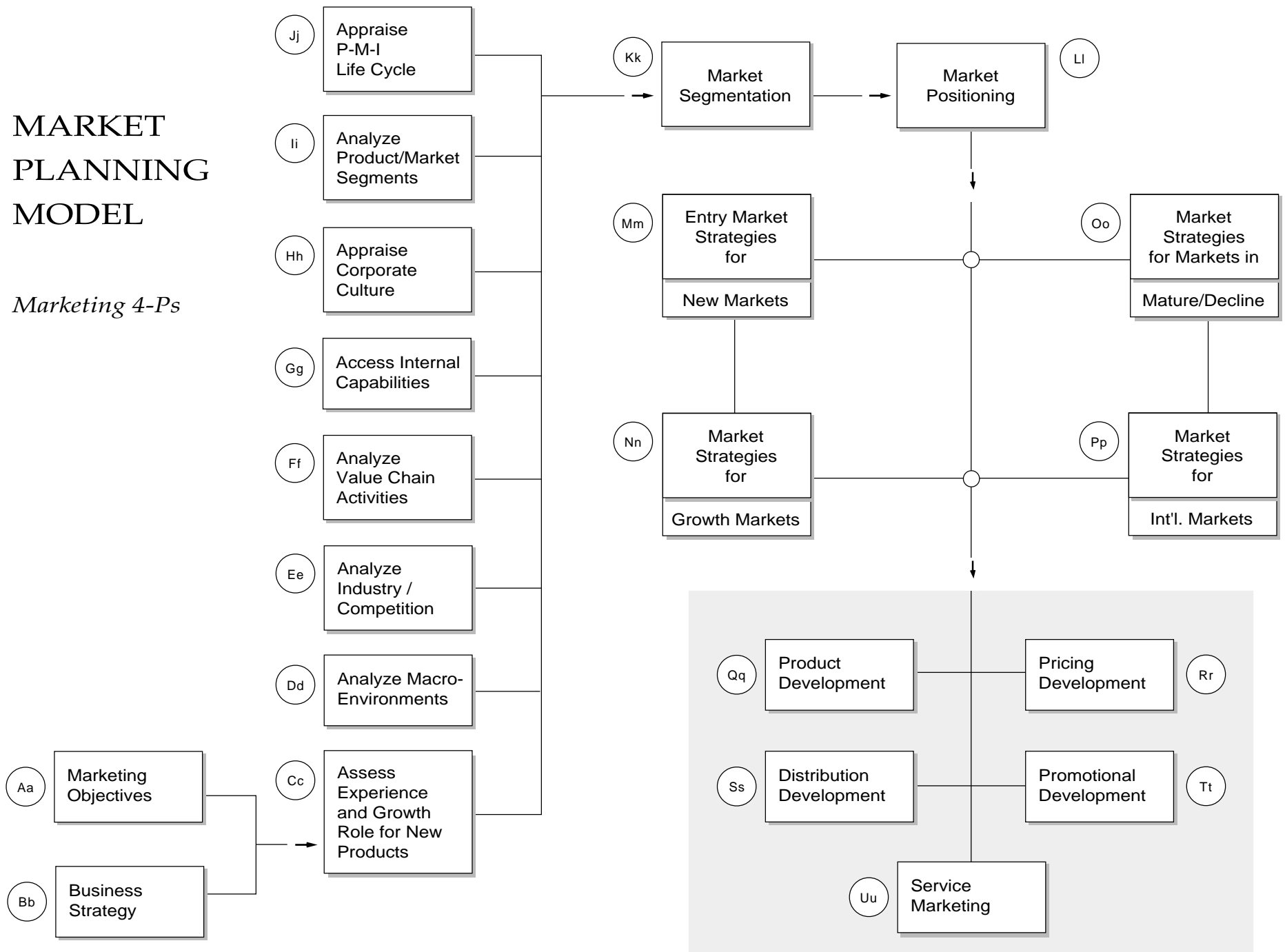
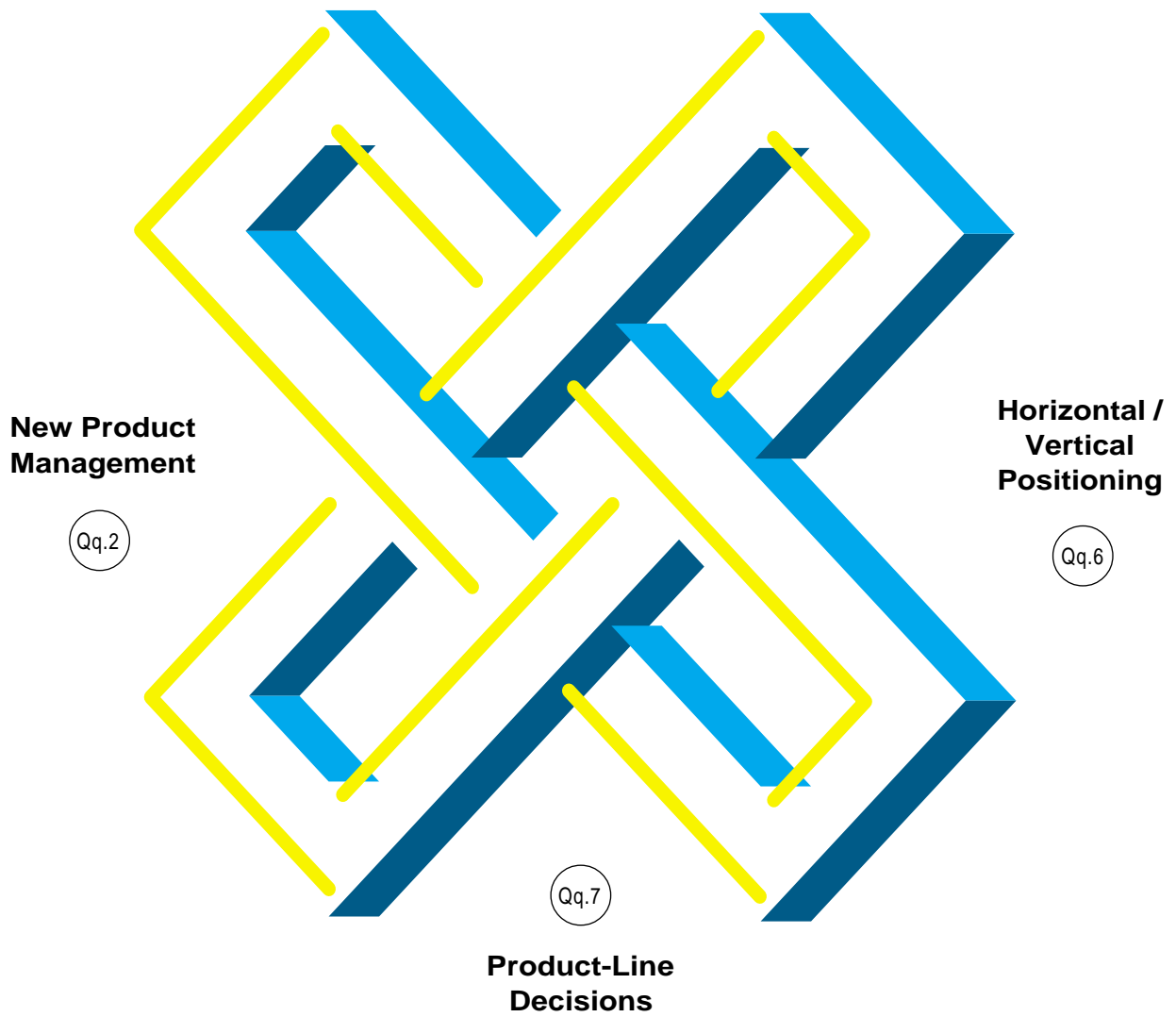
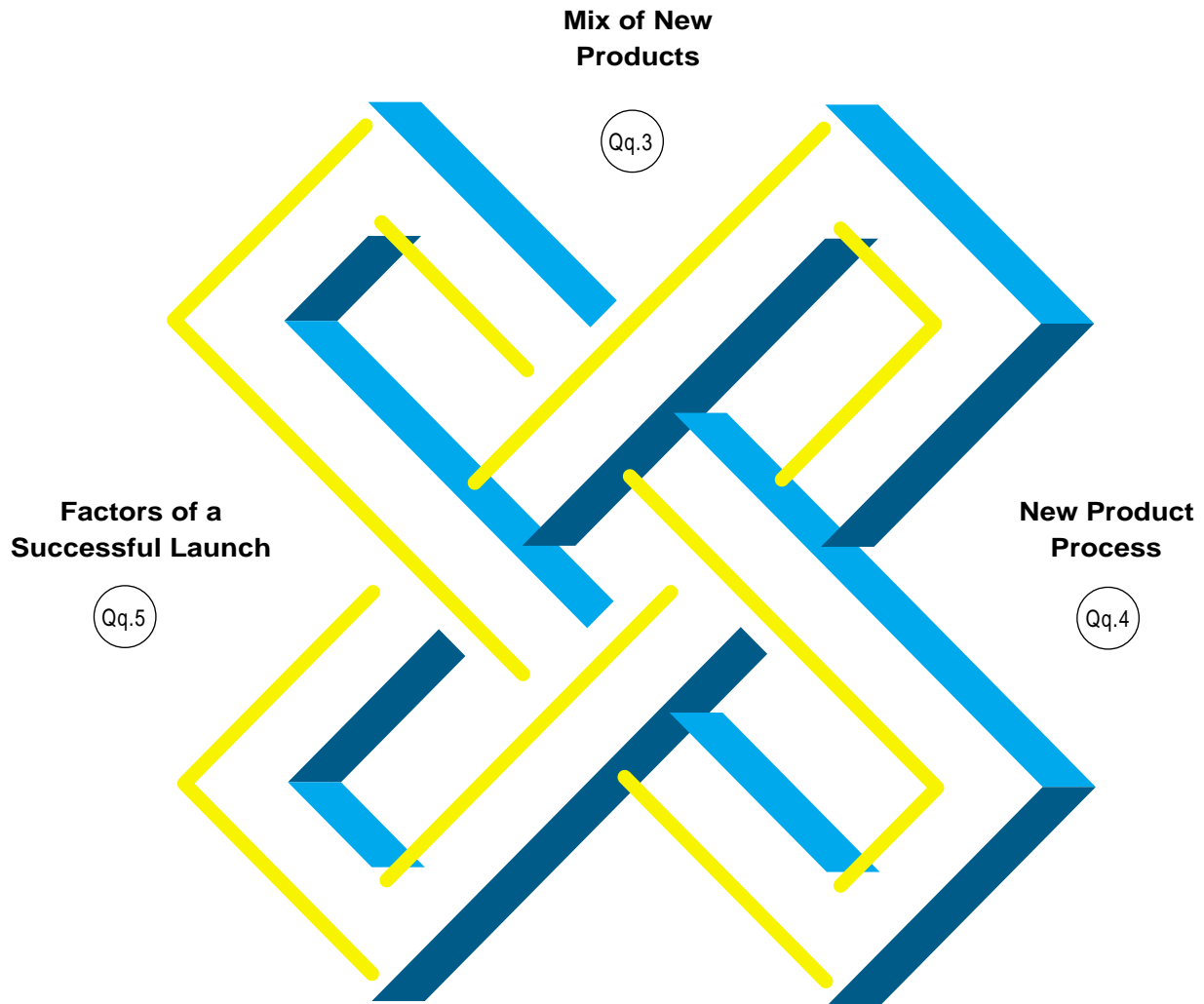


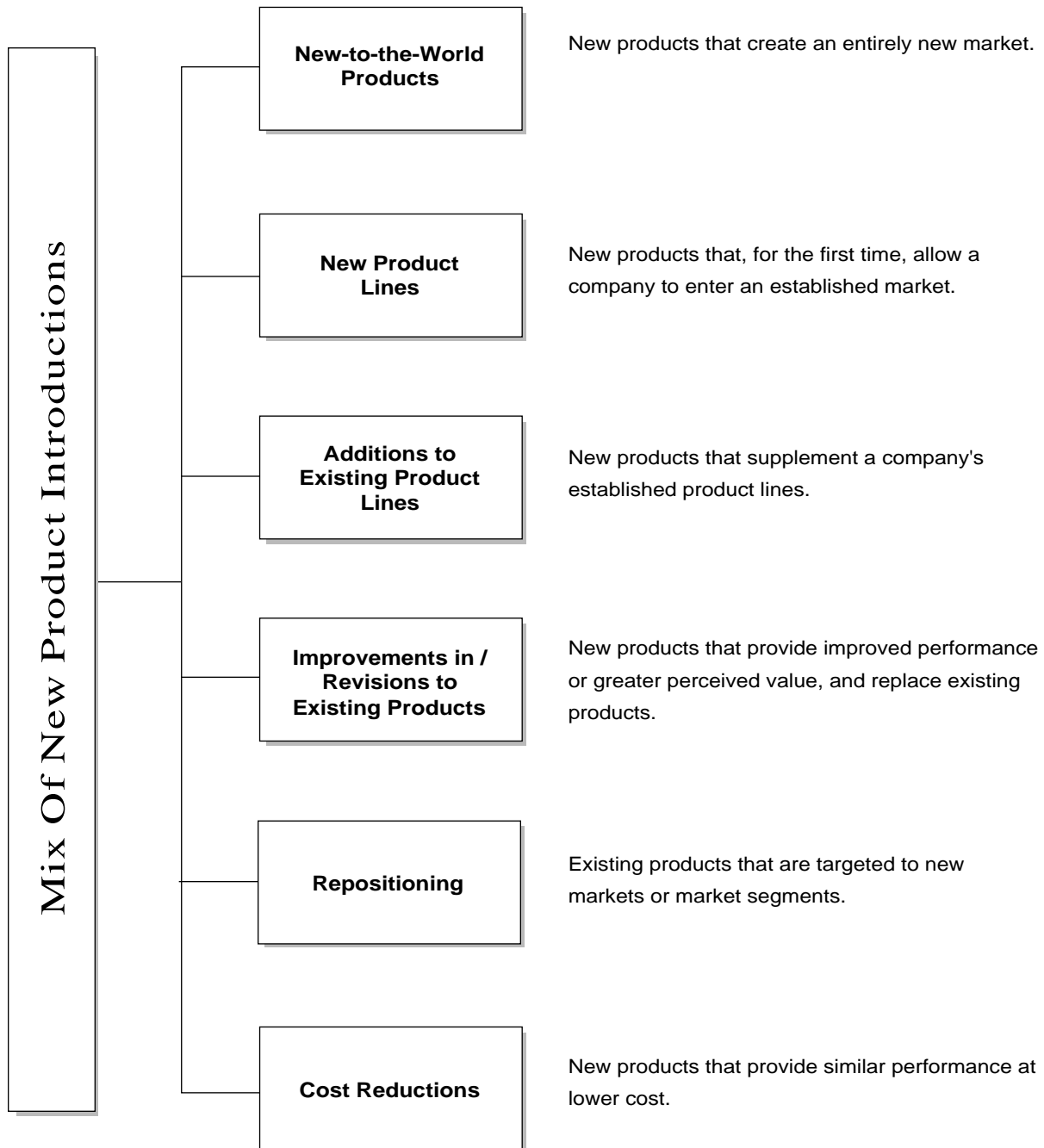
MARKET PLANNING MODEL

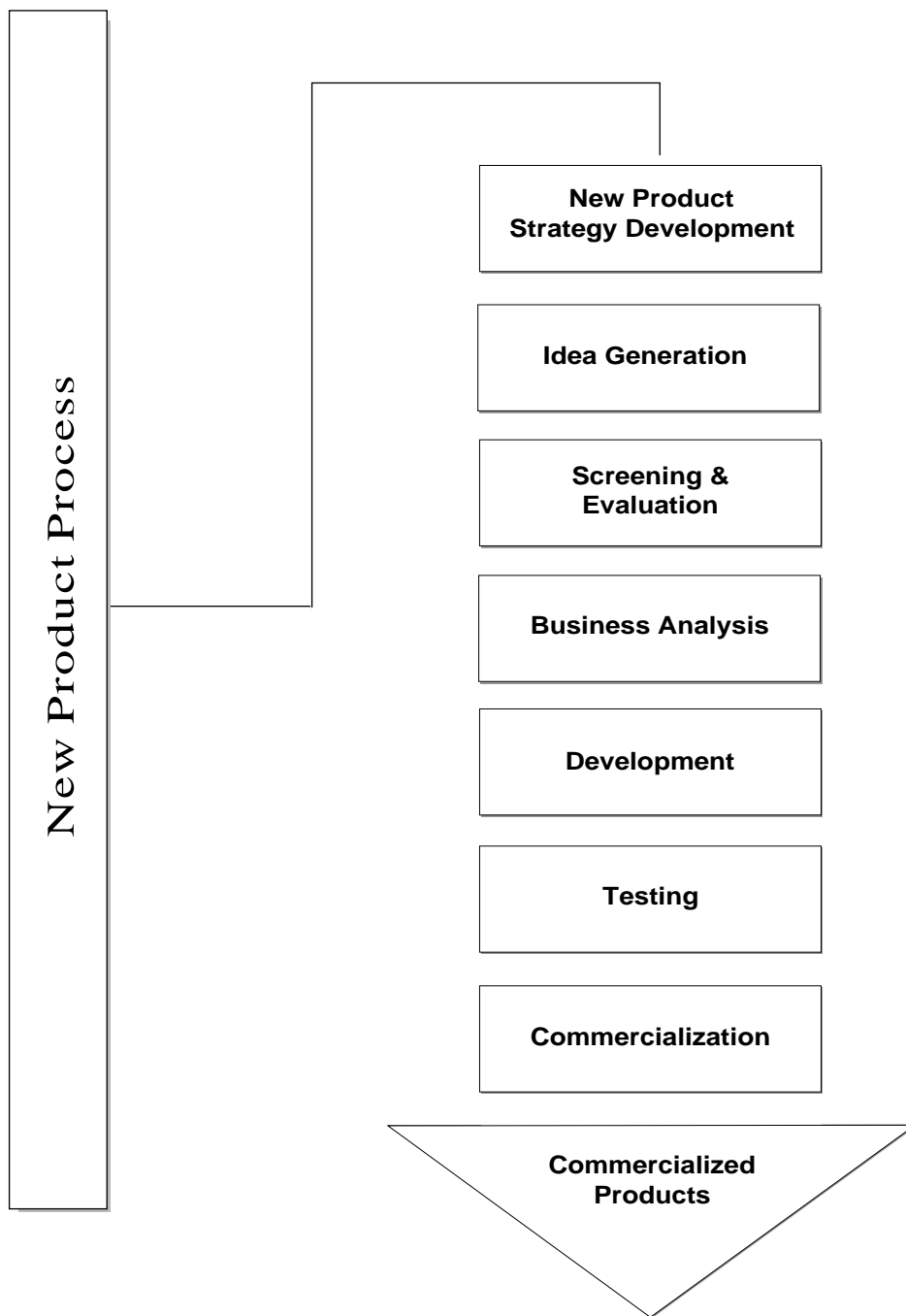
Marketing 4-Ps

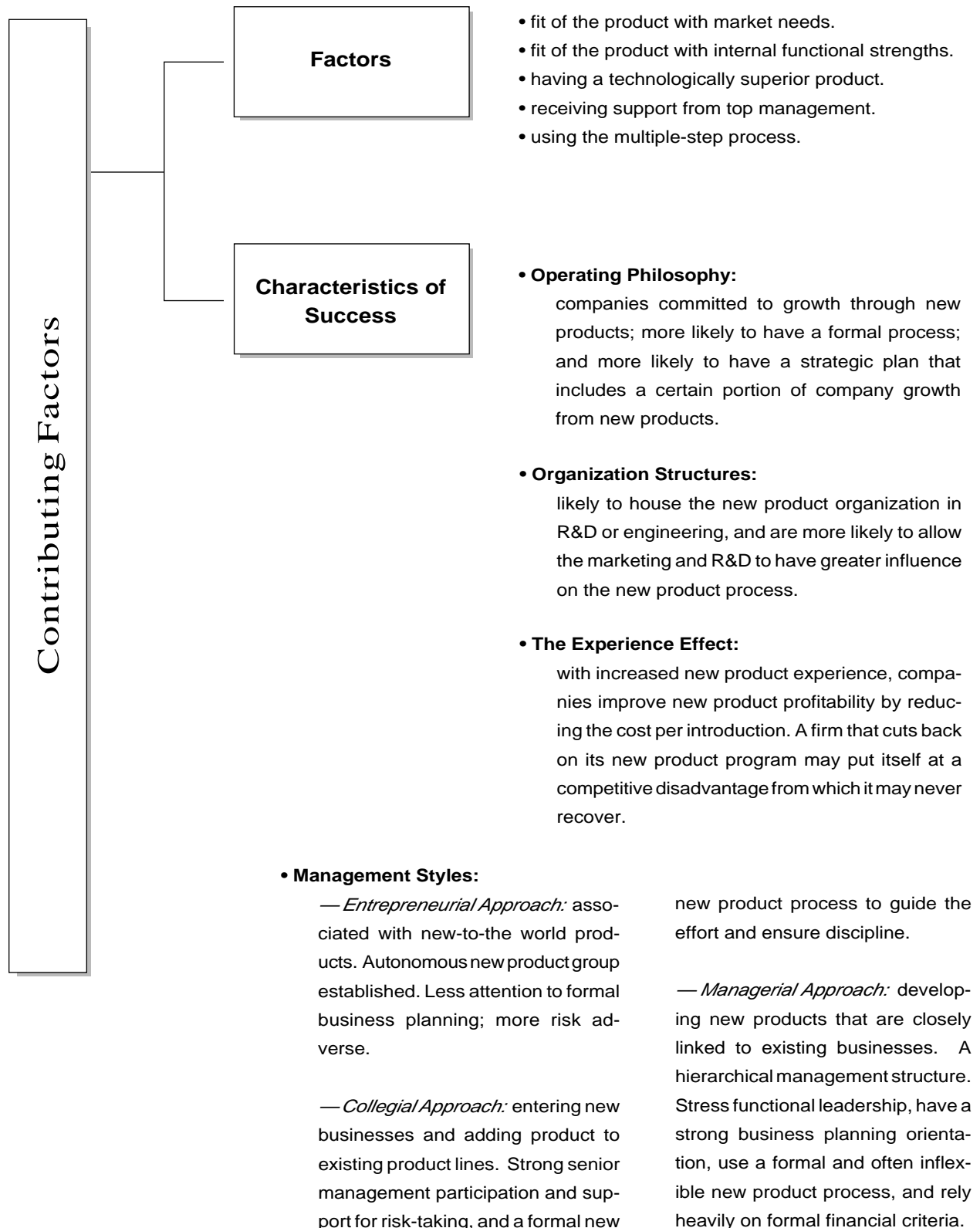


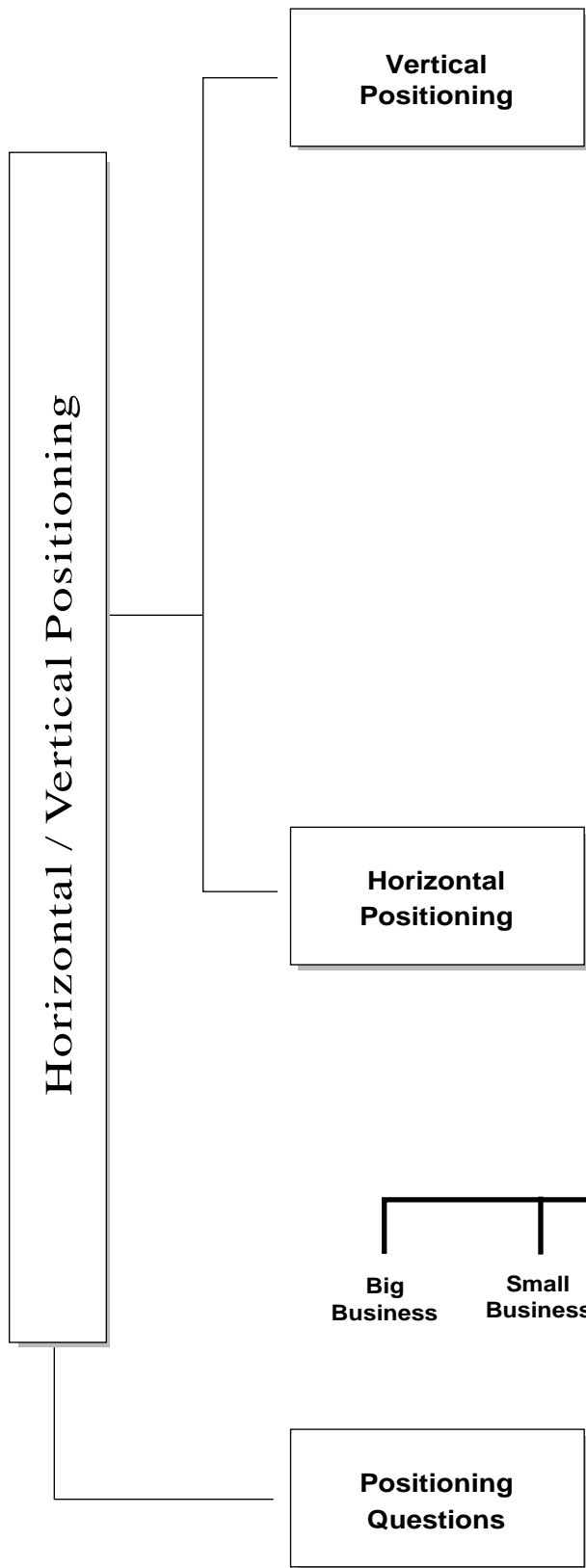




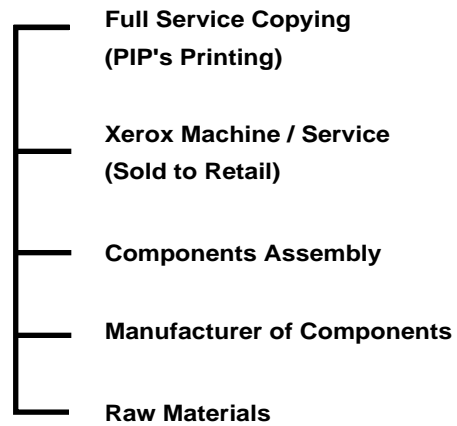




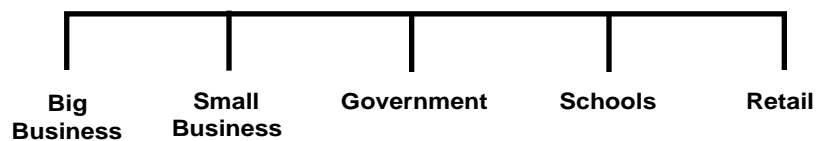




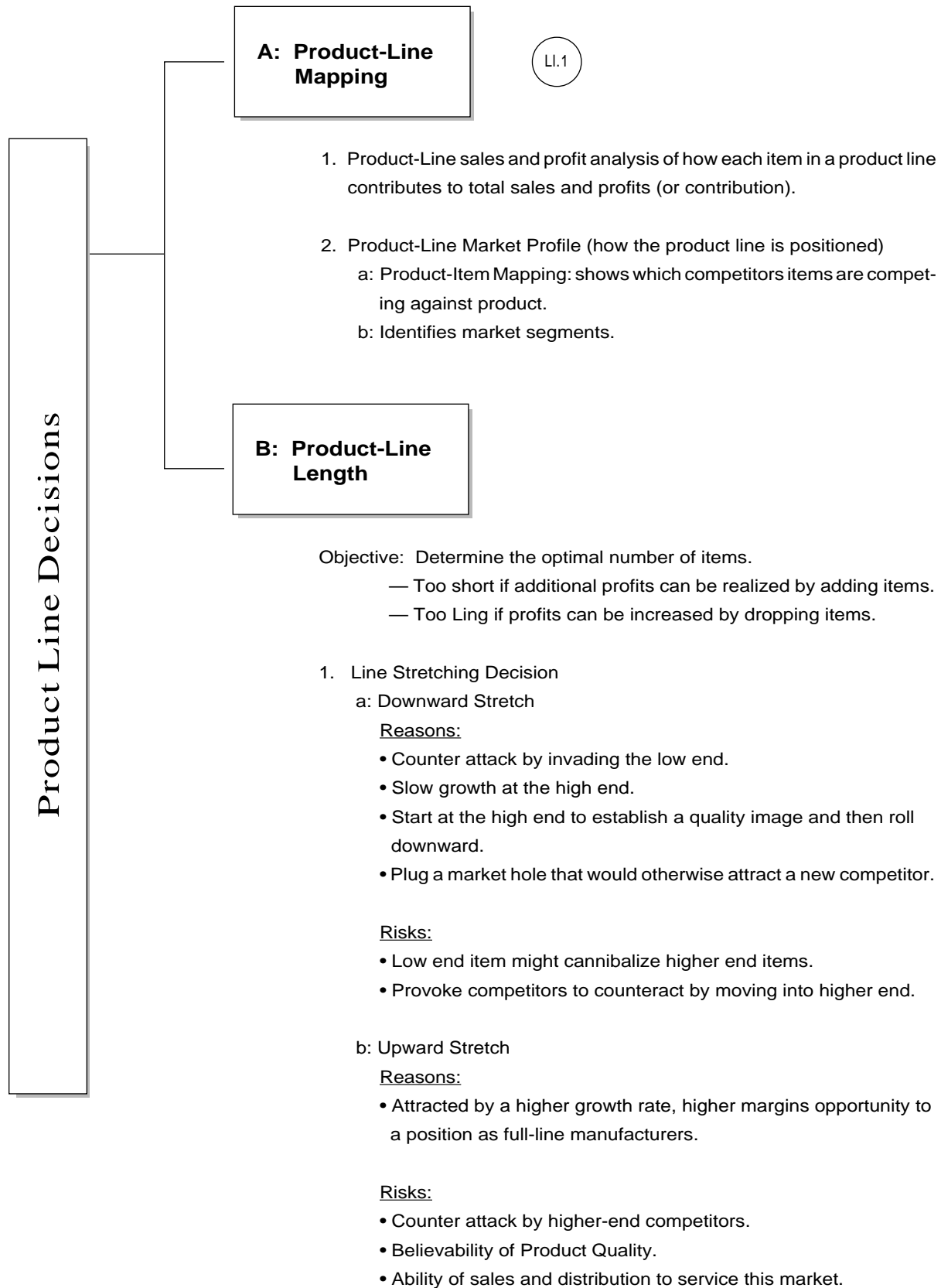
Vertical product / market choices have to do with the market level at which the supplier sells. For instance, the aluminum producer serving the residential housing market may have a choice whether to sell raw materials, semi-fabricated materials, components, or end products. Example, Xerox Copying:

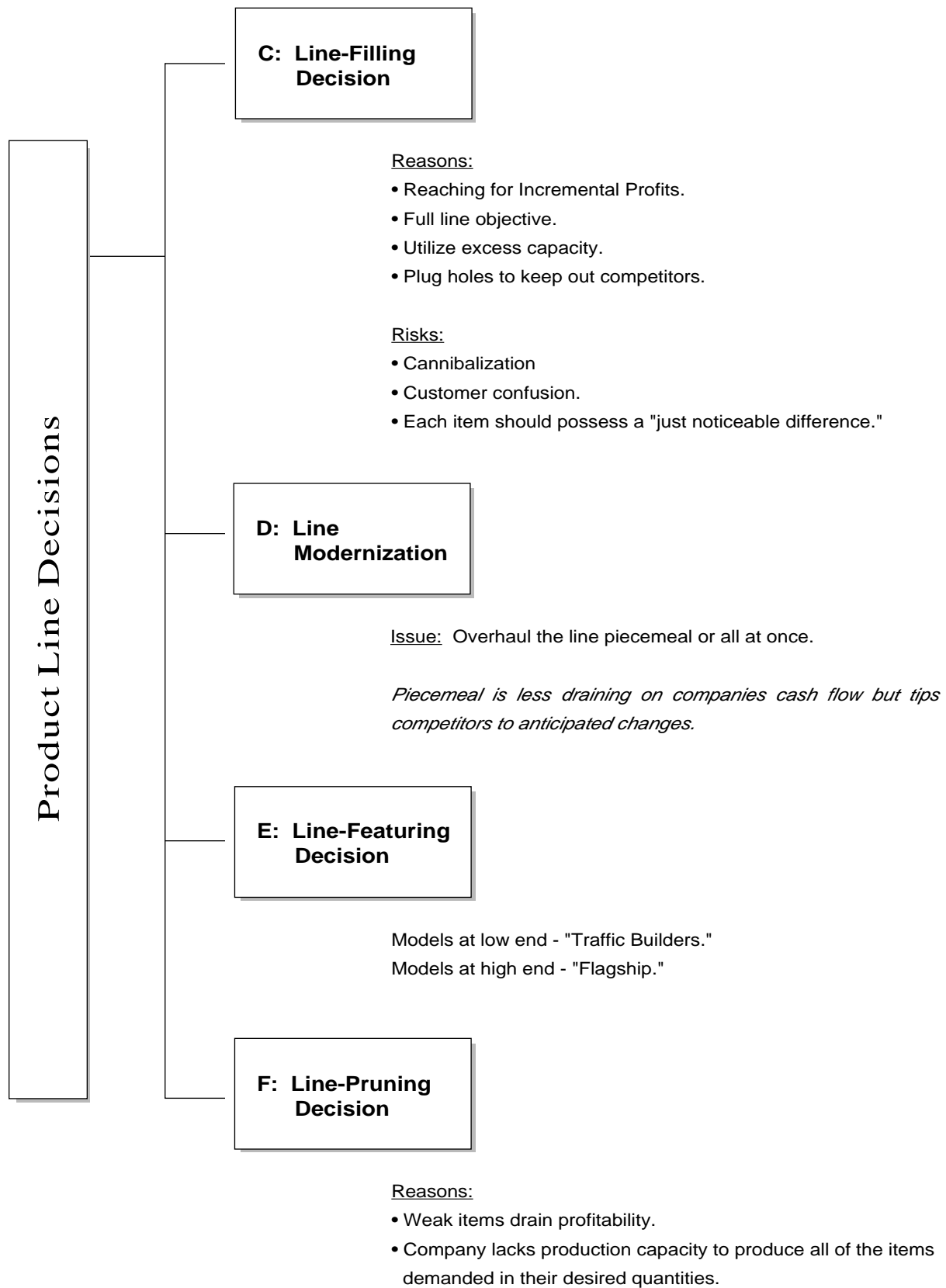


Horizontally, industrial markets can be segmented in terms of end-use application. A manufacturer of air conditioning systems, for example, will distinguish among such market segments as residential tract builders, small "stick" builders, and commercial contractors. Example Xerox Copiers:



- What Markets Should be Served?
- What Form Should the Product Take?
- What Should the Product Do for the User?
- For Whom is the Product Most Important?







References

Page Qq.3: *New Product Management for the 1980s*
 Booz, Allen & Hamilton, 1982

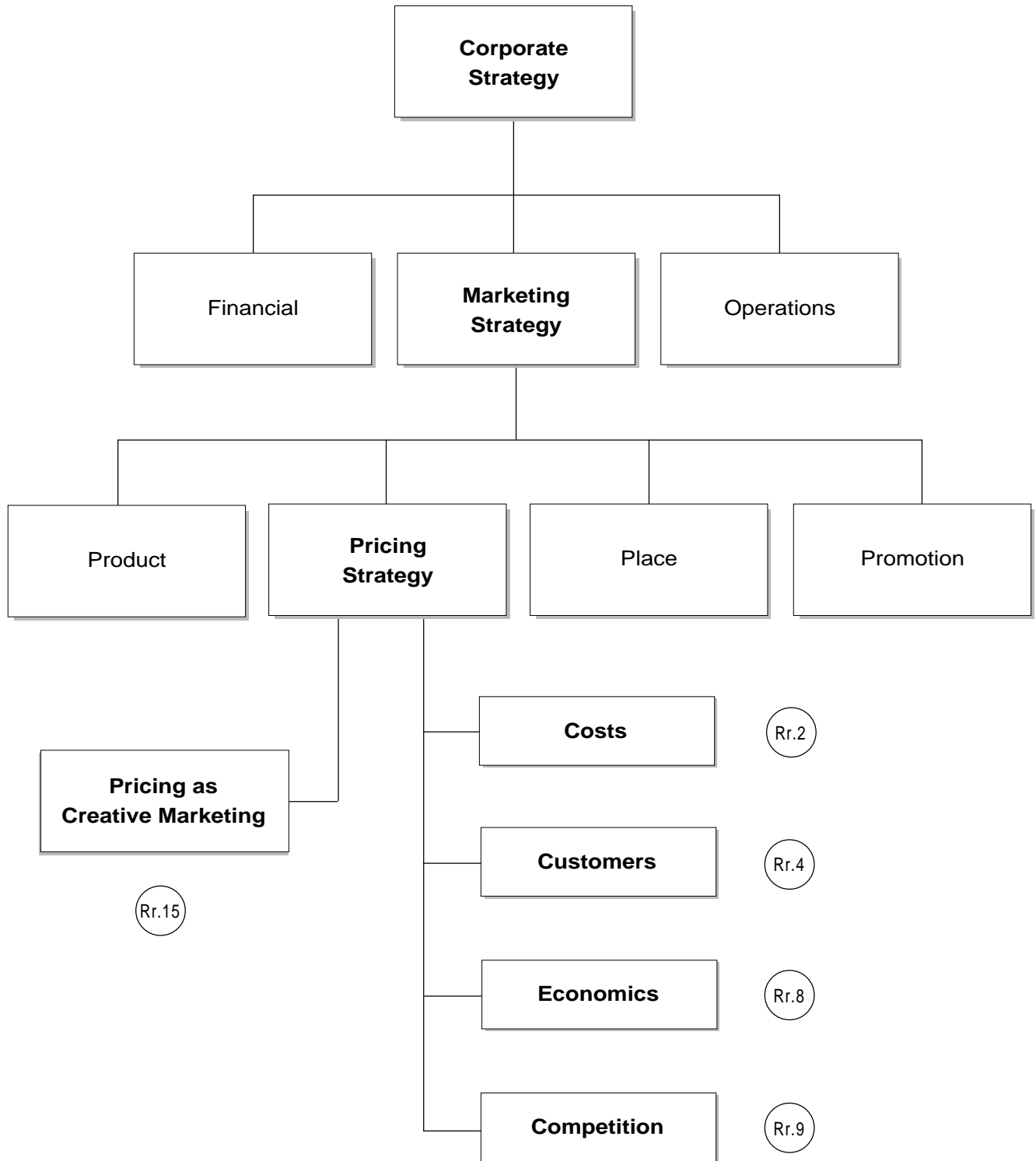
Page Qq.4: *Ibid.*

Page Qq.5: *Ibid.*

Page Qq.6: Key Options in Market Selection and Product Planning
 E. Raymond Corey
 Harvard Business Review: 1975

Page Qq.7-8: *Author Notes*







Costs

- Costs alone should never determine price.
- Decide what to produce and to whom to sell by comparing prices one can charge with costs that must be incurred.
- Isolating Relevant Costs:
 - future costs
 - incremental or marginal costs
 - avoidable costs
 - opportunity costs
- Break-even costs.

Pricing Procedures:

1. Identify the incremental, avoidable costs applicable to a change in sales.
2. Calculate the contribution margin and the break-even sales change for the proposed price change.
3. Evaluate buyers' price sensitivities to determine the likelihood that they will change their purchases by more or less than the break-even sales change.
4. Identify competitors and evaluate likely responses.
5. Identify buyers for whom costs, price sensitivity, or competition are significantly different, and segment them for different pricing treatment, where possible.
6. Calculate the profit implications for various probable sales changes.
7. Accept or reject the proposed price changes by weighing the benefits of favorable outcomes against the perceived risks of unfavorable ones.

See **Rr.3** for issues in product line costing.



Product-Line Costing

Critical Cost Issues:

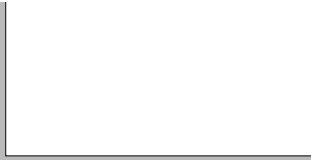
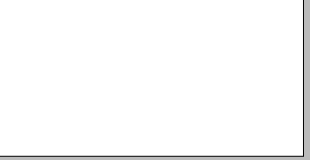
Forward Looking vs. Historical Costs

- Inventory should be valued at present value: NIFO = next-in, forward-out.

Incremental vs. Constant Costs (Marginal)

- Price the ROI what it costs for the next product — marginal.
- Consider only costs that change as a consequence of the pricing decision.

Don't:

- 1) Don't equate average variable cost and marginal cost.
 - 2) Don't equate depreciation and market value.
 - 3) Don't assume a cost element is all variable or fixed.
 - 4) Don't forget that an opportunity cost is a real cost.
 - 5) Don't forget that he who cuts variable costs most/quickest, wins.
-
- 
- 



Customers

1: The Unique Value Effect

Buyers less sensitive to a product's price the more they value unique attributes it offers:

- Does product have unique attributes? (tangible/intangible)
- How much do buyers value such attributes.

Methods —

- Economic Value Analysis
- Conjoint Analysis

2: The Substitute Awareness Effect

More substitutes buyers aware of, more sensitive they will be to the price charged by any one seller (food served in room at a hotel).

- What alternatives do buyers have?
- Are buyers aware of their alternatives?

Methods —

- Market definition (e.g., retailer inquiry, trade show display)
- Sales Personnel
- Survey Research (unaided recall)

3: The Difficult Comparison Effect

Buyers less sensitive to a product's price when comparison with competing offers difficult (e.g., candy in a show-house).

- How difficult is it for buyers to compare offers (observation)?
- Are prices of different suppliers easily compared?

Methods —

- Observation of buyer decision-making.
- Past behavior with respect of similar products.
- Judgement based on difficulty of obtaining information and risks of product trial.



Customers

4: The Total Expenditure Effect

Buyers more price sensitive when expenditure larger.

- Significance of buyer expenditures on product?

Methods —

- Secondary Data (Consumption rates from consumer panel; input-output analysis; engineering estimates).
- Mail or Telephone Survey

5: The End-Benefit Effect

Buyers more sensitive to price of a product when:

- a) they are sensitive to cost of end benefit to which it contributes.
- b) product's price accounts for larger share of total cost of end benefit.

- What end benefit do buyers seek from product?
- How price sensitive are buyers to cost of end benefit?
- What portion of the benefit does price of the product account for?

Methods —

- survey of buyers (e.g., other purchases made in conjunction with purchase of product).
- Engineering study of buyer's production process.

6: The Shared Cost Effect

Buyers less sensitive to the price of a product the smaller portion of price they actually pay.

- Do buyers pay the full cost of the product?
- If not, what portion of the cost do they pay?

Methods —

- Surveys of corporate reimbursement policies.
- Analyses of insurance coverages.
- Treatments of expenditures for tax purposes.



Customers

7: The Sunk Investment Effect

Buyers less sensitive to the price of a product the greater the sunk investment made in anticipation of its continued use (ex. new car generally gets higher-priced gas).

- Must buyers of the product make complementary expenditures in anticipation of continued use?
- For how long are buyers "locked in" by these expenditures?

Methods —

- Questioning of buyers and observation.

8: The Inventory Effect

Buyers more price sensitive i short run when they can hold inventories of a product and believe it current price is temporarily lower or higher (canned tomatoes vs. fresh tomatoes).

- Do buyers hold inventories of the product?
- Do they expect current price to be temporary?

Methods —

- Inference from form of price announcement
- Inference from informal research and past behavior



Customers

9: The Price-Quality Effect

Buyers less sensitive to a product's price to extent the price signals higher quality.

- Is a prestige image an important attribute of the product?
- Is the product enhanced in value when its price excludes some customers?
- Is the product of unknown quality and are there few reliable cues for gauging quality before purchase? If so, how great would loss to buyers be from low quality relative to the price of the product?

Methods —

- Judgement based on comparison with similar products
- Experimental research — value of price as quality cue.
- Treatments of expenditures for tax purposes.

10: The Conceptual Argument

Buyers quality consciousness drives the phenomenon of price premiums.

- Experience Products: the more quality conscious, the greater will be the price.
- Search Products: the more quality conscious, the more likely they are to search and less likely to be cheated, hence the less likely they will pay a premium.

11: Findings from Academic Research:

Price-perceived quality effects are similar across different price levels.

The larger the change in prices, the more significant the change in quality perceptions.

Price-perceived quality perceptions are stronger "within" individuals, than "between" individuals; e.g., consumers exposed to multiple prices form stronger price-quality perceptions than those exposed to single prices.

When other information (such as brand name) is present, the price-perceived quality effect is enhanced, not reduced.



Customers

12: Morals of the Story:

Segregate gains — multiple presents; multiple concessions.

Integrate losses — credit card usage; extras in the purchase of cars (e.g., stereos).

Cancel losses against larger gains (integrate — salary deductions).

Segregate "silver linings" (small gain/loss); integrate otherwise and create a small loss — rebates.

In general, present options as discounts (more valuable) than premiums (e.g., credit card usage).

13: Preliminary Implications

All marketplace transactions involve exchanges — something (money) is lost and something else (a product or service) is gained.

Consumers are typically risk averse with respect to gains, and are risk taker with respect to losses.

Opportunity costs (reductions in gains) are weighted differently (less) than out-of-pocket costs (which are outright losses).

If therefore becomes the aim of the marketer to frame losses as reductions in gains, not outright losses. This results in a more satisfied customer.



Economics

Extrinsic Value:

Based on brand name, price, and market perception; e.g., Department 56 Dickens series. Psychological Impact.

Intrinsic Value:

The product's specification; e.g., Department 56 Dinkins series and its clay materials. Physical performance.

Cross Elasticity of Demand:

- Complement Products
What happens to one Product (A) if you change price of Product (B); e.g., film and cameras.
- Competitor Products
One Product (X) goes up/down by change of another product; e.g., chicken and hamburger.

Familiarity of Products:

- The more information the user has, the price and perception of quality drop. Price and perception of quality curve moves up with great information where price is a good indicator of quality.

Fungibility of Money:

- The value to gain \$25,000 is less than the value with a loss of \$25,000. Losses are more painful than gains of equal magnitude.



Competition

Loss Leaders:

Price below VC because:

- It is difficult to remember multiple prices
- Different segments are differentially price sensitive

Therefore, if:

- A product is frequently purchased
- By a price sensitive segment

It is a candidate for a loss leader, as the segment will "anchor" on that price to assess the general price level. Ex: Grocery stores — white bread, peanut butter

Flankers:

- Low or high priced brand that fights a competitors offering.

Ex: Gulftane vs. independent stations.

Product Line Prices and Quality Perceptions:

- Highest priced model is normally used to assess quality — but may be considered ostentatious; often need "high priced loss leaders" to create the dominant brand effect.

Ex: Branded Items -> Private Label -> Generics.



Competition

Bundling vs. Unbundling:

- Bundling: Combine the products as one product; e.g., the Apple Computer with system, interface, keyboard, etc.
- Unbundling: Unbundled products into several components; e.g., the Apple Computer sold individually as a system, hardware, etc.

Similar vs. Dissimilar Products:

- Similar Products: introduce medium-priced. High-price users will move to medium price but low-price users stay because of price sensitivity.
- Dissimilar Products: will only steal from dissimilar products of the same price.

The Experience Curve:

- Direct unit costs of manufacturing and marketing decline by a constant amount, in constant dollars, every time cumulative volume doubles.
- Prices should normally follow a similar pattern.
- Should be used with product portfolio analysis.
- Sources of Experience Curve Effect:
 - Learning by Doing:
increase efficiency, discover better ways or improve methods, exercise of ingenuity, skill and repetitive activities.
 - Technological Improvements:
product standardization and design, changes in resource mix, new production processes.
 - Economies of Scale:
increased efficiency due to size, spreading fixed costs over greater numbers of units.



Competition

Pricing with the Experience Curve

I: Costs and Experience:

a: Price and cost data show that costs decline by some predictable amount each time accumulated experience is doubled.

b: The decline in costs is consistently 20% to 30% each time accumulated production is doubled.

c: These reductions in costs, as volume increases, are not automatic:

- Management must seek ways to force down costs as volume expands.
- Production costs are most likely to go down under this pressure, but all cost elements should be subject to this management pressure.
- Competition will produce the survivors who realize this cost reduction potential.

d: The growth rate of a product is an important factor. If demand for a product is not growing, then the rate of cost decline per year slows down and approaches zero.

e: When accumulated units of a product are increasing annually at a constant percentage rate, then each year of product experience produces about the same percentage effect on cost.



Competition

Pricing with the Experience Curve

II: Prices and Experience:

a: Available data show, in general, that prices tend to decline by some given amount each time accumulated experience is doubled.

b: Where prices have paralleled costs over time, the price experience slope is a straight line (characteristic of very competitive and rapid growing, technological industries).

c: When prices do not decline as fast as cost initially, then a kink will appear:

- Phase A: costs exceed prices
- Phase B: market leader holds a price umbrella
- Phase C: shake-out period
- Phase D: stability emerges.

III: Guidelines for Application:

a: Cost-volume analysis is a powerful conceptual and analytical tool.

b: The most obvious application of experience curves is to the manufacturer.

c: These costs include the customer's perception of value vs. cost.



Competition

Pricing with the Experience Curve

IV: Limitations of the Experience Effect:

a: Total costs decline from effects of experience on cost elements that combine to make up the product.

- slopes of experience curve for different cost elements may be different.
- only some costs may be influenced by management.
- causes of cost experience must be identified.
- some experience can be shared because several products use common resource.

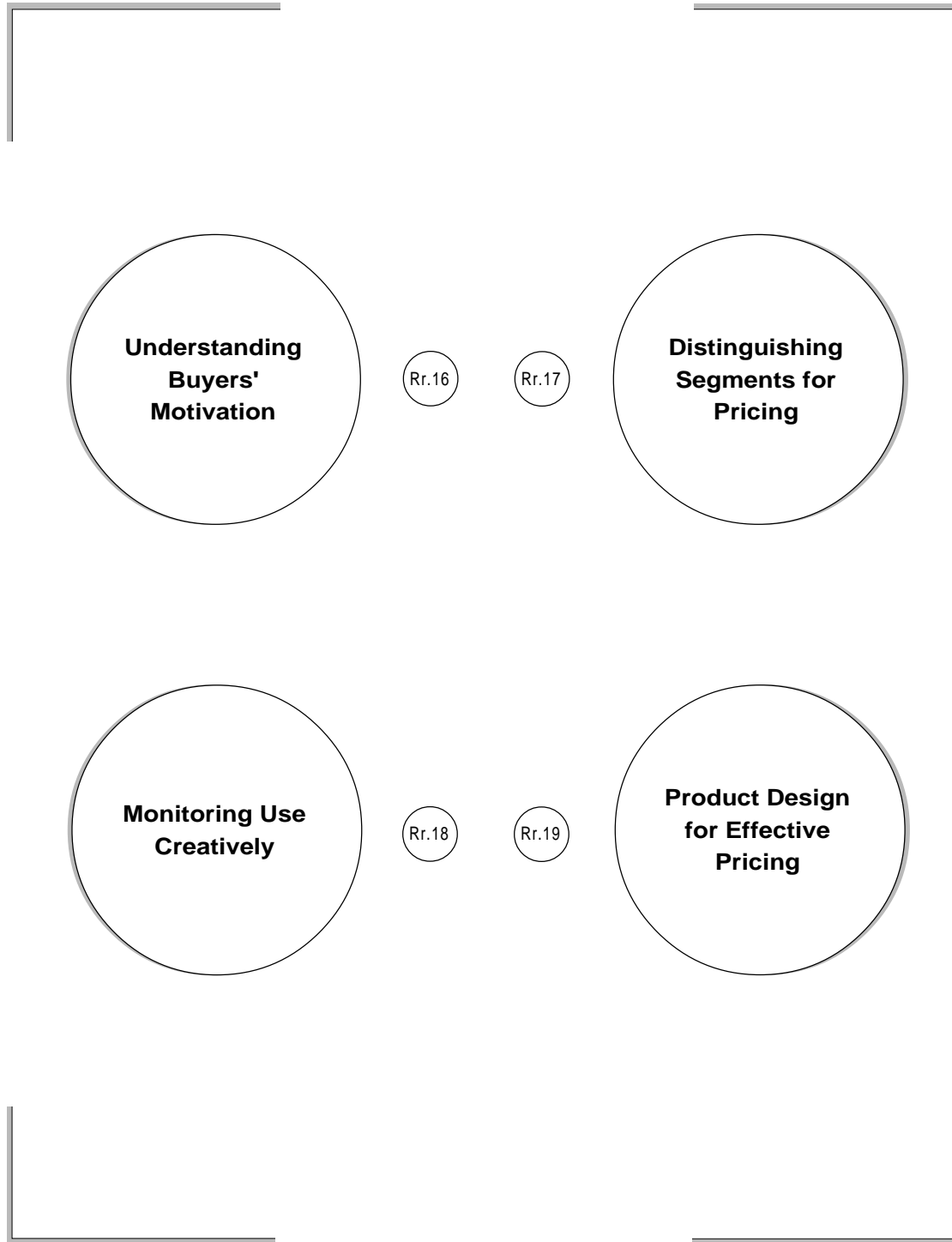
b: Change in design or manufacturing of product can change experience effects.

c: Experience can be purchased.

d: Experience may be overrated.



Creative Pricing in Marketing





Understanding Buyers' Motivation

1: The Ford Mustang:

With buyer-oriented pricing, the firm anticipates price, even before a product's development, by simply evaluating proposed product benefits.

The Mustang was not designed to be a good sports car, with all the preconceptions of what a sports car "should" be, and then priced to cover costs and a target return. Ford discovered through research that a market segment existed which valued "sportiness" in a car, but which was unwilling to pay the price for a "sports car."

2: Prices are Tentative:

Prices are only tentative and, after each step in the development process, should be reevaluated based on consumer interviews, surveys, and changes in the market. These tentative prices are an important guide to product development since they can mark potential products as candidates for rejection or redesign.

3: Airline Pricing:

The most important advantage of buyer-oriented pricing is the early detection of differences in the way buyers value the same product benefits.

Planes keep flying because the companies recognize differences among buyers — in the benefits important to them and in the value they place on those benefits — enabling airlines to offer slightly differentiated products at significantly different prices.



Distinguishing Segments for Pricing

1: Distinguishing Segments:

The challenge of buyer-oriented pricing is not just to identify different consumer segments. The next step is to design a marketing strategy that effectively distinguishes them for pricing.

Airlines successfully distinguish segments simply by requiring a long lead time to reserve a low price fare. Vacationers are price sensitive. Business travelers are much less price sensitive but require flexibility.

Separation generally requires creative efforts in product design or distribution, which explains why development of a pricing strategy should begin early in the product development process. First study buyers to determine what product benefits they seek and what value they place on those benefits: e.g., making many copies per original and for making few copies per original.

The buyer-oriented pricer would recognize that buyers who make many copies per original have very good alternatives to photocopying. They could use offset presses or duplicators to get high quality copies at a reasonable cost. But buyers who make few copies per original have no good alternatives. Offsetting and duplicating are prohibitively costly for a few copies, while carbon paper produces copies of distinctly lower quality. Thus, buyers who make few photocopies per original will value them much more highly than will buyers who make many copies.

Also holds true for buyers who make many copies prefer copying technology that collates, duplicates, etc. They place a high value on such items.



Monitoring Use Creatively

Tying Arrangements:

Though questioned by the courts, opportunities to segment a market through tying arrangements still exist. In the opinion of the Supreme Court, the "illegality in tying arrangements is the wielding of monopolistic leverage; a seller exploits his dominant position in one market to expand his empire into the next." Must be shown to have a monopolistic position in the tying good which excludes substantial competition in the tied good.

No court has ever considered prohibiting theaters from requiring that popcorn be purchased from the in-house concession, or considered prohibiting razor manufacturers from creating shaving technologies that tie blades to razors.

The courts have nevertheless severely limited tying arrangements in precisely the cases where they were most dramatically effective.



Product Design for Effective Pricing

1: Distinguishing Segments:

Pricing tactics call for creative insight based on differences in buyers, not differences in technologies or product costs. Moreover, they required that those differences be identified early in the product development process. Often the product design itself is the mechanism for effective buyer-oriented pricing, again requiring formulation of a pricing strategy even before designing the product.

Orchestral programming includes for a program segments of music that appeals to patrons like "old favorites;" a smaller but highly devoted group of patrons prefers hearing pieces which are more avant garde. By bundling features that appeal to different tastes, they are actually segmenting their market for pricing. Thoughtfully combined programs allow symphonies to charge each listener a high price for the music he values most, without driving from the market for that music those patrons with different tastes.

This same practice is used in numerous instances even for pricing other than entertainment and sporting events. Newspaper publishers often sell advertising only as a package for both their morning and evening papers. And radio stations sometimes sell advertising for one program only in combination with another.

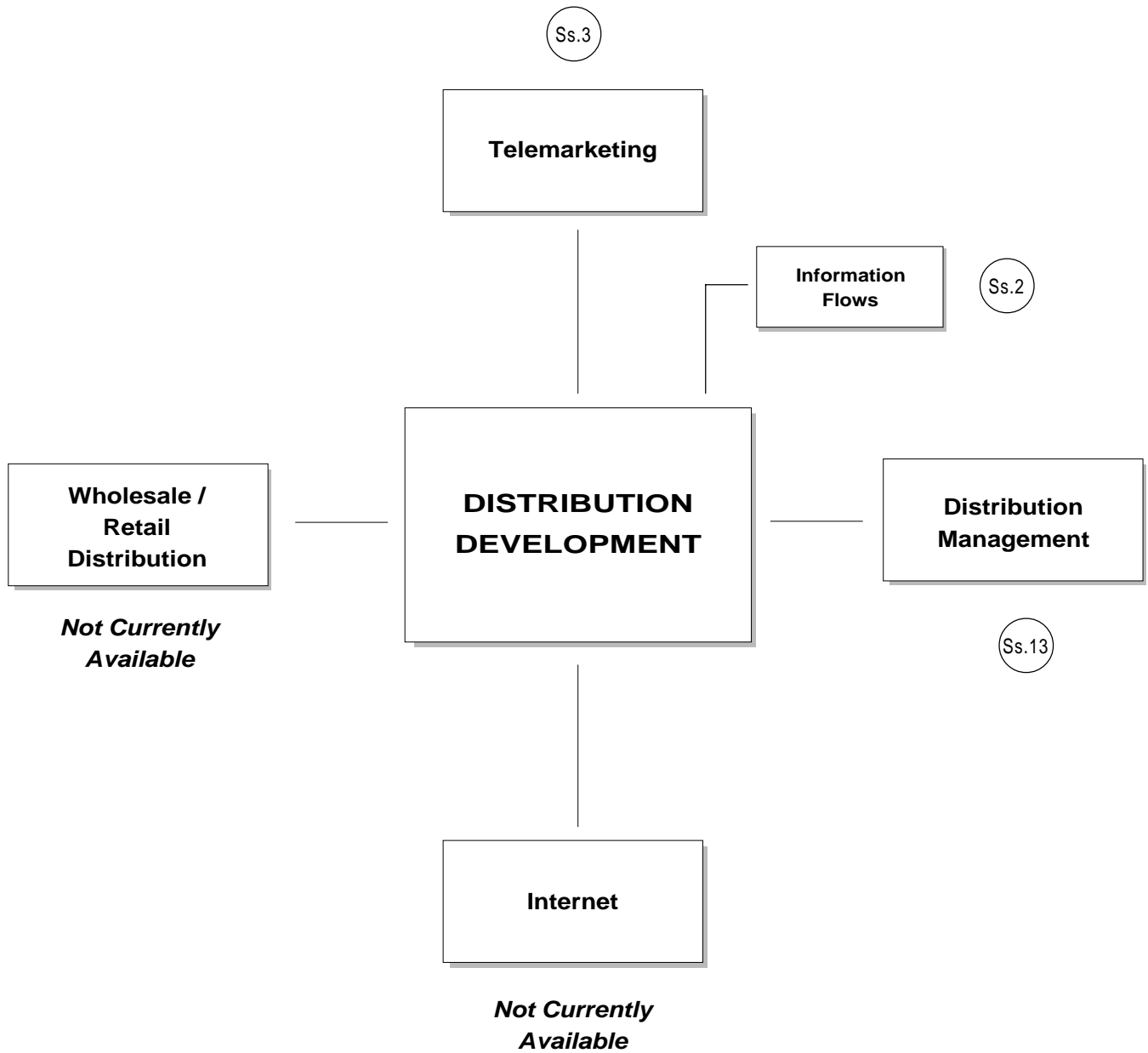
The key to effective pricing is the same one that opens doors to efficacy in other marketing functions: a creative awareness of who buyers are, why they buy, and how they make their purchase decisions. The recognition that buyers differ in these dimensions is as important for effective pricing as it is for effective promotion, distribution, or product development.

**References**

- Page Rr.2: *Class Notes: Product and Price Policy*
 Pages: (1):7-8
- Page Rr.3: *Ibid.: Pages: (4):4*
- Page Rr.4: *Ibid.: Pages: (2):1-2*
- Page Rr.5: *Ibid.: Pages: (2):2-3*
- Page Rr.6: *Ibid.: Page: (2):4*
- Page Rr.7: *Ibid.: Page: (2):5; Page: (4):6; Page: (3):1*
- Page Rr.8: *Ibid.: Page: (3):2-4*
- Page Rr.9: *Ibid.: Pages: (4):9-10*
- Page Rr.10: *Ibid.: Pages: (6):6-7*
- Page Rr.11: *Ibid.: Pages: (5):1-4*
- Page Rr.12-14: *Ibid.: Pages: (5):5-10*
- Page Rr.15-19: Pricing as Creative Marketing

 Thomas Nagle
 Business Horizons: July-August 1983







Flows in a Distribution Channel

Product Flows

Suppliers → Shippers → Manufacturer → Dealer → Buyers

Title Flows

Suppliers → Shippers → Manufacturer → Dealer → Buyers

Payment Flows

Suppliers → Banks → Manufacturer → Banks → Dealers → Banks → Buyers

Information Flows

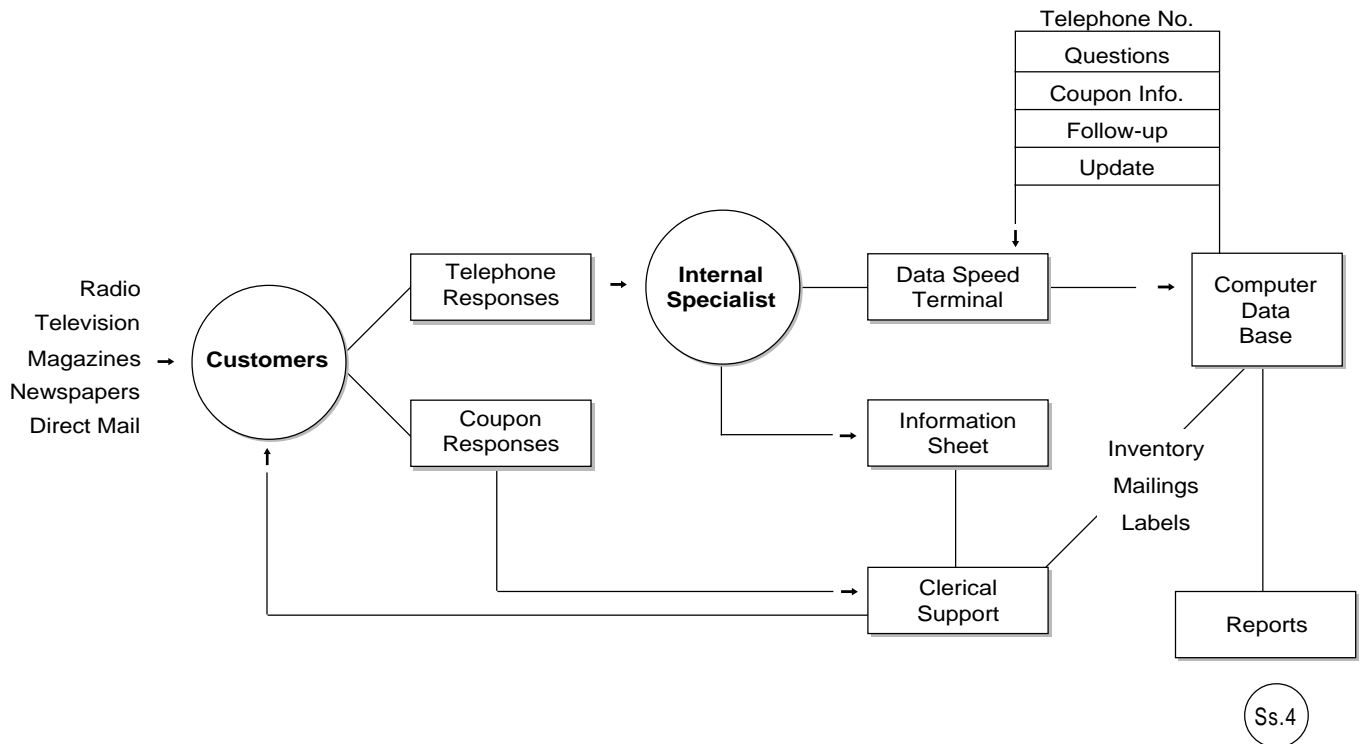
Suppliers ↔ Shippers ↔ Manufacturer ↔ Distributors ↔ Buyers

Information Flows

Ad Agency & Media ↔ Manufacturer ↔ Dealers ↔ Buyers



The Processing System in a Telemarketing Center (TMC)



- (Ss.5) Sales Leads Qualification Flow
- (Ss.6) Sales to Marginal Accounts Flow
- (Ss.7) Direct Sales to Market Flow
- (Ss.8) New Product Information Flow
- (Ss.9) Customer Inquire and Complaint Flow
- (Ss.10) Measurement of Advertising Effectiveness Flow
- (Ss.11) Credit and Collection Activities Flow
- (Ss.12) Marketing and Product Research Flow



Advertising Report

- Inquiries per Advertisement
- Profiles of Respondents
- Sales Conversion Rates per Advertisement

Market Management Report

- Segment Analyses
- Marginal Account Identification

Marketing Research Report

- "Demographic" Data
- Image and Attitude Studies
- Forecasting Data

Physical Distribution Report

- Consumers' Orders
- Distributors' Orders
- Tracing and Dispatching
- Shipment Requirements
- Inventory Requirement
- Product Return Needs
- Customer Service Needs

Product Management Report

- Sales per Product
- Questions and Complaints
- Consumer Profiles

Sales Management Report

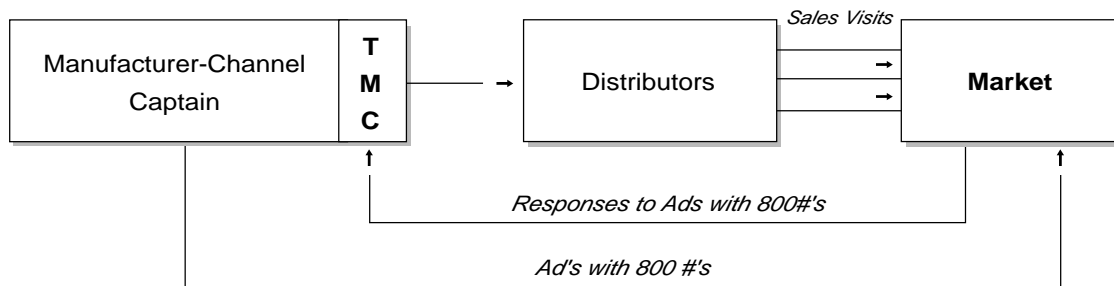
- Lead Qualification
- Marginal Account Status

Telemarketing Center Report

- Operations



Sale Leads Qualification



Channel Captain Benefits:

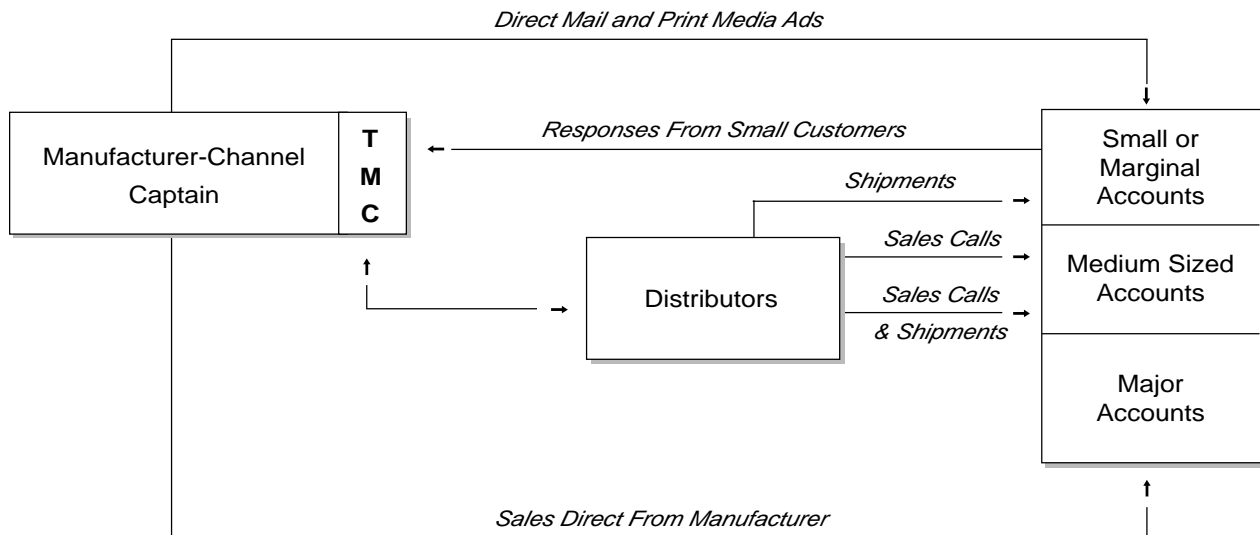
1. Serves as on measure of the distributor's and manufacturer's success in capitalizing on sales opportunities in their respective territories.
2. It provides methods for identifying distributors with sales personnel who need more training or upgrading.
3. It enhances the strength of distributors by making them more effective which, in turn, rebounds to the benefit of the channel captain.

Distributors Benefits:

1. The sales force's productivity is increased because they will be calling on persons or businesses that are more likely to make a purchase.
2. It links inventories with quantity users by providing real time demand and supply information.



Selling to Marginal Accounts



Channel Captain Benefits:

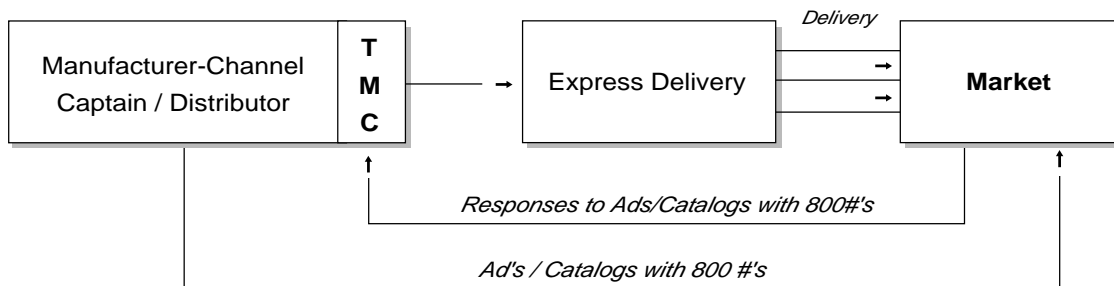
1. That it allows service to a market which would otherwise be a source of loss rather than profit.
2. It permits greater economies of scale resulting from the sale of products to an expanded market.
3. It provides greater cooperation from distributors selling to customers who otherwise might have to be abandoned.

Distributors Benefits:

1. They receive credit for business from which minimal selling costs were incurred.
2. It allows distributors to benefit from small accounts which may grow into medium sized account that will be loyal to the supplier.



Direct Sales to Market

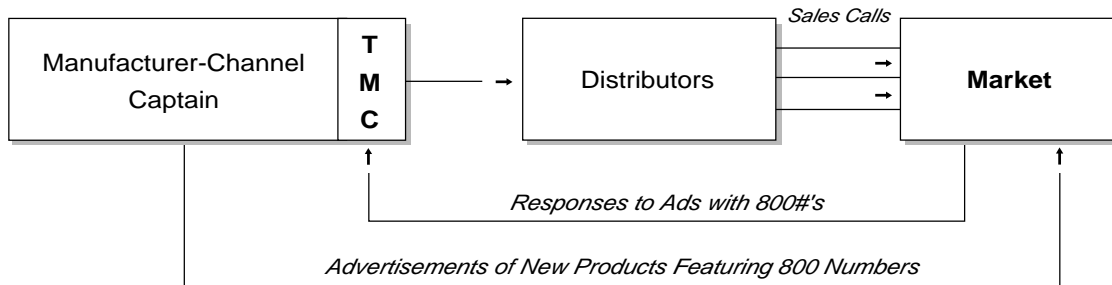


Channel Captain Benefits:

1. Bypasses middle-players. Margins reserved for channel captain.
2. Allows for access to market without retail outlets.
3. Channel operational with items that require low-involvement purchase.
4. Express Mail Delivery to market overnight.



New Product Information



Channel Captain Benefits:

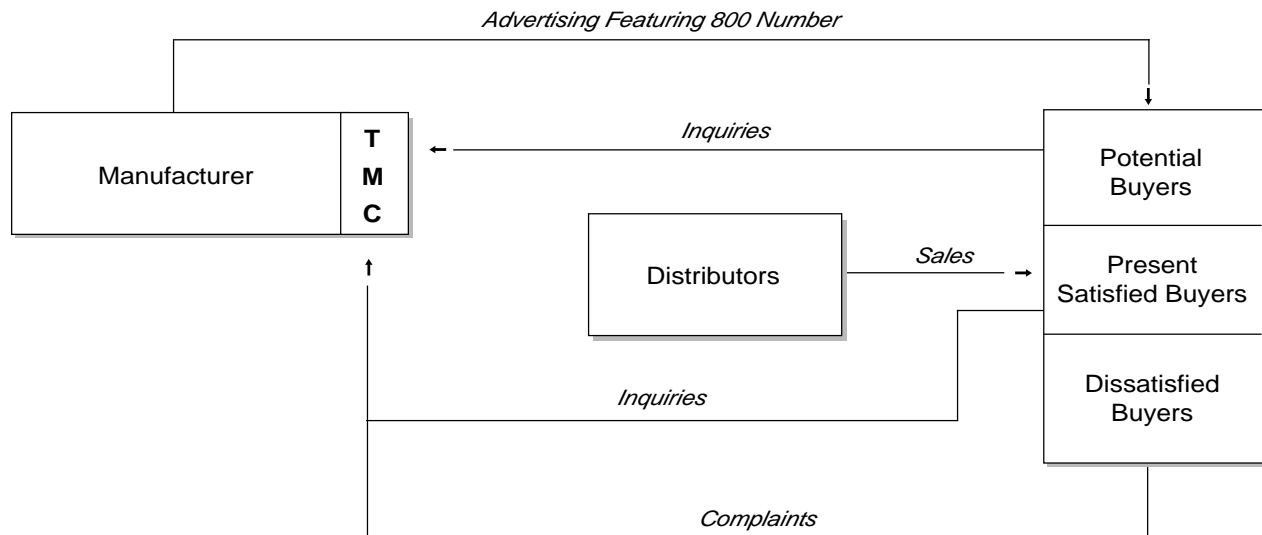
1. It gives the channel captain greater control over important events occurring in the channel.
2. It allows the manufacturer to be in contact with and thus gain information about those customers who will be innovators and leaders and whose reactions to the new product will be important.
3. It provides an opportunity to check on the accuracy of forecasts from market research.

Distributors Benefits:

1. It permits distributors to receive information in a more timely, uniform, and consistent manner compared to receiving information via individual sales people.
2. It furnishes information about customers who have been responding to the new product advertising in the distributor's area.



Customer Inquire and Complaint



Channel Captain Benefits:

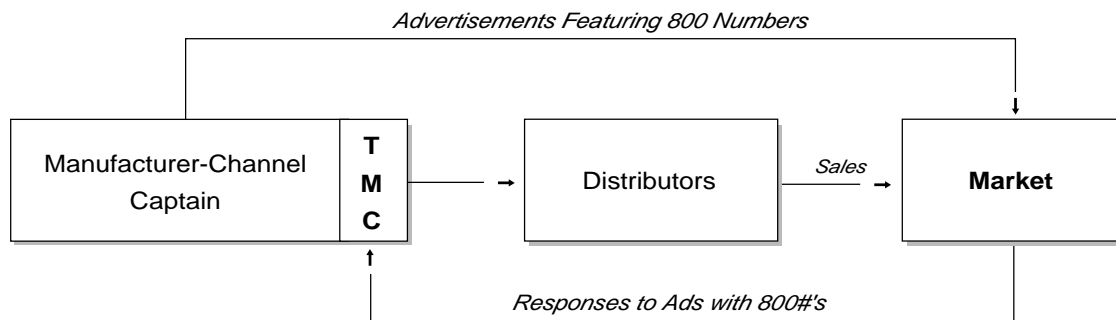
1. It assures higher quality answers being provided to customers compared to the answers that distributor's sales people might provide.
2. It provides objective determinants of which distributors' territories are yielding the most calls for service and/or complaints.
3. It may allow the manufacturer to reduce the amount of money spent to train distributors' sales people to handle questions and complaints.

Distributors Benefits:

1. It allows distributors to use their personnel to sell rather than handle inquiries.
2. It provides cost savings to distributors by reducing flows of paper work, lost inquiries, and possible ill-will of customers who can't get their questions answered.



Measurement of Advertising Effectiveness



Channel Captain Benefits:

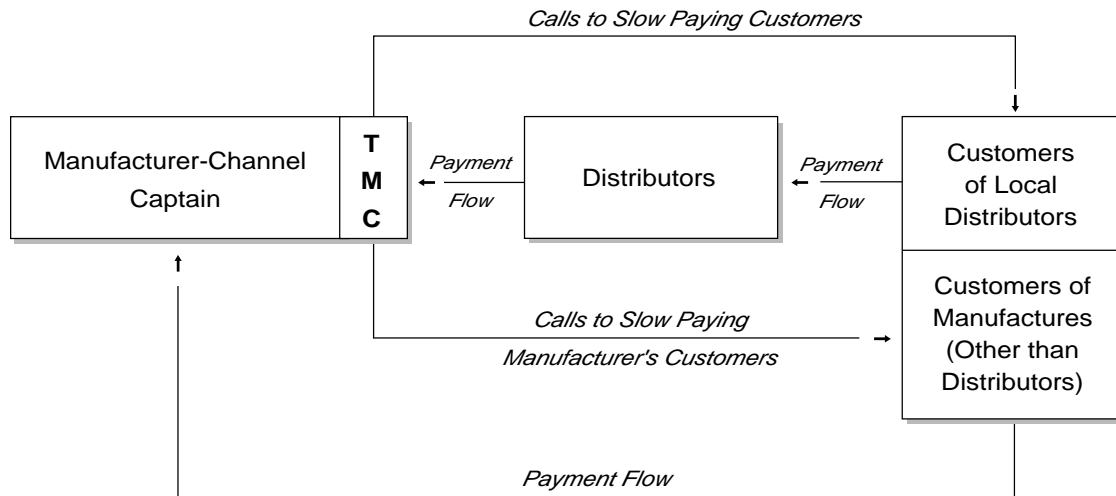
1. More precise information on which media should be used for advertising.
2. Greater control over the relationship between the advertising agency and channel captain, because of ability to measure advertising effectiveness.
3. Mor credibility achieved among the members of the distribution network when the channel captain shows distributors how the inquiries from their territories have resulted in greater sales volume.

Distributors Benefits:

1. It provides economical source of high quality leads for sales persons.
2. With higher quality sales leads personnel can be used more efficiently and effectively.
3. With this information, channel support can be planned and provided more effectively.



Credit and Collection Activities



Channel Captain Benefits:

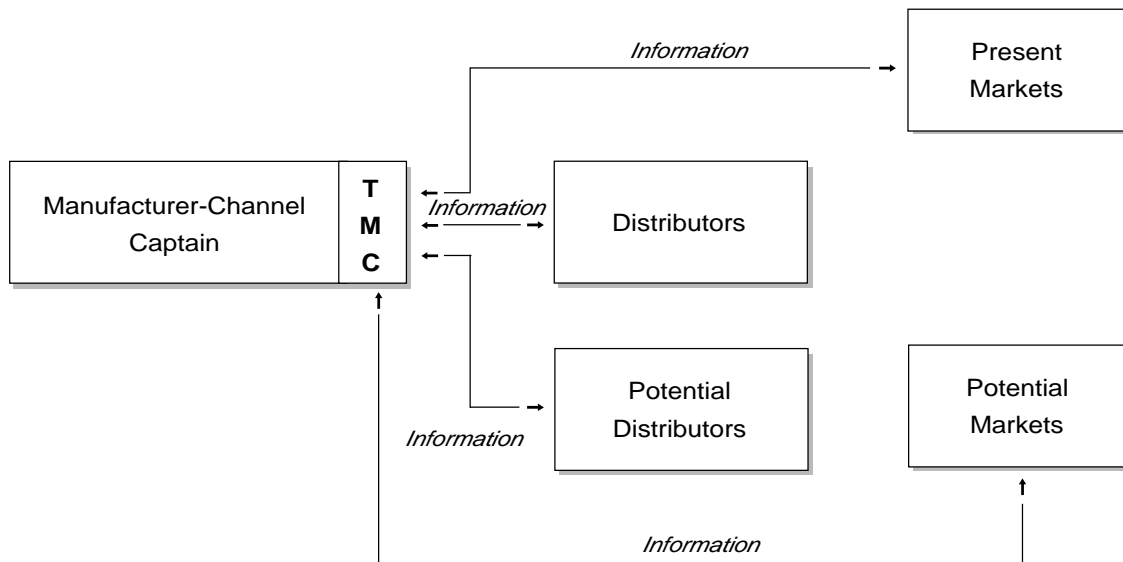
1. It accelerates money flows at a much greater rate than the use of mail.
2. It enhances cooperation between distributors and the channel captain as a result of improved profits for all channel participants.

Distributors Benefits:

1. It reduces the costs of collection.
2. It improves profits due to better management of capital.



Marketing and Product Research

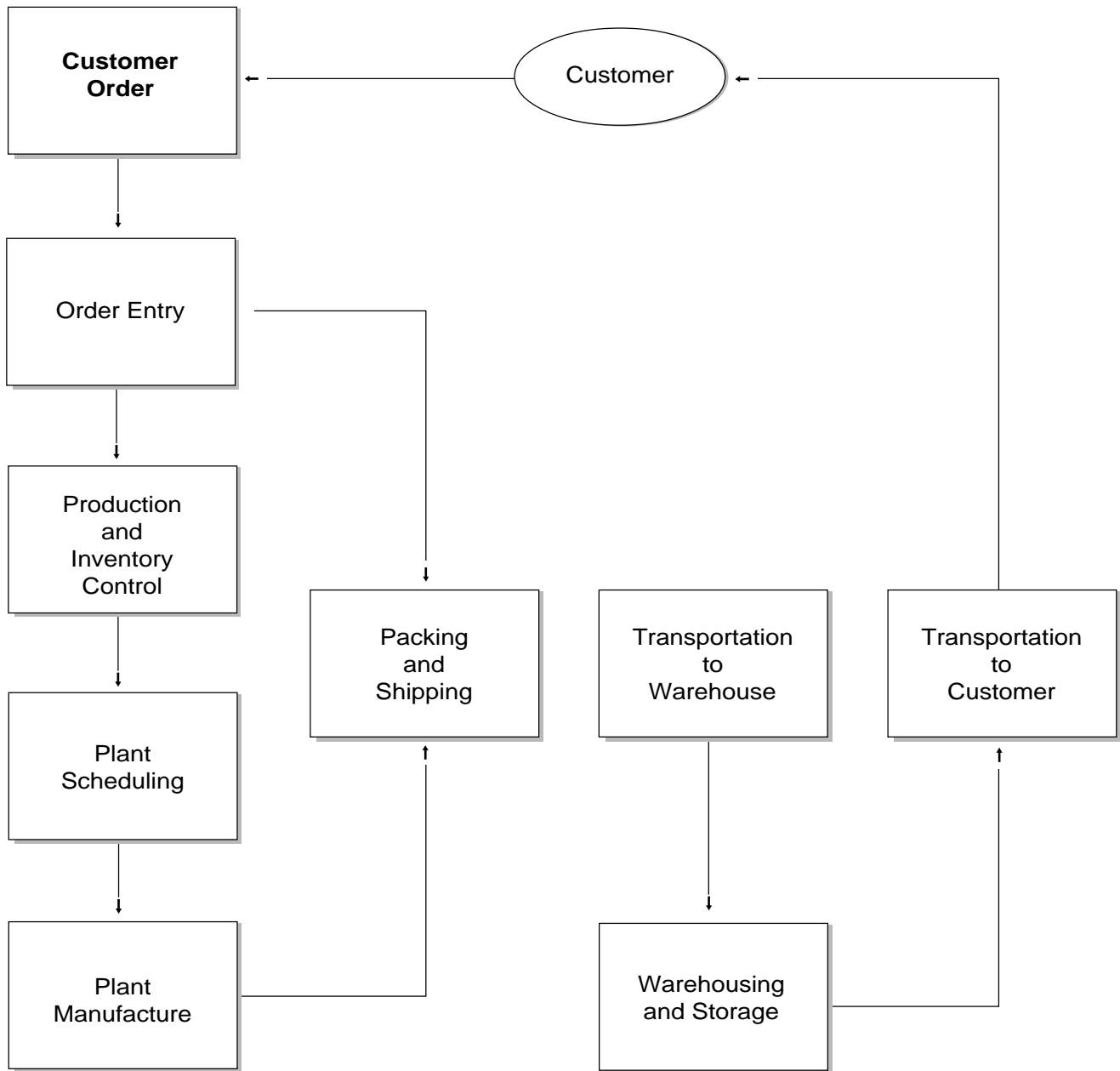


Channel Captain Benefits:

1. It provides a cost-effective way of gathering data from both present and potential distributors and markets.
2. It affords the channel captain greater control of research activity by eliminating the necessity for contracting with outside agencies for research.



Simplified Materials and Paper Flow in Physical Distribution



Case Examples of Maldistribution (Ss.14)

Building A System that Works (Ss.16)

Balancing of Conflicting Objectives (Ss.15)

Turning Industrial Distributors into Partners (Ss.17)



A Cosmetic Company's Problem:

This company chose to develop a computer model to establish the optimum system. This approach uses a linear programming model to determine the optimum number and location of warehouses. Such a model balances the costs of transportation, warehousing, and inventory levels to establish the appropriate cost/service mix. This approach led to adding five warehouses to their current two-warehouse system would reduce LTL (less than truckload lot) freight, increase customer service, and increase in service with lower overall costs.

System failed. While freight costs from warehouse to customer were reduced, these savings were offset by the need for more air freight and other premium transportation. Time for delivery from warehouse to customer decreased, this improvement of service, however, was offset by a marked increase in stockouts and back orders.

In the cosmetics company, the more complex distribution network required support from a common sales forecasting system in order to be fully effective. Once this was done, freight charges were reduced by \$50,000 per year, distribution inventories were reduced by 40%, and customer service was substantially improved.

A Food Company's Problem

To speed up the flow of information, teleprocessing equipment can be used to get customer orders in from the branch warehouses, and on-line real time inventory systems can be installed to keep track of inventory balances. A large food manufacturer, unhappy with the system of 35 field warehouses which were supplied from six manufacturing plants. Many of this company's products had highly seasonal demand patterns, and delivery problems were acute in the peak selling season. The company revised its forecasting methods and installed a telecommunications system which provided on-line inventory balances in each warehouses.

The results were disappointing. A large number of orders had to be filled with product shipped from alternate warehouses and, while the telecommunications system enabled the company to fill more orders, freight costs increased significantly.

At the food company, the seasonal sales demand required a mechanism to build inventories in anticipation of demand. Once this step was accomplished, service increased to a competitive 96%, and freight costs fell to the original levels. The telecommunications network originally installed proved expensive and was discontinued.

A Building Materials Company's Problem:

Analysis indicated that a modern statistical inventory control system using safety stocks based on forecast error would improve service and reduce shipping and related costs. The results were disturbing. Although the warehouse inventory control system responded rapidly to variations in demand, raising and lowering safety stocks and reorder points from month to month, the plants were unable to respond effectively. As a result, a large number of stockouts occurred at the plants, and shipments could no longer be made to the warehouses in full truckload quantities. Freight costs increased dramatically. A later attempt to hold down freight costs by holding up orders until a full truck resulted in decreased customer service.

Artificially induced erratic demand at the building materials plant largely offset the advantages of the statistical inventory control system in distribution. Once this demand was dampened down in view of the factories' ability to respond, service gradually improved and freight savings of \$400,000 per year were achieved.



Balancing of Conflicting Objectives

Distribution Objectives	Impact of Objectives on Distribution			Impact of Objectives on Manufacturing	
	Customer Service	Inventories	Costs	Inventories	Costs
Increase Customer Service	↑	↑	↑	↑	↑
Reduce Distribution Inventories	↓	↓	↓	↑	↑
Reduce Distribution Costs	↓	↑	↓	↑	↑
Manufacturing Objectives Reduce Manufacturing Inventories	↓	↑	↑	↓	↑
Reduce Manufacturing Costs	↓	↑	↑	↑	↓
DESIRED RESULTS	↑	↓	↓	↓	↓

Visible Costs

include those operating costs associated with warehousing, transportation, and handling. Also include other indirect costs associated with inventory management, property taxes, and inventory obsolescence and spoilage.

Hidden Costs

consist principally of lost profit opportunities due to failure to ship the product on time, cancelled orders, and customer dissatisfaction.



Building a System that Works —

In Analyzing a Distribution Problem, Distribution is Closely Tied to Other Areas of the Company:

Distribution is closely related to marketing, manufacturing, and finance. For example, the marketing forecast and the error in that forecast are key determinants of the amount of inventory that must be carried in the warehouses to achieve a given level of customer service.

Beware of Simplistic Solutions Since the Interrelationships Between Distribution and Other Functions Are Complex and Multi-leveled:

A single problem may surface in different guises in different functional areas. Thus a customer service problem in sales may be the result of an inventory problem in distribution, which may, in turn, be the consequence of a scheduling problem in manufacturing.

Adopt Specialized Techniques with an Appreciation of Their Limitations:

Selection of an approach because it is popular or failure to recognize its inherent limitations frequently leads to trouble.

Assure that the Interrelationships Recognized in the Analysis are Carried Over into the System Design:

In solving a distribution problem, it is frequently necessary to make significant changes in company operations. Unless the impacts of these changes on other company operations are carefully evaluated and prepared for, they can negate the positive impact of the overall program.



Understanding Distributor Needs —

Monitor Distributors:

Get out into the field periodically and listen carefully to what they have to say.

Learn from Company-wide Experiences:

Steering Committee to discuss common distribution problems, share market information on trends affecting the function, and ponder changing distributor requirements.

Conduct Market Research Studies:

Rate performance dimensions and recommend program improvements.

Establish a Distributor Council:

Discuss proposed policy changes and new programs, distributor problems and concerns, the competition, and other pressing issues.

Building Working Partnerships —

Developing Sound Communication:

Contacts between the manufacturer's outside salesperson and the distributor's top officers, purchasing managers, and salespeople should be nurtured.

Signaling Commitment:

Manufacturers must demonstrate that they are committed to distributors for the long term; i.e., refer all customer inquiries and requests to them; limit the number of distributors per trading area, etc.

Passing the Critical Incident Test:

Manufacturer must respond decisively and meet this critical need so as to reinforce the importance and quality of the partnership in the distributor's mind.



References

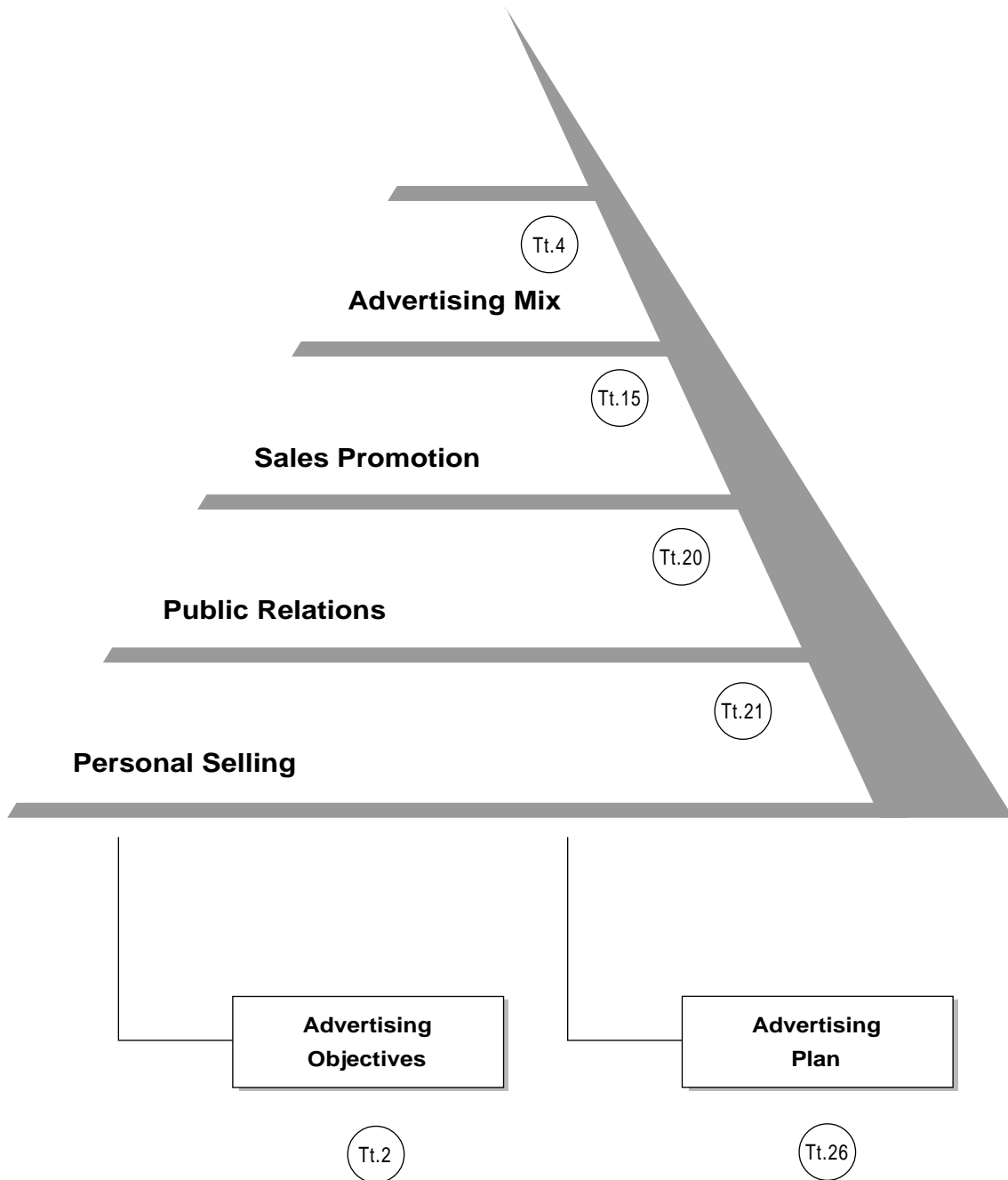
- Page Ss.1-Ss.2: *Personal Notes*
- Page Ss.3-12: *Telemarketing in Distribution Channels*
Roy Voorhees & John Coppett

Industrial Marketing Management
1983: pp. 105-112
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Stephen B. Oresman - Charles D. Scudder
Business Horizons: June 1974
pp. 61-72
- Page Ss.16: Turn Your Industrial Distributors into Partners

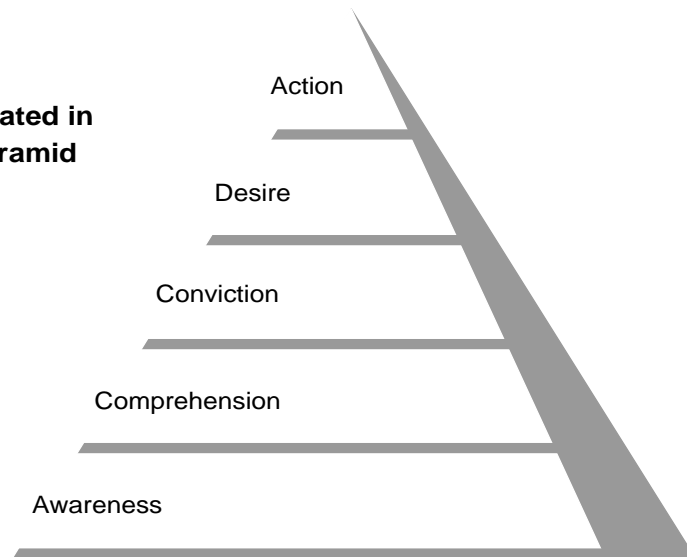
James A. Narus - James C. Anderson
Harvard Business Review
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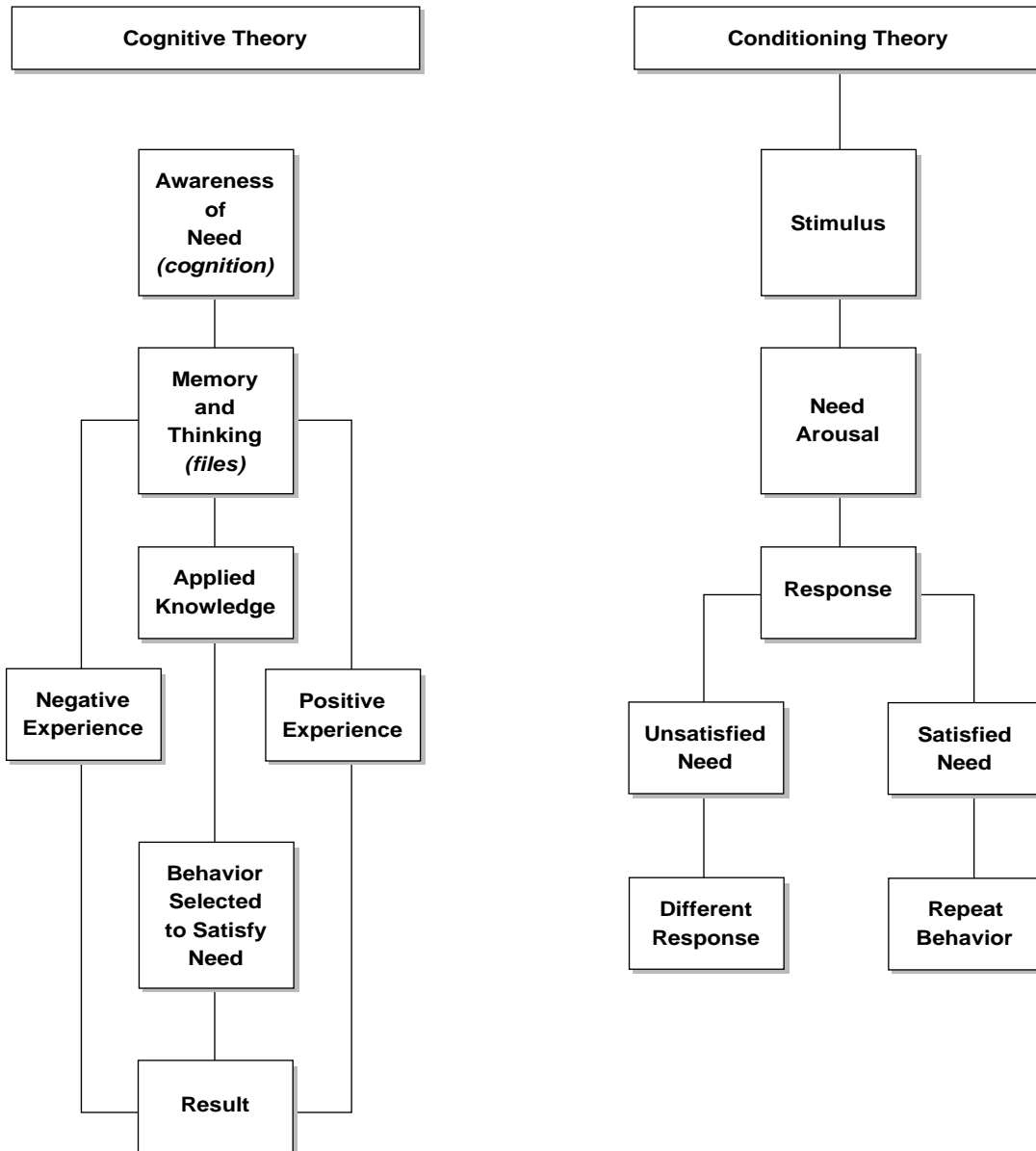


Advertising Objectives Stated in Terms of Advertising Pyramid



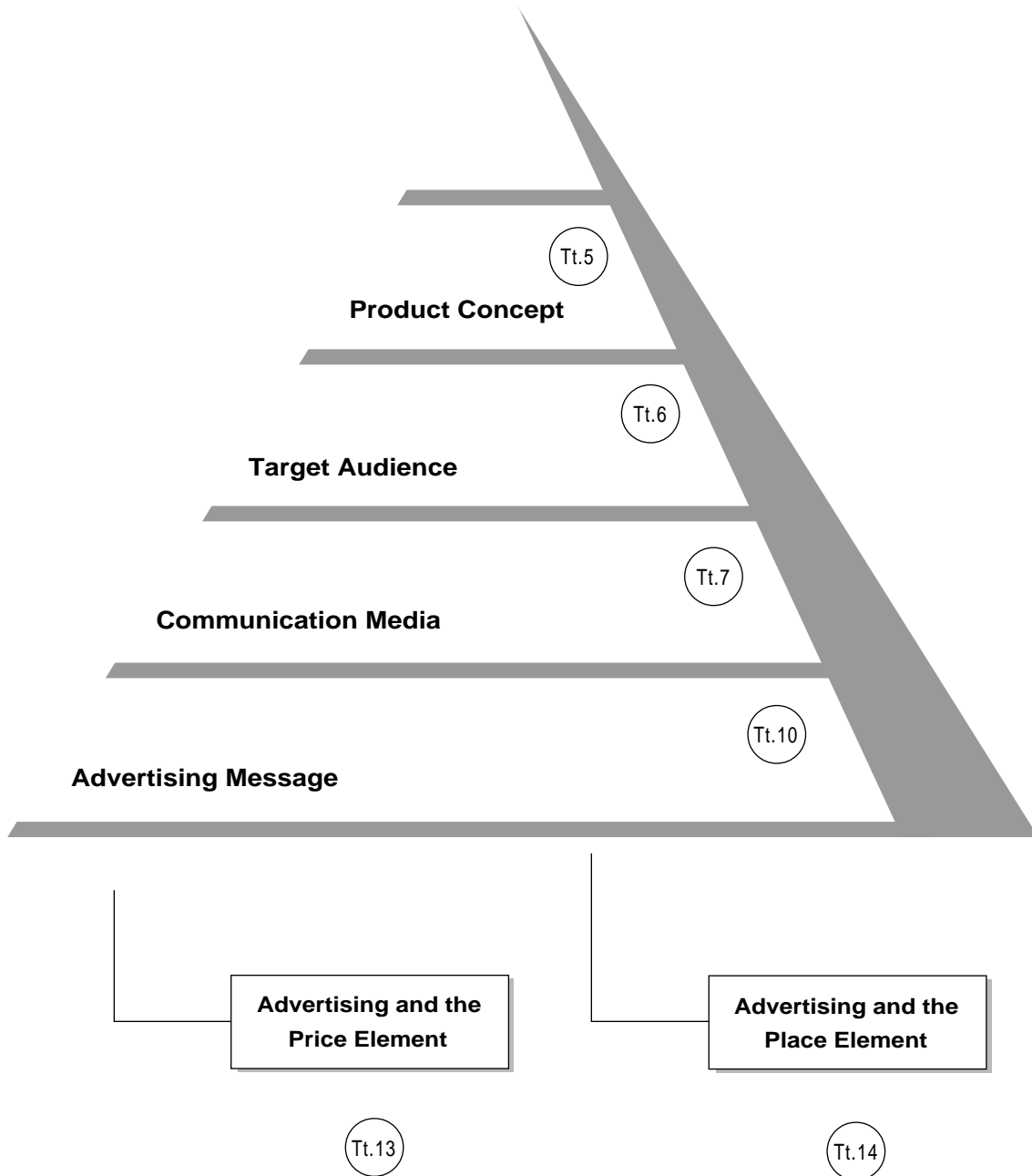
Checklist for Developing the Advertising Objectives:

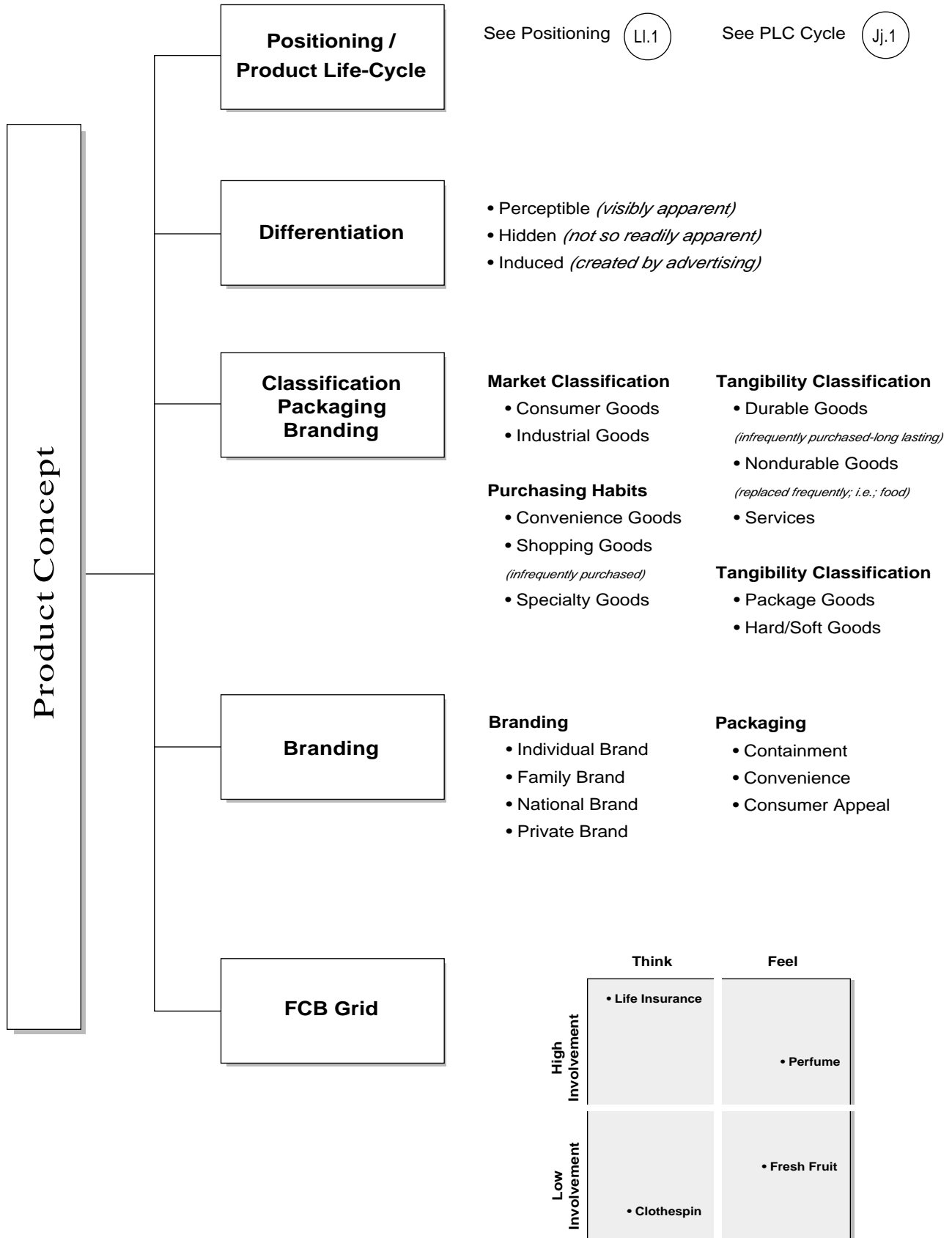
- Does the advertising aim at closing an immediate sale?
- Does the advertising aim at near-term sales by moving the prospect, step-by-step closer to the sale (so that when confronted with buying situation the customer will ask for, reach for, or accept the advertised brand)?
- Does the advertising aim at building a "long-range consumer franchise"?
- How can the advertising contribute toward increased sales?
- Does the advertising aim at some specific step that leads to a sale?
- How important are "supplementary benefits" of end-user advertising?
- Is it a task of advertising to impart information needed to consummate sales and build customer satisfaction?
- To what extent does the advertising aim at building confidence and goodwill for the corporation among various groups?
- Specifically, what kind of images does the company wish to build?

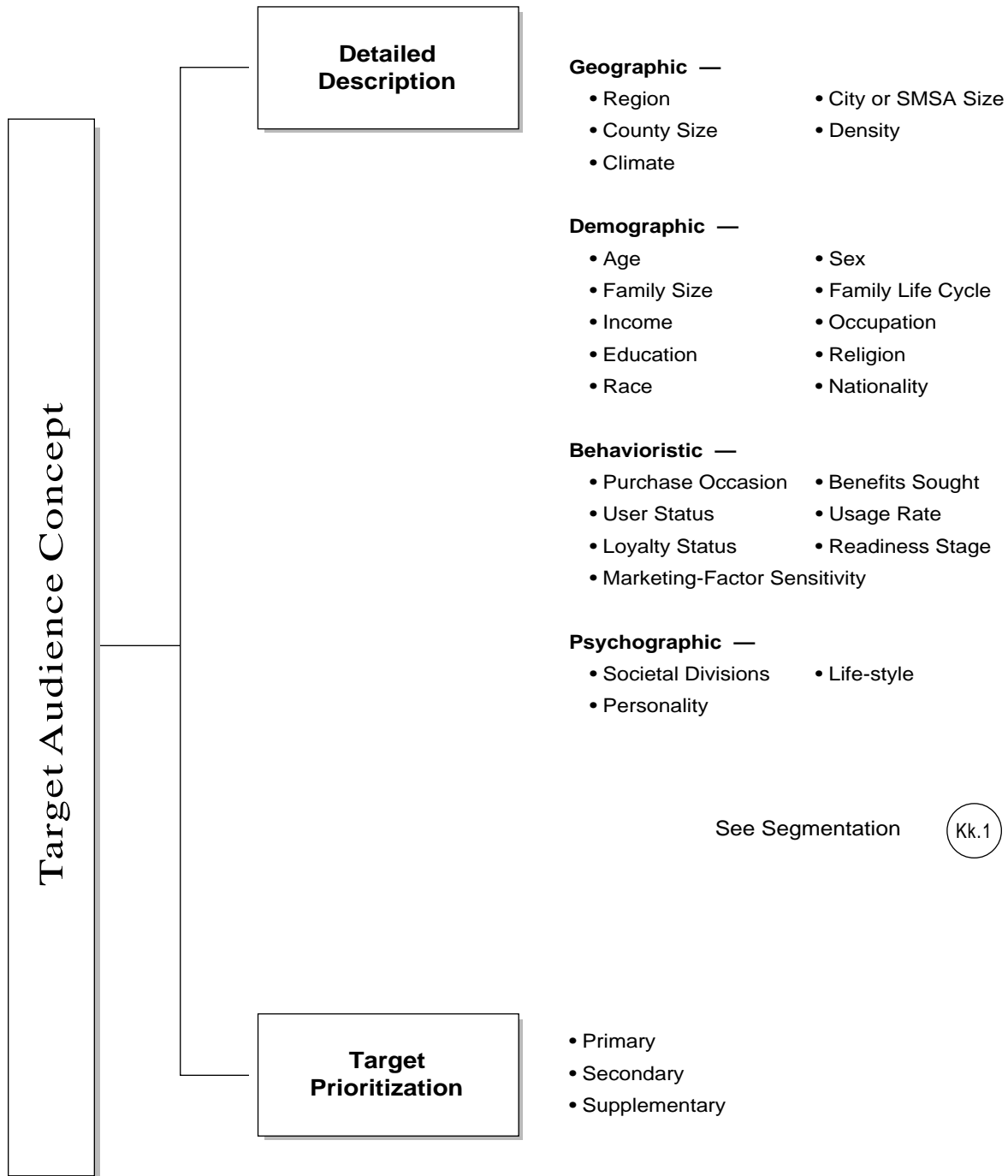


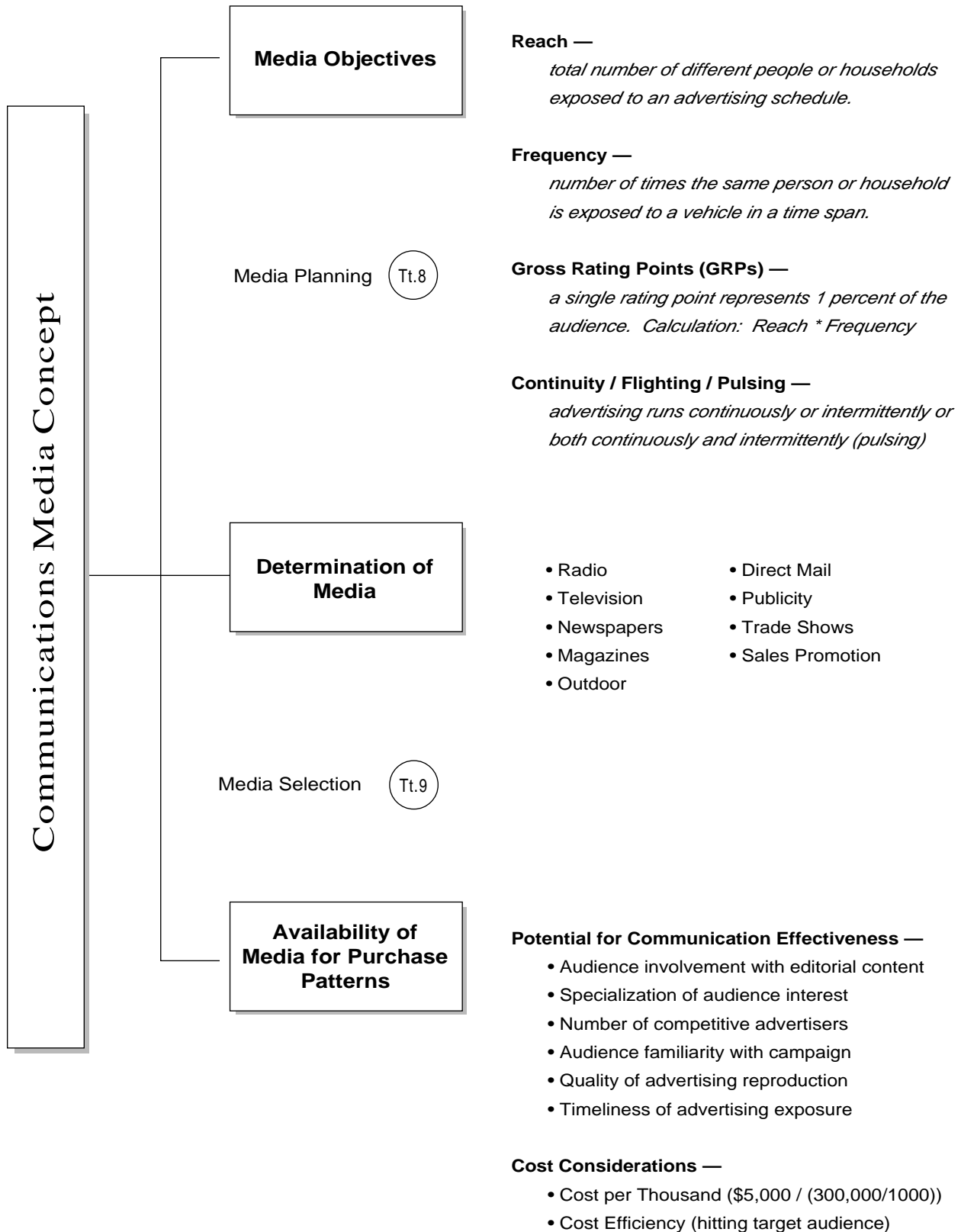


Advertising Mix











Media Planning

The Situation Analysis

The Marketing Plan

The Advertising Plan

Setting Media Objectives

Purpose: To translate marketing objectives and strategies into goals that media can accomplish.

Determining Media Strategy

Purpose: To translate media goals into general guidelines that will control the planner's selection and use of media. The best strategy alternatives should be selected.

Selecting Broad Media Classes

Purpose: To determine which broad class of media best fulfills the criteria. Involves comparison and selection of broad media classes such as newspapers, magazines, radio, television, and others. The analysis is called intermedia comparisons. Audience size is one of the major factors used in comparing the various media.

Selecting Media Within Classes

Purpose: To compare and select the best media within broad classes, again using predetermined criteria. Involves making decisions about the following:

- 1. If magazines were recommended, then which magazines?
2. If television was recommended, then
a. Broadcast or cable television?
b. Network or spot television?
c. If network, which programs?
d. If spot, which markets?
3. If radio or newspapers were recommended, then
a. Which markets shall be used?
b. What criteria shall buyers use in making purchases of local media?

Media — Broadcast

Media — Print

Media — Other Media

What kind of sponsorship
What levels of reach and frequency
Scheduling
Placement of spots

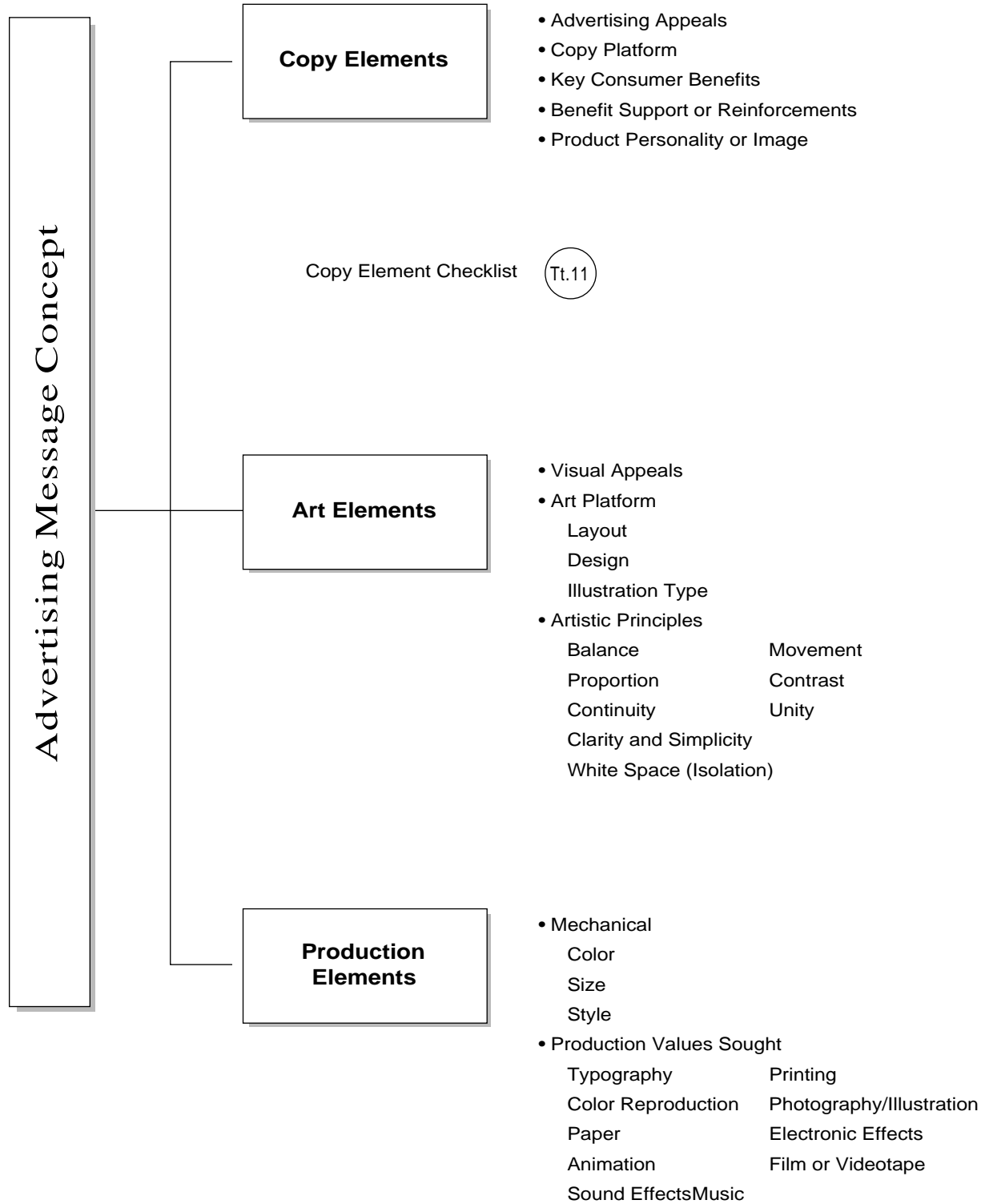
Number of ads to appear
Placement of ads
Special treatment
Desired reach or frequency

Billboards
Direct mail or other media



Media Selection

	Creative Disadvantages	Creative Advantages
Newspapers	Loss of fidelity, especially in reproduction of halftone illustrations. Difficulty in controlling ad position on page.	Almost any ad size available. Impact of black against white one of the most powerful color combinations. Sense of immediacy. Quick response; easy accountability. Local emphasis. Changes possible at short notice.
Magazines	Size not as large as those of newspapers or posters. Long closing dates, limited flexibility. Lack of immediacy. Tendency to cluster ads. Possible difficulties in securing favorable position in an issue.	High-quality reproduction. Prestige factor. Accurate demographic information available. Graphic opportunities (use of white space, benday screen, reverse type). Color.
Television	No time to convey a lot of information. Air clutter. Intrusiveness. Capricious station censorship.	Combination of sight and sound. Movement. A single message at a time. Viewer's empathy. Opportunity to demonstrate the product. Believability.
Radio	Lack of visual excitement. Wavering attention span (many listeners tune out commercials). Inadequate data on listening habits. Fleeting nature of message.	Opportunity to explore sound. Favorable to humor. Intimacy. Loyal following (the average person listens regularly to only about two stations). Ability to change message quickly.
Direct Mail	Damper of state, federal, and postal regulations on creative experimentation. Censorship often unpredictable. Formula thinking encouraged by "proven" direct-mail track records.	Graphic and production flexibility, such as use of three-dimensional effect. Measurable. As scientific as any other form of advertising. Highly personal.
Posters	Essentially a one-line medium with only a limited opportunity to expand on the advertising message. Inadequate audience research, especially in transit advertising.	Graphic opportunities. Color. Large size. High-fidelity reproduction. Simple, direct approach. Possibility of an entirely visual message.
Point of Sale	Difficulty in pinpointing audience. Failure of retailers to make proper use of material submitted to them.	Opportunities for three-dimensional effects, movement, sound, and new production techniques.





Copy Element

Identity —

- Trade Name.
- Trademark
- Product Symbol
- Other copyrighted or patented information.

Effectiveness —

- Is there proof it has been tested and works well?
- Are there any government or other regulations that need to be mentioned or observed

Packaging —

- Unit size or Sizes Offered
- Package Shape.
- Package Design:
 - Styling.
 - Color.
 - Special Protection
 - A Carrier
- Package Label.

Product Image —

- How do people view the product?
- What do they like about it?
- What do they dislike about it?
- Is it a luxury?
- Is it a necessity?
- Is it a habit?
- Is it self-indulgent?
- Do people have to have it wish they didn't?

Research —

- What research available on product?

Life Cycle —

- What is its life or use span?

Performance —

- What does it do?
- What might it be expected to do that it does not?
- How does it work?
- How is it made or produced?
- What is in it?

Raw Materials	Preservatives
Chemicals	Special Incred.
Nutrients	
- What are its physical characteristics?

Color	Appearance
Smell	Texture
Taste	Others

Competitive Information —

- Who are the competitors?
- Does it have any advantages over them?
- Does it have any disadvantages?
- Are they all about the same?
- Do rival products present problems that this one solves?

Manufacturing —

- How is it made?
- How long does it take?
- How many steps in ..
- How about the people
- Are there any special
- Where is it made?



Distribution —

- How widely is the product distributed?
- Are there exclusive sellers?
- Is there a ready supply or limited amount?
- Is it available for a short season?

History —

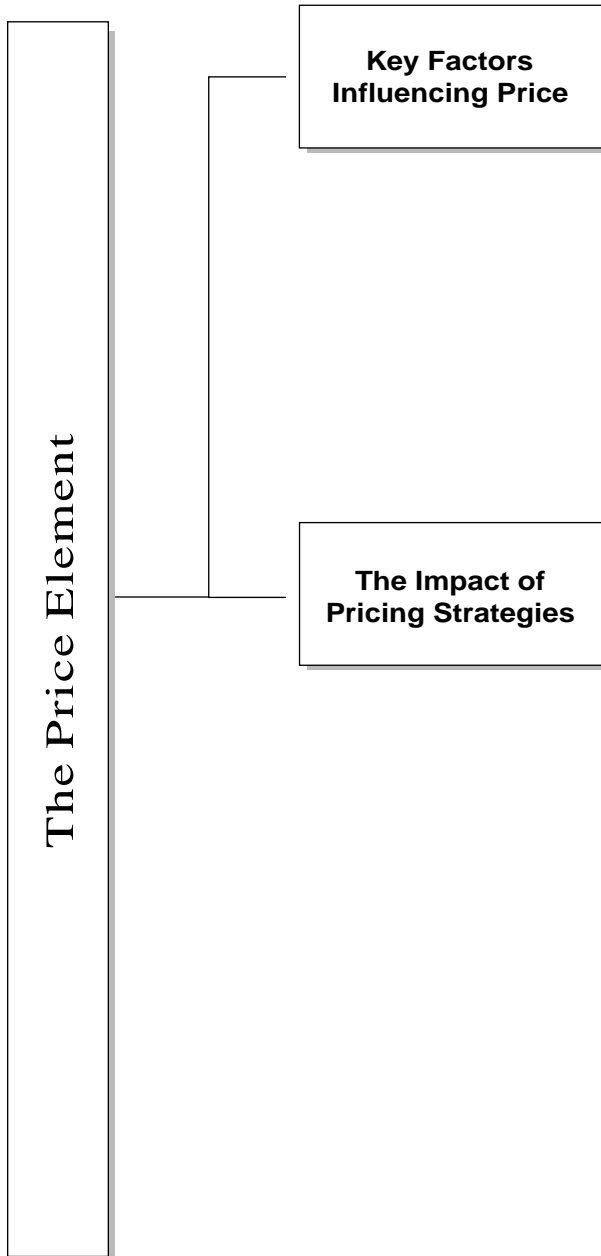
- When was it created or invented?
- Who introduced it?
- Has it had other names?
- Have there been product changes?
- Is there any "romance" to it?

Market Position —

- What is its share of the total market?

Consumer Use —

- How is the product used?
- Are there other possible uses?
- How frequently is it bought?
- What type of person uses the product?
- Why is the product bought?
 - Personal use.
 - Gift.
 - Work
- What type of person uses the product most (heavy users)?
- What amount of the product is bought by the heavy users?
- Where does the best customer live?
- What kind of person is a heavy user or buyer?



Market Demand —

Based on the Supply and Demand of product or service. Word-of-mouth communication generate awareness of product attributes. As product information spreads, the risk typically associated with new products diminish, which increases price.

Production and Distribution Costs —

The challenge for advertising is to convince the consumer that the value of the exchange is indeed equal with the rise of costs.

Competition —

The perception of the price relative to the competition is more important than the absolute price of the item.

Competitive Pricing Strategy —

Ads show a list a wide variety of products with a large, bold price next to each item. Retaliatory possible.

Comparative Pricing —

Showing the regular list price and special low price. Comparing price conveys discount values.

Skimming Strategy —

Ads feature convenience and service. Lower price with competitive pressures.

Penetration Pricing —

Ads starts with low price to build traffic. Then raise price with ads to convey service, quality, etc.

Promotional Pricing —

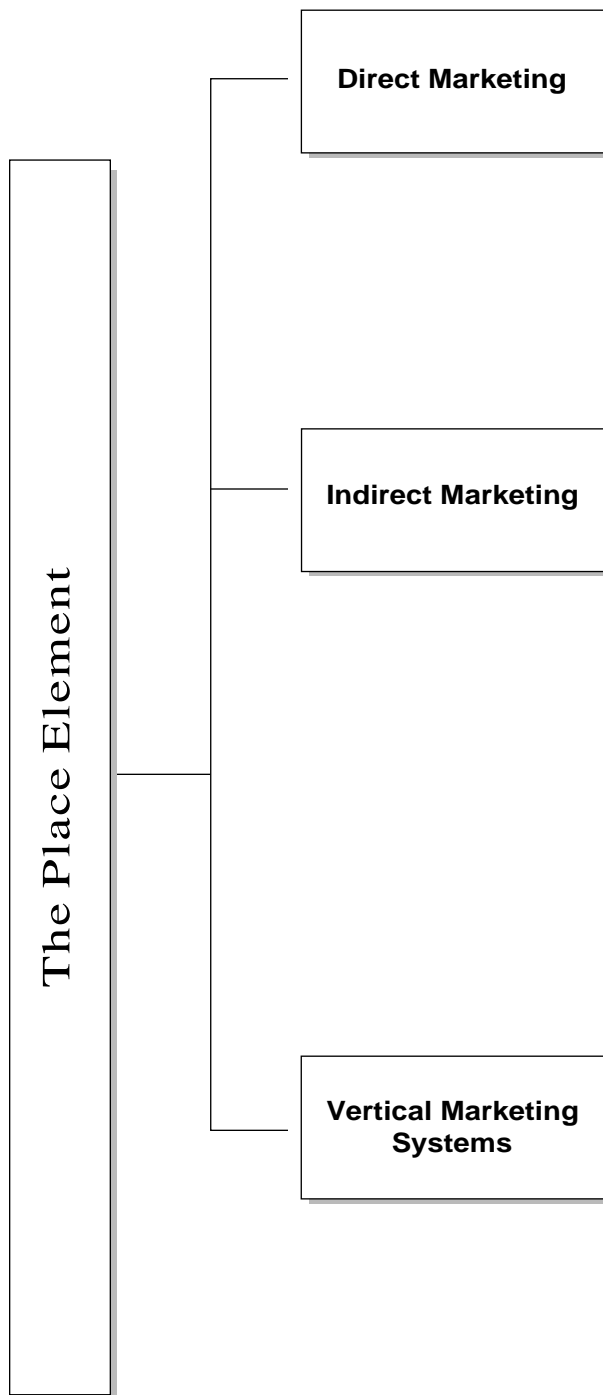
Introduce a new line or clear out old lines, two-for-one sales or end-of-mouth sales to stimulate demand.

Loss-Leader Pricing —

Select product to price below cost to create traffic. Must have items in stock.

Prestige Pricing —

Compete on the finest equipment available, the best service, free delivery, and friendly, knowledgeable clerks in plush surroundings.



Direct Marketing —

Moving the store to the customer's location. Maintain database of customers and use variety of media to communicate with those customers. See Ss.1.

Terms —

Middlemen operate between the producer and the consumer or industrial purchaser.

Distribution Channel take title, or assist in taking title, to the product as it moves through channel.

Intensive Distribution —

Convenience goods available at every possible location. Use of "push" and "pull" strategies.

Selective Distribution —

Manufacturers can cut their distribution costs. Use of cooperative advertising program.

Exclusive Distribution —

Rights to a wholesaler or retailer to sell in one geographic region.

Vertical Marketing Systems (VMS) —

Centrally programmed and managed distribution system that supplies or otherwise service a group of stores or other businesses. The VMS is designed to profit from economies of scale and to maximize the marketing impact of all the stores in its chain. Sears, which owns the manufacturers of many products sold in its stores —**Corporate Marketing Systems**. Others include —**Administered Systems**—like Magnavox, which, as the dominant channel member; and—**Contractual Systems**—like IGA, which is a voluntary chain of independent members.

Franchises —

Dealers pay a fee to operate under the guidelines and direction of the manufacturer.



Push Strategy (Tt.16)

Pull Strategy (Tt.17)



Push Strategies



Trade Deals

Slotting Allowances

Display Allowances

Buy-Back Allowances

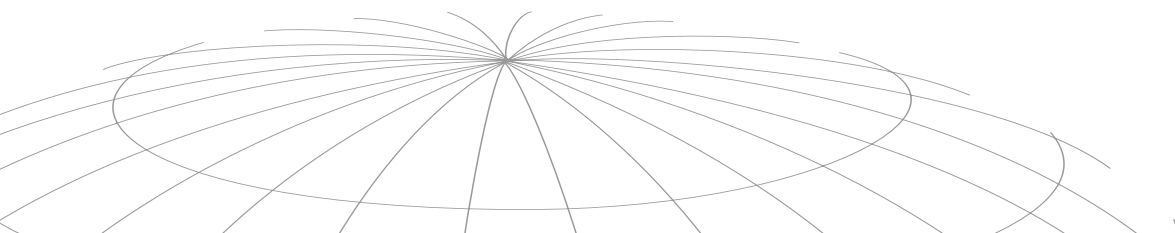
Cooperative Advertising

Dealer Premiums and Contests

Push Money (Spifs)

Collateral Sales Materials

Company Conventions





Pull Strategies



**Coupons
(FSI's)**

**Cents-Off Promos.
Refunds / Rebates**

Premiums

Sampling

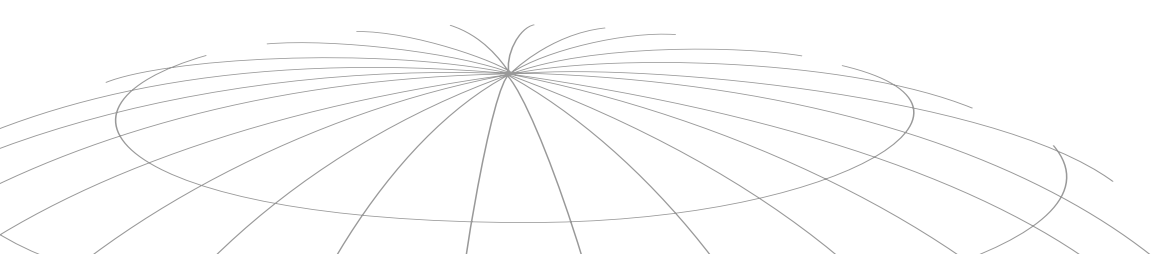
**Combination
Offers**

**Contests and
Sweepstakes**

Advantages / Disadvantages (Tt.18)

**Trading
Stamps**

**Point-of-Purchase
Advertising**





Advantages

Disadvantages

SAMPLING

More effective when your product features or benefits (aroma) can't be fully conveyed in advertising.

It's expensive. It can lack precision. It's said to be less efficient than couponing in converting triers into regular users.

COUPONING

You can use it to produce trial, to convert triers to regular users, to reach large numbers of prospects, to load regular users or trade them up to larger sizes, increase usage.

The method of distribution limits the kind of response you get; e.g., in-pack coupons. Coupons work best with older, better educated, urban, and married consumers.

TRADE COUPONS

Trade coupons ran with store ads. Good when for trial on a geographic basis, or obtaining off-shelf displays and price features.

Expect a lot of misredemption (primarily by the trade). It's hard to estimate total couponing budget.

TRADE ALLOWANCES

Essential when gaining distribution, getting off-shelf display, encouraging price features and building inventories.

Abused. Much laxness about passing on savings to consumers. Like to get along without trade allowances, but you can't.

PRICE-OFFS

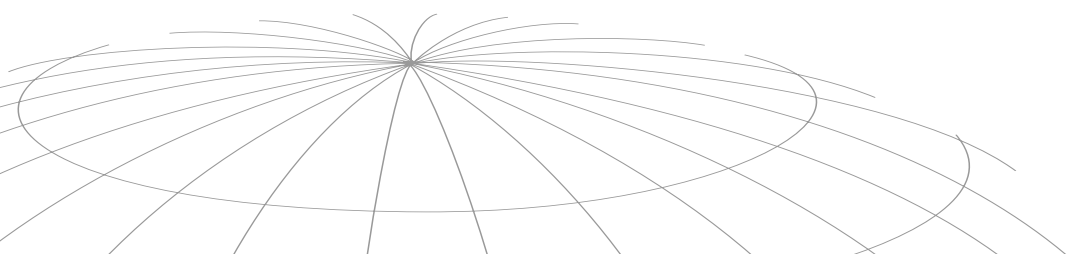
Reward and load present users, head off competition, establish purchase patterns after initial trial, enforce pass-through of savings, create off-shelf attention.

Price-offs can give sales a bump, but can't reverse a downward sales trend. They can't produce loyal new users. Repeated use degrades the perceived value.

IN, ON AND NEAR-PACKS

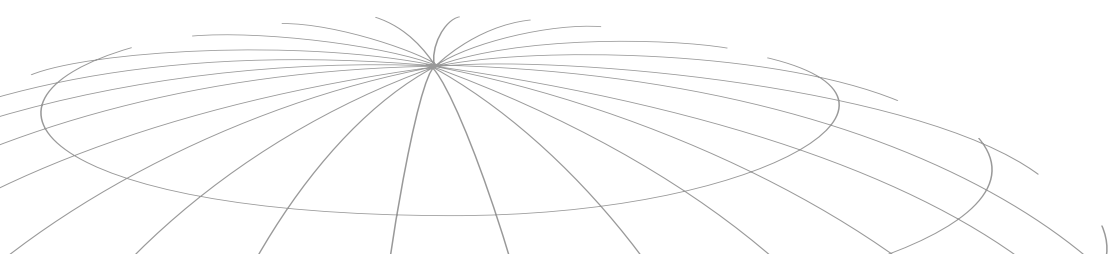
Can increase product usage if the premium is directly related to the way the product is used (coffee cups for coffee). On-packs that don't fit easily on the shelf can be used to force off-shelf display if product is popular. Can produce premiums that extend the advertising.

A bad one can actually reduce sales, the trade resists premiums that compete with products they can sell of a profit. Pilferage can be a problem.





	<u>Advantages</u>	<u>Disadvantages</u>
SELF-LIQUIDATING PREMIUMS	Can extend brand image, reinforce advertising and increase ad readership. Can serve as a not-too-disguised dealer loader.	They're not good for building trial. Less than 10-15% of households have ever sent for a premium.
CONTESTS AND SWEEPSTAKES	Will get advertising read, extend and reinforce the product's image, often gets on-the-floor display space, chance to lure new triers.	Large budgets. Won't produce mass trial, over 75% of entries are accompanied by — not proofs-of-purchase, and will entertain professional entrants.
REFUND OFFERS	Create excitement at fairly modest cost. Offers the change to flag the package. Reinforces brand loyalty.	Don't look for a lot of consumer interest. Refunds don't generate trial; they're slow . . . and results are hard to measure.
BONUS PACKS	A favorite of the vitamin people, bonus packs are useful in converting triers to users. Good technique for making something happen at the shelf.	They don't get trial, do nothing for brand image, and they can be abused by the trade. Branded packs can be ripped apart for separate sale.
STAMP PLANS	Can be used to get steady users and create differences in parity products.	Appeal to small segments of buyers; they don't interest the retailer or do anything to boost sales to the trade; and they won't get off-shelf display.



A large, faint globe icon with latitude and longitude lines, serving as a background for the central content area.

Public Relation Activities

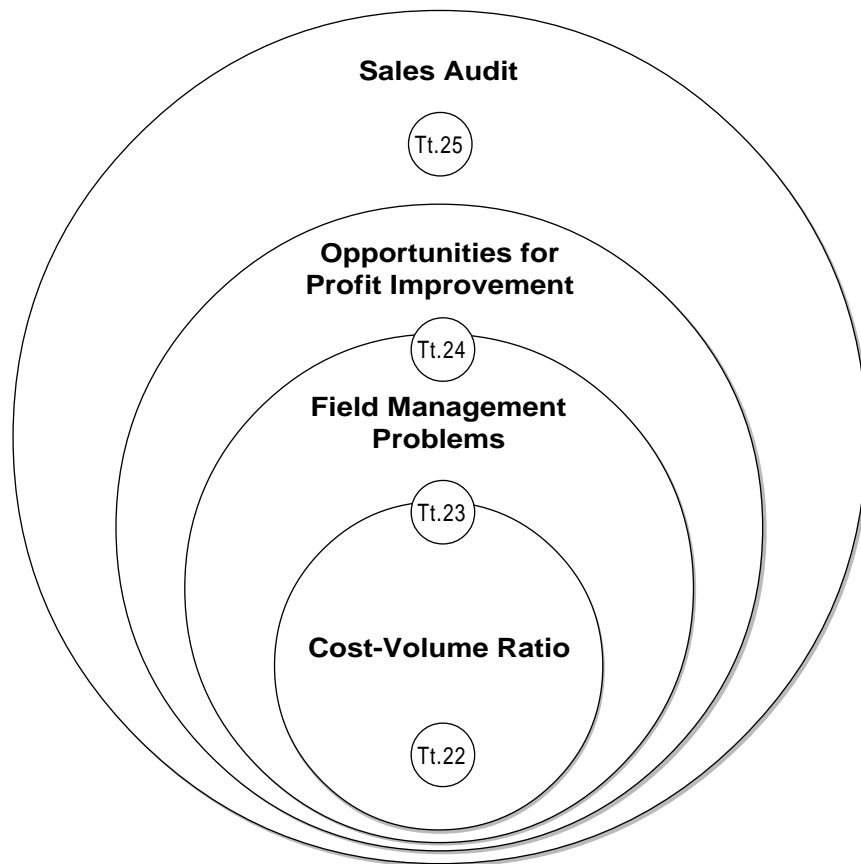
- **Publicity and Press Agency**
- **Public Affairs and Lobbying**
- **Community Involvement**
- **Promotion and Special-Events Management**
- **Publications / Research**
- **Fund Raising and Membership Drives**
- **Public Speaking**

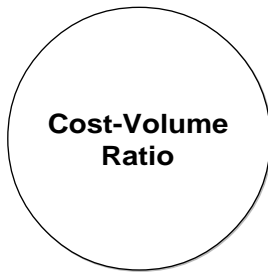
Public Relation Tools

- **News Releases and Media Kits**
- **Photography**
- **Feature Articles**
- **Printed Materials**
- **Posters, Exhibits, and Bulletin Boards**
- **Corporate Advertising**



PERSONAL SALES ISSUES





Inflationary Impact

To maintain a fixed percent time with inflation, more volume has to be sold per salesperson.

Industry Differences

Cost characteristics differ between types of products. Conclusions can be obtained by comparing exact industries with each other.

Profitability

Superior sales volume per salesperson will result in a low cost ratio, and this lower ratio will favorably affect net profit.

Sales Compensation Plans

- Commission
- Salary
- Salary plus Incentive

It is very difficult to drive the cost ratio down with a straight commission plan. However, the ratio is most responsive to a salary plan, and the ratio responds to a salary plus incentive plan.



**Sales Cost
Escalation**

Sales per territory (product) must go up proportionately.

**Market
Changes**

Shifts in market size and characteristics call for different sales approaches.

**Product
Proliferation**

Management is faced with the question of when to drop the generalist in favor of the specialist.

**Changing
Channels**

The most successful channel of ten years ago may not be the best way to market today.

NAM's

When appropriate to instigate a national Account Management Program.



**Opportunities
for Profit
Improvement**

**Territory
Management**

Time/cost analysis lead to the conclusion that significant improvement in sales force productivity could be realized if the service effort were shifted to lower cost specialists.

**Job Specialization/
Simplification**

Sales specialization by product lines or industry lines (e.g., IBM) involves shifting the expensive field sales effort away from lower value and time consuming activities towards more productive pursuits.

- low volume accounts by telephone
- support personnel to cover misc.
- specialists for service and technical

**General Sales
Management**

- 1) adynamic and current organization support.
- 2) a good planning program.
- 3) adequate analysis of territory potential and customer profitability.



Marketing Profile	Phase involves identifying company objectives, strategies, market position, sales organization, territorial coverage, sales results, costs and profit results. Establishes basic framework.
Definition of Selling Function	Identifies the major functional components of the field sales job in terms of current practices versus both management objectives and market requirements. Includes planning, travel, waiting, face-to-face selling, service, and paperwork.
Evaluation of Effectiveness	The effectiveness of the salesperson relative to company objectives, market requirements, and competitive activities.
Analysis of Territory Configuration and Coverage	The nature and rationale for the current sales territories in terms of geographical configurations, sales potentials, sales goals, and work load (time available and calls made).
Analysis of Sales Training	The ten steps to a sales: 1) information gathering; 2) suspect evaluation; 3) prospect confirmation; 4) concept presentation; 5) account re-qualification 6) application study solution; 7) demonstration; 9) close; 10) installation and training.
Review of Information System	Whether information is adequate and timely to serve sales management and permit performance measurement.
Evaluation of Sales Management	The evaluation of the field sales organization structure (including support), an appraisal of the effectiveness of personnel, and an indication to whether the compensation plans are supportive of management objectives and strategies.
Ranking of Improvement Opportunities	Becomes critical to rank the opportunities in terms of importance and payoff potential. Without setting priorities, the effort can degenerate into an exercise in fighting brush fires.
Development of an Implementation Program	Final step is to create a work plan calling for specific action within each top priority area, identifying program responsibilities, establishing time schedules, and setting up monitoring procedures.



DATE:

COMPANY NAME:

TITLE OR PRODUCT:

I. Executive Summary

- A. Premises — Summary of Marketing Plan
- B. Summary of Advertising Objectives
- C. Summary of Advertising Strategies
- D. Budget Summary

II. Situation Analysis

See Marketing Plan Aa.1

III. Advertising Objectives

- A. Primary of selective demand
- B. Direct action or indirect action
- C. Objectives stated in terms of advertising pyramid
 - 1. Awareness
 - 2. Comprehension
 - 3. Comprehension
 - 4. Desire
 - 5. Action
 - 6. Repurchase reinforcement
- D. Quantified expression of objectives
 - 1. Specific quantities or percentages
 - 2. Length of time for achievement of objectives
 - 3. Other possible measurements
 - a. Inquiries
 - b. Increased order size
 - c. Morale building
 - d. Other

**IV. Advertising (Creative) Strategy**

- A. Product concept — how the advertising will present the product in terms of:
 - 1. Product or market positioning
 - 2. Product differentiation
 - 3. Life cycle
 - 4. Classification, packaging, branding
 - 5. FCB Grid purchase-decision position
 - a. High/low involvement
 - b. Rational/emotional involvement
- B. Target audience — the specific people the advertising will address:
 - 1. Detailed description of target audiences
 - a. Relationship of target audience to target market
 - b. Prospective buying influences
 - c. Benefits sought/advertising appeals
 - d. Demographics
 - e. Psychographics
 - f. Behavioristic
 - 2. Prioritization of target audiences
 - a. Primary
 - b. Secondary
 - c. Supplementary
- C. Communications media
 - 1. Definition of media objectives
 - a. Reach
 - b. Frequency
 - c. Gross rating points
 - d. Continuity/flighting/pulsing
 - 2. Determination of which media reach the target audience best:
 - a. Traditional mass media
 - (1) Radio
 - (2) Television
 - (3) Newspapers
 - (4) Magazines
 - (5) Outdoor
 - b. Other media
 - (1) Direct Mail
 - (2) Publicity
 - c. Supplemental media
 - (1) Trade Shows
 - (2) Sales promotion devices
 - (3) Off-the-wall media



3. Availability of media relative to purchase patterns
 4. Potential for communication effectiveness
 5. Cost considerations
 - a. Size/mechanical considerations of message units
 - b. Cost efficiency of media plan against target audiences
 - c. Production costs
 6. Relevance to other elements of creative mix
 7. Scope of media plan
 8. Exposure/attention/motivation values of intended media vehicles
- D. Advertising message
1. Copy elements
 - a. Advertising appeals
 - b. Copy platform
 - c. Key consumer benefits
 - d. Benefit supports or reinforcements
 - e. Product personality or image
 2. Art elements
 - a. Visual appeals
 - (1) In ads and commercials
 - (2) In packaging
 - (3) In point-of-purchase and sales materials
 - b. Art platform
 - (1) Layout
 - (2) Design
 - (3) Illustration style
 3. Production elements
 - a. Mechanical considerations in producing ads
 - (1) Color
 - (2) Size
 - (3) Style
 - b. Production values sought
 - (1) Typography
 - (2) Printing
 - (3) Color reproduction
 - (4) Photography/illustration
 - (5) Paper
 - (6) Electronic effects
 - (7) Animation
 - (8) Film or videotape
 - (9) Sound effects
 - (10) Music



V. The Advertising Budget

- A. Impact of marketing situation on method of allocation
 - 1. New or old product
 - 2. Primary demand curve for product class
 - 3. Competitive situation
 - 4. Marketing objectives and strategy
 - 5. Profit or growth considerations
 - 6. Relationship of advertising to sales and profits
 - 7. Empirical experience
- B. Method of allocation
 - 1. Percentage of sales or profit
 - 2. Share of market
 - 3. Task method
 - 4. Unit of sale
 - 5. competitive parity

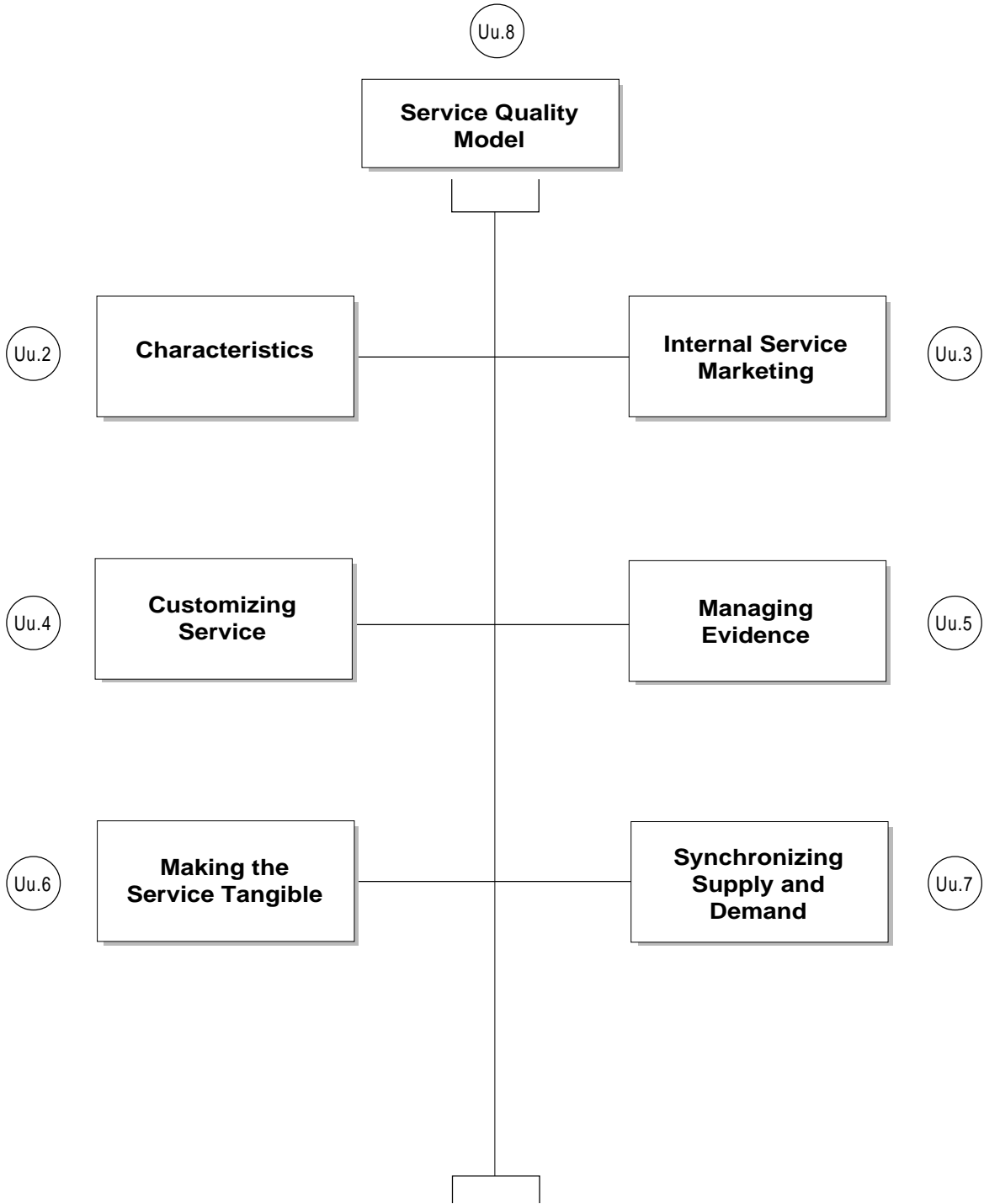
VI. Testing and Evaluation

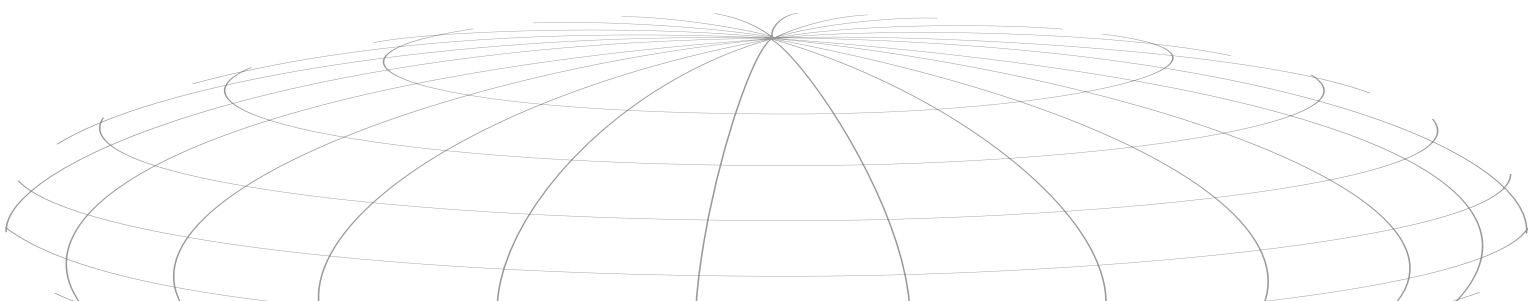
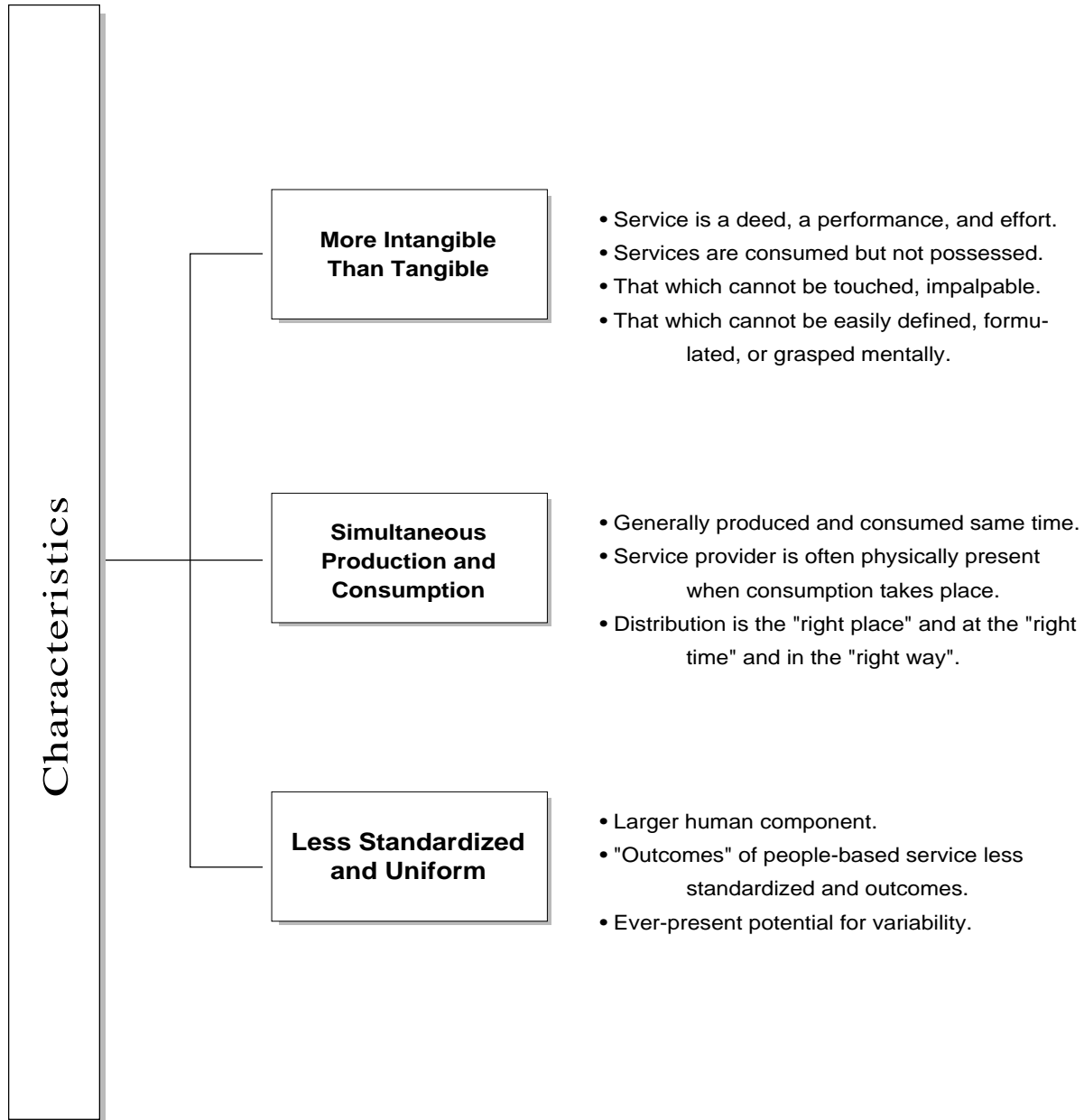
- A. Advertising research conducted
 - 1. Strategy determination
 - 2. Concept development
- B. Pretesting and post-testing
 - 1. Elements tested
 - a. Markets
 - b. Motives
 - c. Messages
 - d. Media
 - e. Budgeting
 - f. Scheduling
 - 2. Methodology
 - a. Central location tests
 - b. Sales experiments
 - c. Physiological testing
 - d. Aided recall tests
 - e. Unaided recall tests
 - f. Attitude tests
 - g. Inquiry tests
 - h. Sales tests
 - i. Other
 - 3. Cost of testing

**References**

- Page Tt.2: Contemporary Advertising
Bovee / Arens: 1992
Pages: 139, 258-259
- Page Tt.5: *Ibid.: Pages 177-186, 261*
- Page Tt.6: *Ibid.: Page 158*
- Page Tt.7: *Ibid.: Pages 449, 429, 444-446*
- Page Tt.8: *Ibid.: Page 429*
- Page Tt.9: *Ibid.: Page 438*
- Page Tt.10: *Ibid.: Pages 283, Ch. 9, Ch. 10*
- Page Tt.11-12: *Ibid.: Pages 282-283*
- Page Tt.13-14: *Ibid.: Pages 186-193*
- Page Tt.16: *Ibid.: Pages 578-582*
- Page Tt.17: *Ibid.: Pages 583-590*
- Page Tt.18-19: 12 Basic Promotion Techniques — Advantages and Pitfalls
William A. Robinson
Advertising Age: January 10, 1977
- Page Tt.20: Contemporary Advertising
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Chapter 18
- Page Tt.22-25: Improving Sales Force Productivity
William P. Hall
Business Horizons
August 1975: pp. 32-42



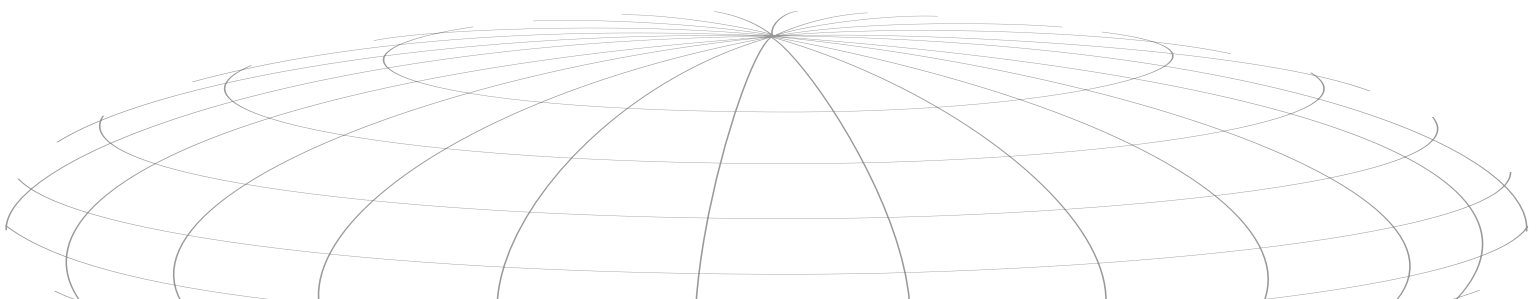






Internal Service Marketing

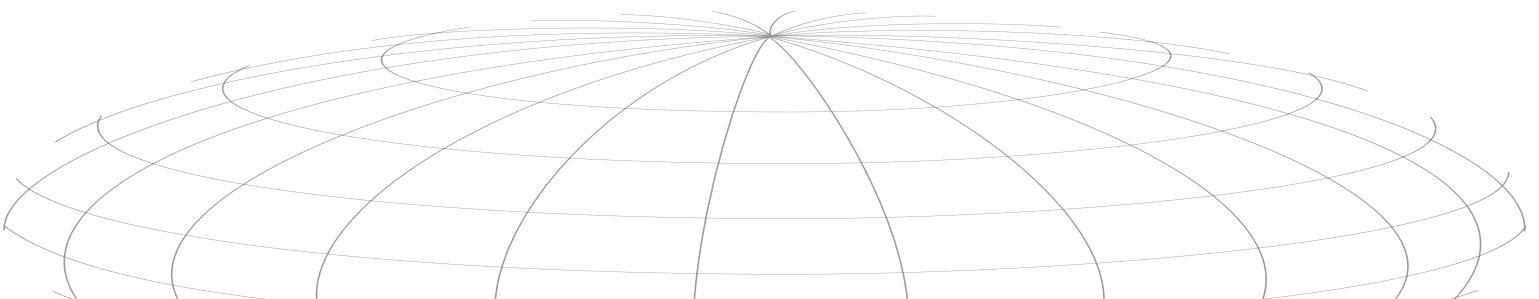
- Human performance materially shapes the service outcome and hence becomes part of the "product."
- In high-contact service industries, marketers need to be concerned with internal, not just external, marketing.
- Internal marketing means applying the philosophy and practices of marketing to the people that serve the external customer so that —
 - a) the best possible people can be employed and retained.
 - b) they will do the best possible work.
- Internal marketing is viewing employees as internal customers, viewing jobs as internal products, and endeavoring to design these products to better meet the needs of these customers.
- The relevance of marketing thinking to personnel management is very real. The banks and insurance companies adopting flexible working hours are redesigning jobs to better accommodate individual differences, an example of market segmentation.
- The successful service company must first sell the job to employees before it can sell its services to customers.

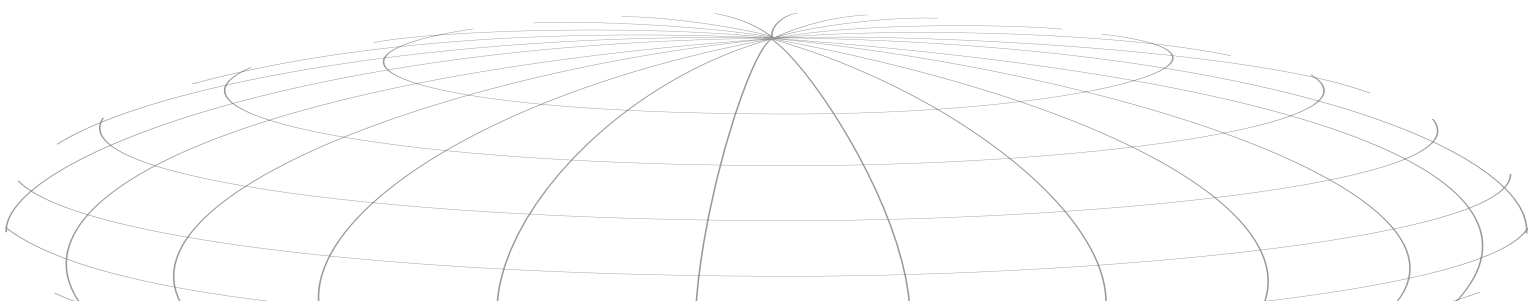
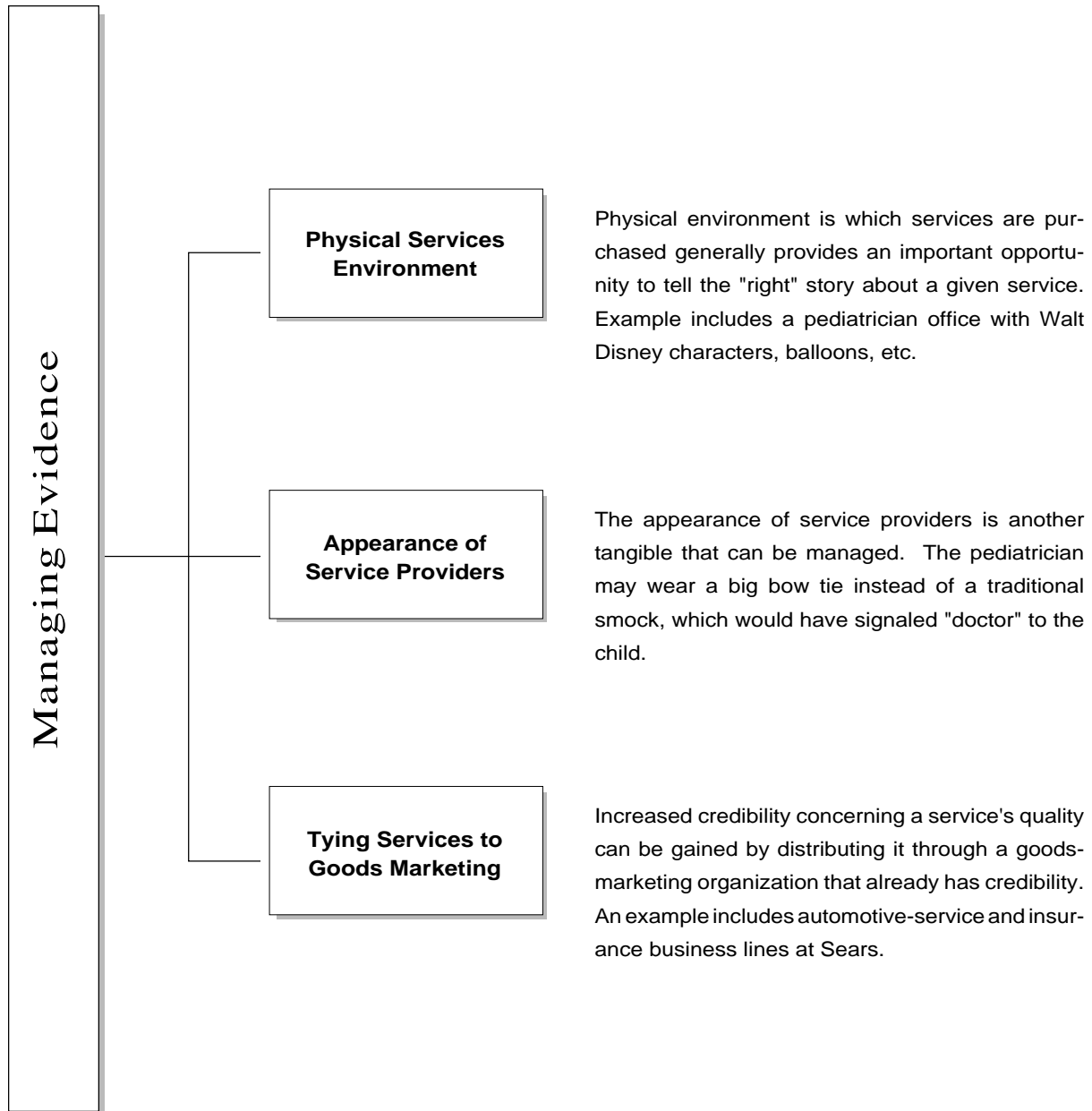




Customizing Service

- A fundamental marketing objective is to effect a good fit between what the customer-prospect wants to buy and what the organization has to sell, the potential for tailoring service to meet the precise desires of individual customers should not be taken lightly (e.g., Wendy's production line).
- Must determine the circumstances under which customization should apply and the circumstances under which standardization should apply. Examples include private banking services versus ATMs.







Making The Service Tangible

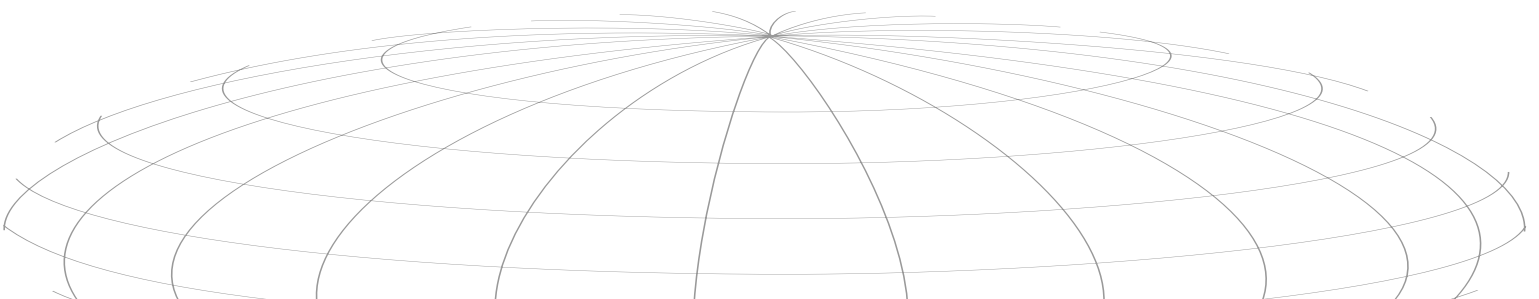
Marketing advantage usually is to be gained if the service can be made more "touchable" and more easily grasped mentally.

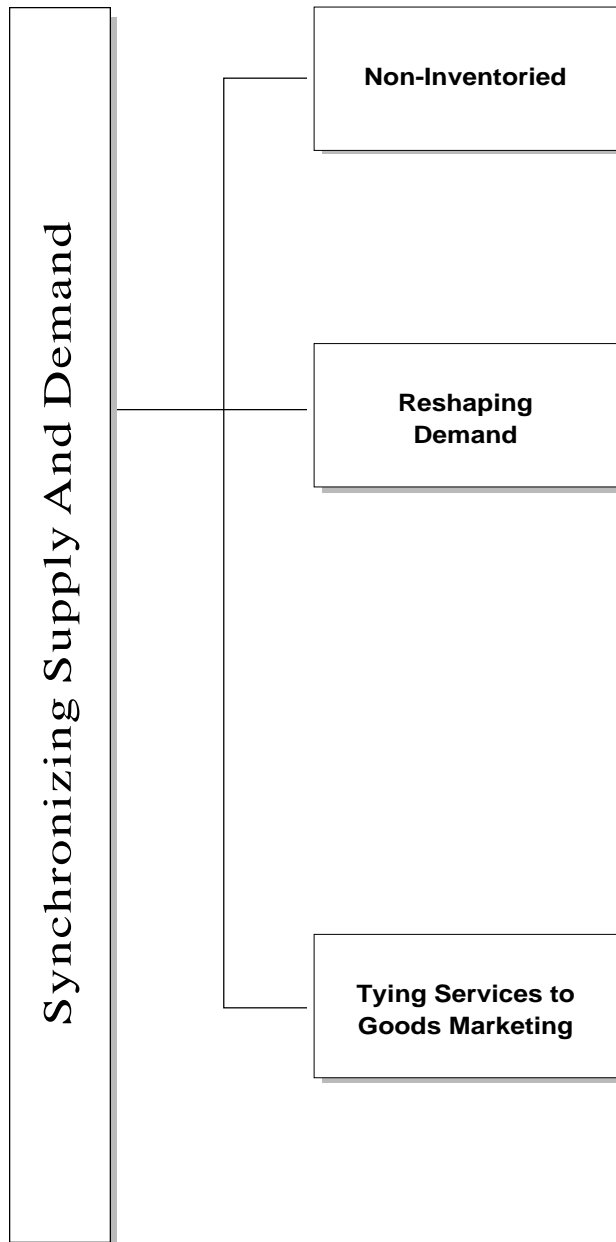
Sometimes it is possible to make a service more palpable by creating a tangible representation of it. This is what has occurred with the development of the bank credit card.

Just as service marketers should consider whether there are opportunities to develop a tangible representation of the service, so should they look for opportunities to make the service more easily grasped mentally.

Consider the following:

- "You are in good *hands* with Allstate."
- "I've got a piece of the *rock*."
- "Under the Traveler's *umbrella*."
- "The Nationwide *blanket* of protection."





One of the crucial challenges in many service industries is to find ways to better synchronize supply and demand as an alternative to recurring conditions of severe over-demand and under-demand.

All elements of the marketing mix are potentially available to help bring demand more in line with supply constraints. Delta Airlines, for example, has uses pricing incentives to encourage travelers to fly during the early morning hours. By adding a breakfast product line, McDonald's have been able to make productive use of previously underutilized facilities.

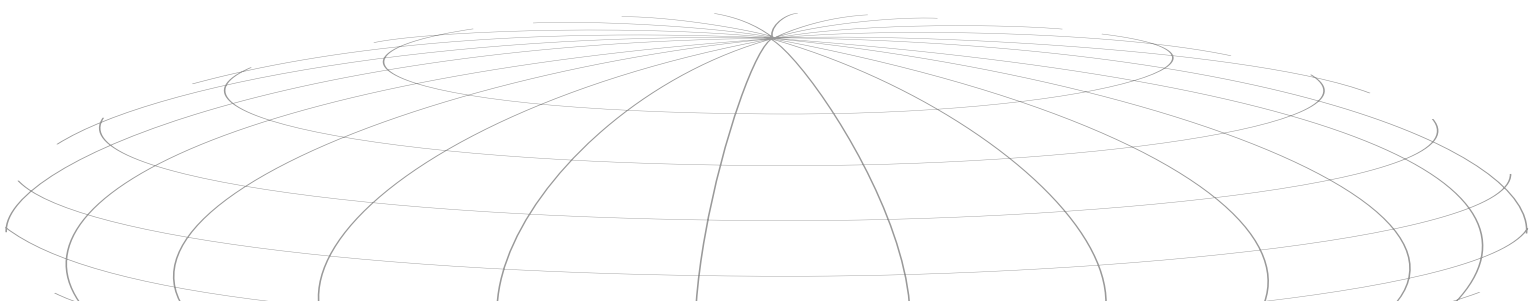
Importantly, demand-altering can only have an impact when customer-prospects have control over their demand patterns.

Attempt to alter supply capacities to better match demand patterns.

- Using part-time employees and performing only essential tasks during peak demand periods.
- Training employees to perform multiple jobs so they can switch from one to another as demand dictates.
- Using paraprofessionals so that professionals can concentrate on duties requiring their expertise.

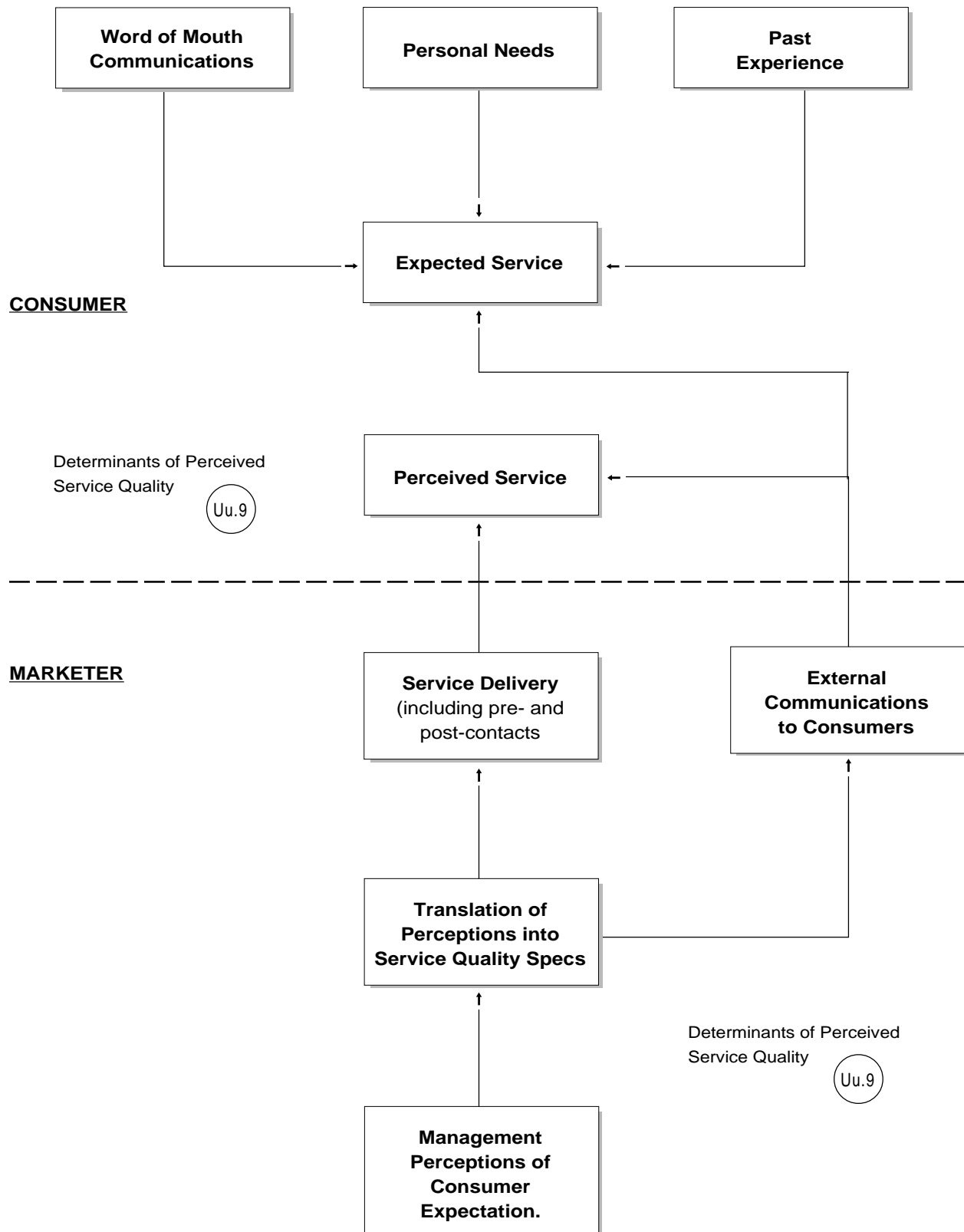
Service Quality Model

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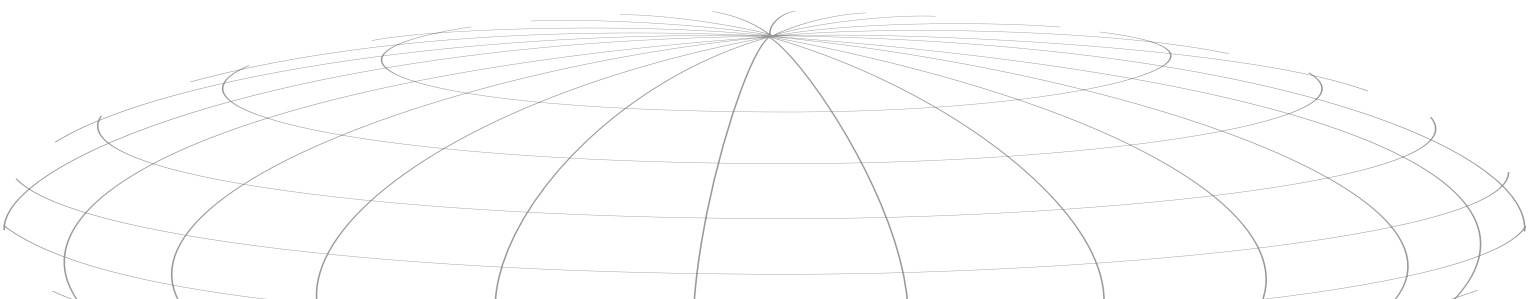
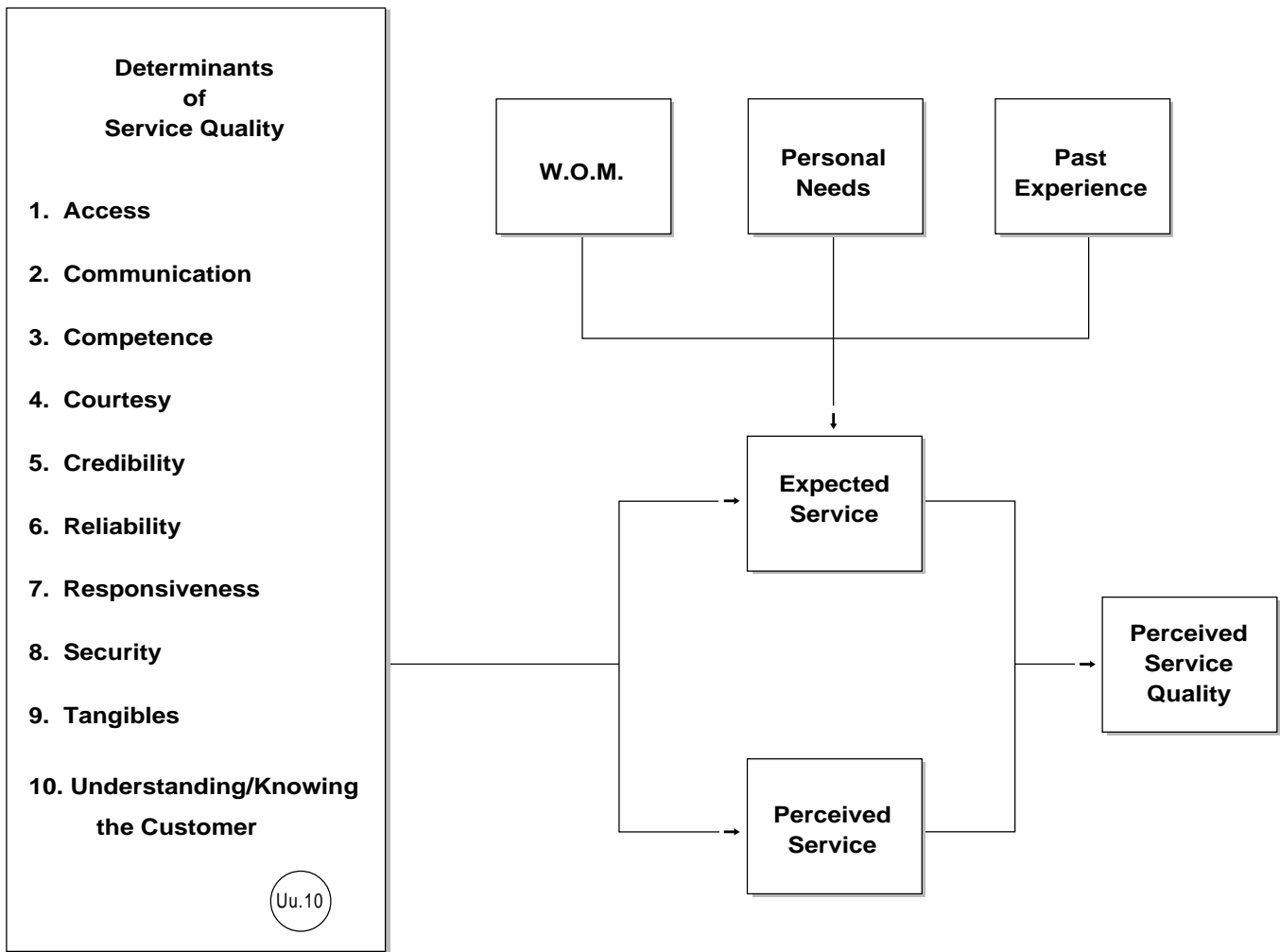


Service Quality Model





Determinants of Perceived Service Quality





Determinants of Service Quality

RELIABILITY involve consistency of performance and dependability. It means that the firm performs the service right the first time. It also means that the firm honors its promises. Specifically, it involves:

- accuracy in billing;
- keeping records correctly;
- performing the service at the designated time.

RESPONSIVENESS concerns the willingness or readiness of employees to provide service. It involves timeliness of service:

- mailing a transaction slip immediately;
- calling the customer back quickly;
- giving prompt service (e.g., setting up appointments quickly).

COMPETENCE means possession of the required skills and knowledge to perform the service. It involves:

- knowledge and skill of the contact personnel;
- knowledge and skill of operational support personnel;
- research capability of the organization, e.g., securities brokerage firm.

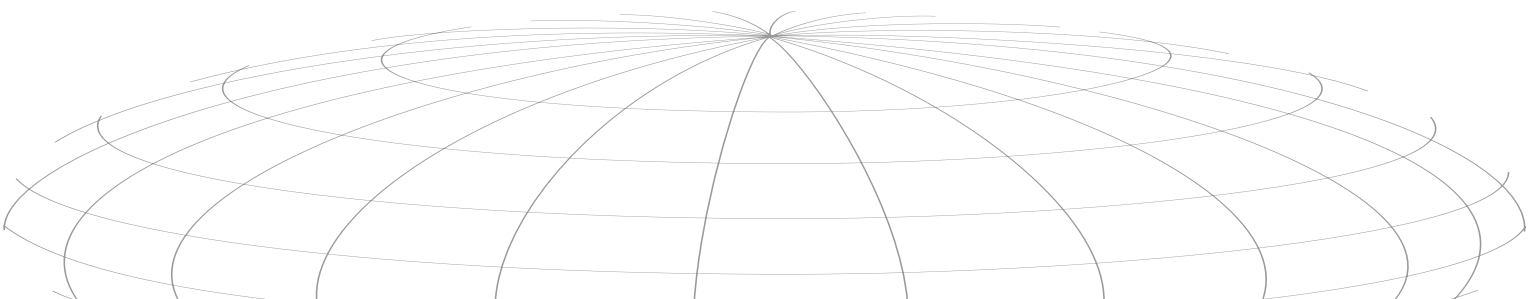
ACCESS involves approachability and ease of contact. It mean:

- the service is easily accessible by telephone (lines are not busy and they don't put you on hold);
- waiting time to receive service (e.g., at a bank) is not extensive;
- convenient hours of operation;
- convenient location of service facility.

COMMUNICATION means keeping customers informed in language they can understand and listening to them. It may mean that the company has to adjust its language for different consumers — increasing the level of sophistication with a well-educated customer and speaking simply and plainly with a novice. It involves:

- explaining the service itself;
- explaining how much the service will cost;
- explaining the trade-offs between service and cost;
- assuring the consumer that a problem will be handled.

— *continued on Vv.11* —





Determinants of Service Quality

COURTESY involves politeness, respect, consideration, and friendliness of contact personnel. It includes:

- consideration for the consumer's property (e.g., no muddy shoes on the carpet);
- clean and neat appearance of public contact personnel.

CREDIBILITY involves trustworthiness, believability, honesty. It involves having the customer's best interests at heart. Contributing to credibility are:

- company name;
- company reputation;
- personal characteristics of the contact personnel;
- the degree of hard sell involved in interactions with the customer.

SECURITY is the freedom from danger, risk, or doubt. It involves:

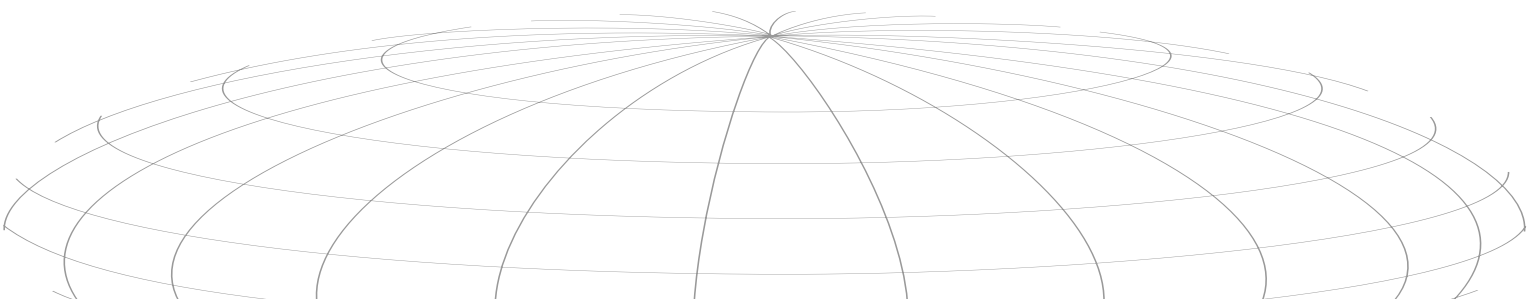
- physical safety (Will I get mugged at the automatic teller machine?);
- financial security (Does the company know where my stock certificate is?);
- confidentiality (Are my dealings with the company private?).

UNDERSTANDING/KNOWING THE CUSTOMER involves making the effort to understand the customer's needs. It involves:

- learning the customer's specific requirements;
- providing individualized attention;
- recognizing the regular customer.

TANGIBLES include the physical evidence of the service:

- physical facilities;
- appearance of personnel;
- tools or equipment used to provide the service;
- physical representations of the service, such as a plastic credit card or a bank statement;
- other customers in the service facility.





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