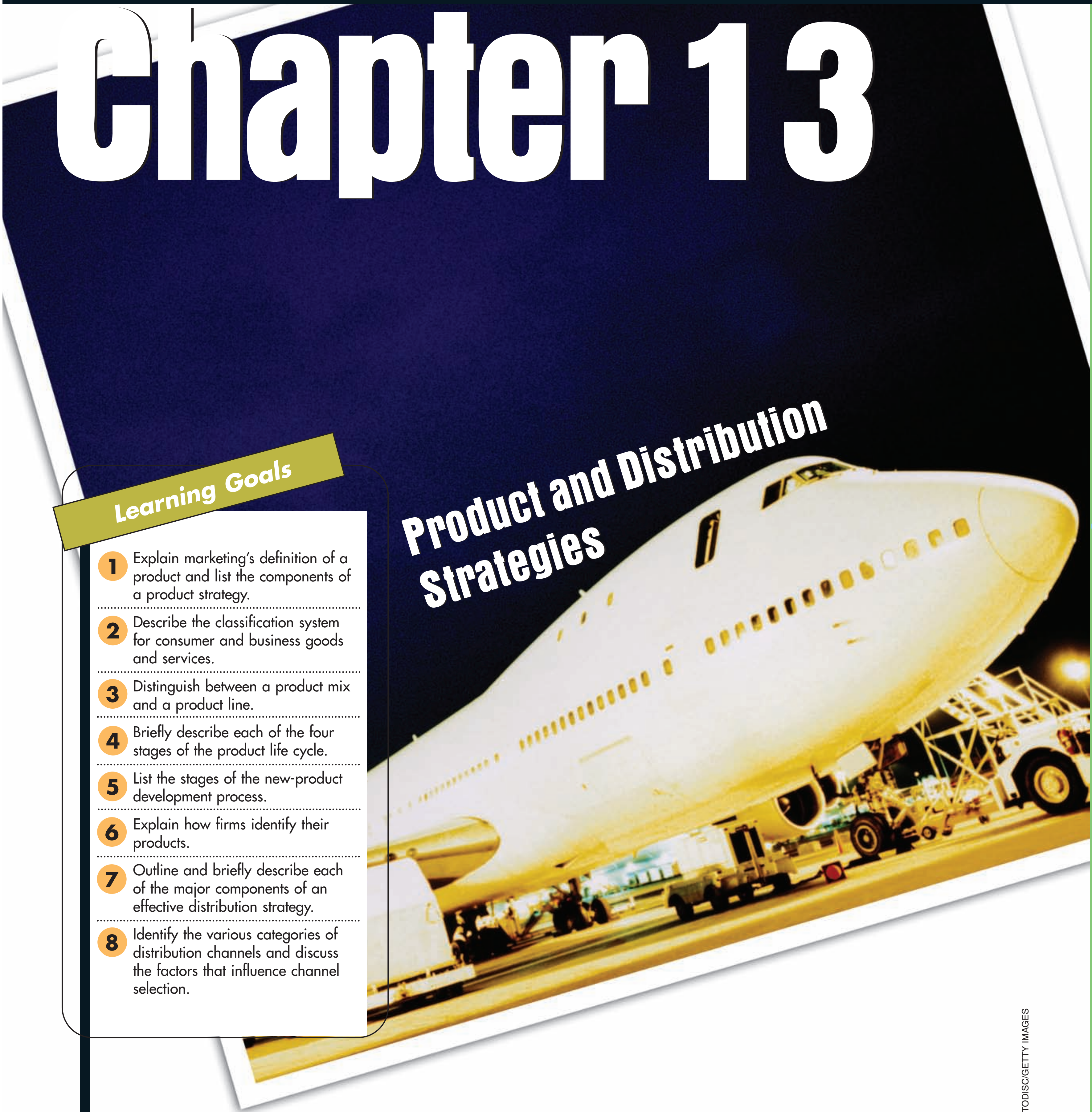
Chapter 13



Product and Distribution Strategies

Learning Goals

1. Explain marketing's definition of a product and list the components of a product strategy.
2. Describe the classification system for consumer and business goods and services.
3. Distinguish between a product mix and a product line.
4. Briefly describe each of the four stages of the product life cycle.
5. List the stages of the new-product development process.
6. Explain how firms identify their products.
7. Outline and briefly describe each of the major components of an effective distribution strategy.
8. Identify the various categories of distribution channels and discuss the factors that influence channel selection.

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Customers can easily determine what makes one toothpaste or detergent better for them. Most of us don't have much trouble choosing a DVD or a new outfit, and we can quickly come up with criteria for choosing a new car. But how does the airline industry decide which jets to buy? Two competitors—Airbus and Boeing—have distinctly different views of what airlines need now and in the future.

Airbus, which is owned by a partnership of French, German, and British companies, and U.S.-based Boeing have been intense rivals for years. While both companies supply planes of all sizes to airlines and freight carriers around the world, their projections for the future of air travel have led them each to create new jets that fill very different needs.

AFP/GETTY IMAGES

GETTY IMAGES

Boeing vs. Airbus: Battle for the Skies

Airbus has invested $13 billion in developing its giant A380, a double-decker superjumbo jet weighing more than 300 tons, with a 262-foot wingspan. The plane is as tall as a seven-story building and carries 555 passengers in three separate cabin classes, about a third more people than one of Boeing's largest planes—the 747—in twice as much space. In fact, the interior of the A380 is roomy enough to include shops, bars, casinos, and nurseries for passengers' use and entertainment.

Airbus thinks that the next 20 years will see air travel become concentrated between big hubs in Asia and other stopover cities, called spokes. The international flights will foster use of jumbo jets for more passenger comfort, and flights will be concentrated among the busiest airports, those that can handle the large number of passengers on each jumbo flight. Some airports, such as Dallas–Fort Worth, are already constructing special hangars and cargo facilities to accommodate the giant craft. The A380 is so large that it can't dock at a regular gate.

The Airbus jet can travel about 5 percent farther than Boeing's longest-range jumbo, a factor projected to reduce operating costs below what buyers of Boeing planes will pay. All these features don't come cheap—the A380 costs $280 million. But before the plane had flown a mile, Airbus already had orders for 149 units from more than a dozen airline and freight transport customers, most of whom attended the plane's recent grand unveiling in France. That's considered an extraordinary advance sale, and Airbus hopes to move about 600 more planes. Many observers believe the jet heralds a new era in flying, a milestone not surpassed since the dawn of the supersonic Concorde.

Boeing, on the other hand, sees a very different trend in global air travel. Boeing anticipates that airline deregulation will increase competition among airlines, which will opt to entice passengers with more direct flights and invest in smaller, long-range planes to bypass the congested hub-and-spoke cities Airbus hopes to capitalize on. Boeing thinks worldwide demand for planes larger than the 747, like the A380, won't exceed 400 units over the next 20 years. Smaller planes can also be built more quickly than the A380 and will be more fuel-efficient and cheaper for airlines to buy.

As a result, Boeing is producing a new midsize passenger jet it calls the 787 Dreamliner. Boeing already has about 250 advance orders for the 787 and tentative commitments for more than 400 more planes. The new plane is designed to be extremely efficient, using 20 percent less fuel than a traditional airplane of comparable size. With skyrocketing fuel costs, that efficiency could ease airlines' tight budgets. The 787 is also constructed of high-tech composite materials that are lighter than aluminum and stronger than steel. The plane is constructed in large sections through a revolutionary manufacturing process using carbon-fiber reinforced plastics, which are commonly used in military aircraft. These composites can be shaped into huge barrel pieces, avoiding the labor of bolting the typical aluminum plates together. Like the A380, the 787 is expected to be an aviation milestone—if Boeing can succeed in leveraging its revolutionary manufacturing process to save the thousands of hours it used to spend stocking and assembling small parts. If it can, then the company will reap billions of dollars in manufacturing savings. That should help Boeing price the 787, which carries 230-some passengers, competitively enough to allow airlines to make money flying it. Boeing is also cutting manufacturing costs by distributing manufacturing operations around the world, making plane parts in Europe and Asia and assembling them in Seattle.

With these two different visions of the aviation future, one question remains: Who will win the battle for the world's airlines?[1]

Chapter Overview

In this chapter we examine ways in which organizations design and implement marketing strategies that address customers' needs and wants. As the story of Airbus and Boeing illustrates, companies in the same industry can draw very different conclusions about the needs and wants of the same set of customers. Airbus believes commercial airlines will be looking to concentrate passengers in huge planes that fly from hub to hub around the world, and it expects the airlines that buy its A380 to use major airports in Europe and Asia as well as North America. As one industry consultant said, "The economics of the A380 are going to be great as long as you can put a lot of bodies on them. This is not a plane that's going to fly to [smaller airports]."

Boeing, however, with access to the same information about its customers, has drawn very different conclusions about what kind of product they will buy, and it is designing, manufacturing, and pricing its new jet accordingly. Boeing is betting that to serve the needs of their own customers, airlines will want to fly to smaller airports directly, and that requires smaller planes.

The creation of new products, from shampoo to furniture to jumbo jets, is the lifeblood of an organization. Because products do not remain economically viable forever, new ones must be developed to ensure the survival of an organization. If either the 787 Dreamliner or the A380 fails, for instance, airline industry observers predict that their companies will be in serious financial trouble.

This chapter focuses on the first two elements of the marketing mix: product and distribution. Our discussion of product strategy begins by describing the classifications of goods and services, customer service, product lines and the product mix, and the product life cycle. Companies often shape their marketing strategies differently when they are introducing a new product, when the product has established itself in the marketplace, and when it is declining in popularity. We also discuss product identification through brand name and distinctive packaging, and the ways in which companies foster loyalty to their brands to keep customers coming back for more.

Distribution, the second mix variable discussed, focuses on moving goods and services from producer to wholesaler to retailer to buyers. Managing the distribution process includes making decisions such as what kind of wholesaler to use and where to offer products for sale. Retailers can range from specialty stores to factory outlets and everything in between, and they must choose appropriate customer service, pricing, and location strategies in order to succeed. The chapter concludes with a look at logistics, the process of coordinating the flow of information, goods, and services among suppliers and on to final consumers.

PRODUCT STRATEGY

product bundle of physical, service, and symbolic attributes designed to satisfy buyers' wants.

Most people respond to the question "What is a product?" by listing its physical features. By contrast, marketers take a broader view. To them, a **product** is a bundle of physical, service, and symbolic attributes designed to satisfy consumer wants. The chief executive officer of a major tool manufacturer once startled his stockholders with this statement: "Last year our customers bought over 1 million quarter-inch drill bits, and none of them wanted to buy the product. They all wanted quarter-inch holes." Product strategy involves considerably more than just producing a good or service; instead, it focuses on benefits. The marketing conception of a product includes decisions about package design, brand name, trademarks, warranties, product image, new-product development, and customer service. Think, for instance, about your favorite soft drink. Do you like it for its taste alone, or do other attributes, such as clever ads, attractive packaging, ease of purchase from vending machines and other convenient locations, and overall image, also attract you? These other attributes may influence your choice more than you realize.

assessment check

1. What is a product?
2. What is the marketing view of a product?

Classifying Goods and Services

Marketers have found it useful to classify goods and services as either B2C or B2B depending on whether the purchasers of the particular item are consumers or businesses. These classifications can be subdivided further, and each type requires a different competitive strategy.

Classifying Consumer Goods and Services

The classification typically used for ultimate consumers who purchase products for their own use and enjoyment and not for resale is based on consumer buying habits. **Convenience products** are items the consumer seeks to purchase frequently, immediately, and with little effort. Items stocked in 7-Eleven stores, vending machines, and local newsstands are usually convenience products—for example, newspapers, milk, disposable diapers, and bread.

Shopping products are those typically purchased only after the buyer has compared competing products in competing stores. A person intent on buying a new sofa or dining room table may visit many stores, examine perhaps dozens of pieces of furniture, and spend days making the final decision. **Specialty products,** the third category of consumer products, are those that a purchaser is willing to make a special effort to obtain. The purchaser is already familiar with the item and considers it to have no reasonable substitute. The nearest Jaguar dealer may be 75 miles away, but if you have decided you want one—and can afford it—you will make the trip. See the "Solving an Ethical Controversy" feature for a discussion of foie gras, a specialty food product made from goose liver.

Note that a shopping product for one person may be a convenience item for someone else. Each item's product classification is based on buying patterns of the majority of people who purchase it.

The interrelationship of the marketing mix factors is shown in Figure 13.1. By knowing the appropriate classification for a specific product, the marketing decision maker knows much about how the other mix variables will adapt to create a profitable, customer-driven marketing strategy.

COURTESY OF POLARIS INDUSTRIES, INC. PHOTOGRAPHER/MARK LAFAVOR

Consumers spend quite a bit of time selecting the perfect motorcycle, so it is a specialty product. But if you've set your mind on a low-slung custom-detailed Victory Vegas cycle, then you'll find the dealer to get one.

Classifying Business Goods

Business products are goods and services such as paycheck services and huge multifunction copying machines used in operating an organization; they

SHOULD SOME PRODUCTS BE BANNED?

Foie gras is a delicacy usually spread on toast or crackers as a paste, or pâté. In fact, foie gras means "fat liver." It is produced by force-feeding animals, usually geese, in order to artificially fatten their livers to several times their normal size.

Several European countries, including Germany, Luxembourg, and Italy, as well as Israel have outlawed force-feeding on the grounds that it is cruel to the animals. The city of Chicago has also created an ordinance banning restaurants and retailers from serving and selling *foie gras.* The ordinance, which took effect in July 2006, is the first of its kind taking effect in the United States. California has also instituted a ban on force-feeding, which effectively bans *foie gras.* The California ban takes effect in 2012, and Oregon may soon follow suit, along with several other states, among them New York and Massachusetts.

Should some animal products like *foie gras* that pose no danger to humans be banned?

PRO

1. Any product produced by cruel means such as force-feeding should be banned.
2. The feeders at farms that produce *foie gras,* geese, and ducks (the majority of whom are Mexican immigrants), are required to work 30 days in a row for the last four and a half weeks of the animals' lives. If they took a day off, the feeding process would be disrupted and the ducks would become stressed. So, this is an issue of not only animal cruelty but also of human rights violations.

CON

1. Farmers in France, where the dish originated, claim that only industrial force-feeding is cruel and that its traditional feeding practices neither distress nor frighten the animals.
2. State legislators should be paying more attention to health, human services, and education than to bans on specialty food items enjoyed by only a few.

Summary

Strong arguments will continue to be made over *foie gras* by animal rights activists as well as by farmers, chefs, and restaurateurs. The debates need to address not only the question of the feeding practices some find cruel but also the question of whether legislating against food products best serves the needs of the residents.

Sources: Nicole Niebisch with Amy Tarr, "Ducking It Out: The Debate on Foie Gras," StarChefs.com, accessed August 8, 2006, http://www.starchefs.com; Tamiko Thomas, "California Decides to Permanently Pull Foie Gras off the Menu," Humane Society of the United States, accessed July 14, 2006, http://www.hsus.org; Matthew Hemming, "Charlie Trotter Abandons Foie Gras," Decanter.com, accessed July 14, 2006, http://www.decanter.com; Nick Vagnoni, "Chicago Bans Foie Gras," accessed June 29, 2006, http://www.slashfood.com; Fran Spielman, "City Council Approves Foie Gras Ban," *Chicago Sun-Times,* accessed June 29, 2006, http://www.suntimes.com; Julie Boorstin, "A Wild Goose Chase," *Fortune,* May 2, 2005, p. 26.

solving an ETHICAL controversy

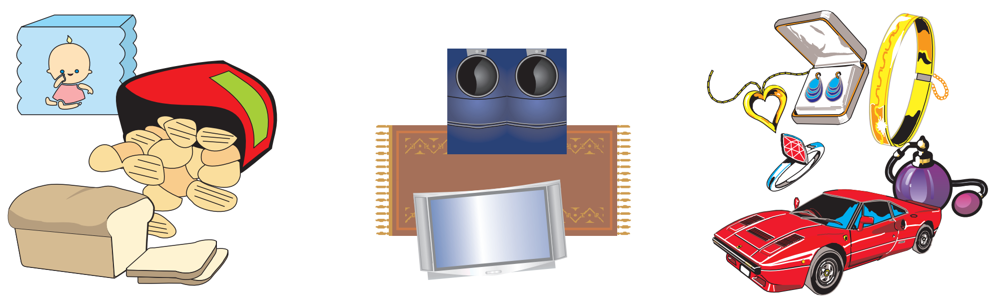
also include machinery, tools, raw materials, components, and buildings used to produce other items for resale. While consumer products are classified by buying habits, business products are classified based on how they are used and by their basic characteristics. Products that are long-lived and relatively expensive are called *capital items*. Less costly products that are consumed within a year are referred to as *expense items*.

Five basic categories of B2B products exist: installations, accessory equipment, component parts and materials, raw materials, and supplies. *Installations* are major capital items, such as new factories, heavy equipment and machinery, and custom-made equipment. Installations are expensive and often involve buyer and seller negotiations that may last for more than a year before a purchase actually is made. Purchase approval frequently involves a number of different people—production specialists, representatives from the purchasing department, and members of top management—who must agree on the final choice.

Although *accessory equipment* also includes capital items, they are usually less expensive and shorter lived than installations and involve fewer decision makers. Examples include hand tools and fax machines. *Component parts and materials* are finished business goods that

Figure 13.1

Marketing Impacts of Consumer Product Classifications



Marketing Strategy Factor	Convenience Product	Shopping Product	Specialty Product
• **Purchase Frequency**	• Frequent	• Relatively infrequent	• Infrequent
• **Store Image**	• Unimportant	• Very important	• Important
• **Price**	• Low	• Relatively high	• High
• **Promotion**	• By manufacturer	• By manufacturer and retailers	• By manufacturer and retailers
• **Distribution Channel**	• Many wholesalers and retailers	• Relatively few wholesalers and retailers	• Very few wholesalers and retailers
• **Number of Retail Outlets**	• Many	• Few	• Very small number; often one per market area

become part of a final product, such as disk drives that are sold to computer manufacturers or batteries purchased by automakers. *Raw materials* are farm and natural products used in producing other final products. Examples include milk, iron ore, leather, and soybeans. *Supplies* are expense items used in a firm's daily operation that do not become part of the final product. Often referred to as MRO (maintenance, repair, and operating supplies), they include paper clips, lightbulbs, and copy paper.

Classifying Services Services can be classified as either B2C or B2B. Child- and eldercare centers and auto detail shops provide services for consumers, while the Pinkerton security patrol at a local factory and Kelly Services' temporary office workers are examples of business services. In some cases, a service can accommodate both consumer and business markets. For example, when ServiceMaster cleans the upholstery in a home, it is a B2C service, but when it spruces up the painting system and robots in a manufacturing plant, it is a B2B service.

Like tangible goods, services can also be convenience, shopping, or specialty products depending on the buying patterns of customers. However, they are distinguished from goods in several ways. First of all, services, unlike goods, are intangible. In addition, they are perishable because firms cannot stockpile them in inventory. They are also difficult to standardize, because they must meet individual customers' needs. Finally, from a buyer's perspective, the service provider is the service; the two are inseparable in the buyer's mind.

"They Said It"

"Competition brings out the best in products and the worst in people."
—David Sarnoff (1891–1971)
American communications industry pioneer

Marketing Strategy Implications

The consumer product classification system is a useful tool in marketing strategy. As described in Figure 13.1, once a new appliance has been classified as a shopping good, marketers have a better idea of its promotion, pricing, and distribution needs.

assessment check

1. Differentiate among convenience, shopping, and specialty products.
2. How do business products differ from consumer items?

Each group of business products, however, requires a different marketing strategy. Because most installations and many component parts frequently are marketed directly from manufacturer to business buyer, the promotional emphasis is on personal selling rather than on advertising. By contrast, marketers of supplies and accessory equipment rely more on advertising, because their products often are sold through an intermediary, such as a wholesaler. Producers of installations and component parts may involve their customers in new-product development, especially when the business product is custom made. Finally, firms selling supplies and accessory equipment place greater emphasis on competitive pricing strategies than do other B2B marketers, who tend to concentrate more on product quality and customer service.

product line group of related products that are physically similar or are intended for the same market.

product mix company's assortment of product lines and individual offerings.

Product Lines and Product Mix

Few firms operate with a single product. If their initial entry is successful, they tend to increase their profit and growth chances by adding new items to offer their customers. Some goods producers are even able to branch out into services. Dell, for instance, recently emerged from the slowdown in PC sales not only by adding printers, personal digital assistants, and a new featherweight laptop to its product line but also by marketing technical services to its business customers.[2]

assessment check

1. What is a product line?
2. What is a product mix?

A company's **product line** is a group of related products marked by physical similarities or intended for a similar market. A **product mix** is the assortment of product lines and individual goods and services that a firm offers to consumers and business users. Although the Kellogg Company first appeared in 1906 with a single product—Kellogg's Corn Flakes—today its product mix has several product lines, including milk bars mixed with different cereals, Real Fruit Winders, Rice Krispies Squares, and Eggo Toaster Swirlz. Eddie Bauer extended its casual-clothing product line by moving into home furnishings and furniture.[3]

Marketers must assess their product mix continually to ensure company growth, to satisfy changing consumer needs and wants, and to adjust to competitors' offerings. To remain competitive, marketers look for gaps in their product lines and fill them with new products or modified versions of existing ones. A helpful tool that is frequently used in making product decisions is the product life cycle.

product life cycle four basic stages—introduction, growth, maturity, and decline—through which a successful product progresses.

ROB KIM/LANDOV

Baby Gap is just one of the product lines offered by the Gap clothing chain. The retail group also offers traditional Gap casual clothing, Old Navy's stylish but low-priced line, and Banana Republic's upscale clothing.

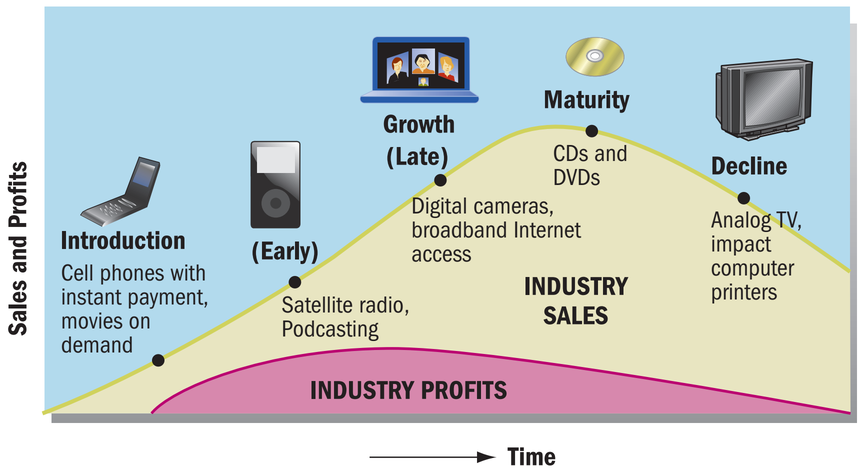
PRODUCT LIFE CYCLE

Once a product is on the market, it usually goes through a series of four stages known as the **product life cycle:** introduction, growth, maturity, and decline. As Figure 13.2 shows, industry sales and profits vary depending on the life-cycle stage of an item.

Product life cycles are not set in stone; not all products follow this pattern precisely, and different products may spend different periods of time in each

Figure 13.2

Stages in the Product Life Cycle



stage. The concept, however, helps the marketing planner anticipate developments throughout the various stages of a product's life. Profits assume a predictable pattern through the stages, and promotional emphasis must shift from dispensing product information in the early stages to heavy brand promotion in the later ones.

Stages of the Product Life Cycle

In the *introduction stage,* the firm tries to promote demand for its new offering, inform the market about it, give free samples to entice consumers to make a trial purchase, and explain its features, uses, and benefits. Dreyer's, the largest ice cream maker in the United States, promoted an essay contest as a first step to giving away 1,500 free ice cream parties to get people to try its lower-fat ice cream called Slow Churned.[4] New-product development costs and extensive introductory promotional campaigns to acquaint prospective buyers with the merits of the innovation, though essential to later success, are expensive and commonly lead to losses in the introductory stage. Losses also occur due to the relatively low sales and high costs of promotions, establishing distribution channels, and training the sales force about the new product's advantages. It is not uncommon for firms to spend $30 million to introduce new packaged-goods products such as detergents, bottled waters, and candies. But such expenditures are necessary if the firm is to profit later.

During the *growth stage,* sales climb quickly as new customers join early users who now are repurchasing the item. Word-of-mouth referrals and continued advertising and other special promotions by the firm induce others to make trial purchases. At this point, the company begins to earn profits on the new product. This success encourages competitors to enter the field with similar offerings, and price competition appears. Digital cameras are in the growth stage, and film suppliers such as Eastman Kodak are struggling to continue their century-long record of sales and revenue growth in the wake of the greatest challenge ever to their market. Another technology in the growth stage is radio-frequency identification devices, discussed later in this chapter.

In the *maturity stage,* industry sales at first increase, but eventually reach a saturation level at which further expansion is difficult. Competition also intensifies, increasing the availability of the product. Firms concentrate on capturing competitors' customers, often dropping prices to further the appeal. Cell phones are in the maturity stage: Competitors compete not only on price but also on features such as calendars, e-mail and attachments, messaging capability, full-color screens, keyboards, and fax and word processing functions. New capabilities may still be in the works. C-Sam, a small tech firm headquartered in Chicago, is about to introduce a test of its technology to transmit shoppers' credit card information from their cell phones to the cash register.[5] A mature business environment also faces the world's largest personal computer marketers, who compete in an increasingly saturated U.S. market. More than half of all homes already have a PC, and virtually all businesses are computerized.

Sales volume fades late in the maturity stage, and some of the weaker competitors leave the market. During this stage, firms promote mature products aggressively to protect their market share and to distinguish their products from those of competitors.

Sales continue to fall in the *decline stage,* the fourth phase of the product life cycle. Profits decline and may become losses as further price-cutting occurs in the reduced overall market for the item. Competitors gradually exit, making some profits possible for the remaining firms in the shrinking market. The decline stage usually is caused by a product innovation or a shift in consumer preferences. Sometimes technology change can hasten the decline stage for a product. One of every three U.S. residences contains at least one DVD player, and DVDs have surpassed videocassettes in both sales and rental revenue. Releases of both new and older films on DVD have long since overtaken the VHS format, which some film studios—and a growing number of rental outlets—have abandoned.

Marketing Strategy Implications of the Product Life Cycle

Like the product classification system, the product life cycle is a useful concept for designing a marketing strategy that will be flexible enough to accommodate changing marketplace characteristics. These competitive moves may involve developing new products, lowering prices, increasing distribution coverage, creating new promotional campaigns, or any combination of these approaches. In general, the marketer's objective is to extend the product life cycle as long as the item is profitable. Some products can be highly profitable during the later stages of their life cycle, because all the initial development costs already have been recovered.

A commonly used strategy for extending the life cycle is to increase customers' frequency of use. Wal-Mart and Target have added grocery sections to their stores in order to increase the frequency of shopper visits. Another strategy is to add new users. With cigarette sales in decline, Zippo Manufacturing marketed a new Zippo Multi-Purpose Lighter for igniting candles, fireplaces, and grills. It boasts an advanced ignition system, a patented childproof safety lock, and a sturdy metal case. Sales have stabilized despite a continuing drop in the number of U.S. smokers.[6] Arm & Hammer used a third approach: finding new uses for its products. The original use of the firm's baking soda in baking has been augmented by its newer uses as a toothpaste, refrigerator freshener, and flame extinguisher. A fourth product life cycle extension strategy—changing package sizes, labels, and product designs—inspired Sony to develop PlayStation Portable, with a display screen just over 3 × 2 inches that boasts resolution high enough to do justice not only to video games but also to blockbuster movies.[7]

assessment check

1. What are the stages of the product life cycle?
2. What are the marketing implications of each stage?

Stages in New-Product Development

New-product development is expensive, time-consuming, and risky, because only about one-third of new products become success stories. Products can fail for many reasons. Some are not properly developed and tested, some are poorly packaged, and others lack adequate promotional support or distribution or do not satisfy a consumer need or want. Even successful products eventually reach the end of the decline stage and must be replaced with new-product offerings.

Most of today's newly developed items are aimed at satisfying specific consumer demands. New-product development is becoming increasingly efficient and cost-effective because marketers use a systematic approach in developing new products. As Figure 13.3 shows, the new-product development process has six stages. Each stage requires a "go/no-go" decision by management before moving on to subsequent stages. Because items that go through each development stage only to be rejected at one of the final stages involve significant investments in both money and time, the sooner decision makers can identify a marginal product and drop it from further consideration, the less time and money will be wasted.

test marketing introduction of a new product supported by a complete marketing campaign to a selected city or TV coverage area to examine both consumer responses to the new offering and the marketing effort used to support it.

The starting point in the new-product development process is generating ideas for new offerings. Ideas come from many sources, including customer suggestions, suppliers, employees, research scientists, marketing research, inventors outside the firm, and competitive products. The most successful ideas are directly related to satisfying customer needs. Chicago chef Homaro Cantu experiments with all sorts of food ideas. One that he hopes to market to the U.S. armed forces is a spoon with a detachable cartridge, whose chemicals when mixed can heat the preserved food. Cantu hopes the invention will make meals in the battlefield more palatable for troops.[8]

In the second stage, screening eliminates ideas that do not mesh with overall company objectives or cannot be developed given the company's resources. Some firms hold open discussions of new-product ideas with specialists who work in different functional areas in the organization.

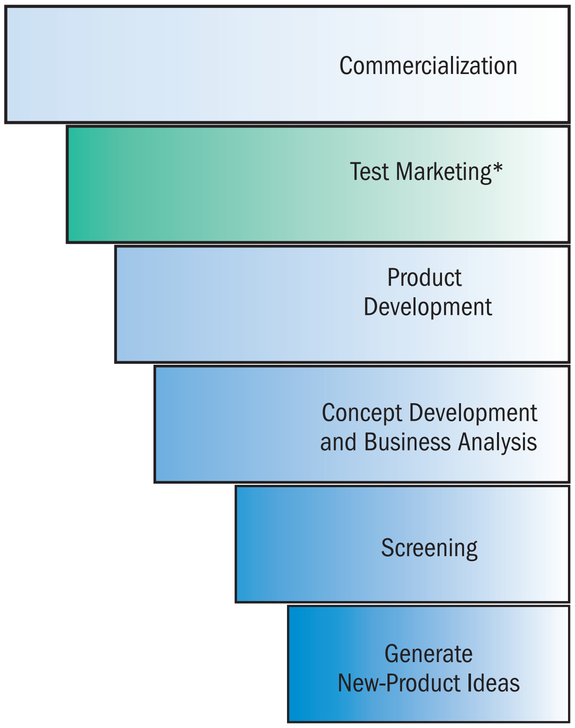
During the concept development and business analysis phase, further screening occurs. The analysis involves assessing the new product's potential sales, profits, growth rate, and competitive strengths and whether it fits with the company's product, distribution, and promotional resources. *Concept testing*—marketing research designed to solicit initial consumer reaction to new-product ideas—may be used at this stage. For example, potential consumers might be asked about proposed brand names and other methods of product identification. *Focus groups* are formal sessions in which consumers meet with marketers to discuss what they like or dislike about current products and perhaps test or sample a new offering to provide some immediate feedback.

Next, an actual product is developed, subjected to a series of tests, and revised. Functioning prototypes or detailed descriptions of the product may be created. These designs are the joint responsibility of the firm's development staff and its marketers, who provide feedback on consumer reactions to the proposed product design, color, and other physical features.

Test marketing introduces a new product supported by a complete marketing campaign to a selected city or TV coverage area. Marketers look for a location or television coverage area with a manageable size, where residents match their target market's demographic profile, to test their product. During the test marketing stage, the item is sold in a limited area while the company examines both consumer responses to the new offering and the marketing effort used to support it. Test market results can help managers

Figure 13.3

Process for Developing New Goods and Services



*Some firms skip this step and move directly from product development to commercialization.

Table 13.1 The Five Worst Cars in the Last 100 Years

Rank	Auto	Typical Owner Comment
1	Yugo	"At least it had heated rear windows—so your hands would stay warm while you pushed."
2	Chevy Vega	"Burned so much oil, it was singlehandedly responsible for the formation of OPEC."
3	Ford Pinto	"The car would do 75 mph in 2nd gear, shaking apart and sounding like a bat out of hell. In 4th gear, the top speed was 70 mph. What's wrong with this picture? You do the math."
4	AMC Gremlin	"Calling it a pregnant roller skate would be kind."
5	Chevy Chevette	"If I got on the Interstate without being run over, the car would creep towards 55. About an hour later, I'd reach it. Then the shaking would begin."

Source: Reported in "Car Talk," accessed August 7, 2006, http://www.cartalk.com.

determine the product's likely performance in a full-scale introduction. Some firms skip test marketing, however, because of concerns that the test could reveal their product strategies to the competition. Also, the expense of doing limited production runs of complex products such as a new auto or refrigerator is so high that the test marketing stage is skipped and the development process moves directly to the next stage.

In the final stage, commercialization, the product is made generally available in the marketplace. Sometimes this stage is referred to as a product launch. Considerable planning goes into this stage, because the firm's distribution, promotion, and pricing strategies must all be geared to support the new product offerings. Osaka, Japan–based Sharp Corporation has developed a new liquid crystal display (LCD) television screen that lets two viewers see completely different images on the same screen. The viewers must look at the screen from different angles, but one could watch a soccer match while another surfs the Internet or watches a favorite reality show. Sharp is launching the product worldwide and is supplying other manufacturers with the displays. The company says the screens could be used in cars for maps and movies, on billboards for two promotions, and in stores to show sales personnel and customers two different images.[9]

The need for a steady stream of new products to offer the firm's customers, the chances of product failure, and the tens of millions of dollars needed to complete a successful new-product launch make new-product development a vital process for 21st-century firms. However, as Table 13.1 illustrates, success is not guaranteed until the new-product offering achieves customer acceptance. General Motors witnessed this principle in action when the company launched its much-ridiculed Aztek sport-utility vehicle. The design had started out as a smaller vehicle, like a tall station wagon meant to appeal to younger drivers. But for cost considerations, the design was adapted to fit GM's minivan platform and then further modified to fit Pontiac's aggressive image. In testing, markets were divided in their opinion, but GM delivered a crushing blow to the Aztek by pricing it at the high end of what its younger target market could afford. Following the product launch, instead of taking to the back roads, Azteks sat quietly on dealers' lots.

assessment check

1. What are the stages of the new product development process?
2. Where do ideas for new products come from?

PRODUCT IDENTIFICATION

A major aspect of developing a successful new product involves methods used for identifying a product and distinguishing it from competing offerings. Both tangible goods and intangible services are identified by brands, brand names, and trademarks. A **brand** is a name, term, sign, symbol, design, or some combination thereof used to identify the products of one firm and to differentiate them from competitive offerings. Tropicana, Pepsi, and Gatorade are all made by PepsiCo, but a unique combination of name, symbol, and package design distinguishes each brand from the others.

brand name, term, sign, symbol, design, or some combination that identifies the products of one firm and differentiates them from competitors' offerings.

A **brand name** is that part of the brand consisting of words or letters included in a name used to identify and distinguish the firm's offerings from those of competitors. The brand name is the part of the brand that can be vocalized. Many brand names, such as Coca-Cola, McDonald's, American Express, Google, and Nike, are famous around the world. Likewise, the "golden arches" brand mark of McDonald's also is widely recognized.

A **trademark** is a brand that has been given legal protection. The protection is granted solely to the brand's owner. Trademark protection includes not only the brand name but also design logos, slogans, packaging elements, and product features such as color and shape. A well-designed trademark, such as the Nike "swoosh," can make a definite difference in how positively consumers perceive a brand.

Selecting an Effective Brand Name

Good brands are easy to pronounce, recognize, and remember: Crest, Visa, and Avis are examples. Global firms face a real problem in selecting brand names, because an excellent brand name in one country may prove disastrous in another. Most languages have a short *a,* so Coca-Cola is pronounceable almost anywhere. But an advertising campaign for E-Z washing machines failed in the United Kingdom because the British pronounce *z* as "zed."

Brand names should also convey the right image to the buyer. One effective technique is to create a name that links the product with its positioning strategy. The name Dial reinforces the concept of 24-hour protection; Dove soap and beauty products give an impression of mildness, and Taster's Choice instant coffee supports the promotional claim "Tastes and smells like ground roast coffee."

Brand names also must be legally protectable. Trademark law specifies that brand names cannot contain words in general use, such as *television* or *automobile*. Generic words—words that describe a type of product—cannot be used exclusively by any organization. On the other hand, if a brand name becomes so popular that it passes into common language and turns into a generic word, the company can no longer use it as a brand name. Once upon a time, aspirin, linoleum, and zipper were exclusive brand names, but today they have become generic terms and are no longer legally protectable.

Brand Categories

A brand offered and promoted by a manufacturer is known as a **manufacturer's** (or **national**) **brand.** Examples are Tide, Jockey, Gatorade, Swatch, and Reebok. But not all brand names belong to manufacturers; some are the property of retailers or distributors. A **private** (or **store**) **brand** identifies a product that is not linked to the manufacturer but instead carries a wholesaler's or retailer's label. Sears's DieHard batteries and Wal-Mart's Ol' Roy dog food are examples.

Another branding decision marketers must make is whether to use a family branding strategy or an individual branding strategy. A **family brand** is a single brand name used for several related products. KitchenAid, Johnson & Johnson, Hewlett-Packard, and Dole use a family name for their entire line of products. When a firm using family branding introduces a new product, both customers and retailers recognize the familiar brand name. The promotion of individual products within a line benefits all the products because the family brand is well known.

CURTIS COMPTON/BLOOMBERG NEWS /LANDOV

KitchenAid uses a family branding strategy for its products. Along with its traditional standing mixers, the company now uses the brand for its food processors, coffee makers, and kitchen utensils.

Other firms use an **individual branding** strategy by giving each product within a line a different name. For example, Procter & Gamble has individual brand names for its different laundry detergents, including Tide, Cheer, and Dash. Each brand targets a unique market segment. Consumers who want a cold-water detergent can choose Cheer over Tide or Dash, instead of purchasing a competitor's brand. Individual branding also builds competition within a firm and enables the company to increase overall sales.

Brand Loyalty and Brand Equity

Brands achieve varying consumer familiarity and acceptance. While a homeowner may insist on Anderson windows when renovating, the consumer buying a loaf of bread may not prefer any brand. Consumer loyalty increases a brand's value, so marketers try to strengthen brand loyalty. When a brand image suffers, marketers try to re-create a positive image.

Brand Loyalty Marketers measure brand loyalty in three stages: brand recognition, brand preference, and brand insistence. *Brand recognition* is brand acceptance strong enough that the consumer is aware of the brand, but not strong enough to cause a preference over other brands. A consumer might have heard of L'Oréal hair care products, for instance, without necessarily preferring them to Redken. Advertising, free samples, and discount coupons are among the most common ways to increase brand recognition.

Brand preference occurs when a consumer chooses one firm's brand over a competitor's. At this stage, the consumer usually relies on previous experience in selecting the product. Automobiles and apparel fall into this category. A shopper who knows that Dockers slacks fit him well is likely to choose the brand again. *Brand insistence* is the ultimate degree of brand loyalty, in which the consumer will accept no substitute for a preferred brand. If the desired product is not available, the consumer will look for it at another outlet, special-order it from a dealer, order by mail, or search the Internet. Few sellers achieve brand insistence for their products, though cosmetics are one product that sometimes inspires this degree of loyalty.

A recent study found that retail Web sites are another means of building brand loyalty. About 4,000 consumers who had made recent purchases of gifts, apparel, electronics, and toys were asked about their experiences. The consumers bought merchandise from retailers that had several different outlet options, such as department stores, smaller boutiques, and e-business sites. Those who used the Web as a research tool not only were more satisfied with their purchases but were also more likely to repeat them.[10]

Brand-building strategies were once limited to the consumer realm, but now they are becoming more important for B2B brands as well. Intel, Xerox, IBM, and service providers such as Manpower and ServiceMaster are among the suppliers who have built brand names among business customers.

"They Said It"

"The brand is the amusement park. The product is the souvenir."

Nicholas Graham (b. 1958) Founder and CUO (Chief Underpants Officer), Joe Boxer, Inc.

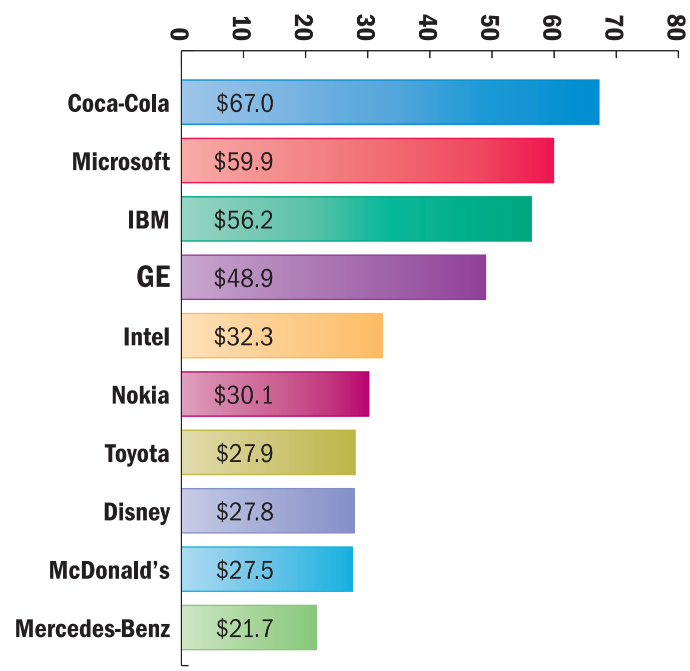
brand equity added value that a respected and successful name gives to a product.

Brand Equity Brand loyalty is at the heart of **brand equity,** the added value that a respected and successful name gives to a product. This value results from a combination of factors, including awareness, loyalty, and perceived quality, as well as any feelings or images the customer associates with the brand. High brand equity offers financial advantages to a firm, because the product commands a relatively large market share and sometimes reduces price sensitivity, generating higher profits. Figure 13.4 shows the world's ten most valuable brands and their estimated worth.

Brand awareness means the product is the first one that comes to mind when a product category is mentioned. For instance, if someone says "diapers," you may instantly think of Pampers. Brand association is a link between a brand and other favorable images. When you think of getting together with friends over coffee, for example, you may associate that image with Starbucks.

Figure 13.4

The World's Ten Most Valuable Brands (millions)



Source: "The Top 100 Brands 2006," *BusinessWeek,* accessed August 7, 2006, http://www.businessweek.com/brand/2006/.

Large companies have typically assigned the task of managing a brand's marketing strategies to a *brand manager,* who may also be called a *product manager* at some firms. This marketing professional plans and implements the balance of promotional, pricing, distribution, and product arrangements that leads to strong brand equity. A **category manager,** a newer concept, oversees an entire group of products. Unlike traditional brand or product managers, category managers have profit responsibility for their product group. These managers are assisted by associates, usually called *analysts.* Part of the shift to category management was initiated by large retailers, which realized they could benefit from the marketing muscle of large grocery and household goods producers such as Kraft and Procter & Gamble. As a result, producers began to focus their attention on in-store merchandising instead of mass-market advertising. A few years ago, Kraft reorganized its sales force so that each representative was responsible for a retailer's needs instead of pushing a single brand.

A **category advisor** functions in the B2B context. This vendor is the major supplier designated by a business customer to assume responsibility for dealing with all the other suppliers for a project and presenting the entire package to the business buyer.

category advisor vendor that is designated by the business customer as the major supplier to deal with all other suppliers for a special purchase and to present the entire package to the business buyer.

Packages and Labels

Packaging and labels are important in product identification. They also play an important role in a firm's overall product strategy. Packaging affects the durability, image, and convenience of an item and is responsible for one of the biggest costs in many consumer products. Customers have often been annoyed by the small paper stickers pasted to each piece of fruit, which also takes the peel or skin with it. So the produce industry developed a new technology to laser-tattoo fruits and vegetables instead, making labeling and packaging more efficient and cost-effective.[11]

Choosing the right package is especially crucial in international marketing, because marketers must be aware of such factors as language variations and cultural preferences. Consumers in African nations often prefer bold colors, but use of the country's flag colors may be problematic. Some countries frown on other uses of their flag. Also, in Africa red is often associated with death or witchcraft. Package size can vary according to the purchasing patterns and market conditions of a country. In countries with small refrigerators, people may want to buy their beverages one at a time rather than in six-packs. Package weight is another important issue, because shipping costs are often based on weight.

Labeling is an integral part of the packaging process as well. In the United States, labeling must meet federal laws requiring companies to provide enough information to allow consumers to make value comparisons among competitive products and, in the case of food packaging, provide nutrition information on the label. Marketers who ship products to other countries have to comply with labeling requirements in those nations. This means knowing the answers to such questions as the following: Should the labels be in more than one language? Should ingredients be specified? Do the labels give enough information about the product to meet government standards? A recent lawsuit against McDonald's hinged on the amount of nutritional information the company provides about its products.

Another important aspect of packaging and labeling is the *Universal Product Code (UPC),* the bar code read by optical scanners that print the name of the item and the price on a receipt. For many stores, these identifiers are useful not just for packaging and labeling but also for simplifying and speeding retail transactions and for evaluating customer purchases and controlling inventory. Radio-frequency identification (RFID) technology—embedded chips that can broadcast their product information to receivers—may soon replace UPC bar codes, however, as we'll discuss later in this chapter.

assessment check

1. Differentiate between a brand, a brand name, and a trademark.
2. Define brand equity.

DISTRIBUTION STRATEGY

The next element of the marketing mix, **distribution strategy,** deals with the marketing activities and institutions involved in getting the right good or service to the firm's customers. Distribution decisions involve modes of transportation, warehousing, inventory control, order processing, and selection of marketing channels. Marketing channels typically are made up of intermediaries such as retailers and wholesalers that move a product from producer to final purchaser.

The two major components of an organization's distribution strategy are distribution channels and physical distribution. **Distribution channels** are the paths that products—and title to them—follow from producer to consumer or business user. They are the means by which all organizations distribute their goods and services. **Physical distribution** is the actual movement of these products from the producer to the user. Physical distribution covers a broad range of activities, including customer service, transportation, inventory control, materials handling, order processing, and warehousing.

distribution channel path through which products—and legal ownership of them—flow from producer to consumers or business users.

physical distribution actual movement of products from producer to consumers or business users.

Distribution Channels

In their first decision for distribution channel selection, marketers choose which type of channel will best meet both their firm's marketing objectives and the needs of their customers. As shown in Figure 13.5, marketers can choose either a **direct distribution channel,** which carries goods directly from producer to consumer or business user, or distribution channels that involve several different marketing intermediaries. A *marketing intermediary* (also called a *middleman*) is a business firm that moves goods between producers and consumers or business users. Marketing intermediaries perform various functions that help the distribution channel operate smoothly, such as buying, selling, storing, and transporting products; sorting and grading bulky items; and providing information to other channel members. The two main categories of marketing intermediaries are wholesalers and retailers.

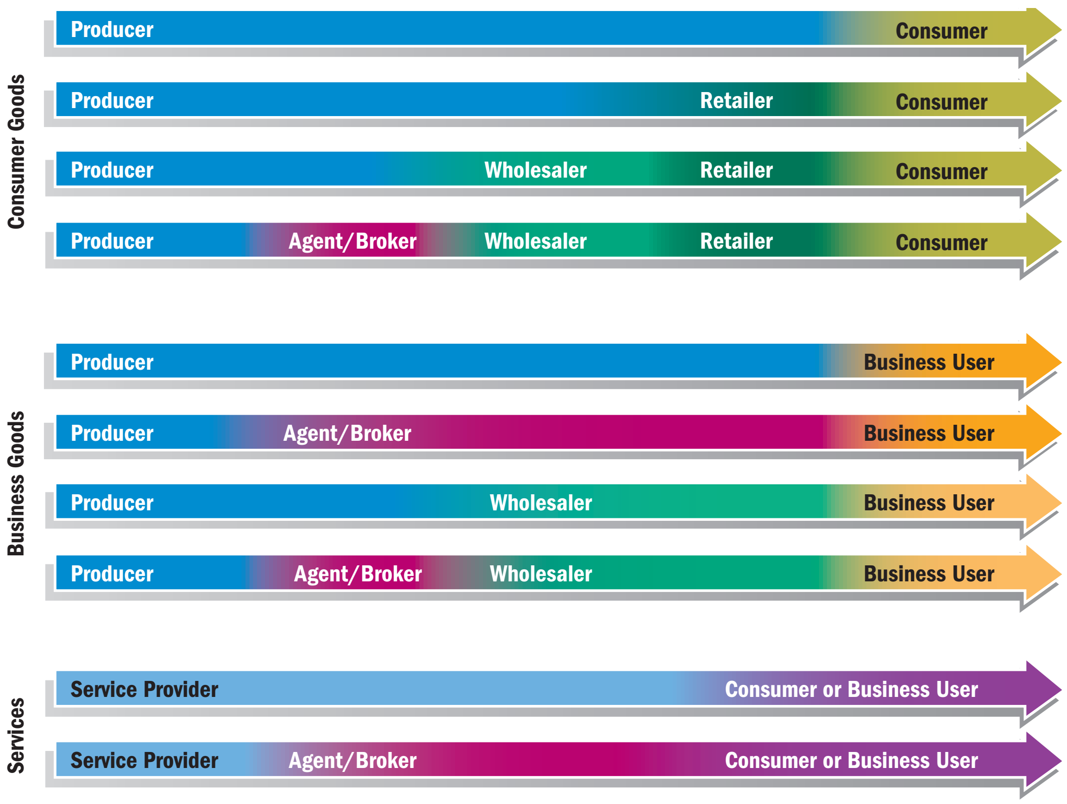
The large number of goods and services distributed through so many different channels is enough to convince most observers that no one channel suits every product. The best choice

"They Said It"

"The universe is really big. It's even bigger than Wal-Mart."
—Richard Belzer (b. 1944) American comedian

Figure 13.5

Alternative Distribution Channels

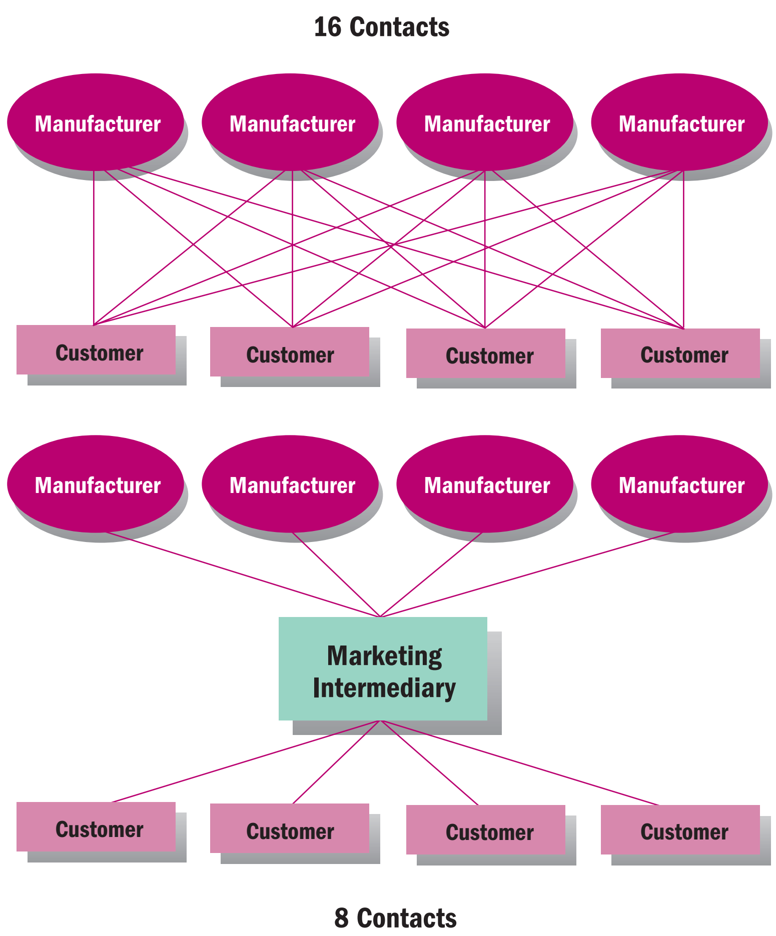


depends on the circumstances of the market and on customer needs. The most appropriate channel choice may also change over time as new opportunities arise and marketers strive to maintain their competitiveness. The Kodak Picture Maker, for instance, is a freestanding kiosk that consumers can use to make their own reprints and enlargement, to print pictures from digital cameras, and to create photo IDs. With 35,000 units installed worldwide, the Picture Maker remains one of the top applications of a uniquely flexible distribution method.[12]

Direct Distribution The shortest and simplest means of connecting producers and customers is direct contact between the two parties. This approach is most common in the B2B market. It also serves consumers who buy fresh fruits and vegetables at rural roadside stands. Services ranging from banking and ten-minute oil changes to ear piercing employ direct distribution, as does Mary Kay Cosmetics.

Direct distribution is commonly found in the marketing of relatively expensive, complex products that may require demonstrations. Most major B2B products such as installations, accessory equipment, component parts, business services, and even raw materials are typically marketed through direct contacts between producers and business buyers. The Internet has also made direct distribution an attractive option for many retail companies and service providers. Netflix allows movie enthusiasts to rent DVDs through its Web site; each disc arrives in the mail a few days later in an envelope that converts to a return mailer. Tom Online, an Internet and wireless service provider in China, has become the sole distributor for Warner Brothers games and animation that Tom Online's more than 60 million wireless customers can download to their cell phones.[13]

Figure 13.6 Reducing Transactions through Marketing Intermediaries



Distribution Channels Using Marketing Intermediaries Although direct channels allow simple and straightforward connections between producers and their customers, the list of channel alternatives in Figure 13.5 suggests that direct distribution is not the best choice in every instance. Some products sell in small quantities for relatively low prices to thousands of widely scattered consumers. Makers of such products cannot cost-effectively contact each of their customers, so they distribute products through specialized intermediaries called *wholesalers* and *retailers*.

Although you might think that adding intermediaries to the distribution process would increase the final cost of products, more often than not this choice actually lowers consumer prices. Intermediaries such as wholesalers and retailers often add significant value to a product as it moves through the distribution channel. They do so by creating utility, providing additional services, and reducing costs.

Marketing utility is created when intermediaries help ensure that products are available for sale when and where customers want to purchase them. If you want something warm to eat on a cold winter night, you don't call up Campbell Soup and ask them to ship a can of chicken noodle soup. Instead, you go to the nearest grocery store, where you find utility in the form of product availability. In addition, intermediaries perform such important services as transporting merchandise to convenient locations. Finally, by representing numerous producers, a marketing intermediary can cut the costs of buying and selling. As Figure 13.6 shows, if four manufacturers each sold directly to four consumers, this would require sixteen separate transactions. Adding a marketing intermediary, such as a retailer, to the exchange cuts the number of necessary transactions to eight.

WHOLESALING

wholesaler distribution channel member that sells primarily to retailers, other wholesalers, or business users.

A **wholesaler** is a distribution channel member that sells primarily to retailers, other wholesalers, or business users. For instance, Sysco is a wholesaler that buys food products from producers and then resells them to restaurants, hotels, and other institutions in the United States and Canada.

Wholesaling is a crucial part of the distribution channel for many products, particularly consumer goods and business supplies. Wholesaling intermediaries can be classified on the basis of ownership; some are owned by manufacturers, some are owned by retailers, and others are independently owned. The United States has more than 450,000 wholesalers, most of which are independent businesses.[14]

Manufacturer-Owned Wholesaling Intermediaries

A manufacturer's marketing manager may decide to distribute goods directly through company-owned facilities to control distribution or customer service. Firms operate two main types of manufacturer-owned wholesaling intermediaries: sales branches and sales offices.

Sales branches stock the products they distribute and fill orders from their inventories. They also provide offices for sales representatives. Sales branches are common in the chemical, petroleum products, motor vehicle, and machine and equipment industries.

A *sales office* is exactly what its name implies: an office for a producer's salespeople. Manufacturers set up sales offices in various regions to support local selling efforts and improve customer service. Some kitchen and bath fixture manufacturers maintain showrooms to display their products. Builders and decorators can visit these showrooms to see how the items would look in place. Unlike sales branches, however, sales offices do not store any inventory. When a customer orders from a showroom or other sales office, the merchandise is delivered from a separate warehouse.

"They Said It"

"You can do away with the middleman, but you can't do away with the functions he or she performs."
—American business saying

Independent Wholesaling Intermediaries

An independent wholesaling intermediary is a business that represents a number of different manufacturers and makes sales calls on retailers, manufacturers, and other business accounts. Independent wholesalers are classified as either merchant wholesalers or agents and brokers, depending on whether they take title to the products they handle.

Merchant wholesalers, like apparel wholesaler WholesaleSarong.com, are independently owned wholesaling intermediaries that take title to the goods they handle. Within this category, a *full-function merchant wholesaler* provides a complete assortment of services for retailers or industrial buyers, such as warehousing, shipping, and even financing. A subtype of full-function merchant is a *rack jobber,* such as Ohio-based Arrow Distributing, which handles distribution of CDs and DVDs to retail stores. This type of firm stocks, displays, and services particular retail products, such as paperback books or greeting cards in a drugstore or supermarket. Usually, the retailer receives a commission based on actual sales as payment for providing merchandise space to a rack jobber.

A *limited-function merchant wholesaler* also takes legal title to the products it handles, but it provides fewer services to the retailers to which it sells. Some limited-function merchant wholesalers only warehouse products but do not offer delivery service. Others warehouse and deliver products but provide no financing. One type of limited-function merchant wholesaler is a *drop shipper* such as Kate Aspen, an Atlanta-based wholesaler of wedding favors. Drop shippers also operate in such industries as coal and lumber, characterized by bulky products for which no single producer can provide a complete assortment. They give access to many related goods by contacting numerous producers and negotiating the best possible prices. Cost considerations call for producers to ship such products directly to the drop shipper's customers.

Another category of independent wholesaling intermediaries consists of *agents* and *brokers*. They may or may not take possession of the goods they handle, but they never take title, working mainly to bring buyers and sellers together. Stockbrokers such as Piper Jaffray and real estate agents such as RE/MAX perform functions similar to those of agents and brokers, but at the retail level. They do not take possession of or title to the sellers' property; instead, they create time and ownership utility for both buyer and seller by helping carry out transactions.

Manufacturers' reps act as independent sales forces by representing the manufacturers of related but noncompeting products. These agent intermediaries, sometimes referred to as *manufacturers' agents,* receive commissions based on a percentage of the sales they make.

Retailer-Owned Cooperatives and Buying Offices

Retailers sometimes band together to form their own wholesaling organizations. Such organizations can take the form of either a buying group or a cooperative. The participating retailers set up the new operation to reduce costs or to provide some special service that is not readily available in the marketplace. To achieve cost savings through quantity purchases, independent retailers may form a buying group that negotiates bulk sales with manufacturers. One such buying group is Florida-based Retail Advantage Group, which buys products for its member hospital gift shops and gift shop chains. Members join for a year at a time and can receive up to 10 percent discounts on orders they place, while remaining free to buy from any other vendors.[15] In a cooperative, an independent group of retailers may decide to band together to share functions such as shipping or warehousing.

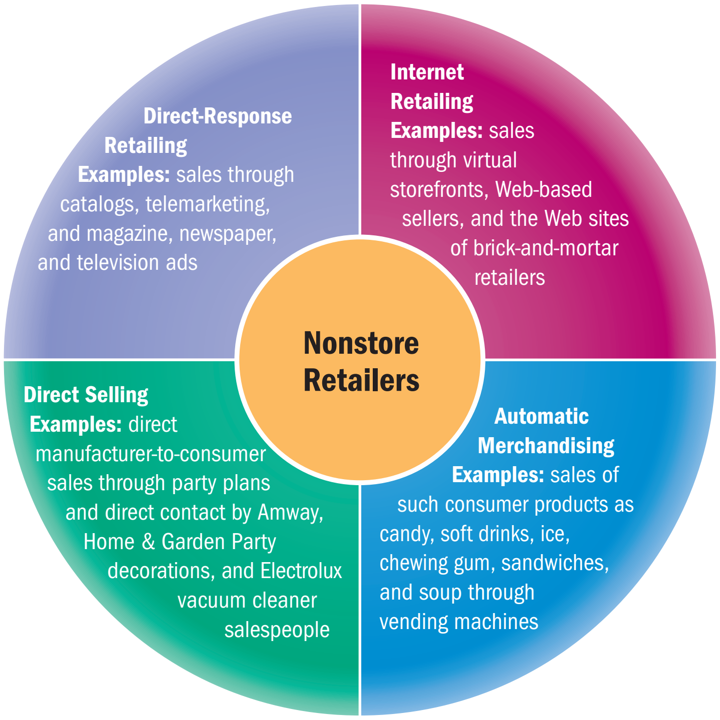
RETAILING

retailer channel member that sells goods and services to individuals for their own use rather than for resale.

Retailers, in contrast to wholesalers, are distribution channel members that sell goods and services to individuals for their own use rather than for resale. Consumers usually buy their food, clothing, shampoo, furniture, and appliances from some type of retailer. The supermarket where you buy your groceries may have bought some of its items from a wholesaler such as Unified Western Grocers and then resold them to you.

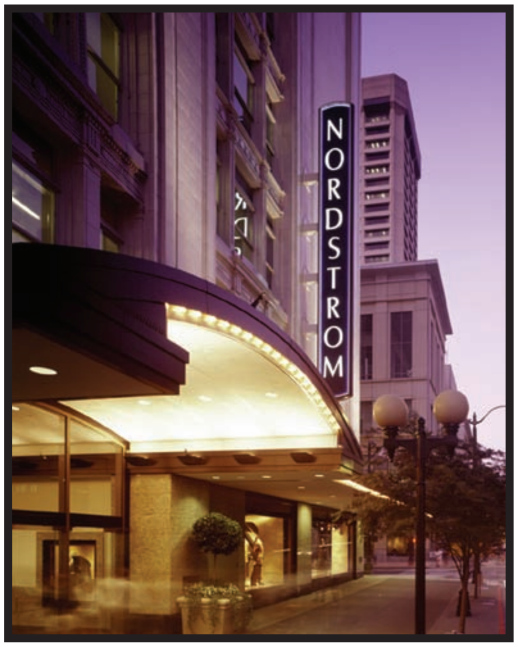
Retailers are the final link—the so-called last three feet—of the distribution channel. Because they are often the only channel members that deal directly with consumers, it is essential that retailers remain alert to changing shopper needs. For instance, the soaring price of gas affects consumers' budgets, so they may make fewer trips to the mall or cut back on nonessential purchases. As a result, retailers may need to offer special sales or events to lure customers to their shops. It is also important for retailers to keep pace with developments in the fast-changing business environment, such as the disruption in delivery of supplies from Hurricane Katrina.

Figure 13.7 Types of Nonstore Retailing



Nonstore Retailers

Two categories of retailers exist: store and nonstore. As Figure 13.7 shows, nonstore retailing includes four forms: direct-response retailing, Internet retailing, automatic merchandising, and direct selling. *Direct-response retailing* reaches prospective customers through catalogs, telemarketing, and even magazine, newspaper, and television ads. Shoppers order merchandise by mail, telephone, computer, and fax machine and then receive home delivery or pick the merchandise up at a local store. Lands' End has long stood out as a highly successful direct-response retailer; its famous clothing catalog and stellar customer service have set the standard for this type of distribution channel. With the retailer's purchase by Sears, however, customers can now see, feel, and try on Lands' End's classic clothing at selected stores around the country.



NORDSTROM, INC.

USED WITH PERMISSION. NORDSTROM, INC.

Nordstrom offers customers shopping convenience at both its traditional brick-and-mortar stores (left) and its Web site. The retailer's Web site offers more than 400 brands to choose from.

Internet retailing, the second form of nonstore retailing, has grown rapidly. Tens of thousands of retailers have set up shop online, with total sales increasing 15 to 25 percent annually.[16] A severe shakeout saw hundreds of Internet enterprises shut down during the first few years of the 21st century, but firms that survived have stronger business models than those that failed. Two examples of success by pure dot-coms are Amazon and eBay. A major shift in retailing has seen traditional brick-and-mortar retailers competing with pure dot-com start-ups by setting up their own Web sites as an option for shoppers. Nordstrom, JCPenney, and Wal-Mart report strong online sales. Shopping sites are among the most popular Internet destinations, and sales of clothing and DVDs in particular have risen.

The last two forms of nonstore retailing are automatic merchandising and direct selling. *Automatic merchandising* provides convenience through the use of vending machines. ATMs may soon join the ranks of vending machines as banks find new ways to compete for customers. Some ATMs offer extra services such as check cashing and stamps, as well as concert tickets and road maps. Future ATMs will be able to connect wirelessly to Palm Pilots and cell phones to allow customers to download and pay for games and music. *Direct selling* includes direct-to-consumer sales by Pampered Chef kitchen representatives and salespeople for Longaberger (baskets and gifts) and Luxe Jewels (jewelry) through party-plan selling methods. Both are forms of direct selling.

Companies that previously relied heavily on telemarketing in generating new customers have encountered consumer resistance to intrusive phone calls. Among the growing barriers are caller ID, call-blocking devices such as the TeleZapper, and the National Do Not Call list, which made it illegal for most companies to call people who registered. As a result, dozens of companies, including telecommunications and regional utilities, have sent direct-mail pieces to promote such services as phones, cable television, and natural gas distributors.

Store Retailers

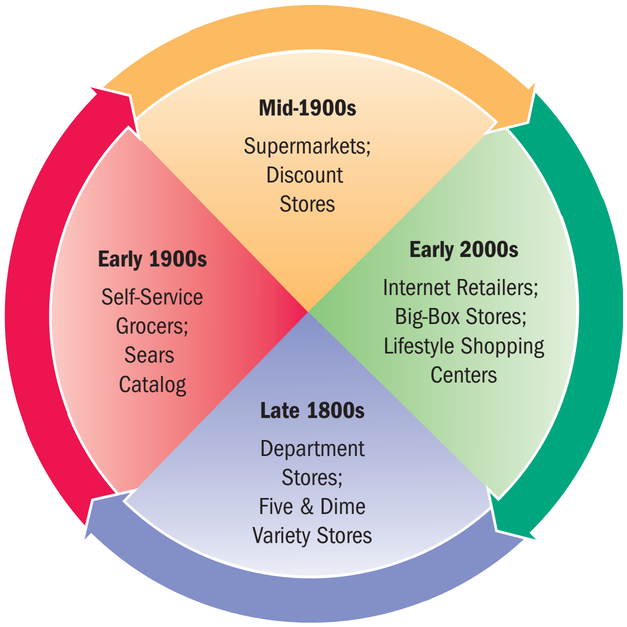
In-store sales still outpace nonstore retailing methods like direct-response retailing and Internet selling. Store retailers range in size from tiny newsstands to multistory department stores and multiacre warehouselike retailers such as Sam's Club. Table 13.2 lists the different types

Table 13.2 Types of Retail Stores

Store Type	Description	Example
Specialty store	Offers complete selection in a narrow line of merchandise	Cabela's sports store, Coconuts music store, Calyx & Corolla flower store
Convenience store	Offers staple convenience goods, easily accessible locations, long store hours, and rapid checkouts	7-Eleven, QuikTrip, Kum & Go
Discount store	Offers wide selection of merchandise at low prices; off-price discounters offer designer or brand-name merchandise	Target, Wal-Mart, Nordstrom Rack, Marshall's
Warehouse club	Large, warehouse-style store selling food and general merchandise at discount prices to membership cardholders	Costco, Sam's Club, BJ's
Factory outlet	Manufacturer-owned store selling seconds, production overruns, or discontinued lines	Adidas, Reebok, Coach, Pottery Barn, Gap
Supermarket	Large, self-service retailer offering a wide selection of food and nonfood merchandise	Safeway, Whole Foods Market, Kroger
Supercenter	Giant store offering food and general merchandise at discount prices	Wal-Mart Supercenter, Super Target
Department store	Offers a wide variety of merchandise selections (furniture, cosmetics, housewares, clothing) and many customer services	Kohl's, Dillard's, Nordstrom, Belk, Neiman Marcus

of store retailers, with examples of each type. Clearly, there are many approaches to retailing and a variety of services, prices, and product lines offered by each retail outlet. For a look at one unique retailer, see the "Hit & Miss" feature on page 430.

Figure 13.8 The Wheel of Retailing



The Wheel of Retailing Retailers are subject to constant change as new stores replace older establishments. In a process called the **wheel of retailing,** new retailers enter the market by offering lower prices made possible through reductions in service. Supermarkets and discount houses, for example, gained their initial market footholds through low-price, limited-service appeals. These new entries gradually add services as they grow and ultimately become targets for new retailers.

As Figure 13.8 shows, most major developments over time in retailing appear to fit the wheel pattern. The low-price, limited-service strategy characterized supermarkets, catalog retailers, discount stores, and most recently, Internet retailers and giant "big-box" stores, such as PetsMart, Borders, and Office Depot. Most of these retailers have raised price levels gradually as they added new services. Corner grocery stores gave way to supermarkets and then to warehouse clubs such as Costco or discount supermarkets such as Kansas City–based Hy-Vee. Department stores lost market share to discount clothing retailers such as Target and T. J. Maxx. Independent bookstores have lost business to giant chains like Barnes & Noble, Books-A-Million, Borders, and, more recently, such online sellers as Amazon.com and Buy.com.

Even though the wheel of retailing does not fit every pattern of retail evolution—for example, automatic merchandising has always been a relatively high-priced method of retailing—it does give retail managers a general idea of what is likely to occur during the evolution of retailing. It also shows that business success involves the "survival of the fittest." Retailers that fail to change fail to survive.

How Retailers Compete

Retailers compete with each other in many ways. Nonstore retailers focus on making the shopping experience as convenient as possible. Shoppers at stores such as the Nature Company, on the other hand, enjoy maximum atmosphere in the form of soothing background music and ready access to environmentally oriented products like telescopes, globes, and books.

Like manufacturers, retailers must develop marketing strategies based on goals and strategic plans. Successful retailers convey images that alert consumers to the stores' identities and the shopping experiences they provide. To create that image, all components of a retailer's strategy must complement each other. After identifying their target markets, retailers must choose merchandising, customer service, pricing, and location strategies that will attract customers in those market segments.

Identifying a Target Market The first step in developing a competitive retailing strategy is to select a target market. This choice requires careful evaluation of the size and profit potential of the chosen market segment and the current level of competition for the segment's business. Bargain stores such as Family Dollar target consumers who are extremely price conscious, for example, while convenience stores like 7-Eleven target consumers who want an easy way to purchase items they buy frequently. Hoping to revive sluggish sales, Gap opened a new flagship chain called Forth & Towne, which targets women age 35 and older and is aimed at competitors like rapidly growing Chico's.[17]

Selecting a Product Strategy Next, the retailer must develop a product strategy to determine the best mix of merchandise to carry to satisfy that market. Retail strategists must decide on the general product categories, product lines, and variety to offer. Seven of ten products carried in Home Depot stores were suggested by customers, for example.

Shaping a Customer Service Strategy A retailer's customer service strategy focuses on attracting and retaining target customers to maximize sales and profits. Some stores offer a wide variety of services, such as gift wrapping, alterations, returns, interior design services, and delivery. Other stores offer bare-bones customer service, stressing low price instead. Some grocery shoppers, for instance, can find convenience online through a service like Peapod, which handles product selection, packing, and delivery. They can visit a supermarket and make their own selections. Or they can go to a discount supermarket like Minnesota-based Cub Foods, where they not only assemble their orders but also bag their purchases.

Selecting a Pricing Strategy Retailers base their pricing decisions on the costs of purchasing products from other channel members and offering services to customers. Pricing can play a major role in consumers' perceptions of a retailer, and not just because they appreciate low prices. For instance, Costco limits markups on branded items to no more than 14 percent and on private-label items to no more than 15 percent. For comparison, supermarkets use markups of 25 percent, and in department stores 50 percent or more is the rule. Yet according to Jim Sinegal, Costco's CEO, what keeps his generally well-off customers coming back to the store is their perception that its employees aren't paying for those low prices with poor compensation. Costco workers in fact are paid well compared with rival discounters and have

HIT & MISS

The Wizard of Odd

Not many retailers would buy up old amusement park trains on a whim, but James "Jungle Jim" Bonaminio did. He followed up his initial investment of $1 for the eight trains with $1 million worth of renovations and track, and soon the sprawling Jungle Jim's International Market, an offbeat supermarket and specialty foods store north of Cincinnati, will connect to the parking lot with its own two-mile monorail.

Despite a less-than-ideal location, Jungle Jim's, which occupies about 280,000 square feet in Fairfield, Ohio, has become highly profitable, drawing 50,000 shoppers a week from miles around. In his efforts to make shopping fun—and stave off competition—Bonaminio is just as likely to roller-skate through the aisles in a wizard suit as to splurge on 40,000 scrapped highway guardrails to be incorporated into the multibuilding structure. Since entering the food business with a roadside stand in the 1970s, Bonaminio, who never finished college, has grown a very successful business.

The store offers novelty, entertainment, and variety, with an enormous selection of foods from 75 countries. High-margin specialty foods provide most of the profits, but a full stock of necessities such as milk and bread, which recently moved to a prominent place at the front of the store, supports another of the store's strategies—to attract local customers doing their routine shopping.

But fun is still key to the retailer's success. Bonaminio is adding a shopping center he hopes will house a dozen restaurants, alongside a two-story "events center" where cooking demonstrations and food and wine tastings and festivals will be held. He already has a cooking school and garden center, but he's hoping to attract a hotel to the site.

"Jungle seems wacky on the outside," says one Ohio developer, "but he has a consumer brilliance about him. He really understands his market."

Questions for Critical Thinking

1. Jungle Jim's is a specialty retailer located several traffic-filled miles from the nearest major highway. How successful do you think its strategy of attracting shoppers in search of convenience goods such as bread will be? Why?
2. Which type of products is Jungle Jim's providing its customers by leasing retail space to a U.S. post office, a bank, a pharmacy, Starbucks, an ice cream parlor, and Buck$ Dollar Stores?

Sources: Jungle Jim's International Market Web site, accessed July 15, 2006, http://www.junglejims.com; "Jungle Jim's Expansion Project," City of Fairfield (Ohio) Web site, accessed July 15, 2006, http://www.fairfield-city.org; Anthony Biano, "The Wizard of Odd," *BusinessWeek*, accessed July 15, 2006, http://www.businessweekasia.com.

a generous health plan, resulting in very low theft and turnover. "This is not altruistic," says Sinegal. "This is good business."[18] As at Costco, pricing strategy must support the retailer's overall marketing objectives and policies. Pricing strategy is covered in more detail in Chapter 14.

Choosing a Location A good location often makes the difference between success and failure in retailing. The location decision depends on the retailer's size, financial resources, product offerings, competition, and, of course, its target market. Traffic patterns, the visibility of the store's signage, parking, and the location of complementary stores also influence the choice of a retail location. One reason Target's in-store grocery departments have proved less successful than Wal-Mart's is that many of them are located in urban areas where heavy traffic tends to limit shopping trips and where rival grocery chains already dominate the market.

A *planned shopping center* is a group of retail stores planned, coordinated, and marketed as a unit to shoppers in a geographical trade area. By providing single convenient locations with free parking, shopping centers have largely replaced downtown shopping in many urban areas. But time-pressed consumers are increasingly looking for more efficient ways to shop, including catalogs, Internet retailers, and one-stop shopping at large free-standing stores such as Wal-Mart Supercenters. To lure more customers, shopping centers are recasting themselves as entertainment destinations, with art displays, carousel rides, and musical entertainment. The giant Mall of America in Bloomington, Minnesota, features a seven-acre amusement park and an aquarium.

In recent years, large regional malls have also witnessed a growing shift in shopping center traffic to smaller strip centers, name-brand outlet centers, and *lifestyle centers,* open-air complexes containing retailers that often focus on specific shopper segments and product interests. Lifestyle centers such as Kierland Commons in Scottsdale, Arizona, have a distinctly urban, but residential feel, with open-air plazas, bandshells, flowered walkways, and special restaurants and cafés.[19] They also cater to those who prefer to browse online before shopping; they are usually designed for quick access to and exit from each individual store, with next-door parking and landscaped walkways. Instead of being anchored by a giant department store, lifestyle centers generally have a small-town feel and feature movie theaters or nice restaurants to encourage shoppers to stay.[20]

Building a Promotional Strategy A retailer designs advertisements and develops other promotions to stimulate demand and to provide information such as the store's location, merchandise offerings, prices, and hours. In a publicity coup to promote a renovation, Marshall Field's flagship store staged the first "Vertical Fashion Show," complete with models rappelling down the store's façade in the latest fashions. Nonstore retailers provide their phone numbers and Web site addresses. More recently, online retailers have scaled back their big advertising campaigns and worked to build traffic through word of mouth and clever promotions. Promotional strategy is also discussed in depth in Chapter 14.

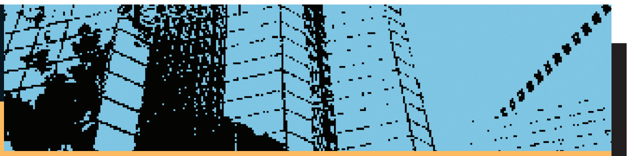
Creating a Store Atmosphere A successful retailer closely aligns its merchandising, pricing, and promotion strategies with *store atmospherics,* the physical characteristics of a store and its amenities, to influence consumers' perceptions of the shopping experience. Atmospherics begin with the store's exterior, which may use eye-catching architectural elements and signage to attract customer attention and interest. Interior atmospheric elements include store layout, merchandise presentation, lighting, color, sound, and cleanliness. A high-end store such as Nordstrom's, for instance, features high-ceilinged selling areas that spotlight tasteful and meticulously cared-for displays of a few carefully chosen items of obvious quality. Old Navy, on the other hand, crams an ever-changing array of inexpensive items into its warehouselike settings furnished with industrial-style display hardware.

assessment check

1. Define distribution channels.
2. What is a marketing intermediary?
3. Differentiate between a merchant wholesaler and an agent or broker in terms of title to the goods.
4. What are the elements of a retailer's marketing strategy?

DISTRIBUTION CHANNEL DECISIONS AND LOGISTICS

Every firm faces two major decisions when choosing how to distribute its goods or services: selecting a specific distribution channel and deciding on the level of distribution intensity. In deciding which distribution channel is most efficient, business managers need to consider four factors: the market, the product, the producer, and the competition. These factors are often interrelated and may change over time. Because so many companies are now doing business on a global basis, they are finding it important to meet and greet customers, suppliers, and distribution partners in other countries. See the "Business Etiquette" feature for some tips about introducing yourself abroad.



(b)usiness (e)tiquette

How Do You Do?

Retailers and wholesalers work with large numbers of people, not just their customers but also suppliers and other partners in the supply chain. Every industry and country has its own conventions to help people meet others and establish good working relationships. Here are some tips for introducing and addressing people when you meet them for the first time.

1. In the United States, once you have been introduced to a person, you can use first names for almost everyone in your own company no matter how many layers of management are between you.
2. First names are considered too familiar even between colleagues in Europe, unless you are invited to use them. Instead, use the person's courtesy title (such as *Herr* or *Madame*) and last name.
3. Be aware that introductions are more formal and more important in Europe and Asia than in the United States.
4. Always introduce the less senior person to the more senior first. If Ms. Ricci is the CEO, for example, you would introduce the new receptionist by saying, "Ms. Ricci, I'd like you to meet Mr. Hanover. Mr. Hanover, this is Ms. Ricci."
5. In the United States or abroad, always stand to introduce or be introduced to anyone, and smile. It shows you are interested in and respect them.
6. If it is appropriate to shake hands, do so firmly. Find out what gestures are considered appropriate overseas. In Japan a bow often accompanies a handshake, and in France a handshake may conclude with an embrace.
7. Begin meetings by making sure everyone present is known to all the others, and perform the appropriate introductions if not.
8. Find out the correct business titles of those you will be meeting or introducing, and if necessary, practice the proper pronunciation of their names. Mistakes in such matters are not well tolerated, especially abroad.
9. Be informed and understanding about the acceptable physical distances between people in other cultures. Some stand closer together when conversing than is common in the United States, and others a little farther apart.
10. Business cards are more important abroad than in the United States. Accept them graciously and treat them with care. Print your own cards in English on one side and on the other side in the language of the country you are visiting; present the foreign-language side up.

Sources: Paula Gamonal, "Doing Business in Europe," *Ravenwerks,* accessed July 15, 2006, http://www.ravenwerks.com; "Social/Conversational Etiquette," San Jose State University Career Center, accessed July 15, 2006 http://www.sjsu.edu; Susan Witt, "International Business: Learn Your Client's Cultural Sensitivities Before You Travel," WomensMedia.com, http://www.womensmedia.com, accessed July 15, 2006.

Selecting Distribution Channels

Market factors may be the most important consideration in choosing a distribution channel. To reach a target market with a small number of buyers or buyers concentrated in a geographical area, the most feasible alternative may be a direct channel. In contrast, if the firm must reach customers who are dispersed or who make frequent small purchases, then the channel may need to incorporate marketing intermediaries to make goods available when and where customers want them.

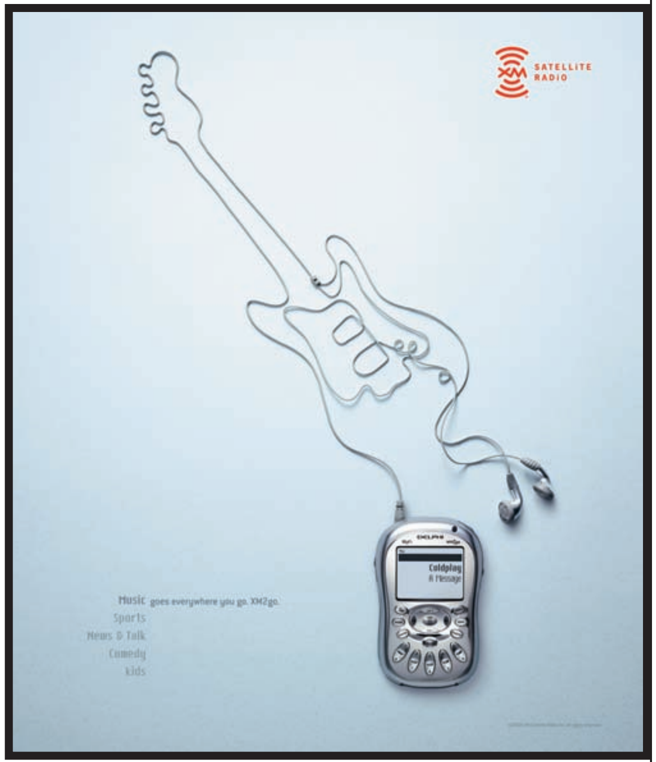
In general, products that are complex, expensive, custom made, or perishable move through shorter distribution channels involving few—or no—intermediaries. On the other hand, standardized products or items with low unit values usually pass through relatively long distribution channels. Levi's tried selling its basic jeans products through its Web site but quickly realized it was impractical to fill orders for a single order of pants available at local stores. Greek entrepreneur Stelios Haji-Ioannou, however, finds the Internet the perfect channel for each of his multimillion-dollar firms, including easyJet, a European airline; easyCar rental; and the easyInternetcafe chain. Each firm offers a no-frills service that consumers can order online with few choices. EasyCar, for instance, rents only one kind of car, and drivers must return it, clean, to the original rental location. EasyJet is one of Europe's biggest Internet retailers, selling 95 percent of its seats online. Phil Jones, chief technology officer of parent company easyGroup, says, "We don't aspire to be all things to all people. We do one thing very well at low cost."[21]

Producers that offer a broad product line, with the financial and marketing resources to distribute and promote it, are more likely to choose a shorter channel. Instead of depending on marketing intermediaries, financially strong manufacturers with broad product lines typically use their own sales representatives, warehouses, and credit departments to serve both retailers and consumers.

In many cases, start-up manufacturers turn to direct channels because they can't persuade intermediaries to carry their products. Direct Focus launched production of an exercise bench called Bowflex, designed to be easier to store and use than competing products. But fitness and sporting goods stores, wary of the "fad of the month" mentality of their industry, passed on the product, forcing the company to offer it directly to consumers. Bowflex was promoted through thousands of television ads featuring product benefits and the company's toll-free telephone number. With this direct distribution combined with an effective promotion, Bowflex sales skyrocketed.[22]

Competitive performance is the fourth key consideration when choosing a distribution channel. A producer loses customers when an intermediary fails to achieve promotion or product delivery. Channels used by established competitors as well as new market entries also can influence decisions.

Sirius and XM are two pioneering satellite radio networks. Although neither has turned a profit yet, satellite radio is expected to change the way Americans receive radio broadcasts over the next decade. Each network broadcasts more than 100 specialized channels for a small monthly subscription fee, offering all kinds of music as well as sports and talk-show programming. Sirius boasts controversial talk host Howard Stern, a hip-hop channel programmed by Eminem, and an all-Elvis channel. XM, the larger firm, also markets a handheld receiver for capturing its broadcasts anywhere and even for storing up to five hours of programming. Most satellite receivers are being installed in cars for now, but handheld receivers are rented out at some sporting events, such as golf tournaments, to keep fans posted on the latest news. Both networks already have millions of subscribers, and traditional radio broadcasters are taking note.[23]



COURTESY OF XM SATELLITE RADIO/BRUCE PETERSON (PHOTOGRAPHER)

Using satellites as a new distribution channel, XM Radio offers hand-held receivers for its on-the-go customers. For a subscription fee, customers get music, sports, news, talk, comedy, and kids programming.

Selecting Distribution Intensity

A second key distribution decision involves *distribution intensity*—the number of intermediaries or outlets through which a manufacturer distributes its goods. Only one BMW dealership may be operating in your immediate area, but you can find Coca-Cola everywhere—in supermarkets, convenience stores, gas stations, vending machines, and restaurants. BMW has chosen a different level of distribution intensity than Coca-Cola. In general, market coverage varies along a continuum with three different intensity levels:

1. **Intensive distribution** involves placing a firm's products in nearly every available outlet. Generally, intensive distribution suits low-priced convenience goods such as milk, newspapers, and soft drinks. This kind of market saturation requires cooperation by many intermediaries, including wholesalers and retailers, to achieve maximum coverage.
2. **Selective distribution** is a market-coverage strategy in which a manufacturer selects only a limited number of retailers to distribute its product lines. Selective distribution can reduce total marketing costs and establish strong working relationships within the channel.
3. **Exclusive distribution,** at the other end of the continuum from intensive distribution, limits market coverage in a specific geographical region. The approach suits relatively expensive specialty products such as Rolex watches. Retailers are carefully selected to enhance the

product's image to the market and to ensure that well-trained personnel will contribute to customer satisfaction. Although producers may sacrifice some market coverage by granting an exclusive territory to a single intermediary, the decision usually pays off in developing and maintaining an image of quality and prestige.

When companies are offloading excess inventory, even high-priced retailers may look to discounters to help them clear the merchandise from their warehouses. One reason Dallas-based discounter Tuesday Morning was able to land a shipment of discontinued Deluxe Airbeds from Aero Products International, which was launching a new version of the product, is that the retailer tries to specialize in hip or trendy items that customers like to "treasure hunt" for. "They are considered a closeout retailer," said an Aero spokesperson, "but they have a good reputation in the market. So they don't hurt the brand."[24]

Logistics and Physical Distribution

supply chain complete sequence of suppliers that contribute to creating a good or service and delivering it to business users and final consumers.

logistics activities involved in controlling the flow of goods, services, and information among members of the supply chain.

A firm's choice of distribution channels creates the final link in the **supply chain,** the complete sequence of suppliers that contribute to creating a good or service and delivering it to business users and final consumers. The supply chain begins when the raw materials used in production are delivered to the producer and continues with the actual production activities that create finished goods. Finally, the finished goods move through the producer's distribution channels to end customers.

The process of coordinating the flow of goods, services, and information among members of the supply chain is called **logistics.** The term originally referred to strategic movements of military troops and supplies. Today, however, it describes all of the business activities involved in the supply chain with the ultimate goal of getting finished goods to customers. For a look at how UPS is planning to provide logistics to global customers, see the "Hit & Miss" feature.

Physical Distribution

A major focus of logistics management—identified earlier in the chapter as one of the two basic dimensions of distribution strategy—is *physical distribution,* the activities aimed at efficiently moving finished goods from the production line to the consumer or business buyer. As Figure 13.9 shows, physical distribution is a broad concept that includes transportation and numerous other elements that help link buyers and sellers. An effectively managed physical distribution system can increase customer satisfaction by ensuring reliable movements of products through the supply chain. For instance, Wal-Mart studies the speed with which goods can be shelved once they arrive at the store because strategies that look efficient at the warehouse, such as completely filling pallets with goods, can actually be time-consuming or costly in the aisles.

A new technology called *radio-frequency identification (RFID)* relies on a computer chip implanted somewhere on a product or its packaging that emits a low-frequency radio signal identifying the item. The radio signal doesn't require a line of sight to register on the store's computers the way a bar code does, so a handheld RFID reader can scan crates and cartons without unloading them. Because the chip can store information about the product's progress through the distribution channel, retailers can efficiently manage inventories, maintain stocking levels, reduce loss, track stolen goods, and cut costs. The technology is similar to that already used to identify lost pets and speed vehicles through toll booths. Wal-Mart, Target, the U.S. Department of Defense, and the German retailer Metro Group already require their suppliers to use RFID technology, and there's little doubt that its use will spread.[25]

Warehousing is the physical distribution activity that involves the storage of products. *Materials handling* is moving items within factories, warehouses, transportation terminals, and stores. Inventory control involves managing inventory costs, such as storage facilities, insurance, taxes, and handling. The physical distribution activity of *order processing* includes preparing orders for shipment and receiving orders when shipments arrive.

HIT & MISS

UPS Delivers More

Already the world's largest package distribution company, Atlanta-based UPS hopes to quickly grow into a global provider of a wide range of transportation and related services, particularly in Asia's rapidly expanding business markets. As its chief information officer says, "We build a global network so our customers don't have to."

A big part of UPS's push to become a major logistics provider to other firms is information technology, a billion-dollar annual budget item for the company, which it uses both to cut costs and to better serve its business customers around the world. The UPS Web site, for instance, supports 22 languages. Its strategy for expanding into large and growing new markets such as China and India includes the same handheld devices its drivers in Europe and the United States use. To support the handhelds, UPS has already invested in new telecommunications infrastructures in cities such as Shanghai and Beijing. It also opened three new warehouse and distribution centers in China and plans to expand to at least 20 other major cities in the near future.

More new technologies are undoubtedly on the way. Already successful in the United States is a new label-printing system that UPS expects will save $600 million a year and reduce both loading time at U.S. distribution centers and delivery times for the company's well-known brown trucks. Saving even a few minutes can make a difference when multiplied by 3 billion items a day. Given the infrastructures it's building in Asia, UPS will be well positioned to transfer successful new technologies abroad as its business grows.

In addition to technology hurdles, working with China's highly centralized government is just one of the challenges UPS faces in the Chinese market. To overcome cultural and other barriers, the firm is recruiting Chinese students at U.S. universities to learn its U.S. operations and then return home to China and help run operations there. With a new slogan, "Deliver More," designed to emphasize its intention to expand its services beyond package delivery, UPS is set to enter more than 100 business markets around the world.

Questions for Critical Thinking

1. What advantages do you think UPS can offer overseas businesses looking for logistics providers?
2. What are some of the distribution problems customers in Asia might want UPS to help them solve?

Sources: "UPS Has Big Plans for China and the World," *InformationWeek*, accessed July 15, 2006, http://www.informationweek.com; "UPS Launches 'Deliver More' Tagline," *Atlanta Business Chronicle*, accessed July 15, 2006, http://atlanta.bizjournals.com; Anna Maria Virzi, "United Parcel Service: Sticky Fix," *Baseline*, accessed July 15, 2006, http://www.baselinemag.com; "HP: Packaging a Dual Data Warehouse Solution for UPS," Hewlett Packard, accessed July 25, 2005, http://www.hp.com.

The wide use of electronic data interchange (EDI) and the constant pressure on suppliers to improve their response time have led to **vendor-managed inventory,** in which the producer and the retailer agree that the producer (or the wholesaler) will determine how much of a product a buyer needs and automatically ship new supplies when needed.

The form of transportation used to ship products depends primarily on the kind of product, the distance involved, and the cost. The logistics manager can choose from a number of companies and modes of transportation. As Table 13.3 shows, the five major transport modes are—in order of total expenditures—trucks (with about 75 percent of total expenditures), railroads (approximately 12 percent), water carriers (6 percent), air freight (4 percent), and pipelines (3 percent). The faster methods typically cost more than the slower ones.

Figure 13.9

Elements of a Physical Distribution System

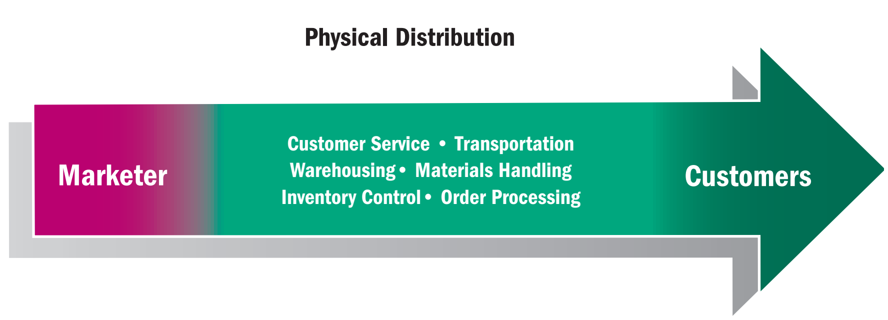


Table 13.3 Comparison of Transportation Modes

Mode	Speed	Dependability in Meeting Schedules	Frequency of Shipments	Availability in Different Locations	Flexibility in Handling	Cost
Rail	Average	Average	Low	Low	High	Average
Water	Very slow	Average	Very low	Limited	Very high	Very low
Truck	Fast	High	High	Very extensive	Average	High
Pipeline	Slow	High	High	Very limited	Very low	Low
Air	Very fast	High	Average	Average	Low	Very high

Speed, reliable delivery, shipment frequency, location availability, handling flexibility, and cost are all important considerations when choosing the most appropriate mode of transportation.

About 15.5 million trucks operate in the United States, carrying most finished goods all or part of the way to the consumer.[26] But railroads, which compete with many truck routes despite their recent loss of market share, are trying to improve both their efficiency and their service by cutting costs, using tighter controls, and adding consulting services to help clients achieve efficient distribution and lower costs in their own businesses.[27]

Customer Service Customer service is a vital component of both product and distribution strategies. *Customer service standards* measure the quality of service a firm provides for its customers. Managers frequently set quantitative guidelines—for example, that all orders be processed within 24 hours after they are received or that salespeople approach shoppers within two minutes after they enter the store. Sometimes customers set their own service standards and choose suppliers that meet or exceed them.

The customer service components of product strategy include warranty and repair service programs. *Warranties* are firms' promises to repair a defective product, refund money paid, or replace a product if it proves unsatisfactory. Repair services are also important. Consumers want to know that help is available if something goes wrong. Those who shop for home computers, for example, often choose retailers that not only feature low prices but also offer repair services and tech support centers. Products with inadequate service backing quickly disappear from the market as a result of word-of-mouth criticism.

Consumers' complaints of the impersonal service they received at Web sites led dot-coms to take a number of steps to "humanize" their customer interactions and deal with complaints. Many Web sites contain button help icons that link the visitor to a representative. Lands' End offers immediate customer feedback through chat rooms.

assessment check

1. What is distribution intensity?
2. Define supply chain.
3. What do customer service standards measure?

WHAT'S AHEAD

This chapter covered two of the elements of the marketing mix: product and distribution. It introduced the key marketing tasks of developing, marketing, and packaging want-satisfying goods and services. It also focused on the three major components of an organization's distribution strategy: the design of efficient distribution channels; wholesalers and retailers who make up many distribution channels; and logistics and physical distribution. We turn to the remaining two—promotion and pricing—in Chapter 14.

Summary of Learning Goals

1 Explain marketing's definition of a product and list the components of a product strategy.

A product is a bundle of physical, service, and symbolic attributes designed to satisfy consumer wants. The marketing conception of a product includes the brand, product image, warranty, service attributes, packaging, and labeling, in addition to the physical or functional characteristics of the good or service.

Assessment Check Answers

1.1 What is a product?
A product is a bundle of physical, service, and symbolic attributes designed to satisfy consumer wants.

1.2 What is the marketing view of a product?
The marketing view of a product includes the brand, product image, warranty, service attributes, packaging, and labeling, in addition to the physical or functional characteristics of the good or service.

2 Describe the classification system for consumer and business goods and services.

Goods and services can be classified as consumer (B2C) or business (B2B) products. Consumer products are those purchased by ultimate consumers for their own use. They can be convenience products, shopping products, or specialty products depending on consumer habits in buying them. Business products are those purchased for use either directly or indirectly in the production of other goods and services for resale. They can be classified as installations, accessory equipment, component parts and materials, raw materials, and supplies. This classification is based on how the items are used and product characteristics. Services can be classified as either consumer or business services.

Assessment Check Answers

2.1 Differentiate among convenience, shopping, and specialty products.
Convenience products are items the consumer seeks to purchase frequently, immediately, and with little effort. Shopping products are typically purchased after the buyer has compared competing products in competing stores. Specialty products are those a purchaser is willing to make a special effort to obtain.

2.2 How do business products differ from consumer items?
Business products, such as drill presses, are sold to firms or organizations. Consumer products, such as personal care items, are sold to final users.

3 Distinguish between a product mix and a product line.

A product mix is the assortment of goods and services a firm offers to individual consumers and B2B users. A product line is a series of related products.

Assessment Check Answers

3.1 What is a product line?
A product line is a series of related products.

3.2 What is a product mix?
A product mix is the assortment of goods and services a firm offers to individual consumers and B2B users.

4 Briefly describe each of the four stages of the product life cycle.

Every successful new product passes through four stages in its product life cycle: introduction, growth, maturity, and decline. In the introduction stage, the firm attempts to elicit demand for the new product. In the product's growth stage, sales climb, and the company earns its initial profits. In the maturity stage, sales reach a saturation level. In the decline stage, both sales and profits decline. Marketers sometimes employ strategies to extend the product life cycle, including increasing frequency of use, adding new users, finding new uses for the product, and changing package size, labeling, or product quality.

Assessment Check Answers

4.1 What are the stages of the product life cycle?
In the introduction stage, the firm attempts to elicit demand for the new product. In the product's growth stage, sales climb, and the company earns its initial profits. In the maturity stage, sales reach a saturation level. In the decline stage, both sales and profits decline.

4.2 What are the marketing implications of each stage?
Marketers sometimes employ strategies to extend the product life cycle, including increasing frequency of use, adding new users, finding new uses for the product, and changing package size, labeling, or product quality.

5 List the stages of the new-product development process.

Six stages exist in the new-product development process for most products: idea generation, screening, business analysis, product development, test marketing, and commercialization. At each stage, marketers must decide whether to continue to the next stage, modify the new product, or discontinue the development process. Some new products skip the test marketing stage due to the desire to quickly introduce a new product with excellent potential, a desire not to reveal new-product strategies to competitors, and the high costs involved in limited production runs characteristic of expensive items.

Assessment Check Answers

5.1 What are the stages of the new-product development process?
Six stages exist in the new-product development process for most products: idea generation, screening, business analysis, product development, test marketing, and commercialization.

5.2 Where do ideas for new products come from?
New product ideas come from many sources including customer suggestions, suppliers, employees, research scientists, marketing research, investors outside the firm, and competitive products.

6 Explain how firms identify their products.

Products are identified by brands, brand names, and trademarks, which are important elements of product images. Effective brand names are easy to pronounce, recognize, and remember, and they project the right images to buyers. Brand names cannot contain generic words. Under certain circumstances, companies lose exclusive rights to their brand names if common use makes them generic terms for product categories. Some brand names belong to retailers or distributors rather than to manufacturers. Brand loyalty is measured in three degrees: brand recognition, brand preference, and brand insistence. Some marketers use family brands to identify several related items in a product line. Others employ individual branding strategies by giving each product within a line a different brand name.

Assessment Check Answers

6.1 Differentiate between a brand, a brand name, and a trademark.
A brand is a name, term, sign, symbol, design, or some combination thereof used to identify the products of one firm and differentiate them from competitive offerings. A brand name is that part of the brand consisting of words or letters included in a name used to identify and distinguish the firm's offerings from those of competitors. A trademark is a brand that has been given legal protection.

6.2 Define *brand equity.*
Brand equity is the added value that a respected and successful brand name gives to a product.

7 Outline and briefly describe each of the major components of an effective distribution strategy.

A firm must consider whether to move products through direct or indirect distribution. Once the decision is made, the company needs to identify the types of marketing intermediaries, if any, through which it will distribute its goods and services. The Internet has made direct distribution an attractive option for many retail companies. Another component is distribution intensity. The business must decide on the amount of market coverage—intensive, selective, or exclusive—needed to achieve its marketing strategies. Finally, attention must be paid to managing the distribution channel. It is vital to minimize conflict between channel members.

Assessment Check Answers

7.1 Define *distribution channels.*
Distribution channels are the paths that products, and title to them, follow from producer to consumer or business user.

7.2 What is a marketing intermediary?
A marketing intermediary (also called a middleman) is a business firm that moves goods between producers and consumers or business users.

7.3 Differentiate between a merchant wholesaler and an agent or broker in terms of title to the goods.
Merchant wholesalers are independently owned wholesaling intermediaries that take title to the goods they handle. Agents and brokers may or may not take possession of the goods they handle, but they never take title, working mainly to bring buyers and sellers together.

7.4 What are the elements of a retailer's marketing strategy?
After identifying their target markets, retailers must choose merchandising, customer service, pricing, and location strategies that will attract customers in those market segments.

8 Identify the various categories of distribution channels and discuss the factors that influence channel selection.
Marketers can choose either a direct distribution channel, which moves goods directly from the producer to the consumer, or indirect distribution channels, which involve marketing intermediaries in the paths through which products—and legal ownership of them—flow from producer to the final customer. Ideally, the choice of a distribution channel should support a firm's overall marketing strategy. Before selecting distribution channels, firms must consider their target markets, the types of goods being distributed, their own internal systems and concerns, and competitive factors.

Assessment Check Answers

8.1 What is distribution intensity?
Distribution intensity is the number of intermediaries or outlets through which a manufacturer distributes its goods.

8.2 Define *supply chain.*
A supply chain is the complete sequence of suppliers that contribute to creating a good or service and delivering it to business users and final consumers.

8.3 What do customer service standards measure?
Customer service standards measure the quality of service a firm provides for its customers.

Business Terms You Need to Know

Other Important Business Terms

Review Questions

1. Classify each of the following business-to-consumer (B2C) and business-to-business (B2B) products:
   a. *Time* or *Newsweek* magazine
   b. six-pack of bottled water
   c. Case forklift truck
   d. Mississippi river barge
   e. lumber
2. What is the relationship between a product line and a product mix?
3. Identify and briefly describe the six stages of new-product development.
4. What are some strategies for extending the product life cycle?
5. What are the three stages of brand loyalty?
6. What are the advantages of direct distribution? When is a producer most likely to use direct distribution?
7. What is the wheel of retailing? How has the Internet affected the wheel of retailing?
8. Identify and briefly describe the four different types of nonstore retailers. Give an example of at least one type of good or service that would be suited to each type of nonstore retailer.
9. What are the three intensity levels of distribution? Give an example of two products for each level.
10. Describe the strengths and weaknesses of each transport mode and explain how companies can improve their competitiveness through effective distribution.

Projects and Teamwork Applications

1. Suggest an appropriate brand name for each of the following goods. Defend your choices.
   a. laundry detergent
   b. sport-utility vehicle
   c. backpack
   d. outdoor boots
   e. fresh-fruit drink
2. As a marketer, review your five-brand list in question 1. What steps you would take to build brand loyalty for three of those products?
3. Which type of distribution intensity would best suit the following products?
   a. Ferrari sports cars
   b. retail shelving units
   c. facial tissue
   d. earth-moving equipment
   e. Altoid flavored mints
4. Think of your favorite store. If it is near where you live or go to school, stop by for a visit. If not, rely on your memory. Describe the store in terms of its atmospherics. What features contribute to your positive experiences and feelings about the store?
5. Suggest the best method for transporting each of the following goods. Explain your choices.
   a. natural gas
   b. oranges and grapefruit
   c. teak furniture from Thailand
   d. redwood lumber from California
   e. industrial machine parts
6. Many products must adhere to a prescribed set of standards. One example is ice hockey equipment. Visit the two Web sites listed and review the basic requirements ice hockey equipment must meet. How do these standards affect manufacturers of ice hockey equipment?
   http://www.usahockey.com
   http://www.iihf.com
7. The International Trademark Association is a worldwide not-for-profit organization of trademark owners and advisors. Visit the association's Web site (http://www.inta.org) and select "Information Center" and then "Learn the Basics." Prepare a brief oral report on the process of selecting and registering a domain name.

Case 13.1

American Eagle Hopes to Soar

American Eagle Outfitters is currently riding a wave of popularity among its teen and young-adult market. With trendy but high-quality clothing in affordable price ranges, the chain of almost 850 stores is a top destination for 15- to 25-year-olds.

American Eagle appeals to teens looking for a casual but preppy look. In price range and style choices, it fills a middle ground in the teen and young adult market.

American Eagle's long-standing partnership with MTV began with the hit show *Road Rules,* for which it provided cast wardrobes. The relationship was recently expanded to include American Eagle's sponsorship of MTV's wildly popular Spring Break promotion, recently held in Cancun. "Spring Break is more than just a vacation for our customers—it is a lifestyle. Memories are made on spring break, and our goal with MTV is to make sure this Spring Break is the best ever and the most memorable," said American Eagle's chief marketing officer of the Cancun bash.

The company is far from taking a vacation, however. After a couple of difficult years when its fickle market shopped elsewhere and sales plunged, American Eagle Outfitters has been beating sales projections in a comeback that brought an increase in sales of nearly 32 percent.

But despite the good news at the mall, with 850 locations management knows the chain is about to run out of room to spread its wings. It is considering expanding the American Eagle brand into Asian markets and is also expected to soon start testing a new store concept at home for a slightly older market that will provide fresh avenues for continued growth.

Questions for Critical Thinking

1. American Eagle Outfitters has not yet released the name of the new retail clothing chain it plans to test, or any details about the store concept it's considering. What product mix strategies do you think would help ensure the new chain's success? Do you think American Eagle would be wise to try to leverage any brand loyalty among its current customers to win them over to the new stores? Why or why not?
2. Why do retailers in the faddish teen market make their brand names and logos so prominent on many of their T-shirts, polos, jeans, and sweats? Why are customers willing to wear these items? Do you think brand names are the only feature that distinguishes one teen retailer's product line from another's? Why or why not?

Sources: American Eagle Outfitters Web site, accessed July 15, 2006, http://www.ae.com; Teresa F. Lindeman, "'Hot' American Eagle Heats Up Profits, Stock," *Pittsburgh Post-Gazette,* accessed July 15, 2006, http://www.post-gazette.com; Teresa F. Lindeman, "Soaring Eagle Hopes to Avoid Plunging Back to Earth," *Pittsburgh Post-Gazette,* accessed July 15, 2006, http://www.post-gazette.com; "American Eagle Outfitters Makes a Splash at MTV Spring Break," press release, March 3, 2005.

VIDEO Case 13.2

High Sierra Climbs to New Heights

This video case appears on page 622. A recently filmed video, designed to expand and highlight the written case, is available for class use by instructors.