhaps 40 units per month.

Enviro and its salespeople get good promotion support from Environmental Control, Inc. For example, Environmental Control supplies sales training manuals and sales presentation flip charts. The materials are also well done, in part because Environment Control's promotion manager previously worked for Electrolux vacuum cleaners, which are sold in a similar way. The company also supplies print copy for magazine and newspaper advertising and tapes of commercials for radio and television. Thus, all Enviro has to do is buy media space or time. In addition, Environmental Control furnishes each salesperson with a portable demonstration unit, and the company recently gave Enviro three units to be placed in models of condominium apartments.

Manny has worked long hours to get his company going, but he realizes that he has to find time to think about how his strategy is working and to plan for the future.

Evaluate Manish Krishna's current marketing strategy for Enviro Pure Water. How do you think he's doing so far, and what should he do next? Why?

18 State Bank

Phil McNeill isn't having much luck convincing his father that their bank needs the new look and image he is proposing.

Phil McNeill was recently appointed director of marketing by his father, Mack McNeill, long-time president of State Bank. Phil is a recent marketing graduate of the nearby state college. He worked in the bank during summer vacations, but this is his first full-time job.

State Bank is a profitable, family-run business located in Hillsborough—the county seat. The town itself has a population of only 15,000, but it serves suburbanites and farmers as far away as 20 miles. About 10 miles east is a metropolitan area of 350,000—to which many in the Hillsborough area commute. Banking competition is quite strong there. But Hillsborough has only one other downtown full-service bank—of about the same size—and two small limited-service branches of two metro banks on the main highway going east. State Bank has been quite profitable, last year earning about $400,000—or 1 percent of assets—a profit margin that would look very attractive to big-city bankers.

State Bank has prospered over the years by emphasizing its friendly, small-town atmosphere. The employees are all local residents and are trained to be friendly with all customers—greeting them on a first-name basis. Even Phil's father tries to know all the customers personally and often comes out of his office to talk with them. The bank has followed a conservative policy—for example, insisting on 25 percent down payments on homes and relatively short maturities on loans. The interest rates charged are competitive or slightly higher than in the nearby city, but they are similar to those charged by the other

full-service bank in town. In fact, the two local banks seem to be following more or less the same approach—friendly, small-town service. Since they both have fairly convenient downtown locations, Phil feels that the two banks will continue to share the business equally unless some change is made.

Phil has an idea that he thinks will attract a greater share of the local business. At a recent luncheon meeting with his father, he floated his idea and was disappointed when it wasn't enthusiastically received. Nevertheless, he has continued to push the idea—even going to the trouble to prepare an elaborate PowerPoint presentation with a detailed plan.

Phil has tried to explain that he wants to differentiate the bank by promoting a new look and image. His proposal is to try to get all the people in town to think of the bank as "The Friendly Bank." He believes that this positioning would differentiate State Bank from the other local bank and make it much harder for one of the really big banks to come into town with a new branch office. The big banks can offer diverse financial services, but Phil figures that their size would make it hard for any of them to position themselves as friendly or personal. And Phil wants to paint the inside and outside of the bank in residential-like designers' colors (e.g., pastels) and have all the bank's advertising and printed materials refer to "The Friendly Bank" campaign. The bank would give away pastel shopping bags, offer pastel deposit slips, mail out pastel interest checks, advertise on pastel billboards, and have pastel stationery for the bank's correspondence. The friendly bank message would be printed on all of these items. And all the employees will be trained to be even more friendly to everyone.

Phil knows that his proposal is different for a conservative bank. But that's exactly why he thinks it will work. He wants people to notice his bank instead of just assuming that both banks are alike. He is sure that after the initial surprise, the local people will think even more positively about State Bank. Its reputation is very good now, but he would like it to be recognized as different. Phil feels that this will help attract a larger share of new residents and businesses. Further, he hopes that his "The Friendly Bank" campaign will cause people to talk about State Bank—and given that word-of-mouth comments are likely to be positive, the bank might win a bigger share of the present business.

Mack McNeill is less than excited about his son's proposal. He thinks the bank has done very well under his direction—and he is concerned about changing a good thing. He worries that some of the older townspeople and farmers who are loyal customers will question the sincerity of the bank. His initial request to Phil was to come up with some way of differentiating the bank without offending present customers. Further, Mack McNeill thinks that Phil is talking about an important change that will be expensive and difficult to undo once the decision is made. On the plus side, Mack agrees that the proposal will make the bank appear quite different from its local competitor. Further, people are continuing to move into the Hillsborough area, and he wants an increasing share of this business.

Evaluate State Bank's situation and Phil's proposal. What should the bank do to increase its market share?

19 myWedding.com

Gray Hunter is happy with her life but disappointed that the idea she had for starting her own business hasn't taken off as expected. Within a few weeks she either has to renew the contract for her Internet website or decide not to put any more time and money into her idea. She knows that it doesn't make sense to renew the contract if she doesn't come up with a plan to make her website-based business profitable—and she doesn't like to plan. She's a "doer," not a planner.

Gray's business, myWedding.com, started as an idea 18 months ago as she was planning her own wedding. She attended a bridal fair at the convention center in Raleigh, North Carolina, to get ideas for a wedding dress, check out catering companies and florists, and in general learn more about the various services available to newlyweds. While there she and her fiancé went from one retailer's booth to another to sign up for their wedding gift registries. Almost every major retailer in the city—ranging from the Home Depot warehouse to the Belk's department store to the specialty shops that handle imported crystal glassware—offered a gift registry. Some had computers set up to provide access to their online registries. Being listed in all of the registries improved the odds that her wedding gifts would be items she wanted and could use—and it saved time and hassle for gift-givers. On the way back from the fair, Gray and her fiancé discussed the idea that it would be a lot easier to register gift preferences once on a central Internet site than to provide lots of different stores with bits and pieces of information. A list at a website would also make it easier for gift-givers—at least those who were computer users.

When Gray got back home, she did an Internet search and found several sites that focused on weddings. The biggest seemed to be www.weddingchannel.com. It had features for couples who were getting married, including a national gift registry. The site featured products from a number of companies, especially large national retail chains; however, there was a search feature to locate people who provide wedding-related services in a local ZIP code area. Gray thought that the sites she found looked quite good, but that they were not as helpful as a site could be with a more local focus.

The more Gray and her fiancé discussed the idea of a website offering local wedding-related services, the more it looked like an interesting opportunity. Except for the annual bridal fair, there was no other obvious local place for consumers to get information about planning a wedding and buying wedding-related services. And for local retailers, florists, catering companies, insurance agents, home builders, and many other types of firms, there was no other central place to target promotion at newlyweds. Further, the amount of money spent on weddings and wedding gifts is very substantial, and right before and after getting married many young couples make many important purchase decisions for everything from life insurance to pots and pans. Spending on the wedding itself can easily exceed the cost of a year of college.

Gray was no stranger to the Internet. She worked as a website designer for a small firm whose one and only client was IBM. That IBM was the only client was intentional rather than accidental. A year earlier IBM had decided that it wanted to outsource certain aspects of its website development

work and have it handled by an outside contractor. After negotiating a three-year contract to do IBM's work, several IBM employees quit their jobs and started the business. IBM was a good client, and all indications were that IBM could give the firm as much work as it could handle as it hired new people and prospected for additional accounts over the next few years. Gray especially liked the creative aspects of designing the "look" of a website, and technical specialists handled a lot of the subtle details.

Before joining this new company, Gray had several marketing-related jobs—but none had been the glamorous ad agency job she dreamed of in college as an advertising major. Her first job as a college graduate was with an ad agency, but she was in a backroom operation handling a lot of the arrangements for printing and mailing large-scale direct-mail promotions. In spite of promises that it was a path to other jobs at the agency, the pay was bad, the work was always pressured, and every aspect of what she had to do was boring. After six punishing months, she quit and went looking for something else.

When a number of job applications didn't turn up something quickly, she took a part-time job doing telemarketing calls for a life insurance company. Gray's boss told her that she was doing a great job reeling in prospects—but she hated disturbing people at night and just didn't like making sales pitches. Fortunately for her, that pain didn't last long. A neighbor in Gray's apartment complex got Gray an interview for a receptionist position at an ad agency. That, at least, got her foot in the door. Her job description wasn't very interesting, but in a small agency she had the opportunity to learn a lot about all aspects of the business—ranging from working on client proposals and media plans to creative sessions for new campaigns. In fact, it was from a technician at that agency that she learned to work with the graphics software used to create ad layouts and website pages. When the website design job came open at the new firm, her boss gave her a glowing recommendation, and in two days she was off on her new career.

Although Gray's jobs had not been high-profile positions, they did give her some experience in sales promotion, personal selling, and advertising. Those skills were complemented by the technical computer skills of her fiancé (now husband), who made a living as a database programmer for a large software consulting firm. Taking everything as a whole, they thought that they could get a wedding-related website up and running and make it profitable.

There were a number of different facets to the original plan for myWedding.com. One part focused on recruiting local advertisers and "sponsors" who would pay to be listed at the website and be allocated a web page (which Gray would design) describing their services, giving contact information, and links to their own websites. Another facet focused on services for people who were planning to be married. In addition to an online wedding gift registry, sections of the website provided information about typical wedding costs, planning checklists, details about how to get a required marriage license, and other helpful information (including a discussion forum with comments about the strengths and weaknesses of various local suppliers). A man and woman could sign up for the service online and could pay the modest $20 "membership" fee for a year by credit card. Friends, family, and invited guests could visit the website at no charge and get information about wedding preferences, local hotels, discounts on local car rentals, and even printable maps to all of the churches and synagogues in the area.

When Gray told friends about her plan they all thought it sounded like a great idea. In fact, each time she discussed it someone came up with another idea for a locally oriented feature to add to the website. Several friends said that they had tried national websites but that the information was often too general. But generating more new ideas was not the problem. The problem was generating revenue. Gray had already contracted for space from an Internet service provider and created some of the initial content for the website, but she only had four paying sponsors—two of whom happened to be family friends.

Gray started by creating a colorful flyer describing the website and sent it to most of the firms that had participated in the bridal fair. When no one sent back the reply coupon for more information, Gray started to make calls (mainly during her lunch hour at her full-time job). Some stores seemed intrigued by the concept, but no one seemed ready to sign up. One reason was that they all seemed surprised at the cost to participate and get ad space at the website—$2,400 a year (about the same as a 1/16-page display ad in the Raleigh Yellow Pages). Another problem was that no one wanted to be the first to sign up. As one florist shop owner put it, "If you pull this off and other florists sign up, then come back and I will too."

Getting couples to sign up went slowly too. Gray paid for four display ads in local Sunday newspapers in the society section, sent information sheets about the website to clergy in the area, listed the website with about 25 Internet search engines, and sent carefully crafted press releases announcing the service to almost every publication in the area. One article that resulted from a press release got some attention, and for a few weeks there was a flurry of e-mail inquiries about her web page. But after that it slowed to a trickle again.

Gray's diagnosis of the problem was simple. Most people thought it was a great idea, but few couples knew to look on the Internet for such a service. Similarly, potential advertisers—many of them small local businesses—were not accustomed to the idea of paying for Internet advertising. They didn't know if the cost was reasonable or if her site would be effective in generating business.

Gray's life as a married person was going great and her job as a web page designer kept her very busy. Her free time outside of work was always in short supply because the young crowd at her office always had some scheme for how to keep entertained. So she wasn't about to quit her job to devote full time to her business idea. Further, she thought that once it got rolling she would only have to devote 10 hours a week to it to earn an extra $30,000 a year. She didn't have delusions of becoming a "dot-com millionaire." She just wanted a good locally oriented business.

However, it still wasn't clear how to get it rolling. After a year of trying on and off, she only had four paying ad sponsors, and one of them had already notified her that he didn't plan to sign up again because it wasn't clear that the website had generated any direct leads or sales. Further, it looked like anything she could do to attract more "members" would end up being expensive and inefficient.

Gray thinks the idea has real potential, and she's willing to do the work. But she's not certain if she can make it pay off.

She has to decide soon, however, because the bill for the Internet service provider is sitting on her desk.

What is Gray's strategy? What should she do? If she were to move forward, what strategy would you recommend? Does her financial goal seem realistic? Why?

20 Outdoor World, Inc.

Jamie McCullough, owner of Outdoor World, Inc., is worried about his business' future. He has tried various strategies for two years now, and he's still barely breaking even.

Two years ago, Jamie McCullough bought the inventory, supplies, equipment, and business of Outdoor World—located on the edge of Minneapolis, Minnesota. The business is in an older building along a major highway leading out of town—several miles from any body of water. The previous owner had sales of about $400,000 a year but was just breaking even. For this reason—plus the desire to retire to Arizona—the owner sold to Jamie for roughly the value of the inventory.

Outdoor World had been selling two well-known brands of small pleasure boats, a leading outboard motor, two brands of snowmobiles and jet-skis, and a line of trailer and pickup-truck campers. The total inventory was valued at $150,000—and Jamie used all of his own savings and borrowed some from two friends to buy the inventory and the business. At the same time, he took over the lease on the building—so he was able to begin operations immediately.

Jamie had never operated a business of his own before, but he was sure that he would be able to do well. He had worked in a variety of jobs—as a used-car salesman, an auto repairman, and a jack-of-all-trades in the maintenance departments of several local businesses.

Soon after starting his business, Jamie hired his friend, Omar, who had a similar background. Together, they handle all selling and setup work on new sales and do maintenance work as needed. Sometimes the two are extremely busy—at the peaks of each sport season. Then both sales and maintenance keep them going up to 16 hours a day. At these times it's difficult to have both new and repaired equipment available as soon as customers want it. At other times, however, Jamie and Omar have almost nothing to do.

Jamie usually charges the prices suggested by the various manufacturers—except at the end of a weather season when he is willing to make deals to clear the inventory. He is annoyed that some of his competitors sell mainly on a price basis—offering 10 to 30 percent off a manufacturer's suggested list prices—even at the beginning of a season! Jamie doesn't want to get into that kind of business, however. He hopes to build a loyal following based on friendship and personal service. Further, he doesn't think he really has to cut price because all of his lines are exclusive for his store. No stores within a five-mile radius carry any of his brands, although nearby retailers offer many brands of similar products.

To try to build a favorable image for his company, Jamie occasionally places ads in local papers and buys some radio spots. The basic theme of this advertising is that Outdoor World is a friendly, service-oriented place to buy the equipment needed for the current season. Sometimes he mentions the brand names he carries, but generally Jamie tries to build an image for concerned, friendly service—both in new sales and repairs—stressing "We do it right the first time." He chose this approach because, although he has exclusives on the brands he carries, there generally are 10 to 15 different manufacturers' products being sold in the area in each product category—and most of the products are quite similar. Jamie feels that this similarity among competing products almost forces him to try to differentiate himself on the basis of his own store's services.

The first year's operation wasn't profitable. In fact, after paying minimal salaries to Omar and himself, the business just about broke even. Jamie made no return on his $150,000 investment.

In hopes of improving profitability, Jamie jumped at a chance to add a line of lawn mowers, tractors, and trimmers as he was starting into his second year of business. This line was offered by a well-known equipment manufacturer who wanted to expand into the Minneapolis area. The equipment is similar to that offered by other lawn equipment manufacturers. The manufacturer's willingness to do some local advertising and to provide some point-of-purchase displays appealed to Jamie. And he also liked the idea that customers probably would want this equipment sometime earlier than boats and other summer items. So he thought he could handle this business without interfering with his other peak selling seasons.

It's two years since Jamie bought Outdoor World—and he's still only breaking even. Sales have increased a little, but costs have gone up too because he had to hire some part-time help. The lawn equipment helped to expand sales—as he had expected—but unfortunately, it did not increase profits as he had hoped. Jamie needed part-time helpers to handle this business—in part because the manufacturer's advertising had generated a lot of sales inquiries. Relatively few inquiries resulted in sales, however, because many people seemed to be shopping for deals. So Jamie may have even lost money handling the new line. But he hesitates to give it up because he doesn't want to lose that sales volume, and the manufacturer's sales rep has been most encouraging—assuring Jamie that things will get better and that his company will be glad to continue its promotion support during the coming year.

Jamie is now considering the offer of a mountain bike producer that has not been represented in the area. The bikes have become very popular with students and serious bikers in the last several years. The manufacturer's sales rep says industry sales are still growing (but not as fast as in the past) and probably will grow for many more years. The sales rep has praised Jamie's service orientation and says this could help him sell lots of bikes because many mountain bikers are serious about buying a quality bike and then keeping it serviced. He says Jamie's business approach would be a natural fit with bike customers' needs and attitudes. As a special inducement to get Jamie to take on the line, the sales rep says Jamie will not have to pay for the initial inventory of bikes, accessories, and repair parts for 90 days. And, of course, the company will supply the usual promotion aids and a special advertising allowance of $10,000 to help introduce the line to Minneapolis. Jamie kind of likes the idea of carrying mountain bikes because he has one himself and knows that they do require some service year-round. But he also knows that the proposed bikes are very similar in price and quality to the ones now being offered by the bike shops in town. These bike shops are service- rather

than price-oriented, and Jamie feels that they are doing a good job on service—so he is concerned with how he could be "different."

Evaluate Jamie McCullough's overall strategy(ies) and the mountain bike proposal. What should he do now?

21 Chemical International, Inc.

Chemical International, Inc., is a multinational producer of various chemicals and plastics with plants in the United States, England, France, and Germany. It is run from its headquarters in New Jersey.

Kevin Duryea is marketing manager of Chemical International's plastics business. Kevin is reconsidering his promotion approach. He is evaluating what kind of promotion—and how much—should be directed to car producers and to other major plastics customers worldwide. Currently, Kevin has one salesperson who devotes most of his time to the U.S. car industry. This man is based in the Detroit area and focuses on GM, Ford, and Chrysler—as well as the various firms that mold plastics to produce parts to supply the car industry. This approach worked well when relatively little plastic was used in each car *and* the auto producers did all of the designing themselves and then sent out specifications for very price-oriented competitive bidding. But now the whole product planning and buying system is changing—and of course foreign producers with facilities in the U.S. are much more important.

How the present system works can be illustrated in terms of the approach Chrysler used on its project to design the Sebring.

Instead of the old five-year process of creating a new automobile in sequential steps, the new system is a team approach. Under the old system, product planners would come up with a general concept and then expect the design team to give it artistic form. Next engineering would develop the specifications and pass them on to manufacturing and suppliers. There was little communication between the groups and no overall project responsibility.

Under the new approach, representatives from all the various functions—planning, design, engineering, purchasing, marketing, and manufacturing—work together. In fact, representatives from key suppliers are usually involved from the outset. The whole team takes final responsibility for a car. Because all of the departments are involved from the start, problems are resolved as the project moves on—before they cause a crisis. Manufacturing, for example, can suggest changes in design that will result in higher productivity or better quality.

In the Sebring project, Chrysler engineers followed the Japanese lead and did some reverse engineering of their own. They dismantled several competitors' cars, piece by piece, looking for ideas they could copy or improve. This helped them learn how the parts were assembled and how they were designed. Eventually, Chrysler incorporated almost all of the best features into its design of the Sebring.

In addition to reverse engineering, Chrysler researchers conducted a series of market studies. This led to the inclusion of additional features, such as easier-to-read gauges, oil dipsticks painted a bright yellow for faster identification, and a net in the trunk to hold grocery bags upright.

Chrysler also asked assembly-line workers for suggestions before the car was redesigned and then incorporated their ideas into the new car. All bolts had the same-size head, for example, so workers didn't have to switch from one wrench to another.

Finally, Chrysler included its best suppliers as part of the planning effort. Instead of turning to a supplier after the car's design was completed, the Chrysler team signed long-term contracts with suppliers and invited them to participate in product planning.

Most other vehicles are now developed with an approach similar to this, and Chrysler is not alone in the effort. Ford, for example, used a very similar team approach to redesign its Taurus. And major firms in most other industries are using similar approaches. A major outgrowth of this effort has been a trend by these producers to develop closer working relationships with a smaller number of suppliers.

For example, the suppliers selected for the Sebring project were major suppliers who had already demonstrated a serious commitment to the car industry. They had not only the facilities, but also the technical and professional managerial staff who could understand—and become part of—the program management approach. Chrysler expected these major suppliers to join in its total quality management push and to be able to provide just-in-time delivery systems. Chrysler dropped suppliers whose primary sales technique was to entertain buyers and then submit bids on standard specifications.

Because many firms have moved to these team-oriented approaches and developed closer working relationships with a subset of their previous suppliers, Kevin Duryea is trying to determine if Chemical International's present effort is still appropriate. Kevin's strategy has focused primarily on responding to inquiries and bringing in Chemical International technical people as the situation seems to require. Potential customers with technical questions are sometimes referred to other noncompeting customers already using the materials or to a Chemical International plant—to be sure that all questions are answered. But basically, all producer-customers are treated more or less alike. The sales reps make calls and try to find good business wherever they can.

Each Chemical International sales rep usually has a geographic area. If an area like Detroit needs more than one rep, each may specialize in one or several similar industries. But Chemical International uses the same basic approach—call on present users of plastic products and try to find opportunities for getting a share (or bigger share) of existing purchases or new applications. The sales reps are supposed to be primarily order getters rather than technical specialists. Technical help can be brought in when the customer wants it or sometimes the sales rep simply sets up a conference call between Chemical International's technical experts, the buyer, and the users at the buyer's facility.

Kevin sees that some of his major competitors—including General Electric and Dow Chemical—are becoming more aggressive. They are seeking to affect specifications and product design from the start rather than after a product design is completed. This takes a lot more effort and resources, but Kevin thinks it may get better results. A major problem he sees, however, is that he may have to drastically change the nature of Chemical International's promotion. Instead of focusing

primarily on buyers and responding to questions, it may be necessary to try to contact *all* the multiple buying influences and not only answer their questions but help them understand what questions to raise—and help answer them. Such a process may even require more technically trained sales reps. In fact, it may require that people from Chemical International's other departments—engineering, manufacturing, R&D, and distribution—get actively involved in discussions with their counterparts in customer firms. Further, use of e-mail and an Internet website might make ongoing contacts faster and easier.

While Kevin doesn't want to miss the boat if changes are needed, he also doesn't want to go off the deep end. After all, many of the firm's customers don't seem to want Chemical International to do anything very different from what it's been doing. In fact, some say that they're very satisfied with their current supply arrangements and really have no interest in investing in a close relationship with a single supplier.

Contrast Chrysler's previous approach to designing and producing cars to its program management approach, especially as it might affect suppliers' promotion efforts. Given that many other major producers have moved in the program management direction, what promotion effort should Kevin Duryea develop for Chemical International? Should every producer in every geographic area be treated alike—regardless of size? Explain.

22 Cable Designs, Inc.

Steve Russell, vice president of marketing for Cable Designs, Inc., is deciding how to organize and train his sales force—and what to do about Ron Pittman.

At its plant in Pittsburgh, Pennsylvania, Cable Designs, Inc., produces wire cable—ranging from ½ inch to 4 inches in diameter. Cable Designs sells across the United States and Canada. Customers include firms that use cranes and various other overhead lifts in their own operations—ski resorts and amusement parks, for example. The company's main customers, however, are cement plants, railroad and boat yards, heavy-equipment manufacturers, mining operations, construction companies, and steel manufacturers.

Cable Designs employs its own sales specialists to call on and try to sell the buyers of potential users. All of Cable Designs' sales reps are engineers who go through an extensive training program covering the different applications, product strengths, and other technical details concerning wire rope and cable. Then they are assigned their own district—the size depending on the number of potential customers. They are paid a good salary plus generous travel expenses—with small bonuses and prizes to reward special efforts.

Ron Pittman went to work for Cable Designs in 1982, immediately after receiving an engineering degree from the University of Wisconsin. After going through the training program, he took over as the only company rep in the Illinois district. His job was to call on and give technical help to present customers of wire cable. He was also expected to call on new customers, especially when inquiries came in. But his main activities were to (1) service present customers and supply the technical assistance needed to use cable in the most efficient and safe manner, (2) handle complaints, and (3) provide evaluation reports to customers' management regarding their use of cabling.

Ron Pittman soon became Cable Designs' outstanding representative. His exceptional ability to handle customer complaints and provide technical assistance was noted by many of the firm's customers. This helped Ron bring in more sales dollars per customer and more in total from present customers than any other rep. He also brought in many new customers—mostly heavy equipment manufacturers in northern Illinois. Over the years, his sales have been about twice the sales rep average, and always at least 20 percent higher than the next best rep—even though each district is supposed to have about the same sales potential.

Ron's success established Illinois as Cable Designs' largest-volume district. Although the company's sales in Illinois have not continued to grow as fast in the last few years because Ron seems to have found most of the possible applications and won a good share for Cable Designs, the replacement market has been steady and profitable. This fact is mainly due to Ron Pittman. As one of the purchasing managers for a large machinery manufacturer mentioned,

> When Ron makes a recommendation regarding use of our equipment and cabling, even if it is a competitor's cable we are using, we are sure it's for the best of our company. Last week, for example, a cable of one of his competitors broke, and we were going to give him a contract. He told us it was not a defective cable that caused the break, but rather the way we were using it. He told us how it should be used and what we needed to do to correct our operation. We took his advice and gave him the contract as well!

Four years ago, Cable Designs introduced a unique and newly patented wire sling device for holding cable groupings together. The sling makes operations around the cable much safer—and its use could reduce both injuries and lost-time costs due to accidents. The slings are expensive—and the profit margin is high. Cable Designs urged all its representatives to push the sling, but the only sales rep to sell the sling with any success was Ron Pittman. Eighty percent of his customers are currently using the wire sling. In other areas, sling sales are disappointing.

As a result of Ron's success, Steve Russell is now considering forming a separate department for sling sales and putting Ron Pittman in charge. His duties would include traveling to the various sales districts and training other representatives to sell the sling. The Illinois district would be handled by a new rep.

Evaluate Steve Russell's strategy(ies). What should he do about Ron Pittman and his sales force? Explain.

23 Furniture to Go, Inc.

Susan Kurczak, owner of Furniture to Go, Inc., is discouraged with her salespeople and is even thinking about hiring some new blood. Kurczak has been running Furniture to Go for 10 years and has slowly built the sales to $3.5 million a year. Her store is located on the outskirts of a growing city of 275,000 population. This is basically a factory city, and she has deliberately selected blue-collar workers as her target market. She carries some higher-priced furniture lines but emphasizes budget combinations and easy credit terms.

Table 1

In Shopping for Furniture I Found (Find) that	Demographic Groups: Group A	Group B	Group C	Group D
I looked at furniture in many stores before I made a purchase.	78%	72%	52%	50%
I went (am going) to only one store and bought (buy) what I found (find) there.	2	5	10	11
To make my purchase I went (am going) back to one of the stores I shopped in previously.	63	59	27	20
I looked (am looking) at furniture in no more than three stores and made (will make) my purchase in one of these.	20	25	40	45
I like a lot of help in selecting the right furniture.	27	33	62	69
I like a very friendly salesperson.	23	28	69	67

Kurczak is concerned that she may have reached the limit of her sales growth—her sales have not been increasing during the last two years even though total furniture sales have been increasing in the city as new people move in. Her local cable-TV spots and newspaper advertising seems to attract her target customers, but many of these people come in, shop around, and leave. Some of them come back—but most do not. She thinks her product selections are very suitable for her target market and is concerned that her salespeople don't close more sales with potential customers. Several times, she has discussed this matter with her 10 salespeople. Her staff feels they should treat customers the way they personally want to be treated. They argue that their role is to answer questions and be helpful when asked—not to make suggestions or help customers make decisions. They think this would be too "hard sell."

Kurczak says their behavior is interpreted as indifference by the customers attracted to the store by her advertising. She has tried to convince her salespeople that customers must be treated on an individual basis and that some customers need more help in looking and deciding than others. Moreover, Kurczak is convinced that some customers would appreciate more help and suggestions than the salespeople themselves might want. To support her views, she showed her staff the data from a study of furniture store customers (see Tables 1 and 2) that she found on the Internet website for a furniture trade association. She tried to explain the differences in demographic groups and pointed out that her store was definitely trying to aim at specific people. She argued that they (the salespeople) should cater to the needs and attitudes of their customers and think less about how they would like to be treated themselves. Further, Kurczak announced that she is considering changing the sales compensation plan or hiring new blood if the present employees can't do a better job. Currently, the sales reps are paid $22,000 per year plus a 5 percent commission on sales.

Contrast Kurczak's strategy and thoughts about her salespeople with their apparent view of her strategy and especially their role in it. What should she do now? Explain.

Table 2 The Sample Design

Demographic Status
Upper class (Group A); 13% of sample This group consists of managers, proprietors, or executives of large businesses; professionals, including doctors, lawyers, engineers, college professors, and school administrators; and research personnel and sales personnel, including managers, executives, and upper-income salespeople above level of clerks. *Family income over $40,000*
Middle class (Group B); 37% of sample Group B consists of white-collar workers, including clerical, secretarial, salesclerks, bookkeepers, etc. It also includes school teachers, social workers, semiprofessionals, proprietors or managers of small businesses, industrial foremen, and other supervisory personnel. *Family income between $20,000 and $50,000*
Lower middle class (Group C); 36% of sample Skilled workers and semiskilled technicians are in this category, along with custodians, elevator operators, telephone linemen, factory operatives, construction workers, and some domestic and personal service employees. *Family income between $10,000 and $40,000.* *No one in this group has above a high school education.*
Lower class (Group D); 14% of sample Nonskilled employees, day laborers. It also includes some factory operatives and domestic and service people. *Family income under $18,000.* *None has completed high school; some have only grade school education.*

24 Wire Solutions, Inc.

Myra Martinez, marketing manager of consumer products for Wire Solutions, Inc., is trying to set a price for her most promising new product—a space-saving shoe rack suitable for small homes or apartments.

Wire Solutions, Inc.—located in Ft. Worth, Texas—is a custom producer of industrial wire products. The company has a lot of experience bending wire into many shapes and also can chrome- or gold-plate finished products. The company was started 13 years ago and has slowly built its sales volume to $3.2 million a year. Just one year ago, Myra Martinez was appointed marketing manager of the consumer products division. It is her responsibility to develop this division as a producer and marketer of the company's own branded products—as distinguished from custom orders, which the industrial division produces for others.

Martinez has been working on a number of different product ideas for almost a year now and has developed several designs for CD holders, cassette holders, plate holders, doll stands, collapsible book ends, and other such products. Her most promising product is a shoe rack for crowded homes and apartments. The wire rack attaches to the inside of a closet door and holds eight pairs of shoes.

The rack is very similar to one the industrial division produced for a number of years for another company. That company sold the shoe rack and hundreds of other related items out of its "products for organizing and storing" mail-order catalog. Managers at Wire Solutions were surprised by the high sales volume the catalog company achieved with the rack. In fact, that is what interested Wire Solutions in the consumer market and led to the development of the separate consumer products division.

Martinez has sold hundreds of the shoe racks to various local hardware, grocery, and general merchandise stores, and wholesalers on a trial basis, but each time she has negotiated a price—and no firm policy has been set. Now she must determine what price to set on the shoe rack—which she plans to push aggressively wherever she can. Actually, she hasn't decided on exactly which channels of distribution to use. But trials in the local area have been encouraging, and as noted above, the experience in the industrial division suggests that there is a large market for this type of product. Further, she noticed that a Wal-Mart store in her local area was selling a similar rack made of plastic. When she talked casually about her product with the store manager, he suggested that she contact the chain's houseware buyers in the home office in Arkansas. The manufacturing cost on this product—when made in reasonable quantities—is approximately $2.80 if it is painted black and $3.60 if it is chromed. Similar products have been selling at retail in the $9.95 to $19.95 range. The sales and administrative overhead to be charged to the division will amount to $90,000 a year. This will include Martinez's salary and some office expenses. She expects that a number of other products will be developed in the near future. But for the coming year, she hopes the shoe rack will account for about half the consumer products division's sales volume.

Evaluate Myra Martinez's strategy planning so far. What should she do now? What price should she set for the shoe rack? Explain.

25 PlastiForm Mfg., Inc.

David Houston, the marketing manager of PlastiForm Mfg., Inc., wants to increase sales by adding sales reps rather than "playing with price." That's how David describes what Will Houston, his father and PlastiForm's president, is suggesting. Will is not sure what to do either. But he does want to increase sales, so something new is needed.

PlastiForm Mfg., Inc.—of Long Beach, California—is a leading producer in the plastic forming machinery industry. It has patents covering over 200 variations, but PlastiForm's customers seldom buy more than 30 different types in a year. The machines are sold to plastic forming manufacturers to increase production capacity or replace old equipment.

Established in 1970, the company has enjoyed a steady growth to its present position with annual sales of $50 million.

Twelve U.S. firms compete in the U.S. plastic forming machinery market. Several Japanese, German, and Swedish firms compete in the global market, but the Houstons have not seen much of them on the West Coast. Apparently the foreign firms rely on manufacturers' agents who have not provided an ongoing presence. They are not good about following up on inquiries, and their record for service on the few sales they have made on the East Coast is not satisfactory. So the Houstons are not worried about them right now.

Each of the 12 U.S. competitors is about the same size and manufactures basically similar machinery. Each has tended to specialize in its own geographic region. None has exported much because of high labor costs in the United States. Six of the competitors are located in the East, four in the Midwest, and two—including PlastiForm—on the West Coast. The other West Coast firm is in Tacoma, Washington. All of the competitors offer similar prices and sell F.O.B. their factories. Demand has been fairly strong in recent years. As a result, all of the competitors have been satisfied to sell in their geographic areas and avoid price-cutting. In fact, price-cutting is not a popular idea in this industry. About 15 years ago, one firm tried to win more business and found that others immediately met the price cut—but industry sales (in units) did not increase at all. Within a few years, prices returned to their earlier level, and since then competition has tended to focus on promotion and avoid price.

PlastiForm's promotion depends mainly on six company sales reps, who cover the West Coast. In total, these reps cost about $660,000 per year including salary, bonuses, supervision, travel, and entertaining. When the sales reps are close to making a sale, they are supported by two sales engineers—at a cost of about $120,000 per year per engineer. PlastiForm does some advertising in trade journals—less than $50,000—and occasionally uses direct mailings and trade show exhibits. It also has a simple home page on the Internet. But the main promotion emphasis is on personal selling. Any personal contact outside the West Coast market is handled by manufacturers' agents who are paid 4 percent on sales—but sales are very infrequent.

Will Houston is not satisfied with the present situation. Industry sales have leveled off and so have PlastiForm's sales—although the firm continues to hold its share of the market. Will would like to find a way to compete more effectively in the other regions because he sees great potential outside the West Coast.

Competitors and buyers agree that PlastiForm is the top-quality producer in the industry. Its machines have generally been somewhat superior to others in terms of reliability, durability, and productive capacity. The difference, however, usually has not been great enough to justify a higher price—because the others are able to do the necessary job—unless a PlastiForm sales rep convinces the customer that the extra quality will improve the customer's product and lead to fewer production line breakdowns. The sales rep also tries to sell the advantages of PlastiForm's better sales engineers and technical service people—and sometimes is successful. But if a buyer is mainly interested in comparing delivered prices for basic machines—the usual case—PlastiForm's price must be competitive to get the business. In short, if such a buyer has a choice between PlastiForm's and another machine *at the same price*, PlastiForm will usually win the business in its part of the West Coast market. But it's clear that PlastiForm's price has to be at least competitive in such cases.

The average plastic forming machine sells for about $220,000, F.O.B. shipping point. Shipping costs within any of the three major regions average about $4,000—but another $3,000 must be added on shipments between the West Coast and the Midwest (either way) and another $3,000 between the Midwest and the East.

Will Houston is thinking about expanding sales by absorbing the extra $3,000 to $6,000 in freight cost that occurs if a midwestern or eastern customer buys from his West Coast location. By doing this, he would not actually be cutting price in those markets but rather reducing his net return. He thinks that his competitors would not see this as price competition and therefore would not resort to cutting prices themselves.

David Houston, the marketing manager, disagrees. David thinks that the proposed freight absorption plan would stimulate price competition in the Midwest and East and perhaps on the West Coast. He proposes instead that PlastiForm hire some sales reps to work the Midwest and Eastern regions—selling quality—rather than relying on the manufacturers' agents. He argues that two additional sales reps in each of these regions would not increase costs too much and might greatly increase the sales from these markets over that brought in by the agents. With this plan, there would be no need to absorb the freight and risk disrupting the status quo. Adding more of PlastiForm's own sales reps is especially important, he argues, because competition in the Midwest and East is somewhat hotter than on the West Coast—due to the number of competitors (including foreign competitors) in those regions. A lot of expensive entertaining, for example, seems to be required just to be considered as a potential supplier. In contrast, the situation has been rather quiet in the West—because only two firms are sharing this market and each is working harder near its home base. The eastern and midwestern competitors don't send any sales reps to the West Coast—and if they have any manufacturers' agents, they haven't gotten any business in recent years.

Will Houston agrees that his son has a point, but industry sales are leveling off and Will wants to increase sales. Further, he thinks the competitive situation may change drastically in the near future anyway, as global competitors get more aggressive and some possible new production methods and machines become more competitive with existing ones. He would rather be a leader in anything that is likely to happen rather than a follower. But he is impressed with David's comments about the greater competitiveness in the other markets and therefore is unsure about what to do.

Evaluate PlastiForm's current strategies. Given Will Houston's sales objective, what should PlastiForm Mfg. do? Explain.

26 Rainbow Packers, Inc.

Hans Fleming, president of Rainbow Packers, Inc., is not sure what he should propose to the board of directors. His recent strategy change isn't working. And Niels Sondergaard, Rainbow's only sales rep (and a board member), is so frustrated that he refuses to continue his discouraging sales efforts. Sondergaard wants Hans Fleming to hire a sales force or do *something*.

Rainbow Packers, Inc., is a long-time processor in the highly seasonal vegetable canning industry. Rainbow packs and sells canned beans, peas, carrots, corn, peas and carrots mixed, and kidney beans. It sells mainly through food brokers to merchant wholesalers, supermarket chains (such as Kroger, Safeway, A&P, and Jewel), cooperatives, and other outlets—mostly in the Midwest. Of less importance, by volume, are sales to local institutions, grocery stores, and supermarkets—and sales of dented canned goods at low prices to walk-in customers.

Rainbow is located in Wisconsin's Devil's River Valley. The company has more than $28 million in sales annually (exact sales data is not published by the closely held corporation). Plants are located in strategic places along the valley—with main offices in Riverside. The Rainbow brand is used only on canned goods sold in the local market. Most of the goods are sold and shipped under a retailer's label or a broker's/wholesaler's label.

Rainbow is well known for the consistent quality of its product offerings. And it's always willing to offer competitive prices. Strong channel relations were built by Rainbow's former chairman of the board and chief executive officer Dane Christian. Christian—who owns controlling interest in the firm—worked the Chicago area as the company's sales rep in its earlier years, before he took over from his father as president in 1972. Christian was an ambitious and hard-working top manager—the firm prospered under his direction. He became well known within the canned food processing industry for technical/product innovations.

During the off-canning season, Christian traveled widely. In the course of his travels, he arranged several important business deals. His 1986 and 1997 trips resulted in the following two events: (1) inexpensive pineapple was imported from Formosa and sold by Rainbow, primarily to expand the product line, and (2) a technically advanced continuous process cooker (65 feet high) was imported from England and installed at one of the Rainbow plants. It was the first of its kind in the United States and cut processing time sharply while improving quality.

Christian retired in 2001 and named his son-in-law, 35-year-old Hans Fleming, as his successor. Fleming is intelligent and hard-working. He was concerned primarily with the company's financial matters and only recently with marketing problems. During his seven years as financial director, the firm

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received its highest credit rating and was able to borrow working capital ($5 million to meet seasonal can and wage requirements) at the lowest rate ever.

The fact that the firm isn't unionized allows some competitive advantage. However, changes in minimum wage laws have increased costs. And these and other rising costs have squeezed profit margins. This led to the recent closing of two plants as they became less efficient to operate. Rainbow expanded capacity of the remaining two plants (especially warehouse facilities) so they could operate more profitably with maximum use of existing processing equipment.

Shortly after Christian's retirement, Hans Fleming reviewed the company's situation with his managers. He pointed to narrowing profit margins, debts contracted for new plants and equipment, and an increasingly competitive environment. Even considering the temporary labor-saving competitive advantage of the new cooker system, there seemed to be no way to improve the status quo unless the firm could sell direct—as they do in the local market—thereby eliminating the food brokers' 5 percent commission on sales. This was the plan decided on, and Niels Sondergaard was given the new sales job. An inside salesperson was retained to handle incoming orders and do some telemarketing to smaller accounts.

Niels Sondergaard, the only full-time outside sales rep for the firm, lives in Riverside. Other top managers do some selling but not much. Being a nephew of Christian, Niels Sondergaard is also a member of the board of directors. He is well qualified in technical matters and has a college degree in food chemistry. Although Niels Sondergaard formerly did call on some important customers with the brokers' sales reps, he is not well known in the industry or even by Rainbow's usual customers.

It is now five months later. Niels Sondergaard is not doing very well. He has made several selling trips, placed hundreds of telephone calls, and maintained constant e-mail contacts with prospective customers—all with discouraging results. He is unwilling to continue sales efforts on his own. There seem to be too many potential customers for one person to reach. And much negotiating, wining, and dining seems to be needed—certainly more than he can or wants to do.

Sondergaard insists that Rainbow hire a sales force to continue the present way of operating. Sales are down in comparison both to expectations and to the previous year's results. Some regular supermarket chain customers have stopped buying—though basic consumer demand has not changed. Further, buyers for some supermarket chains that might be potential new customers have demanded quantity guarantees much larger than Rainbow Packers can supply. Expanding supply would be difficult in the short run—because the firm typically must contract with growers to ensure supplies of the type and quality they normally offer.

Christian, still the controlling stockholder, has asked for a special meeting of the board in two weeks to discuss the present situation.

Evaluate Rainbow's past and current strategy planning. What should Hans Fleming tell Mr. Christian? What should Rainbow do now?

27 Plastic Master, Inc.

Nora Hall is trying to decide whether to leave her present job to buy into another business and be part of top management.

Hall is now a sales rep for a plastics components manufacturer. She calls mostly on large industrial accounts—such as refrigerator manufacturers—who might need large quantities of custom-made products like door liners. She is on a straight salary of $35,000 per year, plus expenses and a company car. She expects some salary increases but doesn't see much long-run opportunity with this company.

As a result, she is seriously considering changing jobs and investing $40,000 in Plastic Master, Inc.—an established Chicago (Illinois) thermoplastic molder (manufacturer). Mr. Hanson, the present owner, is nearing retirement and has not trained anyone to take over the business. He has agreed to sell the business to Steve Burton, a lawyer, who has invited Nora Hall to invest and become the sales manager. Steve Burton has agreed to match Hall's current salary plus expenses, plus a bonus of 2 percent of profits. However, she must invest to become part of the new company. She will get a 5 percent interest in the business for the necessary $40,000 investment—almost all of her savings.

Plastic Master, Inc., is well established and last year had sales of $2.2 million but zero profits (after paying Hanson a salary of $40,000). In terms of sales, cost of materials was 46 percent; direct labor, 13 percent; indirect factory labor, 15 percent; factory overhead, 13 percent; and sales overhead and general expenses, 13 percent. The company has not been making any profit for several years—but it has been continually adding new machines to replace those made obsolete by technological developments. The machinery is well maintained and modern, but most of it is similar to that used by its many competitors. Most of the machines in the industry are standard. Special products are made by using specially made dies with these machines.

Sales have been split about two-thirds custom-molded products (that is, made to the specification of other producers or merchandising concerns) and the balance proprietary items (such as housewares and game items, like poker chips and cribbage sets). The housewares are copies of articles developed by others and indicate neither originality nor style. Hanson is in charge of selling the proprietary items, which are distributed through any available wholesale channels. The custom-molded products are sold through two full-time sales reps—who receive a 10 percent commission on individual orders up to $20,000 and then 3 percent above that level—and also by three manufacturers' reps who get the same commissions.

The company seems to be in fairly good financial condition—at least as far as book value is concerned. The $40,000 investment will buy almost $60,000 in assets—and ongoing operations should pay off the seven-year note (see Table 1). Steve Burton thinks that with new management the company has a good chance to make big profits. He expects to make some economies in the production process—because he feels most production operations can be improved. He plans to keep custom-molding sales at approximately the present $1.4

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Table 1 Plastic Master, Inc., Statement of Financial Conditions, December 31, 200x

Assets			Liabilities and Net Worth	
Cash		$ 13,000	Liabilities:	
Accounts receivable		55,000	Accounts payable	$ 70,000
Building	$225,000		Notes payable—7 years (machinery)	194,000
Less: depreciation	75,000			
		150,000		
Machinery	1,400,000		Net worth:	
Less: depreciation	450,000		Capital stock	900,000
		950,000	Retained earnings	4,000
Total assets		$1,168,000	Total liabilities and net worth	$1,168,000

million level. His new strategy will try to increase the proprietary sales volume from $800,000 to $2 million a year. Nora Hall is expected to be a big help here because of her sales experience. This will bring the firm up to about capacity level—but it will mean adding additional employees and costs. The major advantage of expanding sales will be spreading overhead.

Some of the products proposed by Steve Burton for expanding proprietary sales are listed below.

New products for consideration:

Safety helmets for cyclists.
Water bottles for cyclists and in-line skaters.
School lunch boxes.
Toolboxes.
Closet organizer/storage boxes for toys.
Short legs for furniture.
Step-on garbage cans without liners.
Outside house shutters and siding.
Importing and distributing foreign housewares.

Plastic Master faces heavy competition from many other similar companies. Further, most retailers expect a wide margin—sometimes 50 to 60 percent of retail selling price. Even so, manufacturing costs are low enough so Plastic Master can spend some money for promotion while still keeping the price competitive. Apparently, many customers are willing to pay for novel new products—if they see them in stores. And Hall isn't worried too much by tough competition. She sees plenty of that in her present job. And she does like the idea of being an "owner and sales manager."

Evaluate Plastic Master's situation and Steve Burton's strategy. What should Nora Hall do? Why?

28 PCT, Inc.

Ben Colavito, president and marketing manager of Prime Cutting Tools, Inc., is deciding what strategy, or strategies, to pursue.

Prime Cutting Tools (PCT) is a manufacturer of industrial cutting tools. These tools include such items as lathe blades, drill press bits, and various other cutting edges used in the operation of large metal cutting, boring, or stamping machines. Ben Colavito takes great pride in the fact that his company—whose $5,200,000 sales in 2001 is small by industry standards—is recognized as a producer of a top-quality line of cutting tools.

Competition in the cutting-tool industry is intense. PCT competes not only with the original machine manufacturers, but also with many other larger domestic and foreign manufacturers offering cutting tools as one of their many different product lines. This has had the effect, over the years, of standardizing the price, specifications, and, in turn, the quality of the competing products of all manufacturers. It has also led to fairly low prices on standard items.

About a year ago, Ben was tiring of the financial pressure of competing with larger companies enjoying economies of scale. At the same time, he noted that more and more potential cutting-tool customers were turning to small tool-and-die shops that used computer-controlled equipment to meet specialized needs that could not be met by the mass production firms. Ben thought perhaps he should consider some basic strategy changes. Although he was unwilling to become strictly a custom producer, he thought that the recent trend toward buying customized cutting edges suggested new markets might be developing—markets too small for the large, multiproduct-line companies to serve profitably but large enough to earn a good profit for a flexible company of PCT's size.

Ben hired a marketing research company, Fennell Associates, to study the feasibility of serving these markets. The initial results were encouraging. It was estimated that PCT might increase sales by 65 percent and profits by 90 percent by serving the emerging markets. This research showed that there are many large users of standard cutting tools who buy directly from large cutting-tool manufacturers (domestic or foreign) or wholesalers who represent these manufacturers. This is the bulk of the cutting-tool business (in terms of units sold and sales dollars). But there are also many smaller users all over the United States who buy in small but regular quantities. And some of these needs are becoming more specialized. That is,

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a special cutting tool may make a machine and/or worker much more productive, perhaps eliminating several steps with time-consuming setups. This is the area that the research company sees as potentially attractive.

Next, Ben had the sales manager hire two technically oriented market researchers (at a total cost of $60,000 each per year, including travel expenses) to maintain continuous contact with potential cutting-tool customers. The researchers were supposed to identify any present or future needs that might exist in enough cases to make it possible to profitably produce a specialized product. The researchers were not to take orders or sell PCT's products to the potential customers. Ben felt that only through this policy could these researchers talk to the right people.

The initial feedback from the market researchers was most encouraging. Many firms (large and small) had special needs—although it often was necessary to talk to the shop foreman or individual machine operators to find these needs. Most operators were making do with the tools available. Either they didn't know customizing was possible or doubted that their supervisors would do anything about it if they suggested that a more specialized tool would increase productivity. But these operators were encouraging because they said that it would be easier to persuade supervisors to order specialized tools if the tools were already produced and in stock than if they had to be custom made. So Ben decided to continually add high-quality products to meet the ever-changing, specialized needs of users of cutting tools and edges.

PCT's potential customers for specialized tools are located all over the United States. The average sale per customer is likely to be less than $500, but the sale will be repeated several times within a year. Because of the widespread market and the small order size, Ben doesn't think that selling direct—as is done by small custom shops—is practical. At the present time, PCT sells 90 percent of its regular output through a large industrial wholesaler—National Mill Supplies, Inc.—which serves the area east of the Mississippi River and carries a very complete line of industrial supplies (to "meet every industrial need"). National Mill Supplies carries over 10,000 items. Some sales come from customers who know exactly what they want and just place orders directly by fax or at the firm's Internet website. But most of the selling is by National's sales reps, who work from an electronic catalog on a laptop computer. National Mill Supplies, although very large and well known, is having trouble moving cutting tools. National is losing sales of cutting tools in some cities to newer wholesalers specializing in the cutting-tool industry. The new wholesalers are able to give more technical help to potential customers and therefore better service. National's president is convinced that the newer, less-experienced concerns will either realize that a substantial profit margin can't be maintained along with their aggressive strategies, or they will eventually go broke trying to overspecialize.

From Ben's standpoint, the present wholesaler has a good reputation and has served PCT well in the past. National Mill Supplies has been of great help in holding down Ben's inventory costs—by increasing the inventory in National's 35 branch locations. Although Ben has received several complaints about the lack of technical assistance given by National's sales reps—as well as their lack of knowledge about PCT's new special products—he feels that the present wholesaler is providing the best service it can. All its sales reps have been told about the new products at a special training session, and a new page has been added to the catalog they carry with them. So regarding the complaints, Ben says: "The usual things you hear when you're in business."

Ben thinks there are more urgent problems than a few complaints. Profits are declining, and sales of the new cutting tools are not nearly as high as forecast—even though all research reports indicate that the company's new products meet the intended markets' needs perfectly. The high costs involved in producing small quantities of special products and in adding the market research team—together with lower-than-expected sales—have significantly reduced PCT's profits. Ben is wondering whether it is wise to continue to try to cater to the needs of many specific target markets when the results are this discouraging. He also is considering increasing advertising expenditures in the hope that customers will pull the new products through the channel.

Evaluate PCT's situation and Ben Colavito's present strategy. What should he do now?

29 Metal Works, Inc.

Victor Carrington, marketing manager for Metal Works, Inc., is trying to figure out how to explain to his boss why a proposed new product line doesn't make sense for them. Victor is sure it's wrong for Metal Works, Inc., but isn't able to explain why.

Metal Works, Inc., is a producer of malleable iron castings for automobile and aircraft manufacturers and a variety of other users of castings. Last year's sales of castings amounted to over $70 million.

Metal Works also produces about 30 percent of all the original equipment bumper jacks installed in new U.S.-made automobiles each year. This is a very price-competitive business, but Metal Works has been able to obtain its large market share with frequent personal contact between the company's executives and its customers—supported by very close cooperation between the company's engineering department and its customers' buyers. This has been extremely important because the wide variety of models and model changes frequently requires alterations in the specifications of the bumper jacks. All of Metal Works' bumper jacks are sold directly to the automobile manufacturers. No attempt has been made to sell bumper jacks to final consumers through hardware and automotive channels—although they are available through the manufacturers' automobile dealers.

Tom Gaines, Metal Works' production manager, now wants to begin producing hydraulic garage jacks for sale through automobile-parts wholesalers to retail auto parts stores. Gaines saw a variety of hydraulic garage jacks at a recent automotive show and knew immediately that his plant could produce these products. This especially interested him because of the possibility of using excess capacity. Further, he says "jacks are jacks," and the company would merely be broadening its product line by introducing hydraulic garage jacks. (Note:

Hydraulic garage jacks are larger than bumper jacks and are intended for use in or around a garage. They are too big to carry in a car's trunk.)

As Tom Gaines became more enthusiastic about the idea, he found that Metal Works' engineering department already had a design that appeared to be at least comparable to the products now offered on the market. None of these products have any patent protection. Further, Gaines says that the company would be able to produce a product that is better made than the competitive products (i.e., smoother castings)—although he agrees that most customers probably wouldn't notice the difference. The production department estimates that the cost of producing a hydraulic garage jack comparable to those currently offered by competitors would be about $48 per unit.

Victor Carrington, the marketing manager, has just received an e-mail from George Daggett, the company president, explaining the production department's enthusiasm for broadening Metal Works' present jack line into hydraulic jacks. George Daggett seems enthusiastic about the idea too, noting that it would be a way to make fuller use of the company's resources and increase its sales. Daggett's e-mail asks for Victor's reaction, but George Daggett already seems sold on the idea.

Given Daggett's enthusiasm, Victor Carrington isn't sure how to respond. He's trying to develop a good explanation of why he isn't excited about the proposal. The firm's six sales reps are already overworked with their current accounts. And Victor couldn't possibly promote this new line himself—he's already helping other reps make calls and serving as sales manager. So it would be necessary to hire someone to promote the line. And this sales manager would probably have to recruit manufacturers' agents (who probably will want 10 to 15 percent commission on sales) to sell to automotive wholesalers who would stock the jack and sell to the auto parts retailers. The wholesalers will probably expect trade discounts of about 20 percent, trade show exhibits, some national advertising, and sales promotion help (catalog sheets, mailers, and point-of-purchase displays). Further, Victor Carrington sees that Metal Works' billing and collection system will have to be expanded because many more customers will be involved. It will also be necessary to keep track of agent commissions and accounts receivable.

Auto parts retailers are currently selling similar hydraulic garage jacks for about $99. Victor Carrington has learned that such retailers typically expect a trade discount of about 35 percent off of the suggested list price for their auto parts.

All things considered, Victor Carrington feels that the proposed hydraulic jack line is not very closely related to the company's present emphasis. He has already indicated his lack of enthusiasm to Tom Gaines, but this made little difference in Tom's thinking. Now it's clear that Victor will have to convince the president or he will soon be responsible for selling hydraulic jacks.

Contrast Metal Works, Inc.'s current strategy and the proposed strategy. What should Victor Carrington say to George Daggett to persuade him to change his mind? Or should he just plan to sell hydraulic jacks? Explain.

30 Deluxe Foods, Ltd.*

Jessica Walters, marketing manager of Deluxe Foods, Ltd.—a Canadian company—is being urged to approve the creation of a separate marketing plan for Quebec. This would be a major policy change because Deluxe Foods' international parent is trying to move toward a global strategy for the whole firm and Jessica has been supporting Canada-wide planning.

Jessica Walters has been the marketing manager of Deluxe Foods, Ltd., for the last four years—since she arrived from international headquarters in Minneapolis. Deluxe Foods, Ltd., headquartered in Toronto, is a subsidiary of a large U.S.-based consumer packaged-food company with worldwide sales of more than $2 billion in 1997. Its Canadian sales are just over $350 million—with the Quebec and Ontario markets accounting for 69 percent of the company's Canadian sales.

The company's product line includes such items as cake mixes, puddings, pie fillings, pancakes, prepared foods, and frozen dinners. The company has successfully introduced at least six new products every year for the last five years. Products from Deluxe Foods are known for their high quality and enjoy much brand preference throughout Canada—including the Province of Quebec.

The company's sales have risen every year since Jessica Walters took over as marketing manager. In fact, the company's market share has increased steadily in each of the product categories in which it competes. The Quebec market has closely followed the national trend except that, in the past two years, total sales growth in that market began to lag.

According to Walters, a big advantage of Deluxe Foods over its competitors is the ability to coordinate all phases of the food business from Toronto. For this reason, Walters meets at least once a month with her product managers—to discuss developments in local markets that might affect marketing plans. While each manager is free to make suggestions and even to suggest major changes, Jessica Walters has the responsiblity of giving final approval for all plans.

One of the product managers, Marie LeMans, expressed great concern at the last monthly meeting about the poor performance of some of the company's products in the Quebec market. While a broad range of possible reasons—ranging from inflation and the threat of job losses to politics—were reviewed to try to explain the situation, LeMans insisted that it was due to a basic lack of understanding of that market. She felt not enough managerial time and money had been spent on the Quebec market—in part because of the current emphasis on developing all-Canada plans on the way to having one global strategy.

Marie LeMans felt the current marketing approach to the Quebec market should be reevaluated because an inappropriate marketing plan may be responsible for the sales slowdown. After all, she said, "80 percent of the market is French-speaking. It's in the best interest of the company to treat that market as being separate and distinct from the rest of Canada."

Marie LeMans supported her position by showing that Quebec's per capita consumption of many product categories (in which the firm competes) is above the national average

*This case was adapted from one written by Professor Roberta Tamilia, University of Windsor, Canada.

Table 1 Per Capita Consumption Index, Province of Quebec (Canada = 100)

Cake mixes	107	Soft drinks	126
Pancakes	87	Pie fillings	118
Puddings	114	Frozen dinners	79
Salad dressings	85	Prepared packaged foods	83
Molasses	132	Cookies	123

(see Table 1). Research projects conducted by Deluxe Foods also support the "separate and distinct" argument. Over the years, the firm has found many French–English differences in brand attitudes, lifestyles, usage rates, and so on.

LeMans argued that the company should develop a unique Quebec marketing plan for some or all of its brands. She specifically suggested that the French-language advertising plan for a particular brand be developed independently of the plan for English Canada. Currently, the Toronto agency assigned to the brand just translates its English-language ads for the French market. Jessica Walters pointed out that the present advertising approach assured Deluxe Foods of a uniform brand image across Canada. Marie LeMans said she knew what the agency is doing, and that straight translation into Canadian-French may not communicate the same brand image. The discussion that followed suggested that a different brand image might be needed in the French market if the company wanted to stop the brand's decline in sales.

The managers also discussed the food distribution system in Quebec. The major supermarket chains have their lowest market share in that province. Independents are strongest there—the "mom-and-pop" food stores fast disappearing outside Quebec remain alive and well in the province. Traditionally, these stores have stocked a higher proportion (than supermarkets) of their shelf space with national brands—an advantage for Deluxe Foods.

Finally, various issues related to discount policies, pricing structure, sales promotion, and cooperative advertising were discussed. All of this suggested that things were different in Quebec and that future marketing plans should reflect these differences to a greater extent than they do now.

After the meeting, Jessica Walters stayed in her office to think about the situation. Although she agreed with the basic idea that the Quebec market was in many ways different, she wasn't sure how far the company should go in recognizing this fact. She knew that regional differences in food tastes and brand purchases existed not only in Quebec but in other parts of Canada as well. But people are people, after all, with far more similarities than differences, so a Canadian and eventually a global strategy makes some sense too.

Jessica Walters was afraid that giving special status to one region might conflict with top management's objective of achieving standardization whenever possible—one global strategy for Canada, on the way to one worldwide global strategy. She was also worried about the long-term effect of such a policy change on costs, organizational structure, and brand image. Still, enough product managers had expressed their concern over the years about the Quebec market to make her wonder if she shouldn't modify the current approach. Perhaps they could experiment with a few brands—and just in Quebec. She could cite the language difference as the reason for trying Quebec rather than any of the other provinces. But Walters realizes that any change of policy could be seen as the beginning of more change, and what would Minneapolis think? Could she explain it successfully there?

Evaluate Deluxe Foods, Ltd.'s present strategy. What should Jessica Walters do now? Explain.

31 Expert Nursing Services, Inc.

Carol Crane, executive director of Expert Nursing Services, Inc., is trying to clarify her strategies. She's sure some changes are needed, but she's less sure about how *much* change is needed and/or whether it can be handled by her people.

Expert Nursing Services, Inc. (ENS), is a nonprofit organization that has been operating—with varying degrees of success—for 25 years, offering nursing services in clients' homes. Some of its funding comes from the local United Way—to provide emergency nursing services for those who can't afford to pay. The balance of the revenues—about 90 percent of the $2.2 million annual budget—comes from charges made directly to the client or to third-party payers, including insurance companies, health maintenance organizations (HMOs), and the federal government, for Medicare or Medicaid services.

Carol Crane has been executive director of ENS for two years. She has developed a well-functioning organization able to meet most requests for service that come from some local doctors and from the discharge officers at local hospitals. Some business also comes by self-referral—the client finds the ENS name in the Yellow Pages of the local phone directory.

The last two years have been a rebuilding time—because the previous director had personnel problems. This led to a weakening of the agency's image with the local referring agencies. Now the image is more positive. But Carol is not completely satisfied with the situation. By definition, Expert Nursing Services is a nonprofit organization. But it still must cover all its costs: payroll, rent payments, phone expenses, and so on, including Carol's own salary. She can see that while ENS is growing slightly and is now breaking even, it doesn't have much of a cash cushion to fall back on if (1) the demand for ENS nursing services declines, (2) the government changes its rules about paying for ENS' kind of nursing services, either cutting back what it will pay for or reducing the amount it will pay for specific services, or (3) new competitors enter the market. In fact, the last possibility concerns Carol greatly. Some hospitals, squeezed for revenue, are expanding into home health care—especially nursing services as patients are being released earlier from hospitals because of payment limits set by government guidelines. For-profit organizations (e.g., Kelly Home Care Services) are expanding around the country to provide a complete line of home health care services—including nursing services of the kind offered by ENS. These for-profit organizations appear to be efficiently run—offering good service at competitive and sometimes even lower prices than some nonprofit organizations. And they seem to be doing this at a profit—which suggests that it would be possible

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for these for-profit companies to lower their prices if nonprofit organizations try to compete on price.

Carol is considering whether she should ask her board of directors to let her offer a complete line of home health care services—that is, move beyond just nursing services into what she calls "care and comfort" services.

Currently, ENS is primarily concerned with providing professional nursing care in the home. But ENS nurses are much too expensive for routine home health care activities—helping fix meals, bathing and dressing patients, and other care and comfort activities. The full cost of a nurse to ENS, including benefits and overhead, is about $65 per hour. But a registered nurse is not needed for care and comfort services. All that is required is someone who is honest, can get along with all kinds of people, and is willing to do this kind of work. Generally, any mature person can be trained fairly quickly to do the job—following the instructions and under the general supervision of a physician, a nurse, or family members. The full cost of aides is $8 to $15 per hour for short visits and as low as $65 per 24 hours for a live-in aide who has room and board supplied by the client.

The demand for all kinds of home health care services seems to be growing. With more dual-career families and more single-parent households, there isn't anyone in the family to take over home health care when the need arises—due to emergencies or long-term disabilities. Further, hospitals send patients home earlier than in the past. And with people living longer, there are more single-survivor family situations where there is no one nearby to take care of the needs of these older people. But often some family members—or third-party payers such as the government or insurers—are willing to pay for some home health care services. Carol now occasionally recommends other agencies or suggests one or another of three women who have been doing care and comfort work on their own, part-time. But with growing demand, Carol wonders if ENS should get into this business, hiring aides as needed.

Carol is concerned that a new, full-service home health care organization may come into her market and be a single source for both nursing services *and* less-skilled home care and comfort services. This has happened already in two nearby but somewhat larger cities. Carol fears that this might be more appealing than ENS to the local hospitals and other referrers. In other words, she can see the possibility of losing nursing service business if ENS does not begin to offer a complete home health care service. This would cause real problems for ENS—because overhead costs are more or less fixed. A loss in revenue of as little as 10 percent would require some cutbacks—perhaps laying off some nurses or secretaries, giving up part of the office, and so on.

Another reason for expanding beyond nursing services—using paraprofessionals and relatively unskilled personnel—is to offer a better service to present customers *and* make more effective use of the computer systems and organization structure that she has developed over the last two years. Carol estimates that the administrative and office capabilities could handle twice as many clients without straining the system. It would be necessary to add some clerical help—if the expansion were quite large—as well as expanding the hours when the switchboard is open. But these increases in overhead would be minor compared to the present proportion of total revenue that goes to covering overhead. In other words, additional clients or more work for some clients could increase revenue and ensure the survival of ENS, provide a cushion to cover the normal fluctuations in demand, and ensure more job security for the administrative personnel.

Further, Carol thinks that if ENS were successful in expanding its services—and therefore could generate some surplus—it could extend services to those who aren't now able to pay. Carol says one of the worst parts of her job is refusing service to clients whose third-party benefits have run out or for whatever reason can no longer afford to pay. She is uncomfortable about having to cut off service, but she must schedule her nurses to provide revenue-producing services if she's going to meet the payroll every two weeks. By expanding to provide more services, she might be able to keep serving more of these nonpaying clients. This possibility excites Carol because her nurse's training has instilled a deep desire to serve people in need—whether they can pay or not. This continual pressure to cut off service because people can't pay has been at the root of many disagreements and even arguments between the nurses serving the clients and Carol, as executive director and representative of the board of directors.

Carol knows that expanding into care and comfort services won't be easy. Some decisions would be needed about relative pay levels for nurses, paraprofessionals, and aides. ENS would also have to set prices for these different services and tell the present customers and referral agencies about the expanded services.

These problems aren't bothering Carol too much, however—she thinks she can handle them. She is sure that care and comfort services are in demand and could be supplied at competitive prices.

Her primary concern is whether this is the right thing for Expert Nursing Services—basically a nursing organization—to do. ENS' whole history has been oriented to supplying *nurses' services*. Nurses are dedicated professionals who bring high standards to any job they undertake. The question is whether ENS should offer less-professional services. Inevitably, some of the aides will not be as dedicated as the nurses might like them to be. And this could reflect unfavorably on the nurse image. At a minimum, she would need to set up some sort of training program for the aides. As Carol worries about the future of ENS, and her own future, it seems that there are no easy answers.

Evaluate ENS' present strategy. What should Carol Crane do? Explain.

32 Lever, Ltd.*

Alan Cooke is product manager for Guard Deodorant Soap. He was just transferred to Lever, Ltd., a Canadian subsidiary of Lever Group, Inc., from world headquarters in New York. Alan is anxious to make a good impression because he is hoping to transfer to Lever's London office. He is working on developing and securing management approval of next year's marketing plan for Guard. His first job is submitting a draft marketing plan to Wendy Lee, his recently appointed group

*Adapted from a case prepared by Daniel Aronchick, who at the time of its preparation was marketing manager at Thomas J. Lipton, Limited.

Table 1 Past 12-Month Share of Bar Soap Market (percent)

	Maritimes	Quebec	Ontario	Manitoba/Saskatchewan	Alberta	British Columbia
Deodorant segment						
Zest	21.3%	14.2%	24.5%	31.2%	30.4%	25.5%
Dial	10.4	5.1	12.8	16.1	17.2	14.3
Lifebuoy	4.2	3.1	1.2	6.4	5.8	4.2
Guard	2.1	5.6	1.0	4.2	4.2	2.1
Beauty bar segment						
Camay	6.2	12.3	7.0	4.1	4.0	5.1
Lux	6.1	11.2	7.7	5.0	6.9	5.0
Dove	5.5	8.0	6.6	6.3	6.2	4.2
Lower-priced bars						
Ivory	11.2	6.5	12.4	5.3	5.2	9.0
Sunlight	6.1	3.2	8.2	4.2	4.1	8.0
All others (including stores' own brands)	26.9	30.8	18.6	17.2	16.0	22.6
Total bar soap market	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

product manager, who is responsible for several such plans from product managers like Alan.

Alan's marketing plan is the single most important document he will produce on this assignment. This annual marketing plan does three main things:

1. It reviews the brand's performance in the past year, assesses the competitive situation, and highlights problems and opportunities for the brand.
2. It spells out marketing strategies and the plan for the coming year.
3. Finally, and most importantly, the marketing plan sets out the brand's sales objectives and advertising/promotion budget requirements.

In preparing this marketing plan, Alan gathered the information in Table 1.

Alan was somewhat surprised at the significant regional differences in the bar soap market:

1. The underdevelopment of the deodorant bar segment in Quebec, with a corresponding overdevelopment of the beauty bar segment. But some past research suggested that this is due to cultural factors—English-speaking people have been more interested than others in cleaning, deodorizing, and disinfecting. A similar pattern is seen in most European countries, where the adoption of deodorant soaps has been slower than in North America. For similar reasons, the perfumed soap share is highest in French-speaking Quebec.
2. The overdevelopment of synthetic bars in the Prairies. These bars, primarily in the deodorant segment, lather better in the hard water of the Prairies. Nonsynthetic bars lather very poorly in hard-water areas and leave a soap film.
3. The overdevelopment of the "all-other" segment in Quebec. This segment, consisting of smaller brands, fares better in Quebec, where 43 percent of the grocery trade is done by independent stores. Conversely, large chain grocery stores dominate in Ontario and the Prairies.

Alan's brand, Guard, is a highly perfumed deodorant bar. His business is relatively weak in the key Ontario market. To confirm this share data, Alan calculated consumption of Guard per thousand people in each region (see Table 2).

These differences are especially interesting since per capita sales of all bar soap products are roughly equal in all provinces.

A consumer attitude and usage research study was conducted approximately a year ago. This study revealed that consumer "top-of-mind" awareness of the Guard brand differed greatly across Canada. This was true despite the even—by population—expenditure of advertising funds in past years. Also, trial of Guard was low in the Maritimes, Ontario, and British Columbia (see Table 3).

Table 2 Standard Cases of 3-Ounce Bars Consumed per 1,000 People in 12 Months

	Maritimes	Quebec	Ontario	Manitoba/ Saskatchewan	Alberta	British Columbia
Guard	4.1	10.9	1.9	8.1	4.1	6.2
Sales index	66	175	31	131	131	100

Table 3 Usage Results (in percent)

	Maritimes	Quebec	Ontario	Manitoba/ Saskatchewan	Alberta	British Columbia
Respondents aware of Guard	20%	58%	28%	30%	32%	16%
Respondents ever trying Guard	3	18	2	8	6	4

The attitude portion of the research revealed that consumers who had heard of Guard were aware that its deodorant protection came mainly from a high fragrance level. This was the main selling point in the copy, and it was well communicated by Guard's advertising. The other important finding was that consumers who had tried Guard were satisfied with the product. About 70 percent of those trying Guard had repurchased the product at least twice.

Alan has also discovered that bar soap competition is especially intense in Ontario. It is Canada's largest market, and many competitors want a share of it. The chain stores are also quite aggressive in promotion and pricing—offering specials, in-store coupons, and so on. They want to move goods. And because of this, two key Ontario chains have put Guard on their pending delisting sheets. These chains, which control about half the grocery volume in Ontario, are dissatisfied with how slowly Guard is moving off the shelves.

Now Alan feels he is ready to set a key part of the brand's marketing plan for next year: how to allocate the advertising/sales promotion budget by region.

Guard's present advertising/sales promotion budget is 20 percent of sales. With forecast sales of $4 million, this would amount to an $800,000 expenditure. Traditionally such funds have been allocated in proportion to population (see Table 4).

Alan feels he should spend more heavily in Ontario where the grocery chain delisting problem exists. Last year, 36 percent of Guard's budget was allocated to Ontario, which accounted for only 12 percent of Guard's sales. Alan wants to increase Ontario spending to 48 percent of the total budget by taking funds evenly from all other areas. Alan expects this will increase business in the key Ontario market, which has over a third of Canada's population, because it is a big increase and will help Guard "outshout" the many other competitors who are promoting heavily.

Alan presented this idea to Wendy, his newly appointed group product manager. Wendy strongly disagrees. She has also been reviewing Guard's business and feels that promotion funds have historically been misallocated. It is her strong belief that, to use her words, "A brand should spend where its business is." Wendy believes that the first priority in allocating funds regionally is to support the areas of strength. She suggested to Alan that there may be more business to be had in the brand's strong areas, Quebec and the Prairies, than in chasing sales in Ontario. The needs and attitudes toward Guard, as well as competitive pressures, may vary a lot among the provinces. Therefore, Wendy suggested that spending for Guard in the coming year be proportional to the brand's sales by region rather than to regional population.

Alan is convinced this is wrong, particularly in light of the Ontario situation. He asked Wendy how the Ontario market should be handled. Wendy said that the conservative way to build business in Ontario is to invest incremental promotion funds. However, before these incremental funds are invested, a test of this Ontario investment proposition should be conducted. Wendy recommended that some of the Ontario money should be used to conduct an investment-spending market test in a small area or town in Ontario for 12 months. This will enable Alan to see if the incremental spending results in higher sales and profits—profits large enough to justify higher spending. In other words, an investment payout should be assured before spending any extra money in Ontario. Similarly, Wendy would do the same kind of test in Quebec—to see if more money should go there.

After several e-mails back and forth, Alan feels this approach would be a waste of time and unduly cautious, given the importance of the Ontario market and the likely delistings in two key chains.

Evaluate the present strategy for Guard and Alan's and Wendy's proposed strategies. How should the promotion money be allocated? Should investment-spending market tests be run first? Why? Explain.

Table 4 Allocation of Advertising/Sales Promotion Budget, by Population

	Maritimes	Quebec	Ontario	Manitoba/ Saskatchewan	Alberta	British Columbia	Canada
Percent of population	10%	27%	36%	8%	8%	11%	100%
Possible allocation of budget based on population (in 000s)	$80	$216	$288	$64	$64	$88	$800
Percent of Guard business at present	7%	51%	12%	11%	11%	8%	100%

33 Huntoon & Balbiera, P.C.

The partners of Huntoon & Balbiera are having a serious discussion about what the firm should do in the near future.

Huntoon & Balbiera, P.C. (H&B) is a large regional certified public accounting firm based in Grand Rapids, Michigan—with branch offices in Lansing and Detroit. Huntoon & Balbiera has nine partners and a professional staff of approximately 105 accountants. Gross service billings for the fiscal year ending June 30, 2001, were $6.9 million. Financial data for 1999, 2000, and 2001 are presented in Table 1.

H&B's professional services include auditing, tax preparation, bookkeeping, and some general management consulting. Its client base includes municipal governments (cities, villages, and townships), manufacturing companies, professional organizations (attorneys, doctors, and dentists), and various other small businesses. A good share of revenue comes from the firm's municipal practice. Table 1 gives H&B's gross revenue by service area and client industry for 1999, 2000, and 2001.

At the monthly partners' meeting held in July 2001, Pat Hogan, the firm's managing partner (CEO), expressed concern about the future of the firm's municipal practice. Hogan's presentation to his partners appears below:

> Although our firm is considered to be a leader in municipal auditing in our geographic area, I am concerned that as municipals attempt to cut their operating costs, they will solicit competitive bids from other public accounting firms to perform their annual audits. Four of the six largest accounting firms in the world have local offices in our area. Because they concentrate their practice in the manufacturing industry—which typically has December 31 fiscal year-ends—they have "available" staff during the summer months.
>
> Therefore, they can afford to low-ball competitive bids to keep their staffs busy and benefit from on-the-job training provided by municipal clientele. I am concerned that we may begin to lose clients in our most established and profitable practice area.*

Ann Yost, a senior partner in the firm and the partner in charge of the firm's municipal practice, was the first to respond to Pat Hogan's concern.

> Pat, we all recognize the potential threat of being underbid for our municipal work by our four large accounting competitors. However, H&B is a recognized leader in municipal auditing in Michigan, and we have much more local experience than our competitors. Furthermore, it is a fact that we offer a superior level of service to our clients—which goes beyond the services normally expected during an audit to include consulting on financial and other operating issues. Many of our less sophisticated clients depend on our nonaudit consulting assistance. Therefore, I believe, we have been successful in differentiating our services from our competitors. In many recent situations, H&B was selected over a field of as many as 10 competitors even though our proposed prices were much higher than those of our competitors.

*Organizations with December fiscal year-ends require audit work to be performed during the fall and in January and February. Those with June 30 fiscal year-ends require auditing during the summer months.

Table 1 Fiscal Year Ending June 30

	2001	2000	1999
Gross billings	$6,900,000	$6,400,000	$5,800,000
Gross billings by service area:			
Auditing	3,100,000	3,200,000	2,750,000
Tax preparation	1,990,000	1,830,000	1,780,000
Bookkeeping	1,090,000	745,000	660,000
Other	720,000	625,000	610,000
Gross billings by client industry:			
Municipal	3,214,000	3,300,000	2,908,000
Manufacturing	2,089,000	1,880,000	1,706,000
Professional	1,355,000	1,140,000	1,108,000
Other	242,000	80,000	78,000

The partners at the meeting agreed with Ann Yost's comments. However, even though H&B had many success stories regarding their ability to retain their municipal clients—despite being underbid—they had lost three large municipal clients during the past year. Ann Yost was asked to comment on the loss of those clients. She explained that the lost clients are larger municipalities with a lot of in-house financial expertise and therefore less dependent on H&B's consulting assistance. As a result, H&B's service differentiation went largely unnoticed. Ann explained that the larger, more sophisticated municipals regard audits as a necessary evil and usually select the low-cost reputable bidder.

Pat Hogan then requested ideas and discussion from the other partners at the meeting. One partner, Joe Reid, suggested that H&B should protect itself by diversifying. Specifically, he felt a substantial practice development effort should be directed toward manufacturing. He reasoned that since manufacturing work would occur during H&B's off-season, H&B could afford to price very low to gain new manufacturing clients. This strategy would also help to counter (and possibly discourage) low-ball pricing for municipals by the four large accounting firms mentioned earlier.

Another partner, Bob LaMott, suggested that "if we have consulting skills, we ought to promote them more, instead of hoping that the clients will notice and come to appreciate us. Further, maybe we ought to be more aggressive in calling on smaller potential clients."

Another partner, John Smith, agreed with LaMott, but wanted to go further. He suggested that they recognize that there are at least two types of municipal customers and that two (at least) different strategies be implemented, including lower prices for auditing only for larger municipal customers and/or higher prices for smaller customers who are buying consulting too. This caused a big uproar from some who said this would lead to price-cutting of professional services and H&B didn't want to be price cutters: "One price for all is the professional way."

However, another partner, Megan Cullen, agreed with John Smith and suggested they go even further—pricing

consulting services separately. In fact, she suggested that the partners consider setting up a separate department for consulting—like the four large accounting firms have done. This can be very profitable business. But it is a different kind of business and eventually may require different kinds of people and a different organization. For now, however, it may be desirable to appoint a manager for consulting services—with a budget—to be sure it gets proper attention. This suggestion too caused serious disagreement. Some of the partners knew that having a separate consulting arm had led to major conflicts in some firms. The main problem seemed to be that the consultants brought in more profit than the auditors, but the auditors controlled the partnership and did not properly reward the successful consultants—at least as they saw it!

Pat Hogan thanked everyone for their comments and encouraged them to debate these issues in smaller groups and to share ideas by e-mail before coming to a one-day retreat (in two weeks) to continue this discussion and come to some conclusions.

Evaluate Huntoon & Balbiera's situation. What strategy(ies) should the partners select? Why?

34 Aluminum Basics Co.*

Mark Parcells, newly hired VP of marketing for Aluminum Basics Co., is reviewing the firm's international distribution arrangements because they don't seem to be very well thought out. He is not sure if anything is wrong, but he feels that the company should follow a global strategy rather than continuing its current policies.

Aluminum Basics, based in Atlanta, Georgia, produces finished aluminum products, such as aluminum ladders, umbrella-type clothes racks, scaffolding, and patio tables and chairs that fold flat. Sales in 2001 reached $25 million—primarily to U.S. customers.

In 1997, Aluminum Basics decided to try foreign markets. The sales manager, Bonnie Pope, believed the growing affluence of European workers would help the company's products gain market acceptance quickly.

Bonnie's first step in investigating foreign markets was to join a trade mission to Europe—a tour organized by the U.S. Department of Commerce. This trade mission visited Italy, Germany, Denmark, Holland, France, and England. During this trip, Bonnie was officially introduced to leading buyers for department store chains, import houses, wholesalers, and buying groups. The two-week trip convinced Bonnie that there was ample buying power to make exporting a profitable opportunity.

On her return to Atlanta, Bonnie's next step was to obtain credit references for the firms she considered potential distributors. To those who were judged creditworthy, she sent letters expressing interest and samples, brochures, prices, and other relevant information.

The first orders were from a French wholesaler. Sales in this market totaled $70,000 in 1998. Similar success was achieved in Germany and England. Italy, on the other hand, did not produce any sales. Bonnie felt the semiluxury nature of the company's products and the lower incomes in Italy encouraged a "making do" attitude rather than purchase of goods and services that would make life easier.

In the United States, Aluminum Basics distributes through fairly aggressive and well-organized merchant hardware distributors and buying groups, such as cooperative and voluntary hardware chains, which have taken over much of the strategy planning for cooperating producers and retailers. In its foreign markets, however, there is no recognizable pattern. Channel systems vary from country to country. To avoid mixing channels of distribution, Aluminum Basics has only one account in each country. The chosen distributor is the exclusive distributor.

In France, Aluminum Basics distributes through a wholesaler based in Paris. This wholesaler has five salespeople covering the country. The firm specializes in small housewares and has contacts with leading buying groups, wholesalers, and department stores. Bonnie is impressed with the firm's aggressiveness and knowledge of merchandising techniques.

In Germany, Aluminum Basics sells to a Hamburg-based buying group for hardware wholesalers throughout the country. Bonnie felt this group would provide excellent coverage of the market because of its extensive distribution network.

In Denmark, Aluminum Basics' line is sold to a buying group representing a chain of hardware retailers. This group recently expanded to include retailers in Sweden, Finland, and Norway. Together this group purchases goods for about 500 hardware retailers. The buying power of Scandinavians is quite high, and it is expected that Aluminum Basics' products will prove very successful there.

In the United Kingdom, Aluminum Basics uses an importer-distributor, who both buys on his own account and acts as a sales agent. This firm sells to department stores and hardware wholesalers. This firm has not done very well overall, but it has done very well with Aluminum Basics' line of patio tables and chairs.

Australia is handled by an importer who operates a chain of discount houses. It heard about Aluminum Basics from a United Kingdom contact. After extensive e-mailing, this firm discovered it could land aluminum patio furniture in Melbourne at prices competitive with Japanese imports. So it started ordering because it wanted to cut prices in a high-priced garden furniture market.

The Argentina market is handled by an American who came to the United States from Buenos Aires in search of new lines. Aluminum Basics attributes success in Argentina to the efforts of this aggressive and capable agent. He has built a sizable trade in aluminum ladders.

In Trinidad and Jamaica, Aluminum Basics' products are handled by traders who carry such diversified lines as insurance, apples, plums, and fish. They have been successful in selling aluminum ladders. This business grew out of inquiries sent to the U.S. Department of Commerce and in researching its website (www.doc.gov), which Bonnie Pope followed up by mail.

Bonnie Pope's export policies for Aluminum Basics are as follows:

1. Product: No product modifications will be made in selling to foreign customers. This may be considered later after a substantial sales volume develops.

*Adapted from a case written by Professor Peter Banting, McMaster University, Canada.

2. Price: The company does not publish suggested list prices. Distributors add their own markup to their landed costs. Supply prices will be kept as low as possible. This is accomplished by *(a)* removing advertising expenses and other strictly domestic overhead charges from price calculations, *(b)* finding the most economical packages for shipping (smallest volume per unit), and *(c)* bargaining with carriers to obtain the lowest shipping rates possible.
3. Promotion: The firm does no advertising in foreign markets. Brochures and sales literature already being used in the United States are supplied to foreign distributors, who are encouraged to adapt them or create new materials as required. Aluminum Basics will continue to promote its products by participating in overseas trade shows. These are handled by the sales manager. All inquiries are forwarded to the firm's distributor in that country.
4. Distribution: New distributors will be contacted through foreign trade shows. Bonnie Pope considers large distributors desirable. She feels, however, that they are not as receptive as smaller distributors to a new, unestablished product line. Therefore, she prefers to appoint small distributors. Larger distributors may be appointed after the company has gained a strong consumer franchise in a country.
5. Financing: Aluminum Basics sees no need to provide financial help to distributors. The company views its major contribution as providing good products at the lowest possible prices.
6. Marketing and planning assistance: Bonnie Pope feels that foreign distributors know their own markets best. Therefore, they are best equipped to plan for themselves.
7. Selection of foreign markets: The evaluation of foreign market opportunities for the company's products is based primarily on disposable income and lifestyle patterns. For example, Bonnie fails to see any market in North Africa for Aluminum Basics' products, which she thinks are of a semiluxury nature. She thinks that cheaper products such as wood ladders (often homemade) are preferred to prefabricated aluminum ladders in regions such as North Africa and Southern Europe. Argentina, on the other hand, she thinks is a more highly industrialized market with luxury tastes. Thus, Bonnie sees Aluminum Basics' products as better suited for more highly industrialized and affluent societies.

Evaluate Aluminum Basics' present foreign markets strategies. Should it develop a global strategy? What strategy or strategies should Mark Parcells (the new VP of marketing) develop? Explain.

35 Romano's Take-Out, Inc.

Angelina Cello, manager of the Romano's Take-Out store in Flint, Michigan, is trying to develop a plan for the "sick" store she just took over.

Romano's Take-Out, Inc. (RT) is an owner-managed pizza take-out and delivery business with three stores located in Ann Arbor, Southfield, and Flint, Michigan. RT's business comes from telephone or walk-in orders. Each RT store prepares its own pizzas. In addition to pizzas, RT also sells and delivers a limited selection of soft drinks.

RT's Ann Arbor store has been very successful. Much of the store's success may be due to being close to the University of Michigan campus. Most of these students live within five miles of RT's Ann Arbor store.

The Southfield store has been moderately successful. It serves mostly residential customers in the Southfield area—a largely residential suburb of Detroit. Recently, the store advertised—using direct-mail flyers—to several office buildings within three miles of the store. The flyers described RT's willingness and ability to cater large orders for office parties, business luncheons, and so on. The promotion was quite successful. With this new program and RT's solid residential base of customers in Southfield, improved profitability at the Southfield location seems assured.

RT's Flint location has had mixed results during the last three years. The Flint store has been obtaining only about half of its orders from residential delivery requests. The Flint store's new manager, Angelina Cello, believes the problem with residential pizza delivery in Flint is due to the location of residential neighborhoods in the area. Flint has several large industrial plants (mostly auto industry related) located throughout the city. Small, mostly factory-worker neighborhoods are distributed in between the various plant sites. As a result, RT's store location can serve only two or three of these neighborhoods on one delivery run. Competition is also relevant. RT has several aggressive competitors who advertise heavily, distribute cents-off coupons, and offer 2-for-1 deals. This aggressive competition is probably why RT's residential sales leveled off in the last year or so. And this competitive pressure seems likely to continue as some of this competition comes from aggressive national chains that are fighting for market share and squeezing little firms like Romano's Take-Out. For now, anyway, Angelina feels she knows how to meet this competition and hold on to the present sales level.

Most of the Flint store's upside potential seems to be in serving the large industrial plants. Many of these plants work two or three shifts, five days a week. During each work shift, workers are allowed one half-hour lunch break—which usually occurs at 11 AM, 8 PM, or 2:30 AM, depending on the shift.

Generally, a customer will phone or fax from a plant about 30 minutes before a scheduled lunch break and order several (5 to 10) pizzas for a work group. RT may receive many orders of this size from the same plant (i.e., from different groups of workers). The plant business is very profitable for several reasons. First, a large number of pizzas can be delivered at the same time to the same location, saving transportation costs. Second, plant orders usually involve many different toppings (double cheese, pepperoni, mushrooms, hamburger) on each pizza. This results in $11 to $14 revenue per pizza. The delivery drivers also like delivering plant orders because the tips are usually $1 to $2 per pizza.

Despite the profitability of the plant orders, several factors make it difficult to serve the plant market. RT's store is located 5 to 8 minutes from most of the plant sites, so RT's staff must prepare the orders within 20 to 25 minutes after it receives the telephone order. Often, inadequate staff and/or oven capacity means it is impossible to get all the orders heated at the same time.

Table 1 Practical Capacities and Sales Potential of Current Equipment and Personnel

	11 AM Break	8 PM Break	2:30 AM Break	Daily Totals
Current capacity (pizzas)	48	48	48	144
Average selling price per unit	$ 12.50	$ 12.50	$ 12.50	$ 12.50
Sales potential	$600	$600	$600	$1,800
Variable cost (approximately 40 percent of selling price)*	240	240	240	720
Contribution margin of pizzas	360	360	360	1,080
Beverage sales (2 medium-sized beverages per pizza ordered at 75¢ a piece)†	72	72	72	216
Cost of beverages (30% per beverage)	22	22	22	66
Contribution margin of beverages	50	50	50	150
Total contribution of pizza and beverages	$410	$410	$410	$1,230

*The variable cost estimate of 40% of sales includes variable costs of delivery to plant locations.

†Amounts shown are not physical capacities (there is almost unlimited physical capacity), but potential sales volume is constrained by number of pizzas that can be sold.

Generally, plant workers will wait as long as 10 minutes past the start of their lunch break before ordering from various vending trucks that arrive at the plant sites during lunch breaks. (Currently, no other pizza delivery stores are in good positions to serve most plant locations and/or have chosen to compete.) But there have been a few instances when workers refused to pay for pizzas that were only five minutes late! Worse yet, if the same work group gets a couple of late orders, they are lost as future customers. Angelina Cello believes that the inconsistent profitability of the Flint store is partly the result of such lost customers.

In an effort to rebuild the plant delivery business, Angelina is considering various methods to ensure prompt customer delivery. She thinks that potential demand during lunch breaks is significantly above RT's present capacity. Angelina also knows that if she tries to satisfy all phone or fax orders on some peak days, she won't be able to provide prompt service and may lose more plant customers.

Angelina has outlined three alternatives that may win back some of the plant business for the Flint store. She has developed these alternatives to discuss with RT's owner. Each alternative is briefly described below:

Alternative 1: Determine practical capacities during peak volume periods using existing equipment and personnel. Accept orders only up to that capacity and politely decline orders beyond. This approach will ensure prompt customer service and high product quality. It will also minimize losses resulting from customers' rejection of late deliveries. Financial analysis of this alternative—shown in Table 1—indicates that a potential daily contribution to profit of $1,230 could result if this alternative is implemented successfully. This would be profit before promotion costs, overhead, and net profit (or loss). Note: Any alternative will require several thousand dollars to reinform potential plant customers that Romano's Take-Out has improved its service and "wants your business."

Alternative 2: Add additional equipment (one oven and one delivery car) and hire additional staff to handle peak loads. This approach would ensure timely customer delivery and high product quality as well as provide additional capacity to handle unmet demand. Table 2 is a conservative estimate of potential daily demand for plant orders compared to current capacity and proposed increased capacity. Table 3 gives the cost of acquiring the additional equipment and relevant information related to depreciation and fixed costs.

Table 2 Capacity and Demand for Plant Customer Market

	Estimated Daily Demand	Current Daily Capacity	Proposed Daily Capacity
Pizza units (1 pizza)	320	144	300

Table 3 Cost of Required Additional Assets

	Cost	Estimated Useful Life	Salvage Value	Annual Depreciation*	Daily Depreciation†
Delivery car (equipped with pizza warmer)	$11,000	5 years	$1,000	$2,000	$5.71
Pizza oven	$20,000	8 years	$2,000	$2,250	$6.43

*Annual depreciation is calculated on a straight-line basis.

†Daily depreciation assumes a 350-day (plant production) year. All variable expenses related to each piece of equipment (e.g., utilities, gas, oil) are included in the variable cost of a pizza.

Using this alternative, the following additional pizza preparation and delivery personnel costs would be required:

	Hours Required	Cost per Hour	Total Additional Daily Cost
Delivery personnel	6	6	$36.00
Preparation personnel	8	6	48.00
			$84.00

The addition of even more equipment and personnel to handle all unmet demand was not considered in this alternative because the current store is not large enough.

Alternative 3: Add additional equipment and personnel as described in alternative 2, but move to a new location that would reduce delivery lead times to two to five minutes. This move would probably allow RT to handle all unmet demand—because the reduction in delivery time will provide for additional oven time. In fact, RT might have excess capacity using this approach.

A suitable store is available near about the same number of residential customers (including many of the store's current residential customers). The available store is slightly larger than needed. And the rent is higher. Relevant cost information on the proposed store appears below:

Additional rental expense of proposed store over current store	$ 1,600 per year
Cost of moving to new store (one-time cost)	$16,000

Angelina Cello presented the three alternatives to RT's owner, Romano Marino. Romano was pleased that Angelina had done her homework. He decided that Angelina should make the final decision on what to do (in part because she had a profit-sharing agreement with Romano) and offered the following comments and concerns:

1. Romano agreed that the plant market was extremely sensitive to delivery timing. Product quality and pricing, although important, were of less importance.
2. He agreed that plant demand estimates were conservative. "In fact, they may be 10 to 30 percent low."
3. Romano expressed concern that under alternative 2, and especially under alternative 3, much of the store's capacity would go unused over 80 percent of the time.
4. He was also concerned that RT's store had a bad reputation with plant customers because the prior store manager was not sensitive to timely plant delivery. So Romano suggested that Angelina develop a promotion plan to improve RT's reputation in the plants and be sure that everyone knows that RT has improved its delivery service.

Evaluate Angelina's possible strategies for the Flint store's plant market. What should Angelina do? Why? Suggest possible promotion plans for your preferred strategy.

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Computer-Aided Problems

Guide to the Use of the Computer-Aided Problems

Computer-Aided Problem Solving

Marketing managers are problem solvers who must make many decisions. Solving problems and making good decisions usually involves analysis of marketing information. Such information is often expressed in numbers—like costs, revenues, prices, and number of customers or salespeople. Most marketing managers use a computer to help keep track of the numbers and speed through tedious calculations. The computer can also make it easier to look at a problem from many different angles—for example, to see how a change in the sales forecast might impact expected sales revenue, costs, and profit.

The computer can only take a manager so far. The manager is the one who puts it all together—and it still takes skill to decide what the information means. The computer-aided problems at the end of the chapters in this text were specially developed by the authors to help you develop this skill. To work on the problems, you use the computer-aided problem (CAP) software that is included on the *Student CD-ROM to Accompany Basic Marketing* shrinkwrapped with this text.

The problems are short descriptions of decisions faced by marketing managers. Each description includes information to help make the decision. With each problem there are several questions for you to answer. Further, the *Learning Aid for Use with Basic Marketing* includes additional questions related to each problem.

Although you will use the computer program to do an analysis, most problems ask you to indicate what decision you would make and why. Thus, in these problems—as in the marketing manager's job—the computer is just a tool to help you make better decisions.

Each problem focuses on one or more of the marketing decision areas discussed in the corresponding chapter. The earlier problems require less marketing knowledge and are simpler in terms of the analysis involved. The later problems build on the principles already covered in the text. The problems can be used in many ways. And the same problem can be analyzed several times for different purposes. Although it is not necessary to do all of the problems or to do them in a particular order, you will probably want to start with the first problem. This practice problem is simpler than the others. In fact, you could do the calculations quite easily without a computer. But this problem will help you see how the program works and how it can help you solve the more complicated problems that come later.

Spreadsheet Analysis of Marketing Problems

Marketing managers often use spreadsheet analysis to evaluate their alternatives—and the program for the computer-aided problems does computerized spreadsheet analysis. In spreadsheet analysis, costs, revenue, and other data related to a marketing problem are organized into a data table—a spreadsheet. The spreadsheet analysis allows you to change the value of one or more of the variables in the data table—to see how each change affects the value of other variables. This is possible because the relationships among the variables are already programmed into the computer. You do not need to do any programming. Let's look at an overly simple example.

You are a marketing manager interested in the total revenue that will result from a particular marketing strategy. You are considering selling your product at $10.00 per unit. You expect to sell 100 units. In our CAP analysis, this problem might be shown in a (very simple) spreadsheet that looks like this:

Variable	Value
Selling price	$10.00
Units sold	100
Total revenue	$1,000.00

There is only one basic relationship in this spreadsheet: Total revenue is equal to the selling price multiplied by the number of units sold. If that relationship has been programmed into the computer (as it is in these problems), you can change the selling price or the number of units you expect to sell, and the program will automatically compute the new value for total revenue.

But now you can ask questions like: What if I raise the price to $10.40 and still sell 100 units? What will happen to total revenue? To get the answer, all you have to do is enter the new price in the spreadsheet, and the program will compute the total revenue for you.

You may also want to do many "what-if" analyses—for example, to see how total revenue changes over a range of prices. Spreadsheet analysis allows you to do this quickly and easily. For instance, if you want to see what happens to total revenue as you vary the price between some minimum value (say, $8.00) and a maximum value (say, $12.00), the program will provide the results table for a what-if analysis showing total revenue for 11 different prices in the range from $8.00 to $12.00.

In a problem like this—with easy numbers and a simple relationship between the variables—the spreadsheet does not do that much work for you. You could do it in your head. But with more complicated problems, the spreadsheet makes it very convenient to more carefully analyze different alternatives or situations.

Using the Program

You don't have to know about computers or using a spreadsheet to use the computer-aided problems program. It was designed to be easy to learn and use. The Help button will give you more detailed information if you need it. But it's best to just try things out to see how it works. A mistake won't hurt anything.

You're likely to find that it's quicker and easier to just use the program than it is to read the instructions—especially if you've used a Windows program before. So you may want to go ahead and install the CD-ROM on your own computer and try the practice problem now. Check the label on the CD-ROM for instructions about how to install the software. It takes just a few minutes and there's nothing to it.

The Spreadsheet Is Easy to Use

The spreadsheet software is very easy to use and specifically designed for the computer-aided problems. Like the other software on the Student CD-ROM, it follows conventions that are standard to browser programs (like Microsoft Internet Explorer or Netscape Navigator). If you have used a browser to surf the Internet, using this will be the same. Even if you have not used a browser or other Windows software before, using this program will make it easy for you to learn. However, if you want more general information about using Microsoft Windows software, you can review the Help file or tutorial that comes with the Windows operating system.

As with other browser-based programs, you typically use a mouse to move around in the program and select options. When you move the mouse, the cursor (which appears on your screen as an arrow) also moves. If you move the mouse so that the cursor is over one of the options on the screen and quickly press and release the left button on the mouse, the program will perform the action associated with that option. This process of using the mouse to position the cursor and then quickly pressing and releasing the left button is called "clicking" or "selecting." In these instructions, we'll refer to this often. For example, we'll say things like "click the Results button" or "select a problem from the list."

Let's use the first problem to illustrate how the program works.

Start by selecting a problem

When you start the *Basic Marketing* CD-ROM software, the first screen displayed is a home page with the title of the book and various options. Click on the label that says CAPs (short for computer-aided problems).

The computer-aided problem page will appear, and you will see a small window in the upper-left corner with the phrase "Choose a problem by clicking on the arrow." When you click the small arrow to the right of that label, a drop-down list of problems will appear. Select the problem you want to work (in this case, select the first one, "Revenue, Cost, and Profit Relationships").

Note: When you first select a problem, be patient while the program loads. It may take a minute or so. Once the program has loaded, calculations are immediate.

Once you select a problem, the problem description window appears. This is simply a convenient reminder of the problem description found in this text. (The assignment questions for each problem are in this book, so it's useful to have your book with you at the computer when you're working on a problem.)

Across the top of the box in which the problem description appears you will see buttons labeled Description, Spreadsheet, Results, Graph, and Calculator. After you've reviewed the problem description, click the Spreadsheet button.

Each spreadsheet consists of one or two columns of numbers. Each column and row is labeled. Look at the row and column labels carefully to see what variable is represented by the value (number) in the spreadsheet. Study the layout of the spreadsheet, and get a feel for how it organizes the information from the problem description. The spreadsheet displays the starting values for the problem. Keep in mind that sometimes the problem description does not provide as much detail about the starting values as is provided in the spreadsheet.

You will see that some of the values in the spreadsheet appear in a highlighted edit box. These are usually values related to the decision variables in the problem you are solving. You can change any value (number) that appears in one of these boxes. When you make a change, the rest of the values (numbers) in that column are recalculated to show how a change in the value of that one variable affects the others. Think about how the numbers relate to each other.

Making changes in values is easy. When the spreadsheet first appears your cursor appears as a free-floating arrow; however, when you pass the cursor over the box for the value that you want to change the cursor changes to the shape of an I-beam. When you click on the value in that box you can change it. Or to move the cursor to a value in a different box, just click on that box.

When you have selected the box with the value (number) you want to change, there are different ways to type in your new number. A good approach is to position the I-beam cursor before the first digit, and while depressing the mouse button drag the cursor across all of the digits in the number. This will highlight the entire number. Then simply type in the new number and the old one will be replaced. Alternatively, you can use other keys to edit the number. For example, you can use the backspace key to erase digits to the left of the I-beam cursor; similarly, you can use the Del key to erase digits to the right of the cursor. Or you can use the arrow keys to move the cursor to the point where you want to change part of a number. Then you just type in your change. You may want to experiment to see which of these editing approaches you like the best.

When you are finished typing the new number, press the Enter key and the other values in the spreadsheet will be recalculated to show the effect of your new value. Similarly, the other numbers will recalculate if you click on a different box after you have entered a number.

When you are typing numbers into the edit boxes, you'll probably find it most convenient to type the numbers and the decimal point with the keys on the main part of the keyboard (rather than those on the cursor control pad). For example, a price of one thousand dollars and 50 cents would be typed as 1000.50 or just 1000.5—using the number keys on the top row of the keyboard and the period key for the decimal point. *Do not type in the dollar sign or the commas to indicate thousands*. Be careful not to type the letters o or l (lowercase L) instead of the numbers 0 or 1.

Typing percent values is a possible point of confusion—since there are different ways to think about a percent. For example, "ten and a half" percent might be represented by 10.5 or .105. To avoid confusion, the program always expects you to enter percents using the first approach—which is the way percents are discussed in the problems. Thus, if you want to enter the value for ten and a half percent you would type 10.5.

To help prevent errors, each problem is programmed with a set of permitted values for each boxed field. After you click on a specific edit box, the range of permitted values is shown in the line at the bottom left corner of the spreadsheet window. It may be useful to explain what we mean by "permitted values." For example, if you accidentally type a letter when the computer program expects a number, the entry will turn red and what you typed will not be accepted. Further, the program won't allow you to enter a new value for a variable that is outside of a permitted range of values.

For example, if you try to type −10.00 as the price of a product, the entry will turn red. (It doesn't make sense to set the price as a negative number!) If you make an error, check what range of values is permitted—and then retype a new number that is in the permitted range, and press the Enter key to recompute the spreadsheet. When you have entered a permitted value, the value will no longer appear in red.

Remember that a value on the spreadsheet stays changed until you change it again. Some of the questions that accompany the problems ask you to evaluate results associated with different sets of values. It's good practice to check that you have entered all the correct values on a spreadsheet before interpreting the results.

In addition to changing values (numbers) on the spreadsheet itself, there are other options on the spreadsheet menu bar. If you click the Print button, the current spreadsheet will be printed—assuming of course that a graphics printer is properly hooked up to your computer and that it is configured for Windows. *Before you select the Print option, make sure that the printer is turned on and loaded with paper.*

Click the Description button to go back and review the problem description—or you can use the drop-down list again to select another problem. If you click the Results button, a new window will appear that shows the results table for a what-if analysis.

Results of a what-if analysis

The Results button makes it easy for you to study in more detail the effect of changing the value of a particular variable. It systematically changes the value of one variable (which you

select) and displays the effect that variable has on two other variables. You could do the same thing manually at the spreadsheet—by entering a value for a variable, checking the effect on other variables, and then repeating the process over and over again. But the manual approach is time-consuming and requires you to keep track of the results after each change. A what-if analysis does all this very quickly and presents the results table summary; you can also print or graph the results table if you wish.

Now let's take a step-by-step look at how you can get the exact what-if analysis that you want. The first step is to decide what variable (value) you want to vary and what result values you want to see in the results table.

You select the variables for your analysis by simply clicking the circle ("radio button") beside the number of interest. Click the radio button beside the value of the variable in an edit box that you want to vary. The radio button for the selected value is filled in. You can only select one variable to vary at a time. So if you want to vary some other variable, simply click on your new selection.

When you select a value to vary, the program computes a default "suggested" minimum value and maximum value for the range over which that variable may vary. The minimum value is usually 20 percent smaller than the value shown on the spreadsheet, and the maximum value is 20 percent larger. These default values are used as the minimum and maximum values to compute the results table for a what-if analysis (when you click the Results button).

You can also select the two variables that you want to display in the results table of the what-if analysis. Typically, you will want to display the results (computed values) for variables that will be affected by the variable you select to vary. Remember the example we used earlier. If you had specified that price was going to vary, you might want to display total revenue—to see how it changes at different price levels.

You select a variable to display in the same way that you select the variable you are going to vary. Simply click on the radio button beside a number on the spreadsheet that is not in an edit box. Then use this approach to select a second variable to be displayed in the results table. If you change your mind, you can click on the radio button for another variable. When you have completed this step, you will see a solid radio button next to the variable you chose to vary and solid radio buttons next to the two variables that you want to display.

Now you can let the computer take over. On the button bar at the top of the spreadsheet window, click the Results button and the results table for the what-if analysis will appear. Each row in the first column of the results table will show a different value for the variable you wanted to vary. The minimum value will be in the first row. The maximum value will be in the bottom row. Evenly spaced values between the minimum and maximum will be in the middle rows. The other columns show the calculated results for the values you selected to display. Each column of values is labeled at the top to identify the column and row from the spreadsheet. The row portion of the label is a short version of the label from the spreadsheet. The results are based on the values that were in the spreadsheet when you selected the Results button—except for the value you selected to vary.

After the results table is displayed, you have the option to type in your own minimum value and maximum values in the edit boxes below the results table. To do that, just use the same approach you use to enter new values in the spreadsheet. When you enter a new minimum or maximum, the results table will be updated based on the new range of values between the minimum and maximum you entered.

At this point you will want to study the results of your analysis. You can also print a copy of the results table by clicking the Print button. The button bar also shows other possibilities. For example, if you select the Spreadsheet button, the spreadsheet will reappear. The radio buttons will still show the values you selected in the previous analysis. From there you can make additional changes in the values in the spreadsheet, check the results table for a new what-if analysis, or select another problem to work. Or you can look at (and print) a graph of values in the results table for the what-if analysis.

Viewing a graph of your results

You can create a graph of values in the results table by clicking the Graph button. The horizontal axis for the graph will be the variable in the first column of the display. The vertical axis on the left side is based on the first variable you selected to display in the results table. The vertical axis on the right side of the graph is for the second variable. There will be a line on the graph that corresponds to each axis. When the graph is displayed, you can select the Print button to print a copy or you can go back to the spreadsheet and select other values to vary or select another column to graph.

What to do next

The next section gives additional tips on the program. You will probably want to look through it after you have done some work with the practice problem. For now, however, you're probably tired of reading instructions. So work a problem or two. It's easier and faster to use the program than to read about it. Give it a try, and don't be afraid to experiment. If you have problems, remember that the Help button is available when you need it.

Some Tips on Using the CAP Program

Resetting the spreadsheet to the initial values

The initial spreadsheet for each problem gives the "starting values" for the problem. While working a problem, you will often change one or more of the starting values to a new number. A changed value stays in effect—unless you change it again. This is a handy feature. But after you make several changes, you may not be able to remember the starting values. There is a simple solution—you can click the button to return to the home page, then click the CAPs label again, and reselect the problem you want. The spreadsheet will appear with the original set of starting values.

Checking the computer's calculations

Some values appear in the spreadsheet as whole numbers, and others appear with one or more digits to the right of a decimal point. For example, dollar values usually have two digits to the right of the decimal point—indicating how many cents are involved. A value indicating, say, number of customers, however, will appear as a whole number.

When you are doing arithmetic by hand, or with a calculator, you sometimes have to make decisions about how much detail is necessary. For example, if you divide 13 by 3 the answer is 4.33, 4.333, 4.3333, or perhaps 4.33333, depending on how important it is to be precise. Usually we round off the number to keep things manageable. Similarly, computers usually display results after rounding off the numbers. This has the potential to create confusion and seeming inaccuracy when many calculations are involved. If the computer uses a lot of detail in its calculations and then displays intermediate results after rounding off, the numbers may appear to be inconsistent. To illustrate this, let's extend the example above. If you multiply 4.33 times 2640, you get 11431.20. But if you multiply 4.333 by 2640, you get 11439.12. To make it easier for you to check relationships between the values on a spreadsheet, the CAP software does not use a lot of hidden detail in calculations. If it rounds off a number to display it in the spreadsheet, the rounded number is used in subsequent calculations. It would be easy for the computer to keep track of all of the detail in its calculations—but that would make it harder for you to check the results yourself. If you check the results on a spreadsheet (perhaps with the calculator provided) and find that your numbers are close but do not match exactly, it is probably because you are making different decisions about rounding than were programmed into the spreadsheet.

The software was designed and tested to be easy to use and error free. In fact, it is programmed to help prevent the user from making typing errors. But it is impossible to anticipate every possible combination of numbers you might enter—and some combinations of numbers can cause problems. For example, a certain combination of numbers might result in an instruction for the computer to divide a number by zero—which is a mathematical impossibility. When a problem of this sort occurs, the word ERROR will appear in the spreadsheet (or in the results table for the what-if analysis) instead of a number. If this happens, you should recheck the numbers in the spreadsheet and redo the analysis—to make certain that the numbers you typed in were what you intended. That should straighten out the problem in almost every case. Yet with any computer program there can be a hidden bug that only surfaces in unusual situations—or on certain computers. Thus, if you think you have found a bug, we would like to know so that we can track down the source of the difficulty.

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Notes

Chapter 1

1. Eric H. Shaw, "A Review of Empirical Studies of Aggregate Marketing Costs and Productivity in the United States," *Journal of the Academy of Marketing Science*, Fall, 1990, pp. 285–92; Christopher H. Lovelock and Charles B. Weinberg, *Marketing for Public and Nonprofit Managers* (New York: John Wiley & Sons, 1984).

2. Gregory D. Upah and Richard E. Wokutch, "Assessing Social Impacts of New Products: An Attempt to Operationalize the Macromarketing Concept," *Journal of Public Policy and Marketing* 4 (1985), pp. 166–78.

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Chapter 10

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Chapter 13

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Chapter 15

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Chapter 16

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Chapter 21

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Glossary

Accessories Short-lived capital items—tools and equipment used in production or office activities.

Accumulating Collecting products from many small producers.

Administered channel systems Various channel members informally agree to cooperate with each other.

Administered prices Consciously set prices aimed at reaching the firm's objectives.

Adoption curve Shows when different groups accept ideas.

Adoption process The steps individuals go through on the way to accepting or rejecting a new idea.

Advertising Any *paid* form of nonpersonal presentation of ideas, goods, or services by an identified sponsor.

Advertising agencies Specialists in planning and handling mass-selling details for advertisers.

Advertising allowances Price reductions to firms in the channel to encourage them to advertise or otherwise promote the firm's products locally.

Advertising managers Managers of their company's mass-selling effort in television, newspapers, magazines, and other media.

Agent middlemen Wholesalers who do not own (take title to) the products they sell.

AIDA model Consists of four promotion jobs: (1) to get *Attention*, (2) to hold *Interest*, (3) to arouse *Desire*, and (4) to obtain *Action*.

Allowance (accounting term) Occurs when a customer is not satisfied with a purchase for some reason and the seller gives a price reduction on the original invoice (bill), but the customer keeps the goods or services.

Allowances Reductions in price given to final consumers, customers, or channel members for doing something or accepting less of something.

Assorting Putting together a variety of products to give a target market what it wants.

Attitude A person's point of view toward something.

Auction companies Agent middlemen who provide a place where buyers and sellers can come together and complete a transaction.

Automatic vending Selling and delivering products through vending machines.

Average cost (per unit) The total cost divided by the related quantity.

Average-cost pricing Adding a reasonable markup to the average cost of a product.

Average fixed cost (per unit) The total fixed cost divided by the related quantity.

Average variable cost (per unit) The total variable cost divided by the related quantity.

Bait pricing Setting some very low prices to attract customers but trying to sell more expensive models or brands once the customer is in the store.

Balance sheet An accounting statement that shows a company's assets, liabilities, and net worth.

Basic list prices The prices that final customers or users are normally asked to pay for products.

Basic sales tasks *Order-getting*, *order-taking*, and *supporting*.

Battle of the brands The competition between dealer brands and manufacturer brands.

Belief A person's opinion about something.

Benchmarking Picking a basis of comparison for evaluating how well a job is being done.

Bid pricing Offering a specific price for each possible job rather than setting a price that applies for all customers.

Birthrate The number of babies per 1,000 people.

Brand equity The value of a brand's overall strength in the market.

Brand familiarity How well customers recognize and accept a company's brand.

Brand insistence Customers insist on a firm's branded product and are willing to search for it.

Brand managers Manage specific products, often taking over the jobs formerly handled by an advertising manager—sometimes called product managers.

Brand name A word, letter, or a group of words or letters.

Brand nonrecognition Final customers don't recognize a brand at all—even though middlemen may use the brand name for identification and inventory control.

Brand preference Target customers usually choose the brand over other brands, perhaps because of habit or favorable past experience.

Brand recognition Customers remember the brand.

Brand rejection Potential customers won't buy a brand—unless its image is changed.

Branding The use of a name, term, symbol, or design—or a combination of these—to identify a product.

Break-even analysis An approach to determine whether the firm will be able to break even—that is, cover all its costs—with a particular price.

Break-even point (BEP) The sales quantity where the firm's total cost will just equal its total revenue.

Breakthrough opportunities Opportunities that help innovators develop hard-to-copy marketing strategies that will be very profitable for a long time.

Brokers Agent middlemen who specialize in bringing buyers and sellers together.

Bulk-breaking Dividing larger quantities into smaller quantities as products get closer to the final market.

Business and organizational customers Any buyers who buy for resale or to produce other goods and services.

Business products Products meant for use in producing other products.

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Buying center All the people who participate in or influence a purchase.

Buying function Looking for and evaluating goods and services.

Capital The money invested in a firm.

Capital item A long-lasting product that can be used and depreciated for many years.

Cash-and-carry wholesalers Like service wholesalers, except that the customer must pay cash.

Cash discounts Reductions in the price to encourage buyers to pay their bills quickly.

Cash flow statement A financial report that forecasts how much cash will be available after paying expenses.

Catalog showroom retailers Stores that sell several lines out of a catalog and display showroom with backup inventories.

Catalog wholesalers Sell out of catalogs that may be distributed widely to smaller industrial customers or retailers who might not be called on by other middlemen.

Central markets Convenient places where buyers and sellers can meet one-on-one to exchange goods and services.

Chain of supply The complete set of firms and facilities and logistics activities that are involved in procuring materials, transforming them into intermediate and finished products, and distributing them to customers.

Channel captain A manager who helps direct the activities of a whole channel and tries to avoid, or solve, channel conflicts.

Channel of distribution Any series of firms or individuals who participate in the flow of products from producer to final user or consumer.

Close The salesperson's request for an order.

Clustering techniques Approaches used to try to find similar patterns within sets of data.

Combination export manager A blend of manufacturers' agent and selling agent—handling the entire export function for several producers of similar but noncompeting lines.

Combined target market approach Combining two or more submarkets into one larger target market as a basis for one strategy.

Combiners Firms that try to increase the size of their target markets by combining two or more segments.

Communication process A source trying to reach a receiver with a message.

Comparative advertising Advertising that makes specific brand comparisons using actual product names.

Competitive advantage A firm has a marketing mix that the target market sees as better than a competitor's mix.

Competitive advertising Advertising that tries to develop selective demand for a specific brand rather than a product category.

Competitive barriers The conditions that may make it difficult, or even impossible, for a firm to compete in a market.

Competitive bids Terms of sale offered by different suppliers in response to the buyer's purchase specifications.

Competitive environment The number and types of competitors the marketing manager must face, and how they may behave.

Competitive rivals A firm's closest competitors.

Competitor analysis An organized approach for evaluating the strengths and weaknesses of current or potential competitors' marketing strategies.

Complementary product pricing Setting prices on several related products as a group.

Components Processed expense items that become part of a finished product.

Concept testing Getting reactions from customers about how well a new product idea fits their needs.

Confidence intervals The range on either side of an estimate from a sample that is likely to contain the true value for the whole population.

Consultative selling approach A type of sales presentation in which the salesperson develops a good understanding of the individual customer's needs before trying to close the sale.

Consumer panel A group of consumers who provide information on a continuing basis.

Consumer Product Safety Act A 1972 law that set up the Consumer Product Safety Commission to encourage more awareness of safety in product design and better quality control.

Consumer products Products meant for the final consumer.

Consumer surplus The difference to consumers between the value of a purchase and the price they pay.

Consumerism A social movement that seeks to increase the rights and powers of consumers.

Containerization Grouping individual items into an economical shipping quantity and sealing them in protective containers for transit to the final destination.

Continuous improvement A commitment to constantly make things better one step at a time.

Contract manufacturing Turning over production to others while retaining the marketing process.

Contractual channel systems Various channel members agree by contract to cooperate with each other.

Contribution-margin approach A cost analysis approach in which all costs are not allocated in *all* situations.

Control The feedback process that helps the marketing manager learn (1) how ongoing plans and implementation are working and (2) how to plan for the future.

Convenience (food) stores A convenience-oriented variation of the conventional limited-line food stores.

Convenience products Products a consumer needs but isn't willing to spend much time or effort shopping for.

Cooperative advertising Middlemen and producers sharing in the cost of ads.

Cooperative chains Retailer-sponsored groups, formed by independent retailers, to run their own buying organizations and conduct joint promotion efforts.

Copy thrust What the words and illustrations of an ad should communicate.

Corporate chain A firm that owns and manages more than one store—and often it's many.

Corporate channel systems Corporate ownership all along the channel.

Corrective advertising Ads to correct deceptive advertising.

Cost of sales Total value (at cost) of the sales during the period.

Countertrade A special type of bartering in which products from one country are traded for products from another country.

Cues Products, signs, ads, and other stimuli in the environment.

Cultural and social environment Affects how and why people live and behave as they do.

Culture The whole set of beliefs, attitudes, and ways of doing things of a reasonably homogeneous set of people.

Cumulative quantity discounts Reductions in price for larger purchases over a given period, such as a year.

Customer relationship management (CRM) An approach where the seller fine-tunes the marketing effort with information from a detailed customer database.

Customer satisfaction The extent to which a firm fulfills a consumer's needs, desires, and expectations.

Customer service level How rapidly and dependably a firm can deliver what customers want.

Customer value The difference between the benefits a customer sees from a market offering and the costs of obtaining those benefits.

Data warehouse A place where databases are stored so that they are available when needed.

Dealer brands Brands created by middlemen—sometimes referred to as private brands.

Debt financing Borrowing money based on a promise to repay the loan, usually within a fixed time period and with a specific interest charge.

Decision support system (DSS) A computer program that makes it easy for marketing managers to get and use information *as they are making decisions*.

Decoding The receiver in the communication process translating the message.

Demand-backward pricing Setting an acceptable final consumer price and working backward to what a producer can charge.

Demand curve A graph of the relationship between price and quantity demanded in a market—assuming all other things stay the same.

Department stores Larger stores that are organized into many separate departments and offer many product lines.

Derived demand Demand for business products derives from the demand for final consumer products.

Determining dimensions The dimensions that actually affect the customer's purchase of a *specific* product or brand in a *product-market*.

Differentiation The marketing mix is distinct from and better than what's available from a competitor.

Direct marketing Direct communication between a seller and an individual customer using a promotion method other than face-to-face personal selling.

Direct type advertising Competitive advertising that aims for immediate buying action.

Discount houses Stores that sell hard goods (cameras, TVs, appliances) at substantial price cuts to customers who go to discounter's low-rent store, pay cash, and take care of any service or repair problems themselves.

Discounts Reductions from list price given by a seller to buyers, who either give up some marketing function or provide the function themselves.

Discrepancy of assortment The difference between the lines a typical producer makes and the assortment final consumers or users want.

Discrepancy of quantity The difference between the quantity of products it is economical for a producer to make and the quantity final users or consumers normally want.

Discretionary income What is left of disposable income after paying for necessities.

Disposable income Income that is left after taxes.

Dissonance Tension caused by uncertainty about the rightness of a decision.

Distribution center A special kind of warehouse designed to speed the flow of goods and avoid unnecessary storing costs.

Diversification Moving into totally different lines of business—perhaps entirely unfamiliar products, markets, or even levels in the production-marketing system.

Door-to-door selling Going directly to the consumer's home.

Drive A strong stimulus that encourages action to reduce a need.

Drop-shippers Wholesalers who own (take title to) the products they sell but do not actually handle, stock, or deliver them.

Dual distribution When a producer uses several competing channels to reach the same target market—perhaps using several middlemen in addition to selling directly.

Dumping Pricing a product sold in a foreign market below the cost of producing it or at a price lower than in its domestic market.

Early adopters The second group in the adoption curve to adopt a new product; these people are usually well respected by their peers and often are opinion leaders.

Early majority A group in the adoption curve that avoids risk and waits to consider a new idea until many early adopters try it and like it.

E-commerce Exchanges between individuals or organizations—and activities that facilitate those exchanges—based on applications of information technology.

Economic and technological environment Affects the way firms, and the whole economy, use resources.

Economic buyers People who know all the facts and logically compare choices in terms of cost and value received—to get the greatest satisfaction from spending their time and money.

Economic needs Needs concerned with making the best use of a consumer's time and money—as the consumer judges it.

Economic system The way an economy organizes to use scarce resources to produce goods and services and distribute them for consumption by various people and groups in the society.

Economies of scale As a company produces larger numbers of a particular product, the cost for each of these products goes down.

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Elastic demand If prices are dropped, the quantity demanded will stretch enough to increase total revenue.

Elastic supply The quantity supplied does stretch more if the price is raised.

Electronic data interchange (EDI) An approach that puts information in a standardized format easily shared between different computer systems.

Emergency products Products that are purchased immediately when the need is great.

Empowerment Giving employees the authority to correct a problem without first checking with management.

Empty nesters People whose children are grown and who are now able to spend their money in other ways.

Encoding The source in the communication process deciding what it wants to say and translating it into words or symbols that will have the same meaning to the receiver.

Equilibrium point The quantity and the price sellers are willing to offer are equal to the quantity and price that buyers are willing to accept.

Everyday low pricing Setting a low list price rather than relying on a high list price that frequently changes with various discounts or allowances.

Exclusive distribution Selling through only one middleman in a particular geographic area.

Expectation An outcome or event that a person anticipates or looks forward to.

Expense item A product whose total cost is treated as a business expense in the period it's purchased.

Expenses All the remaining costs that are subtracted from the gross margin to get the net profit.

Experience curve pricing Average-cost pricing using an estimate of *future* average costs.

Experimental method A research approach in which researchers compare the responses of two or more groups that are similar except on the characteristic being tested.

Export agents Manufacturers' agents who specialize in export trade.

Export brokers Brokers who specialize in bringing together buyers and sellers from different countries.

Exporting Selling some of what the firm produces to foreign markets.

Extensive problem solving The type of problem solving consumers use for a completely new or important need—when they put much effort into deciding how to satisfy it.

Facilitators Firms that provide one or more of the marketing functions other than buying or selling.

Factor A variable that shows the relation of some other variable to the item being forecast.

Factor method An approach to forecast sales by finding a relation between the company's sales and some other factor (or factors).

Fad An idea that is fashionable only to certain groups who are enthusiastic about it—but these groups are so fickle that a fad is even more short-lived than a regular fashion.

Family brand A brand name that is used for several products.

Farm products Products grown by farmers, such as oranges, wheat, sugar cane, cattle, poultry, eggs, and milk.

Fashion Currently accepted or popular style.

Federal Fair Packaging and Labeling Act A 1966 law requiring that consumer goods be clearly labeled in easy-to-understand terms.

Federal Trade Commission (FTC) Federal government agency that polices antimonopoly laws.

Financing Provides the necessary cash and credit to produce, transport, store, promote, sell, and buy products.

Fishbone diagram A visual aid that helps organize cause and effect relationships for "things gone wrong."

Fixed-cost (FC) contribution per unit The selling price per unit minus the variable cost per unit.

Flexible-price policy Offering the same product and quantities to different customers at different prices.

F.O.B. A transportation term meaning free on board some vehicle at some point.

Focus group interview An interview of 6 to 10 people in an informal group setting.

Foreign Corrupt Practices Act A law passed by the U.S. Congress in 1977 that prohibits U.S. firms from paying bribes to foreign officials.

Form utility Provided when someone produces something tangible.

Franchise operation A franchisor develops a good marketing strategy, and the retail franchise holders carry out the strategy in their own units.

Freight absorption pricing Absorbing freight cost so that a firm's delivered price meets the nearest competitor's.

Freight forwarders Transportation wholesalers who combine the small shipments of many shippers into more economical shipping quantities.

Full-cost approach All costs are allocated to products, customers, or other categories.

Full-line pricing Setting prices for a whole line of products.

Functional accounts The categories to which various costs are charged to show the *purpose* for which expenditures are made.

General merchandise wholesalers Service wholesalers who carry a wide variety of nonperishable items such as hardware, electrical supplies, plumbing supplies, furniture, drugs, cosmetics, and automobile equipment.

General stores Early retailers who carried anything they could sell in reasonable volume.

Generic market A market with *broadly* similar needs—and sellers offering various and *often diverse* ways of satisfying those needs.

Generic products Products that have no brand at all other than identification of their contents and the manufacturer or middleman.

Gross margin (gross profit) The money left to cover the expenses of selling the products and operating the business.

Gross national product (GNP) The total market value of goods and services produced in an economy in a year.

Gross sales The total amount charged to all customers during some time period.

Heterogeneous shopping products Shopping products the customer sees as different and wants to inspect for quality and suitability.

Homogeneous shopping products Shopping products the customer sees as basically the same and wants at the lowest price.

Hypermarkets Very large stores that try to carry not only food and drug items but all goods and services that the consumer purchases *routinely* (also called supercenters).

Hypotheses Educated guesses about the relationships between things or about what will happen in the future.

Iceberg principle Much good information is hidden in summary data.

Ideal market exposure When a product is available widely enough to satisfy target customers' needs but not exceed them.

Implementation Putting marketing plans into operation.

Import agents Manufacturers' agents who specialize in import trade.

Import brokers Brokers who specialize in bringing together buyers and sellers from different countries.

Impulse products Products that are bought quickly as *unplanned* purchases because of a strongly felt need.

Indices Statistical combinations of several time series used to find some time series that will lead the series to be forecast.

Indirect type advertising Competitive advertising that points out product advantages—to affect future buying decisions.

Individual brands Separate brand names used for each product.

Individual product A particular product within a product line.

Inelastic demand Although the quantity demanded increases if the price is decreased, the quantity demanded will not stretch enough to avoid a decrease in total revenue.

Inelastic supply The quantity supplied does not stretch much (if at all) if the price is raised.

Innovation The development and spread of new ideas and products.

Innovators The first group to adopt new products.

Installations Important capital items such as buildings, land rights, and major equipment.

Institutional advertising Advertising that tries to promote an organization's image, reputation, or ideas rather than a specific product.

Integrated marketing communications The intentional coordination of every communication from a firm to a target customer to convey a consistent and complete message.

Intensive distribution Selling a product through all responsible and suitable wholesalers or retailers who will stock and/or sell the product.

Intermediary A middleman.

Internet A system for linking computers around the world.

Intranet A system for linking computers within a company.

Introductory price dealing Temporary price cuts to speed new products into a market.

Inventory The amount of goods being stored.

ISO 9000 A way for a supplier to document its quality procedures according to internationally recognized standards.

Job description A written statement of what a salesperson is expected to do.

Joint venturing In international marketing, a domestic firm entering into a partnership with a foreign firm.

Jury of executive opinion Forecasting by combining the opinions of experienced executives—perhaps from marketing, production, finance, purchasing, and top management.

Just-in-time delivery Reliably getting products there *just* before the customer needs them.

Laggards Prefer to do things the way they have been done in the past and are very suspicious of new ideas—sometimes called nonadopters—see *adoption curve*.

Lanham Act A 1946 law that spells out what kinds of marks (including brand names) can be protected and the exact method of protecting them.

Late majority A group of adopters who are cautious about new ideas—see *adoption curve*.

Law of diminishing demand If the price of a product is raised, a smaller quantity will be demanded—and if the price of a product is lowered, a greater quantity will be demanded.

Leader pricing Setting some very low prices—real bargains—to get customers into retail stores.

Leading series A time series that changes in the same direction *but ahead of* the series to be forecast.

Learning A change in a person's thought processes caused by prior experience.

Licensed brand A well-known brand that sellers pay a fee to use.

Licensing Selling the right to use some process, trademark, patent, or other right for a fee or royalty.

Lifestyle analysis The analysis of a person's day-to-day pattern of living as expressed in that person's Activities, Interests, and Opinions—sometimes referred to as AIOs or psychographics.

Limited-function wholesalers Merchant wholesalers who provide only *some* wholesaling functions.

Limited-line stores Stores that specialize in certain lines of related products rather than a wide assortment—sometimes called single-line stores.

Limited problem solving When a consumer is willing to put *some* effort into deciding the best way to satisfy a need.

Logistics The transporting, storing, and handling of goods to match target customers' needs with a firm's marketing mix—both within individual firms and along a channel of distribution (i.e., another name for physical distribution).

Long-run target return pricing Pricing to cover all costs and over the long run achieve an average target return.

Low-involvement purchases Purchases that have little importance or relevance for the customer.

Macro-marketing A social process that directs an economy's flow of goods and services from producers to consumers in a way that effectively matches supply and demand and accomplishes the objectives of society.

Magnuson-Moss Act A 1975 law requiring that producers provide a clearly written warranty if they choose to offer any warranty.

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Major accounts sales force Salespeople who sell directly to large accounts such as major retail chain stores.

Management contracting The seller provides only management skills—others own the production and distribution facilities.

Manufacturer brands Brands created by producers.

Manufacturers' agents Agent middlemen who sell similar products for several noncompeting producers for a commission on what is actually sold.

Manufacturers' sales branches Separate warehouses that producers set up away from their factories.

Marginal analysis Evaluating the change in total revenue and total cost from selling one more unit to find the most profitable price and quantity.

Marginal cost The change in total cost that results from producing one more unit.

Marginal profit Profit on the last unit sold.

Marginal revenue The change in total revenue that results from the sale of one more unit of a product.

Markdown A retail price reduction that is required because customers won't buy some item at the originally marked-up price.

Markdown ratio A tool used by many retailers to measure the efficiency of various departments and their whole business.

Market A group of potential customers with similar needs who are willing to exchange something of value with sellers offering various goods and/or services—that is, ways of satisfying those needs.

Market development Trying to increase sales by selling present products in new markets.

Market-directed economic system The individual decisions of the many producers and consumers make the macro-level decisions for the whole economy.

Market growth A stage of the product life cycle when industry sales grow fast—but industry profits rise and then start falling.

Market information function The collection, analysis, and distribution of all the information needed to plan, carry out, and control marketing activities.

Market introduction A stage of the product life cycle when sales are low as a new idea is first introduced to a market.

Market maturity A stage of the product life cycle when industry sales level off and competition gets tougher.

Market penetration Trying to increase sales of a firm's present products in its present markets—probably through a more aggressive marketing mix.

Market potential What a whole market segment might buy.

Market segment A relatively homogeneous group of customers who will respond to a marketing mix in a similar way.

Market segmentation A two-step process of (1) *naming* broad product-markets and (2) *segmenting* these broad product-markets in order to select target markets and develop suitable marketing mixes.

Marketing audit A systematic, critical, and unbiased review and appraisal of the basic objectives and policies of the marketing function and of the organization, methods, procedures, and people employed to implement the policies.

Marketing company era A time when, in addition to short-run marketing planning, marketing people develop long-range plans—sometimes 5 or more years ahead—and the whole company effort is guided by the marketing concept.

Marketing concept The idea that an organization should aim *all* its efforts at satisfying its *customers*—at a *profit*.

Marketing department era A time when all marketing activities are brought under the control of one department to improve short-run policy planning and to try to integrate the firm's activities.

Marketing ethics The moral standards that guide marketing decisions and actions.

Marketing information system (MIS) An organized way of continually gathering, accessing, and analyzing information that marketing managers need to make decisions.

Marketing management process The process of (1) *planning* marketing activities, (2) directing the *implementation* of the plans, and (3) *controlling* these plans.

Marketing mix The controllable variables that the company puts together to satisfy a target group.

Marketing model A statement of relationships among marketing variables.

Marketing orientation Trying to carry out the marketing concept.

Marketing plan A written statement of a marketing strategy *and* the time-related details for carrying out the strategy.

Marketing program Blends all of the firm's marketing plans into one big plan.

Marketing research Procedures to develop and analyze new information to help marketing managers make decisions.

Marketing research process A five-step application of the scientific method that includes (1) defining the problem, (2) analyzing the situation, (3) getting problem-specific data, (4) interpreting the data, and (5) solving the problem.

Marketing strategy Specifies a target market and a related marketing mix.

Markup A dollar amount added to the cost of products to get the selling price.

Markup chain The sequence of markups firms use at different levels in a channel—determining the price structure in the whole channel.

Markup (percent) The percentage of selling price that is added to the cost to get the selling price.

Mass customization Tailoring the principles of mass production to meet the unique needs of individual customers.

Mass marketing The typical production-oriented approach that vaguely aims at everyone with the same marketing mix.

Mass-merchandisers Large, self-service stores with many departments that emphasize soft goods (housewares, clothing, and fabrics) and staples (like health and beauty aids) and selling on lower margins to get faster turnover.

Mass-merchandising concept The idea that retailers should offer low prices to get faster turnover and greater sales volume by appealing to larger numbers.

Mass selling Communicating with large numbers of potential customers at the same time.

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Merchant wholesalers Wholesalers who own (take title to) the products they sell.

Message channel The carrier of the message.

Metropolitan Statistical Area (MSA) An integrated economic and social unit with a large population nucleus.

Micro-macro dilemma What is good for some producers and consumers may not be good for society as a whole.

Micro-marketing The performance of activities that seek to accomplish an organization's objectives by anticipating customer or client needs and directing a flow of need-satisfying goods and services from producer to customer or client.

Middleman Someone who specializes in trade rather than production, sometimes called an intermediary.

Mission statement Sets out the organization's basic purpose for being.

Missionary salespeople Supporting salespeople who work for producers by calling on their middlemen and their customers.

Modified rebuy The in-between process where some review of the buying situation is done—though not as much as in new-task buying or as little as in straight rebuys.

Monopolistic competition A market situation that develops when a market has (1) different (heterogeneous) products and (2) sellers who feel they do have some competition in this market.

Multinational corporations Firms that have a direct investment in several countries and run their businesses depending on the choices available anywhere in the world.

Multiple buying influence Several people share in making a purchase decision—perhaps even top management.

Multiple target market approach Segmenting the market and choosing two or more segments, then treating each as a separate target market needing a different marketing mix.

Nationalism An emphasis on a country's interests before everything else.

Natural accounts The categories to which various costs are charged in the normal financial accounting cycle.

Natural products Products that occur in nature—such as fish and game, timber and maple syrup, and copper, zinc, iron ore, oil, and coal.

Needs The basic forces that motivate a person to do something.

Negotiated contract buying Agreeing to a contract that allows for changes in the purchase arrangements.

Negotiated price A price that is set based on bargaining between the buyer and seller.

Net An invoice term meaning that payment for the face value of the invoice is due immediately—also see *cash discounts*.

Net profit What the company earns from its operations during a particular period.

Net sales The actual sales dollars the company receives.

New product A product that is new *in any way* for the company concerned.

New-task buying When an organization has a new need and the buyer wants a great deal of information.

New unsought products Products offering really new ideas that potential customers don't know about yet.

Noise Any distraction that reduces the effectiveness of the communication process.

Nonadopters Prefer to do things the way they have been done in the past and are very suspicious of new ideas—sometimes called laggards—see *adoption curve*.

Noncumulative quantity discounts Reductions in price when a customer purchases a larger quantity on an *individual order*.

Nonprice competition Aggressive action on one or more of the Ps other than Price.

North American Free Trade Agreement (NAFTA) Lays out a plan to reshape the rules of trade among the U.S., Canada, and Mexico.

North American Industry Classification System (NAICS) codes Codes used to identify groups of firms in similar lines of business.

Odd-even pricing Setting prices that end in certain numbers.

Oligopoly A special market situation that develops when a market has (1) essentially homogeneous products, (2) relatively few sellers, and (3) fairly inelastic industry demand curves.

One-price policy Offering the same price to all customers who purchase products under essentially the same conditions and in the same quantities.

Open to buy A buyer has budgeted funds that he can spend during the current time period.

Operating ratios Ratios of items on the operating statement to net sales.

Operating statement A simple summary of the financial results of a company's operations over a specified period of time.

Operational decisions Short-run decisions to help implement strategies.

Opinion leader A person who influences others.

Order getters Salespeople concerned with establishing relationships with new customers and developing new business.

Order-getting Seeking possible buyers with a well-organized sales presentation designed to sell a good, service, or idea.

Order takers Salespeople who sell to the regular or established customers, complete most sales transactions, and maintain relationships with their customers.

Order-taking The routine completion of sales made regularly to the target customers.

Packaging Promoting, protecting and enhancing the product.

Pareto chart A graph that shows the number of times a problem cause occurs, with problem causes ordered from most frequent to least frequent.

Penetration pricing policy Trying to sell the whole market at one low price.

Perception How we gather and interpret information from the world around us.

Performance analysis Analysis that looks for exceptions or variations from planned performance.

Performance index A number that shows the relation of one value to another.

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Personal needs An individual's need for personal satisfaction unrelated to what others think or do.

Personal selling Direct spoken communication between sellers and potential customers, usually in person but sometimes over the telephone.

Phony list prices Misleading prices that customers are shown to suggest that the price they are to pay has been discounted from list.

Physical distribution (PD) The transporting, storing, and handling of goods to match target customers' needs with a firm's marketing mix—both within individual firms and along a channel of distribution (i.e., another name for logistics).

Physical distribution (PD) concept All transporting, storing, and product-handling activities of a business and a whole channel system should be coordinated as one system that seeks to minimize the cost of distribution for a given customer service level.

Physiological needs Biological needs such as the need for food, drink, rest, and sex.

Piggyback service Loading truck trailers or flat-bed trailers carrying containers on railcars to provide both speed and flexibility.

Pioneering advertising Advertising that tries to develop primary demand for a product category rather than demand for a specific brand.

Place Making goods and services available in the right quantities and locations—when customers want them.

Place utility Having the product available *where* the customer wants it.

Planned economic system Government planners decide what and how much is to be produced and distributed by whom, when, to whom, and why.

Population In marketing research, the total group you are interested in.

Portfolio management Treats alternative products, divisions, or strategic business units (SBUs) as though they are stock investments to be bought and sold using financial criteria.

Positioning An approach that refers to how customers think about proposed and/or present brands in a market.

Possession utility Obtaining a good or service and having the right to use or consume it.

Prepared sales presentation A memorized presentation that is not adapted to each individual customer.

Prestige pricing Setting a rather high price to suggest high quality or high status.

Price The amount of money that is charged for "something" of value.

Price discrimination Injuring competition by selling the same products to different buyers at different prices.

Price fixing Competitors illegally getting together to raise, lower, or stabilize prices.

Price leader A seller who sets a price that all others in the industry follow.

Price lining Setting a few price levels for a product line and then marking all items at these prices.

Primary data Information specifically collected to solve a current problem.

Primary demand Demand for the general product idea, not just the company's own brand.

Private brands Brands created by middlemen—sometimes referred to as dealer brands.

Private warehouses Storing facilities owned or leased by companies for their own use.

Product The need-satisfying offering of a firm.

Product advertising Advertising that tries to sell a specific product.

Product assortment The set of all product lines and individual products that a firm sells.

Product-bundle pricing Setting one price for a set of products.

Product development Offering new or improved products for present markets.

Product liability The legal obligation of sellers to pay damages to individuals who are injured by defective or unsafe products.

Product life cycle The stages a new product idea goes through from beginning to end.

Product line A set of individual products that are closely related.

Product managers Manage specific products, often taking over the jobs formerly handled by an advertising manager—sometimes called brand managers.

Product-market A market with *very* similar needs—and sellers offering various *close substitute* ways of satisfying those needs.

Production Actually *making* goods or *performing* services.

Production capacity The ability to produce a certain quantity and quality of specific goods or services.

Production era A time when a company focuses on production of a few specific products—perhaps because few of these products are available in the market.

Production orientation Making whatever products are easy to produce and *then* trying to sell them.

Professional services Specialized services that support a firm's operations.

Profit maximization objective An objective to get as much profit as possible.

Promotion Communicating information between seller and potential buyer or others in the channel to influence attitudes and behavior.

Prospecting Following all the leads in the target market to identify potential customers.

Psychographics The analysis of a person's day-to-day pattern of living as expressed in that person's Activities, Interests, and Opinions—sometimes referred to as AIOs or lifestyle analysis.

Psychological pricing Setting prices that have special appeal to target customers.

Public relations Communication with noncustomers—including labor, public interest groups, stockholders, and the government.

Public warehouses Independent storing facilities.

Publicity Any *unpaid* form of nonpersonal presentation of ideas, goods, or services.

Pulling Using promotion to get consumers to ask middlemen for the product.

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Purchase discount A reduction of the original invoice amount for some business reason.

Purchasing managers Buying specialists for their employers.

Purchasing specifications A written (or electronic) description of what the firm wants to buy.

Pure competition A market situation that develops when a market has (1) homogeneous (similar) products, (2) many buyers and sellers who have full knowledge of the market, and (3) ease of entry for buyers and sellers.

Pure subsistence economy Each family unit produces everything it consumes.

Push money (or prize money) allowances Allowances (sometimes called PMs or spiffs) given to retailers by manufacturers or wholesalers to pass on to the retailers' salesclerks for aggressively selling certain items.

Pushing Using normal promotion effort—personal selling, advertising, and sales promotion—to help sell the whole marketing mix to possible channel members.

Qualifying dimensions The dimensions that are relevant to including a customer type in a product-market.

Qualitative research Seeks in-depth, open-ended responses, not yes or no answers.

Quality A product's ability to satisfy a customer's needs or requirements.

Quantitative research Seeks structured responses that can be summarized in numbers—like percentages, averages, or other statistics.

Quantity discounts Discounts offered to encourage customers to buy in larger amounts.

Quotas The specific quantities of products that can move in or out of a country.

Rack jobbers Merchant wholesalers who specialize in hard-to-handle assortments of products that a retailer doesn't want to manage—and they often display the products on their own wire racks.

Random sampling Each member of the research population has the *same* chance of being included in the sample.

Raw materials Unprocessed expense items—such as logs, iron ore, wheat, and cotton—that are moved to the next production process with little handling.

Rebates Refunds to consumers after a purchase.

Receiver The target of a message in the communication process, usually a potential customer.

Reciprocity Trading sales for sales—that is, "if you buy from me, I'll buy from you."

Reference group The people to whom an individual looks when forming attitudes about a particular topic.

Reference price The price a consumer expects to pay.

Regrouping activities Adjusting the quantities and/or assortments of products handled at each level in a channel of distribution.

Regularly unsought products Products that stay unsought but not unbought forever.

Reinforcement Occurs in the learning process when the consumer's response is followed by satisfaction—that is, reduction in the drive.

Reminder advertising Advertising to keep the product's name before the public.

Requisition A request to buy something.

Research proposal A plan that specifies what marketing research information will be obtained and how.

Resident buyers Independent buying agents who work in central markets for several retailer or wholesaler customers based in outlying areas or other countries.

Response An effort to satisfy a drive.

Response rate The percent of people contacted in a research sample who complete the questionnaire.

Retailing All of the activities involved in the sale of products to final consumers.

Return When a customer sends back purchased products.

Return on assets (ROA) The ratio of net profit (after taxes) to the assets used to make the net profit—multiplied by 100 to get rid of decimals.

Return on investment (ROI) Ratio of net profit (after taxes) to the investment used to make the net profit—multiplied by 100 to get rid of decimals.

Reverse channels Channels used to retrieve products that customers no longer want.

Risk taking Bearing the uncertainties that are part of the marketing process.

Robinson-Patman Act A 1936 law that makes illegal any price discrimination if it injures competition.

Routinized response behavior When consumers regularly select a particular way of satisfying a need when it occurs.

Rule for maximizing profit The highest profit is earned at the price where marginal cost is just less than or equal to marginal revenue.

Safety needs Needs concerned with protection and physical well-being.

Sale price A temporary discount from the list price.

Sales analysis A detailed breakdown of a company's sales records.

Sales decline A stage of the product life cycle when new products replace the old.

Sales era A time when a company emphasizes selling because of increased competition.

Sales forecast An estimate of how much an industry or firm hopes to sell to a market segment.

Sales managers Managers concerned with managing personal selling.

Sales-oriented objective An objective to get some level of unit sales, dollar sales, or share of market—without referring to profit.

Sales presentation A salesperson's effort to make a sale or address a customer's problem.

Sales promotion Those promotion activities—other than advertising, publicity, and personal selling—that stimulate interest, trial, or purchase by final customers or others in the channel.

Sales promotion managers Managers of their company's sales promotion effort.

Sales quota The specific sales or profit objective a salesperson is expected to achieve.

Sales territory A geographic area that is the responsibility of one salesperson or several working together.

Sample A part of the relevant population.

Scientific method A decision-making approach that focuses on being objective and orderly in *testing* ideas before accepting them.

Scrambled merchandising Retailers carrying any product lines that they think they can sell profitably.

Search engine A computer program that helps a marketing manager find information that is needed.

Seasonal discounts Discounts offered to encourage buyers to buy earlier than present demand requires.

Secondary data Information that has been collected or published already.

Segmenters Aim at one or more homogeneous segments and try to develop a different marketing mix for each segment.

Segmenting An aggregating process that clusters people with similar needs into a market segment.

Selective demand Demand for a company's own brand rather than a product category.

Selective distribution Selling through only those middlemen who will give the product special attention.

Selective exposure Our eyes and minds seek out and notice only information that interests us.

Selective perception People screen out or modify ideas, messages, and information that conflict with previously learned attitudes and beliefs.

Selective retention People remember only what they want to remember.

Selling agents Agent middlemen who take over the whole marketing job of producers, not just the selling function.

Selling formula approach A sales presentation that starts with a prepared presentation outline—much like the prepared approach—and leads the customer through some logical steps to a final close.

Selling function Promoting the product.

Senior citizens People over 65.

Service A deed performed by one party for another.

Service mark Those words, symbols, or marks that are legally registered for use by a single company to refer to a service offering.

Service wholesalers Merchant wholesalers who provide all the wholesaling functions.

Shopping products Products that a customer feels are worth the time and effort to compare with competing products.

Simple trade era A time when families traded or sold their surplus output to local middlemen who resold these goods to other consumers or distant middlemen.

Single-line (or general-line) wholesalers Service wholesalers who carry a narrower line of merchandise than general merchandise wholesalers.

Single-line stores Stores that specialize in certain lines of related products rather than a wide assortment—sometimes called limited-line stores.

Single target market approach Segmenting the market and picking one of the homogeneous segments as the firm's target market.

Situation analysis An informal study of what information is already available in the problem area.

Skimming price policy Trying to sell the top of the market—the top of the demand curve—at a high price before aiming at more price-sensitive customers.

Social class A group of people who have approximately equal social position as viewed by others in the society.

Social needs Needs concerned with love, friendship, status, and esteem—things that involve a person's interaction with others.

Social responsibility A firm's obligation to improve its positive effects on society and reduce its negative effects.

Sorting Separating products into grades and qualities desired by different target markets.

Source The sender of a message.

Specialty products Consumer products that the customer really wants and makes a special effort to find.

Specialty shop A type of conventional limited-line store—usually small and with a distinct personality.

Specialty wholesalers Service wholesalers who carry a very narrow range of products and offer more information and service than other service wholesalers.

Spreadsheet analysis Organizing costs, sales, and other information into a data table to show how changing the value of one or more numbers affects the other numbers.

Standardization and grading Sorting products according to size and quality.

Staples Products that are bought often, routinely, and without much thought.

Statistical packages Easy-to-use computer programs that analyze data.

Status quo objectives "Don't-rock-the-*pricing*-boat" objectives.

Stock A share in the ownership of a company.

Stocking allowances Allowances given to middlemen to get shelf space for a product—sometimes called slotting allowances.

Stockturn rate The number of times the average inventory is sold during a year.

Storing The marketing function of holding goods.

Storing function Holding goods until customers need them.

Straight rebuy A routine repurchase that may have been made many times before.

Strategic business unit (SBU) An organizational unit (within a larger company) that focuses its efforts on some product-markets and is treated as a separate profit center.

Strategic (management) planning The managerial process of developing and maintaining a match between an organization's resources and its market opportunities.

Substitutes Products that offer the buyer a choice.

Supercenters Very large stores that try to carry not only food and drug items, but all goods and services that the consumer purchases *routinely* (also called hypermarkets).

Supermarkets Large stores specializing in groceries—with self-service and wide assortments.

Supplies Expense items that do not become part of a finished product.

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Supply curve The quantity of products that will be supplied at various possible prices.

Supporting salespeople Salespeople who help the order-oriented salespeople but don't try to get orders themselves.

S.W.O.T. analysis Identifies and lists the firm's strengths and weaknesses and its opportunities and threats.

Target market A fairly homogeneous (similar) group of customers to whom a company wishes to appeal.

Target marketing A marketing mix is tailored to fit some specific target customers.

Target return objective A specific level of profit as an objective.

Target return pricing Pricing to cover all costs and achieve a target return.

Tariffs Taxes on imported products.

Task method An approach to developing a budget—basing the budget on the job to be done.

Task transfer Using telecommunications to move service operations to places where there are pools of skilled workers.

Task utility Provided when someone performs a task for someone else—for instance, when a bank handles financial transactions.

Team selling Different sales reps working together on a specific account.

Technical specialists Supporting salespeople who provide technical assistance to order-oriented salespeople.

Technology The application of science to convert an economy's resources to output.

Telemarketing Using the telephone to call on customers or prospects.

Telephone and direct-mail retailing Allows consumers to shop at home—usually placing orders by mail or a toll-free long-distance telephone call and charging the purchase to a credit card.

Time series Historical records of the fluctuations in economic variables.

Time utility Having the product available *when* the customer wants it.

Total cost The sum of total fixed and total variable costs.

Total cost approach Evaluating each possible PD system and identifying *all* of the costs of each alternative.

Total fixed cost The sum of those costs that are fixed in total—no matter how much is produced.

Total quality management (TQM) A management approach in which everyone in the organization is concerned about quality, throughout all of the firm's activities, to better serve customer needs.

Total variable cost The sum of those changing expenses that are closely related to output—such as expenses for parts, wages, packaging materials, outgoing freight, and sales commissions.

Trade (functional) discount A list price reduction given to channel members for the job they are going to do.

Trade-in allowance A price reduction given for used products when similar new products are bought.

Trademark Those words, symbols, or marks that are legally registered for use by a single company.

Traditional channel systems A channel in which the various channel members make little or no effort to cooperate with each other.

Transporting The marketing function of moving goods.

Transporting function The movement of goods from one place to another.

Trend extension Extends past experience to predict the future.

Truck wholesalers Wholesalers who specialize in delivering products that they stock in their own trucks.

2/10, net 30 Allows a 2 percent discount off the face value of the invoice if the invoice is paid within 10 days.

Unfair trade practice acts Put a lower limit on prices, especially at the wholesale and retail levels.

Uniform delivered pricing Making an average freight charge to all buyers.

Unit-pricing Placing the price per ounce (or some other standard measure) on or near the product.

Universal functions of marketing Buying, selling, transporting, storing, standardizing and grading, financing, risk taking, and market information.

Universal product code (UPC) Special identifying marks for each product readable by electronic scanners.

Unsought products Products that potential customers don't yet want or know they can buy.

Utility The power to satisfy human needs.

Validity The extent to which data measures what it is intended to measure.

Value in use pricing Setting prices that will capture some of what customers will save by substituting the firm's product for the one currently being used.

Value pricing Setting a fair price level for a marketing mix that really gives the target market superior customer value.

Vendor analysis Formal rating of suppliers on all relevant areas of performance.

Vertical integration Acquiring firms at different levels of channel activity.

Vertical marketing systems Channel systems in which the whole channel focuses on the same target market at the end of the channel.

Virtual corporation The firm is primarily a coordinator—with a good marketing concept—instead of a producer.

Voluntary chains Wholesaler-sponsored groups that work with independent retailers.

Wants Needs that are learned during a person's life.

Warranty What the seller promises about its product.

Wheel of retailing theory New types of retailers enter the market as low-status, low-margin, low-price operators and then, if successful, evolve into more conventional retailers offering more services with higher operating costs and higher prices.

Wheeler Lea Amendment Law that bans unfair or deceptive acts in commerce.

Wholesalers Firms whose main function is providing *wholesaling activities*.

Wholesaling The *activities* of those persons or establishments that sell to retailers and other merchants, and/or to industrial, institutional, and commercial users, but who do not sell in large amounts to final consumers.

Wholly owned subsidiary A separate firm owned by a parent company.

World Trade Organization (WTO) The only international body dealing with the rules of trade between nations.

Working capital Money to pay for short-term expenses such as employee salaries, advertising, marketing research, inventory storing costs, and what the firm owes suppliers.

Zone pricing Making an average freight charge to all buyers within specific geographic areas.

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Chapter 1

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Chapter 19

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Chapter 21

Exhibits: *P.* 617, 21-5, "1997 Survey of Buying Power," *Sales & Marketing Management*, Supplement, 1997. *P.* 618, 21-6, based on data reported in *Fiber Box Industry Statistics*, Fiber Box Association and NAICS codes available from World Wide Web: <http://www.naics.com>.

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Chapter 22

Exhibits: *P.* 646, 22-1, adapted and updated from discussions of an American Marketing Association Strategic Planning Committee.

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Appendix C

Exhibits: *P.* 687, C-2, available from World Wide Web: <http://www.stats.bls.gov/oco/ocos>; <http://www.adage.com/dataplace/archives>; <http://www.marketingmag.ca/content/34.97/table1>; <http://www.scip.org/salmid>; <http://www.scip.org/salgen>; <http://www.thomas-staffing.com/survey98/salary>; <http://www.mwsu.edu/htmldocs/departments/bus_admin/salary_survey>.

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